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CMA Student E - Bulletin

150 YEARS OF CELEBRATING THE MAHATMA

FINAL

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Message from The Chairman

CMA Manas Kumar Thakur

**Chairman,
Training & Education Facilities (T& EF) Committee**

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

"Persistent questioning and healthy inquisitiveness are the first requisite for acquiring learning of any kind"- M. K. Gandhi

Education is the process of facilitating learning, or the acquisition of knowledge, skills, values, beliefs, and habits. Ideally, education enhances both cognitive and non-cognitive capabilities. Cognitive skills include knowledge, reasoning, problem solving, and communication abilities. Non-cognitive skills include discipline, focus, perseverance, punctuality, friendliness, and much more. If education makes individuals more productive, it stands to reason that a better-educated population will generate faster economic growth for a country.

Teachers are a key element to educational quality because they orchestrate instructional interactions with and between students around academic content, and these classroom interactions—in an ideal world—influence student learning. "All the world is a laboratory to the inquiring mind".

What I request you; **please read your Study Material carefully, follow MTPs and E-bulletins and practice to solve the problems meticulously. Work Book for Final students' has also been uploaded. I have come to know that you have enjoyed and benefitted from the Webinar Classes conducted by the Directorate of Studies.**

The Directorate of Studies is sincerely putting their effort to help you for coming out as a true professional and a torch bearer of the nation. Your duty is to grab the available resources, to derive the benefits given and to make you a successful professional. Academicians of repute are contributing in this bulletin despite their busy schedule; if you are having any doubts on any subject you may resolve those issues by mailing them.

"Develop a passion for learning. If you do, you will never cease to grow".

Best of luck for your all future endeavour,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

150 YEARS OF CELEBRATING THE MAHATMA

CONTENTS

150 YEARS OF CELEBRATING THE MAHATMA

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: 4, No.: 4.
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GROUP: 3, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

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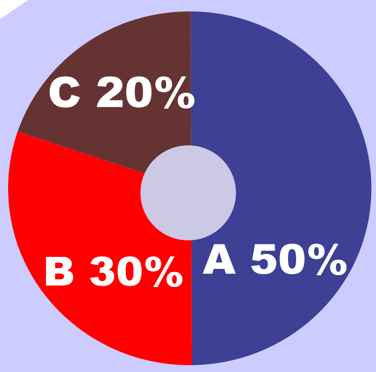
Your Preparation Quick Takes



Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

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.

Corporate Laws & Compliance

Capital market

Market where capital instruments are sold and bought, any security instrument having the right to own a company is capital market or has some connection with the company's long term finance is a capital market instrument

Primary market: sale/ allotment of shares from the company to any entity: IPO/ FPO

Secondary market: sale of shares from one person to another person: instruments are already created

Off market trading: sale of shares other than through stock market

Capital market intermediary: the entity which facil;aytes the transactions in capital market. i. e, stock exchange, broker, under writer, share transfer agent, debenture trustee, merchant banker etc.

a) SEBI: created by SEBI Act in May 1992 to regulate capital market. Has various divisions like primary market, secondary market, stock exchanges, operations etc. Board consists of full time and part time members under is under ministry of Finance. Headquartered in Mumbai, has office in all regions in metro cities. Issues regulations and orders from time to time. Decision of SEBI can be appealed to Sebi Appellate Tribunal (SAT)

1.0 CAPITAL MARKET TERMINOLOGIES

1.1 Contract:
'Contract' means a contract for or relating to the purchase or sale of securities.

1.2 Securities:
'Securities' includes the following:

Shares, scrip, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in any incorporated company or other body corporate.

Derivative.

Government securities.

Rights or interests in securities.

Such other instruments as defined in clause (zg) of section 2 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

1.3 Government security:
'Government security' means a security created and issued, whether before or after the commencement of this Act, by the Central Govt. or a State Govt. for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debts Act, 1944.

1.4 Derivative:
'Derivative' includes-

A security derived from a debt instrument, share, loan, whether secured or not, risk instrument or contract for differences or any other form of security;

A contract which derives its value from the prices, or index of prices, of underlying securities.

1.5 Beneficial owner:

1.6 "Beneficial owner" means a person whose name is recorded as such with a depository.

1.7 Depository:
"Depository" means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration by SEBI Act, 1992.with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exception; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form.

Process:
The depository system involves:

(a) Conversion of securities from physical mode to electronic mode.
(b) Settlement of trades in electronic segment.
(c) Electronic transfer of ownership.
(d) Electronic custody of securities.
(e) All the securities are identical in all respects and are fungible.
(f) The system is not mandatory for the owner of the securities but it is mandatory for the companies.

1.8 Merchant Banker:
A financial intermediary who can manage issue of shares, make valuation of shares and is involved in various formalities of issue and transfer of securities.

1.9 Broker – a person who is agent of either buyer or seller. In case of market transaction, brokers should be registered with

SEBI.broker can appoint sub brokers.

1.10 Stock Exchange – a company which provides a platform for buying and selling of securities through brokers and is called market transaction. Only CG authorized exchanges can operate. The brokers/ sub brokers can only do the trading job.

1.11 Underwriter – any person/organization who agrees to subscribe a portion of the securities, being issued to public, in case they are not subscribed by investors in public issue. They are paid commission by the company for taking this risk.

1.12 Share Transfer Agents – organizations who keep account of share transfer for other companies.

1.13 Insider Trading – passing of information by any insider of a company. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to the **unpublished price sensitive information** in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information.

Price sensitive information' means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company.

1.14 Book Building Process – Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from Qualified Institutional Buyers (QIB).

1.15 Promoter – Person/persons controlling the plan/programme of the company pursuant to which public issue is made. Directors in professional capacity are not promoters.

1.16 Promoters' Group – (1) Promoter's relative. (2) In case of a company – (a) Subsidiary/holding company. (b) Any company whose promoter holds 10% or more of the equity or which holds 10% or more of the promoter.

1.17 Red Herring Prospectus – This is an indicative prospectus without any details of price and number of shares or amount of issue. The floor price or price band is declared one day prior to the opening the issue. After the price is obtained through bidding the offer document is filed as prospectus.

1.18 Abridged Prospectus –
- Salient features of prospectus and accompanied with a form.
- Letter of offer – documents for rights issue filed Stock Exchange.
- Abridged Letter of Offer – abridged form of the above, compulsorily to be sent to each shareholder. Details to be given on request.

2.0 SEBI Regulations (Issue of Capital and Disclosure Requirements).

2.1 Entry Norms (IPO or FPO)
At least 25 per cent of each class or kind of securities issued by a company is offered to the public for subscription through advertisement in newspapers. The limit of 25% can be relaxed to 10% if following conditions are satisfied:

a) Minimum 20 lakh securities (excluding reservations, firm allotment and promoters' contribution) are offered to the public;
b) The size of the offer to the public, i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crores; and
c) The issue was made only through book building method with allocation of 60 per cent of the issue size to the qualified institutional buyers as specified by the Securities and Exchange Board of India;

Recognized stock exchange may relax any of the conditions with the previous approval of the SEBI, in respect of a Government company.

2.2 An unlisted company may make an initial public offering (IPO) of equity shares or any other security, which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

(i) The company has net tangible assets of at least 3 crores in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets:

Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;

(ii) The company has a track record of distributable profits in terms of for at least (3) out of immediately preceding five (5) years.

(iii) The company has a net worth of at least 1 crore in each of the preceding 3 full years (of 12 months each)

(iv) In case the company has changed its name within the last one year, at least 50% of the revenue for the preceding 1 full year is earned by the company from the activity suggested by the new name; and

(v) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times its pre-issue net worth as per the audited balance sheet of the last financial year.)

(vi) Eligibility – Unlisted company whose commercial operation of less than two years and the post issue capital shall not exceed Rs.5 crore and not less than Rs.3 crore.

vii) Appoint market maker to the issue on all stock exchanges where the securities are proposed to be listed.

viii) The unlisted companies whose capital after the proposed issue of securities is less than Rs.3 crore shall be eligible to be listed only on the Over the Counter Exchange of India.

2.3 Pricing by Companies Issuing Securities

An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange may freely price its equity shares.

2.4 Price Band:
Issuer company can mention a price band of 20% in the offer document filed with the Board and actual price can be determined at a later date before filing of the offer document with the ROCs.

2.5 Promoters' Contribution and Lock-in Requirements.

In a public issue by an unlisted company, the promoters shall contribute not less than 20% of the post issue capital.

Promoters shall bring in the full amount of promoters' contribution including premium at least one day prior to the issue opening date.

Minimum Promoters' contribution
Lock-in period: 3 years.

