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CMA Student E - Bulletin

FINAL

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Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

Behind every successful business decision, there is always a CMA

Message from The Chairman

CMA Biswarup Basu

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

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

"You must not lose faith in humanity. Humanity is an ocean; if a few drops of the ocean are dirty, the ocean does not become dirty" - M.K. Gandhi

The unlock process has been started everywhere, although COVID-19 has almost gripped the whole world. There is a light of hope as the rate of cure in our country has increased. Now it is our duty to follow the safety measures and augment our immunity to inhibit COVID-19. Hope with the grace of the Almighty we would be able to shelter ourselves. Stay safe and ensure all persons around you are staying safe. Try to direct your time towards self-enrichment, utilize it for study, and armour yourselves for the forthcoming challenges.

The Directorate of Studies is working diligently to provide the students with all possible supports and guidance. Live Webinars are being conducted, recorded webinars are also there in the e-library. Answers to the Mock Test Papers (MTPs), updated Work Books, and monthly E-bulletins are uploaded on our website as per the pre-scheduled manner. Eminent academicians and professionals are contributing in their own way to the development of our students. Being the Chairman of the Training & Educational Facilities and Placement Committee, I am really thankful to all of them. So, don't give up hope, carry on with your exercises, and try to utilize the facilities and opportunities being offered by the Directorate of Studies.

Our 'Students' Connect' section is there for the convenience of all our students [https://icmai.in/studentswebsite/Students-E-Services.php]

Self-reliance and confidence is the need of the hour; keep faith for a bright and sparkling future to come. Always keep in mind that, ***"The best way to find yourself is to lose yourself in the service of others".***

Best wishes as always,

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

Be a CMA, be a Proud Indian

Stay Home Stay Safe

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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

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

#stayhome #staysafe

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.

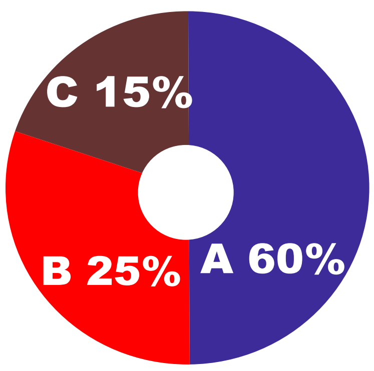
150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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

Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

Few important compliances of SEBI (LODR) Regulations

Applicability

Listed entity, whose any of the following designated securities are listed on recognized stock exchange(s):

- *Specified securities listed on main board or SME Exchange or institutional trading platform;*
- *non-convertible debt securities*
- *non-convertible redeemable preference shares*
- *perpetual debt instrument*
- *Perpetual non-cumulative preference shares*
- *Indian depository receipts*
- *securitized debt instruments*
- *units issued by mutual funds*
- *any other securities as may be specified by the Board.*

Compliance Officer and his Obligations

- Qualified Company Secretary as the compliance officer
- Responsible for –
  - Ensuring conformity with the regulatory provisions
  - Co-ordination with and reporting to the Board, recognised stock exchange(s) and depositories the compliance with rules, regulations and other directives of these authorities
  - Ensuring that the correct procedures have been followed in filing monitoring email address of grievance redressal division

Registrar and Transfer Agents (RTA)

Mandatory if total number of security holders exceeds one lakh

- Other wise the listed entity shall have to be registered with the Board
- Ensuring all activities in relation share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent
- Half yearly Compliance Certificate with regard to compliance of the above with stock exchange
- Within 1 month of end of half year

Policy on Preservation of documents - reg 9

- To be approved by BoD
- Documents to be classified under 2 categories – documents to be preserved permanently and documents to be preserved for minimum 8 years
- Board to specify categories

Grievance Redressal Mechanism – Reg 13

- Mandatory registration with SCORES platform or other electronic platform or system of the Board
- Filing of quarterly statement with respect to-
  - number of pending investors' complaints at the beginning and ending of the quarter
  - Complaints received and disposed and remained unresolved
  - within 21 days of the end of the quarter

material subsidiary

Whose income / net worth exceeds 20% of consolidated income / net worth

Obligations pertaining to material subsidiaries

-At least 1 ID to be director of unlisted Indian material subsidiary
-Audit committee to review the Financial Statement
-minutes of Board meetings to be placed before Board of the holding company
-statement of all significant transactions and arrangements entered into by the unlisted subsidiary to be placed before board of the holding company
-SR will be required in case of-

- disposal of shares resulting in reduction of its shareholding to less than 50% or cessation of control over the subsidiary
- Selling, disposing and leasing of assets amounting to more than 20% of the assets of the material subsidiary on an aggregate basis during a financial year

Composition of Board

- Optimum combination of executive and non-executive directors
    - At least one woman director
    - Not less than 50% non-executive directors
    - 1/3rd Independent directors. Where chairperson is related to promoter then ½ independent Director
    - Shall meet at least four times a year. Board meetings to have maximum time gap of 120 days between any two meetings.

Vigil Mechanism

- For directors and employees
- adequate safeguards against victimization of director(s) or employee(s) or any other person
- direct access to the chairperson of the audit committee

related party transaction

- Formulation of policy on "materiality" and on dealing with RPT
- Material RPT

Previous +proposed transaction during FY exceeds 10% of annual consolidated turnover

- All RPT shall require prior approval of the audit committee

Audit committee may grant omnibus approval (reviewed quarterly)

Quarterly review of RPTs pursuant to omnibus approval

Resolution valid for 1 year

- Material RPT shall require approval of shareholders(ordinary Resolution)

All related party to abstain from voting

Obligations pertaining to Independent directors

-Not to serve as ID in more than 7 listed entities
-At least 1 meeting in a year without the presence of non-independent director
-Duties

- Review performance of non-independent directors
- Review performance of chairperson
- Assess quality and timeliness of information flowing to the Board

-In case of resignation/ removal of ID - Replacement at the next Board meeting or 3 months
-There should be familiarization programmes for IDs

-Quarterly Compliance Certificate- Listed entity shall submit a quarterly compliance report on corporate governance within fifteen days from close of the quarter
-Details of all material related party transaction during the quarter to be disclosed
-Prior intimations to Stock Exchanges – Reg 29
-Meeting of Board held for following matters

- financial results viz. quarterly, half yearly, or annual
- proposal for buyback of securities;
- proposal for voluntary delisting

- proposal for fund raising
- declaration/recommendation of dividend,
- proposal for issue of convertible securities

Filing of shareholding pattern – Reg 31

Statement showing holding of securities and shareholding pattern separately for each class of securities to the Stock exchange on a quarterly basis, within 21 days from the end of each quarter

Financial Statements- Reg 33

To be furnished within 45 days of the end of the quarter. Year end audited financial results - within 60 days of the end of the year
-power to approve financial results is only with the Board of directors
-Limited review report to be place before Board
-option for submission of quarterly consolidated results
-Audit report with modified opinion and the accompanying annual audit report shall be reviewed

- by the stock exchange(s) and
- Qualified Audit Report Review Committee

Other compliances

-Annual report to be submitted within 21 days of adoption at AGM
-Business Responsibility Report is applicable to top 500 listed companies as on March 31 every financial year.
-Annual Information Memorandum to be submitted as specified by SEBI.

-Disclosures on appointment & re-appointment of directors- Reg 36
-Disclosures to the shareholders

- brief resume of the director
- nature of his expertise in specific functional areas
- disclosure of relationships between directors inter-se
- names of listed entities in which the person also holds the directorship and the membership of Committees of the board
- shareholding of non-executive directors

Transfers:

Detailed procedures with timelines has been prescribed for transfer/ transmission/ transposition of securities

Board may delegate the power to transfer

- to a committee or to compliance officer or to the registrar to an issue and/or share transfer agent
- Delegated authority to place report on transfer of securities to the board of directors in each meeting

Registration of transfer

- Transfer within 15 days
  - Otherwise to compensate the aggrieved party
- Transmission for securities held in dematerialized mode within 7 days
- Transmission for physical securities- within 21 days

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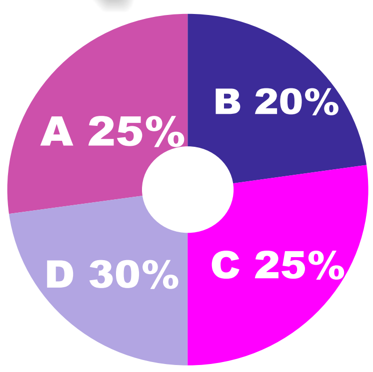
150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

Strategic Financial Management

Study Note 1: Investment Decision, Project Planning and Control

Mathematical Programming Approach in Capital Rationing

Capital rationing when fund constraint is for multiple periods.

There may be constraints with respect to resources other than financial resources as well. In such cases, the LPP will consider those constraints in addition to the capital constraint. Consider the following problem:
Illustration 1: The following information relate to nine projects: (rupees in lakh)

Project	NPV (Rs.)	Cash Outflow in Period 1 (Rs.)	Cash Outflow in Period 2 (Rs.)
1	7	6	8
2	9	10	6
3	8	12	4
4	6	2	12
5	12	10	17
6	19	20	22
7	21	12	15
8	15	7	8
9	3	3	4

The available funds to the firm is limited to Rs.40 lakh in year 1 and Rs.35 lakh in year 2. Besides the above, there are two additional constraints: labor constraints and material constraints which are shown below: (Rs. In lakh)

Project	Labor Constraint	Material Constraint
1	4	7
2	6	3
3	5	2
4	3	4
5	2	5
6	4	7
7	7	8
8	2	6
9	4	2
	Total Available = 20	Total Available = 25

Solution:

Let X_1, X_2, X_3 ……………X_9 are the part of the projects that will be undertaken to maximize the NPV.

