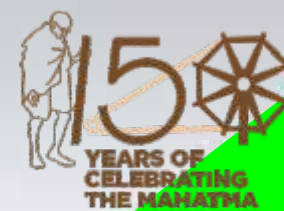


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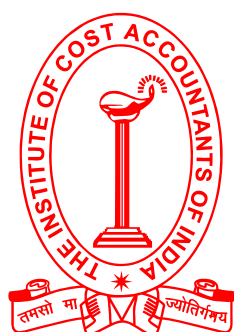
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CMA Student E - Bulletin

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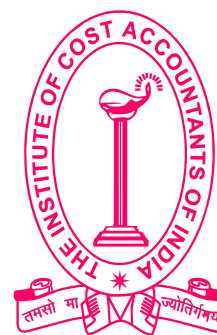
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Behind every successful business decision, there is always a CMA

Message from The Chairman

CMA Biswarup Basu

Vice President & Chairman,
Training & Education Facilities
and Placement Committee



MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!!

The aim of education is to make a person intelligent enough to make decisions logically, knowledgeable enough to take up a right career path and skilled enough to be self-supportive.

According to the great legend, Mahatma Gandhi, "literacy in itself is no education". Only mugging up facts and developing an ability to read and write does not fulfil the real aim of education. Education is a never-ending process. It doesn't stop after earning a degree and starting a career. Through continuing education, career-minded individuals can constantly improve their skills and become more proficient at their jobs. Education gives you a competitive advantage that is very hard for competitors to duplicate, and lies at the very heart of success.

Getting a professional education is important for shaping your career to move towards a right direction. It is important to choose a right career as your every step in future depends on this decision. Professional education provides specialized training in professional areas through professional courses offered by institutions.

A genius, perhaps, can manage even without entering its portals. But, to a normally gifted student sympathetic and enlightened guidance is required in the early stages of his studies. This is a big responsibility on the part of the Institution. The Directorate of Studies is continuously trying to update your knowledge through various publications in soft versions like Mock Test Papers (MTPs), Work Books, monthly students E-bulletins etc. where eminent academicians and industrial personnel are contributing through their write up for your knowledge development. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them.

Everything you do in your practice should be focused around education. **"A man is the product of his thoughts. What he thinks he becomes"** - M K Gandhi.

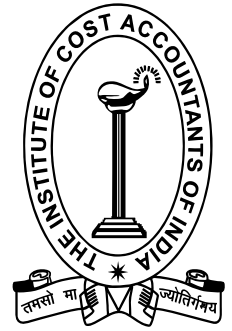
Keep up your spirit and march ahead!

Best wishes as always,

CMA Biswarup Basu
Chairman, Training & Education Facilities and Placement Committee



Be a CMA, be a Proud Indian

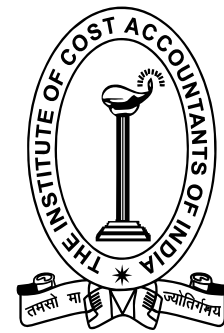


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KNOWLEDGE Update



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.

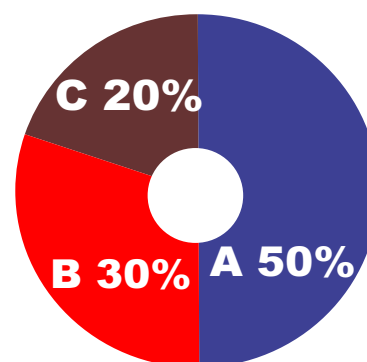


GROUP: 3, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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Your Preparation Quick Takes



Syllabus Structure

A Companies Act 50%

B Other Corporate Laws 30%

C Corporate Governance 20%

Learning Objectives:

Read the Study Material minutely.

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

Evaluation of CST Project

For CSR projects and other social projects it is important to look beyond routine economic aspects and further evaluate the benefits of proposed project on a social and environmental plane

- ▶ Social Return On Investment (SROI) is an impact assessment tool that measures the total value generated for every rupee that is spent in the development sector by undertaking a cost-benefit analysis and impact assessment
- ▶ SROI helps to understand the value of all outcomes including outcomes having no direct `
- ▶ It gives a monetary value to social and environmental outcomes i.e. how much social value is created per rupee of investment

Companies must strike a balance between the economic dimension of doing business (profit, return on investment and continuity) and the ethical, social and ecological side (people, society and the environment)

A study is carried out to capture the views of the people as to what are the issues faced by them, their requirements for development, and areas that they would like to be addressed.

- The baseline study is carried out after an initial Needs Assessment is done but before project starts unless the baseline study is required for investment decision inputs
- Key initial pre-project conditions (indicators) are measured before a project/Program begins from which change and progress can be later measured and evaluated
- Data is collected at project / program outset to capture and analyze the existing state of people, business environment, demographic information etc. of the select village, town or district covering project's affected area
- A need assessment and a baseline study should be done before starting any project or concept to ensure that projects taken up are based on the needs of the society
- Study should focus on analysis of findings and conclusions

If the data against which to monitor and measure the changes is not clear, it will be difficult to know the impact of the project on the lives of the people and the ecosystem

Information gathered and analyzed in the baseline should:

- Consist of data or indicators specifically chosen to monitor project performance on a regular basis
- Consider the use of these indicators at a later time to investigate project effects and impacts
- Data collection methods can be qualitative or quantitative

Geographic and demographic scope of the study should cover:

- ◇ Critical conditions /assumptions for the study
- ◇ Available budget
- ◇ Who will conduct baseline study - external/internal/both
- ◇ Methodology to be used
- ◇ Time frame etc.

Primary Information

Collect factual data - in depth personal individual and group interviews and surveys of beneficiaries or families using structured questionnaire with number of relevant questions

Secondary Information

- Information gathering - can use Government statistics on population, employment, agriculture, business, industry etc. census data, media reports, NGO studies, university research, relevant websites etc

The success of the good evaluation

proper research design and format of questionnaire

- Questions should be relevant that will throw light on needs and priorities for effective CSR activities for intended beneficiaries
- Most questions in questionnaire should have close ended options with predefined selections with some open ended questions that allow respondent to express their opinion
- The research design will guide us on number of interviews into households, business, trade, commerce, society, professionals, industry associations, opinion, leaders etc.

Qualitative data

Explains what is being studied with words such as documented observations, representative case descriptions, perceptions, opinions of value, etc. e.g. In community meetings women said they spend a significant amount of time collecting drinking water so less water is available for cleaning and household chores

Quantitative data. Measures and explains what is being studied with numbers such as counts, ratios, percentages, proportions, average scores, etc. e.g. 42% of the households spend more than two hours gathering water for their needs. The sample respondents covered must be representative of all types of stakeholders who are residing in or will be affected by the proposed CSR project activities. Choose a suitable sample size for deciding the research design and have complete demographic information for a realistic picture of the existing status and their needs and priorities. Cover aspects like:

- ◇ Number of households
- ◇ Population
- ◇ Occupation
- ◇ Education
- ◇ Health care
- ◇ Infrastructure - water, sanitation, toilets etc.

Points to consider for effective evaluation of CSR project.

- Create awareness in the area when beginning the survey
- Provide necessary authority letters to field investigators collecting the data
- Have clarity on the research design, sampling techniques and methodologies to be used
- Check needs and priorities in areas like water, sanitation, health care, education, women empowerment, environment, child care etc.
- Check that all stakeholders have been identified

Have a data validation and back checking mechanisms

Points to consider for effective baseline assessment:

- Companies should interact frequently with their field team members to get first hand inputs and assessment of the needs and priorities of the local populace being surveyed
- Carry out data analysis, and interpretation of the data with conclusions
- Monitor and evaluate the assignment
- Suggest short term and long term projects

Ensure sustainable, tangible and actionable recommendations for implementation

CSR Project Proposal

Organizations should aim to achieve a balance of economic, environmental and social imperatives

Consider:

- Their CSR policy
- Institutional mechanisms
- Information from the government sources, previous studies done in the area, etc.
- Information on programs targeting similar geographies and beneficiary groups or strategies
- Monitoring impact measurement reports from any earlier projects

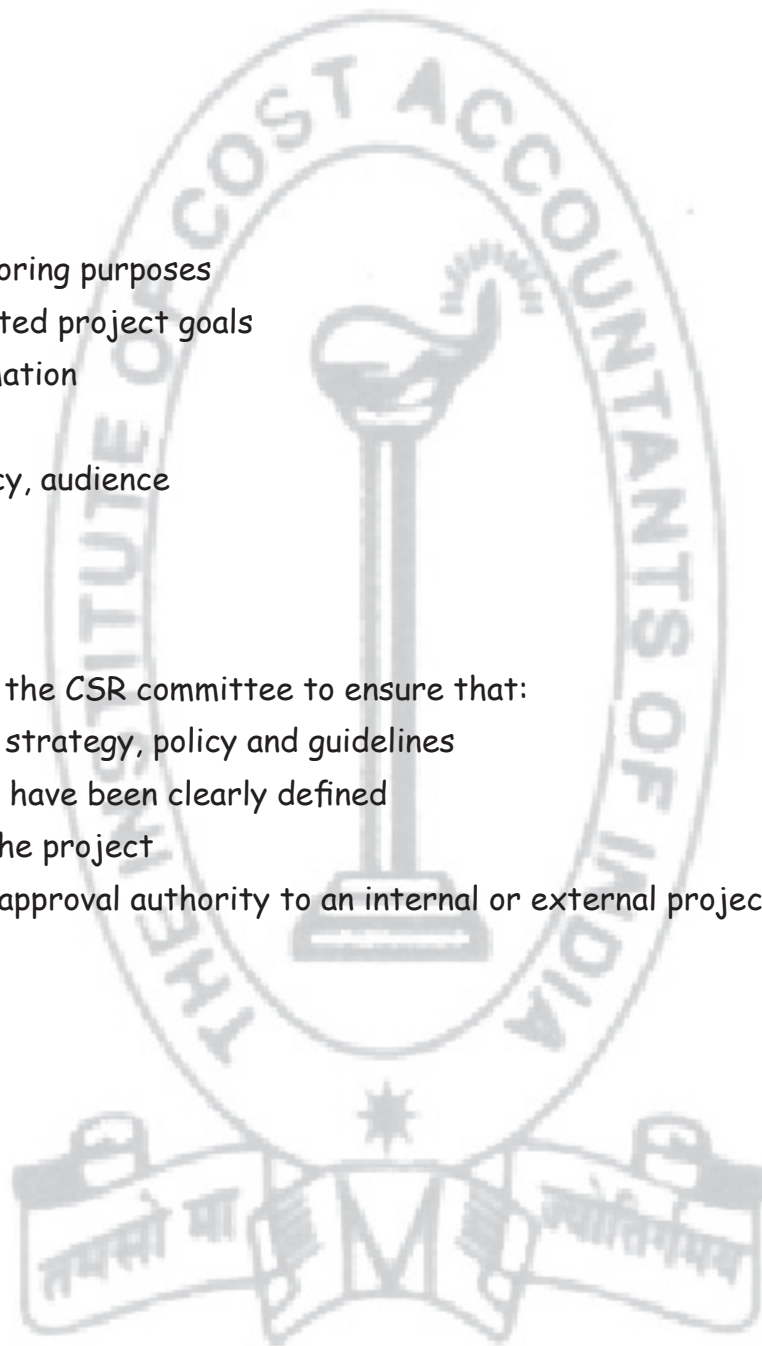
Details:

- The project context
- Roles of other development bodies
- Key needs of the target beneficiaries
- Project goals, KPIs, baselines
- Project milestones for progress monitoring purposes
- Activities and timelines to achieve stated project goals
- Budgets along with the basis for estimation
- Risks and mitigation strategies
- Progress reporting - content, frequency, audience

Project approval

All project must be formally approved by the CSR committee to ensure that:

- ◇ Project is line with the company's CSR strategy, policy and guidelines
- ◇ Monitoring indicators are relevant and have been clearly defined
- ◇ Required budget will be available for the project
- ◇ The CSR committee can also delegate approval authority to an internal or external project approval committee



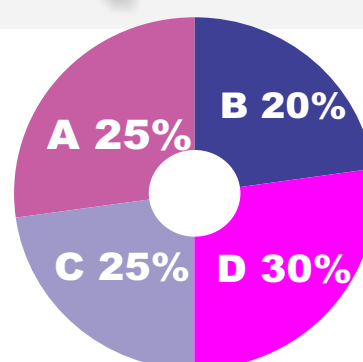


GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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Your Preparation Quick Takes



Syllabus Structure

- A Investment Decisions 25%
- B Financial Markets and Institutions 20%
- C Security Analysis and Portfolio Management 25%
- D Financial Risk Management 30%

Learning Objectives:

After studying this section on Strategic Financial Management, you will be able to:

- understand the advanced concepts of Financial Management
- develop and apply financial strategies

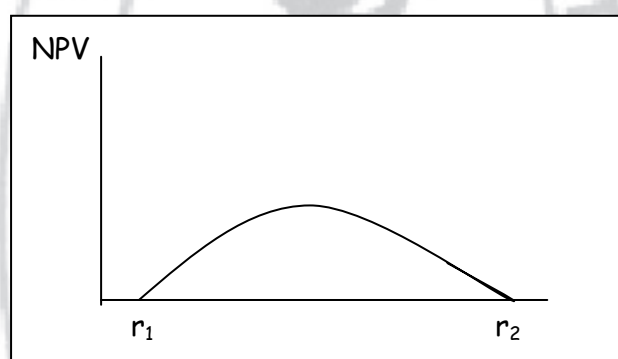
Strategic Financial Management

Investment Decision, Project Planning and Control

Multiple IRR:

Though in case of a project with conventional cash flow pattern, IRR is derived as a unique rate of return (i.e. single rate), the same is not true in case of a project with non-conventional cash flow pattern. A project with non-conventional cash flow pattern is one where initial cash outflow is followed by a series of cash inflows as well as one or more major cash outflow subsequently. In such a case it is not impossible to obtain multiple IRRs for a project.

In the following diagram, the project NPV has become zero at two different discounting rates (r_1 and r_2). Hence, the project has two IRRs r_1 and r_2 .



Consider the following example.

Illustration:

Calculate the IRR of a project having following cash flow structure over its four years lifespan.

Year	0	1	2	3	4
Cash Flow (₹)	-2,000	1,600	2,000	2,600	-4,400

Here negative cash flow in year 0 and 4 indicates initial and subsequent investment (cash outflow) in the project.

Solution:

In the given situation IRR can be calculated from the following equation,

$$(-2000)/(1+r)^0 + 1600/(1+r)^1 + 2000/(1+r)^2 + 2600/(1+r)^3 + (-4400)/(1+r)^4 = 0 \text{ where } r = \text{IRR}$$

Solving the equation we can get IRR = 6.6% and 36.55%.

Thus, here the project has two IRRs.

Problem with Multiple IRR and How to Resolve the Same:

Though mathematically both the above IRRs are possible, in practice, selecting projects with multiple IRRs may appear to be quite difficult. In case cost of capital is lower than the lower IRR, the project is obviously acceptable as the project will generate positive NPV. Similarly, if the cost of capital is higher than the higher IRR, the project is obviously rejected as the NPV, in such a case, bound to be negative. A real problem appears if the cost of capital lies in between the two IRRs.

In such a case, using Modified Internal Rate of Return (MIRR) method which produces a single IRR even in case of a project with non-conventional cash flow pattern, is suggested.

Limitations of IRR Method:

- (a) IRR method involves tedious calculation and requires a trial and error approach to arrive at the accurate IRR.
- (b) As stated earlier, for non-conventional cash flow projects, there can be multiple IRRs.
- (c) This method assumes that the future cash flows of a project will be reinvested at its own IRR for the rest of the life of the project. However this hardly holds good in reality. Moreover, assuming separate reinvestment rates while evaluating mutually exclusive projects may mislead the decision maker altogether. On the contrary, NPV method assumes the same minimum required rate of return to appraise the mutually exclusive projects, which is more a logical.
- (d) While evaluating mutually exclusive projects, the results under this method may not be consistent with the results under NPV method if the projects under consideration differ with respect to their (i) life expectancy, (ii) investment size and (iii) timing of cash flow (the issue will be taken up for discussion later).

Relation between IRR and NPV:**Agreement Between NPV and IRR:**

In case of a single or independent project, decision under IRR and NPV appears to be the same. In such a case a project which is accepted under NPV method due to having positive NPV obviously has an IRR higher than the cost of capital. Similarly, projects having negative NPV necessarily have IRR less than the cost of capital and hence are rejected under both the methods.

This can be explained with the help of the following example.

Initial Investment required for the project ₹ 180000

Estimated life span 5 Years

Year	1	2	3	4	5
Cash Inflow (₹)	50,000	60,000	70,000	80,000	60,000

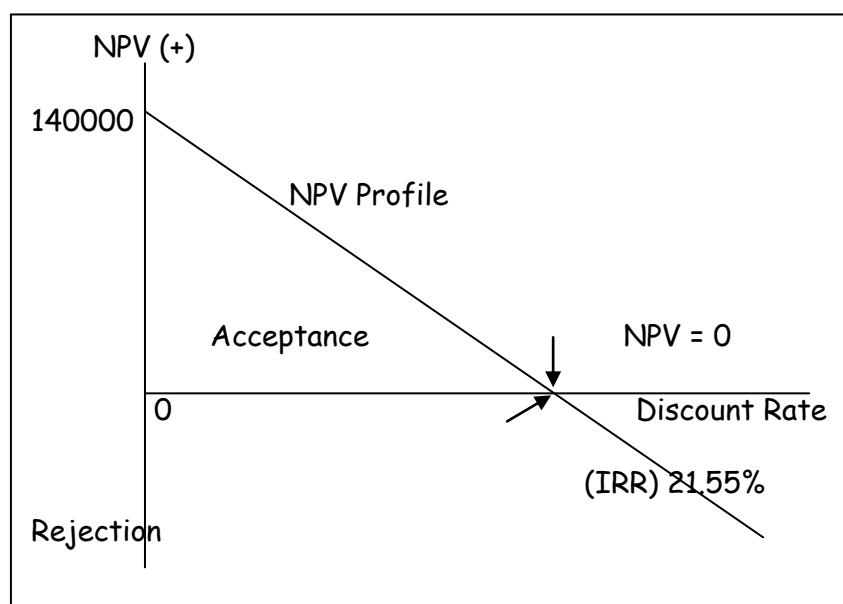
The IRR of the project can be computed as 21.55%.

Now NPV profile of the project at alternative discount rate will be as follows -

Discount Rate	NPV (₹)
0%	1,40,000
5%	95,380
10%	59,480
20%	6,500
21.55% (IRR)	0
25%	(-) 13,280

It can be seen from the above NPV profile that for discounting rates below IRR, NPV is positive for all the discounting rates. Hence at any cost of capital below 21.55%, the project is acceptable under NPV. Again since in such a case cost of capital is lower than the IRR, the project is acceptable under IRR also. Similarly, at all discounting rate below the IRR (21.55%), NPV is negative and hence the project is rejected. Now for any cost of capital lower than the IRR the project is also rejected under IRR method. At 21.55% i.e. IRR the project has zero NPV.

This can be shown graphically also.



Conflict Between NPV and IRR Methods:

Though in case of a single independent project application of both NPV and IRR methods always choose the same project, while evaluating mutually exclusive projects, the results sometimes lead to conflict. In other words, the project which is acceptable under NPV may not be so under IRR and vice-versa.

Such conflict may arise because of three reasons:

- (a) Difference in the timing of cash flow or cash flow pattern of alternative projects, known as **time disparity in cash flow**.
- (b) Difference in the life expectancy of the alternative projects known as **life disparity**.
- (c) Difference in the investment size (size of cash outflow) of the alternative projects known as scale or **size disparity**.



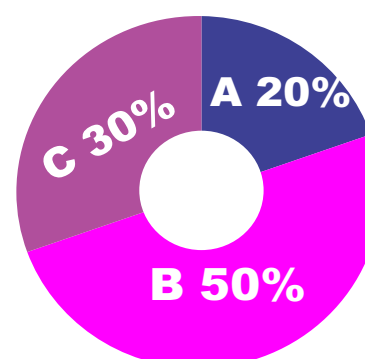
GROUP: iii, PAPER: 15

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:

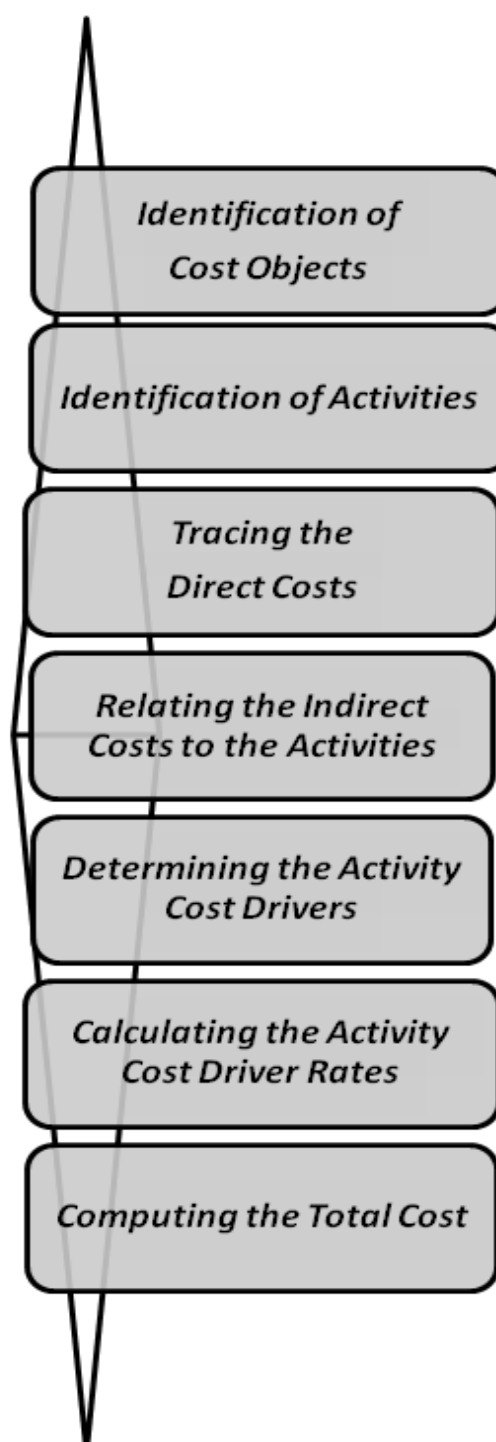
- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort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

Implementation of ABC**Vital Steps**

There are seven vital steps to the implementation of ABC.