Excess Promoters' contribution:
Lock in period: 1 year.

2.6 Book Building Process: Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from subsidiaries. RHP do not contain price. It contains either the floor price or a price band.

2.7 Pre- issue Obligations:

1.The lead merchant banker shall exercise due diligence.

1. Documents to be submitted along with the offer document by the Lead Manager:

Memorandum of Understanding.
Inter se allocation of responsibilities
Due diligence certificate.
Undertaking.
List of Promoters' group and other details.
Appointment of intermediaries like merchant bankers, co-managers and other intermediaries.

2.8 Public Issue Steps:

The lead merchant banker's minimum underwriting obligation: 5% of the total underwriting commitment or Rs.25 lakhs whichever is less.
Offer document to be made Public.
Pre-issue advertisement.
IPO grading: By rating agency approved by SEBI.
Despatch of issue material.
No complaints certificate.
Mandatory collection centers of applications in major cities.
Authorized collection agents.
Appointment of compliance officers: To be notified in the advertisement who is responsible for the compliance.
Agreement with depositories: For data access of shareholders

2.9 Reservation for Employees:

As per Rule 19(2)b of SC(R) rules, 1957 the reservation for employees cannot exceed 10% of the total issue amount.

The main object of the SEBI Act are as follows:

(a) Protect the interests of the investors in securities.
(b) Promoting orderly and healthy growth of the securities market.
(c) Regulation of the securities market and other incidental matters.
(d) Promoting the fair dealings by the issuer of securities and raising of funds at a relatively lower cost.
(e) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

3.0 Powers of SEBI

(1) Specific powers like regulating the business of stock exchanges, registering and regulating the functions of stock brokers, share transfer agents, bankers, registrars, trustees, underwriters, portfolio managers etc.
(2) Power to make inspection.
(3) Powers of civil court exercisable by SEBI.
(4) Power to issue direction.
(5) Power to regulate and prohibit the issue of prospectus.
(6) Power to seize documents like books and papers.

4.0 Guidelines on initial public issue through the stock exchange

1) Agreement with the stock exchange.
2) Appointment of brokers.
3) Appointment of Registrar to the issue.
4) Listing.
5) Responsibility of Lead Managers.
6) Mode of operation.
7) Demat

5.0 Book Building:
SEBI Guidelines define Book Building as a process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document

6.0 SEBI (Substantial Acquisition of Shares)
On purchasing of shares from the market. for every 5% Acquisition to inform to SE and The company.

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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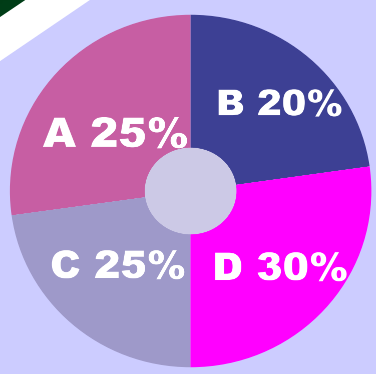
Your Preparation Quick Takes



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, you will be able to apply sensitivity analysis for assessing risk in capital budgeting decision

Strategic Financial Management

Problem

The initial investment outlay for a capital investment project consists of Rs 100 lakhs for Plant and Machinery and Rs 40 lakhs for working capital. Other details are summarized below:

Sales value - 1 lakh units of output per year for years 1 to 5
Selling price - Rs 120 per unit of output
Variable cost - Rs 60 per unit of output
Fixed overheads (excluding depreciation) - Rs 15 lakhs per year for years 1 to 5
Rate of Deprecation on Plant and Machinery - 25% on WDV method
Salvage value of Plant and Machinery - Equal to the WDV at the end of year 5
Applicable Tax Rate - 40%
Time horizon - 5 years
Cost of Capital - 12%

Required:

(a) Indicate the financial viability of the project by calculating the Net Present Value

(b) Carry out the sensitivity analysis under each of the following conditions:

I. Decrease in selling price by 5%
II. Increase in variable cost by 10%
III. Increase in cost of plant and machinery by 10%

Solution

Working notes

(a) (i) Initial investment (I_o)= Rs(100+40) lakhs = Rs 140 lakhs

(ii) Statement showing the depreciation schedule (Rs lakhs)

	Year1	Year2	Year 3	Year 4	Year 5
Opening Plant and Machinery	100	75.00	56.25	42.19	31.64
Less: Depreciation	25	18.75	14.06	10.55	7.91
Closing Plant and Machinery	75	56.25	42.19	31.64	23.73

(iii) Statement showing the profit before depreciation and tax per year (PBDT)

		(Rs in lakhs)
Total Contribution per year [Rs (120-60) x 1 lakh units]	=	60
Less: Fixed Overheads, other than depreciation year		15
Profit before Depreciation and Tax (PBDT)		45

(iv) Table showing the net cash flows (Rs. In lakhs)

Year	PBDT	Less: Depreciation	PBT	Less: Tax @ 40%	PAT	Add: Depreciation	Add: Salvage Value	Add: Decrease in working capital	Net cash inflows
1	45	25	20	8	12	25	-	-	37
2	45	18.75	26.25	10.5	15.75	18.75	-	-	34.50
3	45	14.06	30.94	12.38	18.56	14.06	-	-	32.62
4	45	10.55	34.45	13.78	20.67	10.55	-	-	31.22
5	45	7.91	37.09	14.84	22.25	7.91	23.73	40	93.89

NPV = 37/ $(1+0.12)^1$+34.50/$(1+0.12)^2$+32.62/ $(1+0.12)^3$+31.22/ $(1+0.12)^4$+93.89/ $(1+0.12)^5$ –140
= (37x 0.893) + (34.50 x 0.797) + (32.62 x 0.712) + (31.22 x 0.636) + (93.89 x 0.567) – 140
= Rs. (156.87 –140) lakhs
= Rs. 16.87 lakhs

The project is financially viable as NPV is positive at 12% cost of capital.

(b) Sensitivity Analysis:

(i) 5% decline in selling price
The above change leads to [(0.05 x Rs 120) x (1-0.40)]

Rs 3.6 lakhs decline in post-tax net cash inflows per year for 5 years.
Therefore, Decline in NPV= Rs 3.6 lakhs x P.V.I.F of Annuity @12% for 5 years
= Rs 3.6 x 3.605
= Rs 12.98 lakhs

Percentage decline in NPV compared to the base case NPV of Rs 16.87 lakhs = (12.98/16.87) x 100=76.94%

(ii) Increase in variable cost by 10%
The above change results in a decline in post-tax net cash inflow to the extent of Rs 3.6 lakhs [= {(Rs 60 x 1,00, 000) x 10%} x (1-0.40)] per year for 5 years.

Therefore, decline in NPV=Rs 3.6 lakhs x P.V.I.F of annuity @12% for 5 years
=Rs 3.6 x 3.605
=Rs 12.98 lakhs
Percentage decrease in NPV as compared to the base case NPV of 16.87 lakhs = (12.98/16.87) x 100=76.94%

(iii) Increase in cost of Plant and Machinery by 10%

Due to increase in the cost of Plant and Machinery by 10%, the initial investment will be higher by 10 lakhs. The net cash inflow will also be higher due to the tax benefit on depreciation of the increase in the cost of Plant and Machinery. The present value is shown below:

Year	Opening Value	Less: Depreciation @25%	Closing Value	Tax benefit on depreciation	Increase in Salvage Value	Increase in net cash flows	PVIF @ 12%	PV
1	10	7.5	7.5	1.00 [=2.5 x 0.40]	-	1.00	.893	0.89
2	7.5	1.88	5.62	0.75	-	0.75	.797	0.60
3	5.62	1.41	4.21	0.56	-	0.56	.712	0.40
4	4.21	1.05	3.16	0.42	-	0.42	.636	0.27
5	3.16	0.79	2.37	0.32	2.37	2.69	.567	1.53
Total PV of additional inflows =								3.69

Therefore, net decline in NPV =Rs. (10 – 3.69) lakhs = Rs. 6.31 lakhs.
Percentage decline in NPV = (6.31/16.87) x 100 = 37.40%

GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISIONMAKING (SCMD)

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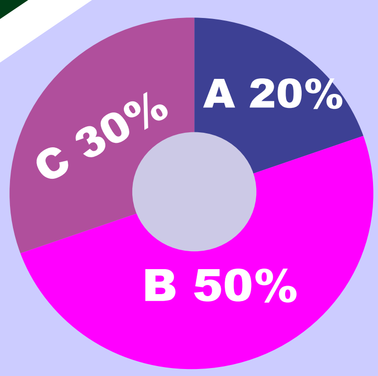
Your Preparation Quick Takes



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?

