

# INTERMEDIATE

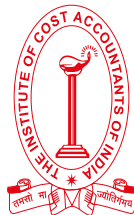
## VOL. 2 NO. 2

### FEBRUARY, 2017 ISSUE

( SYLLABUS 2016 )



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**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**  
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Behind every successful business decision, there is always a CMA



## Message from the President

*Dear Students,*

*Greetings!!!*

*"Education is not preparation for life; education is life itself" -John Dewey.*

From our Late visionary President one inspirational message you please carry in your mind about your future career from the day one of your joining is: *"If we have to succeed in the globalized world, we have to enlarge the scope of Cost Audit to cover all aspects of manufacturing and service sector activities including healthcare and education"*. Love your course curriculum, dedicate yourself for your achievement from day one and be determined; see that success will surely follow.

You, being the future torch bearer of the Institute please try to be instrumental in *'Make in India'* initiative of our Prime Minister and see it successful. You are having enormous responsibility on your shoulder. From the very beginning, you please try to dream big and eventually you will see that it happened.

My sincere thank goes to all the eminent writers, who, despite their own busy schedules have contributed in these editions of e-bulletins.

I must appreciate the efforts of all the employees of the Directorate of Studies to come out timely with this issue.

I have full faith on your capacity and strength and I believe that you will deliver your best in the years to come and will make your Institute and your country happy.

I want to put an end with the words of Les Brown- *"Shoot for the moon. Even if you miss, you'll land among the stars"*.

*CMA Manas Kumar Thakur  
President  
The Institute of Cost Accountants of India*

*Be a CMA, be a Proud Indian*

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



## Message from the Chairman

I am delighted to know that your responses about the E-bulletin are received by the Directorate of Studies with positive notes.

Thomas Henry Huxley said that *"Zeal without knowledge is fire without light"*. The Directorate of Studies is trying to boost up your energy level towards this by the publication of these issues and your duty is to extract the best out of it. With your study notes, if you try to cater your knowledge from all other available resources like RTPs, MTPs and prepare sincerely from the very beginning, you must succeed in the examination and fulfil your dreams timely.

*"The best way to predict the future is to create it"* said by Abraham Lincoln. So, from the very beginning, you must try to practice reading in a regular basis.

There is a maxim like-'No risks, no gain' in support of this view Swami Vivekananda also said that *"Take risks in your life. If you win, you can lead! If you lose, you can guide"*.

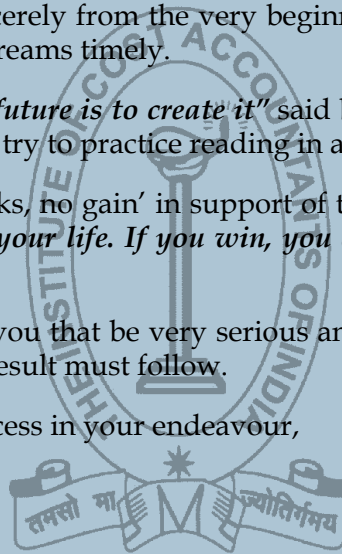
My sincere requests to all of you that be very serious and sincere towards your study from very beginning see the result must follow.

Wishing you all- A Great Success in your endeavour,

**CMA Pappa Rao Sunkara**

**Chairman**

**Training & Education Facilities (T & EF) Committee**



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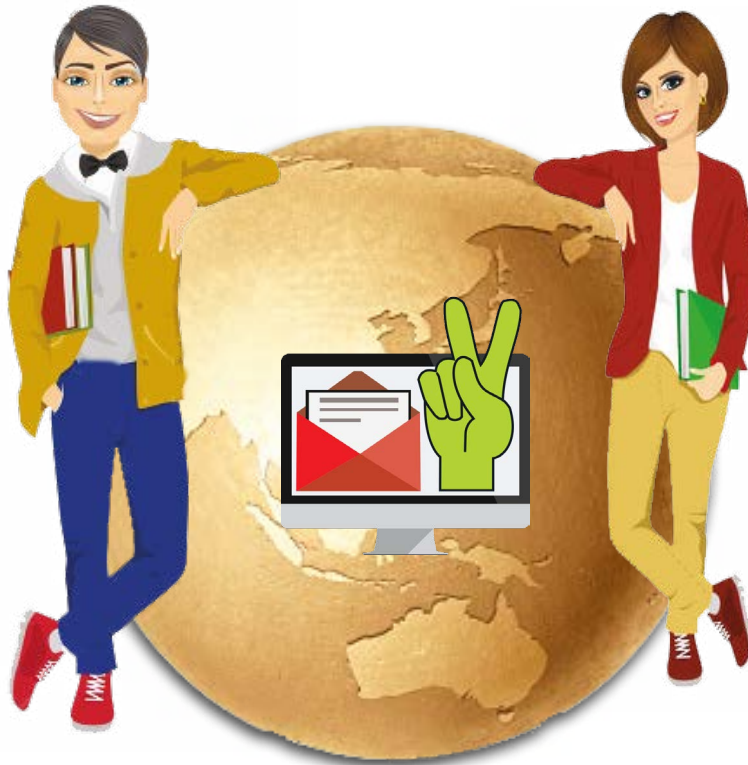
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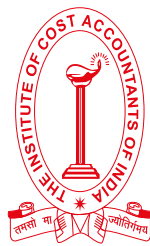
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# KNOWLEDGE

# UPDATE



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



**Group: 1**

**Paper: 5**

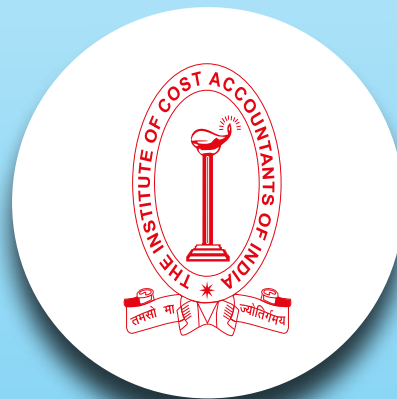
# **FINANCIAL ACCOUNTING (FAC)**

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*Your Preparation Quick Takes :*

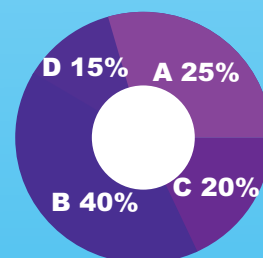
### **Syllabus Structure**

A Accounting Basics 25%

B Preparation of Financial Statements 40%

C Self Balancing Ledger, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts 20%

D Accounting in Computerised Environment and Accounting Standards 15%



**Learning Objective:**

- Students will demonstrate their knowledge of the fundamental and technical concepts of accounting.
- Students will reveal critical-thinking and problem-solving skills.
- Students will exhibit the ability to recognize when change is appropriate, to adapt to change as it occurs, and to take the lead in creating change.
- Students will display a sense of responsibility and a capacity for the subject after learning

**SELF BALANCING LEDGER**

It is a system of accounting through which the accuracy of accounts are better managed and controlled. For every account one parallel control account is maintained to capture the reverse entries. for example if Debtors ledger control a/c shows a debit balance of Rs.30000 in the General ledger there must be a credit balance of Rs.30000 in the General ledger control account in the Debtors ledger. To control the whole system following accounts are opened:

1. In the general ledger : debtors ledger control account and creditors ledger control account.
2. In the debtors ledger : general ledger control account.
3. In the creditors ledger: general ledger control account.

Before we learn how to proceed for self balancing ledger let us peep to the following tables :

**Format of Debtors Account**

Debit	RS	Credit	RS
Opening balance.		Here in this side you have to enter such items for which debtors balance decreases	
Here in this side you have to enter such items for which debtors balance increases		Closing balance	

**Format of Creditors Account**

Debit	RS	Credit	RS
Here in this side you have to enter such items for which creditors balance decreases		Opening balance	
		Here in this side you have to enter such items for which creditors balance increases	
Closing balance			

Before we discuss the concept of self balancing ledger let us explain the above tables. The debit side of the debtors account contains all such items for which debtors balance increases. For example :

1. Credit sales : due to credit sales the balance of debtors increases. Therefore credit sales will be debited in the debtors account. To illustrate, the journal for credit sales is

Debtors a/c .....dr  
 To Sales a/c

If we post the above entry in the debtors ledger sales will be debited in the debtors account. However if we follow the above table you need not have to pass the journal entries and directly you can post the entries based on the above concept.

The credit side will take care of such items for which will reduce the debtors balance. For example :

2. Bad Debt : due to bad debt the debtors balance decreases and hence it will be credited to debtors account. Similar way if you pass the journal entry it will be

Bad debt a/c.....dr  
 To debtors

If we post the above entry into ledger bad debt will be posted to the credit side of Debtors account.

3. If there is a payment to creditors it reduces the balance of creditors and hence will be posted to the debit of creditors account. You can make it through the ledger posting of the following journal

Creditors a/c.....dr  
 To bank a/c.

Now let us see the technique of preparing a control account with the above idea.

