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FINAL

e Bulletin

VOL: 3 , NO.: 10 ,OCTOBER , 2018 ISSUE

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA

Message from
The Chairman

CMA Manas Kumar Thakur
Chairman,
Training & Education Facilities (T& EF) Committee

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

"Education is not just about going to school and getting a degree. It's about widening your knowledge and absorbing the truth about life".

The aim of the education is the knowledge not of facts but of values. Both persistence and determination is needed to sail through any professional qualification. Education teaches one to think intensively with intelligence plus character is the main ingredients in it. *"It is the mark of an educated mind to be able to entertain a thought without accepting it".*

Thus, I believe in the saying that "**Knowledge is power. Information is liberating. Education is the premise of progress, in every society, in every family".** Learning without thought is a labour lost, thought without learning is dangerous. Learning is not just about looking and copying, it's about feeling too.

Strive for progress as our greatest weakness lies in giving up. In order to succeed you need to work hard and stay motivated. Starting your day feeling determined can help you work throughout the day and achieve your goal. Believe in yourself, be strong and never give up, no matter what the circumstances are.

The Directorate of Studies is assisting in your preparation by providing you various kinds materials in the forms of Revisionary Test Papers (RTPs), Mock Test Papers (MTPs), Work Book along with all the recent amendments in papers related to Direct and Indirect taxation, Laws, Accounting etc. and also arranging for live Webinar session through which you may directly interact with the faculties and clear your doubts. Prior preparation is required to make the Webinar more live and vibrant. Try to grab the opportunities and make yourself prepare to face the challenges, afterwards. ***"One must learn by doing the thing; for though you think you know it, you have no certainty, until you try."***

I wish you all a very happy Dussera & Durgapuja,

CMA Manas Kumar Thakur

Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"

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CONTENTS

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KNOWLEDGE Update

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

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GROUP: 3, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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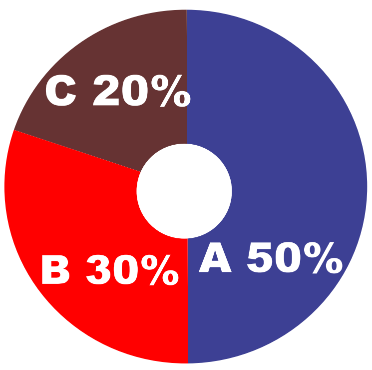
Your Preparation Quick Takes



Syllabus Structure
A Companies Act **50%**
B Other Corporate Laws **30%**
C Corporate Governance **20%**

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.

The Contract Law

Scope and applicability

All contracts in India (except in the state of Jammu and Kashmir) are guide by the Indian Contract Act, 1872, which came into effect from 1st September, 1872.

Any commercial, individual or personal contract including agency etc. shall come under the purview of this Act. Where any matter is covered under any statute i.e. any other Act, Contract Act shall not apply in such case.

The Act has no extra territorial jurisdiction i.e. not beyond the territory as mentioned above.

Sale of goods Act was enacted in 1930 and Partnership in 1932.Before that provisions were relating to the same in Indian Contract Act.

1.0 meaning of Contract

A. Contract is an agreement or a promise enforceable by law creating an obligation of parties to do or not to do anything. Mere contract to make a contract is not a contract.

B. Contract can be either implied or expressed. In implied contract the conduct of the parties satisfies that one party is making an offer and the other party is accepting it. agreed place. Contract, therefore would comprise (i) agreement and (ii) legal obligation i.e. the agreement should be enforceable by law.

1.1 agreement

A. When two or more persons meet upon a common purpose and consent to do or refrain from doing anything, it will be called an agreement. Person can be a natural person or juristic person. In all agreement there is an obligation, which means duty to do or abstain from doing what one has promised to do or abstain from doing.

The act defines "every promise and every set of promises forming the consideration for each other, is an agreement"

1.2 legal obligation

It is said that all contacts are agreements but all agreements are not contracts. This means that in order to be a contract there must be more then mere agreement. These are legal enforceability and consideration. Legal enforceability means that the contract, if not fulfilled should have legal consequences and parties to the contract should be aware of it. Consideration is the price which the other party agrees to pay to the person who performs the contract. This is to differentiate those agreements which are not legally enforceable, i.e. agreeing to go to some social/ religious function.

1.3 'promisor', 'promisee' and 'promise'.

A. Person making the proposal is called promisor and the person accepting the proposal is called promisee. The subject matter of the proposal is called promise. Person making the promise is also called offeror and the promissee is called offeree and promise is called offer.

1.4 agreements not contracts

The following agreements are not contracts.

(i) Agreement relating to social matters.
(ii) Domestic arrangements between husband and wife.

1.5 essentials of a valid contract

A. The essential of a valid contract are as follows:

(i) *Offer and acceptance*. There has to be an offer by other promisor to be accepted by other person, i.e. promisee. Both offer and acceptance should not suffer from illegality.

It has been scitifically established that thereiis atime lag between making an offer nad acceptance of the offer.if a person having a plot of land offers it to someone he becomes the offerer and the the other person becomes the oferee or promisor nad promise repectivley. If the buyer offers to buy by offering a price, he becomes the offerer. Offer once accepted becomes a contract.

(ii) *Free consent of parties*. Contract is voluntary agreement by parties and the consent should be free and genuine. No body can force other party to make a contracyt. They should agree upon the same thing in the same sense. Consent shall be said to be free if it is not caused by (1) coercion, (2) undue influence, (3) fraud, (4) misrepresentation & (5) mistake. These terms are discussed further at later stage.

(iii) *Intention to create legal relations or an intention to have legal consequences*. The parties should know that by contracting, a legal relationship is being created and they have to face the consequences for non-performance of the contract.paries shuld not have feeling that if I di not operform nothing will happen under law. Contract is a kind of commitment and contracting paries cannot come opout of the commitment at sweet will of either of the party.

(iv) there shuld a *Legal object not opposed to public policy*- the object and subject matter of the contract should be lawful i. e should not be against law and neither can be against the public policyi. E. Govt. Policy.

(v) *Lawful Consideration* – means any price either in cash or kind, which the promisee has to pay to the promisor for performance or non-performance as per mutual agreement

(vi) *Competent parties* –contract shuld be always inter vivos .i. e between two living persons. Any living persons incudding artifical, persons can contract unless should not be barred by contract law or any other law or by court order to enter into contracts or conitinue with a contract already made.

(vii) *Terms of the contract are certain*. There should not be any ambiguity or vagueness in terms of the agreement; otherwise it would lead to confusion regarding subject matter of contract.

(viii) *Possibility of performance:* the terms and conditions of the contract should be technically possible to comply.

2.0 Types of contract

(a) *Void contract*: means a contract which suffers from any shortfall which is essential to a contract. Therefore such contacts shall not legally enforceable and considered to be non-existent.

Some of contracts have been Expressly declared void under the law. They are:

(i) contract in restraint of marriage
(ii) contract in restraint of trade
(iii) contract in restraint of Legal Proceedings
(iv) Uncertain Agreements: terms and conditions are uncertain and unclear so far performance and other parameters are concerned.
(v) Wagering Agreements: contracts of betting and gambling.
(vi) Agreements contingent on impossible acts: some performance which depends on issues which are inpossible.
(vii) Agreements to do impossible Acts. Here there is something which is naturally uipossible nad something which is technically impossible.

(b) *Valid contacts*: contract having all the essentials of a valid contact shall be considered valid in law.

(c) *Voidable contract*: when a contract suffers from certain irregularity, one of the parties may have the intention to condone that irregularity and consider the contract as valid. Alternatively, the party may choose to make the as void. Agreement becomes enforceable at the option of one of the parties.

(d) *Unenforceable contract:* contract otherwise valid is not capable of being enforced in a court of law, because of some technical grounds.

(e) Illegal and unlawful contract: contrary to law.

(f) Express and implied: when terms of contract or principal terms are discuded before hand it is called express. If parties behanve I amaaner that there is acontrcat even without tal;ikng it sic accled eimlied.

(g) A bus is running on aprticlar route and u get into it there is aimlied cotrct berqeen the passenger nad the bus that it will ply in particular direction anf the passenger has to pay.

Quasi contract: sometimes people behave in a manner which shows that there is relationship in the nature of the contract. certain relationship resembling those created by contract . there may not be nay cotract existing. Suppose your friend is pasing through fiancila distress and you pay some paymenysts to tghird aprty on his behalf. U r supposed get back thoush u have not made any contract to lend your friend.

Supplies neccsities to a person even when he doeas not want that but accepts the sullpies ois an example for quasi contract.

