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150 YEARS OF CELEBRATING THE MAHATMA

Happy New Year 2021

CMA Student E - Bulletin

FINAL

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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KNOWLEDGE
Update

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

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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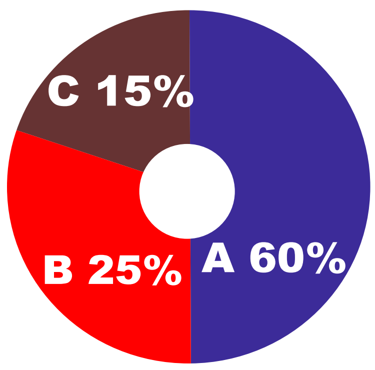
Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

CHAPTER 9
CAPITAL MARKET TERMINOLOGIES

1.0 CAPITAL MARKET TERMINOLOGIES

1.1 Contract:
'Contract' means a contract for or relating to the purchase or sale of securities.

1.2 Securities:
'Securities' includes the following:

- Shares, scrip, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in any incorporated company or other body corporate.
- Derivative.
- Government securities.
- Rights or interests in securities.
- Such other instruments as defined in clause (zg) of section 2 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

1.3 Government security:
'Government security' means a security created and issued, whether before or after the commencement of this Act, by the Central Govt. or a State Govt. for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debts Act, 1944.

1.4 Derivative:
'Derivative' includes-

- A security derived from a debt instrument, share, loan, whether secured or not, risk instrument or contract for differences or any other form of security;
- A contract which derives its value from the prices, or index of prices, of underlying securities.

1.5 Beneficial owner:

1.6 "Beneficial owner" means a person whose name is recorded as such with a depository.

1.7 Depository:
"Depository" means a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration by SEBI Act, 1992.with the objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exception; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form.

Process:
The depository system involves:

(a) Conversion of securities from physical mode to electronic mode.
(b) Settlement of trades in electronic segment.
(c) Electronic transfer of ownership.
(d) Electronic custody of securities.
(e) All the securities are identical in all respects and are fungible.
(f) The system is not mandatory for the owner of the securities but it is mandatory for the companies.

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1.8 Merchant Banker:
A financial intermediary who can manage issue of shares, make valuation of shares and is involved in various formalities of issue and transfer of securities.

1.9 Broker – a person who is agent of either buyer or seller. In case of market transaction, brokers should be registered with SEBI.

1.10 Stock Exchange – a company which provides a platform for buying and selling of securities through brokers and is called market transaction. Only CG authorized exchanges can operate.

1.11 Underwriter – any person/organization who agrees to subscribe securities in case they are not subscribed by investors in public issue.

1.12 Share Transfer Agents – organizations who keep account of share transfer for other companies.

1.13 Insider Trading – passing of information by any insider of a company. Insider means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to the unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information. Price sensitive information' means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company.

1.14 Book Building Process – Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from Qualified Institutional Buyers (QIB).

1.15 Promoter – Person/persons controlling the plan/programme of the company pursuant to which public issue is made. Directors in professional capacity are not promoters.

1.16 Promoter's Group – (1) Promoter's relative. (2) In case of a company – (a) Subsidiary/holding company. (b) Any company whose promoter holds 10% or more of the equity or which holds 10% or more of the promoter.

1.17 Red Herring Prospectus – This is an indicative prospectus without any details of price and number of shares or amount of issue. The floor price or price band is declared one day prior to the opening the issue. After the price is obtained through bidding the offer document is filed as prospectus.

1.18 Abridged Prospectus –
- Salient features of prospectus and accompanied with a form.
- Letter of offer – documents for rights issue filed Stock Exchange.
- Abridged Letter of Offer – abridged form of the above, compulsorily to be sent to each shareholder. Details to be given on request.

2.0 SEBI Regulations (Issue of Capital and Disclosure Requirements).

2.1 Entry Norms (IPO or FPO)
At least 25 per cent of each class or kind of securities issued by a company is offered to the public for subscription through advertisement in newspapers. The limit of 25% can be relaxed to 10% if following conditions are satisfied:

a) Minimum 20 lakh securities (excluding reservations, firm allotment and promoters' contribution) are offered to the public;
b) The size of the offer to the public, i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs.100 crores; and
c) The issue was made only through book building method with allocation of 60 per cent of the issue size to the qualified institutional buyers as specified by the Securities and Exchange Board of India;

Recognized stock exchange may relax any of the conditions with the previous approval of the SEBI, in respect of a Government company.

2.2 An unlisted company may make an initial public offering (IPO) of equity shares or any other security, which may be converted into or exchanged with equity shares at a later date, only if it meets all the following conditions:

(i) The company has net tangible assets of at least 3 crores in each of the preceding 3 full years (of 12 months each), of which not more than 50% is held in monetary assets:

Provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;

(ii) The company has a track record of distributable profits in terms of Section 205 of the Companies Act, 1956, for at least (3) out of immediately preceding five (5) years.

Provided further that extraordinary items shall not be considered for calculating distributable profits in terms of Section 205 of the Companies Act, 1956;

(iii) The company has a net worth of at least 1 crore in each of the preceding 3 full years (of 12 months each)

(iv) In case the company has changed its name within the last one year, at least 50% of the revenue for the preceding 1 full year is earned by the company from the activity suggested by the new name; and

(v) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (i.e., offer through offer document + firm allotment + promoters' contribution through the offer document), does not exceed five (5) times its pre-issue net worth as per the audited balance sheet of the last financial year.)

(vi) Eligibility – Unlisted company whose commercial operation of less than two years and the post issue capital shall not exceed Rs.5 crore and not less than Rs.3 crore.

(vii) Appoint market maker to the issue on all stock exchanges where the securities are proposed to be listed.

(viii)The unlisted companies whose capital after the proposed issue of securities is less than Rs.3 crore shall be eligible to be listed only on the Over the Counter Exchange of India.

2.3 <u>Pricing by Companies Issuing Securities</u>
An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange may freely price its equity shares.

2.4 <u>Price Band:</u>
Issuer company can mention a price band of 20% in the offer document filed with the Board and actual price can be determined at a later date before filing of the offer document with the ROCs.

2.5 <u>Promoters' Contribution and Lock-in Requirements.</u>
In a public issue by an unlisted company, the promoters shall contribute not less than 20% of the post issue capital.

Promoters shall bring in the full amount of promoters' contribution including premium at least one day prior to the issue opening date.

Minimum Promoters' contribution
Lock-in period: 3 years.

Excess Promoters' contribution:
Lock in period: 1 year.

2.6 <u>Book Building Process:</u> Price discovery. Demand for securities is built up and the price for the securities is assessed on the basis of the bids obtained from subsidiaries. RHP do not contain price. It contains either the floor price or a price band.

2.7 <u>Pre- issue Obligations:</u>

1.The lead merchant banker shall exercise due diligence.