**IN THE GENERAL LEDGER  
DEBTORS LEDGER CONTROL ACCOUNT**

DEBIT	RS	CREDIT	RS
TO opening balance		By G.L.Control A/C:	
To G.L.Control A/C :		Here in this side you have to enter such items for which debtors balance decreases	
Here in this side you have to enter such items for which debtors balance increases		By closing balance	

You could understand now how the above account is opened. Mentally you have to keep the concept of opening a debtors account with a changed format only. Rules will be all the same. Finally the general ledger control account in the debtors ledger will be just a mirror image of the above account as shown below:

**IN THE DEBTORS LEDGER  
GENERAL LEDGER CONTROL ACCOUNT**

DEBIT	RS	CREDIT	RS
To D.L.Control A/C:		By Opening balance	
Here in this side you have to enter such items for which debtors balance decreases		By D.L.Control A/C :	
To closing balance		Here in this side you have to enter such items for which debtors balance increases	

You will be able to prepare the creditors ledger control account using the same process as discussed above. A simple

illustration is given below.:

Date	Transaction	Amount
1.1.16	Balance of debtors	20000
During the year	Credit sale	400000
	Discount allowed	1200
	Payment received	250000
	Bills drawn	50000
	Bills dishonoured	5000
	Provision for bad debt	250

**IN THE GENERAL LEDGER  
DEBTORS LEDGER CONTROL ACCOUNT**

DEBIT	RS	CREDIT	RS
TO opening balance	20000	By G.L.Control A/C:	
To G.L.Control A/C :			
Sale	400000	Discount allowed	1200
		Cash received	250000
		Bills drawn	50000
Bill dishonoured	5000	By closing balance	173800

Note that any kind of provision does not attract debtors balance and hence will not come in the above account. Some other items which does not have any impact in the above account are:

Bad debt recovery. Endorsement of Bills, cash sales etc. for obvious reasons.

Hope this will help you to do better. Keep practising sums from the study notes and past year questions. Best wishes.



**Group: 1**

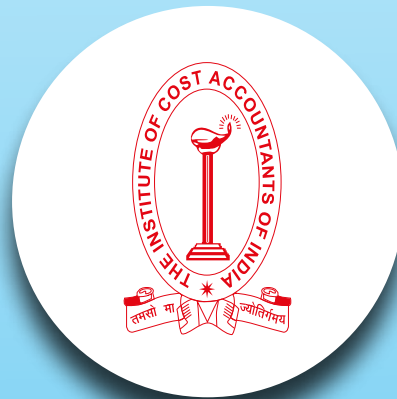
**Paper: 6**

**LAWS & ETHICS (LNE)**

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*Your Preparation Quick Takes :*

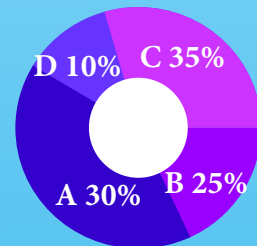
**Syllabus Structure**

**A Commercial Laws 30%**

**B Industrial Laws 25%**

**C Corporate Law 35%**

**D Ethics 10%**



**Learning Objectives:**

Prior to start discussing on the Paper, we need to understand few basic points about the paper.

Unlike other papers, this particular may turn to be very interesting and scoring as well, provided you pay attention to the points discussed below:

- Read the Act carefully and try to know the meaning of the contents in it,
- All the Acts are having practical implications in the real life world and it will help you to solve the problems in your real life situations once you join in the industry and / or practicing field,
- Answers should be specific and to the point,
- Please don't try to elaborate your answers adding irrelevant terms and items ; it may penalise you With the Tips given here, please follow the Suggested Answers and Mock Test Papers of the Institute to have a fair idea about writing the paper in the examination.

**Commercial Laws****Laws of contract**

With the recent advancement of technology businesses have transcended the geographical boundaries. Business deals are being cracked without any restrictions due to constraints of geographical situation of clients and time. This has been made possible due to advancement of information technology and its inclusion in the performance of business i.e. e commerce. E commerce is the buying and selling of goods, services and information through computer network. With the growth of internet and e-commerce a new term e-contract is coined and a rapid advancement is seen in its use.

**What is e contract?**

E-contract is a contract formed in the course of e business between two or more individuals using electronic means. It is a contract specified and executed by a software system. It is very similar to traditional contracts wherein the sellers present their goods and the buyer accepts the offer for sale and makes payment in lieu of the purchase as agreed upon the contract. E contract also has to fulfill all the essential elements of a traditional contract to be valid. The main feature of this type of contract is speed, accuracy and

reliability. The parties to the contract have to obtain digital signature from the competent authority in place of manual signature. The Information Technology Act, 2000 regulates such e- contracts.

**Laws Relating to Sale of Goods Act**

The Sale of Goods act, 1930 deals with the rules relating to selling of movable goods and rights of buyers and sellers due to the transfer. In a contract for sale a seller is in the obligation to deliver specified goods at a predetermined price to the buyer and the buyer in turn is in the obligation to pay for it. Situation may arise where a buyer fails or refuses to pay. In those cases the unpaid seller has certain rights contained in the Sale of Goods Act, 1930. In this issue we will discuss about unpaid seller and his rights.

**Who is an unpaid seller?**

In simple terms an unpaid seller is a person who has been denied of the whole or part of the price for selling the goods by the buyer. The term seller also includes any person who is in the position of the seller, e.g. an agent of the seller. (Refer section 45 of the relevant act).

**Rights of an Unpaid Seller -**

An unpaid seller has

- 1) Rights against goods
- 2) Rights against the buyer personally

An unpaid seller has the following rights against goods -

- a) Lien on goods
- b) Rights of stoppage in transit
- c) Right of re sale

Let us walk through the rights individually for a better understanding -

**a) Lien on goods** - lien is the right to retain possession. Section 47 of the Sale of Goods Act,1930 states that an unpaid seller who is in possession of the goods is entitled to retain the same and refuse to deliver it until the price due in respect of them is paid or tendered.

Please note that lien can be exercised only for nonpayment of price due for the goods ought to be delivered to the buyer as discharge of the contract for sale. It is not for any other charges due to the seller against the buyer. It is a personal right and it cannot be exercised by the seller's assignee or his creditors. However an unpaid seller can exercise his lien even if he is in possession of goods as agent or bailee.

An unpaid seller loses his lien when -

- i) The buyer or his agent lawfully obtains possession of goods

ii) The seller waives his right of lien

iii) The seller takes a security from the buyer for payment of the price in place of his lien

The lien of the unpaid seller is a possessory lien i.e. once the possession is lost the lien is lost.

**b) Right of stoppage in transit** – the right of stoppage in transit means the right of stopping the goods while they are in transit to regain the possession and to retain it till the full price is received by the seller.

It is to be borne in mind that the right of stoppage in transit is earned only when the right of lien is lost and is available only where the buyer has become insolvent. So there must be 3 conditions to be fulfilled to exercise this right –

1) The goods are not in possession with the seller

2) The goods are in transit

3) The buyer must have become insolvent.

Goods are deemed to be in transit from the time when they are delivered to a carrier or a bailee for the purpose of transmission to the buyer until the buyer or his agent takes the delivery of such goods. In this context please note that the carrier must hold the goods in capacity of an independent person. If the carrier holds the goods as an agent of the seller then the question of stoppage in transit does not arise because the seller can then exercise his right of lien. And if the carrier holds the goods as an agent of the buyer then also the right does not arise as the delivery to an agent of the buyer amounts to delivery of goods to the buyer. Another essential feature where the goods are agreed to be delivered at a particular place but the buyer then asks to deliver the same at a different destination then the goods continue to

be in transit till they are taken by the buyer or his agent from that place.

**c) Right of re-sale** – it is an important right to an unpaid seller as against other rights which only give the seller to possess the goods. If the buyer continues to remain in default then this right can be exercised. The seller can resale the goods –

Without serving notice to the buyer if the goods are perishable in nature

After notice to the buyer calling upon him to pay the price within reasonable time, if the buyer fails to do so and the goods are not perishable in nature.

Rights against the buyer personally-

An unpaid seller besides his rights against the goods has the following rights against the buyer personally –

i) Right to sue for price

ii) Right to sue for damage for non acceptance

Right to sue for price- where the goods have passed to the buyer and the buyer wrongfully neglects or refuses to pay the price then the seller can sue the buyer for the price of the goods.

Right to sue for damage for non acceptance – where the buyer refuses to accept and pay for goods, the seller may sue him for damages for non acceptance. Moreover, where the property in the goods has not passed to the buyer and the price is not payable without passing of the property the seller can only sue for damages and not for the price.

Supplement your readings with the study material and books for a deeper understanding of the subject.

# Group: I

## Paper : 7

# DIRECT TAXATION (DTX)

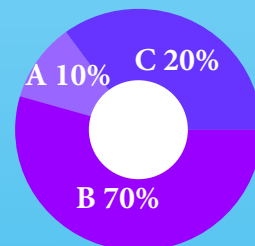
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## Your Preparation Quick Takes :

### Syllabus Structure

- A Income Tax Act Basics 10%
- B Heads of Income and Computation of Total Income and Tax Liability 70%
- C Administrative Procedures and ICDS 20%



**Learning Objectives:**

- Identify the key concepts and functions of direct tax.
- Know how to calculate income tax provision's.
- Describe how uncertain tax positions are accounted for under the rules.
- Gradually you will come to know how to prepare and file tax returns.

**Profits and Gains of Business or Profession: A Systematic Study**

From a perusal of the syllabus it should be clear that as much as 70 percent of the syllabus is earmarked to the computation of income under the various heads of income and the related topics. However, out of the five heads of Income, 'Profits and gains of business or profession' is wider in ambit and complex enough, requiring some extra effort to grasp its essential features. In this brief note we shall identify the core areas where students should focus on. It is expected to serve as a dashboard.

