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CMA Student E - Bulletin

FINAL

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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**

150 YEARS OF CELEBRATING THE MAHATMA

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

Always hope for the best! Long drawn lockdown has bogged down the level of pollution everywhere. Now it is the duty for us to nourish the greenery and environment, and help mother earth to rejuvenate for the days to come. COVID 19 is still in growth stage. Stay safe and ensure everyone around you are staying safe. The world needs people with high values to make it a better place to live in. We always prefer to see that our students are contributing positively towards the development of a new and refreshed environment with the accomplishment of requisite knowledge.

The Directorate of Studies is always there to provide the students with all possible supports and guidance. Live Webinars are being conducted for the benefit of the students; recorded webinars are kept in the e-library. Answers to the Mock Test Papers (MTPs), updated Work Books and monthly E-bulletins are also being uploaded in our website as per the schedule. Eminent academicians and industry personalities are contributing regularly for the knowledge development of our students. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them. Hence, I am requesting you to carry on with your revisions and try to grab the various academic inputs offered by the Directorate of Studies.

"Students' Connect" section has been made live this month for the convenience of all our students to view and download various online services under one umbrella offered to them. [https://icmai.in/studentswebsite/Students-E-Services.php]

Always keep in mind that, ***"A small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history"***.

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.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE

LAWS & COMPLIANCE (CLC)

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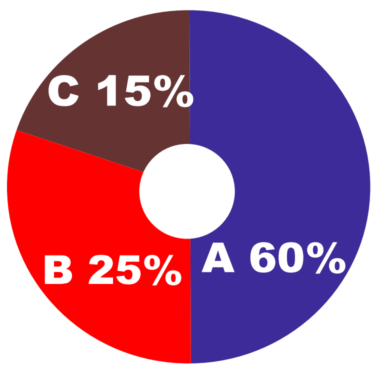
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

Read the Study Material minutely.

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

ACCOUNTS OF COMPANIES

1.0 ACCOUNTS:

Accounts are record of financial transaction of a company and needs to be finalised every year for a particular period commonly known as "accounting period". As per Companies Act, all companies shall follow an accounting year commencing from 1st April to 31st March.

1.1 The proper books of account.

Every company shall maintain proper books of accounts which must satisfy the following:

(i) True and fair view should be recorded.

(ii) Accrual basis accounting: the income and expenditure should relate to particular period year even when they are received paid in the same year.

(iii) Shall exhibit and explain the financial position.

(iv) These shall disclosure relating to goods, i.e. goods sold, purchased etc.

(v) Shall be prepared in ink and not in pencil.

(vi) Shall be as per the accounting standard prescribed by the Central Government. It may be mentioned that Central Govt. has the power to prescribe accounting standards i.e. all companies should have uniform method of interpretation and calculation of profit valuation of assets, depreciation etc. Presently the standards issued by the Institute of Chartered Accountants of India is the applicable accounting standards.

(vii) Shall be kept in electronic form also.

1.2 Keeping of books of account :

Books of accounts may be kept at the registered office of the company or any other place(s) in India as decided by the Board of Directors. The company shall within 7 days file with the Registrar a notice in writing giving the full address of the place. If the company has any branch office within or outside India proper returns of such branch offices shall be sent periodically to head office.

1.3 Contents of books of account.

As per section 128 of the Companies Act, 2013, every company shall keep proper books of account in respect of the following:

(i) All receipts and expenditures made by the company.

(ii) The sale and purchase of the goods by the company.

(iii) The assets and liabilities of the company.

(iv) If the company is engaged in manufacturing, processing, production or mining activities the cost accounting records as prescribed by the Central Govt.

1.4 Consolidation of Accounts:

As per section 129(3) of the new Act, Every company having more than one subsidiary shall prepare a consolidated financial statement of the company with all its subsidiaries in the same form and manner as that of its own which shall also be laid in the before the annual general meeting of the company along with the standalone financial statement of the company. The consolidated financial statement should contain the financial information relating to its subsidiaries, its associates companies and its joint ventures. The consolidated financial statement should be in Form AOC-1.

1.5 Annual accounts and legal requirements (Section 129 and 130)

(1) Laying of annual accounts in the AGM: A balance sheet as at the end of the financial year and a profit and loss account along with the cash flow statement and statement showing changes in equity of the company for the financial year shall be laid before the AGM for the approval and adoption of the shareholders. Along with financial Statements consolidated financial statements of all the subsidiaries including Associate Companies and joint ventures of the company shall be laid before the Annual General Meeting.

(2) The Forms and contents of the financial statements will be as per Schedule III.

1.6 Authentication of Balance sheet and Profit & loss account (section 134)

As per the new Companies Act, 2013 all the financial statements including the consolidated financial statement shall be required to be signed by the following persons:

(i) By the Chairperson of the Company, where he is authorised by the Board.
(ii) By two Directors out of which one shall be Managing Director, if any.
(iii) Chief Financial Officer and Company Secretary of the Company, if required.

1.7 Circulation of Annual accounts (section 136)

The company shall send the copies of the financial statements including consolidated financial statements to the members and every trustee for the debenture holder.

In addition to the above the company is required to place its financial statements including consolidated financial statements, if any, and all other documents required to be attached, thereto on the website of the company.

Further every company is also required to place separate audited accounts in respect of each of its subsidiary, if there is any.

Every company is required to keep its financial statements at the registered office of the company for inspection by any member and debenture trustee during business hours. A listed company may send only the salient features of the documents and keep the document for inspection as above.

1.8 Filling of Financial Statements (including consolidated financial statements) with Registrar of Companies (section 137)

(a) within 30 days of Annual General Meeting.
(b) If AGM is not held within 30 days of the day on which the AGM is ought have been held. The Registrar shall take on record the un-adopted financial statements as provisional statements till the accounts are adopted in the Annual General Meeting.
(c) If the AGM held but the annual accounts are not prepared on that date the AGM shall be adjourned till the accounts shall prepared but such adjournment shall not be beyond the statutory period of AGM i.e. 18 months.
(d) If the AGM is held but did not approve the annual accounts the accounts shall be filed within 30 days of the AGM specifying the reason of disapproval.
(e) One person company shall file its financial statements along with all its necessary documents required to be attached with its financial statements to the registrar within 180 days of the closure of financial Year.
(f) As per the new Act every company from now on shall attach financial statements of each of its subsidiary which are established outside India and do not have any place of business in India.

1.9 Accounts of Holding and Subsidiary companies :

Along with the balance sheet of the holding company the following documents of the subsidiary company shall be attached:

(a) A copy of the balance sheet, profit & loss account, director's report.
(b) A copy of the auditor's report.
© A statement of the holding company's interest in the subsidiary.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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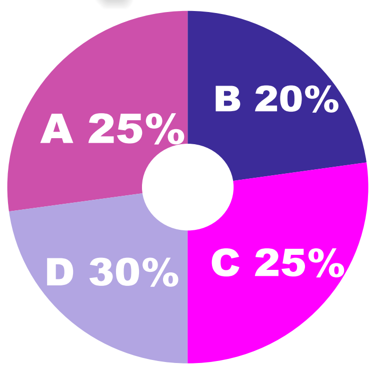
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

Strategic Financial Management

Study Note 1: Investment Decision, Project Planning and Control

Capital Budgeting Decision for Projects with Unequal Lives:

In a situation where any one of the available projects is to be selected, companies are often found to use NPV method indiscriminately to select the best project. However, such a practice may sometimes appear to be inappropriate. This is because NPV, being an absolute measure, suffers from certain limitations.

For example, this method may prove to be inappropriate while appraising two projects with significant life difference. A project with longer lifespan may have higher present value of cash flow and consequently higher NPV than a project with shorter lifespan and accordingly, lower present value of cash flow; still the firm may prefer the latter if it wants to recover its capital quickly.

To be more precise, straightforward selection on the basis of their NPV would be difficult because of the following considerations:

(i) The earlier receipt of cash inflow from the project with shorted lifespan may be advantageous from the point of view of capital recovery; and

(ii) If the capital is recovered earlier, the same may be reinvested in another project to earn further NPV.

Thus, even if a project with longer lifespan may have higher present value of cash flow as compared to an alternative project with lower lifespan, the latter may be preferable if the business wants a quick return on capital invested. To accommodate this adjustment, traditional NPV must be modified accordingly. The technique (based on NPV) which is used to make decision in this situation is known as Equivalent Annuity Method (EAM) or Equivalent Annual Benefit (EAB) Approach.

Under this method the annualized net benefit of a project is calculated by the following formula:

$$\text{Equivalent Annual Benefit} = \frac{\text{NPV of the Project}}{\text{PV Annuity Factor}}$$

Thus, under this approach the NPV is considered as the present value of an annuity and using the above formula an equivalent annual net benefit is calculated for both the projects having different lifespan. This equivalent net benefit or equivalent annuity values are now compared to decide the project that offers the higher equivalent annuity. The same project is finally selected.

Consider the following example.

Illustration:

A firm is to select any one of the following two investment proposals having significant life difference.

Project A: NPV at 15% cost of capital Rs.19120; Lifespan 3 years.

Project B: NPV at 15% cost of capital Rs.26860; Lifespan 5 years.

Advise the management on the selection of projects.