1. Documents to be submitted along with the offer document by the Lead Manager:
   - Memorandum of Understanding.
   - *Inter se* allocation of responsibilities
   - Due diligence certificate.
   - Undertaking.
   - List of Promoters' group and other details.
   - Appointment of intermediaries like merchant bankers, co-managers and other intermediaries.

2.8 <u>Public Issue Steps:</u>

- The lead merchant banker's minimum underwriting obligation: 5% of the total underwriting commitment or Rs.25 lakhs whichever is less.

- Offer document to be made Public.

- Pre-issue advertisement.

- IPO grading: By rating agency approved by SEBI.
- Despatch of issue material.
- No complaints certificate.
- Mandatory collection centers of applications in major cities.
- Authorized collection agents.
- Appointment of compliance officers: To be notified in the advertisement who is responsible for the compliance.
- Agreement with depositories: For data access of shareholders

2.9 **Reservation for Employees**:

- As per Rule 19(2)b of SC(R) rules, 1957 the reservation for employees cannot exceed 10% of the total issue amount.

The main object of the SEBI Act are as follows:
(a) Protect the interests of the investors in securities.
(b) Promoting orderly and healthy growth of the securities market.
(c)Regulation of the securities market and other incidental matters.
(d) Promoting the fair dealings by the issuer of securities and raising of funds at a relatively lower cost.
(e) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

3.0 **Powers of SEBI**
(1) Specific powers like regulating the business of stock exchanges, registering and regulating the functions of stock brokers, share transfer agents, bankers, registrars, trustees, underwriters, portfolio managers etc.
(2) Power to make inspection.
(3) Powers of civil court exercisable by SEBI.
(4) Power to issue direction.
(5) Power to regulate and prohibit the issue of prospectus.
(6) Power to seize documents like books and papers.

4.0 Guidelines on initial public issue through the stock exchange
1) Agreement with the stock exchange.
2) Appointment of brokers.
3) Appointment of Registrar to the issue.
4) Listing.
5) Responsibility of Lead Managers.
6) Mode of operation.
7) Demat

5.0 Book Building:
SEBI Guidelines define Book Building as a process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document

Difference between offer of shares through book building and offer of shares through normal public issue :

Price at which securities will be allotted is not known in case of offer of shares through book building while in case of offer of shares through normal public issue, price is known in advance to investor. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue the demand is known at the close of the issue.

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GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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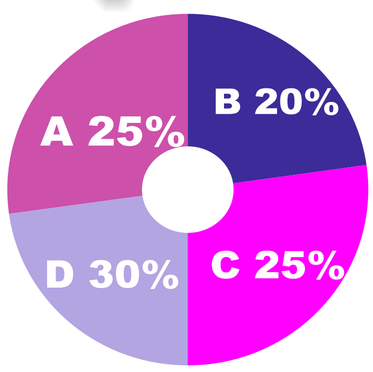
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

After studying this section on Strategic Financial Management, you will be able to:
- understand the direct and indirect quotations
- know the European terms and American terms

Strategic Financial Management

Unit: Evaluation of Risky Proposals for Investment Decisions

4. Sensitivity Analysis

Let us know study the change in NPV with change in quantity sold. (Refer to our previous illustration 6).

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

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

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

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

Here, Initial Investment = 900

Expected value of P = 2.70

Expected value of V = 2.0275

Substituting the values, we get,

$$NPV = \sum_{t=1}^{n} \frac{[Q(2.70-2.025)-450-90](1-0.40)+90}{(1+0.1)^t} + \frac{0}{(1+0.1)^n} - 900$$

$$NPV = \sum_{t=1}^{n} \frac{[0.405Q-234]}{(1+0.1)^t} - 900$$

Substituting the given range of values of Q, starting from 600, we get the following values of NPV.

Q	600	660	750	900	1000	1150
NPV	-844.7	-695.36	-47.42	-98.13	150.72	524.00

The impact on the NPV of unfavourable changes in the two parameters, namely P and Q will be as follows:

Fall (%)	Q value	NPV	P value	NPV
5	546	-979.08	2.60	-835.24
10	518	-1048.75	2.40	-1259.21
15	489	-1120.92	2.30	-1471.19

20 25	460 431	-1193.09 -1265.26	2.20 2.00	-1683.18 -2107.16

5. Scenario Analysis

In sensitivity analysis, we have seen how to study the changes in the criterion of merit (NPV) with changes in one of the variables. But, most of the time such situations may be encountered in real life that two or more variables change at the same time and the changes may be interrelated.

For example, the economist of a company that proposes to set-up a transport service is worried that the running costs may increase due to the proposed deregulation of oil prices. He also feels that if the oil prices rise, the number of passengers on each service will also increase as quite a few among the working classes may be unable to travel on private vehicles after the rise. For studying the desirability of such projects, analysts use what is called Scenario Analysis. In scenario analysis, different scenarios are generated and the desirability of the project is studied in each scenario. In the given example, two scenarios are possible:

i. The prices of petroleum products are not deregulated and therefore, both the running costs and revenues remain low. Such a scenario, which assumes that the conditions continue to be what they are now is called the Base Case.
ii. The prices of the petroleum products are deregulated, resulting in hike **of both** the costs and revenues.

For the transport service project, the net present value in the two different scenarios and the relevant background information is as follows: (Rs. In lakh)

	Base case	High costs and revenue
Initial investment	300	300
Revenue	700	850
Variable costs	550	650
Fixed costs	70	80
Depreciation	30	30
Pre-tax profit	50	90
Tax (40%)	20	36
Profit after tax	30	54
Net cash flow	60	84
Cost of capital	10%	10%
Salvage value	Nil	Nil
Life of the project	10 years	10 years
NPV	68.68	216.14

6. Simulation Approach

In sensitivity analysis, the impact on NPV of change in one of the variables has been examined Students might have observed that for studying the impact of each variable all other factors have either been assumed to be constant, or their expected values have been used. But, if the decision maker wants to know the expected value of the NPV taking into account each possible value of all the factors that affect it, sensitivity is not the method to be used as the number of alternatives for which NPV may have to be calculated will be very high. For example in the illustration given in the previous section on sensitivity for each value of Q there are 4 values of P for each of which in turn there are 3 values of V.

To overcome these difficulties in sensitivity analysis, the simulation approach has been developed. Simulation or Monte Carlo simulation as it is generally referred to as been found to be a useful technique in evaluation of capital investments under conditions of risk. It is a flexible operations research tool that can handle any problem if the structure and the logic of the problem can be specified.

In simple words simulation is an imitation of a real-world system using a mathematical model that captures the characteristic features of the system as it encounters random events in time. It can also be defined as the method of solving decision-making problems by designing constructing and operating a model of the real system.

