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150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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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.

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CORPORATE

LAWS & COMPLIANCE (CLC)

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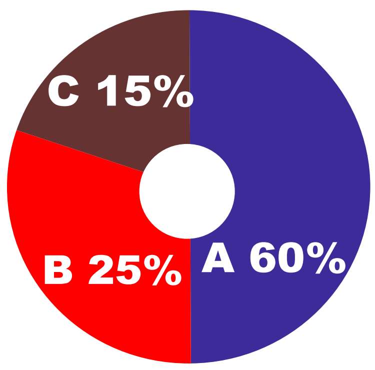

Syllabus Structure
A Companies Act **60%**
B Other Corporate Laws **25%**
C Corporate Governance **15%**

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.

Corporate Laws & Compliance

Foreign Investment in India: an overview

Foreign Investment in India is regulated in terms of clause (b) sub-section 3 of section 6 and section 47 of the Foreign Exchange Management Act, 1999 (FEMA) read with Foreign Exchange Management (Transfer or Issue of a Security by a Person resident Outside India) Regulations, 2017. This Master Direction lays down the modalities as to how the foreign exchange business has to be conducted by the Authorised Persons with their customers/ constituents with a view to implementing the regulations framed.

Few stipulations of foreign investment in India as per Master Directions

'Foreign Direct Investment' (FDI) is the investment through capital instruments by a person resident outside India (a) in an unlisted Indian company; or (b) in 10 percent or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company. If an existing investment by a person resident outside India in capi tal instruments of a listed Indian company falls to a level below 10 percent of the post issue paid-up equity capital on a fully diluted basis, the investment will continue to be treated as FDI.

'Foreign Portfolio Investment' is any investment made by a person resident outside India in capital instruments where such investment is (a) less than 10 percent of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company or (b) less than 10 percent of the paid up value of each series of capital instruments of a listed Indian company.

A person resident outside India may hold foreign investment either as Foreign Direct Investment or as Foreign Portfolio Investment in any particular Indian company.
issued outside India, the underlying of which is a security issued by a person resident in India.
'Investment Vehicle' is an entity registered and regulated under relevant regulations framed by SEBI or any other authority designated for the purpose and will be Real Estate Investment Trusts (REITs) governed by the SEBI (REITs) Regulations, 2014, Infrastructure Investment Trusts (InvIts) governed by the SEBI (InvIts) Regulations, 2014 and Alternative Investment Funds (AIFs) governed by the SEBI (AIFs) Regulations, 2012.A Venture Capital Fund (VCF) registered under the Securities and Exchange Board of India will not be considered as an Investment Vehicle.

Prohibited sectors/ persons

FDI is prohibited in the following sectors:

(1) Lottery Business including Government/ private lottery, online lotteries.
(2) Gambling and betting including casinos.
(3) Chit funds (except for investment made by NRIs and OCIs on a non- repatriation basis).
(4) Nidhi company.
(5) Trading in Transferable Development Rights (TDRs).
(6) Real Estate Business or Construction of Farm Houses.
(7) Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes..
(8) Activities/ sectors not open to private sector investment viz., (i) Atomic energy and (ii) Railway operations

Any investment by a person who is a citizen of Bangladesh or Pakistan or is an entity incorporated in Bangladesh or Pakistan requires prior Government approval.

A person who is a citizen of Pakistan or an entity incorporated in Pakistan can, only with the prior Government approval, invest in sectors/ activities other than defence, space, atomic energy and sectors/ activities prohibited for foreign investment.

Capital Instruments

. The capital instruments are equity shares, debentures, preference shares and share warrants issued by the Indian company. Twenty five percent of the total consideration amount (including share premium, if any), has to be received upfront and the balance consideration towards fully-paid equity shares should be received within a period of twelve months from the date of issue of partly-paid shares.Other instruments are fully convertible debentures and fully convertible preference shares.

Entry routes and Permitted sectors

Entry Routes

Automatic Route not require the prior Reserve Bank approval or Government approval.
Government Route is the entry route which equires prior Government approval. Concerned ministry shall give the approval.

Sectoral caps

Foreign investment in the sectors/ activities is permitted up to the limit indicated against each sector/ activity, subject to applicable laws/ regulations, security and other conditions..
Foreign investment is permitted up to 100% on the automatic route, subject to applicable laws/ regulations, security and other conditionality, in sectors/ activities not listed in Regulation 16 of FEMA 20(R) and not prohibited under Regulation
Wherever there is a requirement of minimum capitalization, it will include premium received along with the face value of the capital instrument, only when it is received by the company upon issue of such instruments to a person resident outside India. Amount paid by the transferee during post-issue transfer beyond the issue price of the capital instrument, cannot be taken into account while calculating minimum capitalization requirement.

Foreign Investment in investing companies not registered as Non-Banking Financial Companies core investment companies (CICs), will require prior Government approval. Foreign investment in investing companies registered as Non-Banking Financial Companies (NBFCs) with the Reserve Bank, will be under 100% automatic route.

Permitted Investments by persons resident outside India

Any investment made by a person resident outside India shall be subject to the entry routes, sectoral caps or the investment limits, may make investment as stated hereinafter. For details, one has to see the relevant annexure , out of various annexures which relate to each kind of investment.

1. Subscribe/ purchase/ sale of capital instruments of an Indian company is permitted as per the directions laid down in .
2. Purchase/ sale of capital instruments of a listed Indian company on a recognised stock exchange in India by Foreign Portfolio Investors is permitted as per the directions laid down in .
3. Purchase/ sale of Capital Instruments of a listed Indian company on a recognised stock exchange in India by Non-Resident Indian (NRI) or Overseas Citizen of India (OCI) on repatriation basis is permitted as per the directions laid down in .
4. Purchase/ sale of Capital Instruments of an Indian company or Units or contribution to capital of a LLP or a firm or a proprietary concern by Non-Resident Indian (NRI) or Overseas Citizen of India (OCI) on a Non-Repatriation basis is permitted as per the directions laid down in .
5. Purchase/ sale of securities other than capital instruments by a person resident outside India is permitted as per the directions laid down in .
6. Investment in a Limited Liability Partnership (LLP) is permitted as per the directions laid down in .
7. Investment by a Foreign Venture Capital Investor (FVCI) is permitted as per the directions laid down in .
8. Investment in an Investment Vehicle is permitted as per the directions laid down in .
9. Issue/ transfer of eligible instruments to a foreign depository for the purpose of issuance of depository receipts by eligible person(s) is permitted as per the directions laid down in .
10. Purchase/ sale of Indian Depository Receipts (IDRs) issued by Companies Resident outside India is permitted as per directions laid down in .

Acquisition through rights issue or bonus issue

investment in rights issue or a bonus issue subject to fulfilment of applicable regulations appliocablbe to An Indian company is permitted to issue "employees' stock option" and/ or "sweat equity shares" to its employees/ directors or employees/ directors of its holding company or joint venture or wholly owned overseas subsidiary/ subsidiaries who are resident outside India, subject to the compliance of other provisinions of this regaulations.

issue of Convertible Notes by an Indian startup company

A person resident outside India is permitted to invest in convertible notes issued by an Indian startup company for an amount of twenty five lakh rupees subject to the compliance of other provisions of this regulations.

merger or demerger or amalgamation of Indian companies

the new (amalgamated) company, can issue capital instruments to the existing holders of the transferor company who are resident outside India, subject to the subject to the compliance of other provisions of this regulations. Prior Government approval is required to be obtained for any transfer in case the company is engaged in a sector which requires Government approval.

