CMA STUDENTS'

TOLL FREE 18003450092 / 1800110910

www.icmai.in

FINAL

e Bulletin

VOL: 3, No.: 8 , August , 2018 ISSUE

FOLLOW US ON

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

Behind every successful business decision, there is always a CMA

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)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
CMA BHAWAN, 12, SUDDER STREET, KOLKATA-700 016, India
Mobile : 79802 72019 / 98740 81422
E-mail : tmanasda@yahoo.com • Website : www.icmai.in

MESSAGE FROM THE CHAIRMAN

Dear Students,

"Education is not preparation for life; education is life itself".

What I too believe that you cannot change your destination overnight but you can change your direction overnight. Change is the end result of all true learning. A person who never made mistakes in life, never tried anything new. You cannot have a better tomorrow if you are still thinking about yesterday. What I believe that teaching is not about information. It's about having an honest intellectual relationship with our students. Being a successful student is about more than reading and writing. Its having an honest, intellectual relationship with the teacher as well as with the books / study notes. Develop a passion for learning.

'The aim of education is the knowledge; not of facts, but of values". Knowledge is power, information is liberating. Thus, please try to grab knowledge from all available resources which are being offered from the Directorate of Studies. Learned academicians are investing their valuable timing towards your development. With the various academic publications from the Directorate of Studies like Revisionary Test Papers (RTPs), Mock Test Papers (MTPs), Work book, and E-bulletins you are getting opportunities to develop yourself. Webinar (live) has been introduced through which you may directly interact with the learned faculties and get immediate answers of the queries raised. My request to all of you is to be serious from the very beginning for availing favourable results in due course.

"Education is the passport to the future, for tomorrow belongs to those who prepare for it today".

I wish you all the very best for your bright future,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

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

CONTENTS

KNOWLEDGE Update

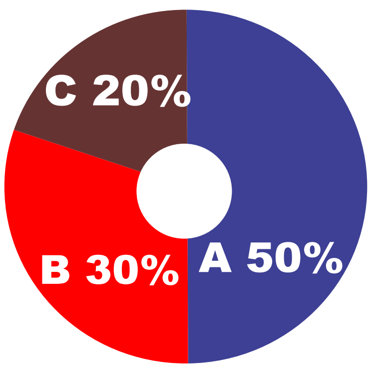
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

GROUP: 3, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

Shri Subrata Kr. Roy
Company Secretary
M.S.T.C. Ltd.
He can be reached at:
subrataoffice@rediffmail.com

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

2.0 AUDIT AND AUDITORS (Section 139-148)

2.1 Meaning of Audit.

An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

2.2 qualification of an auditor

The following entities can be appointed as an auditor of the company.

(a) A chartered Accountant in practice within the meaning of Chartered Accountants Act, 1949.
(b) A firm where all the partners practicing in India as Chartered Accountants.
© A holder of certificate in part B State entitling him to act as an Auditor of companies.

2.3 Disqualification of an Auditor [section 141(3)]

The following persons shall be disqualified from being appointed as Auditors of a company:

(i) A person who by himself, or his relative or partner –

(d) Is holding any security of the company or its subsidiary, or of its Holding or Associate Company or a subsidiary of such Holding Company. (Provide the relative may hold security or interest of not more than one thousand in the company).
(e) is indebted to the company or its Subsidiary, or its Holding or Associate Company or a Subsidiary of such Holding company in excess of such amount as may be prescribed.
(f) has given a guarantee or provided any security in connection with the indebtedness of any third person to the Company, or its Subsidiary, or its Holding or Associate Company or a Subsidiary of such holding company for such amount as may be prescribed;

(i) a person or a firm who whether directly or indirectly has business relationship with the Company, or its Subsidiary, or its Holding or Associate Company or Subsidiary of such holding company or associate company of such nature as may be prescribed;
(ii) a person whose relative is a director or is in employment of the company as a director or Key Managerial Personnel.
(iii) A person who has been convicted by a Court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.

2.4 Number of audits [section 141(g)]

The specified number of audit which one auditor can undertake is 20 companies out of which not more than 10 companies shall have the paid up capital of rupees twenty five lakhs or more. The aforesaid restriction is not applicable to One Person Company, Private Companies and small companies. However, the following audits of such auditor shall not be taken into account for computing the aforesaid limit:

(a) Audit of an private company.
(b) Audit of a guarantee company having no share capital.
© Audit of a foreign company.
(d) Internal audit undertake by him.
(e) Audit of a co-operative society, trust and corporations that do not fall within the ambit of the Companies Act, 1956.
(f) Tax audits.
(g) Special audits and investigations.
(h) A branch audit.

2.5 Appointment of Auditors

2.5.1 Appointment of First auditors [section 139(1)& 140(1)]

(1) Shall be appointed by the Board of Directors within one month of the registration and on failure to do so the members shall appoint the auditors within 90 days of the incorporation of the company.
(2) Shall hold office until the conclusion of the 1st AGM.
(3) Notice of appointment should be given by the company to the auditor and the Registrar within 15 days of the appointment of the Auditor.
(4) Shareholders can remove the 1st auditors before the conclusion of the 1st AGM by passing a special resolution and after obtaining the previous approval of Central Govt.

2.5.2 Appointment of subsequent auditors [section 139 & 140]

(1) Appointment to be made in the AGM by the shareholders.
(2) Shall hold the office from the conclusion of the first Annual General Meeting till the conclusion of its 6th Annual General meeting and thereafter till the conclusion of every 6th meeting.

No listed company and any other company as may be prescribed by the act shall appoint or re-appoint

(i) an individual as Auditor in the same company for more than one term of 5 consecutive years.
(j) An audit firm as auditor for more than two terms of five consecutive terms.

(3) After appointment the company shall intimate such information to the Auditors and Registrar within 15 days of the appointment of the Auditor.
(4) Company can remove the auditors after obtaining the approval from the Central Govt. and with the permission of shareholders by way of a special resolution.

2.5.3 Automatic re-appointment of retiring auditors [section 139(9)].

Subject to the provisions and rules there under the retiring auditors shall be reappointed automatically at an Annual General meeting except in the following cases:

(a) Where he is not disqualified for re-appointment.
(b) Where he has not given the company or expressed his unwillingness to be re-appointed and act as an auditor.
© A special resolution has not been passed to appoint some other auditor or providing expressly that he shall not be re-appointed.

2.5.4 Appointment of auditors in casual vacancy [section 139(8)].

(1) Shall be filled up by the Board of Directors except in the case where the casual vacancy is due to resignation of the auditor from the office. In such a case the casual vacancy shall be filled up by the shareholders in the general meeting held within 3 months of the recommendation of the Board.
(2) During the vacancy co-auditors to continue audit.
(3) Auditor appointed in the casual vacancy shall hold office until the conclusion of the next AGM.

2.6 Remuneration to auditors

(1) The Remuneration payable to an auditor shall be fixed by the shareholders in its general meeting.
(2) The Board of Directors may fix by the remuneration of the first auditor appointed by it.
(It shall not include any expense incurred by the auditor in connection with the audit or any facility given to him by the company in connection with the audit and any remuneration for any service rendered by him to the company for any service at the request of the company.

2.7 Cost Audit (section 148)

Cost audit when required.

(1) The company is engaged in production, processing, manufacturing or mining activities.
(2) The company pertains to the class of companies that are required by the Central Government to maintain the cost records.
(3) An order is issued by the Central Government directing the company to conduct cost audit.
(4) Under the new Act the Central Govt. can direct particulars relating to utilization of material or labour or such other items of cost to be included in books of accounts by such class of companies which are engaged in production of goods or providing such services.
(5) The cost audit is required only for that particular year in respect of which the cost audit order has been issued.

2.8 Internal Audit (Section 148)

(i) The following categories of companies shall appoint a Chartered Accountant or a Cost Accountant or any other person decided by the Board as Internal Auditor.

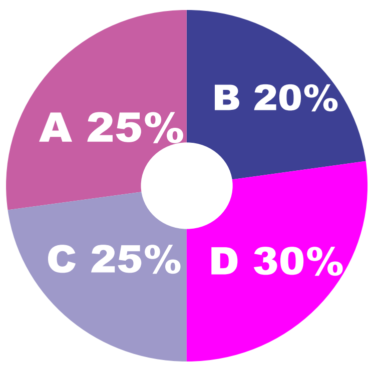
2.9 The auditor shall independently examine the books of accounts and records and give his opinion in the Audit Report as per the prescribed format and take care of the compliances under the Act.

