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# HYDERABAD CIRCUIT

DECEMBER - 2021

A News Magazine from the Hyderabad Chapter of

**The Institute of Cost Accountants of India**

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**Courtesy visit with Smt Neetu Prasad, IAS,  
Commissioner of GST, Telangana**

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

 *The Chairman  
writes to you*



*Dear Professional Colleagues,*

*Greetings to you all.*

*My hearty congratulations to newly elected president CMA P. Raju Iyer and Vice president CMA Vijender Sharma.*

*Galwan valley hero Col Santosh Babu, Son of Telangana was awarded the Mahavir Chakra (posthumously) – the second - highest wartime gallantry medal. The President also awarded Vir Chakra to five other Galwan Heroes out of which four were awarded posthumously. It is a proud but most painful moment for all Indians. We lost such precious gems, but the bravery they showed will be remembered.*

*My deepest sympathy to the people of Andhra Pradesh upon the recent disastrous floods, which resulted the loss of lives and assets. The global warming contributed to this calamity, requires us all to make a special effort to protect our mother nature.*

*Our visionary Prime Minister Narendra Modi called for ‘One Sun, One World, One Grid’ on November 2, 2021 for improving the viability of solar power. This creative initiative will reduce carbon foot prints and energy cost. It also opens a new avenue for cooperation between countries.*

*Coming to the professional front, we have visited the offices of Shri Josekutty V E - Registrar of Companies – Hyderabad, Shri B Mohanty- Regional Director, Smt Komali Krishna - Commissioner of Income Tax (Appeals) -10, Hyderabad as part of courtesy visit on the occasion of Diwali. We have visited the office of Ms. Neetu Prasad, IAS, Commissioner of GST, Telangana on 29th November of this month.*

*CMA K. Someswarababu, Secretary - HCCA has visited the office of Sri Kasi Visweswara Rao, Addl. Commissioner, –Commercial Taxes, Govt. of Telangana on 25th November, 2021.*

*We are glad to inform you that Befree, one of the leading companies in Australia and UK markets has hired 4 CMA qualified freshers through virtual campus drive.*

*This month we have organised programmes on ‘Cost accounting system in health care sector’ and ‘Refresher Course on FEMA, 1999*

*I would like to thank the following dignitaries for gracing our chapter programmes in the roles of chief guest, guest of honour and special invitee.*

*Dr. V.S. Ramchandra - Cardiologist and Chairman, Sri Sri Holistic Hospital*

*CMADr. K.Ch.A.V.S.N. Murthy - Central Council Member*

*CMAK. Rajagopal – Chairman, SIRC*

*CMA Vijay Kiran Agastya –Secretary, SIRC*

*They have made our programmes more elevated with their presence.*

*I am extending my gratitude to*

*CMA Debaraja Sahu- Practising Cost Accountant*

*CMA CA Koushik Mukhesh –. They have enlightened us with their outstanding lectures.*

*It is exam time again. Wishing you all the best as you face your final examinations. Give your best efforts. Don't neglect & panic.*

*Greetings on the occasions of ‘Christmas’ and ‘New Year’.*

*With Warm Regards,*

*CMA P. Chandra Sekhara Reddy*

*Chairman*



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### ACTIVITIES SCORE BOARD

Month (2020-21)	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	Year-to-date
No. of Programs	3	0	0	6	6	4	4	2	-	-	-	-	25
CEP Hours	3	0	0	6	9	5	5	3	-	-	-	-	31



 *From the Edit Room...*

*Dear Esteemed Members,*

*On behalf of our Chapter and also on my personal behalf, I extend our hearty congratulations to newly elected Present CMA P. Raju Iyer garu and Vice president CMA Vijender Sharma garu.*

*My best wishes to the four CMA qualified freshers, who got placement in Befree, one of the leading companies in Australia and UK markets.*

*This month's articles feature 'Using the balanced scorecard to assess and enhance magna PC's performance' 'Finance clips', 'CMA update', Hey CMA – be prepared for the challenges – Series 2 of 27, Quality control costs in pharmaceutical companies, GST-Real Estate written by CMAs J.S Anand guru, Satyanarayana Yadav garu, D. Zitendra Rao garu, E. Vidya Sagar garu, Amara Surendra garu. Their contribution for our magazine is invaluable, and we want to take a moment to thank them and recognize them for all of their hard work.*

*The Covid situation in Europe and US, where around 70% of the fully vaccinated, teaches us a lesson to be very careful. India cannot be swayed by assumptions. Only 30% of Indians are fully vaccinated and decisions on child immunization as well as booster shots for 2.5 crore senior citizens and healthcare workers who received second doses over six months ago are still awaited. Reopening colleges and schools have triggered a few Covid clusters.*

*We look forward to constructive feedback from our readers on the articles and overall development of the magazine. Please send your emails at 'hyderabad@icmai.in.'*

*Greetings on the occasions of 'Christmas'.*

*I wish prosperity and happiness to members, students and their families on the occasion of New year.*

*Stay safe and healthy.*

*With Warm Regards,*

*CMA P. Kalyani*

*Editor – Members' Circuit*

*Chairperson – Members' Circuit Sub – Committee*

*Vice Chairperson - HCCA*



## Performance Track

### PROFESSIONAL DEVELOPMENT PROGRAMMES

#### 12.11.2021 – Cost Accounting System in Healthcare Sector

We have organized a joint programme in association with Southern India Regional Council and invited Dr. V.S. Ramchandra, Cardiologist, Chairman – Sri Sri Hospital, CMA Dr. K.Ch. A.V.S. N Murthy – CCM as Chief guest and Guest of honour for this programme.

