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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan 12, Sudder Street, Kolkata – 700 016
Tel: +91-33 2252 1031/1034/1035/1492/1602/1619/7373/7143

Delhi Office: CMA Bhawan 3, Institutional Area Lodhi Road, New Delhi - 110003
Phones : +91 11 24666100, 24622156/57/58

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

Message from the President

Dear Students,

"Education is the most powerful weapon which you can use to change the world."

— Nelson Mandela

" A Very Happy Healthy and Prosperous New Year" and hope you all are in a jubilant mood.

I am delighted to know that you have enjoyed reading the previous E-bulletin and reciprocated favourably. As an awakener my suggestion is, if you focus on results you will never change but if you focus on change, you will get results. So, from the beginning of this year, please try to stick to your own focus to get favourable result.

I strongly believe that the struggle you are in today is developing the strength you need for tomorrow. I sincerely request you that everyday do something which will inch you closer to a better tomorrow and eventually you may help the nation to build in. Push yourself because no one else is going to do it for you.

I am expecting that India will be one of the strong players in 'Digital India' movement in near future and my young friends will be the architect.

My sincere thanks to all the learned writers of this issue of the bulletin as, despite their busy schedules they have helped us to carry out this issue as well.

I pay my sincere thanks to all employees of the Directorate of studies for coming up with this timely issue.

I strongly believe in the words of Leonardo da Vinci that- "Study without desire spoils the memory, and it retains nothing that it takes in."

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

Be a CMA, be a Proud Indian

Message from the Chairman

At the outset; I wish you all A Very Happy New Year.

It is indeed a pleasure to note that you have enjoyed the first volume of the E-bulletin. Your new syllabus has been introduced in August, 2016 and in June 2017, for the first time under the new syllabus you will be appearing in the examination. So, from the very beginning you must be very careful and must try to appear for the examination with a positive mind and attitude.

"True guidance is like a small torch in a dark forest, it does not show everything once. But gives enough light for the next step to be safe" said by Swami Vivekananda.

The Directorate of Studies is trying to help in your preparation with this E-bulletin along with the other and existing resources like MTPs. Please try to gather knowledge from all the available resources provided by the Institute and try to make full-proof of your efforts.

Wishing you all the best,

CMA Pappa Rao Sunkara
Chairman
Training & Education Facilities (T & EF) Committee

CONTENTS

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.

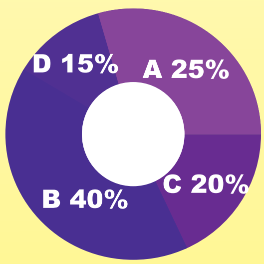
Group: I
Paper 5:

Financial Accounting (FAC)

Dr Nibir Goswami
Associate Professor in Commerce
Vidyasagar Mahavidyalaya.
He can be reached at: *drnibirgoswami@gmail.com*

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

Paper-5 comprises of six sections. Section A covers 10 marks with topics like GAAP and some accounting standards which you need to study thoroughly to answer basic fundamental questions.
Though it covers a very low weight age yet it contains a very important and fundamental topic like Adjustment entries. Here we will discuss the basics of such entries and the techniques to pass such journals in the following lines:

Whenever you will see any transaction keep in mind there will be following possible items:

1. **Asset**
2. **Liability**
3. **Expense**
4. **Loss**
5. **Income**
6. **Gain**

and follow the rules as given in the following table :

ITEM	CHANGE	RULE	ITEM	CHANGE	RULE
Asset	Increase	debit	Asset	decrease	Credit
Liability	Increase	Credit	Liability	decrease	Debit
Expense	Increase	Debit	Expense	decrease	Credit
Loss	Increase	Debit	Loss	decrease	Credit
Income	Increase	Credit	Income	decrease	Debit
Gain	Increase	credit	Gain	decrease	Debit

So now your job is to identify from the transaction two such items and follow the above chart. Passing journal for adjustment entries will be as simple as that. Let us take few examples :

a. Rent outstanding.

In the above transaction there are two iems . 1. Rent as an expense and 2. Rent due as a liability.

If rent remains due to be paid, rent increases as well as liability increases. Therefore keeping in mind the above table the entry will be:

Rent a/c.. dr

To outstanding rent a/c

b. Subscription received in advance.

Here also the two items are 1. Subscription received which is an income for the next period decreases the current year's income and 2. Received in advance is a liability.

So the entry will be

Subscription a/c..dr

To subscription received in advance

c. Depreciation of plant

Here also there are two items like 1. Depreciation as a loss which is increased and 2. Plant-an asset, whose value is decreased due to such depreciation.

So the entry will be:

Depreciation a/c ....dr

To Plant a/c

d. Bad debt

Apparently it shows one item but mind that bad debt is related to sundry debtors. So the items are:

1. Bad debt – which is a loss and

2. Debtors – whose balance decreased due to bad debt.

Therefore the entry will be:

Bad debt a/c..dr

Sundry debtors.

It is suggested to practice these kinds of journals as many as possible to increase your accounting aptitude which will work as a solid base for solving problems in other chapters.

Now, we will discuss about AS-4: for events occurring after balance sheet date- an important standard which requires fundamental understanding.

Events occurring after the balance sheet date are those significant events which occur between date of balance sheet and date of approval of such balance sheet by the board of directors.

It may be of two types:

a. Adjusting and

b. Non adjusting

Treatment:

Adjustments to assets and liabilities are required to be made for adjusting events but adjustments for assets and liabilities are not required to be made for non adjusting events.

Board of directors must disclose in their report the following items if the effect of the non adjusting event is material

a. Nature of the event

b. An estimate of the financial effect or a statement that such an estimate cannot be made.

Examples:

1. Loss due to fire on 10.04.2016 but balance sheet date 31.03.2016.

2. Dividend proposed after balance sheet date

3. Suit was filed against company for a claim.

Go through such examples from any text book and apply your mind for the treatment.

Read other standards with same weight age.

Hope these suggestions will help you in your preparation.

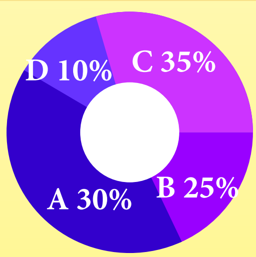
Group: I
Paper 6:

Laws & Ethics (LNE)

CMA Dr. Sumita Chakraborty
Jt. Director, Studies
She can be reached at: *studies.sumita@icmai.in*

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.

Starting with Section A and with the Contract Act, 1872 [which comes under Commercial Laws and **covering 30% of your Syllabus**], we are discussing few important areas of the Act.

The Indian Contract Act came in to effect from 1st September, 1872 and applies to all contracts in India.

Section 2(h) of the Act defines the term **'Contract'** as an agreement enforceable by law. The contract may be:

- Void Contract &
- Voidable Contract

Void contract is defined under **Section 2(j)** of the Act as "A Contract which ceases to be enforceable by law becomes void when it ceases to be enforceable".

Voidable contract under **Section 2(i)** is defined as "An agreement which is enforceable by law at the option of one or more parties but not at the option of the other or others".

Now you must know the meaning of agreement, discussed under the Act.

Section 2(e) defines the term **'agreement'** – every promise and every set of promises, forming the consideration for each other is an agreement. An agreement may be void agreement. An agreement not enforceable by law is said to be void agreement.