Pricing guidelines

Capital instruments issued by a company to a person resident outside India

The price of capital instruments of an Indian company issued by it to a person resident outside India should not be less than:

(a) the price worked out in accordance with the relevant SEBI guidelines in case of a listed Indian company or in case of a company going through a delisting process as per the SEBI (Delisting of Equity Shares) Regulations, 2009; or

(b) the valuation of capital instruments done as per any internationally accepted pricing methodology for valuation on an arm's length basis duly certified by a Chartered Accountant or a SEBI registered Merchant Banker or a practicing Cost Accountant, in case of an unlisted Indian Company.

In case of convertible capital instruments, the price/ conversion formula of the instrument is required to be determined upfront at the time of issue of the instrument. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the extant FEMA regulations.

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STRATEGIC FINANCIAL MANAGEMENT (SFM)

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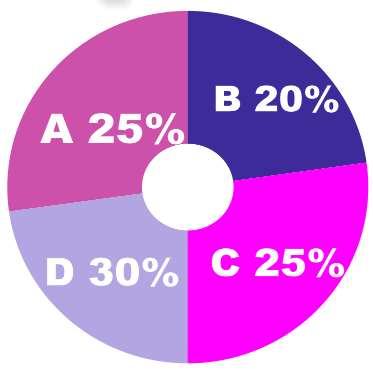

Syllabus Structure

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

Section C & Study Note 8: Security Analysis and Portfolio Management

➢ **Advanced Technical tools**

I. The Confidence Index

The Confidence Index is supposed to reveal how willing investors are to take a chance in the market. It is the ratio of high-grade bond yields to low-grade bond yields. When bond investors grow more confident about the economy, they shift their holding from high-grade to low-grade bonds in order to obtain the higher yield. This change bids up the prices of low-grade bonds, lowers their yields relative to high-grade bonds, and increases the confidence index.

Markets for bonds are frequented mostly by large institutional investors who are believed to be less emotional about their portfolio decisions than many investors in the market. In an effort to measure the market expectations some chartists study the confidence index.

The Confidence Index, published weekly by Barren's, attempts to measure investor optimism and pessimism by examining investor actions in the bond market.

It may be calculated as the ratio between the yield on high grade bonds to the average yield on low grade bonds.

Since high-grade bonds should always yield less than lower quality bonds, the Confidence Index should always be less than 1.0. As investors become more optimistic about the future, the difference between the two yields in the index decreases (i.e., the default risk premium narrows and the ratio increases). As investors become more pessimistic about the future, the difference between the two yields increases (i.e., the default risk premium rises) and the ratio decreases. Because the bond market tends to be dominated by institutional investors, the Confidence Index is viewed by some as a barometer of sophisticated investors' expectations (and behavior). Advocates of the Confidence Index believe that it should move in the same direction as the stock market because increased confidence in the bond market should lead to increased confidence in the stock market. Therefore, an increase (decrease) in the index is a buy (sell) signal. If the Confidence Index leads the market, it can be useful as an indicator. Because it is available weekly in Barren's, it is a convenient and accessible indicator.

Although the bond and stock markets generally move together, there is no theoretical reason that confidence in the bond market should precede confidence in the stock market. The latter is considered by most observers to be the preeminent discounter of future events. In fact, the Confidence Index does not always lead the market and has given a number of false signals. Thus, its record as a predictor is mixed at best.

II. Contrary Opinion Theories

Several indicators are based on the theory of contrary opinion. The idea is to trade contrary to most investors, who supposedly almost always lose - in other words, to go against the crowd. This is an old idea on Wall Street, and over the years technicians have developed several measures designed to capitalize on this concept.

1. Odd Lot Theory

According to the odd-lot theory small investors who often buy or sell odd lots (less than 100 shares of stock) are usually wrong in their actions at market peaks and troughs. Supposedly, such investors typically buy (sell) when the market is at or close to a peak (bottom).
To take advantage of the (wrong) actions of these investors, an indicator must be calculated. A commonly used Odd-lot index is defined as:

Odd-lot index = Odd-lot sales ÷ Odd-lot purchases
A decline in this index would indicate more purchases in relation to sales by small investors, suggesting they are optimistic. According to contrary opinion, it is time to sell - to go against the 'man in the street.' Conversely, a rise in this index would indicate more sales relative to purchases, a sign of pessimism by small investors but an opportune time for a contrarian to buy.

A variation of the odd-lot index is the odd-lot short sales ratio, defined as follows:

Odd-lot short sales ratio = Odd-lot short sales ÷ Total Odd-lot sales
As short sales by odd-lotters increase (decrease), these investors are becoming more pessimistic (optimistic). For a contrarian, it is time to buy (sell). The rationale for this ratio is the same as before. Odd-lotters are expected to sell short at precisely the wrong time; that is, prior to a rise in prices.

Regardless of which odd-lot indicator is used, odd-lot theories have not been particularly successful.

2. Mutual Fund Liquidity

It is interesting to note that mutual fund liquidity can be used as a contrary opinion technique. Under this scenario, mutual funds are viewed in a manner similar to odd-lotters - they are presumed to act incorrectly before a market turning point. Therefore, when mutual fund liquidity is low because the funds are fully invested, contrarians believe that the market is at, or near, a peak. The funds should be building up cash (liquidity); instead, they are extremely bullish and are fully invested. Conversely, when funds hold large liquid reserves, it suggests that they are bearish; contrarians would consider this a good time to buy because the market may be at, or near, its low point.

III. Oscillators

The Rate of Change (ROC) Index is widely used to measure the momentum of price changes. In order to measure the momentum inherent in indicators of internal market strength, like volume and breadth, oscillators are more widely used. The ROC Index is also an oscillator in the sense that it is interpreted in terms of oscillation around the reference line. But the ROC Index cannot be used to gauge breadth of the market, which is measured from an arbitrary point, and can provide both positive and negative values. The ROC Index, for instance, computed between a negative and positive value of breadth statistics can provide a total misleading impression of the prevailing momentum. It is for this reason that the ROC Index constructed for measuring momentum of breadth of the market, does not use the cumulative breadth statistics. We call it a momentum oscillator rather than an index, for purposes of clarity.

Momentum of breadth is measured by dividing the total number of issues advancing in a given period against the total number of issues declining in the same period.

Computation of Momentum Oscillator

Day	No. of Issues Advancing	10-day Total of Advances	No, of Issues Declining	10-day Total of Declines	10-day Momentum Index = (2)/(4) x 100
	0)	(2)	(3)	(4)	(5)
1	332	-	456	-	-
2	273	.	492	-	-
3	274	-	501	-	_
4	334	-	444	-	-
5	335	-	452	-	-
6	225	-	586	-	-
7	276	-	532	-	-
8	334	-	410	-	-
9	505	-	255	-	-
10	370	3258	341	4469	72.90
11	411	3337	310	4323	77.19
12	324	3388	418	4249	79.74 -
13	398	3512	294	4042	86.89

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STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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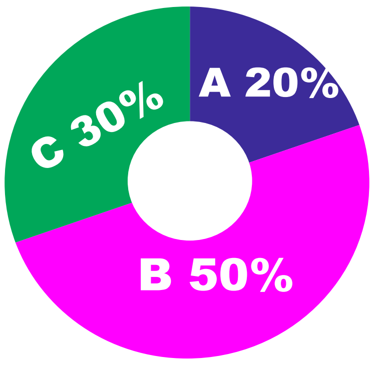

Syllabus Structure

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?

