2021
August
VOL: 6, NO.: 8,

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150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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(Statutory Body under an Act of Parliament)

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Vol: 6, No.: 8.
August 2021, Issue

CONTENTS

Vol: 6, No.: 8.
August 2021, Issue

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.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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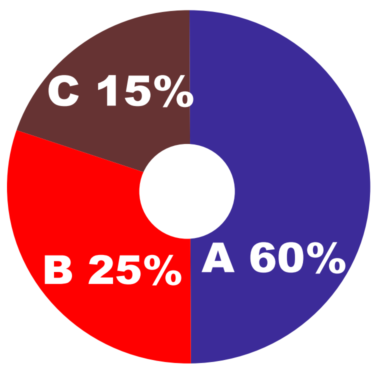
Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

Company Law Role and rights of Shareholders

1.0 How to become a shareholder

Both equity and preference shareholders are the owners of the company. Equity shares are called ordinary shares> the shares listed in stock exchange and regularly are equity shares.

They are the persons whose names appear in the register of members of the company. A person/artificial person become members by following mode.

(i) by allotment: Shares are allotted to him by the company and therefore becomes the first owner of the shares.
(ii) By transfer: existing shareholder transfers share to some person, normally by sale but may be by gift also.
(iii) by transmission: act of God/ Law. a process by which a person becomes shareholder by default, i.e. by succession or by way of merger/amalgamation or court order.

1.1 Member and Shareholder

A person whose name appears in the Registrar of Members of the company is a member. All persons who are allotted shares or who purchase shares and intimates the company, with the share certificate and the transfer deed, are entered in the register of members. In dematerized form, it is done through respective depository participants where the transfer and the transferee have their account.

Difference between a shareholder and a member is that all members may not be shareholders and all shareholders may not be member due to time lag in registration of transfer. Let us assume Ramesh holds 1000 shares in ABC Ltd. and sells it to Surseh who immediately doesn't make any application for transfer. In such a case though he is a shareholder, name of Ramesh shall remain as a shareholder in the records of the company nad he shall continue to get the benefits of a shareholder.

1.2 Cessation of Membership-

(i) by cancellation of allotment by the company.
(ii) by forfeiture of shares: when the value of shares are taken in installments and if someone fails to make payment of such installment, the value already paid against the shares may be forfeited.
(iii) by sale by the holder.
(iv) by buy back: there is rule and procedure of buy back of shares by the company itself. these shares are ultimately cancelled.
(v) incapacited by law to hold shares: there may be legal restriction on some person to hold shares.

1.3 Transfer of Shares: Any person who is a shareholder may transfer the shares to any other person. There may be restriction on transfer in case of private companies. While transferring, a Share Transfer Form (Form SH4) have been filled up and signed by the seller of shareholder. The buyer may fill his details afterwards also. The transfer form with original share certificates also have to be attached. The company registers the share transfer with a period of one month from the date of receipt.

1.4 Rights of shareholders: The Law provides for various kinds of rights of a shareholder. However the following rights are very important for a shareholder.

(i) Right to vote: shareholders, other than those holding non voting shares, are entitled to vote in General Meetings of shareholders. Proportionate to the holding, i. e. each share has one vote.
(ii) Right to Rights Shares: Whenever the company decides to increase its share capital the shareholder may decide that further shares shall be allotted to the existing shareholders proportionate to their existing holding.
(iii) Right to Bonus Shares: When the free reserves of the company arrives at a comfortable position, the company may decide to

allot shares without any price to the existing shareholder on proportionate basis. Reserves are undistributed profits which accumulate year after year and free reserves are reserves not specified for any particular purpose. Reserves are transferred to share capital to the extent of total capital allotted as bonus shares.

(iv) Right to dividend: Dividend is a part of a profit earned by the company and distributed to the shareholder as percentage to their shareholding.

2.0 Company Meetings: Broadly, meetings in a company are of the following types:-

2.1 Meetings of Members:

These are meetings of the members / shareholders of the company. Member's meetings are of the following types :-

3.0 Annual General Meeting:

An Annual General Meeting (AGM) must be held by every type of company, public or private, limited by shares or by guarantee, with or without share capital or unlimited company, once a year.

3.1 Timing of the meeting:

Every company must in each calendar year hold an annual general meeting. Not more than 15 months must elapse between two annual general meetings. However, a company may hold its first annual general meeting within 18 months from the date of its incorporation. AGM should be held within 6 months of closure of accounting year. Now, since accounting year is uniform for all companies, i.e. April to March, The AGM shall have to be held within 3oth September.

The AGM must be held on a working day during business hours (between 9 A. M. to 6 P M.on any day other than National Holiday at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated. Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance:

Provided further that the Central Government may exempt any company from the provisions of this sub-section subject to such conditions as it may impose.

3.2 Notice of AGM

A notice of at least 21+2+2=25 days before the meeting must be given to members. The time, date and place of the meeting must be mentioned in the notice. The length of notice can be shortened if 95% of the shareholders agree. In case of listed company, the documents to be sent with the notice are hosted on the company website before 21 days of the meeting and a statement with salient features of the documents are sent to all shareholders before 21 days of the meeting.

The notice of the meeting must be accompanied by a copy of the annual financial statement of the company, including consolidated financial statement, if nay, director's report on the affairs of the company for the year and auditor's report on the accounts.

The notice should also state that a member is entitled to attend and vote at the meeting and is also entitled to appoint proxies in his absence.

3.3 Default:

In case of default, National Company Law Tribunal (NCLT) shall on application of any member call or direct calling of Annual General Meeting (AGM).

3.4 Business to be transacted at Annual General Meeting:

The following matters constitute ordinary business at an AGM: -

a. Consideration and adoption of annual accounts, director's report and the auditor's report

b. Declaration of dividend

c. Appointment of directors in the place of those retiring

d. Appointment of and the fixing of the remuneration of the statutory auditors.

Any other business would be considered as special business.

In case any there is any other business (special business) discussed and decided upon, an explanatory statement of the special business must also accompany the notice calling the meeting. Such statement shall explain the background and rationale of the proposal.

4.0 Extraordinary General Meeting

Every general meeting (i.e. meeting of members of the company) other than the annual general meeting or any adjournment thereof, is an extraordinary general meeting. Such meeting is usually called by the Board of Directors for some urgent business which cannot wait till the next AGM. Every business transacted at such a meeting is special business, since ordinary business cannot be transacted in Extra ordinary General Meeting (EGM).EGM, unlike AGM, can be held at nay place in India. In case of wholly owned subsidiary of a company incorporated outside India, the EGM can be held anywhere in the world.

4.1 Extraordinary General Meeting on Requisition:

The members of a company have the right to require the calling of an extraordinary general meeting by the directors. The board of directors of a company must call an extraordinary general meeting if required to do so by the following number of members :-

a. not less than one-tenth of such of the voting rights in regard to the matter to be discussed at the meeting ; or

b. Such meeting should be called by the company within 21 days of receiving the requisition within 45 days of receiving the notice.

The requisition must state the objects of the meetings and must be signed by the requisitioning members.

4.2 Power of National Company Law Tribunal (NCLT) to order calling of Extraordinary General Meeting:

If for any reason, it is impracticable to call a meeting of a company, other than an annual general meeting, or to hold or conduct the meeting of the company, the NCLT may, either i) on its own motion, or ii) on the application of any director of the company, or of any member of the company, who would be entitled to vote at the meeting, order a meeting to be called and conducted as Tribunal thinks fit,.