**Learning objectives:**

To identify the relevant provisions of the Income-tax Act

To point out the other thrust areas.

To identify the relevant portion of the Study Note on Group I, Paper 7.

**Basis of charge:** While section 28 provides the basis of the charge ( para 9.2 of the Study Note), students should carefully note the incomes which are not taxable under this head ( para 9.3) even though the source of the income constitute business assets or stock-in-trade.

Computation of income under the head "Profits and gains of business or profession		
Incomes chargeable to tax under section 28		****
Less: Deductions allowed under the Act		****
= Business income		****

Point to note: Income-tax Act does not make distinction between legal income and illegal incomes, therefore, illegal incomes are also taxable. However, to discourage such illegal activities, certain deductions are not allowed in relation to such illegal business.

**General principles of deduction:** Unless otherwise specified, deductions are allowed if the expenses are relating to the business carried out by the assessee during the previous year, and are revenue in character. Students must go through P. 97 of the Study Note to acquaint themselves with the general illustrations of expenses which are allowed and disallowed. Additional examples may be studied from the books prescribed at the end of this note.

**Focus on Depreciation:** Depreciation is an important issue. The following points should be taken care of :

- **Depreciation** at the prescribed rates is available on both tangible and intangible assets owned by the assessee, if the assets are owned (note the exceptions when non-owner can claim depreciation: p. 99 of Study Note) used at least for some time during the previous year for the business. If in the year of acquisition the asset is used for less than 180 days, depreciation shall be allowed @ 50% of the normal depreciation. In the subsequent year, the assessee can, however, claim full depreciation, even though the asset is used for less than 180 days.
- On fulfilment of the conditions specified at P. 98 of the Study Note, additional depreciation shall be allowed @20% (35 % for notified backward areas of AP, Bihar and West Bengal).
- Method of computation of depreciation: Depreciation shall be allowed on the written down value of the assets (WDV) as under:

**Step 1 :**

Find out the WDV of the asset as on the beginning of the previous year. In case of newly acquired block of asset, its actual cost is to be taken.

**Step 2 :**

Add, cost of assets falling within the block of asset acquired during the year.

**Step 3 :**

Deduct, money received during the previous year in respect of asset, which is sold, discarded or demolished together with the scrap value, if any.

The balance (if positive) is the WDV of the block of asset, on which depreciation at the prescribed rate shall be allowed.

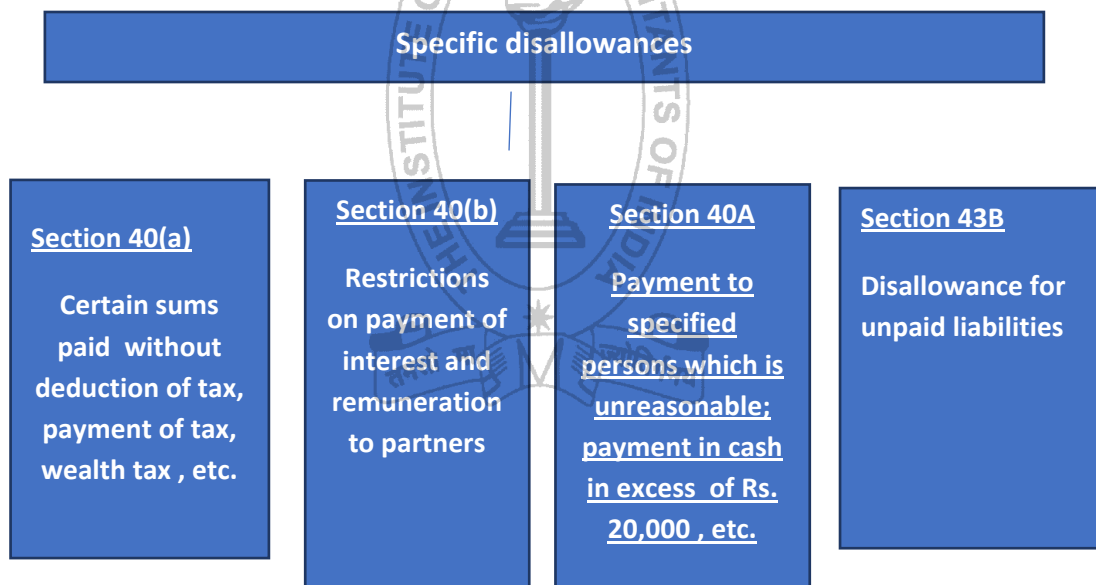
Expenditure on scientific research: The provisions of section 35 relating to scientific research should be carefully studied. A weighted deduction is available as under:

	% of sum spent
Contribution to approved research association and university	175%
Contribution to approved Indian scientific company	125%
Contribution to universities etc. for research in social science or statistical research	125
Contribution to an approved national laboratory	200%
Expenditure by a company on approved in-house research	200%

General deductions u/s 36: Section 36 provides several deductions from business incomes. Most important amongst these deductions are : insurance premiums , bonus and commissions to the employees, interest on borrowed capital, employer's contribution to recognized provident fund, approved gratuity fund, bad debts, family planning expenditure, etc. Students should carefully read the provisions in respect of interest on borrowed capital and bad debts. From the Study Note the list of interest allowed and disallowed as given in the Study Note ( p. 112) should be carefully noted .

Residual deduction u/s 37: The Study Note ( pp. 115-118) contains a list of expenses which are allowed and disallowed. Students should carefully read this list.

Specific disallowance: Under certain circumstances, Income-tax Act makes specific disallowances for certain expenses. These are as below (an exhaustive list is given in the Study Note : para 9.23: pp. 118- 121):



**Deemed profits chargeable to tax [Section 41]:** Recovery against a loss or expenditure allowed earlier, balancing charge, recovery against bad debts , etc. are taxable.

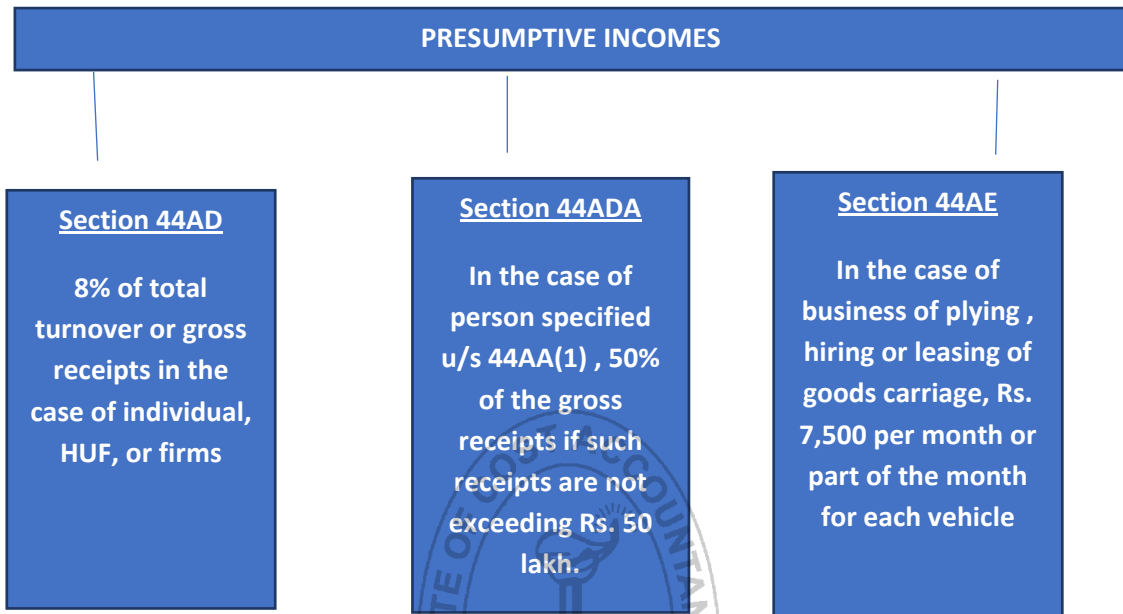
**Undisclosed incomes:** In the following cases, unless the assessee can provide satisfactory explanations, they will be treated as taxable income of the assessee :

Cash credit (section 69); unexplained investment (section 69A); Undisclosed investment (section 69B); unexplained expenditure (section 69C); and amount repaid or borrowed by hundi (section 69D).

Compulsory maintenance of books of account by certain persons [ Section 44A; Rule 6F]: The requirement of the Income-tax Act for maintenance of books of account is based on (a) the financial criteria; and (b) persons specified u/s 44AA. Students should carefully read these provisions [ See Study Note : para 9.26, pp. 123].

**Compulsory tax audit:** Compulsory audit under section 44AB is required, mainly, if (a) in the case of a person carrying on business, the gross receipt / sales turnover exceeds Rs. 1 cr. In any previous year; (b) in the case of a person carrying on profession, the gross receipts exceed Rs. 50 lakh during any previous year.

**Presumptive income:** This is an important area from the examination point of view. Briefly, the provisions are as under :



### Suggested readings:

- (1) Direct Taxation : Group I, paper 7: Institute of Cost Accountants of India
- (2) Income-tax Act, 1961: Taxman.
- (3) Taxman's Direct Taxes : Law and Practice : Taxman
- (4) Principles and Practice of Direct and Indirect Taxes : S.K. Roy , ABS Publishing House, Calcutta.

