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HYDERABAD CIRCUIT

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A News Magazine from the Hyderabad Chapter of

The Institute of Cost Accountants of India

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Tribute to MS Swaminathan

(1925 - 2023)

....Known as Father of India's Green Revolution Dr. MS Swaminathan put up his endeavors for the continuous increase in crop Productivity.
He gave space to no other thought except farmer's Well being.Johar MSS ..

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

The Institute of
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The Chairman *writes to you*

Dear professional colleagues and students, Greetings.I am dedicating this message to eminent agriculture scientist, Dr. MS Swaminathan whose "revolutionary work in agriculture transformed the lives of millions and ensured food security for our nation." Swaminathan was the master strategist and brain behind the introduction of the high yielding wheat varieties that turned India from a "ship-to-mouth" importer to becoming self-sufficient in foodgrains. He passed away at his residence in Chennai on September 28, 2023 at 11.20 am, following age-related issues. He was 98. My heartfelt condolences go out to his family members for their great loss.

I am penning down this message with grief to inform you on the recent passing away of our senior members - we lost CMA Vallinath - Ex. CFO & Director of Visaka Industries Limited and CMA V. Jayaprakash, Practising Cost Accountant during August and September months. They have been vibrant members of our Institute. I wish to inform you that the Pre-Placement Orientation Programme for Qualified CMAs of June 2023 term has been scheduled from 11th October 2023 – 21st October 2023 at Hyderabad Chapter.Industry Oriented Training for Final students for December 2023 examination is scheduled to commence from 6th to 12th October 2023 from 6.30 am to 9.30 am at CMA Bhavan, Himayatnagar, Hyderabad.The Institute of Cost Accountants of India (ICMAI) has announced the CMA Intermediate and Final results for July 2023 session on September 26, 2023 as scheduled. Congratulations to students who took the exam and aced it.

May this Dussehra brings you great joy, success, and wealth, and may your worries burn away with the effigy of Ravana. Wishing you a year full of smiles and happiness.On the occasions of Patel's birthday (October 31, 1875) we recall , his great services to the nation. As the first Home Minister, Patel played a key role in the integration of the princely states into the Indian federation. This achievement formed the cornerstone of Patel's popularity in the post-independence era. Even today he is remembered as the man who united India.

With warm regards,
CMA K. Someswara Babu
Chairman

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CORRIGENDUM

In September month CIRCUIT in Sub committee members profiles column (Page No. 14), it was stated as Internal Auditing and Assurance Standards Board under CMA M. Kameswarao Rao's name. It should read as 'Cost Auditing and Assurance Standards Board.(CAASB). We regret for the error.

Finance Clips

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- **Brokers seek relaxation on SEBI Audit Firm Rules:** Stock brokers have sought a relaxation of rules proposed by the market regulator on the hiring of audit firms, saying they are discriminatory and narrowed the options available to them. The stock exchanges and the regulator will only accept internal audit reports certified by an empanelled auditor, Sebi said in a circular issued in May. The regulator said an audit firm must have at least five partners at all times. At least two partners must be full-time and the firms must be empaneled with Sebi vide Money Control dated 1-9-2023.

- **Classification & Valuation of Investments by Banks:** The RBI on Tuesday issued revised norms for classification, valuation, and operation of investment portfolios of commercial banks, aligning them with global standards and best practices. The revised 'Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023' will be applicable from April 1, 2024, to all Commercial Banks excluding Regional Rural Banks. The new framework includes three categories: available for sale, held to maturity, and fair value through profit and loss vide ET dated 12-9-2023.

- **ICSI Advisory:** The Institute of Company Secretaries of India (ICSI) has recently issued an advisory that provides important guidelines for Company Secretaries in Practice. This advisory focuses on ensuring compliance with various regulations and circulars issued by the Securities Exchange Board of India (SEBI) and the Stock Exchanges and for details refer to www.icsi.org.

- **CA will be guilty:** CA will be guilty of writing 'to whom it may concern' at the time of CA Certification vide decision given by ICAI in the case of H.G. Nagaraju vs. CA. Lingaraj M. Pujari (ICAI) Appeal Number: [PR/341/17/DD-358/2017/BOD/543 /2020]

- **Due date of filing extended:** CBDT has issued Circular No.16/2023 dated 18-9-2023 extending the due date of filing Audit Reports in Form 10B & Form 10BB to 31-10-2023 and filing ITR 7 to 30-11-2023 and for detail refer to www.cbdt.gov.in

- **Multi-purpose empanelment Form for FY 2023-24:** The Professional Development Committee (PDC) is delighted to present the Multipurpose Empanelment Form (MEF) for the year 2023-24, now accessible at www.meficai.org. This form plays a pivotal role for audit firms, especially those aiming to become Statutory Branch Auditors of Public Sector Banks for audits ending on March 31, 2024, and beyond. Last date for submission of the online Form is 6th October 2023. Before diving into the MEF process, it's crucial to understand the guidelines and requirements and for details refer to www.icai.org

- **PCAOB:** Days after issuing a proposal to strengthen individual accountability for firm violations in audits, the PCAOB has announced a livestreamed forum aimed at educating auditors on how to avoid deficiencies. The 2023 Forum on Auditing in the Small Business Environment and on Auditing Broker-Dealers is set for Oct. 26. It's free and provides CPE; advance registration is required vide Journal of Accountancy dated 22nd Sept, 2023.

- **Handbook for Accountants:** The International Ethics Standards Board for Accountants (IESBA) released an annual update of its ethics code handbook to reflect the latest changes in auditing and quality management standards. The 2023 Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards) includes revisions regarding the definitions of "engagement team" and "group audits vide Accounting Today dated 22-9-2023.