PVIFA (15%, 3) = 2.283 and PVIFA (15%, 5) = 3.352

Solution:

In the given illustration, the projects have significantly different NPV and the reason behind the same is the difference in their lifespan.

So, we need to apply the Equivalent Annuity Method (EAM) or Equivalent Annual Benefit (EAB) Approach here.

$$\text{Equivalent Annual Benefit} = \frac{\text{NPV of the Project}}{\text{PV Annuity Factor}}$$

$$\text{EAB for A} = \frac{19120}{2.283} = 8375$$

$$\text{EAB for B} = \frac{26860}{3.352} = 8013$$

Thus, though the total NPV is higher for the project with higher lifespan (Project B), the EAB shows that project A has higher EAB. Thus, considering the life difference between the projects, Project A (though with lower total NPV is acceptable).

Note: It should be kept in mind that the above method assumes that the capital recovered from the project selected will be available for reinvestment at the same cost of capital for the remaining lifespan difference.

Mathematical Programming Approach in Capital Rationing

Capital rationing when fund constraint is for multiple periods.

In the example discussed in the previous issue, the project under consideration had conventional cash flow pattern (i.e. single outflow at the beginning with multiple inflow over the life). However, in practice question of capital rationing may arise in multiple periods when the underlying projects have non-conventional cash flow pattern (i.e. multiple outflow). In such a situation, capital rationing problems can be solved with the help of Linear Programming Problem (LPP).

An LPP has three parts to it:

(a) The objective function – that is the objective that is to be achieved. For profit and sales function the objective is to maximize and for coat or loss function the objective is minimization.
(b) The functional constraints – that is the constraints that are to be abided by while achieving the objective function. The constraints can be less than type such as availability of resources including the financial resources and can also be greater than type such as minimum production to be ensured, minimum quantities to be sold.
(c) The non-negativity constraint – that is the decision variables can take only positive or zero values and not the negative values.

Consider the following illustration.

Illustration:

The following projects are under consideration of Y Ltd.

Projects	Period of Investment		NPV (Rs.)
	1st year	2nd year	
A	500000	300000	500000
B	600000	300000	600000
C	300000	600000	600000
D	800000	400000	70000
Fund Available	1200000	800000	

Determine the optimal project mix in order to maximize NPV, if:

(a) Projects are divisible; and
(b) Projects are indivisible.

Solution:

(a) When projects are divisible:

Let X_1, X_2, X_3, X_4 are the part of the projects A, B, C and D respectively that will be undertaken to maximize the NPV.
So, the objective function is: Max $Z = 50000X_1 + 60000X_2 + 60000X_3 + 70000X_4$
Fund constraint in first year: $500000X_1 + 600000X_2 + 300000X_3 + 800000X_4 \;\; 1200000$.
Fund constraint in second year: $300000X_1 + 300000X_2 + 600000X_3 + 400000X_4 \;\; 800000$.
And since only a part is accepted, $0 \;\; X_1, X_2, X_3, X_4 \;\; 1$.
So, the LPP is summarized as follows:
Max $Z = 50000X_1 + 60000X_2 + 60000X_3 + 70000X_4$
Subject to: $500000X_1 + 600000X_2 + 300000X_3 + 800000X_4 \;\; 1200000$
$300000X_1 + 300000X_2 + 600000X_3 + 400000X_4 \;\; 800000$
And $0 \;\; X_1, X_2, X_3, X_4 \;\; 1$

(b) When projects are indivisible:

Let X_1, X_2, X_3, X_4 are the part of the projects A, B, C and D respectively that will be undertaken to maximize the NPV.
So, the objective function is: Max $Z = 50000X_1 + 60000X_2 + 60000X_3 + 70000X_4$
Fund constraint in first year: $500000X_1 + 600000X_2 + 300000X_3 + 800000X_4 \;\; 1200000$.
Fund constraint in second year: $300000X_1 + 300000X_2 + 600000X_3 + 400000X_4 \;\; 800000$.
And since projects are indivisible, X_1, X_2, X_3, X_4 can be either 0 or 1.

So, the LPP is summarized as follows:

Max $Z = 50000X_1 + 60000X_2 + 60000X_3 + 70000X_4$
Subject to: $500000X_1 + 600000X_2 + 300000X_3 + 800000X_4 \;\; 1200000$
$300000X_1 + 300000X_2 + 600000X_3 + 400000X_4 \;\; 800000$
And $X_1, X_2, X_3, X_4 = 0$ or 1.

Note: the problem can now be solved using the standard solution technique applicable for LPP.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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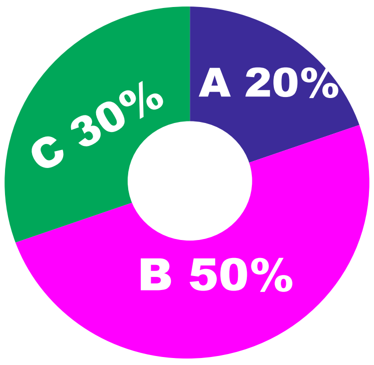
Your Preparation Quick Takes



Syllabus Structure

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

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

01.00 Evaluation of Alternatives

Evaluation of alternatives is an important advantage derived through the application of the principles of marginal costing. Here is a problem, taken from the previous examination papers, that demonstrates the methodology and merits of evaluation.

01.01 Problem

AB Limited has two divisions, Alfa & Beta. Alfa produces components, two units of which are required for one unit of the final product produced by Beta. Alfa has a capacity to produce 20,000 units and the entire quantity is supplied to Beta @ Rs.200/unit. Variable cost component for Alfa is Rs.190 & fixed cost Rs.20 per unit. For final product of Beta, per unit variable cost excluding component is Rs.700, fixed cost Rs.200 and selling price is Rs. 1500.

Alfa has placed a proposal for increasing the transfer price to Rs.220 i.e. the market price. Otherwise, facility at Alfa can be rented out @ Rs.3.00 Lacs p.a. in which case the fixed cost of Alfa would also go down to zero. Manager at Alfa wants to opt for this alternative

Beta can buy this component from outside market @ Rs.210. If capacity of Alfa is augmented to 40,000 units with an additional investment of Rs.15 lacs, it can sell 20,000 units to external market and balance to Beta @Rs.210 per unit. Fixed cost for Alfa will be up by Rs.1.00 lac.

Evaluate and give your opinion on if:

a. Facility of Alfa is rented out and Beta buys from market @ Rs.210 per unit
b. Alfa sells to outside market @ Rs.220 and Beta buys @ 210 per unit from market
c. Capacity enhancement of Alfa to 40,000 units at a cost of capital of 12% p.a.

01.02 Solution

(i) present position on transfer of Alfa to Beta @ Rs.200 per unit

Particulars	Division Alfa	Division Beta
Units sold	20000	10000
Selling price per unit (Rs.)	200	1500
Variable cost per unit (Rs.) (a) Variable Element (b) Component © Sub Total	 190 - 190	 700 (2×200) = 400 1100
Contribution per unit (Rs.)	10	400
Fixed cost per unit (Rs.)	20	200
Profit per unit (Rs.)	(-) 10	200
Total Profit/ Loss (Rs.)	(-)2,00,000	20,00,000

Profit for the company = (-2,00,000+20,00,000) = Rs.18,00,000

(Number of units sold by Beta = Components supplied by Alfa ÷2 = 20,000 ÷ 2 = 10,000)

(ii) **Evaluation of Alternative (a), i.e. Facility of Alfa is rented out and Beta buys from market @ Rs.210 per unit**

Particulars	Division Alfa	Division Beta
Units sold	0	10000
Selling price per unit (Rs.)		1500
Variable cost per unit (Rs.) (d) Variable Element (e) Component (f) Sub Total		700 (2×210) = 420 1120
Contribution per unit (Rs.)		380
Total Contribution (Rs.)		38,00,000
Fixed Cost (Rs.)	-	20,00,000
Rental Income (Rs.)	3,00,000	
Profit (Rs.)	3,00,000	18,00,000

Profit for the company = (3,00,000 + 18,00,000) = Rs.21,00,000

(*Workings for Total Fixed Cost*
Total Fixed Cost for Alfa = (20,000 × 20) = Rs.4,00,000
Total Fixed Cost for Beta = (10,000 × 200) = Rs.20,00,000
Fixed Cost for Alfas becomes zero when the facility is rented out)

(iii)**Evaluation of Alternative (b), i.e. Alfa sells to outside market @ Rs.220 and Beta buys @ 210 per unit from market**

Particulars	Division Alfa	Division Beta
Units sold	20000	10000
Selling price per unit (Rs.)	220	1500
Variable cost per unit (Rs.) (g) Variable Element (h) Component (i) sub Total	190 - 190	700 (2×210) = 420 1120
Contribution per unit (Rs.)	30	380
Total Contribution (Rs.)	6,00,000	38,00,000
Fixed Cost (Rs.)	4,00,000	20,00,000
Profit (Rs.)	2,00,000	18,00,000

Profit for the company = (2,00,000 + 18,00,000) = Rs.20,00,000

(iv)**Evaluation of Alternative (c), i.e. Capacity enhancement of Alfa to 40,000 units at a cost of capital of 12% p.a.**

