2022
February
VOL: 7, NO.: 2,

TOLL FREE 18003450092 / 1800110910

150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

FOLLOW US ON

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Behind every successful business decision, there is always a CMA

Vol: 7, No.: 2.
February 2022, Issue

150 YEARS OF CELEBRATING THE MAHATMA

CONTENTS

Vol: 7, No.: 2.
February 2022, Issue

150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE
Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

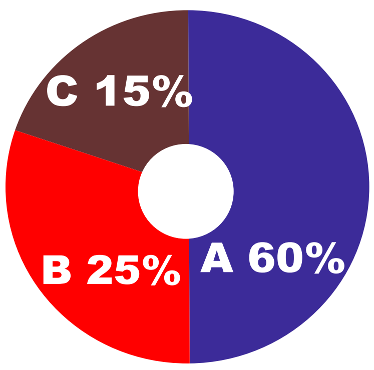
YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

Shri Subrata Kr. Roy
Company Secretary & Consultant
He can be reached at:
subrataoffice@rediffmail.com

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.

Corporate Governance-concept and issues

Governance tantamount to the process the affairs of the company is managed with regards to fairness, honesty and good practices for the benefit of all stakeholders. This is to be done with systematic, well designed polices and procedures, keeping in view the balance between the interest of various stakeholders.

Therefore, in order to qualify as good governed company, a company has to put in place the mechanics of the functioning of the company with checks and balances between the shareholders, directors, auditors etc. The process of Corporate governance is more a way of business life than a mere legal compulsion. Companies are forced to comply with conditions / practices by adopting the legal prescription as some companies may not function in the desired ethical manner. Moreover, there should be uniformity in governance , so that stakeholders can compare between the companies..

At various times, various management scientists and philosophers have defined CG, which are as follows.
Nobel laureate Milton Freidman:

"CG is the conduct of business in accordance with shareholder desire, which generally means to make money as much as possible, while contributing to the basis rules of society embodied ion law and local customs"

Adrian Cadbury (chairman of the Cadbury committee , which proposed CG for listed company in initial years).
" CG is a system by which companies are directed and controlled. It has to do with power and accountability, who exercises in whose behalf and how"

Narayan Murty committee(Chairman of the CG committee)
CG is the acceptance by the of the non alienable rights of the shareholders as true owners of the corporation and their own role as trustees. It is about commitment of values, ethical business conduct and differentiating between personal and corporate fund"
In course of time, with the growth of trade and commerce, business and society, now, have a stronger interface. From the typical concept of profit being the essence of business, now we are into a regime where the stakeholder definition includes not only the share holder but the employees, society, Govt., Customers, creditors, financiers etc. This is a paradigm shift in corporate management from the traditional "management" concept to "governance" concept.

Objectives of Corporate Governance

Following can be taken as objectives of CG.

1. Company to justifiably satisfy the stakeholders by balancing conflict of interest amongst the stakeholders;
2. Company adopts transparent, logical and justifiable polices effecting the stakeholders in all areas of management;
3. Ideal composition of the board of directors: to justify independence if decision making; this is now regulated under LODR.
4. Optimum use of resources of the company the resources belong to shareholders and thereafter the employees. Customers, financiers are also effected if the resources available is not properly used..
5. To reduce rsks by following risk management through due diligence provcess
6. Establishing strong relationship of trust between the company and the stakeholders which enhances the value of the company.

Features of Corporate Governance

Let us discuss few features or elements of Corporate governance generally accepted by the industry.

1. *A proper tool for transparency:* disclosing the status of the affairs company at every step to every stakeholders .i.e. required to maintain transparency. The concept goes against the theory of suppression of material facts by the company to its stakeholders , may be or may not be , for the benefit of the shareholders only.

2.Prudent and participative management: the management should use its full intelligence and knowledge for the benefit of the stakeholders. Hence, it may be taken that management is prudent and wise in its decision making.

3.Enhancing value of the enterprise: Any company should grow from tear to year, if it wants to satisfy it stakeholders. Value may monetary or reputation, image, goodwill etc. Better governing companies will have better reputation, trust of the stakeholders and there will enhancement of business, leading to more profit and better enterprise valuation.

4.Accountability: Success and accountability has o go together. Successful companies will make themselves accountable to the stakeholders. There are many combination of relationships, i.e. with the customer, creditors, shareholders, employees. etc. The company cannot say it is accountable to one stakeholder only .It has to be accountable to all stakeholders.

5.Innovation: Doing something new or doing the same thing in a novel manner is the essence of growth and sustainability of an enterprise. The governance structure should encourage new things in the company for enhancing value of the company.

6.Professionalism and specialization:
The basics of professionalism is that the job shall not be compromised at any level and there should not be conflict of interest of the directors and senior managers between his duty and personal gain. It also takes into account the competence of the person doing job having obviously adequate domain knowledge either by academic qualification or track record of experience

7.Stakeholder recognition: All stake holders should be recognized and respected . the Company should believe that all these stakeholders have contribution in making the company work and grow.

Ethics and corporate governance(CG)
Though corporate governance, per se, is the manifestation of ethics, few differences do exist between the two.

Ethics	Corporate Governance
values and principles considered as foundation	the method of governance should be with ethical values
applies at all levels	normally applies at top level
emerges naturally	needs to be studied and experienced
Regulations are not important	Regulations are important as it needs strict compliance

Management and corporate governance(CG)
Few thin line differences may be made out between the two.

Management	Corporate Governance
values and principles considered as foundation	the method of governance with ethical values
applies at all levels	Applies at top level
emerges with situation	need to study and experience
Regulations not important	Regulations are important
Results are more important than the methodology of achieving the result	Methodology of achieving results are more important than results

Emergence and evolution of corporate governance

1. *Instances of corporate failures: last two decades hace witnessed various corporate failures of some of the reputed and large companies which has resulted to mistrust by the stakeholders on companies in general.*
2. *Some of the big failures are Xerox, Enron, Global Crossing, Worldcom, MS shoes, Harshad Mehta case, Satyam etc.*
3. *Rise of institutional investors who are bothered about the company and investment;*
4. *Increased number of retail investors;*
5. *Opening of company information in public domain;*
6. *Regulatory requirements;*
7. *Justifying values to wide range of stakeholders*
8. *Non compliance of regulations*
9. *Disconnect with stakeholders*
10. *Abnormal volatility in share prices*

Benefits of corporate governance

1.Better governed co. for growth and stabilization
2.Reputation
3.Better use of funds
4.Better management of resources
5.Long term and steady growth.
6.Establishing stakeholders' confidence
7.Leverage competitive advantages
8.Alliances are easy

Theories corporate governance through Board management

Stewardship theory: Directors regarded as stewards of the company's assets

Agency theory: directors are considered to be agents of the shareholders and are supposed to run the company for best interest of the shareholders

Stakeholder theory: This theory considers wide inclusion of stakeholders, other than shareholders. Hence the directors need to keep a balance between the interests of various stakeholders.

Trusteeship theory: The directors are the persons who are given the authority to run the business by the shareholders which may be a huge amount of money. The relationship of trust is very important for performance by directors who take major decisions of the company.

3.1.11. Principles of good governance

Police to ne made at top level for various functions of management, which should be based on fairness, honesty
Should be known to stakeholders
Should be meticulously practiced

(a) Board level

Board level good governance have been standardised with series of regulations and disclosures by the company to stakeholders and regulators. This is mentioned mostly under the Companies Act and LODR regulations and discussed in detail elsewhere in this study material.