- 1. Identification of Cost Objects:** Cost Object refers to an item for which cost measurement is required, e.g. a product, a service, or a customer. Therefore, the first step is to identify the product, service or customer of any organization for which cost measurement is undertaken.
- 2. Identification of Activities:** An activity means an aggregate of closely related tasks having some specific functions which are used for completion of goals or objectives. For example, customer order processing is an activity of marketing department. It includes receiving order from customers, interacting with production department regarding capacity to produce and giving commitment to the customer regarding delivery time. An in-depth analysis of the operating processes of each responsibility segment may throw up the main activities that are being performed in the organization.
- 3. Tracing the Direct Costs:** The direct cost of products or objects may comprise direct material cost, direct labour cost and direct expenses. Classification of as many of the total costs as direct costs as is economically feasible should be made. It reduces the amount of costs to be classified as indirect.
- 4. Relating the Indirect Costs to the Activities:** After identifying the organization's activities, the various items of indirect costs are related to activities, viz. both support and primary which caused them. As a result of relating the items of indirect costs to various activities, cost pools or cost buckets are created. (A cost pool is a term used to indicate grouping of costs incurred on a particular activity which drives them.)
- 5. Determining the Activity Cost Drivers:** Cost drivers are the basis of charging cost of an activity to a cost object. The determination of the activity cost drivers enable relating the indirect costs collected in cost pools to the cost objects or products. It is done on the basis of the factor that drives the consumption of the activities.
- 6. Calculating the Activity Cost Driver Rates:** Activity cost driver rates are used to ascertain the amount of overhead chargeable to various cost objects or products. The activity cost driver rates for each activity are calculated in the same way in which overhead absorption rates would be calculated under the traditional system. The formula is:

$$\text{Activity Cost Driver Rate} = \frac{\text{Total Cost of Activity}}{\text{Activity Driver}}$$
- 7. Computing the Total Cost:** The total costs of the products are computed by adding all direct and indirect costs assigned to them. The amount of indirect costs chargeable to a product or cost object are calculated by multiplying the activity cost drivers rates by the unit quantities of each of the activities that each product or the cost object consumes.



Example

Here is an example (adopted from the question paper of June 2019) that reflects the computation of total costs by means of ABC.

Question

Vikas Associates, a firm of Chartered Accountants, offers three different types of services, namely, Accounting and Auditing, Taxation and Management Consultancy. Each service is charged on the basis of number of billable hours. The average charge per billable hours is ₹ 500. For the year ending 31.03.2019 the firm projects the following estimate of direct and indirect costs:

Costs	Particulars	(₹ Lakhs)	(₹ Lakhs)
Direct Costs:	Accounting & Auditing	100.00	
	Taxation	100.00	
	Management Consultancy	50.00	250.00
Indirect Costs:	Planning & Review	7.50	
	Computer Processing	7.20	
	Professional Salaries	5.60	
	Books, Seminars & Periodicals	1.80	
	Programming Costs	8.00	
	Building Costs	4.90	
	General Administration Costs	15.00	50.00
Total			300.00

Until 31.03.2018 the firm has been allocating the indirect costs on the basis of billable hours. For the year ending 31.03.2019 it was decided to introduce a system of activity based costing to capture the indirect costs more accurately. The following data were gathered accordingly:

Particulars	Accounting & Auditing	Taxation	Management Consultancy
Billable Hours	55000	35000	10000
EDP Hours	5000	2500	500
Professionals (Nos.)	30	16	10
Books, Seminars & Periodicals (₹)	57500	62500	60000
Programming Hours	1250	500	2250
Building (Sqft.) space occupied	8000	4000	2000
Administration (No. of clients)	150	250	100

Required:

- Prepare a profitability statement on the basis of conventional costing
- Prepare a profitability statement on the basis of activity- based costing
- Draw a comparative Statement of Indirect Costs & Profits
- Any suggestion for improving the billable charge on the basis of ABC assuming the same rate of margin of 66.667% on total cost?

Solution**(i) Profitability Statement on the basis of Conventional Costing**

Activity	Accounting & Auditing	Taxation	Managmt. Consultancy	Total (₹ Lakhs)
Number of Billable Hours	55,000	35,000	10,000	1,00,000
Revenue in ₹ Lakhs @ ₹ 500/- per hour	275.00	175.00	50.00	500.00
Direct Costs	100.00	100.00	50.00	250.00
Indirect Costs in ₹ Lakhs @ ₹ 50/- per hour	27.50	17.50	5.00	50.00
Total	127.50	117.50	55.00	300.00
Profit	147.50	57.50	(5.00)	200.00

(ii) Profitability Statement on the basis of Activity Based Costing

Step 1

Computation of Cost Driver Rates

Cost Pool	Cost Driver			Cost Driver Rate (₹ per Unit)
	Base	Units	Cost (₹ Lakhs)	
Planning and Review	Billable Hrs	1,00,000	7.50	7.50
Computer Processing	EDP Hours	8,000	7.20	90.00
Professional Salaries	Number of Professionals	56	5.60	10,000.00
Programming Costs	Programming Hours	4,000	8.00	200.00
Building Costs	Sq.ft. Occupied	14,000	4.90	35.00
Administration Costs	Number of Clients	500	15.00	3000.00

Step 2

Apportionment of Indirect Costs on the basis of Cost Driver Rate

Activity	Accounting & Auditing	Taxation	Management Consultancy
Planning and Review			
Number of Billable Hours	55,000	35,000	10,000
Cost @ ₹ 7.50 per hour	4,12,500	2,62,500	75,000
Computer Processing			
EDP Hours	5,000	2,500	500
Cost @ ₹ 90/- per hour	4,50,000	2,25,000	45,000
Professional Salaries			
Number of Professionals	30	16	10
Cost @ ₹ 10,000/- per professional	3,00,000	1,60,000	1,00,000
Books, Seminars & Periodicals			
Actuals	57,500	62,500	60,000
Programming Costs			
Programming Hours	1,250	500	2,250
Cost @ ₹ 200/- per hour	2,50,000	1,00,000	4,50,000
Building Costs			
Sq.ft. Occupied	8,000	4,000	2,000
Cost @ ₹ 35/- per sq.ft.	2,80,000	1,40,000	70,000
Administration Costs			
Number of Clients	150	250	100
Cost @ ₹ 3,000/- per client	4,50,000	7,50,000	3,00,000
Total Cost	22,00,000	17,00,000	11,00,000

Step 3

Profitability Statement on the basis of ABC

Activity	Accounting & Auditing	Taxation	Managmt. Consultancy	Total (₹ Lakhs)
Number of Billable Hours	55,000	35,000	10,000	1,00,000
Revenue in ₹ Lakhs @ ₹ 500/- per hour	275.00	175.00	50.00	500.00
Direct Costs	100.00	100.00	50.00	250.00
Indirect Costs	22.00	17.00	11.00	50.00
Total	122.00	117.00	61.00	300.00
Profit	153.00	58.00	(11.00)	200.00

(iii) Comparative Statement

Activity	Accounting & Auditing	Taxation	Managmt. Consultancy	Total (₹ Lakhs)
Indirect Costs (₹ Lakhs)				
Conventional	27.50	17.50	5.00	50.00
ABC	22.00	17.00	11.00	50.00
Difference	5.50	0.50	(6.00)	
Profits (₹ Lakhs)				
Conventional	147.50	57.50	(5.00)	200.00
ABC	153.00	58.00	(11.00)	200.00
Difference	(5.50)	(0.50)	6.00	

(iv) Suggestions

The comparative statement highlights the fact that the difference in profits between the Conventional and ABC systems is on account of the difference in indirect costs. It is, therefore, desirable to change the billing rates in line with ABC system.

Computation of Revised Billing Rates

Activity	Accounting & Auditing	Taxation	Management Consultancy
Number of Billable Hours	55,000	35,000	10,000
Direct Costs			
Total (₹ Lakhs)	100.00	100.00	50.00
Costs per Billable Hour (₹)	181.818	285.714	500.00
Indirect Costs			
Total (₹ Lakhs)	22.00	17.00	11.00
Costs per Billable Hour (₹)	40.000	48.571	110.00
Total Costs			
Total (₹ Lakhs)	122.00	117.00	61.00
Costs per Billable Hour (₹)	221.818	334.285	610.00
Target Profit @ 66.667% on Costs			
Total (₹ Lakhs)	81.374	78.039	40.687
Profit per Billable Hour (₹)	147.953	222.968	406.870
Revised Billing			
Total (₹ Lakhs)	203.374	195.039	101.687
₹ per Billable Hour	369.771	557.253	1016.87
Suggested Billing Rate (₹ per hour)			
- by rounding off to the next multiple of five.	370	560	1020

Learning Pack

The three different types of services, viz. (i) Accounting and Auditing, (ii) Taxation and (iii) Management Consultancy, are the cost objects for which cost measurement is under taken. Planning & Review; Computer Processing; Professional Salaries; Books, Seminars and Periodicals; Programming; Building; and General Administration are the cost pools under which the indirect costs are accumulated.

Under the conventional system the indirect costs are apportioned by means of a single base, viz. billable hours. Under the ABC system, a different base is adopted for each of the cost pools. The revised billing rate prevents the under or over billing of any of the services.

Quick Take

Implementation of ABC enables better pricing of the Services.



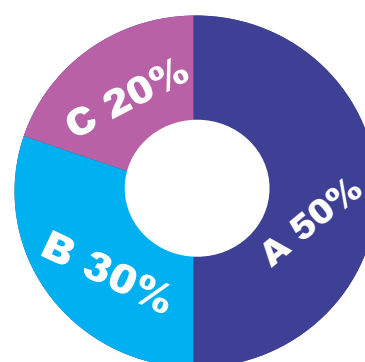
GROUP: 3, PAPER: 16

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 Tax Practice and Procedures 20%

Learning Objectives:

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

Equalisation Levy

With the expansion of information and communication technology, the supply and procurement of digital goods and services have undergone exponential expansion everywhere, including India. The digital economy is growing at 10% per year, significantly faster than the global economy as a whole.

Currently in the digital domain, business may be conducted without regard to national boundaries and may dissolve the link between an income-producing activity and a specific location. From a certain perspective, business in digital domain doesn't seem to occur in any physical location but instead takes place in the nebulous world of "cyberspace." Persons carrying business in digital domain could be located anywhere in the world. Entrepreneurs across the world have been quick to evolve their business to take advantage of these changes. It has also made it possible for the businesses to conduct themselves in ways that did not exist earlier, and given rise to new business models that rely more on digital and telecommunication network, do not require physical presence, and derives substantial value from data collected and transmitted from such networks.

These new business models have created new tax challenges. The typical direct tax issues relating to e-commerce are the difficulties of characterizing the nature of payment and establishing a nexus or link between a taxable transaction, activity and a taxing jurisdiction, the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes. The digital business fundamentally challenges physical presence-based permanent establishment rules. If permanent establishment (PE) principles are to remain effective in the new economy, the fundamental PE components developed for the old economy i.e. place of business, location, and permanency must be reconciled with the new digital reality.

