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150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

FINAL

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150 YEARS OF CELEBRATING THE MAHATMA

CONTENTS

150 YEARS OF CELEBRATING THE MAHATMA

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.

GROUP: iii, PAPER: 13

CORPORATE
LAWS & COMPLIANCE (CLC)

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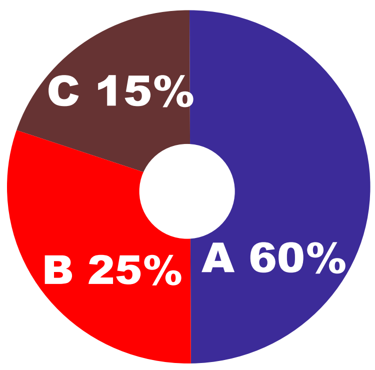
Your Preparation Quick Takes



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.

COMPOSITION OF BOARD OF DIRECTORS

Board of directors is individual, and is defined as a person occupying the position of directory, by whatever name called. Director collective are called as board of director. Any persons who control the management of the company will be deemed as director, through his designation can be different.

Maximum no. of Directors – in case of public limited company is 15. However any company may increase number of directors, with the permission of central court. There is no maximum specified for private company.

Minimum no. of Directors – 2 (in the case of private company)
- 3 (in the case of public company)

No. of directors above 15 requires approval by special resolution of shareholders.
One director to be resident individual.

At least one women director in case of listed company.

(Directors appointed by BIFR and Central Govt. shall not be counted for total number of directors.)

ROTATIONAL AND NON-ROTATIONAL DIRECTORS

At least 2/3rd shall be eligible to retire by rotation in every AGM.

Out of 2/3rd, 1/3rd must retire in every AGM.

(Directors appointed by CG, BIFR, FI/Banks shall not be taken in to account for calculating the number of rotational directors)
Listed companies shall have 50% of the Board's strength as independent director if the chairman is executive and 1/3rd if chairman is non-executive.

Tenure of non-rotational director or full time director shall not be for more than 5 yrs.

KMP- Key managerial personnel in relation to a company means-

(i) the Chief executive officer or the managing director or manager.
(ii) the company secretary
(iii) the whole-time director
(iv) the Chief financial officer
(v) such other officer as may be prescribed

NATURE OF COMPANY MANAGEMENT

Shareholders are the owners of the company. They can anytime decide to run themselves or may like persons to act on their behalf for management of the company and highest level of such inclusion of outside person is director, who will be member of the board of director.

Management powers to be exercised by:	Type of Powers	Reference
Shareholders	Powers not given/delegated to the Board of Directors.	Section 180 of the Companies Act, 2013 and Articles of Association of the company.
Board of Directors	All powers of decision making about the company unless reserved for the shareholders.	Section 179 of the Companies Act, 2013.
Chairman	Executive/ Non- Executive functions of the company. Chairing the Company meetings.	Section 104 of the Companies Act, 2013.
C.M.D	Exercises both Chairman and Managing Director's Power.	
Managing Director -Should be of 21-70 years -is an undischarged insolvent -has not suspended payment to its creditors -has not been convicted of any offence for a period of more than 6 months.	Has substantial powers of the management of the company. Works under the supervision and control of the Board of Directors.	Section 196 of the Companies Act, 2013.
Whole Time Director/Functional Director	Full time employee of the company. Looks after specified functions of the company.	

Type of Directors	Appointing Authority	Situation of appointment	Tenure of Office
First Directors	Articles of Association	At the time of registration	Upto first AGM
Normal Directors	Shareholders in Annual General Meeting.	Normal	To retire on the basis of seniority
Additional Directors	Board of Directors	In between two AGMs	Till the next AGM or the last date in which the AGM should have been held whichever is earlier.
Alternate Directors	Board Of Directors	When the original Director is out of India for more than 3 months	Till the return of the original Director.
Directors appointed by Central Government	Central Government	Inspection and Investigation Oppression and Mismanagement	As per order
Director appointed by B.I.F.R	B.I.F.R (Board of Industrial and Financial Reconstitution)		As per BIFR order.
Director appointed / nominated by Financial Institute/Government	Nominated by Financial Institute (Appointed by shareholders at AGM)	Company taken loan from the institution, equity investment in the company.	As per FI/ Bank
Independent directors (Section 149)	For all listed companies at AGM.	Paid up capital 10cr/turnover 100cr/outstanding loan 50cr.	5 consecutive terms but can be re-appointed by passing a special resolution.
Directors appointed by small shareholders.	Small shareholder who holds shares of nominal value of not more than twenty thousand rupees.	In AGM. Any listed company may or shall in case of notice by 1000 small shareholders(or 1/1oth of such category of shareholders having holding of face value of rs. 20000)	Up to 3 years. Shall be rotational. Considered to be independent.

Shadow Directors	Legally not a director.	Persons who control the affairs or control the majority of directors.	

Appointing Retiring Director

The nomination for appointment of a Director who retires in an AGM and is eligible for reappointment automatically comes up in the said meeting unless a resolution to the effect that he will not be appointed or someone else will be appointed in his place is moved.

Appointment Of a person as a director for the first time.

Apart from the above provision Under Section 160 of the Companies Act, 2013 a person who is not a retiring director can also be eligible for appointment as a director of a company provided he deposits his candidature in writing, himself or through some other member of the company at least 14 days before the meeting along with a fee or ` 1 lakh which shall be refunded if the candidate gets minimum 25% of the votes casted.

Vacation of office of directors: (Section 167)

The office of a director shall become vacant if he is disqualified by an order of the court or Tribunal or by personal capacity.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 14

STRATEGIC FINANCIAL MANAGEMENT (SFM)

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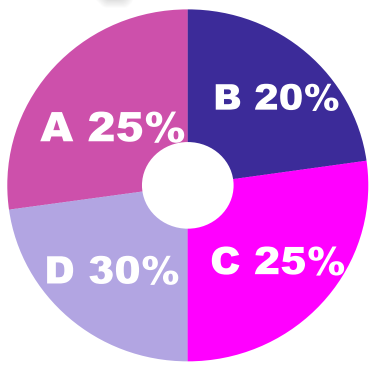
Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

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

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

➢ **Technical Analysis**

- **Tools in technical Analysis**

Technical analysis tools have evolved over the time with the introduction of new theories a well as improvement in computing technology. We may broadly classify the tools into two categories – Traditional Technical Tools and Advanced Technical Tools.

I. Traditional Technical Tools:

Traditional technical tools include –

a. Price and Volume Charts

b. Relative Strength Index

c. Moving Averages

d. Analysis of Breadth of the Market (e.g., A-D Line)

e. Other Methods

These are discussed briefly as follows:

a. Price and Volume Charts

Among the traditional methods, the most basic technique is 'Charts'. The technical is so popular that technical analysis is often called 'Chartist Technique'. Three common type of charts that are used in technical analysis are – Line Chart, Bar Chart and Point and Figure Chart. Technical analysts use the patterns revealed by the charts to predict the possible movement of any stock and index.