CMA K. Rajagopal – Chairman – SIRC, CMA Vijay Kiran Agastya - Secretary – SIRC also participated in this programme. CMA Debaraja Sahu gave detailed presentation and explained about Health Care Scenario in India, MCA Notification, Application of Cost Record & Cost Audit Exemption, Importance of cost records & cost audit, Affordable cost, Relevant Cost Accounting system, Implementing costing system -health care Information on Health Care Business (Types of business, Revenue stream, Variety of Services, Expenditure, MIS & Cost Data Other Factors), P & L and cost statement-components, Cost centers Expenses /Cost trace sheet-xl file

#### 20.11.2021 - Refresher Course on FEMA, 1999

The Chapter has organized webinar on 'Refresher Course on FEMA, 1999 and invited CMA Dr. K.Ch.A.V.S.N. Murthy - CCM, CMA S. Papa Rao - CCM as special invitees. Speaker CMA CA R. Koushik Mukhesh has detailed the agenda points Evolution of FAMA, Residential status under FEMA, Transactions under FEMA and legal governance under FEMA, Introduction to current and capital account transactions.

### COURTESY VISITS

We have visited the offices of 01 Shri Josekutty V E - Registrar of Companies – Hyderabad, 02. Shri B Mohanty- Regional Director, 03. Smt Komali Krishna - Commissioner of Income Tax (Appeals) - 10, Hyderabad 04. Sri Kasi Visweswara Rao, Addl. Commissioner, –Commercial Taxes, Govt. of Telangana 05. Ms. Neetu Prasad, IAS, Commissioner of GST, Telangana.

## FINANCE CLIPS

**CMA RAJAPETA SATYANARAYANA**

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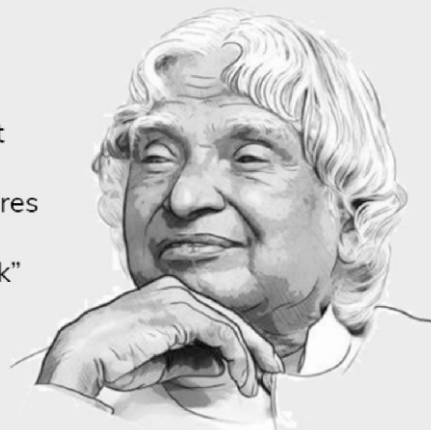
FINANCE  
CLIPS

- **Government contemplates ban on Non-Audit services to Audit client:** The Ministry of Corporate Affairs may take serious steps to safeguard the interests of the Statutory auditors. Firms auditing the accounts of public interest entities such as listed or large unlisted companies could be debarred from providing non audit services to them. The ministry is also exploring ways to break the cartel of Big 4 accounting firms to make the audit market more competitive and transparent. This shall also include limiting the number of statutory audits one firm can take up.
- **MEF extended upto 25-11-2021:** Professional Development Committee of ICAI has extended the last date for submission of online Multipurpose Empanelment Form along with the Declaration for the year 2021-22 by another 5 days. The date for online submission is further extended from 20th November 2021 to 25th November 2021 and for details refer to [www.icai.org](http://www.icai.org)
- **Certificate of compliance by CS:** Securities and Exchange Board of India has bestowed upon the profession of Company Secretaries a new recognition, authorising Company Secretary in

Practice (PCS) to provide Certificate of Compliance to Registrars to an Issue and Share Transfer Agents (RTA) vide SEBI Circular SEBI/HO/MIRSD/MIRSD\_RTAMB/P/CIR/2021/65 dated November 3, 2021 and for details refer to [www.icsi.org](http://www.icsi.org)

- **Professionals in NFRA:** NFRA sought applications from CAs for engagement as Professionals in NFRA and for details refer to [www.nfra.gov.in](http://www.nfra.gov.in)
- **Capital subsidy scheme for service sector launched:** Union Minister for MSME, Shri Narayan Rane today launched the Special Credit Linked Capital Subsidy Scheme (SCLCSS) for services sector. The scheme will help in meeting the technology related requirements of enterprises in the services sector and has a provision of 25% capital subsidy for procurement of Plant & Machinery and service equipments through institutional credit to the SC-ST MSEs without any sector specific restrictions on technology upgradation and for details refer to [www.msme.gov.in](http://www.msme.gov.in)

“Look at the sky.we are not alone.The whole universe is friendly to us and conspires only to give the best to those who dream and work”  
-DR. APJ ABDUL KALAM



# CMA UPDATE

## CMA R. SATYANARAYANA,

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### GENERAL

- **Co-operative societies cannot use the word Bank:** RBI has cautioned about Cooperative societies using the word "bank" in their names and for accepting deposits from nonmembers. RBI said that Cooperative societies can't use the words "bank", "banker" or "banking" as part of their names, except as permitted under the provisions of the Banking Regulations Act, 1949 or by the RBI. It also informed that Co-operative societies have neither been issued any license under Banking Regulations Act, 1949 nor are they authorized by the RBI for doing banking business and for details refer to Press Release by RBI dated 22-11-2021 on www.rbi.gov.in
- **RERA:** Supreme Court held that condition of pre deposit for filing of appeals under section 43(5) of RERA is not discriminatory vide decision given in the case of Newtech Promoters & Developers Vs State of UP and others 132 Taxmann.com 137 (SC)

### LABOUR

- **PF Interest rates for FY 2020-21:** The Ministry of Labour and Employment, Government of India, has conveyed the approval of the Central Government under para 60(1) of Employees' Provident Fund Scheme, 1952 to credit interest@ 8.50 % for the year 2020-21 to the account of each member of the EPF Scheme as per the provisions under Para 60 of EPF Scheme, 1952 and for details refer to www.epfo.gov.in
- **NPS premature Exit rules:** If one is planning, premature exit from National Pension System

(NPS), he will get only 20% of his accumulated wealth under NPS as a lump sum. With the remaining amount, he will have to buy an Annuity. This 80:20 rule will be applicable for both the Government and Non-Government sector subscribers joining NPS between 18-60 years. However, in the case of the Non - Government sector, the person should be a subscriber for 10 years and for details refer to www.pfrda.gov.in

- **Online exit from NS scheme by government employees:** PFRDA recently extended the paperless exit process online to government sector subscribers. Previously, only non-governmental subscribers enjoyed the end-to-end capabilities of the online termination process and for details refer to www.pfrda.gov.in
- **NPS account upto 75 years:** NPS account owners are allowed to postpone their accounts until they are 75 years old and for details refer to www.pfrda.gov.in
- **NPS New entry rules:** The regulator recently increased the entry age into NPS to 70 years. Earlier the entry age was 65 years. Now, anyone between 18-70 years would be able to subscribe to NPS. With the new entry age rule, even subscribers who have exited from NPS can reopen their accounts and for details refer to www.pfrda.gov.in
- **NIBADH:** Chairman, CBT released booklet titled "Nirbadh: seamless service delivery."

