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150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

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KNOWLEDGE Update

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

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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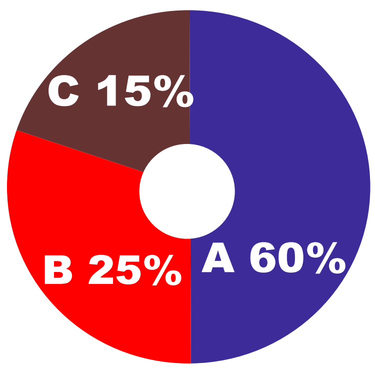
Your Preparation Quick Takes



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.

CHAPTER 9
END OF A COMPANY/ WINDING UP

Introduction:

"Winding up" as the word is use, means end of anything or closing down of anything. Under the Company law also, it means the same. Any investor will not like to close a business when it is running successfully. Once there is failure, he may choose to go for selling the company to other investor, make reconstruction within the company to run after structural changes, amalgamate with other company or decide to close down.

Winding up, therefore is a process where a company starts taking steps to close down the business. Moment the process starts, the affairs of the company will pass on to person called " liquidator" and Board of Directors shall cease to operate. The ultimate job of the liquidator is to sell the assets of the company and distribute the proceeds to the stakeholders. Once this process is over, the liquidator will report to Tribunal, which will pass order of dissolution which is the death certificate of the company.

Winding up will now be governed by the Act as well as the Code "Voluntary winding up" and winding up on the ground of "inability to pay debts" has no place in the Companies Act,2013.The Code, however, mandates insolvency in case of "default" even when the company is able to pay its debts, but have defaulted.

Types of Winding up:
Voluntary winding up:

Every person has fundamental right to start a business and stop doing a business. Therefore, voluntary winding up amounts to closing down on his own. This, however, is subject to certain restriction and procedures, most important being liquidation of debt. The procedures of such winding up shall be as follows.

(i) If the company passes a resolution as a result of expiry of any period fixed by Articles of Association of the company or any event as occurred or the company otherwise passes a resolution that the company be wound up. Company has not committed any default.
(ii) The company shall make public notification within 14 days of passing of such resolution.
(iii) The Board of Directors will make declaration in the Board meeting called "Declaration of Solvency" that company has no debts or the debts will be paid off out of the assets of the company.
(iv)Statement by the directors that dues will be paid in full.
(v) There shall be a meeting of creditors where 2/3rd of the creditors shall agree to the winding up. Information to IBBI and ROC have to be given.
(vi)The winding up shall be deemed to have commenced with the passing of resolution by the shareholders.
(vii)Company not to carry on any business except for the beneficial winding up of the company. Corporate identity and powers of the companies shall continue.

Compulsory winding up by Tribunal

The company can be wound up by the tribunal on the following circumstances:

(a) The company by a special resolution has resolved to wind up.
(b)The company has acted against the sovereignty, integrity, security, friendly relations with other countries, public order, decency or morality;
(c) the affairs of the company is being conducted in a fraudulent manner or is formed for unlawful purpose or the persons managing the company are guilty of fraud and misconduct:
(d) Default in filing financial statements and annual returns for last 5 yrs.
(e)NCLT is of the opinion that it is just and equitable that the company should be wound up.

Petition for winding up :

Petition for winding up can be made by:

1) The company
2) Any creditor or creditors
3) Any contributory or contributories
4) By all or any of the parties mentioned above.
5) By the Registrar of Companies (ROC) [except for (a) & (b) above].
6) By any person authorised by the Central Government in this behalf.
7) In a case falling under sovereignty etc. by Central Government or State Government.

The petition shall be accompanied by statement of affairs. The copy of petition shall be filed with the ROC, who shall submit his view within 60 days.

Powers of Tribunal

(a) dismiss the petition:
(b) make interim order:
(c) appoint provisional liquidator, till final order:
(d) order winding up and appoint liquidator.
Such order shall be made within 90days from the date of petition.

Effect of winding up order

(a) Liquidator: an individual appointed by the Tribunal, who takes over the affairs of the company.
(b) He is responsible for the supervision of the entire process of winding up till dissolution of the company. The company will remain to be an existing company;
(c) The Board of Directors shall cease to function:
(d) Company will not be doing any business, except required for the purpose of dissolution:
(e) All agreements with employees or outsiders shall be deemed to have been terminated or varied As decided by the liquidator.
(f) Order shall operate in favour of the creditors.
(g) No suit or legal proceeding shall commence or pending proceedings preceded without the
(h) power of NCLT.
(i) There can be dissolution without winding up in case of merger or amalgamation.
(j) Tribunal may order for constitution of Advisory Committee to advise company liquidator.

Appointment of liquidators

At the time of passing the winding up order, the tribunal shall appoint an official liquidator or any person under the panel of liquidators, as company liquidator from any resolution professional registered with Bankruptcy and Bankruptcy Board of India (IBBI).Tribunal shall, within 7 days of the order, inform the appointee, the Registrar of Companies(ROC) and concerned stock exchange(in case of listed company)

Role of liquidators

1. Within 3 weeks to an application is to be made to Tribunal for constituting a winding up committee,
2. where in addition to him, a nominee each of the tribunal and secured creditors need to be
3. members.
4. Taking over the assets, make asset list, recover property and other asset, sale assets, summon
5. meeting of creditors or contributories, examine the affairs, finalize claims, make final payments.
6. He will report to tribunal form time to time on actions being taken.
7. On winding up of all affairs of the company, liquidator to make application for dissolution.
8. NCLT to order for dissolution;
9. Liquidator to get order of dissolution within 30 days of the order to ROC, who will de register the
10. company.
11. Where liquidator has some money which is payable to creditor/ contributory which have remained unpaid, the same shall be transferred to an special account and the details shall be filed to ROC, which can be claimed by the person entitled after dissolution upto 15 years of dissolution.

5.0 Preferential payments: section: 326/327

In case of a winding up the following payments will be made in priority to all other debts:

(a) workmen dues;
(b) due for any superannuation fund
(c) Govt. revenues,
(d) all wages and salaries of any employee.
(e) Secured creditors

(f) Uncensored creditors
(g) Preference shareholders
(h) Equity shareholders.

Fraudulent Preference (Section 531) : Any transfer of property or any other goods by or against a company within 6 months before the commencement of its winding up which had it been done by or against an individual within 3 months before the presentation of insolvency petition on which he was eventually adjudged insolvent would be deemed in his insolvency a fraudulent preference, shall in the event of company being wound up , be deemed a fraudulent preference of its creditors and be invalided accordingly.

Insolvency Resolution Process:

****Introduction:** The Insolvency and Bankruptcy Code, 2016 is one of the major economic reform Code initiated by the Government in the year 2015. The Insolvency and Bankruptcy Code, 2015 was introduced in the Lok Sabha on 21st December, 2015 and referred to the Joint Committee on the Insolvency and Bankruptcy Code, 2016. The Committee had presented its recommendations in the modified Bill based on its suggestions. Further, the Insolvency and Bankruptcy Code, 2016 was passed by both the Houses of Parliament and notified in May 2016. Being one of the major economic reforms it paves the way focussing on creditor driven insolvency resolution.