5.0 Class Meeting

Class meetings are meetings which are held by holders of a particular class of shares, e.g., preference shareholders. Such meetings are normally called when it is proposed to vary the rights of that particular class of shares or any decision/ proposal which would have on those kind of sharholders. At such meetings, these members discuss the pros and cons of the proposal and vote accordingly.

5.1 Meetings of the Board of Directors (discussed separately)

Other Meetings

5.2 Meeting of debenture holders

At such meetings, generally matters pertaining to the variation in terms of security or to alteration of their rights are discussed.

5.3 Meeting of creditors

Sometimes, a company, either as a running concern or in the event of winding up, has to make certain arrangements with its creditors..

6.0 Requisites of Valid Meetings

The following conditions must be satisfied for a meeting to be called a valid meeting:-

1. It must be properly convened.
2. Proper and adequate notice.
3. The meeting must be legally constituted.

6.1 Proxy

In case of a company having a share capital and in the case of any other company, if the articles so authorise, any member of a company entitled to attend and vote at a meeting of the company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote instead of himself. Every notice calling a meeting of the company must contain a statement that a member entitled to attend and vote is entitled to appoint one proxy in the case of a private company and one or more proxies in the case of a public company and that the proxy need not be member of the company.

A member may appoint another person to attend and vote at a meeting on his behalf. Such other person is known as "Proxy". A member may appoint one or more proxies to vote in respect of the different shares held by him, or he may appoint one or more proxies in the alternative, so that if the first named proxy fails to vote, the second one may do so, and so on.

The member appointing a proxy must deposit with the company a proxy form at the time of the meeting or prior to it giving details of the proxy appointed. However, any provision in the articles which requires a period longer than forty eight hours before the meeting for depositing with the company any proxy form appointing a proxy, shall have the effect as if a period of 48 hours had been specified in such provision.

The proxy form must be in writing and be signed by the member or his authorized attorney duly authorized in writing or if the appointer is a company, the proxy form must be under its seal or be signed by an officer or an attorney duly authorized by it.

The proxy can be revoked by the member at any time, and is automatically revoked by the death or insolvency of the member. The member may revoke the proxy by voting himself before the proxy has voted, but once the proxy has exercised the vote, the member cannot retract his vote.

Where two proxy forms by the same shareholder are lodged in respect of the same votes, the last proxy form will be treated as the correct proxy form.

A proxy is not entitled to vote except on a poll. Therefore, a proxy cannot vote on show of hands.

6.2 Quorum (Section 174)

Quorum refers to the minimum number of members who must be present at a meeting in order to constitute a valid meeting. A meeting without the minimum quorum is invalid and decisions taken at such a meeting are not binding.

In case the Company Law Board calls or directs the calling of a meeting of the company, when default is made in holding an annual general meeting, the Government may give directions regarding the quorum including a direction that even one member of the company present in person, or by proxy shall be deemed to constitute a meeting. As per the present law, the quorum requirement is as follows:

Members of the Company upto	Quorum
1000	5
1001-5000	15
5001	30
Private company	02

6.3 Proceedings in Meeting:

The courses of actions which are undertaken in a meeting are termed as proceedings. In a proceeding of a meeting the Chairman of that meeting describe in brief the position and performance of the company and actions or initiatives taken for better performance of the company.

6.4 Rights of shareholders:

- To call for Extra Ordinary General Meeting, if necessary.
- To appoint a director in an Annual General Meeting.
- To receive every information about the company.
- To apply to tribunal in case of oppression and mismanagement of the company.
- To have right in respect of amalgamation and reconstruction.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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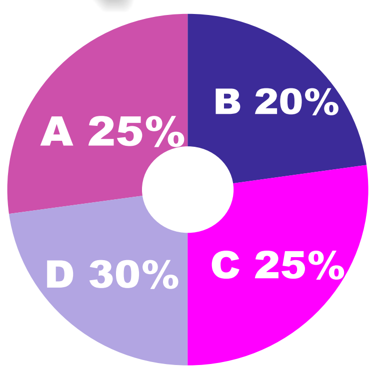
Your Preparation Quick Takes



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

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

- **Concept of Investment**

In the common parlance, the term 'Investment' refers to the commitment of funds made with the expectation of generating future benefits. In other words, it is the act of buying an asset with the objective of return.
The term is, however, used differently in economics and in finance. While economists define 'investment' as the produced means of production', finance literatures define the term as an item of asset or an act of buying an asset (tangible or intangible, financial or real) with the ultimate aim of generating returns.

- **Different Types of Assets for Investments**

The assets for the purpose of investments can broadly be classified into two groups, namely, Financial Assets and Real Assets. Investment in ***Financial Assets*** (from the point of view of an individual or a corporate, as applicable) include:

- Compulsory or voluntary contribution to Provident Fund
- Contribution to Public Provident Fund
- Contribution to NPS
- Bank Deposits (including SB A/C, Fixed Deposits and Recurring Deposits)
- Corporate Bonds and Deposits (including Non-Convertible Bonds)
- Treasury Bills (preferably by banks)
- Equity shares (directly from companies through IPO and FPOs in the Primary Market or from Stock Market through de-mat account).
- Preference shares
- Mutual Fund Schemes
- Derivatives

Investment in ***Real Assets*** include:

- Real estates
- Precious metals like gold, silver platinum and precious stones like diamond, ruby etc.

Among the two financial assets are often preferred over real assets because they are more liquid (can be easily sold) and requires low minimum investment.

- **Basic Investment Objectives – The Investment Triangle**

There are three basic objectives or parameters of selecting an appropriate investment avenue. These are – Security, Liquidity and Yield. Unfortunately, these objectives are conflicting in nature; thus, achieving the one may result into compromising with the other. Because of this trade-off, there cannot be any alternative mode which can optimize each of them simultaneously. Hence, the best investment decision will be one, which has the best possible compromise between these three objectives.

To elaborate further, the two objectives security and liquidity are mostly found to be negatively associated with return. Normally, higher the risk any investment carries, the greater will be the risk premium to compensate the possible loss and accordingly, higher will be the yield. Similarly, when the investment is illiquid, (i.e., one cannot get out of such investment at will and without any loss) the returns will be higher, as no normal investor would prefer such investment. This is why, a best investment decision can only be a compromise between these three objectives.

Due to market fluctuations, change in various factors may positively or natively affect security and liquidity parameters and consequently, the return will also change. Thus, an investor needs to constantly monitor his investments and in case of change in any of the parameters stated above, he must revisit his investment decision.

- **Secondary Investment Objectives**

Apart of the three basic investment objectives - Security, Liquidity and Yield, there are additional secondary objectives of investment. These are:

(a) Tax Planning: An investor may pursue just investments in order to adopt tax planning as part of his or her investment strategy. In such circumstances, they look for tax efficient investment products apart from the primary criteria.
(b) Convenience: Complications involved in the investment process (such as too many documentations, clearance etc.) may demotivate

investors in investing in certain products.

(c) Planning Horizon: Planning horizon i.e., short term or long term, also determines the investment decisions. Since, certain products may not be available for short term, investors may get lesser alternatives for short term investments.

- ***Concept of Security Analysis***

The term 'Securities' generally implies any financial instruments (i.e., a contract). They provide the investment opportunities to the investors of different classes. Basically, 'Securities' are the investment avenues for the investors.

In Indian context, the term 'Securities' under Section 2(81) of the Companies Act, 2013 has been defined to mean 'securities' as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956.

Under section 2(h) of SCRA, the term 'securities' include the following:

- Shares, scrips, stocks, bonds, debentures, debenture stocks etc. in or of any incorporated company or another body corporate.
- Derivatives.
- Units issued by any Collective Investment Scheme to the investors in such scheme.
- Security receipt as defined in Section 2(zg) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- Units or any other such instruments issued to the investors under any Mutual fund scheme.
- Government Securities
- Such other instruments, rights or interest therein shall be declared by the government to be securities be declared by the government to be securities.