One must know the essentials of a valid contract, prior to proceed further in the Act. **Essential of a valid contract are:**

- There shall be an **offer or proposal** by one party and **acceptance** of the proposal by the other party which results in an agreement
- There shall be an intention to create **legal relations** or **intent** to legal consequences
- The agreement shall be supported by **lawful consideration**
- The parties to the contract shall be **capable of contract**
- There shall be **genuine consent** between the parties to the contract
- The **object and consideration** of the contract shall be **legal** and the same shall **not be opposed to the public policy**
- **The terms of the consent shall be certain,**
- **The agreement is capable**

One of the essentials of a valid contract is **'offer'**. An offer is a proposal by one person, whereby he expresses his willingness to enter into a contractual obligation in return for promise, act or forbearance. **The term 'proposal' is otherwise called as 'offer'.**

Section 2(a) of the Act defines **'proposal'** or offer as when one person signifies to another his willingness to do or abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal or offer.

The person making the proposal is called as **'offeror' or proposer'** and the person the proposal is made is called as '**offeree**'.

What is meant by 'Revocation of offer'?

Section 5 provides that a proposal may be revoked at any time before the communication of acceptance is complete as against the proposer but not afterwards.

Example – A revokes his proposal by telegram. The revocation is complete as against A when the telegram is dispatched. It is complete as against B when B receives it

The term '**acceptance**' means admitting and agreeing to something to accede to something or to accept to something. An offer to enter into legal relations, upon definite terms, to create legal relations, must be followed by an intention of the offeree to accept that offer.

Section 4 provides that the communication of an acceptance is complete-

- as against the proposer, when it is put in a course of transmission to him so as to be out of the power of the acceptor;
- as against the acceptor, when it comes to the knowledge of the prosposer.

What is Revocation of acceptance?

Section 5 provides that an acceptance may be revoked at any time **before the communication** of acceptance is complete as against the acceptor **but not afterwards.**

Example – B revokes his acceptance by telegram. B's revocation is complete as against B when the telegram is dispatched and as against A when it reaches him.

Study note 6 deals with **Industrial Laws** and likewise, a glimpse of Factories Act of 1948, which was enacted to regulate the working conditions in factories is described here briefly.

The **main object** of the Factories Act, 1948 is to ensure adequate safety measures and to promote the health and welfare of the workers employed in factories. The Act also makes provisions regarding employment of women and young persons (including children and adolescents), annual leave with wages etc. The Factories Act, 1948 extend to whole of India and came into effect from 01.04.1949.

Some important definitions and scope under the Act has been discussed here for your smooth understanding of the Act.

How 'Worker' is defined under the Act?

Section 2(l) defines the term 'worker' as a person employed, directly or by or through any agency (including a contractor) with or without the knowledge of the principal employer, whether for remuneration or not, in any manufacturing process, or in cleaning any part of the machinery or premises used for a manufacturing process, or in any other kind of work incidental to, or connected with, the manufacturing process, or the subject of the manufacturing process but does not include any member of the armed forces of the Union.

How 'Factory' is defined under the Act?

Section 2(m) defines the term **'factory'** as any premises including the precincts thereof-

- whereon ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on, or
- whereon twenty or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on but does not include a mine subject to the operation of the Mines Act, 1952 or a mobile unit belonging to the armed forces of the Union, a railway running shed or a hotel, restaurant or eating place.
- For computing the number of workers for the purposes of this clause all the workers in different groups and relays in a day shall be taken into account;
- For the purposes of this clause, the mere fact that an Electronic Data Processing Unit or a Computer Unit is installed in any premises or part thereof, shall not be construed to make it a factory if no manufacturing process is being carried on in such premises or part thereof.

What are to be permitted as 'Weekly holidays' under the Act?

Section 52 provides that no adult worker shall be required or allowed to work in a factory on the first day of the week unless-

- he has or will have a holiday for a whole day on one of the three days immediately before or after the said day; and

- the manager of the factory, has, before the said day or the substituted day whichever is earlier-
  - I. delivered a notice at the office of the Inspector of his intention to require the worker to work on the said day and of the day which is to be substituted; and
  - II. displayed a notice to that effect in the factory.

What is meant by 'Double employment'?

Section 60 imposes restriction that no adult worker shall be required or allowed to work in any factory on any day on which he has already been working in any other factory, savein such circumstances as may be prescribed.

How rules relating to 'Employment of women' are specified under the Act?

Section 66 provides that the provisions of this Chapter shall, in their application to women in factories, be supplemented by the following further restrictions-

- no exemption from the provisions of **Section 54** [Section 54 provides that no adult worker shall be required or allowed to work in factory for more than nine hours in any day] may be granted in respect of any woman;
- no woman shall be required or allowed to work in any factory except between the hours of 6 A.M. and 7 P.M.;
- the State Government may authorize the employment of any women between the hours of 10 PM and 5 A.M.;
- there shall be no change of shifts except after a weekly holiday or any other holiday.

Prohibition of employment of young children under the Act:

Section 67 provides that no child who has not completed his 14th year shall be required or allowed to work in any factory.

Who is stated as 'Adolescent worker' under the Act?

Section 68 provides that a child who has completed his 14th year or an adolescent shall not be allowed to work in any factory unless-

- a certificate of fitness granted is in the custody of the manager of the factory; and
- such child or adolescent carries while he is at work a token giving a reference to such certificate

How much hours have been specified to be the 'Working hours for children'?

Section 71 provide that no child shall be employed or permitted to work in any factory for more than four and a half hours in any day and during night. The period of work of all children employed in a factory shall be limited to two shifts which shall not overlap or spread over more than five hours each. Each child shall be employed in only one of the relays which shall not, except with the previous permission. No female child shall be allowed to work in any factory except between 8 A.M. and 7 P.M.,

How 'Encashment of leave' is paid?

Section 79(3) provides that if a worker is discharged or dismissed from services or quits his employment or is superannuated or dies while in service, during the course of the calendar year, he or his heir or nominee, shall be entitled to the wages in lieu of the quantum of leave to which he was entitled immediately before such termination of his services. Such payment shall be made before the expiry of the second working day from the date of discharge, dismissal or quitting and where the worker is superannuated or dies while in service, before the expiry of two months from the date of such superannuation or death.

What penalty will be imposed on, for permitting double employment of a child?

Section 99 provides that if a child works in a factory on any day on which he has already been working in another factory, the parent or guardian of the child or the person having custody of or control over him or obtaining any director benefit from his wages, shall be punishable with fine which may extend to 1000/- unless it appears to the Court that the child so worked without the consent or connivance of the parent, guardian or person.

Section C [which comes under Corporate Laws and **covering 35% of your Syllabus**], is discussed with few important sections and points; which are to be noted carefully.

The word **'company'** is derived from the Latin word (**Com=with** or together; **panis =bread**), and it originally referred to an association of persons who took their meals together.

In terms of the Companies Act, 2013 a "**company**" means a company incorporated under this Act or under any previous company law [**Section 2(20)**].

What are the salient features of a 'company'?

You must note the amendments been made in the Companies Act, 2013 in the 'salient features of a company' under **common seal.**

- Separate legal entity
- Limited liability
- Perpetual succession
- Separate property
- Common seal– The common seal is used by the company for affixing it in the documents such as contract etc., since it is artificial person and cannot sign on its own in the documents. **Now the common seal is made at the option of the company. Companies act 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.) Now, the use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company**
- Transferability of shares
- Capacity to sue and be sued

Please read the types of company so that you may face the real world situations afterwards.

