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CMA Student E - Bulletin

FINAL

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Vol: 6, No.: 4.
April 2021, Issue

150 YEARS OF CELEBRATING THE MAHATMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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150 YEARS OF CELEBRATING THE MAHATMA

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.

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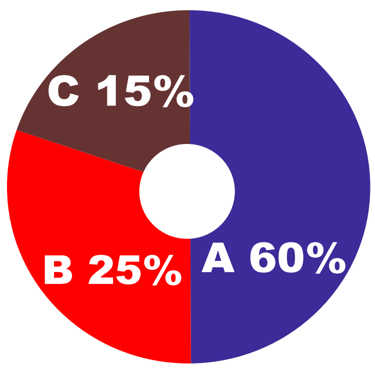
GROUP: iii, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

Competition Act.

1.0 Competition Act, 2002

- The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970.
- The Government appointed a committee in October 1999 to examine the existing MRTP Act for shifting the focus of the law from curbing monopolies to promoting competition and to suggest a modern competition law. Pursuant to the recommendations of this committee, the Competition Act, 2002, was enacted on 13th January 2003. It was subsequently amended in 2007.
- It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission.
- Under the Act, Competition Commission of India and the Competition Appellate Tribunal have been established.

1.1 Competition Act notification

Certain provisions such as those relating to establishment of the Commission, appointment of Chairperson and Members, appointment of staff, undertaking of competition advocacy have been notified.
Other provisions of the Act are yet to be notified such as those relating to adjudication of anti-competitive practices and regulation of combinations.

1.2 Objectives of the Act

- The objectives of the Competition Act are to:
- prevent anti-competitive practices,
- promote and sustain competition,
- protect the interests of the consumers and
- ensure freedom of trade.
- competition advocacy by creating awareness among various levels at Government, industry and consumers.

The objectives of the Act are sought to be achieved through the instrumentality of the Competition Commission of India (CCI) which has been established by the Central Government with effect from 14th October, 2003.

1.3 CCI is a body corporate and shall have a full time chairman with minimum 2 and maximum 6 to 7 members. Commission may appoint Secretary and other officers as may be required.

Functions of Competition Commission of India (CCI)

I CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.
ii) Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc.and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.
iii) It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.
iv) CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.
v) Inquiry into certain agreements and dominant position by giving notices to the parties.

"Agreement" under the Act

An agreement includes any arrangement, understanding or concerted action entered into between parties. It need not be in writing or formal or intended to be enforceable in law.

1.4 Prohibition of certain agreement

A. Anti-competitive agreement shall be presumed to have appreciable adverse effect on competition and thereby deemed to be restrictive.

- An anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include:-

- agreement to limit production & supply,storage, distribution
- agreement to allocate markets
- agreement to fix price
- bid rigging (manipulating the bids) or collusive bidding (bidding with understanding among the bidders)
- conditional purchase/sale (tie-in arrangement)
- exclusive supply/distribution arrangement-limit/restrict/withhold/allocation of an area
- resale price maintenance
- refusal to deal

The whole agreement shall be construed as "void" if it contains anticompetitive clauses. However, agreement for restriction for protection of intellectual property shall not fall under this category.

1.5 Abuse of dominance

Dominance refers to a position of strength which enables a dominant firm to operate independently in India of competitive forces or to affect its competitors or consumers or the market in its favour.

- impedes fair competition between firms,
- exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit.
- imposing unfair conditions or price, predatory pricing, limiting production/market, creating barriers to entry and applying dissimilar conditions to similar transactions.

1.6 Specific instances of dominanace in Competion Act

(a) directly or indirectly, imposes unfair or discriminatory conditions in purchase or sale of goods or services, including predatory price;
(b) limits, restricts production of goods/ provision of services/ technical development
(c) denial of market access
(d) uses dominant positioning one market to enter into other relevant market.

2.0 Who can make a complaint?

Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.

A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.

A consumer is a person who buys for personal use or for other purposes.

3.0 Orders the Commission can pass

- During the course of enquiry, the Commission can grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position

- To impose a penalty of not more than 10% of turn-over of the enterprises and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher

  After the enquiry, the Commission may direct a delinquent enterprise to discontinue and not to re-enter anti-competitive agreement or abuse the dominant position

  To award compensation

  To modify agreement

  To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.

* Declare an agreement to be void.
* Violation of orders may result to imprisonment.

4.0 "Combination" under the Act and regulation thereof

Combination includes acquisition of shares, acquisition of control by the enterprise over another and amalgamation between or amongst enterprises.

Combination, that exceeds the threshold limits specified in the Act in terms of assets or turnover, which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India, can be scrutinized by the Commission

4.1 In case of combination the threshold limits are-

For acquisition –

- **Individual :**Combined assets of the firms (acquirer and the enterprise) is more than Rs 2000 Cr. or turnover is more than Rs 6000 Cr. (these limits are US$ 1 billion including at least Rs.1000 Cr. in India and 3 billions including at least 3000 cr. in India in case one of the firms is situated outside India).

- **group:** The limits are more than Rs 8000 Cr or Rs 24000 Cr and US$ 4 billion including at least Rs.1000 Cr. in India and 12 billions including at least Rs.3000 Cr. in India in case acquirer is a group in India or outside India respectively.

CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than Rs.350 Cr. and turnover of not more than Rs.1000 Cr.

Turnover means amount on sale of product or rendering of services of similar or substitutable goods or services. Group means two or more enterprises which directly or indirectly exercise 26% or more of voting right in other enterprise or appoint more than 50%of the directors or control affairs of the other enterprise.

4.2 For merger/amalgamation –

the above limit will be valid for mergers also.
Asset means written down book value and shall include intellectual property.

A firm proposing to enter into a combination, may, at its option, notify the Commission in the specified form disclosing the details of the proposed combination within 30 days of such proposal i.e. approval of the board of directors or execution of the agreement or other document for acquisition. No combination shall come into effect until 210 days have passed from the day on which the notice has been given to the Commission or Commission has given no objection, whichever is earlier.

5.0 Procedure for investigation of combinations

- If the Commission is of the opinion that a combination is likely to cause or has caused adverse effect on competition,
- It shall issue a notice to show cause the parties as to why investigation in respect of such combination should not be conducted.
- On receipt of the response, if Commission is of the prima facie opinion that the combination has or is likely to have appreciable adverse effect on competition, it may direct publication of details inviting objections of public and hear them, if considered appropriate.
- It may invite any person, likely to be affected by the combination, to file his objections. The Commission may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

5.1 Orders the Commission can pass in case of combinations

It shall approve the combination if no appreciable adverse effect on competition is found
It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition
May propose suitable modification in the agreement/arrangement.

5.2 Prohibition of abuse of dominance

i) an enterprise shall be considered to be dominant in the referent market in India, if -
(a) operate independently of competitive forces;
(b) affects the consumer, competitor or the relevant market in its favour.
ii) abuse of dominant position shall mean using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

5.3 Regulation of combinations

i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;
ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the proposal by the Board or execution of any agreement;
iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;
iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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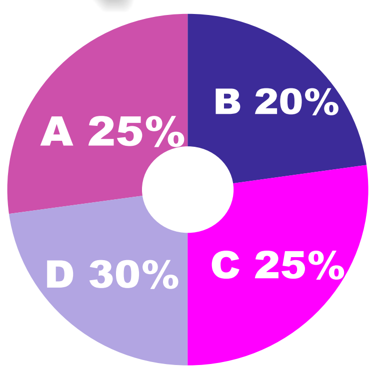
Your Preparation Quick Takes



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 on Strategic Financial Management, you will be able to:

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

LEASING DECISIONS

- **Concept of Lease:** A lease is basically an agreement between two parties, commonly known as lessor and lessee, whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments.