Quality Control

01.00 Concept

The term 'quality control' consists of two words 'quality' and 'control'. Quality is that characteristic or a combination of characteristics that distinguishes one article from the other or goods of one manufacturer from that of competitors or one grade of product from another when both are the outcome of the same factory.

> Quality control is a technique of scientific management which has the object of improving industrial efficiency by concentrating on better standards of quality and on controls to ensure that these standards are always maintained.

The main characteristics that determine the quality of an article may include such elements as design, size, materials, chemical composition, mechanical functioning, electrical properties, workmanship, finish and appearance. The quality of a product may be defined as the sum of a number of related characteristics such as shape, dimension, composition, strength, workmanship, adjustment, finish and colour.

'Control' may be referred to as the comparison of the actual results with the predetermined standards and specifications. It locates the deviations and tries to remove them. Control is the correction in the quality of the product when deviations in the quality are more than the limits of tolerance expected in the process. Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything – things, people and action.

By the term quality control, we mean the process of control where the management tries to conform the quality of the product in accordance with the pre-determined standards and specifications. It is a systematic control of those variables that affect the excellence of the ultimate product.

Thus, quality control is a technique of scientific management which has the object of improving industrial efficiency by concentrating on better standards of quality and on controls to ensure that these standards are always maintained. In this way, for quality control purposes, first standards and specifications are established and then controls are put in place to ensure that the product conforms to those standards.

02.00 Objectives

The following are the main objectives of a quality control programme:

(i) To assess the quality of the raw materials, semi-finished goods and finished products at various stages of production process.

(ii) To see whether the product conforms to the predetermined standards and specifications and whether it satisfies the needs of the customers.

(iii) If the quality of the products deviates from the specifications, to be able to locate the reason for deviations and to take necessary remedial steps so that the deviation should not be recurred.

(iv) To suggest suitable improvements in the quality or standard of goods produced without much increase or no increase in the cost of production. New techniques in machines and methods may be applied for this purpose.

(v) To develop quality consciousness in the various sections of the manufacturing unit.

(vi) To assess the various techniques of quality control, methods and processes of production and suggest improvement in them to be more effective.

(vii) To reduce the wastage of raw materials, men and machine during the process of production.

03.00 Advantages

The programme of quality control is advantageous, both, to the producers as also the consumers. Listed below are some of the factual advantages.

(i) **Reduction in Costs:** An efficient quality control system reduces the cost of production of the product due to (a) reduction in wastage of raw materials, semi-finished and finished goods; (b) large-scale production of standard quality product; (c) minimised rework cost of the substandard goods.

(ii) **Improvement in the morale of Employees:** By quality control programme, the employees become quality-conscious. They understand the standards of the product well and try to improve the standards and produce the quality goods to the best of their efforts. Thus, it improves the morale of the employees.

(iii) **Maximum utilisation of Resources:** By establishing the quality control system, the necessary control over the machines, equipment, men and materials and all other resources of the company is exercised. The system will also control the misuse of facilities, wastages of all types and low-standard production. Thus, the resources of the company are put to maximum use.

(iv) **Increase in Sales:** Increase in sales of the product is the main objective of the quality control system. By introducing quality control programme in manufacturing process, a quality product is made available to the consumers and that too at lower rates because of lower cost of production. It, in turn, increases the demand of company's product.

(v) **Consumers' Satisfaction**: Consumers always get the quality products of standard specifications which are to their utmost satisfaction.

(vi) **Study of Variations:** The techniques of quality control help in the study of the variations in quality of the product, and serves as a useful tool for the solution of many manufacturing problems which cannot be solved so well by any other method. Thus, quality control is an important technique in the hands of management to maintain the consistency in the quality of the product.

04.00 Case Study: A Quality Education

Although it may appear easier to find success with TQM at a boutique-sized endeavour, the philosophy's principles hold true in virtually every sector. Educational institutions, for example, have utilised quality management in much the same way – albeit to tackle decidedly different problems.

The global financial crisis hit higher education harder than many might have expected, and nowhere have the odds stacked higher than in India. The nation plays home to one of the world's fastest-growing markets for business education. Yet over recent years, the relevance of business education in India has come into question. A report by one recruiter recently asserted just one in four Indian MBAs were adequately prepared for the business world.

At the Ramaiah Institute of Management Studies (RIMS) in Bangalore, recruiters and accreditation bodies specifically called into question the quality of students' educations. Although the relatively small school has always struggled to compete with India's renowned Xavier Labour Research Institute, the faculty finally began to notice clear hindrances in the success of graduates. The RIMS board decided it was time for a serious reassessment of quality management.

The school nominated Chief Academic Advisor Dr Krishnamurthy to head a volunteer team that would audit, analyse and implement process changes that would improve quality throughout (all in a particularly academic fashion). The team was tasked with looking at three key dimensions: assurance of learning, research and productivity, and quality of placements. Each member underwent extensive training to learn about action plans, quality auditing skills and continuous improvement tools – such as the 'plan-do-study-act' cycle.

Once faculty members were trained, the team's first task was to identify the school's key stakeholders, processes and their importance at the institute. Unsurprisingly, the most vital processes were identified as student intake, research, knowledge dissemination, outcomes evaluation and recruiter acceptance. From there, Krishnamurthy's team used a fishbone diagram to help identify potential root causes of the issues plaguing these vital processes. To illustrate just how bad things were at the school, the team selected control groups and administered domain-based knowledge tests.

The deficits were disappointing. A RIMS students' knowledge base was rated at just 36 percent, while students at Harvard rated 95 percent. Likewise, students' critical thinking abilities rated nine percent, versus 93 percent at MIT. Worse yet, the mean salaries of graduating students averaged $36,000, versus $150,000 for students from Kellogg. Krishnamurthy's team had their work cut out.

To tackle these issues, Krishnamurthy created an employability team, developed strategic architecture and designed pilot studies to improve the school's curriculum and make it more competitive. In order to do so, he needed absolutely every employee and student on board – and there was some resistance at the onset. Yet the educator asserted it didn't actually take long to convince the school's stakeholders the changes were extremely beneficial.

"Once students started seeing the results, buy-in became complete and unconditional," he says. Acceptance was also achieved by maintaining clearer levels of communication with stakeholders. The school actually started to provide shareholders with detailed plans and projections. Then, it proceeded with a variety of new methods, such as incorporating case studies into the curriculum, which increased general test scores by almost 10 percent. Administrators also introduced a mandate saying students must be certified in English by the British Council – increasing scores from 42 percent to 51 percent.

By improving those test scores, the perceived quality of RIMS skyrocketed. The number of top 100 businesses recruiting from the school shot up by 22 percent, while the average salary offers graduates were receiving increased by $20,000. Placement revenue rose by an impressive $50,000, and RIMS has since skyrocketed up domestic and international education tables.

(The case study is taken from the website www.europeanceo.com/business-and-management/total-quality-management-three-case-studies-from-around-the-world on 21.03.2019)

05.00 Quick Take

No matter what the business is, total quality management can and will work. Yet this philosophical take on quality control will only impact firms that are in it for the long haul. Every employee must be in tune with the company's ideologies and desires to improve, and customer satisfaction must reign supreme.

GROUP: 3, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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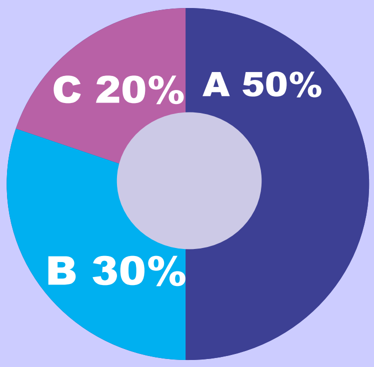
150 YEARS OF CELEBRATING THE MAHATMA

Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Tax Practice and Procedures **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.

Thin Capitalization

A company is typically financed or capitalized through a mixture of debt and equity. The way a company is capitalized often has a significant impact on the amount of profit it reports for tax purposes as the tax legislations of countries typically allow a deduction for interest paid or payable in arriving at the profit for tax purposes while the dividend paid on equity contribution is not deductible. Therefore, the higher the level of debt in a company, and thus the amount of interest it pays, the lower will be its taxable profit. For this reason, debt is often a more tax efficient method of finance than equity. Multinational groups are often able to structure their financing arrangements to maximize these benefits. For this reason, country's tax administrations often introduce rules that place a limit on the amount of interest that can be deducted in computing a company's profit for tax purposes. Such rules are designed to counter cross-border shifting of profit through excessive interest payments, and thus aim to protect a country's tax base.