The Organization for Economic Cooperation and Development (OECD) has recommended, in Base Erosion and Profit Shifting (BEPS) project under Action Plan 1, several options to tackle the direct tax challenges which include modifying the existing Permanent Establishment (PE) rule to include that where an enterprise engaged in fully de-materialized digital activities would constitute a PE if it maintained a significant digital presence in another country's economy. It further recommended a virtual fixed place of business PE in the concept of PE i.e. creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website. It also recommended to impose of a final withholding tax on certain payments for digital goods or services provided by a foreign e-commerce provider or imposition of a equalisation levy on consideration for certain digital transactions received by a non-resident from a resident or from a non-resident having permanent establishment in other contracting state.

Considering the potential of new digital economy and the rapidly evolving nature of business operations it is found essential to address the challenges in terms of taxation of such digital transactions as mentioned above. In order to address these challenges, Chapter VIII of the Finance Act, 2016¹, titled "Equalisation Levy", provides for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment ('PE') in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India. Different provisions thereof are discussed below:

Chargeability [Sec. 165]

Equalisation levy shall be payable @ 6% of the consideration for any specified service received or receivable by a person, being a non-resident from:

- a person resident in India and carrying on business or profession; or
- a non-resident having a permanent establishment in India.

► Specified service means

- online advertisement,
- any provision for digital advertising space or any other facility or service for the purpose of online advertisement and
- any other notified service - Sec. 164(i)

► Online means a facility or service or right or benefit or access that is obtained through the internet or any other form of digital or telecommunication network - Sec. 164(f)

¹ The equalization levy would come into effect from 01-06-2016 [Notification dated 27-05-2016]

Taxpoint

These provisions extend to the whole of India except the State of Jammu and Kashmir.

Exception

The equalisation levy shall not be charged, where:

- the non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
- the aggregate amount of consideration for specified service received or receivable in a previous year from resident in India or from a non-resident having a permanent establishment in India, does not exceed ₹ 1,00,000; or
- the payment for the specified service by the person resident in India, or the permanent establishment in India is not for the purposes of carrying out business or profession.

Collection and recovery of equalisation levy [Sec. 166]**Who is liable to deduct equalisation levy**

Every person, being a resident and carrying on business or profession or a non-resident having a permanent establishment in India (hereafter in this Chapter referred to as assessee) shall deduct the equalisation levy from the amount paid or payable to a non-resident in respect of the specified service

Rate of levy : 6%**Threshold limit**

Such deduction shall be made if the aggregate amount of consideration for specified service in a previous year exceeds ₹ 1,00,000.

Time limit for depositing the levy to the credit of the Central Government

The equalisation levy so deducted during any calendar month shall be paid by every assessee to the credit of the Central Government by the 7th day of the month immediately following the said calendar month.

Consequences of failure to deduct equalisation levy

Any assessee who fails to deduct the levy shall be (even though not deducted) liable to pay the levy to the credit of the Central Government in accordance with the aforesaid provisions

Furnishing of Statement [Sec. 167]

- Every assessee shall, within 30th June immediately following the financial year, prepare and deliver to the Assessing Officer (or to any other authority or agency authorised by the Board), a statement in Form 1, verified in such manner and setting forth such particulars as may be prescribed, in respect of all specified services during such financial year.
- **Revised Statement:** An assessee who has not furnished the statement within aforesaid time or having furnished such statement, notices any omission or wrong particular therein, may furnish a statement or a revised statement, as the case may be, at any time before the expiry of 2 years from the end of the financial year in which the specified service was provided.
- **Notice by the Assessing Officer:** Where any assessee fails to furnish the statement within 30th June immediately following the financial year, the Assessing Officer may serve a notice upon such assessee requiring him to furnish the statement in the prescribed form, verified in the prescribed manner and setting forth such particulars, within 30 days from the date of service of the notice.

Processing of Statement [Sec. 168]

Statement furnished u/s 167 shall be processed in the following manner:

- the equalisation levy shall be computed after making the adjustment for any arithmetical error in the statement;
- the interest, if any, shall be computed on the basis of sum deductible as computed in the statement;
- the sum payable by, or the amount of refund due to, the assessee shall be determined after adjustment of the interest against any amount paid u/s 166 or 170 and any amount paid otherwise by way of tax or interest;

- d. an intimation shall be prepared or generated and sent to the assessee specifying the sum determined to be payable by, or the amount of refund due to, him; and
- e. the amount of refund due to the assessee shall be granted to him.

Time limit

No intimation shall be sent after the expiry of 1 year from the end of the financial year in which the statement is furnished.

Taxpoint

For the purposes of processing of statements, the Board may make a scheme for centralised processing of such statements to expeditiously determine the tax payable by, or the refund due to, the assessee.

Rectification of mistake [Sec. 169]

- With a view to rectifying any mistake apparent from the record, the Assessing Officer may amend any intimation issued u/s 168, within 1 year from the end of the financial year in which the intimation sought to be amended was issued.
- The Assessing Officer may make an amendment to any intimation either suo motu or on any mistake brought to his notice by the assessee.
- An amendment to any intimation, which has the effect of increasing the liability of the assessee or reducing a refund, shall not be made unless the Assessing Officer has given notice to the assessee of his intention so to do and has given the assessee a reasonable opportunity of being heard.
- Where any such amendment to any intimation has the effect of enhancing the sum payable or reducing the refund already made, the Assessing Officer shall make an order specifying the sum payable by the assessee and the provisions of this Chapter shall apply accordingly.

Interest on Delayed payment of equalisation levy [Sec. 170]

Every assessee, who fails to credit adequate equalisation levy to the account of the Central Government within specified period, shall pay simple interest @ 1% of such levy for every month or part of a month by which such crediting of the tax is delayed.

Penalty

Penalties provisions are as under:

Sec.	Nature of default	Amount of Penalty
171(a)	Fails to deduct the equalisation levy	Equal to the amount of equalisation levy
171(b)	Fails to pay levy, after deduction, to the credit of the Central Government	₹ 100 for every day during which the failure continues subject to maximum of amount failed to pay
172	Failure to furnish statement as required u/s 172	₹ 100 for every day during which the failure continues

◇ No penalty shall be imposable:

1. If the assessee proves to the satisfaction of the Assessing Officer that there was reasonable cause for the said failure.
2. Without giving reasonable opportunity of being heard to the assessee [Sec. 173].

◇ An assessee aggrieved by an order imposing penalty may appeal to the Commissioner of Income-tax (Appeals) within 30 days from the date of receipt of the order in Form 3. It shall be accompanied with fees of ₹ 1,000/-. The provisions relating to appeals are in line with that of the Income-tax Act, 1961. [Sec. 174]

◇ Similarly, appeals can be filed before the ITAT against the order of the Commissioner (Appeals) in Form 4 within 60 days from the date on which the order sought to be appealed against is received by the assessee or by the Commissioner. In case appeal before the ITAT is filed by the assessee, it should be accompanied with fees of ₹ 1,000/- [Sec. 175]

Punishment for false statement [Sec. 176]

If a person makes a false statement in any verification or delivers an account or statement, which is false, and which he either knows or believes to be false, or does not believe to be true, he shall be punishable with imprisonment for a term which may extend to 3 years and with fine.

Taxpoint:

- ▶ An offence punishable above shall be deemed to be non-cognizable.
- ▶ No prosecution shall be instituted against any person for any offence except with the previous sanction of the Chief Commissioner of Income-tax [Sec. 177].

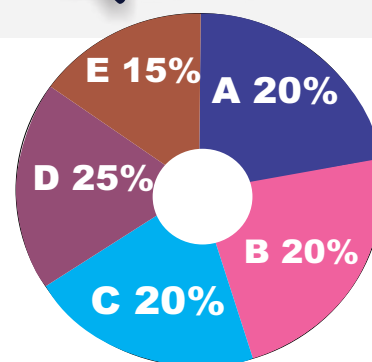




GROUP: 4, PAPER: 17
CORPORATE
 FINANCIAL REPORTING
 (CFR)

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Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

GST ACCOUNTING

The earlier system of indirect taxation in India was a complex bunch of many Central and State taxes. There was tax on tax leading to cascading effect. There was limited application of value added taxation as input tax credit was not fully available against state tax liability for central tax paid.

By Constitutional amendment in 2016 India implemented **Goods and Service Tax (GST)** with effect from 01-07-2017. GST subsumes a large number of Central and State taxes into a single tax.

The term GST is [defined in Article 366 (12A)] "any tax on supply of goods or services or both except taxes on supply of the alcoholic liquor for human consumption".

It is one tax in dual system.

GST is one tax as it amalgamated a large number of Central and State taxes into a single tax. Allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market.

The GST replaced the following taxes levied and collected by the Centre:

- a. Central Excise duty
- b. Duties of Excise (Medicinal and Toilet Preparations)
- c. Additional Duties of Excise (Goods of Special Importance)
- d. Additional Duties of Excise (Textiles and Textile Products)
- e. Additional Duties of Customs (commonly known as CVD)
- f. Special Additional Duty of Customs (SAD)
- g. Service Tax
- h. Central Surcharges and Cesses so far as they relate to supply of goods and services

State taxes that are subsumed under the GST are:

- a. State VAT
- b. Central Sales Tax
- c. Luxury Tax
- d. Entry Tax (all forms)
- e. Entertainment and Amusement Tax (except when levied by the local bodies)
- f. Taxes on advertisements
- g. Purchase Tax
- h. Taxes on lotteries, betting and gambling
- i. State Surcharges and Cesses so far as they relate to supply of goods and services.

It is a **dual GST** with the Centre and States simultaneously levying it on a common tax base. The GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST) and by the Union Territories as Union Territory GST (UTGST). In case of inter- state transfer or import Integrated GST (IGST) is levied. IGST is designed to ensure seamless flow of input tax credit from one state to another. One state has to deal only with the Central government to settle the tax amounts and not with every other state, thus making the process easier.

GST is **consumption based** tax i.e. the tax should be received by the state in which the goods or services are consumed and not by the state in which such goods are manufactured.

The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified.

Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.

GST is a **tax on value addition basis** on the transaction value of outward supply of goods and/or services of a month computed at notified rate [1%, 5%, 12%, 18%, 28%] and paid through Electronic Cash Ledger after availing Input Tax Credit on or before 20th of next month along with monthly return.

It is worth noting that Time of Supply identifies the point of time when liability for GST arises, Place of Supply indicates the state that will enjoy the tax so generated, and that Beneficiary of the tax generated is the state in which the Place of Supply is located (i.e., where the final consumption has taken place).

GST Rates are changed from time to time. Currently, the rates are as follows:

- ▶ Four tax rates namely 5%, 12%, 18% and 28%
- ▶ Some goods and services would be exempt
- ▶ Separate tax rate (3%, 1.5%, 0.25%) for precious metals and related job work
- ▶ Cess over the peak rate of 28% on specified petroleum, luxury and sin goods.

GST being indirect tax, supplier is the assessee and accounting is made for tax payment to government in the books of supplier. The receiver of supply makes payment of GST to the supplier. The supplier receives payment of GST from the receiver of supply and makes payment to the government after adjusting Input Tax Credit. Input Tax Credit is the payment made by the assessee to his supplier at the time of receiving inward supply.