The basic principle in simulation is that since risk arises out of events which cannot be fixed into a pattern, that is random events, a model can be developed in which all factors excepting the random factors are fixed, and the impact of the random factors on the output can be studied by generating the random events artificially. It should be noted that though the occurrence of the events is not known, it should be possible to fix the occurrence of the event in some probability distribution. For example, in the illustration on sensitivity, we knew the range of values in which the three variables can be and also the probabilities associated with each of the values within each range.

Using simulation, the manager or decision maker should:

1. Define the problem
2. Identify the fixed and variable factors
3. Identify the various courses of action available to him
4. Construct a mathematical model incorporating all the variables
5. Run the model and get the results
6. Decide on the best possible course of action.

To illustrate the above procedure, let us develop a problem as follows:

Illustration 7:

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

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

The firm's cost of capital is 15% and the risk-free rate of return is 12%. Suppose the finance manager feels that these two values are likely to remain unchanged during the life of the project.
Thus, step 1 and 2 i.e., defining the problem and identifying eth fixed and variable factors are done.
Now in step 3 we need to identify the various courses of action available to the firm.
Here, the firm has two possible courses of action available to it:

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

(to be continued.......)

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GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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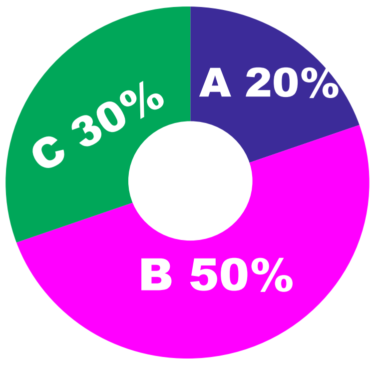
Your Preparation Quick Takes



Syllabus Structure

A Cost Management **20%**

B Strategic Cost Management Tools and Techniques **50%**

C Strategic Cost Management - Application of Statistical Techniques in Business Decisions **30%**

Behind every successful business decision, there is always a CMA

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?

Throughput Accounting

01.00 Concept

Throughput Accounting is a system of performance measurement and costing which traces costs to throughput time. It is a technique used as a performance parameter in relation to the theory of constraints.

CIMA Terminology defines throughput accounting as: "*A management accounting system which focuses on ways by which the maximum return per unit of bottleneck activity can be achieved*".

Throughput Accounting has been evolved on an alternative accounting methodology that attempts to eliminate harmful distortions that have cropped up from traditional accounting practices, i.e. the distortions that promote behaviours contrary to the goal of increasing profit in the long term.

In traditional accounting, inventory is an asset (in theory, it can be converted to cash by selling it). This often drives undesirable behaviour such as manufacturing items that are not truly needed. Accumulating inventory inflates assets and generates a "paper profit" based on inventory that may or may not ever be sold (e.g. due to obsolescence) and that incurs cost as it sits in storage. The Theory of Constraints, therefore, considers inventory to be a liability (because inventory ties up cash that could be used more productively elsewhere).

In traditional accounting, there is also a very strong emphasis on cutting expenses. The Theory of Constraints, on the other hand, considers cutting expenses to be of much less importance than increasing throughput. Cutting expenses is limited by reaching zero expenses, whereas increasing throughput has no such limitations.

In order to over these and other conflicts, the Theory of Constraints focuses on Throughput Accounting, which uses as its core measures: Throughput, Investment, and Operating Expense.

02.00 Measures

02.01 Core Measures

Throughput: Throughput is the excess of sales value over the truly (totally) variable costs (typically raw materials, sales commissions, and freight). Labour is not considered a truly variable cost unless the pay is 100% tied to pieces produced.

Investment: Money that is tied up in physical things such as product inventory, machinery and equipment, real estate, etc., formerly referred to in TOC as Inventory.

Operating Expenses: Money spent to create throughput, other than truly variable costs (e.g. payroll, utilities, taxes, etc.), i.e. the cost of maintaining a given level of capacity.

02.02 Derived Measures

Net Profit = (Throughput – Operating Expenses)
Return on Investment = (Net Profit ÷ Investment)
Productivity = (Throughput ÷ Operating Expenses)
Investment Turns = (Throughput ÷ Investment)

In throughput accounting, in general, management decisions are guided by their effect on achieving the following improvements (in order of priority):

- Will Throughput be increased?
- Will Investment be reduced?
- Will Operating Expenses be reduced?

The strongest emphasis (by far) is on increasing Throughput. In essence, TOC tends to focus less on cutting expenses (Investment and Operating Expenses) and focus more on building sales (Throughput).

02.03 Other Measures

Throughput (or Cycle) Time: Throughput (or cycle) time is the average time required to convert raw materials into finished goods ready to be shipped to customer. It includes the time required for activities such as material handling, production processing, inspecting and packaging.

Throughput Efficiency: Throughput efficiency is the ratio of throughput achieved to the resources used.
Throughput efficiency = {(Throughput cost) ÷ (Actual factory cost)} x 100

Throughput Time Ratio: It is the ratio of time spent adding customer value to products and services divided by total cycle time. It is also known as the 'ratio of work content to lead time'.

Total Factory Cost: Total factory costs include all the factory expenses with the exception of material costs. In the short run, most factory costs (including direct labour) are fixed. These fixed costs can be grouped together and called total factory costs (TFC).

Profitability: This concept emphasizes that profitability is determined by how quickly goods can be produced to satisfy customer's order. Production for stock does not create profits. Improving the throughput of bottleneck operations will increase the rate at which customer demand can be met and this will improve profitability. Contribution in its traditional form (sales – variable costs) is not good a guide for profitability because it ignores capacity factors and rate of production.

TA Ratio:

Return per Factory Hour	*= (Sales Prices – material Cost) ÷ (Time on key resource i.e., the bottleneck)*
Cost per Factory Hour	*= Total Factory Costs (TFC) ÷Total time available on the key resource*
TA Ratio	*= Return per Factory Hour (or minute) ÷ Cost per Factory Hour (or minute)*

The minimum norm is that the TA ratio should be greater than 1. If it is less than 1 the product will lose money and the firm should consider withdrawing it from the market. Throughput accounting considers that value is not created until products are sold. Thus, items made for stock produce no return and depress the TA ratio. TA ratio prompts and guides managers in utilising the 'limited bottleneck resource' to produce products for which customer demand exists. In principle, throughput accounting compliments JIT systems.

03.00 Throughput Accounting and Contribution Approach

Throughput accounting has certain similarities with the traditional approach of maximizing contribution per unit of scarce resource. However, there are certain differences. In throughput accounting, return is defined as sales less material costs in contrast to contribution, which is sales less all variable costs, i.e., material, labour, overheads. The assumption (i.e., emphasis) in throughput accounting is that all costs except material are fixed in relation to throughput in short run.

04.00 Theory of Constraints

The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. In manufacturing, the constraint is often referred to as a bottleneck.