Under the initiative of the G-20 countries, the Organization for Economic Co-operation and Development (OECD) in its Base Erosion and Profit Shifting (BEPS) project had taken up the issue of base erosion and profit shifting by way of excess interest deductions by the MNEs in Action plan 4. The OECD has recommended several measures in its final report to address this issue.

In view of the above, sec. 94B was inserted in line with the recommendations of OECD BEPS Action Plan 4, to provide that interest expenses claimed by an entity to its associated enterprises shall be restricted to 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is less.

The provisions are enumerated here-in-below:

<u>Applicable to</u>

Indian company, or a permanent establishment of a foreign company in India, being the borrower

- Permanent establishment includes a fixed place of business through which the business of the enterprise is wholly or partly carried on.

<u>Conditions</u>

a) The borrower has debt issued by a non-resident, being an associated enterprise of such borrower.

- Debt means any loan, financial instrument, finance lease, financial derivative, or any arrangement that gives rise to interest, discounts or other finance charges that are deductible in the computation of income chargeable under the head "Profits and gains of business or profession";

b) He incurs any expenditure by way of interest or of similar nature exceeding ₹ 1 crore;

c) Such expenditure is deductible in computing income chargeable under the head "Profits and gains of business or profession"

<u>Effect</u>

If all the aforesaid conditions are satisfied then, excess interest shall not be deductible in computation of income under the said head.

- Excess interest means lower of the following:
  a) An amount of total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortisation (EBITDA) of the borrower in the previous year; or
  b) Interest paid or payable to associated enterprises for that previous year

Taxpoint

- Guarantee: Where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

- Exception: The provision of sec. 94B is not applicable to an Indian company or a permanent establishment of a foreign company which is engaged in the business of banking or insurance.

- Carry forward: Where for any assessment year, the interest expenditure is not wholly deducted against income under the head "Profits and gains of business or profession", so much of the interest expenditure as has not been so deducted, shall be carried forward to the following assessment year(s), and it shall be allowed as a deduction against the profits and gains, if any, of any business or profession carried on by it and assessable for that assessment year to the extent of maximum allowable interest expenditure.

- Maximum carried forward: No interest expenditure shall be carried forward for more than 8 assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

Example

Computation of interest expenses disallowed u/s 94B: ₹ in crore

Particulars	Case 1	Case 2	Case 3
EBIDTA of the Indian Borrower	100	100	100
30% of the above **[A]**	30	30	30
Interest payable to associated enterprise **[B]**	35	Nil	15
Interest payable to non-associated enterprise **[C]**	Nil	35	20
Total Interest expense incurred **[D = B + C]**	35	35	35
Total interest expenses incurred in excess of 30% of EBITDA **[E = D – A]**	5	5	5
Interest payable to associated enterprise **[B]**	35	Nil	15
Excess interest [lower of (E) and (B)] being disallowed u/s 94B	**5**	**Nil**	**5**

GROUP: 4, PAPER: 17

CORPORATE
FINANCIAL REPORTING (CFR)

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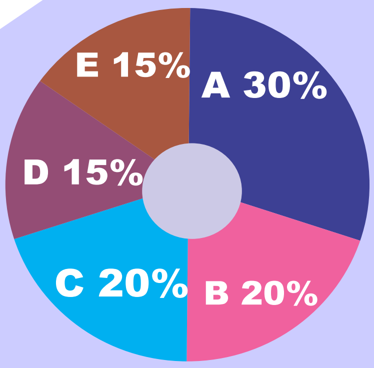
YEARS OF CELEBRATING THE MAHATMA

Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Comminations
& Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **15%**
E Government Accounting in India **15%**

Learning Objectives:

After studying the present section of Corporate Financial Reporting you will be able to:
- Learn the importance of reporting of Labour Practices and Decent Work Conditions.
- Know the associated GRI-G4 Indicators.

Corporate Financial Reporting

Ind AS 102: Extended Discussion on Share based Payment Transactions

In the last issue we introduced the standard (Ind AS 102) on share based payment transactions and showed its application. In the current issue we shall make further discussion on the standard along with additional illustration.

Share based payments cover all forms of share based payments for goods and services supplied to the reported entity, including:

- Employee share based payments;
- Share based payments to parties other than employees that have goods or services to the entity;

Employee share based payments are generally

- Payments to employees in form of equity instruments, i.e., grant of shares or options to subscribe shares at concessional price [equity settled];
- Payments to employees in form of cash or other assets the amount of which is linked to share value [cash settled].

Some important terms in share based payment (SBP) transactions are stated below.

- The day a share based payment plan is announced and accepted by the counterparty is called grant date.
- Vest means to become an entitlement.
- The day the employee (or the other supplier of goods and services) becomes entitled to such payments is called vesting date.
- The period between grant date and vesting date is called vesting period.
- Vesting Conditions are the conditions that have to be fulfilled for vesting.
- Vesting conditions are the conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement.
- The vesting condition may be a service condition or a performance condition.
- If the condition requires completing a specified period of service only, it is a service condition;
- Otherwise it is a performance condition.
- When a performance condition is related to the market price of equity instruments it is a market condition.
- When the performance is not related to market price of equity instruments it is non-market performance condition such as meeting the target sales or profits or any other activity of the entity.
- On the other hand if the condition is not related to services for which counterparty is entitled to share based payment, it is a non-vesting condition.

Thus based on different types of vesting conditions, share based payment transactions with employees are divided into four categories: Table 1.

Whether vesting condition requires only specified period of service?		
YES It is service condition (A)	NO It is performance condition (B)	
	Is the performance is related to market price of equity instruments?	
	YES Market condition (C)	NO (D)

A: Vesting period is fixed as agreed and cannot be revised.
B: It will be either C or D
C: Vesting period cannot be revised
D: Vesting period can be revised

The practical problems are again complicated with the revision of estimate and actual during the vesting period.

Table 2.

	Problems on		
Revision of	Vesting Period (T)	Other than vesting period	
		No. of employees (N)	Performance (P)
For category of vesting condition	Only D	A, C, D	A, C, D
Complex problem types	DT	AN, CN, DN	AP, CP, DP

In all the cases the fair value is estimated on the grant date. However the Expense and Equity (for equity settled)/Liability (for cash settled) will be recognized in each financial report of the entity during the relevant period based on the estimated fulfillment of the conditions, revision of estimates and actual fulfillment.

Accounting: Journal entries are passed in the books of the reporting entity for the share based payment (SBP) transactions as stated below:

For equity settled transaction:

Expense/ Asset Dr.
To, Equity Cr.

For cash settled transaction:

Expense/Asset Dr.
To, Liability/ Asset Cr.

If the equity instruments granted vest immediately, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.

If the equity instruments granted does not vest until the counterparty completes a specified period of service or fulfils the performance condition, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period.

For equity settled transactions the accounting shall be made as follows:

Annually during the vesting period:

Expense/ Asset Dr.
To, Share based payment reserve (Other Equity) Cr.

When shares are actually issued:

Share based payment reserve (Other Equity) Dr.
To Equity Share Capital Cr.
To Other Equity (Security Premium) Cr.

Additional illustration based on Service condition (A) and revision in number of employees (N) [Type AN]:

Z Ltd. grants 100 share options to each of its 400 employees conditional on their continuing in service for 3 years. Fair value of share option on the grant date is Rs. 30. During year 1, 18 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent to 16 per cent. During year 2, a further 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 16 per cent to 13 per cent. During year 3, a further 14 employees leave. All the continuing employees exercised the option to subscribe in the equity shares of Rs. 10 each at Rs. 50 only, when market price stands at Rs. 80.

Solution: Calculation of Expenses recognized during the vesting period:

Year	Calculation	Cumulative remuneration expense (Rs.)	Remuneration expense recognized in each year (Rs.)
1	400*100*30*84%*1/3 (Note #)	336000	336000[1]
2	400*100*30*87%*2/3 (Note #)	696000	360000[2]
3	348*100*30*3/3 (Note #)	1044000[4]	348000[3]

Note #: At the end of year 1, 16% is revised estimated departure, balance 84% is taken for calculation, at the end of year 2, 13% is revised estimated departure, balance 87% is taken for calculation and at the end of year 3, 52 is actual departure, and balance 348 is taken for calculation.

During the vesting period:

Journal entries in the books of Z Ltd.:

Year 1: Employee Expenses	Dr.	336000	
To, Share based payment reserve (Other Equity)	Cr.		336000[1]
Year 2: Employee Expenses	Dr.	360000	
To, Share based payment reserve (Other Equity)	Cr.		360000[2]
Year 3: Employee Expenses	Dr.	348000	
To, Share based payment reserve (Other Equity)	Cr.		348000[3]

When shares are actually issued:

Suppose, Market price Rs.80; Paid up value Rs.10; Security Premium Rs.70. Issue price at concession Rs.50; Cash Payment for subscription in shares Rs.50. Option Value granted Rs.30 (here it is equal to actual concession in price).