Profit Planning and Reconciliation

Profit

Profit reflects the financial gains wherein benefits derived from a business activity exceed the costs. Profit, therefore, is considered as the bottom-line for every entrepreneurial activity. Actual profit reflects the actual accruals, budgeted profit reflects the budgeted accruals and the standard profit refers to the normative accruals.

Profit Planning

Profit is considered as a significant element of a business activity. According to Peter Drucker, "profit is a condition of survival. It is the cost of the future, the cost of staying in a business." Therefore, profit should be planned and managed properly. An organization should plan profits by taking into consideration its capabilities and resources. Profit planning lays foundation for the future income statement of the organization.

There are several outputs that may be expected from any profit planning exercise. These include:
- Setting the profit objectives for the budget period
- Specifying the policy decisions and course of action to be followed during the budget period
- Providing planning directives for the preparation of detailed operating plans

The key factors that are considered in profit planning are:
- Changes needed in volume, price, and cost
- Availability of funds for investment
- Capital expenditure
- proposals
- Changes needed in the level of working capital
- Limits on discretionary expenditure (e.g., research and development)
- Return Required on Capital Employed

The end result of this process is a statement of the profit objective and how it is to be achieved. This statement is the starting point for budgeting. The steps involved in profit planning process may be stated as follows:
1. Establishing Profit Goals
2. Determining Expected Sales Volume
3. Estimating Expenses
4. Determining Profit

Establishing Profit Goals: Implies that profit goals should be set in alignment with the strategic plans of the organization. Moreover, the profit goals of an organization should be realistic in nature based on the capabilities and resources of the organization.

Determining Expected Sales Volume: Constitutes the most important step of the profit planning process. An organization needs to forecast its sales volume so that it can achieve its profit goals. The sales volume can be anticipated by taking into account the market and industry trends and performing competitive analysis.

Estimating Expenses: Requires that an organization needs to estimate its expenses for the planned sales volume. Expenses can be determined from the past data. If an organization is new, then the data of similar organization in same industry can be taken. The expense forecasts should be adjusted to the economic conditions of the country.

Determining Profit: Helps in estimating the exact value of profit. Estimated profit is calculated as excess projected income over projected expenses.

After planning the profit successfully, an organization needs to control profit. Profit control involves measuring the gap between the estimated level and actual level of profit achieved by an organization. If there is any deviation, the necessary corrective measures are taken by the organization. Profit control, thus, involves continuous and concurrent comparison of the actuals with the estimates and initiating timely corrective actions. And this is where standard costing as also budgetary control fit in as important tools in profit planning.

Profit Reconciliation

There could be multiple reasons for actual profit being different from the budgeted or standard profit. Some of the reasons may be listed as:

i. Differences between actual and expected units of sales
ii. Differences between actual and expected product pricing
iii. Changes in the cost of materials
iv. Changes in labour costs
v. Changes in the amount of overhead costs incurred
vi. Changes in the amount of scrap and wastages
vii. And so on.

Reconciliation of actual profit with the standard or budgeted profit, therefore, throws up the causes of variance and facilitates corrective steps. Here follows an illustration that demonstrates the multiple reasons that could lead to variances between the budgets, standards and actuals.

Illustration

In a company operating on a standard costing system for a given four-week period budgeted sales of 10,000 units at Rs. 50 per unit, actual sales were 9,000 units at Rs. 51.25 per unit. Costs relating to that period were as follows:

	Standard (Rs.)	Actuals (Rs.)
Materials	2,50,000	2,57,400
Wages	75,000	70,875
Fixed Overheads	20,000	18,810
Variable Overheads	10,000	9,250
Semi-Variable Overheads	2,700	2430
Standard Hours 50,000		
Actual Hours 40,500		

- The Standard material content of each unit is estimated at 25 kg. at Rs. 1 per kg, actual figures were 26 kg at Rs. 1.10 per kg.
- Semi-variable Overhead consists of FIVE - NINTHS fixed expenses and FOUR - NINTHS variable.
- The Standard wages per unit are 5 hours at Rs. 1.50, per Unit actual wages were 4.5 hours at Rs. 1.75.
- There were no opening stocks and the whole production for the period was sold.
- The four-week period was normal period.

You are required:

(a) To compute the variances in Sales, Materials, Labour and Over heads due to all possible causes; and

(b) With the help of such a computation draw a statement reconciling the actual profit for the period with the standard profit.

Solution

Step 1 : Segregation of Overheads

Element	Budget (Rs.)	Actual (Rs.)
Fixed Overhead	20,000	18,810
Share in Semi-Variable Overheads (5/9)	1,500	1,350
Total of Fixed Overheads	21,500	20,160
Variable Overheads	10,000	9,250
Share in Semi-Variable Overheads (4/9)	1,200	1,080
Total of Variable Overheads	11,200	10,330

Step 2: Computation of Variances:

(i) **Sales Variances**

(1)	(2)	(3)
AQAP	AQSP	SQSP
9000 × 51.25	9000 × 50	10000 × 50
Rs. 4,61,250	Rs. 4,50,000	Rs. 5,00,000

AQAP = Actual value of sales = Rs. 4,61,250
AQSP = Actual sales at standard price = Rs. 4,50,000
SQSP = Standard value of sales = Rs. 5,00,000

(a) Sales Volume Variance = (AQSP - SQSP) = 50000 (A)
(b) Sales Price Variance = (AQAP – AQSP) =11250 (F)
(c) Sales Value Variance = (AQAP – SQSP) = 38750 (A)

(i) Material Variances
AQ = 9000 × 26 = 234000
SQ = 9000 × 25 = 225000

(1)	(2)	(3)
SQSP	AQSP	AQAP
225000 × 1	234000 × 1	234000 × 1.1
2,25,000	2,34,000	2,57,400

SQSP = Standard cost of standard material = Rs. 225000
AQSP = Standard cost of actual material = Rs. 234000
AQAP = Actual cost of material = Rs.257400

(a) Material Price Variance = (AQSP – AQAP) = 23400 (A)
(b) Material Usage Variance = (SQSP – AQSP) = 9000 (A)
(c) Material Cost Variance = (SQSP – AQAP) = 32400 (A)

(ii) Labour Variances
SH = 9000 units × 5 hours per unit= 45000
AH = Rs.70,875 ÷ 1.75 per hour = 40,500

(1)	(2)	(3)
SRSH	SRAH	ARAH
1.5 × 45000	1.5 × 40500	1.75 × 40500
Rs. 67500	Rs. 60750	Rs. 70875

SRSH = Standard cost of standard labour = Rs. 67500
SRAH = Standard cost of actual labour = Rs. 60750
ARAH = Actual cost of labour = Rs. 70875
(a) Labour Efficiency Variance = (SRSH – SRAH) = Rs.6750 (F)
(b) Labour Rate Variance = (SRAH - ARAH) = Rs.10125 (A)
(c) Labour Cost Variance = (SRSH - ARAH) = Rs.3375 (A)

(iii) Variable Overhead Variances

SR = 11200 ÷ 50000 = Rs. 0.224

(1)	(2)	(3)
SRSH	SRAH	ARAH
0.224 × 45000	0.224 × 40500	10330
Rs. 10080	Rs. 9072	Rs. 10330

SRSH = Standard cost of standard variable overheads = Rs. 10080
SRAH = Standard cost of actual variable overheads = Rs. 9072
ARAH = Actual cost of variable overheads = Rs.10330

