2022
August
VOL: 7, NO.: 8,

TOLL FREE 18003450092 / 1800110910

CMA Student E - Bulletin

FINAL

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Behind every successful business decision, there is always a CMA

Vol: 7, No.: 8.
August 2022, Issue

CONTENTS

Vol: 7, No.: 8.
August 2022, Issue

Azadi Ka Amrit Mahotsav

KNOWLEDGE Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

Vol: 7, No.: 8.
August 2022, Issue

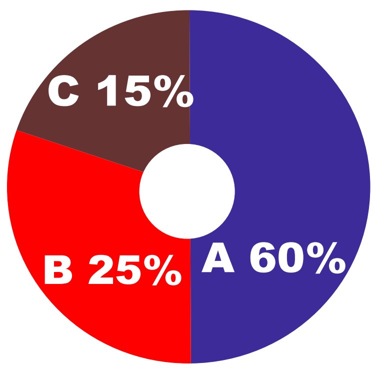
Azadi Ka Amrit Mahotsav

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

Shri Subrata Kr. Roy
Company Secretary & Consultant
He can be reached at:
subrataoffice@rediffmail.com

Your Preparation Quick Takes



Syllabus Structure
A Companies Act **60%**
B Other Corporate Laws **25%**
C Corporate Governance **15%**

Learning Objectives:

Read the Study Material minutely.

- For details or if you don't understand Study Material or the section is important to identify the topic, then refer to Bare Act, otherwise reference to Bare Act is not necessary. For Company Law, book by Avtar Singh is recommended. For other laws Institute Study Material is sufficient.
- The words used in any of the texts as mentioned above should be understood by immediate reference to the Dictionary.
- The main points coming out in any of the provisions should be either underlined or written in separate copy which has to be repeated again and again.
- Theoretical knowledge should be adequate and clear before solving practical problems.
- Don't write wrong English. It changes the meaning and therefore answer may be wrong even when the student's conception is clear. Also don't make spelling mistakes.

Company Capital

Multiple Choice Questions (MCQs)

1. How many minimum members are required to form a public limited company?

a) 3

b) 4

c) 6

d) 7

2. In order to be a Govt. Company, 51% shares shall be held by: -

a) Central Govt.

b) State Govt.

c) Both Central and State Govt. jointly

d) Any or all of the above

3. In case of "limited" companies, what is limited?

a) Shares

b) Liability of members

c) Capital of the company

d) Powers of the shareholders

4. Restriction in transfer of shares can be there in____

a) Private Ltd. company

b) Public Ltd. Company

c) Govt. company

d) Unlimited company

5. Foreign company is a company, registered out of India and_____

a) Having a place of business in India

b) Conducts any business in India

c) Need not have any business in India

d) Either (a) or (b)

6. Company which do not have any significant accounting transaction is called:

a) Asocial Company
b) Non-functional company
c) Dormant company
d) Sleeping company

7. **Life Insurance Corporation is: -**

a) A statutory corp. but not PFI
b) A statutory corp. and PFI
c) Govt. Company
d) None of the above

8. **Persons who sign the MOA are called:**

a) Promoters
b) Shareholders
c) Subscribers to MOA
d) Members

9. **Certificate of incorporation is issued by: -**

a) Regional director
b) Registrar of companies
c) Central Govt.
d) None of the above

10. **Declaration by professional at the time of incorporation of a company means declaration by:**

a) Practicing CS
b) Practicing CA
c) Practicing CMA
d) Any of the above.

11. **Change of registered office within a city, town or village requires:**

a) Special Resolution
b) Board Resolution
c) Approval of CG
d) None of the above

12. **Section 8 companies cannot:**

a) Generate surplus
b) Make profit
c) Distribute dividend
d) Profit is to given to Govt.

13. **ABC Ltd. is registered in India with 100% shares being held by KYZ Ltd., a company registered in UK having no business in India. ABC Ltd. is a:**

a) An Indian Company
b) Foreign company
c) Wholly owned subsidiary of a foreign company but Indian Company

d) Does not come under definition of foreign company

14. **ABC Ltd. has 35% shares in XYZ Ltd. The majority of directors of XYZ Ltd. are appointed and removed by ABC Ltd. XYZ Ltd. is:**

a) Subsidiary of ABC Ltd.

b) Not a subsidiary of ABC Ltd.

c) Depends on Board of ABC Ltd.

d) Depends on Board of XYZ Ltd.

15. **A guarantee company is similar to:**

a) Unlimited company

b) LLP

c) Partnership

d) Sole proprietorship

16. **Once a company is converted into LLP, intimation to ROC has to been made within:**

a) 10 days

b) 15days.

c) 20 days.

d) 30 days

17. **Which chapter of the Companies Act, 2013, deals with foreign companies?**

a) XX

b) XXI

c) XXII

d) XXIII

18. **In case of secured debentures of public issue, the security is created I favour of:**

(a) Public

(b) SEBI

(c) Merchant banker

(d) Debenture trustee

19. **Fully convertible debenture is a:**

(a) debt instrument

(b) equity instrument

(c) hybrid instrument

(d) None of the above

20. **Register of deposit:**

(a) is voluntary

(b) is mandatory but particulars may vary

(c) is mandatory with particulars as per Rules

(d) Not to be maintained at all

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
d	D	b	a	D	d	B	C	B	D	b	C	a	a	b	b	c	d	a	c

Fill in the blanks

1. An OPC may have maximum directors.
2. A partnership of more than partners, need to be registered as a company
3. A company shall have to intimate the registered office on or after day of incorporation
4. A public company with a net worth of Rs crores can accept public deposit
5. A company may invest through not more than layers of investment.
6. Maximum investment with Board approval is of the paid up capital, free reserves and share premium account
7. For inter corporate investment ....resolution of the Board is required.
8. Dividend is payable within days of declaration
9. Dividend is transferred to IEPF after years
10. Books and accounts are to be retained for at least years
11. Companies are supposed to maintain accounts on_______
12. The max. sitting fee for attending Board meeting is per meeting
13. Company Secretary is compulsorily to be appointed as one of the KMPs if the paid up capital is min. ` ...._.
14. A minimum ¬¬¬ days' notice is to be given for Board meeting.
15. Over managerial remuneration is % of net profit of the company
16. Audit committee shall have min. of directors
17. The first meeting of the Board of Director shall be held within days of incorporation of the company
18. The Inspecting authority can cease documents and keep it for max days.
19. The provision relating to merger of small/holding and subsidiary company, if mentioned under section................... _.
20. Any person aggrieved by the assessment of compensation, in case of merger may appeal to NCCT within_____ days.

Fill in the blanks

1	Fifteen	11	Accrual basis
2	50	12	1 Lakh
3	30	13	5 Crores
4	100	14	7
5	2	15	11
6	60	16	3
7	unanimous	17	30
8	25	18	180
9	7	19	234
10	8	20	30 days

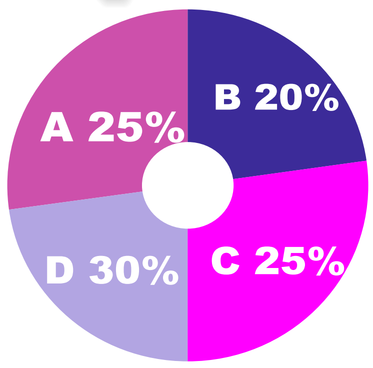
Vol: 7, No.: 8.
August 2022, Issue

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

Dr. Swapan Sarkar,
Assistant Professor
Department of Commerce,
University of Calcutta
He can be reached at:
swapansarkar22@gmail.com

Your Preparation Quick Takes



Syllabus Structure

A Investment Decisions **25%**
B Financial Markets and Institutions **20%**
C Security Analysis and Portfolio Management **25%**
D Financial Risk Management **30%**

Learning objectives:

After studying this section on Strategic Financial Management, you will be able to:

- understand the direct and indirect quotations
- know the European terms and American terms

Section C & Study Note 8: Security Analysis and Portfolio Management

Company Analysis

The industry analysis enables the analyst to shortlist industries for the purpose of equity investment. The next step is to identify the superior performers in this industry. Even though an industry might be doing well, some companies in the industry may not be performing profitably.

To identify those companies that are doing relatively well in the industry, we have to make an in-depth analysis of the financial and non-financial strengths and weaknesses of the company.