This booklet is a compilation of initiatives taken and strategies adopted by EPFO towards successful digital transformation from "EPFO to e-EPFO" over the last three years. These efforts have enabled EPFO to move towards digitally interacting paperless organization, thereby enhancing ease of living for all its stakeholders.

- **Spouse Pension:** Joint Bank Account is not mandatory for Spouse Pension. a joint bank account with spouse is however desirable and it is

to be opened with their spouse in whose favor an authorization for family pension exists in the PPO. Operation in these accounts would be on "former or survivor" or "either or survivor" basis as desired by the pensioner, he added and for details refer to [www.pfrda.gov.in](http://www.pfrda.gov.in)

### GST

- **Blocking of Credit:** CBIC issues Guidelines on blocking of credit under Rule 86A under CGST Rules 2017 and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)
- **Input Tax Credit Not allowed:** ITC not allowed on tax paid on goods or services procured for CSR Activities vide decision given by the Authority for Advance Ruling Gujrat Adama India Pvt Ltd for details refer to (2021) 132 Taxmann.com 45 (AAR Gujrat)
- **GST Registration by Charitable Trusts:** GST Registration is not required by the Charitable Trusts if engaged in Charitable activities vide decision contained in the Jayshankar Gramin Va Adivasi Vikas Sanstha (GST AAR Maharashtra) Appeal Number: Advance Ruling No. GST-ARA-97/2019-20/B-91

### RBI

- **Retail Direct Scheme:** The Reserve Bank of India (RBI) announced the activation of the RBI Retail Direct Scheme on 12-11-2021. The scheme will bring Government Securities (G-Secs) within reach of the common person by simplifying the process of investment. Under the scheme, individual retail investors can open a Retail Direct Gilt (RDG) Account from an online portal (<https://rbiretaildirect.org.in>).

### INCOME TAX

- **New Annual Information Statement:** Income Tax Department has rolled out the new Annual Information Statement (AIS) on the Compliance Portal which provides a comprehensive view of

information to a taxpayer with a facility to capture online feedback. The new AIS can be accessed by clicking on the link "Annual Information Statement (AIS)" under the "Services" tab on the new Income tax e-filing portal (<https://www.incometax.gov.in>). The display of Form 26AS on TRACES portal will also continue in parallel till the new AIS is validated and completely operational and for details refer to [www.incometax.gov.in](http://www.incometax.gov.in)

- **E-settlement scheme:** CBDT notifies "**E Settlement Scheme, 2021**" vide Notification No. 129/2021-Income Tax Dated: 1st November, 2021. "E Settlement Scheme, 2021" shall be applicable to pending applications in respect of which the applicant has not exercised the option under subsection (1) of section 245M of the Act and which has been allotted or transferred by Central Board of Direct Taxes to an Interim Board. "E Settlement Scheme, 2021" shall come into force on the date of its publication in the Official Gazette i.e., 01st day of November, 2021 and for details refer to [www.incometax.gov.in](http://www.incometax.gov.in)
- **Subsidy by Government:** Subsidy provided by the Government should not be included to in the value of supply to arrive at taxable value vide decision given by Authority for Advance Ruling in the case of Gujrat Green Brilliance Renewal Energy LLP for details refer to (2021) 132 Taxmann.com 77(AAR Gujrat)
- **Guidelines by CBDT:** CBDT lays out guidelines for Sections 194Q, 194O & 206C of the IT Act to remove difficulties to taxpayers and for details refer to [www.cbic.gov.in](http://www.cbic.gov.in)

### SEBI

- **Category III AIFs:** The market regulator, SEBI vide notification dated 09-11-2021 had amended SEBI (Alternative Investment Funds) Regulations, 2012 permitting category III AIFs, including large value funds for accredited investors of category III AIFs, to calculate the concentration norm based on the net asset value



of the fund for investment in listed equity of an investee company.

- **Maintenance of Current Accounts:** The SEBI in order to facilitate seamless settlement of funds and for the convenience of investors, has clarified that Stock Brokers should maintain current accounts in appropriate number of banks (subject to the maximum limit prescribed by Stock Exchanges/SEBI from time to time) for holding the client funds (i.e., Client Account), for settlement purposes (i.e., Settlement Account) and any other accounts mandated by Stock Exchanges such as Exchange Dues Account subject to the condition that brokers are using these accounts for their defined purposes and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Trading by Employees:** The SEBI with reference to circular dated 17th November, 2016, which specified the norms for investment/ trading in securities by employees of AMC(s) and Trustees of Mutual Funds and consolidated the provisions of all the previous circulars and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Investors Charter released by SEBI:** With a view to provide investors relevant information about the primary market issuances by REITs and InvITs, an Investor Charter has been prepared by SEBI in consultation with Merchant Bankers. This charter is a brief document containing different services to investors at a single place for ease of reference and for details refer to [www.sebi.gov.in](http://www.sebi.gov.in)
- **Access to Exchanges outside IFSC:** IFSCA decided that registered broker dealers incorporated in IFSC shall be permitted to access exchanges in jurisdictions outside IFSC, subject to compliance with Chapter V of the CMI Regulations and the conditions laid out in this circular No. F. No. 416/IFSCA/Global Access/2021-22 Dated: November 25, 2021.