Now, for example what is 'One Person Company'?

Section 2(62) defines 'One Person Company' is a company which has only one person as a member. It is also considered as a private company.

What do you mean by 'Small Company'?

Section 2(85) defines 'small company' as a company, other than a public company-

(i)paid up share capital of which does not exceed 50 lakh rupees or such higher amount as may be prescribed which shall not be more than Rs. 5 crore; and

(ii) turnover which is as per its last profit and loss account does not exceed Rs. 2 crores or such higher amount as may be prescribed which shall not be more than Rs. 20 crores.

This definition shall not apply to-

- a holding company or a subsidiary company;
- a company registered under Section 8; or
- a company or body corporate governed by any special act.

What is meant by 'Associate Company'?

Section 2(6) of the Act defines the term 'Associate Company' in relation to another company, a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence. It includes a joint venture company. The explanation to this section defines the term 'significant influence' as control of at least 20% of total share capital or of business decisions under an agreement.

Stipulations regarding 'Copy of documents to members':

Section 17(1) of the Act read with Rule 34 provides that a company shall on payment of fee, send copy of each of the following documents to a member within 7 days of the request being made by him-

- the memorandum;
- the articles;
- every agreement and every resolution , if so far as they have not been embodied in the memorandum and articles.

Section 17(2) provides that if a company makes any default in complying with the provisions of this section, the company and every officer of the company who is in default shall be liable for each default, to a penalty of Rs.1000/- for each day during which such default continues or Rs.1 lakh whichever is less.

Restriction in alteration of memorandum of association:

Section 13(8) provides that a company, which has raised money from public through prospectus and still has any unutilized amount out of the money so raised, shall not change its objects for which it raised the money through prospectus unless a special resolution is passed by the company. The special resolution shall be published in the newspapers, one in English and one in vernacular language, which is in circulation at the place where the registered office of the company is situated and shall also be placed on the web site of the company, if any, indicating the justification for such change. The dissenting shareholders shall be given an opportunity to exit by the promoters and shareholders having control in accordance with the regulations to be specified by SEBI.

Rule 29 provides that the change of name shall not be allowed to a company which has defaulted in filing its annual returns or financial statements or any document due for filing with the Registrar or which has defaulted in repayment of matured deposits or debentures or interest on deposit or debentures An application shall be filed in **Form No. INC-24** along with the fee for change in the name of the company and a new certificate of incorporation in **Form No. INC-25** shall be issued to the company consequent upon the change

What are the 'Integrated process for incorporation':

To simplify the process of incorporation, the integrated process of incorporation has been introduced with effect from 01.05.2015. Accordingly, in the integration **Form No. INC-29** the application for:

- allotment of Director Identification Number up to three directors;
- reservation of a name;
- incorporation of company;
- appointment of directors of the proposed company

for one person company (OPC), private company, public company and producer company can be made. The application is to be filed with the Registrar within whose jurisdiction office of the company is proposed to be situated along with a **fee of Rs.2,000/- in addition to the registration fees.**

The promoter or the applicant of the proposed company shall propose only one name in e-form of **INC 29**. He may prepare memorandum of association as per template in Form No. **INC – 30** and articles as per template in Form No. **INC-31** in accordance with the provisions of **Rule 13** for preparation of memorandum of association and articles of association.

For this process the provisions of Section 4(5)(i) of the Act and Rule 9 shall not apply. A company may verification of its registered office under Section 12(2) of the Act.

Section D of your syllabus relates to 'Ethics'.

What do you mean 'Ethics' in common parlance?

Ethics is a social science which deals with concepts such as right and wrong, moral and immoral, good and bad behaviour of dealing with one another and 'ethics' are the set of moral principles that guide a person's behaviour. These morals are shaped by social norms, cultural practices, and religious influences. Ethics reflect beliefs about what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behaviour.

Ethics – Nature and relevance to the business

Several factors play a role in the success of a company that is beyond the scope of financial statements alone. Organizational culture, management philosophy and ethics in business each have an impact on how well a business performs in the long term. No matter the size, industry or level of profitability of an organization, business ethics are one of the most important aspects of long-term success.

When management is leading an organization in an ethical manner, employees follow in those footsteps. Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale.

To retain a positive image, businesses must be committed to operating on an ethical foundation as it relates to treatment of employees, respect to the surrounding environment

and fair market practices in terms of price and consumer treatment.

Parallel to these tips please read your study notes and try to realise the meaning and context of each terms carefully.

"Law is reason, free from passion"-Aristotle

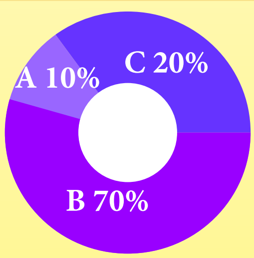
Group: I
Paper 7 :

Direct Taxation (DTX)

CMA Arnab Chakraborty
Sr. Director, Directorate of Studies
He can be reached at: *studies.director@icmai.in*

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.

Presumptive Taxation Scheme

Section 44AD:

(i) Applicable to all business other than the following;

(a) Plying, hiring or leasing goods carriage,

(b) A person engaged in specified profession as referred to section 44AA; or

(c) A person carrying on any agency business.

(ii) If Gross Receipt does not exceeds ₹ 2 Crores then the assessee can opt for normal provisions or PTS. If Gross receipts exceeds ₹ 2 Crores, then must opt for normal provisions.

(iii) Under PTS, Business income is equal to eight percent of Gross Receipts.

(iv) Applicable only to HUF, Individual, Firms (excluding LLP, firms). This means that LLP firm and Company will always opt for normal provisions.

(v) Deduction under chapter VIA available (except income based deductions). Exemption under section 10AA is not available.

(vi) Required to pay Advance Tax the entire tax must be paid on or before 15th March of the Previous Year.

(vii) No deduction allowed of Section 30 to Section 38.

(viii) Required to maintain books of accounts and get accounts audited only if provisions of Section 44AD (4) are applicable in his case and his income exceeds the basic exemption limit.

Section 44AE:

(i) Applicable to business of plying, hiring or leasing goods carriage (ownership).

(ii) If business does not own more than 10 trucks then either opt for normal provision or opt for PTS. If owns more than 10 Trucks, then must opt for normal provisions.

(iii) Under PTS business income is equal to ₹ 7,500 p.m or part of the month for each goods carriage for the period owned.

(iv) Applicable to all assessees.

(v) Deduction under chapter VIA available.

(vi) Required to pay advance tax as per normal procedures.

(vii) No deduction allowed under section 30 to Section 38 except in the case of a firm, deduction in respect of salary and interest to partners under section 40(b) shall be given.

(viii) Only if the assessee claims that his income under normal provisions is lower than presumptive income under section 44AE then he must maintain books of accounts and get accounts audited.

Section 44AADA:

(i) Applicable to assessee engaged specified profession under section 44AA (1).

(ii) Can opt only if gross receipt does not exceeds ₹ 50 Lakh.

(iii) Business Income is equal to 50 percent of Gross Receipts.

(iv) Applicable to all assessees.

(v) Deduction under chapter VIA available.

(vi) Required to pay Advance Tax as per normal procedures.