A supplier has to maintain the following a/cs for inward and outward supply (in addition to accounts like purchase, sales, stock):

- Input CGST A/c
- Output CGST A/c
- Input SGST/UTGST A/c
- Output SGST/UTGST A/c
- Input IGST A/c
- Output IGST A/c
- Reverse Charge A/c
- Composite Levy A/c
- Electronic Cash Ledger (to be maintained on Government GST portal to pay GST)

Illustration 1:

Vipul of Punjab purchases goods at cost of ₹ 1,00,000 from Navin of Punjab and sells goods to Akash of Punjab at a profit of ₹ 20,000, who sells the goods at a profit of ₹ 15,000 to Bose of West Bengal. Bose sold at ₹ 1,50,000 in West Bengal and ₹ 1,00,000 in Bihar. The transactions with Input and Output GST are shown below. GST rate applicable is 18%. Pass journal entries for transactions in books of Akash and Bose.

Akash in Punjab	₹	Bose in West Bengal	₹
Input CGST @9%*120000	10,800	Input IGST (18%*135000)	24,300
Input SGST @9%*120000	10,800	Purchase	1,35,000
Purchase (100000+20000)	1,20,000	Profit	1,15,000
Profit	15,000	Sale Intra state	1,50,000
Sale	1,35,000	Sale Inter state	1,00,000
Output IGST 18%*120000	24,300	Output IGST (18%*100000)	18,000
		Output CGST(9%*150000)	13,500
		Output SGST (9%*150000)	13,500

Akash in Punjab	Rs.	Bose in West Bengal	Rs.		
Workings:		Workings:	IGST	CGST	SGST
Output IGST Liability	24,300	Output Liability	18,000	13,500	13,500
Less Input Tax Credit		Less Input Tax Credit:			
Input IGST	NIL	Input IGST	18,000	6,300	
Input CGST	10,800	Net Output Tax Liability			
Input SGST	10,800	IGST	0		
Net IGST Liability	2,700	CGST		7,200	
		SGST			13,500

Accounting in books of suppliers:

Akash in Punjab		
Purchase A/cDr.	1,20,000	
Input CGST A/cDr.	10,800	
Input SGST A/cDr.	10,800	
To Creditors A/c		1,41,600
Debtors A/cDr.	1,59,300	
To Sales A/c		1,35,000
To Output IGST A/c		24,300
Output IGST A/cDr.	24,300	
To Input CGST A/c		10800
To Input SGST A/c		10800
To Electronic Cash Ledger A/c		2700

In the books of Bose in West Bengal

1	Purchase A/cDr.	1,35,000	
	Input IGST A/cDr.	24,300	
	To Creditors A/c		1,59,300
2	Debtors A/cDr.	1,65,000	
	To Sales A/c		1,50,000
	To Output CGST A/c		13,500
	To Output SGST A/c		13,500
3	Debtors A/cDr.	1,18,000	
	To Sales A/c		1,00,000
	To Output IGST A/c		18,000

IGST input tax credit set off and net payment entries:

4	Setoff against output IGST		
	Output IGSTDr.	18,000	
	To Input IGST A/c		18,000
5	Setoff against output CGST		
	Output CGSTDr.	6300	
	To Input IGST A/c		6300
6	Final payment		
	Output CGST A/cDr.	7200	
	Output SGST A/cDr.	13500	
	To Electronic Cash Ledger A/c		20700

Rule of setting off Input Tax Credit against Output Tax Liability:

	IGST	CGST	SGST
Output Tax Liability	Amount	Amount	Amount
Input Tax Credit set off in order			
IGST	1st to set off	2nd to set off	2nd to set off
CGST	2nd to set off	1st to set off	not to set off
SGST	3rd to set off	not to set off	1st to set off

Some examples:**Example 1**

	IGST	CGST	SGST
Output Tax Liability	36000	12000	12000
Input Tax Credit available:			
IGST 18000			
CGST 18000			
SGST 18000			
ITC set off 1st order			
IGST 18000-18000 = 0	(18000)		
CGST 18000-12000 = 6000		(12000)	
SGST 18000-12000 = 6000			(12000)
ITC set off 2nd order			
IGST 0			
CGST 6000 - 6000 = 0	(6000)		
ITC set off 3rd order			
SGST 6000 - 6000 = 0	(6000)		
Net Output Tax Liability	6000	Nil	Nil
ITC balance	Nil	Nil	Nil

Example 2

	IGST	CGST	SGST
Output Tax Liability	24000	18000	18000
Input Tax Credit available:			
IGST 18000			
CGST 24000			
SGST 24000			
ITC set off 1st order			
IGST 18000 - 18000 = 0	(18000)		
CGST 24000 - 18000 = 6000		(18000)	

SGST 24000 - 18000 = 6000			(18000)
ITC set off 2nd order			
IGST 0			
CGST 6000 - 6000 = 0	(6000)		
SGST			
Net Output Tax Liability	Nil	Nil	Nil
ITC balance	Nil	Nil	6000

Example 3

	IGST	CGST	SGST
Output Tax Liability	36000	18000	18000
Input Tax Credit available:			
IGST 18000			
CGST 12000			
SGST 12000			
ITC set off 1st order			
IGST 18000 - 18000 = 0	(18000)		
CGST 12000 - 12000 = 0		(12000)	
SGST 12000 - 12000 = 0			(12000)
Net Output Tax Liability	18000	6000	6000
ITC balance	Nil	Nil	Nil

Example 4

	IGST	CGST	SGST
Output Tax Liability	36000	12000	12000
Input Tax Credit available:			
IGST 18000			
CGST 24000			
SGST 24000			
ITC set off 1st order			
IGST 18000 - 18000 = 0	(18000)		
CGST 24000 - 12000 = 12000		(12000)	
SGST 24000 - 12000 = 12000			(12000)
ITC set off 2nd order			
IGST 0			
CGST 12000 - 12000 = 0	(12000)		
ITC set off 3rd order			
SGST 12000 - 6000 = 6000	(6000)		
Net Output Tax Liability	Nil	Nil	Nil
ITC balance	Nil	Nil	6000

Further it should be noted that for inward supply on payment of GST there arises Input Tax Credit. For outward supply whenever there arises Output Tax Liability, the available Input Tax Credit is to be set off as per rules.

Illustration 2:

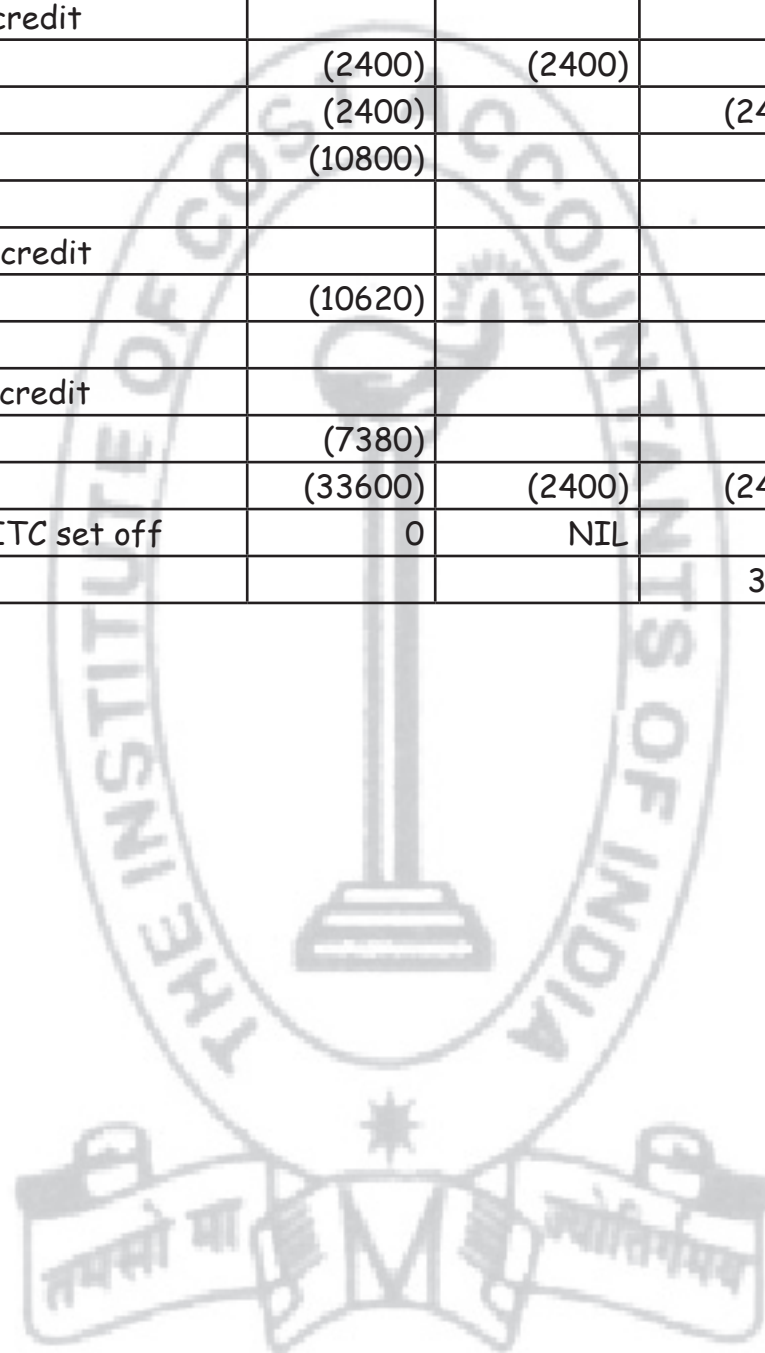
In the month of March, 2019 M of Mumbai purchased goods from C of Chennai costing ₹ 70000. M also purchased goods from B of Mumbai costing ₹ 120000. He paid telephone bill ₹ 5,000. He purchased an air cooler for his office for ₹ 12,000 from a supplier in Pune. He paid wages ₹ 26000 and sold goods at ₹ 40000 to T of Thane and at ₹ 240000 to Q of Bangalore. Assume GST rate 12% in all cases. At the beginning of the month the available Input Tax Credit in the hands of M was: IGST ₹ 2400; CGST ₹ 4800; SGST ₹ 4800. Pass journal entries.

