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# CMA Student E - Bulletin

## FINAL

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**Behind every successful business decision, there is always a CMA**

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150 YEARS OF CELEBRATING THE MAHATMA

# CONTENTS

150 YEARS OF CELEBRATING THE MAHATMA

# KNOWLEDGE
## Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

GROUP: iii, PAPER: 13

# CORPORATE
## LAWS & COMPLIANCE (CLC)

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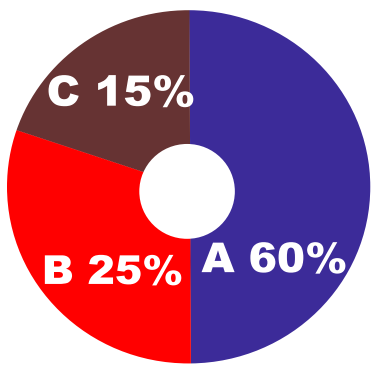
# Your Preparation Quick Takes




**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.

# COMPANY LAW AND COMPLIANCE

**Please pick up the right answer by clearly ticking or dotting boldly.**

1. **The financial statement including consolidate financial statement, shall be signed on behalf of the Board by:**
   (a) Only the Chairperson of the company
   (b) All directors
   (C) Only by Chief Financial Officer and the Company secretary
   (d) none of the above

2. **A company is required, in the normal course, to keep the books of accounts in:**
   (a) registered office of the company
   (b) corporate office of the company
   (C) head office of the company
   (d) any branch office of the company

3. **Books of accounts are to be retained for ………… years.**
   (a) 8
   (b) 10
   (c) 12
   (d) 20

4. **The annual financial statement of the company is considered to have been final once approved by:**
   (a) Board of Directors
   (b) shareholders
   (C) Central Govt.
   (d) shareholders and creditors

5. **A Company having one or more subsidiaries shall, in addition to standalone financial statement, prepare ……………………….financial statement.**
   (a) Six monthly
   (b) Previous years
   (c) Consolidated
   (d) abridged

6. **Copies of the financial reports are to be filed with The Registrar of Companies within ………….days of holding the annual general meeting(AGM)**
   (a) 45 days
   (b) 30 days
   (c) 90 days
   (d) 120 days

7. **internal Auditors of a company is appointed by:**
   (a) Board of directors
   (b) Central Govt.
   (C) shareholders
   (e)none of the above

8. **under the new Companies Act, non profit company is also called:**
   (a) section 8 company

(b) section 18 company
(C) section 25 company
(d) none of the above

**9. Directors' Responsibility statement, which is a part of the Board's Report relates to:**
(a) CSR
(b) business responsibility
(C) accounting standards
(d)composition of Board

**10. An auditor of a company shall be appointed for a maximum period of………………. yrs at a time.**
(a) 3
(b)4
(C) 5
(d )6

**11. Auditors address their report to:**
(a)Board of directors of the Company
(b)Central Govt.
(c)Shareholders of the company
(d)chairman, Audit Committee

**12. Majority of the members of an audit committee of a company, shall be:**
(a) independent directors
(b) non- executive directors
(C) full time directors
(d) none of the above

**13. purpose of the remuneration committee is to fix:**
(a) remuneration of all the employees of the company.
(b) Remuneration of directors
(c) Recommending appointment and remuneration of directors
(d) None of the above

**14. There has to be at least one director in CSR committee, who shall be :**
(a) a full time director
(b) non- executive director
(c) independent director
(d) none of the above

**15.First auditor of the company is supposed to be appointed by Board within ……….days of incorporation of the company:**
(a)60
(b)30
(c)75
(d)100

**16 . A resolution requiring special notice is to be deposited with the company at least before ….days of the day of the meeting.**
(a) 7
(b)14
(c) 21
(d)25

**17 . Alternate director may be appointed in a company , if the original director is out of the county for minimum ………..months:**
(a) 12 months
(b) 15 months
(c) 3 months
(d) 30 months

**18. additional director is appointed in between :**
(a) two board meetings
(b) two extra ordinary general meetings
(c)two debenture holders meetings
(d) two annual general meetings

**19. a listed company shall have 50% of the Board members as independent directors, if:**
(a) the chairman is executive
(b) if chairman is non executive
(c) if there is no chairman
(d)None of the above

20. **one women director is needed in case of:**
(a) all listed companies
(b) all public limited companies
(c) all Govt. companies
(d) All section 8 companies

Answers

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

GROUP: iii, PAPER: 14

# STRATEGIC FINANCIAL MANAGEMENT (SFM)

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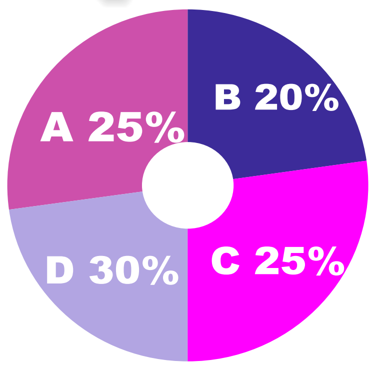
## Your Preparation Quick Takes




### Syllabus Structure

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

**Learning objectives:**

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

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

## Strategic Financial Management

**Unit: Evaluation of Risky Proposals for Investment Decisions**

**6. Decision Tree Analysis**

Let us consider a hypothetical situation

In Kolkata, the demand for power is growing at a rate of 6% per annum. The Calcutta Electric Supply Company, which supplies power in most parts of Kolkata, is planning to set-up a thermal power plant to meet the demand. According to the estimates made by the company, there is 70 percent probability that the demand will continue to grow at 6 percent and a probability of 30 percent that it may slow down to 5 percent. It is considering two plants - a smaller plant that will cost Rs.30 crore and a larger plant that will cost Rs.50 crore. If the smaller plant is set-up, and demand picks up later, the capacity of the plant can be expanded. If the larger plant is set-up and demand continues to grow at 6 percent, the present value of the net operating cash inflow from the plant is Rs.70 crore. But, if the demand growth falls to 5 percent, the present value will be only Rs.45 crore.

The present value of the net operating cash flows if a small plant is built and demand grows at only 5 percent is Rs.41 crore. But if the demand continues to grow at 6 percent, the company may have to expand the capacity. The present value of the investment on expansion is Rs.25 crore. With this, the PV of the cash flows will increase to Rs.60 crore. If the company chooses not to expand capacity even if the demand grows at 6 percent, there is a 30 percent probability that the revenues will fall to Rs.35 crore as the inability to cater to demand and consequent bad market reputation may wean away some customers to other sources such as internal generation.

The unique feature of the above case is that it involves sequential decisions as time passes. The decisions can be taken only after the happening of an uncertain future event. Such complex situations can be tackled using ***decision tree analysis***.