CMA Update

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CMA UPDATE

GENERAL

CMA UPDATE GENERAL

- Small savings schemes will be frozen: Investors of small savings schemes such as Senior Citizens Savings Scheme (SCSS), Public Provident Fund (PPF), National Savings Certificate (NSC), or other post office schemes must ensure that they have submitted their Aadhaar number to the post office or their bank branch by September 30, 2023. If the Aadhaar number is not provided by this date, your small savings investments will be frozen until the Aadhaar number is submitted vide ET dated 1-9-2023.
- PMLA Rules -Partners: The finance ministry has tightened the anti-money laundering rules by bringing in partners holding a 10 percent stake in a firm, as against 15 percent earlier, under the definition of beneficial owners. The amendment also said that in the case of a trust, the reporting entity shall ensure that trustees disclose their status at the time of commencement of an account-based relationship or when carrying out specified transactions vide PTI dated 6th Sept, 2023.
- Property documents: The Reserve Bank of India (RBI) said Regulated Entities (RE) should release the original movable/immovable property documents and remove charges registered with the registry within 30 days after full repayment and settlement of the loan account. For delays, attributable to the REs, beyond 30 days, they will compensate borrowers at a rate of 5,000 per day for each day of delay. REs will have to communicate to the borrower the reasons for such delay. These directions will be applicable to all cases where the release of original movable/immovable property documents falls due on or after December 1, 2023.
- Birth Certificates: A new law in India will allow the use of birth certificates as a single document for various purposes, including admission to educational institutes, obtaining driving licenses, applying for Aadhaar cards or passports, and registering marriages. The law, which will come into effect on October 1, aims to create a national and state-level database of registered births and deaths, ensuring efficient and transparent delivery of public services vide ET dated 14-9-2023. LABOUR
- **SOP for grant of Exemption by EPFO:** The Employees' Provident Fund Organisation (EPFO) has issued a fresh standard operating procedure (SOP) describing the process through which the proposals of establishments seeking exemptions from the operation of employee provident fund (EPF) scheme are to be examined and forwarded with recommendations by the field offices to the head office vide The Business Standard dated 6-9-2023.
- **Unused leave exceeding 30 days:** One of the labour laws - the Occupational Safety, Health, and Working Conditions Code - states that an employee cannot accumulate more than 30 days of paid leave in a calendar year. If the accumulated paid leave due to an employee exceeds 30 days in a calendar year, the company (employer) will have to pay for the excess leave. In this case, 'employee' means those workers who are not in managerial or supervisory positions vide ET dated 6-9-2023. INDIRECT TAXES
- **PCA:** CBIC has issued Instructions No.27/2023-Customs dated 6-9-2023 regarding streamlining of Customs Post Clearance Audit (PCA) work instructions and for details refer to www.cbic.gov.in
- **30days reporting limit announced by government:** The government has decided to impose a time limit of 30 days on reporting old invoices for taxpayers falling under the category of Aggregate Annual turnover greater than 100 crores This restriction applies to all document types, including invoices, credit notes, and debit notes and for details refer to www.cbic.gov.in • GST on Casino & e-games: The Finance Ministry notified rules to impose a 28% Goods and Services Tax (GST) on the face value of bets placed in online games and casinos, paving the way for implementation of the levy which the government hopes to kick off from October 1. New provisions in the Central GST rules specify that for taxation purposes, authorities will consider the value of supply in online gaming and casinos as the total amount paid or payable to the supplier of such games, including payments made by virtual digital assets vide The Hindu dated 7th Sept 2023.
- **Two-factor authentication Limit reduced:** CBIC

notified that the two-factor authentication limit is reduced from Rs 100 Cr to Rs 20Cr annual Turnover wef 1-11-2023 and for details refer to www.cbic.gov.in

- **HSN Reporting requirements:** As per Notification No. 78/2020 dated 15th Oct 2020, taxpayers having Aggregate Annual Turnover (AATO) above Rs 5 Crore, shall use valid 6 or 8-digit HSN codes in e-Invoices and e-Waybills and other taxpayers shall use at least 4 digit HSN code in E-Invoices and E-Way Bills. This will be made Mandatory from 1st October 2023 in e-Waybill and e-Invoice Systems. • GST Tribunals: The Finance Ministry has notified 31 benches of the GST Appellate Tribunal (GSTAT) which will be set up in all states and Union Territories vide PTI dated 15-9-2023. • GST paid on Dealer incentives: The Authority for Advance Rulings (AAR), Karnataka bench, in the case of Orient Cement that offered target-based incentives to its distributors, has recently held that issuing gold coins or white goods to them on meeting their targets is neither a 'gift' nor a 'permanent transfer or disposal of business assets'. In other words, the cement manufacturer would be able to claim a credit for the GST paid on the purchase of coins or white goods against its own GST liability. At the same time, the AAR also held that the transfer of goods under the incentive schemes would be a taxable supply vide TOI dated 14-9-2023.
- **Electronics Ledger:** In order to facilitate the taxpayers in correct and accurate reporting of ITC reversal and reclaim thereof and to avoid clerical mistakes, a new ledger namely Electronic Credit and Re-claimed Statement is being introduced on the GST portal. This statement will help the taxpayers in tracking of their ITC that has been reversed in Table 4B(2) and thereafter re-claimed in Table 4D(1) and 4A(5) for each return period, starting from the August return period and for details refer to www.cbic.gov.in

INCOME TAX

- **3 New IT Forms notified:** CBDT has notified three New IT Forms - Form No.6C Application under section 132(2)/132(9D) of the Income tax Act, 1961.Form No.6CA Report under section 132(9D) of the Income Tax Act, 1961.Form No.71 Application under sub-section (20) of section 155 for credit of tax deduction at source (TDS) and for details refer to www.cbdt.gov.in
- **Guidance Note on Tax Audit:** ICAI has released a revised 2023 edition of Guidance Note on Tax Audit under Sec44AB of IT Act 1961 and for details refer to www.icai.org
- **Investors credential:** The income tax department said that the burden of proof to establish the creditworthiness of an investor is on the company whose returns are being assessed. The tax department said that Section 68 of the I-T Act, under which the details have been sought, places the initial onus on the "assessee-company" to prove the identity and creditworthiness of its investors, as well as genuineness of the transaction, vide TOI dated 9-9-2023. • Gift city: The Central Board of Direct Taxes (CBDT) notified the exemption from capital gains tax any unit of investment trust; a unit of a scheme; and a unit of an Exchange Traded Fund (ETF) launched under the International Financial Services Centres Authority (Fund Management) Regulations, 2022. Gujarat International Finance Tec-City (GIFT)-IFSC is being promoted as a tax-neutral enclave for the financial sector vide PTI dated 13-9-2023.
- **Charitable Trusts:** The Government has asked trusts to share the identities of relatives of trustees, settlors, and substantial contributors, along with information about electronic and other modes of payments. Moreover, they need to detail donations made by foreigners separately, even if they made their donations in rupees, the report said. Detailed audit reports for charitable trusts are too complex and burdensome. Most genuine trusts will find it difficult, if not impossible, to furnish all the required details, given their limited resources. Some of the reporting requirements are more burdensome than those for businesses in tax audit reports. Even a small mistake in reporting can result in a loss of exemption for the trusts vide The Business Standard dated 13-9-2023.
- **Non-filing of Form 10B exemption cannot be denied:** The case of JCIT vs Gujarat Energy Development Agency, as adjudicated by ITAT

  Ahmedabad vide Appeal Number: ITA No. 209/Ahd/2022 presents a profound perspective on the implications of non-filing an audit report in Form 10B with the income tax return (ITR). The focal point revolves around whether the deduction under Section 11 can be denied solely based on this. The

CMA UPDATE

Revenue contested against an order passed by the Id. Commissioner of Income-Tax(A), highlighting that the assessee-trust did not file the audit report in Form 10B along with their return of income. Despite this, the Id. CIT(A) concluded that since the audit report was presented during the assessment proceedings, it constituted adequate compliance, thus allowing the assessee to claim benefits under sections 11 and 12 of the Income Tax Act.