(a) Variable Overheads Efficiency Variance = (SRSH – SRAH) = Rs.1008 (F)
(b) Variable Overheads Budget Variance = (SRAH – ARAH) = Rs.1258 (A)
(c) Variable Overheads Cost Variance = (SRSH – ARAH) = Rs. 250 (A)

(iv)Fixed Overhead Variances
SR = 21500 ÷ 50000 = Rs. 0.43

(1)	(2)	(3)	(4)
SRSH	SRAH	SRBH	ARAH
0.43 × 45000	0.43 × 40500	0.43 × 50000	
Rs. 19350	Rs. 17415	Rs. 21500	Rs. 20160

SRSH = Standard cost of standard fixed overheads = Rs. 19350
SRAH = Standard cost of actual fixed overheads = Rs. 17415
SRBH = Budgeted fixed overheads = Rs. 21500
ARAH = Actual fixed overheads = Rs.20160

(a) Fixed Overheads Efficiency Variance = (SRSH – SRAH) = Rs. 1935 (F)
(b) Fixed Overheads Capacity Variance = (SRAH – SRBH) = Rs. 4085 (A)
(c) Fixed Overheads Volume Variance = (SRSH – SRBH) = Rs. 2150 (A)
(d) Fixed Overheads Budget Variance = (SRBH – ARAH) = Rs. 1340 (F)
(e) Fixed Overheads Cost Variance = (SRSH – ARAH) = Rs. 810 (A)

Step 3: Reconciliation

(Istatement of Profit

Serial	Particulars	Amount (Rs.)		
SQSP	AQSP	Budget	Standard for Actual Quantity	Actual
A	Sales			
1	Number of Units	10,000	9,000	9,000
2	Selling Price per Unit	50.00	50.00	51.25
3	Value of Sales	5,00,000	4,50,000	4,61,250
B	Costs			
1	Material	2,50,000	2,25,000	2,57,400
2	Wages	75,000	67500	70,875
3	Variable Overheads	10,000	9,000	9,250
4	Semi-Variable Overheads	2,700	2,430	2,430
5	Fixed Overheads	20,000	18,000	18,810
6	Total Cost	3,57,700	3,21,930	3,58,765
C	Profit (A – B)	1,42,300	1,28,070	1,02,485

Notes: Standard costs for actual quantity of sales (at actual price) have been calculated in the ratio of 9,000 to 10,000.

(i) Statement showing reconciliation of Budgeted Profit, Standard Profit and Actual Profit

Element	Rs.	Rs.
Budgeted Sales		5,00,000
Budgeted Costs		3,57,700
Budgeted Profit		1,42,300
(-) Sales Volume Variance	(50,000)	
(+) Diff. in Budgeted Costs & Standard Costs for Actual Quantity	35,770	(16,380)
Standard Profit for Actual Quantity		1,28,070
Add: Favourable Variances		
Sales Price Variance	11,250	
Labour Efficiency variance	6,750	
Variable Overhead Efficiency Variance	1,008	
Fixed Overhead Efficiency Variance	1,935	
Fixed Overhead Budget Variance	1,340	22,283
Less: Adverse Variances		
Material Usage Variance	9,000	
Material Price Variance	23,400	
Labour Rate Variance	10,125	
Variable Overhead Budget Variance	1,258	
Fixed Overhead Capacity Variance	4,085	47,868
Actual Profit		1,02,485

Quick Take
The reconciliation serves as a tool whereby efforts can be focused on the areas that warrant attention

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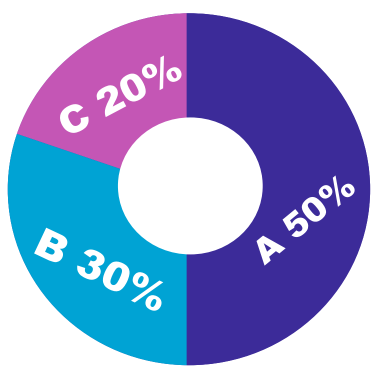
GROUP: iii, PAPER: 16

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.

INTEREST u/s 234A, 234B & 234C

Under the Income-tax Act, different types of interests are levied for various kinds of delays/defaults. In this, we are discussing about the provisions of sec. 234A, 234B and 234C dealing with interest levied for (i) delay in filing the return of income; (ii) non-payment or short payment of advance tax; and (iii) non-payment or short payment of individual instalment or instalments of advance tax (i.e., deferment of advance tax).

Before understanding the provisions of sec. 234A, 234B and 234C it is important to understand the provisions of Rule 119A which gives the manner of computation of interest under the Income-tax Act

1. ***Rounding off the amount on which interest is to be calculated***
   Amount on which such interest is calculated will be rounded off to the multiple of 100 by ignoring any fraction of 100. E.g., amount on which interest is to be calculated is ₹ 240 or ₹ 290, then it is to be rounded off to ₹ 200 by ignoring fraction of ₹ 40 or ₹ 90.
2. ***Rounding off the period for which interest is to be calculated***
   - When interest is calculated on monthly basis, any fraction of the month shall be taken as full month. E.g., Interest is to be calculated from 1st August to 5th December, then interest shall be calculated for 5 months.
   - When interest is calculated on annual basis, any fraction of the month shall be ignored.

Interest for default in furnishing return of income [Sec. 234A]

Condition: Where a person, who is required to furnish return of income -

a) fails to furnish a return; or
b) furnishes it after the due date specified u/s 139(1).

Amount on which interest is to be charged: On the amount of tax determined u/s 143(1) or on regular assessment as reduced by advance tax paid and tax deducted or collected at source, if any.
In other words, interest is to be calculated on the following amount:

Particulars	Amount	Amount
Tax determined u/s 143(1) or on Regular assessment*		***
Less: Advance Tax paid	***	
Relief u/s 89 or 90 or 90A or 91	***	
Credit allowed u/s 115JAA / 115JD (MAT or AMT Credit)	***	
Tax deducted/collected at source	***	***
Amount for Interest Calculation		***

* Regular Assessment means assessment u/s 143(3)/144/147 (first time)/153A(first time).

Rate of Interest: Simple interest @ 1% per month or part thereof
Period: For every month or part of a month commencing from the day immediately following the due date for furnishing return for the relevant assessment year and ending on:

- Where the return is furnished after due date : Date of furnishing return
- Where the return is not furnished at all: Date of completion of assessment u/s 144 ***Taxpoint***

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax liability as declared in the return by the assessee.
2. As interest liability u/s 234A is different, in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1) or regular assessment), therefore, interest paid u/s 234A at the time of self-assessment shall be reduced from final interest liability u/s 234A.

Interest for default in paying advance tax [Sec. 234B]

Condition: Where a person, who is required to pay advance tax, fails to pay -
(a) advance tax at all; or
(b) 90% of assessed tax as advance tax.
Amount on which interest is to be charged –

Particulars	Interest
Where tax is paid u/s 140A	
Period upto the date on which tax as per self-assessment is paid	Assessed tax – Advance tax paid
Period after the date on which the tax as per self assessment is paid	Assessed Tax – Advance tax paid - Tax paid on Self Assessment*
# Assessed tax means tax determined u/s 143(1) or Regular assessment as reduced - Tax deducted or collected at source; - Relief allowed u/s 89 or 90 or 90A or 91; Credit allowed u/s 115JAA or 115JD (MAT or AMT Credit)	
* Where amount paid under self-assessment falls short of tax and interest calculated as per self-assessment, then amount paid shall be first adjusted towards interest and balance, if any, shall be adjusted towards tax payable.	