[Note: Where actual concession on the exercise date is more/less than the fair value of option at the grant date, the employee expenses should be further recognized/de-recognized by the difference]

Journal entries in the books of Z Ltd.:

Bank [348*100*50]	Dr.	1740000	
Share based payment reserve (Other Equity)	Dr.	1044000[4]	
To Equity Share Capital [348*100*10]	Cr.		348000
To Other Equity (Security Premium) [348*100*70]	Cr.		2436000

The extended discussion on Ind AS 102 will continue and other types of problems will be taken up in the subsequent issues of the bulletin.

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April 2019, Issue

GROUP: 4, PAPER: 18

INDIRECT TAX
LAWS & PRACTICE (ITP)

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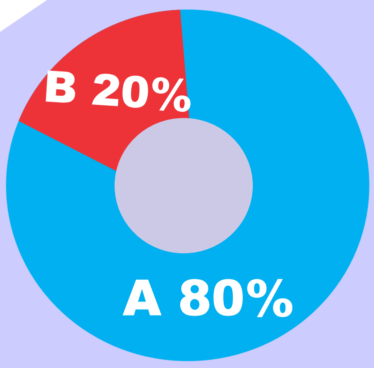
Your Preparation Quick Takes



Syllabus Structure
A Advanced Indirect Tax - Laws & Practice **80%**
B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

- Concept of Credit Note;
- Situations requiring issuance of Credit Note;
- Purposes of issuing Credit Note;
- Contents of Credit Note under GST;
- Tax liability under a Credit Note;
- Credit Note and GST Returns;
- Signing of Credit Note.

'CREDIT NOTE' UNDER GST LAW

Introduction

- Goods and Services Tax is the most recent change in the indirect tax map of the country. It was introduced all across India on and from July 1, 2017. This new levy brought many desired changes and tightened the procedural formalities.

- Full and detailed recording has been one of the key features of this new levy and as such, it requires recording of relevant details in different documents. This is to ensure transparency and cross checking of the transactions as and when required. One of the important documents that flow between the supplier of goods/ services and the recipient happens to be the 'credit note'.

Concept of Credit Note

- Credit note is a document that is issued by the supplier of goods and services for adjusting amounts or revision/s in the already issued invoice. To be specific, this document comes into the picture when there is any erroneous transaction. Any error that creeps into any invoice are revised with the help of this note.

- The provisions regarding Credit Notes are covered u/s 2(37), 34(1) and 34(2) of the Central Goods and Services Tax Act, 2017.

- Sec. 2(37) provides that credit note means a document issued by a registered person under Sec. 34(1).

- According to Sec. 34(1), when a tax invoice has been issued for supply of any goods or services or both, and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient a credit note containing such particulars as may be prescribed.

- As per 34(2) of the Central Goods and Services Tax Act, 2017, any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed. However, it is to be noted that no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.

- This document is so called as it is used to reflect that a credit has been effected to the account of the other party. Thus, it simply happens to be a simple document that serves the purpose of an accounting adjustment. Once the credit note is issued, the tax liability of the supplier gets reduced.

- There is no predefined statutory format in which the credit note has to be issued; rather it is an intimation to the purchaser about such credit being offered.

Situations requiring issuance of Credit Note

- Under the GST law, every supplier of goods or services or both is compulsorily required to issue a tax invoice. However, during the course of trade or commerce after the invoice has been issued there could be situations like:

  - Supplier has declared (erroneously) a value in the invoice which happens to be more than the actual value of goods or services or both.

  - Supplier has declared (erroneously) a higher tax rate than what is applicable for the kind of the goods or services or both supplied.

  - The quantity received by the recipient is less than (i.e. short of) what has been declared in the tax invoice.

  - The quality of the goods or services or both supplied is not to the satisfaction of the recipient thereby necessitating a partial or total reimbursement on the invoice value.

- Any other similar reasons.

In order to regularize these kinds of situations the supplier is allowed to issue a document referred to as the Credit Note to the recipient.

Purposes of issuing Credit Note

Credit note is issued by the supplier of the goods or services or both, to the recipient for the following purposes:

- **For decreasing the taxable value of supply**: When subsequent to the issue of tax invoice the supplier is required to reduce the taxable value of a supply; and
- **For decreasing the GST charged in the invoice**: When subsequent to the issue of tax invoice the supplier comes to know that tax charged in that tax invoice exceeds the tax payable with respect to such supply.
- **For making adjustment of lower quantity received by recipient**: When the quantity received by the recipient is short of what has been declared in the tax invoice.
- **Quality of goods supplied not satisfactory**: When the quality of the goods or services or both supplied by the supplier is not to the satisfaction of the recipient thereby necessitating a partial or total reimbursement on the invoice value.

Contents of Credit Note

Under the Indian GST law, there does not exist any prescribed format for a credit note. Rule 53 of CGST Rules 2017 provides that a Credit Note must contain the following particulars:

- Name, Address and GSTIN of the supplier;
- Nature of the document;
- A Consecutive Serial Number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters hyphen or dash and slash symbolized as "-" and "/" respectively, and any combination thereof, unique for a financial year;
- Date of issue of the credit note;
- Name, Address and GSTIN of the recipient or UIN of the recipient, if such recipient is registered;
- Name and Address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un-registered;
- serial number and date of the corresponding tax invoice or, as the case may be, bill of supply;
- Value of taxable supply of goods or services, rate of tax and the amount of tax credited to the recipient; and
- Signature or Digital Signature of the supplier or his authorized representative.

Tax Liability under a Credit Note

- The credit note can be looked upon as a document specifying future liability and having commercial implications. Once the credit note has been issued the output tax liability of the supplier will reduce subject to fulfillment of provisions of Sec. 43. As per the provisions laid out under this section, the details of the credit note relating to outward supply furnished by a registered person has to be matched:

  (a) with the corresponding reduction in the claim for input tax credit by the recipient in his valid return for the same tax period or any subsequent tax period(s); and

  (b) for duplication of claims for reduction in output tax liability.

- The claim for reduction in output tax liability by the supplier that matches with the corresponding reduction in the claim for input tax credit by the recipient has to be finally accepted and communicated to the supplier.
- The reduction in output tax liability of the supplier shall not be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.
- Where the reduction of output tax liability in respect of outward supplies exceeds the corresponding reduction in the claim for input tax credit or the corresponding credit note is not declared by the recipient in his valid returns, the discrepancy shall be communicated to both such persons. Whereas, the duplication of claims for reduction in output tax liability shall be communicated to the supplier.
- The amount in respect of which any discrepancy is communicated and which is not rectified by the recipient in his valid return (for the month in which discrepancy is communicated) shall be added to the output tax liability of the supplier in his return for the month succeeding the month in which the discrepancy is communicated.
- The amount in respect of any reduction in output tax liability that is found to be on account of duplication of claims shall be added to the output tax liability of the supplier in his return for the month in which such duplication is communicated.

NB: In case any amount is added to the output tax liability then he shall be liable to pay interest at the rate specified in sec 50(1).

Credit Note and GST Returns

- The newly introduced GST takes care of all the changes made to any transaction. Since the credit notes happen to cause material change(s) to an invoice/ transaction, they have to be reported separately in the GST returns.
- Details of credit notes must be mentioned in the returns of the following month about which the credit note has been raised.
- The supplier shall mention the details of credit note in from GSTR-1. On filing the details it will get auto-populated in form GSTR-2A for the recipient. The recipient can either modify or accept or reject these details and file form GSTR-2.
- The details of credit notes issued and credit notes amended during the previous month must be provided in GSTR-1 along with the details of original invoice number, invoice date and

GSTIN of the customer.

- All credit notes pertaining to a financial year must be issued and filed in earlier of the following dates:
  - Date of filing of GST annual return; or
  - September following the end of financial year.
- Based on the credit notes issued by the taxpayer, the tax liability would be adjusted. However, no reduction in output tax liability of the taxpayer is permitted, if the incidence of tax and interest on such supply has been passed onto any other person.

Maintenance of records of Credit Note under GST law

- The records of the credit note(s) have to be retained until the expiry of seventy-two months from the due date of furnishing of annual return for the year pertaining to such accounts and records.

Where such accounts and documents are maintained manually, it should be kept at every related place of business mentioned in the certificate of registration and shall be accessible at every related place of business where such accounts and documents are maintained digitally.