- **ITR Form 71: Introduction:** The Central Board of Direct Taxes (CBDT) has issued a new rule, Rule 134, along with Form No. 71, related to the application under sub-section (20) of section 155 for the credit of tax deduction at source (TDS). Finance Act of 2023 introduced a new sub-section (20) to Section 155, which will come into effect from October 1, 2023. This newly added sub-section applies in cases where income has been reported in an income tax return for a particular assessment year, but the tax was deducted at source (TDS) in a subsequent financial year. To facilitate this amendment, the CBDT, through Notification No. 73/2023 dated August 30, 2023, has introduced a new Rule 134 into the Income-tax Rules, 1962. This rule mandates the submission of Form 71 to claim TDS credit in such scenarios and for details refer to www.cbdt.gov.in

- **Co-operative Society:** Co-operative society providing credit facilities to members eligible for Sec 80P deduction vide Supreme Court decision in the case Kerala State Co-Operative Agricultural and Rural Development Bank Ltd.

  Vs Assessing Officer in Appeal Number: Civil Appeal NO(S).10069 Of 2016.

- **Non-corporate donations to other charitable organizations:** ITAT Chennai concluded that the Assessing Officer and CIT(A) erred in treating donations made by the trust to another charitable trust as income. The donations were non-corpus and made to a trust registered under section 12A. Furthermore, the trust had already applied over 85% of its gross receipts for charitable purposes. Thus, ITAT directed the Assessing Officer to delete the additions made regarding these donations vide decision was given in the case of Srimathi Laxmi Charities Vs ACIT (ITAT Chennai) Appeal Number: ITA No. 587/Chny/2022 RBI

- **Credit through UPI:** The Reserve Bank of India has allowed scheduled commercial banks to issue credit lines through the Unified Payments Interface (UPI) – a move to expand the scope of the UPI payment system. The regulator said banks may, as per their board-approved policy, stipulate terms and conditions of use of such credit lines. These would include credit limit, period of credit, rate of interest, and so on vide the Business Standard dated 4th Sept 2023.

- **Discontinuation of Incremental CRR:** RBI has issued a circular on 8-9-2023 to discontinue the incremental CRR (I-CRR) in a phased manner. Based on an assessment of current and evolving liquidity conditions, it has been decided that the amounts impounded under the I-CRR would be released in stages so that system liquidity is not subjected to sudden shocks and money markets function in an orderly manner and indicated the dates by which the part of the amounts to be released under ICRR and for details refer to www.rbi.gov.in

- **Corporate Bonds:** The Reserve Bank of India's (RBI's) decision to include corporate bonds in the held-to-maturity (HTM) portfolio might deepen this market and make these securities more attractive for investors. Securities acquired with the intention and objective of holding to maturity would be classified under the HTM category, and not be required to be marked to market (MTM), the regulator said vide The Business Standard dated 13-9-2023.

- **RBI introduces Data Quality Index:** RBI has introduced a significant initiative to enhance data quality in the commercial and microfinance segments. The latest circular, dated September 20, 2023, outlines the introduction of a Data Quality Index (DQI) for these segments by Credit Information Companies (CICs) and for details refer to www.rbi.govin

- **NBFC Classification for IT purposes:** Notification No. 79/2023, issued by the Ministry of Finance and the Central Board of Direct Taxes (CBDT) on 22nd September, 2023. This notification pertains to the classification of non-banking financial companies (NBFCs) for the purpose of income tax assessment and for details refer to www.cbdt.gov.in FEMA/DGFT

- **Trade Circular No.26:** DGFT has issued Trade Circular No.26/2023-24 dated 4-9-2023 regarding

CMA UPDATE

Pre-shipment and Post-shipment Export Credit and Packing Credit in Foreign Currency (PCFC) for E-Commerce Exports and for details refer to www.dgft.gov.in

SEBI

- **One-hour settlement of Trade:** The Securities and Exchange Board of India (Sebi) has adopted a roadmap towards realizing its aim of making trade settlements instantaneous.

  From one day to one hour to instantaneous is the roadmap. Amid concerns raised by certain foreign portfolio investors on the shortening of the settlement cycles citing forex-related worries, the official made it clear that faster settlements are optional and investors can opt-out vide PTI dated 5th Sept 2023.

- **Vetting of Return claims of intermediaries:** The Securities and Exchange Board of India (SEBI) has proposed to create a Performance Validation Agency (PVA) to validate the claims and performance related to investment advice and buy, sell, and hold recommendations given by intermediaries. The creation of an independent agency will help eliminate bias and errors in performance numbers vide The Business Line dated 1-9-2023.

- **Investor Protection & Education Fund:** The Securities and Exchange Board of India (SEBI), capital markets regulator, implemented an online payment mechanism for its Investor Protection and Education Fund (IPEF) on September 6, PTI reported. payments to IPEF using various online payment methods such as net banking, NEFT/RTGS, debit cards, and UPI, and for details refer to www.sebi.gov.in

- **Abridged Prospectus:** SEBI issued circular dated 4-9-2023 indicating the revised Format of the Abridged Prospectus relating to the New format of Abridged Prospectus for public issues of Non-Convertible Debt Securities and/or Non-convertible Redeemable Preference Shares and this Circular shall be applicable for all public issues opening on or after October 1, 2023, and for details refer to www.sebi.gov.in

IBBI

- **CIRP Forms:** IBBI has issued a Circular regarding the filing of CIRP Forms for the purpose of monitoring corporate insolvency resolution processes and the performance of insolvency professional entities under the Insolvency and Bankruptcy Code, 2016 and the regulations made thereunder and for details refer IBBI CIRCULAR No. IBBI/CIRP/60/2023 dated 1-9-2023 on www.ibbi.gov.in

- **IBBI on insolvency professionals:** "Insolvency and Bankruptcy Board of India (Insolvency Professionals) (Second Amendment) Regulations, 2023." They become effective upon their publication in the Official Gazette i,e, 18th September 2023. Pre-Registration Educational Course: Regulation 5 has been amended to specify that individuals enrolling with an insolvency professional agency must complete a pre-registration educational course within twelve months from the date of payment of the non-refundable application fee under regulation 6 and for details refer to www.ibbi.gov.in

- **Insolvency claims:** The Insolvency & Bankruptcy Board of India (IBBI) has reworked its regulations to provide more time for submission of claims in a move that will benefit creditors, especially homebuyers and government agencies, hit by insolvency action in the real estate sector. The new rules provide for the extension of the timeline for claim submission to either 90 days from the insolvency commencement date (ICD) or the date of issue of the latest request for resolution plan (RFRP), whichever is later. Currently, claims have to be filed within 90 days of ICD vide TOI dated 23-9-2023. COMPANIES ACT

- **LLP Forms 3 & 4:** MCA notified on 1-9-2023 revised Forms 3 & 4 under LLP and for details refer to www.mca.gov.in.

