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January
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150 YEARS OF CELEBRATING THE MAHATMA

Happy New Year

CMAs' Student E - Bulletin

FINAL

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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Behind every successful business decision, there is always a CMA

Vol: 4, No.: 1.
January 2019, Issue

150 YEARS OF CELEBRATING THE MAHATMA

Message from The Chairman

CMA Manas Kumar Thakur
Chairman,
Training & Education Facilities (T& EF) Committee

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Season's Greetings,

Wishing you all a **Very Happy and Cheerful Professional Year-2019** & I do expect that most of your dreams will come true and you must be more enthusiastic in the very new year we have stepped in.

"Glory lies in the attempt to reach one's goal and not in reaching it"-as told by Mahatma Gandhi, father of the nation.

What an inspiring, authentic way to live! **Gandhi's philosophy** was not purely based on theory; instead he lived by rules of pragmatism. He practiced what he preached every day of his life. I hope you can take some time to display up the invaluable wisdom from the quote, and decide for yourself that how you will exhibit your own gentle, strength today. So, try to focus on making yourself better and not on thinking that you are better. Please remember that success doesn't come to you, you go to it.

Being a member of the CMA fraternity, you must be delighted to know **that 59th National Cost Convention will be held on 20th and 21st January, 2019 at J.W. Marriot Hotel, Pune on the Theme-Cost and Management Accountants -"Power of the Past- Force of the Future".** I hope, all of you must take an active role for the event of your own Institute and watch out the event.

The ICAI Students' Convention is scheduled to be held in February 2019 on 6th Wednesday and 7TH Thursday at Thrissur, Kerala State, India. Please keep on watching your Institute's site for the updated information.

The Directorate of Studies is coming out soon with **revised work book**, for your practising purpose. As you are aware that study materials are continuously updated for incorporation of necessary amendments in paper's where those are extremely needed and also the updation is carried out in all the papers with the view of providing you the needed and relevant information. D.O.S. is **restructuring the live webinar session** and the calendar for the same will also be updated shortly. I am really thankful to all those academicians who are regularly updating your knowledge bank by extending their suggestions and input towards your all-round development.
Day's are flowing in their own rhythm as water flows in the river and mind it; it will never be repeated. Likewise, try to grab the opportunities knocking at your door and convert in to reality within the 365 day's of this year and which will prove your worth of existence. Have faith on yourself and start believing that "In a gentle way, you can shake the world".

My good wishes are as always for all of you,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

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150 YEARS OF CELEBRATING THE MAHATMA

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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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.

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GROUP: 3, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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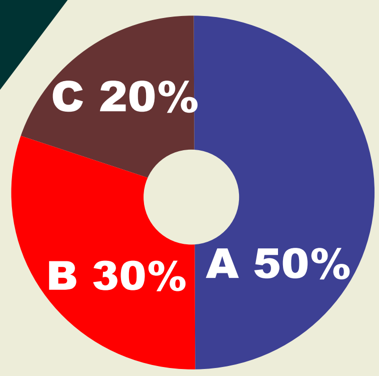
Your Preparation Quick Takes



Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

Learning Objectives:

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

Competition Act.

1.0 Competition Act, 2003

The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970.

The Government appointed a committee in October 1999 to examine the existing MRTP Act for shifting the focus of the law from curbing monopolies to promoting competition and to suggest a modern competition law. Pursuant to the recommendations of this committee, the Competition Act, 2002, was enacted on 13th January 2003. It was subsequently amended in 2007.

It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission.

Under the Act, Competition Commission of India and the Competition Appellate Tribunal have been established.

1.1 Competition Act notification

Certain provisions such as those relating to establishment of the Commission, appointment of Chairperson and Members, appointment of staff, undertaking of competition advocacy have been notified.

Other provisions of the Act are yet to be notified such as those relating to adjudication of anti-competitive practices and regulation of combinations.

1.2 Objectives of the Act

The objectives of the Competition Act are to:
prevent anti-competitive practices,
promote and sustain competition,
protect the interests of the consumers and
ensure freedom of trade.
competition advocacy by creating awareness among various levels at Government, industry and consumers.

The objectives of the Act are sought to be achieved through the instrumentality of the Competition Commission of India (CCI) which has been established by the Central Government with effect from 14th October, 2003.

1.3 CCI is a body corporate and shall have a full time chairman with minimum 2 and maximum 6 to 7 members. Commission may appoint Secretary and other officers as may be required.

Functions of Competition Commission of India (CCI)

i) CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.

ii) Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc.and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.

iii) It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.

iv) CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.

v) Inquiry into certain agreements and dominant position by giving notices to the parties.

"Agreement" under the Act

An agreement includes any arrangement, understanding or concerted action entered into between parties. It need not be in writing or formal or intended to be enforceable in law.

1.4 Prohibition of certain agreement

A.Anti-competitive agreement shall be presumed to have appreciable adverse effect on competition and thereby deemed to be restrictive.

- An anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include:-

agreement to limit production & supply, storage, distribution agreement to allocate markets agreement to fix price bid rigging (manipulating the bids) or collusive bidding (bidding with understanding among the bidders) conditional purchase/sale (tie-in arrangement) exclusive supply/distribution arrangement-limit/restrict/withhold/allocation of an area resale price maintenance refusal to deal

The whole agreement shall be construed as "void" if it contains anticompetitive clauses. However, agreement for restriction for protection of intellectual property shall not fall under this category.

1.5 Abuse of dominance

Dominance refers to a position of strength which enables a dominant firm to operate independently in India of competitive forces or to affect its competitors or consumers or the market in its favour.

- impedes fair competition between firms,
- exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit.
- imposing unfair conditions or price, predatory pricing, limiting production/market, creating barriers to entry and applying dissimilar conditions to similar transactions.

1.6 Specific instances of dominanace in Competion Act

(a) directly or indirectly, imposes unfair or discriminatory conditions in purchase or sale of goods or services, including predatory price;

(b) limits, restricts production of goods/ provision of services/ technical development

(c) denial of market access

(d) uses dominant positioning one market to enter into other relevant market.

2.0 Who can make a complaint?

Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.

A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.

A consumer is a person who buys for personal use or for other purposes.

3.0 Orders the Commission can pass

During the course of enquiry, the Commission can grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position

To impose a penalty of not more than 10% of turn-over of the enterprises and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher

- fter the enquiry, the Commission may direct a delinquent enterprise to discontinue and not to re-enter anti-competitive agreement or abuse the dominant position
- To award compensation
- To modify agreement
- To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.
- Declare an agreement to be void.
- Violation of orders may result to imprisonment.

4.0 "Combination" under the Act and regulation thereof

Combination includes acquisition of shares, acquisition of control by the enterprise over another and amalgamation between or amongst enterprises.

Combination, that exceeds the threshold limits specified in the Act in terms of assets or turnover, which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India, can be scrutinized by the Commission

4.1 In case of combination the threshold limits are-

For acquisition –

- Combined assets of the firms (acquirer and the enterprise) is more than Rs 2000 Cr. or turnover is more than Rs 6000 Cr. (these limits are US$ 1 billion including at least Rs.1000 Cr. in India and 3 billions including at least 3000 cr. in India in case one of the firms is situated outside India).
- The limits are more than Rs 8000 Cr or Rs 24000 Cr and US$ 4 billion including at least Rs.1000 Cr. in India and 12 billions including at least Rs.3000 Cr. in India in case acquirer is a group in India or outside India respectively.
- CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than Rs.250 Cr. and turnover of not more than Rs.750 Cr.