(vii) No deduction is allowed under Section 30 to Section 38.

(viii) Only if the assessee claims that his income under normal provisions is lower than presumptive income under section 44ADA and total income exceeds the basic exemption limit then he must maintain books of accounts and get accounts audited.

Key Notes:

1. Under PTS the assessee need not to maintain any books of account or get accounts audited. Exception point (viii) above.
2. Under PTS an assessee can voluntarily disclose higher income.
3. In Computing Presumptive Income;
   - ✓ No Allowance / Disallowance is allowed for any expenditure
   - ✓ Brought forward business losses can be set off.
   - ✓ Unabsorbed depreciation cannot be set off
   - ✓ Deduction of Chapter VIA is allowable.
4. Under Section 44AD (4) once an assessee opt for PTS then he must continue to opt for this scheme for next five years. Otherwise the assessee should be out of this scheme for 5 years subsequent to the year in which income is not declared as per PTS.

Coverage of other business under PTS:

Section	Nature of Business	Presumptive Business Income
Section 44B	Non resident engaged in Shipping Business	7.5% of Turnover-Mandatory
Section 44BB	Non Resident engaged in the business of exploration of mineral oil	10% of Turnover-Optional
Section BBA	No Resident engaged in the Business of Aircraft Operation	5% of Turnover-Mandatory

Illustrative Examples

Mr. Pankaj has 4 Heavy Goods vehicle as on 1st April, 2016. He further acquires 7 Heavy Goods Vehicle on 27th June, 2016. He sold 2 Heavy Goods vehicles on 31st May 2016. He has b/f business loss of ₹ 50 Lakh relating to the assessment year 2013-14 of a discontinued business. Assuming that he opts for PTS under Section 44AE then you are required to calculate Mr Pankaj income chargeable to tax for AY2017-2018 under PTS?

Nature of Vehicle	Period	Months	Rate p.m	No. Of Vehicles	PTS
Owned for entire year	01.04.2016 to 31.03.2017	12	7,500	2	1,80,000
Sold during the year	01.04.2016 to 31.05.2016	2	7,500	2	30,000
Purchased during the year	27.06.2016 to 31.03.2017	10	7,500	7	5,25,000
Income Under section 44AE					**7,35,000**

Mr Amit claimed to be taxed on presumptive basis under section 44AD for the first time in AY17-18 and for AY18-19 and AY19-20 also he offers income as per section 44AD. However for AY 2020-21 he offers income as per Normal provisions of the Act as ₹ 4,00,000 on turnover of ₹ 10,000,000.

In this case since he has not offered income in accordance with the provisions of section 44AD for 5 consecutive assessment year, after AY2017-18 (i.e till 2023-24), so Mr Amit will not be eligible to claim the benefits of section 44AD for next consecutive AY i.e from AY 2021-22 to 2025-26.

Judicial Rulings:

1. While computing income of assessee under Section 44AD, the Assessing Officer (A.O) does not have the power to assess anything in excess of returned income if returned income is more than 8 percent of total receipt/ sale consideration-**Abhi Developers v. ITO [2007] 12 SOT 444 (Ahd.).** Even disallowance provisions of the sections 40, 40A, and 43B are not applicable-**ITO v. Mark Construction [2012] 53 SOT 22 (Kol.)**. Moreover, no addition can be made on the ground that assessee was not able to explain discrepancies in account books-**CIT v. Nitin Soni [2012] 207 Taxaman 332 (All.).**

2. Section 44AD would not apply where gross receipts of an assessee are more than `1 Crores (or ` 2 Crore, from AY 2017-2018), even if the said figure includes undisclosed income- **CIT v. Sobti Constructions (India) [2008] 174 Taxman 39 (Delhi).**

3. When income is taxable at the rate of eight percent as stated above, the concerned assessee is not under any obligation to explain individual entry of cash deposit in his bank, unless such entry has no nexus with the gross receipts-**CIT v. Surinder Pal Anand [2010] 192 Taxman 264 (Punj. & Har.)**

4. JCB, Which is an earth moving machinery used for excavation of earth, lifting of heavy materials, etc in process of construction, cannot be termed as a "Goods Carriage" and income from hiring of JCB cannot be computed by applying provisions of Section 44AE-**Gaylord Constructions v. ITO [2008] 175 Taxman 99 (Coch.).**

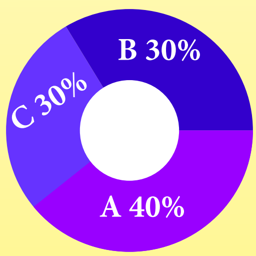
Group: I
Paper 8:

Cost Accounting (CAC)

CMA (Dr.) Asim Kumar Manna
Associate Professor of Commerce,
Dinabandhu Andrews College, Garia, Kolkata.
West Bengal
He can be reached at: ***akmdac@gmail.com***

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.

Out of eight papers in the intermediate course of The Institute of Cost Accountants of India, Paper 8 i.e., Cost Accounting is very scoring. From past experiences it is observed that in the examination of this paper, 60 to 70% of the total questions are set from practical problems and the remaining are theoretical. Most of the students are very much weak in theory. So, it is advised to read carefully the theory part first. It will help you in understanding the concepts and logic behind the mathematical workings and formulae while solving problems related to that particular topic. It will also enable you to understand better the succeeding topics.

So far as examination is concerned, all chapters are not equally important, but you should not leave out any chapter in this type of professional examination. All chapters are interlinked. Chapters which are scoring should be done most thoroughly because these parts can fetch you more marks. Before appearing for the examination, you need to make a comprehensive study-plan.

In your study material, the entire syllabus is divided into six major chapters. In the first chapter basic concepts of cost accounting are discussed. We all know that accounting has three major branches, Financial Accounting, Cost Accounting, and Management Accounting. Described in this chapter are the relationship between these three branches, limitations of Financial Accounting, emergence and significance of cost accounting, definition of different terms used in cost accounting are. In order to strengthen the basic knowledge regarding cost accounting, this chapter should be studied carefully.

In the next chapter, elements of cost have been described thoroughly. Three major elements of cost, **Material, Labour, and Overheads** are discussed elaborately with sufficient number of examples. **The main objective of cost accounting is to control the cost, and as materials constitute a large part of the total cost of a product, so it is necessary to control the cost of materials first.** The cost of materials consumed mostly depends on the pricing of materials issued. For proper and accurate pricing of materials issued, a number of methods have been developed in cost accounting. Students should have clear knowledge about the procedure and the factors to be considered for choosing the method of pricing material issues. You are advised to practice practical problems on Various Stock Levels, Economic Order Quantity (E.O.Q) and Store Ledger Account under FIFO, LIFO, Simple Average and Weighted Average method. It is a formula based chapter, so focus should be given on different kinds of sum. Practice properly because this part is very scoring.

In case of **'Labour'**, treatment of healthy relationship is required for success. Wages are paid to the workers for their physical and mental contribution to production of goods and services. There are different methods for payment of wages. Solve the problems on earnings of workers under different methods. You are further advised to get a clear concept about the treatment of idle time wages and overtime wages.

In the **'Overheads'** chapter, try to understand the difference between cost allocation and cost apportionment, treatment of under absorption and over absorption of overheads. Practice the problems on comprehensive machine-hour rate.

You must read the scope and objectives of different Cost Accounting Standards. It will help to grasp the concept of cost accounting easily.