# Group: I

## Paper 8:

# COST ACCOUNTING (CAC)

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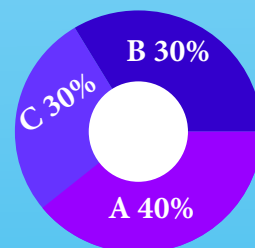
*Your Preparation Quick Takes :*

**Syllabus Structure:**

A Introduction to Cost Accounting 40%

B Methods of Costing 30%

C Cost Accounting Techniques 30%





**Learning Objectives:**

- Before taking the examination, it is necessary to read thoroughly the study material first.
- After that select the suitable text book or reference books available in the market for your further study and follow them.
- Next, follow the question papers of previous years and you will be able to get a general idea about the trend or pattern of questions generally set for this type of examination.
- So, if you want to score high marks then along with practical problems you have to answer properly the theoretical part.
- Due to lack of theoretical concepts they cannot score good marks not only in the theoretical part but also in tricky problems.
- Prepare notes on the theoretical part to improve your performance in the examination.

This paper is most scoring out of the eight papers in the intermediate course, as 65% to 75 % questions are set from practical problems and the rest are theoretical questions. Hence, go through the theoretical part first for easy understanding the topic and then try to solve the problems that are in Exercise. Start reading from chapter one and try to complete the other chapters serially as this will enable you to understand better the succeeding chapters.

Please try to remember that in professional examinations, emphasis is on:

- testing comprehension,
- self expression,
- understanding and
- ability to apply knowledge in divergent situation.

Success of these examinations considerably depends on style of preparation which should have perseverance, regularity of efforts, through practice, vision and objectivity.

The following tips are given based on experience.

1. A well defined plan for completing the syllabus,

2. Go through your Study Note and know the syllabus,
3. Analyse the trends of setting questions,
4. Time – schedule with specified activities, which will help you to avoid procrastination,
5. Clarity of concepts and self expression is essential for success,
6. Improve your speed by practice and revision to be able to attempt all questions in limited time,
7. Finally, develop the habit of reading the question well, underlining and understanding the specific requirements.

As per study material, your **syllabus is divided into six chapters**. The **first chapter** is mainly related to the **concept of cost accounting**.

The **second chapter** described the **Elements of costs** are- Material, Labour and Overheads. Here cost concepts are discussed and analysed- element wise. You must read the scope and objectives of different Cost Accounting Standards. It will help to grasp the concept of Cost accounting easily.

The next chapter is Cost **Book-Keeping**, which includes integrated accounting system. In the system different accounts are to be opened, but it is not necessary to given much effort to complete it.

The chapter **Contract Costing** is important for this type of examination. Students often experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. Make sure that you are familiar with various methods/formulae for different stage of completion and share of profit. Students are also advised to be through on the topic. **“Profit on in completed contracts based on SSAP-9**. Problems on escalation clause used to be set at this level of examination also.

In **Operating Costing** we have to find out operating cost per unit of output. This chapter includes transport costing, power house costing, Hotel/Hostel Costing, Hospital Costing etc. Composite unit is important for solving the problem.

The next chapter **Marginal Costing** aims to find out Cost Volume Profit relationships. The main thrust should be to follow the wording and determine the desired impact on profitability. Break even Analysis and finding the B.E.P. is the basic part for solving the problem. Sometimes a question gives details of costs but not the split into fixed and variable elements. Students are advised to segregate total costs into fixed and variable elements using high low method. For a product of different sales mix, contribution per unit of key factor should be found out and then different options should be ranked on the same basis i.e., contribution per unit of key factor. Based on this ranking, that mix should be used, which given optimum usage of key factor. You should study the effect on profits due to various changes in Fixed cost /

variable cost/ selling price/ sales mix. and the effect of above on BEP, Margin of safety. More than one question is generally set from this chapter.

The chapter **Variance Analysis** aims to create responsibility and to identify the activations or areas of exceptions. The main purpose of variance analysis is to enable management to improve the operation, to utilize resources more effectively, to increase efficiency, and to reduce cost. Depending upon the causes of variance steps should be taken.

The next chapter deals with **Budget and Budgetary control**, which requires the preparation of flexible functional and cash budget. Budget is a predetermined detailed plan of action. Theoretical and problem oriented questions may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students should go through the theoretic parts-like-concept of zero based budgeting, Behavior and classification of Budget etc.

For explaining Budgetary control, following problem may be set:

The manager of a Maintenance Dept. in response to a request, submitted the following budget estimates for his department that are to be used to construct a Flexible Budget to be used during the forthcoming Budget Year:

<b>Details of Cost</b>	<b>Planned at 6000 D.H.</b>	<b>Planned at 9000 D.H.</b>
Salaries (Employees)	Rs. 30000	Rs. 30000
Indirect Repair Materials	Rs. 40200	Rs. 60300
Misc. Cost etc.	Rs. 13200	Rs. 16800

a) Prepare a Flexible Budget for the Departments up to activity level of Rs. 10000 D. H. ( Use increment of 1000)

b) What would be the budget allowance at 8500 direct hours?

We can solve the above problem in the following way-

A) Employees Cost: Same amount at both activities level-fixed

b) Indirect Materials: Cost per D.H. is the same, i.e. Rs. 6.70 at both activity levels – variable.

c) Misc Cost: Cost Per hour Rs. 2.20 at 6000 level, and cost per repair hour Rs. 1.87 at 9000 level –i.e, semi variable.

Hence, variable portion =  $(Rs. 16800 - 13200) \div (9000 - 6000) = Rs. 1.20$

Fixed portion =  $Rs 16800 - (9000 \times 1.20) = Rs 6000$

Total Fixed Cost =  $Rs 30000 + 6000 = Rs. 36000/-$

Total Variable cost per unit =  $Rs 6.70 + Rs. 1.20 = Rs 7.90$

<b>Capacity →</b>	<b>D.H.</b>	<b>6000</b>	<b>7000</b>	<b>8000</b>	<b>9000</b>	<b>10000</b>
Salaries (Emp.) Fixed		Rs. 30000	Rs. 30000	Rs.30000	Rs.30000	Rs. 30000
Indirect Repair Material	(v)	40200	46900	53600	60300	67000
Misc Cost etc. (S.V)		13200	14400	15600	16800	18000
		83400	91300	99200	107100	115000

∴ The Budgeted Allowance for 8500 D.H. –

$(Rs. 7.90 \times 8500) + 36000 = Rs. 103150$

In this way try to solve all problems in your study note as well as exercises of your Text Books.

**Group: II**

**Paper 9:**

**Part 1:**

**OPERATIONS MANAGEMENT &  
STRATEGIC MANAGEMENT (OMSM) /  
OPERATIONS MANAGEMENT**

**Shri Ashutosh Kar**  
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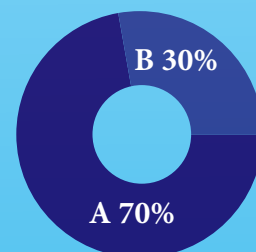


*Your Preparation Quick Takes :*

**Syllabus Structure**

A Operations Management 70%

B Strategic Management 30%



**Learning Objectives:**

- Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments.
- Eventually, student's ability for leadership positions in the production and service industries gets increased.
- To solve business processes, it helps to apply knowledge of fundamental concepts of operations management and helps to apply knowledge of approaches to operational performance improvement.

**Trend Projection Methods in Production Planning**

Production planning is the planning of production and manufacturing modules in a company or industry. It utilizes the resource allocation of activities of employees, materials and production capacity, in order to serve different customers.. Many companies rely on certain mainstay products to drive company profits. To ensure that those products continue to serve its purpose, the company must rely on effective production planning. The process of production planning contains a number of steps, and forecasting is an essential step, because it requires that the company project its production needs into the future. Forecasting might seem purely hypothetical, but companies can utilize forecasting tools to provide as much accuracy as possible.

The Trend Projection Method is the most classical method of business forecasting, which is concerned with the movement of variables through time.

In Production Planning there are many trend projection methods. Calculation of trend is very very essential.

There are three popular trend. They are as follows:

Linear Trend

Parabolic trend.

Exponential Trend..