Solution:

Purchase A/cDr.	70,000	
Input IGST A/cDr.	8400	
To Creditors A/c (Chennai)		78400
Purchase A/cDr.	1,20,000	
Input CGST A/cDr.	7200	
Input SGST A/cDr.	7200	
To Creditors A/c (Mumbai)		1,34,400
Debtors A/cDr.	44,800	
To Sales A/c (Thane)		40000
To Output CGST A/c		2400
To Output SGST A/c		2400
Debtors A/cDr.	268,800	
To Sales A/c (Bangalore)		240000
To Output IGST A/c		28800
Telephone Expenses A/cDr.	5,000	
Input CGST A/cDr.	300	
Input SGST A/cDr.	300	
To Bank A/c		5,600
Office Equipment A/c.....Dr.	12,000	
Input CGST A/cDr.	720	
Input SGST A/cDr.	720	
To Bank A/c		13,440
Setoff against CGST output tax liability		
Output CGSTDr.	2400	
To Input CGST A/c		2400
Setoff against SGST output		
Output SGSTDr.	2400	
To Input SGST A/c		2400
Setoff against IGST output		
Output IGSTDr.	28800	
To Input IGST A/c		10800
To Input CGST		10620
To Input SGST		7380
Final payment		
Output IGST A/cDr.	Nil	
To Electronic Cash Ledger A/c		Nil

Workings:

	Total	CGST	SGST	IGST
Output Tax liability	33600	2400	2400	28800
Input tax credit:				
Purchase Chennai		7200	7200	
Purchase Mumbai				8400
Telephone		300	300	
Cooler		720	720	
Total ITC for the month	24840	8220	8220	8400
ITC at the beginning of the month	12000	4800	4800	2400
Total ITC available	36840	13020	13020	10800
1st order set off Set off of Input tax credit				
CGST :13020 - 2400 = 10620	(2400)	(2400)		
SGST: 13020 - 2400 = 10620	(2400)		(2400)	
IGST: 10800 - 10800 = 0	(10800)			(10800)
2nd order set off Set off of Input tax credit				
CGST: 10620 - 10620 = 0	(10620)			(10620)
3rd order set off Set off of Input tax credit				
SGST: 10620 - 7380 = 3240	(7380)			(7380)
Total ITC set off	(33600)	(2400)	(2400)	(28800)
Amount payable = Output tax liability - ITC set off	0	NIL	NIL	NIL
ITC balance			3240	



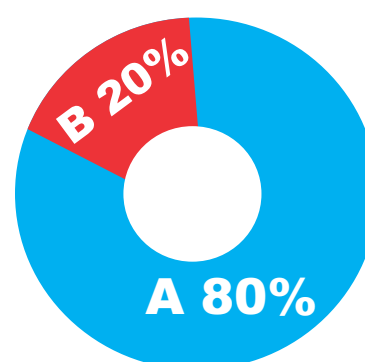


GROUP: 4, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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Your Preparation Quick Takes



Syllabus Structure

- A Advanced Indirect Tax and Practice **80%**
- B Tax Practice and Procedures **20%**

Learning Objectives:

- Method of valuation of imported goods
- Dutiable factors and non dutiable factors
- Rule for re usable containers
- Customs valuation rules for reproduction of software in India
- Notification for Amendment to Customs Valuation Rules
- Central Government power to increase Customs Duty in case of emergency

Indirect Taxation**Methods of valuation of imported goods:**

According to the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, the Methods of valuation of imported goods should be the "Transaction Value", i.e., the price actually paid or payable after adjustment by Valuation Factors and subject to

- (a) compliance with the Valuation Conditions and
- (b) satisfaction of the Customs authorities with the truth and accuracy of the Declared Value

There are several items to be taken into account as Valuation Factor and added to the transaction value if not included in invoice price mainly (i) Dutiable Factors, (ii) Non Dutiable Factors

Dutiable factors

- a) Commissions and brokerage, except buying commissions
- b) Cost of containers which are treated as being one for Customs purposes
- c) Cost of packing whether for labour or materials
- d) The value of the material, components, tools, dies, moulds and similar items used in the production of the imported goods supplied by the buyer directly or indirectly by the buyer free of charge or at reduced cost
- e) Engineering, developing, artwork, design work, and plans and sketches undertaken elsewhere than in India and necessary for the purpose of the production of imported goods
- f) Royalties and license fees relating to imported goods that the buyer is supposed to pay as a condition of sale of the goods being valued either directly or indirectly
- g) The value of any part of subsequent resale of the proceeds, disposal or use of the goods that accrues directly or indirectly to the seller
- h) All other payments like advance payments etc made as condition of sale of goods being valued made directly or to third party to satisfy obligation to seller
- i) Cost of freight including loading, unloading and handling charges related with transporting the goods up to place of importer
- j) Insurance charges up to the place of importer.

Non Dutiable factors

There are certain charges require to be declared separately in the invoice

- a) Interest charges for the deferred payment
- b) Charges incurred after the import like inland transportation charges, installation or erection charges, etc
- c) Taxes and duties payable in the importing country

Presently the containers use for importation are durable and re usable. If the importer agrees to execute a bond to re export the containers within six month the cost of such containers is not added for customs valuation.

Customs valuation rule clarifies that any charges incurred for right to reproduce the imported goods in India shall not be added.

In certain cases master copy of any software like windows, Autocad, Page Maker, Norton etc are imported and license been given to reproduce such software in India by the foreign owner of these software.

Amendment to Customs Valuation Rules - Notification No. 91/2017 (NT) dated 26.9.17 appended as below

Circular 39 / 2017-Customs

F. No: 466 / 32 / 2015 - Cus V
Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs

New Delhi
Dated, the 26th September 2017

To,

All Principal Chief Commissioners of Customs All Chief Commissioners of Customs
All Principal Commissioners of Customs All Commissioner of Customs

Sub:- Amendment to Customs Valuation Rules - Notification No. 91/2017 (NT) dated 26.9.17

1. The valuation of imported and export goods is governed by the provisions of Section 14 of the Customs Act, 1962 and the rules made thereunder. The Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR) contain the detailed provisions for arriving at the transaction value of the imported goods, on which the customs duty is levied.
2. A need had arisen to examine certain provisions of the CVR in light of Supreme Court's ruling in the case of M/s Wipro Ltd. Vs. Assistant Collector of Customs - 2015 (319) ELT 177 - S.C dated 16/04/2015
After examination and public consultations, the Government has amended the CVR vide Notification 91/2017 Customs (N.T) dated 26th September, 2017, as explained below:
Definition of the term 'place of importation'
3. The term "place of importation" has been used in the CVR; however, the term was not defined. To bring in clarity, the "place of importation" has been defined as:

"Place of Importation" means the customs station where the goods are brought for being cleared for home consumption or for being removed for deposit in a warehouse"

In view of the above definition, the transaction value of the imported goods in terms of section 14 of the Customs Act, 1962 would include the costs incurred up to the place of importation, as defined above.

Treatment of the loading, unloading and handling charges

4. The Hon'ble Supreme Court had ruled in the case of *M/s Wipro Ltd. Vs Assistant Collector of Customs-2015* (319) ELT 177 (S.C.) dated 16/04/2015 that the landing charges to be added to the value of goods, should be based on actual charges incurred, and not a notional charge of 1% as has been provided in the Rules.

By virtue of the amendment now carried out to the CVR, 2007, the loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation, shall no longer be added to the CIF value of the goods.

The phrase "loading, unloading and handling charges" appearing in the amended Rule 10 (2) (a) is to be understood in context of Article 8(2) of the WTO Agreement which reads as "the cost of transport of the imported goods to the port or **place of importation**". Thus, only charges incurred for delivery of goods "to" the place of importation (such as the loading and handling charges incurred at the load port) shall now be includible in the transaction value.

Computation of freight and insurance

5. Now, the 2nd and 4th provisos to Rule 10 (2) impart more clarity in computation of transport and insurance charges, when actuals of each individual element are not known, but the cumulative value of FOB and freight, or, FOB and insurance charges are known.

Treatment of transshipment costs

6. In the erstwhile 4th proviso to Rule 10(2), while the transshipment charges with respect to a container being moved from port to an ICD and CFS were excluded from the transaction value of the goods, there was no mention of a similar treatment to transshipment of goods by sea or air. Now, by virtue of the 6th proviso to Rule 10 (2), costs related to transshipment of goods (from ports to ICDs; port to port, port to CFS, Airport to Airport etc.) within India will be excluded, providing uniform treatment to different modes of transshipment.

7. Difficulties, if any, faced in the implementation of this circular may be brought to the notice of the Board.

8. Hindi version follows.

Yours faithfully,

(S.Kumar)

Commissioner (Cus & EP)

Central Government been empowered to increase Customs Duty for both Export and Import in case of emergency -

1. For levy or increase of export duties under Section 8 of the Customs Tariff Act

- (i) Where, in respect of any article, whether included in the Second Schedule or not, the Central Government is satisfied that the export duty leviable thereon should be increased or that an export duty should be levied, and that circumstances exist which render it necessary to take immediate action, the Central Government may, by notification in the Official Gazette, direct an amendment of the Second Schedule to be made so as to provide for an increase in the export duty leviable or, as the case may be, for the levy of an export duty, on that article.

- (ii) The provisions of sub-section (3) and (4) of section 7 shall apply to any notification issued under sub-section (1) as they apply in relation to any notification increasing duty issued under sub-section (2) of section 7.

2. For levy or increase of import duties under Section 8A of the Customs Tariff Act

- (i) Where in respect of any article included in the First Schedule, the Central Government is satisfied that the import duty leviable thereon under section 12 of the Customs Act, 1962 should be increased and that circumstances exist which render it necessary to take immediate action, it may, by notification in the Official Gazette, direct an amendment of that Schedule to be made so as to provide for an increase in the import duty leviable on such article to such extent as it thinks necessary:

Provided that the Central Government shall not issue any notification under this sub-section for substituting the rate of import duty in respect of any article as specified by an earlier notification issued under this sub-section by that Government before such earlier notification has been approved with or without modifications under sub-section (2).

- (ii) The provisions of sub-sections (3) and (4) of section 7 shall apply to any notification issued under sub-section (1) as they apply in relation to any notification increasing duty issued under sub-section (2) of section 7.



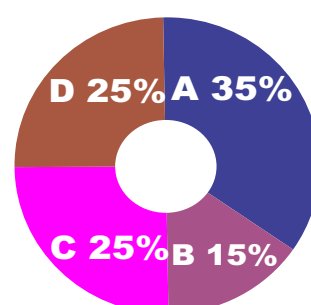


GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

CMA S S Sonthalia
Practicing Cost Accountant
He can be reached at:
sonthalia_ss@yahoo.co.in

Your Preparation Quick Takes



Syllabus Structure

- A Cost Audit 35%
- B Management Audit 15%
- C Internal Audit, Operational Audit and other related issues 25%
- D Case Study on Performance Analysis 25%

Learning Objectives:

- To verify the correctness of the cost accounting records.
- To find out whether the principles of cost accountancy have been fully and correctly applied in maintaining cost records.
- To search for the deficiencies in the cost record system of the company.
- To attain efficiency in cost accounting systems and procedures

Standards on Cost Auditing - Its importance and implication

Cost audit is an independent examination of cost records maintained by the company. The cost records are to be maintained by the company as per the principles prescribed in CRA - 1, which are mandatory for the companies as prescribed in Rule - 3 of Companies (Cost Records and Audit) Rules, 2014.

The Cost Auditor appointed as per Provisions of section 148 of The Companies Act, 2013, for the audit of the cost records, has to abide by the Cost Auditing Standards while carrying the cost audit of the Company. The report of the cost auditor given in Form - CRA 3 in pursuant to Rule 6(4) of Companies (Cost Records and Audit) Rules, 2014, must be in "compliance to the cost auditing standards" issued by The Institute of Cost Accountants of India with the approval of the Central Govt. Therefore, it is mandatory for the Cost Auditor to understand and follow the Cost Auditing Standards, while conducting the cost audit, as default in complying with the provisions make the cost auditor liable for punishment. The Companies Act, 2013 has prescribed penalties for the auditor as per section 143 (13) for an amount of Rupees 1 lakh to Rupees 25 Lakhs for which all the partners are severally and jointly liable.

Cost Auditing Standards provides the guidelines and procedures to be followed by the Cost Auditor during the conduct of Cost Audit. It ensures maintenance of the professional integrity, quality of audit and compliance of procedure and reporting.