An analyst may focus on the following three analysis in this respect.

A. Strategy Analysis

Strategy analysis seeks to explore the economics of a firm and identify its profit drivers so that the subsequent financial analysis reflects business realities.

The profit potential of a firm is largely influenced by three factors as follows:

a. Industry Choice i.e., the industry or industries in which the firm participates;

b. Competitive Strategy i.e., the strategy it follows to compete in its chosen industry or industries;

c. Corporate Strategy i.e., the way in which it exploits synergies across its business portfolio.

The last two points are discussed in detail as follows:

- **Competitive Strategy**

According to Michael Porter, the firm can explore two generic ways of gaining sustainable competitive advantage viz., cost leadership and product differentiation.

Cost leadership can be attained by exploiting economies of scale, exercising tight cost control, minimising costs in area like R&D and advertising, and deriving advantage from cumulative learning. Firms which follow this strategy include Bajaj Auto in two wheelers, Mittal in steel, WalMart in discount retailing, and Reliance Industries in petrochemicals.

Product differentiation involves creating a product that is perceived by customers as distinctive or even unique so that they can be expected to pay a higher price. Firms which have excelled in this strategy include Mercedes in automobiles, Rolex in wristwatches, Mont Blanc in pens, and Raymond in textiles.

However, only by choosing an appropriate strategy, a firm does not necessarily gain competitive advantage. To do so the firm must develop the required core competencies (the key economic assets of the firm) and structure its value chain (the set of activities required to convert inputs into outputs) appropriately.

- **Corporate Strategy**

When an analyst analyses a multi-business firm, he has to evaluate not only the profit potential of individual businesses but also the economic implications (positive as well as negative) of managing different businesses under one corporate canopy. For example, General Electric has succeeded immensely in creating significant value by managing a highly diversified set of businesses ranging from light bulbs to aircraft engines, whereas Sears failed in managing retailing with financial services. Transaction cost economics suggest that a diversified firm is more efficient if coordination among independent, focused firms costs more on account of market transaction costs.

Generally, the following factors may be the potential source of value creation:

(i). Imperfections in the factor market.

(ii). Existence of special firm specific resources such as brand name, proprietary knowledge, scarce distribution channels etc.

(iii). The degree of fit between the company's specialized resources and its portfolio of businesses.

(iv). The allocation of decision rights between the corporate office and business units.

(v). The system of performance measurement and incentive compensation and its effect on agency costs.

B. Accounting Analysis

Accounting analysis seeks to evaluate the extent to which the firm's accounting reports capture its business reality.

An analyst, in this respect, should consider three aspects as follows:

a. The Institutional Framework for Financial Reporting: The analyst must have detail knowledge about the existing GAAP, Accounting Standards and legal frameworks as often the provisions offer choices which make comparison of accounting number across the firms or across the periods inappropriate. Thus, appropriate adjustments may be needed before the numbers are analyzed.

b. Sources of noise and bias in accounting: Accounting rules themselves introduce noise and bias as it is often not possible to restrict managerial discretion without diminishing the informational content of accounting reports. Forecasting errors may also not be avoidable always. In addition, managers may also introduce noise and bias in accounting while making decisions.

c. Accounting Quality: Less disclosure, manipulating the numbers may seriously hinder the quality of accounting and reporting and thereby make the data unusable in its given form.

C. Financial Analysis

Under fundamental analysis, the key objective is to determine the intrinsic value of the shares to determine the underpriced or overpriced securities and act accordingly. While determining the intrinsic value per share, in practice, the earnings multiplier method is the most popular method.

The key questions to be addressed in applying the earnings multiplier method are: What is the expected EPS for the forthcoming year? What is a reasonable PE ratio given the growth prospects, risk exposure, and other characteristics of the firm?

To answer these questions, investment analysts start with a historical analysis of earnings (and dividends), growth, risk, and valuation multiples and use this as a foundation for developing the forecasts required for estimating the intrinsic value.

- **Earnings and Dividend Level**

The analyst needs to consider the following aspects:

a. Return on Equity: Perhaps the most important indicator of financial performance, the return on equity is defined as (Equity Earnings/ Equity) where Equity Earnings refer to profit available for equity shareholders and Equity refers to common shareholders' fund.
For a better understanding ROE may be further decomposed as follows:
ROE = PBIT efficiency x Asset turnover x Interest burden x Tax burden x Leverage
= PBIT/Sales x Sales/ Assets x PBT/PBIT x PAT/PBT x Assets/ Equity

b. Book value per share: The book value per share is equal to [(Paid-up equity capital + Reserves and surplus)/Number of outstanding equity shares].

c. Earnings per share: The earnings per share is equal to (Equity earnings/Number of outstanding shares).

d. Dividend Payout Ratio: The dividend payout ratio represents the proportion of equity earnings which is paid out as dividends. It is defined as (Equity dividends/Equity earnings).

- **Growth Performance**

To measure the historical growth, the compound annual growth rate (CAGR) in variables like sales, net profit, earnings per share, and dividend per share is calculated. To get a handle over the kind of growth that can be maintained, the sustainable growth rate is calculated.

CAGR is calculated as (Future value/Present Value)$^{1/n}$ – 1.

The sustainable growth rate is defined as follows:

Sustainable growth rate = Retention ratio x Return on equity.

- **Risk Exposure**

Generally, two parameters are used in assessing the risk exposure – (i) Beta and (ii) Volatility of return on equity.

(i) Beta: According to the CAPM, the risk of a stock is denoted by its beta which measures how sensitive is the return on the stock to variations in the market return.

According to the CAPM, the required return on an equity stock is calculated as follows:

Required return = Risk-free return + Beta x [Market risk premium]

(ii) Volatility of Return on Equity: The volatility of return on equity may be defined as:

Range of return on equity over n years/ Average return on equity over n years

- **Valuation Multiples**

The most commonly used valuation multiples are – (i) Price to earnings ratio (ii)Price to book value ratio.

(i) Price to Earnings Ratio: the price to earnings ratio (PE ratio) reflects the price investors are willing to pay for every rupee of earnings per share. It is calculated as –

P/E Ratio = Price per share at the end of year n/ Earnings per share for year n

(ii) Price to Book Value Ratio: Another popular valuation statistic is the price to book value ratio which reflects the price investors are willing to pay for every rupee of book value per share.

- Going Beyond the Numbers: In addition to the above, a number of qualitative factors should also be taken into account. These are –

a. Availability of input
b. Price of input
c. Order position
d. Govt. restrictions
e. Technology
f. Marketing and distribution
g. Human resources
h. Management's attitude

The above analyses can provide a reasonable basis to the analyst to estimate company's profitability and other parameters based on which he will calculate the intrinsic value per share.

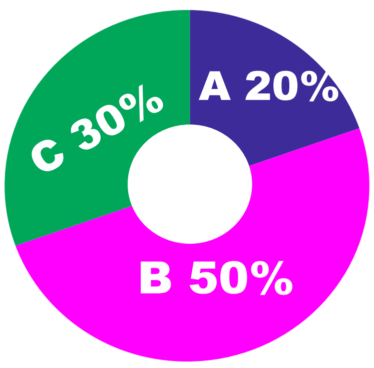
Vol: 7, No.: 8.
August 2022, Issue

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

CMA (Dr.) Sreehari Chava
Cost & Management Consultant,
Nagpur, Maharastra,
He can be reached at:
sreeharichava@yahoo.co.in

Your Preparation Quick Takes



Syllabus Structure

A Cost Management **20%**
B Strategic Cost Management Tools and Techniques **50%**
C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Learning Objectives:

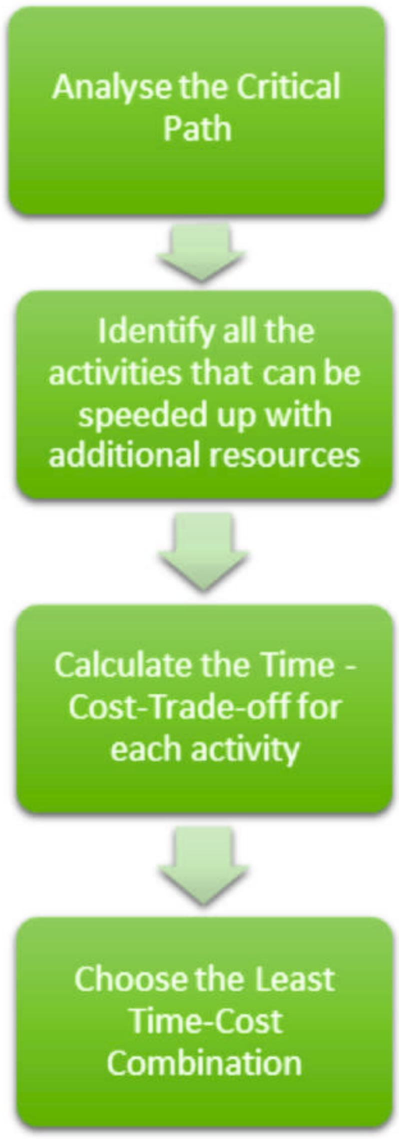
The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort to develop or buy cost modelling capability?