Different securities or financial instruments have different characteristics and may be ranked differently based on the three parameters stated earlier. As a result, given the choice of selecting any one instruments, an investor needs to weigh the parameters of the investment avenues to build the final portfolio. This process of evaluating the securities in the decision-making process is called Security Analysis. In other words, it is a process involving the valuation and analysis of individual securities. Security Analysis is primarily concerned with the analysis of a security with a view to determine the value of the security, so that appropriate decisions may be made based on such valuation as compared with the value placed on the security in the market.

There are two basic approaches of security analysis namely fundamental analysis and technical analysis.

- **Fundamental Analysis:**

The basic idea behind fundamental analysis is that every security has an intrinsic value which is the true economic worth of that security. At the same time fundamentalists also believe that there exists temporary disequilibrium in the market as a result of which the actual market price of a security may drift away from its intrinsic value. Thus, an investor may buy an undervalued security, wait for the market corrections and sell near the intrinsic value to book a gain.
This intrinsic value of a security is determined by a three-step top-down approach – economic analysis, industry analysis and company analysis.

- **Technical Analysis:**

Technical analysis refers to the method of analysing various market generated time series data (e.g., price and volume data) with respect to a security traded in the market, in an attempt to predict the direction and extent of movement in the price of such security. Thus, here the focus of the analysts is always on the possible trends observable in the series and economy, industry or even company specific factors are hardly given any consideration.

The purpose of both of them is, however, the same i.e., to select the best among the available investment items.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC
COST MANAGEMENT-DECISION MAKING (SCMD)

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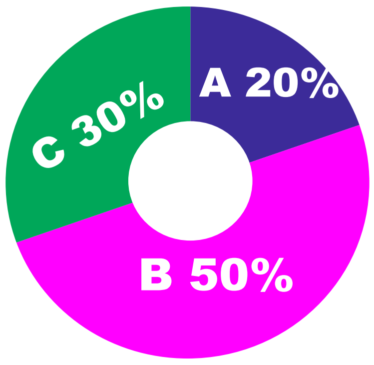
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Life Cycle Margin for Orange Plantation

01.00 Life-Cycle Costing

CIMA defines Life-Cycle Costing as 'Maintenance of physical asset cost records over entire asset lives, so that decisions concerning the acquisition, use or disposal of assets can be made in a way that achieves the optimum asset usage at the lowest possible cost to the entity. The term may be applied to the profiling of cost over a product's life, including the pre-production stage (*terotechnology*), and to both company and industry life cycles.

Life Cycle Cost (LCC) may, thus, be stated as "The total cost throughout the life of an asset including planning, design, acquisition and support costs and any other costs directly attributable to owning or using the asset". Life Cycle Cost (LCC) of any item represents costs of its acquisition, operation, maintenance and disposal.

Life Cycle Costing (LCC) is also perceived as an important economic analysis used in the selection of alternatives that impact both current and future costs. It compares initial investment options and identifies the least cost alternatives for the product or project life period.

- Time Based Analysis
- Overall Cost Analysis
- Pre-production Cost Analysis
- Effective Pricing Decisions
- Better Decision Making
- Long Run Holistic View
- Life Cycle Budgeting
- Review

02.00 Importance

The study notes of the Institute of Cost Accountants of India highlight the importance of Product Life Cycle Costing with the following reasoning:

(i) Time Based Analysis: Life cycle costing involves tracing of costs and revenues of each product over several calendar periods throughout their life cycle whereby costs and revenues can be analysed by time periods. Thus, the total magnitude of costs for each individual product can be reported and compared with product revenues generated in various time periods.

(ii) Overall Cost Analysis: Production Costs are accounted and recognized by the routine accounting system. However non-production costs like R&D; design; marketing; distribution; customer service etc. are less visible on a product-by-product basis. Product Life Cycle Costing focuses on recognizing both production and non-production costs.

(iii) Pre-production Cost Analysis: The development period of R&D and design is long and costly. A high percentage of total product costs maybe incurred before commercial production begins. Hence, the Company needs accurate information on such costs for deciding whether to continue with the R&D or not.

(iv) Effective Pricing Decisions: Pricing Decisions, in order to be effective, should include market considerations on one hand and cost considerations on the other. Product Life Cycle Costing (along with Target Costing) helps analysing both these considerations and arriving at optimal price decisions.

(v) Better Decision Making: Based on a more accurate and realistic assessment of revenues and costs, at least within a particular life cycle stage, better decisions can be taken.

(vi) Long Run Holistic View: Product Life Cycle Costing can promote long-term rewarding in contrast to short-term profitability rewarding. It provides an overall framework for considering total incremental costs over the entire life span of a product, which in turn facilitates analysis of parts of the whole where cost effectiveness might be improved.

(vii) Life Cycle Budgeting: Life Cycle Budgeting, i.e., Life Cycle Costing with Target Costing principles, facilitates scope for cost reduction at the design stage itself. Since costs are avoided before they are committed or locked in the Company is benefited.

(viii) Review: Life Cycle Costing provides scope for analysis of long-term picture of product line profitability, feedback on the effectiveness of life cycle planning and cost data to clarify the economic impact of alternatives chosen in the design, engineering phase etc.

03.00 LC Margin for an Orange Plantation Project

The application of LCC can be universal across the multiple sectors of the economy. Here follows the summarised (basic) computations of LCC relating to an Orange Plantation Project. These computations have been carried out on the basis of inputs provided by a couple of farmers.

03.01 Annual Cash Outflow

The annual cash outflow budget for the said plantation would be as follows:

Annual cash outflow Budget of Orange Plantation Project				
Serial	Item	Year 1	Year 2 to Year 5	Year 6 to Year 18
		Rupees	Rupees	Rupees
A	**Month wise Details**			
1	April			
	Land Acquisition	4000000		
	Levelling & Dressing	100000		
	Fencing	96000		
	Pits	10000		
	Nutrients in Pit	50000		
	Attached Labour	7000	7000	7000
	Hired Labour			6000
	Organic Manure @ 2 trolleys per acre			32000
	Transport and Labour Charges			8000
	Sub Total	4263000	7000	53000
2	May			
	Dug Well (10ft dia x 50ft deep)	245000		
	Attached Labour	7000	7000	7000
	Sub Total	252000	7000	7000
3	June			
	Dug Well (10ft dia x 50ft deep)	105000		
	Electric Connection	25000		
	Motor (5HP)	30000		
	Cables & Other Equipment	10000		
	Piping	50000		
	Drip System	240000		
	Misc. Works	25000		
	Electricity	4000	4000	4000
	Attached Labour	7000	7000	7000
	Interest on Working Capital			4617
	Sub Total	496000	11000	15617
4	July			
	Plants (125 per acre x 8)	50000		
	Attached Labour	7000	7000	7000

	Hired Labour	4000		
	Sub Total	61000	7000	7000
5	August			
	Nutrients	14000	14000	10700
	Misc. Works	7500	7500	
	Attached Labour	7000	7000	7000
	Sub Total	28500	28500	17700
6	September			
	Interculture & Weed Control	7500	7500	5075
	Pesticides	7500	7500	10500
	Plant Support Wood			10000
	Electricity	4000	4000	4000
	Attached Labour	7000	7000	7000
	Hired Labour	5000	5000	9000
	Interest on Working Capital			4617
	Sub Total	31000	31000	50192
7	October			
	Replacement Plants	10000		
	Nutrients	14000	14000	
	Pesticides			10500
	Misc. Works	7500	7500	
	Attached Labour	7000	7000	7000
	Hired Labour	3000	3000	
	Sub Total	41500	31500	17500
8	November			
	Interculture & Weed Control	7500	7500	5075
	Pesticides	7500	7500	
	Attached Labour	7000	7000	
	Hired Labour	4000	4000	3000
	Sub Total	26000	26000	15075
9	December			
	Nutrients	12000	12000	
	Pesticides			9000
	Misc. Works	3750	3750	
	Electricity	4000	4000	4000