So, the objective function is: Max Z = $7X_1 + 9X_2 + 8X_3 + 6X_4 + 12X_5 + 19X_6 + 21X_7 + 15X_8 + 3X_9$
Fund constraint in first year: $6X_1 + 10X_2 + 12X_3 + 2X_4 + 10X_5 + 20X_6 + 12X_7 + 7X_8 + 3X_9$ 40
Fund constraint in second year: $4X_1 + 6X_2 + 5X_3 + 3X_4 + 2X_5 + 4X_6 + 7X_7 + 2X_8 + 4X_9$ 35
Labor Constraint: $8X_1 + 6X_2 + 4X_3 + 12X_4 + 17X_5 + 22X_6 + 15X_7 + 8X_8 + 4X_9$ 20
Material Constraint: $7X_1 + 3X_2 + 2X_3 + 4X_4 + 5X_5 + 7X_6 + 8X_7 + 6X_8 + 2X_9$ 25
And since projects are indivisible, X_1, X_2, X_3...... X_9 can be either 0 or 1.

So, the LPP is summarized as follows:

Max Z = $7X_1 + 9X_2 + 8X_3 + 6X_4 + 12X_5 + 19X_6 + 21X_7 + 15X_8 + 3X_9$
Subject to: $6X_1 + 10X_2 + 12X_3 + 2X_4 + 10X_5 + 20X_6 + 12X_7 + 7X_8 + 3X_9$ 40
$4X_1 + 6X_2 + 5X_3 + 3X_4 + 2X_5 + 4X_6 + 7X_7 + 2X_8 + 4X_9$ 35
$8X_1 + 6X_2 + 4X_3 + 12X_4 + 17X_5 + 22X_6 + 15X_7 + 8X_8 + 4X_9$ 20
$7X_1 + 3X_2 + 2X_3 + 4X_4 + 5X_5 + 7X_6 + 8X_7 + 6X_8 + 2X_9$ 25
And X_1, X_2, X_3..... X_9 = 0 or 1.

Linear Integer Programming Problem:

General linear programming problems, however, cannot deal with 'Project Interdependence' when projects are mutually exclusive projects and/or complementary and contingent. In such cases Linear Integer Programming Problem must be applied.
The above three interdependence between projects are incorporated by including additional constraints that signifies those relationships. These are discussed below:

1. **Mutual Exclusiveness:** Mutually exclusive projects are defined as a set of projects wherein the acceptance of any one of them precludes the rejection of the other projects in the set. This is reflected in the model by the following constraint –
   $\sum_{aEA} X_a \leq 1$ where A= the set of mutually exclusive projects 'a' refers to the project selected. Since every decision variable can be either 0 or 1, the above constraint means that only one of the set of projects may be selected. If actually one of the project is selected the condition becomes $\sum_{aEA} X_a = 1$

2. **Contingency:** This refers to the condition that the selection of one project is dependent on the acceptance of the other project or projects. For instance, if project B cannot be accepted unless project D is accepted, we can say that project B is contingent on project D. In other terms, the prerequisite for accepting project B is the acceptance of project D which is represented as follows:
   $X_B \leq X_D$
   When a project, say, X_o is acceptable if both projects X_M and X_N are accepted, the above condition becomes:
   $2X_O = X_M + X_N$

3. **Mutual Exclusiveness and Contingency:** Sometimes project dependency may have both features i.e. mutual exclusiveness as well as contingency. For example –
   Consider two projects P and Q both of which are mutually exclusive. There is another project R which is contingent on the acceptance of either P or Q. This can be written as follows:
   $X_P + X_Q \leq 1$
   $X_R \leq X_P + X_Q$

4. **Complementariness:** Two projects are known to be complementary if acceptance of two projects has favourable influence on the cash flows of another project. For example, consider two projects A and B. Either of them can be accepted independently. However, if both are accepted together, the following benefits can be obtained:

   (a) Cost reduction by 6% and
   (b) Net cash flow increased by 11%.
   3
   To reflect the relationship, a composite project AB representing the combination of A and B is set-up, the cash inflows of AB would be 11% higher than the sum of the cash inflows of either A or B. Moreover, since A, B as well as AB cannot be accepted simultaneously, because the latter is a composite one consisting of A and B, the following constraint is incorporated:

   $X_A + X_B + X_{AB} \leq 1$.

Consider the following illustration: (Rs. In Lakh)

Project	NPV	Cash outflow in year 1	Cash outflow in year 2	Cash outflow in year 3
1	46	52	50	48
2	33	41	23	35
3	22	11	45	31
4	26	38	7	15
5	39	27	51	-
6	26	50	13	20
7	52	47	0	29

The fund constraint for the years 1, 2 and 3 are Rs.145 lakh, Rs.182 lakh and Rs.195 lakh respectively. The following are the project interdependencies:

(a) Projects 1 and 2 are mutually exclusive.
(b) Out of projects 3, 4, 5 and 6 at least two must be accepted.
(c) Project 7 cannot be accepted unless 2 and 4 are accepted.
(d) Project 5 can be delayed by a year. Such a delay would not change the cash outflows, but reduces the NPV to Rs.27 lakh.
(e) Project 3 ND 4 are complementary. If the two are accepted the total cash outflows wil be less by 7% and increase in the NPV is by 12%.

Solution:

Here, the decision variables are X_1 to X_7 representing the seven projects. Additionally, let X_8 is the decision variable to represent the delay of project 5 by a year and X_9 is the decision variable for the variable for representation of the composite project 3 and 4.

So, the integer linear programming problem can be formulated as follows:

Max $Z = 46X_1 + 33X_2 + 22X_3 + 26X_4 + 39X_5 + 26X_6 + 52X_7 + 27X_8 + 53.76X_9$

Subject to: $52X_1 + 41X_2 + 11X_3 + 38X_4 + 27X_5 + 50X_6 + 47X_7 + 0X_8 + 45.57X_9 \;\; 145$
$50X_1 + 23X_2 + 45X_3 + 7X_4 + 51X_5 + 13X_6 + 0X_7 + 27X_8 + 48.36X_9 \;\; 182$
$48X_1 + 35X_2 + 31X_3 + 15X_4 + 20X_5 + 20X_6 + 29X_7 + 51X_8 + 42.78X_9 \;\; 195$
$X_1 + X_2 \;\; 1$
$X_3 + X_4 + X_5 + X_6 \geq 2$
$2X_7 \;\; X_2 + X_4$
$X_5 + X_8 \;\; 1$
$X_3 + X_4 + X_9 \;\; 1$
And $X_1, X_2, X_3 \ldots\ldots X_9 = 0$ or 1.

Note: (1) Combined NPV of 3 and 4 after increase = (22+26)*112% = 53.76
(2) Revised total cash outflow if 3 and 4 both are accepted:
Year 1: (11+38)*93% = 45.57
Year 2: (45+7)*93% = 48.36
Year 3: (31+15)*93% = 42.78

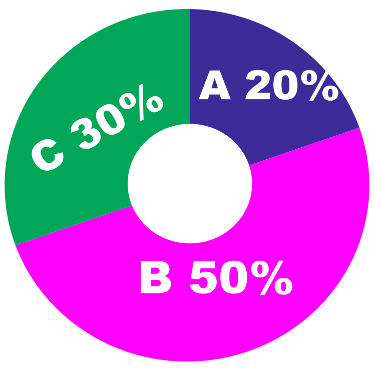
150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

Problems for Practice & Concepts for Review

Here are four small problems taken from December 2019 examination. The conceptual review given after each of the problems is meant to facilitate better understanding and better application.

Problem 1

A factory has a key resource (bottleneck) of Facility A which is available for 31,300 minutes per week. The time taken by per unit of Product X and Y in Facility A are 5 minutes and 10 minutes respectively. Last week's actual output was 4750 units of product X and 650 units of Product Y. Actual factory cost was ₹ 78,250. What is the throughput cost for the week?

Solution

$$\text{Cost per Factory Minute} = \frac{\text{Total Factory Cost}}{\text{Minutes Available}}$$

$$= \frac{₹\ 78{,}250}{31{,}300} = ₹\ 2.50$$

Standard Minutes of throughput for the week

= (4750 units of X × 5) + (650 units of Y × 10)

= (23750 + 6500) = 30,250 minutes

Therefore, throughput Cost for the week

= 30,250 × ₹ 2.50 = ₹ 75,625

(***Concept for Review:*** *Throughput is the number of units that can be produced by a production process within a certain period of time. Throughput costing considers only direct materials as true variable cost. Throughput Accounting is variable-cost-accounting presentation based on the definition of throughput. Sometimes, it is referred to as super variable costing because only material costs are treated as variable. It is a management accounting technique used as a performance measure in the theory of constraints.*)

Problem 2

The product of XYZ company is sold at a fixed price of ₹ 1,500 per unit. As per company's estimate, 500 units of the product are expected to be sold in the coming year. If the value of investments of the company is ₹ 15 lakhs and it has a target ROI of 15%, what is the target cost?