There may be situation where one party supplies the other party or his dependants any essential thing; this will amount to quasi contract. Similarly a person, who is interested in the payment of money, which another is found by law to pay and who therefore pays it, is entitled to be reimbursed by the other. Obligation delivers anything to other person or his dependants; the later is found to make compensation

9. Illegal agreement

A. An illegal agreement is one, which, like the void agreement has no legal effect as between the immediate parties, but has the further effect that transactions collateral to it become tainted with illegality and are therefore not enforceable.

(h) Executed: parties have signed and executory: one of the part yet to sign

(i) Contingent contract

A "contingent contract" is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

I A contingent contract cannot be enforced by law until and unless that event has happened and in case the event becomes impossible, such contracts become void.
ii) A contract contingent upon not happening of an event can be enforced only when the event becomes impossible.
iii) A contract contingent on lapse of time can be enforced if at the expiration of the time fixed such event has not happened or before the time fixed the event becomes impossible.
iv) Contingent contracts to do any thing if an impossible event happens are void.

2.3 valid contracts transforming into void contract.

Sometimes a contract was legally valid at the time it was made, but subsequently with the change of situation, it may turnout to be non-operative.

(i) Subsequent illegality
(ii) Performance becoming impossible due change in situation
(iii) it is proved that the contract was made with coercion, undue influence.
(iv) In case on contingent contract, when the event on which the subject mater of the contract depends has become virtually impossible.

3.0 Offer and acceptance

3.1 A. An offer is a proposal by one person whereby he expresses his willingness to enter into a contractual obligation in return for a promise, act or forbearance.

The following are the rules, which govern offers:

(i) It must be clear, definite, complete and final. It must have an willingness to do or not to do anything.
(ii) Must be communicated to the offered i.e. by one person to another person. Communication shall be deemed to be complete when the knowledge of the offer reaches the offeree (except when it sent by post).
(iii) It may be expressed by word, may be in oral or written or it may be implied by conduct.
(iv) Communication of offer may be specific or general. Specific would mean that it is open for acceptance to those persons only. General offer, on the other hand would mean it can be accepted by any person.
(v) Invitation to make an offer is not an offer. If any person invites offers for sale of a particular item, it may not be necessary that he would sale at any offer or for that matter the best offer he has received. He may choose not to sale at all.
(vi) An offer should not have a condition that if the acceptor does not act contrary, it would amount to acceptance.
(vii) Offer to make an offer is not an offer.

3.2 Revocation of an offer. An offer may be revoked/ come to an end by the offeror any time before acceptance by:

(i) Communicating that the offer has been revoked / withdrawn.
(ii) Lapse of time as stipulated in the offer and if time is mentioned, after lapse of reasonable time.
(iii) Not accepted in the mode as mentioned in the offer and if mode is mentioned in the offer, by the usual mode. Usual mode would mean the mode by which such offers are usually accepted.
(iv) Non-fulfillment of condition(s) precedent to acceptance.
(v) By death or incapacity of the proposer or acceptor.
(vi) By rejection either express or implied by the person to whom it is made.
(vii) Offers shall also lapse if there subsequent illegality in the offer or there is destruction of the property which forms subject matter of the contract.

3.3 Acceptance and rules governing an acceptance

A. Acceptance is receiving and consenting to the proposal or promise by the promisee.

Rules governing acceptance are as follows.

(a) Acceptance may be oral or in writing or implied from the conduct.
(b) Acceptance should be by the person to whom the offer has been given.
(b) Acceptance shall be in accordance with the procedure specified in the offer.
(c) Acceptance must be unqualified and absolute.
(d) A counter offer or conditional acceptance operates as a rejection of the offer and causes it to lapse.
(e) Acceptance must be communicated to the offeror for acceptance.
(f) Mere silence or quite acceptance not evidenced by words or conduct on the part of the offeree does not amount to acceptance.
(g) Acceptance must be given within the time stipulated in the offer or within reasonable time. Time may extended by the person who has given the offer.
(h) Rejected offers can be accepted on renewal of the offer.

4.0 Consideration

"as the price for which a promise is bought".
Rules governing consideration:

(a) Every simple contract must be supported by valuable consideration otherwise it is formally void.
(b) There must be mutuality i.e. there should be give and take policy between the parties.
(c) Consideration must be real and not vague, indefinite or illusory.
(d) It need no to be adequate but it must have some value.
(e) Consideration must be lawful. It should be forbidden by law, opposed to public policy, immoral and is injurious to any person.
(f) Consideration must be paid by the promissee or any other person with the consent of the promissee.
(g) consideration may be past present or future.
(f) Consideration must be something more than the promisee is already bound to do for the promisor.

4 0 agreement without consideration

A. An agreement without consideration is valid when:

(i) If it is in writing and registered and is made out of natural love and affection between the parties.(gift)
(ii) If it is made to compensate a person who has done something voluntarily for the promisor or done something which the promissor was legally compellable to do.
(iii) If it is a promise to pay a debt barred by law of limitation. Since the debt is time barred it cannot be recovered. However if there is any agreement to recover the amount without any consideration.
(iv) No consideration is required for creation of an agency though agency is a contract between the principal and the agent.
(v) Agreement to contribute to charity requires no consideration though legally it is enforceable.

5. 0 flaws of contract

A. The various flaws in a contract are :
(i) Incapacity, (ii) Misrepresentation, (iii) Fraud, (iv) Undue influence, (v) Coercion, (vi) Mistake, (vii) Illegality, (viii) Impossibility.

5.1 Incapacity: any person including a natural person can contract. Since a contract has to be between two living persons (inter vivos) parties to the contract should be living at the time of execution of contract. In case of company or any artificial person, such artificial person should be existing. Therefore unincorporated company is competent to contract and so is a company, which has been dissolved by process of law. person is competent to contact except –

(1) He is a minor, as per law, which applies to him. An agreement with a minor is absolutely void and inoperative. However when there is an agreement with minor by which he is beneficiary shall be valid. Since the agreement is void *ab initio*, it cannot be ratified when minor attains the age of maturity.
Minor can be appointed as apprentice because he is protected under the Apprenticeship act, but minor cannot be legally considered as partner, surety, shareholder, agent because all these relationship are legal contractual relationship which a minor cannot make. However, if necessaries are supplied to minor, the supplier is entitled to recover form the assets of minor.

(2) He is of unsound mind; sound mind has been defined as."*a person if at the time when he makes contract, he is capable of understanding it and of forming a rational judgment as to its effects upon his interests.*"
Unsound mind may arise from lunacy, idiocy, drunkenness, mental decay, hypnotism etc. contracts with such persons when they are at the state of unsound mind is void *ab initio* and not operative. However, like minor, such persons can derive benefit out of the contract.
(3) He is bared by any law/ order of court to enter into contracts.
There are some categories of person who cannot contract. They are foreign sovereigns and ambassadors, alien enemies, convict, etc.
(4) Insolvent
(5) Married women- not for husband's properties, but for own properties.

5.2 Misrepresentation: (a) when one party makes a statement to other party either before the contract or after contract, which is not true with an intention to induce the other party to make the contract, it is positive assertion of fact or information, which is not true though he believes it to be true.
(b) any breach of duty which without an intention to deceive, gains an advantage to the person committing it or anyone claiming under him, by misleading another.
(c)Causing, however innocently, a party to an agreement, to make a mistake to the substance of the thing, which is the subject of the agreement.

5.3 Fraud : all acts committed by a person with an intention to deceive another .i.e. false statement with intention to cheat, suppression of material fact, false promises.

5.4 Undue influence: A contract is said to be induced by undue influence where(i) the relation between the parties are such that one is in a position to dominate the will of the other, and(ii) uses the position to obtain an unfair advantage over the other." Dominating position would be determined considering (a) one has real or apparent authority over the other (b) there is fiduciary relationship ,i.e. mutual trust and confidence (c) mental condition is temporarily not normal.

5.5 Coercion: coercion is committing or threatening to commit, any act forbidden by Indian penal code or unlawful detaining or threatening to detain, any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement."

5.6(vi) Mistake: mistakes are classified into two: (i)mistake of law: every person making a contract is deemed to have the knowledge of the law of the country and a contract cannot be canceled or withdrawn on the plea that the law was not known to any person.

(iii) mistake of fact: fact must be essential to the contract

(iv) (i) bi lateral mistake(ii) Unilateral mistake: (a) normally not allowed as mistake and contract is valid (b) if due to fraud, voidable

5.8 Illegality : what contracts are not lawful

(j) When it is forbidden by law.
(ii) When it would defeat the provisions of any law or is fraudulent
(iii)When it involves or implies injury to the person or property of another

5.9 Impossibility

GROUP: 3, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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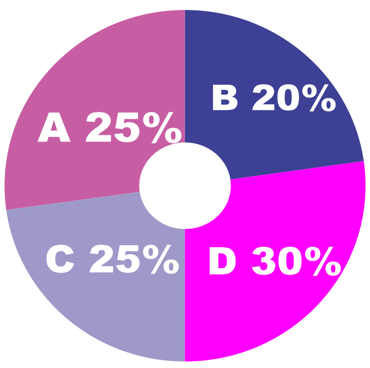
Your Preparation Quick Takes



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, you will be able to:
- calculate security's expected return and risk
- compute the portfolio return and risk
- calculate the portfolio beta

Strategic Financial Management

Example 1

The expected return of Stock Y has the following distribution:

Demand for the company's products	Probability (p_i)	Rate of return (r_i) (%)
Weak	0.5	30
Average	0.2	(20)
Strong	0.3	40

Calculate the stock's expected return, standard deviation and coefficient of variation.