	Attached Labour	7000	7000	7000
	Hired Labour	2000	2000	3000
	Interest on Working Capital			4617
	Sub Total	28750	28750	27617
10	January			
	Misc. Works	3750	3750	
	Attached Labour	7000	7000	7000
	Hired Labour	2000	2000	3000
	Sub Total	12750	12750	10000
11	February			
	Misc. Works	3750	3750	
	Attached Labour	7000	7000	7000
	Hired Labour	2000	2000	3000
	Sub Total	12750	12750	10000
12	March			
	Misc. Works	3750	3750	
	Electricity	4000	4000	4000
	Attached Labour	7000	7000	7000
	Hired Labour	2000	2000	3000
	Interest on Working Capital			4617
	Sub Total	16750	16750	18617
B	Summary			
	April	4263000	7000	53000
	May	252000	7000	7000
	June	496000	11000	15617
	July	61000	7000	7000
	August	28500	28500	17700
	September	31000	31000	50192
	October	41500	31500	17500
	November	26000	26000	15075
	December	28750	28750	27617
	January	12750	12750	10000
	February	12750	12750	10000
	March	16750	16750	18617
	Total	5270000	220000	249318

The total cash outflow during the first year would aggregate to Rs.52.70 lakhs, consisting of Rs.50.50 lakhs of initial investment and annual nurturing cost of Rs.2.20 lakhs. The nurturing outflow would continue at the rate of Rs.2.20 lakhs per year till the 5th year. The annual operating outflow would work out to Rs.2.49 lakhs from the 6th year to the 18th year. Such of these annual cash budgets would go a long way in facilitating the farmers in planning, coordinating and controlling their cash outflows.

03.02 Life Cycle Margin

The computations relating to Life Cycle Margin of the above project are as follows:

	LC Margin per Plant of Oranges	
A	**Quantitative Data**	
	Plantation Area (Acres)	8
	Number of Plants per Acre	125
	Number of Plants per 8 Acres	1000
	Life (Years)	18
	Nurturing Period (Years)	5
	Cropping Period (Years)	13
	Life Cycle Yield per Plant (Kg)	940
	Selling Price (Rs. Per Kg)	31
B	**Investment (Rs. Lakhs)**	
1	Land	41.96
2	Water Distribution Systems	7.30
3	Plantation	1.24
4	Nurturing Cost for the first 5 years	11.00
5	Total	61.50
C	**Means of Finance (Rs. Lakhs)**	
1	Own Funds	21.80
2	Subsidies	2.80
3	Loan Funds	36.90
4	Total	61.50
D	**Life Time Plantation Cost**	
1	Plantation Cost per Anum (Rupees)	
I	Nutrients	50700
ii	Interculture & Weed Control	10150
iii	Pesticide Spray	30000
Iv	Plant Support Wood	10000
v	Electricity	16000
vi	Labour	114000
vii	Interest on Working Capital	18468
viii	Total	249318
2	Plantation Cost for 13 Years (Rs. Lakhs)	32.41
E	**Life Cycle Cost (Rs. Lakhs)**	
1	Investment	61.50

2	Interest on Term Loan	25.98
3	Plantation Cost from year 6 to year 18	32.41
4	Life Cycle Cost (1+2+3)	119.90
F	Life Cycle Margin per Plant (Rs.)	
1	Life Cycle Revenue per Plant (940 kg X Rs.31)	29140
2	Life Cycle Cost per Plant (1,19,90,000 ÷1000)	11990
3	Life Cycle Margin per Plant (1-2)	17150
4	Average Margin per Plant per annum (3÷18)	953

Page18As could be seen from the computations, a model farmer would be able to earn a Life Cycle Margin Rs.17,150/- per plant of oranges over a period of 18 years which works out to Rs.953/- per plant per year. Thus, the margin computes to Rs.1,19,125/- per acre (of 125 plants) per annum which is quite attractive and competitive apparently.

It is also relevant to observe that there are no revenues during the first five years of the plantation which is the nurturing period. The revenue flow starts from the 6^{th} year and continues up=to the 18^{th}. Thus, the adoption of the principles of Life Cycle Costing to any horticulture project would not only facilitate 'Overall Cost Analysis', but also would bring out an 'Holistic View'.

04.00 Quick Take

CMA skillset would be quite handy in extending the principles of Strategic Cost Management to every relevant segment of economy.

GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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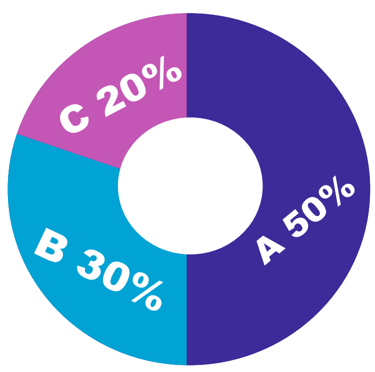
Your Preparation Quick Takes



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.

REVISION

Revision of order prejudicial to the revenue [Sec. 263]

Orders which may be revised	Any order passed by the Assessing Officer, which is - **a)** Erroneous; **b)** Prejudicial to the interests of the revenue; and **c)** Passed by an authority subordinate to the Principal Commissioner or Commissioner. **Notes** **a)** Orders passed by the Assessing Officer includes - i. An order of assessment made by the Assistant Commissioner on the basis of the directions issued by the Joint Commissioner u/s 144A; ii. An order made by the Joint Commissioner as an Assessing Officer. **b)** Even an intimation u/s 143(1) can be revised *Taxpoint* - Order made by the Assessing Officer after making proper enquiries and considering relevant details and decisions of Supreme Court cannot be said to be erroneous and prejudicial to the interest of the revenue, hence such order cannot be revised. - An order passed by the Assessing Officer shall be deemed to be erroneous in so far as it is prejudicial to the interests of the revenue, if, in the opinion of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner: **a)** the order is passed without making inquiries or verification which should have been made; **b)** the order is passed allowing any relief without inquiring into the claim; **c)** the order has not been made in accordance with any order, direction or instruction issued by the Board under section 119; or **d)** the order has not been passed in accordance with any decision which is prejudicial to the assessee, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person
Treatment of an order, which is subject matter of the appeal	Revision u/s 263 of an order, which is subject matter of appeal, cannot be made. **Notes** • The Principal Commissioner or Commissioner can revise such order (which has been a subject matter of appeal) which had not been considered and decided in such appeal. E.g., From the perusal of the order u/s 143(3) passed by the Assessing Officer following was observed: — Point A: Against the assessee — Point B: In favour of the assessee The assessee being aggrieved with point A in the order passed by the Assessing Officer, preferred an appeal to the Commissioner (Appeals). However, the Commissioner wants to revise the order u/s 263 for point B (subject to other conditions being fulfilled). It is possible as doctrine of partial merger of the order is applicable in case of sec. 263. However, the Commissioner cannot revise the order for point A (as the same is subject matter of an appeal) • An order cannot be said to have been made subject of an appeal if the appeal has been disposed of by the appellate authority without passing an order