- **Parties Associated with Lease:** As mentioned above, a lease agreement has two parties associated with it – the lessor and the lessee. A lessor is the owner of the asset who conveys the right to use the asset to lessee. A lessee, on the other hand, is the person who makes either lump-sum or periodic payments to continue to use the asset. The period for which such a right is conveyed by the lessor to the lessee is called the lease period.

  In some cases, a lessee may again lease out entire or a part of the asset to another person. Such another person is termed as a sub-lessee. A sub-lease agreement is basically another lease agreement where original lesser assumes the role of a lesser.

- **Types of Lease:** Leases can broadly be classified into Finance Lease and Operating Lease.
  A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Thus, in such a lease, the lease period covers substantial life of the asset and hence the lease is found to be of long term in nature. Moreover, the payment towards lease rental covers substantial, if not all, the cost of obtaining the asset by the lessor i.e., owner. On the other hand, an operating lease does not transfer substantially all the risks and rewards incidental to ownership.
  In short, while operating lease is merely a rental, financial lease is a disguised purchase.

- **Benefits of Lease:**

From Lessor's Viewpoint	From Lessee's Viewpoint
•Lessor always remains the owner of the asset •As per Income Tax Provisions, lessor continues to enjoy the depreciation claim •Higher depreciation charge speeds up the capital recovery. So, rate of return is also high. •Lessor may use more debt to buy assets to be given on lease. This improves trading on equity	•The amount which would have been used to buy the asset may be used for alternative purposes. •The lessee gets full control on the asset so far as the use is concerned. •Lessee enjoys tax benefits on lease rentals. •Lessee need not to bear the risk of obsolescence due to technological advancements.

- **Limitations of Leasing**

  - There may be rstrictions on use imposed by the lessor
  - A finance lease may entain a very high lease rental obligation
  - Lease does not provide any ownership over the asset.

- **Lease vs. Buy Options**

There is no denying the fact that lease will never entail ownership of asset to the lessee. However, in case of a finance lease that transfers substantially all the risks and rewards incidental to ownership of an asset, such issue may not be that significant as the lessee continues to enjoy all the benefits associated with the asset for almost the entire lifetime of the asset. Hence, the issue that concerns most is the cost. In order to make a comparative analysis all the relevant cash flows are required to be identified. In addition, any tax savings shall also be taken into consideration. Following is a summary of all the cash flows and tax shields associate with the two options.

Buy	Lease
• PV of instalments against the loan taken to buy the asset. •Interest tax shield •Depreciation tax shield •Present value of residual value of asset to be deducted.	•Present value of after tax lease rentals •Present value of any maintenance cost

Consider the following illustration.

Illustration 1:
Excel Transport needs a truck for which it is considering the following two options:
(i) Buy the asset for Rs.3,00,000 by borrowing the amount @12% interest and repaying the same together with interest in 4 equal annual instalments.
(ii) Acquiring the asset on lease with a payment of annual lease rentals of Rs.90,000 per annum for 4 years.
The firm follows straight line method of depreciation and is under the income tax bracket of 30%. Life of the asset is 4 years.
Which option – lease or buy the firm should opt?

Solution:
Applicable discount rate = 12(1-0.3) = 8.4% p.a.

Lease Option:
Present value of after-tax lease rentals
= 90000 x (1-0.3) x PVIFA (8.4%, 4 years) = 63000 x 3.28 = Rs.206640
Buy Option
Annual instalment = 300000 ÷ PVIFA (12%, 4) = 300000 ÷ 3.037 = Rs.98782
Calculation of interest tax shield

Op. outstanding	Interest @12%	Instalment	Principal	Cl. Outstanding	Tax savings	PVIF @ 8.4%	PV of tax savings
300000	36000	98782	62782	237218	9000	0.9225	8303
237218	28466	98782	70316	166902	8540	0.8510	7268
166902	20028	98782	78754	88148	6008	0.7851	4717
88148	10634	98782	88148	0	3190	0.7242	2310
Total							22598

Calculation of depreciation tax shield

Depreciation	Tax savings	PVIF @ 8.4%	PV of tax savings
75000	22500	0.9225	20756
75000	22500	0.8510	19148
75000	22500	0.7851	17665
75000	22500	0.7242	16295
			73864

Present value of cash flow under buy option

Particulars	Rs.
Present value of instalments (98782 x 3.28)	324005
Less. Interest tax shield	22598
Less. Depreciation tax shield	73864
Total	227543

Since the present value of net cash outflow under leasing option is lower than that of buy option, leasing is preferable to buy option.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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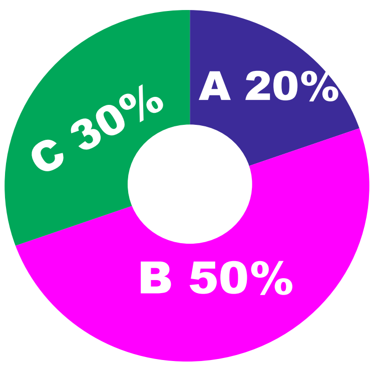

Syllabus Structure

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?

Fundamentals of Activity Based Costing

01.00 Introduction to At the initial phase, Activity Based Costing (ABC) has been introduced with a view to overcome the limitations of traditional costing systems.

ABC system assumes that Products consume Activities and Activities consume Costs.

CIMA defines Activity Based Costing as, 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.' One more definition of Activity Based Costing is, 'the collection of financial and operational performance information tracing the significant activities of the firm to product costs.'

The focus of ABC is on accurate information about the true cost of products, services, processes, activities, distribution channels, customer segments, contracts, and projects. The system assumes that products consume activities and activities consume costs. An activity may be considered as the cost pool of convenience; and cost driver is the factor that impacts the cost of activity.

ABC enables more precise allocation of manufacturing overheads amongst the products. It helps managers make better decisions about what they offer. This process also encourages continual operating improvements. Once business process costs are known with reasonable accuracy, activity-based budgeting can set realistic goals for improving the processes and for identifying those processes that are no longer needed or are unprofitable.

02.00 Important Terms

The operation of the ABC system involves the use of the following important terms:

Activity: An activity means an aggregate of closely related tasks having some specific functions which are used for completion of a goal or objective. For example, customer order processing is an activity. It includes receiving order from customers, interacting with production department regarding capacity to produce and giving commitment to the customer regarding delivery time. Other activities may be assembling, packaging, advertising etc.

Resource: Resources are elements that are used for performing the activities or factors helping in the activities. For example order receiver, telephone, computers, etc. are resources in customer order processing activity. It may include material, labour, equipment, office supplies etc.

Cost: Cost is amount paid for resource consumed by the activity. For example salaries, printing stationary, telephone bill, etc. are costs of customer order processing activity. It is also known as activity cost pool.

Cost Object: It refers to an item for which cost measurement is required; e.g. a product, a service, or a customer.

Cost Pool: A cost pool is a term used to indicate grouping of costs incurred on a particular activity which drives them.

Cost Driver: Any element that would cause a change in the cost of activity is a cost driver. Cost drivers are the basis of charging cost of activity to cost objects. Cost drivers are used to trace costs to products by using as a measure of resources consumed by each activity. For example frequency of orders, number of orders, etc. may be cost drivers of customer order processing activity. A Cost Driver may be a Resource Cost Driver or an Activity Cost Driver. A resource cost driver is a measure of the quantity of resources consumed by an activity. An activity cost driver is a measure of the frequency and intensity of demand, placed on activities by cost objects.

03.00 Implementation of ABC

There are eight vital steps to the implementation of ABC.

1. Identification of Cost Objects: The cost objects of any organization are the products or services.
2. Identification of Activities: Identifications of the main activities can be done by carrying out an in-depth analysis of the operating processes of each responsibility segment.

