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CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

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150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

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

GROUP: iii, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

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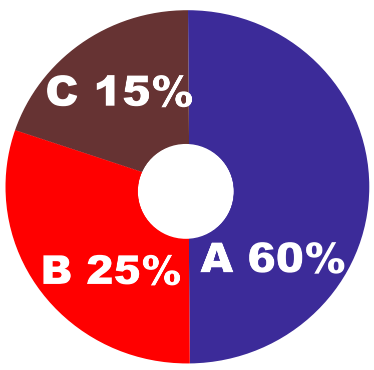
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

Read the Study Material minutely.

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

COMPANY LAW

Role of Shareholders and company meetings

Both equity and preference shareholders are the owners of the company.

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

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

Member and Shareholder

A person whose name appears in the Registrar of Members of the company is a member. All persons who are allotted shares or who purchase and intimates the company are entered in the register.

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

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

(i) Right to vote: shareholders, other than those holding non voting shares, are entitled to vote in General Meetings of shareholders. Proportionate to the holding, i. e. each share has one vote.
(ii) Right to Rights Shares: Whenever the company decides to increase its share capital the shareholder may decide that further shares shall be allotted to the existing shareholders proportionate to their existing.
(iii) Right to Bonus Shares: When the free reserves of the company arrives at a comfortable position, the company may decide to allot shares without any price to the existing shareholder on proportionate basis. Reserves are undistributed profits which accumulate year after year and free reserves are reserves not specified for any particular purpose.
(iv) Right to dividend: Dividend is a part of a profit earned by the company and distributed to the shareholder as percentage to their shareholding.

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

Meetings of Members:

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

Annual General Meeting:

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

Timing of the meeting:

Every company must in each calendar year hold an annual general meeting. Not more than 15 months must elapse between two annual general meetings. However, a company may hold its first annual general meeting within 18 months from the date of its incorporation. AGM should be held within 6 months of closure of accounting year.

The AGM must be held on a working day during business hours at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated.

3.2 Notice:

A notice of at least 21+2+2=25 days before the meeting must be given to members. The time, date and place of the meeting must be mentioned in the notice.

The notice of the meeting must be accompanied by a copy of the annual accounts of the company, director's report on the position of the company for the year and auditor's report on the accounts.

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

3.3 Default:

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

3.4 Business to be transacted at Annual General Meeting:

The following matters constitute ordinary business at an AGM: -

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

b. Declaration of dividend

c. Appointment of directors in the place of those retiring

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

Any other business would be considered as special business.

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

Extraordinary General Meeting

Every general meeting (i.e. meeting of members of the company) other than the annual general meeting or any adjournment thereof, is an extraordinary general meeting. Such meeting is usually called by the Board of Directors for some urgent business which cannot wait till the next AGM. Every business transacted at such a meeting is special business, since ordinary business cannot be transacted in Annual General Meeting (AGM).

Extraordinary General Meeting on Requisition:

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

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

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

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

Power of Company Law Board to Order Calling of Extraordinary General Meeting:

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

Class Meeting

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

Meetings of the Board of Directors (discussed in other chapter)

Other Meetings

Meeting of debenture holders.

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

Meeting of creditors

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

Requisites of Valid Meetings

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

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

Proxy

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

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

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

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

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

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

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

Quorum

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

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

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

Proceedings in Meeting:

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

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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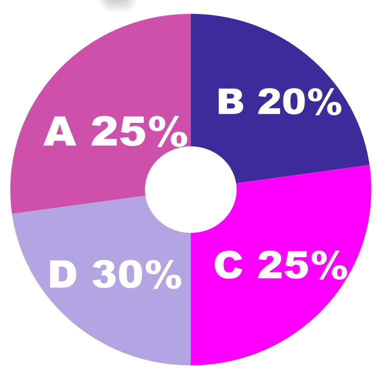
Your Preparation Quick Takes



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
5. Simulation Approach (continued from the previous issue)

Illustration 7:
Suppose, X Ltd. Is evaluating an investment proposal which has uncertainty associated with all three major aspects: the initial investment or original cost, the useful life and the annual cash flows. Suppose the probability distribution of the three variables are as follows:

Original cost		Useful life		Annual cash flows	
Value (Rs lakh)	Probability	Value (years)	Probability	Value (Rs. Lakh)	Probability
9.00 7.00 6.00	0.10 0.60 0.30	7.00 6.00 5.00	0.20 0.40 0.40	2.00 2.50 1.50 1.00	0.20 0.40 0.10 0.30

The firm's cost of capital is 15% and the risk-free rate of return is 12%. Suppose the finance manager feels that these two values are likely to remain unchanged during the life of the project.

Solution:
As you can see, step 1 and 2 i.e., defining the problem and identifying the fixed and variable factors are done.
Now in step 3 we need to identify the various courses of action available to the firm.
Here, the firm has two possible courses of action available to it:

(a) Accept the investment plan if the NPV is positive; or
(b) Drop the investment proposal if the NPV is less than or equal to zero.