Procedure to be followed	1. **Examination of Records:** The Principal Commissioner or Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. Record shall include all records relating to any proceeding under this Act available at the time of examination by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. This means that any material, which was not available at the time of assessment but available at the time of examination by the Principal Commissioner or Commissioner, shall also be considered for order u/s 263. 2. **Inquiry:** He must make or cause to be made such inquiry as he deems necessary. 3. **Opportunity of being Heard:** No revision order shall be passed u/s 263 without giving the assessee an opportunity of being heard. 4. **Order:** Finally, he may pass such revision order as the circumstances of the case justify including an order enhancing, modifying or cancelling the assessment and directing a fresh assessment.
Time limit for passing revision order	2 years from the end of the financial year in which the order sought to be revised was passed. In computing the above period of limitation following period shall be excluded - • Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & • Any period during which any proceeding under this section is stayed by an order or injunction of any court. **Exception:** There is no time limit for passing a revision order to give effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Appeal against order u/s 263	A revisional order passed by the Principal Commissioner or Commissioner u/s 263 can be appealed to the Tribunal.
Sec.263 vs. sec.154: Principal Commissioner or Commissioner can exercise the power even in a case where the issue is debatable. Revisional power u/s 263 is not comparable with the power of rectification of mistake u/s 154	

Revision of Order not Prejudicial to Revenue [Sec. 264]

Orders which may be revised	Any order which is - • erroneous; • not covered u/s 263 (i.e. not prejudicial to the interest of the revenue); • passed by an authority subordinate to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. **Taxpoint:** No order under this section can be passed which is prejudicial to the assessee. **Notes:** a) Order which is not appealable before the Commissioner (Appeal) can also be referred to the aforesaid authorities for revision. b) For the purposes of this section, the Deputy Commissioner (Appeals) shall be deemed to be an authority subordinate to the Commissioner.
On whose motion is revision possible	Either on own motion of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner or on an application by the assessee for revision.
Procedure to be followed	1. **Examination of Records:** Once revision proceedings have been initiated, the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner may call for and examine the record of any proceeding. 2. **Inquiry:** He must also make or cause to be made such inquiry as he deems necessary 3. **Order:** He may pass such revision order as the circumstances of the case justify. However, the order passed should not be prejudicial to the assessee.
Time limit for filing an application	Where revision has been initiated by the assessee, the application must be made within **1 year** from the date on which the order in question was communicated to the assessee or the date on which he otherwise came to know of it, whichever is earlier. However, the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner can admit a belated application if the assessee was prevented by sufficient cause from making the application within time. In computing the above period of limitation following time shall be excluded: • The day on which the order complained of was served; and • If the assessee had not received the copy of the order, the time required to obtain copy of such order.

Time limit for passing a revisional order	Where the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner acts on his own motion – Within 1 year from the date of original order Where the application is made by the assessee – Within 1 Year from the end of the financial year in which such application is made. In computing the above period of limitation following period shall be excluded. • Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & • Any period during which any proceeding under this section is stayed by an order or injunction of any court. [Sec. 264(6)] • However, there is no time limit for passing a revision order for giving effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Orders which cannot be revised	a) Where an order is appealable but no appeal has been made to CIT (Appeals) or to the Tribunal and time within which such appeal can be made, has not expired. **Note:** Where an appeal lies to the Commissioner (Appeals) or to the Appellate Tribunal and the right of appeal is waived by the assessee, the Principal Commissioner Chief Commissioner or Chief Commissioner or Principal or Commissioner may revise the order even before the expiry of time limit of appeal. b) Where the order has been made the subject of an appeal to the Commissioner (Appeals) or to the Appellate Tribunal. E.g., the assessee has been aggrieved with point A and point B in the order passed by the Assessing Officer. He preferred an appeal to the Commissioner (Appeals) in respect of point A and seeks to file revision petition u/s 264 in respect of point B. It is not possible, he cannot file revision petition u/s 264 due to doctrine of total (or complete) merger of the order. He has to choose either way of the course. It is to be noted that for the purpose of sec. 264, doctrine of total merger is applicable, on the other hand, for the purpose of sec. 147, 154 and 263, doctrine of partial merger is applicable. **Note** The assessment order could not be said to have been made subject matter of appeal, where an appeal was dismissed - a) on the ground that the same was incompetent; or b) as barred by limitation; or
Fee	₹ 500 where the application for revision is made by the assessee.
Appeal against order u/s 264	A revisional order passed by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner u/s 264 cannot be appealed to the Tribunal or the High Court. However, a petition for a writ of certiorari under Article 226 is maintainable
Other points	• The assessee cannot claim the right of revision in respect of an earlier year on the basis of finding of the Tribunal for a subsequent year. • An order by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner declining to interfere shall not be deemed to be an order prejudicial to the assessee.

A comparative study of revision u/s sec. 263 & revision u/s sec. 264

Basis	Sec. 263	Sec. 264
Which order can be revised	Order, which is prejudicial to the interest of revenue.	Order, which is prejudicial to the interest of assessee.
Proceedings at the motion of	At the own motion of the authorities.	At the own motion of the authorities or on the application of the assessee.
Scope	Revision is possible of the issues which have not been considered and decided in an appeal, i.e., doctrine of partial merger is applicable	Revision u/s 264 is not possible on any issue if an appeal has been filed, i.e., doctrine of total merger is applicable
Time limit for application	Assessee does not apply	Within 1 year from the date on which the order in question was communicated to the assessee
Time limit for passing a revisional order	2 years from the end of the financial year in which the order sought to be revised was passed.	• *Where the authorities acts on his own motion*: within 1 year from the date of original order. • *Where the application is made by the assessee*: within 1 year from the end of the financial year in which such application is made.

Fee	Not applicable	₹ 500 where the application for revision is made by the assessee.
Appeal against order	Appeal can be filed to the Tribunal	No appeal can be filed.
Beneficial to	Revenue	Assessee

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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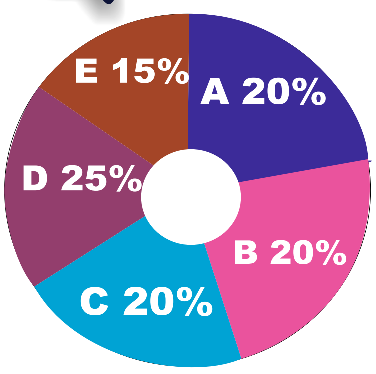
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

MCQ on business combination and related transactions

1. H Ltd. acquires 15% shares of S Ltd.

a) H Ltd. requires to prepare Consolidated Financial Statements
b) H Ltd. requires to prepare Separate Financial Statements
c) H Ltd. requires to prepare Individual Financial Statements
d) H Ltd. requires to recognise Investment under Equity method

2. H Ltd. acquires 25% shares of S Ltd. with significant influence.

a) H Ltd. requires to combine assets of S Ltd. with the assets of H Ltd. in the Consolidated Balance sheet
b) H Ltd. requires to recognise Goodwill/Gain from Bargain Purchase for the transaction
c) H Ltd. requires to recognise Investment in the Separate Balance Sheet under Equity method
d) H Ltd. requires to recognise Investment in the Consolidated Balance Sheet under Equity method

3. H Ltd. acquires 25% shares of S Ltd. with significant influence.

a) H Ltd. is likely to have control of S Ltd.
b) H Ltd. is likely to have joint control of S Ltd.
c) H Ltd. is likely to have significant influence over S Ltd
d) H Ltd. requires to recognise Investment in the Separate Balance Sheet under Equity method

4. H Ltd. acquires 35% shares of S Ltd. with joint control of S Ltd.

a) S Ltd. is an Associate of H Ltd.
b) S Ltd is a joint venture of H Ltd.
c) S Ltd is a subsidiary of H Ltd.
d) S Ltd is a joint operator of H Ltd.

5. H Ltd. acquires 35% shares of S Ltd. with joint control of S Ltd. Which of the following statements is wrong?

a) In the consolidated balance sheet H Ltd. recognises its interest in S Ltd. as Investment accounted under Equity Method.
b) In the Separate balance sheet H Ltd. recognises its interest in S Ltd. as Investment accounted under Equity Method.
c) In the Separate balance sheet H Ltd. recognises its interest in S Ltd. as Investment accounted at cost or as per Ind AS 109.
d) In the Individual balance sheet H Ltd. recognises its interest in S Ltd. as Investment accounted at cost or as per Ind AS 109.

6. H Ltd. acquires 75% shares of S Ltd. acquiring control of S Ltd.

a) S Ltd. is an Associate of H Ltd.
b) S Ltd is a joint venture of H Ltd.
c) S Ltd is a subsidiary of H Ltd.
d) S Ltd is a joint operator of H Ltd

7. H Ltd. acquires 75% shares of S Ltd. acquiring control of S Ltd. Which of the following statements is wrong?

a) H Ltd. requires to combine assets of S Ltd. with the assets of H Ltd. in the Consolidated Balance sheet
b) H Ltd. requires to recognise Goodwill/Gain from Bargain Purchase for the transaction
c) H Ltd. requires to recognise Investment in the Separate Balance Sheet under Equity method
d) In the Separate balance sheet H Ltd. recognises its interest in S Ltd. as Investment accounted at cost or as per Ind AS 109.

8. H Ltd. acquires 35% shares of S Ltd. in addition to previously held 25% shares of S Ltd. Which of the following statements is wrong?

a) H Ltd. has to prepare both consolidated and separate financial statements.
b) The previously held interest will be cancelled at fair value.
c) Any profit/loss on cancellation will be transferred to Statement of Profit and Loss.
d) The previously held interest will be cancelled at carrying value.

9. H Ltd. acquires 25% shares of S Ltd. in addition to previously held 60% shares of S Ltd. Which of the following statements is wrong?
   a) The consideration for 25% share in S Ltd. will be added to the carrying amount of Investment in separate balance sheet.
   b) It is considered an equity transaction with owners in the capacity as owners.
   c) Non-controlling interest will be debited by the proportionate carrying amount.
   d) The difference between the proportionate carrying amount and fair value of consideration shall be transferred to Goodwill/Capital Reserve account in the consolidated financial statements.

10. H Ltd. sells 25% shares of S Ltd. from its holding of 90% shares in S Ltd. Which of the following statements is wrong?
    a) Non-controlling interest will be credited by the proportionate carrying amount.
    b) Non-controlling interest will be credited by the fair value of the consideration.
    c) The fair value of the consideration will be debited.
    d) The difference between the proportionate carrying amount and fair value of the consideration will be transferred to other equity.

11. H Ltd. acquires S Ltd., a 100% subsidiary. Which of the following statements is wrong?
    a) It is a business combination under common control as per Ind AS 103 Annexure C.
    b) The pooling of interest method of accounting will be applied.
    c) Consolidated and separate financial statements will continue to be prepared by H Ltd.
    d) The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd.

12. H Ltd. acquires S Ltd., which was its 75% subsidiary. Which of the following statements is true?
    a) It is a business combination as per Ind AS 103.
    b) The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd.
    c) Adjustments will be made to reflect fair values in the books of the transferee company.
    d) The assets and liabilities of S Ltd. will be recognised at fair value in the consolidated financial statements of H Ltd.

13. H Ltd. and its subsidiary S Ltd. merged/amalgamated into G Ltd. Which of the following statements is true?
    a) It is a business combination as per Ind AS 103.
    b) Consolidated and separate financial statements will be prepared by G Ltd.
    c) The acquisition method of accounting will be applied.
    d) The assets and liabilities of the combining entities will be reflected at their carrying amounts in the individual financial statements of H Ltd.

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Answer Key:

Q No.	Answer
1	c
2	d
3	c
4	b
5	b
6	c
7	c
8	d
9	d
10	b
11	c
12	b
13	d

Vol: 6, No.: 8.
August 2021, Issue

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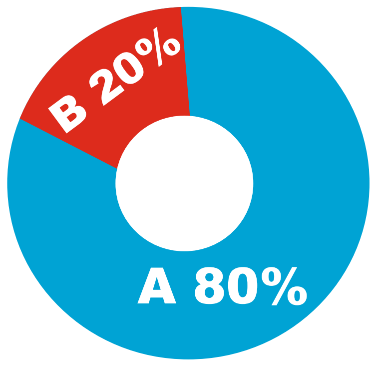
GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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
- Registration under GST
- Territory without legislature
- Time of supply
- Non taxable supply
- Interest on loan
- Payable of GST
- Consideration of supply
- Composition scheme / levy

INDIRECT TAX

Choose the correct option from the followings –

1. Which of the following statement is correct in related to Indirect Tax
(a) Income based taxes
(b) Regressive in nature
(c) Progressive in nature
(d) Rate of taxes are different from person to person

2. Which type of person is not liable for Registration under GST Act
(a) Supplier of medicine
(b) Outdoor catering
(c) An agriculturist
(d) Professional training centre

3. Which of the following Union territory without legislature
(a) Chandigarh
(b) Jammu and Kashmir
(c) Ladakh
(d) Puducherry

4. Goods and Service Tax Network (GSTN) is now
(a) A Private Limited Company
(b) A Public Limited Company
(c) Government Owned company
(d) Government subsidized Public Limited Company

5. If the supplies is not identifiable the time of supply will be
(a) Date of issue of invoice
(b) The date of redemption of voucher
(c) When the goods actually received
(d) When the actual payment received

6. Which of the following factor to be considered in determining whether goods or services are related
(a) The price of goods or services
(b) The type or class of customers for the goods or services
(c) The type or class of manufacturers for the goods or services
(d) Importation of goods or services

7. As per Section 2(45) Electronic Commerce operator means
(a) Organization providing support to maintain electronics facilities.
(b) Person specifically engaged in supply of goods or services or both of electronics goods.
(c) Any person who owns, operates or manages digital or electronics facility or platform for electronic commerce.
(d) Any person who owns, operates or manages for both computer hardware and software services.

8. Which of the following is "Non taxable supply" as per GST Act
(a) Sale of car

(b) Providing catering services
(c) Sale of pearls
(d) Sale of land

9. Which of the following will be considered as supply
(a) Services by employee to employer in the course of or in relation to his employment
(b) Services by funeral, burial etc
(c) Import of services for a consideration whether or not in the course of furtherance of business
(d) Actionable claim other than lottery, betting and gambling.

10. As per the CGST Act, 2017 which of the following will not be considered as supply
(a) Transfer
(b) Barter
(c) Exchange
(d) Mortgage

11. Interest on loan is
(a) Taxable supply
(b) Non taxable supply
(c) Exempted supply
(d) Nil rate of tax

12. In which of the following case GST will be payable
(a) Service provided by employee to employer on regular basis in the course of employment.
(b) Service provided by employee to employer employed by company on contract basis.
(c) Service provided by employee to employer employed by company as trainee.
(d) Service provided by employee to employer employed by a contractor.

13. Which of the following person is not liable to pay GST
(a) Executive Director
(b) Non executive Director
(c) Managing Director
(d) Independent Director

14. Which of the following will not be considered as supply
(a) Coaching by teacher at his residence.
(b) Carrying out professional activities from the residence of an Advocate or Chartered Accountant or Cost Accountant.
(c) Even sharing of business goods in his residential premises.
(d) Auctioneer providing auctioneering services.

15. In which of the following state eligibility to opt to pay tax under composition scheme is turnover do not exceed Rs 1.50 crores in the preceding Financial Year.
(a) Manipur
(b) Tripura
(c) Chhattisgarh
(d) Uttarakhand

16. As per Section 2(6) of the CGST Act, 2017 Aggregate Turnover excludes
(a) Inward supply on which the recipient is required to pay tax under Reverse Charge Mechanism (RCM).
(b) Exempted goods or services or both which attracts Nil rate of tax wholly exempt from tax.
(c) Inter supply on own account and on behalf of principal.

17. Penalty for delay in filing GSTR – 4 under Composition Levy
(a) Rs 50/- for CGST and Rs 50/- for SGST per day
(b) Rs 100/- for CGST and Rs 100/- for SGST per day
(c) Rs 5000/- for CGST and SGST
(d) Rs 100/- for CGST and Rs 100/- for SGST per day or Rs 5000/- each CGST and SGST whichever is less.

18. Intimation of withdrawal from composition scheme by a composition levy assessee to be given
(a) Form GST CMP – 02
(b) Form GST CMP – 03
(c) Form GST CMP – 04
(d) Form GST CMP – 05

19. **Which statement is correct in related to goods disposed of by way of free sample**
   (a) Recipient can claim the ITC
   (b) ITC can be claimed by supplier
   (c) ITC can not claim by supplier
   (d) If value of sample is less than Rs 1000/- ITC can be claimed

20. **In case of Export of goods or services or both will be**
   (a) GST @ 12%
   (b) GST @ 18%
   (c) Exempted supply
   (d) Zero rated supply

ANSWERS

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

150 YEARS OF CELEBRATING THE MAHATMA

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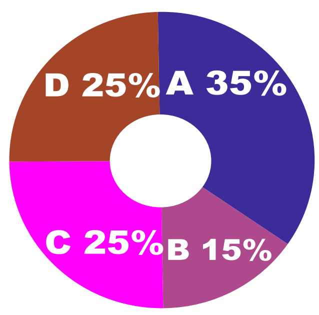
GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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 and Management Audit

Topic : Practical approach in understanding the basic Principles for Maintenance 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, 2014 also 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 charges forms 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/ Corona 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.

YEARS OF CELEBRATING THE MAHATMA

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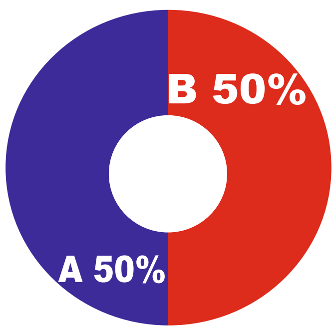
GROUP: iv, PAPER: 20

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

Choose the correct option from amongst the four alternatives given:
(Each question carries 1 mark)

1. **Performance will be the product of:**
   (A) Efficiency and utilisation
   (B) Utilisation and productivity
   (C) Efficiency and productivity
   (D) Efficiency, utilisation and productivity

2. **Which of the following is not an accounting technique to analyse financial performance?**
   (A) Trend analysis
   (B) Common-size financial analysis
   (C) Time series analysis
   (D) Ratio analysis

3. **Which of the following is not one of the Customer Relationship Management (CRM) business drivers?**
   (A) Inventory control
   (B) Increase revenues
   (C) Define information needs and flows
   (D) Automation/productivity/efficiency

4. **The price elasticity of demand for a product is infinity. If the firm increases price of the product by 10%, total revenue of the firm will be-**
   (A) Increase to infinity
   (B) Fall to zero
   (C) Decrease by more than 10%
   (D) Decrease by less than 10%

5. **Which one of the following are the Six Sigma key methodologies?**
   (A) DMAIC and DMADV
   (B) DMADC and DMADV
   (C) DMAIC and DMADC
   (D) DMAII and DMADV

6. **Which one the following is NOT a type of Benchmarking?**
   (A) Product Benchmarking
   (B) Competitive Benchmarking
   (C) Process Benchmarking
   (D) Brand Benchmarking

7. **Relative valuation approach is also known as-**
   (A) Market approach
   (B) Income approach
   (C) Asset approach
   (D) Liability approach

8. **If capitalization rate is reduced by growth rate, the Cash Flows should also be reduced by -------.**
   (A) Capital expenditure
   (B) Dividend payment
   (C) Cost of capital

(D) Discounted cash flow

9. **Which one of the following is not a measure taken by a target firm to avoid acquisition?**
   (A) Poison Puts
   (B) Poison Calls
   (C) Golden Parachute
   (D) Flip Over Pill

10. **Which of the following is not a risk management technique**
   (A) Risk avoidance
   (B) Risk maximization
   (C) Risk Sharing
   (D) Risk bearing

11. **Systematic risk is measured by __________**
   (A) Alpha
   (B) Gamma
   (C) Beta
   (D) Delta

12. **Relative valuation approach is also known as**
   (A) Market approach
   (B) Income approach
   (C) Asset approach
   (D) Liability approach

13. **If the expected rate of return on a stock exceeds the required rate**
   (A) The stock is experiencing super normal growth
   (B) The stock should be sold
   (C) The company is not probably trying to maximize price per share
   (D) The stock is a good buy

14. **If capitalization rate is reduced by growth rate, the Cash Flows should also be reduced by _____________.**
   (A) Capital expenditure
   (B) Dividend payment
   (C) Cost of capital
   (D) Discounted cash flow

15. **In the short run which of the following is not true of a profit-maximizing firm operating under perfect competition?**
   (A) P - MC
   (B) MR - MC
   (C) AR = MR = MC
   (D) P=AR = AC

16. **The components of Stewart Cycle or PDCA are:**
   (A) Plan-Do-Check-Act
   (B) Plan-Define-Check-Act
   (C) Plan-Do-Control-Act
   (D) Program-Do-Check-Act

Answers:

1. (D) Efficiency, utilisation and productivity.
2. (C) Time series analysis
3. (C) Define information needs and flows
4. (B) Fall to zero
5. (A) DMAIC and DMADV DMAIC
6. (D) Brand Benchmarking
7. (A) Market approach
8. (A) capital expenditure
9. (B) Poison Calls
10. (B) Risk maximization

11. (C) Beta
12. (A) Market approach
13. (D) The stock is a good buy
14. (A) Capital expenditure
15. (D) P=AR = AC
16. (A) Plan-Do-Check-Act

Short Type Questions
(Each question carries 1 mark)

1. **What are the key components of supply chain management?**
Answer: There are five basic components of Supply Chain Management. These are:
(i) Plan; (ii) Source: (iii) Make: (iv) Deliver: (v) Return

2. **Define Customer Relationship Management (CRM).**
Answer: CRM is a business strategy comprised of a process, organisational and technical change whereby a company seeks to better manage its enterprise around its customer behaviours.

3. **What is shadow pricing?**
Answer: "What price is worth paying for additional quantity of a scarce resource", very often "shadow prices" are used. Shadow prices are not prices obtained by observing the real world. Shadow prices are "imputed values". The shadow price shows the marginal contribution of the factors of production employed. It is calculated by using the "simplex method". These imputed values show the increase in profit which would result if an additional unit of that scarce factor is used. The imputed value is the reduction in contribution if that scarce factor is removed

4. **Define unsystematic risk.**
Answer: Unsystematic risk is that portion of total risk which results from known and controllable factors. Unsystematic risk refers to that portion of the risk which is caused due to factors unique or related to a firm or industry. The unsystematic risk is the change in the price of stocks due to the factors which are particular to the stock. For example, if excise duty or customs duty on viscose fibre increases, the price of stocks of synthetic yarn industry declines. The unsystematic risk can be eliminated or reduced by diversification of portfolio.