- **MCA Relaxation:** The MCA, in the exercise of its power under section 67 of the Limited Liability Partnership Act, 2008, has decided to grant one-time relaxation in additional fees to those LLPs who could not file the Form-3, Form-4, and Form-11 within the due date and provide an opportunity to update their filings and details in Master data for future compliances. These forms shall be available for filing from 01.09.2023 till 30.11.2023 (Both dates inclusive) vide General Circular No.08/2023 dated 23.08.2023 and for details refer to www.mca.gov.in

Hey CMA – Be prepared for the Challenges – Series 23 of 27

CMA CA Dendukuri Zitendra Rao
Cost and Management Accountant in Practice

As I sat to write this article – technically it is in a way the end of yet another cost audit season .We all know that the last date for submission of the Cost Audit Report to the Companies is stated as end Sept 2023 (to be more precise 180 days from the end of Financial Year). This year audit exercise gave me fee interesting challenges.

- For one of the maiden audits the very establishment of installed capacity posed good number of complications. Reactors of different capacities are deployed to carry out the production. The production planning may enable the usage of all the reactors simultaneously for all the products. One way to address this concern is to convert the capacities into hours available which imply 24 X 365 vis-à-vis hours actually occupied. At times it is very difficult to get convinced about the adoption.

- In this context let me turn your attention to the Exposure Draft on revised Cost Accounting Standard 2 (which talks of Capacity determination). The Exposure Draft advises for the disclosure of the Normal Capacity in the Cost Statements. Hopefully the Para B1 of Annexure to the Cost Audit Report will be modified suitably in times to come which would settle the issue of identification of abnormal capacity.

- One of my clients sought for the cost audit report for onward submission to the Tax Auditor. Thanks to the Budget 2023 amendment in regard to Sec.142(2A) of the Income Tax Act. The Tax Auditors seem to be insisting for the review of Cost Audit Report (particularly CRA3 i.e., the Main Report) before they finalise the Form 3CD. Some of the Tax Auditors were insisting for the Cost Audit Report with the UDIN of the Cost Auditor affixed therein. The complication came in when the Cost Audit Report is not ready in full for want of some Data/Information. I have overcome the issue by triggering a mail to the company for onward submission to Tax Auditors. I stated that the CAR does not carry any reservations or qualifications that are to be reported in the Form 3CD. The Wordings We have not expressed any qualifications or reservations in the CRA3 viz., the Cost Audit Report"gave the required comfort to the Tax Auditors

- In one CRA3 under the observations segment I have written as follows. "The ratios discussed in Para D4 are based on different mechanism compared to the ratios disclosed in the Financial Statements".The members of Audit Committee who have already discussed the ratios disclosed in the financial statements during the course of adoption of accounts appreciated my observation. Interestingly except Current ratio none of the ratios can be compared for.

- The secretarial aspects continue to confuse the Cost Audit mechanism as most of the secretarial friends tend to draft the resolution saying that "The Cost audit Report is Approved by the Board". I have been advocating a view that it is the Annexure to the Cost Audit report that needs to be approved and the Report of the Cost Auditor thereon needs to be taken on record. A collective guidance note with the participation of the Institute of Company secretaries is the need of the hour.

- I attempted to compile the Management Information Report (MIR) to the attention of management for their internal consumption under Three heads viz., Operational, Strategic and Statistical. The strategic aspect was revolving around Para D3 and the statistical segment was focusing about % of ITC to the total GST Liability.

- Managements are looking for the conventional CONTRIBUTION for the company as a whole . In a way churning out the variable costs and mapping them to varied products has proved to be a herculean task. With the changed business scenarios, I considered Employee Cost, Depreciation, AOH and Interest Costs as Fixed.

- Data or Information reported in Para D5 gave me (as Cost auditor) little odd feelings as the establishment of normal price required a detailed Transfer Pricing Audit. We all know that it is tough to question the transaction price. We keep hearing that it is Business Decision and has many dimensions.

Vyavasayee: The dawn ofThursday the28th Sept 2023brought in an unpleasant news. M.S.Swaminathan (MSS) the VIDHATHA for the welfare of the farmer reached the Lotus Feet of Paramatma. **जातस्य हि ध्रुवो मृत्यु**: is what Lord Krishna pronounced in Gita. But as a man giving the algorithm for the fixation of Minium Support Price; MSS is Chiranjeevi. When I had an interaction with him in February 2018 he said with lot of conviction “Who else can be the authority to say what is COST” inferring that our profession and our Institute should have a say in fixation of Minimum Support Price. Let us take a pledge to involve in Cost based Research and improve or substantiate the famous Formula “C2 + 50%” coined by the great MSS.

Sec.142(2A) of the Income Tax Act: Turning the attention to other developments the much awaited Income Tax (Twenty Second Amendment) Rules 2023 were notified on 27th Sept 2023 in the official gazette. It is now up to us the practitioners to master the requirements of Form No.6D and to stand up to the expectations of the stakeholders.

Finally….Iwish that we all should be the partners in churning out the COST based data for meaningful inferences and usage by varied stakeholders of the society. Let us make it happen

That’s all for now friends. **सर्वे भवन्तु सुखिनः॥**

(May All be Happy)--18:78–

Obituary

We are very sad to inform you that sudden demises of

&

CMA Vepa Vallinath
(M.No. 18236)
Ex. CFO & Director of
Visaka Industries Limited

CMA Vemuganti Jayaprakash
(M.No. 12888)
Practising Cost Accountant.

We express our deepest condolences to their family members.
Let us pray Lord Krishna grant strength to the
mourning members of their families.
Om Shanti. Sadgathi Praptirastu.