(i) Line Charts: Line charts are simple graphs drawn by plotting the closing price of the stock on a given day and connecting the points thus plotted over a period of time. The charts are easily drawn and widely used in technical analysis. The price is marked on the Y-axis and the period of time on the X-axis. Line charts help in easy identification of patterns.

Figure 1: Line Chart

(ii) Bar Charts: In order to draw a bar chart, the data on a day's high, low and closing prices are necessary to plot a stock's price movement. The high and low reached on a said day is marked and connected by a vertical line. The opening and closing prices are indicated by small horizontal ticks on this line.

Figure 2: Bar Chart

(iii) Point and Figure Chart: The Point and Figure Chart (PFC) is not as commonly used as the other two charts. However, it differs from the others in concept and construction. The construction of the PFC is discussed in detail.

While the line and bar charts are plotted at specific time intervals, the PFC does not have a time dimension. A PFC concerns itself only with the measurement of prices. Further, a PFC does not measure every movement in price. Unlike a bar chart, PFC records changes in prices that are larger than a specific amount, called points. For example, a PFC can be constructed to measure changes in prices over and above Rs.5. Such a chart is called a 5-point chart. It is a common practice to use 1-point charts for shares with face value of Rs.10, and 3-point charts for shares of Rs.100.

For plotting indices, a 10-point or a 20-point chart may be constructed. As the size of a point decreases, the details of even minor fluctuations in the graph drawn increases and vice versa. Some chartists chart graphs with varying point sizes for the same stock for better analysis. The decision about the size of a point is essentially based on price range and degree of volatility of the stock.

Construction of a PFC involves the use of 2 symbols – 'X' and 'O'; while 'X' indicates increase in prices, 'O' indicates downward movement. PFCs are plotted on cross-section paper that has arithmetically ruled squares. Suppose a 5-point PFC is to be plotted. The graph may begin by recording the price at a chosen level. Across the price levels marked on the Y-axis, either 'X' or 'O' is marked for the beginning price. Subsequent change in price level is noted. If the price increases, for every increase equal to or over Rs.5, an 'X' is marked on the same column if the chart began with an 'X' mark for the beginning price level. A decrease in price equal to or above Rs.5 is treated as a change in direction. The chartist shifts to the next column and marks a series of 'O''s to indicate the magnitude of fall in prices. No marking is made if prices remain at the same level or if changes are less than Rs.5. Prices are marked in the same column irrespective of the time period as long as the direction of change remains unaltered.
A typical Point and Figure chart looks as follows:

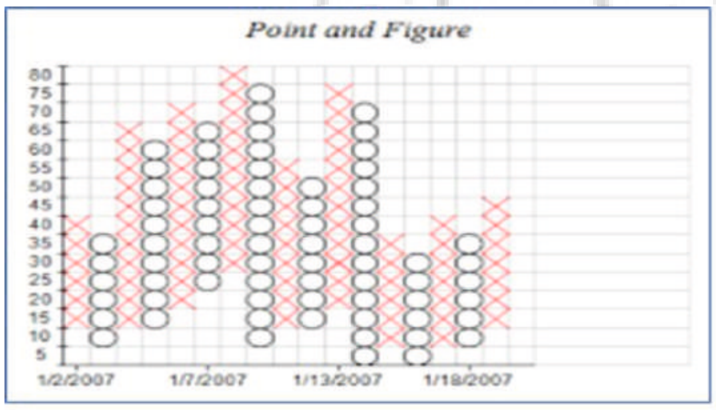


Figure 3: Point and figure Chart

- ***Analysis of Price Patterns of a Chart***

The analysis of price patterns as revealed by the charts provide important insights about the trend in the movement of price. However, one has to be very careful while interpreting the charts and must keep in mind the following important points:

(i) The significance of a pattern is a depends on the length of the pattern and its depth. The longer a pattern takes to complete, and greater the price fluctuations within the pattern, the more substantial the move is likely to be.
The fluctuations that occur indicate the combat between buyers and sellers of the security. Thus, the longer it takes for prices to break through a pattern, the greater is the significance of the penetration.

(ii) The longer it takes for prices to move out of the pattern, the stronger is the base of the new trend.
This is due to the presence of both uninformed investors and professionals in the market.
When the prices hit a new low, uninformed investors panic, and start selling. Professionals, however, accumulate stocks in anticipation of improved conditions in the future. The stocks, therefore, move from weak to strong hands. The reverse process occurs at the market tops. The professionals who accumulated stocks at the bottom, sell to uninformed investors who are attracted by the rising prices, and buy these stocks.
Thus, at market bottoms, the base from which prices rise is strong, as most of the stocks have moved into the hands of professionals. At market tops, the reverse is true as most stock is in the hands of less sophisticated investors, and triggers a sharp fall in prices.

(iii) Since price charts can measure the duration of a trend with sufficient accuracy, price patterns may offer certain forecasting possibilities.

(iv) We may confirm a valid breakout if the penetration of the boundaries of a pattern are marked by a price change which is equal to or more than 3% (however, it is not a strict rule and may vary from analyst to analyst).

(v) Along with price charts, the validity of a breakout must be confirmed additionally by volume statistics. As we know that volume advances with rising prices and declines with falling prices, any divergence from this relationship will throw up important signals.

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 15

STRATEGIC COST MANAGEMENT-DECISION MAKING (SCMD)

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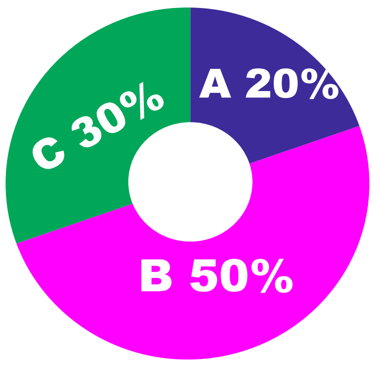
Your Preparation Quick Takes



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

Learning Objectives:

The Strategic cost management framework provides a clear plan of attack for addressing costs and decisions that affect them. It helps to get answers on:

- Is there a plan for strategic cost management?
- Have the controlling functions for each significant cost in the organization been identified?
- Are there resources devoted to finding or obtaining new approaches to breaking cost barriers?
- Is cost modelling being used or is there an active effort to develop or buy cost modelling capability?

Unit 1: Cost Management

- **Concept of Backflush Costing**

Backflush Costing is basically a system of product costing which is generally used in a just-in-time (JIT) inventory environment. It is an accounting method where costs associated with producing goods or services are recorded only after they are produced, completed, or sold. Since the costing system flushes back the cost at the end of the production process, it is named as backflush costing. The method of costing is also known as backflush accounting.

- **Why Should Anyone Use Backflush Accounting?**

In a traditional costing system, the detailed tracking of expenses, such as raw material and labor costs, throughout the manufacturing process, is required. Though it provides useful insights about the costs, it also involves significant amount of time and resource in tracking the product related costs. At times, this may appear expensive for some organizations. Backflush accounting eliminates the detailed tracking of expenses, such as raw material and labor costs, throughout the manufacturing process. As a result, the system allows an entity to save on accounting and process costs.