Solution

$$Expected\ return\ \bar{r} \quad p_i r_i \quad 0.5 \quad 30\% \quad 0.2 \quad 20\% \quad 0.3 \quad 40\% \quad 23\%$$

$$Variance\ of\ return \quad ^2 \quad r_i \quad \bar{r}^{\ 2} \ p_i \quad 30 \quad 23^{\ 2} \ 0.5 \quad 20 \quad 23^{\ 2} \ 0.2 \quad 40 \quad 23^{\ 2} \ 0.3 \quad 397$$

$$Standard\ deviation\ of\ return \quad \sqrt{397} \quad 19.92\%$$

$$Coefficient\ of\ variation\ CV \quad \frac{19.92\%}{23\%} \quad 0.866.$$

Example 2

An individual has invested Rs. 1,40,000 in a stock that has a beta of 0.7 and has invested Rs. 1,60,000 in a stock with a beta of 1.5. If these are the only two investments in her portfolio, what is her portfolio's beta?

Solution

Total Investment 1,40,000 + 1,60,000 = 3,00, 000

Portfolio's beta = [(Rs.1,40,000/Rs.3,00,000)(0.7)] + [(Rs.1,60,000/Rs.3,00,000)(1.5)]

= (0.47 x 0.70) + (0.53 x 1.5) = 1.12

Example 3

Security A has an expected return of 25 percent and a standard deviation of 30 percent. Security B has an expected return of 36 percent and a standard deviation of 60 percent. If the correlation between A and B is 0.5, what is the expected return and standard deviation of a portfolio comprising of 40 percent of Security A and 60 percent of Security B?

Solution

The expected portfolio return is given by

$$\hat{r}_P \quad w_A \hat{r}_A \quad (1 \quad w_A)\hat{r}_B$$

$$0.4(0.25) \quad 0.6(0.36)$$

$$0.316 \quad 31.6\%.$$

The portfolio standard deviation is given by

$$_p \quad \sqrt{W_A^2 \ {}^2_A \quad (1 \quad W_A)^2 \ {}^2_B \quad 2W_A(1 \quad W_A) \ _{AB} \ _A \ _B}$$

$$\sqrt{0.4^2(0.3^2) \quad 0.6^2(0.6^2) \quad 2(0.4)(0.6)(0.5)(0.3)(0.6)}$$

$$0.4326$$

Example 4

The standard deviations of the returns of two securities are 10% and 20%, with expected returns of 16% and 24% respectively. A portfolio is invested with 30% in the first security and 70% in the second security. Calculate the expected return and standard deviation of the portfolio assuming that the correlation coefficients between the returns of the securities are (1) 1.0 (2) 0 and (3) –1.0.

Solution

(1) When correlation coefficient between the returns of the securities is 1.0

The expected portfolio return is given by

$$\hat{r}_P \quad w_1\hat{r}_1 \quad w_2\hat{r}_2$$
$$0.3(16\%) \quad 0.7(24\%)$$
$$16.85\%.$$

The portfolio standard deviation is given by

$$_p \quad \sqrt{W_1^2 \;{}_1^2 \quad W_2{}^2 \;{}_2^2 \quad 2W\ W_2 \quad {}_{12} \;{}_1 \;{}_2}$$
$$\sqrt{0.3^2(10\%^2) \quad 0.7^2(20\%^2) \quad 2(0.3)(0.7)(1)(10\%)(20\%)}$$
$$17\%$$

When the correlation is 1, the expected return is 16.85% and the standard deviation of returns is 17%.

(2) When correlation coefficient between the returns of the securities is 0

The expected portfolio return is given by

$$\hat{r}_P \quad w_1\hat{r}_1 \quad w_2\hat{r}_2$$
$$0.3(16\%) \quad 0.7(24\%)$$
$$16.85\%.$$

The portfolio standard deviation is given by

$$_p \quad \sqrt{W_1^2 \;{}_1^2 \quad W_2{}^2 \;{}_2^2 \quad 2W\ W_2 \quad {}_{12} \;{}_1 \;{}_2}$$
$$\sqrt{0.3^2(10\%^2) \quad 0.7^2(20\%^2) \quad 2(0.3)(0.7)(0)(10\%)(20\%)}$$
$$14.317\%$$

When the correlation is zero, the expected return is 16.85% and the standard deviation of returns is 14.317%.

(3) When correlation coefficient between the returns of the securities is - 1.0

The expected portfolio return is given by

$$\hat{r}_P \quad w_1\hat{r}_1 \quad w_2\hat{r}_2$$
$$0.3(16\%) \quad 0.7(24\%)$$
$$16.85\%.$$

The portfolio standard deviation is given by

$$_p \quad \sqrt{W_1^2 \;{}_1^2 \quad W_2{}^2 \;{}_2^2 \quad 2W\ W_2 \quad {}_{12} \;{}_1 \;{}_2}$$
$$\sqrt{0.3^2(10\%^2) \quad 0.7^2(20\%^2) \quad 2(0.3)(0.7)(\ 1)(10\%)(20\%)}$$
$$11\%$$

When the correlation is -1, the expected return is 16.85% and the standard deviation of returns is 11%.

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GROUP: 3, PAPER: 15

STRATEGIC COST MANAGEMENT- DECISION MAKING (SCMD)

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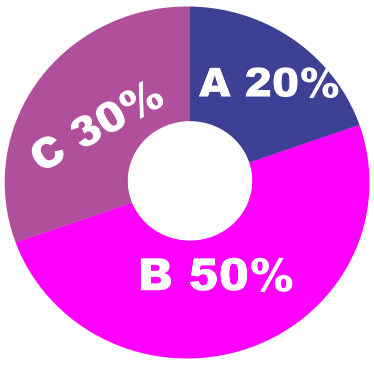
Your Preparation Quick Takes



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?*

Net Work Analysis

01.00 Concept

Network analysis is the general name given to PERT and CPM techniques which can be used for planning, management and control of a project.

Network is a graphical representation of all the activities and events of a project arranged in a logical and sequential order. In this context, activity is the actual performance of the job which consumes resources like time, human resources, money, material, etc. An event refers to the starting point or completion point of a job.

Net work Analysis acts as a management tool for breaking down projects into components or individual activities and recording the result on a flow chart or network diagram. These results generally reveal information that is used to determine duration, resource limitations and cost estimates associated with the project.

A project is a combination of interrelated activities all of which must be executed in a certain order for its completion. Project management and efficient resource allocation are two critical aspects of the production and operations managers' responsibilities. Since a project is non-repetitive and temporal in nature, the mode of management differs from the usual job shop or other related types of scheduling.

Network analysis enables us to take a systematic quantitative structural approach to the problem of managing a project through to successful completion. Also, since it has a graphical representation, it can be easily understood and used by those with a less technical background.

02.00 PERT & CPM

PERT: Project Evaluation and Review Techniques (PERT) is a method of analysing the tasks involved in completing a given project, especially the time needed to complete each task, and to identify the minimum time needed to complete the total project. It incorporates uncertainty by making it possible to schedule a project while not knowing precisely the details and durations of all the activities. It is more of an event-oriented technique rather than start- and completion-oriented, and is used more in projects where time is the major factor rather than cost. It is applied to very large-scale, one-time, complex, non-routine infrastructure and Research and Development projects.

CPM: Critical Path Method (CPM) or Critical Path Analysis (CPA) is a project management tool thathelps determination of the minimum time needed to complete a project. The CPM:

(i) Sets out all the individual activities that make up a larger project.
(ii) Shows the order in which activities have to be undertaken.
(iii) Shows which of the activities can be taken up only when the other activities have been completed.
(iv) Shows which of the activities can be undertaken simultaneously, thereby reducing the overall time taken to complete the whole project.
(v) Pinpointsthe time schedules needed for the specified resources,for example, a crane to be hired for a building site.