3. Tracing the Direct Costs: The direct costs of products or objects may comprise direct material cost, direct labour cost and direct expenses. Classification of as many of the total costs as direct costs as is economically feasible should be made. It reduces the amount of costs to be classified as indirect.
4. Relating the Indirect Costs to the Activities: After identifying the organizations activities, the various items of indirect costs are related to activities, viz. both support and primary which caused them. As a result of relating the items of indirect costs to various activities, cost pools or cost buckets are created.
5. Distribution of Support Activities: The spreading of support activities (i.e., activities which support or assist manufacturing) across the primary activities (correlated to the number of units produced) is done on some suitable base which reflects the use of support activity. The base is the cost driver and is a measure of how the support activities are used.
6. Determining the Activity Cost Drivers: The determination of the activity cost drivers is done in order to relate the overhead collected in cost pools to the cost objects of products. It is done on the basis of the factor that drives the consumption of the activities.
7. Calculating the Activity Cost Driver Rates: The activity cost driver rates for each activity are calculated in the way in which overhead absorption rates would be calculated under the traditional system. It can be formulated as: Activity Cost Driver Rate = (Total Cost of Activity ÷ Activity Driver). These activity cost driver rates are to be used for ascertaining the amount of overhead chargeable to various cost objects or products.
8. Computing the Total Cost: The total costs of the products shall be computed by adding all direct and indirect costs assigned to them. The amount of overhead chargeable to a product or cost object shall be calculated by multiplying the activity cost driver's rates by different amounts of each activity that each product or other cost object consumes.

04.00 Problems for Practice
Here follow four model problems for practice.

04.01 Problem
A company manufactures 500 units of product AX. The following details are available:
Material cost to manufacture: Rs. 1,50,000
Labour cost: Rs. 2,65,000
Material Reordering Cost: Rs. 4,500
Material Handling Cost: Rs. 2,500
Material orders: 35
Material movements: 20
What is the Total Material cost under Activity based costing?

Solution:
Total Material Cost under Activity Based Costing

Serial	Particulars	Rupees
1	Material cost to manufacture	1, 50,000
2	Material Reordering Cost	4,500
3	Material Handling Cost	2,500
4	Total Material Cost-	1, 57,000

04.02 Problem
A company manufactures and sells packaging machines. It recently introduced activity-based costing to refine its existing system. Each packaging machine requires direct materials costs of Rs.50,000; 50 equipment parts; 12 machine hours; 15 assembly line hours and 4 inspection hours. The details about the cost pools, allocation bases and allocation rates are given below:

Indirect cost pool	***Cost allocation base***	***Budgeted allocation rate***
Material handling	No. of component parts	Rs. 8 per part
Machining	Machine hours	Rs. 68 per machine hour
Assembly	Assembly line hours	Rs. 75 per assembly hour
Inspection	Inspection hours	Rs. 104 per inspection hour

The company has received an order for 40 packaging machines from a customer. Required: Using activity-based costing, find out the indirect costs to be allocated to the order of the customer.

Solution
Indirect costs per machine

Indirect cost pool	*Cost allocation base*	*Rate per Unit (Rs.)*	*Units per Machine*	*Cost per Machine (Rs.)*
Material	No. of Component	8.00	50	400.00
handling	parts	68.00	12	816.00
Machining	Machine hours	75.00	15	1125.00
Assembly	Assembly line hours	104.00	4	416.00
Inspection	Inspection hours			2757.00
Total				

Indirect costs for the order of 40 machines = 2,757 × 40 = Rs.1,10,280/-

04.03 Problem
Production overheads of XYZ Manufacturers Pvt. Ltd. for 500 units of product X are:
Machine oriented activity cost: Rs.135400
Material ordering overheads: Rs.69570
Machine hours are 1.50 hrs. per unit and No. of material orders are 6 per unit.
Raw material cost Rs. 300 per unit and labour cost Rs.150 per unit.
What is the Total cost of X per Unit?

Solution

(i) Machine Oriented Cost per Unit
Machine oriented activity cost for 500 units = Rs. 1,35,400
Machine hours per unit = 1.5
Machine hours for 500 units = 1.5 x 500 = 750
Machine Oriented Cost per hour = (135400 ÷ 750) = Rs.180.53
Machine Oriented Cost per Unit = (180.53 X1.5) = Rs. 270.80

(ii) Material Ordering Cost per Unit
Material Ordering Cost = Rs. 69,570
Material Orders per unit = 6
Material Orders for 500 units = 6 x 500 = 3000
Material Ordering Cost per Order = (69570 ÷ 3000) = Rs.23.19
Material Ordering Cost per Unit = (23.19 X 6) = Rs. 139.14

(iii) Total Cost of X per Unit

Serial	Particulars	Rupees
1	Raw Material cost	300.00
2	Labour cost	150.00
3	Machine Oriented Cost	270.80
4	Material Ordering Cost	139.14
5	Total Cost	859.94

04.04 Problem
A company produces four products, viz. P, Q, R and S. The data relating to production activities are as under

Product	Quantity of production	Material cost/ Rs. per unit	Direct labour hours/unit	Machine hours/ unit	Direct Labour cost/Rs. per unit
P	4,500	12	2	1.50	8
Q	13,640	15	2	0.75	9
R	2,340	25	5	2.50	27
S	18,350	21	4	4.00	25

Production overheads are as under: Rs.

(i) Overheads applicable to machine oriented activity:	1,65,900
(ii) Overheads relating to ordering materials:	8,760
(iii) Set up costs:	21,400
(iv) Administration overheads for spare parts:	44,690
(v) Material handling costs:	25,545

The following further information has been compiled:

Product	No. of set up	No. of materials orders	No. of times materials handled	No. of spare parts
P	3	3	6	6
Q	18	12	30	15
R	5	3	9	3
S	24	12	36	12

Required:

(i) Select a suitable cost driver for each item of overhead expense and calculate the cost per unit of cost driver.
(ii) Using the concept of activity based costing, compute the factory cost per unit of each product.

Solution

(i) Computation of Cost Driver Rates

(a) Overheads relating to Machinery oriented activity
Cost Driver: Machine Hour Rate
Machine Oriented Overheads = Rs. 1,65,900
Total Machine hours = {(4500 x 1.5) + (13640 x 0.75) + (2340 x 2.5) + (18350 x 4)}
= 6750 + 10230 + 5850 + 73400 = 96230
Cost Driver Rate = 1,65,900÷96,230 = Rs. 1.724 per hour

(b) Overheads relating to ordering materials
Cost driver: No. of Material orders
Material Ordering Overheads = Rs.8,760
Total No. of Material Orders = (3+12+3+12) = 30
Cost Driver Rate = 8760÷30 = Rs.292 per order

(c) Set up costs
Cost driver: No. of set ups
Set Up Overheads = Rs.21,400
Total No. of Set ups = (3+18+5+24) = 50
Cost Driver Rate = 21,400÷50 = Rs.428 per set up

(d) Administrative Overheads for spare parts
Cost driver: No. of spare parts
Administrative Overheads = 44,690
Total No. of Spare Parts = (6+15+3+12) = 36
Cost Driver Rate = 44690÷36 = Rs.1241.39 per spare part

(e) Material Handling costs
Cost driver: No. of times materials are handled
Material Handling Overheads = 25,545
Total No. of times materials are handled = (6+30+9+36) = 81
Cost Driver Rate = 25545÷81 = Rs. 315.37 per each time of material handling

(ii) Computation of factory cost for each product

(a) Apportionment of Overheads on the basis of Cost Driver Rate

Activity	P	Q	R	S
Number of Units of Production	4,500	13,640	2,340	18,350
Machinery oriented activity				
Number of Machine Hours	6750	10230	5850	73400
Total Cost @Rs.1.724 per hour	11,637	17,636	10,085	1,26,54 2
Cost per Unit of Production (Rs.)	2.586	1.293	4.31	6.896

Material Ordering				
Number of Material Orders	3	12	3	12
Total Cost @Rs.292/- per order	876	3,504	876	3,504
Cost per Unit of Production (Rs.)	0.195	0.257	0.374	0.191
Set Up Cost				
Number of Set Ups	3	18	5	24
Total Cost @Rs.428/- per set up	1,284	7,704	2,140	10,272
Cost per Unit of Production (Rs.)	0.285	0.565	0.915	0.56
Admn. Costs for Spare Parts				
No. of spare parts	6	15	3	12
Total Cost @Rs.1241.39 per spare part	7,448	18,621	3,724	14,897
Cost per Unit of Production (Rs.)	1.655	1.365	1.591	0.812
Material Handling Costs				
No. of times materials are handled	6	30	9	36
Total Cost @Rs.315.37 per handling	1,892	9,461	2,838	11,354
Cost per Unit of Production (Rs.)	0.42	0.694	1.213	0.619
Total Overheads	23,137	56,926	19,663	1,66,569
Overhead Cost per Unit (Rs.)	5.141	4.174	8.403	9.078

(b) Cot per Unit (Rs.)