Solution

Target ROI at 15% of total investment of ₹ 15 lakhs

= ₹ 15,00,000 × 0.15 = ₹ 2,25,000

Target Profit per unit of future output

= ₹ 2,25,000/500 = ₹ 450 per unit

Target cost per unit

= Selling Price – Profit per unit

= ₹ 1,500 – ₹ 450 = ₹ 1,050 per unit.

(***Concept for Review:*** *The technique of Target Costing has been developed in Japan. The primary objective of Japanese Management is stated to be linking accounting practices with corporate goals and missions. As a consequence, the Japanese Management Accountants are tuned to focus on influential roles rather than restraining themselves as information providers.*

Target Costing is considered as a philosophy in which product development is based on what the customer wants and is willing to pay for and not what it costs to produce. Hence it starts with the market determined price; then deducts the desired profit margin; and works back the target cost.

Peter Drucker calls this "price-led costing." And that is how the formulation: "Target Cost = Target Price – Target Profit" in place of *the traditional approach of "Cost + Profit = Selling Price".)*

Problem 3
Max Ltd. fixes the inter divisional transfer prices for its products on the basis of cost plus a return on investment in the division. The budget for division X for 2019 – 20 appears as under –

Fixed assets (₹)	5,00,000
Current assets (₹)	3,00,000
Debtors (₹)	2,00,000
Annual fixed cost of the division (₹)	8,00,000
Variable cost per unit of the product (₹)	10
Budgeted volume	4,00,000 units per year
Desired ROI	28%

What is the transfer price for division X?

Solution
Variable Cost per Unit = ₹ 10.00
Fixed Cost per Unit = (Annual Fixed Cost) ÷ (Budgeted Volume)
= 8,00,000 ÷ 4,00,000 = ₹ 2.00
Total Cost per Unit = (VC + FC) = (10 + 2) = ₹ 12.00
Investments = (Fixed Assets + Current Assets + Debtors)
= 5,00,000 + 3,00,000 + 2,00,000 = ₹ 10,00,000
Desired ROI = 28% on Investments
= 28% on 10,00,000 = ₹ 2,80,000
Desired ROI per Unit = 2,80,000 ÷ 4,00,000 = ₹ 0.70
Transfer Price = (TC + Desired ROI)
= (12.00 + 0.70) = ₹ 12.70

***(Concept for Review:** Transfer price is the price that one segment (sub unit, department, division etc.,) of an organization charges for a product or services supplied to another segment of the same organization. Transfer prices are used when individual entities of a larger multi entity firm are treated and measured as separately run entities.)*

Problem 4
A manufacturing company uses two types of materials, X and Y, for manufacture of a standard product. The following information is given:

Standard Mix			Actual Mix		
Material X Material Y	120 kg @ Rs.5 80 kg @ ₹ 10 200 kg	₹ 600 ₹ 800	Material X Material Y	112 kg @ ₹ 5 88 kg @ ₹ 10 200 kg	₹ 560 ₹ 880
Less 30% Loss	60 Kg		Less 25% Loss	50 Kg	
Final Product	140 kg	₹ 1400	Final Product	150 kg	₹ 1440

Compute Direct Material Mix Variance.

Solution
Direct Materials Mix Variance for X = 5(120-112) = 40 F
Direct Materials Mix Variance for Y = 10(80- 88) = 80 UF
Total = 40F + 80UF = 40 UF

Formula
Direct Materials Mix Variance = SP (SQ – AQ)

***(Concept for Review:** Variance denotes the deviation between the standard proposition and the actual incidence. Material Cost Variance denotes the difference between the standard cost of the material needed and the actual cost of the material consumed for the production achieved.*

Material Cost Variance can be subdivided into Material Usage Variance and Material Price Variance. Material Usage Variance denotes the difference between the standard quantity of the material specified for the actual production and the actual quantity used, both at standard price. Material Usage Variance brings out the deviations in the material cost arising from consumption of non-standard materials.)

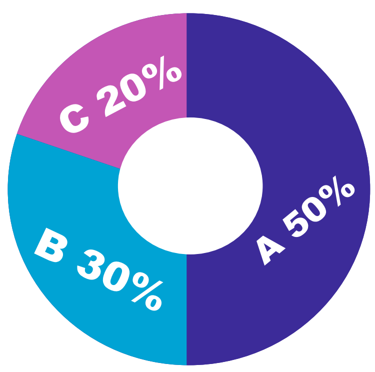
YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX LAWS AND INTERNATIONAL TAXATION (DTI)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Appeal before CIT (Appeals)

One Law Dictionary defines 'appeal' as the act of asking a higher authority to change a decision of a lower authority. Right to appeal under income tax law is a creation of statute and not an inherent right. Appeal can be filed only against orders listed in the Income Tax Act and not any order.

Initially, following course of action are available in the Income-tax Act:

Assessee	Department
Rectification u/s 154	Rectification u/s 154
Appeals to CIT (Appeals)	Revision u/s 263
Revision u/s 264	Reassessment u/s 147

Appellate Authorities in Income-tax Act

Appeal	Appellate authority	Against which order	Appellant
1st	Commissioner (Appeals)	Against specified order of the Assessing Officer	Assessee only
2nd	Income Tax Appellate Tribunal (ITAT)	Against the order of Commissioner (Appeals)	Assessee or the Commissioner (or Principal Commissioner) of Income tax.
3rd	High Court	Against the order of ITAT (the case must involve substantial question of law)	
Final	Supreme Court	Against the order of High Court	

Appeals to Commissioner of Income Tax (Appeals) [CIT (A)] [Sec. 246A to 250]

Aggrieved tax payer can file appeal before the Commissioner (Appeals) having, jurisdiction over the tax payer. Designation of the Commissioner (Appeals), with whom appeal is to be filed is also mentioned in the notice of demand issued by the Assessing Officer u/s 156.

Provision regarding appeal to the Commissioner (Appeal) are enumerated below:

Appealable Orders	1.U/s 246A • Order passed by a Joint Commissioner u/s 115VP(3)(ii); • Order against the assessee, where the assessee denies his liability to be assessed under this Act; • Intimation u/s 143(1) or 143(1B) or 200A(1) or 206CB(1) or Order of assessment u/s 143(3) [Scrutiny assessment] [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)] or u/s 144 [Best judgment assessment] in respect of income assessed or tax determined or loss computed or residential status; • Order of assessment, reassessment or recomputation u/s 147 [(except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)], 150 & 153A [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)];

<table>
<tr><td rowspan="1"></td><td colspan="2">• Order u/s 154 (Rectification of Mistake) or u/s 155 (other amendments) having the effect of enhancing the assessment or reducing a refund or an order refusing to allow the claim made by the assessee [except where it is in respect of an order referred to in sec. 144BA(12)]
• Order u/s 92CD(3)
• Order u/s 163 treating assessee as an agent of a non-resident;
• Order u/s 170 relating to assessment on succession;
• Order u/s 171 refusing to recognize partition of an HUF;
• Order u/s 201 or 206C(6A) for default of provisions of TDS/TCS;
• Order u/s 237 relating to refunds;
• Order relating to Penalty;
• Order imposing penalty under chapter XXI;
• An order of penalty imposed under chapter XXI or an order of imposing or enhancing penalty u/s 275(1A)
• Any order made by an Assessing Officer other than a Joint Commissioner, as the Board may direct.

2. U/s 248
Where under an agreement or other arrangement -
• the tax deductible u/s 195 on any income (other than interest) is to be borne by the person by whom the income is payable; &
• such person having paid such tax to the credit of the Central Government, claims that no tax was required to be deducted on such income,
he may appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income

Notes:
a) Even when reassessment proceedings have been initiated u/s 147, an appeal can still be filed against the original assessment order passed u/s 143(3)
b) Assessee has the right to appeal against an order of the Assessing Officer which is passed while giving effect to the decision of the appellate authority.</td></tr>
<tr><td rowspan="5">Time limit for filing appeal</td><td colspan="2">Appeal should be filed within 30 days from -</td></tr>
<tr><td>Where the appeal is u/s 248</td><td>The date of payment of the tax</td></tr>
<tr><td>Where the appeal relates to any assessment or penalty</td><td>The date of service of notice of demand relating to the assessment or penalty</td></tr>
<tr><td>In any other case</td><td>The date on which intimation of the order, sought to be appealed against, is served.</td></tr>
<tr><td colspan="2">Period to be excluded [Sec.268]
While calculating the above time limit, following period shall be excluded -
a) The day on which order complained of was served; and
b) Time required for obtaining a copy of the order, where a copy of the order was not furnished with notice of demand.
c) Where an application has been made u/s 270AA (seeking immunity from penalty and prosecution), the period beginning from the date on which the application is made, to the date on which the order rejecting the application is served on the assessee</td></tr>
<tr><td>Delay in filing appeal</td><td colspan="2">The Commissioner (Appeals) may admit belated application on sufficient cause being shown.
Note: It is statutory obligation of the appellate authority (where an application for condonation is filed) to consider whether sufficient cause was shown by the appellant</td></tr>
<tr><td>Form of appeal</td><td colspan="2">Form 35 (Mode of filing depends i.e., electronically or in paper form, on mode of filing return of income of the assessee)</td></tr>
<tr><td>Documents to be submitted</td><td colspan="2">• Order against which appeal is made
• Statement of facts
• Grounds of appeal
• Notice of demand (in Original)
• Challan</td></tr>
</table>