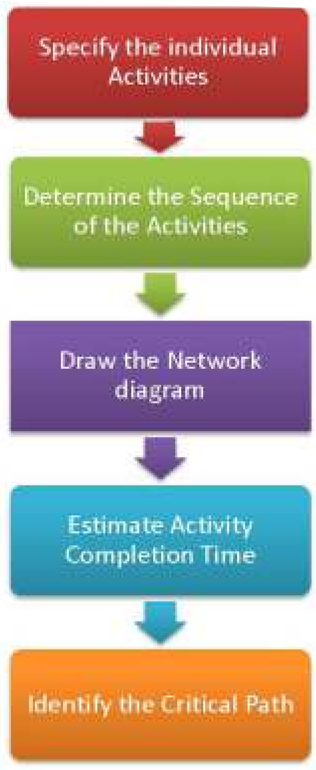
PERT and CPM are complementary tools. CPM employs one time estimate and one cost estimate for each activity. PERT may utilize three time estimates (optimistic, expected, and pessimistic) and no costs for each activity. Although these are distinct differences, the term PERT is applied increasingly to all critical path scheduling.

03.00 Avenues of Application

(i) Construction of Buildings and Complexes
(ii) Ship building
(iii) Satellite mission development
(iv) Installation of a pipe line project
(v) Research & Development
(vi) Inventory Planning & Control
(vii) Traffic flow Control
(viii) Long Range Planning
(ix) And so on ...

04.00 Procedure of drawing a CPM Network

1. Specify the individual Activities: From the work breakdown structure, a listing can be made of all the activities in the project. This listing can be used as the basis for adding sequence and duration information in the subsequent steps.



2. Determine the Sequence of the Activities: Determine the sequence of performing the activities and arrange them in that order. Some activities are dependent on the completion of the others. A listing of the immediate predecessors of each activity is useful for constructing the network diagram.

3. Draw the Network diagram: Once the activities and their sequencing have been defined, the net work diagram can be drawn.

4. Estimate Activity Completion Time: The time required to complete each activity can be estimated using past experience or the estimates of knowledgeable persons. CPM is a deterministic model that does not consider variation in the completion time, so only one number is used for an activity's time estimate.

5. Identify the Critical Path: The critical path is the longest-duration path through the network. It is the path which does not have any spare (float or slack) time. The significance of the critical path is that the activities that lie on it cannot be delayed without delaying the project. Because of its impact on the entire project, critical path analysis is an important aspect of project planning. The critical path can be identified by determining the four parameters for each activity. The four parameters are Earliest Start, Earliest Finish, Latest Finish and Latest Start.

05.00 Rules for drawing the network diagrams

In a network diagram, arrows represent the activities and circles represent the events.

(i) The tail of an arrow represents the start of an activity and the head represent the completion of the activity.
(ii) The event numbered 1 denotes the start of the project and is called initial event.
(iii) Event carrying the highest number in the network denotes the completion of the project and is called terminal event.
(iv) Each defined activity is represented by one and only arrow in the network.
(v) Determine which operation must be completed immediately before other can start.
(vi) Determine which other operation must follow the other given operation.
(vii) The network should be developed on the basis of logical, analytical and technical dependencies between various activities of the project.

06.00 Assimilation

PERT has the ability to cope with uncertainty in activity completion times while CPM emphasizes on the trade-off between cost of the project and its overall completion time.

GROUP: 3, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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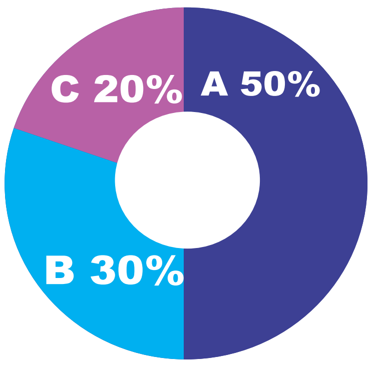
Your Preparation Quick Takes



Syllabus Structure

A Advanced Direct Tax Laws **50%**
B International Taxation **30%**
C Tax Practice and Procedures **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.

REVISION

Revision of order prejudicial to the revenue [Sec. 263]

Orders which may be revised	Any order passed by the Assessing Officer, which is - **a)** Erroneous; **b)** Prejudicial to the interests of the revenue; and **c)** Passed by an authority subordinate to the Commissioner. **Notes** Orders passed by the Assessing Officer includes - i. An order of assessment made by the Assistant Commissioner on the basis of the directions issued by the Joint Commissioner u/s 144A; ii. An order made by the Joint Commissioner - in exercise of the powers; or • in performance of the functions of the Assessing Officer assigned to him under the orders or directions issued by the Board or by the Chief Commissioner or Director General or Commissioner. **Note:** - Order made by the Assessing Officer after making proper enquiries and considering relevant details and decisions of Supreme Court cannot be said to be erroneous and prejudicial to the interest of the revenue, hence such order cannot be revised. - An order passed by the Assessing Officer shall be deemed to be erroneous in so far as it is prejudicial to the interests of the revenue, if, in the opinion of the Principal Commissioner or Commissioner: **a)** the order is passed without making inquiries or verification which should have been made; **b)** the order is passed allowing any relief without inquiring into the claim; **c)** the order has not been made in accordance with any order, direction or instruction issued by the Board under section 119; or the order has not been passed in accordance with any decision which is prejudicial to the assessee, rendered by the jurisdictional High Court or Supreme Court in the case of the assessee or any other person
Treatment of an order, which is subject matter of the appeal	Revision u/s 263 of an order, which is subject matter of appeal, cannot be made. **Notes** The Commissioner can revise such order (which has been a subject matter of appeal) which had not been considered and decided in such appeal. • An order cannot be said to have been made subject of an appeal if the appeal has been disposed of by the appellate authority without passing an order
Procedure to be followed	1. **Examination of Records:** The Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. Record shall include all records relating to any proceeding under this Act available at the time of examination by the Commissioner. This means that any material, which was not available at the time of assessment but available at the time of examination by the Commissioner, shall also be considered for order u/s 263. 2. **Inquiry:** He must make or cause to be made such inquiry as he deems necessary. 3. **Opportunity of being Heard:** No revision order shall be passed u/s 263 without giving the assessee an opportunity of being heard. 4. **Order:** Finally, he may pass such revision order as the circumstances of the case justify including an order enhancing, modifying or cancelling the assessment and directing a fresh assessment.
Time limit for passing revision order	2 years from the end of the financial year in which the order sought to be revised was passed. In computing the above period of limitation following period shall be excluded - Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & Any period during which any proceeding under this section is stayed by an order or injunction of any court. **Exception:** There is no time limit for passing a revision order to give effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.

Appeal against order u/s 263	A revisional order passed by the Commissioner u/s 263 can be appealed to the Tribunal.
Sec.263 vs. sec.154: Commissioner can exercise the power even in a case where the issue is debatable. Revision power u/s 263 is not comparable with the power of rectification of mistake u/s 154	

Revision of Order not Prejudicial to Revenue [Sec. 264]

Orders which may be revised	Any order which is - erroneous; not covered u/s 263 (i.e. not prejudicial to the interest of the revenue); passed by an authority subordinate to the Commissioner. ***Taxpoint:*** *No order* under this section can be passed which is prejudicial to the assessee. **Notes:** **a)** Order which is not appealable before the Commissioner (Appeal) can also be referred to the Commissioner for revision. For the purposes of this section, the Deputy Commissioner (Appeals) shall be deemed to be an authority subordinate to the Commissioner.
On whose motion is revision possible	Either on the Commissioner's own motion or on an application by the assessee for revision.
Procedure to be followed	1. **Examination of Records:** Once revision proceedings have been initiated, the Commissioner may call for and examine the record of any proceeding. 2. **Inquiry:** He must also make or cause to be made such inquiry as he deems necessary 3. **Order:** He may pass such revision order as the circumstances of the case justify. However, the order passed should not be prejudicial to the assessee. The Commissioner under this section, can cancel the assessment and direct the Assessing Officer to make a fresh assessment.
Time limit for filing an application	Where revision has been initiated by the assessee, the application must be made within 1 year from the date on which the order in question was communicated to the assessee or the date on which he otherwise came to know of it, whichever is earlier. However, the Commissioner can admit a belated application if the assessee was prevented by sufficient cause from making the application within time. In computing the above period of limitation following time shall be excluded: The day on which the order complained of was served; and • If the assessee had not received the copy of the order, the time required to obtain copy of such order.
Time limit for passing a revisional order	Where the Commissioner acts on his own motion – Within 1 year from the date of original order Where the application is made by the assessee **–Within 1 Year From The End of the Financial year in which such Application is Made.** In computing the above period of limitation following period shall be excluded. Time taken in giving an opportunity to the assessee of being re-heard u/s 129; & Any period during which any proceeding under this section is stayed by an order or injunction of any court. [Sec. 264(6)] However, there is no time limit for passing a revision order for giving effect to, or in consequence of, an order of the ITAT, the High Court or the Supreme Court.
Orders which cannot be revised	a) Where an order is appealable but no appeal has been made to CIT (A) or to the Tribunal and time within which such appeal can be made has not expired. **Note:** Where an appeal lies to the Commissioner (Appeals) or to the Appellate Tribunal and the right of appeal is waived by the assessee, the Commissioner may revise the order even before the expiry of time limit of appeal. b) Where the order has been made the subject of an appeal to the Commissioner (Appeals) or to the Appellate Tribunal; or **Note** The assessment order could not be said to have been made subject matter of appeal- 1. Where an appeal was dismissed - **a)** on the ground that the same was incompetent; or **b)** as barred by limitation; or 2. Where an appeal was withdrawn at the motion of the assessee.
Fee	₹ 500 where the application for revision is made by the assessee.
Appeal against order u/s 264	A revision order passed by the Commissioner u/s 264 cannot be appealed to the Tribunal or the High Court. However, a petition for a writ of certiorari under Article 226 is maintainable
Other points	The assessee cannot claim the right of revision in respect of an earlier year on the basis of finding of the Tribunal for a subsequent year. • An order by the Commissioner declining to interfere shall not be deemed to be an order prejudicial to the assessee.