Rate of interest: Simple interest @ 1% per month or part thereof
Period: For every month or part of a month commencing from 1st day of April of the relevant assessment year and ending on the date of determination of tax u/s 143(1) or on regular assessment.
Taxpoint

1. For the purpose of self-assessment u/s 140A, interest shall be calculated on tax as per income shown in the return.
2. As interest liability u/s 234B is different in case of assessment by assessee himself (i.e. self- assessment) and assessment made by income tax authority (i.e. assessment u/s 143(1), regular assessment), therefore interest paid u/s 234B at the time of self-assessment shall be reduced from final interest liability u/s 234A.

For deferment of Advance Tax [Sec. 234C]

Condition: Payment of advance tax is to be made at specified percentage within given dates*. In case assessee fails to pay the amount or pays lesser amount as required by the schedule, then assessee will have to pay interest u/s 234C for such deferment.
Amount on which interest is payable

Particulars	Amount
Specified % of tax* on the total income declared in the return filed by the assessee	***
Less: Tax deducted/collected at source	***
Less: Amount of advance tax paid on or before the due date of payment as per the advance tax payment schedule.	***
Less: Other Credit or relief allowed (if any)	***
Amount on which interest shall be calculated	***

*Specified % of tax for calculation of interest under this section

Types of Assessee	Due date of Instalment (P.Y.)	Amount Payable
An eligible assessee in respect of an eligible business referred to in sec. 44AD or 44ADA	On or before March 15	100% of advance tax liability
In case of other assessee	On or before June 15	Not less than 15% of tax. [Note 1]

	On or before September 15	Not less than 45% of tax as reduced by the amount paid in the earlier installment [Note 2]
	On or before December 15	Not less than 75% of tax as reduced by the amount paid in the earlier installments
	On or before March 15	The whole amount of tax as reduced by the amount paid in the earlier installments

Taxpoint

1. Where an assessee has paid 12% or more of tax as advance tax on or before June 15, then no interest u/s 234C is payable.
2. Where an assessee has paid 36% or more of tax as advance tax on or before September 15, then no interest u/s 234C is payable.

Rate of interest: Simple interest @ 1% per month or part thereof

Period: 3 months (1 month for last instalment)

Other Points

No interest will be levied in respect of any shortfall in the payment of advance tax due on the returned income, if -

a)The shortfall is on account of under-estimation or failure to estimate the amount of:

i. capital gains; or
ii. income of the nature referred to in section 2(24)(ix) [i.e. lottery, cross-word, etc.];
iii. income under the head "Profits and gains of business or profession" in cases where the income accrues or arises under the said head for the first time; or
iv. dividend [excluding dividend u/s 2(22)(e)]

The assessee has paid the whole of the amount of tax payable in respect of such income as part of the remaining installment(s) of advance tax which were due or where no installment is due, by March 31 of the previous year.

Example

The following particulars are furnished by Ms. Madhuri for the financial year 2021-22:
Tax on total income (paid on 31.7.2022) ₹ 50,000.
Date of filing the return 1.8.2022
Due date for filing the return 31.7.2022
Compute the total interest payable under sections 234A, 234B & 234C.

Solution

Calculation of Interest Payable by Ms. Madhuri

Particulars	Sec	Details	Amount	Amount
Interest for delayed filing of return of income	234A	₹ 50,000 * 1%		500
Interest for default in payment of advance tax for the months of April 22 to July 22	234B	₹ 50,000 * 1% * 4 months		2,000
Interest for deferment of advance tax	234C			
- Default in payment of 1st installment		(₹ 50,000 * 15%) * 1% * 3 months	225	
- Default in payment of 2nd installment		(₹ 50,000 * 45%) * 1% * 3 months	675	
- Default in payment of 3rd installment		(₹ 50,000 * 75%) * 1% * 3 months	1,125	
- Default in payment of 4th installment		₹ 50,000 * 1% * 1 month	500	2,525
Total Interest				5,025

Fee u/s 234F is also applicable.

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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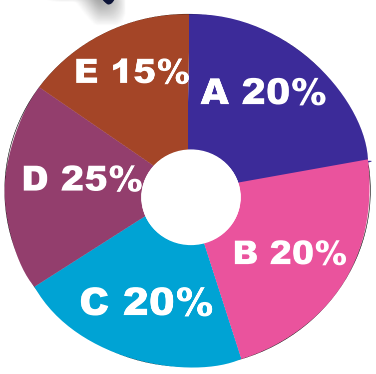
Your Preparation Quick Takes



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

Business Combination: Chain Holding

In this issue let us take up a problem of business combination with the special case of chain holding

Chain-holding refers to the transaction of business combination where a parent is acquiring control of its subsidiary (intermediate parent) which in turn is acquiring control of another company (sub-subsidiary). In separate set of accounts of the Acquirer (parent), there will be no additional treatment for chain holding. But in the consolidated set of accounts of the Acquirer net assets of the subsidiary (which is intermediate parent also) and the net assets of the sub-subsidiary are recognised at fair value. Also, the non-controlling interest of the subsidiary and the sub-subsidiary are recognised. An illustrative example is given below.

Illustration: Pass summarised journal entries for business combination in the books of P Ltd. from the following particulars:

All amounts are in rupees lakhs.
Summarised Balance Sheets of P Ltd., Q Ltd. and R Ltd. are as at 31-03-2021

	P	Q	R
PPE	500	400	300
Inventory	360	160	80
Trade Receivable	320	150	40
Cash and Bank	200	150	100
Total	1380	860	520
E. Share Cap (` 10)	800	500	300
Other Equity	300	200	150
Trade Payables	200	100	70
Bills Payables	80	60	
Total	1380	860	520

P Ltd. acquired 80% shares of Q Ltd. at a consideration of 900 and Q Ltd. acquired 75% shares of R Ltd. at a consideration of 300 on 01-04-2021. NCI is measured at fair value.
Fair value as at acquisition:

	P	Q	R
PPE	700	600	400
Inventory	340	150	60
Trade Receivables	300	120	40
Trade Payables	200	90	70
Bills Payables	80	60	

Solution:

Workings: (Rupees in lakhs)
I. Share of parent and NCI
Share of P in Q = 80% NCI in Q = 20%
Share of Q (intermediate parent) in R = 75%
Share of P (parent) in R (sub-subsidiary) = 80%*75% = 60%

NCI in R = 40%

II. Net Assets on acquisition at fair value

	Q	R	Total
PPE	600	400	1000
Inventory	150	60	210
Trade Receivables	120	40	160
Cash and Bank	150	100	250
Bills Receivables	70	50	120
Total Assets	1090	650	1740
Trade Payables	90	70	160
Bills Payables	60		60
Total Liabilities	150	70	220
Net Assets at fair value	940	580	1520

III. NCI at FV.		
NCI of R = [Consideration * (NCI share/Intermediate Parent Share)] = 300*40%/75%		160
NCI of Q = [Consideration * (NCI share/Parent Share)] 900*20%/80%	225	
Less: Included in NCI of R (20% of 300	60	165
Total NCI		325

IV. Goodwill/ Gain on Bargain Purchase

	Amount
a. Net Assets	1520
b. Consideration	900
c. NCI	325
Gain on Bargain Purchase [a – (b + c)]	295

Journal (summarised)

In consolidated set of P Ltd.