Verification of Form	Form & grounds of appeal must be verified by the person authorised to verify the return of income u/s 140
Payment of tax before filing of appeal	**If a return has been filed** – Tax as per the return should be paid. **If no return has been filed** – The assessee should pay an amount equal to the advance tax which was payable by him. However, CIT(A) may, for any good and sufficient reason (recorded in writing), accept the appeal without payment of such advance tax. **Power of Assessing Officer:** As per sec. 220(6), where an assessee has presented an appeal u/s 246A, Assessing Officer may treat the assessee as not being in default in respect of the amount in dispute in the appeal. It may be applied - • at the discretion of the Assessing Officer; • subject to such conditions as Assessing Officer may think fit to impose; • even though the time for payment has expired; • as long as such appeal remains undisposed of. Where assessee has not made an application u/s 220(6) or his application u/s 220(6) has been rejected, he can approach the appellate authority for stay order against collection
Fee	Where assessed income as computed by the Assessing Officer is - • Up to ₹ 1,00,000 – ₹ 250 • Exceeds ₹ 1,00,000 but does not exceed ₹ 2,00,000 – ₹ 500 • Exceeds ₹ 2,00,000 – ₹ 1,000 Where the subject matter of appeal is not covered in above cases – ₹ 250
Procedure	1. **Fixation of Day & Place:** The Commissioner (Appeals) shall fix a day and place for the hearing of the appeal, and shall give notice of the same to the appellant and to the Assessing Officer against whose order the appeal is preferred. 2. **Hearing:** The appellant (either in person or by an authorised representative) and the Assessing Officer (either in person or by an authorised representative) shall have the right to be heard at the hearing of the appeal. **Taxpoint:** Where the assessee does not insist on a personal hearing the appeal may be decided on the basis of written submission made by him. [Letter No. 277/7/84 of November, 1985] 3. **Adjournment:** The Commissioner (Appeals) shall have the power to adjourn the hearing of the appeal from time to time. 4. **Inquiry:** The Commissioner (Appeals) may, before disposing of any appeal, make such further inquiry as he thinks fit, or may direct the Assessing Officer to make further inquiry and report the result of the same to the Commissioner (Appeals). 5. **Order:** Commissioner (Appeals) must dispose of the appeal by passing an order which shall - • be in writing; • mention the points for determination; • mention the decision thereon; and • mention the reason for the decision. 6. **Communication of Order:** The Commissioner (Appeals) shall communicate the order passed by him to the assessee and to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. **Note:** If during pendency of an appeal, provision of any law has changed with retrospective effect, then such changed law shall be applicable on such appeal too. Law amended retrospectively would be a good law for applicability during the pendency of the appeal
New grounds during hearing	The Commissioner (Appeals) may, at the hearing of an appeal, allow the appellant to go into any ground of appeal not specified in the 'grounds of appeal', if he is satisfied that the omission of that ground from the Form of appeal was not wilful or unreasonable.
Time limit for disposal of appeal	Within one year from the end of financial year in which appeal is filed (if possible).
Production of additional evidence	Appellate authority has the power to accept additional evidence (after recording reason for its admission in writing) and may make further enquiry at his discretion before disposing of the appeal In the following circumstances additional evidence shall be admitted by the Commissioner (Appeals): a) Where the Assessing Officer has refused to admit evidence which ought to have been admitted; or b) Where appellant was prevented by sufficient cause from producing before the Assessing Officer any evidence, which is related to any ground of appeal; or

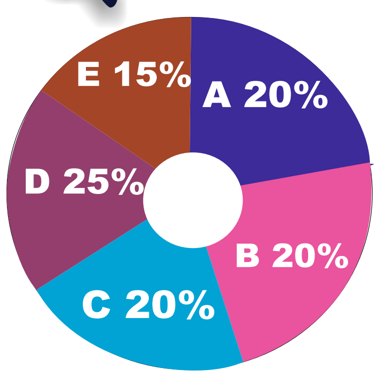
	c) Where the appellant was prevented by sufficient cause from producing the evidence, which he was called upon to produce by the Assessing Officer; or d) Where the Assessing Officer has made an order (appealed against) without giving sufficient opportunity to the appellant to produce evidence relevant to any ground of appeal. *Taxpoint*: Before taking into account the additional evidence filed, Commissioner (Appeals) is to provide reasonable opportunity to the Assessing Officer for examining the additional evidence or the witness as well as to produce evidences to rebut additional evidences filed by the tax payer.	
Powers of Commissioner (Appeals) u/s 251	1. Against an order of assessment	To confirm, reduce, enhance or annul the assessment
	2. Against an order imposing a penalty	To confirm or cancel such order or vary it so as either to enhance or to reduce the penalty;
	3. Against the order of assessment in respect of which the proceeding before the Settlement Commission abates u/s 245HA	To confirm, reduce, enhance or annul the assessment after taking into consideration all the material and other information produced by the assessee before, or the results of the inquiry held or evidence recorded by, the Settlement Commission, in the course of the proceeding before it and such other material as may be brought on his record
	4. Relating to any other case	To pass such orders as he thinks fit.
	Notes: 1. The Commissioner (Appeals) may consider and decide any matter arising out of the proceedings in which the order appealed against was passed, notwithstanding that such matter was not raised before the Commissioner (Appeals) by the appellant. 2. Commissioner (Appeals) shall not enhance an assessment or a penalty or reduce the amount of refund unless the appellant has had a reasonable opportunity of showing cause against such enhancement or reduction. 3. An assessment order, which is void ab initio cannot become a valid order simply by virtue of the fact that it has been confirmed by an appellate authority.	
Withdrawal of appeal	Appeal once filed cannot be withdrawn.	

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

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

CORPORATE FINANCIAL

Division II of Schedule (III) of the companies Act, 2013

The final students of 2020 have to be acquainted with Division II of the Schedule III of the Companies Act, 2013 for preparation of the financial statements. Relevant parts of Division II are presented below.

The financial statements of a company are prepared in compliances with the accounting standards and schedule III of the Companies Act 2013.

On 6th April 2016 the Central Government made amendments to Schedule III of the Companies Act 2013. Accordingly, Division I of Schedule III contains general instructions and format of financial statements of a company required to comply AS under the Companies (Accounting Standards) Rules, 2006. Another part was inserted in the same amendment which is our point of interest---- it is Division II of Schedule III that contains general instructions and the format of financial statements of a company required to comply with Ind AS under the Companies (Indian Accounting Standards) Rules, 2015.
In the following section the format, notes and some parts of instructions under Division II of Schedule III of the Companies Act, 2013 are presented.

PART I –BALANCE SHEET

Name of the Company……………………

Balance Sheet as at …………………… (Rupees in)

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
(1)	**ASSETS** **Non-current assets**			
	(a) Property, Plant and Equipment (b) Capital work-in-progress (c) Investment Property (d) Goodwill (e) Other Intangible assets (f) Intangible assets under development (g) Biological Assets other than bearer plants (h) Financial Assets (i) Investments (ii) Trade receivables (iii) Loans (iv) Others (to be specified) (i) Deferred tax assets (net) (j) Other non-current assets			

(2)	**Current assets**			
	(a) Inventories			
	(b) Financial Assets			
	(i) Investments			
	(ii) Trade receivables			
	(iii) Cash and cash equivalents			
	(iv) Bank balances other than (iii) above			
	(v) Loans			
	(vi) Others (to be specified)			
	(c) Current Tax Assets (Net)			
	(d) Other current assets			
	Total Assets			
	EQUITY AND LIABILITIES			
	Equity			
	(a) Equity Share capital			
	(b) Other Equity			
	LIABILITIES			
	Non-current liabilities			
(1)	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Trade payables			
	(iii) Other financial liabilities (other than those specified in item (b), to be specified)			
	(b) Provisions			
	(c) Deferred tax liabilities (Net)			
	(d) Other non-current liabilities			
(2)	**Current liabilities**			
	(a) Financial Liabilities			
	(i) Borrowings			
	(ii) Trade payables			
	(iii) Other financial liabilities (other than those specified in item (c)			
	(b) Other current liabilities			
	(c) Provisions			
	(d) Current Tax Liabilities (Net)			
	Total Equity and Liabilities			

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN EQUITY

Name of the Company……………………

Statement of Changes in Equity for the period ended …………………… (Rupees in)

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application money pending allotment	Equity component of compound financial instruments	Reserves and Surplus				Debt instruments through Other Comprehensive Income	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements of a foreign operation	Other items of Other Comprehensive Income (specify nature)	Money received against share warrants	Total
			Capital Reserve	Securities Premium Reserve	Other Reserves (specify nature)	Retained Earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total Comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

1. A company shall disclose the following in the Notes:

A. Non-Current Assets

I. Property, Plant and Equipment:

(i) Classification shall be given as:

(a) Land

(b) Buildings

(c) Plant and Equipment

(d) Furniture and Fixtures

(e) Vehicles

(f) Office equipment

(g) Bearer Plants

(h) Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of assets.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

II. Investment Property:

A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

III. Goodwill:

A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and other adjustments.