A *decision tree* (also called a *decision tree diagram*) is drawn indicating the chance events and decision points at the nodes. By convention, chance points are indicated with circles and decision points with squares. The branches emanating from chance points indicate the chance happenings possible at that juncture. It can automatically be guessed that all the decision alternatives possible are indicated by branches from the decision points. The decision points and chance points follow each other excepting at the beginning and end of the diagram. At each point (decision or chance), the alternatives which give scope for further alternatives, either for decisions or chances are further branched while those that do not, are terminated. At the right of the branches at the end of the tree, the probabilities of the alternatives represented by the branches and their outcomes are written. The final output from the tree is either a choice of different courses of action and their pay-offs or a mean value of the expected benefit from the project and its standard deviation, depending on whether the tree is ending with chances or decision alternatives. One caveat that should be borne in mind while drawing a decision tree is that the tree should not be allowed to become unwieldy and confusing. Care should be taken to see that the alternatives are not generated for the sake of generating alternatives and should, prima facie, be practicable.

The above narration can be summarized into four steps:

i. Enumerate all the chance events, their probabilities, alternative courses of action and the monetary outcome form each action.
ii. Represent the chances and decisions on a decision tree in a logical sequence. These two steps can be treated as one, as generating alternatives and drawing the diagram can take place simultaneously.
iii. Calculate the conditional probabilities of each possible outcome at each chance point.
iv. Calculate the benefit, or expected value from each alternative and choose the best alternative.

To illustrate the procedure, let us solve the case study taken up at the beginning:

**Step 1**
The chance events and alternatives are:

**Alternatives**

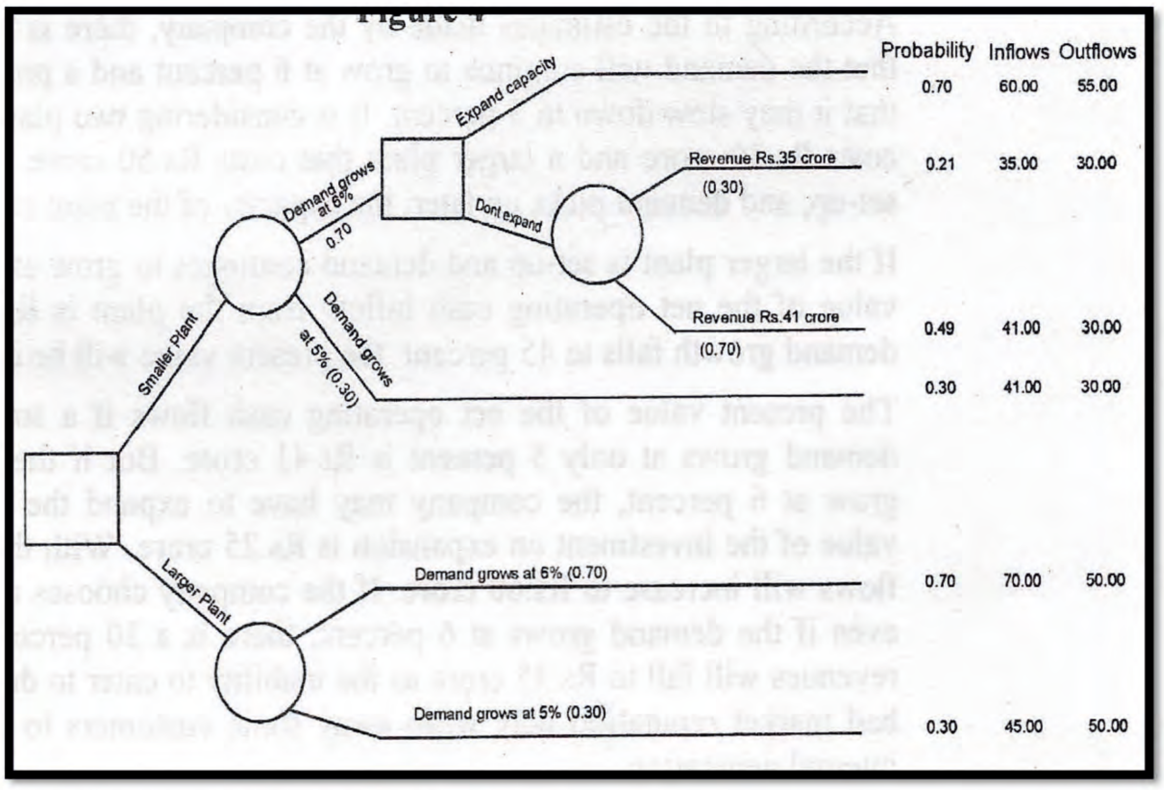
- Install smaller plant and expand
- Install smaller plant and don't expand
- Install larger plant

**Chance Events**

- Demand grows at 6%
- Demand grows at 5%

**Step 2**

Once the alternative courses of actions and chance events are identified along with the probabilities of such chance events, the next step is to draw the decision tree diagram. As mentioned earlier the *decision tree diagram* is drawn indicating the chance events and decision points at the nodes.




**Step 3**

The possible revenues and the relevant probabilities are:

| Plant Size | Demand Growth | Expansion | Present Value of Cash Flow | Probability |
|---|---|---|---|---|
| Small | 6% | Yes | 60.00 | 0.70 |
| Small | 6% | No | 35.00 | 0.7 x 0.3 = 0.21 |
| Small | 5% | --- | 41.00 | 0.7 x 0.7 = 0.49 |
| Small | 5% | --- | 41.00 | 0.30 |
| Large | 6% | --- | 70.00 | 0.70 |
| Large | 5% | --- | 45.00 | 0.30 |

**Step 4**

The alternative courses of action and the expected cash flows are:

i. Build a small plant and expand if necessary:
The expected cash flows are: 60.00 x 0.70 – (30.00+25.00) = -13.00

ii. Build a small plant and don't expand under any circumstances:
(35.00x021+41.00x0.49+41.00x030)-30=9.74

iii. Build a large plant:
(50.00 x 0.70 + 40,00 x 0.30) - 50 = -3.00.

Of the above three alternatives, alternative (iii) is the best as it provides the highest expected cash flows.

The decision tree approach, of course, has its own drawbacks. Though the solution appears sophisticated, it would be imprudent to choose the alternative that gives the highest NPV depending solely on the decision tree. This is because while the solution is optimal, it is not necessarily the best, as the tree does not provide any indication of the risk characteristics of the alternatives such as those arising from the financing pattern of the project. It is also necessary to analyze the magnitude of change permissible in the chance events before the solution chosen becomes non-optimal (i.e., sensitivity analysis) to get a good grasp of the risk of the project. Some authors, therefore, suggest that decision trees should only be used as a first step which calls for further analysis and not as a decision-making tool.