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Six Levels of Financial Knowledge

Source : Strategic Finance

Compiled by - CMA JS Anand

HERE'S A FRAMEWORK THAT MANAGEMENT ACCOUNTANTS CAN USE TO HELP THEIR ORGANIZATIONS REACH NEW HEIGHTS OF FINANCIAL UNDERSTANDING AND BECOME MORE PROFITABLE.

B Y G E O R G E E . MA N N E R S, JR .

In the October 2003 issue of Strategic Finance, Paul Sharman made the case for management accounting. This topic couldn't have been more timely then, and it's even more critical now. To the extent that the financial community can engage both itself and line management in a soul-searching look at what they really know about their businesses, the case for management accounting can be made emphatically. With the appropriate framework to shape financial knowledge, the management accounting function should become an organization's principal decision-support platform.

Few line managers or financial executives are satisfied with the current state of decision support because it's too heavily driven by the financial accounting template and cost systems motivated by overhead allocation. But dissatisfaction usually leads businesses to take a hard look at themselves and set some tough goals relative to acquiring more profound knowledge.What this engagement process requires is a solid but easily communicated framework for self-evaluation and planning, which I'll propose.With this self-evaluation vehicle, any company can face brutal reality and begin the journey toward reaching new levels of financial understanding.

The framework recognizes that we're on a cusp of decades of development coming together in cost measurement and estimation, data management, business process modeling, enterprise resource modeling and planning, mathematical optimization, raw computing power, electronic visualization, application software development, and more.

As they said on The Six Million Dollar Man, "We can rebuild him.We have the technology." I term my proposed framework "the levels of financial knowledge." As you read the description of each level, I expect you to ask, "Where is my business?" Any reasonably sized business may find itself with elements of more than one level operating simultaneously—depending on the function, location, or business unit. Nevertheless, the framework should be quite prescriptive for evaluation and planning.

LEVELS OF FINANCIAL KNOWLEDGE

The framework consists of six levels of financial knowledge, and the word "financial" is most operative here. I mean dollars and sense; this is much more than data and

information—I'm talking about knowledge. First let's take a look at a synopsis of each level (see Figure 1), and then I'll go into more detail about each one. Level 1: The business can count and keep score in the aggregate sense (business unit/corporate) by tracking cash, accounts receivables, payables, etc., and it can generate periodic financial statements.

Level 2: The business has a traceable measure of output volume and readily identifies fixed and variable costs. It has internalized the basic vocabulary of cost/volume/ profit (CVP).

Level 3: The business has a well-defined breakdown of CVP elements and understands how these more detailed elements relate to working capital behavior as well as to both Level 1 and Level 2 templates. It can fundamentally assess the business profitability drivers and can generate appropriate policy statements relative to spending money to make money.

Level 4: Throughput, as opposed to output, has become the focus of operational and financial knowledge. The fundamental engineering/economic recipes of input/throughput/output (ITO) are known. The primary transformation constraints are known, and this knowledge is a principal factor in planning and resource allocation.

Level 5: At least in a planning sense, but, more importantly, operationally, the business can optimize simultaneously across multiple inputs / costs / recipes / constraints / outputs. Fed by the decision-support system, the methodology of marginal economics has moved from the theoretical to the practical.

Level 6: The business can optimize simultaneously across multiple inputs / costs / recipes / constraints / outputs and time periods.Managing periodic slack resources, capacity, and inventory across time is accomplished with profound knowledge.

Knowledge acquisition is a journey that requires the appropriate modes of transportation: systems, structures, and processes. It's a journey that an entire business must take, not just certain subsystems of it. Most of us are familiar with businesses that have subsystems that possess

Figure 1: Levels of Financial Knowledge

6. OPTIMIZATION ACROSS TIME

5. ENTERPRISE OPTIMIZATION

4. THROUGHPUT-BASED UNDERSTANDING

3. SUBSTANTIVE CVP

2. BASIC COST/VOLUME/PROFIT (CVP)

1. FINANCIAL STATEMENTS

significant knowledge, but until that knowledge is integrated into the company's overall financial knowledge, the system's financial knowledge remains at lower levels.

Let's thoroughly investigate the levels by concentrating on the vocabulary and significant knowledge concepts and constructs of each one.

LEVEL 1 FINANCIAL KNOWLEDGE

Too many users of accounting information think of it as “the incompetent reporting the irrelevant to the indifferent,” but financial accounting is the language of business. If you don't have the knowledge to understand the language and speak it credibly, then you can't communicate with those who are the source of capital. Thus, the Level 1 knowledge base connects a business to the outside world.

Since financial accounting constitutes Level 1 knowledge, every business must pass through Level 1 to move through the other levels. This is simply because any level of financial knowledge must possess the systems to tie back to the financial accounting templates—the standard P&L, balance sheet, and cash flow statement.

The principal concepts behind Level 1 knowledge are derived primarily from ratio analysis, which facilitates comparing financial performance and financial potential independently of industry or asset base. The significance of return on equity (ROE), Economic Value Added (EVA®), and other Level 1 concepts, should never be underestimated. These concepts constitute the basic analysis toolkit for the suppliers of capital and, thus, for the ultimate indices of executive performance and reward.

LEVEL 2 FINANCIAL KNOWLEDGE

While Level 1 knowledge tells us about a business's profitability, it tells us very little about the business. In order to move to a more fundamental understanding, a business must establish a traceable measure of output (output unit), a vital stopover on the journey to knowledge acquisition even for the multiproduct business.

An output unit could be a case, a ton, a foot, an invoice, a gallon, customer count, a transaction—it depends on the business—but each firm building its knowledge base has such a construct. Knowledge really begins to grow when the business can make reliable assessments of how total costs behave as a function of changes in output. To do this, the business must attach variable cost to a single unit of output—a giant step on the journey.

When you have output volume and variable cost per output unit, you have the basis for Level 2 vocabulary. The first important concept is Level 2's profitability template, which is contrasted with Level 1's profitability template in Table 1.

Although these profitability templates appear similar, they're remarkably different because of increased knowledge. As the phrase “contribution margin” replaces the phrase “gross profit” in a business, knowledge has grown considerably.

Additional key concepts at Level 2 flow from the P&L template, variable and fixed costs, and contribution margin. The first is breakeven, the second is operating leverage, and the third is the idea of decreasing unit (average) cost as a function of volume. As the business internalizes these concepts, its knowledge increases enormously. The business prices and sources more intelligently, it makes funding decisions more intelligently, it negotiates more intelligently, and it evaluates opportunities more intelligently. Simply, it's smarter.