## DGFT

- **Non-preferential filing of CoO:** The transition period for mandatory filing of applications for Non-Preferential Certificate of Origin through the e-CoO Platform has been extended till 31st January 2022. The existing systems for submitting and processing non-preferential CoO applications in manual/paper mode is being allowed for the stated time period and the online system is not being made mandatory and for details refer to [www.dgft.gov.in](http://www.dgft.gov.in)
- **Deactivation of IECs:** All IECs which have not been updated after 01.01.2014 shall be deactivated with effect from 06.12.2021. The list of such IECs may be seen at the given link <https://www.dgft.gov.in/CP/?opt=LIEC>. The concerned IEC holders are provided a final opportunity to update their IEC in this interim period till 05.12.2021, failing which the given IECs shall be de-activated from 06.12.2021. Any IEC where an online updation application has been submitted but is pending with the DGFT RA for approval shall be excluded from the de-activation list and for details refer Trade Notice 25/2021-22 dated 19-11-2022 on [www.dgft.gov.in](http://www.dgft.gov.in)

## IBBI

- **NOC:** Insolvency professionals handling voluntary liquidation is not required to seek NOC from Income Tax Department for details refer to decision of Gujrat High court in the case of Mahavir Enterprise Vs State of Gujrat

## COMPANIES ACT

- **MCA relaxes:** The Ministry of Corporate Affairs has extended the due date for filing eforms AOC-4, AOC-4 CFS, AOC-4 XBRL, AOC-4 Non-XBRL and MGT-7/7A for the Financial Year ended 31.03.2021 to 31st December, 2021 vide its General Circular No 17/2021 dated 29th October, 2021 and for details refer to [www.mca.gov.in](http://www.mca.gov.in)

## Hey CMA – Be prepared for the Challenges – Series 2 of 27

### CMA CA D.ZITENDRA RAO

Cost and Management Accountant in Practice



In the past edition of circuit - I was fortunate to share my thoughts on an issue concerning Pharma Industry and the turn is now for an important aspect that occupies significant role in every industry but predominantly in Power Industry. In the context of United Nations sponsored Glasgow Climate summit, it is opined that the world needs Trillions of Dollars to address the environmental issues. Our Honourable Prime Minister has also given a call for "Net-Zero Target" for our country with out any recourse to the mandatory commitments in the COP 21 (The Paris Climate Conference which is officially known as the 21st Conference of the Parties ).Vedanta group which is involved in transforming elements also seem to have set in a target of "Net-Zero Carbon" by 2050 or sooner.In the context of Covid; it is proved that Clean environment is the a key factor for the survival of man kind. Few thoughts are shared in this regard connecting CMA.

- With the PCB (Not only to be understood as Printed Circuit Board – but also to be known as Pollution Control Board ) classifying the polluting Industries into "White,Green,Orange and Red" kind of categories; the impact of pollution needs to be brought into the cycle of Cost Management viz., Measuring – Monitoring – Controlling.
- Last month when the coal crisis hit the Power Industry - one of my client who is into generation of non conventional energy; told me that they could sell the power at Rs.17/- per unit through Indian Energy Exchange and as on the date of penning down this article; the power is been traded at Re.1/- per unit. The rate fluctuates for every block of 15 minutes. I am keeping my fingers crossed while drawing a comparative picture of the Cost Statement that drives the margin per unit as well in this sort of scenario. Secondly We all know that

Generation of Power is in the regulated industry and cost considerations play a vital role so as to ensure sustainable performance. Is there any aspect that can be uniform with out recourse to the selling price? One such aspect is the Pollution related aspects and the returns for Clean Energy.

- We all know that in the era of 28 Para Cost Audit u/s 233B of the erstwhile Companies Act 1956; there use to be separate disclosure (Para 16) on pollution control expenses. Perhaps the Companies (Cost Records & Audit ) Rules 2014 need to give more emphasis on this aspect with a reporting template as well to form part of the of Annexure to Cost audit Report. In fact this can be combined with Para D4 of present Era by avoiding certain ratios that create confusion. I have a point to support my argument. In one Cost audit task – the debt equity ratio reported in the financials is not in agreement with what is forming part of Para D4. In many cases I am also stuck with negative ratios. Hence the para can be rationalized and the reporting can accommodate a brief template on the pollution aspects in relation with the consumption of Raw Materials/Operations/Power and Fuel.The template also can contain a field to extract the efforts put in by the entity in terms of target "Net-Zero". Perhaps the brand CMA can have the first mover advantage in this regard.
- In this backdrop – I intend to bring into discussion the accounting aspect for the EMISSION REDUCTIONS. This term refers to the incentive been offered to the entities that take up the manufacturing activity either with less or no carbon foot print. As an out of Box approach – I felt that this aspect can be embedded into every industry such as Edible Oil – Sugar – Poultry – Steel – Ceramic Tiles – Engineering – Telecom – Transportation -

Plantation etc.. Leaveing aside the materiality for a moment - our CMA community can find many such Industries. Extending the thought process – the concept can be mapped even to Gram Panchayaths as village level economic activity also can ensure to minimize the carbon foot print.