With this we conclude our discussion on Evaluation of Risky Proposals for Investment Decisions. The choice of the appropriate tools for evaluating the risky proposals, however, ultimately depend on the type of the organisation, type of the project and most importantly the availability of information.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

# STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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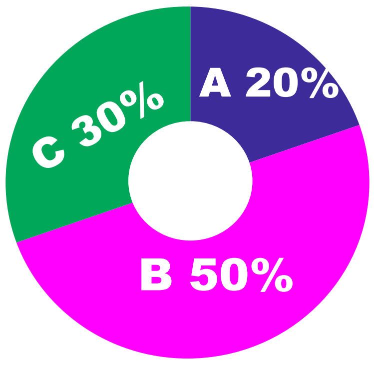
## Your Preparation Quick Takes




**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?

# Tit Bits on Target Costing

## 01.00 Japan's Competitive Thinking triggers Target Costing

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. And, there comes the spirit of Japan's Competitive Posture.

***Target costing is market-driven system of cost reduction, focused on managing costs at the developmental and design stages of a product.***

The Japanese believe that the key to achieving a competitive edge is simplicity. They have established that there can be too much of good things, too much of a variety, too much of a flexibility and even too much of customer satisfaction. One of the most influential changes in the practice of management to emerge is *kaizen* – the philosophy of continuous improvement. Originally a Japanese idea, it is being adopted around the world as an integral part of management strategy.

An advancement of the concept of *kaizen* is that of '*kaizen costing*' in which the emphasis is on gradual ongoing cost reduction. Kaizen costing relies on setting cost reduction targets and attaining the targets through continuous improvement activities in the manufacturing phase. Deriving it from the thought of continuously improving costing, in their stride to maintain the competitive edge, Japanese organisations have moved on to the radical approach being referred to as '*Target costing*'. Target costing is market-driven system of cost reduction, focused on managing costs at the developmental and design stages of a product.

In the early of 1990s, three major events occurred in Japan that contributed to significant changes in target costing. The first and the most significant was the bursting of the economic bubble in 1990 and 1991, which caused many companies to struggle to meet customers' expectations of lower prices.

The second event was the rise of the Japanese yen against the U.S. dollar, which started in 1993. By 1995, the Japanese yen had appreciated as much as 50 per cent against the dollar. It moved from a stabilized exchange rate of 130-140 yen per dollar in 1992 onto a record 84 yen per dollar in 1995. As a consequence, both the exports and the profit margins of Japanese companies plummeted. The survival instinct of the Japanese companies forced them to intensify their use of target costing.

The long recession in Japan caused by a crisis in the financial sector was the third major event that forced many Japanese companies to squeeze out costs to meet their profitability requirements. Target costing paved the way for survival of the fittest as also to reinvent the upbeat.

## 02.00 The Target Philosophy

Effective cost management systems are developed in response to changing competitive conditions. Target costing is an example of such a system that has a special relevance to companies in the process and assembly industries. In these industries, firms are no longer able to achieve a sustainable competitive advantage by pursuing either a low-cost or differentiation strategy. Rather, firms realize that any competitive advantage they achieve is likely to be short-lived as their competitors move quickly to match new product offerings at competitive prices.


Moreover, competitors will often supply their new products with more advanced features, providing further challenges that require a firm to respond. Rather than attempting to create a sustainable competitive advantage based on either low cost or commanding price premiums through product differentiation, firms become involved in continual head-on competition. And, there arises the need for Target Costing for target costing focuses on searching for opportunities for cost reduction at the product planning stage itself. It also ventures at providing continuous cost reductions even after the product commences manufacture.

In a competitive economy, product markets influence the determination of the price of the product and the financial markets influence the determination of the cost of capital. Cost of the capital infused by the enterprise sets the benchmark for the quantum of the profit to be achieved. Thus, price of the product as also the quantum of the profit are market driven. The end result is that the product cost boundaries are set by the difference between the price and the profit.

AS such, target costing is built on the 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, appropriately, 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".

Born out of the market-driven philosophy, target costing is based on the price-down & cost-down strategy, which enables companies to win considerable share of their product markets. In companies where target costing is used, there seems to be a different culture and attitude. They place more emphasis on their relative position in the market and product leadership.

**03.00 Problems for Practice**

**03.01 Problem**

Marketing department of an organisation estimates that 40,000 of new mixers could be sold annually at a price of Rs.6,000/- each. To design, develop and produce these new mixers an investment of Rs.40,00,00,000 would be required. The company desires a 15% return on investment (ROI). What should be the target cost to manufacture, sell, distribute and service one mixer?

Projected sales = (40,000 mixers X 6000 per mixer) = Rs. 24,00,00,000
Desired profit = (15% of 40,00,00,000) = Rs.6,00,00,000
Target Cost for 40,000 mixers = Projected Sales – Desired Profit
= 24,00,00,000 – 6,00,00,000
= Rs.18,00,00,000
Target cost per mixer = (18,00,00,000 ÷ 40,000 mixers) = Rs.4,500/-

**03.02 Problem**

A Company requires Rs. 85,00,000 in sales to meet its target net profit. Its contribution margin is 30% and the fixed costs are Rs.15,00,000. What is the target net profit?

**Solution**

Sales = Rs.85,00,000
Contribution = 30% of Sales = (85,00,000 × 30%) = Rs.25,50,000/-
Fixed Costs = Rs.15,00,000
Target Net Profit = (Contribution – Fixed Costs) = (25,50,000 – 15,00,000)
= Rs.10,50,000/-

**03.03 Problem**

T Ltd. produces and sells a product. The company expects the following revenues and costs in 2020:
Revenues (400 sets sold @ Rs.600 per product) = 2,40,000
Variable costs = Rs. 1,60,000
Fixed costs = Rs. 50,000
What amount of sales must T Ltd. has to earn a target net income of Rs. 63,000 if they have a tax rate of 30%?

**Solution**

Sales = Rs.2,40,000
Variable Costs = Rs.1,60,000/-
Contribution = (2,40,000 – 1,60,000) = Rs.80,000/-
C/S Ratio = (80,000 ÷ 2,40,000) = 1/3

Target Net Income (Net Profit) = Rs.63,000/-
Tax Rate = 30%
Profit Before Tax = {(Net Profit ÷ (1-Tax Rate)}
= {63,000 ÷ (1-30%)} = Rs.90,000/-
Fixed Costs + Rs.50,000/-
Target Contribution = (PBT + FC) = 90,000 + 50,000
= Rs.1,40,000/-

Target Sales = (Target Contribution ÷ C/S Ratio)
= (Rs.1,40,000 ÷ 1/3) = Rs.4,20,000/-

**03.04 Problem**

A company has the capacity of production of 80000 units and presently it sells 20000 units at Rs.100 each. The demand is sensitive to selling price and it has been observed that for every reduction of Rs.10 in selling price the demand is doubled. What should be the target cost per unit at full capacity if profit margin on sales is taken at 25%?