	Dr.	Cr.
Net Assets Dr.	1520	
To, Consideration		900
To, NCI		325
To, Capital Reserve (Gain on Bargain Purchase)		295

In separate set:

	Dr.	Cr.
Investment in shares of Q Ltd Dr.	900	
To, Consideration		900

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX LAWS & PRACTICE (ITP)

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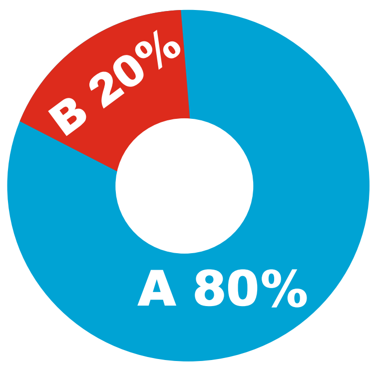
Your Preparation Quick Takes



Syllabus Structure

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

B Tax Practice and Procedures **20%**

Learning Objectives –

Through the following MCQ, students can refresh themselves about

- Refund of tax
- TCS and filing of returns
- GSTR-3B and opting for QRMP scheme
- Penalty / Late Fees under GST
- Exempted services
- E-invoicing and refund
- Mismatch and duplication claims

INDIRECT TAX

Choose the correct option from the followings –

1. As per Section 56 of the CGST Act, 2017 Refund of tax has not been given to a person within 60 days from the date of receipt of application for refund the rate of Interest payable per annum is

(a) 6%
(b) 9%
(c) 12%
(d) 18%

2. Sec. 76 of the CGST Act, 2017 may be invoked by the officer to recover such TCS along with interest. Penalty u/s 122(1)(vi) may also be imposed subject to principles of natural justice where

(a) TCS less collected
(b) TCS not collected
(c) TCS collected but not paid to the Government
(d) Late filing of TCS returns

3. Which of the statement is not correct in relation to the operator who collects tax shall furnish a statement, electronically, containing all the details regarding

(a) Return of goods and services
(b) Return of goods and services during the Financial Year
(c) Outward supplies of Goods and Services
(d) Inward supplies of Goods and Services

4. Which of the following statement is correct –

(a) a taxpayer is required to file all types of returns
(b) taxpayers are required to file returns depending on the activities they undertake
(c) taxpayers are required to file returns as specified by authorities
(d) taxpayers are required to file returns depends on purchase and sale

5. Details of inward supplies to be furnished by a person having UIN and claiming refund, the due date for filing return is –

(a) 13th of the next month
(b) 18th of the month succeeding quarter
(c) 20th of the next month
(d) 28th of the month following the month for which statement is filed

6. Under section 37 of GST Act which of the following person required to furnish a return for outward supplies

(a) A person paying tax under the provisions of section 51 (TDS)
(b) A person paying tax under the provisions of section 52 (TCS)
(c) A person supplying stationeries to a charitable school
(d) Person providing Online Information and Data Access & Retrieval Services

7. In relation to filing of the monthly return of GSTR-2, which of the statement is not correct

(a) the taxpayer giving details of inward supplies and relevant debit/ credit notes.
(b) The details of GSTR-2 will mostly be auto-populated from the GSTR-1 of counterparty making supplies.
(c) The auto-populated details can not be modified, validated and deleted.
(d) The taxable person shall file the details of inward supply, including those under reverse charge and IGST with relevant debit/credit notes.

8. Which of the following registrants required to file GSTR-3B

(a) Input Service Distributors & Composition Dealers
(b) Person paying GST under reverse charge
(c) Suppliers of OIDAR
(d) Non-resident taxable person

9. Presently the time limit for furnishing the details of outward supplies in Form GSTR-1 for Registered person opting for QRMP- Scheme

(a) 11th day of the month succeeding such tax period
(b) 13th day of the month succeeding such tax period
(c) 22nd day of the month succeeding such quarter
(d) 24th day of the month succeeding such quarter

10. A registered person can opt for Quarterly Return filing & Monthly Payment of Taxes (QRMP) Scheme if the turnover does not exceed

(a) Rs 1.50 crores
(b) Rs 2.50 crores
(c) Rs 3.50 crores
(d) Rs 5.00 crores

11. In relation to Penalty / Late Fees under GST Act which of the following statement is correct –

(a) As per GST Act Late fee is Rs 100 per day per Act. So it is 100 under CGST & 100 under SGST. Total will be Rs 200/ day. Maximum is Rs 5,000. There is no late fee on IGST
(b) Interest is 28% per annum. It has to be calculated by the tax payer on the amount of outstanding tax to be paid. Time period will be from the next day of filing to the date of payment.
(c) Late Fee for filing GSTR-1, GSTR-3B, GSTR-4, GSTR-5 & GSTR-6 after the due date has been reduced to Rs 75 per day of delay
(d) Late fee for filing NIL returns have been reduced to Rs 50 per day of delay for taxpayers (i.e having Nil tax liability for the month) for GSTR-1, GSTR-3B and GSTR-4 & GSTR-5

12. Which of the following supply will be considered as taxable supply

(a) Religious, Yoga or Meditation programme or camp meant for advancement of religion, spirituality or yoga.
(b) Residential programmes or camps where the fee charged includes cost of lodging and boarding
(c) Holding of fitness camps or classes such as those in aerobics, dance, music etc
(d) Training or coaching in recreational activities in relation to sports

13. As per the Notification No 7/2021 CT dated 30-09-2019 which of the following supply services is exempted -

(a) services by the Department of Posts by way of Agency Services provided to a person other than the Central Government, State Government, Union territory
(b) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport
(c) by way of issuance of passport, visa, driving license, birth certificate or death certificate.
(d) Renting of immovable (commercial) property to un-registered person

14. Admission fees will be taxable in case of admission to pageant, musical performance or any sporting event other than a recognised sporting event if it is more than

(a) Rs 150/-
(b) Rs 250/-
(c) Rs 350/-
(d) Rs 500/-

15. In terms of the procedure for Revocation of cancellation of registration under GST which of the following statement is not correct

(a) Application for revocation of cancellation to be made within 45 days of cancellation in Form GST REG 24
(b) Authority can reject the application for revocation of cancellation of registration by passing an order in Form GST REG-05
(c) Authority shall issue show cause notice in Form GST REG-23 for unjustified reasons
(d) Authority may revoke cancellation of registration within 30 Days of application or receipt of clarification in Form GST REG-22

16. Reference to the Notification no. 35/2021 CT dated 24.09.2021 in respect of a principal (JOB Work) whose aggregate turnover during the immediately preceding FY if More than Rs 5 crore required to furnish the details in GST ITC - 04

(a) Monthly
(b) Quarterly

(c) Half yearly
(d) Annually

17. in which of the following case mandatory E – invoicing is required –
(a)Goods Transport Agency's (GTA's)
(b)SEZ Developers
(c)For high sea sales and bonded warehouse sales
(d)For import Bills of Entry

18. As per rule 90(5) & (6) now a tax payer can withdraw their refund applications, if they has committed any mistakes, while filing the application
(a) Within 7 days of filing application
(b) Within 3 days of show cause notice issued but before final order
(c) at any time before issuance of provisional or final refund sanction order or refund withhold order or show cause notice
(d) As per the discretion of the authority before issuance of provisional or final refund sanction order or refund withhold order or show cause notice