- ****Insolvency:** i) A situation where a corporate debtor is unable to pay its debts due to lack of
- means, ii) Assets of the entity is not adequate to discharge the debts;
- **Bankruptcy:** "Bankruptcy" is a legal proceeding involving a person or business that is unable to repay outstanding debts.
- **Corporate Debtor** means a corporate person who owes a debt to any person. [Section 3(8)].
- **Creditor means** any person to whom a debt is owed and includes a financial creditor, an
- operational creditor, a secured creditor, an unsecured creditor and a decree holder. [Section 3(10)]

Objectives of the Code: i) To consolidate and amend laws relating to reorganization and insolvency resolution In a time bound manner; ii) For maximisation of value of assets; iii) Balancing of interest to all stakeholders; iv) Availability of credit; v) Fast track insolvency resolution process.

A. <u>The Regulatory Mechanism:</u>

(i) Insolvency and Bankruptcy Board of India: Constituted BY GOI, it overlooks functions of IPs, license IPs, recommend IPs to NCLT, the IP agencies and utilities;

(ii) Information Utilities: to collect, collate, authenticate and disseminate information to used in the proceedings.

(iii) **Insolvency Professional Agencies**: bodies authorised by IBBI to register IPs. (iv)**Insolvency Professionals**: individuals who are registered to be appointed as IPs.

B. Who can apply: i) Financial creditors, ii) Operational creditors (including Govt. and employees / workers),iii) Corporate debtor ;

C. Who cannot apply: i) Corporate Debtor(CD) undergoing Corporate Insolvency Resolution Process (CIRP), ii) CD completed CIRP or violated any term of the approved plan twelve months before, iii) CD in respect whom liquidation order has been made ;

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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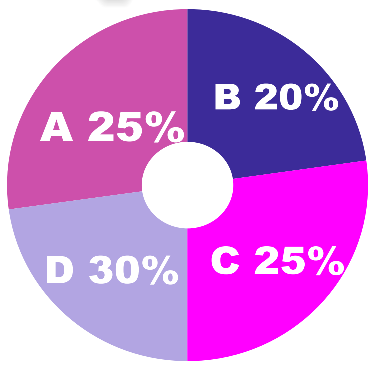
Your Preparation Quick Takes



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

Strategic Financial Management

Unit: Evaluation of Risky Proposals for Investment Decisions

Expected NPV and Standard Deviation

Moderately Correlated Cashflows (positive or negative)
As discussed earlier, Expected NPV and S.D of NPV for moderately correlated cashflows are based on conditional probabilities and joint probabilities.

Conditional probability is the probability of the event occurring given that the event preceding it has occurred. P(B/A) indicates the probability of the occurrence of B given the probability of occurrence of A.
Before proceeding, recall that the joint probability of three events, that is, the probability of all the three events occurring, say P (A, B, C) is the product of the conditional probabilities of the three events, that is P (A) x P (B/A) x P (C/ B, A).
Consider the following illustration.

Illustration 5:
The information relating to cash flows and probabilities are given below.

Year 1		Year 2		Year 3	
NCF (Rs.)	Initial Probability	NCF (Rs.)	Conditional Probability	NCF (Rs.)	Conditional Probability
20000	0.35	20000	0.40	25000 30000	0.20 0.80
		30000	0.60	35000 40000	0.30 0.70
30000	0.65	55000	0.20	45000 55000	0.50 0.50
		65000	0.80	60000 70000	0.60 0.40

Assuming an initial investment of Rs.100000, calculate the expected NPV and the standard deviation of NPV.

Solution:
Here, we need to calculate the joint probabilities associated with each possible stream of cashflows as follows:

Year 1		Year 2		Year 3		Joint Probability
NCF (Rs.)	Initial Probability	NCF (Rs.)	Conditional Probability	NCF (Rs.)	Conditional Probability	
20000	0.35	20000	0.40	25000 30000	0.20 0.80	0.028* 0.112
		30000	0.60	35000 40000	0.30 0.70	0.168 0.147
30000	0.65	55000	0.20	45000 55000	0.50 0.50	0.065 0.065
		65000	0.80	60000 70000	0.60 0.40	0.312 0.208

*0.028 = 0.35 x 0.40 x 0.20 [cash flow Rs.20000(1st year) – Rs.20000 (2nd year) – Rs.25000 (3rd year)]

Cash Flow Stream	NPV		Joint Probability	NPV x Joint Prob	(NPV – Exp. NPV)² x Joint Prob.
1. 2. 3. 4.	$\frac{20000}{(1.06)^1} + \frac{20000}{(1.06)^2} + \frac{25000}{(1.06)^3} - 100000$	-42340 -38140	0.028 0.112 0.168 0.147 0.065	-1185.52 -4271.68 -1577.52 -3063.48	960057243309093 2710722832520184 9905814208.887

5. 6. 7. 8.		-25040 -2084019755 28155412554 9655	0.065 0.312 0.208	1284.0751830.0751 2871.5610328.24	9265469.89195612 781232582156
Total				16215.75	1174267896

Expected NPV = Rs.16215.75

S.D of NPV = $\sqrt{1174267896}$ = Rs.34268

Use of Normal Probability Distribution

Once the expected NPV and S.D of NPV is calculated, the probability of occurrence of any value of NPV is calculated assuming the NPV to follow the normal distribution. In finance, most of the variables are assumed to follow normal distribution. Accordingly, it is possible to calculate the probability of the variable taking a value higher than, lower than or in between specified value(s).

Refer to our previous illustration. Suppose, we are interested to calculate the probability that NPV of the project will be at least Rs.20000. The same can be calculated as follows:

$$P\left(NPV \geq 50000\right) = P\left(\frac{NPV - \text{Expected NPV}}{S.D \text{ of } NPV} \geq \frac{20000 - 16215.75}{34268}\right) = P\left(Z \geq 0.11\right) \left(0.11\right) = 1 -$$

(0.5 +0.4602) = 0.0398 = 3.98%

Note: For ø(0.11), please refer to standard normal distribution table.

4. Sensitivity Analysis

It is based on the view that only those projects that can stand the best possible changes in future in the critical elements which have a vital bearing on the costs or benefit of the project need to be undertaken. For instance, the cost of raw material may go up, or say, its supply may be delayed which may prolong the production process or if the same thing happens with the supply of machinery, the gestation period may be prolonged, affecting the expected future benefits as a consequence.

In sensitivity analysis, the factors that are likely to change during the life of the project are first identified. Then the extent of change in the NPV or other criteria chosen for evaluation with change in the factor. The changes and measured in percentages. This provides information on the extent to which the project remains viable under different situations, or, the extent of change in the variables that will be tolerated by the project.

The following problem illustrates the mechanics of this technique.

Illustration 6:

C Ltd. is evaluating the risk of the project proposed to be undertaken shortly. The finance committee feels that the following factors can be reasonably be assumed to remain constant through the life of the project.

Initial Investment (I)	Rs.900 crore
Cost of capital (k)	10%
Fixed cost (F)	Rs.450 crore
Depreciation (SLM)	Rs.90 crore
Tax rate (T)	40%
Life of the project (n)	10 years
Net salvage value (S)	0

The quantity sold (Q), selling price (P), and variable cost per unit (V), are expected to vary as follows:

Q (Units)	Probability	Price	Probability	Variable cost per unit (V)	Probability
360	0.1	1.5	0.3	1.50	0.5
480	0.2	2.25	0.2	2.25	0.3
540	0.3	3.00	0.1	3.00	0.2
600	0.2	3.75	0.4		
660	0.1				
750	0.025				
900	0.025				
1000	0.025				
1150	0.025				

Given the variables, the sensitivity model for the company may be defined as follows:

$$NPV = \sum_{t=1}^{n} \frac{\left[Q\left(P - V\right) - F - D\right]\left(1 - T\right) + D}{\left(1 + k\right)^{t}} + \frac{S}{\left(1 + k\right)^{n}} - I$$

Let us now calculate the impact of selling price on NPV. Here, expect P other values are either given deterministically, or we need to calculate the expected value. Accordingly, we shall calculate the expected value of V and Q when the effect of P is to be investigated.