**Solution**

Given
Maximum Capacity = 80,000 Units
Present Sale = 20,000 Units
Present Selling Price = Rs.100/-per Unit

Impact of Selling Price on Production

| Situation | Selling Price (Rs.) | Production (Units) |
|---|---|---|
| Present | 100 | 20,000 |
| 1st reduction of Selling Price by Rs.10/- | 90 | 40,000 |
| 2nd reduction of Selling Price by Rs.10/- | 80 | 80,000 (Full Capacity) |

Therefore
Selling Price at full capacity = Rs.80 per unit
Profit Margin = 25% on sales
Target Cost = SP – Profit = (80 – 25% of 80) = 80-20 = Rs.60/- per unit

**04.00 Quick Take**

Every Indian Enterprise should concentrate on target cost management and to reinvent the upbeat post COVID 19!

CA Vikash Mundhra
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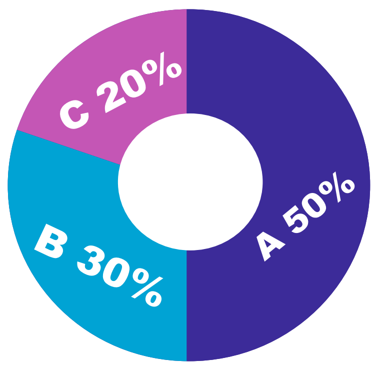
GROUP: iii, PAPER: 16

# 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 & Alternative Tax Regime

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.*
- *The provisions of this section shall not apply to a person who has exercised the option referred to in sec. 115BAC or 115BAD [alternative tax regime]*
- *The provision is not applicable to the specified fund referred to in clause (c) of the Explanation to sec. 10(4D).*

***Scheme of Alternate Minimum Tax (AMT)***

| | | | | |
|---|---|---|---|---|
| Step 1 | Compute regular income tax liability (before 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:<br>**(**If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee. | | | |

| | | | |
|---|---|---|---|
| | (ii) if 'F' does not exceed Rs.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*: Health & Education 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 upload one month prior to 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<br>1. As adjusted total income does not exceed Rs.20 lakh<br>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 15$^{th}$ 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.

<u>*Examples*</u>

| | | | |
|---|---|---|---|
| (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) | <u>Year 1</u> | | |
| | Liability u/s 115JC (AMT) | 2,000 | |
| | Regular Tax Liability | 1,000 | |
| | | 1,000 | It can be carried forward |
| | <u>Year 2</u> | | |
| | 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

***<u>Applicable to</u>***

Individual / HUF

***Conditions***

a. Total income of the assessee shall be computed:

I Without any exemption or deduction under following provisions

| Deduction not available under following section | Details |
|---|---|
| 10(5) | Leave Travel Concession |
| 10(13A) | House Rent Allowance |
| 10(14) | Special Allowances<br>***Exception***: Few prescribed allowances |
| 10(17) | Allowance to MPs/MLAs |
| 10(32) | Exemption in respect of clubbing of minor child |
| 10AA | Special Economic Zone |
| 16 | Deduction under the head Salaries - Standard Deduction, Deduction for Entertainment allowance and Deduction for professional tax |
| 24(b) in respect of self occupied property | Interest on borrowed capital<br>*Taxpoint: Deduction is available in respect of other properties like let out, deemed to be let out* |
| 32(1)(iia) | Additional Depreciation |
| 32AD | Investment Allowance |
| 33AB | Tea / Coffee / Rubber Development Allowance |
| 33ABA | Site Restoration Fund |
| 35(2AA) or 35(1)(ii) / (iia) / (iii) | Scientific Research through outside institution |
| 35AD | Capital Expenditure in respect of specified business |
| 35CCC | Agriculture Extension Project |
| 57(iia) | Standard deduction in respect of family pension |
| Deduction under chapter VIA | ***Exception***: Deduction in respect of contribution to NPS u/s 80CCD(2); deduction u/s 80JJAA and deduction u/s 80LA is avaialble |

ii. without set off of any loss:

a. carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred above;

b. under the head "Income from house property" with any other head of income;

iii. by claiming the depreciation, if any, u/s 32 [except additional depreciation], determined in prescribed manner; and

iv. without any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being in force.

b. The assessee is required to exercise the option (in prescribed manner) to avail the benefit of this section.

***Rate of Tax***

Under this tax regime, income tax shall be computed at the option of the assessee considering the following rate:

| Total income | Rate of tax |
|---|---|
| Upto ₹ 2,50,000 | Nil |
| From ₹ 2,50,001 to ₹ 5,00,000 | 5% |
| From ₹ 5,00,001 to ₹ 7,50,000 | 10% |
| From ₹ 7,50,001 to ₹ 10,00,000 | 15% |
| From ₹ 10,00,001 to ₹ 12,50,000 | 20% |
| From ₹ 12,50,001 to ₹ 15,00,000 | 25% |
| Above ₹ 15,00,000 | 30% |

*Taxpoint*

- *If a person opts for this regime, ₹ 2,50,000 shall be considered as basic exemption limit irrespective of his age. In other words, for all category of individual i.e, senior citizen, super senior citizen and others, basic exemption limit is ₹ 2,50,000*
- *Rebate u/s 87A is available*
- *Computed tax is further increased by applicable surcharge, if any, and health and education cess*
- *If any income is taxable at special rate u/s 110 to sec. 115BBG (except sec. 115BAC), such income shall be taxable at that special rate of tax.*

***Other Points***

- ***Full effect of loss and depreciation***: The loss and depreciation referred above shall be deemed to have been given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year. Where there is a depreciation allowance in respect of a block of assets which has not been given full effect to prior to the assessment year 2021-22, corresponding adjustment shall be made to the written down value of such block of assets as on 01-04-2020 in the prescribed manner (if the option is exercised for a previous year relevant to the assessment year 2021-22).
- ***Exercise of option***: The provision of this section shall not apply unless option is exercised in the prescribed manner by the person:

| | |
|---|---|
| Where the person has income from business or profession | Within the due date specified u/s 139(1) for furnishing the returns of income for any previous year relevant to the assessment year **and** such option **once** exercised shall apply to subsequent assessment years |
| Where the person not having aforesaid income | Alongwith the return of income to be furnished u/s 139(1) for a previous year relevant to the assessment year |

- ***Withdrawal of option***: In case person having income from business or profession, option once exercised for any previous year can be withdrawn only once for a previous year other than the year in which it was exercised and thereafter, the person shall never be eligible to exercise option. However, if such person ceases to have any income from business or profession in which case, he may exercise the option for that assessment year.