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

Dr. Arindam Das
Associate Professor,
Department of Commerce
The University of Burdwan
He can be reached at:
arindam_dasbu@yahoo.co.in

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 Wiener processes related to stock price*
- get an idea regarding the generalized Wiener processes in futures price
- know geometric Brownian motion *related to stock price*

Strategic Financial Management

Illustration 1

Consider a stock price, S, that follows the process dS = $\mu dt + \sigma dz$ For the first three years, μ = 2 and = 3; for the next three years, μ = 3 and = 4. If the initial value of the stock price is 5, what is the probability distribution of the value of the stock price at the end of sixth year?

Solution

The change in S during the first three years has the probability distribution

$$\phi(2 \times 3, 9 \times 3) = \phi(6, 27)$$

The change during the next three years has the probability distribution

$$\phi(3 \times 3, 16 \times 3) = \phi(9, 48)$$

The change during the six years is the sum of a variable with probability distribution ϕ (6, 27) and a variable with probability distribution ϕ (9,48). The probability distribution of the change is therefore

$$\phi(6+9, 27+48)$$
$$= \phi(15, 75)$$

Since the initial value of the variable is 5, the probability distribution of the value of the variable at the end of sixth year is

$$\phi(15, 75)$$

Illustration 2

Stock A and stock B both follow geometric Brownian motion. Changes in any short interval of time are uncorrelated with each other. Does the value of a portfolio consisting of one of stock A and one of stock B follow geometric Brownian motion? Explain your answer.

Solution

Define S_A, μ_A and σ_A as the stock price, expected return and volatility for stock A.

Define S_B, μ_B and σ_B as the stock price, expected return and volatility for stock B.

Define ΔS_A and ΔS_B as the change in S_A and S_B in time Δt. Since each of the two stocks follows geometric Brownian motion,

$$\Delta S_A = \mu_A S_A \Delta t + \sigma_A S_A \varepsilon_A \sqrt{\Delta t}$$

$$\Delta S_B = \mu_B S_B \Delta t + \sigma_B S_B \varepsilon_B \sqrt{\Delta t}$$

Where ε_A and ε_B are independent random samples from a normal distribution.

$$\Delta S_A + \Delta S_B = \mu_A S_A + \mu_B S_B \Delta t + \sigma_A S_A \varepsilon_B \sqrt{\Delta t}$$

This cannot be written as

$$\Delta S_A + \Delta S_B = \mu S_A + S_B \Delta t + \sigma S_A + S_B \varepsilon \sqrt{\Delta t}$$

For any constants μ and σ (Neither the drift term nor the stochastic term correspond.) Hence the value of the portfolio does not follow geometric Brownian motion.

Illustration 3

Suppose futures prices on a certain stock of one month (X_1) and two month (X_2) contracts follow generalized Wiener processes with drift rates μ_1 and μ_2 and variances σ_1^2 and σ_2^2. What process does $X_1 + X_2$ follow if:

i) The changes in X_1 and X_2 in any short interval of time are uncorrelated?

ii) There is a correlation ρ between the changes X_1 and X_2 in any short interval of time?

Solution

(Isuppose that X_1 and X_2 equal to a_1 and a_2 initially. After a time period of length T, X_1 has the probability distribution

$$a_1 + \mu_1 T, \sigma_1^2 T$$

and X_2 has the probability distribution

$$a_2 + \mu_2 T, \sigma_2^2 T$$

From the property of sums of independent normally distributed variables, $X_1 + X_2$ has the probability distribution

$$a_1 + \mu_1 T + \quad a_2 + \mu_2 T, \sigma_2^2 T$$

i.e., f $a_1 + a_2 + \mu_1 + \mu_2 T, \sigma_1^2 + \sigma_2^2 T$

This shows that $X_1 + X_2$ follows generalized Wiener processes with drift rate $\mu_1 + \mu_2$ and variance rate $\sigma_1^2 + \sigma_2^2$

(ii) In this case the change in the value of $X_1 + X_2$ in a short interval of time Δt has the probability distribution :

$$\mu_1 + \mu_2 \Delta t, \sigma_1^2 + \sigma_2^2 + 2\rho\sigma_1\sigma_2 \Delta t$$

If $\mu_1, \mu_2, \sigma_1, \sigma_2$ and ρ are all constant, the change in a longer period of time T is f $\mu_1 + \mu_2 T, \sigma_1^2 + \sigma_2^2 + 2\rho\sigma_1\sigma_2 T$

The variable $X_1 + X_2$, therefore, follows generalized Wiener processes with drift rate $\mu_1 + \mu_2$ and variance rat e

$\sigma_1^2 + \sigma_2^2 + 2\rho\sigma_1\sigma_2$.

Illustration 4

Suppose that a stock price has an expected return of 16% per annum and a volatility of 30% per annum. When the stock price at the end of a certain day is Rs. 50, calculate the following:

i) The expected stock price at the end of the next day.

ii) The standard deviation of the stock price at the end of the next day.

iii) The 95% confidence limits for the stock price at the end of the next day.

Solution

We know that

$$\frac{S}{S} \quad t, \quad ^2 \quad t$$

In this case S 50, 0.16, 0.30 *and* t 1 365 0.00274. Hence

$$\frac{S}{50} \quad 0.16 \quad 0.00274, 0.09 \quad 0.00274$$

$$0.00044, 0.000247$$

$$and \quad S \quad 50 \quad 0.00044, 50^2 \quad 0.000247$$

$$that\ is, \quad S \quad 0.022, 0.6164$$

i) The expected stock price at the end of the next day is therefore 50.022
ii) The standard deviation of the stock price at the end of the next day is √0.6154 = 0.785
iii) The 95% confidence limits for the stock price at the end of the next day are

50.022 – 1.96 x 0.785 and 50.022 + 1.96 x 0.785

i.e., 48.48 and 51.56
Note that some students may consider one trading day rather than one calendar day. Then

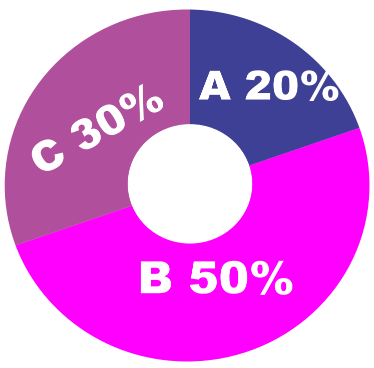
Δt = 1/252 = 0.00397. The answer to (i) is then 50.032. The answer to (ii) is 0.945. The answers to part(iii) are 48.18 and 51.88.

GROUP: 3, 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?

Cost Reduction: Tools & Techniques

01.00 Cost Reduction

The term 'Cost Reduction' refers to the attempts to reduce the costs. Cost reduction may be defined as the real and permanent reduction in the unit costs of goods manufactured or services rendered without impairing their suitability for the use intended. Cost reduction would mean maximization of profits by reducing cost through economics and savings in costs of manufacture, administration, selling and distribution.

The goal of cost reduction can be achieved either by reducing the cost per unit or by increasing the productivity or doing both at the same time. Reducing wastages, improving efficiency, searching for alternative materials, and a constant drive to reduce costs, can lead to cost reduction.

02.00 Five steps to Strategic Cost reduction

A research study by PWC puts forward the following five steps for strategic cost reduction to ensure that the business can sustain competitive relevance and maximise its potential.

1. Start with strategy: Have a clear view of cost reduction strategy and ensure it is consistently understood across the organisation.
2. Align costs to strategy: Look across the whole organisation and differentiate the strategically-critical 'good costs' from the non-essential 'bad costs'.
3. Aim high: Be bold, be brave and be creative – use technology, innovation and new ways of working to radically optimise the cost base.
4. Set direction and show leadership: Deliver cost optimisation as a strategic, business transformation programme.
5. Create a culture of cost optimisation: Ensure that a culture of ownership is embedded and continuous improvement is incentivised.

There are huge top and bottom line rewards for getting this right. Your business will be more differentiated and equipped to deliver on its objectives. You'll also be less reliant on pricing to compete in the market as resources are targeted at high earning growth business. Without this clear sense of what costs to keep and what ones to eliminate, you run the risk of being left behind.