LEVEL 3 FINANCIAL KNOWLEDGE

When a business transitions to Level 3, it has learned that return on assets (ROA) must be employed as the enterprise's guiding profitability gauge. (And, rest assured, EVA is a form of ROA.) First, business activity and profitability require funding, and a competitive return must be generated on those funds.

Second, the business has learned that it must expand the basic CVP categories to capture more robust activity descriptors. Not only does it require knowledge of variable costs, but the business needs to know how they vary per unit or per dollar and whether or not they are inventoried (manufacturing or SG&A). Not only does it require knowledge of fixed costs, but it also needs to know whether they're inventoried or not and whether they represent noncash (depreciation) or not. The business also requires knowledge about how many times a cost is inventoried, so categories such as raw materials are imperative for breaking out. Table 2 illustrates the “minimum spec” categories for Level 3 knowledge.

Third, the business ties these more robust CVP categories into elements of assets— particularly current assets—by applying asset turnover constructs. After it does this, it not only can plan an activity but the funding of it as well. Again, see Table 2.

Finally, the business has combined CVP elements and turnovers into an ROA model, which allows it to understand the constructs that truly define Level 3 knowledge: u It can fundamentally assess its profitability drivers (profitability represented by ROA).

It now has a knowledge-driven platform for evaluating profit-improvement opportunities, capital-spending opportunities, and tradeoffs among drivers. It can track drivers on a continuing basis.

u It can make very definitive policy statements about the limits of spending money to make money. These initiatives could be R&D, promotion, hiring, training, etc. u It can apply its business modeling at more granular levels such as product-line profitability or customer profitability, although

Level 4 knowledge can be a much more definitive achievement level for true product-line profitability. Only 10 to 15 years ago, a business that consistently operated at a Level 3 state of knowledge had a distinct competitive advantage. Today, we must raise our sights.

LEVEL 4 FINANCIAL KNOWLEDGE

There's a very distinct increment in knowledge when moving to Level 4. This increment recognizes that the business isn't just an output system but a highly interdependent input/throughput/output system. And this ITO system is defined much more effectively by the discipline of process engineering than by the discipline of accounting. Nevertheless, the Level 4 business has married the engineering equations with the accounting equations.

An ITO system possesses known physical recipes (or what older accountants call bills of material) that are defined by their interdependencies as well as

WHILE LEVEL 3 INTRODUCES PROFITABILITY DRIVERS AS A KEY CONSTRUCT, LEVEL 4 DIMENSIONALIZES HOW THOSE DRIVERS REALLY OPERATE.

their dependencies. If, say, a manufacturing firm is at least partially self-sufficient in its use of energy, it converts fuel and water into steam and then steam into electricity and electricity into machine hours. That's the dependency. But electricity is used to run the steam plant, and manufacturing by-products may be used as fuel to convert water to steam. The Level 4 business can fundamentally specify and track these interdependencies.

It can deploy them to create a credible operating plan and also a reporting and control system tied to the financial reporting and control system.

Level 4 knowledge also introduces profound understanding of the multiple and interdependent constraints that often define the ITO system capabilities. The business recognizes that its system is composed of interconnected resources on which processes are performed. It knows the capacities of those resources and the recipes for performing the processes and the process speeds. The business knows and has documented how costs actually vary as processes are performed on those resources. (It knows how they vary per input and output unit, as well as resource unit, and how they are impacted by process yields.) And, yes, it knows where the defining constraints lie.

While Level 3 introduces profitability drivers as a key construct, Level 4 dimensionalizes how those drivers really operate. At Level 4, the business knows that only three relations are required to understand and account for all operating dependencies:

Relation 1. There is stuff in, stuff out, and process yield.

Relation 2. A factor cost per output unit is completely

defined by resource units per output unit, factor consumption per resource unit, and cost per factor unit.

Relation 3. It isn't contribution margin per output unit that drives the system—it's contribution margin per key resource unit. (Thus, Level 4 is a better platform for understanding product-line profitability than Level 3.)

That's it. That's all there needs to be. At this point some of you may be asking, “Isn't this activity-based costing (ABC)?”Well, Level 4 is what ABC wanted to be when it grew up and before most businesses turned it into an elaborate overhead-allocation exercise.

Level 4's vocabulary greatly depends on applying contemporary technology. This knowledge must reside on an information- and decision-support platform that possesses the following characteristics:

1. An integrated model of the business that can withstand engineering and scientific scrutiny.
2. The ability to credibly reproduce the firm's Level 1 financial reporting through the model (i.e., it can withstand accounting scrutiny).
3. The ability to deploy the model to react rapidly to tactical and environmental changes—not just produce a plan.
4. The capacity to fundamentally deploy the model for strategic analysis and decision making.

   Many businesses possess enough integrated Level 4 knowledge to create a very credible annual operating plan, but only a few have truly reached this level on a continuing basis.

LEVEL 5 FINANCIAL KNOWLEDGE

The transition into Level 5 financial knowledge is accomplished only with very contemporary supporting systems, structures, and processes. You'll know it when you see it, but there are three primary ingredients for getting there.

1. Substantive cost/volume/profit knowledge and supporting information-handling structures (i.e., Level 4).
2. Very contemporary business process modeling that fundamentally maps the input/throughput/output interrelationships and constraints across the entire business.
3. A contemporary optimization platform that accommodates the business model and allows the business to simultaneously optimize its ITO system in terms of all flows through the system (product mix, sourcing, resource utilization, etc.).

Table 1: Differences in Level 1 and Level 2 Profitability Templates

Level 1 P&L Template	Level 2 P&L Template
Sales	Sales
Less: Cost of Sales	Less: Variable Cost
Gross Profit	Contribution Margin
Less: SG&A	Less: Fixed Costs
Operating Profit	Operating Profit

Table 2: Level 3 Minimum Spec CVP Categories

1. Unit volume. The number of units of output produced and sold (as in Level 2).
2. Gross price. The average gross price per unit of volume.
3. Materials cost per unit. For the average manufacturing firm, this might constitute all materials. For firms with one primary material (pulp for paper making, for instance), we might have two materials categories.
4. Variable labor costs per unit. Getting a reliable measure on what portion of direct labor is variable can be challenging but is often critical.
5. Variable processing costs per unit. This could include a variety of dimensions, but energy and water are prime examples.
6. Fixed manufacturing costs. This measure would include all cash expenses that don't generally vary with changes in output.
7. Revenue-variable S&A expenses. This measure includes all expenses that vary with dollars of revenue (as opposed to units). Sales commissions and royalties are examples. It is important to distinguish here how expenses are actually incurred vs. how they are budgeted.
8. Unit-variable S&A expenses. This includes all variable S&A expenses that vary with units sold, such as freight charges.