IV. Other Intangible assets:

(i) Classification shall be given as:

(a) Brands or trademarks

(b) Computer software

(c) Mastheads and publishing titles

(d) Mining rights

(e) Copyrights, patents, other intellectual property rights, services and operating rights

(f) Recipes, formulae, models, designs and prototypes

(g) Licenses and franchises

(h) Others (specify nature)

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.

V. Biological Assets other than bearer plants:

A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

VI. Investments:

(i) Investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investments in Preference Shares;

(c) Investments in Government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms; or

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,

(ii) associates,

(iii) joint ventures, or

(iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investments in partnership firms along with names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.

(ii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments; and

(c) Aggregate amount of impairment in value of investments.

VII. Trade Receivables:

(i) (a) Trade Receivables considered good - Secured; (b) Trade Receivables considered good - Unsecured; (c) Trade Receivables which have significant increase in Credit Risk; and (d) Trade Receivables - credit impaired.; (ii) under sub-heading Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(ii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

VIII. Loans:

(i) Loans shall be classified as-

(a) Security Deposits;

(b) Loans to related parties (giving details thereof);and

(c) Other loans (specify nature).

(ii) Loans Receivables shall be sub-classified as:

(a) Loans Receivables considered good - Secured; (b) Loans Receivables considered good - Unsecured; (c) Loans Receivables which have significant increase in Credit Risk; and (d) Loans Receivables - credit impaired,"

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant headsseparately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IX. Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets';

X. Other non-current assets: Other non-current assets shall be classified as-

(i) Capital Advances; and

(ii) Advances other than capital advances;

(1) Advances other than capital advances shall be classified as:

(a) Security Deposits;
(b) Advances to related parties (giving details thereof);and
(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated. In case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under 'other financial assets' separately.

(iii) Others (specify nature).

B. Current Assets

I. Inventories:

(i) Inventories shall be classified as-

(a) Raw materials;
(b) Work-in-progress;
(c) Finished goods;
(d) Stock-in-trade (in respect of goods acquired for trading);
(e) Stores and spares;
(f) Loose tools; and
(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

II. Investments:

(i) Investments shall be classified as-

(a) Investments in Equity Instruments;
(b) Investment in Preference Shares;
(c) Investments in government or trust securities;
(d) Investments in debentures or bonds;
(e) Investments in Mutual Funds;
(f) Investments in partnership firms; and
(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

(i) subsidiaries,
(ii) associates,
(iii) joint ventures, or
(iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid).

(ii) The following shall also be disclosed-

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate amount of impairment in value of investments.

III Trade Receivables:

"(i) Trade Receivables shall be sub-classified as: (a) Trade Receivables considered good - Secured;(b)Trade Receivables considered good - Unsecured; (c) Trade Receivables which have significant increase in Credit Risk; and (d) Trade Receivables - credit impaired."

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IV. Cash and cash equivalents: Cash and cash equivalents shall be classified as-

a. Balances with Banks (of the nature of cash and cash equivalents);

b. Cheques, drafts on hand;

c. Cash on hand; and

d. Others (specify nature).

V. Loans:

(i) Loans shall be classified as:

(a) Security deposits;

(b) Loans to related parties (giving details thereof);and

(c) Others (specify nature).

(ii) Loans Receivables shall be sub-classified as: (a) Loans Receivables considered good - Secured; (b) Loans Receivables considered good - Unsecured; (c) Loans Receivables which have significant increase in Credit Risk; and (d) Loans Receivables - credit impaired.";

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

VI. Other current assets (specify nature): This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as-

(i) Advances other than capital advances

(1) Advances other than capital advances shall be classified as:

(a) Security Deposits;

(b) Advances to related parties (giving details thereof);

(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

(ii) Others (specify nature)

C. Cash and Bank balances: The following disclosures with regard to cash and bank balances shall be made:

(a) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(c) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

D. Equity

I. Equity Share Capital: For each class of equity share capital:

(a) the number and amount of shares authorised;

(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) par value per share;

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the company held by each shareholder holding more than five per cent. shares specifying the number of shares held;

(h) shares reserved for issue under options and contracts or commitments for the sale of shares or disinvestment, including the terms and amounts;

(i) for the period of five years immediately preceding the date at which the Balance Sheet is prepared-

§ aggregate number and class of shares allotted as fully paid up pursuant to contract without payment being received in cash;

§ aggregate number and class of shares allotted as fully paid up by way of bonus shares ;and

§ aggregate number and class of shares bought back;

(j) terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date;

(k) calls unpaid (showing aggregate value of calls unpaid by directors and officers);

(l) forfeited shares (amount originally paid up).

II. Other Equity:

(i) Other Reserves' shall be classified in the notes as-

(a) Capital Redemption Reserve;

(b) Debenture Redemption Reserve;

(c) Share Options Outstanding Account; and

(d) Others–(specify the nature and purpose of each reserve and the amount in respect thereof); (Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity;

(iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented;

(iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative; and

(v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.

E. Non-Current Liabilities

I. Borrowings:

(i) borrowings shall be classified as-

(a) Bonds or debentures
(b) Term loans

(I) from banks
(II) from other parties

(c) Deferred payment liabilities
(d) Deposits
(e) Loans from related parties
(f) Long term maturities of finance lease obligations
(g) Liability component of compound financial instruments
(h) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;
(iv) bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due;
(v) Particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;
(vi) terms of repayment of term loans and other loans shall be stated; and
(vii) period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

III. Provisions: The amounts shall be classified as-

(a) Provision for employee benefits; and
(b) Others (specify nature).

IV. Other non-current liabilities;

(a) Advances; and
(b) Others (specify nature).

F. Current Liabilities

I. Borrowings
(i) Borrowings shall be classified as-

(a) Loans repayable on demand

(I) from banks
(II) from other parties

(b) Loans from related parties
(c) Deposits
(d) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;
(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;
(iv) period and amount of default as on the balance sheet date in repayment of borrowings and interest, shall be specified separately in each case.

II. Other Financial Liabilities: Other Financial liabilities shall be classified as-

(a) Current maturities of long-term debt; ;('Long term debt' is a borrowing having a period of more than twelve months at the time of origination)
(b) Current maturities of finance lease obligations;
(c) Interest accrued;
(d) Unpaid dividends;
(e) Application money received for allotment of securities to the extent refundable and interest accrued thereon;
(f) Unpaid matured deposits and interest accrued thereon;
(g) Unpaid matured debentures and interest accrued thereon; and
(h) Others (specify nature).

III. Other current liabilities:

The amounts shall be classified as-

(a) revenue received in advance;
(b) other advances (specify nature);and
(c) others (specify nature);

IV.Provisions: The amounts shall be classified as-

(i) provision for employee benefits; and
(ii) others (specify nature).

G. The presentation of liabilities associated with group of assets classified as held for sale and non-current assets classified as held for sale shall be in accordance with the relevant Indian Accounting Standards (Ind ASs).

H. Contingent Liabilities and Commitments:

(to the extent not provided for)

(i) Contingent Liabilities shall be classified as-

(a) claims against the company not acknowledged as debt;
(b) guarantees excluding financial guarantees; and
(c) other money for which the company is contingently liable.

(ii) Commitments shall be classified as-

(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;
(b) uncalled liability on shares and other investments partly paid; and
(c) other commitments (specify nature).

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company……………………

Statement of Profit and Loss for the period ended ……………………… (Rupees in)

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I	Revenue From Operations			
II	Other Income			
III	Total Income (I+II)			
IV	**EXPENSES** Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in -Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I- IV)			
VI	Exceptional Items			

VIII	Tax expense: (1) Current tax (2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII-VIII)			
X	Profit/(loss) from discontinued operations			
XI	Tax expense of discontinued operations			
XII	Profit/(loss) from Discontinued operations (after tax) (X-XI)			
XIII	Profit/(loss) for the period (IX+XII)			
XIV	Other Comprehensive Income A (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV)(Comprising Profit (Loss) and Other Comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted			
XVIII	Earnings per equity share(for discontinued & continuing operations) (1) Basic (2) Diluted			

See accompanying notes to the financial statements

Notes:

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss.
2. The Statement of Profit and Loss shall include:

   (1) Profit or loss for the period;

   (2) Other Comprehensive Income for the period.

   The sum of (1) and (2) above is 'Total Comprehensive Income'.
3. Revenue from operations shall disclose separately in the notes

(a) sale of products (including Excise Duty);
(b) sale of services; and
(c) other operating revenues.

4. Finance Costs: Finance costs shall be classified as-
   (a) interest;
   (b) dividend on redeemable preference shares;
   (c) exchange differences regarded as an adjustment to borrowing costs;and
   (d) other borrowing costs (specify nature).

5 Other income: Other income shall be classified as-
   (a) interest Income;
   (b) dividend Income; and
   (c) other non-operating income (net of expenses directly attributable to such income).