The Theory of Constraints takes a scientific approach to improvement. It hypothesizes that every complex system, including manufacturing processes, consists of multiple linked activities, one of which acts as a constraint upon the entire system (i.e. the constraint activity is the "weakest link in the chain").

Five Focusing Steps: The Theory of Constraints provides a specific methodology for identifying and eliminating constraints, referred to as the Five Focusing Steps, as listed below.

i. **Identify:** Identify the current constraint (the single part of the process that limits the rate at which the goal is achieved).

ii. **Exploit:** Make quick improvements to the throughput of the constraint using existing resources (i.e. make the most of what you have).

iii. **Subordinate:** Review all other activities in the process to ensure that they are aligned with and truly support the needs of the constraint.

iv. **Elevate:** If the constraint still exists (i.e. it has not moved), consider what further actions can be taken to eliminate it from being the constraint. Normally, actions are continued at this step until the constraint has been "broken" (until it has moved somewhere else). In some cases, capital investment may be required.

v. **Repeat:** The Five Focusing Steps are a continuous improvement cycle. Therefore, once a constraint is resolved the next constraint should immediately be addressed. This step is a reminder to never become complacent – aggressively improve the current constraint…and then immediately move on to the next constraint.

The Theory of Constraints focuses on identifying and removing constraints that limit throughput. Therefore, its successful application tends to increase manufacturing capacity.

05.00 Problems for Practice

Problem 1

Company B uses a throughput accounting system. The details of product X per unit are as follows:

Selling Price = Rs. 50

Material Cost = Rs.16

Conversion Costs = Rs. 20

Time on bottle neck resource is 8 minutes. What is the return per hour for product X?

Answer

Return per Minute	= (Selling price - Material cost) ÷ (Time on bottleneck resource) = (50 - 16) ÷ 8 = 4.25

Therefore, Return per Hour = (Return per Minute x 60) = 4.25 × 60 = Rs.255/-

Problem 2

Modern Co produces 3 products, A, B and C, details of which are shown below:

Particulars	A	B	C
Selling price per unit (Rs.)	120	110	130
Direct material cost per unit (Rs.)	60	70	85
Variable overhead (Rs.)	30	20	15
Maximum demand (units)	30,000	25,000	40,000
Time required on the bottleneck resource (hours per unit)	5	4	3

There are 3,20,000 bottleneck hours available each month. Calculate the optimum product mix based on the throughput concept.

Solution

Step 1: Ranking

Serial	Particulars	Workings	A	B	C
1	Selling price per unit (Rs.)	Given	120	110	130
2	Direct material cost per unit (Rs.)	Given	60	70	85
3	Throughput per unit (Rs.)	(1 – 2)	60	40	45
4	Time required on the bottleneck resource (hours per unit)	Given	5	4	3
5	Return per factory hour (Rs.)	(3 ÷ 4)	12	10	15
6	Ranking (on the basis of Return per factory hour)		2	3	1

Step 2: Allocation of bottleneck hours of 3,20,000

Serial	Particulars	Workings	A	B	C
1	Ranking	Step 1	2	3	1
2	Maximum Demand (Units)	Given	30,000	25,000	40,000
3	Hours needed per Unit on the bottleneck	Given	5	4	3

Behind every successful business decision, there is always a CMA

4	Maximum Hours needed on the bottleneck	2 x 3	1,50,000	1,00,000	1,20,000
5	Hours Allocated to C A B	First Second (balance of 3,20,000)	1,50,000	50,000	1,20,000
6	Units of Production	(5 ÷ 3)	30,000	12,500	40,000

Therefore, Optimum Product MIX:
A = 30,000 units
B = 12,500 units
C = 40,000 units

Problem 3

A factory has a key resource (bottleneck) of Facility A which is available for 31,300 minutes per week. Budgeted factory costs and data on two products, X and Y, are shown below:

Product	Selling Price/Unit	Material Cost/Unit	Time in Facility A
X	Rs.35	Rs.20.00	5 minutes
Y	Rs.35	Rs. 17.50	10 minutes

Budgeted factory costs per week (Rs.):
Direct labour: 25,000
Indirect labour: 12,500
Power: 1,750
Depreciation: 22,500
Space costs: 8,000
Engineering: 3,500
Administration: 5,000

Actual production during the last week is 4,750 units of product X and 650 units of product Y.

Calculate:
(i) Total factory costs (TFC)
(ii) Cost per Factory Minute
(iii) Return per Factory Minute for both products
(iv) TA ratios for both products.
(v) Throughput cost per the week.
(vi) Efficiency ratio.

Solution

(i) Total Factory Costs = (Total of all costs except materials)
= 25,000 + 12,500 +1,750 + 22,500 + 8,000 +3,500 +5,000
= Rs.78,250

(ii) Cost per Factory Minute = (Total Factory Costs ÷ Minutes available)
= 78,250 ÷ 31,300 = Rs. 2.50

(iii) Return per bottleneck minute
= (Selling Price – Material Cost) ÷ (Minutes in Bottleneck Facility)
Return per bottleneck minute for Product X
= (35 – 20) ÷ 5 = Rs.3/-
Return per bottleneck minute for Product Y
= (35 – 17.5) ÷ 10 = Rs. 1.75

(iv) Throughput Accounting (TA) Ratio
= (Return per Minute ÷ Cost per Factory Minute)
TA Ratio for Product X = = (3 ÷ 2.5) = 1.2
TA Ratio for Product Y = = (1.75 ÷ 2.5) = 0.7

(v) Throughput Cost = (Standard Minutes x Cost per Factory Minute)

Standard minutes of throughput for the week
= [4,750 x 5] + [650 x 10] = 23,750 + 6,500 = 30,250 minutes
Throughput cost per week = = 30,250 x 2.5 = Rs. 75,625/-

(vi) Efficiency % = (Throughput cost ÷ Actual TFC) x100
= (75,625 ÷ 78,250) x 100
= 96.6%

Problem 4

A manufacturing company recorded the following costs in October for Product X:

Element	Rupees
Direct Materials	20,000
Direct Labour	6,300
Variable Production Overhead	4,700
Fixed Production Overhead	19,750
Variable Selling Costs	4,500
Fixed Distribution Costs	16,800
Total costs	72,050

During October 4,000 units of Product X were produced but only 3,600 units were sold.
At the beginning of October there was no inventory. What is the value of the inventory of Product X at the end of October using throughput accounting?

Answer

Using throughput accounting inventory is to be valued at material cost. Therefore,

Inventory value	= (Material Cost ÷ Quantity of Production) X (Quantity of Inventory) = (20,000 ÷ 4,000) × 400 units = Rs.2,000/-

P06.00 Quick Take

Visualization of theory in cohesion with problems enables better application of concepts.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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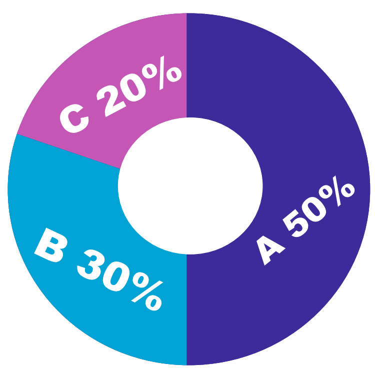
Your Preparation Quick Takes



Syllabus Structure

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

Behind every successful business decision, there is always a CMA

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.