There are four (4) Cost Auditing Standards so far made mandatory by the Ministry of Corporate Affairs. Another 15 Cost Auditing Standards are finalized by the Cost Auditing Standards Board and are forwarded to the Ministry of Corporate Affairs for approval. The first four standards are effective for audits on or after September 11, 2015. Each Auditing Standards provides its application guidance. The four Cost Auditing Standards with their essential characters are described below.

Cost Auditing Standard - 101 - Cost Auditing Standard on Planning an Audit of Cost Statements

- This Standard deals with the auditors' responsibility to plan an audit of cost statements, records and other related documents. The auditor shall prepare and document the overall audit strategy and audit plan.

- The Cost Auditor shall consider all relevant factors. These relevant factors include:

- (a) Results of preliminary activities such as letter of appointment and legal formalities regarding his appointment
- (b) Knowledge from previous audits and other engagements with the auditee.
- (c) Knowledge of business
- (d) Nature and scope of the audit
- (e) Statutory deadlines and reporting format
- (f) Relevant factors determining the direction of the audit efforts
- (g) Nature, timing and extent of resources required for the audit.

- The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work. Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

- The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes.

Cost Auditing Standard - 102 - Cost Auditing Standard on Cost Audit Documentation

- The objective of this Standard is to guide the members to prepare documentation that provides:
 - (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and
 - (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.
- The cost auditor as part of the audit documentation shall

record audit procedures performed, relevant audit evidence obtained, and conclusions reached. The documentation usually contains checklists (of compliance with relevant rules), audit programs of verification of each cost elements (Material cost, Employees cost, Repairs cost etc.), analysis for true & fair view of costs, audit query list, letters of conformation.

- Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.
- The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:
 - (a) Conformance of audit procedures performed with legal and regulatory requirements;
 - (b) Conformance to Cost Auditing Standards
 - (c) The results of audit procedures performed
 - (d) The audit evidence obtained
 - (e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders in the manner of minutes of discussion with persons involved with the management of the company and the third parties in relation to the audit.
- The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard.

Cost Auditing Standard - 103 - Cost Auditing Standard on Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

- The Cost auditor's overall objectives are to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute and give a true and fair view of the Cost of a product, activity or service.
- The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless

the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.

- The auditor shall obtain sufficient and appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which the auditor's opinion is based.
- The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder
- An attitude of professional scepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof.
- The cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

Cost Auditing Standard - 104 - Cost Auditing Standard on Knowledge of Business, its Processes and the Business Environment

- This standard deals with obtaining the knowledge of the client's business, its processes and business environment to develop a reasonable assurance in order to express an opinion on the cost statements
- The cost auditor should obtain an understanding of the nature of the entity, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework, the entity's selection and application of cost accounting policies, internal controls relevant to the audit.
- The cost auditor shall identify and assess the risks of material misstatement at the cost statement level.
- While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.
- The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.



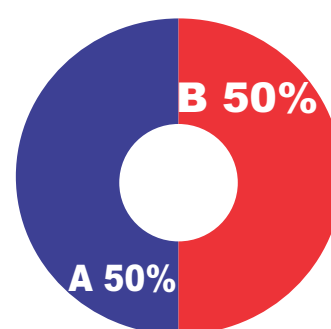
GROUP: 4, PAPER: 20

STRATEGIC

PERFORMANCE MANAGEMENT
AND BUSINESS VALUATION
(SPBV)

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
cu.ashis@gmail.com

Your Preparation Quick Takes



Syllabus Structure

A Strategic Performance Management 50%
B Business Valuation 50%

Learning Objectives:

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

- understand the concept of Economic Value Added
- solve the problems on Economic Value Added

Economic Value Added (EVA) - An aid to Valuation of Firms

EVA is an internal measure of performance that determines Market Value Added (MVA). Stewart (1991:153) defines EVA as follows: "A company's EVA is the fuel that fires up its MVA." EVA takes into account the full cost of capital, including the cost of equity. The concept of EVA is a measure of economic profit and was popularized and originally trade-marked by Stern Stewart Consulting Company in the 1980's.

The value of a firm is the sum of the capital invested and the present value of the economic value added. The present value of the economic value added by an asset over its life is the net present value of that asset. The value of a firm can be written as the sum of three components, the capital invested in assets in place, the present value of the economic value added by these assets, and the expected present value of the economic value that will be added by future investments. It can be calculated as:

$$\text{Firm Value} = \text{Capital Invested}_{\text{Assets in Place}} + \sum_{t=1}^{t=\infty} \frac{\text{EVA}_{t, \text{Assets in place}}}{(1 + \text{WACC})^t} + \sum_{t=1}^{t=\infty} \frac{\text{EVA}_{t, \text{Future Project}}}{(1 + \text{WACC})^t}$$

Where:

Economic Value Added for all years = Net Operating Profit after Taxes - WACC × Capital Employed

Or, (Return on Capital Invested - WACC) × Capital Invested

Terminal EVA = EVA / (WACC - Net sales growth rate).

WACC = Cost of capital means the "fair rate of return to invested capital", which goes to all claimholders. It is computed by multiplying Capital invested with WACC.

Return on Capital = Operating Income (1 - tax rate) / Capital Invested

NOPAT = Net Operating Profit after Tax

NOPLAT = Net Operating Profit Less Adjusted Taxes.

It means total operating profit for a firm with adjustments made for taxes. It is used in variant of the FCF and used in mergers of acquisitions.

NOPLAT is very similar to NOPAT, except its (net income + after tax interest expenses + Deferred taxes)

Capital Invested for all years = Total equity + Interest bearing liabilities + Convertibles - Total interest bearing financial assets.

Capital Invested for terminal year = (NOPLAT - Gross capital expenditure - Change in working capital + Increase in non-interest bearing liabilities - Total depreciation) / (Net sales growth × NOPLAT).

Computation of EVA

The computation of EVA is a three step process:

1. Compute the net operating profit after tax (NOPAT)
2. Find out WACC for the firm and the capital employed
3. Find out EVA as below:

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{Capital Employed}$$

Example 1

Equity Share Capital (₹)	5,00,000
13% Preference Share Capital (₹)	2,00,000
Reserves and Surplus (₹)	6,00,000
Non trade investments (Face value 1,00,000) Rate of Interest	10%
20% Debentures (₹)	3,00,000
Profits before tax (₹)	2,00,000
Tax Rate	40%
WACC	13%

Calculate EVA.

Solution

Economic Value Added = (Return on operating capital - weighted average cost of capital) × Operating capital.

Working Note - 1

Calculation of Return on operating capital

Profit before tax (₹)	2,00,000
+ Interest Expense (₹)	60,000
- Non operating income (₹)	10,000
Operating EBIT (₹)	2,50,000
Less: economic taxes @ 40% (₹)	1,00,000
NOPAT (₹)	1,50,000

Working Note - 2

Calculation of Operating Capital

Equity Share capital (₹)	5,00,000
Reserve and surplus (₹)	6,00,000
13% preference share capital (₹)	2,00,000
20% debenture (₹)	3,00,000
Total (₹)	16,00,000
Less: Non operating assets (₹)	1,00,000
Operating Capital (₹)	15,00,000

ROC = ₹ 1,50,000 / ₹ 15,00,000 × 100 = 10%

EVA = (10% - 13%) × ₹ 15,00,000

= ₹ (45,000)

Example 2

M Ltd. is considering a capital project for which the following information is available:

Project Outlay (₹ in thousands)	: 5000
Project life	: 4 years
Salvage Value	: 0
Annual Revenues (₹ in thousands)	: 6000
Annual Costs (₹ in thousands)	: 4000
(Excluding depreciation, interest and taxes)	
Depreciation	: Straight line

(For tax purpose)

Tax rate : 40%

Debt-equity ratio : 4:5

Cost of Equity : 18%

Cost of debt : 9%

(Post tax)

(a) Calculate the EVA of the project over its life.

(b) Compute the NPV of the project.

Given, Present Value Interest Factor PVIF (14%) of Rupee one

Year	1	2	3	4
PV Factor	0.877	0.769	0.675	0.592

SolutionCost of Capital: $4/9 \times 9\% + 5/9 \times 18\% = 14\%$

₹ in thousands

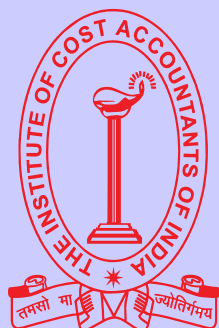
S N	Particulars	Year 1	Year 2	Year 3	Year 4
1	Revenues	6,000	6,000	6,000	6,000
2	Costs	4,000	4,000	4,000	4,000
3	PBDIT	2,000	2,000	2,000	2,000
4	Depreciation	1,250	1,250	1,250	1,250
5	PBIT	750	750	750	750
6	NOPAT	450	450	450	450
7	Cash Flow (4+6)	1,700	1,700	1,700	1,700
8	Capital at Charge	5,000	3,750	2,500	1,250
9	Capital Charge (8x0.14)	700	525	350	175
10	EVA (6-9)	-250	-75	100	275

$$NPV = \sum_{t=1}^n [\text{Cash Flow}_t / (1+k)^t] - I = \sum_{t=1}^n [1700_t / (1.14)^t] - 5000 = -46.2$$

$$NPV = \sum_{t=1}^n \text{EVA}_t / (1+k)^t = -250 \times 0.877 - 75 \times 0.769 + 100 \times 0.675 + 275 \times 0.592 = -46.7$$

Limitations of EVA Method of Firm Valuation

- (1) It needs calculation of invested capital for every year which depends on valuation issues.
- (2) Economic profits as excess returns are fairly subjective, depending on the valuation of invested capital.
- (3) Economic profits framework may provide date inducing illusionary accuracy of the quantified business plan.



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
Webinar seasons**

**Solve Exercises
given in Study Note**

02

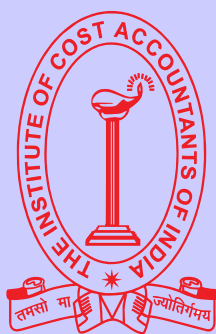
03

Assess Yourself

Appear For Examination

04

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.

Respected Mam,

Myself **Shreekanth Prasad**, CMA Final Student, bearing Registration No—**13081000017** and I have attended CMA FINAL EXAM, DEC 2019,,

I am really thankful to you and our CMA INSTITUTE for the kind support and help to provide additional materials for exam preparation, like- Supplementary, Work book, MTP, and Supplementary in accounts Paper-17 and also addition materials for new patterns and also- monthly Students final E bulletin, it was really helpful so much for final revision.

To mention, in this term November 2019 issue of E- bulletin was really useful. I, personally attempted 15 to 20 marks questions for December 2019 exam, from July to November 2019 editions of E- bulletin.(6 months prior to the exams, I followed)

For examples, some I am mentioning below:

In Paper-15, (SCM)...-time cost, project creasing-network diagram-(from Nov 2019 issue) and - marginal costing problem, of full marks, (from July 2019 issue) of E- bulletin.

In Paper 13, (CLC) questions covering from-corporate law--Companies Act short question, debentures, equity, etc.

In Paper 14, (SFM)--investment decision making and currency problem..., direct and indirect quotation ,(September 2019 issue of E- bulletin).