Step 4:

The mathematical model that suits this problem is the usual NPV formula. In other words,

$$\sum_{t=1}^{n} \frac{CF_t}{(1+k)^t}$$

Where, CF_t = Expected Cash flow in year t

n = useful life of the project
I = Initial investment
k = Cost of capital

Step 5:

This step involves five phases as follows:

Phase I:

In Phase 1, the cumulative probabilities of each value that can be taken by the variable should be calculated. This makes the allocation of the Random numbers easy. The calculation of the cumulative probabilities has been shown in the following table.

Original cost			Useful life			Annual cash flows		
Value (Rs lakh)	Probability	Cumulative Probability	Value (years)	Probability	Cumulative Probability	Value (Rs. Lakh)	Probability	Cumulative Probability
9.00 7.00 6.00	0.10 0.60 0.30	0.10 0.70 1.00	7.00 6.00 5.00	0.20 0.40 0.40	0.20 0.60 1.00	2.00 2.50 1.50 1.00	0.20 0.40 0.10 0.30	0.20 0.60 0.70 1.00

Phase II

In the second phase, a range of random numbers is chosen depending on how the simulation is proposed to be done. If it is proposed to be done using two-digit random numbers, the range should be 0 to 99 and if three-digit random numbers are being used the range should be 0 to 999 and so on. The Random numbers may be chosen from tables generated using a computer or simply by lottery. For this illustration two-digit random numbers have been used and accordingly the range of random numbers will be 0 to 99.

Phase III

In the third phase, the random numbers are distributed to each value of the variables. The allocation will be in proportion to the probability associated with each of the variables. In our illustration, the range chosen, 0 to 99 should be allocated to each of the values of the variables. The number range allocated to each of the values of a variable depends on the value's cumulative probability. The number range for the first value starts at zero. If the probability- is. say, 0.10, as is the case with the first value of Original Cost in the illustration, the numbers will be 0 to 9. For the second value of Original Cost, the cumulative probability is 0-70, which indicates that the number range ends at 69 and begins at the next number after it ended for the first value, i.e., at 10. The number range for the second value will therefore be 10 to 69. Similarly, the range for the third value will be 70 to 99 The random number ranges for the remaining two variables can also be decided on the same lines, starting with zero. The random number ranges for the three variables are given in the following table.

Original cost				Useful life				Annual cash flows			
Value (Rs lakh)	Prob.	Cumulative Probability	Random No.	Value (years)	Prob.	Cumulative Probability	Random No.	Value (Rs. Lakh)	Prob.	Cumulative Probability	Random No.
9.00 7.00 6.00	0.10 0.60 0.30	0.10 0.70 1.00	0-9 10-69 70-99	7.00 6.00 5.00	0.20 0.40 0.40	0.20 0.60 1.00	0-19 20-59 60-99	2.00 2.50 1.50 1.00	0.20 0.40 0.10 0.30	0.20 0.60 0.70 1.00	0-19 20-59 60-69 70-99

Phase IV

Running the model is the fourth phase. In order to run the model, random numbers are generated. We use the following random number table for our simulation:

52	06	50	88	53	30	10	47	99	37	66	91	35	32	00	84	57	07
37	63	28	02	74	35	24	03	29	60	74	85	90	73	59	55	17	60
82	57	68	28	05	94	03	11	27	79	90	87	92	41	09	25	36	77
69	02	36	49	71	99	32	10	75	21	95	90	94	38	97	71	72	49
98	94	90	36	06	78	23	67	89	85	29	21	25	73	69	34	85	76
96	52	62	87	49	56	59	23	78	71	72	90	57	01	98	57	31	95
33	69	27	21	11	60	95	89	68	48	17	89	34	09	93	50	44	51
50	33	50	95	13	44	34	62	64	39	55	29	30	64	49	44	30	16
88	32	18	50	62	57	34	56	62	31	15	40	90	34	51	95	26	14
90	30	36	24	69	82	51	74	30	35	36	85	01	55	92	64	09	85
50	48	61	18	85	23	08	54	17	12	80	69	24	84	92	16	49	59
27	88	21	62	69	64	48	31	12	73	02	68	00	16	16	46	13	85
45	14	46	32	13	49	66	62	74	41	86	98	92	98	84	54	33	40
81	02	01	78	82	74	97	37	45	31	94	99	42	49	27	64	89	42
66	83	14	74	27	76	03	33	11	97	59	81	72	00	64	61	13	52

A random number table can be read any way that is convenient. We select the first three columns and read the values horizontally. The numbers in the first, second and third columns from the left end will be used for Original Cost, Useful Life, and Annual Nel Cash Flows respectively.

The first value of the first column is 52. It falls in the range of 10 lo 69 allocated for the value of Rs.7 lakh. So, in the first run, the value of the original cost will be Rs.7 lakh. We now proceed to the right, i.e., to the first reading in the second column. The reading is 06, and falls in the range of 0 to 19, which indicates that the useful life for the first run is seven years. Moving further right, we read the first number in the third column, which, being in the range 20 to 59, indicates that the Annual Net Cash Flow value for the first run to be Rs.2.50 lakh. This completes the first run.

For the second run, we have to start again from the first column, this time with the second value in the column (i.e., 37) and proceed to the right, on the same lines as in the first run. The model in the illustration has been run ten times to gel the following output. The output has been given in the following table.