Here, Initial Investment = 900
Expected value of Q = 575
Expected value of V = 2.0275
Substituting the values, we get,

$$NPV = \sum_{t=1}^{n} \frac{[575(P-2.0275) - 450 - 90](1-0.40) + 90}{(1+0.10)^t} + \frac{0}{(1+0.10)^n} - 900$$

On simplification, we get,

$$NPV = \sum_{t=1}^{n} \frac{345 \times P - 932.625}{(1+0.10)^t} - 900$$

P	1.50	2.25	3.00	3.75
NPV	-3450.94	-1860.92	-270.90	1319.11

Instead of the given possible values of P, this technique can also be applied to study any possible negative deviation in the variable under consideration and its possible impact on the NPV.

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GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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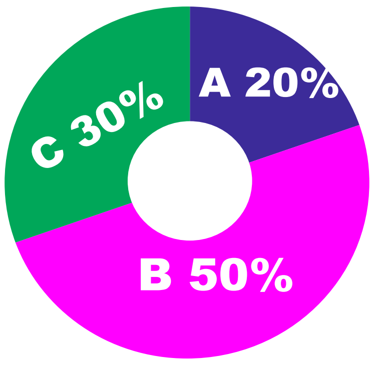
Your Preparation Quick Takes



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?

Theoretical Notes for Quick Reference

Here follow vital theoretical notes that would facilitate quick reference while preparing for the examination.

Life Cycle Costing (LCC)

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'.

Many a product is observed to possess a distinctive life cycle comprising six clearly defined phases comprising:

(i) Development
(ii) Introduction
(iii) Growth
(iv) Maturity
(v) Decline
(vi) Extinction

Each phase has its own characteristics. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched. The time line commencing from the innovation of a new product and ending with its degeneration into a common product and the eventual extinction is termed as the life cycle of a product.

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 aids decision makers in considering all present and future costs related to new construction, renovation, equipment replacement, or any other project that involves upfront and ongoing expenditure thereby covering the period from 'Cradle to Grave'. The concept of Life-Cycle Costing may be explored in relation to a product, project or an industry as such.

Value Analysis (VA)

Value Analysis (VA) is a scientific approach that ensures all the functions of a product or service are carried out at the minimum cost without compromising quality, reliability, performance and appearance. Value Analysis may consist of the following seven phases.

(i) Origination
(ii) Information
(iii) Functional Analysis
(iv) Innovation
(v) Evaluation
(vi) Choice
(vii) Implementation

The core advantage of using value analysis is its potential for reducing costs, which is a benefit that permeates all advantages of the system. Because of the fact that value analysis breaks down a product or service into components, it enables the analysis of each of the components on its own, evaluating its importance and efficiency. VA, thus, is one of the important techniques of cost reduction and control.

Value Engineering (VE)

"Value Engineering" is the application of exactly the same set of techniques to a new product at the design stage to ensure that bad features are not added. 'VA' and 'VE' are closely related terms so much so that they are, frequently, used interchangeably. Though the philosophy of understanding the two is the same, the difference lies in the time and stage at which the technique is applied.

"Value Analysis" is the application of a set of techniques to an existing product with a view to improve its value. Thus, it is a remedial process. VE is a 'preventive' measure. In that sense, 'VE' is fundamental and VA is collateral because 'prevention is better than cure."

Business Process Re-engineering (BPR)

Business Process Re-engineering (BPR) refers to the fundamental rethinking and redesign of business processes to achieve improvement in critical measures of performance such as costs, quality, efficiency, service, speed, and customer satisfaction. It (BPR) is the practice of rethinking and redesigning the process to support an organization's mission and reduce costs. Key Benefits from BPR may be summarized as:

(i) Reduction in Costs and Cycle Times
(ii) Improvement in Quality
(iii) Customer Focus

To put it in brief, Business Process Reengineering is a strategic tool towards cost reduction as also for increased customer focus and enhanced competitive advantage.

Lean Accounting

Lean Accounting is the application of lean principles to the accounting and associated functions within the enterprise. Lean Accounting facilitates the changes that are required to a company's accounting, control, measurement, and management processes to support lean manufacturing and lean thinking.

Lean Accounting enables identification and elimination of non-value adding waste in the accounting and reporting processes; Improves visual reporting on product lines; and realigns accounting activities to a consulting role rather than a transaction role. Lean accounting empowers the finance and accounting functions to partner with the evolving lean enterprise. When the finance department revamps its processes in line with the lean methods, the time savings and communication gains are substantial.

The purpose of lean accounting is to tell us about the flow through the Value Stream; to tell us about the capacity for extra work in the Value stream; and to tell us about the incremental costs of alternative decisions and actions. Lean accounting provides a stage that enables the accounting team to move from a transaction focus to a new high value role of consulting within other areas of the company.

Enterprises using Lean accounting have better information for decision making as also simple and timely reports that are clearly understood by everyone in the company. They understand the true financial impact of lean changes; they focus the business around the value created for the customers, and lean accounting actively drives the lean transformation. This helps the company to grow, to add more value for the customers, and to increase cash flow and value for the stock-holders and owners.

Cost Reduction

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

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

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

(i) Value Analysis
(ii) Simplification & Standardisation
(iii) Business Process Re-engineering.
(iv) Benchmarking
(v) Financial Restructuring
(vi) Work Study
(vii) Job Evaluation
(viii) Quality Control
(ix) Inventory Control
(x) Credit Control
(xi) And so on.

Differential Cost

Differential cost refers to the difference between the cost of two alternative decisions. The cost occurs when a business faces several options, and a choice must be made by picking one option and dropping the other. The alternative actions may arise due to change in sales volume, price, product mix (by increasing, reducing or stopping the production of certain items), or methods of production, sales, or sales promotion, or they may be due to 'make or buy' or 'take or refuse' decisions.

When the change in costs occurs due to change in the activity from one level to another, the differential cost is referred to as incremental cost or decremental cost if a decrease in output is being considered. The determination of differential cost is simple. Differential cost represents the algebraic difference between the relevant costs for the alternatives being considered. Thus, when two levels of activities are being considered, the differential cost is obtained by subtracting the cost at one level from the cost of another level.

The computation of differential cost provides a useful method of analysis for the management for anticipating the results of any contemplated changes in the level or nature of activity. When policy decisions have to be taken, differential costs worked out on the basis of alternative proposals are of great assistance.

Relevant Costs

Relevant Costs are costs appropriate to aiding the making of specific management decisions (CIMA). They are estimated future costs that differ among alternatives. Similarly, relevant revenues and expected future revenues differ among alternatives. The two key aspects of relevance are:

i. The costs and revenues must occur in future, and
ii. They must differ among alternatives.

The concept of relevant cost is used to eliminate unnecessary data that could complicate the decision-making process. As an example, relevant cost is used to determine whether to sell or keep a business unit. The opposite of a relevant cost is a sunk cost, which has already been incurred regardless of the outcome of the current decision.

If the fixed costs change for the decision at hand, the changed portion becomes relevant whereas opportunity costs cannot be overlooked (e.g., to outsource an activity when there is no idle capacity).

Sunk costs

Sunk costs are costs that were incurred in the past. Sometimes, accountants use the term "sunk costs" to encompass committed costs as well. Committed costs are costs that will occur in the future, but that cannot be changed. Practically speaking, sunk costs and committed costs are not relevant with respect to any decision, because they cannot be changed.