Let us illustrate linear trend with an example:

Year	2012	2013	2014	2015	2016
Units in thousand	3	4	5	4	5

Here are the number of years are odd. Hence one year is taken as one unit.

$$Y=a+bx$$

The normal equations are

$$\Sigma y= na +\Sigma x$$
 where n is the number of years

$$\Sigma xy=a \Sigma x+ b \Sigma x^2$$

x	y	xy	X <sup>2</sup>
-2	3	-6	4
-1	4	-4	1
0	5	0	0
1	4	4	1
2	5	10	4
Total 0	21	4	10

$$21=5a+0, a=4.2$$

$$4=a0+10x2 b=.4$$

The equation is  $y=4.2+0.4x$

Now if we have to predict the sales for 2017 it will be 5.4 putting  $x=3$  in the equation.  $y=4.2+0.4x$

If the number of years are even 6 months are taken as 1 unit. Let us illustrate with an example

Year	2011	2012	2013	2014	2015	2016
Units in thousand	3	4	5	6	4	8

Here are the number of years are even. Hence 6 month is taken is taken as one unit.

$$Y=a+bx$$

The normal equations are

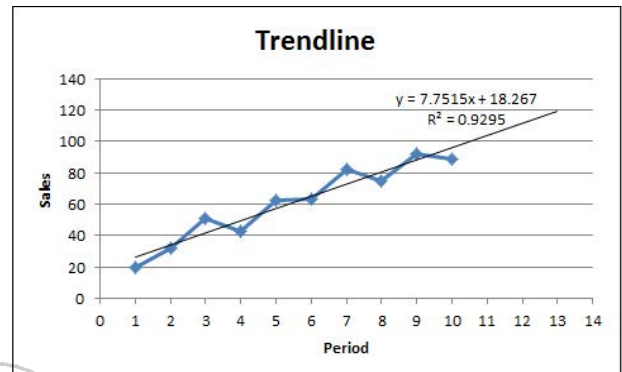
$$\Sigma y= na +\Sigma x$$
 where n is the number of years

$$\Sigma xy=a \Sigma x+ b \Sigma x^2$$

x	y	xy	X <sup>2</sup>
-5	3	-15	25
-3	4	-12	9

-1	5	-5	1
1	6	6	1
3	4	12	9
5	8	40	25
Total 0	30	26	70

The market will play a role in dictating the extent to which customer demand will increase or decrease. If trends indicate that the market for a certain product is about to expand, the company might use this to increase production, but if trends indicate a decrease in market interest, the company might reconsider production needs.



$30 = 6a + b \cdot 0$  therefore  $a = 5$

$26 = a \cdot 0 + 70b$   $b = 0.37$

$Y = 5 + 0.37b$

The prediction for the year 2017 is 7.59

The sums are very important and relevant.

Projecting for the future requires looking into the past, and companies can utilize previous production results to make forecasts for the future. **Best of luck**



**Group: II**

**Paper 9:**

**Part 2:**

# **OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) / STRATEGIC MANAGEMENT**

**CMA Aditi Dasgupta**

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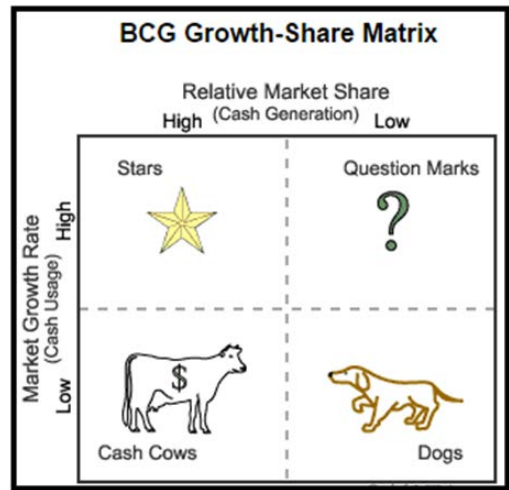


*Your Preparation Quick Takes :*

**Learning Objectives:**

- The course will follow in general terms the strategy development process from audit to formulation of strategic plans, their implementation and evaluation.
- Students will be introduced to strategic management in a way so that their understanding can be better.
- The ultimate aim of the course is to develop students as future managers who will add value by 'strategically managing' the organisation's resources and capabilities.

It is a way of considering the balance and development of a portfolio.



Paper-9/ Operations Management & Strategic Management/ Inter

Part2: Strategic Management

In the previous issue we have discussed about situational analysis which helps in the analysis of the micro and macro environment encapsulating a business or association. In this issue we will walk through Portfolio analysis and its types. As we know every association except the smaller ones have more than one product in their offering to the public and at times it becomes a matter of great concern to decide the amount of resources to be allocated to the various products in the company portfolio.

The systematic analysis of the products and or services in the company's portfolio and the decision for allocation of company's resources is known as Portfolio analysis. It helps in answering two W's i.e. to Whom and to What extent the resources are to be allocated. Portfolio analysis is an important strategic decision to be made by the top level managers.

There are various tools to help the managers to decide the portfolio and resource allocation for their business. Each tool focuses on to balance the portfolio, to maintain the attractiveness of the portfolio so that there is perpetual growth in the business and also make a fit that the businesses have with each other in terms of potential synergies.

One of the most common and long standing ways of conceiving of the balance of portfolio of businesses is in terms of the relationship between market share and market growth as identified by the Boston Consultancy Group or the BCG Matrix, as commonly called.

The growth share matrix permits business units to be examined in relation of market share and market growth rate.

The exhibit above represents the approach and shows the terms typically used to refer to the types of businesses in a portfolio of an association. Resources are allocated as to where in the matrix the business is situated.

Cash Cow – it is referred to those business units that thrive in a matured and slow growing industry with a large market share. Because the growth in the market is low and market conditions are more stable they require little investment for marketing. But a high relative market share means that the business unit should be able to maintain unit cost levels below those of the competitors. As they generate cash with least cost they are also called the cash providers or the financiers and can be used to finance the question marks.

Question Marks – it is also called as the problem child of an association. It is a business unit in a growing market but without a high market share. They require heavy cash investments to gain market share but don't really guarantee as to whether they can achieve sufficient cost reduction benefits to offset such investment.

Star -it is a business unit that has a high market share in a growing market. Stars generate cash but to maintain their growth and lead in the rapidly growing market they require investment. A successful star may become a cash cow when the industry matures.

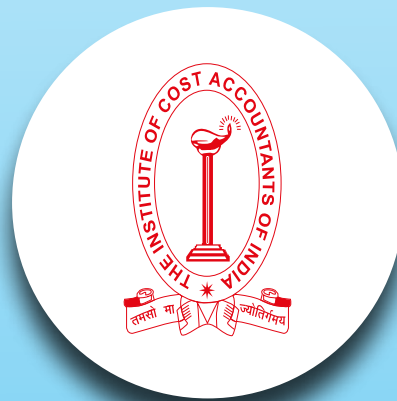
Though the BCG matrix suffers from certain limitations in terms of overemphasizing of high growth market etc yet it provides a framework for allocating resources among different business units of a concern.

# Group: II

## Paper 10:

# COST & MANAGEMENT ACCOUNTING & FINANCIAL MANAGEMENT (CMFM)

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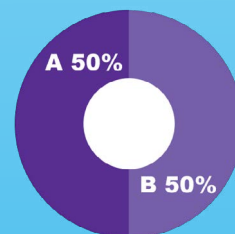


*Your Preparation Quick Takes :*

### Syllabus Structure

A Cost & Management Accounting 50%

B Financial Management 50%





**Learning Objectives:**

The paper Cost & Management Accounting and Financial Management (Group II; Paper 10) is a unique blend of theoretical elaborations and practical illustrations. The aim of this paper is to equip the students with a working level knowledge regarding the two disciplines and prepare a ground for a few advanced level papers like Strategic Financial Management (Final Group 3: Paper 14), Strategic Cost Management – decision Making (Final Group 3: Paper 15) and Strategic Performance Management and Business Valuation (Final Group 4: Paper 20) in the CMA Final Course. The entire syllabus of the paper is segregated

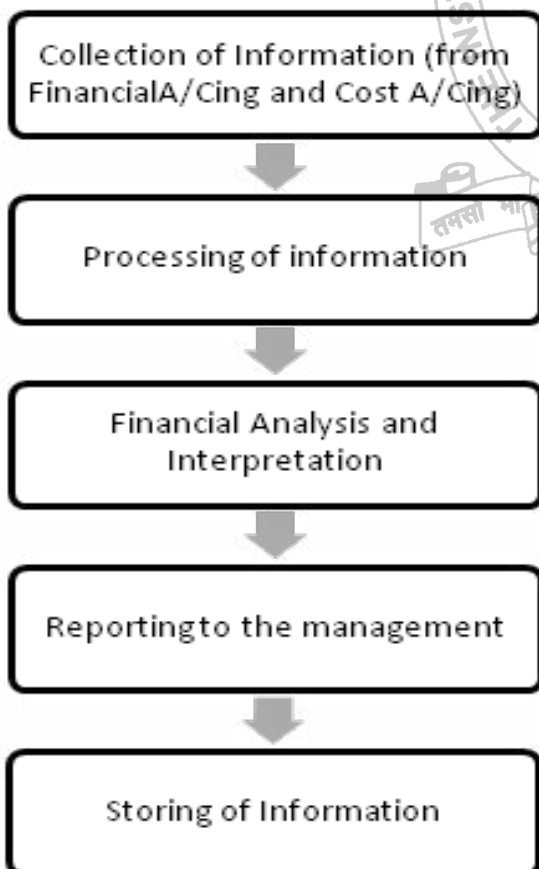
into two segments namely Cost & Management Accounting (Section A: Full Marks 50) and Financial Management (Section B: Full Marks 50). Each of the individual sections has further been divided into five chapters each highlighting a specific aspect of the subject concerned.

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

**Section A****Chapter 1: Cost and Management Accounting**

- Functions of Management Accounting:**

The functions of management accounting are similar to that of an information management system. i.e.

**Chapter 2: Decision Making Tools**

- Marginal Costing Equation:**

Marginal costing equation shows the basic logic underlying marginal costing. It is defined as –

Sales – Variable Cost = Contribution = Fixed Cost + Profit i.e.  $S - V = C = F + P$ .