Turnover means amount on sale of product or rendering of services of similar or substitutable goods or services. Group means two or more enterprise which directly or indirectly exercise 26% or more of voting right in other enterprise or appoint more than 50%of the directors or control affairs of the other enterprise.

4.2 For merger/amalgamation –

- the above limit will be valid for mergers also.
- Asset means written down book value and shall include intellectual property.

A firm proposing to enter into a combination, may, at its option, notify the Commission in the specified form disclosing the details of the proposed combination within 30 days of such proposal i.e. approval of the board of directors or execution of the agreement or other document for acquisition. No combination shall come into effect until 210 days have passed from the day on which the notice has been given to the Commission or Commission has given no objection, whichever is earlier.

5.0 Procedure for investigation of combinations

If the Commission is of the opinion that a combination is likely to cause or has caused adverse effect on competition,

It shall issue a notice to show cause the parties as to why investigation in respect of such combination should not be conducted.

On receipt of the response, if Commission is of the prima facie opinion that the combination has or is likely to have appreciable adverse effect on competition, it may direct publication of details inviting objections of public and hear them, if considered appropriate.

It may invite any person, likely to be affected by the combination, to file his objections. The Commission may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

5.1 <u>Orders the Commission can pass in case of combinations</u>

It shall approve the combination if no appreciable adverse effect on competition is found
It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition
May propose suitable modification in the agreement/arrangement.

5.2 <u>Prohibition of abuse of dominance</u>

i) an enterprise shall be considered to be dominant in the referent market in India, if -

(a) operate independently of competitive forces;
(b) affects the consumer, competitor or the relevant market in its favour.

ii) abuse of dominant position shall mean using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

5.3 <u>Regulation of combinations</u>

i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;

ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the proposal by the Board or execution of any agreement;

iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;

iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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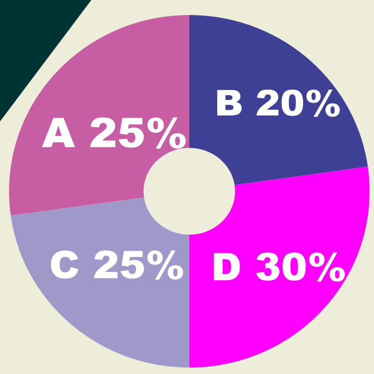
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section, you will be able to compute the portfolio return and portfolio risk

Strategic Financial Management

Illustration 1

From the following information of security A and B, compute portfolio return and portfolio risk:

Stock Return (%) A	B	Probability
20	15	0.20
25	20	0.10
22	18	0.15
30	25	0.25
27	30	0.30

Solution

Computing individual standard deviation and return of Security A

R_{ai}	P_i	$R_{ai} P_i$	$\{R_{Ai} - E(A)\}$	$\{R_{Ai} - E(A)\}^2$	$P_i\{R_{Ai} - E(A)\}^2$
20	0.20	4	-5.4	29.16	5.32
25	0.10	2.5	-0.4	0.16	0.016
22	0.15	3.3	-3.4	11.56	1.734
30	0.25	7.5	4.6	21.16	5.29
27	0.30	8.1	1.6	2.56	0.768
		Σ=25.4			Σ=13.128

Expected return: $E(A) = \sum R_{Ai} P_i = 25.4$

SD : $\sigma_A = \sqrt{\Sigma P_i\{R_{Ai} - E(A)\}^2} = \sqrt{13.128} = 3.6 \approx 4$

Computing individual standard deviation and return of Security B

R_{bi}	P_i	$R_{bi} P_i$	$\{R_{Bi} - E(B)\}$	$\{R_{Bi} - E(B)\}^2$	$P_i\{R_{Bi} - E(B)\}^2$
15	0.20	3	-7.95	63.2025	12.6405
20	0.10	2	-2.95	8.7025	0.87025
18	0.15	2.7	-4.95	24.5025	3.6753
25	0.25	6.25	2.05	4.2025	1.05062
30	0.30	9	7.05	49.7025	14.9107
		Σ=22.95			Σ=33.147

Expected return: $E(B) = \sum R_{Bi} P_i = 22.95$

SD : $(\sigma_B) = \sqrt{\Sigma P_i\{R_{Bi} - E(B)\}^2}$

$= \sqrt{33.147}\ 5.76 \approx 6$

Table showing the necessary calculations for covariance

$\{R_{Ai} - E(A)\}$	$\{R_{Bi} - E(B)\}$	$Pi[\{R_{Ai} - E(A)\}\{R_{Bi} - E(B)\}]$
-5.4	-7.95	0.20(-5.4)(-7.95)=8.586
-0.4	-2.95	0.10(-0.4)(-2.95)=0.118
-3.4	-4.95	0.15(-3.4)(-4.95)=2.5245
4.6	2.05	0.25(4.6)(2.05)=2.3575
1.6	7.05	0.30(1.6)(7.05)=3.384
		$\sum$=16.97

$COV_{AB}(\sigma_{AB}) = = Pi[\{R_{Ai} - E(A)\}\{R_{Bi} - E(B)\}] = 16.97$
$CORR_{AB}\ (_{AB}) = \sigma_{AB} / \sigma_A \sigma_B = 16.97 / (4)(6) = 0.71$

<u>Computation of weights</u>

$W_A = (\sigma^2_B - {}_{AB}\,\sigma_A \sigma_B) / (\sigma^2_A + \sigma^2_B - 2_{AB}\,\sigma_A \sigma_B)$
$= [(6)^2 - (0.71)(4)(6)] / [(4)^2 + (6)^2 - 2(0.71)(4)(6)] = 16.56 / 13.12 = 1.06$
$W_B = 1 - W_A = 1 - 1.06 = -0.06$ (i.e., short sale is permitted)
Portfolio return $(R_p) = W_A R_A + W_B R_B = 1.06(4) + (-0.06)(6) = 3.88$
Portfolio risk $(\sigma_p^2) = W_A^2 \sigma_A^2 + W_B^2 \sigma_B^2 + 2 W_A W_B \sigma_{AB}$
$\sigma_p^2 = (1.06)^2(4)^2 + (-0.06)^2(6)^2 + 2(1.06)(-0.06)(16.97) = 15.95$
$\sigma_p = \sqrt{\sigma_p^2} = \sqrt{15.95} = 3.99 \approx 4$

Illustration 2

From the following information, compute the portfolio return and portfolio risk.

STOCK	Correlation Matrix			RETURN	WEIGHT(%)	Variance
1	1	0.67	0.45	10	30	64
2	0.67	1	0.85	15	50	81
3	0.45	0.85	1	20	20	100

Solution

Here,
$\sigma^2_1 = 64$; so $\sigma_1 = 8$; $_{12} = 0.67$
$\sigma^2_2 = 81$; $\sigma_2 = 9$; $_{13} = 0.45$
$\sigma^2_3 = 100$; $\sigma_3 = 10$; $_{23} = 0.85$

$R_1 = 10$ $W_1 = 0.30$
$R_2 = 15$ $W_2 = 0.50$
$R_3 = 20$ $W_3 = 0.20$

Portfolio return $(R_p) = W_1R_1 + W_2R_2 + W_3R_3$
$= (0.3\times10) + (0.5\times15) + (0.2\times20)$
$= 14.5\%$

$\sigma^2_P = W_1^2\sigma_1^2 + W_2^2\sigma_2^2 + W_3^2\sigma_3^2 + 2W_1W_2\sigma_1\,\sigma_{212} + 2W_2W_3\sigma_2\,\sigma_{323} + 2W_1W_3\,\sigma_1\,\sigma_{313}$
$=[(.09\times64)+(.25\times81)+(.04\times100)]+(2\times.3\times.5\times8\times9\times.67)+(2\times.5\times.2\times9\times10\times.85)+(2\times.3\times.2\times8\times10\times.45)]$
$= [5.76+20.25+4+14.472+15.3+4.32]$
$= 64.102$
Portfolio risk $(\sigma_p) = \sqrt{\sigma_p^2} = \sqrt{64.102} = 8$

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GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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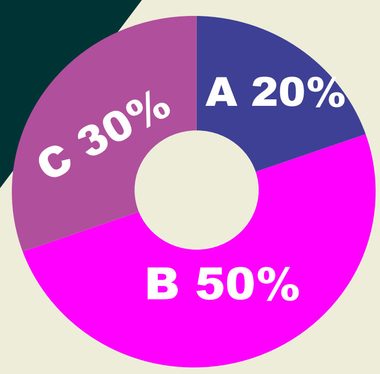
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Benchmarking: An Enabler of Cost Reduction & Cost Control

01.00 Concept

It is believed that the term **benchmark**, originates from the history of guns and ammunition, and with the same aim as for the business term; comparison and improved performance.