- **How Does It Work?**

Under backflush accounting/costing the organization estimates the cost per unit of material produced by assigning a standard cost per unit of goods manufactured. After the end of the production cycle, the number of units manufactured is multiplied by the standard cost to determine the journal entry for all expense at a single place. Thus, we may say that this costing system does not record any cost when the production process uses raw materials and work-in-process inventory. The system records only a single journal entry for recording the entire inventory used in the production process only after the production process ends. In this way it avoids recording expenses for each single component of inventory. Therefore, under this system, while processing an order, only basic information is entered that includes quantity, item number, and date of delivery.

Consider the following example.
XYZ Inc., a plastic bag manufacturing company, has just started manufacturing business on 01.04.2021 and wishes to maintain accounts for product costing. The following are the various costs incurred during April, 2021:
Direct material – "M" purchased on 06/04/2021 – Rs.4,00,000
Direct material – "N" purchased on 09/04/2021 – Rs.2,00,000
Direct labor for processing paid on 27/04/2021 – Rs.6,00,000
Total units produced and sold during April is 60,000 units

In the traditional costing, the company needs to record each component of cost separately. Now, instead of recording each individual cost transaction, under backflush costing, XYZ Inc. needs to pass a single accounting entry at the end of the period which is: –

Expenses A/c ……………………Dr.	Rs.12,00,000	
To Bank A/c		Rs.12,00,000

- **Backflush Costing vs. Traditional Costing**

There are major differences between Backflush Costing and Traditional Costing.
a. Under traditional costing method, the entry for raw materials goes into the raw material inventory and then transferred to work in process inventory (WIP) and finally to finished goods A/c while under the backflush costing method, raw materials are ordered only when they are required, and they are accounted for under Just-in-time inventory approach.
b. Under traditional costing method, labor and overhead are charged directly into WIP; then, they are moved to sequential processing that is finished goods and finally to the costs of goods sold. On the other hand, in the backflush costing method, these charges are directed into finished goods inventory or costs of goods sold.

- **Features of Backflush Costing**

a. In backflush costing, the material cost is not separately calculated. Rather, it is transferred directly to the finished goods account.
b. In this costing system, tracking work-in-process is not possible as no work account is separately maintained during the process.
c. Here, recording journal entries in inventory accounts get delayed until the time of production or sale.
d. Backflush costing uses the standard costing mechanism to assign cost to units of production when journal entries are passed.
e. The cost of conversion is shared with finished goods inventory account directly without routing through work-in-progress account based on the operating time of labor.

- **Journal Entries in Backflush Costing**

The journal entries passed in backflush costing are as follows: –

a. Single entry is passed by debiting the Expenses account and crediting the payment a/c i.e., Bank or Cash A/c or Supplier A/c when the materials are purchased on credit.
b. Finished Goods A/c is debited with all costs incurred in point (a) above along with corresponding credit to Direct Material Cost, Processing Cost (labor), etc.
c. At the time of sales, the cost of corresponding goods which are sold is transferred to the Cost of Goods Sold with credit to Finished Goods A/c.

- **Pre-requisites for Backflush Costing**

Backflush costing is not suitable in all organizations. Additionally, organizations that requires detailed information of costs at each and every single phase in production shall further avoid backflush costing. Generally, the following elements in an organization make it suitable for application of backflash costing.

a. *Short production cycles*: Backflush costing shouldn't be applied for goods having longer production cycle. This is because, the longer the production cycle, the more difficult it will be to assign standard costs accurately.
b. *Customized products*: The process is not suitable for the customized products since in that case a unique bill of materials for each item manufactured has to be created.
c. *Material inventory levels are either low or constant*: When inventories are low, the bulk of manufacturing costs will flow into the costs of goods sold, and it is not deferred as inventory cost.
d. *JIT Inventory System*: The system works best in a JIT environment.

- **Benefits of Backflush Costing**

Backflush costing offers an array of benefits as follows:

a. It is a simplified accounting process as only single journal entry needs to be made at the end of the production process.
b. It allows companies to easily assign costs to corresponding inventory.
c. By eliminating the need for recording each and every data during the production process, it saves time and cost.
d. It simplifies the bookkeeping process and administrative duties without losing much detailed information.

- **Limitations of Backflush Costing**

a. This system of accounting costs is not useful for companies with slow inventory turnover as in that case recording of cost will take too long after incurred.
b. This system of accounting does not conform to GAAP and therefore is not advocated by many experts.
c. The standard cost used in this method may vary from time to time. Thus, it does not provide accurate accounting entries in the future.
d. The success of this system largely depends on the accuracy of the bill of materials. A bill of material is a document which contains the list of all components and raw materials that a product will require. Accordingly, if there is any discrepancy in the bill of materials, the backflush costing will assign an incorrect quantity of raw materials and components.

YEARS OF CELEBRATING THE MAHATMA

GROUP: iii, PAPER: 16

DIRECT TAX

LAWS AND INTERNATIONAL TAXATION (DTI)

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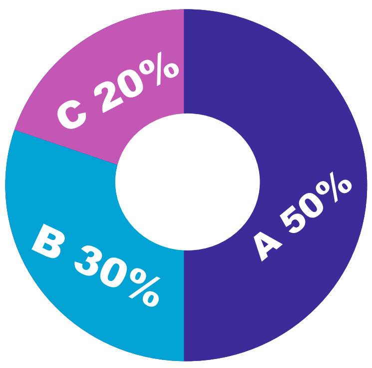
Your Preparation Quick Takes



Syllabus Structure

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

Appeal before CIT (Appeals)

One Law Dictionary defines 'appeal' as the act of asking a higher authority to change a decision of a lower authority. Right to appeal under income tax law is a creation of statute and not an inherent right. Appeal can be filed only against orders listed in the Income Tax Act and not any order.

Initially, following course of action are available in the Income-tax Act:

Assessee	Department
Rectification u/s 154	Rectification u/s 154
Appeals to CIT (Appeals)	Revision u/s 263
Revision u/s 264	Reassessment u/s 147

Appellate Authorities in Income-tax Act

Appeal	Appellate authority	Against which order	Appellant
1st	Commissioner (Appeals)	Against specified order of the Assessing Officer	Assessee only
2nd	Income Tax Appellate Tribunal (ITAT)	Against the order of Commissioner (Appeals)	Assessee or the Commissioner (or Principal Commissioner) of Income tax.
3rd	High Court	Against the order of ITAT (the case must involve substantial question of law)	
Final	Supreme Court	Against the order of High Court	

Appeals to Commissioner of Income Tax (Appeals) [CIT (A)] [Sec. 246A to 250]

Aggrieved tax payer can file appeal before the Commissioner (Appeals) having, jurisdiction over the tax payer. Designation of the Commissioner (Appeals), with whom appeal is to be filed is also mentioned in the notice of demand issued by the Assessing Officer u/s 156.