19. In case of considering the mismatch relating to the transactions where the input tax credit is duplicated by the recipient
(a) The transaction is treated as mismatched
(b) Shall be communicated to the registered person in FORM GST MIS 1
(c) Shall be added to the output tax liability of the recipient
(d) Shall be added to the output tax liability of the recipient

20. The duplication of claims of input tax credit that is found to be in excess on account of such duplication of claims
(a) shall be added to the output tax liability of the recipient in his return for the month in which the duplication is communicated
(b) shall be added to the output tax liability of the recipient in his final return after that communicated by authority
(c) authority shall issue notice for payment of excess tax for duplication as soon as it been detected
(d) the output tax liability generated by duplication claim of input tax credit to be deposited within 15 days it is been detected

ANSWERS

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

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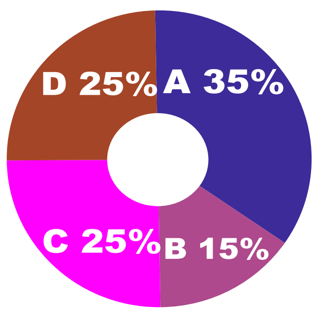
GROUP: iv, PAPER: 19

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

PERFORMANCE ANALYSIS AND ITS REPORTING.

Introduction

The existence of a company is for eternity. Therefore, the concept of Going Concern is adopted by companies for recording of transactions. The company has to plan for its future and make profits to maintain its perpetuality. That's the reason why the companies set budget and measure its variations at periodical intervals. But often just measuring the variations is not enough. The company has to seek out the reasons for the variations and take measures not to repeat such conditions to avoid variations. This monitoring is a continuous process.

To help monitor the variations, the clues are to be looked for in the process. Those clues are the indicators for performance management. So, a Performance Analysis Report is made up to appraise the management about its current performance. There is no set number or formula to determine how many performances measures an organization should have. Tracking too many performance measures at once may cause managers to lose sight of some which contribute most to strategic objectives. The basic objective to prepare a report on performance analysis is that it would help the organization to improve its profits and profitability, to optimize resource allocation, to optimize the product and service portfolio.

Basic objective to prepare a report on performance analysis is to provide an actionable insight into costs and profitability for the management in the strategic and operational context.
Suggested mechanism for performance analysis

Mechanism for performance management may include machine hour rate. Lower the machine hour rate better the performance. Again, a higher rate return on investment implies better performance.

Performance measures tell manager something important about the company's products, services and the process. Effective performance measures can let us:

- Monitor performance to judge how well the company is doing.
- Know if company is meeting its own set goals and if the customers are satisfied.
- Take action to affect performance or improve efficiency if improvements are necessary.

Steps / approach suggested for report on performance analysis

- Identify and understand the key strategies of the company, both prescriptive and emergent strategies.
- Choose strategies that have more visible expressions in cost data maintained by the company.
- Identify the activities that that were impacted by the strategies selected and also implemented during the year.
- Analyse the cost implications of those activities and link it with the expected results of the strategies.
- Present the evaluation, in a table or any other easily comprehensible format like histogram, chart, graph etc.
- Give explanatory notes for the termed used, calculations made, and assumptions behind the evaluation.
- Finalize the finding after a discussion with the concerned operating executives and then with the management of the company.

Followings are some of the important indicators for Performance Analysis –

1. ***Capacity Utilization Analysis***

The basic information about capacity utilization is covered in Annexture-1 of Part B 1 & 2 of CRA-3 as Quantitative Information. However, there should be information about theoretical capacity, practical capacity, normal capacity and budgeted capacity. This information about the capacity can be found from technical documents, production planning report, time remaining after accounting and normal wastage & down time and any benchmarking exercise done. Cost Accounting Standard-2 that provides for capacity determination can be referred for such analysis.

When comparing the actual production with normal capacity, the variation if any may be further analysed from the point of view of controllable and uncontrollable causes for better presentation. Further the constraints if any that would limit the capacity of the entire organization or product is also to be identified

Capacity is usually expressed in terms of the numbers, machine hours, people hours etc.

2. Productivity and Efficiency Analysis

Productivity means input versus output. Raw materials consumption cost is one of the major elements of cost and normally remains between 70% and 80% of the total cost of production. Further RMs constitute different items of input. Therefore, the input versus output analysis of each of the input is needed to assess their efficiency/productivity. The productivity is a measure of efficiency per unit of output. Part B-2A & 2B of CRA-3 provides some basic information about input cost.

3. Product / service profitability analysis

The analysis of product and service profitability is based on two major components which is cost & selling price. The fluctuation of these components should be monitored to facilitate the assessment of impact of their changes. For service, it is essential to exercise care for calculation of its cost of service as the services provided are not standard.

If an organization is providing multiple products or services, the cost and profit of newly introduced products or services should be isolated. The analysis should highlight the products or services that provide for highest and lowest contribution. Each and every product and services should be ranked accordingly on the basis of their contribution. This will help the organization to understand and appraise itself about the performing and non-performing products and services. For such an analysis the sales and production records, operational budgets, price and discount policy etc. can be referred.

4. Key cost and contribution analysis

Some of the techniques used for such an analysis are breakeven analysis, profit volume ratio, marginal safety at current volumes of production and contribution earned by each product. Contribution is sales minus variable cost. In Annexture-4 of Part D of CRA-3, the financial performance and ratios are disclosed. This analysis involves assessment of major items of cost, their relationship with volume of production and some other indicative ratios. Any significant variation observed during analysis may further be examined about its recurring & non-recurring nature.

5. Utilities and Energy Efficiency Analysis

Utilities can be categorised as electricity, steam, compressed air, treated water etc. The parameters of analysing the performance of these utilities may include factors like consumption of fuel for generating the energy and then the use of the energy produced per unit of final product.

In manufacturing industries, utilities and energy form a substantial part of the conversion cost. The utilities are resources that are used in the process of conversion of materials and other components into a finished product, but these resources do not form part of the physical unit of the product. The impact of utility from cost angle as well as from the point of view of conservation of energy should be evaluated.

6. Working Capital and Inventory Management Analysis

Working capital being an indispensable part of operation of business should be evaluated to point out the inefficiency of either procurement or the application of the working capital. The analysis of working capital can be done by using traditional measures like current ratio, quick ratio, turnover ratio, number of days in operating cycle. This analysis helps in identifying operational inefficiency and liquidity of the company. Further, the cash management also to be reviewed to identify whether excessive amount is blocked in the working capital.

To avoid misuse of working capital, the policies regarding inventory management which would include procurement policy, stocking policy, inventory valuation method, physical verification of inventory policy, has to be in commensurate with nature and size of business.

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YEARS OF CELEBRATING THE MAHATMA

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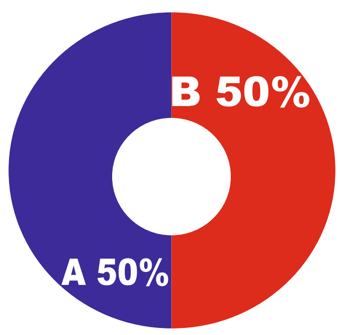
GROUP: iv, PAPER: 20

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

Strategic Performance Management and Business Valuation

Six Sigma Methodologies

Six -Sigma has two key methodologies:

(a) DMAIC (Define— Measure— Analyze— Improve— Control): It is used to improve an existing business process. It consists of five basic steps:

(i) Define the process improvement goals that are consistent with customer demands and enterprise strategy.