Particulars	P		Q		R		S	
Materials		12.00		15.00		25.00		21.00
Labour		8.00		9.00		27.00		25.00
Overheads								
Machine oriented activity	2.586		1.293		4.310		6.896	
Ordering of Materials	0.195		0.257		0.374		0.191	
Set up costs	0.285		0.565		0.915		0.560	
Administrative Spare Parts	1.655		1.365		1.591		0.812	
Material handling	0.420	5.14	0.694	4.17	1.213	8.40	0.619	9.08
Factory Cost (Rs)		25.14		28.17		60.40		55.08

(Cross Check)

Serial	Element	Total as given in the Problem	Total as distributed to the products
i	Overheads applicable to machine oriented activity	1,65,900	(11637+17636+10085+126542) = 1,65,900
ii	Overheads relating to ordering materials	8,760	(876+3504+876+3504) = 8,760
Iii	Set up costs	21,400	(1284+7704+2140+10272) = 21,400
Iv	Administration overheads for spare parts	44,690	(7448+18621+3724+14897) = 44,690
V	Material handling costs	25,545	(1892+9461+2838+11354) = 25,545
vi	Total	2,66,295	2,66,295

This is a very good problem for understanding the fundamentals of the ABC system)

05.00 Quick Take

Big or Small; every enterprise can make use of the ABC fundamentals to analyse the costs in an accurate and effective manner.

GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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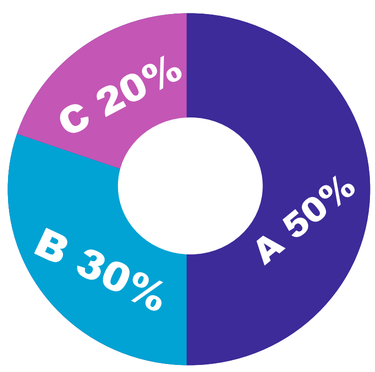
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Basics of Transfer Pricing

"Transfer Pricing is not an exact science but does require the exercise of judgement on the part of both the tax administration and taxpayer"

Commercial transactions between the different parts of the multinational groups may not be subject to the same market forces shaping relations between the two independent firms. One party transfers goods or services to another for a price. That price is known as "transfer price". This may be arbitrary and dictated, with no relation to cost and added value, diverge from the market forces. Transfer price is, thus, a price which represents the value of goods or services between independently operating units of an organisation. But, the expression "transfer pricing" generally refers to prices of transactions between associated enterprises which may take place under conditions differing from those taking place between independent enterprises. It refers to the value attached to transfers of goods, services and technology between related entities. It also refers to the value attached to transfers between unrelated parties which are controlled by a common entity.

Suppose a company A purchases goods for ₹ 100 and sells it to its associated company B in another country for ₹ 200, who in turn sells in the open market for ₹ 400. Had A sold it direct, it would have made a profit of ₹ 300. But by routing it through B, it restricted it to ₹ 100, permitting B to appropriate the balance. The transaction between A and B is arranged and not governed by market forces. The profit of ₹ 200 is, thereby, shifted to the country of B. The goods is transferred on a price (transfer price) which is arbitrary or dictated (₹ 200), but not on the market price (₹ 400).

Thus, the effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction. For instance, profits accruing to the parent can be increased by setting high transfer prices to siphon profits from subsidiaries domiciled in high tax countries, and low transfer prices to move profits to subsidiaries located in low tax jurisdiction. As an example of this, a group which manufacture products in a high tax countries may decide to sell them at a low profit to its affiliate sales company based in a tax haven country. That company would in turn sell the product at an arm's length price and the resulting (inflated) profit would be subject to little or no tax in that country. The result is revenue loss and also a drain on foreign exchange reserves.

Computation of income from international transaction or specified domestic transaction having regard to arm's length price [Sec. 92]

The provisions are as under:

Provisions	Example	Treatment	Impact on income
Any income arising from an *international transaction* shall be computed having regard to the *arm's length price.*	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 9 lacs	While computing income of X Ltd., ₹ 9 lacs shall be considered as sale value	Income of X Ltd. will be increased by ₹ 4 lacs.
The allowance for any expense or interest arising from an international transaction or specified domestic transaction shall also be determined having regard to the arm's length price.	R Ltd. takes a loan of ₹ 20 lacs from an associated enterprise in Ireland @ 20% p.a. whereas the arm's length rate of interest is 12% p.a.	Interest @ 12% p.a. shall be allowed as deduction to R Ltd.	Income of R Ltd. will be increased by ₹ 1,60,000/-
Where in an international transaction or specified domestic transaction, • two or more *associated enterprises*			

• enter into a mutual agreement or arrangement for the apportionment of, or any contribution to, any cost incurred • in connection with a benefit, service or facility provided to any such enterprises, the cost apportioned to (contributed by), any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility.	An enterprise in Germany makes research on a new product and incurred ₹ 50 lacs. Out of this, ₹ 40 lacs has been allocated to its Indian associated enterprises dealing in the same product.	While computing income of Indian enterprise, it will be required to be examined whether the Indian enterprise is deriving proportionate benefit to the research expenditure allocated	If no such benefit is available to the Indian enterprise, total income of such enterprises is suitably increased by disallowing proportionate allocated cost.
The provisions (in any of aforesaid situation) shall not apply in a case where the computation of income or the determination of the allowance for any expense or interest or the determination of any cost or expense allocated or contributed has the *effect of reducing the income* chargeable to tax or increasing the loss, as the case may be, computed on the basis of entries made in the books of account in respect of the previous year in which the international transaction or specified domestic transaction was entered into.	X Ltd., resident, sold goods or services to its associated enterprises, XY Plc. (a foreign company), for ₹ 5 lacs whereas the arm's length price of such goods or services is ₹ 3 lacs	The provision of transfer pricing is not applicable	No Impact

Meaning of associated enterprise [Sec. 92A]

Associated enterprise, in relation to another enterprise, means an enterprise:

(a) which participates, directly or indirectly, or through one or more intermediaries, in the *management* or *control* or *capital* of the other enterprise; or
(b) in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

Deemed associated enterprise [Sec. 92A(2)]

For the above purpose, two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfill any of the following conditions (if one of following conditions are not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):