In the **'Cost Book-Keeping'** chapter, the integrated system is just lengthy but not difficult. In this system, different accounts are to be opened, but it is not necessary to give much effort to complete it.

In **'Contract-Costing'**, stress must be laid down on the following areas:

a. Computation and recognition of Profit and Loss on incomplete contracts

b. Escalation clause (for this part you have to give little effort, but even that can be done quickly)

c. Area of application

d. Difference between different methods

e. Treatment of losses, abnormal gain

In **'Operating Costing'**, you should study:

How to calculate operating cost units (simple and composite)

How these units are applied to solve different types of problems

'Marginal Costing' is an important chapter from the students' perspective. Students should understand the concepts, need, and importance of 'Marginal Costing' in decision making and study the following areas to solve the practical problems:

- Marginal Cost Equation
- Difference between marginal costing and absorption costing,
- Justification for excluding the fixed cost as a part of product cost in marginal costing.
- Break-Even Chart

You should study the effect on profits due to various changes in factors such as –

(a) Changes in fixed costs

(b) Changes in variable costs

(c) Changes in selling price

(d) Changes in sales mixture.

And the effect of above changes on:

1. **Break-Even Point**
2. **Margin of Safety, and**
3. **Profit-Volume Ratio**

Questions from this chapter may be tricky, but after solving a few questions, you will understand the trick involved and the complicated part of the questions. It just requires practice. You have to compute different types of problems in these areas.

The **variance analysis** helps the management to create responsibility properly and to identify the activities or areas of exceptions. The purpose of variance analysis is to enable the management to improve the operations, to utilize resources more effectively, to increase efficiency, and to reduce the cost. In this chapter, it is necessary to identify the cause of variance rather than memorize the formulae. Try to realize the cause of occurrence of mixed and yield variances.

Budget is a predetermined detailed plan of action. This chapter is very easy and interesting, so you can do it quickly. You are required to learn:

- Meaning and concept of Budget and Budgetary Control
- Difference between various types of budgets and processes of preparation of budgets
- Concept of Zero Base Budgeting
- Behaviour and Classification of Budget.

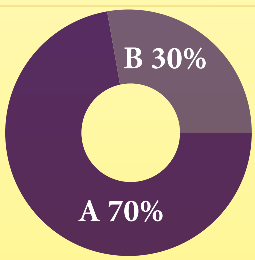
The Study Material is very helpful for clear understanding of the concept. You are suggested to go through the "Study Material" and conceptualize the topics given in the syllabus and understand the depth of knowledge required for achieving success in the examination. Read the questions properly, slowly, and then think how to solve them using your brain. Finally, focus on writing simple and correct English.

Group: II
Paper 9:
Part 1:
Operations Management & Strategic Management (OMSM) / Operations Management

CMA Dr. Sumita Chakraborty
Jt. Diretor, Studies
She can be reached at: ***studies.sumita@icmai.in***

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.

Syllabus for Operations Management & Strategic Management is structured in a way that the part **'operations management' consists of 70%** & **'strategic management' consists of 30%.**

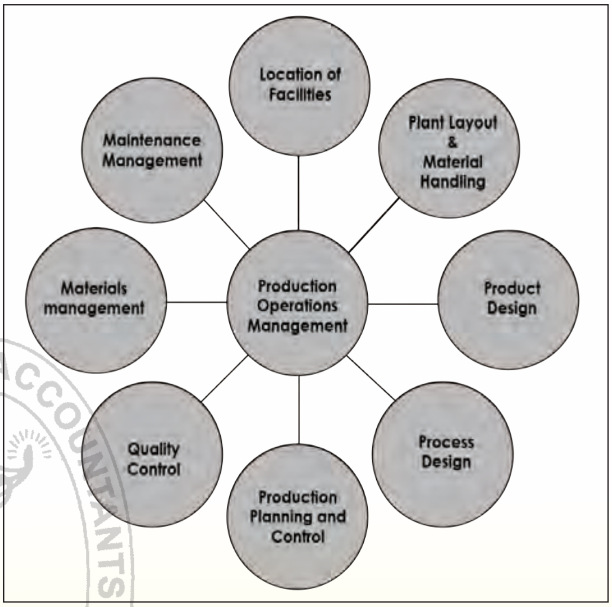
Now, **Chapter 1** of your study note introduce the subject. To begin with, one should know what is meant by '**Operations Management'.** It is the management of that part of an organization that is responsible for producing goods and/or services. However, in order to have a clear idea of operations management, one must have an idea of **'operating systems'** which is defined as a configuration of resources combined for the provision of goods and services.

The **Twin Objectives** of Operation Management are:

- The customer service objective and
- The resource utilization objective

The customer service objective suggests to provide agreed/adequate levels of customer service (and hence customer satisfaction) by providing goods or services with the right specification, at the right cost and at the right time.

The resource utilization objective suggests to achieve adequate levels of resource utilization(or productivity) e.g., to achieve agreed levels of utilization of materials, machines and labour.



Scope of production and operations management

There are two points of distinction between production management and operations management.

- First, the term production management is more used for a system where tangible goods are produced. On the other hand, operations management is more frequently used where various inputs are transformed into intangible services. Viewed from this perspective, operations management will cover such service organisations as banks, airlines, utilities, pollution control agencies, super bazaars, educational institutions, libraries, consultancy firms and police departments, in addition, of course, to manufacturing enterprises.

- The second distinction relates to the evolution of the subject. Operations management is the term that is used nowadays. Production management precedes operations management in the historical growth of the subject.

Recent Trends in Production / Operations Management

Some of the recent trends are:

- Global market place
- Production / operation strategy
- Total Quality Management (TQM)
- Flexibility
- Time reduction
- Technology

- Worker involvement
- Re-engineering
- Environmental issues
- Corporate downsizing
- Supply chain management
- Lean production

Please read those terms carefully and know the meaning and applicability of those terms. Unless you are familiar with those terms and their usage, you would not be able to proceed further.

Next chapter of your study note deals with '**Demand Forecasting**'.

What forecasting is?

Forecasting means peeping into the future. As future is unknown and is anybody's guess but the business leaders in the past have evolved certain systematic and scientific methods to know the future by scientific analysis based on facts and possible consequences. Thus, this systematic method of probing the future is called forecasting.

Forecasting helps managers and businesses develop meaningful plans and reduce uncertainty of events in the future. Managers want to match supply with demand; therefore, it is essential for them to forecast how much space they need for supply to each demand.

It is important to know how to calculate a forecast error: **Error = Actual – Forecast**

Chapter 2 of your study note discusses different kinds of forecasting techniques; however no single technique works best in every situation. Random variation is always present within forecasts and there will always be a degree of residual error within forecasts. Forecasts are the basis for an organization's schedule, and therefore the accuracy of these forecasts will dictate how many resources must be used, the output production, and the timing of a production schedule. The higher the accuracy the higher the cost, therefore the best forecast is generated from some combination of accuracy and cost.

Forecasting is a statement pertaining to the future value of a variable of interest. It is crucial for good forecasting to be;

- reliable,
- cost effective,
- simple and
- concise

It is very important for a forecast to be correct and that there be as few errors as possible. Errors greatly affect forecast accuracy and if there are too many errors in a forecast, then action is required to correct those errors.

Steps in forecasting:

Whatever may be the method used for forecasting, the following steps are followed in forecasting.