Recent Decisions

- Unclaimed relief can be sought through a revision application to CIT u/s 264 [Vijay Gupta -vs.- CIT (Delhi)]

- There is a distinction between "lack of enquiry" and "inadequate enquiry". Revision on the ground that the AO did not conduct a detailed inquiry on account of paucity of time is unfair to the assessee and invalid [Pr CIT -vs.- Mera Baba Reality Associates Pvt Ltd (Delhi)]

- When the order of the first appellate authority is complete and the appeal is pending before the Tribunal, the Commissioner is precluded from invoking sec. 263 for revision of the very same matter decided by the first appellate authority since the law provides that Commissioner u/s 263 can revise only those matters which are not subject matter of an appeal [CIT -vs.- Fortaleza Developers (Bom)]

- The Commissioner u/s 263 can revise those matters which is not subject matter for appeal or revision. Therefore, the matter whichever revised by the Commissioner u/s 264 cannot be revised u/s 263 [CIT -vs.- New Mangalore Port Trust (Kar.)]

GROUP: 4, PAPER: 17

CORPORATE
FINANCIAL REPORTING (CFR)

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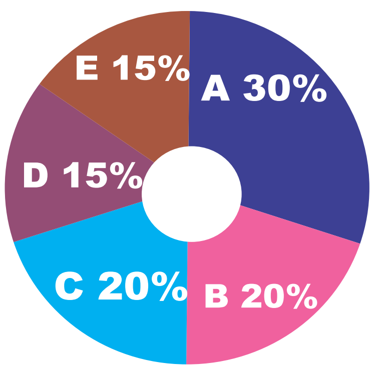
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **30%**
B Accounting if Business Comminations
& Restructuring **20%**
C Consolidated Financial Statements **20%**
D Developments in Financial Reporting **15%**
E Government Accounting in India **15%**

Learning Objectives:

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

- Understand the basic concept of 'Reversal of Impairment Loss'.
- Know the different indicators of Reversal of Impairment Loss.
- Learn the way to compute 'Reversal of Impairment Loss'.
- Comprehend the accounting treatment of Impairment Loss as per Ind-AS 36
- Know the disclosure requirement relating to reversal of impairment loss as per Ind-AS 36.

Reversal of Impairment Loss

Before understanding the concept of reversal of impairment loss the students must recapitulate the concept of Impairment loss of assets. An asset should be valued based on its potential future earning capability i.e. the value of the asset should reflect the future value of the net expected earnings to be derived from the productive use of the asset over its estimated useful life. Now if the asset is shown at any value over and above its potential earning capability, then its value must be reduced or impaired to bring down to its real worth and this reduction is known as impairment loss.

Impairment Loss (IL) = Carrying amount of the Asset (CA) - Recoverable Amount (RA)

Where,
CA is the amount at which the asset is shown in the books of account.
RA is the highest of,
Net Selling Price (NSP)
OR
Value-in-Use (VIU)
[NSP is the maximum amount that can be received if the asset is hypothetically put to sale excluding any cost to sales such as commission, brokerage etc. and VIU is the present value of the expected net cash inflow that is expected to be received by the entity from the productive use of the asset during its life span. For more details refer to e-bulletin (Final) for the month of March, 2018.
If an asset is impaired in any accounting period it becomes mandatory to look for the following indicators for reversal of impairment loss.

Indicator of reversal of impairment loss based on			
External sources of information	***Reason of reversal of impairment***	**Internal sources of information**	***Reason of reversal of impairment***
• There has been an increase in the market price of the asset which was impaired.	*Increase in RA due to increase in NSP. Thus the likelihood of RA>CA increases*	• Performance of the asset is better than expected.	*The expected cash inflow will rise which also increase RA as VIU will increase. Thus the probability of RA>CA enhances*
• Market rate of interest has declined.	*The rate of discounting (Fixed Interest Rate of Bond/ Government Bond yield) will decrease which will enhance RA through increase in VIU. Thus the probability of RA>CA enhances*	• The manner of using the asset has changed favourably.	*The expected cash inflow will rise which also increase RA as VIU will increase. Thus the probability of RA>CA enhances*
• Favourable change in the business environment (economic, technological, political, legal etc.)	*The expected cash inflow will rise which also increase RA as VIU will increase. Thus the probability of RA>CA enhances*		

As per paragraph 117 of the Ind-AS 36, if in respect of any asset (due to the external and internal reasons mentioned above) which was previously impaired it is observed that CA<RA then the impairment loss must be reversed. But it is to be noted that after the reversal the new CA must not be more than the CA of the asset had there been no impairment earlier.

Let us try to comprehend using an example:

Example 1: Magenta Private Ltd. acquired a machine 01/04/2012 for Rs. 300000000 which has an estimated useful life of 15 years with no residual value. The machine is depreciated using straight line method. On 31/03/2017 there were internal indicator of impairment and the recoverable amount was determined as Rs.150000000. However on 31/03/2020 there was favourable change in the business environment an there was an indication of reversal of impairment loss. The recoverable amount was determined at Rs. 145000000. Compute the reversal of impairment (if any).

Solution:

Particulars	Amount (Rs.)
Cost of acquisition of the machine as on 01/04/2012	300000000
Less: Depreciation up to 31/03/2017 $\frac{300000000 \quad Nil}{15} \quad 5$	100000000
CA as on 31/03/2017	200000000
RA as on 31/03/2017	150000000
Impairment loss (CA-RA)	50000000
Revised carrying amount as on 01/04/2017 (CA-Impairment loss)	150000000
Less: Depreciation up to 31/03/2020 $\frac{150000000 \quad Nil}{10} \quad 3$	45000000
CA as on 31/03/2020	105000000
RA as on 31/03/2020	145000000
CA of the plant had there been no Impairment loss	140000000
Reversal of impairment loss (14000000 – 105000000)	35000000
Revised CA as on 01/04/2020(105000000 + 35000000)	140000000
Note: The amount available for reversal of impairment loss was Rs. 40000000(145000000 – 105000000). However the maximum amount of permissible reversal of impairment loss *As per paragraph 117 of the Ind-AS 36* is Rs. 35000000.	

Paragraph 119 of Ind-AS 36 suggests

- *"A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Indian Accounting Standard (for example, the revaluation model in Ind AS . Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Indian Accounting Standard".*

Paragraph 120 of Ind-AS 36 also suggests

- *"A reversal of an impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss".*

Let us try to understand the implications of paragraph 119 and 120 of Ind-AS 36 using an example:

Example 2: El-Dorado Private Ltd. acquired a machine 01/04/2012 for Rs. 300000000 which has an estimated useful life of 15 years with no residual value. The machine is depreciated using straight line method. On 31/03/2017 the machine was revalued at Rs. 220000000. On 31/03/2020 there were internal indicator of impairment and the recoverable amount was determined as Rs. 145000000. However on 31/03/2022 there was favourable change in the business environment an there was an indication of reversal of impairment loss. The recoverable amount was determined at Rs. 150000000. Compute the reversal of impairment (if any). Consider the tax effect assuming tax rate @ 40%.

Solution:

Particulars	Amount (Rs.)
Cost of acquisition of the machine as on 01/04/2012	300000000
Less: Depreciation up to 31/03/2017	100000000
CA as on 31/03/2017	200000000
Revalued amount of the machine as on 31/03/2017	220000000
Revaluation Profit	20000000
Revised CA as on 01/04/2017 at Revalued Amount	220000000
Less: Depreciation up to 31/03/2020 $\frac{220000000 \quad Nil}{10} \quad 3$	66000000
CA as on 31/03/2020	154000000
RA as on 31/03/2020	145000000

Impairment loss (CA-RA)	9000000
Revised carrying amount as on 01/04/2020 (CA-Impairment loss)	145000000
Less: Depreciation up to 31/03/2022 $\frac{145000000 \quad Nil}{7} \quad 2$	41428571
CA as on 31/03/2022	103571429
RA as on 31/03/2022	150000000
CA of the plant had there been no Impairment loss 220000000 $\frac{220000000 \quad Nil}{10} \quad 5$	110000000
Reversal of impairment loss (110000000 – 103571429)	6428571
Revised CA as on 01/04/2022 (103571429 + 6428571)	110000000

Note: The amount available for reversal of impairment loss was Rs. 46428571 (150000000 - 103571429). However the maximum amount of permissible reversal of impairment loss *As per paragraph 117 of the Ind-AS 36* is Rs. 6428571.