Project Crashing

01.00 Concept

In addition to scheduling projects, a project manager is frequently confronted with the problem of having to reduce the scheduled completion time of a project to meet a targeted timeline. In other words, the manager must finish the project sooner than indicated by the CPM or PERT network analysis.



For example, project duration can be reduced by assigning more labour to project activities, often in the form of overtime, and by assigning more resources (material, equipment, etc.). However, additional labour and resources cost additional money and hence increase the overall project cost. Thus, the decision to reduce the project duration must be based on an analysis of the trade-off between time and cost.

Project crashing is a method for shortening project duration by reducing the time of one or more of the critical project activities to a time that is less than the normal activity time. This reduction in the normal activity times is referred to as crashing. Crashing is achieved by devoting more resources, measured in terms of money, to the activities to be crashed.

Cost of accelerating the completion of a project is known as 'Crash Cost'. The time taken by the activity when additional resources, overtime and other special measures are taken to speed up (crash) the activity is known as Crash Time. Thus, project crashing shortens the project time by reducing critical activity times at a cost.

Process of Project Crashing

1. Analyse the Critical Path
2. Identify all the activities that can be speeded up with additional resources
3. Calculate the Time - Cost-Trade-off for each activity
4. Choose the Least Time-Cost Combination

02.00 Normal Activity Time

Normal Activity Time is the Expected Completion Time. The expected completion time (t_e) of a project is calculated by means of the formula:

$t_e = \{(t_o + 4t_m + t_p) \div 6\}$

Where

t_o is the Optimistic Time Estimate

t_m is the Most Likely Time Estimate

t_p is the Pessimistic Time Estimate

The three estimation times referred to in this context may be stated as:

(i) **Optimistic Time Estimate (t_o):** This is the fastest time an activity can be completed. The assumptions are that all the necessary resources are available and all the predecessor activities are completed as planned. This is the minimum time needed to complete the project.

(ii) **Most Likely Time Estimate (t_m):** This is the most probable time in which an activity can be completed.

(iii) Pessimistic Time Estimate (t_p): This is the maximum time required to complete an activity. In this case, it is assumed that many things may go wrong in relation to the activity. A lot of rework and resource unavailability are assumed when this estimation is derived.

03.00 Cost Slope

The term 'cost-slope' is defined as the **"increase in the cost of the activity per unit decrease in the time"**. Cost slope is computed as the ratio of 'difference between Crash Cost & Normal Cost' and 'difference between Normal Time & Crash Time'. Mathematically stated,

Cost Slope = (Crash Cost – Normal Cost) ÷ (Normal time – Crash time)

4. Problem for Practice

As per Project Manager of Quick Construction Limited, you are involved in drawing a PERT network for laying the foundation of a new art museum. The relevant information for all the activities of this project is given in the following table:

Activity	Time estimates (in weeks)			Normal cost for expected duration	Crash cost	Immediate Predecessors
	T_o	T_m	t_p	(Rs.)	(Rs.)	
A	2	3	4	6,000	8,000	-
B	4	5	6	12,000	13,500	A
C	3	5	7	16,000	22,000	A
D	2	4	6	8,000	10,000	A
E	1	2	3	6,000	7,500	C,D
F	1	3	5	14,000	20,000	B,E

Required:

(i) Construct the PERT Network for the project and determine the critical path, expected duration and cost of the project.

(ii) The director of your company is not impressed by your PERT analysis. He draws your attention that the project must be completed by seven weeks and refers to the penalty clause in the agreement which provides for payment of penalty at the rate of Rs. 2,500 for every week or part there of exceeding seven weeks. Your Director also strongly believes that the time duration of various activities of the project can be crashed to their optimistic time estimates with the crashing costs mentioned in the above table. Determine the optimum duration of the project if your objective is to minimize the sum of the project execution cost and penalty cost.

Solution

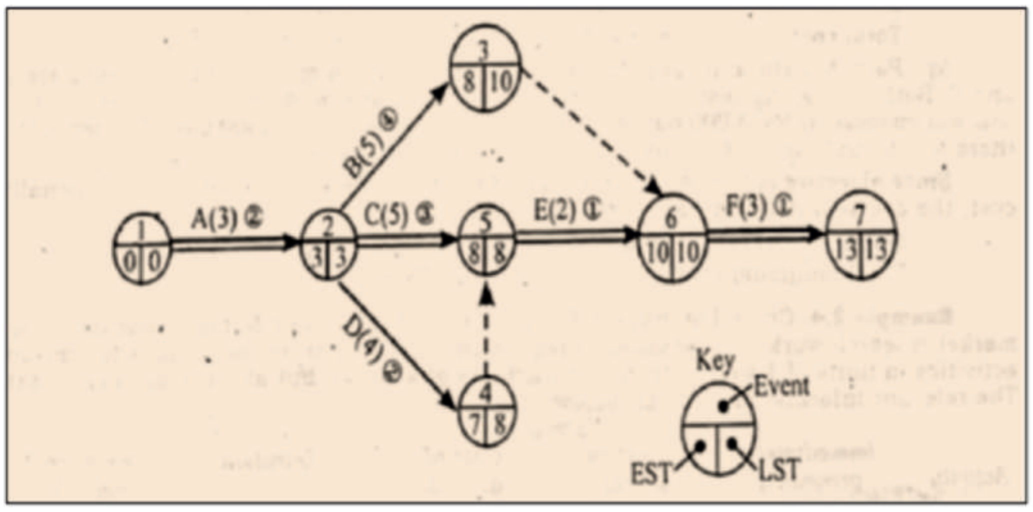
Part (i) Critical Path and the Expected Duration and Cost of the Project

We know that $t_e = \frac{a + 4m + b}{6}$ or $\frac{t_o + 4t_m + t_p}{6}$

Based on this formula, expected duration of each activity can be worked out as follows:

Activity	Time estimates (in weeks)			Workings $\frac{t_o + 4t_m + t_p}{6}$	Expected Duration (in weeks)
	T_0	T_m	t_p		
A	2	3	4	(2 + 4*3 + 4) ÷ 6	3
B	4	5	6	(4 + 4*5 + 6) ÷ 6	5
C	3	5	7	(3 + 4*5 + 7) ÷ 6	5
D	2	4	6	(2 + 4*4 + 6) ÷ 6	4
E	1	2	3	(1 + 4*2 + 3) ÷ 6	2
F	1	3	5	(1 + 4*3 + 5) ÷ 6	3

The PERT network and the expected duration of each activity is given



below:

Normal time of activities is written in brackets and crash time (T_0) in circle.
There are three paths as shown below:

Path 1: 1-2-3-6-7 = 3 + 5 + 0 + 3 = 11 weeks
Path 2: 1-2-5-6-7 = 3 + 5 + 2 + 3 = 13 weeks
Path 3: 1-2-4-5-6-7 = 3 + 4 + 0 + 2 + 3 = 12 weeks

The critical path happens to be 1-2-5-6-7 or A-C-E-F with Expected project duration of 13 weeks.

However, the project has to be completed by seven weeks. Otherwise, a penalty @Rs. 2,500 per weeks has to be paid. Therefore, the total project execution cost consists of Normal Cost and the Penalty Cost.