- Let me illustrate the Gram Panchayat aspect. Few of the cargo movements may not have time as critical factor – say taking the Paddy to Rice Mill of a nearby town from a Village. Villagers can be encouraged to adopt the usage of Bullock Carts and thus the fossil fuel consumption would come down. To that extent the farmer or the Village or the Gram Panchayat can be accorded the carbon credits.
- One more interesting aspect from individual perspective. Those who are exposed to coal based power plants would have experienced that one need to burn almost 1 KG of coal to produce one unit of electricity. Visualize a situation where in an individual of less than 40 years of age using the staircase to reach 2nd or 3rd floor is given an incentive of a micron worth of carbon credit (may be negligible).It helps on two counts . Firstly the burning of unnecessary calories and earning few carbon credits that can perhaps ultimately contribute for “Net-Zero” agenda. With smart phone/blue tooth/RFID technology the tracking may not be an issue. Our demographical picture says that 65% of population is less than 35 years of age.
- Ok. I am back to the track. I noticed that One Power generating company has been accounting the Emission Reductions as and when the same is sold for. They rely upon the concept of materiality. But this certainly questions principle of accrual and consistency. The companies argue that the COST of getting the Emission Reductions assessed and the marketability aspects drive their accounting policy. In my observation - the entities are taking CONVENIENCE approach . We are aware that "Ind As era" talks about recording fair value of assets and liabilities. We may not need a foreign

body to say this for adoption. In my journey - I insisted for the disclosure as "Other Cost accounting Policy" in the Para A3 the text as follows. "Verified Emission Reductions(VER) are considered as a part of operational revneue to the extent attributable to Generation of power under the period of reference” implying the income revelant to VER credits realisation of earlier years is taken to reconciliation. When few of the clients insisted upon materiality we had to include the same as part of Revenue with out recourse to the relevance of period to avoid conflict.

- In one particular year under the segment of "Observations & Sugestions" of CRA3; I am left with no choice except to report" No Income from the sale of Verified Emission Reductions (VERs) is recognized during the year under review. This is in line with the accounting policy which emphasizes the recognition only upon sale. However, expenses incurred for establishing the eligibility of tCO2e are been charged to cost of operations as and when incurred. Therefore, we advise the company to consider the sale value of eligible credits relevant to the year under review with out recourse to actual sale point.”. In this approach there is always a line item in para D2; since the sales reflected in the current financials are always relevant to the earlier period. Once there is an extra content in the CRA3 – we all are aware of the possible conflicts with CFOs. One more aspect to be examined is whether the revenue from sale of emission reductions needs to be considered as part of main stream of revenue at all or not.With all inferences - so far as power industry is concerned it is deemed to be revenue from generation just as an export incentive for other conventional products.
- Finally - I am of the view that our CMA fraternity can put in good amount of thought process in this subject and strengthen the hands of our Honourable Prime Minsiter in his mission of Net-Zero Compliance. Because – CMA is a “Social Accountant” and not merely a Management Accountant
- Readers may share their views at chatwithcma@gmail.com for further refinement.

## Quality Control Costs in Pharmaceutical Companies



**CMA E. Vidya Sagar**  
Practising Cost Accountant

### QUALITY CONTROL

Quality Control (QC) is a vital and essential activity in pharmaceutical companies. According to World Health Organization (WHO) QC refers to the sum of all procedures undertaken to ensure the identity and purity of a pharmaceutical product. Companies should ensure that the final products are consistent, safe, effective and predictable. WHO prescribed good practices for pharmaceutical entities consists of:

- Management and infrastructure
- Materials, Equipment, Instruments and other Devices
- Working procedures
- Safety

Quality control testing covers Raw Materials, in process materials and Finished products.

### QUALITY CONTROL LABS

A typical Quality control lab in a pharmaceutical industry can be broadly divided into:

- Chemical Lab (Wet Lab)
- Instrumentation Lab (Physical Lab)
- Stability chambers

Documentation room

The above division is only at the broad level and companies may have their own method of bifurcation.

### QUALITY CONTROL EQUIPMENT/INSTRUMENTS

QC Lab requires various types of equipment and instruments to carry out the required procedures. A broad list of such equipment and instruments commonly used is given below:

#### SI Name of the Equipment/Instrument

- 1 Refrigerator
- 2 pH meter
- 3 Hot plate
- 4 Water bath
- 5 Conductivity meter
- 6 Ultrasonic Cleaner
- 7 Micrometer
- 8 Calibrated weight box
- 9 Analytical balance
- 10 Dissolution Test Apparatus

- 11 UV-Spectrophotometer
- 12 HPLC
- 13 GC
- 14 Particle Size Analyser
- 15 Centrifuge machine
- 16 Disintegration test machine
- 17 Friability test apparatus
- 18 Magnetic stirrer
- 19 Moisture analyser
- 20 Refractometer
- 21 Hardness Tester
- 22 Vernier Callipers
- 23 Karl Fischer Titrator
- 24 Melting Point apparatus
- 25 Polarimeter
- 26 Drying Oven
- 27 Humidity Chamber

### QUALITY INSTRUMENTS FUNCTION

Function of important Instruments is given in the table below:

### QUALITY CONTROL COSTS

It can be understood from the above aspects that quality control is a complex activity encompassing many procedures (Testing) and Instruments/Equipment. Further, the procedure may relate to incoming materials, in process materials or Finished products. In a multi-product company this becomes even more complex.

Quality control costs are one of the major operational related costs in a pharmaceutical Company and constitute up to 15%. Given the availability of ERP in many companies the various costs incurred for QC activity can be captured directly to QC cost center. However the challenge is how to assign these costs to the ultimate cost objects i.e. finished products.

The quality control costs comprise of the following cost elements:

- Consumables including Reagents and Glassware
- Manpower cost
- Depreciation of equipment and buildings

Sl	Instrument	Function
1	Dissolution Test Apparatus	To measure the extent and rate of solution formation from dosage form such as tablet and capsule
2	UV-Spectrophotometer	To provide information about levels of active ingredients present in pharmaceutical compounds and impurities
3	HPLC(High Performance Liquid Chromatography)	Used to separate a mixture of compounds in analytical chemistry and biochemistry so as to identify, quantity or purify individual components of mixture
4	GC ( Gas Chromatography)	Used for separating and analysing compounds that can be vaporised without decomposition
5	Particle size analyser	To determine the size and distribution of particles making up the materials
6	Centrifuge machine	To separate fluids , gases or liquids based on density
7	Disintegration test machine	To test how a drug in pellet form will disintegrate in solution
8	Friability test apparatus	To measure the difference between weight of the sample before and after the process in order to check the strength of uncoated tablets
9	Moisture analyser	To determine the moisture content of a sample
10	Refractometer	Measure the refractive index of gases, liquids and translucent solids
11	Karl Fischer titrator	Redox reaction which uses the consumption of water during reaction to measure the amount of water in a sample
12	Melting Point apparatus	To determine the range of temperature where a given solid melts
13	NMR(Nuclear Magnetic Resonance Spectroscopy)	Analyse the ingredients and purity of a sample as well as its structure at molecular level
14	Polarimeter	To measure the concentration of organic and inorganic compounds in a liquid solution to know the optical activity of those compounds