Important Journal entries for revaluation

Plant A/C...Dr. 20000000
To Revaluation Reserve A/C 20000000

Revaluation Reserve A/C...Dr. 20000000
To Other Comprehensive Income A/C 20000000

Other Comprehensive Income A/C..Dr. 8000000
To Deferred Tax Liability A/C 8000000

Important Journal entries for Impairment Loss

Impairment loss A/C...Dr. 9000000
To Plant A/C 9000000

Other Comprehensive Income A/C..Dr. 9000000
To Impairment loss A/C 9000000

Revaluation Reserve A/C..Dr. 9000000
To Other Comprehensive Income A/C 9000000

Deferred Tax Liability A/C..Dr. 3600000
To Other Comprehensive Income A/C 3600000

Important Journal entries for Reversal of impairment loss

Machine A/C..Dr. 6428571
To Reversal of impairment loss A/C 6428571

Reversal of impairment loss A/C...Dr. 6428571
To Other Comprehensive Income A/C 6428571

Other Comprehensive Income A/C..Dr. 2571428
To Deferred Tax Liability A/C 2571428

Other Comprehensive Income A/C..Dr. 3857143
To Revaluation Reserve A/C 3857143

Disclosure Requirement with respect to Reversal of impairment loss:

Para 126 of Ind-AS suggests the disclosure of the following:

- The amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed.
- The amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.

GROUP: 4, PAPER: 18

INDIRECT TAX
LAWS & PRACTICE (ITP)

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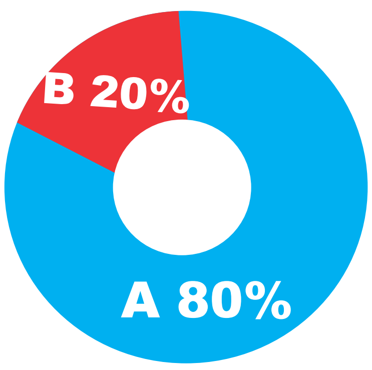
Your Preparation Quick Takes



Syllabus Structure
A Advanced Indirect Tax - Laws & Practice **80%**
B Tax Practice and Procedures **20%**

Learning objectives:

After studying this section, you will having an understanding of:

- The concept of bundled supply under GST;
- Rationale for introduction of the concept of bundled supply under GST law;
- The concept of Composite Supply under GST;
- Time of supply of Composite Supply;
- Tax Treatment of Composite supply under GST.

COMPOSITE SUPPLY' UNDER GST

Introduction

- Goods and Services Tax was introduced in India on July 1, 2017 under which the taxable event happens to be 'supply' of goods and services. This term 'supply' is a very interesting term with wide connotations, interpretations and applications.
- In today's market scenario combination of goods and services are supplied together to attract more customers. This leads to the concepts of Bundled Supply.
- Presently, every supply should be liable to tax either as wholly goods or as wholly services. However, there can be cases where the supply is neither of these. Even in cases, where a supply involves both goods and services, the law provides that such supplies should be classified as wholly goods or as wholly services.

Concept of Bundled Supply

- A ***bundled supply*** refers to a supply which is a combination of goods and/or services. This concept was mainly found in service tax where a bundled service meant a combination of two or more services.
- Under the existing GST law, bundled supply of two or more goods or services can be considered as either 'composite supply' or 'mixed supply'. These are new concepts introduced under GST law which covers supplies made together. However, it is to be noted that a concept similar to the concept of composite supply existed in the erstwhile service tax law (referred to as *bundled service*), but the concept of mixed supply is entirely new.
- Presently under the GST law these bundled supplies have been classified as *Composite supply* and *Mixed supply*. Schedule II of the CGST Act, 2017 sets out the provisions for such classification.

Rationale for introduction of the concepts of Composite Supply and Mixed Supply

- It is to be noted that not all supplies can be such simple and clearly identifiable supplies. Some of the supplies will be a combination of goods or combination of services or combination of goods and services both.
- Each individual component in such a bundled supply may attract different rates of tax. Such supplies, thus may pose a problem in respect of classification of such supplies and The rate of tax to be levied thereon. It is for this reason, that the GST Law identifies composite supplies and mixed supplies and provides certainty in respect of tax treatment under GST for such supplies.

Concept of Composite Supply

- As per Sec. 2(30) of the Central Goods and Services Tax (CGST) Act, 2017, "composite supply" means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.
- **Conditions**: For a service to qualify as composite supply the following essential conditions must be satisfied:
  - The supply consists of supply of ***two or more*** goods and/ or services;
  - Such supply of goods/ services is ***naturally bundled*** and supplied with each other ***in the ordinary course of business***; and
  - one of these supplies happens to be a ***principal supply***.

NB: If the second condition is not fulfilled i.e. the goods/ services are not naturally bundled, then it is to be considered as a 'mixed supply'.

- The term *Principal Supply* is defined in Section 2(90) of the CGST Act. It refers to that supply of goods/ service which constitute the predominant element of the composite supply.
- **Examples of Composite Supply: Some of the common examples of composite supply are:**
  - **Bundling of goods and services: Transportation of goods with transit insurance coverage, Supply of cooked food along with service in restaurants,** Supply of air conditioners with installation service, Supply of repairing service at garages/ service centres with spares & parts, **Supply of study materials along with coaching services etc.**
  - **Bundling of service with service:** Transport services provided with catering service on board, PG accommodation service with fooding etc.

Time of Supply in case of Composite Supply

- The time of supply in case of a composite supply depends on the nature of the principal supply i.e. whether the principal supply is in the nature of 'supply of goods' or in the nature of 'supply of service'.
- **Principal supply is service**: When the principal supply is a service (for example, air transport and food on board) then the composite supply will be treated as a supply of services. The provisions relating to time of supply of services will apply.
- **Principal supply is goods**: When the principal supply is a supply of goods (for example, sale of air conditioners, water purifiers etc. with installation service), the supply of goods is the principal supply. The composite supply in this case will be considered as supply of goods and the provisions relating to time of supply of goods will apply.

Treatment of Composite Supply under GST

- The tax liability on a composite supply is provided u/s 8 of the CGST Act, 2017.
- It states that a composite supply comprising two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply.
- **Applicable Tax Rate on Composite Supply**: The *tax rate of the principal supply* will apply on the entire supply.

  Illustration 1**: **Transportation of packed goods under transit insurance coverage

  When goods are packed and transported with transit insurance coverage, it involves 'supply' of multiple items viz. supply of the goods, supply of packing materials, supply of transport services and supply of insurance service. As all these supplies are naturally bundled in the ordinary course of business, it is a composite supply. But, it is to be noted that in this case 'supply of the goods' happens to be the *principal supply*. Hence, as per the provisions of Sec. 8, this composite supply will be taxed wholly as 'supply of the goods' and the rate applicable on the said goods will be applied on all other goods (i.e. packing materials) and services (i.e. transport and insurance).

Illustration 2: Hotel accommodation under Modified American Plan

A Five-star hotel provides four days and three-night package to its customers, with breakfast and dinner. This case involves 'supply' of multiple items viz. supply of accommodation service and fooding service. Hence, it is a composite supply as the package of accommodation facilities and food supply is a natural combination in the ordinary course of business for a hotel. In this case, the 'supply of accommodation' is the *principal supply*, and 'supply of food' is ancillary to the hotel accommodation. Now, as the hotel accommodation attracts 28% tax, even though the restaurant service attracts 12% tax, the entire supply will be taxed at 28%.

GROUP: 4, PAPER: 19
COST
& MANAGEMENT AUDIT (CMAD)

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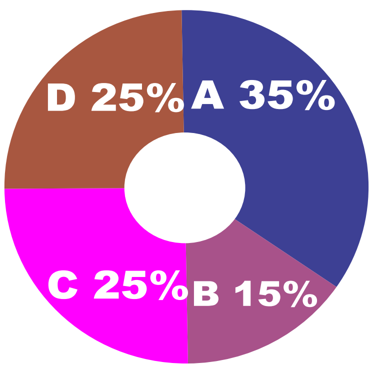
Your Preparation Quick Takes



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

Performance Analysis – Working capital management

The Cost Auditor has to provide his observations and suggestions under Para 2 of the Cost Audit Report as per CRA – 3 format. Under this para the cost auditor can give his observations on the areas / issues that affect the cost of the product / service and consequentially the effect on profitability of the company. Therefore observation and suggestions under this para based on the 'Performance Analysis' of the operations of the company related to its production process keeping in mind cost optimisation and/or cost reduction to enable company to be cost competitive.