6. Other Comprehensive Income shall be classified into-

(A) Items that will not be reclassified to profit or loss
   (i) Changes in revaluation surplus;
   (ii) Remeasurements of the defined benefit plans;
   (iii) Equity Instruments through Other Comprehensive Income;
   (iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;
   (v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
   (vi) Others (specify nature).

(B) Items that will be reclassified to profit or loss;
   (i) Exchange differences in translating the financial statements of a foreign operation;
   (ii) Debt Instruments through Other Comprehensive Income;
   (iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;
   (iv) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and
   (v) Others (specify nature).

7. Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:
   (a) employee Benefits expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) share based payments to employees, (iv) staff welfare expenses].
   (b) depreciation and amortization expense;
   (c) any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company;
   (d) interest Income;
   (e) interest Expense;
   (f) dividend income;
   (g) net gain or loss on sale of investments;
   (h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
   (i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses;

(j) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and

(k) details of items of exceptional nature;

8. Changes in Regulatory Deferral Account Balances shall be presented in the Statement of Profit and Loss in accordance with the relevant Indian Accounting Standards.

Note: This Schedule sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e., Balance Sheet, Statement of Changes in Equity for the period, the Statement of Profit and Loss for the period (The term 'Statement of Profit and Loss' has the same meaning as 'Profit and Loss Account') and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirements of the relevant Indian Accounting Standard.

Vol: 5, No.: 7.
July 2020, Issue

YEARS OF CELEBRATING THE MAHATMA

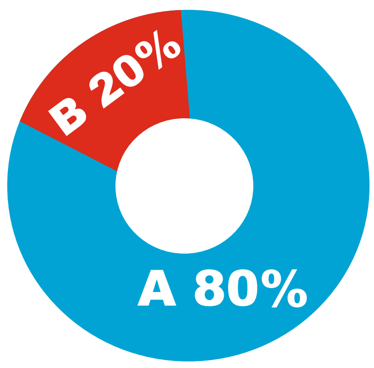
GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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

Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

- Anti profiteering rules – basics
- Main decision
- Input Tax Credit – benefits
- National Profiteering Authority (NAA)
- The role of NAA
- Duties of authority
- Order and process to follow by the authority
- Anti Profiteering Standard Operating Procedure (SOP)
- SOP – field formation

INDIRECT TAX

Section 171 of CGST **Act**, 2017, provides that any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices.
Anti-profiteering rules announced by the GST Council to initiate anti-profiteering measures at the retail level to protect consumers from price fluctuation. Thus Clause 171 has been inserted in the GST Act which provides that it is compulsory to pass on the benefit due to the reduction in the rate of tax or from input tax credit to the consumer by way of compensation.

The main decision of the anti-profiteering rules is-

- If there is reduction in rate of tax on the supply of goods or services or
- Benefit of input tax credit is presently available under GST to be passed by a registered person on the benefit by reduction in prices

In the GST regime, the business units i.e. manufacturers, traders, service providers etc are reverting back with the input tax credit in their respective account and thus the cascading effects going away. In the present indirect tax system it become the responsibility of traders and businesses to share their profit earned from ITC with general people (consumers) in terms of reduced prices but traders are taking advantage of it and not letting avail the benefit of GST to consumers in the form of a price decrease.

Input Tax Credit - Benefit

Most of the industries will be affected with respect to passing of benefit due to better credit chain. Except sectors having zero rated supply, almost all the sectors whether , be it service sector, manufacturing, trading, or any specific industry, all are going to get advantage of better flow of input tax credit. Therefore the total expectations of anti-profiteering provisions are corresponding in proportion with the reduction in prices of supplies.

National Anti-profiteering Authority (NAA)

It is been observed that after implementation of GST sometimes there been a marked increase in inflation and the price of the commodities. This situation comes in spite of the availability of the tax credit right from the production stage to the final consumption stage which should have actually reduced the final prices, as the supplier or provider of goods or services or both not passing on the commensurate benefits to the consumer with an intention to make illegal and un necessary profit. Looking into the scenario the Central Government constituted National Anti-profiteering Authority (NAA) to examine whether additional input tax credits availed by any registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in prices to the recipients.

The role of The National Anti-profiteering Authority (NAA)

The National Anti-profiteering Authority (NAA) is the statutory mechanism under GST law to check the unfair profiteering activities by the registered suppliers under GST law. The Authority's core function is to ensure that the commensurate benefits of the reduction in GST rates on goods and services done by the GST Council and of the Input tax credit are passed on to the recipients by way of commensurate reduction in the prices by the suppliers.

Duties of the Authority–

1. Find out whether the reduction in tax rate or the benefit of input tax credit has actually been passed on by the seller to the buyer by reducing the prices.
2. Identify the taxpayer who has not passed on the benefit

The Authority will exist for two years from the date on which the Chairman enters upon his office unless the Council recommends otherwise.

The Authority may pass the following order-

a) To reduction in prices

b) The benefit amount not passed on along with 18% interest to be returned to the buyer.

c) Imposed penalty for payment

d) For cancellation of registration

In cases of profiteering in the name of GST, the CGST Act, SGST Acts & the CGST/ SGST Rules framed there under as part of complaint redressal mechanism available to the consumer the aggrieved persons may file an application, in the prescribed format, before the Standing Committee on Anti-profiteering or before the State Level Screening Committee. (If the issue involved is of local nature).

Process to follow as below -

1.State level Screening committee

i) Screens the applications to be sure the supplier has not passed the benefit

ii) Relevant cases will be passed to Standing Committee

2.Standing Committee

i) Receive written application

ii) Examine evidence that benefit has not been passed on

iii) Within 2 months

iv) Refer case to Director general

3.Director General of Safe Guard

i) Investigate

ii) Collect evidence

iii) Issue notice

iv) Complete within 3 months

4. An order to be passed within 3 months from the date of the receipt of the report from the Director-General of Safeguards by the authority.
5. If the interested parties placed any request in writing he / she will be given an opportunity of being heard.
6. Period of interest will be calculated from the date of collection of higher amount till the date of return of such amount.
7. In case the eligible buyer is not been identified or does not claim anything then amount should be deposited to the specific fund. Interest will be calculated from the date collection of higher amount till the date it is deposited in the Fund.

<u>**Anti-Profiteering Standard Operating Procedure**</u>

As per the proposal given by the National Anti Profiteering Authority (NAA), the GST Council has approved the Standard Operating Procedures (SOP) to undertake preliminary examination concerning profiteering post any cut in GST rate or on additional input tax credit taken by any company from its records. Authorities will maintain a close watch on abrupt enhancement in input tax credit for quarters immediately succeeding any GST rate reduction or changes in structure of inputs or sudden increase in net profits, if there be any increase of base price or any product which does not have any impact on reduction in tax rate to consumers. To check for profiteering from tax rate reduction or input tax credit changes the Input tax credit ledgers of companies is also required to be looked into.

<u>**Anti-Profiteering Standard Operating Procedure (SOP) for CGST and SGST field formations**</u>

I. Role to be played by officers posted in CGST & SGST field formations as soon as any GST-rate reduction/ additional ITC benefit is announced:-

II.

A. <u>Record Keeping:-</u>

All executive Commissioners of CGST and SGST may utilise all available resources, including human resources, at their disposal to maintain a list of Notifications allowing change in tax rate or any additional ITC benefit, with effective date thereof, and identify, within their jurisdiction, the specific goods along with HSN codes and services which are going to be affected.

B. **Identification of Suppliers:-**

Commissioners shall identify top twenty suppliers under their jurisdiction (manufacturers/ distributors/ and service providers) in respect of which the prices/ MRP and availability of Input Tax Credit are likely to be impacted by change in tax rate or any additional ITC benefit. The first B2B invoices of these suppliers' value chains, for the relevant period, may be checked, for any prima facie violations of anti-profiteering provisions.

C. **Data Collection:-**

Commissioners shall get the data collected, from such suppliers across all levels of the supply chain and collect pre-rate-reduction evidences, such as invoices, which would help them to establish the facts of the case. For this purpose, Commissioners may either use the jurisdictional field functionaries or set up specialised anti-profiteering cell for the purpose of operationalizing and coordinating the anti-profiteering work in their jurisdictions and to help increase awareness regarding the anti-profiteering provisions amongst consumers and other stakeholders.

D. **Mock Purchases:-**

Commissioners may also cause purchase of any goods or services affected by a rate change. Section 67(12) of the Central Goods and Services Tax Act, 2017, which is reproduced below, authorises the Commissioners to make mock-purchases so as to gather invoices for evidence.

"67(12) The Commissioner or an officer authorised by him ***may cause purchase of any goods or services*** *or both by any person authorised by him from the business premises of any taxable person, to check the issue of tax invoices or bills of supply by such taxable person, and on return of goods so purchased by such officer, such taxable person or any person in charge of the business premises shall refund the amount so paid towards the goods after cancelling any tax invoice or bill of supply issued earlier."*

This provision of the Act may be proactively used to collect the evidence for profiteering made by any such supplier.