   (The reader should grapple with understanding that separating revenue-variable from unit-variable expenses has enormous pricing and other business-knowledge implications.)
9. Fixed S&A expenses. This includes all cash S&A expenses that don't vary with unit volume.
10. Manufacturing fixed assets. This is the end-of-year book value (net of depreciation) of manufacturing fixed assets.
11. S&A fixed assets. This is the end-of-year book value of S&A fixed assets.
12. Depreciation rate on ending fixed assets. Note ending vs. beginning.
13. Receivables turnover. This is the number of times that customer receivables turn over each year, which is defined as sales divided by ending receivables.
14. Materials turnover. This is the number of times that raw materials turn over each year and is defined as total annual materials cost divided by the ending value of materials inventory.

15. Work-in-process and finished goods turnover. This is the number of times WIP and finished goods turn over each year and is defined as cost of goods sold divided by the ending value of this inventory.

THE CAPACITY TO OPTIMIZE ACROSS TIME IS A HUGE INCREMENT IN AT LEAST THE APPLICATION OF KNOWLEDGE—AND MOST PROBABLY KNOWLEDGE ITSELF.

Thus, the essence of Level 5 financial knowledge initially is captured by the capability to fundamentally optimize the business—at least in a planning mode.

Although business-level financial optimization is only just getting into the knowledge-management capability of more sophisticated firms, it will come on quickly. In high-volume process industries it will soon be required to continue participating in the industry. Other industry categories may move more slowly, but the following new best practice is now observable. To enter Level 5, a company has already taken the following steps:

1. The business has mastered Level 4.
2. The whole business, not just part of it, has been fundamentally mapped and modeled at a substance level where modern optimization solvers are imbedded in the model.
3. The business has thoroughly validated the model. It has selected real historical time periods and recreated actual flow volumes and financial reports throughout.
4. The business has "deconstrained" the validated model and begun to fundamentally learn the optimization relationships across its systems. A validated optimization model always creates significant new knowledge.
5. The business has acted on the more tactical-level profit-enhancing opportunities the model offers. The outcomes of these tactical actions are further reinforced and refined in the model, which is a principal tool for all continuous-improvement project selection and justification.
6. The business has internalized the model's use as a condition for all capital justification and strategic analyses. Again, you'll know it when you see it.

   The Level 5 vocabulary of optimality includes two other constructs that greatly facilitate knowledge building.

   The first is opportunity cost. In an interdependent, multi constraint ITO system, the opportunity cost of another resource unit, another labor hour, another source of materials, another unit of saleable product—and so on— greases the whole decision-making process. To return to our steam, electricity, and operating machine example, if each is constrained, which has the highest opportunity cost? Which one should receive the infusion of capital first? On which can we go outside for added capacity (OK, outsource), and which must be internally upgraded?

Knowledge of opportunity cost greatly enhances pricing decisions and negotiations, and it provides the platform to vastly improve priority setting and to allocate scarce resources. Since the marketplace is often a highly binding constraint in an optimized system, opportunity cost constitutes an ultimate measure of customer profitability

(e.g., the next customer).

A by-product of opportunity cost is Level 5's second key construct—decision making at the margin. Although marginal analysis is done at any level of financial knowledge, at Level 5 it almost defines the way the system works. For example, unless a business has reached this level, a decision to outsource a key process lacks sufficient knowledge for dealing effectively with all the interdependencies.

Or, for instance, a decision to bring in semifinished units and avoid the capital necessary for expanding a constrained resource has a huge number of impacts across the system. It can radically impact the optimal product mix, the energy balance, and optimal sourcing. And it can literally change the whole face of the business when, at the margin, you move from one optimum to another optimum. Even a Level 4 business has trouble coping with these interdependencies because it lacks the capacity to specify what is best in an absolute sense.

You can't overestimate the importance of enterprise wide enhancements available to a Level 5 business.

Whether it concerns resource allocation to competing remote sites, decisions to open/close, intrasystem transfers, inventory swings, etc., the enterprise has more profound knowledge. And this knowledge allows it to move faster and more intelligently with the best interests of the entire system in mind.

I once worked for a CEO who excelled at what he termed back-of-the-envelope economics. Of course, you can't put Level 5 knowledge on an envelope. It takes contemporary technologies supporting the company's desire to get there. Yet the prize is worth the chase.

LEVEL 6 FINANCIAL KNOWLEDGE

At Level 6, a business not only exhibits Level 5 knowledge, but it can apply it across multiple time periods. Is reaching this level really that big of a jump from the previous level? The contention here is that the capacity to optimize across time is a huge increment in at least the application of knowledge—and most probably knowledge itself.

There are several driving constructs behind the financial advantages of optimizing across time. The first driving force is simply the ability to plan through seasonality in a profit-optimizing fashion. Whether this seasonality is in demand, factor prices, or resource productivity, the capability to deal optimally with the seasonality is Level 6's principal defining characteristic.

A second driver, which is highly interdependent with seasonality, manages periodically slack or constrained resources. As a highly interdependent ITO system faces seasonality, it may use its knowledge to optimally deploy periodic slack resources to buffer the flows through the system via buildups and drawdowns in various inventories.

For instance, suppose we have a highly seasonal business, we possess several similar machines with different run speeds/yields across product lines, we can deploy some work-in-process and finished inventory, and we must take down each machine for preventive maintenance at least twice each year. A Level 6 firm would know exactly how to simultaneously optimize production (and mix), inventory buildups/drawdowns, and machine takedowns each time period across the planning cycle.

Businesses have always had to do this, of course, but at Level 6 they do so with profound enterprise-wide knowledge rather than within subsystems.Multivendor, multisite, multigeography, logistically complicated businesses will be hugely impacted when they can approach Level 6 capability across multiple time periods.

Another driving concept is the capability to manage the uptime/downtime sequencing of key resources across multiple time periods with the optimality of the enterprise governing the decision-making process. The interdependent complexities across a business that has a tricky need for preemptive maintenance can single-handedly justify the pain of moving to this knowledge level. I'll even go so far as to say that to avoid capital spending by more profoundly managing uptime and downtime across time periods will in itself pay back the investment in gaining Level 6 knowledge.

A further driving concept behind moving to this level is the more fundamental ability to manage the complexity of multi resource, multi product / service setup times, run lengths, and run speeds across time periods — especially in just-in-time (JIT) environments.

A final driver is that it doesn't take a business leader long to tune in to an absolutely basic principle of financial knowledge: Profit flows don't equal cash flows. Yet this basic principle needs Level 6 business-wide modeling to receive optimal treatment. Inventory buildups and drawdowns and the behavior of receivables in a seasonal environment highly impact the profit flow vs. cash flow principle. It takes very sophisticated business models that optimize the enterprise to truly deal with these complexities.