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April 2019, Issue

GROUP: 4, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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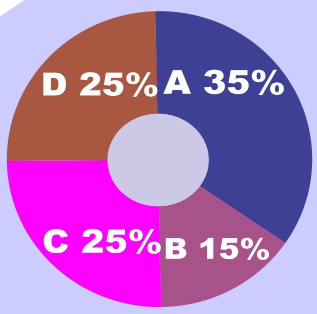
Your Preparation Quick Takes



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

Management Audit in different functions.

Corporate objective and culture.

Corporate objectives represents the overall objectives and the organisation. These are the specific, realistic and measurable aim which an organisation plans to achieve. All good plans must support the overall corporate objectives which also influence the direction of corporate strategy.

Experts feel that the corporate objectives should be clearly laid down in written form to communicate what the organisation stands for.

Corporate objectives of two leading companies of the USA are illustrated below, for understanding of the readers.

(i) General Electric Co:

"To become the most competitive enterprise in the world by being number one or number two in market share in every business the company is in."

(ii) Apple Computers:

"To offer the best possible personal computing technology, and to put that technology in the hands of as many as people as possible."

Corporate Culture:

Corporate culture refers to a company's values, beliefs, traditions, ways of operating and internal work environment etc. Every company has a unique organisational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own work climate.

Corporate culture indicates ethical standards and official policies for relationship with stakeholders viz dealing with employees, customers, unions, stock-holders, vendors and communities in which the company operates.

Originating from a complex combination of socio-logical forces operating within the boundaries of a company, the corporate culture reflects the culture and work ethics of the top management.

As an example, WAL-MART'S culture may be cited here- "Dedication to customer satisfaction through low costs, high quality and best customer services and work ethics."

Benefits:

(i) Projection of good culture ensures a healthy corporate life.
(ii) Firms with a strong work culture generally achieve higher results.

Corporate Services Audit:

Corporate services are the infra-structure supporting or helping the company to function more effectively. These support services include public relations, customer Assistance/call centres, training, engineering, human resources and procurement etc, to create new business values.

The advantage of corporate services are productively gains, cost savings and service improvements.

The benefits of the support services extend to core business areas in the form of reduced cost, less inventory, less working capital requirements, improvement in procurements, and higher profit. Due to advent of new technology, the efficiency and productivity of employees and managers have improved a lot.

The scope of corporate services audit extends to the critical examination of the different aspect of services. A Management Auditor has to evaluate the performance of management towards consumers employees, shareholders, community, fellow businessmen and Government. Auditor's responsibility lies in evaluating the company's response to social needs.

Corporate Development Audit:

Corporate development audit is an objective study of an organization's capabilities- its strength and weekness. Such audit reflects the effectivenss of the corporate developmental and highlights its development needs. Through a process of systematic review, it evaluates the long-term strategy of the company.

Corporate development audit requires multi directional and multi disciplinary approach and hence the audit team should consist of different experts of different disciplines. Moreover, in view of its introspective nature, corporate development audit needs absolute support of the top management (Board of Directors and Chairman).

In the broadest sense of the term, there are four essential dimensions involved in corporate development audit which are discussed below.

(i) Regularity : The different elements of a corporate body is under constant watch
(ii) Systematic check : Assessment of changing requirements of a corporate body in the context of forces generating from within and outside.
(iii) Review : Assessment of past performance, its quality and content, and its contribution to the corporate goals. It is important to examine the deviations from goal realization, in order to suggest measures for achievement.
(iv) Appraisal : A detailed examination of the character, content and quality of the goal set, followed by suggestion for the future course of action.

Research & Development Function

R & D needs a different technique and approach since it involves dealing with creative people as distinct from other functional areas. A Management Auditor of a Company has to appraise and evaluate the following aspects / areas relating to the R & D activities.

Extent of independence of R & D deptt.
Major achievements made so far.

Input – output ratio.
Experience and expertise of R & D scientists.
Pattern of outlays for R & D – a fixed sum. A percentage of Turnover / Profit capital investment or on industry average.
Broad types of research endorsed by the top management.
Proper co – ordination between R & D and Corporate Planning Deptt.
Formulation of R & D budget
Proper recoding, classification and analysis of R & D result.
Review of Viability of the project
Control and effectiveness of R & D in relation to Long term / Short term programme.
Success and failure occurred in the past.
Cost of R & D on improvement of existing product and resultant increases in sale and profit.

Personnel Function

The following areas are important for the management Auditor.

(a) Organization of personnel Deptt. Which includes the following
  i. Determination of the organizational needs
  ii. Designing structure of the organization

(b) Staffing:
  i. Planning manpower requirement
  ii. Recruitment and selection
  iii. Job evaluation and marit rating
  iv. Placement
  v. Transfer
  vi. Induction and orientation
  vii. Promotion
  viii. Separations – viz retirement, discharge, dismissal

© Training & Development
  i. Developing employees to their fullest potential by different types of training at operational lavel.
  ii. Executive development.

(d) Wages & salary administration.
  i. Maintenance of Payroll.
  ii. Method of Wage payment.
  iii. Incentive bonus.
  iv. Performance appraisal

(e) Motivation
  i. Non – monitory incentives
  ii. Job satisfaction

(f) Employee Records –
  i. Collection of various types of data vig Time keeping, time booking, man hours lost (idle time)
  ii. Developing information for decision making

(g) Labrour relations
  i. Implementation of labour laws
  ii. Mechanism to resolve labour disputes
  iii. Discipline and moral
  iv. Grievance handling
  v. Participative involvement
  vi. Collective bargaining

(h) Employee Services
  i. Safety measures
  ii. Medical facilities
  iii. Canteen
  iv. Transport services
  v. Retirement benefits vig P.F., Pension, gratuity

Purchase Function

The primary objective of purchase management is to procure raw material, packing materials , stores & spares etc of the requisite quantities, of required quality at reasonable prices at the right time. The following areas are most important for a management auditor.

Organization of purchase function
Purchase policy
Selection and elimination of suppliers
System of purchase authorization
Collection of market information reg. material, new spares etc. keeping in view the price trends.
System of follow – up
System of executing emergency purchase
Procedure followed for import of raw material
Proper co ordination among purchase, stores and production

Production Function

The following areas need review by the management Auditor

(1) Production planning and its co ordination with production
(2) Utilization of capacity - best use of idle or surplus capacity
(3) Production performance evaluation - deviation from norm or standard plan
(4) Repair & Maintenance
(5) Specifications and standard for materials and operative time (both mannual & machine)
(6) Improvement of production method.
(7) Research & Development designing and testing of new products and production method
(8) Value analysis and cost reduction.

Storage and inventory control Function

The most important areas to be reviewed by the Management Auditor, are as tollows -

Storage procedure – cost of inventory carrying and inventory storage
ABC Analysis
Determination of order levels, safety balance, optimum order size.
Issue routine – Material requisition & Bill of Material
Inventory turnover – slow moving and obsolete items
Valuation of stock and work in progress

Sales & Marketing Function

The main objective of sales management in to create and develop customers and retain the position of the organization in the market

The most important areas to be reviewed by the Management Auditor are as follows

Market survey
Sales Forecast

Sales and distribution Policy
Sales Planning based on market research or survey, keeping in view production policy and capacity
Sales promotion policy advertisement
Product pricing policy
Credit policy and discount
Organization of various channels of sales and distribution

Financial Function

Thrust areas for the Management Auditor are as follows

Setting and operation of budgetary control system
Standard costing and reporting of variances
Organizing different classes of audit-viz internal audit, cost audit etc
Financial reports and Financial ratios - rendering analysis for inter pretation
Scrutiny of financial proposals – Investment plans and project decisions
Delegation of financial powers.

GROUP: 4, PAPER: 20

STRATEGIC

PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Dr. Mohua Das Mazumdar
Assistant Professor and HOD,
Department of Commerce,
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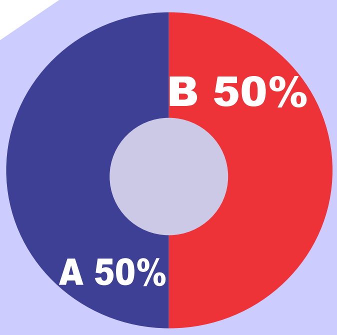

Syllabus Structure
A Strategic Performance Management **50%**
B Business Valuation **50%**

Learning objectives:

After studying this section, you will be able to:

know the concept of options
understand the examples of call option and put option

Strategic Performance Management and Business Valuation.

Concept of option
An option is a contract which gives the holder/ buyer of the contract the right but not the obligation to buy or sell the underlying asset at a predetermined price within or at end of a specified time period.