(b) Below Board level

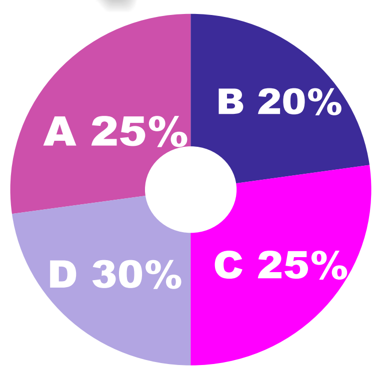
Below Board level, each company has its own mechanism for ethics, code of conduct, service rules, discipline etc. It is up to the company to decide to what extent it is serious about the issues. However, code of conduct for senior executives just below the Board level is a stipulation under LODR. Normally, governance practices are formulated and practiced at top level and percolate downwards. This is called " top down approach" to governance. Whistle blower policy, Audit Committee, standard operating procedures, departmental manuals are some of the common mechanisms used to keep ethics and governance in order, in a company.

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

Dr. Swapan Sarkar,
Assistant Professor
Department of Commerce,
University of Calcutta
He can be reached at:
swapansarkar22@gmail.com

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

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

➢ **Technical Analysis**

Traditional Technical Tools (contd.)

▪ **Analysis of the Breadth of the Market**

The extent of a trend is monitored by breadth. Breadth refers to the extent to which share issues move along with the market trend and is generally measured in terms of number of issues whose prices advance, decline, and remain unaltered in the period over which a trend persists. A reversal in trend is imminent if the number of issues moving with the trend are fewer than those moving against. Breadth also measures the underlying strength of the market. If the index continues to move up, when most listed shares are declining, a reversal can be read from the breadth of the market statistics. In other words, if a price trend does not receive a follow up from the broad market, it is vulnerable, and may not persist for long.

Numerous methods exist for measuring the breadth of the market.

(a) Advance-Decline Line: One of the simplest is to compare the number of issues whose prices advanced on a particular day, to the number of issues whose prices declined on the same day. The net advances or declines, thus, obtained are cumulated over the period under observation. The cumulated figures are also plotted on a graph, preferably along with a market index. The Advance-Decline line (A-D line) and the index generally move in tandem. However, a divergence in the A-D line is indicative of a turning point, and technical analysts look for such signals from the A-D line. The A-D line drawn from a simple cumulation of the net advances or declines is generally used to observe the breadth of the market over short periods of a month or two. For long run observations, the A-D line is drawn after considering the number of issues also whose prices remain unaltered. The A-D line is drawn by cumulating the value of $\sqrt{\frac{A}{u}-\frac{D}{u}}$ where A = number of stocks whose prices are advancing; D = number of stocks whose prices are declining; and u = number of stocks whose prices remain unaltered. It is possible for the value D/u to be higher than A/u when declines are more than advances. Such a tendency signals change in direction of the A-D line. Therefore, in such cases the square root of absolute value of (A/u-D/u), is computed, and the resulting answer is subtracted from the cumulative total (note that square root of a negative number cannot be mathematically computed).

(b) Advance-Decline Ratio: The ADR compares the number of stocks that closed higher against the number of stocks that closed lower than their previous day's closing prices. To calculate the advance/decline ratio, the number of advancing stocks is divided by the number of declining stocks. The advance/decline ratio is typically calculated daily.

Investors can compare the moving average of the advance-decline ratio (ADR) to the performance of a market index such as the Nifty to see whether a minority of companies is driving overall market performance. This comparison can provide perspective on the cause of an apparent rally or sell-off. Also, a low advance-decline ratio can indicate an oversold market, while a high advance-decline ratio can indicate an overbought market. Thus, the advance-decline ratio can provide a signal that the market is about to change directions.

(c) Stocks in Positive Trends

A stock which rallies after a decline to reach a new high is said to be in an uptrend; a stock that reacts to reach a new low is said to be in a downtrend. The percentage of stock in an uptrend to the total stock traded is computed and plotted on a graph. A rising market is expected to have an increasing percentage of uptrend stock. Reversal is signaled when stock in positive trend begin to diminish.

(d) Percentage of Stock Over a Moving Average

A specific moving average for a number of stocks is first computed, and the percentage of the number that is above the average is ascertained. The percentage of stocks over a moving average increases in a bull market, and generally moves along with the positive trend index computed in (i) above. When the percentage of stocks over a moving average reaches an extreme of 90-100 percent or 10-15 percent, it indicates that a substantial proportion of the prevailing move has taken place and that reversal is imminent. When the percentage index reverses direction, the reversal in market trend is almost immediate.

(e) Diffusion Index

A diffusion index is computed by calculating the rate at which a certain group of stocks change price over a given period of time. It is generally calculated on either a wide number of stocks, or a number of industry indexes. Also called the momentum index, a rise in the index signals the onset of a bull market and vice versa.

(f) High-Low Statistics

Technical analysts also study the high-low statistics to confirm market trends. A rising market should be accompanied by a healthy number of net new highs. A graph of net new highs can be plotted to be read along with a market index. If net new highs trace a series of declining peaks while the index continues to rise, a reversal is imminent. Similarly, a graph of net new lows can be expected to signal the end of a bear market, when it does not confirm the new trough reached by the market index. This is because, a declining number of stocks reaching new lows implies that larger number of stocks are resisting the downtrend in the market index, and thus signifies the end of a bear market.

Breadth of the market, thus, is an important indicator of the depth of the prevailing trend, and is of immense utility to the analyst in identifying trend reversals.

- **Other Traditional Tools**

A. Momentum

In most cases, a trend reversal can be identified with the help of trendlines, moving averages and price patterns only sometime after the reversal has actually taken place. The concept of momentum is used to overcome this weakness in technical analysis, by identifying a reversal much before a trend peaks or bottoms out. Momentum measures the rate at which prices rise or fall and is based on the principle that prices usually rise at the fastest pace well ahead of their peak, and decline at their greatest speed before their trough.

Generally, before peaking out, share prices register a noticeable decrease in momentum. Similarly, loss of momentum in a downtrend shows much before the final low is reached. Momentum, thus, is an important lead indicator of the quality of price movement.

Momentum can be looked upon from two angles: As a measure of rate of change, and as a measure of internal market volatility. Rate of change indices are widely used to measure the speed of advance or decline of market indices and stock prices. Measures of internal strength are generally applied to market indicators like the breadth of the market, and are known as oscillators. In order to determine the quality of a certain price trend, momentum indices are used.

(a) Rate of Change Index (ROC Index)

One of the simplest and widely used methods to measure momentum is to compute the rate at which the price of a stock, or market index, changes over a certain period of time. The ROC Index is an index constructed to measure such price changes. ROC index is calculated by the following formula:

ROC Index on a day = (Value of index on that date/ Value of Index on a reference day) x 100

A rising ROC Index indicates a growth in momentum (a bullish factor) and a failing index a loss in momentum (a bearish factor).

(b) Moving Average Convergence and Divergence (MACD)

MACD like ROC is an oscillator which measures momentum. This oscillator is called Moving Average Convergence and Divergence Oscillator, as it continuously converges and diverge away from the horizontal reference line. It is constructed by taking the difference or the ratio of short-term and the long-term moving average. The points obtained are plotted against a horizontal reference line. The reference line represents the points where the two EMAs have identical values. From the movement of the MACD indicator it can be known, whether the shorter-term moving average is above or below the longer-term moving average.

B. Role of Volume

Technical analysts confirm a price reaction by looking at the volume of shares traded. Volume generally moves along with price, and is indicative of the intensity of a price reaction. Study of volumes also helps in forecasting reversals in trend. It has been found by technical analysts that volume leads the trend of prices, and indicates the trend reversals in advance.

Following, in brief, are the principles to be borne in mind while studying Price-Volume relationships:

(i). A new high reached with a volume that is actually diminishing is a warning to a reversal in price.

(ii). A rally which reaches a new high would also be accompanied by a volume that is higher than that obtained at the preceding peak. If volumes obtained at a new high are lower, a trend reversal is indicated.