(Resource: 'More for less: Five steps to strategic cost reduction', pwc.com/insurance)

03.00 Tools & Techniques

There are several tools and techniques that are adopted in achieving cost reduction. Some of thevital ones which are normally used are listed below.

(i) Value Analysis

(ii) Simplification& Standardisation

(iii) Business Process Re-engineering.

(iv) Benchmarking

(v) Financial Restructuring

(vi) Work Study

(vii) Job Evaluation

(viii) Quality Control

(ix) Inventory Control

(x) Credit Control

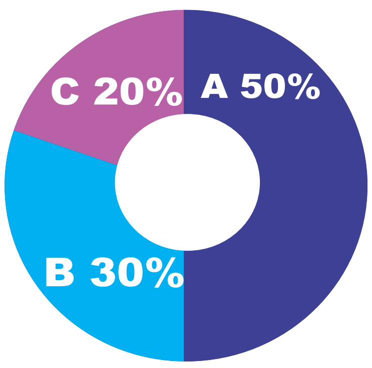
Each of these tools and techniques are proposed to be discussed, in brief, in the ensuing months.

GROUP: 3, 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 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.

Provident Fund Scheme & Tax Treatment

Employee's Provident Fund (EPF) is a retirement benefit scheme available to all salaried employees (including employed through contractor) who is in receipt of wages upto Rs.15,000/-. This fund is maintained by the Employees Provident Fund Organisation of India (EPFO) and any establishment with 20 or more employees is required by law to register with the EPFO. An establishment to which this applies must continue to be governed by the scheme, even if the number of persons employed therein falls at any time below 20.

Benefit to Employees

Tax-free earnings: The interest earned (upto 9.5%) on funds held in an EPF account is tax-free. Withdrawals at maturity/beyond 5 years are also tax-free (except in case of premature withdrawal). Contributions made towards EPF are tax deductible u/s 80C of the Income Tax Act, 1956.

Financial Security: Fund accumulates the money with interest, which can be claimed upon retirement, resignation and death. Partial withdrawal are allowed for specific expenses like house construction, illness, education and marriage.

a) Retirement - The amount collected provides financial security at time of retirement.

b) Emergencies - The funds are also useful in times of emergencies to meet certain requirements for which premature withdrawals are allowed in certain cases

c) Loss of income - If an employee for some reason cannot work any longer, these funds help tide over loss of income.

i. Death - the accumulated amount is passed on to the employee's nominee providing them financial stability.

ii. Disability - If employees cannot work any longer, *EPF Balance* can be withdrawn to tide one over.

Long-term savings option: This is a sound savings option for employees with long-term investment goals.

Source of funds: In times of need, EPF funds can provide an employee much needed liquidity. Funds can be borrowed to meet certain pressing needs such as medical, housing, marriage and education.

Pension: Along with provident funds, an employer also contributes towards an employee's pension fund which the employee can eventually use upon retirement.

Insurance: An employer also contributes towards an employee's life insurance in the absence of a group cover, thereby ensuring employees are insured.

1. If the pay of a member-employee increases beyond ₹ 15,000/-, after his having become a member, he shall continue to be a member. Further, the scheme may be applicable voluntarily on employees getting monthly wages in excess of ₹ 15,000/-

Universal access: Employees can transfer their accounts when they change employers and with the introduction of the Universal Account Number (UAN) they can now access their EPF accounts through a single-point.

Contribution

For EFP, both the employee and the employer contribute equal amount, which is 12% (10% for establishment having less than 20 employees) of the salary of the employee. However, employees can contribute more than 12% of their salary voluntarily. In such a case, the employer is not bound to match the extra contribution of the employee.

While the entire contribution from an employee is directed towards his/her provident fund, a part of the employer's contribution goes towards pension (8.33% - for an employee whose age does not cross 58 years), provident fund (3.67%), insurance (0.5%) and also administration costs (0.5%)

Altogether, the employer's total contribution is 13%

Contribution is rounded to the nearest rupee for each employee, for the employee share, pension contribution and EDLI contribution

Monthly payable amount under EPF Administrative charges is rounded to the nearest rupee and a minimum of Rs. 500/- is payable. However, if the establishment has no contributory member in the month, the minimum administrative charge will be Rs. 75/-

Contribution towards insurance is required to be paid upto maximum wage ceiling of Rs. 15,000/- even if PF is paid on higher wages.

Contribution towards pension is required to be paid upto maximum wage ceiling of Rs. 15,000/- balance contribution shall be contributed towards PF.

Interest Rate

At present, interest rate is 8.55%

Compliance Highlights

Form 5A: Return of Ownership / Management is required to be filed within 15 days of the applicability of the scheme.

Contribution card, Eligibility Register, PF Register, PF Ledger and Inspection Book is required to be maintained.

The employer should within 15 days of the close of every month, deposit the contributions (both) alongwith administrative charges into the respective account through specified challans.

The employer needs to file Monthly Returns and Annual Returns.

2. A member joining after 50 years of his age, if not a pensioner, does not have choice of not getting the Pension Contribution as he will not complete 10 years of eligible service to get pension

Employer have to submit in every month (by 15th of next month) duly paid P.F Challan, Form 12A, Form 9, Form 5 (additions) and Form 10 (deletions) and Nomination form 2 (newly joined employee details).

The employer needs to collect, certify and submit the Nomination and Declaration Form in Form-2 of every new employee to the scheme along with the monthly report.

Annual Return (Form 6A) alongwith contribution card, etc. is required to be submitted every year by 30th April.

Income-tax - Employer

A. Employee's Contribution [Section 2(24) r.w.s. 36(1)(va)]

Any sum received by an employer from his employees as contribution towards -

Provident Fund; or

Superannuation Fund; or

Any other fund set up under the provision of the Employee's State Insurance Act, 1948; or

Any other fund for the welfare of such employees

- is treated as an income of the employer. Subsequently, when such sum is credited by the employer to the employee's account in the relevant fund on or before the due date of crediting such contribution prescribed under the relevant Act, then deduction is allowed. In other words, if such contribution is not deposited within time allowed as per the provisions of the relevant Act, the deduction shall never be allowed, i.e. *not now then never*.

Taxpoint

If employees contribution is deposited by the employer on or before the due date[1]	*No treatment.*
If employees contribution is not deposited by the employer on or before the due date[1]	*Taxable as business income.*
[1] Due date means the date by which the assessee is required as an employer to credit an employee's contribution to the employee's account in the relevant fund under any Act, rule, order or notification issued there under or under any standing order, award, contract of service or otherwise	

B. Employer's Contribution [Read with section 43B]

Deduction in respect of any sum payable by an employer by way of contribution to any provident fund, superannuation fund, gratuity fund or any other fund for the welfare of employees are allowed only if payment is made on or before the due date for furnishing return of income u/s 139(1)of the previous year in which such liability is incurred.

3. However, one may have other opinion too.

If payment is not made before the date mentioned above, then no allowance shall be allowed in respect of the outstanding liability. Deduction can, however, be claimed in the year of payment.

Income-tax - Employee

Particulars	RPF
Employer's Contribution	Exempted up to 12% of Salary (here, salary means Basic + DA, forming part of retirement benefits + Commission as a fixed percentage on turnover
Employee's Contribution	Eligible for deduction u/s 80C
Interest	Exempted @ 9.5% p.a. (Interest rate), any excess interest will be taxable as salary.

Lump sum amount withdrawn from RPF

<table>
<tr><th>Withdrawn in specified cases</th><th>Withdrawn in other cases</th></tr>
<tr><td>a) Amount withdrawn from RPF is not taxable, if
i. Employee retires or terminates job after 5 years of continuousservice; or
ii. Employee has resigned before completion of 5 years and joins another organization (who also maintains recognized provident fund and his fund balance with current employer is transferred to the new employer).
iii. The entire balance standing to the credit of the employee is transferred to his account under New Pension Scheme as referred u/s 80CC
iv. Employee retires or terminates job before 5 years of continuous service -
by reason of ill health; or
by reason of contraction or discontinuance of employer's business; or
any other reason beyond the control of employee.</td><td>Tax treatment are as under:
<table><tr><th>Particulars</th><th>Tax treatment</th></tr><tr><td>Employer's contribution</td><td>Fully taxable under the head Salaries</td></tr><tr><td>Employee's contribution</td><td>Not taxable</td></tr><tr><td>Interest on employer's contribution</td><td>Fully taxable under the head Salaries</td></tr><tr><td>Interest on employee's contribution</td><td>Fully taxable as income from other sources</td></tr></table></td></tr>
</table>

TDS on Payment from Employees Provident Fund [Sec. 192A]

Who is responsible to deduct tax: The trustees of the Employees' Provident Fund Scheme, 1952, framed u/s 5 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 or any person authorised under the scheme to make payment of accumulated balance due to employees.