(a) **Determine the objective of forecast:** What for you are making forecast? Is it for predicting the demand? Is it to know the consumer's preferences? Is it to study the trend? You have to spell out clearly the use of forecast.

(b) **Select the period over which the forecast will be made?** Is it long-term forecast or medium-term forecast or short-term forecast? What are your information needs over that period?

(c) **Select the method you want to use for making the forecast.** This method depends on the period selected for the forecast and the information or data available on hand. It also depends on what you expect from the information you get from the forecast. Select appropriate method for making forecast.

(d) **Gather information to be used in the forecast.** The data you use for making forecasting to produce the result, which is of great use to you. The data may be collected by:

- **Primary source:** This data we will get from the records of the firm itself.
- **Secondary source:** This is available from outside means, such as published data, magazines, educational institutions etc.

(e) Make the forecast: Using the data collected in the selected method of forecasting, the forecast is made.

Methods or techniques of sales forecasting: Different authorities on marketing and production have devised several methods or techniques of sales or demand forecasting. The sales forecasts may be result of what market people or buyers say about the product or they may be the result of statistical and quantitative techniques. The most common methods of sales forecasting are:

- Survey of buyer's inventions or the user's expectation method
- Collective opinion or sales force composite method
- Group executive judgement or executive judgement method
- Experts' opinions

Market test method

Trend projection method

We will be discussing here on '**trend projection method'.**

Trend projection method- under this method:

- ❖ A trend of company's or industry's sales is fixed with the help of historical data relating to sales which are collected, observed or recorded at successive intervals of time.
- ❖ Such data is generally referred to as time series.
- ❖ The change in values of sales is found out.
- ❖ The study may show that the sales sometimes are increasing and sometimes decreasing, but a general trend in the long run will be either upward or downward. It cannot be both ways.
- ❖ This trend is called secular trend.
- ❖ The sales forecasts with the help of this method are made on the assumption that the same trend will continue in the future.
- ❖ The method which is generally used in fitting the trend is the method of least squares or straight line trend method.
- ❖ With this method a straight line trend is obtained. This line is called 'line of best fit'.
- ❖ By using the formula of regression equation of Y on X, the future sales are projected.

Calculation of trend

The trend can be calculated by the least square method as follows:

(i) Find time deviations (X) of each period from a certain period and then find the sum of time deviation (ΣX).

(ii) Square the time deviation of each period (X2) and then find the sum of squares of each period (ΣX2).

(iii) Multiply time deviations with the sales of each period individually (XY) and add the product of the column to find (ΣXY).

(iv) To find the trend (Y) this is equal to a + bX.

The value of a and b may be determined by either of the following two ways:

(a) Direct method. This method is applicable only when ΣX = 0. To make ΣX = 0, it is necessary that the time deviations should be calculated exactly from the mid point of the series. Then, the values of a and b will be calculated as follows:

a (average) $=\sum Y/n$ and b (rate of growth) $=\sum XY/X^2$

T his method is simple and direct.

(b) Indirect method. This method is somewhat difficult. This method can be applied in both the cases where ΣX has any positive or negative values or ΣX is not equal to zero. The values of a and b are calculated by solving the following two equations:

$\Sigma Y = na + b\Sigma X$

$\Sigma XY = a\Sigma X + b\Sigma X2$

By calculating the values of a and b in the above manner, the sales can be forecasted for any future period by applying the formula Y = a + bX.

Moving average method*:* This is another statistical method to calculate the trend through moving averages.

It can be calculated as follows:

- ❖ An appropriate period is to be determined for which the moving average is calculated.
- ❖ While determining the period for moving averages,

- the normal cycle time of changes in the values of series should be considered so that short-term fluctuations are eliminated.
- As far as possible, the period for moving averages should be in odd numbers such as period of 3, 5 or 7 years.
- The period in even numbers will create a problem in centralising the values of averages.
- The calculated values of moving averages present the basis for determining the
- expected amount of sale.

Example: From the following time series data of sale project the sales for the next three years.

Year	2001	2002	2003	2004	2005	2006	2007
Sales ('000 Units)	80	90	92	83	94	99	92

Solution: **Computation of Trend Values**

Years	Time Deviation from 2004 X	Sales ('000 Units) Y	Squares ofTime Dev X^2	Product of Time Deviations and Sales XY
2001	-3	80	9	-240
2002	-2	90	4	-180
2003	-1	92	1	-92
2004	0	83	0	0
2005	+1	94	1	+94
2006	+2	99	4	+198
2007	+3	92	9	+276
n=7	$\sum X=0$	$\sum Y=630$	$\sum X^2=28$	$\sum XY=+56$

Regression equation of Y on X

$Y = a + bX$

To find the values of a and b

$a=\sum Y/n=630/7=90$ and $b=\sum XY/X^2=56/28=2$

Hence, regression equation comes to $Y = 90 + 2X$. With the help of this equation we can project the trend values for the next three years, i.e. 2008, 2009 and 2010.

$Y_{2008} = 90 + 2(4) = 90 + 8 = 98$ (000) units.

$Y_{2009} = 90 + 2(5) = 90 + 10 = 100$ (000) units.

$Y_{2010} = 90 + 2(6) = 90 + 12 = 102$ (000) units.

Please proceed further following the sequence of the chapters in your study notes and refer your Mock Test Papers as well.

Best of luck

Group: II

Paper 9:

Part 2:

Operations Management & Strategic Management (OMSM) / Strategic Management

CMA Aditi Dasgupta
Dy. Director, Examination
She can be reached at: *exam.aditi@icmai.in*

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.

Now, we are coming to the Strategic Management portion of your Syllabus in paper-9.

Since the business environment encapsulates many different influences it is really hard to determine which really important influences that impact the concerned business are. One of the most important challenges for a manager is to identify the influences and their impact on their businesses. In the strategic management process, situational analysis is of paramount importance. Our discussion in **this issue will focus on situational analysis and its tools to scan the external and internal environmental influences on an organization.**

PEST ANALYSIS –

PEST analysis is considered as a tool for analyzing external environmental factors of an organization. It helps in the analysis of the POLITICAL, ECONOMIC, SOCIAL and TECHNOLOGICAL factors that might affect the business. It is a strategic analysis tool to identify the influences on the business and their potential impact.

- The political factors include the Govt policies and its changes in that industry i.e. to identify the degree of governmental intervention which includes, taxation policies; environment protection rules, labour laws in order to assess the degree of resistance or assistance from those regulations on that concerned business.
- Economic factors include economic growth, interest rate, exchange rate inflation etc. Since these economic factors pose a long lasting impact on the business they are to be assessed with great care and precision. A small change in the interest rate may affect a firm's cost of capital which in turn may control their supply of funds.
- Social factors i.e.the cultural factors are assessed to analyze the market demand, their growth potentialities and to take corrective measures to improve their product or marketing strategies to fit to the changing societal factors.
- Technological analysis involves the assessment of degree of technological advancement, innovations and emerging trends which may affect their decision for product development, market expansion, HR policies, changes in production level etc. the degree of automation and the ability of the business to adopt the same to remain in the market are the main factors that are basically analyzed in this section.

Now a days, PESTEL analysis is also done instead of PEST analysis by adding in two more factors i.e. Legal and Environmental factors.