(iii). After a slow expansion over a period, sometimes both prices and volume work into an exponential rise. This is indicative of heavy off-loading by bulls and is called a speculative blow off and marks the end of the bull market. Price and volumes both fall sharply after this development.

(iv). When prices recover after a bearish phase and subsequently react to a level equal to or slightly above the previous low, if the volume accompanying such reaction is lower than that obtained at the previous low, a bullish trend is indicated. Lower volumes accompanying such reactions is indicative of the weakness of the reaction.

(v). A reversal in trend indicated by a downside breakout from a price pattern, trendline or moving average, can be acted upon if accompanied by heavy volume, which confirms the bearish sign.

(vi). Termination of a bear market is often signaled by a 'selling climax'. A selling climax occurs when prices fall for a considerable time at an accelerated pace and are accompanied by expanding volume. Price may be expected to rise subsequently.

(vii). An accumulation in the course of a bearish market, accompanied by high volume, indicates persistent effort to push up prices, and would spark a bullish phase. Similarly, a distribution accompanied by increased volume is a bearish factor. However, where volumes do not increase at an accumulation or distribution, the indication is that there is only a consolidation of the prevailing trend.

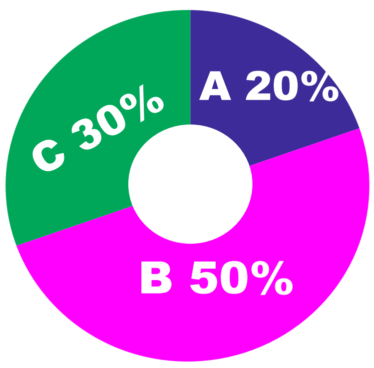
YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

CMA (Dr.) Sreehari Chava
Cost & Management Consultant,
Nagpur, Maharastra,
He can be reached at:
sreeharichava@yahoo.co.in

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?

Cost Leadership

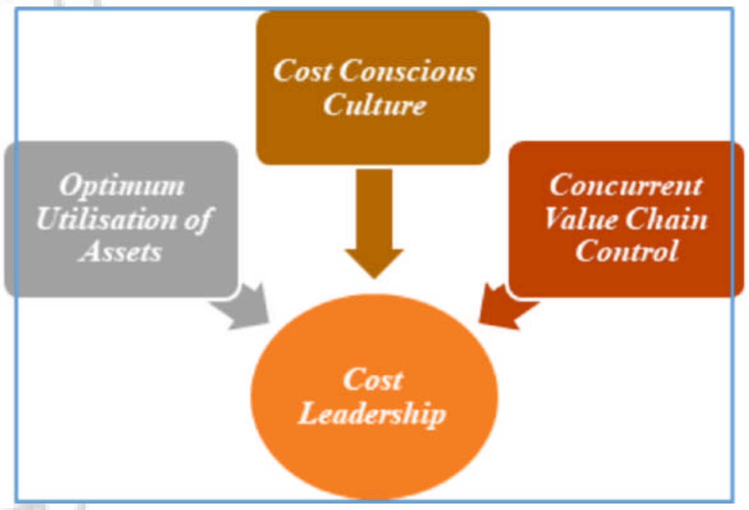
01.00 Concept

Cost Leadership is a generic strategy adopted to gain competitive advantage. The Strategy aims at the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. Cost leadership strategy drives the management to constantly work on reducing costs at every level and to remain competitive as also profitable.

02.00 Dimensions

The three-fold dimensions, in this context, consist of:

i. Optimum Utilisation of Assets
ii. Cost Conscious Culture
iii. Concurrent Value Chain Control



Optimum Utilisation of Assets: The first and foremost is achieving a high asset utilization. In manufacturing, it will involve production of high volumes of output. In service industries, this may mean for example a restaurant that turns tables around very quickly, or an airline that turns around flights very fast. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i.e., the firm hopes to take advantage of economies of scale and experience curve effects. For industrial firms, mass production becomes both a strategy and an end in itself. Higher levels of output both require and result in high market share, and create an entry barrier to potential competitors, who may be unable to achieve the scale necessary to match the firm's low costs and prices.

Cost Conscious Culture: The second dimension is inculcating a cost conscious culture across the organisation and achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service. Production costs are kept low by using fewer components, using standard components, and limiting the number of models produced to ensure larger production runs. Overheads are kept low by collective efforts. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This will include outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low-cost product features.

Concurrent Value Chain Control: The third dimension is control over the value chain encompassing all functional groups (finance, supply/procurement, marketing, inventory, information technology etc..) to ensure low costs. For supply/procurement chain this could be achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory. Wal-Mart is famous for squeezing its suppliers to ensure low prices for its goods. Other procurement advantages could come from preferential access to raw materials, or backward integration. Keep in mind that if you are in control of all functional groups this is suitable for cost leadership; if you are only in control of one functional group this is differentiation. For example, Dell Computer initially achieved market share by keeping inventories low and only building computers to order via applying Differentiation strategies in supply/procurement chain.

03.00 Application

Cost leadership strategies are certainly viable for large firms with the opportunity to enjoy economies of scale and large production volumes and big market share. Small businesses can be "cost focused", but not "cost leaders" if they enjoy any advantages conducive to low costs. For example, a local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage. Innovation of products or processes may also enable a startup or small company to offer a cheaper product or service where incumbents' costs and prices have become too high. An example is the success of low-cost budget airlines who, despite having fewer planes than the major airlines, were able to achieve market share growth by offering cheap, no-frills services at prices much cheaper than those of the larger incumbents. At the beginning, low-cost budget airlines chose "cost focused" strategies but later when the market grow, big airlines started to offer the same low-cost attributes, and so cost focus became cost leadership!

A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future.

The low-cost leadership strategies are prone to be imitated by the competitors as well, and thus low-cost leadership is not a onetime process. A successful way of adopting this strategy can be by using the Japanese mantra of "Kaizen" that focuses on continuous improvement. Target Costing is perceived as the most effective means in this direction. Continuous rethinking is important for the implementers of this strategy. Continuous efforts to improve the operations and reduce the costs make an entity more efficient, effective and economical, in comparison to its competitors, which in turn lead to higher profit margins for the entity as a whole.

The higher profitability of the cost leaders gives them enough space to innovate, maneuver, and survive as compared to their lower-margin competitors, especially in price centered industries. It also acts as a strong barrier for the entry of new competitors. As such, cost leadership strategy is factored to bring in competitive advantage over the long run. Global giants Wal-Mart and McDonalds are cited as interesting examples of being cost effective leaders in their respective fields.

In the Indian perspective, Big Bazaar is, often, mentioned as one example that has been focusing on low-cost leadership strategy. The major USP of 'Big Bazaar,' is low pricing. Big Bazaar sells the same branded products that the other retailers are also selling; but it sells these products at a price, assumably, ten to fifteen percent lower than that of the others.

04.00 Quick Take

"Cost Leadership is fostered by continuous Cost Reduction ". In the ultimate, it is the magnitude of successful implementation of 'Cost Leadership Strategy' that determines the leader amongst the peers.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

CA Vikash Mundhra
He can be reached at:
vikash@taxpointindia.com

Your Preparation Quick Takes

Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Case Study Analysis **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.

Alternate Minimum Tax (AMT) [Sec. 115JC]

The Finance Act, 2011 had introduced the concept of AMT in relation to LLPs and accordingly the LLPs were subject to AMT @ 18.5% of adjusted total income. Total income shall be increased by deductions claimed under Part C of Chapter VI-A and deductions claimed u/s 10AA to arrive at adjusted total income. The Finance Act, 2012 extended the levy of AMT to certain persons other than companies.

Subsequently, the investment linked deductions have been provided in place of profit linked deductions. With a view to include the investment linked deduction claimed u/s 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it was amended so as to include deduction claimed u/s 35AD for the purpose of computation of adjusted total income.