Transfer Pricing

Transfer price is the price that one segment (sub unit, department, division etc.,) of an organization charges for a product or services supplied to another segment of the same organization. Transfer prices are used when individual entities of a larger multi entity firm are treated and measured as separately run entities.

The benefits of Transfer Pricing are as under:

i. Divisional performance evaluation is made easier.
ii. It will develop healthy inter-divisional competitive spirit.
iii. Management by exception is possible.
iv. It helps in co-ordination of divisional objectives in

achieving organizational goals.

v. It provides useful information to the top management in making policy decisions like expansion, sub-contracting, closing down of a division, make or buy decisions, etc,

vi. Transfer Price will act as a check on supplier's prices.

viii. It optimizes the allocation of company's financial resources based on the relative performance of various profit centres, which in turn, are influenced by transfer pricing policies.

Total Quality Management

Total Quality Management is a philosophy of continuously improving the quality of all the products and processes in response to continuous feedback for meeting the customers' requirements. It aims to do things at the first instance rather than trouble shooting after the occurrence. Its basic objective is customer satisfaction.

The elements of TQM may be elaborated as:
T = 'Total' stands for the implication that 'Quality involves everyone and all activities in the Company as whole';
Q = 'Quality' stands for the implication that 'Understanding and meeting the customer requirements'; and
M = 'Management' stands for the implication that 'Quality can and must be managed'.

TQM is a vision based, customer focused, prevention oriented, continuous improvement strategy based on scientific approach adopted by cost conscious people committed to satisfy the customers first time every time. It aims at managing an organisation so that it excels in areas important to the customer.

PRAISE Analysis

PRAISE Analysis is a six step process of the Total Quality Management where identification of improvement opportunities and implementation of quality improvement process takes place. The Six Steps are:

I. Problem identification of customer dissatisfaction
II. Ranking of the problems and opportunities as per priorities
III. Analysis of possible causes of problem, potential implications and quantification of cause and effect
IV. Innovation by creative thinking to generate potential solutions
V. Solution implementation by making required changes in the systems and reinforcing the same with training and documentation backup
VI. Evaluation by monitoring the effectiveness of the actions and identify the potential for further improvements and return to step 1.

These six steps are represented by acronym PRAISE.

Six Sigma

The term six Sigma refers to the ability of highly capable processes to produce output with specifications. In particular, processes that operate with six sigma quality produce at defect levels below 3.4 defects per million opportunities (DPMO). Six Sigma's implicit goal is to improve all process to that level of quality or better.

Six Sigma is a set of practices developed by Motorola to systematically improve process by eliminating defects. A defect is defined as non conformity of a product or service to its specifications.

Six Sigma has two key methodologies viz. DMAIC and DMADV inspired by W. Edward Deming's Plan-Do- Check-Act Cycle. DMAIC is used to improve on existing business process and DMADV is used to create new product or process designs for predictable, defect free performance.

Pareto Analysis

Pareto Analysis is a rule that recommends focus on the most important aspects of the decision making in order to simplify the process of decision making. It is based on the 80:20 rule that was a phenomenon first observed by Vilfredo Pareto an Italian Economist. He noticed that 80% of wealth is owned by 20% of the people. This phenomenon can be observed in many different business situations. The management can use it in a number of circumstances to direct management attention to the key control mechanism. It helps to clearly establish top priorities and to identify profitable and unprofitable targets
Pareto Analysis is useful in routine business situations such as:

(i) Pricing of a product
(ii) Customer profitability analysis
(iii) Stock controls – ABC analysis
(iv) Activity based costing
(v) Quality control

Quality Control

Quality Control refers to the process of control where the management tries to conform the quality of the product in accordance with the pre-determined standards and specifications. It is a systematic control of those variables that affect the excellence of the ultimate product. Thus, quality control is a technique of scientific management which has the object of improving industrial efficiency by concentrating on better standards of quality and on controls to ensure that these standards are always maintained.

Quality Costs

Quality costs are costs directly related to quality. They may be divided into two parts i.e. (i) Quality Control Costs comprising prevention costs and appraisal costs; and (ii) Quality Failure Costs comprising Internal failure costs and external failure costs. Quality training, system development for prevention & quality improvement are examples of prevention costs; Testing and inspection charges, package inspection, final product testing are appraisal costs; Cost of spoilage, retesting, down time due to defects in quality ate internal failure costs; Cost of field servicing, warranty repairs & replacements, lost sales are external failure costs.

Uses and Applications of Learning curve

(i) Learning curve provides insights into better opportunities for cost reduction that can be achieved through improving learning.

(ii) The curve shows that the work force need not be increased at the same rate as the prospective output. It, therefore, provides a basis for correct staffing in continuously expanding production. This also helps in proper production planning through proper scheduling of work; providing manpower at the right moment permitting more accurate forecast of delivery dates.

(iii) In contracts, the bid price is based on the cumulative average unit cost for all the units to be produced for a given contract. Hence, learning curve is frequently used in conjunction with establishing bid price for contracts.

(iv) As employees become more efficient, the rate of production increases and so more materials are needed, the work-in-progress inventory turns over faster, and finished goods inventory grows at an accelerated rate. A knowledge of the learning curve assists in planning the inventories of materials, work-in-progress, and finished goods.

(v) Variable norms can be established for each situation, and a comparison between these norms and actual expenses can be made whereby better controls can be exercised..

(vi) The learning curve may be used for make-or- buy decisions especially if the outside manufacturer has reached the maximum on the learning curve. It helps to calculate the sensitive rates in wage bargaining.

Simulation

A simulation is an imitation of the operation of a real-world process or system. The act of simulating something first requires that a model be developed and that this model represents the key characteristics, behaviours and functions of the selected physical or abstract system or process. The model represents the system itself, whereas the simulation represents the operation of the system over time. Simulation is a very useful technique in the Cost Management.

PERT & CPM

PERT: Project Evaluation and Review Techniques (PERT) is a method of analysing the tasks involved in completing a given project, especially the time needed to complete each task, and to identify the minimum time needed to complete the total project. It incorporates uncertainty by making it possible to schedule a project while not knowing precisely the details and durations of all the activities. It is more of an event-oriented technique rather than start- and completion-oriented, and is used more in projects where time is the major factor rather than cost. It is applied to very large-scale, one-time, complex, non-routine infrastructure and Research and Development projects.

CPM: Critical Path Method (CPM) or Critical Path Analysis (CPA) is a project management tool that helps determination of the minimum time needed to complete a project. The CPM:

(i) Sets out all the individual activities that make up a larger project.
(ii) Shows the order in which activities have to be undertaken.
(iii) Shows which of the activities can be taken up only when the other activities have been completed.
(iv) Shows which of the activities can be undertaken simultaneously, thereby reducing the overall time taken to complete the whole project.
(v) Pinpoints the time schedules needed for the specified resources, for example, a crane to be hired for a building site.

PERT and CPM are complementary tools. CPM employs one time estimate and one cost estimate for each activity. PERT may utilize three time estimates (optimistic, expected, and pessimistic) and no costs for each activity. Although these are distinct differences, the term PERT is applied increasingly to all critical path scheduling.

Avenues of Application of PERT & CPM

(i) Construction of Buildings and Complexes
(ii) Ship building
(iii) Satellite mission development
(iv) Installation of a pipe line project
(v) Research & Development
(vi) Inventory Planning & Control
(vii) Traffic flow Control
(viii) Long Range Planning
(ix) And so on ...