(a) one enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power (i.e., equity shares in case of company) in the other enterprise; or
(b) any person or enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power in each of such enterprises; or
(c) the manufacture or processing of goods or articles or business carried out by one enterprise is *wholly* (not partially) dependent on the use of know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has *exclusive* rights; or
(d) 90% or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise **or** by persons specified by the other enterprise, **and** the prices and other conditions relating to the supply are influenced by such other enterprise; or
(e) the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the

other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or
(f) where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or
(g) where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family, or by a relative of a member of such Hindu undivided family, or jointly by such member and his relative; or
(h) where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than 10% interest in such firm, association of persons or body of individuals; or
(i) a loan advanced by one enterprise to the other enterprise constitutes not less than 51% of the **book value** of the total assets of the other enterprise; or
Taxpoint: *Revaluation of asset shall not be ignored.*
(j) one enterprise guarantees not less than 10% of the total borrowings of the other enterprise; or
(k) more than ½ of the board of directors or members of the governing board, **or** one (not ½ of total number of executive director) or more executive directors or executive members of the governing board of one enterprise, are **appointed** by the other enterprise; or
Taxpoint: *Mere power to appoint director is not sufficient, such power must be exercised.*
(l) more than ½ of the directors or members of the governing board, **or** one or more of the executive directors or members of the governing board, of each of the two enterprises are **appointed** by the same person or persons; or
(m) there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

Equity Holding	Management	Activities	Control
1. >= 26% direct / indirect holding by enterprise OR 2. By same person in each enterprise 3. Loan >= 51% of Total Assets 4. Guarantees > = 10% of debt 5. > 10% interest in Firm / AOP / BOI	6. Appointment > 50% of Directors / one or more Executive Director by an enterprise OR 7. Appointment by same person in each enterprise	8. 100% dependence on use of intangibles for manufacture / processing / business 9. Direct / indirect supply of > = 90% Raw Materials under influenced prices and conditions 10. Sale under influenced prices and conditions	11. One enterprise controlled by an individual and the other by himself or his relative or jointly 12. One enterprise controlled by HUF and the other by - a member of HUF - his relative or Jointly by member and relative

Computation of arm's length price [Sec.92c]

- The arm's length price in relation to an international transaction or specified domestic transaction shall be determined by any of the following methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe, namely:

Transaction Based Methods
a. comparable uncontrolled price method;
b. resale price method;
c. cost plus method;

Profit Based Methods
d. profit split method;
e. transactional net margin method;
f. such other method as may be prescribed by the Board.

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April 2021, Issue

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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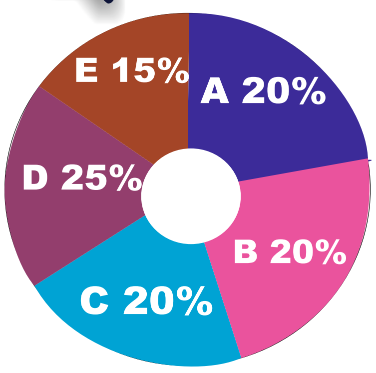
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Corporate Financial Reporting

IND-AS: An Overview

Companies (Indian Accounting Standards) Rules, 2015 notified Indian Accounting Standards (Ind-AS) on 16th February, 2015. The Rules 2015 shall come into force from 1st day of April, 2015. Ind-ASs are in the process of being implemented in phases.

Application of Ind ASs are in the process of being implemented for the companies as categorised in groups A, B and C and D.
A. For Companies other than banks, NBFC, and Insurance companies:

Phase I voluntarily – accounting periods beginning on or after 1st April, 2015
– Voluntary Basis for all companies (with comparatives)

Phase II mandatorily – accounting periods beginning on or after 1st April, 2016

1. Companies listed/in process of listing on Stock Exchange in India or outside India having net worth greater than or equal to INR 5 Billion.
2. Unlisted companies having net worth greater than or equal to INR 5 Billion.
3. Parent, Subsidiary, Associate and Joint Venture of above

Phase III mandatorily – accounting periods beginning on or after 1st April, 2017
1. All Companies which are listed/or in process of listing inside or outside India on Stock Exchanges (other than companies listed on SME Exchanges).
2. Unlisted companies having net worth between INR 2.5 Billion and INR 5 billion.
3. Parent, Subsidiary, Associate, and Joint Venture of above

Note 1: Companies listed on SME Exchanges not required to apply IND AS
Note 2: Once IND AS are applicable, an entity should be required to follow IND AS for all the subsequent financial statements.

B. For Non-Banking Financial Companies (NBFC)
PHASE-I: From 1st April,2018 (with comparatives)

1. NBFC (whether listed or unlisted) having net worth 500 crores or more
2. Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered above corporate roadmap shall also apply from said date.

PHASE-II: From 1st April,2019 (with comparatives)
1. NBFC whose equity and/or debt securities are listed or are in process of listing on any stock exchange in India or outside India and having net worth less than 500 crores.
2. NBFC that are unlisted having net worth between 250 crores and 500 crores
3. Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered above corporate roadmap shall also apply from said date.

Note 3. Applicable for both Consolidated and Individual Financial Statements.
Note 4. Unlisted NBFC having net worth below 250 crores shall not apply IND AS.
Note 5. Adoption of IND AS is allowed only when required as per roadmap.
Note 6. Voluntary Adoption of IND AS is not allowed.

C. For Scheduled Commercial Banks (excluding RRBs) and Insurers/Insurance companies Ind AS application has not yet been implemented.

The Banking Companies and Insurance Companies shall apply the Ind ASs as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively.
RBI through its notification dated March 22, 2019 has deferred the implementation of Ind AS to all scheduled commercial banks till further notice.
The Insurance Regulatory and Development Authority (IRDA) has deferred the date of implementation of Indian Accounting Standard (Ind-AS) for the insurance sector from FY20-21 till further notice.

D. Companies not covered by the above shall continue to apply existing Accounting standards notified in Companies (Accounting Standards) Rules, 2006.

The applicability of Ind AS is summarised below in tabular form.

Mandatory application of Ind AS

Types of Companies/entities	Threshold Limit of Net worth (INR)	Applicable from	Ind AS applicability on 01/04/21
Listed Companies/ Companies in process of Listing in India or outside India or Parent, Subsidiary, Associate, and Joint Venture of above	500 Cr or more < 500 Cr	01/04/2016 01/04/2017	Applicable Applicable
Unlisted Companies/ Pvt. Ltd. Companies	=> 500 Cr 250 and 500 Cr < 250 Cr	01/04/2016 01/04/2017	Applicable Applicable Not Applicable
Companies listed in SME			Not Applicable
NBFC-Listed	>= 500 Cr < 500 Cr	01/04/2018 01/04/2019	Applicable Applicable
NBFC-Unlisted	>= 500 Cr 250 and 500 Cr < 250 Cr	01/04/2018 01/04/2019	Applicable Applicable Not Applicable
Banks.			Not Applicable (Implementation deferred)
Insurance co			Not Applicable (Implementation deferred)
Urban Cooperative Bank			Not Applicable
Rural Regional Bank			Not Applicable

As on 01-04-2021 MCA has notified 42 Ind ASs out of which 3 were omitted leaving 39 in application at present.
The full list is presented below:

Ind AS 101	First-time adoption of Ind AS
Ind AS 102	Share Based payments
Ind AS 103	Business Combination
Ind AS 104	Insurance Contracts
Ind AS 105	Non-Current Assets Held for Sale and Discontinued Operations
Ind AS 106	Exploration for and Evaluation of Mineral Resources
Ind AS 107	Financial Instruments: Disclosures
Ind AS 108	Operating Segments
Ind AS 109	Financial Instruments
Ind AS 110	Consolidated Financial Statements
Ind AS 111	Joint Arrangements
Ind AS 112	Disclosure of Interests in Other Entities
Ind AS 113	Fair Value Measurement
Ind AS 114	Regulatory Deferral Accounts
Ind AS 115	Revenue from Contracts with Customers (Ind AS 11 and Ind AS 18 replaced)
Ind AS 116	Leases (Ind AS 17 replaced)