The Cost Auditor has the power and authority as per the power given by the section 143 (1) and 143 (14) of The Companies Act 2013. So, for the requirements of Para 2 of the CRA – 3, the Cost Auditor is entitled to cover any area of activities of the company including for earlier years for fulfilment of his duty and can provide in the observations and suggestions in the Cost Audit Report after doing the 'Performance Analysis'.

The basic objective of Performance Analysis is to provide an actionable insight into costs and profitability for the management in the strategic and operational context. It aims at discovering various drivers of costs and profitability and their impact on the selected performance variables. This shall require understanding the unique industry specific factors that govern the operations of the company. This is important because the factors that affect the company vary from industry to industry. For example, the companies that makes non-homogenous products like a Boiler for a Thermal Generation of Electricity shall have unusual amount of variable costs every year, as the projects may differ in technical specification. Similarly for an electricity company who generate/transmit/distribute the electricity, the issues are different. Therefore, the Cost Auditor should have a thorough knowledge about the industry and its operations. Similarly for other manufacturing companies in the area of Steel, Fertilisers and Chemicals the parameters are different.
In this article, emphasis has been given on performance analysis of Working capital and Inventory management.

Working Capital and Inventory Management Analysis

Working capital management commonly refers to management of two components of working capital viz current assets and current liabilities, to make sure that the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.
Efficient working capital management helps maintain the smooth operating cycle (i.e. the minimum amount of time required to convert net current assets and liabilities into cash) and can also help to improve the company's earnings and profitability. Management of working capital also includes inventory management and management of accounts receivables and accounts payables.

Working Capital can be divided into two main categories:

A. Based on capital

1. Gross Working Capital
2. Net Working Capital

B. Based on time period

1. Fixed Working Capital
2. Variable Working Capital

Investments in current assets must not be either excessive or inadequate as it can threaten the production capacity and the solvency of the company. It also undermines the profit of the business.

Effective management of Working capital can be measured by certain ratios, which include current ratio, days of payables outstanding, days of inventory outstanding, days of sales outstanding, etc. The working capital cycle and other working capital ratios are also compared to other industry benchmarks to ascertain their effectiveness.

Ratio	Formula	Description
Current ratio	Current Assets/ Current Liabilities	Also known as the Working Capital Ratio and measures the short-term financial health of a company.
Acid Test Ratio/ Quick Ratio	Liquid Assets/Current Liabilities	Measures if an asset can be liquidated to cash in a short period of time without the loss of value.
Cash Position Ratio/ Absolute Liquid Ratio	[(cash & Bank) + short-term securities]/Current Liabilities	Includes cash in hand and that in the bank and the temporary investments including marketable securities. This ratio must ideally be 50 percent.

The Inventories management on the other hand is equally very crucial element, as the entire production plan is dependent upon it. Overstocking results in blockage of capital whereas understocking risks for stoppage in production. The availability of the materials required and the lead time are some of the important factors to be considered for the procurement of the materials. This directly impacts the working capital requirements of the company. The holding period of the materials provides a better picture of the inventory position throughout the year. The costs incurred in such inventory maintenance directly affects the profitability of the product / service. The Cost Auditor should review the mechanism adopted for the inventory management and comment if it is commensurate to the nature and scale of the business that the company is involved.

Effective management of Inventory can be measured by certain ratios

Inventory Turnover Ratio = Cost of Goods Sold/Average Inventory at Cost

When the cost of goods sold is not known one may look at the following numbers:

Ratio	Formula	Description
Inventory Turnover Ratio	Cost of Goods Sold/Average Inventory at Cost	When the cost of goods sold is not known one may look at the other formulas
	Net Sales/Average Inventory at Cost	
	Cost of Goods Sold / Average Inventory at Selling Price	

The checklist for auditors to analyse Working capital and Inventory management.

a. Records relating to stock of Raw materials, Packing materials, Work-in-progress and Finished goods
b. Periodical Physical verification reports.
c. Inventory aging analysis and report of stock of slow moving and non-moving items
d. Details Receivables and payables

GROUP: 4, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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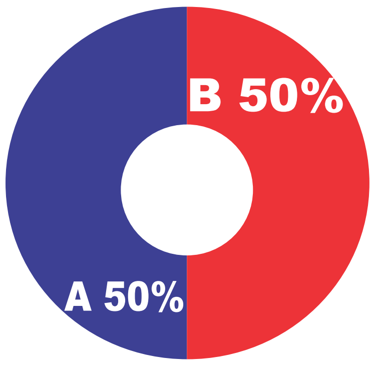
Your Preparation Quick Takes



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:

- Comprehend the concept of Contingent Claim Valuation
- Know the types of Contingent Claim Valuation
- Understand applicability and limitations of Contingent Claim Valuation

Strategic Performance Management and Business Valuation

Contingent Claim Valuation

Perhaps the most significant and revolutionary development in valuation is the acceptance, at least in some cases, that the value of an asset may not be greater than the present value of expected cash flows if the cash-flows are contingent on the occurrence or non-occurrence of an event. This acceptance has largely come about because of the development of option pricing models. A contingent claim or option pays off only under certain contingencies - if the value of the underlying asset exceeds a pre-specified value for a call option, or is less than a pre-specified value for a put option. These option pricing models can be used to value any assets that have option-like features. (Damodaran, 2nd ed.)

An option can be valued as a function of the following variables - the current value, the variance in value of the underlying asset, the strike price, the time to expiration of the option and the riskless interest rate. This was first established by Black and Scholes (1972) and has been extended and refined subsequently in numerous variants. While the Black-Scholes option pricing model ignored dividends and assumed that options would not be exercised early, it can be modified to allow for both. A discrete-time variant, the Binomial option pricing model, has also been developed to price options. An asset can be valued as an option if the payoffs are a function of the value of an underlying asset. It can be valued as a call option if the payoff is contingent on the value of the asset exceeding a pre-specified level. It can be valued as a put option if the payoff increases as the value of the underlying asset drops below a pre-specified level. (Damodaran, 2nd ed.)

Underpinnings for Contingent Claim Valuation

The fundamental premise behind the use of option pricing models is that discounted cash flow models tend to understate the value of assets that provide payoffs that are contingent on the occurrence of an event. As a simple example, consider an undeveloped oil reserve belonging to Exxon. You could value this reserve based upon expectations of oil prices in the future, but this estimate would miss the two nonexclusive facts.

1. The oil company will develop this reserve if oil prices go up and will not if oil prices decline.
2. The oil company will develop this reserve if development costs go down because of technological improvement and will not if development costs remain high.

An option pricing model would yield a value that incorporates these rights. When we use option pricing models to value assets such as patents and undeveloped natural resource reserves, we are assuming that markets are sophisticated enough to recognize such options and to incorporate them into the market price. If the markets do not, we assume that they will eventually, with the payoff to using such models comes about when this occurs. (Damodaran, 2nd ed.)

Categorizing Option Pricing Models

The first categorization of options is based upon whether the underlying asset is a financial asset or a real asset. Most listed options are on financial assets such as stocks and bonds. In contrast, options can be on real assets such as commodities, real estate or even investment projects. Such options are often called real options. A second and overlapping categorization is based upon whether the underlying asset is traded on not. The overlap occurs because most financial assets are traded, whereas relatively few real assets are traded. Options on traded assets are generally easier to value and the inputs to the option models can be obtained from financial markets relatively easily. Options on non-traded assets are much more difficult to value since there are no market inputs available on the underlying asset. (Damodaran, 2nd ed.)

Applicability of Option Pricing Models and Limitations

There are several direct examples of securities that are options which are long term equity options on traded stocks that you can buy or sell on stock exchange. Contingent value rights which provide protection to stockholders in companies against stock price declines and warrants which are long term call options issued by firms. There are other assets that generally are not viewed as options but still share several option characteristics. Equity, for instance, can be viewed as a call option on the value of the underlying firm, with the face value of debt representing the strike price and term of the debt measuring the life of the option. A patent can be analyzed as a call option on a product, with the investment outlay needed to get the project going representing the strike price and the patent life being the time to expiration of the option. There are limitations in using option pricing models to value long term options on non-traded assets. The assumptions made about constant variance and dividend yields, which are not seriously contested for short term options, are much more difficult to defend when options have long lifetimes. When the underlying asset is not traded, the inputs for the value of the underlying asset and the variance in that value cannot be extracted from financial markets and have to be estimated. Thus the final values obtained from these applications of option pricing models have much more estimation error associated with them than the values obtained in their more standard applications to value short term traded options. (Damodaran, 2nd ed.)