Normal Cost = 6,000 + 12,000 + 16,000 + 8,000 + 6,000 + 14,000 = Rs.62,000/-
Penalty Cost = (6 weeks x 2,500) = Rs.15,000/-

Project Execution Cost = Normal Cost + Penalty Cost
= 62,000) + 15,000 = Rs.77,000

Part (ii) Crashing
Step 1 – The computations of cost slopes are given below:

Activity	[Expected Time – Crash Time (T_0)] = T (weeks)	(Crash Cost – Normal Cost) = C (Rs.)	Cost Slope (Rs.) = (C / T)	Ranking of Activities on CP
A : (1 – 2)	3 – 2 = 1	8,000 – 6,000 = 2,000	2,000	II
B : (2 – 3)	5 – 4 = 1	13,500 – 12,000 = 1,500	1,500	
C : (2 – 5)	5 – 3 = 2	22,000 – 16,000 = 6,000	3,000	III
D : (2 – 4)	4 – 2 = 2	10,000 – 8,000 = 2,000	1,000	
E : (5 – 6)	2 – 1 = 1	7,500 – 6,000 = 1,500	1,500	I
F : (6 – 7)	3 – 1 = 2	20,000 – 14,000 = 6,000	3,000	III

(a) As it is, there are the following three paths:
Path 1: 1-2-3-6-7 = 3 + 5 + 3 = 11 weeks
Path 2: 1-2-5-6-7 = 3 + 5 + 2 + 3 = 13 weeks
Path 3: 1-2-4-5-6-7 = 3 + 4 + 2 + 3 = 12 weeks
Path 2 is critical path and E (5-6) is the activity on critical path with minimum cost slope. If Activity E (5-6) is crashed by one week;

Project duration = 13 – 1 = 12 weeks
Decrease in cost = (-) 2,500 + 1,500 = (-) Rs.1,000
Project Cost = 62,000 + (2,500 x 5) + 1,500 = Rs.76,000

(b) After crashing of E by one week, the project duration for different paths is as follows:
Path 1 : 1-2-3-6-7 = 3 + 5 + 3 = 11 weeks
Path 2 : 1-2-5-6-7 = 3 + 5 + 1 + 3 = 12 weeks
Path 3 : 1-2-4-5-6-7 = 3 + 4 + 1 + 3 = 11 weeks
Still path 2 continues to be the critical path and next activity on critical path with the least cost slope is A (1-2). If Activity A (1-2) is crashed by one week, the project duration by different paths will be as follows:

Project duration = 12 – 1 = 11 weeks
Decrease in cost = (-) 2,500 + 2,000 = (-) Rs.500
Project Cost = 62,000 + (2,500 x 4) + (1,500 +2,000)
= Rs.75,500 or 76,000 - 2,500 + 2,000 = Rs.75,500

(c) After crashing of A by one week, the project duration for different paths is as follows:

Path 1 : 1-2-3-6-7 = 2 + 5 + 3 = 10 weeks
Path 2 : 1-2-5-6-7 = 2 + 5 + 1 + 3 = 11 weeks
Path 3 : 1-2-4-5-6-7 = 2 + 4 + 1 + 3 = 10 weeks
Path 2 still continues to be critical path and the next activities with minimum cost slopes are C and F. Both are having cost slope of Rs.3,000 each. If any of these activities is crashed, there will be net increase in cost by Rs.500 (Rs.3000– Rs.2500) per week. Since, objective is to minimise the sum of the project execution cost and the penalty cost, the decision would be not to crash activity C or F.

Hence
Optimum duration of the project = 11 weeks
Total minimum cost = Rs.75,500

05.00 Quick Take

'Cost Benefit Analysis' is the crux of 'Project Crashing'!

Vol: 7, No.: 8.
August 2022, Issue

Azadi Ka Amrit Mahotsav

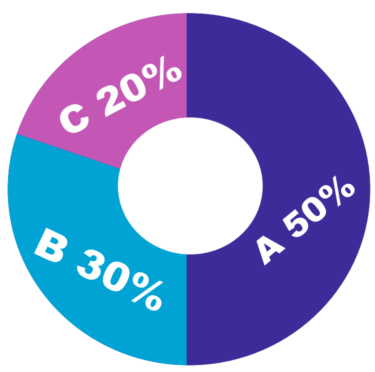
GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

CA Vikash Mundhra
He can be reached at:
vikash@taxpointindia.com

Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case StudyAnalysis **20%**

Learning Objectives:

- To develop basic idea about the problem of International double taxation
- To get acquainted with the methods of reliefs
- To have acquaintance with the basic provisions of the provisions of the Indian Income-tax Act regarding reliefs for double taxation.

Appeal before CIT (Appeals)

One Law Dictionary defines 'appeal' as the act of asking a higher authority to change a decision of a lower authority. Right to appeal under income tax law is a creation of statute and not an inherent right. Appeal can be filed only against orders listed in the Income Tax Act and not any order.
Initially, following course of action are available in the Income-tax Act:

Assessee	Department
Rectification u/s 154	Rectification u/s 154
Appeals to CIT (Appeals)	Revision u/s 263
Revision u/s 264	Reassessment u/s 147

Appellate Authorities in Income-tax Act

Appeal	Appellate authority	Against which order	Appellant
1st	Commissioner (Appeals)	Against specified order of the Assessing Officer	Assessee only
2nd	Income Tax Appellate Tribunal (ITAT)	Against the order of Commissioner (Appeals)	Assessee or the Commissioner (or Principal Commissioner) of Income tax.
3rd	High Court	Against the order of ITAT (the case must involve substantial question of law)	
Final	Supreme Court	Against the order of High Court	

Appeals to Commissioner of Income Tax (Appeals) [CIT (A)] [Sec. 246A to 250]

Aggrieved tax payer can file appeal before the Commissioner (Appeals) having, jurisdiction over the tax payer. Designation of the Commissioner (Appeals), with whom appeal is to be filed is also mentioned in the notice of demand issued by the Assessing Officer u/s 156.
Provision regarding appeal to the Commissioner (Appeal) are enumerated below:

Appealable Orders	**1.U/s 246A** • Order passed by a Joint Commissioner u/s 115VP(3)(ii); • Order against the assessee, where the assessee denies his liability to be assessed under this Act; • Intimation u/s 143(1) or 143(1B) or 200A(1) or 206CB(1) or Order of assessment u/s 143(3) [Scrutiny assessment] [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)] or u/s 144 [Best judgment assessment] in respect of income assessed or tax determined or loss computed or residential status; • Order of assessment, reassessment or recomputation u/s 147 [(except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)], 150 & 153A [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)]; • Order u/s 154 (Rectification of Mistake) or u/s 155 (other amendments) having the effect of enhancing the assessment or reducing a refund or an order refusing to allow the claim made by the assessee [except where it is in respect of an order referred to in sec. 144BA(12)] • Order u/s 92CD(3) • Order u/s 163 treating assessee as an agent of a non-resident; • Order u/s 170 relating to assessment on succession; • Order u/s 171 refusing to recognize partition of an HUF;

<table>
<tr><td></td><td colspan="2">

Order u/s 201 or 206C(6A) for default of provisions of TDS/TCS;
Order u/s 237 relating to refunds;
Order relating to Penalty;
Order imposing penalty under chapter XXI;
An order of penalty imposed under chapter XXI or an order of imposing or enhancing penalty u/s 275(1A)
Any order made by an Assessing Officer other than a Joint Commissioner, as the Board may direct.