(ii) Measure the current process and collect relevant data for future comparison.

(iii) Analyze to verify relationship and causality of factors. Determine what the relationship is, and attempt to ensure that all factors have been considered.

(iv) Improve or optimize the process based upon the analysis using techniques like Design of Experiments.

(v) Control to ensure that any variances are corrected before they result in defects. Set up pilot runs to establish process capability, transition to production and thereafter continuously measure the process and institute control mechanisms.

(b) DMADV (Define—Measure—Analyze—Design—Verify): It is used to create new product or process designs for predictable, defect-free performance. It also consist of five steps:

(i) Design activities that are consistent with customer demands and enterprise strategy.

(ii) Measure and identify CTQs (critical to qualities), product capabilities, production process capability, and risk assessments.

(iii) Analyze to develop and design alternatives, create high-level design and evaluate design capability to select the best design.

(iv) Design details, optimize the design, and plan for design verification. This phase may require simulations.

(v) Verify the design, set up pilot runs, implement production process and handover to process owners. Some people have used DMAICR (Realize). Others contend that focusing on the financial gains realized through.

MCQs

Choose the correct option from amongst the four alternatives given:
(Each question carries 1 mark)

1. Which of the following is not correct to the quality circle concept?

(a) Quality Circle is group of 20 to 30 employees doing similar work who voluntarily meet together on a regular basis to identify improvements in their respective works;

(b) Quality Circle is a form of participation management;

(c) Quality Circle is a human resource development technique;

(d) It brings out 'Hidden Potential' of people get to learn additional skills.

2. Which of the following does not form part of Benchmarking process?

(a) Planning

(b) Redesign

(c) Analysis

(d) Integration

3. If a firm is a price taker, its marginal revenue is:

(a) Equal to market price;

(b) Less than market price;

(c) Greater than market price;

(d) A multiple of market price that may be either greater than or less than one

4. The system of charging high prices for a new product is known as---

(a) Multiple pricing

(b) Dual pricing

(c) Shadow pricing

(d) Skimming pricing

5. The price (P) per unit at which company can sell all that it produces is given by the function P(x) = 300 – 4x. The cost

function is 500 + 28x, where 'x' is the number of units. Profit would be maximum in----------of units.

(a) 30 Units

(b) 32 Units

(c) 34 Units

(d) 36 Units

Answers:

Question No	(1)	(2)	(3)	(4)	(5)
Answer	(a)	(b)	(a)	(d)	(c)

Example 1

6,000 pen drives of 2 GB to be sold in a perfectly competitive market to earn ₹ 1,06,000 profit, whereas in a monopoly market only 1,200 units are required to be sold to earn the same profit. The fixed costs for the period are ₹ 74,000. The contribution per unit in the monopoly market is as high as three-fourths its variable cost.
Determine:

(a) The target selling price per unit under perfectly competitive market.
(b) The target selling price per unit under perfectly monopoly market.

Solution:

(a) Calculation of selling price under perfect competitive market 6,000 units

Units	6,000
Contribution ₹ (1,06,000 + 74,000)	₹ 1,80,000
Contribution p. u. ₹ (1,80,000/6,000)	₹ 30
Variable cost p. u.	₹ 200
Selling price p. u	₹ 230

(b) Calculation of selling price under perfect monopoly market 1,200 units

Units	1,200
Contribution ₹ (1,06,000 + 74,000)	₹ 1,80,000
Contribution p. u. ₹ (1,80,000/1,200)	₹ 150
Variable cost p. u. (₹ 150 x $\frac{4}{3}$)	₹ 200
Selling price p. u	₹ 350

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from

Directorate of Studies

Dear Students,

Heartfelt wishes to you for passing the exam!! All who passed out have been sincere and diligent since day one and never failed to amaze us with your dedication. You've proved that dedication and learning end at resulting in excellent outcomes. Best wishes for achieving the best place. So proud to call you our student! Congratulations and best wishes for your life. May your future be filled with many great achievements like this.

Those who could not pass out please be steady and we believe, everyone has intellect and presence of mind. But only a few students who can deliver the right thing at right time and with right courage become the winner in the examination. So, please try to deliver your best in your next examination.

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. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

To celebrate **75 years of independence and commemorate it as India is celebrating, 'Azadi Ka Amrut Mahotsav'**, across the country and amid the coronavirus pandemic and also organizing various events. India's freedom fighters fought a long and hard struggle for the country's independence from the British and, for years, their words have inspired us. We hope that our students will also participate and pay their homage to the freedom fighters.

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.

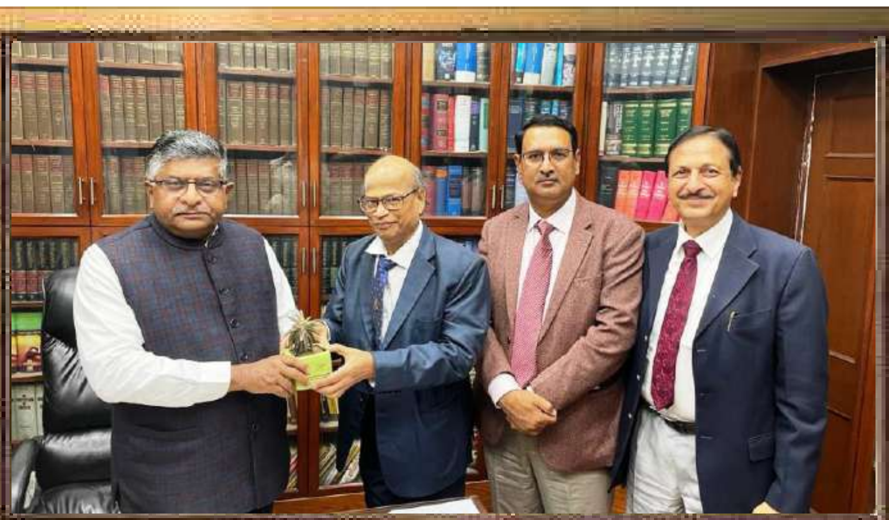
GOOD LUCK

Be Prepared and Get Success;

Few Snapshots

CMA P. Raju Iyer, President, CMA Vijender Sharma, Vice President, CMA B.B. Goyal, Adviser, ICMAI MARF and CMA Kaushik Banerjee, Secretary of the Institute during a meeting with Mr. Hussain Niyazy, Auditor General of Maldives and other delegates from ICA Maldives on 9th March, 2022 at CMA Bhawan, New Delhi.

Glimpses of Seminar organised by IAASB jointly with Chandigarh-Panchkula-Mohali Chapter of the Institute on 5th March, 2022 at Chandigarh.



CMA P. Raju Iyer, President along with CMA Vijender Sharma, Vice President of the Institute, CMA B.B. Goyal, Former Addl. Chief Advisor (Cost), Ministry of Finance, Govt. of India called on Shri Ravi Shankar Prasad, Hon'ble Member of Parliament (Lok Sabha) & Member, Parliamentary Standing Committee on Finance on 4th March, 2022 at New Delhi.

International Women's Day celebration at CMA Bhawan, New Delhi on 8 March, 2022

CMA P Raju Iyer, President and CMA Vijender Sharma, Vice President of the Institute receiving the 'ET Inspiring Leaders East 2022' Award Certificate of Excellence under the category 'Prime Professional Accountancy Body in India' on 6th March, 2022 at Kolkata

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