- Marginal Costing and CVP Analysis:**

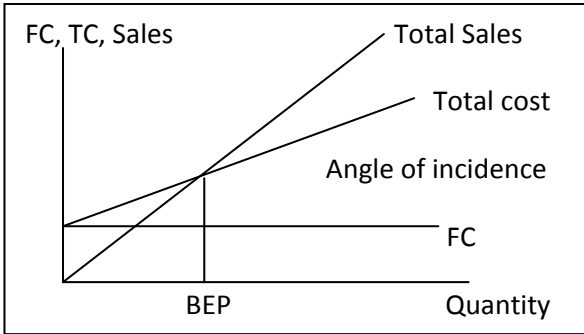
CVP analysis basically explains the relationship between cost (variable and fixed), volume of production (i.e. quantity produced) and profit based on the concept of marginal costing.

- Important Formulas under CVP Analysis:**

1. Profit Volume Ratio or Contribution to Sales Ratio =  $\frac{\text{Contribution}}{\text{Sales}}$
2. Variable Cost Ratio =  $\frac{\text{Variable Cost}}{\text{Sales}} = 1 - \text{P.V Ratio}$
3. Break-even Point (units) =  $\frac{\text{Fixed Cost}}{\text{Contribution p.u.}}$
4. Break-even Point (value) =  $\frac{\text{Fixed Cost}}{\text{P.V Ratio}}$ .
5. Margin of Safety =  $\text{Actual Sales} - \text{BEP Sales}$ .  
Or, MOS (value) =  $\frac{\text{Profit}}{\text{P.V Ratio}}$ .
6. Target Profit from a given sales =  $(\text{Actual sales} \times \text{P.V Ratio}) - \text{Fixed Cost}$ .
7. Target Sales for a target profit =  $\frac{\text{Fixed Cost} + \text{Target Profit}}{\text{P.V Ratio}}$

8. Cost Break-even Point = Difference in Fixed Cost/ Difference in variable cost p.u.

**Break-even Chart (Normal):**



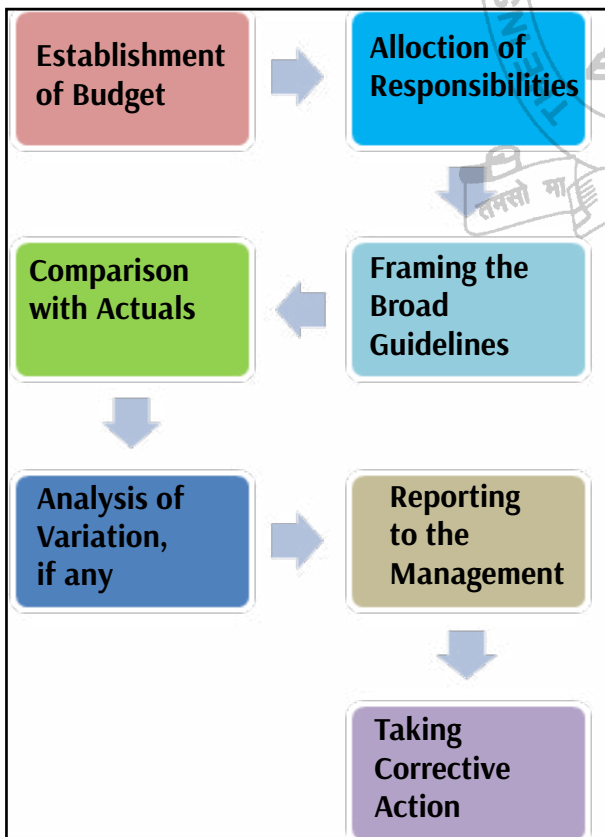
**Angle of Incidence:**

Angle of Incidence is an angle formed at the intersection point of total sales line and total cost line in a formal break even chart. If the angle is larger, the rate of growth of profit is higher and if the angle is lower, the rate of growth of profit is lower.

**Chapter 3: Budgetary Control**

**Steps in Budgetary Control:**

Budgetary control involves the following steps:



**Types of Budget:**

**Functional Budget:** It is the budget of any particular functional area of the organization. Functional budget includes –

1. Sales Budget
2. Purchase (of Goods) Budget (Qty, Value)
3. Production Budget (Qty, Value)
4. Raw Material Consumption Budget (Qty)
5. Raw Material Purchase Budget (Qty, Value)
6. Manpower Budget (Total Hours/ No. of men)
7. Wages Budget (Value)
8. Overhead Budget (Value)
9. Cash Budget (Value)
10. Master Budget (Value)

**Fixed vs. Flexible Budget:**

Fixed budgets are rigid. These are prepared for a given task, for a definite time frame.

Flexible budgets, on the other hand, are prepared for a number of alternative levels of production.

**Chapter 4: Standard Costing**

**Standard Costing vs. Budgetary Control:**

**Similarities:**

1. Both are cost control techniques.
2. Both require analysis of variance.
3. The concepts are contemporary.
4. These are interrelated.
5. Standards are often indispensable for establishing budget.

**Dissimilarities:**

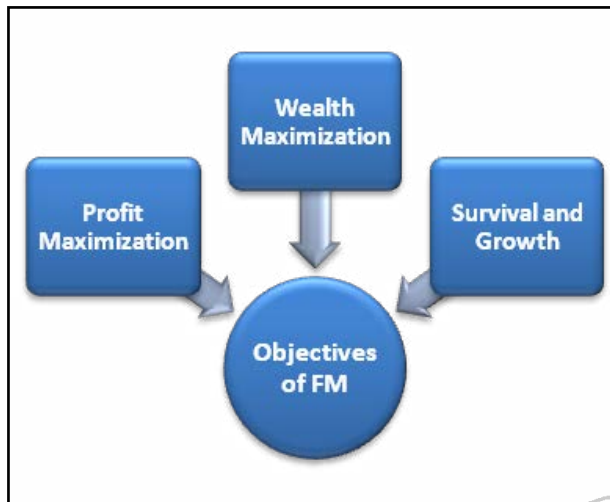
1. Budgetary control can exist even without standard costing.
2. Standard = Unit Concept, Budget = Total concept.
3. Budgets are the ceilings beyond which the expenditures should not go normally. Standards are efficiency targets.
4. Budgetary control has a vast application, standard costing has limited scope,
5. Adherence to budget saves a business from difficulties; standards provide scope for possible improvements.

**Section B: Financial Management**

**Chapter 6: Introduction to Financial Management**

**Objectives of Financial Management:** A company may

have any one or more of the following as the objectives of Financial Management.



**Profit Maximization vs. Wealth Maximization; The Eternal Conflict:**

<b>Profit Maximization; What it is?</b>
It means to maximise the surplus of revenue over cost.
<b>Arguments in Favour:</b>
<ul style="list-style-type: none"> <li>Profit is a measure of efficiency, so higher profit means higher efficiency.</li> <li>Profit ensures survival</li> <li>It promotes optimal allocation of scarce resources.</li> </ul>
<b>Arguments against:</b>
<ul style="list-style-type: none"> <li>It is a subjective concept. Which profit is to be maximized is not sure.</li> <li>Ignores risk factor. Higher profit may come at the cost of higher risk.</li> <li>Ignores time value of money.</li> <li>Competitive market may not allow profit to be maximized by all.</li> <li>Social responsibility of business may be overlooked.</li> </ul>
<b>Wealth Maximization; What it is?</b>
Wealth = Shareholders' wealth = market capitalisation of shares = MPS×No. of shares.

<b>How to Maximise the Wealth:</b>
Expectation of shareholders influence the market price most in the long term. Since their expectation is fulfilled if best projects are always taken up, wealth can be maximised by maximising the NPV of projects undertaken.
<b>Arguments in Favour:</b>
<ul style="list-style-type: none"> <li>Ensure long term objectives.</li> <li>Considers time value of money</li> <li>Takes into account risk by adjusting the discounting rate</li> </ul>
<b>Arguments against:</b>
<ul style="list-style-type: none"> <li>Conflict between owner and management may create alignment problem.</li> <li>Ignores customer satisfaction.</li> <li>Based on the assumption of efficient capital market which says market value is the economic value. This may not be true always.</li> <li>May increase income disparity further.</li> </ul>

**Chapter 7: Tools for Financial Analysis and Planning**

**Financial Ratio Analysis:**  
A financial ratio is a relative measure. Financial ratio analysis attempts to compare financial ratios either over time or across firms to assess a particular aspect of the company.

**Aspects analyzed by Financial Ratio Analysis:**

Profitability	Based on Sales	Based on Investment
	<ul style="list-style-type: none"> <li>Gross Profit Ratio</li> <li>Net Profit Ratio</li> <li>Operating Profit Ratio</li> <li>Operating Ratio</li> </ul>	<ul style="list-style-type: none"> <li>Return on Capital Employed</li> <li>Return on Equity</li> <li>Return on Common Equity</li> </ul>

Liquidity	<u>State of Liquidity</u> <ul style="list-style-type: none"> <li>• Current Ratio</li> <li>• Quick Ratio</li> <li>• Super Quick Ratio</li> </ul>	<u>Liquidity Generating Capacity</u> <ul style="list-style-type: none"> <li>• Receivable Turn over</li> <li>• Payables Turnover</li> <li>• Inventory Turnover</li> <li>• Working Capital Turnover</li> </ul>
Solvency	<u>State of Solvency</u> <ul style="list-style-type: none"> <li>• Debt-equity Ratio</li> <li>• Asset-proprietorship Ratio</li> <li>• Capital Gearing Ratio</li> </ul>	<u>Coverage Position</u> <ul style="list-style-type: none"> <li>• Interest Coverage Ratio</li> <li>• Debt Coverage Ratio</li> <li>• Debt - service Coverage Ratio</li> <li>• Dividend Coverage Ratio</li> </ul>
Activity/ Efficiency	<u>Short Term Efficiency</u> <ul style="list-style-type: none"> <li>• Receivable Turnover Ratio</li> <li>• Payables Turnover Ratio</li> <li>• Inventory Turnover Ratio</li> <li>• Working Capital Turnover Ratio</li> </ul>	<u>Long Term Efficiency</u> <ul style="list-style-type: none"> <li>• Fixed Asset Turnover</li> <li>• Operating Asset Turnover Ratio</li> <li>• Total Asset Turnover Ratio</li> </ul>

Credit Policy	Liberal credit policy needs more WC
Expansion and Growth	Requires more WC
Depreciation Policy	Depreciation is a source of WC
Dividend Policy	More payout needs more WC
Supply of raw materials	Occasional raw materials supply needs more WC
Lag in payment of wages	Higher lag means lesser WC

**Working Capital Cycle:**

The repeated process of circulating working capital from cash to raw materials, raw materials to finished goods, finished goods to trade debtors and again from trade debtors to cash is called the working capital cycle.