  Where the person fails to satisfy the conditions in any previous year, the option shall become invalid in respect of the assessment year relevant to that previous year and other provisions of this Act shall apply, as if the option had not been exercised for the assessment year relevant to that previous year.

  Further where the option was exercised by a person having income from business or profession, in the event of failure to satisfy the conditions, it shall become invalid for subsequent assessment years also and other provisions of this Act shall apply for those years accordingly.
- ***Alternate Minimum Tax***: In case, the person has opted for this scheme, the provision of alternate minimum tax (AMT) u/s 115JC is not applicable. Consequently, any credit of AMT cannot be adjusted against tax liability computed u/s 115BAC.

**Example**

Akhil, 35 years, has provided following details relating to his income for the previous year 2020-21:

a. Income from business ₹ 15,00,000
b. Income from saving bank interest ₹ 12,000
c. Interest on PPF ₹ 36,000
d. Investment in PPF ₹ 1,50,000

You are requested to compute his tax liability and advise him whether he should opt for alternative tax regime u/s 115BAC.

**Solution**

Computation of Income and tax liability of Mr. Akhil for A.Y. 2021-22

| Particulars | Regular Tax Regime | Alternative Tax Regime |
|---|---|---|
| Business Income | 15,00,000 | 15,00,000 |
| Interest on saving bank deposit | 12,000 | 12,000 |
| Interest on PPF | Exempt | Exempt |
| Gross Total Income | 15,12,000 | 15,12,000 |
| *Less*: Deduction | | |
| U/s 80C (PPF Contribution) | 1,50,000 | NA |
| U/s 80TTA (Interest on Saving Bank Interest) | 10,000 | NA |
| **Total Income** | **13,52,000** | **13,52,000** |
| Tax on above | 2,18,100 | 1,91,100 |
| *Less*: Rebate u/s 87A (As income exceeds ₹ 5,00,000) | NA | NA |
| Tax after rebate | 2,18,100 | 1,91,100 |
| *Add*: Surcharge | Nil | Nil |
| Tax and surcharge | 2,18,100 | 1,91,100 |
| Add: Health & Education cess | 8,724 | 7,644 |
| Tax liability (Rounded off u/s 288B) | 2,26,820 | 1,98,740 |

In the instant case, tax liability under alternative tax regime u/s 115BAC is lower, hence it is advisable to opt for provision of sec. 115BAC

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GROUP: iv, PAPER: 17

# CORPORATE FINANCIAL REPORTING (CFR)

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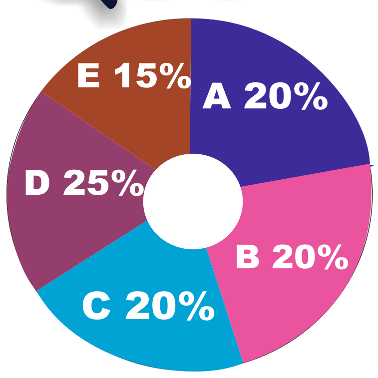
## Your Preparation Quick Takes




**Syllabus Structure**

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

**Learning Objectives:**

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

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

## Corporate Financial Reporting

Some Issues on Consolidated Financial Statements

Consolidated financial statements are required to be prepared by an Ind AS complied company if it holds shares in the investee company

- entailing 20% or more voting rights having **significant influence** over the investee company (called Associate as per Ind AS 28).
- Entailing **joint control** over the investee company (called a Joint Venture as per Ind AS 28)
- Entailing **control** over investee company (called subsidiary company as per Ind AS 103 and Ind AS 110).

No consolidation is required otherwise (i.e., for holding shares in investee not falling under above three clauses) and the investor company prepares only individual financial statements.

Ind AS 27 requires that when consolidated financial statements are prepared the investor company shall also prepare separate financial statements which is same as individual financial statements.

In the individual financial statements of the investor company investment account is recognised for holding shares in the investee company (whether it is an associate, joint venture, subsidiary or not any of them). It is measured at cost or as per Ind AS 109 (at fair value through profit or loss)

Consolidated financial statements are required to be prepared as per Ind AS 28 under Equity Method when investor company has significant influence or joint control over the investee company (associate or joint venture). Under Equity Method of consolidation, no assets or liabilities of the investee is recognised, rather investment account is recognised at cost plus share of investor in post-acquisition profits (both profit or loss and other comprehensive income) in the investee.

When investor company has control over the investee company (subsidiary) consolidated financial statements are required to be prepared as per Ind AS 110 by recognising assets, liabilities, non-controlling interest, goodwill or gains from bargain purchase (at acquisition as per Ind AS 103) and share of post-acquisition profits in the subsidiary company. No investment account is recognised for holding shares in the subsidiary.

A **parent** is an entity that **controls** one or more entities. A **subsidiary** is an entity that is controlled by another entity. A group consists of a parent and its subsidiaries.

Thus, it appears that a parent has to report consolidated financial statements based on Ind AS 103 and Ind AS 110. However, a parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
(iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind Ass.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an investor controls an investee if and only if the investor has **all** the following:

(a) power over the investee;
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect the amount of the investor's returns.

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the investee's returns. Power arises from rights. Sometimes, power can be assessed straightforward from the voting rights through shareholdings. In other cases, the assessment will be more complex when power results from one or more contractual arrangements.

If another entity (including government, court, administrator, receiver, liquidator or regulator) has existing rights to direct the relevant activities, the investor does not have power over the investee even if it holds more than half of the voting rights in the investee.

**Case 1.**
An investor acquires 45 per cent of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders has any arrangements to consult any of the others or make collective decisions. Has investor power over the investee?

Ans: In this case, on the basis of the absolute size of its holding and the relative size and arrangements of the other shareholdings, it appears that the investor has a sufficiently dominant voting interest to conclude that the investor has power over the investee.

**Case 2.** Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. Has A power over the investee?

Ans: In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. Additional evidences are needed to be considered for concluding whether A has power over the investee. **If it is not clear, that the investor has power, the investor does not control the investee.**

**Case 3.**
Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. Has A power over the investee?

Ans: In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee.