Assignment

An assignment is a particular case of transportation problem where the objective is to assign a number of resources to an equal number of activities so as to minimize total cost or maximize total profit by means of allocation. The assignment problem is one of the fundamental combinatorial optimization problems in the branch of optimization or operations research in Mathematics. In a way, assignment is a special linear programming problem.

A typical assignment problem consists of a number of agents and a number of tasks. Any agent can be assigned to perform any task, incurring some cost that may vary depending on the agent-task assignment. In such a situation, the objective is to perform all the tasks by assigning a cost effective agent to each task in such a way that the total cost of the assignment is minimized.

Assuming that a taxi firm has three taxis (the agents) available, and three customers (the tasks) wishing to be picked up as soon as possible. The firm prides itself on speedy pickups and that for each taxi the "cost" of picking up a particular customer will depend on the time taken for the taxi to reach the pickup point. The solution to the assignment problem will be the combination of taxis and customers that will result in the least cost.

There are four methods of solving an assignment problem, viz. Enumeration Method, Simplex Method, Transportation Method and Hungarian Method.

Some of the situations where the assignment technique may be useful are assignment of workers to machines, salesmen to different sales areas, clerks to various checkout counters, classes to rooms, etc.

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GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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.

MULTIPLE CHOICE QUESTIONS

Choose the correct alternative

1. Notice u/s 143(2) (i.e. notice of scrutiny assessment) should be served within a period of _______from the end of the financial year in which the return is filed.

a. 6 months

b. 12 months

c. 24 months

d. 18 months

Reason:

To carry out assessment u/s 143(3), the Assessing Officer should serve a notice u/s 143(2). Notice u/s 143(2) should be served within a period of 6 months from the end of the financial year in which the return is filed.

2. The objective of carrying out assessment u/s 147 is to bring under the tax net _________

a. Any money, bullion, jewellery, valuable article, etc. which are undisclosed

b. Any income which has escaped assessment

c. Any of the above

d. Both of the above

Reason:

The objective of carrying out assessment or reassessment or recomputation u/s 147 is to bring under the tax net any income which has escaped assessment. Sec. 147 is also known as Income Escaping Assessment.

3. As per section 115JB, every taxpayer being a company is liable to pay MAT, if the Income tax payable on the total income, computed as per the provisions of the Income-tax Act in respect of any year is less than _____________.

a. 15.50%

b. 18.00%

c. 15.00%

d. 20.00%

Reason:

As per sec. 115JB, every taxpayer being a company is liable to pay MAT, if the Income-tax payable on the total income, computed as per the provisions of the Income-tax Act in respect of any year is less than 15% of its book profit.

4. Generally, a domestic company is taxable @ 30%, however in one circumstances, it is taxable @ 25%

a. Where its total turnover or gross receipts during the previous year 2017-18 does not exceed ₹ 400 crore

b. Where its total turnover or gross receipts during the previous year 2015-16 does not exceed ₹ 50 crore

c. Where its total turnover or gross receipts during the previous year 2014-15 does not exceed ₹ 250 crore

d. None of the above

Reason:

Where total turnover or gross receipts of the company during the previous year 2017-18 does not exceed ₹ 400 crore, the company is taxable @ 25%.

5. As per section 178(3), the ____________ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.

a. Managing Director

b. Manager

c. Chartered Accountant

d. Liquidator

Reason:
As per section 178(3), the liquidator of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities

6. Prosecution can be launched and the taxpayer can be punished if he commits wilful failure to produce before the tax authorities the accounts and documents as demanded under section ___________.

a. 154
b. 147
c. 143(1)
d. 142(1)

Reason:
Section 142(1) deals with the general provisions relating to an inquiry before assessment. U/s 142(1), the Assessing Officer can issue notice asking the taxpayer to file the return of income, if he has not filed the return of income or to produce or cause to be produced such accounts or documents as he may require and to furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets and liabilities of the taxpayer, whether included in the accounts or not) as he may require. Sec. 276D provides for prosecution in the case of wilful failure by the taxpayer to produce accounts and documents under section 142(1).

7. In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order/refuse the rectification within ___________ from the end of the month in which the application is received by the authority.

a. 4 years
b. 2 years
c. 1 year
d. 6 months

Reason:
In case of an application made by the assessee u/s 154, the income-tax authority shall rectify the order / refuse to do so within 6 months from the end of the month in which the application is received by the authority.

8. If a person fails to comply with the provisions relating to PAN (*i.e.* obtaining PAN, quoting PAN, etc.), then penalty can be levied under section ________

a. 270A
b. 272
c. 272A
d. 272B

Reason:
Section 272B provides for penalty of ₹ 10,000 in case of default by the taxpayer in complying with the provisions relating to PAN, *i.e.*, not obtaining PAN, even though he is liable to obtain PAN or knowingly quoting incorrect PAN in any prescribed document in which PAN is to be quoted or intimating incorrect PAN to the person deducting tax or person collecting tax.

9. Section _________ specifies the orders against which an appeal can be filed before the Commissioner of Income-tax (Appeals).

a. 246A
b. 260A
c. 253
d. 261

Reason:
Section 246A specifies the orders against which an appeal can be filed before the Commissioner of Income-tax (Appeals).

10. The Commissioner of Income-tax (Appeals) is the _________ appellate authority

a. First
b. Second
c. Third
d. Fourth

Reason:
The Commissioner of Income-tax (Appeals) is the first appellate authority

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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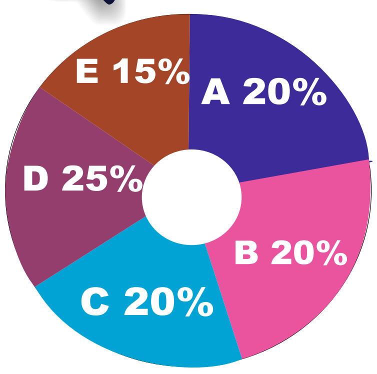
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business Cominations & 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.

Ind AS 16 and Ind AS 36

Fill in the blanks:

1. **The ………………... of an item of property, plant and equipment shall be recognised as an asset if, and only if: (i) it is probable that ………………………… associated with the item will flow to the entity; and (ii) the …………………..… of the item can be measured reliably.**
   a) cost, future economic benefits, cost
   b) future economic benefits, cost, future economic benefits
   c) cost, cost, cost
   d) future economic benefits, future economic benefits, future economic benefits

2. **Property Plant and Equipment (PPE) are initially recognized at …………….**
   a) purchase price
   b) fair value
   c) cost
   d) future economic benefits

3. **In subsequent measurement, Property Plant and Equipment are carried at cost less ………………**
   a) Depreciation less impairment loss
   b) impairment loss less depreciation
   c) depreciation
   d) impairment loss

4. **In subsequent measurement, Property Plant and Equipment may be revalued at fair value and carried at ………….. less post-revaluation …………………..**
   a) cost, depreciation
   b) revalued amount, impairment loss
   c) revalued amount, depreciation and impairment loss
   d) none of the above

5. **Revaluation loss is charged to …………………**
   a) Statement of Profit and Loss if no revaluation surplus exists
   b) Revaluation Surplus if it sufficiently exists
   c) Revaluation Surplus to the extent it exists and balance to Statement of Profit and Loss
   d) all of the above.

6. **Following expenditure subsequently incurred shall be added to the carrying amount of PPE: …………………….**
   a) expenditure which enhances the revenue generating capacity of PPE and major inspection and overhauling expenses on PPE
   b) cost of replacements of PPE
   c) both a and b
   d) none of the above

7. **PPE includes…………**
   a) Land, Ships, Office equipment
   b) Aircraft, Motor vehicles, Bearer plants
   c) both a and b
   d) none of the above

8. **Initial cost of PPE includes ……..**
   a) The estimated dismantling cost.

b) The estimated dismantling cost at present value.
c) The estimated dismantling cost at fair value.
d) none of the above

9. Initial cost of PPE includes ……..

a) Administration and general overhead.
b) Cost of relocating
c) Initial losses when asset is operating at lowlevel
d) none of the above

10. Purchase Price of PPE is recognized …………..

a) before deduction of trade discount and rebate
b) inclusive of GST
c) after deduction of trade discount and rebate and exclusive of GST
d) none of the above

11. Depreciation is the systematic allocation of the ………… of an asset over its useful life.

a) cost
b) depreciable amount
c) Carrying amount
d) none of the above

12. Depreciable amount is the …. of an asset or other amount substituted for ………, less its residual value.

a) cost, cost
b) fair value, fair value
c) carrying amount, carrying amount
d) none of the above

13. Following methods of depreciation are permitted by the standard:……………

a) the straight lime method
b) the reducing balance method and the straight lime method
c) the units of production method, the reducing (diminishing) balance method and the straight lime method
d) none of the above

14. Impairment of assets is recognized as per Ind AS 36 for assets including …….

a) PPE, Intangible assets and good will
b) Inventories, biological assets, financial assets
c) PPE, Intangible assets but not good will
d) PPE but not intangible assets and good will

15. An asset is impaired when the carrying amount of the asset exceeds its ,,,…………...

a) fair value
b) recoverable amount
c) value in use
d) fair value less cost to sell

Answer Key:

1. (a), 2.(c), 3.(a), 4.(c), 5.(d), 6.(c), 7.(c), 8.(b), 9.(d), 10.(c), 11.(b), 12.(a), 13.(c), 14.(a), 15.(b)

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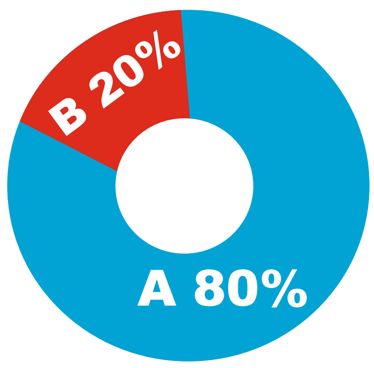
GROUP: iv, PAPER: 18

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

- Maintenance of record by ISD and Casual Taxable Person
- Activities of E – commerce operator and Distinct Person
- GST registration, cancellation and revocation
- Invoice, advance payment, Forms and rate of tax
- Checking of documentary evidences
- Place of business, Electronics ledgers
- Adjustments of excess tax and ITC

INDIRECT TAX

Choose the correct option from the followings –

1.If Input service Distributors (ISD) wants to take reverse charge supplies, then in that case ISD has to

(a) Take special permission from GST authority.
(b) Ask the supplier to give a declaration regarding supplies.
(c) Separately register as Normal taxpayer.
(d) Issue Debit Note to the supplier.

2. As per the CGST,2017 normal period of operation by a Casual Taxable Person is

(a) Thirty days
(b) Sixty days
(c) Ninety days
(d) Hundred twenty days

3. As per CGST (Amendment) Act,2017 small e-commerce operator would not be liable for registration

(a) If he / she is not required to collect, Tax Collected at Source(TCS)
(b) If tax paid on reverse charge mechanism (RCM)
(c) If he / she is not required to collect Tax Deducted at Source(TDS)
(d) If he / she does not make any interstate supply

4. The person with different GSTINs belonging to one business entity (single PAN) situated within the same state or in two different states or in a different country is

(a) Registered person
(b) Unregistered person
(c) Casual person
(d) Distinct person

5. The GST certificate of registration granted in

(a) Form GST REG – 04
(b) Form GST REG – 05
(c) Form GST REG – 06
(d) Form GST REG – 07

6. If the GST registration cancelled on account of failure to furnish returns or failure to pay liability unless such return is filed or liabilities are discharged Application for revocation

(a) Can be filed
(b) Can not be filed
(c) Application to be made in GST REG – 21
(d) Depends as per the discretion of GST authority

7. As per CGST Act,2017 the serial number of invoices issued during a tax period shall be furnished electronically through the common portal in

(a) FORM GSTR – 1
(b) FORM GSTR – 2
(c) FORM GSTR – 3
(d) FORM GSTR – 4

8. in case of a registered person receives an advance payment with respect to any supply of goods or services or both and rate of tax is not determinable, the tax may be paid
   (a) @ 5%
   (b) @ 12%
   (c) @ 18%
   (d) @ 28%

9. As per the notification No 39/2018 – Central Tax dt 04.09.2018 ITC can be availed by registered taxpayers even if in the invoice by supplier found
   (a) Amount of tax charged not mentioned
   (b) Description of the supplies not mentioned
   (c) Total value of supply not mentioned
   (d) Certain clerical mistakes other than above

10. The compliance verification by GST authority done through documentary checks rather than
   (a) Physical control
   (b) Scrutiny of returns
   (c) Audit
   (d) Investigation

11. As per Rule 56(3) of the CGST Rules, 2017 every registered person regarding advance tax received, paid and adjustments made thereto shall
   (a) Inform the competent authority immediately
   (b) Upload the details in the common portal within 15th of the next month
   (c) Keep and maintain a separate account
   (d) Keep and maintain in the in common account

12. As per Rule 56(9) of the CGST Rules, 2017, each volume of books of account maintained manually by the registered person
   (a) Shall be recorded electronically before filing of GSTR – 01
   (b) Shall be serially numbered
   (c) Shall be tallied with supplier records before filing of return
   (d) Shall be intimated to GST authority about manual maintenance of accounts

13. A warehouse, a godown, or any other place where a taxable person stores in goods, supplies or receives goods or services both is to considered as
   (a) Registered warehouse or godown of the taxable person
   (b) Branch of the principal office
   (c) Additional place of business
   (d) Place of business

14. As per section 36 of the CGST Act,2017 every registered taxable person maintain the accounts books and records from the last date of filing Annual Return for the year for at least
   (a) 60 months (5 years)
   (b) 72 months (6 years)
   (c) 84 months (7 years)
   (d) 96 months (8 years)

15. E – commerce operator is required to collect and pay
   (a) Surcharge
   (b) Social welfare surcharge
   (c) TDS
   (d) TCS

16. The amount utilized for payment from the balance in electronic credit or cash ledger will be shown in
   (a) GST PMT – 1
   (b) GST PMT – 2
   (c) GST PMT – 3
   (d) GST PMT – 4

17. The input tax credit as self assessed in the return of a registered person in accordance with section 41 to be maintained in such manner as may be prescribed shall be credited to his
   (a) Electronic liability ledger
   (b) Electronic cash ledger

(c)Electronic credit ledger
(d) Electronic general ledger

18. **IGST credit can be adjusted between CGST and SGST**
(a) Only equally
(b) Any proportion of the option of the supplier
(c) Any proportion of the option of the assessee
(d) Equally or any other proportion of the option of the assessee

19. **As per section 49(9) of the CGST Act,2017 interest, penalty, fee or any other amount payable under this act or rules made there under means**
(a) Tax dues
(b) Other dues
(c) General dues
(d) Specific dues

20. **Interest rate per annum for a taxable person who makes an undue or excess claim of input tax credit is**
(a) 12%
(b) 18%
(c) 24%
(d) 28%

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GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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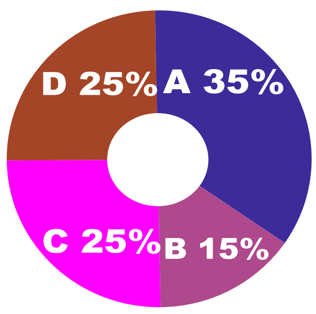
Your Preparation Quick Takes



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

Understanding Non-Cost Income and Non-Cost Expenses for Maintenance of Cost Records and Cost Audit

Introduction

Understanding the basic concept of identification of non-cost expenses and non-cost income is the basis for arriving at true and fare view of cost of production of any product or services.