- Power
- Other utilities like purified water.
- Repairs & Maintenance

### QUALITY CONTROL COST ASSIGNMENT TO PRODUCTS

The procedures of testing vary from product to product depending upon the required testing as per regulatory needs. Though the records of procedures performed on each of the products are available (mandatory as per regulatory needs) the aggregation of corresponding costs against each product in ERP is a challenging task. In many instances consumables drawn last for a number of tests and allocation to a single test becomes difficult. Similarly identifying the manpower cost with each type of test will be quite

cumbersome. So is the case with depreciation as instrument/Equipment actual usage time for various products and tests cannot be recorded with ease.

Practically many of the Companies use number of tests done as the activity driver for assigning the overall QC costs to individual products. Some companies use a refined method of Standard quality control cost of each product for assigning the total QC costs. In this method the actual QC costs are assigned in the ratio of weighted quality control cost of each product. Such weighted cost is calculated by multiplying the product's standard quality control cost and number of tests done for the product. This gives a more accurate cost assignment to the product. The Standard cost is updated periodically based on the changes in input rates and quantity usage.

## GST - Real Estate

- Compiled by  
**CMA CMA Amara Surendra Kumar**  
Practising Cost Accountant



During the pre-GST era of taxation, multiple taxes were applicable to real estate namely VAT, stamp duty charges, registration charges and service tax each of which featured different rates and also varied from one state to another. Implementation of GST on real estate has played a significant role in simplifying the taxation of Real Estate in India and can range from 5% to 18% depending upon some key factors. In the following sections, key aspects of GST on real estate are discussed.

### GST Rate Comparison before and after 1st April 2019

As mentioned in an earlier section, GST on residential property has been slashed and the new rates will come into effect from the 1st of April 2019. The following is a comparison of the real estate GST rates as applicable before and after the 1st of April 2019:

- Total carpet area of the residential property cannot exceed 60 square meters in metropolitan areas.
- Total carpet area of residential property cannot exceed 90 square meters in non-metropolitan cities and towns.
- Total value of property cannot exceed Rs. 45 lakh in either metropolitan or non-metropolitan areas.

For purposes of this definition, metropolitan areas in India include Delhi NCR (limited to Delhi, Noida, Gurgaon, Faridabad, Ghaziabad and Greater Noida), Kolkata, Chennai, Hyderabad, Bengaluru and Mumbai (entire Mumbai Metropolitan Region).

Expected Benefits of the GST Rate cut on Residential Properties

Type of Real Estate Property	GST Rate (in effect till 31st March 2019)	GST Rate (from 1st April 2019 onwards)
Residential Property (affordable housing segment)	8% with Input Tax Credit (ITC)	1% without ITC
Residential Property (non-affordable housing segment)	12% with ITC	5% without ITC
Commercial Properties	12% with ITC	12% with ITC (unchanged)

### GST Council Definition of Affordable Housing Segment

The GST Council has announced the applicable criteria for eligibility of a residential property in the affordable housing segment as part of the 33rd GST Council Meeting press release. The following are the key affordable housing segment qualifying criteria for a residential property in India:

The reduction in GST rates on real estate proposed by the GST council will be implemented from 1st April 2019 and are expected to provide the following benefits:

- Simpler tax structure leading to greater compliance from builders.
- Fair price of property for buyer due to GST rate reduction to 1% on residential properties in the affordable housing segment.

- The problem of ITC benefits not getting passed to property buyers is eliminated. Hence, interest of buyers gets protected.
- Better pricing of residential properties as the problem of unused ITC being added to project cost is eliminated.

### Registration and Stamp Duty in Real Estate:

Registration and stamp duty on real estate have continued to remain in place as state government taxes subsequent to GST. These charges vary from one state to another and may vary from one circle to another within the same state itself. In the GST era, stamp duty and registration charges will continue to be applicable in case of both already constructed and under construction properties across India, while GST will be applicable only to under construction properties being sold.

### Input Tax Credit for Real Estate Developers:

Subsequent to introduction of the GST regime, input tax credit (ITC) can be claimed by real estate developers in terms of various inputs (cement, bricks, sand, labor, etc.) that are required as part of the building process. The key reason for introduction of ITC has been to prevent a “tax on tax” situation wherein, GST charged at each stage will be offset by ITC received on the GST charged in the preceding stage. At the time of introduction of ITC and GST in real estate, it was expected that developers would pass on the ITC benefits received by them to new homeowners. Some of the key problem areas with respect to ITC claims made by real estate developers include:

- Each input cost in terms of materials, labor, etc. has to be separately and thoroughly analysed to provide estimates of total GST payable.
- The cost of commodities is liable to change (sometimes significantly) over the lifecycle of the

construction project making it challenging to provide accurate estimates of upfront costs and file for input tax credit on that basis.

- No mechanism is currently in place to offset the increase in other (non-GST) costs while the benefit of input tax credit is only applicable to GST paid.

### Conditions for Claiming Input Tax Credit in Real Estate:

Subsequent to introduction of GST in real estate, as per GST Act rules input tax credit (ITC) equal to total tax paid may be claimed by real estate developers in the following cases:

- The claimant can produce a debit note/purchase invoice/tax invoice as proof of GST being deducted.
- The goods/services (or both) have already been received by the claimant.
- The ITC claimant has not used the goods/services (or both) received for personal use.
- All taxes that were due has been paid to the government by the supplier.
- A valid GST return has been filed by the ITC claimant.

## Life goes on...

Whether you choose to move on and  
take a chance in the unknown.  
Or stay behind, locked in the past,  
thinking of what could've been.