**Case 4.**
Investor A holds 45 per cent of the voting rights of an investee. Two other investors each hold 26 per cent of the voting rights of the investee. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. Has A power over the investee?
Ans. In this case, the size of investor A's voting interest and its size relative to the other shareholdings are sufficient to conclude that investor A does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

# INDIRECT TAX LAWS & PRACTICE (ITP)

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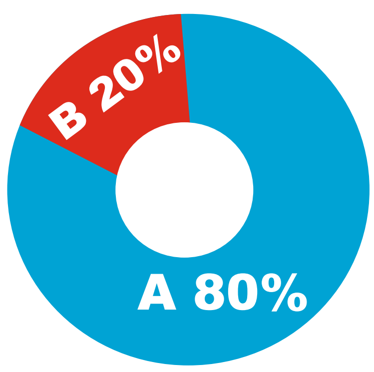
## Your Preparation Quick Takes




**Syllabus Structure**

**A** Advanced Indirect Tax and Practice **80%**
**B** Tax Practice and Procedures **20%**

**Learning Objectives –**

Through the following MCQ, students can refresh themselves about
- Levy of Customs duty
- Meaning of Adjudicating Authority
- Meaning of goods, coastal goods
- Import report, stores supplied
- Smuggled goods, taxable events,
- Time limit for importation, relinquish of title
- Preferential rate, safeguard duty
- Deemed export etc

## INDIRECT TAX

**Choose the correct option from the followings –**

1. The Constitution of India is empowered to levy the customs duty by the Central Government of India vide
   (a) Entry 83 of the first schedule
   (b) Entry 83 of the third schedule
   (c) Entry 83 of the fifth schedule
   (d) Entry 83 of the seventh schedule

2. As per the Custom Act,1962, the Central Board of Excise and Customs, now renamed to
   (a) Central Board of Indirect tax
   (b) Board of Indirect tax and Customs
   (c) Central Board of Indirect tax and Customs
   (d) Central Board of GST and Customs

3. As per the section 2(1) of the Custom Act,1962,adjudicating authority means
   (a) Any authority competent to pass any order or decision as per this Act
   (b) The Central Board of Excise and Customs (CBE&C)
   (c) Commissioner of Customs (Appeals) or
   (d) Customs, Excise and Service Tax Appellate Tribunal (CESTA)

4. What is the meaning of coastal goods as per Section 2(7) of the Customs Act -
   (a) Imported goods, transported in a vessel from one port of foreign country to India
   (b) Exported goods, transported in a vessel from one port of India to foreign country
   (c) Imported goods, transported in a vessel from one port of India to another
   (d) Other than imported goods, transported in a vessel from one port of India to another

5. The person in charge of a vehicle carrying imported goods, deliver to the proper officer an import report after its arrival in the customs station, in the prescribed form
   (a) Within six hours
   (b) Within ten hours
   (c) Within twelve hours
   (d) Within fifteen hours

6. Stores supplied to the vessel will be treated as export as per section 89 of Customs Act
   (a) Will be exempt from customs duty
   (b) Will not be exempt from customs duty
   (c) Will not be eligible for duty drawback
   (d) Will be eligible for duty draw back

7. Domestic Tariff Area means whole of India which
   (a) Does not include the territorial waters and continental shelf
   (b) Does not include the areas of the Special Economic Zones and 100% Export Oriented Units
   (c) Include only the areas of Special Economic Zone
   (d) Include only the area of 100% Special Economic Zone

8. For the purpose of benefit of the exemption notification smuggled goods

(a) Could be considered as imported goods after confiscation
(b) Could be considered as imported goods after cleared for home consumption
(c) Could not be considered as imported goods
(d) Could be considered as imported goods if Commissioner of Customs pass any order after appeal.

9. Which of the following will be considered as taxable event for imported goods
(a) Date on which the goods cross the customs barrier
(b) Unloading of imported goods at the customs port
(c) Date of entry into Indian territorial waters
(d) Date of presentation of bill of entry

10. Relevant date for determination of rate of duty and tariff valuation of imported goods cleared from a warehouse under section 68 is
(a) Date of presentation of bill of entry
(b) Date of entry inwards of the vessel/arrival of aircraft
(c) Date of presentation of bill of entry for home consumption
(d) Date of payment of duty

11. As per Notification no 28/2015-2020 dated 31.10.2019 refund of drawbacks of basic customs duty paid on inputs for deemed exports also allowed on
(a) Social Welfare surcharge
(b) Cost insurance and freight value
(c) Free on board value
(d) All industry Rate

12. Time limit for re importation from the date of exportation of the goods manufactured in India and re imported for re – making is
(a) 1 year
(b) 5 years
(c) 7 years
(d) 10 years

13. The word Jetsam means
(a) Vessel or cargo which is abandoned in sea without any hope of recovering it
(b) Where goods are cast into sea to reduce weight of ship to prevent it from sinking and the thrown goods sink
(c) When goods continue to float after thrown in sea
(d) Cargo or vessel or any property which are cast ashore by tides after ship – wreck

14. In which of the following case Importer may not relinquish his title to the goods
(a) The goods may not be according to the specifications
(b) The goods may have been damaged or deteriorated during voyage and as such may not be take delivery of the goods
(c) There might have been breach of contract and therefore the importer may be unwilling to take delivery of the goods
(d) Order passed for permitting the deposit of imported goods in a warehouse

15. Export Duties of Customs Tariff Act 1975 introduced as per
(a) Ist Schedule
(b) 2nd Schedule
(c) 3rd Schedule
(d) 4th Schedule

16. Social Welfare Surcharge (SWS) on Imports implemented on –
(a) 12.10.2017
(b) 02.01.2018
(c) 02.02.2018
(d) 04.05.2018

17. As per the Customs Act which one is not the condition for avail the benefit of preferential rate of duty on imported goods
(a) Specific claim for preferential rate must be made by the importer
(b) Customs authority may allow preferential rate on some specific notified items
(c) Import must be from preferential area as notified by the Central Government
(d) The goods should be produced / manufactured in such preferential area

18. Social welfare Surcharge on Gold, Silver including that plated with platinum, unworth or in semi-manufactured form or in powder form will be calculated
(a) @3%
(b) @5%

(c) @7%
(d) @10%

19. Safeguard Duty imposed on
    (a) Articles imported by a 100% EOU
    (b) Articles imported by a unit in a FTZ
    (c) Articles imported by a unit in a SEZ
    (d) Certain specific product

20. Rigs and ancillary items imported for oil or gas exploration and production taken on lease by the importer for use after import
    (a) Have to pay IGST as per prevailing rate
    (b) Have been exempted from IGST
    (c) Have to pay Countervailing Duty (CVD)
    (d) Have to pay Special Additional Duty (SAD)

ANSWERS

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

GROUP: iv, PAPER: 19

# COST & MANAGEMENT AUDIT (CMAD)

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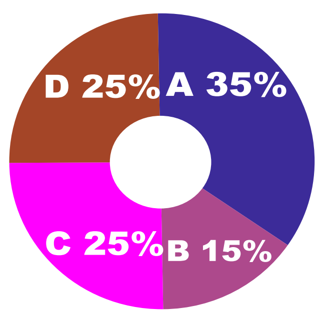
## Your Preparation Quick Takes