Benchmarking is an enabler of Cost Reduction & Cost Control.

Benchmarking is the continuous process of measuring products, services or activities against the best levels of performance that may be found either inside or outside the organization. It is a process of comparing a firm's activities with best practices. The process involves establishment of benchmarks (targets or comparators), through the use of which the levels of performance of the organization is sought to be improved.

The idea behind benchmarking is to measure internal processes against a chosen standard. Benchmarking is used to measure the internal performance using a specific indicator encompassing cost, time or quality resulting in a metric of performance that can be compared to others. The examples of indicators include cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure or defects per unit of measure, and so on.

Benchmarking can focus on roles, processes, or strategic issues. It can be used to establish a function or mission of an organization. It can also be used to examine existing practices while looking at the organization as a whole to identify practices that support major processes or critical objectives. Benchmarking is, also, a potentially powerful tool to promote continuous improvement in an enterprise.

The benefits of benchmarking include several avenues of cost reduction and cost control such as reducing labour cost, streamlining the work flow, and optimising productivity, etc.

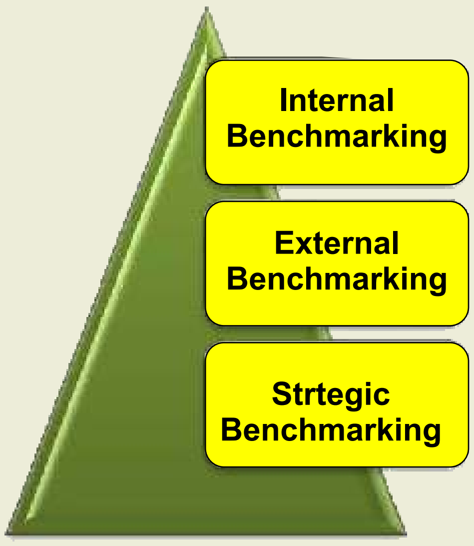
02.00 Core Drivers

There are a number of core drivers of benchmarking initiatives in an entity. Companies may decide to benchmark internally, against competitors, against industry performance, or against the "best of the best."

1. **Internal Benchmarking:** Internal Benchmarking is the analysis of existing practice within various departments or divisions of the organization, looking for best performance as well as identifying baseline activities and drivers. Organizations collect data on their own performance at different points in time and under different circumstances and identify gaps or areas for strengthening.

2. **Competitive Bench Marking:** Competitive Benchmarking looks at a company's direct competitors and evaluates how the company is doing in comparison. Knowing the strengths and weaknesses of the competition is not only important in plotting a successful strategy, but it can also help prioritize areas of improvement as specific customer expectations are identified.

3. **Strategic Bench Marking:** Strategic Benchmarking is used to describe the situation when a firm is interested in comparing its performance versus the best-in-class or what is deemed as world-class performance. This process often involves looking beyond the firm's core industry to firms that are known for their success with a particular function or process.

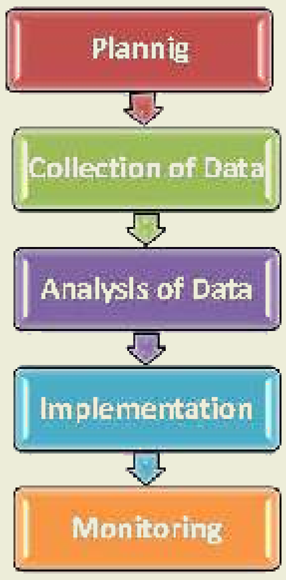


The best-in-class form of benchmarking examines multiple industries in search of new, innovative practices. It not only provides a broad scope, but also the best opportunities over that range. Looking beyond your own industry for best-in-class performance for particular processes or functions is an excellent way to challenge your firm to rethink long-standing assumptions and practices.

A unique example is that of Southwest Airlines which had analyzed the processes, approaches, and speed of automobile racing pit crews to gain ideas for improving their airplane turn-around time at the gate. The outcome of this benchmarking study is reported to have helped Southwest reconfigure their gate maintenance, cleaning, and customer loading operations, and to have saved the firm millions of dollars per year.

03.00 The Process

The benchmarking process is relatively uncomplicated. Some knowledge and a practical dent is all that is needed to make such a process a success. The key steps in the benchmarking process may be summarized as:



(i) Planning
(ii) Collection of Data
(iii) Analysis of Data
(iv) Implementation
(v) Monitoring

03.01 Planning

It is imperative that the organization identifies the activities that need to be benchmarked prior to engaging in benchmarking.
Since benchmarking can be applied to any business process or function, a range of research techniques may be required. These include informal conversations with customers, employees or suppliers. These also include exploratory research techniques, re-engineering analysis, process mapping, quality control variance reports, financial ratio analysis, or simply reviewing cycle times or other performance indicators.

Before embarking on comparison with other organizations it is essential to know the organization's function and processes. Base lining performance provides a point against which improvement effort can be measured. The next step in the planning process would be for the organization to choose an appropriate benchmark against which their performance can be measured.

The benchmark organization can be a single entity or a collective group of organizations, which operate at optimal efficiency. If such these organizations operate in a similar environment or if they adopt a comparable strategic approach to reach their goals, its relevance would be greater.

03.02 Collection of Data

Data can be in the form of primary data and secondary data. Primary data refers to collection of data directly from the benchmarked organization/organizations itself, while secondary data refers to information generated from the media, publications or internet. Exploratory research, market research, quantitative research, informal conversations, interviews and questionnaires are some of the most popular methods of collecting information.

When engaging in primary research, the organization needs to redefine its data collection methodology. Drafting a questionnaire or a standardized interview format, carrying out primary research via the telephone, e-mail or in face-to-face interviews, making on-site observations; and documenting such data in a systematic manner is vital, if the benchmarking process is to be a success.

03.03 Analysis of data

Once sufficient data is collected, the proper analysis of such information is of foremost importance. Data analysis, data presentation, results projection, classifying the performance gaps in processes and identifying the root cause that leads to the creation of such gaps (commonly referred to as enablers) are then carried out.

03.04 Implementation

This is the stage in the benchmarking process, where it becomes mandatory to walk the talk for success. This usually means that far reaching changes need to be made so that the performance gap between the target and the actual is narrowed and eliminated.

A formal action plan, that promotes change, is to be formulated keeping the culture of the organization in mind so that the resistance that normally accompanies change is minimized. The commitment of management and staff is to be fully ensured for the process and sufficient resources are to be there to meet the cost of facilitating the necessary improvements.

03.05 Monitoring

Benchmarking process need to be properly monitored in order to reap the maximum benefit out of the benchmarking process. A systematic evaluation is required to be carried out on a regular basis. Assimilating the needed information, evaluating the progress made, reiterating the impact of the changes and making any necessary adjustments, are all part of the monitoring process.

04.00 Drive thru Practice

A quick service (fast food) restaurant chain dependent upon speedy, accurate service in the drive-thru to maximize efficiency, cut costs and increase profits may study the drive-thru practices of key competitors. Every second gained without sacrificing customer quality allows the firm to increase profits. Over the years, competitors have consistently innovated in their drive-thru operations with configuration, number of windows, menu and speaker boards and ordering approaches in an attempt to improve in this area. They are constantly watching and benchmarking against each other.

Pal's Sudden Service, a small hamburger and hot dog chain and a Baldrige Quality Award winner, is so successful at achieving best-in-class performance for drive-thru and overall restaurant operations.

Pal's does not offer sit-down service inside its restaurants. Instead, customers pull up to a window, place their orders face-to-face with an employee (no scratchy loudspeakers), pull around to the other side of the facility, take their bag, and drive on. All this happens at a lightning pace – an average of eighteen seconds at the handout window to place an order, an average of twelve seconds at the drive-up window to receive the order. That's four times faster than the second-fastest quick serve restaurant, which requires more than a minute on average to take an order.

Many companies in the fast food market use Pal's as a best-in-class benchmark for their own firms. It is no wonder that Pal's opened an educational institute to train other organizations.

05.00 Quick Take

Benchmarking is an enabler of Cost Reduction & Cost Control.

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January 2019, Issue

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: 3, PAPER: 16

DIRECT TAX
LAWS AND INTERNATIONAL TAXATION (DTI)

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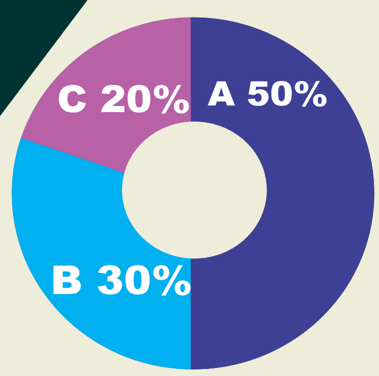
Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Tax Practice and Procedures **20%**

Learning Objectives:

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

Equalisation Levy

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

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

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

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

Considering the potential of new digital economy and the rapidly evolving nature of business operations it is found essential to address the challenges in terms of taxation of such digital transactions as mentioned above. In order to address these challenges, Chapter VIII of the Finance Act, 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:

Chargeability [Sec. 165]

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

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 except the State of Jammu and Kashmir.

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 [Sec. 166]

Who is liable to deduct equalisation levy

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

Rate of levy: 6%

Threshold limit

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

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

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

Consequences of failure to deduct equalisation levy

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

Furnishing of Statement [Sec. 167]

- Every assessee shall, within 30th June immediately following the financial year, prepare and deliver to the Assessing Officer (or to any other authority or agency authorised by the Board), a statement in Form 1, verified in such manner and setting forth such particulars as may be prescribed, in respect of all specified services during such financial year.

- **Revised Statement**: An assessee who has not furnished the statement within aforesaid time or having furnished such statement, notices any omission or wrong particular therein, may furnish a statement or a revised statement, as the case may be, at any time before the expiry of 2 years from the end of the financial year in which the specified service was provided.

- **Notice by the Assessing Officer**: Where any assessee fails to furnish the statement within 30th June immediately following the financial year, the Assessing Officer may serve a notice upon such assessee requiring him to furnish the statement in the prescribed form, verified in the prescribed manner and setting forth such particulars, within 30 days from the date of service of the notice.

Processing of Statement [Sec. 168]

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

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 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 170 and any amount paid otherwise by way of tax or interest;

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

e. the amount of refund due to the assessee shall be granted to him.

Time limit

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

Taxpoint

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

Rectification of mistake [Sec. 169]

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

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

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

Penalty

Penalties provisions are as under:

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

- No penalty shall be imposable:
  1. If the assessee proves to the satisfaction of the Assessing Officer that there was reasonable cause for the said failure.
  2. Without giving reasonable opportunity of being heard to the assessee [Sec. 173].
- An assessee aggrieved by an order imposing penalty may appeal to the Commissioner of Income-tax (Appeals) within 30 days from the date of receipt of the order in Form 3. It shall be accompanied with fees of ₹ 1,000/-. The provisions relating to appeals are in line with that of the Income-tax Act, 1961. [Sec. 174]
- Similarly, appeals can be filed before the ITAT against the order of the Commissioner (Appeals) in Form 4 within 60 days from the date on which the order sought to be appealed against is received by the assessee or by the Commissioner. In case appeal before the ITAT is filed by the assessee, it should be accompanied with fees of ₹ 1,000/- [Sec. 175]

Punishment for false statement [Sec. 176]

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

Taxpoint:

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

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150 YEARS OF CELEBRATING THE MAHATMA

GROUP: 4, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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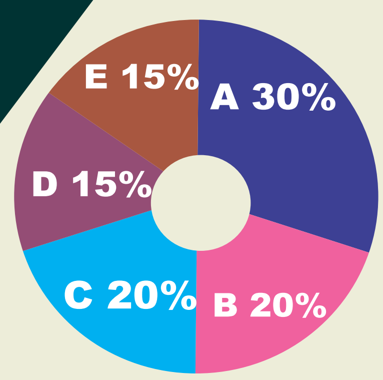
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Comminations & Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **15%**
E Government Accounting in India **15%**

Learning Objectives:

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

- Learn the importance of reporting of Labour Practices and Decent Work Conditions.
- Know the associated GRI-G4 Indicators.

An Introduction to Ind AS and Division II of Schedule III

In India at present two standards are in use, Ind AS for most of the companies and AS for the rest.

The Companies (Indian Accounting Standards) Rules, 2015 made Ind AS applicable to the specified companies, leaving AS [as per the Companies (Indian Accounting Standards) Rules, 2006] applicable to other companies. Ministry of Corporate Affairs announced the road map for making Ind AS **mandatorily** applicable to specified companies.

A. On 1st April 2017 onwards, Ind AS is applicable to the following companies:

(a) All companies which are listed/ or in the process of listing inside or outside India on Stock Exchanges (other than companies listed on SME Exchanges)*

(b) Unlisted companies having net worth of more than Rs. 2.5 Billion*

(c) Parent, Subsidiary, Associate and Joint Venture of above* From 1st April 2016 Ind AS was mandatory only for companies having Net Worth more than Rs. 5 billion.

However, for NBFCs and Commercial Banks and Insurance companies the Ind AS application schedules are as follows:

B. Ind AS is applicable on the following NBFCs:

On and from 1st April 2018:

(a) NBFCs having a net worth of Rs. 500 crore or more

(b) Holding, subsidiary, joint venture or associate companies of the above.

On and from 1st April 2019:

(a) All NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India

(b) NBFCs that are unlisted companies, having a net worth of Rs. 250 crore or more.

(c) Holding, subsidiary, joint venture or associate companies of the above.

C. Ind AS is applicable on the following banks:

On and from 1st April 2019:

(a) Scheduled commercial Banks , excluding RRBs

(b) India term-lending refinancing institution i.e. Exim bank, NABARD etc.

(c) Holding, subsidiary, joint venture or associate companies of scheduled commercial banks

D. Ind AS is applicable on the Insurance companies:

On and from 1st April 2020:

(a) Insurers/insurance companies

(b) Holding, subsidiary, joint venture or associate companies of the above.

E. Further, once a company applies Ind AS voluntarily, it has to continue to apply Ind AS mandatorily.

To meet the requirements of Ind AS the financial statements have also got some changes in the format.

Schedule III to the Companies Act, 2013 provides the manner in which every company registered under the Act shall prepare its Financial Statements. Financial Statements as defined under the Act include Balance Sheet, Statement of Changes in Equity for the period, the Statement of Profit and Loss for the period and Notes. Further, MCA notified amendments to Schedule III to the Act on 6th April 2016 whereby:

The existing Schedule III was renamed as 'Division I' to Schedule III ('Non-Ind AS Schedule III') – which gives a format of Financial Statements for Non-Ind AS companies as per the Companies (Accounting Standards) Rules, 2006.

'Division II' - 'Ind AS Schedule III' was inserted to give a format of Financial Statements for companies that are required to comply with the Companies (Indian Accounting Standards) Rules, 2015.

Major changes have taken place in the Equity portion of the balance sheet, in addition of the statement of changes in equity and in inclusion of other comprehensive income in the statement of profit and loss. The relevant part is shown below.

AS: Division I	Ind AS: Division II
(1) Shareholders' funds (a) Share capital (b) Reserves and surplus (c) Money received against share warrants **(2) Share application money pending allotment**	**Equity** (a) Equity Share capital (b) Other Equity
	Statement of Changes in Equity Where opening balance, changes during the year and closing balances of the components of equity under (a) and (b) above are shown.
	Inclusion after Profit/Loss for the period: **Other Comprehensive Income** **Total Comprehensive Income**

Although the corporate world had to incorporate the change from AS to Ind AS within the stipulated time, the academic courses are still at the beginning stage to make the move from AS to Ind AS and to reflect Division II in financial statements. As a result, students may have to wait some more time to get Ind AS and Division II fully incorporated in the courses.

GROUP: 4, PAPER: 18

INDIRECT TAX
LAWS & PRACTICE (ITP)

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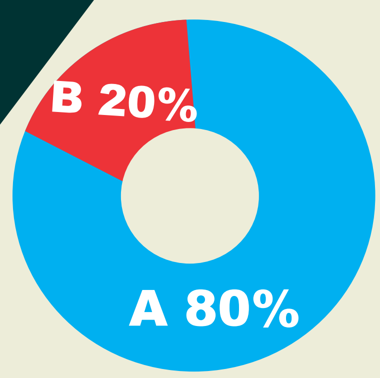
Your Preparation Quick Takes



Syllabus Structure
A Advanced Indirect Tax - Laws & Practice **80%**
B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

The concept of destination based taxation;
The concept of Place of Supply of goods;
Significance of Place of Supply of goods;
Determination of Place of Supply under certain specific cases;
Determination of Place of Supply in case of import and export of goods.

PLACE OF SUPPLY OF GOODS UNDER GST LAW

Introduction

- The introduction of Goods and Services Tax has been a landmark event in the taxation history of India. The said tax was introduced on July 1, 2017. This event changed the indirect tax scenario of the country.

- There are three types of taxes that are levied under the Goods and Services Tax law. They being Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST)/ Union Territory Goods and Services Tax (UTGST) and Integrated Goods and Services Tax (IGST). All these taxes get levied whenever there is a movement of goods or services.

- Movement of goods can be of two types, namely:

  - Movement of goods within State/ Union Territory; or
  - Movement of goods between two states/ union territories or between a state and a union territory.

- Supply happens to be the taxable event under GST law, and whenever there is a supply of goods or services, then for the purpose of GST it becomes essential to know the Place of Supply.

Destination based Taxation - Concept

- Destination based taxation is a system of taxation under which revenue from the tax relating to goods or services accrues to the jurisdiction where they ultimately get consumed. Thus, destination based taxation is also referred to as Consumption Tax.

- GST is a destination based tax, i.e., the goods/services will be taxed at the place where they are consumed and not at the place of their origin. So, the state where they are consumed will have the right to collect GST.

Place of Supply of Goods

- Simply stated, the concept 'Place of Supply' under destination based taxation implies the place where the goods or services have been consumed.

- Place of supply of goods and services have been covered under separate provisions under the GST law. These provisions determine the place where the goods or services have been consumed/ supplied.

- In GST, the concept of place of supply has been made relevant not only for the supply of services but also for the transaction of goods. In this article, the discussion will be restricted to the provisions relating to the place of supply of goods.

- The provisions have been broadly covered under two sections – Sec. 10 and Sec. 11 of the CGST Act, 2017. These provisions can be understood by dividing them into two categories as under:

  - Section 11 - Supplies which are Imports or Exports; and
  - Section 10 - Supplies other than Imports and Exports.

Significance of Place of Supply of goods

The importance of the concept of place of supply lies on facts that it determines the following:

- **Nature of the movement of the goods**: Place of supply under GST is an important factor that determines whether the particular movement will be counted as inter-state movement or intra-state movement. The determination of the actual nature of the movement of goods, depends on the concept of place of supply of such goods.

- **Nature of GST levied**: The nature of tax that will be levied (i.e. whether IGST or CGST or SGST/UTGST) will depend on whether a particular transaction is an Inter-state supply or Intra-state supply. Hence, every transaction will have to go through the test of provisions relating to the place of supply in order to determine which tax is to be levied.

  Thus, the concept of place of supply under GST identifies whether the transaction will be considered as an intra-state supply or an inter-state supply, and accordingly levy of SGST, CGST & IGST will be determined.

- **Right of accrual of revenue**: The place of supply identified help determine the right of accrual of revenue. For example, when goods move from Siliguri (West Bengal) to Balalsore (Odisha), the place of supply would be Odisha and revenue should accrue to the sate of Odisha.

Specific cases of determination of Place of Supply

- **Where the supply involves a movement of goods (whether by the supplier or the recipient or by any other person) [Sec. 10(1)(a)]**

Place of Supply: Place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient. It shall be determined by the location of the goods at the time of final delivery.

Illustration: Jadeja Bros. of Vadodara sells 40 mobile phone handsets to Rathore Traders of Jodhpur. Jadeja Bros. delivers the product to Rathore Traders in the later's office in Jodhpur.

Solution: In this case,

- **Place of Supply**: Jodhpur; and
- **Nature of GST levy**: IGST (since, it is inter-state supply).

Illustration: A manufacturer in Chennai receives an order from a customer in Margao, Goa. The manufacturer directs his branch in Aurangabad, Maharashtra to ship the goods to Margao.
In this case,

Solution: In this case,

- **Place of Supply**: Margao; and
- **Nature of GST levy**: IGST (since, it is inter-state supply).

- **Where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise. [Sec. 10(1)(b)]**

Place of Supply: In such a situation, it shall be deemed that the said third person has received the goods and Place of supply of such goods shall be the principal place of business of such person.

Illustration: Madan, a dealer in Delhi sells products to a customer in Bhopal. The Bhopal -based customer directs Madan, the Delhi-based seller to send the materials to a customer in Patna.

Solution: In this case,

- **Place of Supply**: Bhopal (Although the place of delivery is Patna, since the Bhopal-based dealer had directed such movement, then the place of supply shall be its principle place of business, i.e. Bhopal); and
- **Nature of GST levy**: IGST.

Illustration: Arvind, a dealer in Mysore sells products to a customer in Bangalore. The Bangalore -based customer directs Arvind, the Mysore-based seller to send the materials to a customer in Vishakhapatpam.

Solution: In this case,

- **Place of Supply**: Bangalore (Although the place of delivery is Vishakhapatpam, since the Bangalore-based dealer had directed such movement, then the place of supply shall be its principle place of business, i.e. Bangalore); and
- **Nature of GST levy**: CGST and SGST (since, it is intra-state supply).

- **Where the supply does not involve any movement of goods, whether, by the supplier or the recipient [Section 10(1)(c)]**

Place of Supply: Place of supply shall be the location of such goods at the time of the delivery to the recipient.

Illustration: M/s Das Furniture of Asansol sells 10 chairs to Anwar Traders of Aligarh. Anwar Traders itself takes delivery of the chairs in Asansol and transports them to Aligarh in its own vehicle.

Solution: In this case,

- **Place of Supply**: Asansol and
- **Nature of GST levy**: CGST and SGST (since, it is intra-state supply).

- **Where goods are assembled or installed at site [Section 10(1)(d)]**

Place of Supply: Place of supply shall be the place of such installation or assembly.

Illustration: ITC Ltd. installs a lift in its Kolkata office from a Apex Elevator Supplier of Hyderabad.

Solution: In this case,

- **Place of Supply**: Kolkata; and
- **Nature of GST levy**: IGST.

- **Where the goods are supplied on-board a conveyance like a vessel, aircraft, train or motor vehicle [Section 10(1)(e)]**
  Place of Supply: Place of supply shall be the location at which such goods are taken on board.

  Illustration: The food served on board the Guwahati to New Delhi flight.

Solution: In this case,

- **Place of Supply**: Guwahati (since it is the location where such goods are taken on board); and
- **Nature of GST levy**: CGST and SGST (since, it is intra-state supply).

Identification of Place of Supply in case of Imports and Exports

- The provisions regarding identification of the place of supply in respect of goods imported into India and goods exported from India are covered u/s 11 of the CGST Act, 2017.
- As per Sec. 11(a), the place of supply in case of **goods imported into India** is the 'location of the importer'; while according to Sec. 11(b) the place of supply in case of **goods exported from India** is the 'location outside India'.

Illustration: Mohit imports soft-toys from China for his toy store in Pune.

Place of Supply: Pune.

Nature of GST levy: IGST

Illustration: Safdar of Lucknow exports carpets to Ireland.

Place of Supply: Lucknow

Nature of GST levy: Exempt from GST

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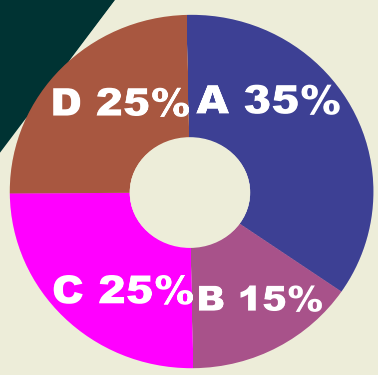
COST
& MANAGEMENT AUDIT (CMAD)

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

Topic: Practical approach in understanding the basic Principles for Maintenance of Cost Accounting Records.

Understanding of maintenance of Cost Records and Audit thereof is the core competency of a Cost and Management Accountant (CMA). Therefore it is highly imperative and pertinent for a student appearing for Group-4 of the Final Course to have proper understanding of this subject for passing the exam as well as for successful professional career.

After passing, when we choose our career either in service or in practice being a CMA, the society and the industry look at us as an expert in the subject of cost management and therefore our responsibility increases many fold in delivering the result to their satisfaction.

As a sequel to this, it is highly desirable that we have proper understanding of the guidelines, principles and elements of cost which are the basis for maintenance of Cost Records.Like Profit and Loss account and Balance Sheet which are the final outcome of the financial accounting, we have Cost Sheet of each product and service as the final outcome of the maintenance of cost records.The cost sheet indicates the true and fair view of cost of production of each product, service and activity and costing profit indicates the real profit of the company from its business activity and its efficiency. The correct cost of any product or service helps management in taking various management decision in the areas of cost management, business expansion and to improve the bottom line of the company particularly in this era of competition and globalization.

The Cost records are to be maintained as per the Notifications issued by Ministry of Corporate Affairs, Gove. of India. After coming into force the Companies Act, 2013, The GOI, Ministry of Corporate Affairs has issued new notification, under Sec. 148, of the Companies Act, 2013, namely the Companies (Cost records and Audit) Rules, 2014 for maintenance of cost records and audit thereof.

For proper understanding of various element of cost and its accounting, our Institute has published the Generally accepted cost accounting principles (GACAP), Cost accounting standards (CAS) and Guidance note on Cost accounting standards. Further the Companies (Cost records and Audit) Rules, 2014also contain the Form CRA – 1, which define and explain the various elements of cost and its accounting as well as maintenance of certain statistical records which helps in preparation of Cost sheet and arriving at the true and fair view of cost of production of any product or service. The Rules classify the Industries in two sectors i.e Regulated and Non-regulated sector. The Regulated sector contain six industries which are of larger public interest andregulated through tariff fixation and rest are under Non-regulated sector. Both the sector has different thrash hold limit for maintenance of cost records.

The GACAP, CAS, Guidance note and CRA – 1 etc., all explains various issues related to maintenance of cost records. If one understand the basic concept/principle of element of cost it will be easier for him/her to understand all the above.

The basic element of cost for which records are to be maintained are:

a. Material costs
b. Employee cost
c. Utilities
d. Direct Expenses
e. Repairs and Maintenance
f. Fixed Assets and Depreciation
g. Overheads (Indirect expenses)
h. Administrative Overheads – to be classified into
i. i. Relating to Production and
   ii. Others
j. Transportation cost
k. Royalty and Technical knowhow
l. Research and Development
m. Quality control expenses
n. Pollution control expenses
o. Service department expenses
p. Packing expenses - to be classified into
   i. Primary packing and
   ii. Secondary packing
q. Interest and Financial charges
r. Capacity determination
s. Valuation of work in progress and finished goods
t. Identification and additional information w.r.t Related party transations.
u. Records of Physical verification of RM, Stores and spares and Finishedgoos and treatment of shortage and excess.

It may be noted that Administrative Overheads – Relating to Production, and Primary packing cost forms part of cost of production, whereas Administrative Overheads – Others, Secondary Packing and Interest and Financial chargesforms part of cost of Sales.

Besides above, arriving at other figures and treatment of certain cost and income is also essential to calculate the correct costing profit.

a. Sales of product/service
b. Sale of By-product / Waste
c. Sale of Scrap – to be classified into

   i. Process scrap and
   ii. Other scrap

d. Other income - to be classified into

   i. related to business activity.
   ii. related to investments and other activities

While the Sale of By-product / Waste, Sale of Process scrap and Other income related to business activity are to be adjusted with cost of production, the Sale of Other scrap and Other income related to investments and other activities are to be shown in the Reconciliation statement i.e do not form part of cost sheet.

Further it may also be noted that the following expenses / income also do not form part of cost sheet and to be shown in the reconciliation statement.

a. Forex gain / loss
b. Any demurrage or penalty charges
c. Any abnormal cost
d. Prior period cost or income
e. Loss due to strike / lockout or due to natural calamity etc.

Finance cost incurred in connection with the acquisition of any element of cost will not for part of that element rather it is to be grouped as Interest and Financial charges. Similarly any subsidy or grant or incentive and any such payment received or receivable with respect to any element of cost shall be reduced from that cost.

In other words the entire issues can be summarized as under, to maintain the cost records, prepare true and fair cost sheet and arrive at correct costing profit.

1. Only current year income and its corresponding expenses are to be considered and
2. Only the Income and expenses relating to business activities are to be considered.

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YEARS OF CELEBRATING THE MAHATMA

GROUP: 4, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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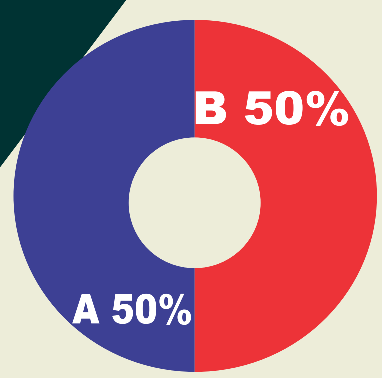
Your Preparation Quick Takes



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:

- know the different types of control chart
- understand the use of control chart for future action
- get an idea regarding specification limits and tolerance limits
- realize advantages of process control
- identify some terminologies of product control

Strategic Performance Management and Business Valuation

Different types of control chart

In connection with quantitative observations in terms of a continuous variable the following two charts are of much use:

(i) mean chart or $\overline{X}$-e -chart: This chart determines the limits of variation that can beexpected in the average of subgroups.

(ii) Range chart or R-chart: This chart determines the limits of variation that 'can be expected in the range of subgroups.

There is another chart called standard deviation chart or S-chart. This chart determines the limits of variation that can be expected in the standard deviation of subgroups.

Calculation of range R is much easier than that of standard deviation s chart and R chart, in general, is informative as s chart. Hence R chart is preferred to s chart.

In connection with quantitative observations in terms of a discontinuous variable like number of defects in an item, c chart is used where c denotes the number of defects.

In connection with qualitative observations in terms of an attribute classified as defective or non-defective p or np chart is used, where p denotes the fraction defective and n the subgroup size [The ratio of the number of defective items to the total number of items, defective and non-defective together, is called fraction defective]. (Elementary Statistics by Chaudhuri, S. B.)

Use of control chart for future action

Lack of control with regard to past production is indicated by points falling outside control limits. One may hunt for the assignable causes and may correct the production process so as to avoid future troubles. Control chart is more useful for taking action on future production. It is important that future control limits should be based on data coming from controlled process, and as such points falling outside control limits are left out and new control limits are computed on the basis of remaining points. The process may be repeated from time to time.

There are some who advocate that in the case of R, s, p and c charts points falling below LCL indicate improvement of the production process which is welcome. Steps should be taken to preserve the improvement. But really it may not be so and hence points falling below LCL also indicate lack of control and for future action they should be left out. Only in the case of real process improvement they should be maintained. (Elementary Statistics by Chaudhuri, S. B.)

Specification limits and tolerance limits

Limits for an individual product as set forth by specification engineer before the production starts are called specification limits. Limits for an individual product that may be calculated under an existing state of production are called tolerance limits. It is better to call the former specified tolerance limits and the latter natural tolerance limits.

If μ and σ be the process average and process standard deviation respectively, the range from μ -3σ to μ +3σ, which includes 99·73% of items, in case the quality characteristic follows a normal distribution, is called natural tolerance range. The limits are natural tolerance limits. When μ and σ are not known, as is often the case, they are estimated.

Many times specified tolerance limits are found to be too tight or too loose and it becomes necessary in both the cases to revise them on the basis of natural tolerance limits, if the production process is allowed to run on its own way, provided it is under control. If it is required to stick to specified tolerance limits, readjustment of the production process becomes inevitable, as otherwise, too many good items will be rejected or too many bad items will be accepted. The adjustment may be with respect to process average or process standard deviation or both.

The ideal situation will be attained when specified tolerance limits approximately coincide will the natural tolerance limits. (Elementary Statistics by Chaudhuri, S. B.)

Advantages of process control

Process control ensures a manufacturing process to be satisfactory. It makes possible the diagnosis and correction of many production troubles. It brings substantial improvement in the quality of product. It reduces spoilage and rework. It prevents unnecessary adjustments. It increases reputation of the concern because of consistent good product.

Process control helps us to set up natural tolerance range at the existing state of production. The specified tolerance range may not be on sound basis and as such they may be too tight or too loose. In both the cases they should be revised to tally with the natural tolerance range.

Further if the manufacturing process be under process control, product control becomes very economical because rejection and amount of sampling inspection necessary to come to a decision are both minimized. (Elementary Statistics by Chaudhuri, S. B.)

Product control: some terminologies

Because of economic reasons a lot of merchandise must often be judged acceptable or not on the basis of information provided by a random sample drawn from the lot. Such inspection of only a portion of the lot with a view to making a decision about acceptance or rejection of the lot is called sampling inspection. Here we shall be concerned only with sampling inspection for attribute, i.e., items will be judged defective or not by inspection. We have already mentioned that the ratio of the number of defective items to the total number of items is called fraction defective. This is generally expressed as percentage.

A sampling plan may be either acceptance-rejection type or acceptance-rectification type. In the former case the lot is either accepted or rejected in the light of sampling inspection, while in the latter case the lot is either accepted or subjected to cent per cent inspection and in either situation all the defective items found are corrected or replaced by non-defective ones.

We shall explain some concepts leading to optimum sampling inspection plan.

1. Process average:

The average fraction defective maintained by the producer in the statistically controlled production process called process average. This is denoted by $\overline{p}$.

2. Acceptable quality level:

The maximum fraction defective in the lot that may be considered as satisfactory process average for the purpose of sampling inspection is called acceptable quality level AQL. This value is designated by the consumer.

When a consumer designates some specific value of AQL, he indicates to the producer that his sampling plan will accept the great majority of the lots submitted by him provided the process average level of fraction defective in the lot is not greater than the designated AQL value.

3. Lot tolerance fraction defective:

The maximum fraction defective in the lot that may be tolerated by the consumer is called lot tolerance fraction defective. It is generally expressed as percentage and in that case, it is called lot tolerance percent defective LTPD. This is denoted by p_t.

4. Producer's risk:

On the basis of sampling inspection plan the producer has to face the risk of rejection of a lot of satisfactory quality. The probability of rejection of a lot of quality level equal to AOL is called producer's risk. It is denoted by P_p. The risk of rejection of lots of quality better than AQL will be smaller than this risk.

5. Consumer's risk:

On the basis of sampling inspection plan the consumer has to face the risk or acceptance of a lot of unsatisfactory quality. The probability of acceptance of a lot of quality equal to LTPD is called consumer's risk. It is denoted by P_c. The risk of acceptance of lots of quality worse than LTPD will be smaller than this risk.

6. Operating characteristic:

The probability of acceptance of a lot of fraction defective p expressed mathematically as a function of p say L(p) is called operating characteristic OC. The curve obtained by plotting L(p) against p is called operating characteristic curve (OC curve). Naturally the steeper the OC curve the greater the protection to consumer.

An ideal plan, of course, is one which rejects all lots of quality worse than some particular value of p and accepts all lots of quality equal to or better than that. But such a plan can never be executed.

7. Average sample number:

In sampling inspection plan the number of units inspected per lot may not remain the same from lot to lot. The expected value of this number of units inspected per lot is called average sample number ASN. This is naturally a function of p. The Curve obtained by plotting ASN against p is called average sample number curve (ASN curve). Naturally the lower the ASN the better is the sampling plan.

8. Average outgoing quality:

In acceptance-rectification type of sampling inspection plan, the expected fraction defective remaining in the lot after the application of sampling inspection plan is called average outgoing quality AOQ. This is naturally a function of incoming fraction defective p. The maximum value of the average outgoing quality with respect to fraction defective is called average outgoing quality limit AOQL. (Elementary Statistics by Chaudhuri, S. B.)

The Magnanimity of Decision Making

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01.00 The Kid in a Candy Store

The kid wanted them all, but ended up with nothing because he couldn't choose just one

Here is a story that I have come across. A kid walked into a candy store with his dad and was bedazzled by the array of treats on offer. "What should I choose? What should I choose? What should I choose?" He asked himself. "Come on son, we don't have all day," his dad said.