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act.

Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. ***Reducing taxable income***: As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.

2. ***Deferring payment of taxes to the extent possible***: An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. ***Reduction of Tax liability***

Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. ***Minimisation of litigation***

In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. ***Productive investment***

A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

d. Healthy growth of economy

The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

e. Economic stability

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

- Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.
- Disclosure of full and true material information
- Avoid sham transactions or make-believe transactions or colourable devices
- Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) Short-range and long-range tax planning: Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

***(b) Permissive tax planning*:** Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

***(c) Purposive tax planning*:** Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Line of demarcation

The line of demarcation between tax avoidance and tax planning is very thin and blurred. There are two thoughts about tax avoidance –

a) As per first thought it is legal. Such thought is also supported by various judgments of the Supreme Court, some of them are as follows -

***Helvering vs. Greggory* (1934)**
"Anyone may so arrange his affairs that his taxes shall be as low as possible. He is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

***IRC vs. Duke of Westminster* (1936)**
"Taxpayer is entitled to so arrange his affairs that the tax under the appropriate Act is less than what otherwise it could be."

***Inland Revenue Commissioners vs. Fishers Executors* (1958)**
"The highest in authority, have always recognized that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far he can do so within the law, and that he may legitimately claim the advantage of any express terms or any omissions that he can find in his favour in taxing Act. In doing so, he neither comes under liability, nor incurs blame."

***CIT vs. Raman & Co.* (1968)**
"Avoidance of tax liability by so arranging commercial affairs that the charge of tax is distributed, is not prohibited. A taxpayer may resort to a device to divert the income before it accrues or arises to him. Effectiveness of the device depends not upon considerations of morality, but on the operation of the Income-tax Act."

***Smt. C. Kamala vs. CIT* (1978)**
"It is quite possible that when a transaction is entered into in one form known to law, the amount received under that transaction may attract liability under the Act and if it is entered into in another form which is equally lawful, it may not attract such tax liability. But when the assessee has adopted the latter one, it would not be open to the court to hold him liable for tax."

***CWT vs. Arvind Narotham* (1988)**
"It is true that tax avoidance in an underdeveloped or developing economy should not be encouraged on practical as well as ideological grounds. One would wish..... that one could get the enthusiasm ..... that taxes are the price of civilization and one would like to pay that price to buy civilization. But the question which many ordinary taxpayers very often, in a country of shortages with ostentatious consumption and deprivation for the large masses, ask is, does he with taxes buy civilization or does he facilitate the waste and ostentation of the few. Unless ostentation and waste in Government spending are avoided or eschewed, no amount of moral sermons would change people's attitude to tax avoidance."

b) As per second thought it is not a legal way to reduce tax burden and it should be prohibited.

***McDowell & Co. Ltd. vs Commercial Tax Officer* (1985)**
Supreme Court observed - "we think time has come for us to depart from Westminster principle....tax planning may be legitimate provided it is within the framework of law. Colourable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honourable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay the honestly without resorting to subterfuges."

***CIT vs B.M. Kharwar* (1969)**
Supreme Court held – "the taxing authority is entitled and is indeed bound to determine the true legal relation resulting from a transaction. If the parties have chosen to conceal by a device the legal relation, it is open to the taxing authorities to unravel the device and to determine the true character of relationship. But the legal effect of a transaction cannot be displaced by probing into substance of the transaction."

Justice O. Chinnappa Reddy of Supreme Court has, while briefing the evil consequences of tax avoidance in *Mc.Dowell & Co. Ltd. -vs.- CTO*, observed that one such evil consequence is the ethics (or the lack of it) of transferring the burden of tax liability to the shoulders of the guideless, good citizens from those of artful dodgers. As regards the ethics of taxation, he observed:

"We now live in a welfare State whose financial needs, if backed by law, have to be respected and met. We must recognize that there is behind taxation laws as much moral sanction as behind any other welfare legislation and it is a pretence to say that avoidance of taxation is not unethical and that it stands on no less moral plane than honest payment of taxation".

A similar observation was made by Lord Chancellor *in Latilla vs. Inland Revenue Commissioner (1943) 011 ITR (E.C) 0078:*

"There is, of course no doubt that they are within their legal rights but that is no reason why their efforts, or those of the professional gentlemen who assist them in the matter, should be regarded as a commendable exercise of ingenuity or as a discharge of the duties of the good citizenship. On the contrary, one result of such methods, if they succeed, is of course to increase pro tanto the load of tax on the shoulder of the body of good citizens who do not desire or do not know how to adopt these maneuvers."

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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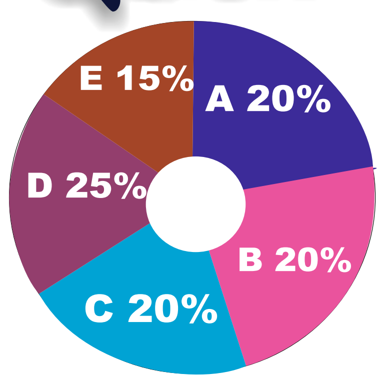
Your Preparation Quick Takes



Syllabus Structure

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

Behind every successful business decision, there is always a CMA

Learning Objectives:

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

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

An Introduction to financial reporting and accounting standard

In this issue MCQs are given on basic concepts along with answer keys.

1. Financial Accounting is primarily

a) disclosure of financial information
b) disclosure of non-financial information
c) recognizing financial events and measuring their monetary value and recording them systematically
d) none of the above

2. Financial Reporting is

a) presentation of financial information systematically generated by accounting
b) presentation of other relevant information for disclosure
c) both a and b
d) none of the above

3. Accounting Standards are

a) guidelines
b) prepared by recognised authority
c) applied for presenting financial information
d) all of the above

4. The Accounting Standards

(I) specify the entire system of recording the transactions and other financial information;
(II) may not specify the entire system of recording the transactions and other financial information;
(III) prescribe the contents of reporting.
Which of the statement/s is/are true?

a) I only
b) II only
c) I and III
d) II and III

5. GAAP is

(I) a basket of accounting concepts, principles, and procedures;
(II) generally accepted accounting system in practice;
(III) legally mandatory;
(IV) inclusive of accounting standards which may be legally mandatory.
Which of the statement/s is/are true?