Ind AS 1	Presentation of Financial Statements
Ind AS 2	Inventories Accounting
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after Reporting Period
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant and Equipment
Ind AS 19	Employee Benefits
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
Ind AS 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 23	Borrowing Costs
Ind AS 24	Related Party Disclosures
Ind AS 27	Separate Financial Statements
Ind AS 28	Investments in Associates and Joint Ventures
Ind AS 29	Financial Reporting in Hyperinflationary Economies
Ind AS 32	Financial Instruments: Presentation
Ind AS 33	Earnings per Share
Ind AS 34	Interim Financial Reporting
Ind AS 36	Impairment of Assets
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	Intangible Assets
Ind AS 40	Investment Property
Ind AS 41	Agriculture

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YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX
LAWS & PRACTICE (ITP)

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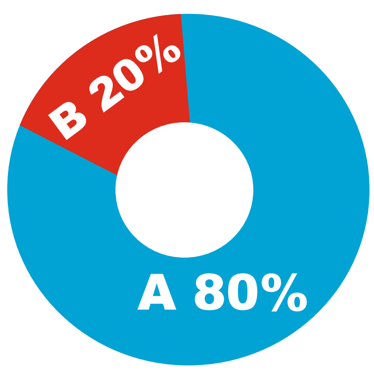
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Safe Guard and Anti Dumping duty
- Developing Country
- Valuation of import goods
- Identical and Similar goods
- Export General Manifest
- Computed Value Method
- Refund of duty and Bill of Entry
- Possession of seized goods

INDIRECT TAX

Choose the correct option from the followings –

1.Safeguard Duty under Customs Act payable

(a) To any product imported to India
(b) Articles imported by a 100% EOU undertaking in general
(c) Articles imported by a unit in a FTZ or in a SEZ in general
(d) If imported goods are cleared in DTA

2. Developing country means a country

(a) Notified by the Central Government in the Official Gazette for the purpose of making various policy.
(b) Notified by the Central Government in the Official Gazette for the purpose of Section 8B of the Customs Tariff Act,1975.
(c) As decided by the Ministry of Finance looking into the import and export scenario of the country.
(d) As decided by the UNO time to time in their Official Gazette.

3. The Central Government may impose an anti dumping duty on

(a) Which are imported from enemy country
(b) Imported from a developing country to make profit in India
(c) Exported by an exporter to India at less than its normal value.
(d) Imported to India are restricted by Central Government notification.

4. Export duty on luggage leather is

(a) 5%
(b) 10%
(c) 15%
(d) 25%

5. No Customs duty shall be collected if the amount of duty leviable is equal to, or less than

(a) Rs 50/-
(b) Rs 100/-
(c) Rs 150/-
(d) Rs 200/-

6. The valuation of imported and exported Crude Soyabean Oil under Section 14 of the Customs Tariff Act will be as per

(a) Customs value
(b) Transaction value
(c) Tariff value
(d) Deductive value

7. As per Rule 3 of Customs Valuation (Determination of Value of Imported Goods) Rules,2007, which one will not be considered for Transaction Value of import goods

(a) Seller should not have any control on the imported goods
(b) The sale price must not be sole consideration
(c) Sale proceeds should not be shared with exporter by the importer after sale
(d) The buyer and seller should not be related

8. Presently the loading, unloading and handling charges associates with the delivery of the imported goods at the place of the importation

(a) Shall be 1,125% of the total value
(b) Shall be 20% of FOB
(c) Shall be added to the CIF value of the goods
(d) Shall no longer be added to the CIF value of the goods

9. For the levy of customs duty revenue contended that demurrage charges paid by the assesse are
(a) not includible in the assessable value
(b) includible in the assessable value
(c) not includible in the FOB value
(d) includible in the FOB value

10. If the cost of Insurance charges not given or unascertainable then it should be taken
(a) @ 1.125% on FOB
(b) @ 0.125% on FOB
(c) @ 1.20% on FOB
(d) @ 0.20% on FOB

11. Which one of the following condition will not be considered while Identical Goods method is applicable
(a) Identical goods can be compared with the other goods of the same country from which import take place.
(b) These goods must be valued at a price which is produced by the same manufacturer.
(c) If price is not available then the price of other manufacturers of the same country is to be taken into account.
(d) If more than one value of identical goods is available, average of such value should be taken.

12. Similar goods means
(a) Goods must be same in all respect
(b) Goods must be same in all respect, except for minor difference in appearance
(c) Goods have like characteristics and components
(d) Goods have like characteristics and components and perform same function

13. Residual Method often called
(a) Transaction Value Method
(b) Fair Value Method
(c) Best Judgment Method
(d) Protective Method

14. Export General Manifest now called as
(a) Ordinary Manifest
(b) Extra Ordinary Manifest
(c) Departure Manifest
(d) Customs Manifest

15. In case of transportation i.e. Freight is not known or unascertainable then the value will be
(a) 20% of FOB value
(b) 20% Of (FOB value + Insurance)
(c) 1,125% of FOB value
(d) 1.125% of (FOB value + Insurance)

16. Under Computed Value Method which one of the following shall be excluded
(a) Cost of production, manufacturer or processing of export goods
(b) Payment of duty on export, if any
(c) Charges, if any for the design or brand
(d) An amount towards profit

17. Good imported on temporary basis like aircraft engines etc imported into India under a transaction covered by item 1(b) or 5(f) of Schedule II of the CGST Act,2019
(a) Are exempted from IGST Act under Customs Act, 1962
(b) IGST payable as per Customs Act, 1962
(c) 12.50% of FOB value will be exempted
(d) Bank charges and agency commission are exempted

18. For refund of export duty which one may be considered
(a) These goods are for resale
(b) Refund claims is lodged within one year from the date of clearance by customs officer for re importation
(c) Goods are reimported within one year from the date of export

(d) Goods are reimported within two year from the date of export

19. Bill of Entry for imported goods to be submitted for home consumption in
(a) Yellow colour
(b) White colour
(c) Green colour
(d) Pink colour

20. Where it is not practicable to take physical possession of the seized goods for any reason, the proper officer may
(a) Sale the seized goods locally
(b)Destroyed the seized goods with the permission from the Court
(c)Give custody of the seized goods either to local police or other authority as decided by the commissioner
(d)Give custody of the seized goods to the owner of the goods by executing an undertaking

ANSWERS

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

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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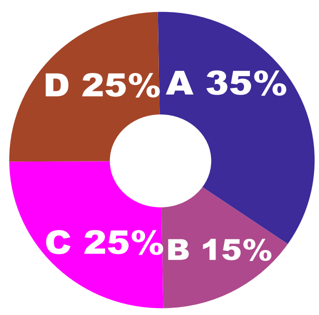
Your Preparation Quick Takes



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

Cost & Management Audit

Internal Audit of Current Asset with specific reference to Receivables.

Introduction

Internal auditing is an independent appraisal activity within an organization for the review of operations as a service to the management. It improves managerial control by measuring and evaluating the effectiveness of other controls, and by maintaining a vigilant watch over risks.
Section 138 of the Companies Act 2013, deals with provisions of internal audit. As per section 138 (1) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or **a cost accountant**, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Constitution of Current Assets
Current Assets are those assets which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year or operating cycle, whichever period is longer.
As per Schedule III, Part – 1 of The Companies Act 2013, Current Assets comprises of the following

a) Current Investments
b) Inventories
c) Trade Receivables
d) Cash and cash equivalents
e) Short term loans and advances
f) Other current assets

It has been noted that trade receivable constitute one of the major elements of current assets after inventory for majority of business entities and its correct evaluation and presentation in annual accounts of the company plays a very important role for the true and fair view of affairs of the company. The Cost and Management Accountants are best suited for evaluation, valuation and control of trade receivables for the management.
Trade receivables are amounts due from customers for goods sold or services performed in normal course of business. All receivables which are normal and emerging out of genuine trade transactions only, are to be taken for the purpose of evaluation of Trade Receivables.