Provision regarding appeal to the Commissioner (Appeal) are enumerated below:

Appealable Orders	1.U/s 246A • Order passed by a Joint Commissioner u/s 115VP(3)(ii); • Order against the assessee, where the assessee denies his liability to be assessed under this Act; • Intimation u/s 143(1) or 143(1B) or 200A(1) or 206CB(1) or Order of assessment u/s 143(3) [Scrutiny assessment] [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)] or u/s 144 [Best judgment assessment] in respect of income assessed or tax determined or loss computed or residential status; • Order of assessment, reassessment or recomputation u/s 147 [(except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)], 150 & 153A [except an order passed in pursuance of directions of the Dispute Resolution Panel or an order referred to in sec. 144BA(12)];

	• Order u/s 154 (Rectification of Mistake) or u/s 155 (other amendments) having the effect of enhancing the assessment or reducing a refund or an order refusing to allow the claim made by the assessee [except where it is in respect of an order referred to in sec. 144BA(12)] • Order u/s 92CD(3) • Order u/s 163 treating assessee as an agent of a non-resident; • Order u/s 170 relating to assessment on succession; • Order u/s 171 refusing to recognize partition of an HUF; • Order u/s 201 or 206C(6A) for default of provisions of TDS/TCS; • Order u/s 237 relating to refunds; • Order relating to Penalty; • Order imposing penalty under chapter XXI; • An order of penalty imposed under chapter XXI or an order of imposing or enhancing penalty u/s 275(1A) • Any order made by an AssessinAssessing Officer other than a Joint Commissioner, as the Board may direct. 2. U/s 248 Where under an agreement or other arrangement – • the tax deductible u/s 195 on any income (other than interest) is to be borne by the person by whom the income is payable; & • such person having paid such tax to the credit of the Central Government, claims that no tax was required to be deducted on such income, he may appeal to the Commissioner (Appeals) for a declaration that no tax was deductible on such income Notes: a) Even when reassessment proceedings have been initiated u/s 147, an appeal can still be filed against the original assessment order passed u/s 143(3) b) Assessee has the right to appeal against an order of the Assessing Officer which is passed while giving effect to the decision of the appellate authority.	
Time limit for filing appeal	Appeal should be filed within 30 days from -	
	Where the appeal is u/s 248	The date of payment of the tax
	Where the appeal relates to any assessment or penalty	The date of service of notice of demand relating to the assessment or penalty
	In any other case	The date on which intimation of the order, sought to be appealed against, is served.
	Period to be excluded [Sec.268] While calculating the above time limit, following period shall be excluded: a) The day on which order complained of was served; and b) Time required for obtaining a copy of the order, where a copy of the order was not furnished with notice of demand. Where an application has been made u/s 270AA (seeking immunity from penalty and prosecution), the period beginning from the date on which the application is made, to the date on which the order rejecting the application is served on the assessee	
Delay in filing appeal	The Commissioner (Appeals) may admit belated application on sufficient cause being shown. **Note:** It is statutory obligation of the appellate authority (where an application for condonation is filed) to consider whether sufficient cause was shown by the appellant	
Form of appeal	Form 35 (now a days, it is electronically)	

Documents to be submitted	• Order against which appeal is made • Statement of facts • Grounds of appeal • Notice of demand (in Original) • Challan
Verification of Form	Form & grounds of appeal must be verified by the person authorised to verify the return of income u/s 140
Payment of tax before filing of appeal	**If a return has been filed** – Tax as per the return should be paid. **If no return has been filed** – The assessee should pay an amount equal to the advance tax which was payable by him. However, CIT(A) may, for any good and sufficient reason (recorded in writing), accept the appeal without payment of such advance tax. **Power of Assessing Officer:** As per sec. 220(6), where an assessee has presented an appeal u/s 246A, Assessing Officer may treat the assessee as not being in default in respect of the amount in dispute in the appeal. It may be applied - • at the discretion of the Assessing Officer; • subject to such conditions as Assessing Officer may think fit to impose; • even though the time for payment has expired; • as long as such appeal remains undisposed of. Where assessee has not made an application u/s 220(6) or his application u/s 220(6) has been rejected, he can approach the appellate authority for stay order against collection
Fee	Where assessed income as computed by the Assessing Officer is - • Up to ₹ 1,00,000 – ₹ 250 • Exceeds ₹ 1,00,000 but does not exceed ₹ 2,00,000 – ₹ 500 • Exceeds ₹ 2,00,000 – ₹ 1,000 Where the subject matter of appeal is not covered in above cases – ₹ 250
Procedure	1. **Fixation of Day & Place:** The Commissioner (Appeals) shall fix a day and place for the hearing of the appeal, and shall give notice of the same to the appellant and to the Assessing Officer against whose order the appeal is preferred. 2. **Hearing:** The appellant (either in person or by an authorised representative) and the Assessing Officer (either in person or by an authorised representative) shall have the right to be heard at the hearing of the appeal. **Taxpoint:** Where the assessee does not insist on a personal hearing the appeal may be decided on the basis of written submission made by him. [Letter No. 277/7/84 of November, 1985] 3. **Adjournment:** The Commissioner (Appeals) shall have the power to adjourn the hearing of the appeal from time to time. 4. **Inquiry:** The Commissioner (Appeals) may, before disposing of any appeal, make such further inquiry as he thinks fit, or may direct the Assessing Officer to make further inquiry and report the result of the same to the Commissioner (Appeals). 5. **Order:** Commissioner (Appeals) must dispose of the appeal by passing an order which shall - • be in writing; • mention the points for determination; • mention the decision thereon; and • mention the reason for the decision. 6. **Communication of Order:** The Commissioner (Appeals) shall communicate the order passed by him to the assessee and to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. **Note:** If during pendency of an appeal, provision of any law has changed with retrospective effect, then such changed law shall be applicable on such appeal too. Law amended retrospectively would be a good law for applicability during the pendency of the appeal

<table>
<tr><td>New grounds during hearing</td><td colspan="2">The Commissioner (Appeals) may, at the hearing of an appeal, allow the appellant to go into any ground of appeal not specified in the 'grounds of appeal', if he is satisfied that the omission of that ground from the Form of appeal was not wilful or unreasonable.</td></tr>
<tr><td>Time limit for disposal of appeal</td><td colspan="2">Within one year from the end of financial year in which appeal is filed (if possible).</td></tr>
<tr><td>Production of additional evidence</td><td colspan="2">Appellate authority has the power to accept additional evidence (after recording reason for its admission in writing) and may make further enquiry at his discretion before disposing of the appeal
In the following circumstances additional evidence shall be admitted by the Commissioner (Appeals):
a) Where the Assessing Officer has refused to admit evidence which ought to have been admitted; or
b) Where appellant was prevented by sufficient cause from producing before the Assessing Officer any evidence, which is related to any ground of appeal; or
c) Where the appellant was prevented by sufficient cause from producing the evidence, which he was called upon to produce by the Assessing Officer; or
d) Where the Assessing Officer has made an order (appealed against) without giving sufficient opportunity to the appellant to produce evidence relevant to any ground of appeal.
<u>Taxpoint</u>: Before taking into account the additional evidence filed, Commissioner (Appeals) is to provide reasonable opportunity to the Assessing Officer for examining the additional evidence or the witness as well as to produce evidences to rebut additional evidences filed by the tax payer.</td></tr>
<tr><td rowspan="5">Powers of Commissioner (Appeals) u/s 251</td><td>1. Against an order of assessment</td><td>To confirm, reduce, enhance or annul the assessment</td></tr>
<tr><td>2. Against an order imposing a penalty</td><td>To confirm or cancel such order or vary it so as either to enhance or to reduce the penalty;</td></tr>
<tr><td>3. Against the order of assessment in respect of which the proceeding before the Settlement Commission abates u/s 245HA</td><td>To confirm, reduce, enhance or annul the assessment after taking into consideration all the material and other information produced by the assessee before, or the results of the inquiry held or evidence recorded by, the Settlement Commission, in the course of the proceeding before it and such other material as may be brought on his record</td></tr>
<tr><td>4. Relating to any other case</td><td>To pass such orders as he thinks fit.</td></tr>
<tr><td colspan="2">Notes:
1. The Commissioner (Appeals) may consider and decide any matter arising out of the proceedings in which the order appealed against was passed, notwithstanding that such matter was not raised before the Commissioner (Appeals) by the appellant.
2. Commissioner (Appeals) shall not enhance an assessment or a penalty or reduce the amount of refund unless the appellant has had a reasonable opportunity of showing cause against such enhancement or reduction.
3. An assessment order, which is void ab initio cannot become a valid order simply by virtue of the fact that it has been confirmed by an appellate authority.</td></tr>
<tr><td>Withdrawal of appeal</td><td colspan="2">Appeal once filed cannot be withdrawn.</td></tr>
<tr><td>Faceless</td><td colspan="2">The Central Government may make a scheme for the purposes of disposal of appeal by Commissioner (Appeals), so as to impart greater efficiency, transparency and accountability by:
a. eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible;
b. optimising utilisation of the resources through economies of scale and functional specialisation;
c. introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).
The Central Government may, for the purposes of giving effect to the scheme, direct (within 31-03-2022) that any of the provisions of this Act relating to jurisdiction and procedure for disposal of appeals by Commissioner (Appeals) shall not apply or shall apply with such exceptions, modifications and adaptations.</td></tr>
</table>

Vol: 6, No.: 10.
October 2021, Issue

150 YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 17

CORPORATE FINANCIAL REPORTING (CFR)

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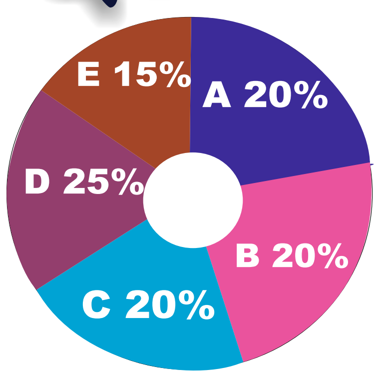
Your Preparation Quick Takes



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.

Corporate Financial Reporting

In this issue have given an illustration of accounting of leases under Ind AS 116 in the books of the lessee.
Illustration:
Lessor Y leases out an equipment (carrying amount Rs. 136000 having 5 years life) to Lessee X for 3 years for annual payment of Rs. 50000 (at the end of every year) and residual value of Rs. 50000, guaranteed by X up to loss of Rs.30000. Interest rate implicit is 10%. At the end of the lease the equipment is valued at Rs.33000. Show accounting in books of X.
Soln.
In books of Lessee X:

At 10% implicit rate of interest the (Right-of-use) ROU Asset and Lease Liability are initially recognised at present value of payments as shown below.

Year	Payments	Disc. Factor	DCF at 10%
1	50000	0.90909091	45454.55
2	50000	0.82644628	41322.31
3	50000	0.7513148	37565.74
3	Guaranteed 30000	0.7513148	22539.44
Present value			**146882**

Lease Liability repayment and interest

Year	Interest Rs.	Payments/remission Rs.	Balance Rs.
0			146882
1	14688.2	50000	111570.2
2	11157.02	50000	72727.27
3	7272.727	50000	30000
3	0	17000 guarantee payments (50000 – 33000)	13000
3	0	13000 guarantee remissions (30000 – 17000)	0

ROU Asset Depreciation for the lease period

Year	Depreciation Straight line	Balance
0		146882
1	48961	97921
2	48961	48960
3	48960	0

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies the revaluation model as applied to the particular class of PPE.
To apply a cost model, a lessee shall measure the right-of-use asset at cost: (a) less any accumulated depreciation and any accumulated

impairment losses; and (b) adjusted for any remeasurement of the lease liability specified.
A lessee shall **apply the depreciation requirements in Ind AS 16, Property, Plant and Equipment**, in depreciating the right-of-use asset (for the lease term or the useful life based on the lease condition).

Journal:

At inception	ROU Asset Dr. To Lease Liability	146882	146882
At the end of Year 1	Interest Expenses Dr. To Lease Liability	14688	14688
	Lease Liability Dr. To Bank	50000	50000
	Depreciation Dr. To ROU Asset	48961	48961
At the end of Year 2	Interest Expenses Dr. To Lease Liability	11157	11157
	Lease Liability Dr. To Bank	50000	50000
	Depreciation Dr. To ROU Asset	48961	48961
At the end of Year 3	Interest Expenses Dr. To Lease Liability	7273	7273
	Lease Liability Dr. To Bank	50000	50000
	Depreciation Dr. To ROU Asset	48960	48960
	Lease Liability To Bank (50000-33000=17000, guaranteed up to 30000) To P&L (liability remission) ##	30000	17000 13000

if during lease any increase or decrease in liability arises when there exists a balance in ROU, to that extent ROU will be debited/credited instead of P&L.
Presented in the financial statements:

Balance Sheet	At the end of Year 1	At the end of Year 2	At the end of Year 3
ROU Asset	97921	48960	0
Lease Liability	111570	72727	0

Statement of P&L	Year 1	Year 2	Year 3
Interest Dr	14688	11157	7273
Depreciation Dr	48961	48961	48960
Guarantee remission Cr			13000

Statement of Cash Flows	Year 1	Year 2	Year 3
Cash used in financing activities Cash used in financing activities	50000	50000	50000 17000

I may take up accounting of leases in the books of the lessor in another issue.

Vol: 6, No.: 10.
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YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 18

INDIRECT TAX

LAWS & PRACTICE (ITP)

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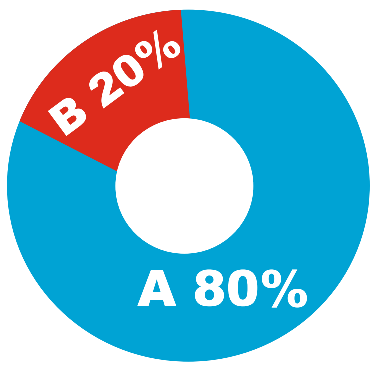
Your Preparation Quick Takes



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

- Supply made without consideration
- Supply of service
- Composition dealers
- Time of supply of Vouchers
- Late fee, penalty etc under CGST Act
- Value of supply and cost of acquisition
- Supply of spare parts and export services

INDIRECT TAX

Choose the correct option from the followings –

1. **Which of the following will be considered supply even if made without consideration**
   (a) Supply of services or goods or both
   (b) Permanent transfer or disposal of business assets where input tax credit has been availed on such assets
   (c) Supply of services located outside India and recipient in India
   (d) Supply may be in the course of furtherance of business or not in the course furtherance of business

2. **Which of the following is not to be considered as benefits of classification under GST**
   (a) Livability of tax
   (b) Equality of Goods and Services
   (c) Exemption
   (d) Standardization and avoiding differentiation

3. **As per HSN explanatory note of GST Rule 'a scooter body unit without engine' is classifiable**
   (a) Scooter
   (b) Not a scooter
   (c) Semi Finished Goods
   (d) Work in progress

4. **Due date for payment of GST of Tax Collected at Source (TCS)**
   (a) 10th of the following month
   (b) 15th of the following month
   (c) 18th of the following month
   (d) 20th of the following month

5. **Time of Supply of services under Reverse Charge defined under**
   (a) Section 13(1)
   (b) Section 13(2)
   (c) Section 13(3)
   (d) Section 13(4)

6. **Supply involve movement of goods u/s 12(2) of CGST Act (Turnover > Rs 1.50 crores), the time of supply will be**
   (a) Invoice issued before delivery of goods
   (b) Invoice issued at the time of delivery of goods
   (c) While making goods available to the recipient
   (d) Invoice issued before or at the time of removal of goods for supply to the recipient.

7. **In case of Composition dealer which of the following statement is not correct –**
   (a) Manufacturer are liable to pay CGST @ 0.5% of the Turnover in State
   (b) Supplier supplies restaurant services has to pay CGST @ 2.5% of the turnover in State
   (c) Dealer is liable to pay CGST @ 0.5% of the turnover of taxable supplies of goods in State
   (d) Dealers have to pay tax on advance received for his supplies.

8. **For an amount up to Rs 1000/- in excess of the amount indicated on the tax invoice, the Time of Supply will be at the option of the dealer**

(a) Date of actual supply
(b) Date of actual supply or date of issue of Invoice
(c) Date of actual supply or date of receipt of invoice
(d) The date of issue of invoice or date of receipt of payment

9. Time of supply of Vouchers for Goods and service under CGST Act if the supplies is not identifiable at that point
(a) Date of issue of voucher
(b) The date of redemption of voucher
(c) When it is known that supply is taken place
(d) Six month from the date of removal

10. Under the GST Act which one of the following is correct
(a) Related persons are not directly or indirectly controlled by third aprty
(b) In case of Transaction Value the supplier and the recipient of the supply are related
(c) TCS would be includable in the value of supply
(d) TCS would not be includable in value of supply

11. Under CGST Act,2017 interest or late fee or penalty for delay in payment of any consideration for supply
(a) Will form part of the value of supply
(b) Will not form part of the value of supply
(c) Will be charged under Reverse Charge Mechanism
(d) TDS will be levied

12. Under CGST Act, 2017 if the discount is given after supply and not known the time of Supply
(a) Can be claimed as deduction from transaction value
(b) Can not be claimed as deduction from transaction value
(c) Discount will be deducted from value of goods
(d) Transaction value will be deducted from value of goods

13. In case the value of supply shall be of like kind and quality, which is not relevant
(a) Goods or services of same kind and quality
(b) Identical or Similar nature
(c) Similar circumstances
(d) Non comparison of various factor

14. For the purpose of determining the cost of acquisition
(a) GST element will be considered
(b) GST element will not be considered
(c) GST element will in NIL rate
(d) GST element depend on the situation for procurement of goods

15. Which of the following statement is correct in relation to Pure Agent under Rule 33 of the CGST Act,2017
(a) Enter into a contractual agreement with the recipient of supply to act on their behalf and incur expenditure or costs in the course of supply of goods or service or both.
(b) Intends to hold title of the goods or services or both procured or behalf of or provided to the recipient of supply
(c) Does not use the goods or services so procured for his own interest
(d) Receives only the actual amount incurred to procure such goods or services.

16. Collection charges paid by the airport operator to airlines, where airlines
(a) Shall not be liable to pay GST
(b) Shall be liable to pay GST as ordinary course of business
(c) Shall be liable to pay GST under forward charge
(d) Shall be liable to pay GST under reverse charge

17. Which of the following statement is correct in relation to interstate movement of goods like rigs, tools, spares and goods on wheel like crane not being in the course of furtherance of supply of such goods
(a) Will be zero rated tax
(b) Will be exempted supply
(c) Will constitute the supply
(d) Does not constitute the supply

18. In case 'Buy one get one free' offer taxability of such supply
(a) Will be on single product

(b) Will be on entire products
(c) Will be dependent upon to whether the supply is a composite supply or mixed supply
(d) Will be by recipient under reverse charge

19. Which of the following is incorrect in relation to meaning of supply of Export Services under Sec 2(6) of IGST
(a) The supplier of services located in India
(b) The recipient of services is located inside India
(c) The place of supply of service is outside India
(d) The payment of such service has been received by the supplier of service in convertible foreign exchange or in Indian rupee where ever permitted by Reserve Bank of India.

20. As per Sec 2(14) of IGST Act Services received at the place of business where registration is obtained
(a) Location of such place of supply
(b) Location of such fixed establishment
(c) The location of business most directly concerned with the provision of the supply
(d) The location of the usual place of residence of the supplier.

ANSWERS

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

YEARS OF CELEBRATING THE MAHATMA

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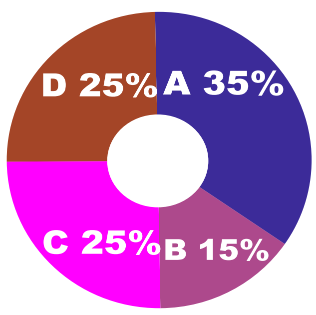
GROUP: iv, PAPER: 19

COST & MANAGEMENT AUDIT (CMAD)

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Cost & Management Audit

Cost audit with reference to Recognition and Allocation & Apportionment of Service cost centre expenses to Production cost centres:

Introduction

According to CIMA, London, a cost centre "is a location, person or item of equipment or group of these, for which cost may be ascertained and used for the purpose of cost control." In other words, a Cost Centre is any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

Cost Centre or Cost Object is the logical sub-unit for collection of cost designed with the objective of cost control/cost management.

The primary purpose of a cost centre is to create a distinctly identifiable department, division or unit of an organization for which concerned managers will be responsible for all its associated costs and for ensuring adherence to the organization's budgets. If the responsibility is assigned to a manager, the cost control becomes much easier. As such, cost centres are also known as "Responsibility Centre".
A cost centre indirectly supports a company's profitability by improving operational efficiency which results in better customer service or increase in product value. An expense centre can also help the senior management to understand resource utilization better, which will eventually assist them in utilizing the resources optimally through smarter techniques. Further, accounting for resources in such detail allows a company to forecast and calculate more accurately based on expected future changes.
For internal reporting, cost centre provides relevant information to improve operational efficiency and maximize profit.

Classification

Cost Centres are broadly divided in to may be of two types, Production Cost Centres and Service Cost Centres. Production Cost Centres are those which are engaged in direct production activities like Machine shop, Welding shop, Assembly shop etc. Service Cost centres are those who renders service to the production cost centre like Maintenance, Stores, Purchase office, engineering, work shop, designing, laboratory, safety, transport, computer cell, dispensary, school, crèche, township, security and other related centres. It may be observed that the service cost centres play a very import and supporting role for smooth operation of production activity.

Cost Centres may also be divided in to Personal and Impersonal cost centres. Personal cost centre consists of a person or a group of persons. Cost centres which are not personal cost centres are impersonal cost centres.

As mentioned above Service Cost Centres are primarily provides auxiliary services across the enterprise. It provides services to Production, Operation or other Service Cost Centre but not directly engaged in manufacturing process or Operation. A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examination of Expenses of Service cost centres
While conducting the cost of any organisation, it has to be examined that:

a. Proper records shall be maintained in respect of each service departments for measurement of the cost of services subject to the principle of materiality.

b. Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in providing such service.

c. Cost of services rendered by contractors within the premises of the entity, shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

d. Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

d. Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers and administrative overheads.

e. Finance costs incurred in connection with the service cost centre shall not form part of the cost of service cost centre.

f. The cost of service cost centre shall not include imputed costs.

g. Subsidy or grant or incentive and any such payment received or receivable with respect to any service cost centre shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.

Further it is also to be verified that:

I. The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilisation whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.

II. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

III. Any abnormal cost where it is material and quantifiable shall not form part of the cost of the service cost centre.

IV. Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre. The same are to be shown in reconciliation statement.

V. Credits or recoveries relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.

VI. While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle and should be followed consistently.

Assignment of Cost:

Basis of assignment of service cost centres to production cost centres is very important to arrive at the correct cost of production or services rendered. Its importance increases many folds where the enterprise produce multiple products or provide the variety of services.

While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.

Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and followed consistently.

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YEARS OF CELEBRATING THE MAHATMA

GROUP: iv, PAPER: 20

STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION (SPBV)

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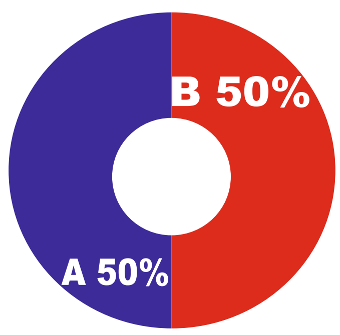
Your Preparation Quick Takes



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:

- understand H Model and Three Stage Growth Model of equity share
- solve the problems on H Model and Three Stage Growth Model of equity share

Strategic Performance Management and Business Valuation

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

1. **Which of the following is not a component of supply chain management?**
   A. Plan
   B. Deliver
   C. Organising
   D. Return

2. **Which of the following is not one of the Customer Relationship Management (CRM) business drivers?**
   A. Inventory control
   B. Increase revenues
   C. Define information needs and flows
   D. Automation/productivity/efficiency
   E. Answer: (c) Define information needs and flows

3. **Which of the following statement(s) is not correct?**
   A. Balanced Score Card is a performance management and strategy development methodology
   B. Balanced Scorecard puts more stress on financial parameters than on non-financial parameters.
   C. Balanced Scorecard also aligns budgets to strategy and helps in developing an enterprise performance management system
   D. Balanced Scorecard offers managers a balanced view of their organization upon which they can base real change.

4. **A firm earns economic profit when total profit exceeds:**
   A. Normal profit
   B. Implicit costs
   C. Explicit costs
   D. Variable costs

5. **Which of the following is NOT a financial objective of pricing?**
   A. Corporate growth
   B. Return on investment
   C. Profit maximization
   D. None of these

6. **The concept of is the process of identification of separate risks and put them all together in a single basket, so that the monitoring, combining, integrating or diversifying risk can be implemented:**

   A. Physical risk
   B. Financial risk
   C. Pooling risk
   D. Business risk

7. **Which of the one is not the principle(s) of Valuation?**
   A. Principles of Substitution
   B. Principle of Time Value of Money
   C. Principle of Risk & Return
   D. Discounted cash flow Valuation

8. **Which of the following statement(s) is correct?**
   A. Expected future yield is very low for a Stock with very high P/E ratio.

B. Industrial groups are inherently less conservative than investors in allocating resources.
C. Relative valuation is much more likely to reflect market perceptions and mood than DCF valuation.
D. If expected rate of return is more than required rate, stock should be sold.

9. **Identify which of the following is not a financial liability?**
A. X Ltd. has 1 lakh ₹10 ordinary shares issued
B. X Ltd. has 1 lakh 8% ₹10 redeemable preference shares issued
C. X Ltd. has ₹2,00,000 of 6% bonds issued
D. Both (A) and (B)

10. **Which one of the following is not a measure taken by a target firm to avoid acquisition?**
A. Poison Puts
B. Poison Calls
C. Golden Parachute
D. Flip Over Pill

Answers:

Question No	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Answer	(C)	(C)	(B)	(A)	(A)	(C)	(D)	(C)	(A)	(B)

Section B
Each question carries 1 mark.

1.	What is Customer Relationship Management (CRM)?
Answer	CRM is a business strategy comprised of process, organizational and technical change whereby a company seeks to better manage its enterprise around its customer behaviors.
2.	How does Collaborative CRM help to a company?
Answer	Collaborative CRM enables all companies along the distribution channel, as well as all departments in a company, to work together and share information about customers, even speaks about partner relationship management (PRM).
3.	What p chart indicates?
Answer	p-chart is a statistical control chart that plots movement in the sample proportion defective (p) over time
4.	Mention two conditions of price discrimination.
Answer	(i) More than one Market (ii) Different elasticity
5.	As per Altman, if the calculated value of Z-score is greater than ____________, it is predicted that the firm belongs to non-bankrupt class
Answer	2.99
6.	What is Real option technique approach?
Answer	The Real option technique approach can value the company's flexibility to alter its initial operating strategy in order to capitalize on favourable future growth opportunities or to react so as to mitigate losses.
7.	X Ltd.'s share beta factor is 1.40. The risk free rate of interest on government securities is 9%. The expected rate of return on the company equity shares is 16%. What is the cost of equity capital based on CAPM?
Answer	18.8%
8.	X Ltd. has ₹100 crore worth of common equity on its balance sheet comprising of 50 lakhs shares. The company's Market Value Added (MVA) is ₹24 crore. What is company's stock price?
Answer	₹ (100+24) crore / 50 lakhs shares = ₹248

9.	How to calculate Economic Value Added?
Answer	Net Operating Profit After Taxes (Capital Employed x the Cost of Capital)
10.	If value of A Ltd. is 50, B Ltd. is 20 and on merger their combined value is 90 and A Ltd. receives premium on merger 12, find the synergy for merger (all amounts are in ₹Lakhs).
Answer	20 [90-(50 + 20)]. Premium on merger is irrelevant.

Section C

Problem 1

A company manufactures a single product, which requires two components. The company purchases one of the components from two suppliers: X Ltd. and Y Ltd. The price quoted by X Ltd. is ₹180 per hundred units of the component and it is found that on an average 3 per cent of the total receipt from this supplier is defective. The corresponding quotation from Y Ltd. is ₹174 per hundred units, but the defective would go up to 5 per cent. If the defectives are not detected, they are utilized in production causing a damage of ₹180 per 100 units of the component. The company intends to introduce a system of inspection for the components on receipt. The inspection cost is estimated at ₹24 per 100 units of the components. Such an inspection will be able to detect only 90 per cent of the defective components received. No payment will be made for components found to be defective in inspection. Assume total requirement is 10,000 units of the component.

(Icalculate Cost per 100 units of good components of X Ltd. and Y Ltd. 5 marks

Answer: Calculation of Cost per 100 units of good components (in ₹)
Estimated defectives if not inspected X Ltd. = 10,000 × 3/100 = 300 Y Ltd. = 10,000 × 5/100 = 500

Particulars	X Ltd.	Y Ltd.
Purchase price	18,000	17,400
Production damage	540	900
Total cost	18,540	18,300
Good components	9,700	9,500
Cost per 100 good components	191.13	192.63

(ii) If inspection is done at the point of receipt, calculate cost per 100 units of good components (₹). 5 marks
Answer: Estimated defectives if inspection is done at the point of receipt (Units)

Particulars	X Ltd.	Y Ltd.
Defectives not detected	30	50
Defectives not detected	270	450
Components paid for	9,730	9,550

Calculation of cost per 100 units of good components (₹)

Particulars	X Ltd.	Y Ltd.
Purchase cost	17,514	16,617
Inspection cost	2,400	2,400
Production damage	54	90
Total cost	19,968	19,107
Good components	9,700	9,500
Cost per 100 good components	205.86	201.13

Problem 2

An unlisted company R Ltd., manufacturing electrical equipments is currently in the expansion mode and is expected to be a good investment keeping in mind the expected sales and profits over the next 5 years. The projection statement of free cash flows is given below for the period 2016-2020. The shares are likely to be listed after an initial public offer (IPO) shortly.

(₹ Crore)

Particulars	31.03.16	31.03.17	31.03.18	31.03.19	31.03.20
Income	99.58	121.48	151.91	189.76	231.40
Expenditure	87.63	106.30	132.16	164.14	199.00
Operating profit (PBDIT)	11.95	15.18	19.75	25.62	32.40
Less: Depreciation	3.23	9.29	9.63	9.63	9.31
Less: Interest	0.85	0.67	0.39	0.12	0.00
PBT	7.87	5.22	9.73	15.87	23.08
Less: Provisions for taxation	2.59	1.72	3.21	5.23	7.61
Net profit	5.28	3.50	6.52	10.64	15.47
Add: Depreciation	3.23	9.29	9.63	9.63	9.31
Less: capital spending	14.58	30.30	1.71	0.00	0.00
Less: Incremental working capital	17.09	22.59	12.59	12.00	12.00
Free cash flow to the firm	-23.16	-40.10	1.85	8.27	12.78

This is a company with similar risk characteristics that of R Ltd. which is listed and whose average beta is 0.85. The risk free rate and the market risk premium are 7% and the company is funded with 93% equity and 7% debt, whose cost is 9.25%. A 5% growth is projected beyond 5 years till perpetuity. The firm falls in the 33% tax bracket. The total of 1.06 Crore shares would be outstanding.

(i) Calculate Cost of Equity. 2 marks

Answer: Cost of Equity $= R_f + \beta_x(R_m - R_f) = 7 + 0.85 \times 7 = 12.95\%$

(ii) Calculate Weighted Average Cost of Capital (WACC). 2 marks

Answer: WACC $= 0.93 \times 0.1295 + 0.07 \times 0.0925 \times (1-0.33) = 12.48\%$

(iii) Calculate intrinsic value of share using Discounted Cash Flow Technique. 6 marks

Answer: Calculation of Value of Firm

Discount rate = 12.48%

(₹ Crore)

Year	Cash flows	Discounted factor @ 12.48%	PV of Cash flows
2015-16	-23.16	0.889	-20.59
2016-17	-40.10	0.790	-31.68
2017-18	1.85	0.703	1.30
2018-19	8.27	0.625	5.17
2019-20	12.78	0.555	7.09
Terminal Value* (g = 5%)	179.40	0.555	99.57
Total PV			60.86
No. of shares outstanding in Crore			1.06
Fair Value of Share in ₹			57.41

$$* \frac{12.78(1+5\%)}{(12.48\% - 5\%)}$$

So, the intrinsic value of share is ₹57 approximately

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

Dear Students,

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

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

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

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

Updation of E-Mail Address/Mobile:

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

Message from
Directorate of Studies

Dear Students,

Passing the exam is a happy event. Congratulations on all that you have accomplished! There is no secret of success. It is the result of preparation, hard work and learning from failure. Well done! It is clear that the future holds great opportunities for you.

Those who could not pass, failing in an exam does not mean failing in life. All of us face failure at one time or another. Try to focus your attention on the importance of perseverance and mind it that dedication and determination plays the lead role in shaping a person's life.

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

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

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

Let us observe his memory by following his message.

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

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

Please refer the link mentioned below :

https://icmai.in/studentswebsite

- Don't give up
- Don't give in
- Don't give out

You can win!

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

GOOD LUCK

Be Prepared and Get Success;

Few Snapshots

Glimpses of the Child Literacy Program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 24.09.2021 at CMA Bhawan, New Delhi.

Glimpses of Swachhta Abhiyan program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 01.10.2021 at CMA Bhawan, New Delhi.

CMA P. Raju Iyer, Vice-President along with CMA Neeraj Joshi, Council Member of the Institute and CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI, extending greetings to Shri Arun Goel, IAS, Secretary to the Government of India, Ministry for Heavy Industries during a meeting on 1st October, 2021 to submit a detailed representation relating to Cost Audit in the notified PLI Scheme for Automotives and Auto Components.

CMA (Dr.) Ashish P. Thatte, Chairman, Corporate Laws Committee along with CMA Neeraj D. Joshi, Chairman, Management Accounting Committee extending greetings to Shri Narayan Tatu Rane, Hon'ble Union Minister for Micro, Small and Medium Enterprises on 2nd August, 2021

CMA P. Raju Iyer, Vice President along with CMA Chittaranjan Chattopadhyay, Chairman BFSI Board & Indirect Taxation Committee of the Institute and CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI extending greetings to CMA (Dr.) Manoj Anand, Whole Time Member (Finance), Pension Fund Regulatory and Development Authority (PFRDA) on 25.08.2021.

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