a) I only
b) I and III
c) I, II and IV
d) II and IV

6. The International Accounting Standard Committee (IASC) —

(I) was formed in1973;
(II) issued the International Accounting Standards (IAS);
(III) was replaced by International Accounting Standard Board (IASB) in 2001;
(IV) issues International Financial Reporting Standards(IFRS).
Which of the statement/s is/are true?

a) I only
b) I and II

Behind every successful business decision, there is always a CMA

c) I, II and III
d) III and IV

7. In India before introduction of accounting standards, financial reporting of the corporate entities was based mainly
a) on the requirements of the companies Act;
b) on Indian GAAP consisting of the accounting norms in practice, guidelines developed by the academia and by the professional bodies;
c) both a and b
d) none of the above

8. In India Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI)
(I) was formed in 1977;
(II) issued mandatory Accounting Standards (ASs) from the inception;
(III) formulates Accounting Standards (ASs) and Indian Accounting Standards (Ind ASs) which are issued by the Government for the corporate entities.
Which of the statement/s is/are true?
a) I only
b) I and II
c) I and III
d) III only

9. The Ministry of Corporate Affairs (MCA) notified in
I) the Companies Accounting Standard Rules 2006 that specified Companies mandatorily apply AS
II) the Companies Accounting Standard Rules 2006 that specified Companies mandatorily apply Ind AS
III) the Companies Indian Accounting Standards Rule 2015 that specified Companies mandatorily apply AS
IV) the Companies Indian Accounting Standards Rule 2015 that specified Companies mandatorily apply Ind AS
Which of the statements are true?
a) I and III
b) II and III
c) I and IV
d) II and IV

10. The Schedule III of the companies Act, 2013 provides the format of balance sheet and income statement in:
I) Division I for companies where AS is applicable,
II) Division II for companies where Ind AS is applicable
III) Division III for NBFCs where Ind AS is applicable.
IV) Division I for companies where Ind AS is applicable
V) Division II for companies where AS is applicable
Which of the statements are true?
a) I and III
b) I, II and III
c) I and IV
d) IV and V

11. The Ind ASs are the standards
I) prepared by the ASB
II) in convergence with IFRSs
III) fully adopting IFRS
IV) modifying IFRS in way compatible to conditions in India.
Which of the statements are true?
a) I and II
b) I and III
c) I, III and IV
d) I, II and IV

12. Conceptual Framework for Financial Reporting under Indian Accounting Standards
I) is an Exposure Draft issued by ASB of ICAI in 2020
II) is not a standard
III) provides the concepts and the rationales of accounting to achieve the objectives of reporting by practice of the Ind ASs
IV) may have conflict with standard
Which of the statements are true?
a) I and II
b) I and III

c) I, III and IV
d) I, II, III and IV

Answer Key:

Question No.	Answer
1	c
2	c
3	d
4	d
5	c
6	c
7	c
8	c
9	c
10	b
11	d
12	d

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150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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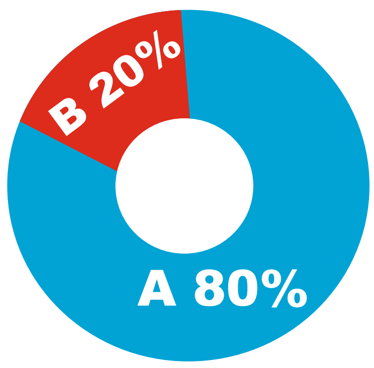
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- GST payment and interest on delayed payment
- Grant and claim of refund
- Payment of TDS and furnish of return
- Supplies by composition tax payers
- GST return for Non Resident foreign taxable person
- Final return at the time of cancellation or surrender
- Small tax payers

INDIRECT TAX

Choose the correct option from the followings –

1. GST payment in cash / cheque / demand draft can be made through authorized banks if the challan value does not exceeds
(a) Rs 5000/-
(b) Rs 7500/-
(c) Rs 10000/-
(d) Rs 15000/-

2. If excise duty paid voluntarily by assessee before show cause notice, even when the demand was time barred
(a) Interest to be paid @ 1% p.a.
(b) Interest to be paid @ 2% p.a.
(c) Interest to be paid @ 3% p.a.
(d) No interest is payable

3. The Department is liable to pay interest on delayed payment to a tax payer if refund of tax has not been given from the date of receipt of the application for refund within
(a) 30 days
(a)60 days
(b)75 days
(c)90 days

4. As per CGST Act, 2017 no refund shall be granted if the refund amount is less than
(a) Rs 1000/-
(b) Rs 2000/-
(c) Rs 3000/-
(d) Rs 5000/-

5. As persection 54(1) of the CGST Act any person claiming refund of any tax and interest paid by him may make an application from the relevant date before the expiry of
(a) 6 months
(b) 9 months
(c) 1 year
(d) 2 years

6. Payment of TDS for supply of goods and / or services from a PSU to another PSU, whether a distinct person or not will be
(a)@ 1%
(b)@2 %
(c)As per the decision of competent authority
(d)Exempted

7. TDS is required where the total value of supply under a contract exceeds
(a) Rs 150000/-
(b) Rs 250000/-
(c) Rs 250000/-
(d) Rs 300000/-

8. The amount deducted as TDS shall be paid to the Central Government after the end of the month in which such deduction is made within
   (a) 5 days
   (b) 10 days
   (c) 12 days
   (d) 15 days

9. As per Rule 66, the deductor of TDS shall furnish a TDS certificate to the deductee in
   (a) Form GSTR – 7
   (b) Form GSTR – 8
   (c) Form GSTR – 9
   (d) Form GSTR – 10

10. After remittance, TDS certificate has to be furnished within
   (a) 2 days
   (b) 3 days
   (c) 5 days
   (d) 7 days

11. No TDS is required to be deducted incase a PSU/Govt Dept avails the services of a
   (a) Lawyer
   (b) Valuer
   (c) Chartered Accountant
   (d) Medical practitioner

12. Every E-Commerce Operator, other than an agent, shall collect TCS on the net value of transaction in which he collects consideration of supply at a rate not exceeding
   (a) 1%
   (b) 1.5%
   (c) 2%
   (d) 2.5%

13. The supplies on which the recipient is required to pay tax reverse charge basis
   (a) TCS required to be collected as per norms
   (b) TCS not required to be collected
   (c) TCS to be collected @ 0.5%
   (d) TCS to be collected @ 1%

14. As per section 10(2)(d) of the CGST Act,2017,a composition taxpayers can not make supplies through
   (a) Challan
   (b) An agent
   (c) Auction house
   (d) E-Commerce operator

15. E-Commerce operator is required to file an annual statement by 31st day of December following the end of the financial year in which the tax was collected in
   (a) FORM GSTR – 7B
   (b) FORM GSTR – 8B
   (c) FORM GSTR – 9B
   (d) FORM GSTR –10B

16. Presently all GST Returns can be submitted
   (a) Manually
   (b) Electronically
   (c) As per the discretion of authority
   (d) Both manually or electronically for Nil return