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## Using the Balanced Scorecard to Assess and Enhance Magna PC's Performance

Source: IMA Educational case Journal

- Compiled by CMA J.S. Anand

### INTRODUCTION

You have just been hired as the corporate controller at Magna PC to help investigate its performance issues. Magna PC designs, manufactures, and sells private-label PCs. In an attempt to gain scale advantages, Magna merged with its main competitor two years ago. Since the merger, Magna is one of the largest private-label PC manufacturers with more than 6,400 employees at four PC factories of similar size.

### MAGNA'S PRODUCTION PROCESSES AND CUSTOMERS

Magna manufactures a high volume of PCs on its production lines. The majority of the parts used in Magna's assembly process, such as the chips, processors, memory drives, screens, power supply components, and cases, are purchased from foreign and domestic suppliers. Prior to being used, samples of the parts are tested by Magna's quality assurance department. If Magna's quality assurance staff finds more than one faulty part in every 20 tested, the batch is rejected and returned to the supplier.

Assembling PCs is a relatively labor-intensive process. The factory employees are largely semiskilled and have been trained by Magna to perform simple, repetitive steps. After the PCs are assembled, staff from Magna's quality assurance department test each PC, and any that are found faulty are returned to the production line and reworked.

The customers for Magna's private-label PCs are large electronic retailers, such as Best Buy, who place their in-store brands on the PCs and then sell them in their stores. Magna competes with DataMax and other private-label PC manufacturers for orders from electronic retailers to sell reliable PCs with middle-of-the-road technology at low prices.

### EMERGENCY MEETING OF MAGNA'S EXECUTIVE TEAM

The CEO called an emergency meeting of Magna's executive team to review Magna's prior-year performance (see Table 1). Visibly stressed because of an upcoming meeting with investors planned for the next week, Magna's CEO angrily asked the CFO to explain why the company was unable to effectively execute its strategy as evidenced by its poor performance relative to its budget: Was the budget poorly done, or does Magna have operational issues that need to be addressed? The CFO confidently replied that the prior year's budget was well done, noting it was reasonable and fully reflected Magna's strategy. The CFO added that Magna's inability to execute its strategy must have been caused by

**Table 1. Select Financial and Operating Information from Magna's Prior Fiscal Year**

<b>Magna PC: Select Financial Information (in millions)</b>		
	<b>Actual</b>	<b>Budget</b>
Net Sales	\$1,424.8	\$1,539.9
Cost of Goods Sold	\$923.1	\$918.8
Net Operating Profit After Tax	\$240.8	\$298.9
Average Invested Capital	\$4,176.0	\$4,080.0
<b>Magna PC: Select Operating Information</b>		
Number of employees	6,492	6,094
PCs Produced and Sold (in millions)	2.59	2.59
Percentage of Total Working Days Lost to Employee Absenteeism	2.2%	2.1%
Number of Finished PCs Reworked Prior to Sale	32,000	25,000
Percentage of Supplier Parts Magna Rejects	4.5%	3.0%
Average Score from Annual Customer Satisfaction Survey (5=Excellent)	3.4	4.0
Percentage of Employee Turnover	10.3%	5.2%
Number of PC Patents Granted to Magna During Fiscal Year	8	6
Number of New PC Models Successfully Launched During Fiscal Year	1	4
Percentage of Faulty PCs Returned by Consumers	2.8%	2.0%
Percentage of Returned PCs Covered by Warranty	5.6%	3.0%
Number of Working Days Lost to Strikes	2,500	3,200

Note: All monetary values are represented in U.S. dollars.



operational issues. The CFO then quickly explained to the CEO that she had been so busy dealing with the auditors to finalize Magna's year-end financial statements that she had not had time to investigate what may have caused the failure to reach the budgeted numbers.

After the CEO's angry outburst, the CFO calls you into her office and directs you, the newly hired corporate controller, to use a balanced scorecard (BSC) and the performance data for Magna and DataMax to deduce the cause of Magna's failure to successfully implement its strategy. Although you do not have enough information or time to confirm your deductions, your report to the CFO should outline the information you would collect to verify your findings.

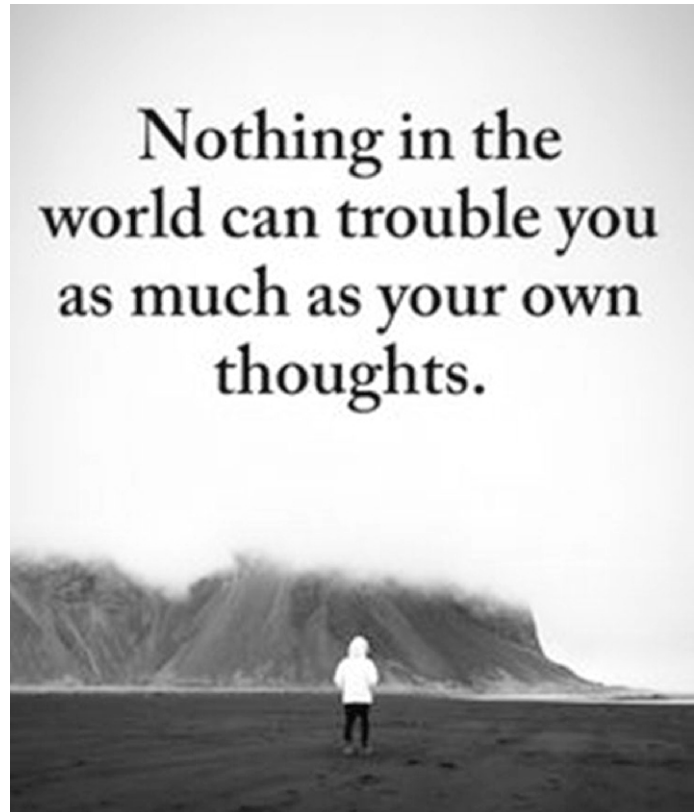
#### DATAMAX PC

DataMax PC, one of Magna's largest and strongest competitors, also manufactures and sells private-label PCs to the same markets as Magna. It has one manufacturing plant in the same country as Magna's factories and uses production techniques and processes similar to those used by Magna. The information in Table 2 was obtained from DataMax's prior fiscal year financial statements and from a PC manufacturers' trade association of which Magna and DataMax are members.