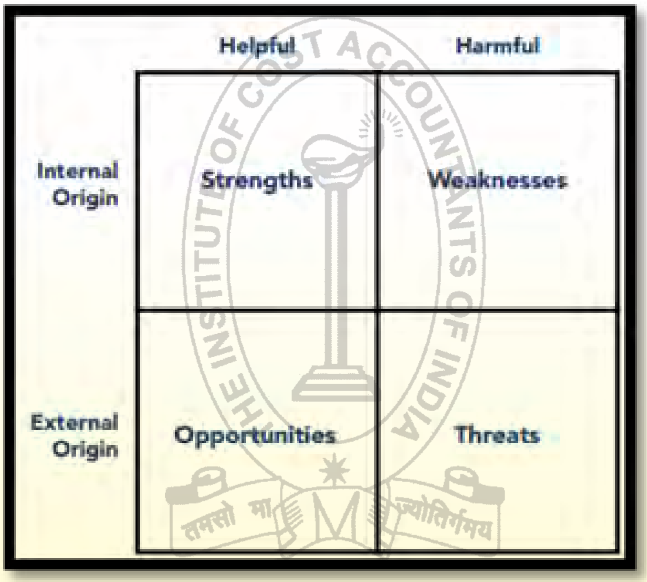
- Legal factor includes discrimination law, consumer protection law etc which are required to be assessed to understand the legal environment encapsulating the business.
- Environmental factors include ecological and environmental factors that impact on the business. Moreover the increasing awareness of the consumers on the potential impact of climate change due to the business is also important for to be considered which if goes unnoticed can cause serious damages to the business including closure of the same.

It is to be borne in mind that the factors which are discussed above should be analyzed on the basis of their potential impacts on the particular business as there are factors whose slight change may be a matter of serious concern for some industry while other industries may remain indifferent for the same change in that factor.

SWOT ANALYSIS –

SWOT analysis is a business analysis technique that can be used by an organization for each of its products, ventures, markets etc to decide to the best way to increase market growth and sustain the same in future. SWOT analysis as the name suggests is the analysis of the STREANGTHS, WEAKNESS, OPPURTUNIES and THREATS to a concern. The strengths and weaknesses are considered to be internal factors to the organization and hence can be controlled whereas threats and opportunities are external factors which cannot be controlled by the organizations.

- Strengths and Opportunities are the favorable factors that would help the organization to achieve its goal.
- Weaknesses and threats are those factors that are unfavorable for the company for achieving its objectives.



Note that there are no readymade formulae or factors for conducting a SWOT. It depends on the organization, its objectives and purpose for conducting SWOT.

Group: II
Paper 10:

Cost & Management Accounting & Financial Management (CMFM)

Dr. Swapan Sarkar,
Assistant Prof.
Department of Commerce,
University of Calcutta
He can be reached at: ***swapansarkar22@gmail.com***

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.

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

Section A: Cost &Management Accounting:

As mentioned earlier, this section of the paper is comprised of five subsections of which two are more or less theoretical chapters (Chapter 1 and 5) and the other three are semi-practical (Chapter 2, 3 and 4) with greater emphasis on the numerical problems.

Chapter 1: Cost and Management Accounting:

(*An introductory chapter which explores the meaning of management accounting and attempts to explain its relation with cost accounting*)

- **Meaning of Management Accounting:**

In an organization, while Financial Accounting measures the overall performance and exhibits the overall financial state of affairs, Cost Accounting measures the cost of production and total cost associated with the product and per unit cost attributable to the product units. However, both the systems of accounting are based on the double entry book keeping system and hence generate certain well formatted accounts and/or statements (like Statement of Profit and Loss and Balance Sheet in case of financial accounting and Costing P/L Account and Cost Sheet in case of Cost Accounting).

Though the importance of these end products of the two accounting systems can not be undermined, managers often require additional customized information which these traditional accounting systems fail to provide. As a result a separate system of data processing and generating customized statements is imperative. Management accounting is the system which encompasses all the techniques associated with identifying, presenting and interpreting information necessary for decision making by the management.

Chapter 2: Decision Making Tools

(*This chapter encompasses two sub topics namely marginal costing and transfer pricing. While the first deals with the technicalities of application of marginal costing technique in various decision making areas, the latter explains the role of transfer pricing is measuring divisional performance.)*

- **Meaning of Marginal Costing**

Traditional method of cost determination, known as absorption costing, includes fixed cost in the total cost and charges it to each unit of the product. Since fixed cost for a given capacity is a sunk cost, inclusion of fixed cost in the total cost leads to fluctuation in per unit cost due to change in capacity utilization. Moreover such a practice shifts cost of one period (as fixed cost is period cost) to another through inventory and distorts the profit. This at times may be quite dangerous because while competing with a relatively small firm, a firm with underutilization of capacity may end up with higher cost per unit and higher price and may lose price sensitive customers.

Thus under marginal costing, price is fixed at a level to recover the marginal (additional) cost and to generate some surplus known as 'contribution' (Sales Piece –

Marginal Cost) from each unit of the product. The accumulated contribution from total units sold is then used to recover the fixed cost. Anything leftover is recognized as profit. In the absence of any incremental fixed cost marginal cost will mean the variable cost only.

Chapter 3: Budgetary Control

(*This chapter highlights techniques of preparing various budgets as an effective tool for controlling the use of financial resources.*)

- **Meaning of Budget:**

A budget is a financial and/or quantitative statement, prepared and approved prior to a defined period of time, of the operations of the firm. Here operations may range from sales or production to any specific facility required to perform such sales or production (i.e. any overhead facility).

- **Meaning of Budgetary Control:**

Budgetary control refers to the comprehensive process of establishing budget for a given operation and continuous comparison of actual with the same to ensure attainment of the stated objective and to provide a basis for revision, if required.

- **Pros and Cons of Budgetary Control:**

Pros	Cons
Early estimate Better coordination Better allocation of resources	Difficult to make proper estimate in dynamic environment
Objective Evaluation of cost centers	Unrealistic estimate creates pressure
Problem identification Effective control	Encourage rivalry among departments

Chapter 4: Standard Costing

(*This chapter highlights the importance of standard costing as a control mechanism and explains how analysis of variance can be used to achieve the same.*)

- **Meaning of Standard Costing:**

Standard costing may be defined as a control mechanism which established pre-determined standard costs, compares it with the actual cost to determine the deviations, investigate the same and take necessary corrective actions to avoid repetition of any unfavourable variance.

- **Steps in Standard Costing:**

Steps	Participants
Setting the standards	Engineers
Determining the standard cost	Management and CMAs
Calculation of actual cost	CMAs
Calculation of variances and analysis of variances	CMAs
Identifying the reasons	CMAs and Management
Taking corrective actions	Management

Chapter 5: Learning Curve

(*The chapter introduces the concept of learning curve and experience curve to explain the rationale behind reduction in average cost per unit with increase in cumulative production and also explains their uses in the industry.*)

Learning is the process by which an individual acquires knowledge and skills and thereby achieves efficiency. As a result when a new process, job or activity commences, the workforce productivity may not attain maximum. But eventually through learning process they learn the better way of doing the job. As a result the average time and cost per unit reduces significantly as cumulative production increases. This phenomenon is called the learning curve theory.

Section B: Financial Management

This section is also comprised of five chapters of which only the first one is theoretical. All the other four chapters are semi-practical in nature.