In order to determine the working capital cycle, we first need to determine the following –

1. Raw material storing period (R)
2. Processing period (P)
3. Finished goods storing period (F)
4. Credit period allowed to debtors (D)
5. Credit period allowed by creditors (C)

Then, Gross Operating Cycle Period = R+P+F+D; and Net Operating Cycle Period = (R+P+F+D) – C.

• **Working Capital Management:**

The effort of preparing the effective plan for the optimum use of current assets and current liabilities of a firm and keeping their interrelationship in favour of the firm in order to fulfill the financial objectives is called Management of Working Capital.

**Chapter 8: Working Capital Management**

• **Factors Affecting Working Capital Needs:**

Factors	Consequences
Nature of the business	Manufacturing organizations need more WC
Size of the business	Large companies need more WC
Production Process	Lengthy production process needs more WC
Seasonal Variation	Needs more WC in seasons

• **Scope of Working Capital Management:**

1. Forecasting the Needs for Working Capital Requirement.	
2. Management of Different Components of Working Capital.	
<b>A. Inventory Management</b> <ul style="list-style-type: none"> <li>• Fixation of Stock Levels</li> <li>• Fixation of Re-order quantity (EOQ)</li> </ul>	<b>B. Receivable Management</b> <ul style="list-style-type: none"> <li>• Relaxing Credit Period</li> <li>• Enhancing Cash Discount Rate</li> <li>• Evaluating the Customers' Creditworthiness</li> </ul>

<b>C. Cash Management</b>	<b>D. Payable Management</b>
<ul style="list-style-type: none"> <li>• Management of Floats</li> <li>• Cash management Models</li> </ul>	<ul style="list-style-type: none"> <li>• Management of floats</li> </ul>

## Chapter 9: Cost of Capital, Capital Structure Theories, Dividend Decisions and leverage Analysis:

- **Importance of Cost of Capital:**

Cost of capital is the central idea in almost all the financial management decisions. Following examples will clarify the issue:

Decision	Use of cost of capital
Capital Structure Decision	1. The structure for which cost of capital is minimum is the optimal. 2. Firm value is the capitalized value of earnings.
Inventory Management	Carrying/holding cost comprises opportunity cost which is basically cost of capital.
Receivable Management	Cost of capital is used to calculate cost of investment in receivable.
Cash Management	Under inventory model cost of capital is the opportunity cost.
Capital Budgeting	Cost of capital is the discounting rate under NPV method
Dividend Decision	MPS is calculated by dividing dividend by cost of equity.

- **Explicit vs. Implicit Cost:**

Explicit cost is the discount rate which equates the present value of cash inflows with the present value of cash outflows. It is the internal rate of return.

Implicit cost is the opportunity cost. For example, cost of retained earnings is basically an implicit cost.

- **Average Cost vs. Marginal Cost:**

Average cost is the weighted average cost of all sources actually employed.

Marginal cost is the additional cost (either specific or average in case of multiple sources) required to finance the additional capital.

Group: II

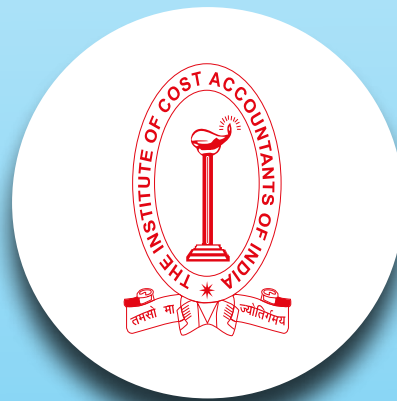
Paper 11:

# INDIRECT TAXATION (ITX)

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*Your Preparation Quick Takes :*

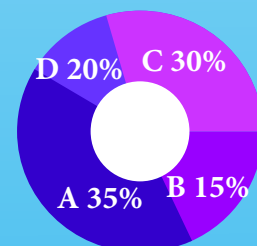
### Syllabus Structure

A Canons of Taxation - Indirect Tax & Central Excise 35%

B Customs Law 15%

C Service Tax 30%

D Central Sales Tax and VAT 20%



**Learning objectives:**

- the concept of tax and the objective for its levy
- the concept of direct and indirect tax and the differences between the two
- the basic features of indirect taxes
- what are the principal indirect taxes
- as to how the indirect taxes are administered in the country

Here, we are discussing about CENVAT- Centralised VAT

- Definition of CENVAT
- CENVAT credit
- Availment & Utilization of CENVAT credit.

I. **Definition**

Modified VAT was introduced whereby the manufacturers could avail credit for duty paid on inputs used in, or in relation to manufacture of final products for being set off against the duty payable on final products. Then MODVAT was replaced with CENVAT, implicitly because excise duty paid on inputs/ capital goods and service tax paid on input services can be adjusted towards tax liability of the manufacturer in case of excise duty and service provider in case of service tax.

II. **CENVAT credit**

CENVAT Credit Rules, 2004 replaced CENVAT Credit Rules, 2002 and Service Tax Credit Rules, 2002. The 2004 rules integrated credit of goods and services. Thus an assessee can avail credit of excise duty paid/ service tax paid on inputs and input services. This credit is collectively called CENVAT Credit. It could be availed for payment of excise duty on any final product or service tax on output services, subject to certain restrictions and limitations.

Some of the basic conditions for availing CENVAT credit would be:

- Excisable goods are manufactured and taxable goods are provided.
- Excise duty paid on capital goods, input goods and service tax paid on input services are counted in CENVAT Credit.
- CENVAT credit is available on payment of excise duty on manufactured output good and service tax paid on output services.
- Credit is not available on final goods exempted from excise duty or service tax.

**Capital Goods-** The goods which are required for transforming any raw material into finished products. The involvement of such product helps in the manufacture of goods. Example of such goods would be machinery, warehouse items and motor vehicles.

**Inputs-** All the goods which act as a raw material for output products are termed as Inputs. These are required as stock or raw material for manufacture of any item. It includes goods used in the factory, any accessories used for manufacturing final product, generation of electricity used for production, any type of fuel used and all the goods used for producing output services.

**Input Services-** Any service used by the provider of output service for providing an output service. Any service used by the manufacturer directly or indirectly in relation to the manufacture of final products or clearance.

**Availment & Utilization of CENVAT Credit**

CENVAT credit is a credit given in respect of central excise on inputs purchased for the manufacture or duty paid in relation to the manufacture of the final product. CENVAT credit is also available in respect of duty paid on capital goods, which include machinery, plant, spare parts of machinery etc. in other words, instead of paying cash towards central excise on shipment of goods, the exporter can adjust the excise duty paid on the inputs and machinery. Virtually, CENVAT CREDIT is like a credit balance in bank account that can be adjusted towards the excise duty payable. Let me explain how does CENVAT credit scheme work?

ABC Ltd is the manufacturer and exporter of toys and it purchases certain components from PQR Ltd for use in manufacture of toys. PQR Ltd would have

paid excise duty on components manufactured by it and it would have recovered that excise duty in its sale price from ABC Ltd. Now, ABC Ltd has to pay excise duty on toys manufactured by it as well as bear the excise duty paid by its supplier, PQR Ltd. This amounts to multiple taxation. ABC Ltd can take credit for excise duty paid by PQR Ltd so that lower excise duty is payable by ABC Ltd, at the time of export. This is how CENVAT CREDIT works.

Under CENVAT Credit scheme, the benefit of excise duty on inputs is available, instantaneously, when the inputs reach the factory. There is no need to establish any linkage between the inputs and goods

manufactured. In case of capital goods, 50% benefit is available in the current year of purchase and balance in the next year. This balance can be adjusted against the duty payable but is not refunded. So, it is desirable to utilize this balance, at the earliest.

In other words under a CENVAT CREDIT scheme, exporter is totally freed from the burden of excise duty, at all the different stages, on inputs used, duty paid on final products and even duty paid on capital goods purchased. Under a CENVAT credit scheme, the intention of Government is to eliminate the burden of excise duty on exports totally, paid directly or indirectly, to make them globally competitive.