Receivables which are not related to normal business transactions or are older than six months or are in the nature of unrecoverable/ bad debts are to be treated as non-current assets. In order to ascertain the one has to study the previous balance sheets and look for repeated items of receivables and wherever necessary seek the clarification from management.
Trade Receivables are generally calculated or consisting of the followings:

a. Sales amount billed to customers
b. Accrued sales for goods delivered but not billed
c. Contract retentions
d. Suppliers' debit balances
e. Less: Prevision for bad debts
f. Less: Credits for returns
g. Less: Allowances

Receivables should be presented at net realizable amounts (i.e. amounts realistically anticipated to be collectible). Deductions should be taken for amounts estimated to be uncollectible and also for estimated returns, allowances and other discounts to be taken by customers prior to or at time of payment.

Review / verification of receivable
While reviewing the Trade receivables, the auditor should examine the following points:

a) Existence – That the amount recorded in respect of debtors are outstanding as on a particular date.
b) Completeness – The details re complete and there are no unrecorded debtors.
c) Valuation – That the basis of valuation of debtor is appropriate and the recoverability is realistic.
d) Disclosure – That the debtors are disclosed, classified and described in accordance with recognised accounting policies and

practices.

e) Verification – The verification of debtors may be carried out by applying an analytical review of records and through direct conformation procedure from debtors.

Further, all material adjustments in debtors' accounts, particularly those relating to rebates, allowances, commissions etc. should require approval of competent authority. Similarly, the writing off of bad debts should be done after follow up of prescribed procedure and due approval of the competent authority.

The following are some of the indicative situations which lead to arise of doubtful and uncollectible of trade receivables.

a) The terms of credit have been repeatedly ignored.
b) There is stagnation, or lack of healthy turnover, in the account.
c) Payments are being received but the balance is continuously increasing.
d) Payments, though being received regularly, are quite small in relation to the total outstanding balance.
e) An old bill has been partly paid (or not paid), while later bills have been fully settled.
f) The cheques received from the debtor have been repeatedly dishonoured.
g) The debt is under litigation, arbitration, or dispute.
h) The auditor becomes aware of unwillingness or inability of the debtor to pay the dues e.g., a debtor has either become insolvent, or has closed down his business, or is not traceable.
i) Amounts due from employees, which have not been repaid on termination of employment.
j) Collection is barred by statute of limitation.

In addition to the indicative situations discussed above, the following analytical review procedures is also helpful as a means of obtaining audit evidence regarding the various assertions relating to trade receivables.

a) Comparison of closing balances of debtors, loans and advances with the corresponding figures for the previous year;
b) Comparison of the relationship between current year debtor balances and the current year sales with the corresponding figures for the previous year;
c) Comparison of actual closing balances of debtors, loans and advances with the corresponding budgeted figures, if available;
d) Comparison of current year's aging schedule with the corresponding figures for the previous year;
e) Comparison of significant ratios relating to debtors, loans and advances with the similar ratios for other firms in the same industry, if available;
f) Comparison of significant ratios relating to debtors, loans and advances with the industry norms, if available.

The Companies Act, 2013 has provided general instructions for presentation of Trade receivables in the Balance sheet (Point 'P' of the Part – 1 of Schedule III) in the following manner:

Trade Receivables

i. Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.
ii. Trade receivables shall be sub-classified as:
(a) Secured, considered good;
(b) Unsecured, considered good;
(c) Doubtful.
iii. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
iv. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

YEARS OF CELEBRATING THE MAHATMA

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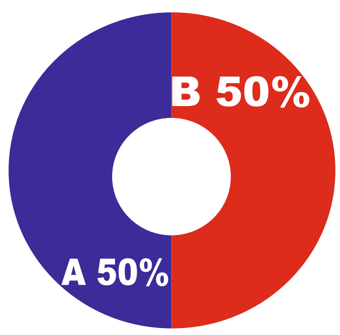
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:

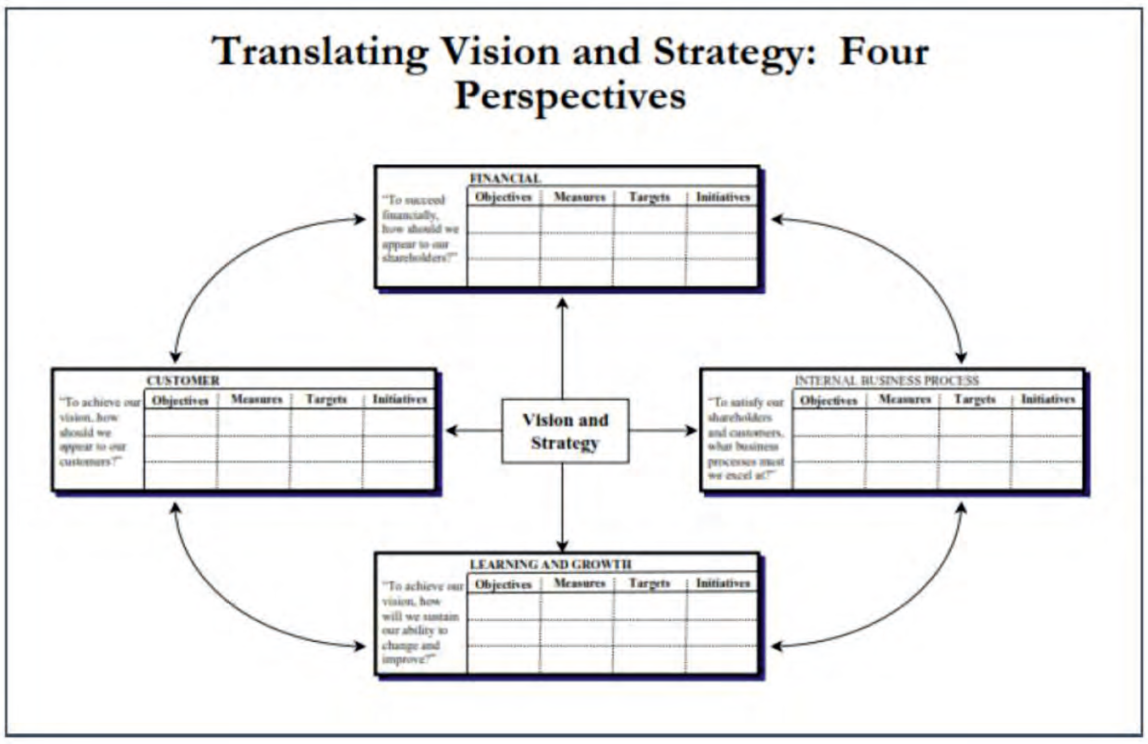
- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

Balance Score Card

David Norton and Robert S. Kaplan introduced the Balanced Scorecard (BSC) in 1992 and their article on BSC published in the Harvard Business Review Journal.
Balanced Score Card (BSC) is a performance management and strategy development methodology that helps executives translate on organization's mission statement and overall business strategy into specific, goals and monitors the organization's performance in terms of these goals.

The BSC translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for implementing its strategy.