**Syllabus Structure**

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

**Learning Objectives:**

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

# Cost & Management Audit

## Reconciliation of Profit as per Finance and Cost Accounts

**Question**

The Cost Accountants of Tesla Steel Ltd. has arrived at a Profit of Rs. 39,36,990 based on Cost Accounting Records for the year ended March 31, 2020. Profit as per Financial Accounts (F/A) is Rs. 42,14,100. On review of financial accounts, the following entries have been observed.

| Sl. No. | Particulars | Value in Rs. |
|---|---|---|
| 1. | **Cost of materials consumed includes:-** | |
| I | Demurrage charge on Raw materials | 1,23,000 |
| ii. | Payment relates to a purchase of an item of raw material received and consumed in last year but provision could not be made erroneously. | 3,78,000 |
| iii. | Raw Material brought from USA valued in F/A as on date of payment.<br>Values as on the date of payment-<br>Values as on the date of transaction-<br>Values as on the date of receipt of material- | <br>2,15,000<br>2,40,000<br>2,50,500 |
| 2. | **Other income in F/A includes:-** | |
| I | Profit on Sale of Fixed Assets | 2,05,000 |
| ii. | Bad debts recovered | 45,850 |
| 3. | Loss on Sale of Investments | 33,600 |
| 4. | **Salary & Wages in F/A includes :-** | |
| I | Overtime premium | 4,25,000 |
| ii. | Arrear salary relating to 2016-17 | 85,760 |
| iii. | Salary paid to contractual employee | 78,900 |
| 5. | Rebate allowed to customers | 1,28,550 |
| 6. | Donation Paid | 75,000 |
| 7. | Insurance Claim received for natural disaster | 2,08,700 |
| 8. | Profit from Retail trading activity | 80,430 |
| 9. | **Employee Cost in F/A includes :-** | |
| I | Free housing and free conveyance | 1,45,650 |

| | | |
|---|---|---|
| ii. | Recruitment cost & training cost | 80,500 |
| iii. | Penalty due to noncompliance to Labour Laws | 65,600 |
| 7. | Administration cost includes CSR Expenses | 3,50,000 |
| 8. | Interest Income from Inter-Corporate Deposits | 1,61,500 |
| 9 | Decrease in value of Closing WIP and Finished goods inventory:- | |
| | as per Financial Accounts | 82,12,430 |
| | as per Cost Accounts | 90,02,500 |

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2020.

**Answer:**

**Reconciliation of Profit between Cost and Financial Accounts for the year ended March 31, 2020**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|---|---|
| **Profit as per Financial Accounts** | | **42,14,100** |
| **Add: Non Cost Expenses** | | |
| Demurrage charge on Raw material | 1,23,000 | |
| Cost of Material includes prior period adjustment | 3,78,000 | |
| Loss on Sale of Investments | 33,600 | |
| Arrear salary relating to 2016-17 | 85,760 | |
| Penalty due to noncompliance to Labour Laws | 65,600 | |
| Rebate allowed to customers | 1,28,550 | |
| Donation Paid | 75,000 | |
| CSR Expenses | 3,50,000 | |
| | | **12,39,510** |
| **Less: Non Cost Income** | | |
| Profit on Sale of Fixed Assets | 2,05,000 | |
| Bad debts recovered | 45,850 | |
| Interest Income from Inter-Corporate Deposits | 1,61,500 | |
| Insurance Claim received for natural disaster | 2,08,700 | |
| Profit from Retail trading activity | 80,430 | |
| Exchange Gain [Difference in valuation of imported raw material (2,40,000-2,15,000)] | 25,000 | |
| | | **7,26,550** |
| **Less** - Decrease / difference in value of Closing WIP and Finished goods inventory :-(90,02,500 - 82,12,430) | | 7,90,070 |
| **Profit as per Cost Accounts** | | **39,36,990** |

**Note:**

1. As per CAS-6, The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.

2. As per CAS-7:

i. Employee cost includes benefits paid to temporary, part time & contract employees.

ii. Employee cost includes benefit paid to employee such as free housing, free conveyance etc.

iii. Overtime premium, recruitment cost & training cost are part of employee cost.

150 YEARS OF CELEBRATING THE MAHATMA

Dr. Ashish Kumar Sana
Professor, Department of Commerce
University of Calcutta
He can be reached at:
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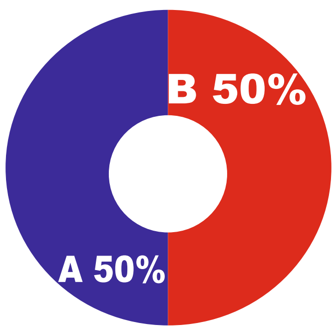
GROUP: iv, PAPER: 20

# STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

## Your Preparation Quick Takes




**Syllabus Structure**

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

**Learning objectives:**

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

## Strategic Performance Management and Business Valuation

**Section-A**

**Choose the correct option from amongst the four alternatives given:**
**(Each question carries 2 marks)**

1. **Increase in the interest and corresponding decrease in the intrinsic value of debt instruments indicates____________**
(A) Interest rate risk
(B) Liquidity risk
(C) Default risk
(D) Purchasing power risk

2. **Which one of the following strategies is not for managing risk?**
(A) Risk-Avoidance Strategy
(B) Risk-Transferring Strategy
(C) Risk-Measurement Strategy
(D) Risk-Acceptance Strategy

3. **The risk which is primarily influenced by the level of financial gearing, interest cover, operating leverage, and cash flow adequacy, is called:**
(A) Financial risk
(B) Business risk
(C) External risk
(D) Exchange risk

4. **Following details are given for a company:**
**Sales –Rs.1,00,000; Costs - Rs.75,000; Depreciation - Rs.20,000; Tax- 35%; Change in Net Working Capital - Rs.1,000; Change in Capital Spending - Rs.10,000.**
**The Free Cash Flow to Firm (FCFF) would be:**
(A) Rs.10,000
(B) Rs.12,250
(C) Rs.13,500
(D) Rs.15,000

5. **If a company has a P/E ratio of 20 and a ROE (Return on Equity) of 15%, then the Market to Book Value Ratio is-**
(A) 3 times
(B) 3%
(C) cannot be calculated from the given information
(D) None of the above

6. **The value of an asset must equal the ---------------------- of its future cash flows.**
(A) Future value
(B) Real value
(C) Present value
(D) Expected value

7. **P/E rises when:**
(A) Growth rises, discount rate falls, reinvestment rate is flat
(B) Growth falls, discount rate falls, reinvestment rate rises
(C) Growth exceeds, discount rate and reinvestment rate falls short of growth
(D) Discount rate falls and reinvestment rate rises

8. The value of Alpha Ltd. and Beta Ltd. are Rs.50 lakh and Rs.25 lakh respectively. On merger their combined value is Rs.94 lakh. If Beta Ltd. receives premium on merger is Rs.15 lakh, what will be the synergy gain for merger?
(A) Rs.19 lakh
(B) Rs.22 lakh
(C) Rs.30 lakh
(D) None of the above