III. Role to be played by officers posted in CGST & SGST field formations after any GST-rate reduction/ additional ITC benefit is implemented:-

A. **Verification of first B2B invoices:-**

Commissioners shall identify top 20 suppliers under their jurisdiction (manufacturers/ distributors/ retailers /job workers and service providers) in respect of which the prices/ MRP and availability of Input Tax Credit got actually impacted by change in tax rate. The first B2B invoices of these suppliers' value chain, for the relevant period, may be checked, for any prima facie violation of any anti-profiteering provisions, within a reasonable time. Commissioners and jurisdictional officers may supply the details of any such prima facie violation, along with prima facie estimation, of the profiteering amount involved, if any, to the State-level Screening Committee for further action thereon.

B. **Documentation to be checked for Identification of Potential Cases of Profiteering:-**

Commissioners shall get the possible cases of profiteering identified, by study of the following data depending on the requirement-

- changes in prices/ MRPs before and after any reduction in tax rates/ increase
- changes in the availability of input tax credit.

Also, they may get specific cases of profiteering identified by studying the changes in cases of increase in tax credit of inputs of suppliers. Scope of these documents may inter alia include:

i) Sale price lists/ MRP Lists of each product / SKU/ Service – pre and post GST change/reduction of rate
ii) Invoice data, GSTR-1 Invoices (Pre & Post)
iii) New MRP stickers with reduced rates affixed (Both Pre & Post)
iv) GSTR-2A to check for pre and post rate changes on inputs
v) ITC ledger of the taxpayer.

C. **Checking the fixation of stickers with revised MRPs:-**

Commissioners shall get it checked that the sale prices/MRPs have been revised / MRP stickers fixed, in cases of reduction of tax rate at all levels of the supply chain, and ascertained as to whether such change in MRP/ prices is prima-facie commensurate with the change in tax rates.

D. **Premise Visits by field officers:-**

In case of any probable profiteering, the field officers, whenever they find any such eventuality, may visit the GST registrant/taxpayer, after approval by competent authority, to collect specific prima facie evidences.

E. ***Centralized Public Grievance Redress And Monitoring System (CPGRAMS)/ Other Complaints:-***

Any CPGRAM or other complaints of the nature of the non-reduction of products' prices even after a GST rate reduction shall be duly forwarded to the Standing Committee on Anti-Profiteering, or to the State Screening Committee on Anti-Profiteering, as the case may be.

F. **Role of Investigative Agencies/ Verification Teams and Audit:-**

GST officers conducting anti-evasion verifications, audits and similar checks, including inspections and search operations, in respect of taxpayers may also include checks from the perspective of identification of cases of profiteering within the scope of Section 171 of the CGST Act, 2017. Necessary instructions may be issued by the CBIC and Commissioners of SGST to the field functionaries in this regard.

While such checks could include scrutiny of multifarious records and returns of the taxpayer, especially the books of accounts, selling price/MRP Lists of each SKU before and after announcement of any tax rate changes, Invoice Data (GSTR-1) and Input data (GSTR-2 or GSTR-2A), officers may actually look for the following pointers -

a. sudden swelling up of the ITC for the quarters immediately succeeding any GST rate-reduction or changes in tax structure of inputs.
b. abrupt increase in the net profits for the quarters immediately succeeding any GST rate-reduction or changes in tax structure of inputs.
c. any enhancement of the base price of any product (at the SKU level) immediately after announcement of a GST rate reduction/ additional ITC availability, in a manner that the final price/ MRP of the product, being paid by the recipient/ consumer is not reduced commensurately at any level of the supply chain and the ultimate consumers is denied the benefit.

G. **Role of field functionaries at the local/Range/Circle Level:-**

Local field officers shall also identify possible cases of profiteering through study of the periodic returns, specifically price data, Input Tax Credit, etc. filed by the GST registrants and through interaction with trade and industry.

H. **Complaint Filing by Jurisdictional Office, as per Rule 128:-**

In case of a prima-facie detection of a case of profiteering by any taxpayer, the concerned jurisdictional Commissioner or any officer authorized by the Commissioner, may file, at the earliest and preferably within a reasonable period of one month of such detection, an application under Rule 128 of CGST Rules along with necessary details and evidence, with the concerned State level Screening Committee.

IV. **Role to be played by Senior Officers Monitoring the Performance of Field Functionaries**

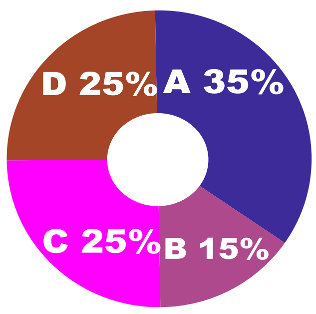
Officers conducting inspections and monitoring performance of field functionaries/ offices may also monitor and review/ inspect the performance of the field functionaries from the perspective of anti-profiteering work.

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Service Cost Centres

Service Cost Centres – Cost audit with reference to Recognition and Allocation & Apportionment of service cost centre expenses to Production cost centres:

Introduction

According to CIMA, London, a cost centre "is a location, person or item of equipment or group of these, for which cost may be ascertained and used for the purpose of cost control." In other words a Cost Centre is any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

Cost Centre or Cost Object is the logical sub-unit for collection of cost designed with the objective of cost control/cost management.

The primary purpose of a cost centre is to create a distinctly identifiable department, division or unit of an organization for which concerned managers will be responsible for all its associated costs and for ensuring adherence to the organization's budgets. If the responsibility is assigned to a manager, the cost control becomes much easier. As such, cost centres are also known as "Responsibility Centre".

A cost centre indirectly supports a company's profitability by improving operational efficiency which results in better customer service or increase in product value. An expense centre can also help the senior management to understand resource utilization better, which will eventually assist them in utilizing the resources optimally through smarter techniques. Further, accounting for resources in such detail allows a company to forecast and calculate more accurately based on expected future changes.

For internal reporting, cost centre provides relevant information to improve operational efficiency and maximize profit.

Classification

Cost Centres are broadly divided in to may be of two types, Production Cost Centres and Service Cost Centres. Production Cost Centres are those which are engaged in direct production activities like Machine shop, Welding shop, Assembly shop etc. Service Cost centres are those who renders service to the production cost centre like Maintenance, Stores, Purchase office, engineering, work shop, designing, laboratory, safety, transport, computer cell, dispensary, school, crèche, township, security and other related centres. It may be observed that the service cost centres play a very import and supporting role for smooth operation of production activity.

Cost Centres may also be divided in to Personal and Impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres.

As mentioned above Service Cost Centres are primarily provides auxiliary services across the enterprise. It provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or Operation. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examination of Expenses of Service cost centres

While conducting the cost of any organisation, it has to be examined that:

a. Proper records shall be maintained in respect of each service departments for measurement of the cost of services subject to the principle of materiality.

b. Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in providing such service.

c. Cost of services rendered by contractors within the premises of the entity, shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

d. Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

d. Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers and administrative overheads.

e. Finance costs incurred in connection with the service cost centre shall not form part of the cost of service cost centre.

f. The cost of service cost centre shall not include imputed costs.

g. Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

Further it is also to be verified that:

I. The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilisation whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.

II. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

III. Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

IV. Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre. The same are to be shown in reconciliation statement.

V. Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.

VI. While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle and should be followed consistently.

Assignment of Cost:

Basis of assignment of service cost centres to production cost centres is very important to arrive at the correct cost of production or services rendered. Its importance increases many folds where the enterprise produce multiple products or provide the variety of services.

While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.

Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and followed consistently.

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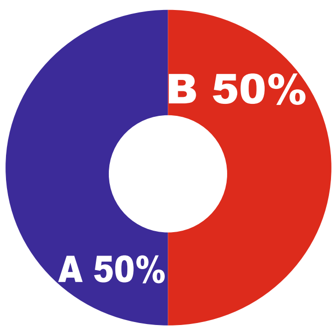
150 YEARS OF CELEBRATING THE MAHATMA

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

GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

A Strategic Performance Management **50%**

B Business Valuation **50%**

Learning objectives:

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

- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Relative Valuation Method of Valuation

In relative valuation, the value of an asset is derived from the pricing of 'comparable' assets, standardised using a common variable. There are two key components of relative valuation

(i) **Comparable or similar assets**: From a valuation standpoint, this would imply assets with similar cash flows, risk and growth potential. In practice, it is usually taken to mean other companies that are in the same business as the company being valued.

(ii) **Standardized price**: Per share price of a company is in some sense arbitrary since it is a function of the number of shares outstanding; a two for one stock split would halve the price. Dividing the price or market value by some measure that is related to that value will yield a standardised price. When valuing stocks, this essentially translates into using multiples where we divide the market value by EBIDTA, book value or revenues to arrive at an estimate of standardised value. We can then compare these numbers across companies.

The simplest and most direct applications of relative valuations are with real assets where it is easy to find similar assets or even identical ones.

Variations of Relative Valuation

In relative valuation, the value of an asset is based upon how similar assets are priced. In practice, there are three variations of relative valuation, with the differences primarily in how one define comparable firms and control for differences across firms:

(i) **Direct comparison:** Analysts try to find one or two companies that look almost exactly like the company they are trying to value and estimate the value based upon how these similar companies are priced. The key aspect in this analysis is identifying these similar companies and getting their market values.