In Paper 19, (CAMA)- hospital audit, common question ,(from July 2019 issue of E- bulletin) and cost auditor's responsibility, professions ethics, auditor documents etc.

In Paper 17, problems on Amalgamation, hopefully helped to score.

In Paper 18, (ITP)- time of supply question in GST section (from-July 2019 issue of E- bulletin).

Please accept my humble acceptance, I am really thankful to all of them who work for our better future of our institute and also thanks to you mam....

HARE KRISHNA.

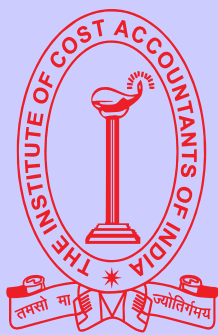
I attend CMA Final Exam, Dec 2019,

I really thankful to you and our CMA Institute. For kind support and help to provide additional material for exam preparation, Like - Supplementary, Work Book, MTP, and Accounts addition material for new patters and special - Monthly Final E-Bulletin. Its really help full so much for final revision. In this term November 2019 E-Bulletin, really use full. I personnel getting 15 to 20 marks common question for December 2019 exam form.

Please put your opinions so that we can make your e-bulletin everything that you want it to be.

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



Message from Directorate of Studies

Dear Students,

Greetings !!!

We from the Directorate of studies know your expectations from us and accordingly we are trying to delivery 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 Book, 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 links mentioned below :

For Mock Test Papers (MTP) : https://icmai.in/studentswebsite/mtp2016_j19_Final.php

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

For Work Book Link : <https://icmai.in/studentswebsite/Workbook-Syl-2016-Final-March2019.php>

Live/Recorded Webinar Link : https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx

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

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

You can win!

GOOD LUCK

Be Prepared and Get Success;

Disclaimer:

Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Headquarters:

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Delhi Office:

CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

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The Institute of Cost Accountants of India is a premier professional Institute and a statutory body constituted under an Act of Parliament under the administrative control of **Ministry of Corporate Affairs (MCA), Govt. of India** to regulate and develop the profession of Cost and Management Accountancy (CMA) in the country. The Institute established in **1944** is now celebrating the **Platinum Jubilee year** of its glorious presence.

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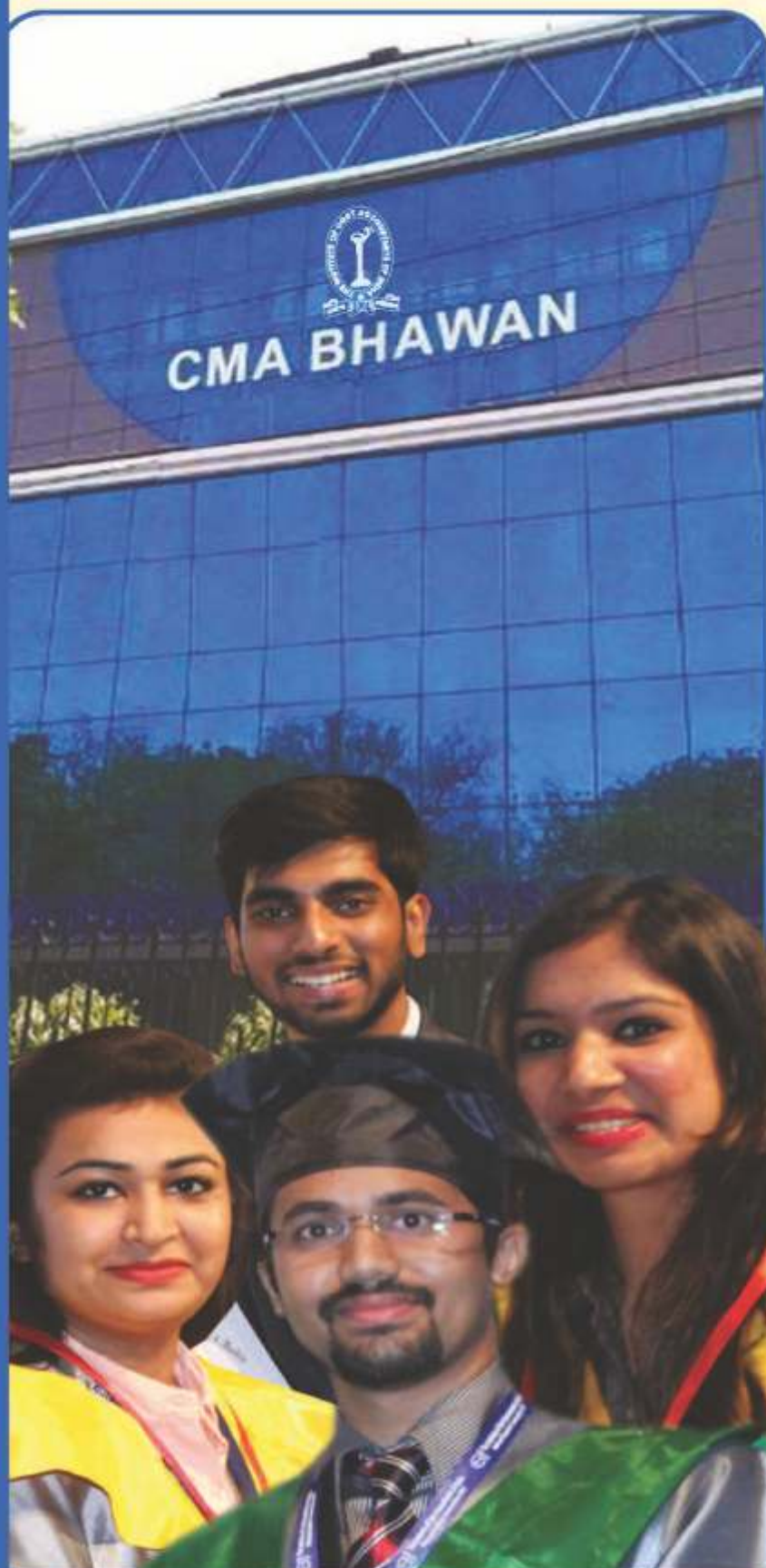
Few of Our Proud Recruiters



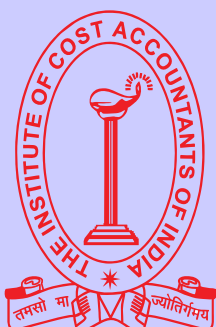
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Behind every successful business decision, there is always a **CMA**



Few Snapshots



Glimpses of Symposium on Global Summit organised by the Institute of Cost Accountants of India, New Delhi on 9th to 11th January 2020, CMA Balwinder Singh, President with Piyush Goyal, Hon'ble Member of Parliament and the Minister of Railways & Commerce and CMA Biswarup Basu, Vice President along with other dignitaries of the Institute



CMA Balwinder Singh, Hon'ble President of the Institute with Shri Anurag Singh Thakur, Hon'ble Member of Parliament and Minister of State for Finance and Corporate Affairs along with CMA P. Raju Iyer and other dignitaries of the Institute



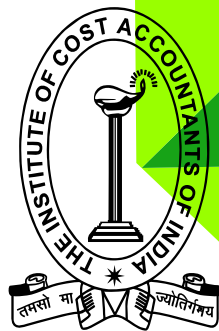
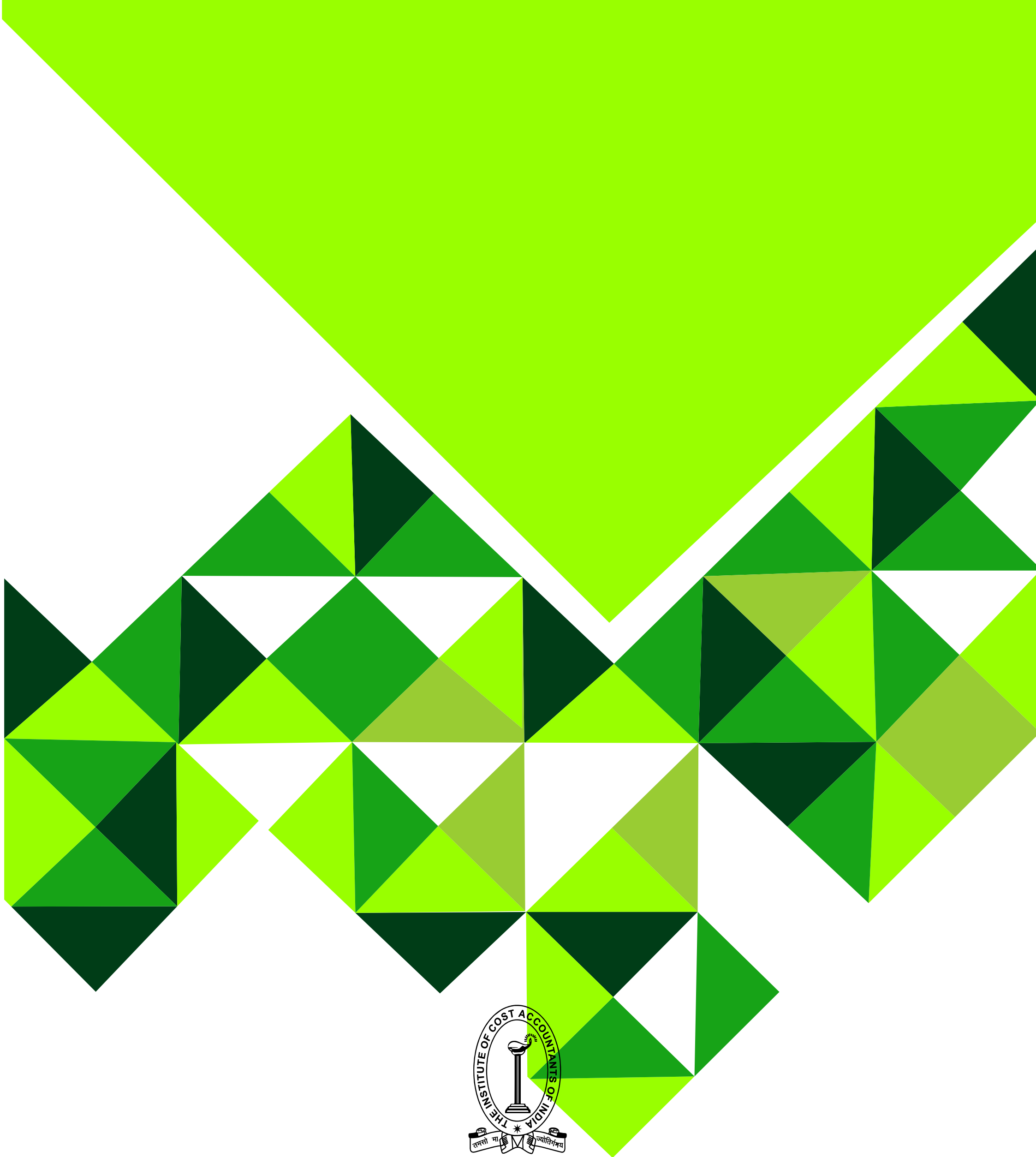
Global Summit (GS-2020) on 11th January, 2020 at New Delhi, Valedictory Session



CMA Balwinder Singh, President of the Institute, CMA Biswarup Basu, Vice President of the Institute and other dignitary publish a Research Bulletin of the Institute



Global Summit (GS-2020) on 10th January, 2020 at New Delhi, Technical Session V



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