- Call Option: A call option gives its holder the right to buy the specified asset at the price specified in the contract.
- Put option: A put option gives its holder the right to sell the specified asset at the specified price.
- Specified price refers to strike price or exercise price
- Expiration date refers to the date on which the option expires
- Exercise date refers to the date on which the option actually exercised
- Option premium is the price paid by the buyer to the seller to acquire the right to buy or sell
- American Option: If the option can be exercised at any time on and before its maturity date, it is known as American option.
- European Option: European option (put or call) can be exercised only on the expiry or maturity date (not before that date).
- Holder: Holder is simply the purchaser of call or put option. A holder gets the right of purchasing or selling the underlying asset accordingly as he holds call or put option. For enjoying this right the holder has to pay option premium to the writer. A holder holds only long position (either in call or put option).
- Writer: Writer actually writes or sells the option contract (put as well as call) to the holder in exchange of option premium. So a writer always holds the short position in an option (put or call) contract and he is bound to sell or purchase the underlying asset if respectively call or put option is exercised.

Example of calls without premium
- Suppose an investor is planning to buy stock of Cipla in a month's time. The investor faces the risk that Cipla's stock price could rise over this month. If the investor buys a call option on Cipla with a strike of 95, he is protected from this risk:
- If Cipla's price rises above 95, he can exercise the call and buy the stock for 95
- If Cipla's price falls below95, he can let the call lapse and buy the stock at the cheaper price
- Thus, a call option offers a buyer one-sided protection against a price increase; i.e., it insures the buyer against a price increase while allowing the buyer to take advantage of a price decrease.

Example of puts without premium
- Suppose an investor is planning to sell stock of Cipla in a month's time. The investor faces the risk that Cipla's stock price could fall over this month. If the investor buys a put option on Cipla with a strike of 95, he is protected from this exposure:
- If Cipla's price falls below 95, she can exercise the put and sell the stock for 95
- If Cipla's price rises above 95, she can let the put lapse and sell the stock at the higher price
- Thus, a put option offers a seller one-sided protection against a price decrease; i.e., it insures the seller against a price decrease while allowing the seller to take full advantage of a price increase.

Example of calls with premium
- An investor buys One European call option on Wipro at the strike price of Rs. 3500 at a premium of Rs. 100.
- If the market price of Wipro on the day of expiry is more than Rs. 3500, the option will be exercised.
- The investor will earn profits once the share price crosses Rs. 3600 (Strike Price + Premium i.e. 3500+100).
- Suppose stock price is Rs. 3800, the option will be exercised and the investor will buy 1 share of Wipro from the seller of the option at Rs 3500 and sell it in the market at Rs 3800 making a profit of Rs. 200 {(Spot price - Strike price) - Premium}.
- In another scenario, if at the time of expiry stock price falls below Rs. 3500 say suppose it touches Rs. 3000, the buyer of the call option will choose not to exercise his option. In this case the investor loses the premium (Rs 100), paid which shall be the profit earned by the seller of the call option.

Example of puts with premium
- An investor buys one European Put option on Wipro at the strike price of Rs. 300/-, at a premium of Rs. 25/-.
- If the market price of Wipro, on the day of expiry is less than Rs. 300, the option can be exercised as it is 'in the money'.
- The investor's Breakeven point is Rs. 275 (Strike Price - premium paid) i.e., investor will earn profits if the market falls below 275.
- Suppose stock price is Rs. 260, the buyer of the Put option immediately buys Wipro share in the market @ Rs. 260/-& exercises his option selling the Wipro share at Rs 300 to the option writer thus making a net profit of Rs. 15 {(Strike price - Spot Price) - Premium paid}.

In another scenario, if at the time of expiry, market price of Wipro is Rs 320, the buyer of the Put option will choose not to exercise his option to sell as he can sell in the market at a higher rate. In this case the investor loses the premium paid (i.e Rs 25), which shall be the profit earned by the seller of the Put option.

Ethically Working ....

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01.00 Appreciate the value of Hard Work

Here goes a popular story that highlights the importance to experience the difficulty and learn to value hard work behind all the given comfort.

> The MD said, "..... I want to recruit a person who can appreciate the value of others, a person who knows the sufferings of others to get things done, and a person who would not put money as his only goal in life. ...."

Once, an academically excellent youngster applied for a managerial position in a big corporate. He cleared the initial filters and landed with the Managing Director for the final selection. The MD discovered from the CV that the youth's academic achievements were excellent all the way. From the secondary school until the postgraduate research, never had a year when he did not score.

Come the interview, the MD asked, "Did you obtain any scholarships in school?" The youth answered "None". The MD asked, "Was it your father who paid for your school fees?" The youth answered, "My father passed away when I was one year old, it was my mother who paid for my school fees". The MD asked, "Where did your mother work?" The youth answered, "My mother worked as clothes cleaner".

The MD requested the youth to show his hands. The youth showed a pair of hands that were smooth and perfect. The MD asked, "Have you ever helped your mother wash the clothes before?" The youth answered, "Never, my mother always wanted me to study and read more books. Furthermore, my mother can wash clothes faster than me". The MD said, "I have a request. When you go back today, go and clean your mother's hands, and then see me tomorrow morning".

The youth felt that his chance of landing the job was high. When he went back, he happily requested his mother to let him clean her hands. His mother felt strange, happy but with mixed feelings, she showed her hands to the boy. The youth cleaned his mother's hands slowly. His tears rolled down as he did that. It was for the first time he noticed that his mother's hands were so wrinkled, and there were so many bruises in her hands. Some bruises were so painful that his mother shivered when they were cleaned with water.

This was the first time the youth realized that it was this pair of hands that washed the clothes everyday to enable him to pay the school fee. The bruises in the mother's hands were the price that the mother had to pay for his graduation, academic excellence and his future. After finishing the cleaning of his mother's hands, the youth quietly washed all the remaining clothes for his mother. That night, mother and son talked for a very long time.

Next morning, the youth went to the director's office. The MD noticed the tears in the youth's eyes, and asked: "Can you tell me what have you done and learned yesterday in your house?" The youth answered, "I cleaned my mother's hands, and also learnt that without my mother, there would not the successful me today. By working together and helping my mother, I now realize the value of my mother's hard work behind my comfort".

The MD said, "This is what I am looking for to be in my manager. I want to recruit a person who can appreciate the value of others, a person who knows the sufferings of others to get things done, and a person who would not put money as his only goal in life. You are hired".

Later on, this young person worked very hard, and received the respect of his subordinates. Every employee worked diligently and as a team adhering to scrupulous work ethics. And, the company's performance enhanced tremendously.

02.00 Work ethic

Work ethic is perceived as a belief that hard work and diligence have a moral benefit and an inherent ability, virtue or value to strengthen character and individual abilities. It is a set of values centered on importance of work and manifested by determination or desire to work hard. Social ingrainment of this value is considered to enhance character through hard work that is relevant to an individual's field of work. Put in short, a work ethic is a set of moral principles a person uses in their job.

Proponents of a strong work ethic consider it to be vital for achieving goals, that it gives strength to their orientation and the right mindset. People who possess a strong work ethic embody certain principles that guide their work behaviour, leading them to produce high-quality work consistently and the output motivates them to stay on track. A good work ethic fuels an individual's needs and goals, and it is related to the initiative by a person for the objectives. It is considered as a source of self respect, satisfaction, and fulfillment.

The primary benefits that may be visualized from a team of ethical workers are:

i. **Goal-oriented actions**: It is not about making plans or the next logical steps; it's about getting things done so that the work invested wouldn't be counter-productive.
ii. **Prioritized Focus**: Focusing on qualitative activities that a person is capable of and in areas where they can make a difference or a high impact based on objectives.
iii. **Being available and reliable**: Spending time on the work and building oneself up for the task.
iv. **Conscientiousness**: A desire to do a task well, being vigilant and organized.
v. **Creating a Rewarding Routine**: Engaging in tasks that provide strength and energy which can be transferred to ultimate goals, creating a habit and a habitat for success.
vi. **Embracing Positivism**: Shape a problem with the statement "good".

03.00 The Six Traits

Given under are the six traits set out by Prof. David De Cremer that predict ethical behaviour at work.

(i) **Conscientiousness**: Individuals showing this trait are careful, reflective, and reliable, which means that they tend to be responsible organizational citizens. Research shows that conscientiousness is indeed positively associated with higher levels of moral reasoning, leading people high in this trait to display less antisocial, unethical, and even criminal behaviour.

(ii) **Moral attentiveness**: This describes the extent to which individuals are aware of the various ethical dilemmas at hand. A morally attentive person will see ethical issues where others may see none. It may sound a bit obvious to say, but being aware of the ethical dilemmas at hand are a prerequisite to start talking about it.