</td></tr>
<tr><td></td><td colspan="2">
1.U/s 248
Where under an agreement or other arrangement –

the tax deductible u/s 195 on any income (other than interest) is to be borne by the person by whom the income is payable; &
such person having paid such tax to the credit of the Central Government, claims that no tax was required to be deducted on such income,

he may appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income
Notes:
a) Even when reassessment proceedings have been initiated u/s 147, an appeal can still be filed against the original assessment order passed u/s 143(3)
b) Assessee has the right to appeal against an order of the Assessing Officer which is passed while giving effect to the decision of the appellate authority.
</td></tr>
<tr><td rowspan="5">Time limit for filing appeal</td><td colspan="2">Appeal should be filed within 30 days from -</td></tr>
<tr><td>Where the appeal is u/s 248</td><td>The date of payment of the tax</td></tr>
<tr><td>Where the appeal relates to any assessment or penalty</td><td>The date of service of notice of demand relating to the assessment or penalty</td></tr>
<tr><td>In any other case</td><td>The date on which intimation of the order, sought to be appealed against, is served.</td></tr>
<tr><td colspan="2">
Period to be excluded [Sec.268]
While calculating the above time limit, following period shall be excluded -
a) The day on which order complained of was served; and
b) Time required for obtaining a copy of the order, where a copy of the order was not furnished with notice of demand.
c) Where an application has been made u/s 270AA (seeking immunity from penalty and prosecution), the period beginning from the date on which the application is made, to the date on which the order rejecting the application is served on the assessee
</td></tr>
<tr><td>Delay in filing appeal</td><td colspan="2">The Commissioner (Appeals) may admit belated application on sufficient cause being shown.
Note: It is statutory obligation of the appellate authority (where an application for condonation is filed) to consider whether sufficient cause was shown by the appellant</td></tr>
<tr><td>Form of appeal</td><td colspan="2">Form 35 (Mode of filing depends i.e., electronically or in paper form, on mode of filing return of income of the assessee)</td></tr>
<tr><td>Documents to be submitted</td><td colspan="2">

Order against which appeal is made
Statement of facts
Grounds of appeal
Notice of demand (in Original)
Challan

</td></tr>
<tr><td>Verification of Form</td><td colspan="2">Form & grounds of appeal must be verified by the person authorised to verify the return of income u/s 140</td></tr>
<tr><td>Payment of tax before filing of appeal</td><td colspan="2">
If a return has been filed – Tax as per the return should be paid.
If no return has been filed – The assessee should pay an amount equal to the advance tax which was payable by him. However, CIT(A) may, for any good and sufficient reason (recorded in writing), accept the appeal without payment of such advance tax.
Power of Assessing Officer: As per sec. 220(6), where an assessee has presented an appeal u/s 246A, Assessing Officer may treat the assessee as not being in default in respect of the amount in dispute in the appeal.
It may be applied -

at the discretion of the Assessing Officer;
subject to such conditions as Assessing Officer may think fit to impose;

</td></tr>
</table>

	• even though the time for payment has expired; • as long as such appeal remains undisposed of. Where assessee has not made an application u/s 220(6) or his application u/s 220(6) has been rejected, he can approach the appellate authority for stay order against collection	
Fee	Where assessed income as computed by the Assessing Officer is -	
	• Up to ₹ 1,00,000	- ₹ 250
	• Exceeds ₹ 1,00,000 but does not exceed ₹ 2,00,000	- ₹ 500
	• Exceeds ₹ 2,00,000	- ₹ 1,000
	Where the subject matter of appeal is not covered in above cases	- ₹ 250
Procedure	1. **Fixation of Day & Place:** The Commissioner (Appeals) shall fix a day and place for the hearing of the appeal, and shall give notice of the same to the appellant and to the Assessing Officer against whose order the appeal is preferred. 2. **Hearing:** The appellant (either in person or by an authorised representative) and the Assessing Officer (either in person or by an authorised representative) shall have the right to be heard at the hearing of the appeal. **Taxpoint:** Where the assessee does not insist on a personal hearing the appeal may be decided on the basis of written submission made by him. [Letter No. 277/7/84 of November, 1985] 3. **Adjournment:** The Commissioner (Appeals) shall have the power to adjourn the hearing of the appeal from time to time. 4. **Inquiry:** The Commissioner (Appeals) may, before disposing of any appeal, make such further inquiry as he thinks fit, or may direct the Assessing Officer to make further inquiry and report the result of the same to the Commissioner (Appeals). 5. **Order:** Commissioner (Appeals) must dispose of the appeal by passing an order which shall - • be in writing; • mention the points for determination; • mention the decision thereon; and • mention the reason for the decision. 6. **Communication of Order:** The Commissioner (Appeals) shall communicate the order passed by him to the assessee and to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. **Note:** If during pendency of an appeal, provision of any law has changed with retrospective effect, then such changed law shall be applicable on such appeal too. Law amended retrospectively would be a good law for applicability during the pendency of the appeal	
New grounds during hearing	The Commissioner (Appeals) may, at the hearing of an appeal, allow the appellant to go into any ground of appeal not specified in the 'grounds of appeal', if he is satisfied that the omission of that ground from the Form of appeal was not wilful or unreasonable.	
Time limit for disposal of appeal	Within one year from the end of financial year in which appeal is filed (if possible).	
Production of additional evidence	Appellate authority has the power to accept additional evidence (after recording reason for its admission in writing) and may make further enquiry at his discretion before disposing of the appeal In the following circumstances additional evidence shall be admitted by the Commissioner (Appeals): a) Where the Assessing Officer has refused to admit evidence which ought to have been admitted; or b) Where appellant was prevented by sufficient cause from producing before the Assessing Officer any evidence, which is related to any ground of appeal; or c) Where the appellant was prevented by sufficient cause from producing the evidence, which he was called upon to produce by the Assessing Officer; or d) Where the Assessing Officer has made an order (appealed against) without giving sufficient opportunity to the appellant to produce evidence relevant to any ground of appeal. *Taxpoint*: Before taking into account the additional evidence filed, Commissioner (Appeals) is to provide reasonable opportunity to the Assessing Officer for examining the additional evidence or the witness as well as to produce evidences to rebut additional evidences filed by the tax payer.	

<table>
<tr><td rowspan="5">Powers of Commissioner (Appeals) u/s 251</td><td>1. Against an order of assessment</td><td>To confirm, reduce, enhance or annul the assessment</td></tr>
<tr><td>2. Against an order imposing a penalty</td><td>To confirm or cancel such order or vary it so as either to enhance or to reduce the penalty;</td></tr>
<tr><td>3. Against the order of assessment in respect of which the proceeding before the Settlement Commission abates u/s 245HA</td><td>To confirm, reduce, enhance or annul the assessment after taking into consideration all the material and other information produced by the assessee before, or the results of the inquiry held or evidence recorded by, the Settlement Commission, in the course of the proceeding before it and such other material as may be brought on his record</td></tr>
<tr><td>4. Relating to any other case</td><td>To pass such orders as he thinks fit.</td></tr>
<tr><td colspan="2">Notes:
1. The Commissioner (Appeals) may consider and decide any matter arising out of the proceedings in which the order appealed against was passed, notwithstanding that such matter was not raised before the Commissioner (Appeals) by the appellant.
2. Commissioner (Appeals) shall not enhance an assessment or a penalty or reduce the amount of refund unless the appellant has had a reasonable opportunity of showing cause against such enhancement or reduction.
3. An assessment order, which is void ab initio cannot become a valid order simply by virtue of the fact that it has been confirmed by an appellate authority.</td></tr>
<tr><td>Withdrawal of appeal</td><td colspan="2">Appeal once filed cannot be withdrawn.</td></tr>
<tr><td>Faceless</td><td colspan="2">The Central Government may make a scheme for the purposes of disposal of appeal by Commissioner (Appeals), so as to impart greater efficiency, transparency and accountability by:
a. eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible;
b. optimising utilisation of the resources through economies of scale and functional specialisation;
c. introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).
The Central Government may, for the purposes of giving effect to the scheme, direct (within 31-03-2022) that any of the provisions of this Act relating to jurisdiction and procedure for disposal of appeals by Commissioner (Appeals) shall not apply or shall apply with such exceptions, modifications and adaptations.</td></tr>
</table>

Vol: 7, No.: 8.
August 2022, Issue

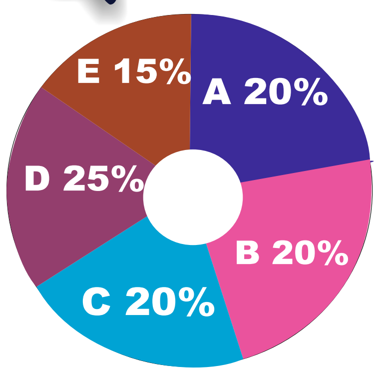
Azadi Ka Amrit Mahotsav

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

Dr. Ananda Mohan Pal
Professor,
Department of Business Management,
The University of Calcutta,
He can be reached at:
apal59@gmail.com

Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Comminations & Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **25%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:

- Learn how to highlight the achievements of a company to its investors, creditors, bankers, public, employees, regulatory bodies and Government on a periodic basis
- To convey future based strategic roadmap for the company.