The Level 6 fraternity contains very few members. Those who have moved past Level 5 into an optimality model with many time periods have done so primarily within a planning framework. But Level 6 comes with dramatic, enterprise-level payoffs to those willing to take the journey.

COLLECTIVE MASTERY

Management accounting can provide a business with the decision-support environment in which it can evaluate its financial knowledge level and establish a target-setting vehicle for continuous improvement. Knowledge, though, is only the beginning. At each level, we seek to achieve a greater sense of mastery, which implies that we not only possess knowledge but have the understanding and confidence to act on that knowledge in a way that leads to superior financial outcomes. Knowledge is an absolute prerequisite, but collective mastery is the ultimate objective.

By "collective mastery" I imply that knowledge is broadly and deeply shared within the business and that individuals possess the knowledge, resources, and skills to master the operating requirements of the interconnected processes.Moving up the levels of knowledge is well worth it. n George E. Manners, Jr., is a professor of accounting and management at Kennesaw State University in Kennesaw,

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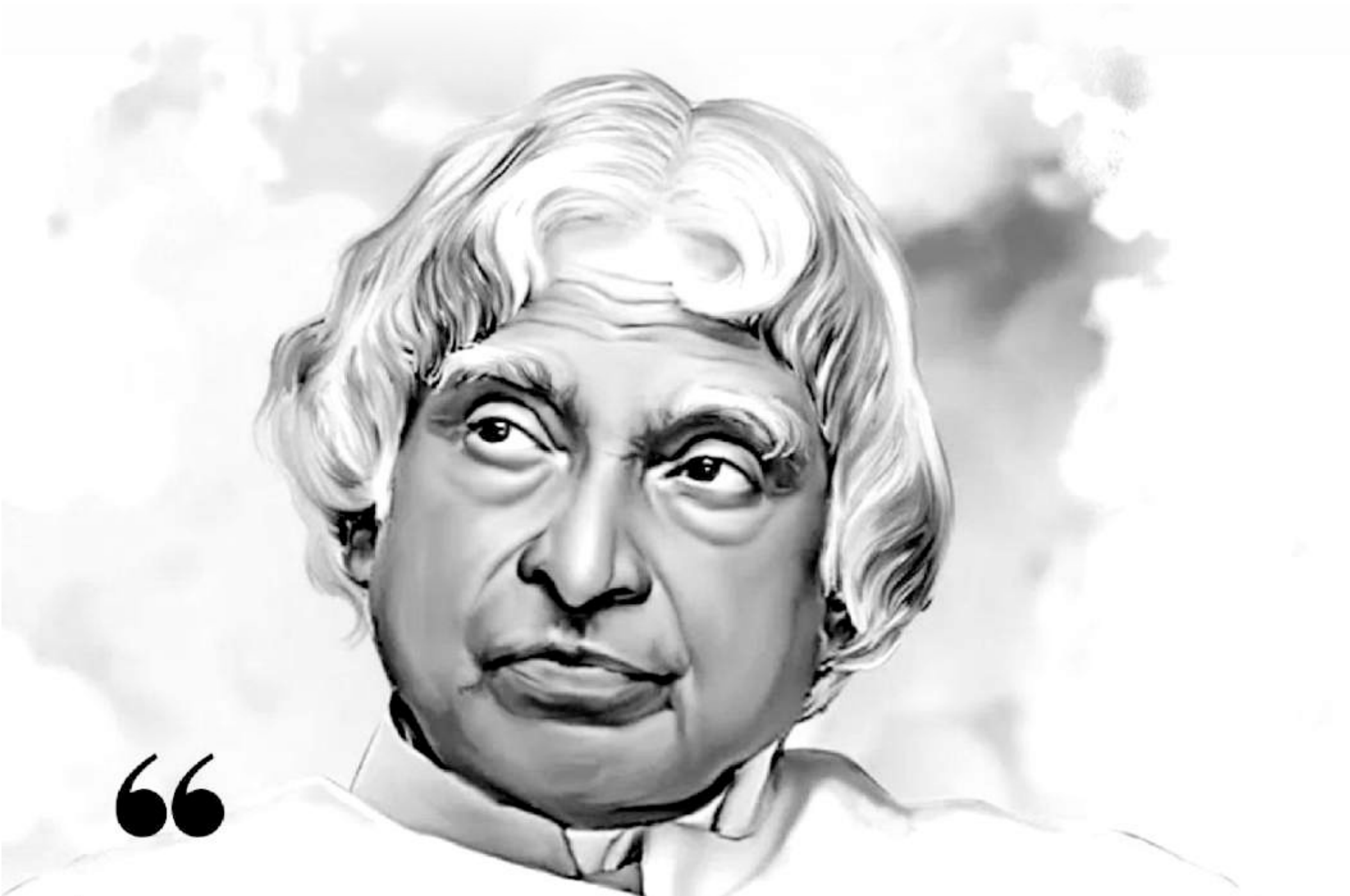

> Look at the sky. We are not alone. The whole universe is friendly to us and conspires only to give the best to those who dream and work.
>
> **- APJ Abdul Kalam**

COMPLIANCE CALENDAR
October 2023

source: EZtax.in

7	TDS Payment for Sep 2023
10	Professional Tax (PT) on Salaries for Sep 2023
	Professional Tax Due Date Varies from State to State. Kindly Contact eztax.in for Expert help.
11	GSTR 1 (Monthly) for Sep 2023
13	GSTR-1 (Jul-Sep 2023) for QRMP
14	ADT-1 filing (Appointment of an Auditor for Companies)
15	TCS Return in Form 27EQ for Jul-Sep 2023
15	Provident Fund (PF) & ESI Returns and Payment for Sep 2023
15	Issue of TCS Certificates in Form 27D for April to June 2023
18	CMP 08 for July to Sep 2023 (Composition)
20	GSTR 3B for Sep 2023 (Monthly)
22	GSTR 3B (Jul-Sep 2023) for South India
24	GSTR 3B (Jul-Sep 2023) for North India
29	AOC 4 Filing for Companies for FY 2022-23
30	Form 8 Filing for LLP's for FY 2022-23
30	TDS Payment in Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments) for Sep 2023
30	Issue of TCS Certificates in Form 27D for July to Sep 2023
31	Income Tax Returns for Non Corporate's who needs Audit and Corporates for FY 2022-23
31	TDS Returns in Form 24Q,26Q,27Q for July to Sep 2023

PHOTO GALLERY

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