**Table 2. Select Financial and Operating Information from DataMax's Prior Fiscal Year**

<b>DataMax: Select Financial Information (in millions)</b>	<b>Actual</b>
Net Sales	\$462.2
Cost of Goods Sold	\$268.8
Net Operating Profit After Tax	\$89.2
Average Invested Capital	\$815.6
<b>DataMax: Select Operating Information</b>	
Number of Employees	1,900
PCs Produced and Sold	780,000
Percentage of Warranty Claims for PCs Sold	2.5%

Note: All monetary values are represented in U.S. dollars.



Respect yourself  
enough to say  
'I deserve peace'  
& walk away  
from people or things  
that prevent you  
you from  
attaining it

## ET View: The cost of a rate-cut Rollback and how to set it right

Source: Economic Times

- Compiled by CMA J.S. Anand



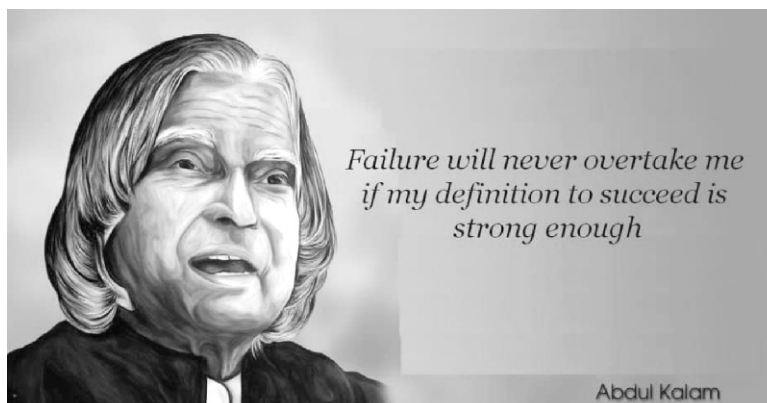
The government's move to hastily withdraw the interest rates cut order on small savings schemes reflects poorly on governance. The finance minister Nirmala Sitharaman's tweet that the orders (read to cut interest rates) were issued by "oversight" appears to be a face-saver.

Elections are underway in five crucial states, inflation is rising, and the country facing the second wave of the pandemic that has hurt incomes and livelihoods. A crucial policy decision on cutting the administered interest rate on small savings ought to have been thought through well.

Although the interest rate in small savings is benchmarked to the yield on ten-year g-secs (that is around 6%), the revised rates (that have now been withdrawn) were lower than this bench-mark, showing that the government also renege on its original promise. Hurting small savers even further makes no sense.

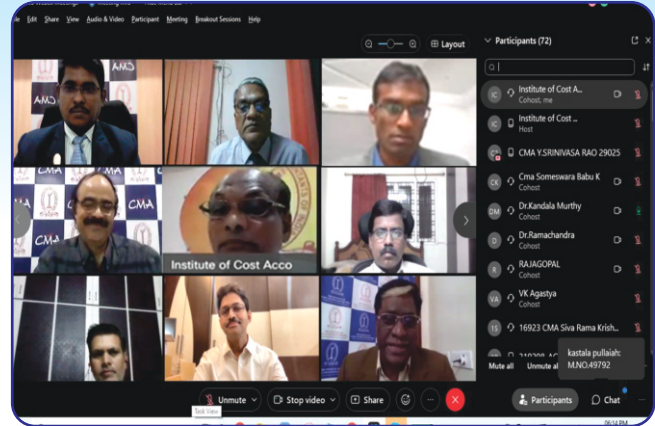
Where will scores of small savers and pensioners, whose returns have dipped over the years, invest? The best way the government can help them is to launch inflation indexed bonds that protect both the principal amount and the interest from the harsh effect of inflation.

This makes sense as the appetite for risk in this segment to invest in equity is low, and some savings can be invested in bonds. Preserving the value of the principal and offering a positive rate of interest in real terms, after netting out the rate of inflation, will be a decent savings option for small savers, especially pensioners.





**Cost Accounting System in Healthcare Sector**



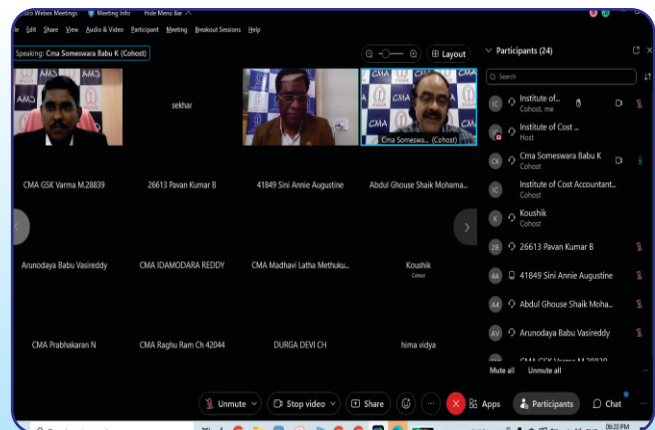
**Courtesy Visit with Sri Kasi Visweswara Rao,  
Addl. Commissioner - Commercial Taxes, Govt of Telangana**



**Courtesy visit with Smt Komali Krishna,  
Commissioner of Income Tax (Appeals) -10, Hyderabad**



**Refresher Course on FEMA, 1999**





**Courtesy visit with Shri Josekutty V.E., Registrar of Companies, Telangana, Hyd**



**Curtesy visit with Shri B. K. Mohanty, Regional Director,  
South East Region, Ministry of Corporate Affairs**

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To

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