Introduction to Business Correspondence

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01.00 Concept

Correspondence refers to any written or digital communication exchanged by two or more parties. Correspondence may take the form of letters, emails, text messages, voice mails, notes, post cards, or any such other means. Correspondence, in principle, serves the trail of events for eventual utilisation for multiple purposes.

Business Correspondence = Communication of Business Information

Business correspondence is a form of written communication used for business purposes. As such, business correspondence may simply be defined as 'Communication of Business Information'. The correspondence could be of several modes such as letters, notifications, memoranda, circulars, reports, orders, and so on.

Business correspondence is usually made between organizations, within the organization, or between clients and the organization. It could be a small request for a day's leave of absence or an elaborate application to a financial institution for grant of a loan of a thousand crores; It is all 'Business Correspondence'.

02.00 Broad Categories

Business Correspondence may broadly be categorised into:
(i) Internal Correspondence
(ii) External Correspondence

Internal Correspondence:

Internal Correspondence is a written communication between the employees, units, departments, and branches of the same organization. Internal correspondence can either be formal or less formal. Routine internal correspondence is usually less formal, such as quick instructions between a supervisor and a staff, and these are normally in the form of email.There are other more formal types of internal correspondence such as flow of information from one department to the other,memorandums, circulars, formal requests for approval, etc. which ought to be in writing.

External Correspondence:

External correspondence is a form of written communication made by a company with those who do not belong to their organization. It takes place between different organizations, or between an organization and their individual clients. External correspondence is commonly made with vendors, creditors, suppliers, prospective clients, financial institutions, government offices, law and accounting firms, business affiliates, sponsors or donors, and other offices that have either direct or indirect business relationship with the company.

Examples of external correspondence include credit recovery letters to debtors, follow up reminders to suppliers, negotiation correspondence with venders, information brochures to distributors, communications to shareholders about corporate events, etc. A specimen credit recovery letter is enclosed hereto as an appendix.

03.00 Personalized Correspondence

Personalized Correspondence involves personal and emotional factors. Despite being labelled as "personalized", this type of correspondence can also be used for business purposes. Examples of personalized correspondence include letters of gratitude, letters of favours or requests, appreciation notes, letters of congratulations of commendation, and such.

This particular type of correspondence doesn't need to have a very formal tone. Though this can be done via email, writing an actual, physical letter is more preferable because it has a sense of personal touch. One may use a regular office paper for this, or perhaps a personalized note pad, or a greeting card for a certain purpose (e.g. Thank You card, Congratulations card, etc).

04.00 Advantages

Business correspondence is an essential tool for the day-to-day operations of a company. It helps people within the organization to communicate with each other efficiently. It also helps an organization to transact and maintain a good professional relationship with its business associates, customers, other organizations and stakeholders.

The advantages of business correspondence include:
(i) Writing is considered as more valid and reliable than spoken words.

(ii) Written communication makes maters more precise, explicit and clear from ambiguity. It, thus, puts sender and receiver on the same wavelength which is very vital for any business transaction.
(iii) It is a permanent means of communication. Written communication is useful where record maintenance is required.
(iv) Delicate matters which cannot be expressed in person, can be communicated through discreet language by means of correspondence.
(v) Business Correspondence overcomes the barriers of distance and serves as a convenient means for transaction of business information with any nook and corner of the world.

05.00 Good Writing

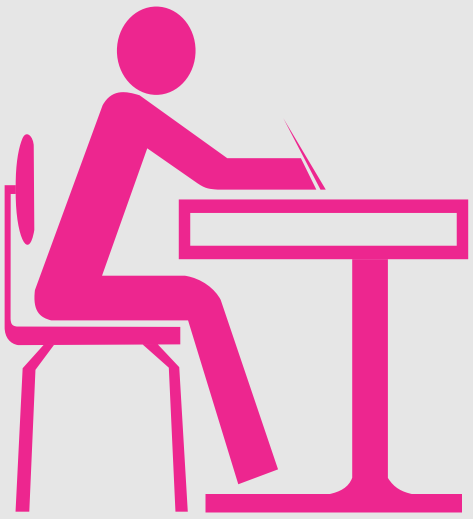
A good writing is a prerequisite for the business correspondence to be fair and objective. A good writing must engage a reader. Whether it is a proposal, report, resume or a letter, the reader must feel involved in the write-up. Effective writing involves careful choice of words, their organization in correct order in sentences formation as well as cohesive composition of sentences.

Social networking tools -say Face Book,Twitter, etc. - have become the order of the day, at times, even for business purposes. The word of caution is that language and written gestures also can have certain negative implications while communicating certain sensitive business information. Therefore, one must exercise due care and caution while using social networking tools and sending messages through business communication.

People read business memoranda in order to receive instructions or information upon which to base decisions or take action. Therefore, A straightforward, courteous tone is usually the best choice but one that may not come naturally without practice.

06.00 Quick Take

The tone, tune and texture of communication in a business translates into 'Business Correspondence'.



Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Day & Date	Final Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
10th December, 2018 (Monday)	Corporate Laws & Compliance (Paper 13) (Group - III)
11th December, 2018 (Tuesday)	Corporate Financial Reporting (Paper 17) (Group - IV)
12th December, 2018 (Wednesday)	Strategic Financial Management (Paper 14) (Group - III)
13th December, 2018 (Thursday)	Indirect Tax Laws & Practice (Paper 18) (Group - IV)
14th December, 2018 (Friday)	Strategic Cost Management - Decision Making (Paper 15) (Group - III)
15th December, 2018 (Saturday)	Cost & Management Audit (Paper 19) (Group -IV)
16th December, 2018 (Sunday)	Direct Tax Laws and International Taxation (Paper 16) (Group - III)
17th December, 2018 (Monday)	Strategic Performance Management and Business Valuation (Paper 20) (Group - IV)

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
Live Webinar

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSION

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,

"The roots of education are bitter but the fruit is sweet".

We, from the Directorate of Studies, **congratulate to all successful students** who have passed out their examination in June, 2018 term of examination.

Those; who could not make it, please prepare sincerely for the forthcoming December, 2018 term of examination and apply for filling up examination application form through on-line mode only, within the specified time schedule.
Those who cleared Foundation examination successfully, please opt for the next stage i.e. makes Registration for the Intermediate examination.

Those who cleared Intermediate examination, please enrol for Final stage.
Final pass students, hopefully your orientation is going on or got over. Please try to participate in a positive way in the Nation building and try to put a positive mark on the society and also for the CMA fraternity.

For the smooth and flawless preparation, Directorate of Studies are providing meaningful and requisite inputs which will help you in gaining sufficient knowledge if you take those seriously from the very beginning. Through E-bulletin experts are providing tips on all subjects for your smooth preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to gain requisite knowledge and also to become successful in their examination.

Please try to follow the general guidelines, mentioned below; which may help you in your preparation:

Essentials for Preparation:

- 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 links mentioned below :

For Mock Test Papers (MTP) : **http://icmai.in/studentswebsite/mtp2016_j18_fnd.php**
For Revision Test Papers (RTP) : **https://icmai.in/studentswebsite/rtp2016_d18.php**
For PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**
For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php**
Live Webinar Link : **http://icmai.in/icmai/news/889.php**

Be Prepared and Get Success;

Disclaimer:
Although due care and diligence have been taken in preparation and uploading this E-bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-bulletin.

Few Snapshots

Glimpses of Northern Region Students Convention-2018 on the theme: "Prism of Possibilities" organised by NIRC of the Institute on 17th September, 2018 at New Delhi.

CMA Amit A. Apte, President and CMA Sanjay Gupta, Immediate Past President of the Institute congratulating CMA Anil Kumar Chaudhary on being appointed as Chairman of Steel Authority of India Limited (SAIL)

Shri M.P. Singh, IAS, Addl Chief Secy (Revenue and Rehabilitation) cum Financial Commissioner, Taxation Govt. of Punjab inaugurating the National Seminar on Cost Governance at Chandigarh on 7th October 2018 in presence of CMA Amit A Apte, President, CMA Balwinder Singh, Vice-President, CMA Sanjay Gupta, Immediate Past President and CMA P Raju Iyer, Chairman, PD&CPD Committee.

CMA Amit A Apte, President of the Institute addressing the press on 6th October 2018 at Chandigarh. CMA Balwinder Singh, VP and Chairman, CASB, and CMA P Raju Iyer, Chairman, PD&CPD Committee also addressed along with CMA Mrityunjay Acharjee and CMA Shivani Inder, Members CASB.

Glimpses of Northern Region Students Convention-2018 on the theme: "Prism of Possibilities" organised by NIRC of the Institute on 17th September, 2018 at New Delhi.

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA