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YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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Behind every successful business decision, there is always a CMA

Message from The President

CMA Biswarup Basu
President,
The Institute of Cost Accountants of India

MESSAGE FROM THE PRESIDENT

Dear Students,

Greetings!!!

"We want that education by which character is formed, strength of mind is increased, the intellect is expanded, and by which one can stand on one's own feet"- Swami Vivekananda.

Learning is the major factor which is related to education if you learn new things, then you will educate more and more. Without education you will not explore the new ideas it means you will not able to develop the world because without ideas there is no creativity and without creativity, there is no development.

Education is the tool which provides people required knowledge, skill, technique, and information and enables them to know their rights and duties toward their family, society, and obviously nation. Education expands the vision, outlook to see the world. Education develops the capabilities to fight the injustice, violence, corruption and other factors. Just as a face is the mirror of the heart, level of education develops the status of the nation.

Getting a professional education is important for shaping your career and to move towards a right direction. Towards this end, CMA Course is integrated to impart and educate students in line with the growing demand for career-oriented education. Practical training can help students to become more organized and industry ready.

During this pandemic situation you should take more care about yourselves and people around you. *"The highest education is that which does not merely give us information, but makes our life in harmony with all existence"*-as said by Rabindranath Tagore.

With Best Wishes,

CMA Biswarup Basu
President,
The Institute of Cost Accountants of India

Be a CMA, be a Proud Indian

Stay Home Stay Safe

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Message from The Chairman

CMA Balwinder Singh
Immediate President & Chairman,
Training & Education Facilities
and Placement Committee

MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

"The aim of education is the knowledge, not of facts but of values".

Enriching our brains with new and valuable information improves our ability to think, analyze, and process the world around us. Education is important because it broadens our knowledge, and this knowledge then opens up our minds to new perspectives, ideas, beliefs, and cultures.

The Directorate of Studies (D.O.S.) is working relentlessly to provide the students with all possible supports and guidance. Live Webinars are being conducted, recorded webinars are also there in the e-library. Answers to the Mock Test Papers (MTPs), updated Work Books, and monthly E-bulletins are uploaded on our website as per the pre-scheduled manner. An online Mock Test Platform platform has been developed to equip the students to answer smoothly in the forthcoming on-line examination.

Initiatives towards the further development for the students taken by the D.O.S. includes SAP Certification, Microsoft Certification, Cambridge University Certification etc. and which, I personally believe, will give mileage to our coveted students to compete Globally and hence CMA Course is now truly going Global.

Learned academicians and professionals are contributing in their own way towards the development of our students despite the odd situation faced by everybody during the pandemic Covid-19. Being the Chairman of the Training & Educational Facilities and Placement Committee, I am really thankful to all of them. So, don't give up hope, carry on with your exercises, and try to utilize the facilities and opportunities being offered by the Directorate of Studies to a maximum extent. ***"Education's purpose is to replace an empty mind with an open one".***

My advice to all of you is to "Stay safe & Stay home" which is the need of the hour.

Best wishes as always,

CMA Balwinder Singh
Immediate Past President & Chairman,
Training & Education Facilities and Placement Committee

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Stay Home Stay Safe

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150 YEARS OF CELEBRATING THE MAHATMA

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150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE
Update

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 13

CORPORATE LAWS & COMPLIANCE (CLC)

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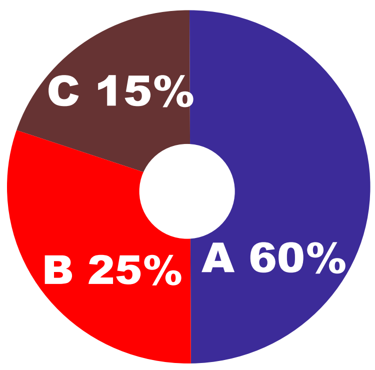
Your Preparation Quick Takes



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

Learning Objectives:

Read the Study Material minutely.

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

INSURANCE

Type of Risks

Risk is inevitable to business. Risk can be reduced but cannot be completely eliminated. The method of reducing risk is called hedging. Insurance is one method of reducing risk by transferring risk of loss to the insurance company, for whom it is a kind of business.

Risk can be classified in to various categories. The major categories of risk are as follows:

1. *Pure & Speculative risks:* Pure risk is defined as a situation where there are only possibilities of loss or no loss. In contrast, speculative risk is defined as a situation where either profit or loss is possible
2. *Static & Dynamic Risks:* Static risks are risks concerned with losses caused by the irregular action of nature or by mistake or misdeed of human beings. In contrast, dynamic risks are risk associated with a changing economy.
3. *Fundamental & Particular Risks:* A Fundamental risk affects the entire economy or large number of people within the economy. In contrast , a Particular risk is a risk that affects only the individual and not the entire community or country

Methods of risk handling:

1. **Risk Avoidance:** dome strategies by which one is not taking any risk at all. This may not be always possible
2. **Risk Transfer:** sometimes, business transaction deals are made in such a way that one transfers the risk to other. This may happen where the one of the parties accepts the risk for business considerations. For example, a food manufacturer may make a deal that all unsold materials after a certain date shall be taken back or compensated.
3. **Risk Retention**: this strategy accepts that there will be risk and the revenue model will take care of some calculated loss.
4. **Risk Control:** this method is possible by taking few measures to control possible loss.
5. **Insurance:** most common risk mitigation method is to take insurance and transfer the risk of loss to insurance company.

Insurance can be of following types:

1. Insurance of Person
2. Insurance of Property
3. Insurance of Interest, &
4. Insurance of Liability

REINSURENCE:

Reinsurance is an extension of the basic principle of insurance of spreading the risk to make it bearable. As someone put it: Loss of one; is shared by many; and it does not break any. This insurance of Insurers, involves transfer of some part of risk assumed by a direct Insurer to a single or a group of re-insurers in a pre agreed manner.

OMBUDSMAN:

The ombudsman shall act as a councilor and as mediator in matters within its terms of reference. His decision as to whether the complaint is fit and proper for being considered by it or not shall be final. The ombudsman may receive & consider complaints relating to:

1. Any dispute regarding premium paid or payable.
2. Any dispute regarding delay in settlement of claim.
3. Any dispute on legal construction of the policy.
4. Non-Issue of insurance document.

GENERAL INSURANCE

A Contract of insurance will be valid if it satisfies the following clauses:

1. Offer & Acceptance
2. Consideration
3. Free consent and consensus ad-item
4. Capacity to contract
5. Legality of the object
6. Utmost Good Faith
7. Insurable Interest

Different Types of main General Insurance products are:

1. Motor Insurance Policy
2. Property Insurance Policy
3. Fire Insurance Policy
4. Burglary Insurance Policy
5. Health Insurance Policy
6. Travel Insurance Policy
7. Business Insurance Policy
8. Other General Insurance Policy

LIFE INSURANCE

Basic Elements:

A life insurance product has two basic elements:

1. Risk Cover: benefit payable in the event of death
2. Savings: benefit payable in the event of survival

Life Insurance Plans that provide only risk cover during a specified period without any survival benefit are called TERM INSURANCE plans. Whole Life plans are effectively Term Insurance plans. Life Insurance Plans that provide for payment of policy monies only on survival of the specified period are called PURE ENDOWNMENT plans.

TERM LIFE INSURANCE

In the case of Term Life Insurance contract, the sum assured is payable only in the event of death during the term.
In case of survival, the contract comes to an end at the end of the term. There is no refund of premium.

Type of Term Life Insurance Policies

1. Mortgage Redemption Policies
2. Increasing Term Insurance Plans

Convertible Term Assurance Policy:

A Convertible Term Assurance Policy, as currently offered by L.I.C. is a Term Assurance Policy of specified term5, 6, or 7 years, which includes a provision for convertibility.
The insured can convert the policy at the end of the term in to an endowment type of contract without having to undergo a medical examination to satisfy the insurer on the acceptability of the life for insurance afresh.

Whole Life Insurance

Under Whole Life Insurance plans, life insurance protection is available throughout the lifetime of the assured. The sum assured is payable only on the death of the insured.

Limited Payment Whole Time Plan

Under the Limited Payment Whole Time Plan the premium paying term is fixed, although the sum assured is payable only on death.

ENDOWNMENT INSURANCE

Endowment insurance plans provide for the payment of the sum assured, in case of death during the term or on survival of the term.

Joint Life Endowment Plan

Under this plan, two lives can be insured under one contract. The sum assured is payable at the end of the endowment term on survival of both the live insured, or on the earlier death of the either of two.

Money Back Endowment Plan

In Money Back Endowment Plan part of the sum assured is made payable periodically during the term of the policy. Notwithstanding the payment at periodic intervals, the sum assured at risk (payable at death), continues to be the same till the end of the term.

Education Annuity Plan

In Education Annuity Plan the sum assured is paid in installments spread over a specified period, after the expiry of the term of the policy.

Children's Deferred Assurance plan

This Insurance is plans where the father or the mother proposes for insurance on the life of the minor child and pays premium.
However, the risk on the life of the child will begin only after the child reaches a specified age.

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GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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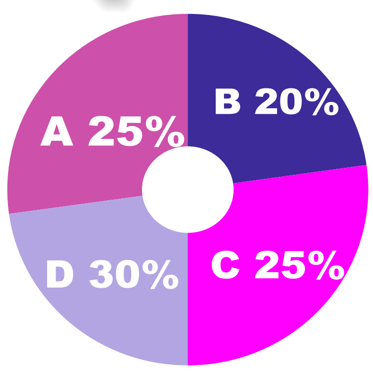
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

Strategic Financial Management

UNIT 2: EVALUATION OF RISKY PROPOSALS FOR INVESTMENT DECISIONS

Introduction:

While making an investment decision, a financial manger may face three alternative situations relating to the possible states of nature. Theses are:

1. Decision making under Complete Certainty
2. Decision making under Complete Uncertainty; and
3. Decision making under Risk.

Decision Making Under Complete Certainty:

Decision making under complete certainty implies that the manager is fully aware of all the states of nature (i.e. possible events not under the control of the firm) available and expected payoffs from the strategies under considerations for each state of nature. Since all the outcomes are fully known here, the manager can construct a pay-off matrix for all states of nature and can select the best possible strategy with the maximum pay-off.

For example, suppose the manager of Medline Pharma expects any of the three states of nature viz. N1, N2 AND N3 and he has three possible strategies namely, S1, S2 and S3. He has constructed a pay-off matrix as follows (Rs. in lakhs).

Strategy	States of Nature		
	N1	N2	N3
S1	2	1.5	0.5
S2	3	1.6	0.8
S3	2.5	1.4	0.7

Where

N1: strong market demand
N2: average market demand; and
N3: weak market demand

S1, S2 and S3 shows the three possible drug development strategies.

If the manager knows with certainty that a particular state of nature is going to exist, he can choose an appropriate strategy accordingly.

For example, if he knows that N2 is the states of nature expected, he will select S2 with the highest pay-off.

Unfortunately, in a dynamic business world, such a situation hardly prevails and what anyone can actually face is either a situation of complete uncertainty or risk.

Decision Making under Complete Uncertainty

Under condition of complete uncertainty, the manger does not have any information regarding the expected occurrence of any states of nature. In technical terms, he does not have the information regarding the probability distribution of the states of nature. Here, as per the decision theory, a manager may use any one of the following four criteria for selecting the best strategy.

(a) Maximax Criterion (Hurwicz Criterion)
(b) Maximin Criterion (Wald Criterion)
(c) Minimax Regret Criterion
(d) Criterion of Realism.

These are discussed below:

(a) Maximax Criterion (Hurwicz Criterion): Under this criterion, the manger is most optimistic about the future possible states of nature and chooses the strategy that gives the highest return under the most optimistic expectation of the states of nature. Accordingly, in our previous example, he selects S2 as it gives the highest payoff.

(b) Maximax Criterion (Wald Criterion): Under this criterion, the manager is conservative about the possible states of nature and identifies the payoff associated with each strategy under the worst possible states of nature. In other words, he expects the worst outcome for each strategy and then choose the best among them. Accordingly, the manager, in our example will expect the worst performance for each of S1 (0.5), S2 (0.8) and S3 (0.7) and finally choose S2 with the best possible return among the three strategies.

(c) Minimax Regret Criterion: Under this criterion, the manager constructs a regret matrix from the available pay-off matrix and select the strategy with minimum loss from the maximum losses under worst possible states of nature.

(d) Criterion of Realism: Under this criterion, the manager considers all the states of nature equally probable and hence assign probabilities equal to 1/No. of states. After that he calculates the expected payoff = $\sum$ (probability × Outcome) for each strategy. The strategy with highest expected payoff is ultimately selected.

Decision making under Risk.

Risk is a scenario that falls in between 'complete certainty' and 'complete uncertainty'. In other words, it is a situation where the manager has information regarding the probability distribution of the states of nature. The probabilities are calculated based on past experience and hence for a totally new situation, this strategy is not at all applicable. Under this situation, the manager calculates the expected value of each individual strategy based on the probabilities assigned to the states of nature and the payoff associated with each strategy. The strategy with highest expected pay-off is ultimately selected.

Let us assume that, in our previous example the probabilities associated with N1, N2 and N3 are 0.25, 0.25 and 0.50. Then, the expected payoff of S1 = (0.25 × 2 + 0.25 × 1.5 + 0.5 × 0.5) = 1.125. Similarly, the expected payoff of S2 and S3 will be 1.55 and 1.325. Accordingly, S2 with highest expected payoff will be selected.

Different Techniques to Deal with Risk and Uncertainties in Capital Investment Decisions

While dealing with risk and uncertainties in capital investment decisions, a financial manager, resorts to various alternative techniques based on the principle stated above. Some of the important techniques are:

1. Certainty Equivalent Method
2. Risk Adjusted Discount Rate Method
3. Expected NPV and Standard Deviation
4. Decision Tree Analysis

In addition to the above, some advance risk analysis techniques are also used such as –

1. Sensitivity Analysis
2. Scenario Analysis
3. Simulation Approach

These techniques are discussed in detail as follows.

1. Certainty Equivalent Method

This method is based on the utility of the decision maker for the return obtained by taking each additional unit of risk. If, for example, the finance manager feels that he would rather have a certain inflow of Rs.10000 in the second year of a project than an inflow of Rs.20000 with 0.75 probability and Rs.30000 with a probability of 0.25. The certainty equivalent of the uncertain cash flow which has an expected value of (20000 × 0.75 + 30000 × 0.25) = Rs.22500 is Rs.10000. Hence, the certainty equivalent coefficient of the cash flows based on risk return preferences of the manager is 10000/22500 = 0.44. This approach is useful when the risk return perception of the decision maker differs from one year to another.

Thus, under this approach, the certainty equivalents of various years are decided first and then the certainty equivalents of the cashflows are computed. The cashflows are then discounted with the risk-free rate of discount, as the risk adjustment has already been made.

The Certainty Equivalent Coefficient (CEC) ranges between 0 and 1. The higher the coefficient, the higher is the confidence of the management on the forecasted cashflows. A CEC of unity indicates that the management is completely certain about the cashflows to be realized. On the extreme a CEC of zero will indicate that the management is highly doubtful about the realization of the cashflows. Generally, the CECs are high for the initial years and decreases in the later years of the project as the risk will be higher in the later years. The changes in CEC depends on the degree of correlation among cash flows in different years. If the correlation is high, the CECs of different years remains the same. However, if the correlation is low, then CECs of different years are to be calculated separately.

Consider the following example.
A financial analyst is looking at a project proposal whose cost of capital is 10% The project requires an initial investment of Rs. 10 crore and provides cash inflows of Rs. 20 crores and Rs. 25 crores at the end of first and second years. The life of the project is only 2 years

and salvage value is Nil. The management feels that the certainty equivalent coefficients are 0.85 and 0.75. The risk-free rate of discount according to the analyst is 8%. Compute the certainty equivalent cashflows and advice on the project.

Calculation of Certainty Equivalent Cashflows

Year	Cash Inflows	CEC	Certainty Equivalent Cash inflows
1	20	0.85	17
2	25	0.75	18.75

NPV of the project = $17/(1+0.08)^1+18.75/(1+0.08)^2 - 10 = 31.79$

As per the basic NPV criterion, the project is acceptable as its NPV is positive.

YEARS OF CELEBRATING THE MAHATMA

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STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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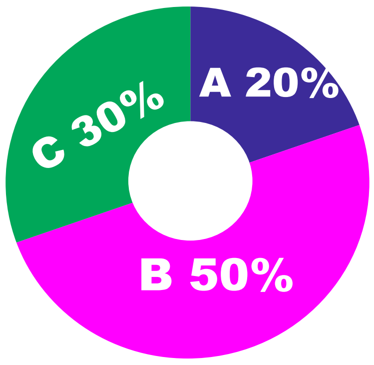
Your Preparation Quick Takes



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?

Choose the Appropriate Answer

Warm-up
Continuing the series of 'Choose the appropriate Answer', given below are the questions and answers of the objective shorties relating to the examination held in June 2019.

Question 1
XYZ Ltd. has the following alternative planned activity levels.

Level	E	F	G
Total cost (Rs.)	1,00,000	1,50,000	2,00,000
No. of units produced	5000	10000	15000

If fixed overhead remains constant, then fixed overhead cost per unit at Level E is:

a. Rs. 20
b. Rs. 15
c. Rs.13.33
d. Rs. 10

Answer
Rs.10/- {i.e. (d)}

Workings

Level	E	F	G
Total cost (Rs.)	1,00,000	1,50,000	2,00,000
No. of units produced	5000	10000	15000
Change in Total Cost		(1,50,000 – 1,00,000) = 50,000	(2,00,000 – 1,50,000) = 50,000
Change in units		(10000-5000) = 5000	(15000-10000) = 5000
Variable Cost per Unit (Change in TC ÷ Change in Units)		(50,000 ÷ 5000) = 10	(50,000 ÷ 5000) = 10
Total Variable Cost		10,000 × 10 = 1,00,000	15,000 × 10 = 1,50,000
Total Fixed Cost		(TC – VC) = (1,50,000 – 1,00,000) = 50,000	(TC – VC) = (2,00,000 – 1,50,000) = 50,000

Therefore, Fixed Cost at Level E also would be Rs.50,000/-.
Accordingly, Fixed Cost per unit at Level E = (FC ÷No. of units) = (50000 ÷ 5000) = Rs.10/-

Explanatory Comment

The problem is based on the fundamental principle that variable costs tend to vary in direct proportion to the level of activity whereas fixed costs tend to remain constant.

Question 2

T Ltd. produces and sells a product. The company expects the following revenues and costs in 2018:
Revenues (400 sets sold @ Rs.600 per product) = Rs.2,40,000
Variable costs = Rs.1,60,000
Fixed costs = Rs.50,000

What amount of sales must T Ltd. have to earn a target net income of Rs.63,000 if they have a tax rate of 30%?
(a) Rs. 4,20,000 (b) Rs.4,29,000 (c) Rs.3,00,000 (d) Rs.4,89,000

Answer
Rs.4,20,000/- {i.e. (a)}

Workings

Sales = Rs.2,40,000/-
Variable Cost = Rs.1,60,000/-
Contribution = (2,40,000 – 1,60,000) = Rs.80,000
C/S Ratio = (80000 ÷ 240000) = 33.33%
Fixed Costs = Rs.50,000
Profit Before Tax = (80,000 – 50,000) = Rs.30,000/-

Target Net Income (TNI) = Rs.63,000/-
Tax Rate (t) = 30%
Therefore, Target Profit Before Tax (TPBT) = {TNI ÷ (1-t)} = {63,000 ÷ (1-0.30)}
= (63,000 ÷ 0.70) = Rs.90,000
Target Contribution = (TPBT + FC) = (90,000 + 50,000) = Rs.1,40,000/-
Target Sales = (1,40,000 ÷ 33.33%) = Rs.4,20,000/-

Explanatory Comment

The problem focuses on the aspects of deriving the target contribution on the basis of target profit before tax and then working out the sales by adopting the concept of C/S Ratio.

Question 3

Excel Products Ltd. manufactures four products e.g. Product E, Product F, Product G and Product H using same raw materials. The input requirements for Products E, F, G and H are 1kg, 2kgs, 5kgs and 7kgs, respectively. Product-wise Selling Price and Variable Cost data are given hereunder:

Products	E	F	G	H
Selling Price (Rs.)	100	150	200	300
Variable Cost (Rs.)	50	70	100	125

Assuming raw material availability is a limiting factor, the correct ranking of the products would be:

a. E, F, G & H
b. E, F, H & G
c. F, E, G & H
d. F, E, H & G

Answer

E, F, H & G {i.e. (b)}

Workings

Products	E	F	G	H
Selling Price (Rs.)	100	150	200	300
Variable Cost (Rs.)	50	70	100	125

Contribution	50	80	100	175
Raw Material (Kg)	1	2	5	7
Contribution per Kg of Raw Material	50	40	20	25
Ranking	1	2	4	3

Therefore, correct order of ranking = E, F, H & G

Explanatory Comment
The problem demonstrates the application of the concept of contribution per unit of limiting factor while prioritizing the product preferences.

Question 4
S Ltd. recently sold an order of 50 units having the following costs:

	Rs.
Direct materials:	1,500
Direct labour (1000 hours @ Rs.8.50):	8,500
Variable overhead (1000 hours @ Rs.4.00)[1]:	4,000
Fixed overhead[2]:	1,400
Total:	15,400

1 Allocated on the basis of direct labour-hours.
2 Allocated at the rate of 10% of variable cost.
The company has now been requested to prepare a bid for 150 units of the same product. If an 80% learning curve is applicable, S Ltd.'s total cost on this order would be:

a. Rs. 38,500
b. Rs. 37,950
c. Rs. 26,400
d. Rs. 31,790

Answer
Rs.26,400/- {i.e. (c)}

Workings

Production (Units)	Labour Hours for 50 units	Total Hours
50	1000	1000x1 =1000
100	80% of 1000 = 800	800x2 = 1600
200	80% of 800 = 640	640x4 = 2560

Therefore, Direct Labour Hours for 150 units
= (Total Hours for 200 units – Total Hours for 50 units)
= (2560 – 1000) = 1,560

Estimate for 150 units

	Rs.
1. Variable Cost	
(i) Direct materials @ Rs.30/- per unit:	4,500
(ii) Direct labour (1560 hours @ Rs.8.50):	13,260
(iii) Variable overhead (1560 hours @ Rs.4.00):	6,240
(iv) Total Variable Cost:	24,000
2. Fixed overhead (10% of 24,000):	2,400
3. Total:	26,400

Explanatory Comment
The problem addresses the application of the concepts of learning curve for cost estimation as also the marginal costing.

Question 5
A company manufactures and sells packaging machines. It recently introduced activity-based costing to refine its existing system. Each packaging machine requires direct materials costs of Rs. 50,000; 50 equipment parts; 12 machine hours; 15 assembly line hours and 4 inspection hours. The details about the cost pools, allocation bases and allocation rates are given below:

Indirect cost pool	*Cost allocation base*	*Budgeted allocation rate*
Material handling	No. of component parts	Rs.8 per part
Machining	Machine hours	Rs.68 per machine hour
Assembly	Assembly line hours	Rs.75 per assembly hour
Inspection	Inspection hours	Rs.104 per inspection hour

The company has received an order for 40 can-packaging machines from a customer. Using activity-based costing, indirect costs allocated to the order of the customer would be:

a. Rs.1,30,850
b. Rs.1,25,280
c. Rs.1,15,050
d. Rs.1,10,280

Answer
Rs.1,10,280/- {i.e. (d)}

Workings
Indirect Costs per Packaging Machine

Indirect cost pool	*Cost allocation base*	*Allocation rate*	*Workings*
Material	50 comp.parts	Rs.8 per part	50 × 8 = 400
handling	12 Machine hours	Rs.68 per mach.hr.	12 × 68 = 816
Machining	15 Asly. line hours	Rs.75 per asly. hr.	15 × 75 = 1125
Assembly	4 Inspection hours	Rs.104 per ins.hr.	4 × 104 = 416
Inspection			Rs.2,757/-
Total			

Therefore, for 40 machines the indirect cost = 40 × 2757= Rs.1,10,280/-

Explanatory Comment
The problem highlights the application of the fundamentals of Activity Based Costing towards bettering the cost accuracy.

Question 6
AB Ltd. uses standard cost system. The following information pertains to direct labour for Product X for the month of March, 2019:
Standard rate per hour = Rs.8/-
Actual rate per hour = Rs.8.40
Standard hours allowed for actual production = 2000 hours
Labour Efficiency variance = Rs.1,600 (Adverse)
What were the actual hours worked?

a. 1,800
b. 1,810
c. 2,200
d. 2,190

Answer
2,200 hours {i.e. (c)}

Workings
Labour Efficiency Variance = (ST – AT) × SR
or
(-)Rs.1,600 = (2,000 – AT) ×Rs.8
(-) 1600 = 16000 – 8AT
(-) 17,600 = (-) 8 AT
AT = 17,600 ÷ 8 = 2,200 hours

Explanatory Comment
The problem, from standard costing, visualises deriving the actual time by working back on the computations of Labour Efficiency

Variance.

Question 7

X Ltd. has 1000 units of an obsolete item which are carried in inventory at the original price of Rs.50,000. If these items are reworked for Rs. 20,000, they can be sold for Rs. 36,000. Alternatively, they can be sold as a scrap for Rs. 6,000 in the market. In a decision model used to analyse the reworking proposal, the opportunity cost should be taken as:

a. Rs.16,000
b. Rs. 6,000
c. Rs. 30,000
d. 20,000

Answer

Rs.6,000/- {i.e. (b)}

Workings

Original price of Rs.50,000/- is not relevant.

Rework income = Rs.36,000/-
Less: Cost of rework = Rs.20,000
Net Inflow = Rs.16,000/- which is relevant.

The other alternative, relevant for cash flow, is from sale as scrap, i.e. Rs.6,000/-
Hence the opportunity cost is Rs.6.000/-

Explanatory Comment

Next best alternative for net inflow is sale as scrap which gives an income of Rs.6,000/-. Therefore, Opportunity cost is Rs.6,000/-

Question 8

Uniform Costing may *not* be successfully applied in the following case:

a. In a single enterprise having a number of branches, each of which manufactures the same set of products with the same facilities.
b. In a number of entities in the same industry bound by a trade association.
c. In a number of units across different geographical locations manufacturing one or more of a given set of products.
d. In different branches of the same company, each branch making a different product using a unique process.

Answer

(d)

Explanatory Comment

Though the entity is the same, different products using different (unique) process cannot follow uniform costing.

Question 9

Which of the following is a valid constraint for a linear programming problem?

a. $3x^2 + 4x + 1 = 0$
b. $5x_t + 2x_2 \leq 10$
c. $4x_x + 3x_2 > 7$
d. $(12x_1 + 4x_2) / 3x_2 \leq 8x_1$

Answer

(b)

Explanatory Comment

Other options do not conform to linearity or the fundamentals of constraints.

Question 10

The shadow price of skilled labour for SD Ltd. is currently Rs.10 per hour. What does this mean?

a. The cost of obtaining additional skilled labour is Rs.10 per hour.
b. There is a hidden cost of Rs.10 for each hour of skilled labour actively worked.
c. Contribution will be increased by Rs.10 per hour for each extra hour of skilled labour that can be obtained.
d. The total costs will be reduced by Rs.10 for each additional hour of skilled labour that can be obtained.

Answer

(c)

Explanatory Comment

A shadow price for a scarce resource is its opportunity cost. It is the amount of contribution that would be lost if one unit less of that resource were available. It is similarly the amount of additional contribution that would be earned if one unit more of that resource were available.(This is on the assumption that that the scarce resource is available at its normal variable cost).

Quick Take

It may be seen that the objective questions tend to cover the conceptual applications encompassing the maximum of the syllabus. So, these answers could as well be useful in attempting theory questions too.

YEARS OF CELEBRATING THE MAHATMA

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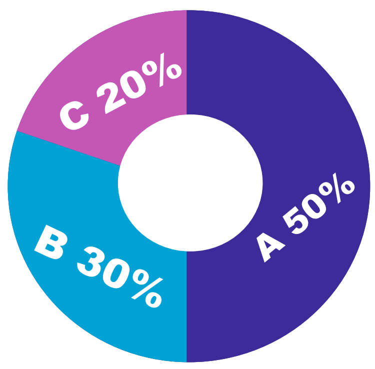
GROUP: iii, PAPER: 16

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.

PENALTY FOR UNDER REPORTING & MISREPORTING

Under the earlier legislation, the levy of penalty for concealment or furnishing of inaccurate particulars of income u/s 271(1)(c) has always been a matter of dispute between the revenue authorities and the taxpayers. There was lack of specificity in terms of quantum of penalty.

Under the earlier provisions, Income-tax Officer had the discretion to levy penalty ranging from 100% to 300% of tax sought to be evaded. The discretion regarding quantum of penalty led to corruption and a large number of pending disputes despite a number of judicial precedents on the interpretation of statutory provisions. The tax authorities always tried to levy the penalty whenever there was an addition or disallowance made by the assessing officer, even in cases where there was no prima facie case against the taxpayer.

Under the new scheme for the imposition of the penalty, matters are classified into two parts:

- Under Reporting of Income; and
- Misreporting of Income

Penalty for under-reporting and misreporting of income [Sec. 270A]

The

- Assessing Officer; or
- Commissioner (Appeals); or
- Principal Commissioner or Commissioner

may, during the course of any proceedings under this Act, direct that any person who has under-reported his income shall be liable to pay a penalty in addition to tax, if any, on the under-reported income.

Taxpoint

- Penalty proceedings must be initiated before completion of the assessment or appeal order or revision order, as the case may be.
- Penalty order is different from assessment order. Aggrieved with the penalty order passed by the Assessing Officer, the assessee is required to file separate appeal to the Commissioner (Appeals) or separate revision petition u/s 264 or separate rectification petition u/s 154. Further, appeal can be filed with the Tribunal against the penalty order passed by the Commissioner (Appeals) or Principal Commissioner or Commissioner.
- Tribunal cannot impose penalty
- Penalty shall be imposed by the respective income-tax authority on addition made by them. E.g., on addition being made by the Assessing Officer, Commissioner (Appeals) cannot levy penalty. Even the Assessing Officer fails to levy penalty on such addition, Commissioner (Appeals) cannot levy penalty on such addition made by the Assessing Officer. In *CIT -vs.- Shadiram Balmukund*, the Apex court has held that the Assessing officer can levy penalty on the additions made by him and not on the additions made by Commissioner (Appeals). Similarly, Commissioner (Appeals) can levy penalty on the additions made by him and not on the additions made by the Assessing Officer.

Quantum of penalty [Sec. 270A(7) & (8)]

- **50%** of the amount of tax payable on under-reported income [Sec. 270A(7)]
- **200%** of the amount of tax payable on under-reported income, where under-reported income is in consequence of any misreporting thereof by any person - [Sec. 270A(8)]

Cases of under-reporting of income [Sec. 270A(2)]

A person shall be considered to have under-reported his income, if:

a. the income assessed is greater than the income determined in the return processed u/s 143(1)(a);
b. the income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished or

where return has been furnished for the first time u/s 148;

c. the income reassessed is greater than the income assessed or reassessed immediately before such reassessment;

d. the amount of deemed total income assessed or reassessed u/s 115JB or 115JC is greater than the deemed total income determined in the return processed u/s 143(1)(a);

e. the amount of deemed total income assessed u/s 115JB or 115JC is greater than the maximum amount not chargeable to tax, where no return of income has been filed or where return has been furnished for the first time u/s 148;

f. the amount of deemed total income reassessed u/s 115JB or 115JC is greater than the deemed total income assessed or reassessed immediately before such reassessment;

g. the income assessed or reassessed has the effect of reducing the loss or converting such loss into income.

Illustration 1

Computation of under-reported income assuming income has been assessed for the first time:

Assessee	Return Filed	Income u/s 143(1)(a)	Assessed Income	Under-reported Income	Tax payable on (a)	Tax payable on (b)	Tax payable on (c)	Penalty
		a	b	c = (b – a)	d	e	f = (e – d)	f x 50%
Individual	Yes	6,00,000	10,00,000	4,00,000	33,800	1,17,000	83,200	41,600
Firm	Yes	17,00,000	20,00,000	3,00,000	5,30,400	6,24,000	93,600	46,800
Firm	Yes	(8,00,000)	20,00,000	28,00,000	-	8,73,600	8,73,600	4,36,800
Individual	Yes	(9,00,000)	(3,00,000)	6,00,000	-	33,800	33,800	16,900
Firm	No	N.A.	8,00,000	8,00,000	-	2,49,600	2,49,600	1,24,800
Individual	No	N.A.	7,50,000	5,00,000#	-	65,000	65,000	32,500

Assessed income as reduced by basic exemption
200% of (f) shall be levied as penalty if the case is misreporting of income.

Illustration 2

Computation of under-reported income assuming income has not been assessed for the first time:

Assessee	Income assessed in the preceding order	Reassessed Income	Under-reported Income
Individual	7,00,000	12,00,000	5,00,000
Company	20,00,000	22,00,000	2,00,000

Illustration 3

Compute penalty leviable u/s 270A in case of X Ltd from the following details:

Particulars	Total Income	Tax on Total Income	Book Profit	Tax on Book Profit
Return of income	80,00,000	24,96,000	2,00,00,000	33,38,400
Assessed income	1,20,00,000	40,06,080	2,10,00,000	35,05,320

Solution

Computation of penalty

Particulars		Amount
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000

Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,00,00,000
Under-reported income [(A – B) + (C – D)]		**50,00,000**
Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,38,400
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,77,000
Penalty u/s 270A		
Minimum (being 50% of T)		8,38,500
Maximum (being 200% of T)		33,54,000

Illustration 4

In the above example, out of addition of ₹ 10 lakh made in the book profit and ₹ 40 lakh made in the total income (under general provisions), ₹ 3,00,000 was made on the same ground. Compute penalty u/s 270A.

Solution

Computation of penalty

Particulars		Amount
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000
Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,03,00,000
Under-reported income [(A – B) + (C – D)]		**47,00,000**
Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,88,476
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,26,924
Penalty u/s 270A		
Minimum (being 50% of T)		8,13,462
Maximum (being 200% of T)		32,53,848

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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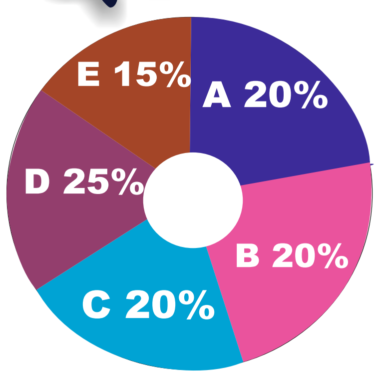
Your Preparation Quick Takes



Syllabus Structure

A GAAP and Accounting Standards **20%**
B Accounting if Business 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.

Ind AS 115 Revenue from contracts with customers

This standard states how to recognize revenue and to measure the amount at which revenue is recognized from contracts with customers.

Revenue is the consideration for satisfying performance obligation undertaken in the contract. Revenue is recognized as and when performance obligation is satisfied and it is measured at the amount of transaction price attributable to the satisfied performance obligation.

In an ordinary contract for sale of goods the performance obligation is satisfied when goods are transferred to the customer and revenue (Sale) is recognized at the (sale value) transaction price.

But there may be complications at different stages in revenue recognition and measurement. The different stages can be enumerated as below:

I. Identifying the contract.

II. Identifying performance obligation.

III. Satisfaction of performance obligation.

IV. Determination of and allocation of transaction price to performance obligation.

While stages I to III are for recognition of revenue stage IV is for its measurement.

Stage I — Identifying the contract

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The consideration received shall be recognized as liability until any of the criteria is met at the time of the consideration received.

Revenue is recognized for performance obligation satisfied under a single contract or multiple contracts combined into a single contract.

An entity shall account for a contract modification as

A: a separate contract (if conditions satisfied)

B: termination of the existing contract and creation of a new contract for the remaining performance.

C: Continuation of existing contract with modifications.

Illustration 1.

A: Z Ltd. Agrees to sell 200 units of product A to a customer for Rs. 3,20,000 (Rs. 1600 per unit). The product A units are transferred over to the customers from 1st January 2019 to 30th June 2019. On 31-03-2019 after transfer of control of 100 units of A, the contract is modified to deliver additional 50 units at the then market price of Rs. 1400 per unit to be delivered in following 3 months. Show how the transaction will be accounted in books of Z ltd.

Solution :

During F.Y. 2018-19 revenue will be recognized for the performance obligation satisfied in regard the identified contract. Although the contract is modified, the modification is accounted as a distinct separate contract with its stand-alone price.

Thus in regard the original contract the transaction price to be allocated to the satisfied performance obligation is (100×320000)/200 = Rs.160000 to be recognized as revenue to be credited to P & L.

In F.Y. 2019-20, on satisfaction of performance obligation of the original contract the balance Rs. 160000 of the transaction price will be recognized as revenue. Further, for the modifications of the contract, treated as another distinct and new contract the transaction price is 50 × 1400 = Rs. 70,000 to be recognized as revenue on satisfaction of performance obligation, i.e. on transfer of control of the units in 3 months.

B: on 1-4-19 the contract is modified to deliver 150 units of A instead of remaining 100 units by 30-6-19 at Rs. 1500 per unit. Here additional performances are distinct but additional consideration is not stand-alone selling price; hence, it is modification B.

Solution:

For FY 18-19 revenue recognition is Rs. 16000 for 100 units at Rs. 1600 pu.

For 2019-20:

Unrecognised revenue of the original contract (as if terminated) —	nil
Contract modification 150×150 =	Rs. 22500
	Total Rs. 22500

Stage II — Identifying performance obligation

Performance obligation is a promise to transfer

(i) a good or service (or a bundle of goods and services) that is distinct or

(ii) a series of distinct goods and services (substantially some with same pattern of transfer)

A contract with a customer generally explicitly states the goods or services that an entity promises to transfer to a customer. However, implied promises by the customary business practice, published policies or specific statements are also identified as performance obligation. But some activities other than transfer of good or service, which an entity must undertake to fulfill a contract are not a performance obligation (example, various administrative tasks to set up a contract)

Examples of promised goods or services:

a. Sale of goods produced by an entity. (for example, inventory of a manufacturer)
b. Resale of goods purchased by an entity. (for example, merchandise of a retailer)
c. Resale of rights to goods or services purchased by an entity.
d. Performing contractually agreed-upon takes for a customer.
e. Providing a service of standing ready to provide goods or services (snacks and drinks in hotel room with price tag)
f. Agency service for another party to transfer goods or services.
g. Granting rights to goods and services to be provided in the future (Free air tickets for purchase of VIP suitcase)
h. Contracting, manufacturing or developing an asset on behalf of a customer.
i. Granting licenses.
j. Granting options to purchase of additional goods or services.

Illustration 2. On 01-08-2019 A Ltd. enter into a contract with a hotel for daily sanitisation of the building for 3 years at Rs. 12000 per month. The customer receives and consumes benefits each day. Determine the revenue to be recognised in 2019-20.

Solution:

It is a series of distinct goods and services constituting a single performance obligation to be satisfied over time and transaction price has to be allocated proportionately to the performance obligation satisfied. Accordingly, for 8 months @ Rs. 12000 per month, Rs.96000 will be the revenue to be recognised in 2019-20.

Stage III — Satisfaction of performance obligations

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

An entity shall determine at contract conception whether it satisfies the performance obligation over time. If not, it is performance obligation satisfied at a point of time.

Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways, such as by:

(a) using the asset to produce goods or provide services (including public services);

(b) using the asset to enhance the value of other assets;

(c) using the asset to settle liabilities or reduce expenses;

(d) selling or exchanging the asset;

(e) pledging the asset to secure a loan; and

(f) holding the asset.

Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly.

An entity transfers control of a good or service **over time** and, therefore, satisfies a performance obligation and recognises revenue **over time**, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

For each performance obligation satisfied over time, an entity shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation.

Appropriate methods of measuring progress include output methods and input methods.
Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract.

Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

Stage IV — Determination of and allocation of transaction price to performance obligation

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation.

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

(a) variable consideration;

(b) constraining estimates of variable consideration;

(c) the existence of a significant financing component in the contract;

(d) non-cash consideration; and

(e) consideration payable to a customer.

Allocating the transaction price to performance obligations

An entity shall allocate the transaction price to each performance obligation identified in the contract.

On a relative stand-alone selling price basis as per the standard,

except for

- allocating discounts, and
- allocating variable consideration

Presentation and disclosure

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose relevant qualitative and quantitative information.

An arrangement within the scope of the Appendix C of Ind AS 115 typically involves a private sector entity (an operator)

- constructing the infrastructure used to provide the public service or
- upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time.

The operator is paid for its services over the period of the arrangement.

The operator shall recognise and measure revenue in accordance with Ind AS 115 for the services it performs. The nature of the consideration (received as a financial asset and as an intangible asset) determines its subsequent accounting treatment.

The operator shall account for construction or upgrade services in accordance with Ind AS 115.

The operator shall account for operation services in accordance with Ind AS 115.

Illustration 3. On 01-01-2020 A Ltd. entered into a contract with B to sell 20 TV sets at a price of Rs. 50000 per set and the goods were delivered in February, 2020. Determine revenue to be recognised by A in 2019-20 in the following circumstances:

(i) 2 sets found damaged at the time of receiving and returned by B.

(ii) 4 sets found not properly functioning in March, 2020 and they were replaced by A as per terms of warranty.

(iii) It is not a sale but goods sent on consignment and B will sell the TV sets at Rs. 50000 per set. 12 sets were sold by B.

(iv) It is a contract of sale or return. The TV sets can be returned by B unconditionally within 3 months. The entity expects (a) full return; (b) 50% return.

Solution:

(i) Revenue is recognised for 18 sets at Rs. 900000. 2 sets returned to inventory of defective items.

(ii) Revenue is recognised for 20 sets at Rs. 1000000 at delivery (assumed warranty is required by law and subsequent replacement is not considered as performance obligation to be satisfied over time and to attract any allocation of contract price).

(iii) Revenue is recognised for 12 sets at Rs. 600000. The other 8 sets are recognised as asset (inventory) at cost.

(iv) (a) No revenue is recognised on delivery as right of the customer to unconditionally return the goods have not expired and full return is expected. The amount received or receivable on delivery of the sets is recognised as a liability and asset (inventory) is recognised for all 20 sets at cost. The performance obligation will be satisfied at the point of time when that right to return will expire and then only revenue will be recognised cancelling the liability.

(b) Revenue will be recognised at Rs. 500000 (50% of delivery) and for balance Rs. 500000, liability will be recognised. Further, asset (inventory) should be recognised for 10 sets at cost.

Illustration 4. A Ltd. enter into a contract with a customer for construction of a machine at the site of the customer at Rs. 8 lakhs and for supply of spare parts at Rs. 1.6 lakhs in the next financial year but to hold the spare parts in A Ltd's warehouse separately to be delivered to the customer's factory as and when required in following 3 financial years for additional consideration of Rs. 20000 pa. Recognise revenue in the financial years if the contract is duly performed.

Solution:

In the year of contract no revenue is recognised as no performance obligation satisfied.

In the next year Rs. 8 lakhs is recognised for completing the construction and transfer of control at the point in time.

Further Rs. 1.6 lakhs is recognised for supply of spare parts although it is held in warehouse of A Ltd. as custodian as control is transferred.

Rs. 20000 in each of the 3 years next shall be recognised as revenue from custodial services.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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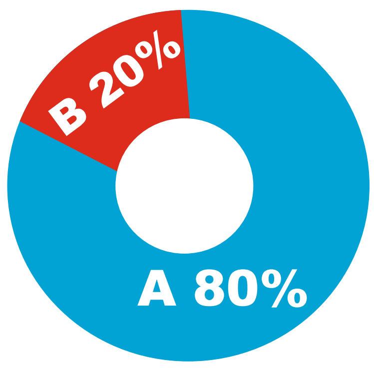
Your Preparation Quick Takes



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

- Enactment of Customs Duty and new name
- Adjudicating authority
- Idea of coastal goods, domestic tariff etc
- Treatment for smuggled goods
- Circumstances for levy of customs duty
- Duty liability under certain special cases
- Circumstances under which no duty will be levied
- Relinquish of title of gods
- Types of duties
- GST Compensation Cess

INDIRECT TAX

Choose the correct option from the followings –

1. The Customs Act was enacted by the Parliament in the year

(a) 1950
(b) 1956
(c) 1960
(d) 1962

2. The Central Board of Excise and Customs now renamed as –

(a) Central Board of GST
(b) Central Board of GST and Customs
(c) Central Board of Indirect Tax and customs
(d) Central Board of Indirect Tax and Direct Tax

3. As per Section 2(1) of the Customs Act, 1962 Adjudication Authority means

(a) Any authority competent to pass any order or decision under the act.
(b) The Central Board of Excise and Customs
(c) Commissioner of Customs (Appeal)
(d) Customs, Excise and service tax Appellate Tribunal

4. As per the Section 2(7) of the Customs Act the term Coastal goods means

(a) Imported goods transported in a vessel from one port of India to another
(b) Goods other than imported goods transported in a vessel from one part in India to another
(c) Exported goods transported in a vessel from one part in India to another
(d) Goods other than exported goods transported in a vessel from one part in India to another

5. As per the Customs Act which one will not be termed as goods

(a) Baggage
(b) Currency and negotiable instruments
(c) Export house
(d) Vessel, aircraft and vehicle

6. Domestic Tariff Area means the whole of India (including the territorial waters and continental shelf) but does not include the area of

(a) Imported goods kept in warehouse outside customs area
(b) Special Economic Zone
(c) 100% Export Units
(d) Special Economic Zones and 100% Export Oriented Units

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

(a) Could be considered as imported goods
(b) Could not be considered as imported goods
(c) Could be considered as imported goods after paying the customs duty
(d) Could have ben cleared for home consumption if customs authority thinks so.

8. As per the Customs Act which of the following can be considered as taxable event
(a) Unloading of imported goods at the customs port
(b) Date of entry into Indian territorial water
(c) Date on which the goods cross the customs barrier
(d) Date of presentation of bill of entry

9. As per section 68 of the Customs Act the relevant date for goods cleared from a warehouse will be
(a) Date of entry inward of the vessel / arrival of the aircraft
(b) Date of payment of duty
(c) Date of physically lifting of goods from warehouse
(d) Date of presentation of bill of entry for home consumption

10. As per the Indian Foreign Trade policy (2015 – 2020) all export from India are measured
(a) In terms of Free on Board Value
(b) In terms of Cost Insurance Freight Value
(c) In terms of value determine by the customs authority
(d) In terms of Basic Customs Duty

11. In which of the following case payment of Custom Duty will not arise
(a) Goods are imported into India after exportation there from
(b) Imported goods have been originally exported to the overseas supplier for repair
(c) Imported goods have been originally exported to the overseas supplier for repair re imported within 5 years from the date of export
(d) Exported goods may come back for repair and re export.

12. Time limit for re importation from the date of exportation where goods manufactured in India and re imported for reprocessing
(a) I year
(b) 3 years
(c) 5 years
(d) 7 years

13. In which of the case an Importer may not relinquish his title of the goods
(a) The goods may not be according to the specification
(b) Title to such goods regarding which an offence appears to have been committed under custom act
(c) The goods may have been damaged or deteriorate during voyage and as such may not be useful to the importer
(d) There right have been breach of contact and therefore the importer may be unwilling to take delivery of the goods

14. In which of the following case the Importer will not get preferential rate of Basic Customs Duty
(a) Specific claim for preferential rate must be made by the importer
(b) Import must be from preferred area as notified by the Central Government
(c) The goods should be produced / manufactured in such preferred area
(d) Certain specific goods declared by Custom Authority

15. Special Welfare Surcharge rate for the Gold, Silver including that plated with platinum, unworth or semi manufactured form in powder form
(a) 1%
(b) 3%
(c) 5%
(d) 10%

16.In which of the following GST Compensation Cess will not be applicable
(a) Coal
(b) Iron ore
(c) Aerated drinks
(d) Motor vehicle

17. As per the Customs Act in relation to Safeguard Duty which of the statement is correct
(a) It shall be applicable to 100% Export Oriented Unit
(b) It is applicable to a Free Trade Zone
(c) It shall be applicable to Special Economic Zone
(d) It is product specific

18. Provisional safe Guard Duty shall not remain in force from the date on which it was imposed.

(a) For more than one hundred days
(b) For more than two hundred days
(c) For more than three hundred days
(d) For more than four hundred days

19. For the purpose of section 8B of the Custom Tariff Act 1975 "developing country " means a country

(a) Which declare themselves as developing as per the norms
(b) UNO declare the country as developing
(c) A country notified by Central Government in the official gazette
(d) Being get the status of developing country based on economic condition

20. Where any article exported to India at less than it's normal value, then upon importation of such article into India Central Government may impose

(a) Safeguard duties
(b) Protective duties
(c) Countervailing duties
(d) Anti dumping duties

ANSWERS

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

YEARS OF
CELEBRATING
THE MAHATMA

GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

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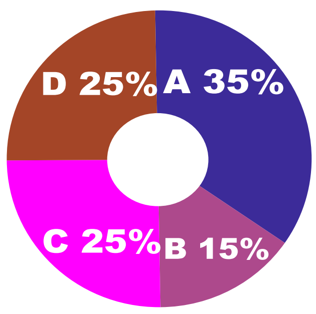
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Understanding - CAS – 24 - Treatment of Revenue in Cost Statements

Introduction

The cost sheet is the assembly of the each major elements of cost to derive at the Cost of Production / Service, Cost of Sales and Margin of the product / service. This requirement is mandated to the Companies, under the Rule 5(2) of Companies (Cost Records and Audit) Rules 2014. The Cost Auditor has to follow the CAS 24, in compliance to the Cost Auditing Standard 103 to ascertain and assure true and fair view of cost of production/service and margin. The margin as reflects in cost is represents the effective margin for the year/period based on efficiency of operation, as it does not take into account non cost expenses and income. Therefor understanding about treatment of revenue very imperative for arriving at proper margin

The term Revenue, as per CAS-24 is having the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable. The terms Revenue and Sales Realisation denote the same meaning and are used interchangeably.

Recognition and Treatment of Incomes / Revenues

'Revenue from operations' is generally recognised at the net value excluding indirect taxes and trade discount. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue. However, for the purpose the Abridged Cost Statement of Part – B 2 / C 2 of Annexure to the Cost Audit Report, only the Net Sales Realisation of the particular product under audit (for which the cost sheet is drawn) excluding discounts and taxes are to be taken for the calculation of Margin.

Furthermore, the 'Revenue from operations' also includes 'Other Operating Revenue'. Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services. These incomes are to be analysed for their appropriate treatment. The examples of such incomes are

a) Sale of scrap
b) Government subsidies or incentives received
c) Sale of by products
d) Revenue from sale of inputs, utilities, intermediate products, and shared or support services
e) Revenue generated from utilization of assets created under the CSR program
f) Sale of defectives, second-grade products, rejects, spoilage, and waste products.
g) Interest on deposits and Divided Income
h) Insurance claim received

The treatment of above mentioned items are discussed in details as follows:

a) Sale of Scrap

The scrap sold can be broadly categorized in 2 categories i.e. Operational scrap and Other scrap. The operational scrap arises during the normal production process and they can't be avoided. The inputs of such scrap is the same as the inputs required in the production of product or rendering of service. If those scrap are sold then such amount received is to be set off in the cost incurred under the head of 'Other Overheads' of the Abridged Cost Statement. Furthermore the periodicity of the occurrence of scrap is to be taken in account. Only the scrap of current period is to be set off against cost and the scrap belonging to prior period should be considered as Non-Cost Income. The Other scrap for example: sale of scrap machinery, construction scrap etc. are to be considered as Non-Cost Income and are to be excluded from Cost Sheet.

b) Government subsidies or incentives received :

The subsidies / incentives including export incentives received for the sale of product or rendering service is to be identified and allocated to the particular product / service and is to be included in the Net sales realisation. The subsidies / incentives received for an expenditure incurred is to be identified and is to be set off against the particular expenditure and the net amount is to be taken up in Cost Sheet.

c) Sale of joint products and by-products

By-product are the products with relatively low value produced incidentally in the manufacturing of the product or service. Revenue from sale of goods or services shall be measured separately for sale of each type of by-products. If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Alternatively, the proceeds from the by-product can be adjusted against the cost incurred as recovery under the head of 'Other Overheads'.

d) Revenue from sale of inputs, utilities, intermediate products, and shared or support services

Revenue from sale of inputs, utilities, intermediate products, and shared or support services shall be adjusted against the cost of purchase or cost of production of the related input or services. It is necessary to understand the accounting process that the organisation has followed to record such transactions. Ultimately it is to be established that the Purchases of inputs /utilities / intermediate products as the case may be, has already given the impact before calculation of consumption of inputs for the period.

e) Revenue generated from utilization of assets created under the CSR programme

The revenue generated shall not be considered in determining the profit or loss in Cost Accounts. The revenue generated as well as the costs incurred in CSR are to be taken as Non-Cost items and excluded from the Cost Sheet.

f) **Net Sales realization of defectives, second-grade products, rejects, spoilage, and waste products**
The items considered here are only those items that has the following characteristics:

- They have no or insignificant value
- They are disposed of without further treatment
- They are incidental to production process

Revenue from such above mentioned items shall be adjusted against the cost of production of related goods sold under the head of 'Other Overheads' of the Cost Sheet.
In case the occurrence of such items is not incidental to production process then such sales should be considered as Non-Cost item.

g) **Interest on deposits and Divided received**
Often the organisation receives interest on deposits. The necessity of the deposits made are to be evaluated. There can be broadly 2 circumstances.

- Deposits required to be made to enable to carry production / provision of service. Eg. Security deposit for Electricity connection.
- Deposits made in nature of investment or due to excess cash not required for production. Eg. Fixed deposits made in bank due excess cash balance

The interest received in case of security deposit as mentioned above is to be setoff /netted with interest cost. In case the deposit is in nature of investment or due to excess cash balance, the interest received thereon is to be treated as a Non-Cost item as it has nothing to do with the production process.

h) **Insurance claim received**
The insurance claim received during the year needs examination with regard to the claims related to earlier year or current year. The claims received related to earlier year to be treated as non cost income, whereas claims received related to current year to be netted of with the expenses incurred on repairs.

In view of the all above during the course of audit, the Cost Auditor should use his / her considered review of occurrence of costs / incomes to arrive at the proper treatment of each items. The importance lies in the nature of the transaction and costs and not in the name of the costs. While the other incomes result in increase in profit / deduction of loss in Financial Statements, such other incomes that have no connection with normal production process are to be excluded from the Cost Sheet and are to be shown in the Reconciliation Statement. Furthermore, the periodicity of the items involved is to be given attention to. Any prior period items are to be considered as Non-Cost and taken to Reconciliation Statement but only after considering the normal business process of the concerned organisation.

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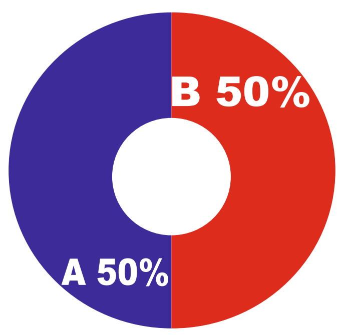
GROUP: iv, PAPER: 20

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

Section-A

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

1. If the average cost function of a firm is given by $AC = x^2 - 4x + 7$, in terms of output x, what will be its marginal cost?
   (A) (A) $2x^3 - 4x^2 + 7x$
   (B) $3x^2 - 8x + 7$
   (C) $x^3 - 8x^2 + 7x$
   (D) None of the above

2. Which of the following is a part of Internal Quality Costs for quality management?
   (A) Prevention Costs
   (B) Appraisal Costs
   (C) Failure Costs
   (D) All of the above

3. A Company based on up-to-date financial statements has determined that the current Free Cash Flows to Equity (FCFE) per share is Rs. 1.00. It has outstanding number of shares 100 crores with a face value of Rs. 10 each. Its interest expenses are Rs. 30 crores and tax rate is 30%. Given this information, The Free Cash Flow to the Firm (FCFF) will be-
   (A) Rs. 109 crores
   (B) Rs. 112 crores
   (C) Rs. 121crores
   (D) Rs. 130 crores

4. If a company has a P/E ratio of 12 and a Market to Book Value Ratio 2.10, then its Return on Equity will be
   (A) 14.10%
   (B) 17.50%
   (C) 25.20%
   (D) None of the above

5. Estimated fair value of an asset is based on the ________________ value of operating cash flows.
   (A) Current
   (B) Discounted
   (C) Future
   (D) None of the above

6. Duration of a bond will ___________ when the yield-to-maturity on the bond increases.
   (A) Decrease
   (B) Increase
   (c) Not change
   (D) All three above are possible

Section –B

1. A manufacturer can sell "X" items ($X \geq 0$) at a price of Rs.(30 – X) each; the cost of producing "X" items is Rs. (X^2 + 10X + 12). Based on the above information, answer the following questions:

   (i) Profit is maximize at the level of sell : [3 Marks]
   (A) 80 units.
   (B) 90 units
   (C) 100 units

(D) 160 units

(ii) In order to achieve maximum profit, d^2y/dx^2 must be: [3 Marks]

(A) Positive
(B) Negative
(C) Zero
(D) None of the above

(iii) Maximum profit is: [4 Marks]

(A) Rs. 12780
(B) Rs. 12888
(C) Rs. 11788
(D) Rs. 12788

2. A Ltd., is considering the acquisition of B Ltd., with stock. Relevant financial information is given below:

Particulars	A Ltd.	B Ltd.
Present earnings (Rs.)	7.5 Lakhs	2.5 Lakhs
Equity (no. of shares)	4.0 lakhs	2.0 Lakhs
EPS (Rs.)	1.875	1.25
P/E ratio	10	5

Based on the above information, answer the following questions:

(i) What is the market price of each company? [3 Marks]

(A) Rs.18.75
(B) Rs.19.25
(C) Rs.19.55
(D) Rs.19.75

(ii) What is the market Capitalization of B Ltd.? [3 Marks]

(A) Rs. 11.50 Lakhs
(B) Rs. 11.75 Lakhs
(C) Rs. 12.25 Lakhs
(D) Rs. 12.50 Lakhs

150 YEARS OF CELEBRATING THE MAHATMA

PRACTICAL Advice

ABOUT YOUR STUDIES - FINAL COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from

Directorate of Studies

Dear Students,

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K. Gandhi. One of his inspirational message towards the students were:

"You must be the Change you wish to see in the World",

Let us observe his memory by following his message.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the link mentioned below :

https://icmai.in/studentswebsite

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

GOOD LUCK

Be Prepared and Get Success;

Few Snapshots

CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President of the Institute extending greetings to Smt. Anjali Bhawra, Additional Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.

CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President, CMA Balwinder Singh, Immediate Past President of the Institute extending greetings to Shri Rajesh Verma, Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.

CMA Biswarup Basu, President along with CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President and CMA B.B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, GoI extending greetings to Shri Naresh Salecha, Member Finance, Railway Board on 14th October 2020.

CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President of the Institute extending greetings to Shri Manoj Pandey, Joint Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.

Dubai Overseas Center organised WEBINT on 'Challenging Time Need People, who can Challenge Themselves' by CMA Radhakrishnan, on 11th SEP 2K20. Along with MCM and Members of Overseas Center CMA H Padmanabhan Council Member participated

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