When tax shall be deducted: At the time of making of payment.

Tax is deducted on: The accumulated balance due to an employee participating in a recognised provident fund includible in his total income owing to the not applicability of the provisions of rule 8 of Part A of the Fourth Schedule.

Rule 8 of Part A of the Fourth Schedule provides the accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be exempted:

a. if he has rendered continuous service with his employer for a period of 5 years or more; or
b. if, though he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee; or
c. if, on the cessation of his employment, the employee obtains employment with any other employer, to the extent the accumulated balance due and becoming payable to him is transferred to his individual account in any recognised provident fund maintained by such other employer.

Taxpoint: *If the accumulated balance paid to the assessee is exempt then tax is not required to be deducted.*

Rate of TDS: 10%

- Any person entitled to receive any amount on which tax is deductible shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax, failing which tax shall be deducted at the maximum marginal rate

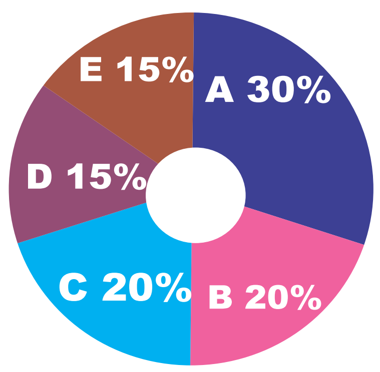
When TDS is not applicable: Aggregate amount of such payment to the payee is less than ₹ 50,000.

GROUP: 4, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

Shri Sumit Kumar Maji
Assistant Professor,
Department of Commerce,
The University of Burdwan,
He can be reached at:
2009sumitbu@gmail.com

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:

Understand the concept of Goods & Services Tax

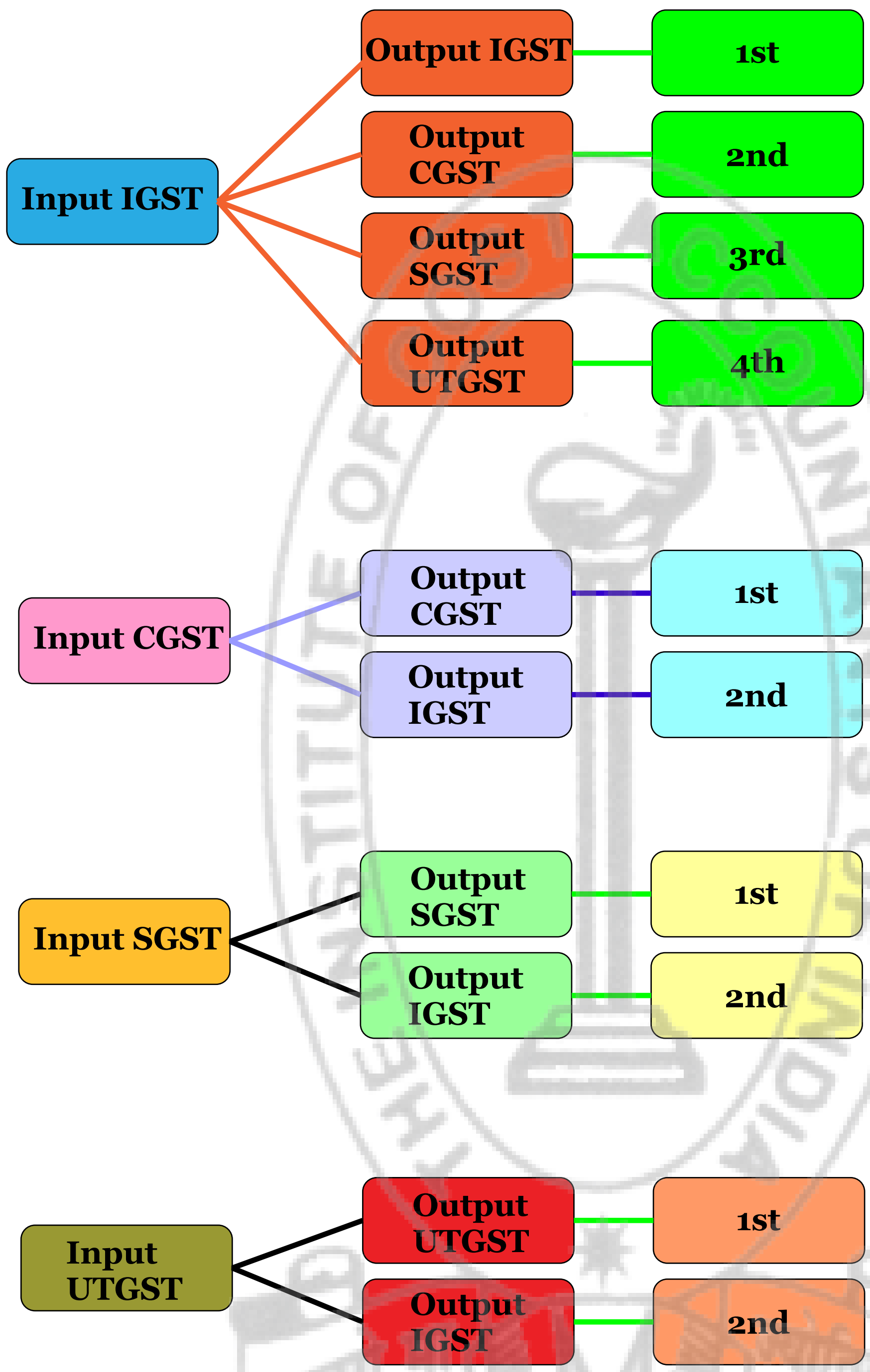
Know the ITC procedure under GST

Learn the accounting treatments under GST.

GST Accounting

GST is a comprehensive destination based consumption tax on the supply of goods and services which aims at removing the cascading effect of tax. After many years of delay finally GST was implemented in India on 1st July, 2017. In India, dual system of GST is followed meaning that Central Government and State Governments or Union Territories will simultaneously impose tax. There are mainly three forms of GST in India, Central GST (CGST), State GST (SGST) / Union Territory GST (UTGST) and Integrated GST (IGST). It is important to know the provisions of the Section 49(5) of the CGST Act, 2017 relating to the input tax credit mechanism.

The ITC availability criteria and the order of set of are presented through the following diagrams as per Section 49(5) of the CGST Act, 2017.



Now let us try to understand the GST accounting procedure with the help of an example:

Example 1: Ascoril Private Ltd. of Burdwan purchased goods worth Rs. 650000 from a dealer of Kolkata (GST @ 12%). The company also bought laptops worth Rs. 120000 (GST @ 18%) from a Dynamic Computer Ltd. of Patna. He sold out the goods a part of the goods to a person of Jharkhand worth Rs. 5500000 and the balance to a person of Siliguri at Rs. 275000. The GST applicable on outward supply is 12%. Show the necessary journal entries to be passed in the books of accounts of Ascoril Private Ltd.

Solution:

Calculation of ITC Setoff

Particulars	CGST	SGST	IGST
ITC available	39000	39000	21600
Output Tax	16500	16500	66000
Less: ITC (respective)	16500 (Input CGST)	16500 (Input SGST)	21600 (Input IGST)
Balance available for set off	22500	22500	-44400
Set off	22500 (Adjusted against Output IGST)	21900 (Adjusted against Output IGST)	-
Balance carried forwarded in the next month	0	600	0

Journal Entries in the books of Ascoril Private Ltd.

Purchase A/C......Dr.	650000	
Input CGST A/C......Dr.	39000	
Input SGST A/C......Dr.	39000	
To Creditor A/C		728000
Laptops A/C......Dr.	120000	
Input IGST A/C......Dr.	21600	
To Bank A/C		141600
Debtors A/C......Dr.	616000	
To Sales A/C		650000
To Output IGST A/C		66000
Debtors A/C......Dr.	308000	
To Sales A/C		275000
To Output CGST A/C		16500
To Output SGST A/C		16500
Output CGST A/C......Dr.	16500	
To Input CGST A/C		16500
Output SGST A/C......Dr.	16500	
To Input SGST A/C		16500
Output IGST A/C......Dr.	66000	
To Input IGST A/C		21600
To Input CGST A/C		22500
To Input SGST A/C		21900

Example 2: Messi Ltd. is operating in state of Jharkhand. The tax liability for the month of July, 2018 is as follows.