Corporate Financial Reporting

We shall take up General instructions for preparation of Statement of Profit and Loss and general instructions for the preparation of Consolidated Financial Statements in this issue.

General instructions for preparation of statement of profit and loss and Consolidated Financial Statements as provided in Division II of Schedule III of the Companies Act 2013 as amended in 2021 and applicable from 01-04-2021.

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss.
2. The Statement of Profit and Loss shall include:

(1) Proflt of loss for the Period;
(2) Other comprehensive Income for the period.
The sum of (1) and (2) above is 'Total Comprehensive Income'.

3. Revenue from operations shall disclose separately in the notes
(a) sale of products (including Excise Duty);
(b) sale of services;
(ba) Grants or donations received (relevant in case of section 8 companies only); and
(c) other operating revenues.

4. Finance Costs: Finance costs shall be classified as-
(a) interest;
(b) dividend on redeemable preference shares;
(c) exchange differences regarded as an adjustment to borrowing costs; and
(d) other borrowing costs (specify nature).

5. Other income: other income shall be classified as-
(a) interest Income;
(b) dividend Income; and
(c) other non-operating income (net of expenses directly attributable to such income).

6. Other Comprehensive Income shall be classified into-
(A) Items that will not be reclassified to profit or loss
(i) Changes in revaluation surplus;
(ii) Remeasurements of the defined benefit plans;
(iii) Equity Instruments through Other Comprehensive Income;
(iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;
(v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
(vi) Others (specify nature).
(B) Items that will be reclassified to profit or loss;
(i) Exchange differences in translating the financial statements of a foreign operation;
(ii) Debt instruments through Other Comprehensive Income;
(iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;
(iv) share of other comprehensive income in Associates and joint ventures, to the extent to be classified into profit or loss; and
(v) Others (specify nature)

7. Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:
(a) employee Benefits expense [showing separately
(i) salaries and wages,
(ii) contribution to provident and other funds,
(iii) share based payments to employees,
(iv) staff welfare expenses.
(b) depreciation and amortisation expense;
(c) any item of income or expenditure which exceeds one per cent of the revenue from ' ' operations or Rs.10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company,

(d) interest Income;
(e) interest Expense;
(f) dividend income;
(g) net gain or loss on sale of investments;
(h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
(i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses; 0) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and
(k) details of items of exceptional nature; 8. Changes in Regulatory Deferral Account Balances shall be presented in the Statement of Profit and Loss in accordance with the relevant Indian Accounting Standards.
(l) Undisclosed income The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and shall also state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.
(m) Corporate Social Responsibility (CSR)
Where the company covered under section 135 of the Companies Act, the following shall be disclosed with regard to CSR activities:-
(Iamount required to be spent by the company during the year,
(ii) amount of expenditure incurred,
(iii) shortfall at the end of the year,
(iv) total of previous years shortfall,
(v) reason for shortfall,
(vi) nature of CSR activities,
(vii) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
(viii)where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately.
(n) details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-
(Iprofit or loss on transactions involving Crypto currency or Virtual Currency,
(ii) amount of currency held as at the reporting date,
(iii) deposits or advances from any person for the purpose of trading or investing in Crypto Currency or virtual currency

GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e,, consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet, statement of changes in equity and statement of profit and loss in addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, including the following, namely:-
(i) Profit or loss attributable to 'non-controlling interest' and to 'owners of the parent' in the statement of profit and loss shall be presented as allocation for the period Further, 'total comprehensive income 'for the period attributable to 'non-controlling interest' and to 'owners of the parent' shall be presented in the statement of profit and loss as allocation for the period. The aforesaid disclosures for 'total comprehensive income' shall also be made in the statement of changes in equity In addition to the disclosure requirements in the Indian Accounting Standards, the aforesaid disclosures shall also be made in respect of 'other comprehensive Income.
(ii) 'Non-controlling interests' in the Balance Sheet and in the Statement of Changes in Equity, within equity, shall be presented separately from the equity of the 'owners of the parent'.
(iii) Investments accounted for using the equity method.

2. In consolidated financial statements, the following shall be disclosed by way of additional information:

Name of the entity in the group	Net assets i.e. total assets minus liabilities		Share in profit or loss		Share in other comprehensive income		Share in total comprehensive income	
	As % of consolidated assets	Amount	As % of consolidated profit or loss	Amount	As % of other consolidated comprehensive income	Amount	As % of total comprehensive income	Amount
Parent Subsidiaries Indian 1. 2. 3. Foreign 1. 2.								

3. Non-Controlling interests in all subsidiaries Associates (Investments as per the equity method) Indian 1. 2. 3. Foreign 1. 2. 3. Joint Ventures (Investments as per equity method) Indian 1. 2. 3. Foreign 1. 2. 3.				
Total				

3. All subsidiaries, associates and joint ventures (whether Indian or Foreign) will be covered under consolidated financial statements.
4. An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reason of not consolidating.

The formats of Financial Statements for Ind AS complied companies and general instructions for preparing the statements are important for the students and relevant parts of them were stated in the three consecutive issues of the bulletin.

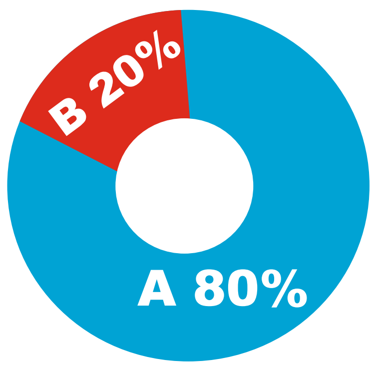
Azadi Ka Amrit Mahotsav

GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

CMA Rana Ghosh
Chief Executive Officer,
Institution of Estate Managers & Appraisers
He can be reached at:
ranaham@rediffmail.com

Your Preparation Quick Takes



Syllabus Structure

A Advanced Indirect Tax and Practice **80%**

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- GSTN establishment
- Supply of goods & services
- Exempted and taxable goods & services
- Nil rate of GST
- TDS and final return
- Claims of ITC
- Audit of unregistered person
- Taxability of various offer

INDIRECT TAX

Choose the correct option from the followings –

1. **Technology backbone for GST in India "Goods and Service Tax Network" is Established**
   (a) Under Section 8 of the Companies Act, 2013
   (b) Under Section 25 of the Companies Act,2013
   (c) As a regulatory body under Ministry of Finance
   (d) As a regulatory body under Ministry of Corporate Affairs

2. **Every place of business of a person where separate registration is obtained for output supply will be considered as**
   (a) Natural persn
   (b) Legal person
   (c) Distinct person
   (d) Deemed person

3. **Supply of goods by the agent to principal without consideration**
   (a) Will not be considered as supply
   (b) Will be considered as supply
   (c) Will be considered as non taxable supply
   (d) Will be considered as exempted supply

4. **In case of net quantity of petroleum gases supplied by oil refineries retained by the manufacturer for the manufacturing of petro chemical and chemical products then**
   (a) GST will be payable
   (b) GST will not be payable
   (c) It will be considered as exempted supply
   (d) Its taxability will be considered as per other State Act

5. **Acupressure treatment is**
   (a) Taxable supply of service
   (b) Exempted from GST
   (c) Fall under special category of exemption
   (d) Zero rated tax

6. **Which of the following will be considered as exempted goods**
   (a) Exercise books
   (b) Printed books
   (c) Staplers
   (d) Pencils

7. **For air embarking or terminating in an airport for transport of passengers with or without accompanied belongings in which of the Airport will be considered exempted service?**
   (a) Bagdogra Airport at Siliguri (West Bengal)
   (b) Swami Vivekananda Airport at Raipur (Chhattisgarh)
   (c) Dabolim Airport at Goa (Goa)
   (d) Pantnagar Airport at Kumaon (Uttarakhand)

8. **Which of the following will be considered Charitable activities in relation to advancement of educational program or skill development relating to**
   (a) Residents of old age home
   (b) Person residing at asylum
   (c) Pensioners
   (d) Senior citizen residing at rural area

9. **Any school allow other school to the name, it's logo and moto and received collaboration fees , comprised of non refundable amount and annual fees against those, will be considered as**
   (a) Branch
   (b) Partnership
   (c) Association
   (d) Franchise service

10. **Which of the following service relating to transportation of passengers not covered under NIL rate of GST?**
   (a) Metro
   (b) Tramways
   (c) Metered cab
   (d) Air conditioned railway coach

11. **Which of the agricultural activities exempted from GST**
   (a) Commission on sale of agriculture product
   (b) Warehousing of processed agricultural product
   (c) Agriculture extension services
   (d) Services by any agricultural produce marketing committee

12. **If Input service Distributors (ISD) wants to take reverse charge supplies, then in that case ISD has to**
   (a) Take special permission from GST authority.
   (b) Ask the supplier to give a declaration regarding supplies.
   (c) Separately register as Normal taxpayer.
   (d) Issue Debit Note to the supplier.