Particulars	Division Alfa (Sale)	Division Alfa (Transfer)	Division Beta
Units sold	20000	20000	10000
Selling price per unit (Rs.)	220	210	1500
Variable cost per unit (Rs.) (j) Variable Element (k) Component (l) Sub Total	190 - 190	190 - 190	700 (2×210) = 420 1120
Contribution per unit (Rs.)	30	20	380
Total Contribution (Rs.)	6,00,000	4,00,000	38,00,000

Fixed Cost (Rs.)	4,00,000	1,00,000	20,00,000
Cost of Capital @ 12%		12% of 15,00,000 = 1,80,000	
Profit (Rs.)	2,00,000	1,20,000	18,00,000

Profit for the company = (2,00,000 + 1,20,000 + 18,00,000) = Rs.21,20,000

(v) **Comparison of Alternatives**

Serial	Alternative	Profit (Rs.)
(i)	Present position on transfer of Alfa to Beta @ Rs.200 per unit	18,00,000
(ii)	Alternative (a), i.e. Facility of Alfa is rented out and Beta buys from market @ Rs.210 per unit	21,00,000
(iii)	Alternative (b), i.e. Alfa sells to outside market @ Rs.220 and Beta buys @ 210 per unit from market	20,00,000
(iv)	Alternative (c), i.e. Capacity enhancement of Alfa to 40,000 units at a cost of capital of 12% p.a.	21,20,000

Opinion: Since profit for the company is the highest in alternative 'c', i.e. Rs.21,20,000/- alternative 'c' is recommended.

02.00 Target Labour Time

Marginal Costing facilitates profit planning. Target Costing facilitates cost planning. Here is a problem that highlights computations in relation to target profit as also target labour time.

02.01 Problem

ABC Enterprises has prepared a draft budget for one of its products for the next year as follows:

Quantity	10,000 units
Sales price per unit	300
Variable costs per unit:	
Direct materials	80
Direct labour (2 hrs x 30)	60
Variable overhead (2 hrs × 5)	10
Contribution per unit	150
Budgeted contribution	15,00,000
Budgeted fixed costs	14,00,000
Budgeted profit	1,00,000

The Board of Directors is dissatisfied with this budget, and asks working party to come up with alternate budget with higher target profit figures.

The working party reports back with the following suggestions that will lead to a budgeted profit of Rs.2,50,000. The company should spend Rs.2,46,000 on advertising, & set the target sales price up to Rs.316.75 per unit. It is expected that the sales volume will also rise, in-spite of the price rise, to 12,000 units.

In order to achieve the extra production capacity, however, the workforce must be able to reduce the time taken to make each unit of the product. It is proposed to offer a pay and productivity deal in which the wage rate per hour is increased to Rs.40. The hourly rate for variable overhead will be unaffected.

Ascertain the target labour time required to achieve the target profit.

02.02 Solution

(i) Target Conversion Cost per unit

Serial	Particulars	Workings	Rs.
1	Target profit	Given	2,50,000
2	Add (i) Fixed cost (ii) Additional Advertisement (iii)Sub Total	Given	 14,00,000 2,46,000 16,46,000
3	Target contribution	(1 + 2)	18,96,000
4	Sales volume		12,000
5	Contribution per unit	(18,96,000÷12,000)	158.00
6	Target Selling price per unit	Given	316.75
7	Target variable cost per unit	(5 - 6)	158.75
8	Material cost per unit	Given	80.00
9	Target Conversion Cost per unit (i.e. Labour + Variable overhead)	(7 - 8)	78.75

(ii) Target Labour Time
Let Target Labour Time per unit be x hours
Revised Labour Rate being Rs.40/- per hour, Total Labour Cost = 40x
Variable Overhead Rate being Rs.5/- per hour, Total Variable Cost = 5x
Thus, Total Conversion Cost = 40x + 5x = 45x
We also have Target Conversion Cost = 78.75 x 12,000 units = Rs.9,45,000
Therefore, 45x = 9,45,000 or x = 21,000 hours
Target Labour Time per unit = 21,000 ÷ 12,000 = 1.75 hours

(iii) Target Reduction in Labour Time
Budgeted Labour Time per unit = 2.00 hours
Target Labour Time per unit = 1.75 hours
Target Reduction in Labour Time = (2.00 – 1.75) = 0.25 hours per unit

Hence, target labour time per unit, required to achieve the target profit, is 1.75hours and target reduction in labour time is 0.25 hours per unit.

03.00 Better Accuracy
Application of the principles of ABC enables better accuracy in cost computations and higher profit planning. Here follows a model problem.

03.01 Problem
Precision Auto comp Ltd. manufactures and sells two automobile components, A and B. Both are identical with slight variation in design. Although the market for both the products is the same, the market share of the company for product A is very high and that of product B very low. The company's accountant has prepared the following profitability statement for the two products (Cost of production is the same for both the products).

Direct Material	Rs.	125
Direct Labour	Rs.	24
Direct Expenses (sub-contract charges)	Rs.	36
Overheads (400% of direct labour)	Rs.	96
Total Cost	Rs.	281

Particulars		Product A	Product B	Total
Quantity sold	No.	1,24,000	23,150	1,47,150
Unit sale price	Rs.	300	290	
Total sales realization	Rs.			4,39,13,500
Cost of sales as above	Rs.			4,13,49,150
Margin	Rs.			25,64,350

The company's marketing manager, after attending a workshop on activity-based costing challenges the accountant's figures. The nearest competitor's prices for the two products are Rs.330 and Rs.275 per unit respectively and, if the company can match the competitor's prices, it can sell 75,000 nos. each of the two products. The Production Manager confirms that he can produce this product mix with the existing facilities. The management engages you as consultant, and the following facts have been identified by you:

(a) Product A undergoes 5 operations and product B undergoes two operations by sub-contractors, although the total subcontract charges are the same for both the products, and
(b) 75% of the overheads is accounted for under three major heads relating to sub-contracting operations, *viz.*, ordering, inspection and movement of components, to and from the sub-contractor's works.

Prepare a revised profitability statement to find out if the marketing manager's proposal is viable.

03.02 Solution

Step (i): Segregation of Overheads
Total Overheads = (1,47,150 units × Rs.96) = Rs.1,41,26,400
Overheads relating to sub-contracting operations = 75% of the total overheads
= (14126400 ×75/100) = Rs.1,05,94,800

Balance of 25% of the overheads, viz. Factory Overheads = (14126400 ×25/100)
= Rs.35,31,600

Step (ii): Revision in apportionment of Overheads
Under the ABC refinement, Overheads relating to sub-contracting operations may be apportioned on the basis of number of operations, i.e. 5 for A and 2 for B, and Factory Overheads may be apportioned on per unit basis. Considering the revised product mix of 75,000 units of A and 75,000 units of B, and the total overheads remaining unchanged, the apportionment of overheads may be reworked as follows:

Sub-contacting overheads for A = (1,05,94,800 × 5/7) = Rs.75,67,714
Or (75,67,714 ÷ 75,000) = Rs.100.90 per unit

Sub-contacting overheads for B = (1,05,94,800 × 2/7) = Rs.30,27,086
Or (30,27,086 ÷ 75,000) = Rs.40.36 per unit

Factory Overheads = (35,31,600 ÷ 1,50,000) = Rs.23.544/- per unit

Step (iii): computation of profit under Activity Based Costing

Particulars	UOM	A		B		Total
No. of units	No.	75000		75000		
		Total	P.U.	Total	P.U.	
Direct Material	Rs.	93,75,000	125	93,75,000	125	1,87,50,000
Direct Labour	Rs.	18,00,000	24	18,00,000	24	36,00,000
Direct expenses	Rs.	27,00,000	36	27,00,000	36	54,00,000
Prime Cost	Rs.	1,38,75,000	185	1,38,75,000	185	2,77,50,000
Sub-con Overheads	Rs	75,67,714	100.90	30,27,086	40.36	1,05,94,800
Factory Overheads	Rs.	17,65,800	23.54	17,65,800	23.54	35,31,600
Total Cost	Rs.	2,32,08,514	309.44	1,86,67,886	248.90	4,18,76,400
Sales	Rs.	2,47,50,000	330	2,06,25,000	275	4,53,75,000
Profit	Rs.	15,41,486	20.56	19,57,114	26.10	34,98,600

(*Per Unit computations have been rounded off to two decimals*)

Step (iv): Viability Comparison
Profit as per Accountant = Rs. 25,64,350
Profit as per ABC Computation = Rs. 34,98,600
The profit can be enhanced by Rs.9,34,250/- by accepting the marketing manager's proposal.

04.00 Quick Take
Application of the principles of cost management would always foster multiple and synergic benefits.

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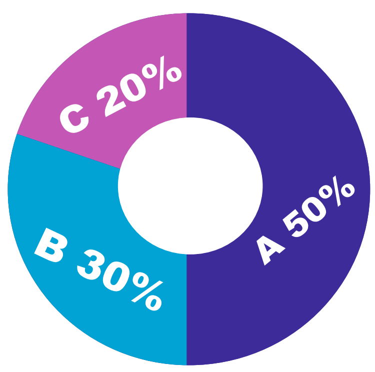
GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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.

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

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

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

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

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

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

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

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

Scheme of Alternate Minimum Tax (AMT)

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

	Add: Surcharge, if applicable		**
	Tax and surcharge payable		****
	Add: Cess		**
	Tax liability after Cess		****

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

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

Provision Illustrated

Compute tax of the following assessee:

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

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

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

- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

Examples

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

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

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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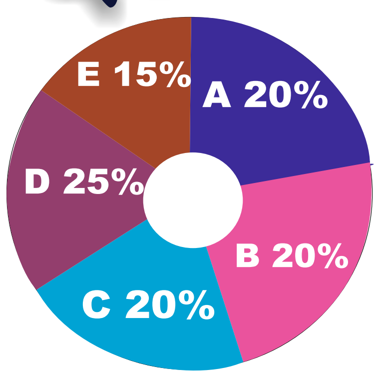
Your Preparation Quick Takes



Syllabus Structure

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

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

In this issue before the June term examination some MCQs are presented for exercise.

1. Choose the correct alternative.

(i) As per Ind AS 103, accounting and reporting for business combination is done under

a) Acquisition Method
b) Purchase method
c) Pooling of interest method
d) None of the above

(ii) As per Ind AS 103 Appendix C, accounting and reporting for business combination under common control is done under

a) Acquisition Method
b) Purchase method
c) Pooling of interest method
d) None of the above

(iii) As per Ind AS 103, while accounting and reporting for business combination goodwill is calculated as

a) Consideration + Non controlling Interest – Net assets
b) Consideration - Non controlling Interest + Net assets
c) Consideration - Non controlling Interest – Net assets
d) Consideration + Non controlling Interest + Net assets

(iv) A Ltd. acquires 80% of B Ltd. for Rs. 1000000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts Rs. 900000. NCI is measured at proportionate net asset. The value of goodwill will be:

a) Rs. 300000
b) Rs. 380000
c) Rs. 450000
d) Rs. 280000

(v) Q Ltd. acquired a 60% interest in R Ltd. on January 1, 2018. Q Ltd. paid Rs. 900 Lakhs in cash for their interest in R Ltd. The fair value of R Ltd.'s assets is Rs. 2000 Lakhs, and the fair value of its liabilities is Rs. 1000 Lakhs. If NCI is valued at proportionate net asset, value of Goodwill:

a) Rs. 300 lakhs
b) Rs. 250 lakhs
c) Rs. 400 lakhs
d) Rs. 350 lakhs

(vi) Q Ltd. acquired a 60% interest in R Ltd. on January 1, 2018. Q Ltd. paid Rs. 720 Lakhs in cash for their interest in R Ltd. The fair value of R Ltd.'s assets is Rs. 2000 Lakhs, and the fair value of its liabilities is Rs. 700 Lakhs. If NCI is valued at fair value, Gain on bargain purchase amounts to:

a) Rs. 60 lakhs
b) Rs. 250 lakhs
c) Rs. 100 lakhs
d) Rs. 350 lakhs

(vii) Q Ltd. acquired a 60% interest in R Ltd. on January 1, 2018. Q Ltd. paid Rs. 900 Lakhs in cash for their interest in R Ltd. The fair value of R Ltd.'s assets is Rs. 2000 Lakhs, and the fair value of its liabilities is Rs. 1000 Lakhs. If NCI is valued at fair value, goodwill amounts to:

a) Rs. 300 lakhs
b) Rs. 250 lakhs
c) Rs. 500 lakhs
d) Rs. 350 lakhs

(viii) How is non-controlling interest shown in the financial statements of the acquirer at the time of a business combination under Ind AS 103.

a) It is shown as a liability
b) It is shown as an item under equity
c) It is not shown in balance sheet
d) Non-controlling interest is not recognised.

(ix) On 1 January 2018 A Ltd. acquires 80 per cent of the equity interests of B Ltd in exchange of cash of Rs. 600 lakh. The identifiable assets are measured at Rs. 925 lakh and the liabilities assumed are measured at Rs.150 lakh. Non-controlling interest in P is valued at proportionate net asset. The gain on bargain purchase will be

a) Rs. 20 lakh
b) Rs. 85 lakh
c) Rs. 105 lakh
d) Rs. 75 lakh

(x) X has acquired 100% of the equity of Y on March 31, 2018. The purchase consideration comprises of an immediate payment of Rs. 50 lakhs and three further payments of Rs. 2.5 lakhs if the Return on Equity exceeds 20% in each of the subsequent three financial years. Present value of certainty equivalent of future payments amount to Rs. 5.5 lakhs. Compute the value of total consideration at the acquisition date.

a) Rs. 50 lakhs
b) Rs. 56.215 lakhs
c) Rs. 55 lakhs
d) Rs. 55.5 laks

Answer Key:

1. (i) (a); (ii) (c); (iii) (a); (iv) (d)[1000000+180000-900000 = 280000]; (v) (a)[900+400-1000]; (vi) (c)[1300-720-480]; (vii) (c)[900+600-1000 = 500]; (viii)(b) ;(ix) (a)[775-600-155] ; (x)(d)[50+5.5] ;

2. Choose the correct alternative:

(i) Which of the following is false?

a) A parent company of a group preparing a separate financial statement may not prepare consolidated financial statement.
b) A company having investments in associates or joint ventures prepares financial statements using equity method of accounting as per Ind AS 28.
c) In separate financial statements investments in subsidiaries, associates and joint ventures may be shown at cost or as per Ind AS 109.
d) Separate financial statements must be prepared by a parent company as per Ind AS 27.

(ii) As per Ind AS 28, investment in associates is accounted for under

a) Equity method
b) Debt method
c) Acquisition method
d) Purchase method

(iii) Investment in associates or in Joint Venture is recognized in

a) Separate Balance sheet valued at Equity method and in consolidated balance sheet valued at cost
b) Consolidated Balance sheet valued at Equity method and in separate balance sheet valued at cost
c) Separate and consolidated balance sheet valued at Equity method.
d) Separate and consolidated balance sheet valued at cost.

(iv) An investment entity is an entity that

a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital
c) Appreciation, investment income, or both; and measures and evaluates the performance of substantially all of its investments on a fair value basis.
d) All of the above

(v) Which of the following is true as per Ind AS 111?

a) In a joint arrangement the parties are bound by a contractual arrangement.
b) More than one party enjoy joint control in a Joint venture.
c) A joint arrangement is either a joint operation or a joint venture.
d) All of the above

(vi) Consolidated value of a non-current asset at the reporting date is

a) The sum total of book values of the parent and the subsidiary at the reporting date
b) The sum total of fair values of the parent and the subsidiary at the reporting date
c) The sum total of book values of the parent and the subsidiary at the reporting date +/- the revaluation profit/loss at acquisition date
d) None of the above

(vii) Consolidated value of a current asset at the reporting date is
a) The sum total of book values of the parent and the subsidiary at the reporting date
b) The sum total of fair values of the parent and the subsidiary at the reporting date
c) The sum total of book values of the parent and the subsidiary at the reporting date +/- the revaluation profit/loss at acquisition date
d) None of the above

(viii) Pre-acquisition dividend of subsidiary company received by parent in post-acquisition period is
a) Subtracted from cost of investment in separate balance sheet of Parent
b) Subtracted from cost of investment for determining goodwill in consolidated balance sheet
c) Adjusted in other equity of consolidated balance sheet
d) Not adjusted for preparing separate balance sheet of parent.

(ix) For pre-acquisition dividend paid by the subsidiary company after acquisition
a) NCI is increased by its share in dividend
b) NCI is decreased by its share in dividend
c) Separate liability is created in consolidated balance sheet
d) No adjustment is done in consolidated balance sheet

(x) Gain on bargain purchase is shown in consolidated balance sheet
a) Under other equity at acquisition date value.
b) At acquisition date value plus post acquisition dividend from subsidiary
c) At acquisition date value plus share of pre-acquisition dividend from subsidiary
d) None of the above.

(xi)Non-Controlling Interest in consolidated balance sheet on the reporting date is shown at acquisition date value
a) Without any other adjustment
b) Plus share of NCI in post acquisition profits of the subsidiary company
c) Plus share of NCI in post acquisition profits less share of NCI in unpaid dividend of the subsidiary company
d) None of the above.

(xii) For dividend declared by the subsidiary in post acquisition period Non-Controlling Interest in consolidated balance sheet on the reporting date is
a) Not adjusted for pre or post acquisition dividend if it is paid
b) Not adjusted for pre or post acquisition dividend if it is unpaid
c) Not adjusted for pre or post acquisition dividend paid but adjusted by the amount unpaid
d) Adjusted for pre or post acquisition dividend whether paid or unpaid.

2. Answe Key:

(i) (a)
(ii) (a)
(iii) (b)
(iv) (d)
(v) (d)
(vi) (c)
(vii) (a)
(viii) (a)
(ix) (b)
(x) (a)
(xi) (c)
(xii)(d) NCI is reduced by its share of dividend declared post acquisition, whether it belongs to pre or post acquisition period and whether it is paid or unpaid.

3. Company P Ltd. (a listed company) invests in shares of company Q Ltd. on 1-4-17 at a cost of Rs. 66000, paid by cash. During the financial year 17-18, Q made profits of Rs. 20000 and other comprehensive income of Rs.

10000.The following alternative scenarios are presented:

(i) Investment entails 25% voting power and significant influence over Q. P should prepare

a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest
d) Only consolidated balance sheet to show investment valued at equity method and no separate balance sheet.

(ii) P does have joint control of Q, a joint venture. P should prepare
a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest
d) Only consolidated balance sheet to show investment valued at equity method and no separate balance sheet.

(iii) Investment entails significant influence over Q, which is a Joint Venture and P does not have joint control of Q. P should prepare
a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest
d) Only consolidated balance sheet to show investment valued at equity method and no separate balance sheet.

(iv) P does not have significant influence over Q. P should prepare
a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest
d) Only consolidated balance sheet to show investment valued at equity method and no separate balance sheet.

(v) P does not have joint control of or significant influence over Q, which is a joint venture. P should prepare
a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest
d) Only consolidated balance sheet to show investment valued at equity method and no separate balance sheet.

(vi) Investment entails 75% voting power and contrpl of Q. P should prepare
a) Consolidated balance sheet to show investment valued at equity method and separate balance sheet to show investment at cost or as per Ind AS 109.
b) Only individual balance sheet to show investment at cost or as per Ind AS 109.
c) Consolidated balance sheet replacing investment by net assets and non controlling interest and also separate balance sheet to show investment at cost or as per Ind AS 109.
d) Only consolidated balance sheet and no separate balance sheet.

(vii) Investment entails 25% voting power and significant influence over Q. Fair value of investment on 31-03-2018 Rs. 78000. Net assets of Q on 31-03-2018 Rs. 300000. Investment a/c in consolidated balance sheet of P should be shown at

a) Rs. 66000
b) Rs. 66000+7500 = Rs. 73500.
c) Rs. 78000.
d) Rs. 75000.

(viii) Investment entails 25% voting power and significant influence over Q. Fair value of investment on 31-03-2018 Rs. 78000. Net assets of Q on 31-03-2018 Rs. 300000. P&L a/c and OCI of P should be credited for 2017-18 by

a) Rs. 7500 and Nil
b) Rs. 5000 and Nil.
c) Rs. Nil and Rs. 7500
d) Rs. 5000 and Rs. 2500 respectively.

Answer Key: Q3.

(I(a);	**(vi) (c);**
(ii) (a);	**(vii) (b);**
(iii) (a);	**(viii) (d)**
(iv) (b);	
(v) (b);	

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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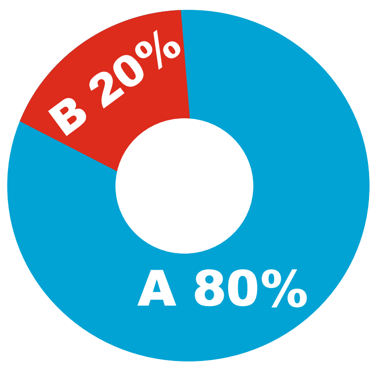
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

- Basic idea of Reverse Charge Mechanism (RCM)
- Applicability of Reverse Charge
- List of goods and services under Reverse Charge
- Time of supply under Reverse Charge
- GST registration under RCM
- Invoicing rule under RCM
- Input Tax Credit under RCM
- Liability arises to pay GST under RCM
- Compliances required in respect of supplies under RCM

INDIRECT TAX

Reverse charge can be stated as a mechanism where the recipient of the goods or services or both is liable to pay GST instead of the supplier i.e. it simply means the liability to pay tax rest on the person receiving the goods or services or both instead of person / persons supplying / providing the same.

As per the Section 2 (98) of the CGST ACT 2017 "reverse charge" means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both under sub-section (3) or sub-section (4) of Section 9, or under sub-section (3) or sub-section (4) of Section 5 of the Integrated Goods and Services Tax Act.

Section 9(3) of CGST Act and SGST Act and Section 5(3) of IGST Act state that the Government may on the recommendation of the council can specify the categories of supply of goods or services or both, the tax on which is payable on reverse charge basis by the recipient of the of the goods or services or both and all provisions of the Act shall also apply to such person as if he is liable to pay the tax in relation to supply of such goods or services or both.

In the following cases reverse charges will be applicable-

1.Supply to a Registered dealer from an Unregistered dealer

If a Supplier who is not registered under GST, supplies goods or services or both to a person who is a registered person under GST, then Reverse Charge would apply. This means that the GST will be payable by the recipient in respect of the specified categories of goods or services as notified by the Government as per the recommendation of GST Council, and all provisions of CGST Act and IGST Act shall apply to such recipient as if he is the person liable for paying the tax in relation to such supply of goods or services or both

The registered person / dealer i.e. recipient of the goods or services or both who is liable to pay GST under reverse charge has to do self-invoicing for the purchases made. For Intra-state inward supply (purchase) CGST and SGST has to be paid under RCM by the purchaser and for Inter-state purchases the buyer has to pay IGST.

GST to be paid under reverse charge should be paid through Electronic Cash Ledger only and can not be paid by utilizing input tax credit i.e.by utilizing Electronic Credit Ledger.

2.Services through an e-commerce operator

For any supply of services by e-commerce operator reverse charge will be applicable to the e-commerce operator. He will be liable to pay GST.

In case the e-commerce operator does not have any physical presence in the taxable territory, then the representative in that particular area of electronic commerce operator for any purpose will be liable to pay tax. The e commerce operator will appoint a representative in absence of any representative in that taxable territory who will be liable to pay GST.

3.Supply of certain goods and services specified by CBEC

Central Board of Indirect Taxes Customs (CBEC) has issued a list of goodsand alist of services on which reverse charge is applicable.

List of goods and services under reverse charge are as below

For Goods

- Cashew nuts, not shelled or peeled
- Bidi wrapper leaves (tendu)
- Tobacco leaves
- Silk yarn
- Supply of lottery

- Used vehicles, seized and confiscated goods, old and used goods, waste and scrap to Government or local authority
- Raw Cotton
- Priority Sector Lending Certificate

For Services

- Supply of service by GTA
- Advocacy Services
- Service by Arbitral Tribunal
- Sponsorship Services
- Services by Central Government, State Government, Union territory or local authority
- Services provided by Director (Except as a employee)
- Insurance agent services
- Recovery agent services
- Services provided by an author, music composer, photographer, artist
- Supply of services by the members of Overseeing Committee to Reserve Bank of India
- Renting of immovable property by Government or local authority
- Services supplied by individual Direct Selling Agents (DSAs)
- Services provided by business facilitator (BF)
- Services provided by an agent of business correspondent (BC)
- Security Services
- Services supplied by any person by way of transfer of development rights or Floor Space Index (FSI)
- Long term lease of land (30 years or more) by any person against consideration in the form of upfront amount
- Services provided by way of renting of a motor vehicle provided to a body corporate
- Services of lending of securities under Securities Lending Scheme, 1997
- Services provided by way of renting of any motor vehicle designed to carry passengers where the cost of fuel is included in the consideration charged
- Any service supplied by any person who is located in a non-taxable territory to any person other than non-taxable online recipient.
- Services supplied by a person located in non- taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India

Time of Supply under Reverse Charge

In the case of Goods -

Time of supply in case of supplying goods of which tax is payable under Reverse Charge, whichever shall be earliest from the following dates

- the date of the receipt of goods;
- the date of payment as entered in the books of account of the recipient;
- the date on which the payment is debited in his bank account, whichever is earlier;
- the date immediately following thirty days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier

Where it is not possible to determine the time of supply in mentioned above cases than the time of supply will be considered the date of entry in the books of account of the recipient of the supply.

In the case of Services -

Time of supply in case of supplying services of which tax is payable under Reverse Charge, whichever shall be earliest from the following dates:-

- the date of payment; or
- the date immediately following after sixty days from the date of issue of the invoice by the supplier; whichever is earlier

Where it is not possible to determine the time of supply in aforementioned cases, the time of supply will be considered the date of entry in the books of account of the recipient of the supply.

So we come across two types of reverse charge scenario –

1.It depend on the nature of supply and nature of supplier.
2.Taxable supply made by the unregistered person to registered person.

GST registration under Reverse Charge Mechanism

A person or dealer who is required to pay tax under reverse charge has to take the registration under GST Act irrespective of the threshold limit of registration under Section 24 of the CGST Act 2017 (the limit for registration if turnover mare than of Rs. 20 lakhs/Rs. 40 lakhs and Rs. 10 lakhs for special category States. Presently as per CGST (Amendment) Act,2018 threshold exemption of special category States is increased to Rs. 20 lakhs, is not applicable to the Reverse Charge Mechanism).

Invoicing Rules under Reverse Charge Mechanism

On receipt of the goods or services or both by the recipient, is required to issue invoice or payment voucher on receiving of goods or services or both from the supplier under reverse charge mechanism, in respect of the supplier who is not registered under GST on the date of receipt of the goods or services or both by the recipient. Since the recipient as a registered person, liable to pay tax

A registered person may issue on monthly basis a consolidated invoice at the end of a month for supplies covered under Section 9(4) of the CGST Act, where the aggregate value of such supplies exceeds rupees five thousand in a day from any or all the supplies.

Input Tax Credit under Reverse Charge Mechanism

The recipient of the goods or services or both who is liable to pay tax under reverse charge can avail the benefit of Input Tax Credit on GST paid. The supplier cannot take Input Tax Credit.

The Input Tax Credit can be availed by the recipient only on the GST amount paid against the goods or service or both received as a registered person provided that such goods or services are used or will be used for business or furtherance of business.

The ITC availed by recipient cannot be used towards payment of output tax on goods or services, the payment of tax under reverse charge only on cash.

Liability arises to pay GST under RCM

A particular supply of goods or services or both is liable for GST at the time of supply. The main consideration in this regard to determine time of supply is the person who is liable to pay tax. The recipient is liable to pay GST under reverse charge. Therefore time of supply for supplies under reverse charge is different from the supplies which are under forward charge.

Compliances required in respect of supplies under RCM

1. Every tax invoice required to mentioned clearly whether the tax in respect of supply of goods or services or both in invoice is payable on reverse charge. At the same time this is also required to mentioned in receipt voucher as well as refund voucher, if tax is payable on reverse charge (Section 31 of the CGST Act, 2017 read with Rule 46 of the CGST Rules, 2017)
2. Every registered person required to maintain the proper accounts i.e. to keep and maintain proper records of all supplies attracting payment of tax on reverse charge.
3. Any amount payable under reverse charge shall be paid by debiting the electronic cash ledger. It signifies , reverse charge liability cannot be discharged by using input tax credit. However, after discharging reverse charge liability, credit of the same can be taken by the recipient of the supply, if he is otherwise eligible.
4. Rate wise details of supplies attracting reverse charge to be given separately in 4B of GSTR – 1.
5. GST is leviable for any advance paid for reverse charge supplies. The person making advance payment need to pay tax on reverse charge basis.

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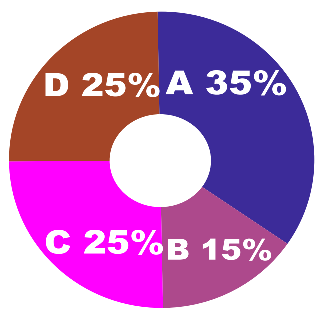
GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

FOR PAPER 19 - Problem and solution on study note 12 – Profitability Analysis

Question:

Sunny Motors which has two units in Chandigarh of which Unit 1 makes a profit and Unit 2 makes loss. The following is the summarised Profit and Loss account of Unit 2 for the year ended 31st March 2020:

	Rs.	Rs.
Sales	9,00,000	
Cost of Sales	7,38,000	
Gross Profit		**1,62,000**
Expenses:		
Commission to salesmen	9,000	
Supervisor Salary	19,200	
HO Expenses	16,800	
Sales Van expenses-Fixed (allocated)	11,040	
Variable (allocated)	3,840	
Electricity Charges	35,400	
Staff Salary	85,000	
Other Misc. Expenses	55,520	
Total Expenses		**2,35,800**
Loss for the Year		**73,800**

The commission to salesmen is a fixed percentage on the Sales. There is a common supervisor for both Units and his salary is equally shared by both Units. The sales van is also common by both Units. Its fixed expenses are shared equally by the two units but the running expenses are apportioned on the basis of the sales.

Prepare a report explaining the financial implications of closing of Unit 2 assuming that 30% of its sales of Unit will increase without requirement of any additional staff.

Solutions:

Report on the financial implication of closing down Unit 2
1. Results of Unit 2 for the year ended 31st March 2020:

	Rs.	Rs.
Sales		9,00,000
Less: Cost of Sales		7,38,000
Gross Profit		**1,62,000**
Less: Direct Expenses of Unit 2		
Commission to Salesmen	9,000	
Sales Van (Variable)	3,840	
Electricity Charges	35,400	
Staff Salary	85,000	
Other Misc. expenses	55,520	1,88,760
Under Recovery of Direct expenses		**26,760**
Expenses Shared with Unit 1		
Supervisor Salary	19,200	
Sales Van expenses (fixed)	11,040	30,240
		57,000
HO Expenses		16,800
Net Loss for the Year		**73,800**

Unit 2 therefore fails to earn enough to meet its own expenses and makes no contribution to the expenses shared with Unit 1 or with head office.

2. Results if Unit 2 closed down:

	Rs.	Rs.
Additional Turnover at Unit 1 (30% of Rs.9,00,000)		2,70,000

Less: Cost of Sales $\left(\frac{7,38,000 \times 2,70,000}{9,00,000}\right)$		2,21,400
Gross Profit		**48,600**
Less: Additional Expenses		
Commission on Salesmen @ 1%	2,700	
Sales van Variable cost (3,840*30%)	1,152	3,852
Additional Profit at Unit 1		**44,748**
Avoidance of under recovery at Unit 2		26,760
Total Increase in Profit		**71,508**

The share of fixed common expenses of Unit 2 may be ignored for computing the profit likely to be achieved by the proposed action of closing down the Unit 2, since the expenses are being fixed in nature has to be incurred in any case. It is obvious that closing down of Unit 2 will lead to better profits by Rs. 71,508 plus whatever saving is possible in interest since no inventory will be now necessary for the Unit 2 which is proposed to be closed.

YEARS OF CELEBRATING THE MAHATMA

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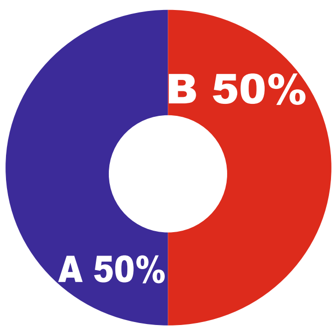
GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

Economic Efficiency of the Firm: Performance Analysis

Economic efficiency is when every scarce resource in an economy is used and distributed among producers and consumers in a way that produces the most economic output and benefit to consumers. (Source: Investopedia)
There are five types of economic efficiency: Allocative, productive, dynamic, social, and X-efficiency.

Allocative Efficiency: It occurs when all goods and services within an economy are distributed according to consumer preferences. In this scenario, price always equals the marginal cost of production. The reason for this is that the price consumers are willing to pay for a product or service reflects the marginal utility they get from consuming the product. Hence, the optimal outcome is achieved when the marginal cost (MC) equals marginal benefit (MB).

Productive Efficiency: It occurs when the optimal combination of inputs results in the maximum amount of output at minimal costs. That is the case when firms operate at the lowest point of their average total cost curve (i.e., where marginal costs equal average costs).

Dynamic Efficiency: It occurs over time, as innovation and new technologies reduce production costs. In essence, it describes the productive efficiency of an economy (or firm) over time. We speak of dynamic efficiency when an economy or firm manages to shift its average cost curve (short and long run) down over time.

Social Efficiency: Social Efficiency occurs when goods and services are optimally distributed within an economy, also taking externalities into account. This is the case when the marginal social cost of production equals social benefit.

X-efficiency: X-efficiency occurs when a firm has an incentive to produce maximum output with a given amount of input. Hence, it is quite similar to productive efficiency. The main difference between the two is that X-efficiency depends on management incentives, whereas productive efficiency depends on processes and technology. (Source: https://quickonomics.com/)

Basic Concepts
Individual Demand Schedule: Various quantities of commodity that would be purchased by an individual consumer at different prices is called individual demand schedule.
Market Demand Schedule: Various quantities of goods that would be purchased by all the consumers in the market is called market demand schedule.

Determinants of Demand

i) Price of the commodity (P)
ii) Prices of substitutes (Ps)
iii) Substitutes are those goods which can be used in place of each other. For example: Tea and Coffee.
iv) Price of complements (Pc)
v) Complementary goods are those goods which are related to each other in such a way that an increase (or decrease) in demand for one leads to an increase (or decrease) in the demand of the other. For example:Pen and ink, petrol and car etc.
vi) Income of household (I)
vii) Tastes and preferences of the households (T), and
viii) The amount annually spent on advertisement of the product and sales promotion (A)

Law of Demand:

The Law of Demand simply expresses the relation between quantity of a commodity demanded and its price. The law states that "demand varies inversely with price, not necessarily proportionately". If the price falls, demand will extend, and vice versa. The law of demand indicates this inverse relationship between price and quantity demanded. "Other things remaining same, higher will be demanded at a lower price and lower will be demanded at a higher price" - Prof. Benham.

Demand Function

Other factors remaining constant the quantity demanded (x), for any commodity is a function of its price (p) per unit, i.e., $x = f(p)$

Elasticity of Demand

The Quantitative responsiveness of demand to the change in the price called Elasticity of Demand. The rate of change in demand to a change in price is called elasticity of demand. If the change in the demand is more than the change in the price it is called elastic demand. If the change in the demand is less than the change in the price it is called inelastic demand.

Elasticity of demand= $\dfrac{\text{Proporation change in Demand}}{\text{Proportion Change in Price}}$

Price Elasticity of Demand

Price Elasticity of Demand (Ed) explains the proportionate or percentage change in demand to a proportionate or percentage change in price.

Income Elasticity of Demand

The income elasticity of demand explains the proportionate change in income and proportionate change in demand. The rate of change in the demand due to the change in the income is called income elasticity of demand.

Cross Elasticity of Demand

The rate of change in the demand for one commodity due to the change in the price of its substitutes and complementary goods is called cross elasticity of demand.

Cost Function

1) Total Cost (TC) = Fixed Cost (FC) + Variable Cost (VC)
Variable Cost is directly proportional to the number of units produced.
Total Cost = F + kx = C (Say
Where F is the fixed cost and k the constant of proportionality
Total Cost (c) is expressed as a function of output (x) produced i.e. c = f(x) or c = f(q) or f(u).
Total cost (c) = f(x) + k [k is constant]

2) Average Cast (AC) = $\dfrac{\text{Total Cost}}{\text{Totalnumber of units produced (Quantity)}} = \dfrac{c}{x} = \dfrac{f(x)+k}{x}$

Average Variable Cost (AVC) = $\dfrac{f(x)}{x}$ as 'k' is fixedcost.

Average fixed Cost (AFC) = $\dfrac{k}{x}$

3) Marginal Cost (MC) = Differential Coefficient of total cost w.r.t. quantity

$= \dfrac{dc}{dx}$

Marginal cost = $\dfrac{dc}{dx} = f^1(x)$ because k's derivative is 0

Cases

(i) When average cost goes upward, $\dfrac{d}{dx}\left(\dfrac{c}{x}\right) > 0$, i.e. $MC > AC$

(ii) When the average cost curve reaches a minimum point i.e. constant $\dfrac{d}{dx}\left(\dfrac{c}{x}\right)$ i.e. $MC = AC$

(iii) When AC is falling downwards $\dfrac{d}{dx}\left(\dfrac{c}{x}\right) > 0$, i.e. $MC < AC$.

$$= \frac{1}{x}\left(\frac{dc}{dx} - \frac{c}{x}\right)$$

$$= \frac{1}{x}(MC - AC)$$

4) Total Revenue (TR) = Quantity sold selling price per unit of the commodity = R = px where p is the prive per unit and x the number of units sold.

5) Average Revenue (AR) = $\dfrac{\text{Total Revenue}}{\text{Quantity Sold}}$

6) Marginal Revenue (MR) = Differential Coeffcient of total Revenue w.r.t. quantity = $\dfrac{dR}{dx}$

7) Profit (P) = Total Revenue (TR)- Total Cost (TC)

8) For maximum Profit : Margianl Revenue (MR) = Marginal Cost (MC)
Profit = R - C
Marginal pofit is the first derivative of profit function.
i.e Where p = profit and x = quantity and marginal profit = $\dfrac{dR}{dx}$

9) Price Elasticity of Demand.
Price Eleasticity of demand is the degree of responsiveness of the demand for a commodity to a change is its price.

$$\text{Price elasticity of demand} = \frac{\dfrac{\text{Change in quantity demanded}}{\text{Quantity demanded at original price}}}{\dfrac{\text{Change in price}}{\text{Original price}}} = \frac{\dfrac{dx}{x}}{\dfrac{dp}{p}} = \frac{dp}{p} \div \frac{dp}{p} = 1$$

Where x is the quantity demanded at original price and p is the original price per unit.

10) If margianal revenue function is given.total revenue function can be found out in the following manner.

Here Total Revenue = R & Marginal Revenue = MR

We have $MR = \frac{dR}{dx}$

$\Rightarrow$ MRdx = dR

$\Rightarrow$ dR = MRdx

integrating with respect to x

$\int dR = \int MR\, dr$

Example: 1

If cost funtion is $C = \frac{3}{5}X + \frac{15}{4}$

You are required to find out:

(i) Cost when output is 5 units
(ii) Average Cost of 10 units
(iii) Marginal cost.

Answer:

$C = \frac{3}{5}X + \frac{15}{4}$

(i) Cost when output is units

$C = \frac{3}{5} \times 5 + \frac{15}{4} = 6.75$

(ii) Average cost of 10 units

$C = \frac{3}{5} + \frac{15}{4 \times 10} = 0.975$

(iii) Marginal Cost $= \frac{dc}{dX} = \frac{3}{5} = 0.6$

Example 2

Demand curve faced by a monopolist is P = 250 – Q. Cost function of the monopolist is C = 100 + 50Q.What is the maximum possible profit earned by the firm?

Solution:

DemandunctionP = 250 - Q

TR = PQ = 250Q - Q2

$MR = \frac{dTR}{dQ} = 250 - 2Q$

TC = 100 + 50Q

$MC = \frac{dTR}{dQ} = 50$

= 50

To maximize profit MR = MC
i. e. 250-2Q = 50
Q =100
P = 250– 100 = 150
Profit of the non-discriminating monopolist
= TR– TC
= (100 ×150)-(100+ 50×100)
= Rs.9,900.

Example3

The average variable cost function of a manufacturing unit is AVC - 200 - 9Q + 0.25Q
Fixed costs Rs.150. What is the minimum possible marginal cost?

Solution:

$AVC = 200 - 9Q + 0.25Q^2$
$VC = Q \times AVC = 200Q - 9Q^2 + 0.25Q^3$; Fixed Cost=150

$$MC = \frac{dTR}{dQ} = 200 - 18Q + 0.75Q^2$$

Minimum possible MC is where $\frac{dMC}{dQ} = 0$

$$\frac{dMC}{dQ} = -18 + 1.5Q = 0$$

So, Q=12
$MC = 200 - (18 \times 12) + (0.75 \times 12^2) = Rs.92$

MCQs

1. **Which of the following is/are true?**
   (A) Income elasticity is the ratio of percentage change in the price of a good to the percentage change in the income.
   (B) Goods are independent if a price change for one has no effect on the demand for the other.
   (C) The reciprocal of income elasticity is the percentage change in the income to the percentage change in the quantity demanded of a good.
   (D) Both (b) and © above.

2. **For complementary products, the cross elasticity of demand will be**
   (A) Zero
   (B) Infinity
   (C) Positive, but less than infinity
   (D) Negative

3. **The price elasticity of demand for a product is infinity. If the firm increases price of the product by 10%, total revenue of the firm will**
   (A) Increase to infinity
   (B) Fall to zero
   (C) Decrease by more than 10%
   (D) Decrease by less than 10%.

4. **In the short run which of the following is not true of a profit-maximizing firm operating under perfect competition?**
   (A) P - MC
   (B) MR - MC
   (C) AR = MR = MC
   (D) P=AR = AC

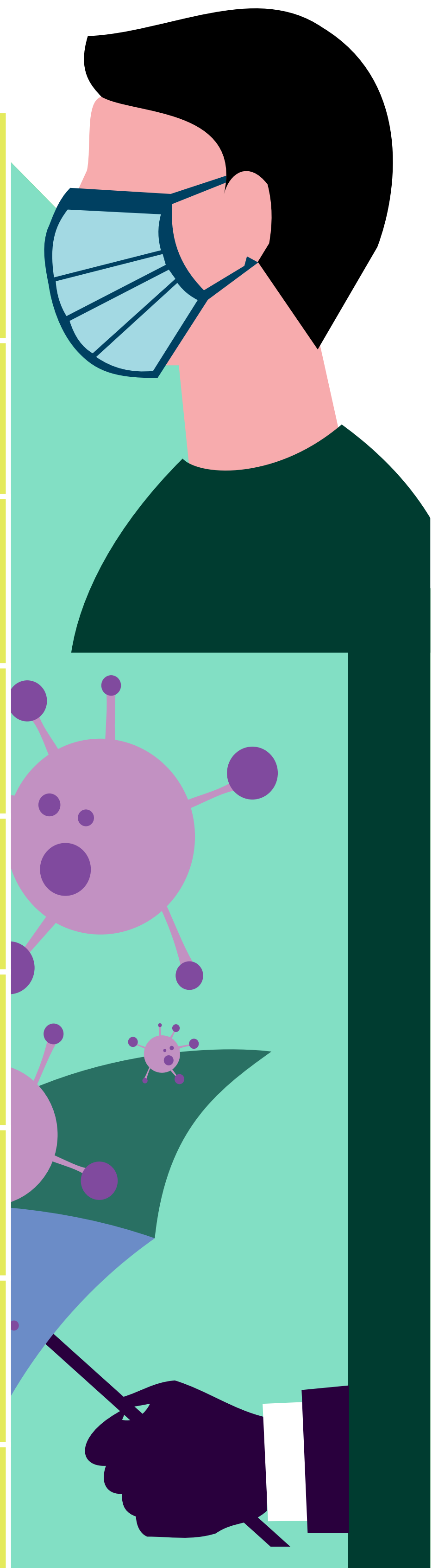
5. **A perfectly competitive firm earns abnormal profits when its**
   (A) Average revenue curve is tangent to average cost curve
   (B) Demand curve lies above the average cost curve
   (C) Marginal revenue curve lies above the average cost curve
   (D) Both (b) and © above.

6. **The cross price elasticity of demand for the products X and Y is 10, It implies that X and Y are**
   (A) Substitutes
   (B) Complements
   (C) Independent
   (D) Inferior goods

7. **For a perfectly competitive firm the shut down point in the short run is where the price of the product falls below the**
   (A) Total cost
   (B) Fixed cost
   (C) Average variable cost
   (D) Semi-fixed cost

Examination
RESCHEDULED TIME TABLE

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
20 th July, 2020 (Monday)	Corporate Laws & Compliance (Paper 13) (Group - III)
21st July, 2020 (Tuesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
22nd July, 2020 (Wednesday)	Strategic Financial Management (Paper 14) (Group - III)
23rd July, 2020 (Thursday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
24th July, 2020 (Friday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
25th July, 2020 (Saturday)	Cost & Management Audit (Paper 19) (Group -IV)
26th July, 2020 (Sunday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
27th July, 2020 (Monday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)



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

Dear Students,

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

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

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

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

Updation of E-Mail Address/Mobile:

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

Cracking the CMA

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I believe you are in full motion of your preparation for the upcoming CMA examination in June. Indeed, one needs to prepare for the tests with sincerity and determination to achieve success. Most students do think that CMA exams are challenging. I do agree to some extent, but it isn't that difficult if we face them with adequate preparation, which isn't the case with just examinations, but it is the case with any significant issues in life.