Tax liability	Jharkhand (Amount in Rs.)
Output CGST Payable	**50000**
Output SGST Payable	**20000**
Output IGST payable	**6000**
Input CGST	**16000**
Input SGST	**30000**
Input IGST	**24000**

Pass necessary journal entries in the books of Messi.
Solution:

Calculation of ITC Setoff

Particulars	CGST	SGST	IGST
ITC available	16000	30000	24000
Output Tax	50000	20000	6000
Less: ITC (respective)	16000 (Input CGST)	20000 (Input SGST)	6000 (Input IGST)
Balance available for set off	34000	10000	18000
Set off	18000 (Adjusted against Output IGST)	-	-
Payment of tax in cash	16000	Nil	Nil
Balance carried forwarded in the next month	Nil	10000	Nil

Journal Entries in the books of Messi Ltd.

Output CGST A/C.......................................Dr.	50000	
To Input CGST A/C		16000
To Input IGST A/C		18000
To Electronic Cash Ledger A/C		16000
Output SGST A/C.......................................Dr.	20000	
To Input SGST A/C		20000
Output IGST A/C.......................................Dr.	6000	
To Input IGST A/C		6000

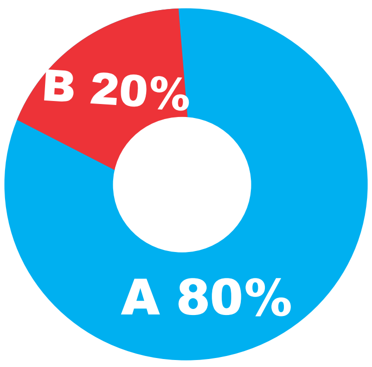
GROUP: 4, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

Shri Abhik Kr. Mukherjee
Assistant Professor,
Dep. of Business Admisitration
The University of Burdwan
He can be reached at:
akmukherjee@mba.buruniv.ac.in

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:

The concept of Aggregate Turnover;
Inclusions in and Exclusions from Aggregate Turnover;
Significance of Aggregate Turnover;
- Calculation of Aggregate Turnover.

AGGREGATE TURNOVER UNDER GOODS AND SERVICES TAX

Introduction

The introduction of Goods and Services Tax (GST) has been a landmark event in the indirect tax map of India. GST has been formally introduced in India on July 1, 2017. This new statute introduced many new concepts and terminologies, one of the most fundamental of which happens to be the term 'aggregate turnover'. In this section, the term 'aggregate turnover' – that has been widely used and applied under the GST law, has been discussed.

Aggregate Turnover – Definition

- The term 'turnover', in common parlance means the annual sales volume of an entity after giving the effect of the discounts and the sales tax paid. Fundamentally, turnover means the value of business done by an organisation over a period of time.
- The term 'Aggregate Turnover' has been defined u/s 2(6) of the Central Goods and Services Tax Act, 2017.
- According to Sec. 2(6) of the CGST Act, "aggregate turnover" means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis. But it excludes Central tax, State tax, Union territory tax, Integrated tax and cess.

Inclusions in Aggregate Turnover

- As per the above stated definition, Aggregate Turnover refers to the aggregate value of four types of supplies (of goods or services or both) of persons having the same Permanent Account Number (PAN), namely:
  1. all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis);
  2. all exempt supplies;
  3. all exports; and
  4. all inter-state supplies.

  NB: The following points are to be noted:

  - The term 'Exempt supplies' includes the following:
    - ✓ supplies having 'Nil' rate of tax levy;
    - ✓ supplies that are fully exempt under the CGST, SGST and UTGST laws; and
    - ✓ Supplies that are not taxable under the Act (viz. alcoholic liquor for human consumption)
  - The term 'Exports' includes zero-rated supplies.
  - Inter-state supplies between units of a person having the same PAN will form part of Aggregate Turnover.
- Such Aggregate Turnover is to be calculated by taking together the value in respect of the activities of a person carried out on all-India basis.
- For an agent, the supplies made by him on behalf of all his principals would have to be considered for ascertaining his Aggregate Turnover [*Explanation* to Sec. 22].
- Thus, as per the above statutory definition, the term 'Aggregate Turnover' is an all encompassing term covering all the supplies effected by a person having the same PAN.

Exclusions from Aggregate Turnover

The following items have been specifically excluded for calculation of Aggregate Turnover:

- Taxes with respect to CGST, SGST or IGST Acts;
- Value of taxes payable on reverse charge mechanism (RCM);
- Value of inward supplies of goods and services;
- Value of Non-taxable supplies of goods or services like Alcohol, Petrol etc.
- In case of completion of a job work, the following supplies would not be included in Aggregate Turnover:
  - Goods returned to the principal;
  - Goods sent to another job worker (as per the instruction of the principal);
  - Goods supplied to the customer directly from the job workers premises.

NB: This supply would rather get included in the Aggregate Turnover of the principal [*Explanation* to Sec. 22].

Significance of Aggregate Turnover

The determination of Aggregate Turnover achieved by a person becomes relevant under GST law as this concept gets applied in the following two important areas:

- **For obtaining Registration**: The basic pre-requisite for registration under the GST law happens to be the aggregate turnover. The Aggregate Turnover is the primary parameter that is to be considered for determining the threshold limit for registration under GST law. This threshold limit happens to be Rs. 10 lakhs in a financial year (for Special Category States) and Rs. 20 lakhs in a financial year (for other States). Thus, in the GST regime, for any business if the aggregate turnover in a financial year exceeds Rs 20 lakhs then there is a mandatory requirement for getting the business registered under Goods and Services Tax.

NB: *Special Category States* are specified under sub-clause (g) of clause (4) of Article 279A of the Constitution of India. These states are: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.

- **Opting for Composition Scheme**: The threshold limit to opt for composition scheme is Aggregate Turnover of Rs. 50 lakhs in a financial year.

Calculation of Aggregate Turnover

The aggregate turnover is calculated by taking together all the values in respect of the activities carried by all the entities of the concerned person on a pan- India basis. The following points are to be noted for computation of Aggregate Turnover:

- Aggregate turnover is aggregate value of four types of supplies (of goods or services or both) - taxable supplies (excluding the value of inward supplies under RCM), exempt supplies, exports and inter-state supplies;
- It includes supplies (of goods or services or both) of a person having the same PAN.
- It is computed on all India basis.
- It excludes any Central tax, State tax, Union territory tax, Integrated tax and cess.

Mathematically,

Aggregate Turnover = Value of all supplies (i.e. Taxable Supplies + Exempt Supplies + Exports + Inter-state Supplies) – (Taxes + Value of inward supplies + Value of supplies taxable under RCM + Value of specified non-taxable supplies) of a person having the same PAN across all his business entities in India.

Illustrative Examples on Aggregate Turnover

Illustration 1

M/s Kom Bros, manufacturer of pens has their offices in two locations – Kohima and Gangtok. In each of the following independent cases, you are required to:

(a) ascertain the amount of Aggregate Turnover as per the GST law; and

(b) state whether M/s Kom Bros. would require to get itself registered.

Case I: M/s Kom Bros. makes only local supplies in the respective states. The intra-state supply of taxable goods from Kohima office is Rs. 2.5 lakhs and intra-state supply of taxable goods Gangtok office is Rs. 6 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 2.5 lakhs + Rs. 6 lakhs = Rs. 8.5 lakhs

(b) Registration is not required to be taken in any of the states [since, Aggregate Turnover < Rs. 10 lakhs].

Case II: M/s Kom Bros. has effected supplies from both the offices. The Kohima office has made intra-state supply of taxable goods Rs. 4 lakhs and exempted supply of Rs. 3 lakhs. The intra-state supply of taxable goods from Gangtok office is Rs. 5 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 4 lakhs + Rs. 3 lakhs + Rs. 5 lakhs = Rs. 12 lakhs

(b) Registration is required to be taken both in the states of Nagaland and Sikkim [since, Aggregate Turnover > Rs. 10 lakhs].