5. **What are the four perspectives of Balanced Score Card (BSC)?**
Answer: Four perspectives of BSC are- (a) Financial, (b) Customers, (c) Internal Business Process, and (d) Learning and Growth

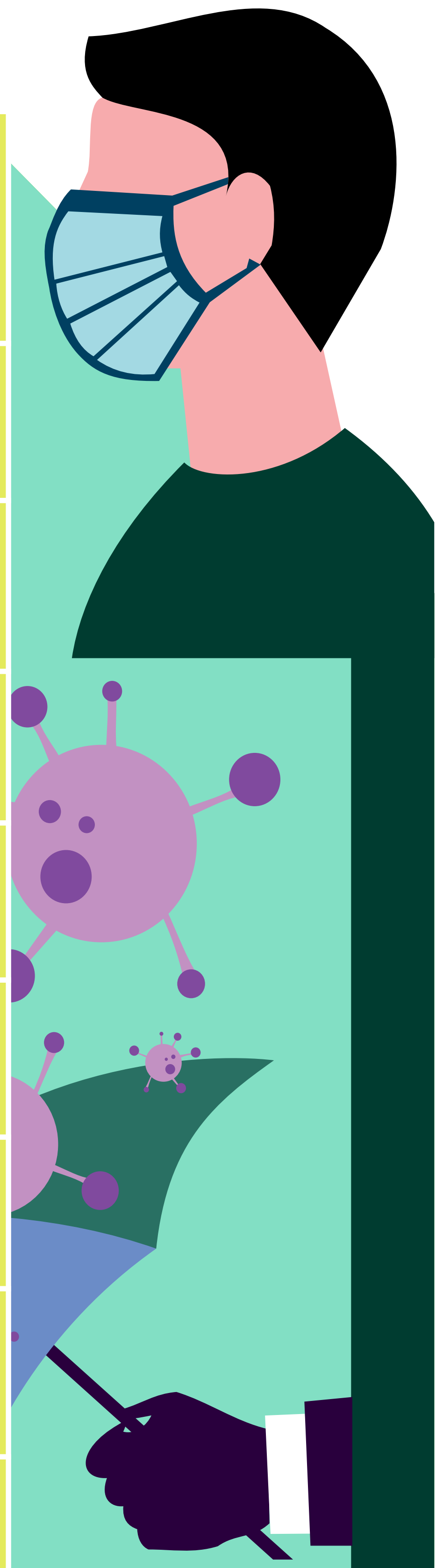
6. **What is —Du-Pont-Analysis?**
Answer: Du-Pont Analysis is a method of performance measurement that was started by the DuPont Corporation in the 1920s. According to Du-Pont Analysis, Return on Equity (ROE) is affected by three things: operating efficiency (measured by profit margin); asset use efficiency (measured by total asset turnover); and financial leverage (measured by the equity multiplier). As such, Du-Pont Analysis can be represented in mathematical form by the following calculation:

ROE = Profit Margin X Asset Turnover Ratio X Equity Multiplier.
= (Net profit / Sales) X (Sales / Total Assets) X (Total Assets / Total Equity)

7. **What do you mean by —Six Sigma?**
Answer: Six Sigma is a disciplined, statistical-based, data-driven approach and continuous improvement methodology for eliminating defects in a product, process or service.

8. **What is relative valuation?**
Answer: Relative valuation: It estimates the value of an asset by looking at the pricing of comparable assets relative to a common variable such as earnings, cash flows, book value or sales. The profit multiples used are (a) Earnings before interest, tax, depreciation and amortisation (EBITDA), (b) Earnings before interest and tax (EBIT), (c) Profits before tax (PBT) and (d) Profit after tax (PAT).

Examination TIME TABLE



Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
21 st October, 2021 (Thursday)	Corporate Laws & Compliance (Paper 13) (Group - III)
22 nd October, 2021 (Friday)	Corporate Financial Reporting (Paper 17) (Group - IV)
23 rd October, 2021 (Saturday)	Strategic Financial Management (Paper 14) (Group - III)
24 th October, 2021 (Sunday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
25 th October, 2021 (Monday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
26 th October, 2021 (Tuesday)	Cost & Management Audit (Paper 19) (Group -IV)
27 th October, 2021 (Wednesday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
28 th October, 2021 (Thursday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

STAY HOME STAY SAFE

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

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

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.

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!

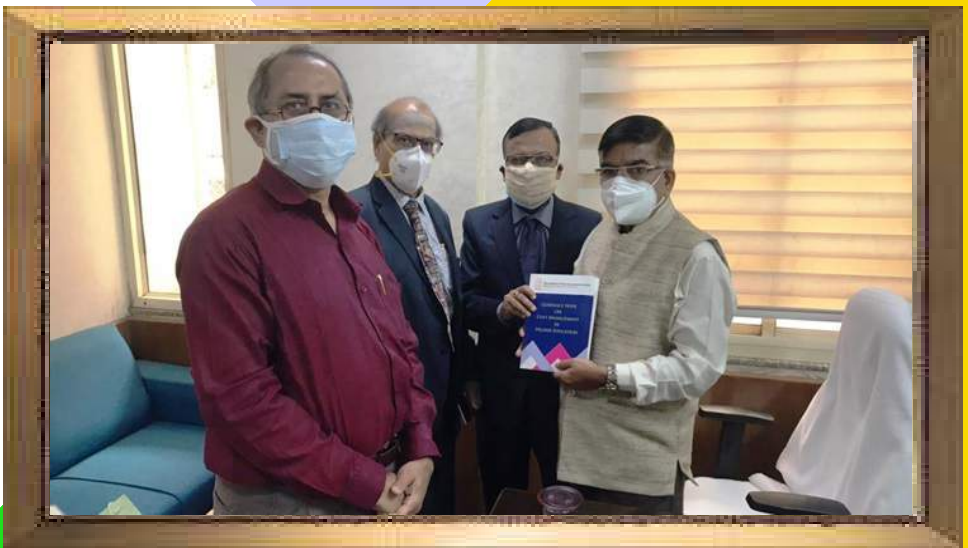
The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

GOOD LUCK

Be Prepared and Get Success;

Few Snapshots

Glimpses of 75th Independence Day Celebrations by the Institute



CMA Biswarup Basu, President of the Institute along with CMA P Raju Iyer, Vice President, CMA Chittaranjan Chattopadhyay, Chairman BFSI Board & Indirect Taxation Committee of the Institute and CMA B.B. Goyal, Advisor, ICWAI MARF & former Addl. Chief Adviser (Cost), Ministry of Finance, GoI had an opportunity to meet Dr. Subhas Sarkar, Hon'ble Union Minister of State for Education on 4th August, 2021 to discuss important matters related to the profession.

CMA P Raju Iyer Vice President handing over proposal of CAT & AAT Board ICAI to VC, Pondicherry Shri. Gurmeet Singh along with CMA H Padmanabhan, Chairman, CMA Dr K Ch A V S N Murthy, CMA Chittaranjan Chattopadhyay, CMA Rakesh Singh Former President and CMA Vijender Sharma, Chairman PD from Institute side while other Officials of University were witness

CMA (Dr.) Ashish P. Thatte, Chairman, Corporate Laws Committee extending greetings to Smt. Darshana Vikram Jardosh, Hon'ble Union Minister of State for Railways and Textiles on 29th July, 2021

Glimpses of the MOU signing ceremony between the Institute of Cost Accountants of India and ACCA, UK on 9th August, 2021.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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