At present the Act provides that where the regular income-tax payable by a person, other than a company, for a previous year computed as per the provisions of the Income-tax Act, 1961 (other than Chapter XII-BA) is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5%.

Applicable to

All assessee (other than company) who has claimed any deduction under:

- Sec. 80H to Sec. 80RRB (other than sec. 80P); or
- Sec.10AA
- Sec.35AD

Exception

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

Taxpoint: The exception is not applicable in case of Firm and Limited Liability Partnership. That means, AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.

Scheme of Alternate Minimum Tax (AMT)

Step 1	Compute regular income tax liability (before surcharge and cess) of the assessee covered under these provisions		A	****
Step 2	Compute Adjusted Total income of the assessee i.e.			*****
	Total income of the assessee	****	B	
	Add:			
	• Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P)	***	C	
	• Deduction claimed u/s 35AD *less* Depreciation u/s 32	***	D	
	• Deduction u/s 10AA	***	E	
	Adjusted Total Income	****	F	
	Note: **(i)** If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee. if 'F' does not exceed ₹ 20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm.			
Step 3	Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income]	G = F * 18.5%		****
Step 4	Income Tax liability	Higher of A & G		****
	Add: Surcharge, if applicable			**

	Tax and surcharge payable			****
	Add: Cess			**
	Tax liability after Cess			****

Impact where AMT is applicable i.e., case where value of Step 3 is higher than value of Step 1

a. Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.
b. Tax liability of the assessee shall be 18.5% (+ surcharge + cess) of adjusted total income of the assessee. However, in case of a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, AMT shall be computed considering 9% (instead of 18.5%) of adjusted total income.
c. A report in Form 29C from a chartered accountant is required to be obtained on or before the due date of furnishing of return of income u/s 139(1).
d. All other provisions of the Act, like advance tax, interest, etc. is applicable to such assessee.

Provision Illustrated

Compute tax of the following assessee:

Particulars	Mr. W	Mr. X	Mr. Y	A LLP	B LLP
Gross Total Income being Business Income	15,00,000	25,00,000	27,00,000	32,00,000	8,00,000
Deduction u/s 80C	1,00,000	1,00,000	1,00,000	Nil	Nil
Deduction u/s G	25,000	1,00,000	Nil	1,00,000	1,00,000
Deduction u/s 80IE	7,75,000	Nil	8,00,000	Nil	2,00,000
Total Income	**6,00,000**	**23,00,000**	**18,00,000**	**31,00,000**	**5,00,000**
Regular Tax	32,500	5,02,500	3,52,500	9,30,000	1,50,000
Adjusted Total Income	13,75,000	23,00,000	26,00,000	31,00,000	7,00,000
Whether sec. 115JC is applicable or not [1.] As adjusted total income does not exceed Rs.20 lakh 2. As no deduction is claimed u/s 80H to 80RRB (other than sec. 80P) or u/s 10AA	No[1]	No[2]	Yes	No[2]	Yes
Alternate Minimum Tax (AMT) u/s 115JC [18.5% of adjusted total income]	NA	NA	4,81,000	NA	1,29,500
Tax (Higher of Regular Tax and AMT)	**32,500**	**5,02,500**	**4,81,000**	**9,30,000**	**1,50,000**
Add: Health & Education Cess	1,300	20,100	19,240	37,200	6,000
Tax and Cess Liability (Rounded off)	**33,800**	**5,22,600**	**5,00,240**	**9,67,200**	**1,56,000**

Tax credit for alternate minimum tax [Sec. 115JD]

- The excess of alternate minimum tax paid over the regular income-tax payable of that year shall be allowed as tax credit. *Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable*
- However, no interest shall be payable on the tax credit allowed.
- The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 15th assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.
- The amount of tax credit in respect of any income-tax paid in any country or specified territory outside India u/s 90 or 90A or 91, allowed against the alternate minimum tax payable, exceeds the amount of the tax credit admissible against the regular income-tax payable by the assessee, then, while computing the amount of credit u/s 115JD, such excess amount shall be ignored.
- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

Examples

(a)	Tax liability u/s 115JC (AMT)	500	
	Regular Tax liability	1,000	
	Difference	500	
	₹ 500 cannot be treated as credit because liability u/s 115JC (AMT) is not greater than regular tax liability.		
(b)	Year 1		
	Liability u/s 115JC (AMT)	2,000	
	Regular Tax Liability	1,000	
		1,000	It can be carried forward
	Year 2		
	Liability u/s 115JC (AMT)	2,500	
	Regular Tax Liability	5,000	
	Difference	2,500	
	Now regular liability is more than liability u/s 115JC (AMT), the credit carried forward can be set off to the extent of the difference *i.e.*, ₹ 2,500		
	In year 2, tax payable shall be as under:		
	Regular Tax Liability		5,000
	Less : Set off of AMT credit		1,000
	Tax payable (before surcharge and cess)		4,000
In the above example, if the credit carried forward was ₹ 3,500, then tax payable in year 2 would be calculated as under:			
	Regular Tax Liability		5,000
	Less : Set off of AMT credit		2,500
	Tax payable (Credit available ₹ 3,500 but restricted to ₹ 2,500)		2,500

Here ₹ 1,000 (being balance credit left i.e., ₹ 3,500 – ₹ 2,500) is carried forward to the next year.
In other words, the excess of regular tax over AMT u/s 115JC is the amount of maximum set off permissible.

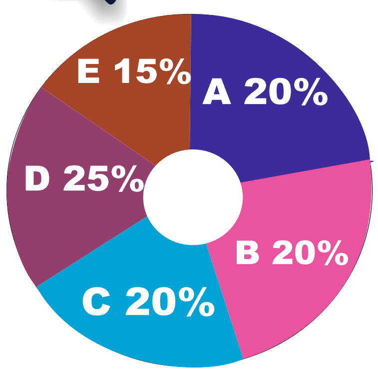
YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

Dr. Ananda Mohan Pal
Professor,
Department of Business Management,
The University of Calcutta,
He can be reached at:
apal59@gmail.com

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Corporate Financial Reporting

A Comprehensive Problem on Business Combination

In continuation of the discussion made in January 2022 issue, in the present issue I am going to place a comprehensive problem that covers many Ind ASs, such as Ind AS 109, Ind AS 27, Ind AS 28, Ind AS 103 and Ind AS 110.

In this problem you will find P Ltd. acquired shares in S Ltd. having significant influence on S Ltd., its Associate (Ind AS 28 and Ind AS 27 are applicable). Next, P Ltd. acquired controlling shares in S Ltd., its subsidiary (Ind AS 103, Ind AS 27 and Ind AS 110 are applicable). Thereafter, P Ltd. acquired further shares in S Ltd. resulting in change of ownership of Parent and Non-Controlling Interest (NCI) but not in control over subsidiary (Ind AS 110 is applicable). In all the cases where Ind AS 27 is applied, Ind AS 109 is also referred to.

Illustration 1 .
P Ltd. acquired 25% shares of S Ltd. on 01-04-2019 in cash. P Ltd. further acquired on 01-04-2020 45% shares of B Ltd. payable by issue of 30000 shares of Rs. 10 (market price Rs.15). On that date Debentures of S Ltd. were exchanged for 10% Debenture of P Ltd. A contingent consideration is also payable, fair value of which at 01-04-2020 was estimated at Rs. 45000. P Ltd. paid transaction cost Rs. 20000. Non-Controlling Interest is recognized at fair value.
The fair values of assets and liabilities of S Ltd. are stated below:

Fair Value (Rs.)	01-04-2019	01-04-2020	31-03-2021
PPE	380000	400000	450000
Current Assets	400000	420000	430000
Creditors	30000	36000	40000

On 31-03-2021 P Ltd. further purchased 20% shares in S Ltd. at Rs. 250000 in cash. Profits made by S Ltd. during 2020-21 amounted to Rs.80000.

The abstracts of balance sheet of P Ltd. (consolidated with Associate S Ltd.) and S Ltd. (stand alone or individual) on 31-03-20 are given below: [Amount in Rupees]

	P Ltd.	S Ltd.		P Ltd.	S Ltd.
Equity Share Capital	460000	250000		180000	160000
Other Equity	370000	300000	Investment in 25% shares in S Ltd. (valued under equity method with share of post-acquisition profits Rs. 16000)	230000	
10% Debenture	90000	10000	Current Assets	560000	440000
Creditors	50000	40000			
Total	970000	600000	Total	970000	600000

(I) Pass journal entries in the books of P Ltd. for acquisition of shares on 01-04-2019, on 01-04-2020 and on 31-03-2021 (both in consolidated and separate set of accounting).
(II) Show the Separate and Consolidated balance sheet as at 01-04-2020.
(III) Also measure the balance of NCI and Goodwill that would appear in the consolidated balance sheet and Investment in separate balance sheet of P Ltd. as at 31-03-2021.
Solution:
Note that the fair values of assets and liabilities of S Ltd. as on 01-04-20190and 31-03-2021 are not relevant.
(I) Journal in books of P Ltd.
Explanation 1 :
On 01-04-2019: Acquisition of 25% shares having **Significant Influence** on **Associate** S Ltd.
Ind AS 28 is applicable. P Ltd. has to prepare consolidated balance sheet measuring investment in associate under **Equity method** and

separate balance sheet measuring investment in securities at cost or as per Ind AS 109. Ind AS 27 requires preparation of separate financial statements also.

Workings:

Investment in 25% shares in S Ltd. on 31-03-2020	Rs. 230000
Less: post-acquisition profits (01-04-2019 to 31-03-2020	(Rs. 16000)
Cost of acquisition at 01-04-2019	Rs. 214000

Journal both in consolidated and separate set on 01-04-2019:

Date	Particulars	Dr. Rs.	Cr. Rs.
01-04-2019	Investment in shares of S Ltd. Dr. To, Cash A/C	214000	214000

However, on 31-03-2020 in separate set no entry is required. But in consolidated set, following journal is passed:

Date	Particulars	Dr. Rs.	Cr. Rs.
31-03-2020	Investment in shares of S Ltd. Dr. To, Profit and Loss A/C	16000	16000

Note: Thus, in separate balance sheet of P Ltd. on 31-03-2020, Other Equity stood at Rs. 370000 – 16000 = Rs.354000.

Explanation 2:
On 01-04-2020: Further acquisition of 45% shares in S Ltd. It is **acquisition in steps** leading to having control of S Ltd with total holding of 25% + 45% = 70% shares. At the acquisition date 01-04-2020 it is business combination under **Ind AS 103** to be accounted applying **Acquisition method.** P Ltd. is the Acquirer and S Ltd. is the Acquiree.
Debentures exchanged are not part of purchase consideration and Transaction cost is expensed in statement of P&L of the Acquirer.
For accounting in consolidated set:
Working note 1: Net Identified Assets at fair value as at 01-04-2020:

	Fair Value Rs
PPE	400000
Current Assets	420000
Less Creditors	36000
Less Debenture	10000
Net Identified Assets at fair value	774000

Working note 2: Consideration: (Payable to shareholders of the Acquiree)

	Rs
Issue of shares (30000*15)	450000
Contingent consideration (FV)	45000
Total Consideration	495000

Working note 3: NCI:
Share of NCI = 100 – 70 = 30%
NCI at fair value = (30/45) *495000 = 330000

Working note 4: Fair value of previously held interest:	Rs.
Fair Value for 25% interest	
(based on fair value of Consideration (25/45)*495000	275000
Less: Carried value	230000
Profit on Revaluation through P&L	45000

Working note 5: Goodwill:

	Rs.
Consideration	495000
Fair value of previously held shares	275000
NCI	330000
Total	1100000

Less:Net Identified Assets at fair value	774000
Goodwill	326000

(a) Journal in Consolidated accounting:

Date	Particulars		Dr. Rs.	Cr. Rs.
01-04-2020	Investment in shares of S Ltd. To, Statement of P&L (Revaluation profit)	Dr.	45000	 45000
	PPE Current Assets Goodwill To, Consideration To, Creditors To, 10% Debentures (issued by P Ltd.) To, NCI To, Investment in shares of S Ltd.	Dr. Dr. Dr.	400000 420000 326000	 495000 36000 10000 330000 275000
	Consideration A/C To, Equity Share Capital To, Securities Premium To, Liability for Contingent Consideration	Dr.	495000	 300000 150000 45000
	Transaction Cost To, Cash	Dr.	20000	 20000
	Profit and Loss A/c To, Transaction Cost	Dr.	20000	 20000

•**(b) Journal Entries for separate accounting:**

Investment in Shares of S Ltd. Investment in Debentures of S Ltd.	Dr. Dr.	495000 10000	
To, Equity Share Capital To, Security Premium			300000 150000
To, Liability for Contingent Consideration To, 10% Debenture			45000 10000
Transaction Cost To, Cash	Dr.	20000	 20000
Profit and Loss A/C (other equity) To, Transaction Cost	Dr.	20000	 20000

On 31-03-2021:
Explanation 3: Here is an increase in parent's ownership interest by purchase of a part of non-controlling interest. It is Equity Transaction (transaction with owner in the capacity of owner). Any profit or loss on the transaction will be transferred to Other Equity of the Parent in consolidated accounting.
Journal in consolidated set:

NIC (20/30)*330000 Dr. Other Equity (Loss on acquisition) To, Cash	 Dr.	220000 30000	 250000

Journal in separate set:

Investment in shares of S Ltd. To, Cash	Dr.	250000	 250000

(II) Abstract of Separate balance sheet of P Ltd. and Consolidated Balance Sheet of the group as at 01-04-2020 (after business combination) (Amount in Rupees)

	Working for Separate	Working for consolidation	Separate	Consolidated
PPE	180000	180000+400000	180000	580000
Investment	214000+505000		719000	
Goodwill		Note 5		326000
Current Assets	560000 -20000	560000+420000-20000	540000	960000
Total			**1439000**	**1866000**
Equity Share Capital	460000+300000	460000+300000	760000	760000
Other Equity	354000$+150000-20000	370000 + 150000 (security premium) + 45000[a] (investment revaluation) – 20000[b] (transaction cost)	484000	545000
NCI		Note 2		330000
12% Debenture		90000+10000	100000	100000
Liability for contingent consideration			45000	45000
Trade Payables	50000	50000+36000	50000	86000
Total			**1439000**	**1866000**

$Other equity in separate balance sheet of P Ltd. excluding the 25% share of profits from S Ltd. on 31-03-2020 = 370000-16000 = 354000.
(III) In consolidated set:
After purchase of another 20% share in S Ltd., NCI is reduced to 10% only.
NCI as at 31-03-2021 = (10/30)*balance at 31-03-2020 + 10% of profits of 2020-21 = 110000 + (10/100)*80000 = Rs.118000;
Goodwill = Rs.326000 (continued at acquisition date value, unaffected by subsequent transaction)
In separate set:
Investment in shares of S Ltd. Rs. (719000 + 250000) = Rs. 969000

YEARS OF CELEBRATING THE MAHATMA

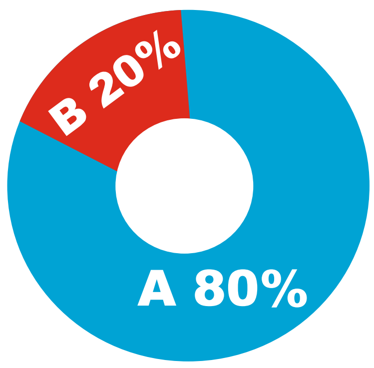
CMA Rana Ghosh
Chief Executive Officer,
Institution of Estate Managers & Appraisers
He can be reached at:
ranaham@rediffmail.com

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Supply of various services
- Mistakes in maintaining of documents
- Additional place of business
- Maintaining of accounts by auctioneer etc
- Registered person and self assessment
- Meaning of tax dues
- Claiming of refund and excess ITC
- Deduction of TDS and TCS

INDIRECT TAX

Choose the correct option from the followings –

1. "A registered person supplying services by way of admission to exhibition of cinematograph films in multiplex screens shall be required to issue an electronic ticket" – in this context which of the following statement is correct

(a) shall be deemed to be a tax invoice for all purposes of the Act
(b) to consider as tax invoice it should contain the details of the recipient
(c) to consider as tax invoice it should not require other information as per Rule 46
(d) will not be considered as tax invoice

2. Which of the following statement is correct in respect to the supplier opting for composition levy under section 10

(a) shall keep and maintain an account, containing the details of tax payable
(b) shall maintain the details of tax collected and paid
(c) shall maintain the details of input tax, input tax credit claimed
(d) not required to be maintained any of the above

3. As per Rule 56(6) of the CGST Rules, 2017 if any taxable goods are found to be stored at any place(s) other than those declared under sub-rule (5) without the cover of any valid documents -----------

(a) Shall be considered as unauthorized goods
(b) Shall be considered the person as unregistered dealer
(c) Tax payable on such goods considering those been supplied by the registered person
(d) Proper officer shall impose penalty on those goods

4. If any entry in registers, accounts and documents been erased, effaced or overwritten etc, except those of clerical nature and if the documents are maintained electronically then

(a) Mistakes immediately intimated to the GST Authority
(b) Mistakes to be rectified through GSTR 3B
(c) Every entry to be edited or deleted to be authenticated by the directors
(d) A log of every entry edited or deleted shall be maintained

5. In case, the goods have reached the transporter's godown i.e. additional place of business – in this context which of the following statement is correct

(a) There will be no need of an extension of e-way bill's validity
(b) An extension of e-way bill's validity required for keeping goods in transporter godown
(c) Supplier has to give declaration to the appropriate authority
(d) Recipient has to give declaration regarding validity of e waybill

6. Vide Notification No.79/2020-Central Tax dated 15th October, 2020) , every registered person shall get his accounts audited as specified under sub-section (5) of section 35 and he shall furnish a copy of audited annual accounts and a reconciliation statement, duly certified if aggregate turnover exceeds

(a) two crore rupees
(b) three crore rupees
(c) four crore rupees
(d) five crore rupees

7. Regarding maintenance of accounts and records by Principal And Auctioneer in case of auction of tea, coffee, rubber et and in case of any difficulty, they may maintain the books of accounts relating to the additional place(s) of business at their principal place of business then

(a) Principal is required to intimate their jurisdictional officer in writing about the same
(b) Auctioneer is required to intimate their jurisdictional officer in writing about the same
(c) Principal and the auctioneer are required to intimate their jurisdictional officer in writing about the same
(d) Intimation to the jurisdictional officer is not required

8. Which of the following statement is incorrect related to a registered person
(a)A Registered dealer is required to make GST payment if GST liability exists.
(b)Registered dealer required to pay tax under Reverse Charge Mechanism(RCM).
(c)E-commerce operator is required to collect GST
(d)Dealers required deducting TDS

9. The input tax credit as self-assessed in the return of a registered person shall be credited to his
(a) Electronic cash ledger
(b) Electronic credit ledger
(c) Electronic liability ledger
(d) Electronic provisional ledger

10. In case of set off of ITC of SGST for Inward supply which of the statement is correct
(a) 1st CGST next SGST in that order
(b)1st CGST next IGST in that order
(c)1st IGST next CGST in that order
(d)1st SGST next IGST in that order

11. As per section 49(8) of the CGST Act, 2017 every taxable person shall discharge his tax and other dues under this Act or the rules made there under in the following order, namely– in this regard which of the following statement is not relevant
(a) First any other amount payable under this Act or the rules made there under including the demand determined under section 73 or section 74
(b) First self-assessed tax, and other dues related to returns of previous tax periods
(c) Self-assessed tax, and other dues related to the return of the current tax period
(d) Any other amount payable under this Act or the rules made there under including the demand determined under section 73 or section 74

12. As per section 49(9) of the CGST Act, 2017 "tax dues" means
(a) the tax payable under this Act
(b) the tax payable under this Act including interest
(c) the tax payable under this Act including interest and fee
(d) the tax payable under this Act including interest, fee and penalty

13. As per the GST Act which of the following statement is incorrect
(a) Major head refers to – Integrated tax, Central tax, State/UT tax and Cess
(b) Minor head refers to – tax, interest, penalty, fee and others
(c) The amount from one minor head can also be transferred to another minor head under the different major head
(d) Amount can be transferred from the head only if balance under that head is available at the time of transfer

14. According to rule 86 of the CGST Rules to provide that where a registered person has claimed refund of any tax that has been paid wrongly or in excess through electronic credit ledger, the said refund, if found admissible
(a) Will be credited to the electronic cash ledger
(b) Will be credited to the electronic credit ledger
(c) Will be credited to the electronic liability ledger
(d) Will be refunded directly to the registered person bank account

15. A taxable person who makes an undue or excess claim of input tax credit under sub-section (10) of section 42 of the CGST Act, 2017 has to pay interest
(a) 12% per annum
(b) 18% per annum
(c) 24% per annum
(d) 28% per annum

16. GST will be collected through digital mode only if the amount exceeds –
(a) Rs 1000/-
(b) Rs 5000/-
(c) Rs 7500/-
(d) Rs 10000/-

17. Reference to the case law "Jeevan Diesels & Electricals Ltd. v. Commissioner of Central Excise, Pondichery (2016)", which of the following statement is not correct

(a) Interest should be computed in accordance with interest rate in force during the period of delay
(b) Interest payable for actual period of delay, not for whole month
(c) Interest payable as determined by appropriate authority
(d) Interest is payable even if duty is paid before issue of show cause notice

18. As per section 54(1) of the CGST Act, any person claiming refund of any tax and interest, if any paid on such tax or any other amount paid by him, may make an application from the relevant date in such form and manner as may be prescribed before the expiry of

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

19. As per Rule 66, the deductor of TDS shall furnish a TDS certificate within five days of remittance in Form

(a) GSTR – 7A
(b) GSTR – 8A
(c) GSTR – 9A
(d) GSTR – 10A

20. In reference to the collection of tax at source (TCS), which of the following statement is not correct

(a) Every E-Commerce Operator, other than an agent, shall collect TCS at a rate not exceeding 1% on the net value of transaction in which he collects consideration of the supply
(b) TCS is not required to be collected on exempt supplies
(c) TCS is required to be collected on supplies on which the recipient is required to pay tax on reverse charge basis
(d) a composition taxpayer cannot make supplies through e-commerce operator

ANSWERS

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

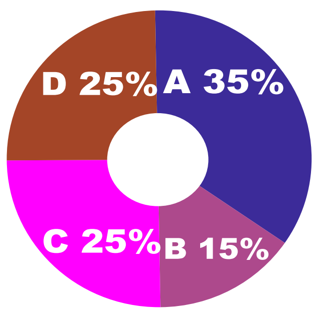
YEARS OF CELEBRATING THE MAHATMA

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

Cost & Management Audit

Cost Audit- Understanding about Joint Products & By products and arriving at true & fair Cost of production of each product

Introduction:
The Cost Auditors of manufacturing companies such as Chemical companies, Floor mills, Gas companies, Dairies, Meal packers and Petroleum companies etc., where from a common raw material(s) and common process a number of products are produced and each product having a sufficiently high saleable value to merit recognition as a main product, need to have proper understanding and accounting of Joint products and By products. For example: In Petroleum company Kerosene, Gasoline, Fuel oil, Lubricants etc. are all produced from crude petroleum. They are of equal important with a significant value; hence they are called Joint products. The understanding about Joint products and By products is highly essential to arrive at a true & fair Cost of production of each product in today's competitive scenario.

CIMA defines Joint Product as **"Two or more products separated in processing, each having a sufficiently high sale value to merit recognition as a main product".**
In other words, Joint products are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products having significant value and equal economic importance and none of them can be termed as a major product.

Cost incurred during the production process that yields multiple products simultaneously is called as Joint cost. CIMA defines Joint Cost as **"The costs of providing two or more products or services whose production could not, for physical reasons, be segregated".**

Therefore, apportionment of joint cost among the joint products is essential for determining the share of individual joint products correctly. Ascertainment of share of cost is required for pricing the products, valuing the closing inventory and ascertaining the profit or loss on sale of different products.

In the Joint production process the most significant aspect is to find a point in the production process at which joint products become separately identifiable. The point at which joint products become separately identifiable is called the 'split-off point' or 'separation point'. The terms split off point and separation point are used interchangeably. The production costs incurred prior to the split-off point are called 'joint costs' and cost incurred after this point for further processing are called 'separable' or 'further processing' costs.

Therefore, during the audit process of such companies, it is important to understand the split off point and the further processing cost of each product. There could be several

split-off points in the process and at each point, another product can be clearly identified, and is physically split away from the production process, possibly for further processing for the final product.

The cost incurred up to the split-off point to be captured for allocation to different final products based suitable technical parameter and costs incurred after the split-off point, are allocated directly to the specific product.

Methods of Apportionment of Joint Production Cost:
Joint cost comprises of cost of raw materials, utility, labour, administrative, factory overhead and depreciation etc. which are commonly incurred for two or more individual products and therefore need to be apportioned appropriately to different products. Depending upon the nature and intricacies of production process, some commonly used methods for apportionment of joint production cost are:

I) **Physical Units Method:**
A physical base like weight or volume of the products like kgs., tonnes, litres, number of units etc. is taken as basis for apportioning the joint costs to products. The cost is allocated to joint products in the ratio of their output weight. This method is suitable only where the products are capable of being expressed in same physical unit.

II) **Market or Sale value Method:**
In this method, joint costs will be apportioned to the products in the ratio of selling price of respective individual products. The rationale underlying behind this approach is based on the argument that apportionment of joint costs based on ability to absorb i.e. the product with higher sales value should be allocated with a larger proportion of joint costs than the products with lower sales value.

III) Survey Method:

This method is adopted after technical survey of the production process. Percentage Weightage is assigned to each products according to their relative importance and joint products are multiplied by their assigned points to arrive at the weights for allocation of joint costs to individual joint products.

IV)Average Unit Cost Method:

Under this method the total production cost to the various products are apportioned on the basis of average unit cost. The unit cost is ascertained by dividing the total joint cost by the total number of units produced of all products.

Allocation of Joint Production Cost:

The expenses incurred post-split off point for a particular joint product and which is easily identifiable is to be allocated to that product only.

Apportionment of service department costs who caters services to multiple products post-split off point needs to be further apportioned on the basis of quantity/ value of respective joint products.

By-Product: is the Product which have relatively low market value and produced incidentally with the main product. These are produced in parallel to or, as a consequence of, the production of a primary product and which have a potential sales value.

Some examples of by-products:

In steel Industry-Blast furnace slag and Sludge is a By Product which is a substitute for clinker in cement-making and also used in iron oxides and alloying elements.

Such products are having very less value when compare with the primary products. These by products have saleable value and sometime require further process for being saleable. The sales realisation of by products is a surplus and same is adjusted with cost of raw material(s).

Distinctions between Joint Products and By-Products:

(i) Joint products are of equal importance while by-products are of not equal importance as compared to that of the main products.

(ii) Joint products are produced simultaneously while by-products are produced incidentally.

(iii) Joint products are of more or less equal sales value while by products is of unequal and low sales value.

Sometime scrap or waste generated during Joint production process. The net sales realisation value of such scrap or waste to be deducted from the cost of Joint Product.

If any spoilage is generated during the production process then the same should be treated depending upon the circumstance of its generation. A Spoilage is a production of a product that does not meet the quality requirements or specifications and cannot be rectified economically. Spoilage occurs due to some defect in the operation process or input material. As the spoilage is due to abnormal circumstances, the cost of such spoilage may be treated as non-cost expenses.

Conclusion:

An Auditor should go through in detail to find the true and fair cost of the Joint products / By products for which he needs to understand the real process and the intricacies involved in joint production process and its accounting.

-------xxxx--------

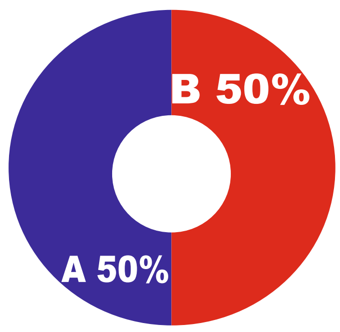
YEARS OF CELEBRATING THE MAHATMA

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

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

Mergers and Acquisitions
(EPS, P/E Ratio and Share Exchange Ratio)

In a merger or acquisition, the acquiring firm is buying the business of the target firm, rather than a specific asset. So, it is a special type of capital budgeting decision. Discounted Cash Flow (DCF) approach is an important tool in analysing mergers and acquisitions.
Earnings per Share (EPS) of a company should be compared with the industry average and the EPS of the other firms.
Price-Earnings (P/E) Ratio reflects **investors'** expectations about the growth in the firms' earnings.
The product of EPS and P/E Ratio is the market price per share.
Market value per share= EPS × P/E Ratio
In an efficient capital market, the market price of a share should be equal to the value arrived by the DCF technique.
The current market values of the acquiring firm and the acquired firm are taken as the basis for the exchange of shares. The **Share Exchange Ratio** can be calculated as follows:

$$\text{Share Exchange Ratio} = \frac{\text{share price of the acquired firm}}{\text{share price of the acquiring firm}}$$

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

1. **When two companies in unrelated lines of business with nothing in common join hands is a type of ---------- - merger.**
   (a) Vertical Integration
   (b) Conglomerate
   (c) Horizontal Integration
   (d) Group company

2. **Post-merger control and the --------------------are two of the most important issues in agreeing on the terms of merger.**
   (a) Calculated price
   (b) Market price
   (c) Negotiated price
   (d) Book value

3. **A method under which the value of an asset is based on calculating the costs avoided by the acquiring company when obtaining a pre-existing and fully functional asset is known as ------------------- Method.**
   (a) Sunk Cost
   (b) Marginal Cost
   (c) Incurred Cost
   (d) Avoided Cost

4. **If value of A Ltd. is 50, B Ltd. is 20 and on merger their combined value is 90 and A Ltd. receives premium on merger 12, the synergy for merger is (all amounts are in Rs. Lakh)**
   (a) 8
   (b) 20
   (c) 32
   (d) 38

5. **A theory that explains why the total value from the combination resulted from a merger is greater than the sum of the value of the component companies operating independently is known as .... theory.**
   (a) Hubris

(b) Agency

(c) Operating

(d) Synergy

Answers:

Question No	(1)	(2)	(3)	(4)	(5)
Answer	(b)	(c)	(d)	(b)	(d)

Example 1

X Ltd. has decided to acquire Y Ltd. The following are the relevant information for the two companies:

Particulars	X Ltd.	Y Ltd.
Net Sales (Rs. Lakh)	350.00	45.00
Profit after-tax(Rs. Lakh)	28.13	3.75
No. of Shares (Lakh)	7.50	1.50
Earnings per Share [EPS] (Rs.)	3.75	2.50
Dividend per Share (Rs.)	1.30	0.60
Total Market Capitalisation (Rs. Lakh)	420.00	45.00

You are required to find out:

(a) Pre-merger market value per share for the companies.

(b) Post-merger EPS, market value per share and price earnings ratio (P/E) if Y Ltd.'s shareholders are offered share of (i) Rs.30 or (ii) Rs.56 or (iii) Rs. 20 in a share exchange for merger.

(c) X Ltd.'s EPS if Y Ltd.'s shareholders are offered Rs.100, 15% convertible debenture for each 3 shares held in X Ltd.

(d) Post-merger dividend or interest available to Y Ltd.'s shareholders with exchanges referred in (b) and (c).

Assume 50% Tax Rate.

Solution

(a) Pre-merger market value per share

$$= \frac{\text{Market Capitalisation}}{\text{No. of Shares}}$$

$$\text{X Ltd.} = \frac{\text{Rs. 420 Lakh}}{\text{7.50 Lakh}} = \text{Rs.56}$$

$$\text{Y Ltd.} = \frac{\text{Rs. 45 Lakh}}{\text{1.50 Lakh}} = \text{Rs.30}$$

(b) Share Exchange Ratio:

(i) Situation 1: Rs.30/Rs.56= 0.536

(ii) Situation 2: Rs.56/Rs.56= 1

(iii) Situation 3: Rs.20/Rs.56= 0.357

No. of shares of the surviving company:

(i) Situation 1: 7.5 + (0.536 × 1.5) = 8.30

(ii) Situation 2: 7.5 + (1 × 1.5) = 9.00

(iii) Situation 3: 7.5 + (0.357 × 1.5) = 8.04

Combined EPS= Combined PAT/ Combined no. of shares

(i) Situation 1: (28.13 + 3.75)/8.30 = Rs. 3.84

(ii) Situation 2: (28.13 + 3.75)/9.00 = Rs. 3.54

(iii) Situation 3: (28.13 + 3.75)/8.04 = Rs. 3.97

Combined firm's P/E Ratio = Weighted average of the individual firm's pre-merger P/E Ratio

{(420/28.13)× {(28.13/(28.13+3.75)} + {(45/3.75) × {(3.75/(28.13+3.75)}

$=(14.93 \times 0.882) + (12.00 \times 0.118)$
$= 14.58$

Market value per share of the surviving firm:

(i) Situation 1: (3.84×14.58) = Rs. 56.00
(ii) Situation 2: (3.54×14.58) = Rs. 51.61
(iii) Situation 3: (3.97×14.58) = Rs. 57.88

(c) No. of Convertible debentures:

1.50 Lakh/3 = 0.50 Lakh

Interest on debenture:

0.50 Lakh × Rs.100 × 15%= Rs. 7.50 Lakh

Combined profit after tax (Rs. In Lakh):

$= (28.13 + 3.75) - 7.50 + (0.50 \times 7.50) = 28.13$

Note: Interest will be deducted from the combined profit but will save tax at 50% tax rate.
So, EPS of X Ltd. after merger = 28.13/7.50= Rs.3.75

(d) Dividend to Y Ltd.'s shareholders after merger:

Exchange of shares:

(i) Situation 1: (0.804×1.30) = Rs. 1.05 Lakh
(ii) Situation 2: (1.50×1.30) = Rs. 1.95 Lakh
(iii) Situation 3: (0.536×1.30) = Rs. 0.70 Lakh

Interest= 0.50 Lakh × Rs.100× 15%= Rs.7.50 Lakh
Post-merger Dividend= 1.50 Lakh × 0.06 per share= Rs. 0.90 Lakh

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from Directorate of Studies

Dear Students,

Heartfelt wishes to you for passing the exam!! All who passed out have been sincere and diligent since day one and never failed to amaze us with your dedication. You've proved that dedication and learning end at resulting in excellent outcomes. Best wishes for achieving the best place. So proud to call you our student! Congratulations and best wishes for your life. May your future be filled with many great achievements like this.

Those who could not pass out please be steady and we believe, everyone has intellect and presence of mind. But only a few students who can deliver the right thing at right time and with right courage become the winner in the examination. So, please try to deliver your best in your next examination.

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. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

To celebrate **75 years of independence and commemorate it as India is celebrating, 'Azadi Ka Amrut Mahotsav'**, across the country and amid the coronavirus pandemic and also organizing various events. India's freedom fighters fought a long and hard struggle for the country's independence from the British and, for years, their words have inspired us. We hope that our students will also participate and pay their homage to the freedom fighters.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the link mentioned below :

https://icmai.in/studentswebsite

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

You can win!

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

GOOD LUCK

Be Prepared and Get Success;

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 MANAGEMENT ACCOUNTANT
THE MANAGEMENT ACCOUNTANT
GOODS AND SERVICES TAX: CONTEMPORARY CHALLENGES AND ISSUES
GST
₹300/- p.a.
Twelve Issues
The Journal started its journey in 1966
We have Expanded our Readership to 94 Countries
ISSN 0972-3528
Index Copernicus and J-gate Global Impact and Quality factor [2015]:0.563
EXPAND YOUR KNOWLEDGE
Reason to Subscribe & What will you get .....
Monthly copy of the Journal at your doorstep
Articles on the current topics viz. Finance, Tax Laws, Cost & Management, Economics, Accounts etc
News & Developments of the Institute
Interviews of eminent personalities
Information related to examinations
Updates related to newly launched courses and placements
The Management Accountant Journal is available on apps for reading through third parties viz. Magzter and Readwhere
and many more..
70% DISCOUNT FOR CMA STUDENTS
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
www.icmai.in
Subscribe Now:
http://icmai-rnj.in/public/journals/254/images/MA_Subscription.pdf
Toll Free: 1800110910 / 18003450092
(Mon. to Sat. from 09:30 A.M. to 6.00 P.M)
Email your subscription queries at journal@icmai.in

Few Snapshots

CMA P. Raju Iyer, President along with CMA Vijender Sharma, Vice President and CMA (Dr.) K Ch A V S N Murthy, Council Member of the Institute extending greetings to Shri Parmod Kumar Arora, Member (Actuary), Insurance Regulatory and Development Authority of India on 16th December, 2021.

CMA P. Raju Iyer, President along with CMA (Dr.) K Ch A V S N Murthy, Council Member of the Institute, CMA K Rajagopal, Chairman of SIRC, CMA S. Ramesh, Former Chairman of SIRC and CMA B.R. Prabhakar, Former Chairman of SIRC of the Institute extending greetings to Shri C.B. Ananthakrishnan, Director (Finance) & CFO of Hindustan Aeronautics Limited on 17th December, 2021.

CMA P. Raju Iyer, President of the Institute extending greetings to Shri Arjun Ram Meghwal, Hon'ble Union Minister of State for Culture and Parliamentary Affairs on 27th December, 2021 during a courtesy meeting and to extend an invitation of the Hon'ble MoS for the Skill Development Program to be organised by the Institute in the month of January 2022.

CMA Neeraj Joshi, Chairman, MAC, CMA Dr. D.P.Nandy, Sr Director, CMAChittaranjan Chattopadhyay, Chairman, BFSIB, Dr.Partha Ray, Director and Member Secretary, NIBM, Dr.Kaushik Mukherjee, Associate Professor, NIBM and Dr.Arindam Bandyopadhyay, Associate Professor (Finance)

CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Debasish Mitra, Chairman, Board of Advanced Studies & Research of the Institute felicitating Dr. CKG Nair, Director, NISM alongwith other officials of the Institute and NISM.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143

Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003

Phone: +91-11-2462-2156/2157/2158