Case III: M/s Kom Bros. makes only local supplies in the respective states. The intra-state supply of exempted goods from Kohima office is Rs. 5.5 lakhs and intra-state supply of exempted goods Gangtok office is Rs. 6 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 5.5 lakhs + Rs. 6 lakhs = Rs. 11.5 lakhs

(b) Registration is not required to be taken in any of the states even though the Aggregate Turnover exceeds the threshold limit of Rs. 10 lakhs [since, both the offices are engaged in making exempted supplies].

Case IV: M/s Kom Bros. has effected supplies from both Kohima and Gangtok offices. The Kohima office has made intra-state supply of exempted goods Rs. 2.5 lakhs. The intra-state supply of taxable goods from Gangtok office is Rs. 13 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 2.5 lakhs + Rs. 13 lakhs = Rs. 15.5 lakhs

(b) Registration is not required to be taken in Nagaland [since, it has effected only exempted supplies]. Registration is required to be taken only in Sikkim [since, Aggregate Turnover > Rs. 10 lakhs].

Illustration 2

M/s Rao & Sons, manufacturer of plastic chairs has their offices in two locations – Nasik and Kochi. In each of the following independent cases, you are required to:

© ascertain the amount of Aggregate Turnover as per the GST law; and

(d) state whether M/s Rao & Sons would require to get itself registered.

Case I: M/s Rao & Sons makes only local supplies in the respective states. The intra-state supply of taxable goods from Nasik office is Rs. 8 lakhs and intra-state supply of taxable goods Kochi office is Rs. 10 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 8 lakhs + Rs. 10 lakhs = Rs. 18 lakhs

(b) Registration is not required to be taken in any of the states [since, Aggregate Turnover < Rs. 20 lakhs].

Case II: M/s Rao & Sons has effected supplies from both the offices. The Nasik office has made intra-state supply of taxable goods Rs. 8 lakhs and exempted supply of Rs. 6 lakhs. The intra-state supply of taxable goods from Kochi office is Rs. 11 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 8 lakhs + Rs. 6 lakhs + Rs. 11 lakhs = Rs. 25 lakhs

(b) Registration is required to be taken both in both in the states of Maharashtra and Kerala [since, Aggregate Turnover > Rs. 20 lakhs].

Case III: M/s Rao & Sons makes only local supplies in the respective states. The intra-state supply of exempted goods from Nasik office is Rs. 16.5 lakhs and intra-state supply of exempted goods Kochi office is Rs. 7.5 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 16.5 lakhs + Rs. 7.5 lakhs = Rs. 24 lakhs

(b) Registration is not required to be taken in any of the states even though the Aggregate Turnover exceeds the threshold limit of Rs. 20 lakhs [since, the both offices are engaged in making exempted supplies].

Case IV: M/s Rao & Sons has effected supplies from both Nasik and Kochi offices. The Nasik office has made intra-state supply of taxable goods Rs. 17.5 lakhs. The intra-state supply of exempted goods from Kochi office is Rs. 10 lakhs.

Answer:

(a) Aggregate Turnover = Rs. 17.5 lakhs + Rs. 10 lakhs = Rs. 27.5 lakhs

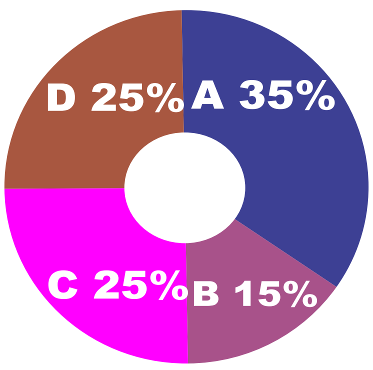
(b) Registration is required only in Maharashtra [since, Aggregate Turnover > Rs. 20 lakhs]. Registration is not required to be taken in Kerala [since, it has effected only exempted supplies].

GROUP: 4, PAPER: 19

COST
& MANAGEMENT AUDIT (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant,
Bhubaneswar
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

Practical approach in understanding the basic Principles forMaintenance of Cost Accounting Records.

Understanding of maintenance of Cost Records and Audit thereof is the core competency of a Cost and Management Accountant (CMA). Therefore it is highly imperative and pertinent for a student appearing for Group-4 of the Final Course to have proper understanding of this subject for passing the exam as well as for successful professional career.

After passing, when we choose our career either in service or in practice being a CMA, the society and the industry look at us as an expert in the subject of cost management and therefore our responsibility increases many fold in delivering the result to their satisfaction.

As a sequel to this, it is highly desirable that we have proper understanding of the guidelines, principles and elements of cost which are the basis for maintenance of Cost Records.Like Profit and Loss account and Balance Sheet which are the final outcome of the financial accounting, we have Cost Sheet of each product and service as the final outcome of the maintenance of cost records.The cost sheet indicates the true and fair view of cost of production of each product, service and activity and costing profit indicates the real profit of the company from its business activity and its efficiency. The correct cost of any product or service helps management in taking various management decision in the areas of cost management, business expansion and to improve the bottom line of the company particularly in this era of competition and globalization.

The Cost records are to be maintained as per the Notifications issued by Ministry of Corporate Affairs, Gove. of India. Earlier there were separate Rules for Maintenance of Cost records and audit of cost records in the name and style of Cost Accounting Records Rule, 2011 and Cost Audit Reports Rule, 2011 respectively. However after coming into force the Companies Act, 2013, The GOI, Ministry of Corporate Affairs has issued new notification, under Sec. 148, of the Companies Act, 2013, namely the Companies (Cost records and Audit) Rules, 2014 for maintenance of cost records and audit thereof.

For proper understanding of various element of cost and its accounting, our Institute has published the Generally accepted cost accounting principles (GACAP), Cost accounting standards (CAS) and Guidance note on Cost accounting standards. Further the Companies (Cost records and Audit) Rules, 2014also contain the Form CRA – 1, which define and explain the various elements of cost and its accounting as well as maintenance of certain statistical records which helps in preparation of Cost sheet and arriving at the true and fair view of cost of production of any product or service.

At first instance when one hear about GACAP, CAS, Guidance note and CRA – 1 etc. one get a little bit confused and develop the feeling that it is a very vast area to read. But in reality it is otherwise. All the above explain the same thing, however in different manner. If one understand the basic concept/principle of element of cost it will be easier for him/her to understand all the above.

The basic element of cost for which records are to be maintained are:

a. Material costs
b. Employee cost
c. Utilities
d. Direct Expenses
e. Repairs and Maintenance
f. Depreciation
g. Overheads (Indirect expenses)
h. Administrative Overheads – to be classified into
i. i. Relating to Production and
   ii. Others
j. Transportation cost
k. Royalty and Technical knowhow
l. Research and Development
m. Quality control expenses
n. Pollution control expenses
o. Service department expenses
p. Packing expenses - to be classified into
   i. Primary packing and
   ii. Secondary packing
q. Interest and Financial charges

It may be noted that Administrative Overheads – Relating to Production, and Primary packing cost forms part of cost of production, whereas Administrative Overheads – Others, Secondary Packing and Interest and Financial chargesforms part of cost of Sales.

Besides above, arriving at other figures and treatment of certain cost and income is also essential to calculate the correct costing profit.

a. Sales of product/service
b. Sale of By-product / Waste
c. Sale of Scrap – to be classified into
   i. Process scrap and
   ii. Other scrap
d. Other income - to be classified into
   i. related to business activity.
   ii. related to investments and other activities

While the Sale of By-product / Waste, Sale of Process scrap and Other income related to business activity are to be adjusted with cost of production, the Sale of Other scrap and Other income related to investments and other activities are to be shown in the Reconciliation statement i.e do not form part of cost sheet.

Further it may also be noted that the following expenses / income also do not form part of cost sheet and to be shown in the reconciliation statement.

a. Forex gain / loss
b. Any demurrage or penalty charges
c. Any abnormal cost
d. Prior period cost or income
e. Loss due to strike / lockout or due to natural calamity etc.

Finance cost incurred in connection with the acquisition of any element of cost will not for part of that element rather it is to be grouped as Interest and Financial charges. Similarly any subsidy or grant or incentive and any such payment received or receivable with respect to any element of cost shall be reduced from that cost.

In other words the entire issues can be summarized as under, to maintain the cost records, prepare true and fair cost sheet and arrive at correct costing profit.

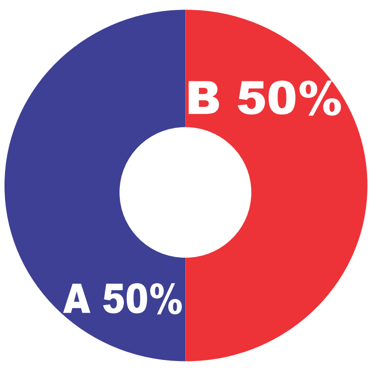
1. Only current year income and its corresponding expenses are to be considered and
2. Only the Income and expenses relating to business activities are to be considered.

GROUP: 4, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Dr. Mohua Das Mazumdar
Assistant Professor and HOD,
Department of Commerce,
Rampurhat College
She can be reached at:
mohuadasmazbu@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:

- comprehend the concept of discounted cash flow valuation
- know the types of discounted cash flow models
- understand applicability and limitations of discounted valuation

Strategic Performance Management and Business Valuation

Discounted Cashflow Valuation

Discounted cash flow valuation approach has its foundation in the present value rule, where the value of any asset is the present value of expected future cash flows that the asset generates.

$$\text{Value} = \Sigma_{t=1}^{n} \frac{CF_t}{1+r^{t}}$$

where,

n = Life of the asset
CFt = Cash flow in period t

r = Discount rate reflecting the riskiness of the estimated cash flows
The cash flows will vary from asset to asset e.g., dividends for stocks, coupons (interest) and the face value for bonds and after-tax cash flows for a real project. The discount rate will be a function of the riskiness of the estimated cash flows, with higher rates for riskier assets and lower rates for safer projects. (Damodaran, 2nd ed.)

The discounted cash flow valuation can be thought on a continuum. At one end of the spectrum, there is default-free zero coupon bond, with a guaranteed cash flow in the future. Discounting this cash flow at the riskless rate should yield the value of the bond. A little further up the spectrum are corporate bonds where the cash flows take the form of coupons and there is default risk. These bonds can be valued by discounting the expected cash flows at an interest rate that reflects the default risk. Moving up the risk ladder, there are equities, where there are expected cash flows with substantial uncertainty around the expectation. The value here should be the present value of the expected cash flows at a discount rate that reflects the uncertainty. (Damodaran, 2nd ed.)

Types of Discounted Cash Flow Models

There are three paths to discounted cash flow valuation: the ***first*** is to value just the equity stake in the business, the ***second*** is to value the entire firm, which includes, besides equity, the other claimholders in the firm (bondholders, preferred stockholders, etc.) and the ***third*** is to value the firm in pieces, beginning with its operations and adding the effects on value of debt and other non-equity claims. While all three approaches discount expected cash flows, the relevant cash flows and discount rates are different under each.

Equity Valuation

The value of equity is obtained by discounting expected cash flows to equity, i.e., the residual cash flows after meeting all expenses, reinvestment needs, tax obligations and net debt payments (interest, principal payments and new debt issuance), at the cost of equity, i.e., the rate of return required by equity investors in the firm. The dividend discount model is a specialized case of equity valuation, where the value of the equity is the present value of expected future dividends.

Firm Valuation

The value of the firm is obtained by discounting expected cash flows to the firm, i.e., the residual cash flows after meeting all operating expenses, reinvestment needs and taxes, but prior to any payments to either debt or equity holders, at the weighted average cost of capital, which is the cost of the different components of financing used by the firm, weighted by their market value proportions.

Adjusted Present Value (APV) Valuation

The value of the firm can also be obtained by valuing each claim on the firm separately. In this approach, which is called adjusted present value (APV), we begin by valuing equity in the firm, assuming that it was financed only with equity. We then consider the value added (or taken away) by debt by considering the present value of the tax benefits that flow from debt and the expected bankruptcy costs.

Value of firm = Value of all-equity financed firm + PV of tax benefits + Expected Bankruptcy Costs

In fact, this approach can be generalized to allow different cash flows to the firm to be discounted at different rates, given their riskiness. (Damodaran, 2nd ed.)

Applicability and Limitations of DCF Valuation

Discounted cash flow valuation is based upon expected future cash flows and discount rates. Given these informational requirements, this approach is easiest to use for assets (firms) whose cash flows are currently positive and can be estimated with some reliability for future periods, and where a proxy for risk that can be used to obtain discount rates is available. The further we get from this idealized setting, the more difficult discounted cash flow valuation becomes. The following list contains some scenarios where discounted cash flow valuation might run into trouble and need to be adapted.

(1) *Firms in trouble:* A distressed firm generally has negative earnings and cash flows. For these firms, estimating future cash flows is difficult to do, since there is a strong probability of bankruptcy. For firms which are expected to fail, discounted cash flow valuation does not work very well, since we value the firm as a going concern providing positive cash flows to its investors. Even for firms that are expected to survive, cash flows will have to be estimated until they turn positive, since obtaining a present value of negative cash flows will yield a negative value for equity or the firm. (Damodaran, 2nd ed.)

(2) *Cyclical Firms:* The earnings and cash flows of cyclical firms tend to follow the economy - rising during economic booms and falling during recessions. Many cyclical firms, in the depths of a recession, look like troubled firms, with negative earnings and cash flows. Estimating future cash flows then becomes entangled with analyst predictions about when the economy will turn and how strong the upturn will be, with more optimistic analysts arriving at higher estimates of value. This is unavoidable, but the economic biases of the analyst have to be taken into account before using these valuations. (Damodaran, 2nd ed.)

(3) *Firms with unutilized assets:* Discounted cash flow valuation reflects the value of all assets that produce cash flows. If a firm has assets that are unutilized (and hence do not produce any cash flows), the value of these assets will not be reflected in the value obtained from discounting expected future cash flows. The same thing happens in case of underutilized assets, since their value will be understated in discounted cash flow valuation. (Damodaran, 2nd ed.)

(4) *Firms with patents or product options:* Firms often have

unutilized patents or licenses that do not produce any current cash flows and are not expected to produce cash flows in the near future, but, nevertheless, are valuable. If this is the case, the value obtained from discounting expected cash flows to the firm will understate the true value of the firm. Again, the problem can be overcome, by valuing these assets in the open market or by using option pricing models, and then adding on to the value obtained from discounted cash flow valuation. (Damodaran, 2nd ed.)

(5) Firms in the process of restructuring: Firms in the process of restructuring often sell some of their assets, acquire other assets, and change their capital structure and dividend policy. Some of them also change their ownership structure (going from publicly traded to private status) and management compensation schemes. Each of these changes makes estimating future cash flows more difficult and affects the riskiness of the firm. (Damodaran, 2nd ed.)

(6) Firms involved in acquisitions: There are at least two specific issues relating to acquisitions that need to be taken into account when using discounted cash flow valuation models to value target firms. The first is the thorny one of whether there is synergy in the merger and if its value can be estimated. It can be done, though it does require assumptions about the form the synergy will take and its effect on cash flows. The second, especially in hostile takeovers, is the effect of changing management on cash flows and risk. Again, the effect of the change can and should be incorporated into the estimates of future cash flows and discount rates and hence into value. (Damodaran, 2nd ed.)

(7) Private Firms: The biggest problem in using discounted cash flow valuation models to value private firms is the measurement of risk (to use in estimating discount rates), since most risk/return models require that risk parameters be estimated from historical prices on the asset being analyzed. Since securities in private firms are not traded, this is not possible. One solution is to look at the riskiness of comparable firms, which are publicly traded. The other is to relate the measure of risk to accounting variables, which are available for the private firm. (Damodaran, 2nd ed.)

Tips for improving Communication Skills

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

01.00Good Communication

Having good communication skills is really important in every walk of life.Good communication skills can help you overcome the basic complexities that you may face in certain tasks of life. For instance, they can help you to get a good job, perform better at the workplace, create a better impression about yourself, you can stand out in a crowd, and you can also improve your relationships with others. The right method of communication is, therefore, very important in whatever you do.

02.00 Process of Improving

The process of improving communication skills is really an ongoing affair. Here are ten tips to improve communication skills that can steer you towards a positive change in many aspects of your life.

02.01Observe the Peers

In order to improve your communications skills, you must always remember that you need to observe those people who communicate effectively. Look at and observe the people around you who make easy and effective conversations. This should give you an insight and an understanding that could open up better ways to communicate with others. A diligent observation of the peers is a perpetual practical hint towards acquiring better communication skills,

02.02 Be a Good Listener

Communication is not just about speaking effectively and in an impressive manner. No one likes to talk to a person who just goes on and on without ever listening to others. Remember, you also need to be a good listener. This is one factor that is so often overlooked by most people. It is important to be a good listener in order to understand what the other person is saying, and reply accordingly.

02.03 Think before You respond

Think twice before you speak once. When conversing with someone, remember that you need to take time to think before you react to what is being said. Impulsive reactions often bring out the wrong words, or do not convey what you actually mean. It is an excellent communication skill to take a few moments and process all the information before you respond.

02.04 Be Confident

Being confident is the key element to effective communication.Think about your positive points before you start a conversation. This will help you overcome the initial hiccups and boost your level of confidence, especially if you are going to give a speech before a very large audience.

02.05 Draw the line with Humor

Having a sense of humor helps to make any conservation light and fun to be in! Develop your sense of humor and use it. Do note one important thing in such cases - you must not hurt the sentiments of others in any possible way, and do not try to be overly funny. As a good communicator, one should know where to draw the line with humor.

02.06 Develop a love forReading

Be it books or news-papers, develop a love for reading. A well-read person has knowledge on a variety of topics, and does not feel left out when discussing things with others. Reading makes you an intelligent individual with an improved vocabulary, which eventually boosts your confidence while talking to people.

02.07Avoid Preconceived Notions

Preconceived notions always create an obstacle to effective communication. Avoid thinking that what you say is always right; this may create a certain barrier beforehand in any conversation. An effective communicator makes it a point to listen to the other viewpoints before speaking himself. This provides him or her with a chance to assess the situation in a better way and prevents sticking to any preconceived notions.

02.08Be Polite

A polite manner of conversing can help you earn the respect of others and impress them as well.Rethink about the ways you are framing your sentences in order not to offend the other person. For example, at work, even if you are displeased, sometimes an effective manner of communicating can help you yield better results, rather than talking offensively.

02.09Sport the right kind of Body Language

Sporting the right kind of body language is another important key factor in improving communication skills. Maintain eye contact as you speak; sit and stand in an erect position, and have a firm handshake; do not give wrong signals by crossing your arms and legs; avoid fidgeting excessively. Always remember that your gestures say a lot about your personality as an individual.

02.10Connect with the Participants

It is extremely necessary to connect with the participantsby keeping the conversation interesting and interactive. Remember, having good communication skills is not only about talking all the time, it is also about how you get others interested enough to participate in the conversation with you. It is better that you speak up and put your point across so as to connect with the participants and enable them to respond.

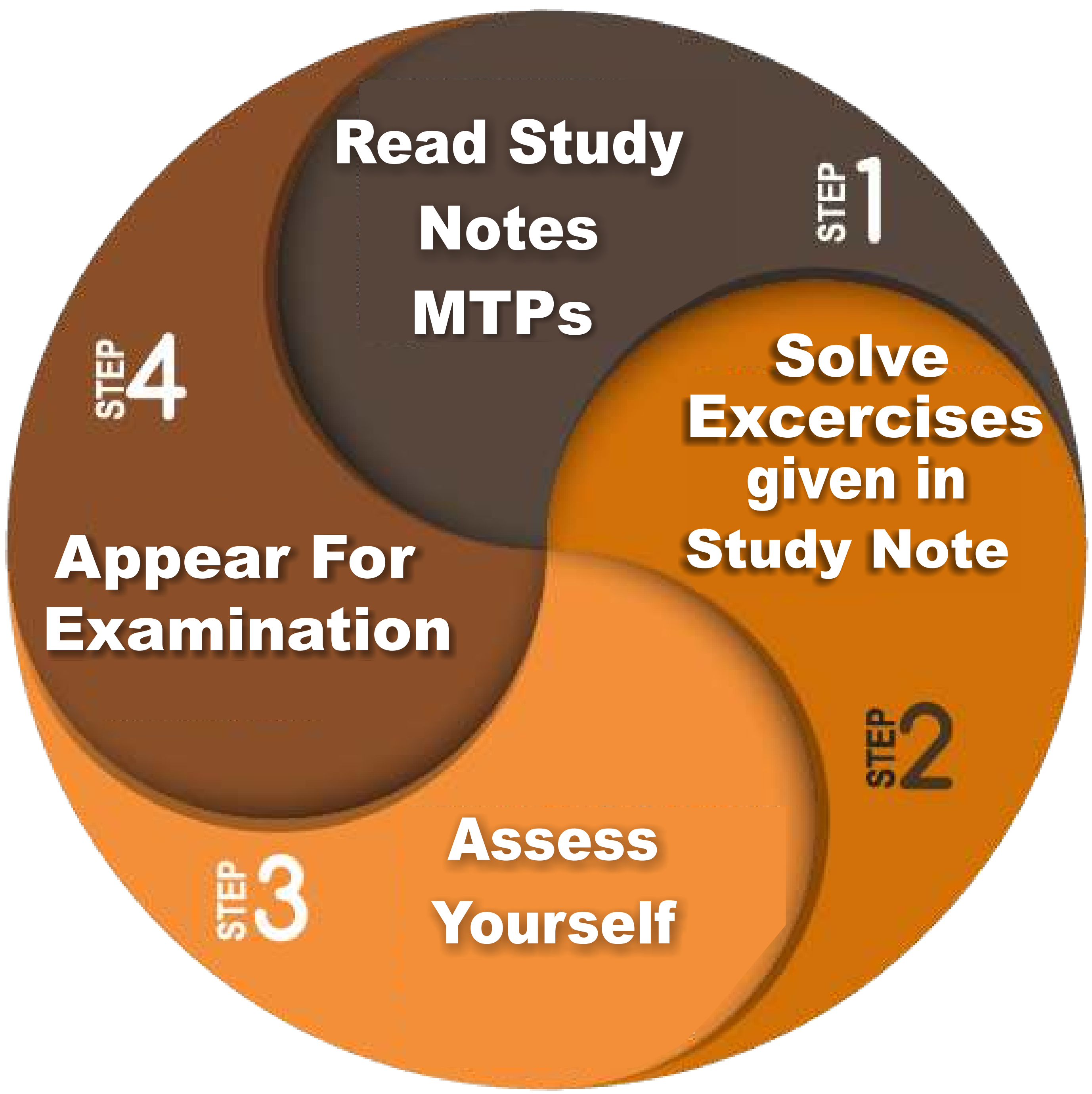
03.00 Learning Wrap

Not everyone is equally endowed with the ability to effectively express and this is where the significance of communication skills can be truly fathomed. Effective communication skills help one to connect with others, and to build successful relationships that would create a feeling of harmony, and also increase productivity at work.

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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



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.

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 have stepped into 2018 and with new enthusiasm for the future to come, it is also a time to reflect on the year gone by and the beautiful moments shared with all. Express your gratitude and spare your thoughts for all who have supported you and remember to make a new year resolution to do much better in every sphere of your life.

'Learn from yesterday, Live for today, Hope for tomorrow'

For the smooth and flawless preparation. Directorate of Studies have provided meaningful tips which will help you to gain sufficient knowledge about each subject."Tips" are given in this E-bulletin by the knowledge experts for the smooth encouragement in you preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to brush up their knowledge and also to swim across.

Take the course seriously from the very beginning but don't be panicky. Please try to follow the general guidelines, mentioned below; which may help you in your preparation.

Essentials for Preparation:

- Conceptual understanding & Overall understanding of the subject both 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 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 PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**

Wishing you all BEST OF LUCK in your forthcoming Examination.

Be Prepared and Get Success;

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.

Snapsort

CMA Amit Anand Apte has been elected as the President of the Institute for the year 2018-19.

Independence Day Celebration 2018

CMA Balwinder Singh has been elected as Vice President of The Institute of Cost Accountants of India for the period 2018-2019.

CMA Amit A. Apte, President of the Institute extending greetings to Shri P. P. Chaudhary, Hon'ble Union Minister of State for Law & Justice and Corporate Affairs.

CMA Amit A. Apte, President, CMA Balwinder Singh, Vice-President and CMA Sanjay Gupta, Immediate Past President of the Institute extending greetings to Shri Injeti Srinivas, Secretary to the Government of India, Ministry of Corporate Affairs.

FOLLOW US ON

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