"These are my favourites. No wait, these are my favourites." He walked along the aisles, picking up bags and putting them back. He just couldn't make up his mind. "Quick son, make up your mind, we have to go," His impatient dad said.

Frantically, the boy ran around the store, his eyes moving from one shelf to another, but all of the options looked so good and he couldn't make a decision. Eventually, the dad had enough, grabbed his son by the hand and they walked out of the store empty-handed. The young boy had tears in his eyes. He wanted them all, but ended up with nothing because he couldn't choose just one.

We're all that kid. The world is that candy store. We have a myriad of options available to us, but if we don't make a decision about our career, education, relationships, investments, religion or other important issues, we end up empty-handed. Sometimes we worry about making the wrong choice. What if we regret the direction that we take and it's too late to go back?

The bigger danger is that we make no decision at all and end up going nowhere and doing nothing.

02.00 Concept

In its simplest sense, decision-making is the act of choosing between two or more courses of action.

People often say that they find it hard to make decisions. It is a fact that we all have to make decisions all the time, ranging from trivial issues like what to have for lunch, right up to life-changing decisions like where and what to study, and who to marry.

According to the Oxford Advanced Learner's Dictionary the term decision making means - the process of deciding about something important, especially in a group of people or in an organization. In its simplest sense, decision-making is the act of choosing between two or more courses of action. In the wider process of problem solving, decision-making involves choosing between possible solutions to a problem. Decisions can be made through either an intuitive or reasoned process, or a combination of the two.

Intuition is using your 'gut feeling' about possible courses of action. Although people talk about it as if it was a magical 'sense', intuition is actually a combination of past experience and your personal values. It is worth taking your intuition into account, because it reflects your learning about life. It is, however, not always based on reality, only your perceptions, many of which may have started in childhood and may not be very mature as a result. It is therefore worth examining your gut feeling closely, especially if you have a very strong feeling against a particular course of action, to see if you can work out why, and whether the feeling is justified.

Reasoning is using the facts and figures in front of you to make decisions. Reasoning has its roots in the here-and-now, and in facts. It can, however, ignore emotional aspects to the decision, and in particular, issues from the past that may affect the way that the decision is implemented.

Intuition is a perfectly acceptable means of making a decision, although it is generally more appropriate when the decision is of a simple nature or needs to be made quickly. More complicated decisions do require a more formal, structured approach, usually involving both intuition and reasoning. It is important to be wary of impulsive reactions to a situation.

03.00 Individual Context

Individual decision making has certain pros and cons in comparison to a group. Few of the pros and cons are mentioned below:

Pros

An individual generally makes prompt decisions.

Individuals do not escape responsibilities. They are accountable for their acts and performance. While in a group it is not easy to hold any one person accountable for a wrong decision.

Individual decision making saves time, money and energy as individuals make prompt and logical decisions.

Cons

A group has potential of collecting more and detailed information as compared to an individual while making decisions.

- An individual uses his own intuition and views while making any decision. A group has many members, and hence the decisions are based on collective views and broader perspective. Hence a group tends to make better decisions.
- A group can discover hidden talent and core competency of employees of an organization.
- An individual may not take into consideration every members interest. While a group will take into account interest of all members of an organization.

04.00 Organizational Context

In an organizational context, decision making needs the right kind of information, the complete information and the ability to synthesize and make sense of the information. While the first two attributes depend on external sources, the ability to make informed decisions is a personality trait. Hence, successful CEO's are those who can take into account the different viewpoints and divergent perspectives and arrive at the right decision.

> Successful CEO's are those who can take into account the different viewpoints and divergent perspectives and arrive at the right decision.

The business landscape is littered with examples of companies that have made strategic errors and these are mostly to do with lack of proper decisions taken by the CEO's and managers in these firms. For instance, the failure of Chrysler and Ford (the automobile majors in the United States) to meet the challenge of competition from Japanese auto majors like Toyota was mostly due to the lack of imaginative decisions that would have responded to the threat in a coherent manner. Of course, it is another matter that these companies (Chrysler in particular) under the stewardship of Lee Iacocca were able to successfully meet the competition by the Japanese because of firm decisions taken by him.

The other aspect that relates to decision making in an organizational context is that there must be complete and accurate information made available to the decision maker. Incomplete and insufficient information leads to poor decisions and wrong choices. Partial information or faulty information often leads to "analysis paralysis" which is another term for poor decision making abilities.

Finally, even with reliable and accurate information, the decision maker ought to have good problem solving skills and astute decision making abilities to arrive at sound judgments regarding the everyday problems and issues. The overriding rule in decision making is that the decision maker ought to have legitimacy and authority over the people who he or she is deciding upon.

It is interesting to note that some people put off making decisions by endlessly searching for more information or getting other people to offer their recommendations. Others resort to decision-making by taking a vote, sticking a pin in a list or tossing a coin.

Decision makers succeed only when their decisions are honoured and followed by the people or groups that the decision impacts. In many cases, the fragmented nature of the organizations with different interests represented by factions often undermines the decision making capabilities of the decision maker. Hence, it is worth remembering that due authority must be vested with the decision maker.

Any decisions taken at any level have to take into account the conflicting needs of the individuals who are affected by the decisions and hence conflict resolution is a part of the decision making process. How well the conflicts are resolved depends on the skill and leadership traits of the decision maker.

After all, any decision that is taken is to balance competing interests and is essentially an allocation of shared resources among the different groups. The point, here, is that in any organization there are scarce resources that need to be allocated among competing groups and hence the decision maker has to ensure that all the needs and concerns of the different groups are taken into consideration when making the decision.

05.00 The Process

Decision making process can be regarded as check and balance system that keeps the organization growing both in vertical and linear directions. It means that decision making process seeks a goal.

> Problems are sorted out through comprehensive decision making process.

The goals are pre-set business objectives, company missions and its vision. To achieve these goals, the company may face lot of obstacles in administrative, operational, marketing wings and operational domains. Such problems are sorted out through comprehensive decision making process.

Decision making process is continuous and dynamic. No decision comes as end in itself. There could always be the emergence of a new set of problems staring for solution. When one problem is solved another emerges and so on, such that the cycle keeps on recurring.

In a management setting, decision making should adopt the following simple steps:

- Defining the problem
- Gathering information and collecting data
- Developing and weighing the options
- Choosing best possible option
- Planning and execution
- Follow up action

The result of decision making process in a professional organization is always magnanimous and productive.

06.00 Quick Take

A manager ought to be decisive and magnanimous.

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
Live Webinar

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

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.

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.

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

Message from

Directorate of Studies

Dear Students,

Wishing you all, a very Happy and Prosperous New Year 2019.

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 **Revisionary Test Papers (RTPs)**, **Mock Test Papers (MTPs)**, **Work book**, and we are conducting **Webinar sessions (live)** and where your active participation is amazing. Before stepping in to the examination hall, please go through the **PPTs on 'Achieve your GOAL'**; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Dont's in the examination.

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:

" The future depends on what you do today"..

Let us observe his memory by following his message.

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

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

Please refer the links mentioned below :

For Mock Test Papers (MTP) : **http://icmai.in/studentswebsite/mtp2016_j18_fnd.php**

For Revision Test Papers (RTP) : **https://icmai.in/studentswebsite/rtp2016_d18.php**

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

For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php**

Live Webinar Link : **http://icmai.in/icmai/news/889.php**

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

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper. Many of our students' were placed in reputed companies, which may encourage you to accomplish the course quickly and to be placed in good companies.

GOOD LUCK & Best wishes as always.

Be Prepared and Get Success;

FOLLOW US ON

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Behind every successful business decision, there is always a CMA