13. **As per section 54(1) of the CGST Act any person claiming refund of any tax and interest paid by him may make an application from the relevant date before the expiry of**
   (a) 6 months
   (b) 9 months
   (c) 1 year
   (d) 2 years

14. **No TDS is required to be deducted incase a PSU/Govt Dept avails the services of a**
   (a) Lawyer
   (b) Valuer
   (c) Chartered Accountant
   (d) Medical practitioner

15. **When registration is cancelled or surrendered Final Return to be furnished of the date of cancellation or date of cancellation order, whichever is later within**
   (a) One month
   (b) Two months
   (c) Three months
   (d) Four months

16. **The GST Commissioner by order extend the date of matching relating to the claim of input tax credit to such date as may be specified therein on recommendation of**
   (a) State Government
   (b) Central Government
   (c) GST Council
   (d) Ministry of finance

17. **Transactions where the claim for input tax credit is higher than the output tax as declared by the supplier shall be**
   (a) Added to the output tax liability of the recipient
   (b) Deducted from the output tax liability of the recipient
   (c) Added to the output tax liability of the supplier
   (d) Deducted from the output tax liability of the supplier

18.Even if the person is not registered the audit can be undertaken is
(a) Special audit
(b) Departmental audit
(c) General audit
(d) Audit by a CA or CMA

19. In case of Buy one get one free offer taxability will be dependent on
(a) Considering it as single supply
(b) Considering it two or more individual supply
(c) Whether the supply is a composite supply or a mixed supply
(d) Average discounted price of two different supply to be taken

20. As per Part VI of the FORM GSTR-9 under GST Audit which is not the part of other information comprises details of –
(a) GST Demands and refunds
(b) HSN wise summary information of the quantity of goods supplied and received with its corresponding Tax details against each HSN code
(c) Penalty payable and paid details
(d) Segregation of inward supplies received from different categories of taxpayers like Composition dealers, deemed supply and goods supplied on approval basis

ANSWERS

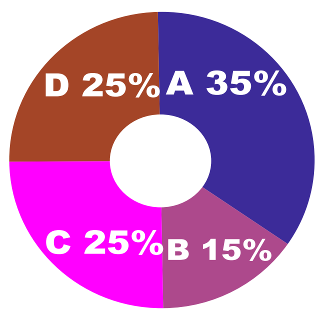
1	a	6	b	11	b	16	c
2	c	7	a	12	c	17	a
3	b	8	c	13	d	18	b
4	a	9	d	14	d	19	c
5	a	10	d	15	c	20	c

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant
He can be reached at:
sonthalia_ss@yahoo.co.in

Your Preparation Quick Takes



Syllabus Structure

A Cost Audit **35%**
B Management Audit **15%**
C Internal Audit, Operational Audit and other related issues **25%**
D Case Study on Performance Analysis **25%**

Learning Objectives:

- To verify the correctness of the cost accounting records.
- To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
- To search for the deficiencies in the cost record system of the company.
- To attain efficiency in cost accounting systems and procedures

True case study

M/s Grand Distributors Private Limited, (name changed) a private limited company, limited by shares, engaged in business of carry on all kinds of agency, dealership, trading and distribution of Iron and steel materials, coved under CTA code 7221,7222 and 7301, received a notice from Cost Audit Branch of Ministry of Corporate Affairs (MCA), Govt. of India, vide letter no.- 52/ CAB/22 dated 17.05.2022 on 04th July 2022, for non-compliance u/s 148 of the companies' act, 2013. The notice is based on the AOC-4 (XBRL) filed by the company for the financial year 2018-19, where in the aggregate turnover of the company for the goods covered has been shown as Rs. 156,36,89,482.00. MCA has stated in the notice that the company has failed in appointing the Cost Auditor for the financial year 2019-20 for conducting the cost audit and filing of e-form CRA_2 i.e. "Form of intimation of appointment of cost auditor by the company to the Central Government " as the turn over the company for the product under CTA has exceeded the threshold limit of Rs. 100.00 crores as covered under Companies (Cost Records & Audit) Rules, 2014, and wanted the explanation for the reason of non-compliance.

As the CFO of the Company, you have been directed by the MD of the company to suitably reply the notice for non-compliance to MCA citing proper provisions of the Companies (Cost Records & Audit) Rules, 2014 as amended.

(Other Details about the company for suitably reply to MCA

1. *During the FY 2018-19, the company is only engaged in trading of iron sheets.*
2. *As per AOC-4 of 2018-19, Cost of Materials Consumed is Nil.)*

Reply Letter-

Date –

10.07.2022

To,

The Cost Audit Branch,
Ministry of Corporate Affairs,
Pt. Dindayal Antyodaya Bhawan,
CGO Complex,
New Delhi- 10003

Sub- Reply to the notice vide letter no.- 52/ CAB/22, dated 17.05.2022 received by us on 04th July 2022 with regard to non-compliance u/s 148 of the companies act, 2013.

Dear Sir/ Madam,

M/s Grand Distributors Private Limited, is fully committed to the compliance of the Rules and the regulations of companies Act as well the other acts as applicable to the company. The company is engaged in business of wholesale trading of Iron sheets which is the main product being handled by the company and the 100% of the turnover for the financial year 2018-19 i.e. Rs. 156,36,89,482.00 is with regard to the wholesale trading of the said product. Further the main object to be pursued, as per the MOA of the company is "To transact and carry on all kinds of agency, dealership and distribution business".

It may be mentioned that the company, is not engaged in the Production / Manufacturing activity.

Criteria for Cost Audit:

Sub-section (1) Section 148 of The Companies Act, 2013- **Central Government to specify audit of items of cost in respect of certain companies:** Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the **production of such goods or providing such services as may be prescribed,** direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of accounts kept by that class of companies.

Rule 4 of The Companies (Cost Records & Audit) Rules, 2014 as amended states –

(2) Every company specified in item (B) of rule 3 shall get its ***cost records audited*** *in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services* ***for which cost records are required to be maintained under rule 3*** *is rupees thirty five crore or more."*

Item (B) of Rule 3 contains the list of Non-Regulated sectors (Industry/ Product/ Services) mentioned under the Companies (Cost Records & Audit) Rules, 2014. Though M/s Grand Distributors Private Limited is neither comes under Regulated sector or nor under Non-regulated sector but for understanding I have refereed the provision for Non-regulated sector.

Criteria for Cost Record as per Rule-3 of the Companies (Cost Records & Audit) Rules, 2014 as amended:

"For the purposes of sub-section (1) of Section 148 of the Act, the class of companies, including foreign companies defined in clause (42) of Section 2 of the Act, ***engaged in the production of the goods or providing services, specified under Regulated sector and Non-Regulated sector****, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account."*

So, the provisions of Rule 3 and Rule -4 distinctly illustrate that the primary clause for applicability of Cost Audit is that the **"Company must have engaged in the production of the goods or providing services, specified under Non-Regulated sector list** and the secondly the overall turnover from all its products and services is of Rs. 100.00 crore or more during the immediately preceding financial year."

In view of the above provisions of the Companies (Cost Records & Audit) Rules, 2014 as amended is not applicable neither for maintenance of Cost Records nor for appointment of Cost Auditor for audit of Cost Records for the FY 2019-20, primarily on the ground that the company is not engaged in Production / Manufacturing activity. Therefore, though the turnover has crossed Rs. 100.00 crore in the FY 2018-19, the cost audit is not applicable, as it not a class of company subject to cost audit. Hence the company is not required to file CRA-2 for the FY- 2019-20 i.e. "Form of intimation of Appointment of Cost Auditor by the company to the central government".

Hope this will clarify the position.