**Answers:**

| Question | Answer | Question | Answer |
|---|---|---|---|
| 1 | (A) | 2 | (C) |
| 3 | (C) | 4 | (B) |
| 5 | (A) | 6 | (C) |
| 7 | (D) | 8 | (A) |

**Section –B**

1. X Ltd. has a capital base of Rs.3 crores and has earned profits of Rs.33 lakhs. Return on Investment of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by Rs. 7.5 lakhs over and above the target profit.

| Particulars | Rs. |
|---|---|
| Capital Base | 3,00,00,000 |
| Actual Profit | 33,00,000 |
| Target Profit (Rs. 3 crores x 12.5%) | 37,50,000 |

Based on the above information, answer the following questions: (3+3+4)

**(i) Total Profits of the Company (anticipated after induction of the Executive):**
(A) Rs. 35 Lakhs
(B) Rs. 45 Lakhs
(C) Rs. 55 Lakhs
(D) Rs. 65 Lakhs

**(ii) Maximum salary that could be offered to executive:**
(A) Rs. 10.00 Lakhs per annum
(B) Rs. 11.00 Lakhs per annum
(C) Rs. 13.00 Lakhs per annum
(D) Rs. 12.00 Lakhs per annum

**(iii) Maximum bid price for that particular executive:**
(A) Rs. 92 Lakhs.
(B) Rs. 94 Lakhs.
(C) Rs. 96 Lakhs.
(D) Rs. 98 Lakhs.

| Questions | I | II | III |
|---|---|---|---|
| Answers | (B) | (D) | (C) |

2. The following information is available from the book of Sick Ltd. as on 31st March 2020:

Balance Sheet as at 31st March, 2020

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Equity Share Capital @ Rs. 10 each | 1,00,000 | Land & Building (Net) | 3,50,000 |
| Reserves & Surplus | 50,000 | Other Fixed Assets (Net) | 1,80,000 |
| 10% Debentures | 3,00,000 | Stock | 60,000 |

| | | | |
|---|---|---|---|
| 12% Long Term Loan | 1,00,000 | Debtors | 40,000 |
| Creditors | 50,000 | Cash & Bank | 20,000 |
| Bank overdraft | 50,000 | | |
| | 6,50,000 | | 6,50,000 |

Additional Information:

(i) Income Tax rate is 35%.

(ii) Net Sales of Y Ltd. during 2016-17 is Rs. 7,80,000.

(iii) EPS as on 31st March, 2004 is Re. 0.975

(iv) Price Earnings Ratio is 9.

Based on the above information, answer the following questions [4]

According to Altman's model, the equation of Z score is:

(A) $Z = 0.011X_1 + 0.013X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5$

(B) $Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5$

(C) $Z = 0.012X_1 + 0.014X_2 + 0.030X_3 + 0.005X_4 + 0.999X_5$

(D) $Z = 0.010X_1 + 0.011X_2 + 0.032X_3 + 0.005X_4 + 0.899X_5$

| Questions | (i) |
|---|---|
| Answers | (B) |

# 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

150 YEARS OF CELEBRATING THE MAHATMA

# *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!**

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

GOOD LUCK

**Be Prepared and Get Success;**

ज्ञान-विज्ञान विमुक्तये
डॉ. सुरेन्द्र सिंह
संयुक्त सचिव
Dr. Surender Singh
Joint Secretary

सत्यमेव जयते

विश्वविद्यालय अनुदान आयोग
**University Grants Commission**
(शिक्षा मंत्रालय, भारत सरकार)
(Ministry of Education, Govt. of India)
बहादुरशाह ज़फ़र मार्ग, नई दिल्ली-110002
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ई-मेल E-mail : ssingh.ugc@nic.in

**D.O.No.9-35/2016 (CPP-II)**

**March, 2021**

15 MAR 2021

**Sub: To consider CA/CS/ICWA qualification equivalent to PG Degree for appearing in UGC-Net**

**Sir/ Madam,**

UGC had received requests from the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India and the Institute of Cost Accountants of India to consider the qualification being awarded by them, i.e., Chartered Accountant (CA), Company Secretary (CS) and Cost and Works Accountants (ICWA) respectively, equivalent to Post Graduation Degree.

To consider this, a Committee was constituted by the UGC. The Commission, in its 550th meeting held on 18th February, 2021 considered the recommendation of the Expert Committee and resolved as under:

***"CA/CS/ICWA qualification be considered equivalent to PG Degree."***

This is for your kind information.

With kind regards,

Yours sincerely,

Surender Singh

**(Dr. Surender Singh)**
Joint Secretary

The President
The Institute of Cost Accountants of India
3, Institutional Area
Lodhi Road
New Delhi- 110 003

# Few Snapshots

Dignitaries sharing the screen with Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises during National Corporate Laws Summit. Left to Right CMA Neeraj D. Joshi, CCM; CMA Mahesh Shah, Past President; Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited; Shri Arjun Ram Meghwal, Hon'ble Union Minister, CMA Dr. Ashish P. Thatte, Chairman, Corporate Laws Committee; CMA Biswarup Basu, President; CMA Chittaranjan Chattopadhyay, CCM; CMA Amal Kumar Das, Past President; CMA Vijender Sharma, CCM


Shri Arjun Ram Meghwal Hon'ble Union Minister of State for Parliamentary Affairs and Heavy Industries & Public Enterprises is giving his live online speech on occasion of inauguration of National Corporate Laws Summit.

CMA Biswarup Basu, President facilitating Shri Debarshi Duttagupta, MD, East India Pharmaceuticals Works Limited on the occasion of National Corporate Laws Summit organised at Kolkata on 26th February 2021. Sharing the dias is CMA Dr. Ashish P. Thatte, Chairman Corporate Laws Committee and CMA Neeraj D. Joshi, Central Council Member.

From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF, Ms. Tripti Guraha, Exeuctive Director, (S & E), Indian Railways, Sh. Abhishek Kumar, CPM (AR), Indian Railways

Presentation of Final Report on Performance Costing System in Indian Railways at Rail Bhawan, New Delhi on 19th February, 2021 by CMA Biswarup Basu, President, ICAI to Shri Naresh Salecha, Member (Finance), Railway Board.

From Left to Right CMA Balwinder Singh, Immediate Past President and Council Member, Shri S.K. Kaushik, CAO (AR), Indian Railways, Shri Naresh Salecha, Member (Finance) Railway Board, CMA Biswarup Basu, President, CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President, CMA B.B. Goyal, Advisor ICWAI MARF, CMA J.K. Budhiraja, CEO ICWAI MARF.

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