**Group: II**

**Paper: 12**

# **COMPANY ACCOUNTS & AUDIT (CAA)**

Dr. Malay Kr. Nayak  
Associate Prof., Dept. Of Commerce,  
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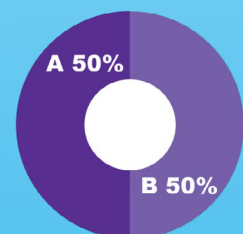


*Your Preparation Quick Takes :*

### **Syllabus Structure**

**A** Accounts of Joint Stock Companies **50%**

**B** Auditing **50%**



**Learning Objectives:**

- Apply appropriate judgment derived from knowledge of accounting theory, to financial analysis and decision making
- Effectively define the needs of the various users of accounting data and demonstrate the ability to communicate such data effectively, as well as the ability to provide knowledgeable recommendations.
- Prepare financial statements in accordance with Generally Accepted Accounting Principles.
- Demonstrate an understanding of current auditing standards and acceptable practices, as well as the impact of audit risk on the engagement.

**HERE, WE ARE DISCUSSING ABOUT-  
PRESENTATION OF FINANCIAL STATEMENT**

Financial statements are only formal means through which management make public communication of financial information. It is the only window in the corporate veil. The stake holders are primarily the share holders and broadly the public at large. So the companies act comes with Sch III to safeguard the information needs, as it is regarded as public goods.

Students are to get adherence of relevant statutory provisions e.g Sec 129, Sec 133, Sec 134 of Companies act and also listing requirement under clause 32 and clause 50.

**IMPACT OF STATUTORY PROVISION:** Companies are to prepare statement of profit & loss and Balance sheet as per formats abiding by relevant Accounting Standards.

In nutshell Financial Statements provide information on entity's assets, liabilities, equity, income and expenses including profits & losses.

Now, coming to Part I of Sch III; The Balance Sheet is in vertical form. In the upper part Equity and Liabilities comprise subheadings "Share holders Funds", "Share Application money pending allotment", "Non-current Liabilities", "Current Liabilities". In the lower part Assets comprise "Non-current assets", "Current assets".

For each subheading figures at the end of current reporting period and at the end of previous period are to depict in two columns.

Balance Sheet is of two dimensions- Measurement and Disclosure. Sch III deals only with Disclosure requirement.

Authorized Capital, Issued Capital, Subscribed, called-up and paid-up capital should be depicted separately. Note that forfeited shares should be shown with subscribed, called-up and paid-up capital. This also includes any bonus shares issued to the share holders.

Under the *Reserve and Surplus*- Reserve and Surplus shall be classified as Capital Reserves- signifies profit on re-issue of forfeited shares, which is not available for distribution as dividend.

Capital Redemption Reserve is required to be created under Sec 55 & 68 for redemption of Preference Share Capital and buyback of Equity Share Capital. Debenture Redemption Reserve is required to be created under Sec 71. Revaluation reserve, Share option outstanding accounts are to maintain as per ICAI Guidelines note.

Note that, as per Sch III and AS 22, Deferred tax liability is to be shown as a separate line item on the face of Balance Sheet.

Short term borrowing will include all loans within a period of 12 months from the date of the loan. A 3 year loan taken for a business with 4 years operating cycle will be categorized only as Short term Borrowings and not as Long term Borrowings.

Now the crucial points are to look very minutely for the disclosure requirements of Assets Items.

AS 19 demands leasehold land should be presented as a separate class.

Assets given on operating lease in the case of lessor and assets held under financial lease in the case of lease are to show in block of assets under Lease.

Intangible Assets under development should be disclosed on the criteria laid down in AS 26.

For Non-current Investment you are to refer AS 13.

For Part II of Sch III one finds the form of Statement of Profit & Loss (Not Profit & Loss account as shown earlier). It also depicts figures for current reporting period as well as for the previous reporting period.

First three rows are for revenue from operations, other income and total revenue. Row four for Expenses. At the various stages exceptional items, extra-ordinary expenses, tax expenses are to deduct.

For this chapter, students are to stress on presentation and disclosure. Practices make you perfect. As there is no arithmetical jargon as such, it is worthwhile for examination. You are to face arrangement rules for solution of problems.

Go on practicing after detailed reading of Sch III, relevant statutes and standards. Mind that these are the statements and Companies Act, Indian Accounting Standards and SEBI govern the statements.

Enjoy the arrangement and fetch marks over accounting prudence.

# SUBMISSIONS

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is! Few of the mails received from the student's are acknowledged here. We have noted their queries and their requests will definitely be carried out. Further, requesting you to go through the current edition of the bulletin. All the areas will be covered gradually. Expecting your responses further to serve you better as we believe that there is no end of excellence!

1. Hello mad/sir,

I m very much thankful to icmai team coz....This e-bulletin is very helpful to u. But I have some issues....I m first time appearing intermediate exam so I have no idea what can I do.... Secondly ...11 Jan I m registered intermediate course postal but I m not receiving books..... Please help me out.

Thanks & regards  
Jyoti Kumar  
[kumarjyoti641@gmail.com](mailto:kumarjyoti641@gmail.com)  
Delhi 110045  
India  
Mob-8697115009

2. Respected sir/mam,

E-bulletin is very useful. Is E-bulletin given every month ? because i have received mail for November issue only.

With regards,  
villazagan.d.s  
[villshapp@gmail.com](mailto:villshapp@gmail.com)  
intermediate student

3. Really helpful ..Thanking you sir

Chitti Naidu  
[naiduca1121@gmail.com](mailto:naiduca1121@gmail.com)

4. I am expecting future e bulletins

Kuttu  
[Kuttu@gmail.com](mailto:Kuttu@gmail.com)

5. its a gud knowledge for thankyou so much sir..

Anand Kumar  
[ak202959@gmail.com](mailto:ak202959@gmail.com)

6. Dear Sir,  
thanks for your noble initiative. really very helpfull.  
Again Thanks.

Sachin Kumar Dubey  
[casachin2004@gmail.com](mailto:casachin2004@gmail.com)

7. Thanks for providing such important material for preparation. We hope same contributions from your side in every field

Arjun Pandey  
[arjun691995@gmail.com](mailto:arjun691995@gmail.com)

## Updation of E-Mail Address / Mobile:

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

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

**Send your Feedback to:**

e-mail: [studies.ebulletin@icmai.in](mailto:studies.ebulletin@icmai.in)

website: <http://www.icmai.in>

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**PRACTICAL ADVICE**  
**ABOUT YOUR STUDIES - INTERMEDIATE COURSE**

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



## Message from the Directorate of Studies

*For the smooth and flowless preparation, Directorate of Studies have provided meaningful tips which will help you to gain sufficient knowledge about each subject.*

*'Tips' are given in this E-bulletin by the knowledge experts, for the smooth encouragement in your preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to brush up their knowledge and also to swim across.*

*Take the course seriously from the very beginning but don't be panicky. Please try to follow the general guidelines, mentioned below; which may help you in your preparation.*

### **Essentials for Preparation:**

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

### **Be Prepared and Get Success;**

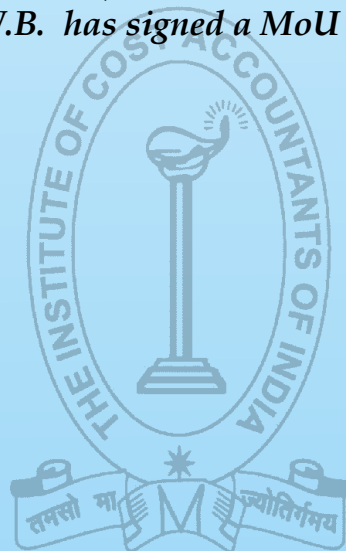
### **Disclaimer**

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



## PHOTOGRAPH OF SIGNING MOU

*The President CMA Manas Kumar Thakur of The Institute of Cost Accountants of India & Prof. Basab Chaudhuri, Vice Chancellor of the West Bengal State University, Barasat, W.B. has signed a MoU on 9<sup>th</sup> February, 2017.*



## Hundreds take part in ICAI's 'Mayukha 2K17'

### STAFF REPORTER

**VIJAYAWADA:** Hundreds of students from about 80 junior, UG and PG colleges took part in the State-level students' convention 'Mayukha 2K17' organised by the Vijayawada Chapter of the Institute of Cost Accountants of India (ICAI) in the city on Saturday.

Students belonging to various streams exhibited their talent in competitions like quiz, drawing, word game, team building, memory doctor, balance sheet analysis and others, according to one of the organisers Purnima, distribution followed by cultural performances by students of the ICAI, Vijayawada.



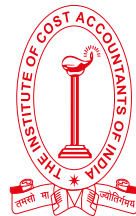
Students participating in 'Mayukha 2K17' State-level CMA convention in Vijayawada on Saturday.

— PHOTO: V RAJU

Speaking at the closing ceremony, ICAI, Kolkata, president CMA Manas Kumar called on the students to hone communication skills.

Indian Oil Corporation General Secretary Badrinath, AP HUDCO Regional Head L. Sudhakar Babu, APSRTC Vijayawada Region Chief Accounts Officer K. Ramachandrarao, Mylan Laboratories Vice-President V.N.V. Subba Rao, Central Council Member CMA S. Paparao, ICAI Vijayawada Chapter Chairman CMA PSR Swamy, ICAI Vice President Sanjay Gupta, SIRC Chairman V. Murali and others were present.

**Published in: THE HINDU • SUNDAY, JANUARY 29, 2017.**



**DIRECTORATE OF STUDIES**  
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Behind every successful business decision, there is always a CMA