The non-cost income and non-cost expenses can broadly be classified into following categories-

i. Abnormal and non-recurring income or expenses
ii. Any form of penalties and fines paid or received
iii. Expenses or income not related to the production or service activity
iv. Expenses or income not related to the period of which the cost records or audit pertains to.

Description

Pursuant to Rule 5(1) of the (Companies Cost Records and Audit) Rules 2014 (CCRA Rules 2014), every company under CCRA Rules including all units and branches thereof, shall, in respect of each of its financial year maintain cost records in Form CRA-1. CRA-1 basically provides for an exhaustive list of the components or particulars of each cost element. Following are some of the examples that show the non-cost component in each cost element that the company should exclude from its calculation of cost of production or service.

1 . Material Cost

- Abnormal loss of material due to any mishandling shall not form part of the material cost.
- Loss due to fire/Cyclone/Natural calamity, shall not form part of the material cost.
- Over and above the normal loss or any demurrage /detention charges.
- Penalty or levy by transport or other authorities.
- Income from sale of scrap material which is abnormal in nature or over and above the normal scrap.
- Forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till the date of its payment or otherwise shall not form part of the material cost.

2. Employees Cost

- Separation cost related to voluntary retirement/ retrenchment is to be amortized. The non-amortized amount is to be excluded from employees cost of that period.
- Abnormal payment made to employees with respect to abnormal idle time. Abnormal idle time can be caused by events like unplanned maintenance or breakdown of machinery.
- Penalties or damages paid to statutory authorities with respect to employee's payments. For example, penalty or interest due to late deposit of TDS by the employer.

3. Utilities

- Penalty or damages paid to statutory authorities for self-generated utilities for own consumption shall not form part of cost of generation of such utilities. Examples of such costs are penalty for non-compliance of pollution standard.
- The cost of abnormal consumption of material for generation of utilities.

4. Repair and maintenance

- Cost of major overhaul shall be amortized on a rational basis. The unamortized amounts are to be excluded from the cost of repair and maintenance for that period.

- Any unplanned repairs and maintenance, cost of spare parts etc. are not to be included in the repairs and maintenance cost.

5. Fixed Assets and Depreciation

- Impairment loss of assets shall be excluded from cost of production.
- Loss due to fire/Cyclone/Natural calamity etc.
- Loss/profit on sale of assets.
- Depreciation on assets shall not be considered in case the cumulative depreciation exceeds the original cost of assets and net residual value.

6. Overheads

- Overheads relating to abnormal consumption of material, abnormal generation of self-generated utilities, abnormal repair and maintenance are to be excluded from the overheads.

7. Administrative Overheads

- Expenses in nature of fines, penalties or damages paid to statutory authorities or other third parties shall not form part of administrative overheads.

8. Transportation Expenses

- There are two scenarios for transport cost - one is the manufacturer having his own facility and another is the manufacturer hires transportation facility.

In case of manufacturer having his own facility, the cost is to be determined by adding up various cost elements such as salaries, wages, repairs, direct expenses etc. Any abnormal portion of such cost elements are to be excluded.

In case the manufacturer has hired for transportation facility any payment made in nature of demurrage/penalty shall not be considered as part of cost of transportation.

9. Royalty and technical knowhow

- Penalties and damages paid to statutory authorities or third parties shall not form part of amount of royalty and technical knowhow fees.

10. Research and development cost

- Research and development cost can be
  - Incurred for development and improvement of an existing process
  - Or new process
- Penalties and damages paid to statutory authorities or third parties shall not form part of Research and development cost.
- Research and development cost attributable to specific cost object shall be assigned to that cost object directly. Research and development cost not attributable to specific product shall not form part of the cost of the product.

11. Packing Expenses

- It is required by the company to maintain separately for domestic and export packing. Packing can be self-manufactured or can be procured from third parties. Abnormal consumption of materials for manufacturing the packing material shall not form part of packing cost. Any payment in nature of demurrage or penalty charges to the third parties, suppliers shall not form part of packing cost.
- The forex component of imported packing material cost shall be converted at the rate on the date of transaction. Any subsequent changes in the exchange rate till payment or otherwise shall not form part of the packing material cost.

13. Capacity determination

- Capacity shall be determined in terms of production or equivalent machine or man hours.

Normal capacity shall be determined vis-à-vis installed capacity after carrying out adjustments for

- Holidays, normal shutdown days and normal idle time
- Normal time lost in batch change over
- Time loss due to preventive maintenance and normal break down of equipment
- Loss of efficiency due to ageing of equipment
- Number of shifts

- By monitoring the historical capacity utilization if the capacity utilization of current year varies and is significantly lower than the average of the same of three previous year, then necessary adjustment should be made to the fixed cost of the current year on account of lower capacity utilization to arrive at fair cost of production.

Disclosure / Presentation

Under CCRA Rules 2014, on of the annexures to the cost audit report i.e Part D - 2, relates to "Statement for Profit Reconciliation'. This statement specifies the incomes and expenses that are not considered in calculation of 'Margin as per cost accounts' of a product under audit. Each and every non-cost income and non-cost expenses of current year and previous year are to be disclosed separately in this statement.

YEARS OF CELEBRATING THE MAHATMA

Dr. Ashish Kumar Sana
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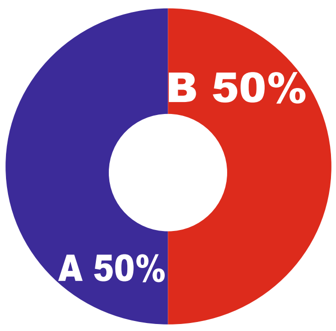
GROUP: iv, PAPER: 20

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

Du-Pont Analysis

"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 × Asset Turnover Ratio × Equity Multiplier
= (Net profit / Sales) × (Sales / Total Assets) × (Total Assets / Total Equity)

Based on these three performances measures the model concludes that a company can raise its ROE by maintaining a high-profit margin, increasing asset turnover, or leveraging assets more effectively. It highlights the company's strengths and pinpoints the area where there is a scope for improvement.

Risk Mapping

Risk mapping is the process of identifying, quantifying and prioritizing the risks that may interfere with the achievement of organizational objectives.

The benefits of Risk Mapping are as follows:

- Promotes awareness of significant risks through priority ranking, facilitating the efficient planning of resources.
- Enables the delivery of solutions and services across the entire risk management value chain.
- Serves as a powerful aid to strategic business planning.
- Aids the development of an action plan for the effective management of significant risks.
- Assigns clear responsibilities to individuals for the management of particular risk areas.
- Provides an opportunity to leverage risk management as a competitive advantage.
- Facilitates the development of a strategic approach to insurance programme design.
- Supports the design of the client's risk financing and insurance programmes, through the development of effective/optimal retention levels and scope of coverage etc.

Multiple Choice Questions (MCQs)

Section-A

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

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

2. **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**
(A) Increase to infinity
(B) Fall to zero
(C) Decrease by more than 10%
(D) Decrease by less than 10%.