17. GST return for Non Resident foreign taxable person to be submitted
   (a) Monthly
   (b) Quarterly
   (c) Half yaerly
   (d) Annually

18. When registration is cancelled or surrendered Final Return to be furnished of the date of cancellation or date of cancellation order, whichever is later within
   (a) One month
   (b) Two months
   (c) Three months
   (d) Four months

19. Late fee for filing NIL return of delay of tax payers for GSTR – 1,GSTR – 3B and GSTR – 4 & GSTR – 5 is
   (a) Rs 20/- per day
   (b) Rs 50/- per day
   (c) Rs 100/- per day
   (d) Rs 200/- per day

20. The taxpayers shall be considered small who is having in the last financial year turnover upto
   (a) Rs 1 crore
   (b) Rs 2 crores
   (c) Rs 3 crores
   (d) Rs 5 crores

ANSWERS

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

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GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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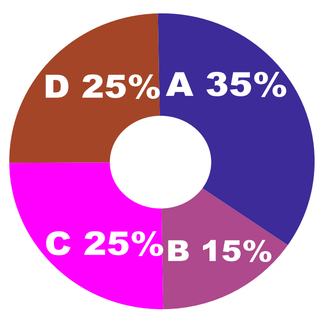
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Cost & Management Audit

The summarised Profit and Loss Account of Omega Insustries Ltd for the financial year 2019-20 is as follows.

Sl. No	Particulars	Amount (Rs./Lakhs)
	INCOME	
1	Revenue from Operation	5,781.53
2	Other Income	878.51
	Total Revenue	**6,660.04**
	EXPENSES	
1	Cost of Materials Consumed	3,275.78
2	Changes in inventory of FG & WIP	-52.98
3	Employees Remuneration and Benefits	890.30
4	Finance Cost	950.25
5	Depreciation	325.15
6	Other Expenses	725.60
	Total Expenses	**6,114.10**
	Profit before Exceptional and Extraordinary Items	545.94
	Exceptional Items	35.65
	Extraordinary Items	76.32
	Profit before Tax	**433.97**

On review of above P & L A/c, it is observed as follows

1	**Cost of materials consumed includes :-**	Rs/ Lakhs
I	Demurrage charges paid on Raw material	72.30
ii.	Cost of Material includes prior period adjustment	37.80
iii.	Profit on exchange fluctuation on imported material adjusted with consumption	125.05
2	**Other income includes:-**	
I	Profit on Sale of Fixed Assets	20.50
ii.	Bad debt recovered	45.85
iii.	Loss on Sale of Investments	33.60
iv	Insurance Claim received for earlier period.	20.87

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v	Interest Income from Inter-Corporate Deposits	16.15
3	**Employees Remuneration and Benefits**	
I	Overtime premium	42.50
ii.	Arrear salary relating to 2018-19	85.76
iii.	Salary paid to contractual employee	78.90
4	**Other Expenses includes**	
I	Donation Paid	75.00
ii	Penalty due to non compliance to Labour Act	6.56

Profit as per cost accounts is Rs. 516.57 Lakhs. Prepare a reconciliation statement between Finance and Cost accounts with suitable notes whereever require.

ANSWER:

Reconciliation statement between Finance and Cost accounts

		Rs./Lakhs
Profit before Tax as per F/A		**433.97**
Non Cost expenses considered in Financial Accounts		
Demurrage charges paid on Raw material	72.30	
Cost of Material includes prior period adjustment	37.80	
Loss on Sale of Investments	33.60	
Arrear salary relating to 2016-17	85.76	
Penalty due to non compliance to Labour act	6.56	
Donation Paid	75.00	311.02
Sub- Total		**744.99**
Non Cost income considered in Financial Accounts		
Profit on exchange fluctuation on imported material adjusted with consumption	125.05	
Profit on Sale of Fixed Assets	20.50	
Bad debt recovered	45.85	
Interest Income from Inter-Corporate Deposits	16.15	
Insurance Claim received for earlier year	20.87	228.42
Profit as per Cost Accounts		**516.57**

NOTE - Overtime premium and Salary paid to contratual employees are of cost releted expenses and therefore not shown in reconciliation statement.

150 YEARS OF CELEBRATING THE MAHATMA

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University of Calcutta
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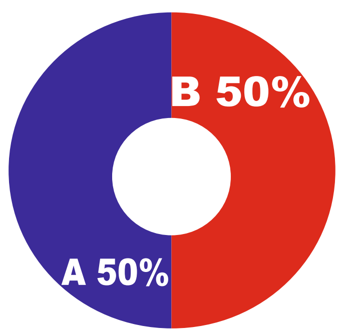
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

Strategic Performance Management and Business Valuation

Corporate Restructuring

The **Corporate Restructuring** is the process of making changes in the composition of a firm's one or more business portfolios in order to have a more profitable enterprise. Simply, reorganizing the structure of the organization to fetch more profits from its operations or is best suited to the present situation.

This restructuring process has been mergers, acquisitions, takeovers, collaborations, consolidation, diversification, demergers etc. Domestic firms have taken steps to consolidate their position to face increasing competitive pressures and MNC's have taken this opportunity to enter Indian corporate sector.

Different forms of Corporate Restructuring

The different forms of corporate restructuring are summarized as follows:

Expansion	Contraction	Corporate Control
Amalgamation Absorption Tender offer Asset acquisition Joint Venture	Demerger Spin off Equity carve out Split off Split up Divestitures Asset sale	Going Private Equity Buyback Anti Takeover defences Leveraged Buyouts Step up acquisition or stake dilution

Multiple Choice Questions (MCQs)

Section-A

Choose the correct option from amongst the four alternatives given:

(Each question carries 2 marks)

1. A firm can acquire target firm by

(A)Purchasing assets of Target

(B)Purchasing shares of Target

(C)Purchasing Assets or Shares

(D)None of the above

2. PQR Ltd. is a profit making company. It is absorbed into another group company XYZ Ltd. which is a loss company. This is a case of

(A)(a)Hostile takeover bid

(B)(b)Horizontal Merger

(C)Reverse Merger

(D)Takeover

3. Which of the following is not a usual method of calculation of Share Swap Ratio?

(A)Profit before Tax

(B)Market Turnover,

(C)Economic Value Added,

(D) All of the above

4. Shares of A Ltd. and T Ltd. are currently traded at Rs. 100 and Rs. 25 respectively. The share swap ratio based on Market Price would be

(A)1.00,

(B)2.50

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(C)0.40,
(D)0.80

5. If a swap ratio is calculated on the basis of EPS, then which of the following would be protected for two groups of shareholders?
(A)Total Market Value
(B)Total Earnings
(C) Total Assets,
(D)All of the above