Thanking you.

Yours Faithfully,

Place:

(Name and designation of the CFO)
For Grand Distributors Private Limited

Date:

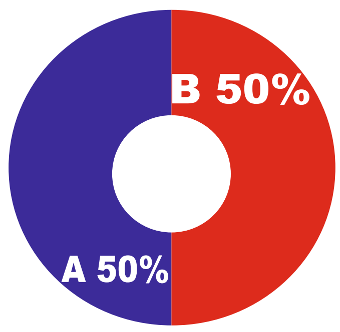
Vol: 7, No.: 8.
August 2022, Issue

GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
cu.ashis@gmail.com

Your Preparation Quick Takes



Syllabus Structure

A Strategic Performance Management **50%**
B Business Valuation **50%**

Learning objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:
- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

(Based on Available Literatures, Study Material, MTP, RTP and Previous End-Terms Questions)

Tools to Improve Productivity and Profitability

A. Materials Requirement Planning (MRP OR MRP I)

MRP is a technique which aims at to ensure that material resources - raw materials bought-in components and in-house sub-assembles - are made available just before they are needed by the next stage of production or despatch. It is basically a system which controls system of inventory so that up-to-date records of the status of a large number of items in inventory can be kept. An MRP system works out outputs from the master production schedule, orders for external components, sales demand forecast, inventory or stock records and Bill of Materials.

Important requirements for the operation of a MRP system are as follows:

- **Master Production Schedule** - It specifies the quantity of each finished unit of products to be produced along with the time at which each unit will be required.
- **Bill of Material File**- This file specifies the sub-assemblies, components and materials requirement for each item of finished goods.
- **Inventory File** - It maintains details of items in hand for each sub-assemblies, components and materials required.
- **Routing File** - This file specifies the sequence of operations required to manufacture components, sub-assemblies and finished goods.
- **Master Parts File** - It contains information about the production time of sub-assemblies and components produced internally and lead time for externally procured items.

The information provided by a MRP system includes the following:

- **Gross Requirements** - The demand for the components or assembly, comprising firm customer orders and forecasts.
- **Scheduled Receipts** - The expected delivery dates and quantities of shop or purchase orders already put in hand.
- **Projected Available Balance** - The number of items projected to be in inventory at the end of each period (opening balance plus receipts minus issues), □ Planned Order Release - The order quantities required to ensure that the projected available balance does not drop below zero at any pre-set safety level.

B. Manufacturing Resource Planning (MRP II)

MRP II is a method for the effective planning of all the resources of a manufacturing company. It also addresses operational planning in units and its financial planning. It is made up of a variety of functions, each linked together: business planning, sales and operations planning, demand management, production planning, master scheduling, material requirement planning, capacity requirement planning, and the execution support systems for capacity and material. Output from these systems is integrated with financial reports such as the business plan, purchase commitment report, shipping budget, inventory projections etc.

Essential Elements of MRP

Demand Forecast	Production Planning
Resource Planning	Rough-cut Capacity Planning
Master Production Schedule	Bills of Material
Materials Requirement Planning	Detailed Material and Capacity
Shop and Purchase Order Release	Shop-floor Control
Purchase and Inventory Control	

C. Enterprise Resource Planning (ERP)

ERP means the techniques and concepts for integrated management of business as a whole from the view point of the effective use of management resources to improve the efficiency of enterprise management. It provides integrated business software modules to support functional units of an enterprise. It has a process-oriented approach in the sense that it focuses on core processes like order fulfilment, materials procurement, balance sheet preparation etc. and attempts to integrate various functions of an enterprise involved the execution of these processes.

ERP uses multi-module application software for improving the performance of the internal business processes. ERP software systems may include application modules for supporting marketing, finance, production, purchases, stores, accounting and human resources.

Short-type Questions (True/False)

Write True or False:

1. Merges can provide tax benefits in the case of set off and carry forward of losses.
2. Exchange ratio of equity shares of merging firms is determined by their market price alone.
3. Divestitures represent the sale of a part of a total undertaking.
4. EVA is inversely related to shareholders' value.
5. If a bond of a company is trading at a premium in the market, then its yield-to-maturity will be less than its current yield.

Answer Hints:

Question	1	2	3	4	5
Answer	True	False	True	False	True

Multiple Choice Questions (MCQ)

1. **A method under which the value of an asset is based on calculating the costs avoided by the acquiring company when obtaining a pre-existing and fully functional asset is known as -----------------method**
   (a) Sunk Cost
   (b) Marginal Cost
   (c) Avoided Cost
   (d) Incurred Cost

2. **According to basic valuation model, the value of a financial asset is-**
   (a) future value of its expected future cash flows
   (b) Contingent value of its expected future cash flows
   (c) value of its expected future cash flows
   (d) present value of its expected future cash flows

3. **Which is not a, human capital related intangible asset?**
   (a) Employment agreements
   (b) Design patent
   (c) Union contracts
   (d) Trained workforce

4. **Two firms A and B have earnings after taxes of ₹ 60,000 and ₹ 40,000 respectively, with identical EPS of ₹ 10. What will the EPS of the firm be after merger for share exchange ratio as 0.5:1, where A acquires B?**
   (a) ₹ 10
   (b) ₹ 15
   (c) ₹ 12.5
   (d) ₹ 20

5. **An investment is risk free when actual returns are always--------------the expected returns.**
   (a) equal to
   (b) less than
   (c) more than
   (d) depends upon circumstances

Answer Hints:

Question	1	2	3	4	5
Answer	c	d	b	c	a

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

Practical support, information and advice to help you get the most out of your studies.

START

01 Read Study Notes, MTPs,E-Bulletin, Work Books, Attend Webinar sessions

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Azadi Ka Amrit Mahotsav

150 YEARS OF CELEBRATING THE MAHATMA

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

We have noted your queries and your requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence! One of the mails received is acknowledged below.

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

Send your Feedback to:
e-mail: studies.ebulletin@icmai.in
website: http://www.icmai.in

Message from

Directorate of Studies

Dear Students,

We from the Directorate of Studies understand your expectations from us and accordingly we are trying to deliver some meaningful tips through various publications in soft versions like-E-bulletins, Mock Test Papers (MTPs), and we also have conducted Webinar Sessions for the benefit of the students. Supplementary and Amendments are also uploaded from time to time to keep the students updated about the recent changes made in the papers; wherever applicable.

You must be aware that India is celebrating Azadi Ka Amrit Mahotsav, which is an initiative of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements. Along with pan India, your Institute has also observed and took part in various meaningful activities throughout the year. We also expect that our students should also take part in the development of the nation and make the country proud.

"Freedom has only one motto, may our country be happy and prosperous" …….

let you all observe the message cited above.

- Certain general guidelines are listed below and which will help you in preparing for the examinations:
- Conceptual understanding and overall understanding of the subjects should be clear,
- Students are advised to go through the study material provided by the Institute meticulously,
- Students should know and learn the basic understandings of the subjects with focus on core concepts,
- Students are expected to give to the point answer which is a pre-requisite for any professional examination,
- To strengthen the answers, students are advised to answer precisely and in the structured manner,
- Proper time management is also important while answering.

Please refer the link mentioned below:

https://icmai.in/studentswebsite/index.php

GOOD LUCK
Be prepared and be successful

Disclaimer:
Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.

Few Snapshots

Glimpses of Observance of GST Day 2022 : GST in India - Poised to deliver Sustainable Growth on 06 July 2022 at Scope Complex, New Delhi

Glimpses of SAFA PAIB Committee Conference hosted by the Institute on 23rd July, 2022 at Trivandrum, Kerala.

Glimpses of SAFA PAIB Committee Conference hosted by the Institute on 23rd July, 2022 at Trivandrum, Kerala.

Continuing Education Programme Committee organised a programme on 'Changing Times - Role of CMAs' on 7th July 2022 at Kolkata wherein CMA Asim Kumar Mukhopadhyay, CEO & MD, TML Smart City Mobility Solution Ltd. was the Chief Guest and Keynote speaker.

CMA P. Raju Iyer, President, ICAI and Chairman, ICMAI MARF and Shri Atul Prakash, Principal Director, Regional Training Institute, Kolkata IA&A Department exchanging MOU signed on 14th July, 2022 for training and research collaboration with each other.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158