3. **If the average cost function of a firm is given by $AC = x - 4x + 7$, in terms of output x, what will be its marginal cost?**
(A) $2x^3-4x^2+7x$
(B) $3x^2-8x+7$
(C) x^3-8x^2+7x
(D) None of the above

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

5. Which is not a, human capital related intangible asset?
(A) Trained workforce
(B) Employment agreements
(C) Union contracts
(D) Design patent

6. X Ltd. earned free cash flow to Equity shareholders during the financial year ended-2019 at Rs. 5 lakh. If it's cost of equity is 12% and free cash flow to Equity (FCFE) is expected to grow forever at 10%, what will be value of ANINY LTD. (using FCFE valuation approach)?
(A) Rs.450 lakh
(B) Rs.300 lakh
(C) Rs. 275 lakh
(D) None of the above

7. In the context of an acquisition of a firm, which one of the following concepts of value is least relevant?
(A) Market Value
(B) Opportunity Cost
(C) Synergy Value
(D) Value Gap

8. Which one of the following is correct for Altman Z-Score Model?
(A) $Z=1.2X_1+ 1.4X_2+3.3X_3+0.6X_4+1.0X_5$
(B) $Z=1.2X_1+ 1.3X_2+3.3X_3+1.6X_4+1.1X_5$
(C) $Z=1.4X_1+ 1.4X_2+2.3X_3+1.6X_4+1.2X_5$
(D) $Z=1.6X_1+ 1.5X_2+1.3X_3+2.6X_4+1.7X_5$

Section –B

1. The following data is given to you regarding a company having a share in branded portion as well as unbranded portion;

Branded revenue	Rs. 500 per unit
Unbranded revenue	Rs.120 per unit
Branded cost	Rs.350 per unit
Unbranded cost	Rs.100 per unit
Research & Development	Rs.20 per unit
Branded products	1 lakh unit
Unbranded Products	40,000 units
Tax rate is 39.55%; capitalization factor 18%	

Based on the above information, answer the following questions: [2+2+2+2]

(i) The net revenue from the branded product
(A) Rs.1,50,00,000
(B) Rs.1,70,00,000
(C) Rs.1,85,00,000
(D) Rs.2,10,00,000

(ii) Net revenue from the unbranded product

(A) Rs. 7,50,000
(B) Rs. 7,65,000
(C) Rs. 7,90,000
(D) Rs. 8,00,000

(iii) PAT for branded product
(A) Rs. 63,74,900

(B) Rs. 70,54,900
(C) Rs. 73,74,900
(D) Rs. 83,64,900

(iv) Brand value
(A) Rs. 409,71,666
(B) Rs. 419,72,666
(C) Rs. 429,51,666
(D) Rs.439,71,666

2. K Ltd. is operating in a perfectly competitive market. The price elasticity of demand and supply of the product estimated to be 3 and 2 respectively. The equilibrium price of the product is Rs.100. If the government imposes a specific tax of Rs. 10 per unit, what will be the new equilibrium price?
(A)Rs.101
(B)Rs.104
(C)Rs.105
(D)Rs. 107

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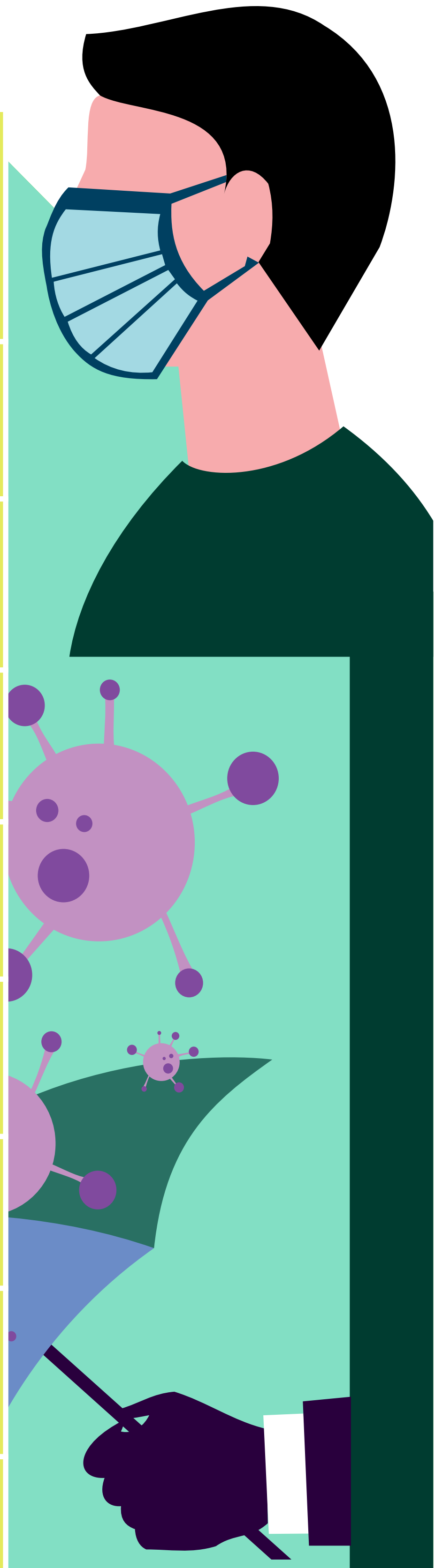
December 2020, Issue

Examination
RESCHEDULED TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
3rd January, 2021 (Sunday)	Corporate Laws & Compliance (Paper 13) **(Group - III)**
4th January, 2021 (Monday)	Corporate Financial Reporting (Paper 17) **(Group - IV)**
5th January, 2021 (Tuesday)	Strategic Financial Management (Paper 14) **(Group - III)**
6th January, 2021 (Wednesday)	Indirect Tax Laws & Practice (Paper 18) **(Group - IV)**
7th January, 2021 (Thursday)	Strategic Cost Management - Decision Making (Paper 15) **(Group - III)**
8th January, 2021 (Friday)	Cost & Management Audit (Paper 19) **(Group -IV)**
9th January, 2021 (Saturday)	Direct Tax Laws and International Taxation (Paper 16) **(Group - III)**
10th January, 2021 (Sunday)	Strategic Performance Management and Business Valuation (Paper 20) **(Group - IV)**



STAY HOME STAY SAFE

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

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.

150 YEARS OF CELEBRATING THE MAHATMA

Message from

Directorate of Studies

Dear Students,

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!

GOOD LUCK

Be Prepared and Get Success;

Few Snapshots

CMA Vijender Sharma, Chairman, International Affairs Committee and PD & CPD Committee along with CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI and CMA S. M. Gomes, Director Studies of the Institute met with H.E. Dr. Roger Gopaul, High Commissioner for the Republic of Trinidad and Tobago on 1st December 2020 to discuss the proposal submitted by the Institute to impart Cost & Management Accounting Course in Trinidad and Tobago.

CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President, CMA Balwinder Singh, Immediate Past President of the Institute extending greetings to Shri Rajesh Verma, Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.

CMA Biswarup Basu, President along with CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President and CMA B.B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, GoI extending greetings to Shri Naresh Salecha, Member Finance, Railway Board on 14th October 2020.

CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President of the Institute extending greetings to Shri Manoj Pandey, Joint Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.

CS Ashish Garg, President, ICSI along with CS Manish Gupta, Council Member, ICSI and CS Asish Mohan, Secretary, ICSI visited Delhi office of the Institute to meet CMA Biswarup Basu, President, CMA P Raju Iyer, Vice President and CMA Balwinder Singh, Immediate Past President of the Institute.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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