6. If the Price-Earnings Ratio of two companies are same and they merge on the basis of share swap ratio (EPS based), which of the following will be protected for two groups of shareholders?
(A)Market Value and Earnings,
(B)Earnings and Assets,
(C)Paid-up Capital and Earnings,
(D)Paid-up Capital and Market Values

7. A Company based on up-to-date financial statements has determined that the current Free Cash Flows to Equity (FCFE) per share is Rs. 1.00. It has outstanding number of shares 100 crores with a face value of Rs. 10 each. Its interest expenses are Rs. 30 crores and tax rate is 30%. Given this information, The Free Cash Flow to the Firm (FCFF) will be
(A) Rs. 109 crores
(B) Rs. 112 crores
(C) Rs. 121 crores
(D) Rs. 130 crores

8. Which of the following is a case of 'Spin off?
(A)Assets sold in the market
(B)A division converted into a company
(C) Assets transferred to lenders
(D)None of the above

Section –B

1. X Ltd. wants to acquire Y Ltd. and has offered a swap ratio of 1 : 2 (0.5 shares for every one share of R Ltd.).
Following information is provided:

Particulars	X Ltd.	Y Ltd.
Profit after tax (Rs.)	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (Rs.)	3	2
P/E Ratio	10 times	7 times
Market price per share (Rs.)	30	14

Based on the above information, answer the following questions:

(i) **The EPS of Q Ltd., after the acquisition is:** [3 Marks]
(A) A.Rs.3.13
(B) B. Rs.4.13
(C) C. Rs.5.13
(D) D. Rs.6.13

(ii) The expected market price per share of Q Ltd., after the acquisition, (assuming its P/E multiple remains unchanged): [3 Marks]
(A)Rs. 31.30
(B)Rs. 31.30
(C)Rs. 31.30
(D)Rs. 31.30

(iii) The market value of the merged firm would be: [4 Marks]

(A) Rs. 2,15,97,000
(B) Rs. 2,15,97,000
(C) Rs. 2,15,97,000
(D) **Rs. 2,15,97,000**

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PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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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

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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.

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Send your Feedback to:
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Message from

Directorate of Studies

Dear Students,

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K. Gandhi. One of his inspirational message towards the students were:

"You must be the Change you wish to see in the World",

Let us observe his memory by following his message.

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

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

Please refer the link mentioned below :

https://icmai.in/studentswebsite

- Don't give up
- Don't give in
- Don't give out
  You can win!

GOOD LUCK

Be Prepared and Get Success;

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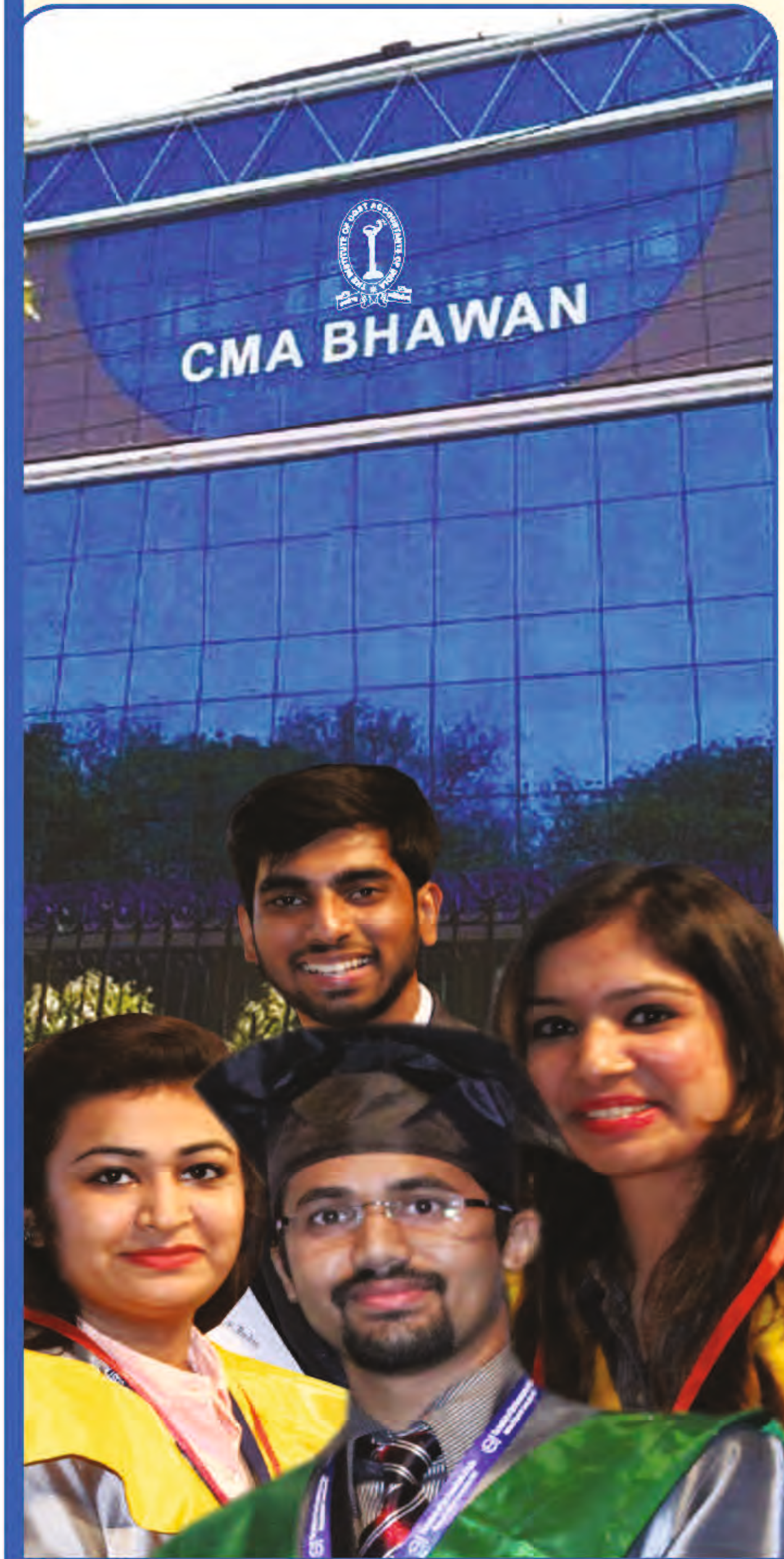

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Few Snapshots

CMA Biswarup Basu, President, CMA Balwinder Singh, Immediate Past President and CMA Chittaranjan Chattopadhyay, Chairman BFSI Committee & Indirect Taxation Committee of the Institute extending greetings to Shri Anurag Singh Thakur, Hon'ble Union Minister of State for Finance and Corporate Affairs on 30th December 2020.

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

Presented copy of Inaugural Volume of CMA Agri Bulletin to Hon'ble Minister of State for Finance and Corporate Affairs Shri Anurag Singh Thakur on 30th December 2020.

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

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

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