Set your goals, plan your activities, and work harder to conquer. Success has no reservations for those who dream of it and work for it. There is no substitute for hard work. In the words of *Mahatma Gandhi*, **"The future depends on what that we do in the present."** Due to the lockdown, we all are going through unprecedented times, but you should utilize this time to prepare well and get successful in the exams.

Planning is the cornerstone of success

Yes, a good plan implies a good beginning, but a goal without a plan is just a wish. Translate that wish into an actionable plan to succeed. There is no magic mantra for success without smart work. It is imperative to plan your studies focusing on your examination. You are required to ensure a systematic study plan to qualify the so-called difficult examination. Planning should include your schedule, hours of study, topics to be covered, strategy for retrieval, and finally, how to make an impressive presentation in your answer book. I am reminded of the words of *Benjamin Franklin*,**"If you fail to plan, you are planning to fail."** Preferably, you should plan to win. It is better late than never.

Prepare from Study Material

The Cardinal principle for success in the CMA exam is to study from the study material and is crucial, which is why the institute provides you with excellent quality material. Don't get carried away by private coaching notes, which necessarily may not cover the whole of the study material. Unless you practice intensely, you may not gain the required speed and expertise to face the examination confidently, especially in the case of non-theory papers. If you can solve all the problems in the study material and past ten years' question papers, without the aid of the answer key, your success in the exam is assured. Before the crucial exam day, do practice a few mock exams at your home. Set your questions, and try to answer it under exam conditions, do a self-evaluation, and find out where you stand. One of the significant deficiencies among today's students is that they lack writing skills and also the patience for sitting through the exam conditions for 3 hours. Command over the English language is lacking. And to overcome these deficiencies, the institute provides the students with MTP and RTP. But unfortunately, it is a matter of great concern that only a handful of students utilize this facility to assess them of the preparedness. I strongly recommend all of you to make use of this golden opportunity.

Strategize the Subject

Strategize your studies is equally important when considering the voluminous syllabus. Your approach to study can make a lot of difference. One should be conscious of the following three things

1.What to study

The syllabus, weightage of marks, the trend in past question papers and study materials will give an overall idea about what to study.

2. How to study

It is advisable to allocate your available time into three buckets. First revision covering 50% of your study time, second revision should target 30%, third revision, and final covering to target the balance 20% of your time. For the first revision, you should complete the reading of your study material cover to cover. While doing so, do highlight the essential contents of each chapter. When you take a non-theory paper, you should carefully understand the concepts, and based on that, solve all illustrations. For the second revision, you should be able to prepare your study notes out of the segregated contents. One should complete all problems in the Practice manual without referring the solution in the case of subjects other than theory, identify only those problems where you got stuck for your final revision. Do not waste your time on a problem which you could solve in the first instance. The final round should help you to reproduce your understanding of any topic that you will be examined. Constant practice is the only mechanism to make you perfect. When you prepare for your examination by writing notes or jotting down hints, it helps you acquire this ability besides improving legibility. You should solve illustrations and exercises repeatedly, instead of merely reading the problems in the subject. You must attempt several problems to have complete control over the topics.

3. How to deliver

How to write an examination is nothing but the Art of Writing Examination

It is of the supreme importance of how you write the test or how you present your answers. You must keep calm during the exam and utilize every minute of the allocated time. How effectively you use the **3 hours and 15 minutes** in answering the questions determines your result. Remember, **Your Answer Sheet is your deliverable**. Once the exam starts, the initial **15** minutes, you should read the questions and instructions carefully to decide the questions you will attempt. The **order (Starting from the question you know the best to the question you are least confident about)** and the **time** to be allocated to each question (**Commensurate**

with the marks/weightage assigned tothe question). Make sure to conserve some time for a revision at the end. It is pertinent to reinforce that utilizing your time effectively, especially during the examination is crucial for your success. You must present your answers carefully and neatly to maximize your score. **Remember, you will be marked on what you write rather than what you know.** You must allot your time prudently according to the weightage and complexity of the question, utilizing some time in planning and structuring your answers. Enumerate the points to enhance the readability of your response. Write neatly and legibly, explaining the concept with clarity, precision, and coherence, highlighting important terms and keywords. Incorporate illustrations and examples wherever necessary. You may answer the theoretical questions in points sequentially, citing examples and section numbers wherever necessary. For practical questions, you could mention underlying case law/standard and give working notes. If a particular question requires making an assumption, you must clearly state that in your answer. Do not spend much more than the allocated time on a single question. Attempt all the subparts of a question together. Highlight the critical points by underlining them. Always adhere to the time limits. Attach all your supplementary sheets in the right sequence and ensure details are written legibly on the front page. The presentation of the answers should be perfect, and there should not be many cancellations or strikethroughs, handwriting should be legible, the delivery of your answers should be tidy. In short, the examiner should be delighted to read through your answers.

ALWAYS KEEP IN MIND WHAT YOU ARE EXPECTED TO STUDY IN 18 MONTHS IS GOING TO BE EXAMINED IN 3 HOURS AND WILL BE EVALUATED IN LESS THAN AN HOUR.

I wish you all the very best

Stay Home, Stay safe

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Member of Editorial Board

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 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

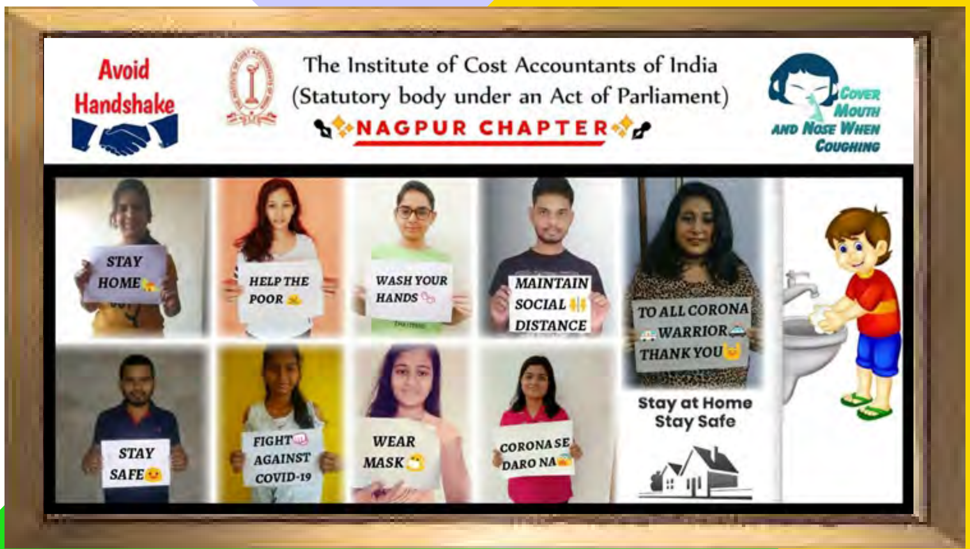
- Don't give up
- Don't give in
- Don't give out
You can win!

GOOD LUCK

Be Prepared and Get Success;

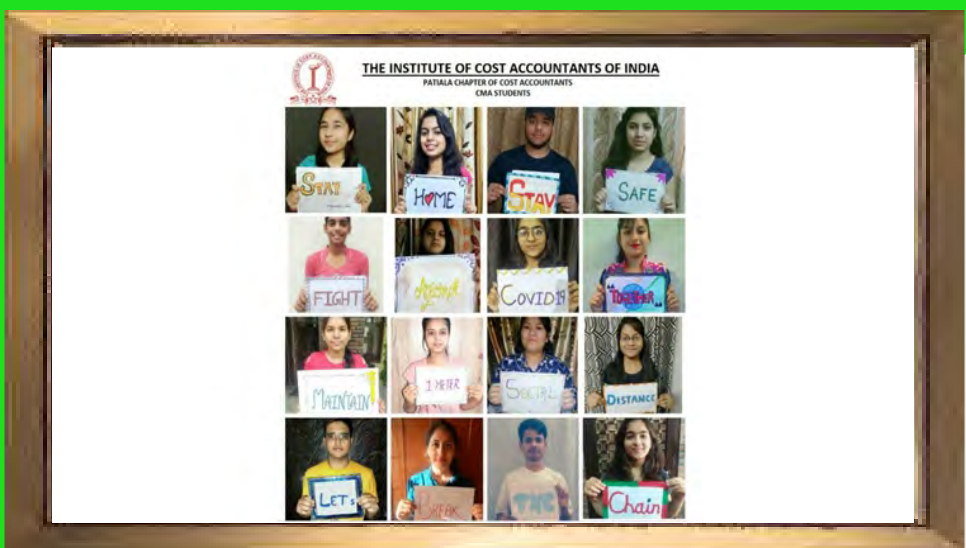
Few Snapshots

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.

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