Run	Original cost		Useful life		Annual Cashflow		NPV
	Random No.	Value	Random No.	Value	Random No.	Value	
1	52	7	6	7	50	2.5	4.41
2	37	7	63	5	28	2.5	2.01
3	82	6	57	6	68	1.5	0.17
4	69	7	2	7	36	2.5	4.41
5	98	6	94	5	90	1.0	-2.4
6	96	6	52	6	62	1.5	0.17
7	33	7	69	5	27	2.5	2.01
8	50	7	33	6	50	2.5	3.28
9	88	6	32	6	18	2.0	2.22
10	90	6	30	6	36	2.5	4.28
Expected NPV							2.06

Phase V

The final phase is to interpret the output from the model. Our output, as per the previous table, has been an expected NPV of Rs. 2.06 lakh. As the NPV is positive, the firm may accept the investment proposal.

Advantages of Simulation

Simulation is one of the techniques of risk analysis that is widely accepted. It is used not only in finance, but also in analysing such complex situations as the movement of traffic in a city, arrival of customers in a bank, end the progress of a chemical reaction which takes place in a friction of a second etc. The factors that give it a prominent place among risk analysis techniques as under.

i. As already explained, simulation models con handle any problem which fits into the following description:

a. The behaviour of the variables affecting the problem can be described using a probability distribution.

b. The interrelationship between the variables can be mathematically expressed.

c The operation of the system on be described using a mathematical model.

ii. The model formulated for simulation. can be used to perform 'sensitivity analysis' or 'What IT analysis' to study the impact of one of the variables. This can be done by fixing all other variables excepting the one m tended to be studied.

iii. Simulation models are highly flexible and once developed, can be modified for use in different conditions.

jv. Simulation can be used to study problems which are too risky or difficult to study in the real-life situation, such as the possibility that the proposed project will fail or whether the proposed computerized system of service is good enough to satisfy the customer.

v. One of the unique features of simulation is its ability to 'compress time'. The effects of advertising, changes in credit policies and others can be studied instantly using simulation.

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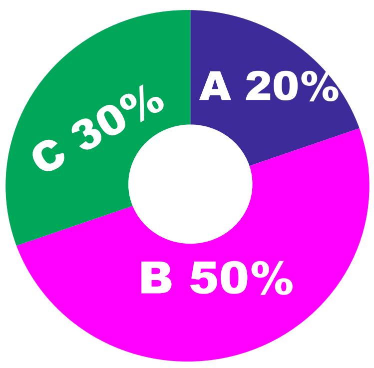
GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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?

Understanding Lean Accounting

01.00 Lean Management

Idle resources have always remained the fiercest enemy of every cost manager. It could be idle labour, idle machines, idle facilities, idle stocks; anything and everything remaining idle tantamount to an undue fixed burden which diminishes the output of value chain.

Costs do not exist to be Calculated; Costs do exist to be Reduced

Lean management is one fascinating concept that supports the efforts of the Cost Manager in the elimination of waste of any kind. It advocates the fundamental that 'Process, next in line, is the most important customer; Process, just before in line, is the most important vendor'.

Benjamin Franklin contributed greatly to waste reduction thinking. Henry Ford cited Franklin as a major influence on his business practices. They believed that a penny saved is a penny gained. They reinvented the writing on the wall, "Costs do not exist to be Calculated; Costs do exist to be Reduced". There started a number of right initiatives relating to Modern Lean Management.

02.00 Lean Manufacturing

The cornerstone of lean is the elimination of waste from processes with a mindset of continuous improvement. In its most basic form, Lean Manufacturing is the systematic elimination of waste by focusing on production costs, product quality and delivery, and worker involvement. Broadly speaking, Lean Manufacturing represents a fundamental paradigm shift from traditional "batch and queue" mass production to production systems based on product aligned "single-piece flow, pull production."

Lean Manufacturing is the pursuit of greater operational performance by elimination of waste throughout the organization. The benefits include:

- Reduced lead times
- Improved delivery performance
- Shorter order-to-cash cycle
- Increased sales revenue
- Increased profits
- Lower operating costs
- Reduction in inventory (greater inventory turns)
- Improved customer satisfaction
- Enhanced supplier relationships
- Greater employee morale and retention
- Improved product and service quality
- Reduced physical space requirement
- Availability of additional working capital

03.00 Lean Accounting

Lean Accounting is the application of lean thinking to all accounting and finance processes and systems. It is an essential component of a successful lean transformation for any organization.

Three principles guide Lean Accounting and form the foundation for all of accounting's work and interaction with the organization:

i. **Customer value**: Delivering the relevant and reliable information in a timely manner to all users of the information inside the organization.

ii. **Continuous improvement**: Improving accounting processes, cross-functional business processes and the information used inside the business for analysis and decision making.

iii. **Respect for people**: Adopting a learning attitude by seeking to understand root causes of business problems and issues in a cross-functional, collaborative manner.

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.

Most of the companies embarking on lean manufacturing may soon find that their accounting processes and management methods are at odds with the lean changes they are making. The reason for this is that traditional accounting and management methods were designed to support traditional manufacturing; they are based upon mass production thinking. Lean manufacturing breaks the rules of mass production, and so the traditional accounting and management methods warrant due modifications in tune with the lean changes that the company is embarking.

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 the managers about the flow through the Value Stream; to tell them about the capacity for extra work in the Value stream; and to tell them 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, have 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 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.

The benefits of Lean Accounting, thus, are:

i. Creating capacity in accounting by eliminating waste in accounting processes.

ii. Accounting fully participating in cross-function continuous improvement.

iii. Flowing relevant and reliable information to all internal customers for effective decision making.

iv. Leveraging accounting's analytical skills as lean financial coaches throughout the organization.

In other words, Lean Accounting provides service excellence to all of accounting's customers. Lean accounting ensures the right people have the right information at the right time to make the right decision in the areas of pricing, production, sourcing, inventory management, performance measuring, etc.

04.00 The Toyota Production System

The Toyota Production System (TPS), which is based on the philosophy of the complete elimination of all waste in pursuit of the most efficient methods, has roots tracing back to Sakichi Toyoda's automatic loom. TPS has evolved through many years of trial and error to improve efficiency based on the Just-in-Time concept developed by Kiichiro Toyoda, the founder (and second president) of Toyota Motor Corporation.

Waste can manifest as excess inventory, extraneous processing steps, and defective products, among other instances. All these "waste" elements intertwine with each other to create more waste, eventually impacting the management of the corporation itself.

The automatic loom invented by Sakichi Toyoda not only automated work that used to be performed manually, but also built the capability to make judgments into the machine itself. By eliminating both defective products and the associated wasteful practices, Sakichi succeeded in rapidly improving both productivity and work efficiency.

Kiichiro Toyoda, who inherited this philosophy, set out to realize his belief that "the ideal conditions for making things are created when machines, facilities, and people work together to add value without generating any waste." He conceived methodologies and techniques for eliminating waste between operations, between both lines and processes. The result was the Just-in-Time method.

Via the philosophies of "Daily Improvements" and "Good Thinking, Good Products", TPS has evolved into a world-renowned production system. Even today, all Toyota production divisions are making improvements to TPS day-and-night to ensure its continued evolution.

The Toyota spirit of monozukuri (making things) is today referred to as the "Toyota Way." It has been adopted not only by companies in Japan and within the automotive industry, but in production activities worldwide, and continues to evolve globally.

05.00 Quick Take

Lean implementation focuses on getting the right things to the right place at the right time in the right quantity to achieve perfect work flow, while minimizing waste and being flexible and able to change.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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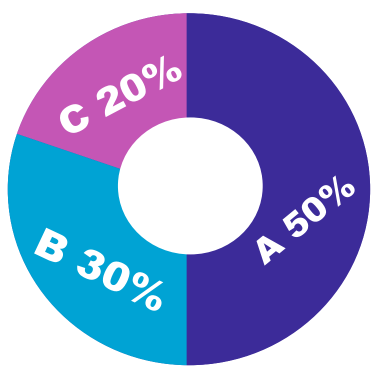
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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, 2016, 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:

A. Charge of equilisation levy on specified services [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:

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

- Specified service means
  a) **online advertisement**,
  b) any provision for digital advertising space or any other facility or service for the purpose of online advertisement and
  c) 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)

Taxpoint

These provisions extend to the whole of India.

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

Exception

The equalisation levy shall not be charged, where:

a) the non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;

b) 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

c) 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 on specified services [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 u/s 165 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

B. Charge of equalisation levy on e-commerce supply of services [Sec. 165A]

Equalisation levy shall be charged @ 2% of the amount of consideration received or receivable by an e-commerce operator from e-commerce supply or services made or provided or facilitated by it—

a. to a person resident in India; or

b. to a non-resident in the specified circumstances; or

- "Specified circumstances" mean—
  i. sale of advertisement, which targets a customer, who is resident in India or a customer who accesses the advertisement though internet protocol address located in India; and
  ii. sale of data, collected from a person who is resident in India or from a person who uses internet protocol address located in India

to a person who buys such goods or services or both using internet protocol address located in India.

Exception

The equalisation levy shall not be charged:

a. where the e-commerce operator making or providing or facilitating e-commerce supply or services has a permanent establishment in India and such e-commerce supply or services is effectively connected with such permanent establishment;

b. where the equalisation levy is leviable u/s 165 [i.e. A supra]; or

c. sales, turnover or gross receipts, as the case may be, of the e-commerce operator from the e-commerce supply or services made or provided or facilitated is less than ₹ 2 crore during the previous year.

Collection and recovery of equalisation levy on e-commerce supply or services [Sec. 166A]

The equalisation levy u/s 165A shall be paid by every e-commerce operator to the credit of the Central Government quarterly as per following time schedule:

Date of ending of the quarter of financial	Due date of payment
30th June	7th July
30th September	7th October
31st December	7th January
31st March	31st March

Furnishing of Statement [Sec. 167]

- Every assessee or ecommerce operator 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 or e-commerce supply or services during such financial year.
- *Revised Statement*: An assessee or ecommerce operator 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 services or e-commerce supply or services was provided or facilitated.
- *Notice by the Assessing Officer*: Where any assessee or ecommerce operator fails to furnish the statement within 30th June immediately following the financial year, the Assessing Officer may serve a notice upon such assessee or ecommerce operator 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:

a. the equalisation levy shall be computed after making the adjustment for any arithmetical error in the statement;
b. the interest, if any, shall be computed on the basis of sum deductible or payable as computed in the statement;
c. 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 166A 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 or ecommerce operator 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 or ecommerce operator 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 or revised 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 or ecommerce operator.

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 or ecommerce operator.
- An amendment to any intimation, which has the effect of increasing the liability of the assessee or ecommerce operator 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 or ecommerce operator 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 or ecommerce operator and the provisions of this Chapter shall apply accordingly.

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

Every assessee or ecommerce operator, 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 u/s 165	Equal to the amount of equalisation levy
171(aa)	Fails to pay the equalisation levy u/s 165A	
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 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 or ecommerce operator [Sec. 173].
- An assessee or ecommerce operator 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 ecommerce operator) 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].

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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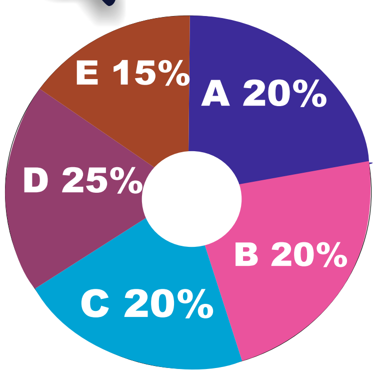
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

An overview of Ind AS 116 Leases

In this issue we shall have an overview of Ind AS 116 Leases.

In leases two entities are involved, lessee and lessor. As per Ind AS 116 at inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the **right to control the use of an identified asset** for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) the right to direct the use of the identified asset.

If the contract is or contains a lease:
The lessee shall recognize right-of-use (ROU) asset and lease liability, and measure them along with interest on lease liability and depreciation and impairment of ROU asset, and present and disclose them as directed in the standard [unless exemption opted for short term or low value lease].

Lease liability is measured at the inception at present value of [fixed payments + variable lease payments + residual value guarantees + the exercise price of a purchase option + payments of penalties for terminating the lease].

A right-of-use asset at the commencement date is measured at cost.

Cost = the amount of the initial measurement of the lease liability + any lease payments made at or before the commencement date, less any lease incentives received + any initial direct costs incurred by the lessee + an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site.

Subsequently, ROU asset is measured using cost model (unless revaluation model is applied).

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and
(b) adjusted for any remeasurement of the lease liability specified.

After the commencement date, a lessee shall measure the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;
(b) reducing the carrying amount to reflect the lease payments made; and
(c) remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lessee shall present:

(I) in balance sheet (a) ROU asset; and (b) lease liability; [no asset or liability is presented for exempt short term or low value lease]
(II) in statement of profit and loss: (a) interest on the lease liability; and (b) depreciation and impairment loss of ROU assets; [only lease payments as expense are shown in statement of profit and loss for exempt short term or low value lease]

(III) in statement of cash flows under financing activities(a) Principal repayment of lease liability; and (b) Interest payment on lease liability. [only lease payments are shown under operating activities for exempt short term or low value lease]

If the contract is or contains a lease:
A lessor shall classify each of its leases as either an operating lease or a finance lease.
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
(c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

The net investment in the lease to appear in balance sheet at inception = the present value of the lease receivables + the present value of unguaranteed residual value - deferred selling profit;

Subsequently, the net investment in the lease is measured at initial value – (lease receipt – interest income) +/- lease modification adjustment.

Deferred selling profit = the present value of the lease receivables – (the carrying amount of the underlying asset – present value of unguaranteed residual)

Interest income to be credited to Profit and Loss account = interest on the lease receivable + accretion of the unguaranteed residual value + amortisation of deferred selling profit.

Lease receipt principal amount is shown under investing activities in statement of cash flows whereas the interest amount is shown under operating activities if the lessor is a financing company, otherwise it appears under investing activities.

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150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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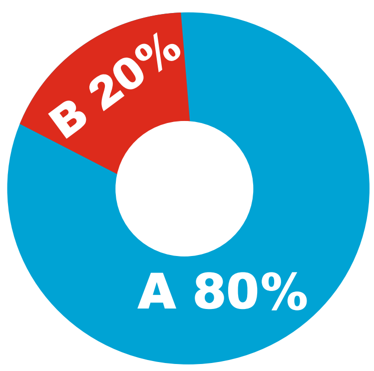
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about
- Few concepts of input tax credit
- Output tax payment
- Audit findings
- Generation & validity of e - Waybill
- Filing of GST returns
- Upfront amount – treatment
- Claim of refund

INDIRECT TAX

Choose the correct option from the followings –

1. **As per Section 42(1) of the CGST Act,2017 which one will be taken for the details of every inward supply furnished by a registered person for a tax period considered matched.**
(a) For payment of input tax credit
(b) For duplication of claims of Input tax credit
(c) For making payment under reverse charge mechanism
(d) For payment made by E commerce operator

2. **The GST Commissioner by order extend the date of matching relating to the claim of input tax credit to such date as may be specified therein on recommendation of**
(a) State Government
(b) Central Government
(c) GST Council
(d) Ministry of finance

3. **The output tax paid on such tax invoice it shall be considered matched where the amount of input tax credit is**
(a) Equal of the output tax paid
(b) Less than the output tax paid
(c) More than the output tax paid
(d) Equal or less than the output tax paid

4. **Transactions where the claim for input tax credit is higher than the output tax as declared by the supplier shall be**
(a) Added to the output tax liability of the recipient
(b) Deducted from the output tax liability of the recipient
(c) Added to the output tax liability of the supplier
(d) Deducted from the output tax liability of the supplier

5. **The final acceptance of claim of input credit in respect of any tax period, shall be made available electronically through the Common portal in**
(a) FORM GST MIS – 1
(b) FORM GST MIS – 2
(c) FORM GST MIS – 3
(d) FORM GST MIS – 4

6. **Claim of input tax credit on the same invoice more than once to be communicated to the registered person in FORM GST MIS – 1**
(a) at the time of filing subsequent return
(b) only through letter or mail
(c) electronically through common portal
(d) only by the respective authority

7. As per Section 65(6) of the CGST Act, 2017 on conclusion of audit, the proper officer shall inform the registered person, whose records are audited about the findings within

(a) 7 days
(b) 15 days
(c) 30 days
(d) 45 days

8. Even if the person is not registered the audit can be undertaken is

(a) Special auditor
(b) Departmental audit
(c) General audit
(d) Audit by a CA or CMA

9. Generation of E waybill by a Transporters carrying goods by road, air, rail etc

(a) Is mandatory
(b) If the value of the goods is more than Rs 50000/-
(c) If the supplier has not generated an e Way bill
(d) If the transporter is a unregistered person

10. The registered person shall furnish the information relating to the transporter of FORM GST EWB - 01

(a) In Part A
(b) In Part B
(c) In Part C
(d) In Part D

11. Where the registered person uploads the invoice under sub-rule (2), the information in Part A of FORM GST EWB – 01 shall be auto populated by the common portal on the basis of the information furnished in

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

12. In case of LPG cylinders transported from dealership to bottling plant of Oil company

(a) EWB will be required
(b) EWB will not be required
(c) EWB required for transporter
(d) EWB required for unregistered person

13. In which of the following case generation of e – Way bill is required

(a) Goods transported under Customs supervision or under customs seal
(b) Transit cargo to or from Nepal or Bhutan
(c) Empty Cargo containers are being transported
(d) Mode of transport is motor vehicle

14. Validity of E waybill in case of other than over dimensional cargo for less than 100 km is

(a) 1 days
(b) 2 days
(c) 3 days
(d) 4 days

15. In case, the goods have reached the transport godown i.e. additional place of business then

(a) There will be need of an extension of e –way bill's validity
(b) There will be no need of an extension of e –way bill's validity
(c) Extension of e –way bill's validity needed for unregistered person
(d) Extension of e –way bill's validity depends on the GST authority

16. Under GST Act a registered dealer has to file GST returns which exclude

(a) Sales
(b) Output GST
(c) Input tax credit
(d) Stocks

17. Return for the details of inward supplies to be furnished by a person having UIN and claiming refund
(a) 18th of the month succeeding quarter
(b) 20th of next month
(c) 28th of the month following the month for which statement is filed
(d) 31 December of the next financial year

18. One time upfront amount leviable in respect of the service, by way of granting long term lease of industrial plots, provided by the State Government Industrial Development Corporations or Undertakings to industrial units
(a) Is exempted from GST
(b) Not exempted from GST
(c) GST to be paid under RCM
(d) GST payable for unregistered person

19. As per Section 2(39) of the CGST Act, 2017 such supplies of goods as may be notified under Section 147 will be
(a) Import
(b) Export
(c) Deemed import
(d) Deemed export

20. In which of the following case registered person can not claim refund
(a) Special Economic Zones (SEZ's)/Developer of SEZ units.
(b) Import of goods or services
(c) Duty structure
(d) Finalisation of provision assessment

ANSWERS

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

YEARS OF CELEBRATING THE MAHATMA

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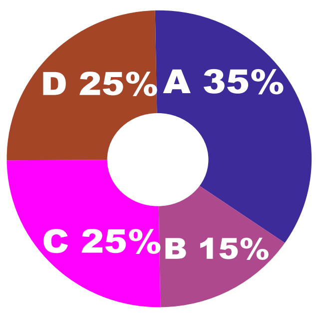
GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Cost & Management Audit

Introduction

The existence of a company is for eternity. The companies for recording of transactions adopt the concept of Going Concern. The company has to plan for its future and seek profitability to maintain itself perpetuality. That's the reason why the companies set a budget and measure its variations. But often just measuring the variations is not enough. The company has to seek out the reasons for the variations and take measures not to repeat such conditions to avoid variations. This monitoring is a continuous process.
To help monitor the variations, the clues are to be looked for in the process. Those clues are the indicators for performance management. So, a Performance Analysis Report is made up to appraise the management about its current performance. There is no set number or formula to determine how many performance measures an organization should have. Tracking too many performance measures at once may cause managers to lose sight of some which contribute most to strategic objectives. The basic objective to prepare a report on performance analysis is that it would help the organization to improve its profits and profitability, to optimize resource allocation, to optimize the product and service portfolio.

Basic objective to prepare a report on performance analysis is to provide an actionable insight into costs and profitability for the management in the strategic and operational context.
Suggested mechanism for performance analysis

Mechanism for performance management may include machine hour rate. Lower the machine hour rate better the performance. Again, a higher rate return on investment implies better performance.

Performance measures tell manager something important about the company's products, services and the process. Effective performance measures can let us:

- Monitor performance to judge how well the company is doing.
- Know if company is meeting its own set goals and if the customers are satisfied.
- Take action to affect performance or improve efficiency if improvements are necessary.

Steps / approach suggested for report on performance analysis

- Identify and understand the key strategies of the company, both prescriptive and emergent strategies.
- Choose strategies that have more visible expressions in cost data maintained by the company.
- Identify the activities that that were impacted by the strategies selected and also implemented during the year.
- Analyse the cost implications of those activities and link it with the expected results of the strategies.
- Present the evaluation, in a table or any other easily comprehensible format like histogram, chart, graph etc.
- Give explanatory notes for the termed used, calculations made, and assumptions behind the evaluation.
- Finalize the finding after a discussion with the concerned operating executives and then with the management of the company.

Followings are some of the important indicators for Performance Analysis –

1. Capacity Utilization Analysis

The basic information about capacity utilization is covered in Annexture-1 of Part B 1 & 2 of CRA-3 as Quantitative Information. However, there should be information about theoretical capacity, practical capacity, normal capacity and budgeted capacity. This information about the capacity can be found from technical documents, production planning report, time remaining after accounting and normal wastage & down time and any benchmarking exercise done. Cost Accounting Standard-2 that provides for capacity determination can be referred for such analysis.

When comparing the actual production with normal capacity, the variation if any may be further analysed from the point of view of controllable and uncontrollable causes for better presentation. Further the constraints if any that would limit the capacity of the entire organization or product is also to be identified

Capacity is usually expressed in terms of the numbers, machine hours, people hours etc.

2. Productivity and Efficiency Analysis

Productivity means input versus output. Raw materials consumption cost is one of the major elements of cost and normally remains between 70% and 80% of the total cost of production. Further RMs constitute different items of input. Therefore, the input versus output analysis of each of the input is needed to assess their efficiency/productivity. The productivity is a measure of efficiency per unit of output. Part B-2A & 2B of CRA-3 provides some basic information about input cost.

3. Product / service profitability analysis

The analysis of product and service profitability is based on two major components which is cost & selling price. The fluctuation of these components should be monitored to facilitate the assessment of impact of their changes. For service, it is essential to exercise care for calculation of its cost of service as the services provided are not standard.

If an organization is providing multiple products or services, the cost and profit of newly introduced products or services should be isolated. The analysis should highlight the products or services that provide for highest and lowest contribution. Each and every product and services should be ranked accordingly on the basis of their contribution. This will help the organization to understand and appraise itself about the performing and non-performing products and services. For such an analysis the sales and production records, operational budgets, price and discount policy etc. can be referred.

4. Key cost and contribution analysis

Some of the techniques used for such an analysis are breakeven analysis, profit volume ratio, marginal safety at current volumes of production and contribution earned by each product. Contribution is sales minus variable cost. In Annexture-4 of Part D of CRA-3, the financial performance and ratios are disclosed. This analysis involves assessment of major items of cost, their relationship with volume of production and some other indicative ratios. Any significant variation observed during analysis may further be examined about its recurring & non-recurring nature.

5. Utilities and Energy Efficiency Analysis

Utilities can be categorised as electricity, steam, compressed air, treated water etc. The parameters of analysing the performance of these utilities may include factors like consumption of fuel for generating the energy and then the use of the energy produced per unit of final product.

In manufacturing industries, utilities and energy form a substantial part of the conversion cost. The utilities are resources that are used in the process of conversion of materials and other components into a finished product, but these resources do not form part of the physical unit of the product. The impact of utility from cost angle as well as from the point of view of conservation of energy should be evaluated.

6. Working Capital and Inventory Management Analysis

Working capital being an indispensable part of operation of business should be evaluated to point out the inefficiency of either procurement or the application of the working capital. The analysis of working capital can be done by using traditional measures like current ratio, quick ratio, turnover ratio, number of days in operating cycle. This analysis helps in identifying operational inefficiency and liquidity of the company. Further, the cash management also to be reviewed to identify whether excessive amount is blocked in the working capital.

To avoid misuse of working capital, the policies regarding inventory management which would include procurement policy, stocking policy, inventory valuation method, physical verification of inventory policy, has to be in commensurate with nature and size of business.

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YEARS OF CELEBRATING THE MAHATMA

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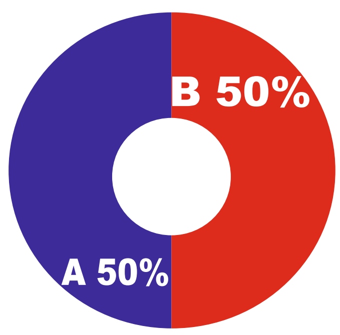
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Performance Management and Business Valuation, you will be able to:
- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

Relative Valuation Techniques

In relative valuation, the value of an asset is compared to the values assessed by the market for similar or comparable assets. There are two components to relative valuation. The first is to value assets on a relative basis, prices have to be standardized, usually by converting prices into multiples of earnings, book values or sales. The second is to find similar firms, which is difficult to do since no two firms are identical and firms in the same business can still differ on risk, growth potential and cash flows. The question of how to control for these differences, when comparing a multiple across several firms, becomes a key one (Damodaran, Investment Valuation). Relative valuation techniques assume that prices should have stable and consistent relationships to various firm variables across groups of firms.

Steps in Relative Valuation

1. Search and select the comparable companies
2. Selection of Multiples
3. Selection of comparables and size of sample
4. Computation of Multiples
5. Apply and conclude

Earnings Multiples

1. Price-Earnings Ratio
2. Price-Cash Flow Ratio
3. Price-Book Value Ratio
4. Price-Sales Ratio

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 does not form part of Benchmarking process?**
   (A) Planning;
   (B) Analysis;
   (C) Redesign;
   (D) Integration;

2. **The six sigma DMAIC process consist of:**
   (A) define, measure, analyze, improve, control;
   (B) define, manage, analyze, improve, control;
   (C) define, measure, analyze, improve, co-ordination;
   (D) deliver, measure, analyze, improve, control.

3. **Which one of the following is not correct?**
   (A) A small change in the price brings an infinite change in the demand is known as perfectly elastic demand.
   (B) If a change in price does not bring any change in demand, it is called perfectly inelastic demand.
   (C) If the proportionate change in the demand is more that the proportionate change in the price, it is called relatively elastic demand.

(D) If the proportionate change in the price is less than the proportionate change in the demand, it is called relatively inelastic demand.

4. Which of the following is a characteristic of a perfectly competitive market?

(A) Firms are price setters
(B) There are few sellers in the market
(C) Firms can exit and enter the market freely
(D) All of these

5. What do 'Cash Cows' symbolize in The Boston Consulting Group's product portfolio matrix?

(A) Remain Invested
(B) Problem Child
(C) Cash Traps
(D) Stable Cash Flow

6. The expected EPS of a company for the current year is Rs. 10. In the industry the standard P/E ratio is 15 to 20. The company is in high growth stage. What is the best estimate of company's share price?

(A) Rs.95
(B) Rs.100
(C) Rs.105
(D) Rs.110

Answers:

Question	Answer	Question	Answer
1	(C)	2	(A)
3	(D)	4	(C)
5	(D)	6	(B)

Section –B

1. A manufacturer can sell "x" items (x > 0) at a price of (330 – x) each; the cost of producing 'x' items is $x^2 + 10x + 12$.
Based on the above information, answer the following questions: [4+4]

(a) How many items should he sell to make the maximum profit?

(A) 70 Units
(B) 75 units
(C) 80 Units
(D) 90 Units

(b) What is the maximum profit?

(A) Rs.12,658
(B) Rs.12,788
(C) Rs.12,898
(D) Rs.13,188

2. From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model:

Particulars	Skilled	Unskilled
(i) annual average earning of an employee till the retirement age	Rs. 1,40,000	Rs.1,00,000
(ii)Age of retirement		
(iii) Discount rate	15%	15%
(iv) No. of employees in the group	30	40
(v) Average age	62 years	60 years

Based on the above information, answer the following questions: [4+4]

(i) The value of skilled employees would be-

(A) Rs. 3,16,654.51
(B) Rs. 3,19,651.51
(C) Rs. 3,21,651.51
(D) Rs. 3,49,651.51

(ii) Total value of unskilled employees -

(A) Rs. 50,02,265.40
(B) Rs. 51,02,212.40
(C) Rs. 51,12,268.40
(D) Rs. 52,02,268.40

Answers:

Section B

Question	Answer	Question	Answer
1. (i)	(C)	2 (i)	(B)
1. (ii)	(B)	2 (ii)	(D)

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

We have noted your queries and your requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence! One of the mails received is acknowledged below.

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

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

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Student may update their E-Mail id/ Mobile Number instantly after logging into their account at www.icmai.in at request option.

Message from
Directorate of Studies

Dear Students,

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;

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.

Few Snapshots

Republic Day Celebrations at the Institute Headquarters

Release of "Aide Memoire on Lending to Micro Small and Medium Enterprises Sector" (including restructuring of MSME credits) at the hands of Shri Anurag Singh Thakur, Hon'ble Union Minister of State for Finance and Corporate Affairs on 30th December 2020.

Republic Day Celebrations at the Institute Headquarters

CMA Biswarup Basu, President and CMA Chittaranjan Chattopadhyay, Chairman of Indirect Taxation Committee Chairman as well as Banking, Financial Services & Insurance Committee extending greetings to Novel Roy, IRS, Central Board of Direct Taxes, New Delhi, Ministry of Finance, Government of India and also handed over Representation on Transfer Pricing in Income Tax on 27th January 2021 at his office in New Delhi.

CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services & Insurance Committee and Indirect Taxation Committee presented copy of "Aide Memoire on Lending to Micro Small and Medium Enterprises Sector" (including restructuring of MSME credits) to Shri Pankaj Jain, IAS, Additional Secretary, Department of Financial Services, Ministry of Finance, Government of India on 27th January 2021 at his office in New Delhi.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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