(iii) **Duty orientation**: Individuals with a strong sense of duty tend to be loyal and mission-oriented, and motivated to take action on what they perceive as a problem. Research has shown that a high sense of duty orientation leads employees to voice their concerns more quickly.

(iv) **Customer orientation**: Employees who are strongly motivated to prioritize the needs of customers also tend to adopt more ethical attitudes in the experience and execution of their job. Customer oriented employees tend to be more ethical because they value the others' needs as highly as their own and create fewer conflicts of interest in their relationships with others. As a result, they are more likely to notice and willing to address challenges that violate ethical rules and expectations. Research shows that exactly those serving qualities make that customer oriented sales agents engage in less unethical behavior than their sales-oriented counterparts.

(v) **Assertiveness**: Although assertive individuals can sometimes be regarded as grating, the trait of assertiveness is essential in building ethical cultures. In any group, the pressure to conform is high. As a result, the default is often not to question decisions – much less ethically questionable ones. Assertive individuals are the ones who can prevent such groupthink by standing up to the pressures of conformity even (or especially) when doing so carries risk.

(vi) **Proactivity**: Individuals with a proactive personality feel less constrained by situational forces. When it comes to ethical issues, this tendency helps them be more active in keeping a moral course. Research has shown that employees with a proactive personality engage more often and more quickly in acts of whistle-blowing. Other research has found this to be even more likely in cases where the companies' stated ethical values conflict with what's happening. In other words, when companies are serious in stressing the importance of an ethical culture, those employees with a proactive personality will be extremely useful in voicing any initial ethical failures or threats to the companies' integrity.

Screening job applicants on the traits mentioned above can help develop companies a blueprint of the kind of employee they are looking for who will endorse, shape, and push an ethical culture. Of course, individuals do not act in isolation — whether they will speak up ultimately also depends on the extent to which the broader organization legitimizes their behavior. But hiring more ethical employees is one way to build the kind of organization that makes values a priority.

04.00 Quick Take

A positive work ethic enables productivity, reliability, accountability and a growing sphere of professional & healthy relationships. Good work ethic leads to a good life style.

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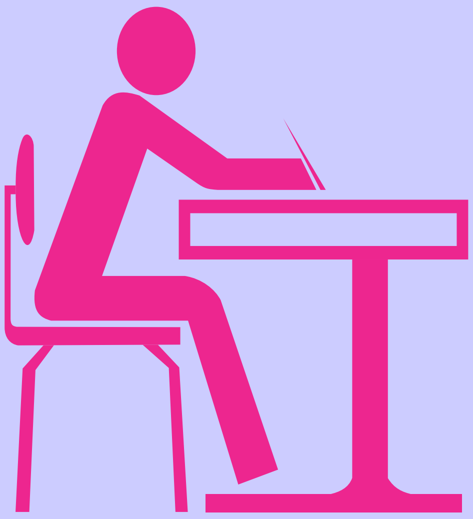
150 YEARS OF CELEBRATING THE MAHATMA



Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
11th June, 2019 (Tuesday)	Corporate Laws & Compliance (Paper 13) (Group - III)
12th June, 2019 (Wednesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
13th June, 2019 (Thursday)	Strategic Financial Management (Paper 14) (Group - III)
14th June, 2019 (Friday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
15th June, 2019 (Saturday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
16th June, 2019 (Sunday)	Cost & Management Audit (Paper 19) (Group -IV)
17th June, 2019 (Monday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
18th June, 2019 (Tuesday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

PRACTICAL Advice

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

START

01 Read Study Notes
MTPs
E-Bulletin
Live Webinar

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

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.

Submission

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.

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

Message from

Directorate of Studies

Dear Students,

Greetings from the D.O.S.,

Congratulation to all the successful examiners who have pass in December, 2018 terms of examination Those, could not clear in please remind that, failure is a key of success so try hard. We from the Directorate of Studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the **publications of monthly E-bulletins**. Other than this we are trying to help you through **New Mock Test Papers (MTPs), New Work book**, and we are conducting **New Webinar sessions (live)** and where your active participation is amazing. Before stepping in to the examination hall, please go through the **PPTs on 'Achieve your GOAL'**; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Dont's in the examination.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K.Gandhi. One of his inspirational message towards the students were:

" Continue to grow and evolve",

Let us observe his memory by following his message.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the links mentioned below :

For Mock Test Papers (MTP) : **http://icmai.in/studentswebsite/mtp2016_j18_fnd.php**

For Revision Test Papers (RTP) : **https://icmai.in/studentswebsite/rtp2016_d18.php**

For PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**

For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php**

Live Webinar Link : **http://icmai.in/icmai/news/889.php**

Ebulletin Link : **https://icmai.in/studentswebsite/E-Bulletin.php**

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper. Many of our students' were placed in reputed companies, which may encourage you to accomplish the course quickly and to be placed in good companies.

GOOD LUCK & Best wishes as always.

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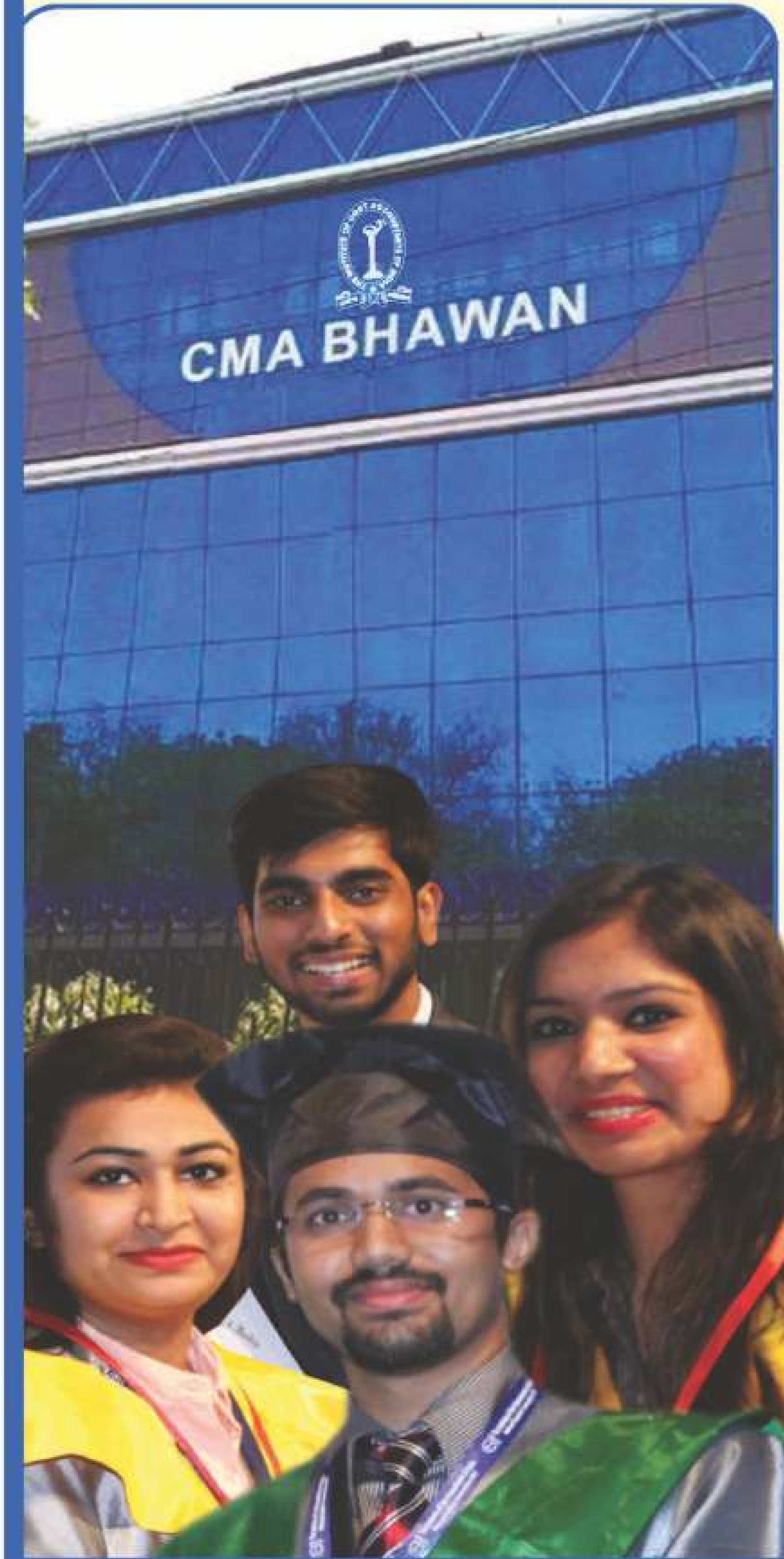

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