Source: Nortan and Kaplan

BSC allows managers to look at business from our different perspectives by seeking to provide answers to the following four basic questions:

(1) How do customers see us?	Customer perspective
(2) What must we excel at?	Internal business perspective
(3) Can we continue to improve and create value?	Learning and growth perspective
(4) How do we look to shareholders?	Financial perspective

Four Perspectives of BSC

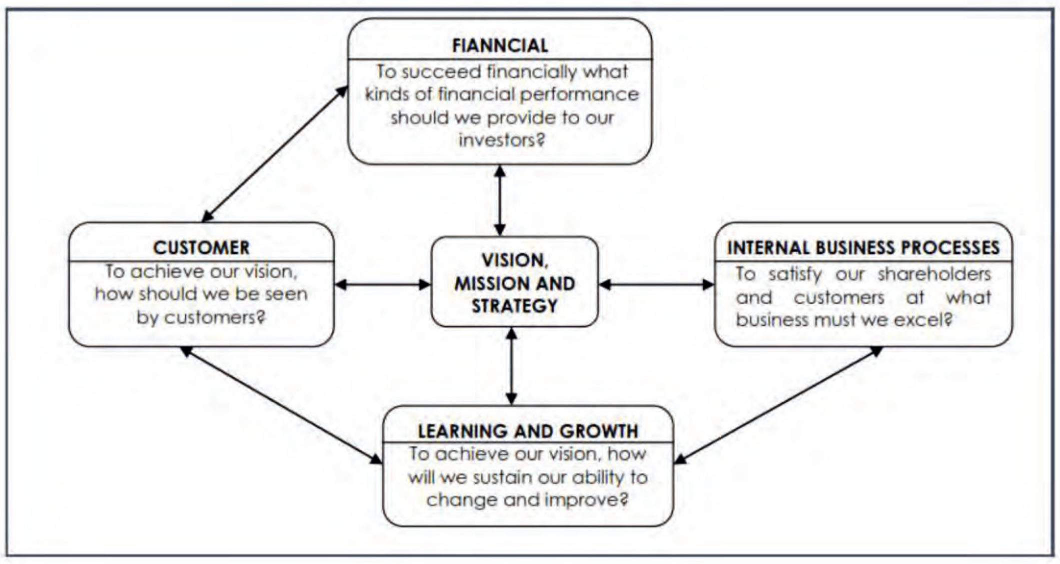
(A) Financial: This perspective is concerned for profit of the enterprises. Under this perspective the focus will be on financial measures like operating profit, ROI, residual income, economic value added concept, revenue growth, cost reduction, asset utilization etc. These financial measures will provide feedback on whether improved operational performance is being translated into improved financial performance.

(B) Customer: This perspective typically includes several core or genetic measures that relate to customer loyalty and the result of the strategy in the targeted segment. They include market share, customer retention, new customer acquisition, customer satisfaction and customer profitability.

(C) Internal Business Processes: This perspective focuses on the internal business results that lead to financial success and satisfied customer. To meet organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes will be satisfactory.
The principal internal business processes include the following:

(i) Innovation processes for exploring the needs of the customers.
(ii) Operation processes with a view to providing efficient, consistent and timely delivery of product/ service.
(iii) Post service sales processes.

(D) Learning and Growth: This perspective looks at the ability of employees, the quality of information systems, and the effects of organizational alignment in supporting accomplishment of organizational goals. The learning and growth perspective identifies the infrastructure that the business must build to create long-term growth and improvement. There will be focus on factors like employee capability, employee productivity, employee satisfaction, employee retention.



MCQs

Choose the correct option from amongst the four alternatives given:
(Each question carries 2 marks)

1. **Consultants who contributed to the concept of TQM (Total Quality Management):**

(A) W. Edwards Deming;

(B) Joseph Juran;

(C) A. V. Feigenbaum;

(D) All of the above

Answer: (D)

2. **Which one of the following is not a measure related to Balanced Score Card?**

(A) Financial

(B) Customer satisfaction

(C) Internal processes

(D) Gap analysis

Answer: (D)

3. **The example of financial perspective in balanced scorecard is**

(A)Employee turnover rates

(B)Operating capabilities and number of patents

(C)Operating income and revenue growth

(D)Customer satisfaction and market share

Answer: (C)

4. **The example of internal business perspective in balanced scorecard is**

(A)Employee turnover rates

(B)Operating capabilities and number of patents

(C)Operating income and revenue growth

(D)Customer satisfaction and market share

Answer: (B)

5. **The balanced scorecard perspective which focuses on all the operations that leads to value creation process for customers is classified as**

(A)Learning perspective

(B)Financial perspective

(C)Internal business process perspective

(D)Customer perspective

Answer: (C)

6. **The type of benchmarking, which is concerned with the development of core competencies that will help sustained competitive advantage, is called:**

(A)Global Benchmarking

(B) Strategic Benchmarking

(C) Internal Benchmarking

(D)Competitive Benchmarking

Answer: (B)

7. **Match the following:**

(i) how do we look to shareholders?	A. Customer Perspective
(ii) Where we must excel at?	B. Financial perspective
(iii) How do customers see us?	C. Learning and Growth Perspective
(iv) Can we continue to improve and create value?	D. Internal Perspective

Answer:

Question	(i)	(ii)	(iii)	(iv)
Answer	(B)	(D)	(A)	(C)

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

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,

Passing the exam is a happy event. Congratulations on all that you have accomplished! There is no secret of success. It is the result of preparation, hard work and learning from failure. Well done! It is clear that the future holds great opportunities for you.

Those who could not pass, failing in an exam does not mean failing in life. All of us face failure at one time or another. Try to focus your attention on the importance of perseverance and mind it that dedication and determination plays the lead role in shaping a person's life.

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, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

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:

"You must be the Change you wish to see in the World",

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 link mentioned below :

https://icmai.in/studentswebsite

- Don't give up
- Don't give in
- Don't give out

You can win!

The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

GOOD LUCK

Be Prepared and Get Success;

ज्ञान-विज्ञान विमुक्तये
डॉ. सुरेन्द्र सिंह
संयुक्त सचिव
Dr. Surender Singh
Joint Secretary

सत्यमेव जयते

विश्वविद्यालय अनुदान आयोग
University Grants Commission
(शिक्षा मंत्रालय, भारत सरकार)
(Ministry of Education, Govt. of India)
बहादुरशाह जफ़र मार्ग, नई दिल्ली-110002
Bahadur Shah Zafar Marg, New Delhi-110002
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ई-मेल E-mail : ssingh.ugc@nic.in

D.O.No.9-35/2016 (CPP-II) **March, 2021**

15 MAR 2021

Sub: <u>To consider CA/CS/ICWA qualification equivalent to PG Degree for appearing in UGC-Net</u>

Sir/ Madam,

UGC had received requests from the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India and the Institute of Cost Accountants of India to consider the qualification being awarded by them, i.e., Chartered Accountant (CA), Company Secretary (CS) and Cost and Works Accountants (ICWA) respectively, equivalent to Post Graduation Degree.

To consider this, a Committee was constituted by the UGC. The Commission, in its 550th meeting held on 18th February, 2021 considered the recommendation of the Expert Committee and resolved as under:

"CA/CS/ICWA qualification be considered equivalent to PG Degree."

This is for your kind information.

With kind regards,

Yours sincerely,

Surender Singh

(Dr. Surender Singh)
Joint Secretary

The President
The Institute of Cost Accountants of India
3, Institutional Area
Lodhi Road
New Delhi- 110 003

Few Snapshots

Dignitaries sharing the screen with Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises during National Corporate Laws Summit. Left to Right CMA Neeraj D. Joshi, CCM; CMA Mahesh Shah, Past President; Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited; Shri Arjun Ram Meghwal, Hon'ble Union Minister, CMA Dr. Ashish P. Thatte, Chairman, Corporate Laws Committee; CMA Biswarup Basu, President; CMA Chittaranjan Chattopadhyay, CCM; CMA Amal Kumar Das, Past President; CMA Vijender Sharma, CCM

Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises is giving his live online speech on occasion of inauguration of National Corporate Laws Summit.

CMA Biswarup Basu, President facilitating Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited on the occasion of National Corporate Laws Summit organised at Kolkata on 26th February 2021. Sharing the dias is CMA Dr. Ashish P. Thatte, Chairman Corporate Laws Committee and CMA Neeraj D. Joshi, Central Council Member.

From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF, Ms. Tripti Guraha, Exeuctive Director, (S & E), Indian Railways, Sh. Abhishek Kumar, CPM (AR), Indian Railways

Presentation of Final Report on Performance Costing System in Indian Railways at Rail Bhawan, New Delhi on 19th February, 2021 by CMA Biswarup Basu, President, ICAI to Shri Naresh Salecha, Member (Finance), Railway Board.
From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF.

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