(ii) **Peer Group Average: A**nalysts compare how their company is priced (using a multiple) with how the peer group is priced (using the average for that multiple). For example, a stock is considered cheap if it trades at 12 times EBIDTA and the average price earnings ratio for the sector is 15. Implicit in this approach is the assumption that while companies may vary widely across a sector, the average for the sector is representative for a typical company.

(iii) **Peer group average adjusted for differences**: Recognising that there can be wide differences between the company being valued and other companies in the comparable firm group, analysts sometimes try to control for differences between companies. In many cases, the control is subjective. A company with higher expected growth than the industry will trade at a higher multiple of earnings than the industry average. But how much higher is left unspecified. In a few cases, analysts explicitly try to control for differences between companies by either adjusting the multiple being used or by using statistical techniques. As an example of the former, consider PEG ratios. These ratios are computed by dividing PE ratios by expected growth rates, thus controlling at least in theory for differences in growth and allowing analysts to compare companies with different growth rates.

Steps in Relative Valuation

Step 1: Search and select the comparable companies: The first step of relative valuation is to select a group of comparable companies, i.e., companies whose business operations are as similar as possible to those of the subject company. This requires a thorough understanding of the subject for example:

How does it create value?
What drives its financial performance?
Who are its customers and suppliers?
With whom and how does it compete?
What risks does it face? and so forth.

Step 2: Selection of Multiples: The next step is to select certain multiples to be calculated based on market participants' views of the relevant metrics. The most commonly used multiples of enterprise value are value/revenue, value/EBIT, and value/EBITDA. Different multiples are used for enterprise value or equity value.

Step 3: Selection of comparables and size of sample: Next step is to form of sample of comparables and size of sample which is based on many parameters. An analyst should consider should parameters and other multiples.

Step 4 Computation of Multiples: Computing multiples requires a calculation of enterprise value on the one hand and one or more operating metrics e.g. EBIT, EBITDA etc. on the other. Enterprise value is generally computed as the market value of sum of the market values of debt and equity securities outstanding, including hybrid securities, which is sometimes referred to as "MVIC" (Market Value of Invested Capital). In practice, we sometimes assume that the market value of debt equals its book value. This may not always be an acceptable approximation.

Multiples themselves may be computed based on historic data or forecasts. Commonly last twelve months data is considered in case of historic method. Multiples can also be computed based on forecasts of operating metrics that may be generated using the analyst's best judgment or expert opinions in trade publications or equity analyst reports.

Step 5: Apply and conclude: The concluded multiple is applied to the subject company by computing the product of the multiple and the indicated operating metric. The subject company's operating metric may have to be normalized for LIFO vs. FIFO; extraordinary nonrecurring items etc to ensure consistency with the sample of firms that generated the multiple. Further adjustments may be required after the multiple is applied. Such as (i) adjustment for excess cash (ii) Adjustment for operating control (iii) Adjustment for illiquidity.

Valuation Multiples

A valuation multiple is the ratio of firm value or equity value to some aspect of the firm's economic activity, such as cash flow, sales, or EBITDA. The table below lists the most common multiples used to value firms, together with the terminology that is used to describe the multiple.

Multiples Used in Finance

Quantity	×	Multiple	Terminology	=	Value
Cash Flow	×	Firm Value / Cash Flow of Firm	"Cash flow multiple"	=	Value of Firm
EBITDA	×	Firm Value / EBITDA of Firm	"EBITDA Multiple"	=	Value of Firm
Sales	×	Firm Value / Sales Value of Firm	"Sales multiple"	=	Value of Firm
Customers	×	Firm Value / Customers	"Customer multiple"	=	Value of Firm
Earning	×	Price per Share / Earning	"Price – earnings ratio"	=	Share Price

(i) **Price Earnings Ratio (P/E):** The price-earnings multiple (PE) is the most widely of all multiples. It is widely used in pricing of initial public offerings and making judgments on relative value. The price earnings ratio is the ratio of the market price per share to the earnings per share :

P/E = Market Price per share / Earnings per share

(ii) **Price to Earnings with no expected growth:**

$$P_0 = \frac{E_1}{K}$$

$$\frac{P_0}{E_1} = \frac{1}{K}$$

Where :

E_1 = expected earning for next year

E_1 = D1 under no growth

K = Required rate of return

D_1 = Dividend

(iii) **P/E Ratio with Constant Growth:**

$$P_0 = \frac{D_1}{k - g} = \frac{E_1\,(1 - b)}{k - (b \times ROE)}$$

$$\frac{P_0}{E_1} = \frac{1 - b}{k - (b \times ROE)}$$

Where :

b = retention ratio

ROE = Return on Equity

(iv) PE for a High Growth Firm:

The price-earnings ratio for a high growth firm can also be related to fundamentals. In the special case of the two-stage dividend discount model, this relationship can be made explicit fairly simply. When a firm is expected to be in high growth for the next n years and stable growth thereafter, the dividend discount model can be written as follows:

$$P_0 = \frac{EPS_0 \times \text{Payout ratio} \times (1+g) \times \left\{1 - \frac{(1+g)^n}{(1+r)^n}\right\}}{\quad} + \frac{EPS_0 + \text{Payout ratio} \times (1+g)^n\,(1+g_n)}{(r-g_n)(1+r)^n}$$

Where,

EPS = Earnings per share in year 0 (current year)

g = Growth rate

Payout = Payout ratio

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from

Directorate of Studies

Dear Students,

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

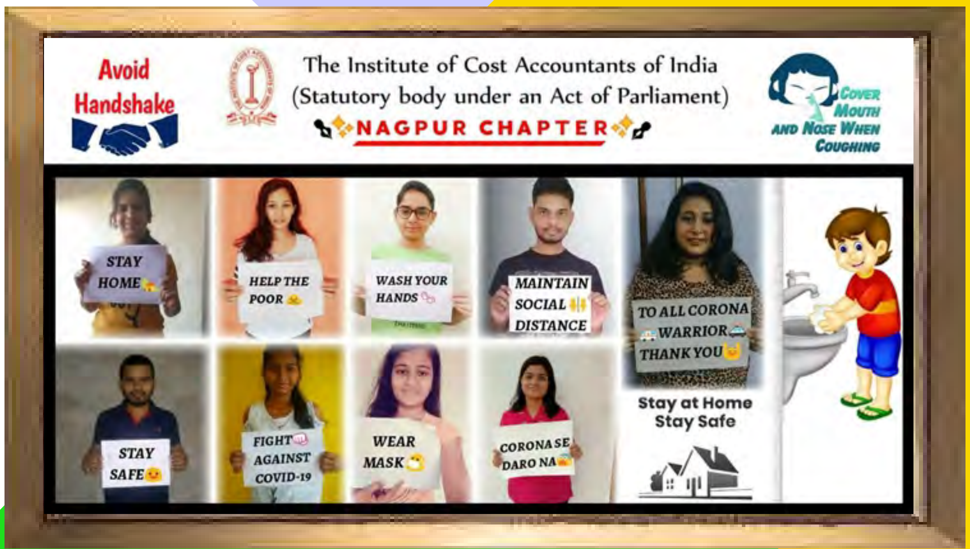
- Don't give up
- Don't give in
- Don't give out
  You can win!

GOOD LUCK

Be Prepared and Get Success;

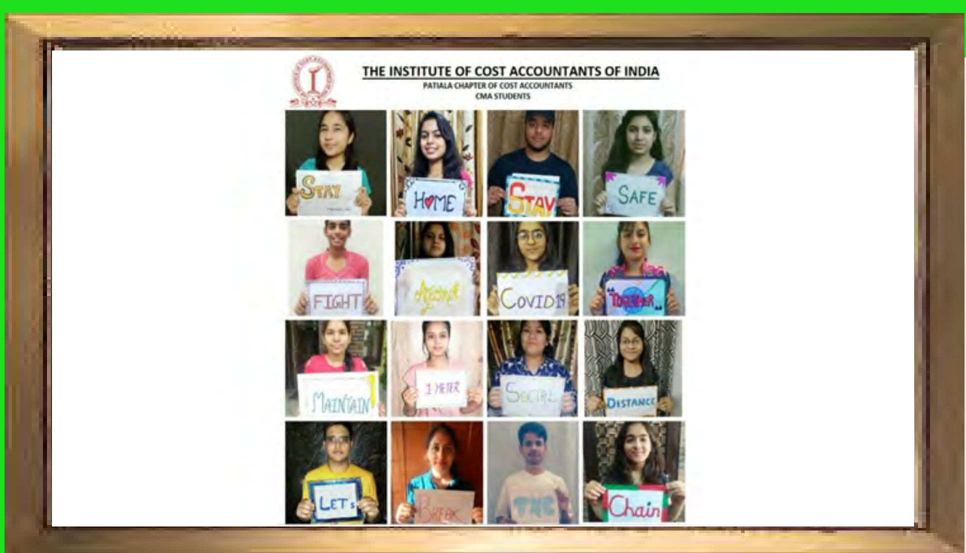
Few Snapshots

Message on COVID-19 from Students of ROCC Streamline Academy Thrissur



Nagpur Chapter initiative on COVID-19

Message on COVID-19 from Eastern India Region Student Fraternity.



Message on COVID-19 from Patiala Chapter of the Institute

Message on COVID-19 from Students, Staff, Members of Nellore Chapter.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158