Chapter 6: Introduction to Financial Management

(*This is an introductory chapter which highlights the basic idea behind management of financial resources, scope and functions of a financial manager, objectives of a firm from financial viewpoint and available sources of finance in any organization*).

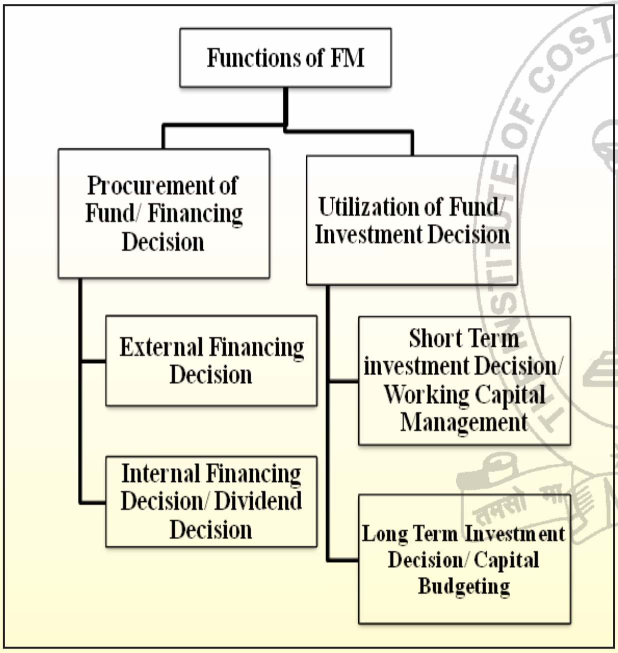
- **Meaning of Finance and Financial Management**

The term 'finance' can be interpreted in both a narrow as well as a broad sense. In the narrow sense of the term, it refers to the fund required to procure all the other forms of capital (land, machineries and even human resources). In its broader sense, however, finance is considered to be an area of administration concerned with procurement and utilization of financial capital of a firm.

Financial management is basically the management of finance. It is concerned with procurement and effective utilization of financial resources to achieve the desired goals of an organization. In other words, it is a subset of the total system of management and is concerned with the management of financial resources of a business.

- **Functions/ Scope of Financial Management**

The functions/ scope of financial management can be shown in the following schematic diagram.



Chapter 7: Tools for Financial Analysis and Planning

(*This chapter covers various aspects of three most important tools of financial analysis and planning namely financial ratio analysis, fund flow statement and cash flow statement.*)

Just like all other branches of management, the basic objective of financial management is to optimize the use of scarce (financial) resources. However, this can be ensured only if-

(a) Funds are procured at the least possible cost; and

(b) Procured funds are utilized to reap the best possible benefits.

The above two objectives can be achieved only if the financial decisions are taken after careful and objective analysis and implementation of such decisions follow some well thought out plans. Hence financial analysis and financial planning can be considered to be the key to success in every financial decision.

Since only objective (and not subjective) analysis based on reliable or authentic information can achieve the desired results, varied analytical tools have been proposed by different experts over the years. Of all these tools, the following three are considered to be most significant in terms of their wide acceptance in real practice.

- **Financial Ratio Analysis** to analyze the financial health (Solvency and Liquidity) and financial performance (Profitability and Operating Efficiency) of an organization based on various ratios calculated from P/L A/C, Balance Sheet and Cash Flow Statement.
- **Fund Flow Statement** to analyze the movement of fund (i.e. working capital) due to various activities.
- **Cash Flow Statement** to analyze the movement of cash and cash equivalents due to various activities.

Chapter 8: Working Capital Management

(*This chapter introduces the basic concept of working capital and discusses its types,*

components, determining factors, technique of forecasting working capital requirement and techniques of managing each individual components of working capital.)

- **Meaning of Working Capital**:

The term 'working capital' refers to the funds available for day-to-day operations of an enterprise. It is also known as circulating capital as the fund invested in working capital changes its form from cash to inventory, inventory to receivables and again receivable to cash on a continuous basis.

- **Alternative Concepts of Working Capital:**

There are two alternative concepts of working capital namely Gross Working Capital and Net Working Capital.

Gross working capital refers to the aggregate of current assets (∑C.A). On the other hand, **net working capital** means the excess of current assets over current liabilities (∑ C.A - ∑ C.L). Though both the concepts are popular, each has its own implication. While gross working capital concept is more helpful in managing each individual component, net working capital is considered as an absolute measure of liquidity or short term solvency. Practically net working capital denotes the cushion a firm has in order to absorb any shock while being forced to pay its current obligations immediately.

Net working capital can again be **positive** or **negative**. While positive NWC (∑ C.A > ∑ C.L) is always desirable, negative NWC (∑ C.A < ∑ C.L) is not impossible. For example, a firm making substantial amount of credit purchase just before the reporting date may have a negative NWC temporarily. However, negative NWC for an extended period indicates extremely poor liquidity.

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

(*As the name suggests, this chapter comprises of four important aspects of financial management that are immensely important in decision making*).

- **Meaning of Cost of Capital:**

A finance manager, in his process of fund procurement procures funds from various sources including own capital (e.g. equity share capital, preference share capital) and loan capital (e.g. bank loan, debentures, bonds etc.). Providers of each of these sources are compensated in terms of certain returns (dividend or interest) on their contribution. Cost of capital is nothing but the returns provided as compensation to different providers of capital.

- **Specific vs. Composite Cost of Capital**

Source	**Cost (Actual Form)**	**Notation**
Equity Sh. Cap.	Equity Dividend	K_e
Pref. Sh. Cap.	Preference Dividend	K_p
Retained Earnings	Bonus Share/bonus dividend	K_r
Debenture/ Bond	Interest	K_d
Bank Loan	Interest	K_d
Public Deposit	Interest	K_d
Composite Cost of Capital = $\sum K_i \times W_i$ Where, K_i = Specific cost as above; W_i = Weight of each source in the overall capital structure (in terms of book value or market value)		

Chapter 10: Capital Budgeting

(*This chapter highlights the concept and importance of capital budgeting and various alternative appraisal techniques of capital budgeting.*)

In order to ensure sustainability and long term growth, every firm undertakes long term projects or invests in long term assets which are likely to generate consistent cash flows over the years. Since these long term investment decisions are irreversible and often involves huge cash outlay, a systematic approach of decision making based on in-depth analysis of financial and non-financial consequences is inevitable. **Capital budgeting** refers to the systematic process of planning, implementing and controlling of a long term investment decision based on its financial attributes.

Group: II

Paper 11:

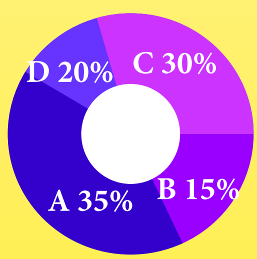
Indirect Taxation (ITX)

Ms. Poushali Das
Asstt. Prof., Scottish Church College
She can be reached at:*das.poushali16@gmail.com*

Your Preparation Quick Takes :

Syllabus Structure

A Canons of Taxation - Indirect Tax & Central Excise **35%**
B Customs Law **15%**
C Servce 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

Customs Law

Scope of the syllabus [15%of the total marks is allotted to this chapter]

Note to the Student- Apart from few theoretical knowledge regarding this chapter your main emphasis would be the terminology used for different stages of exporting and importing goods and its valuation while doing the transaction. The valuation or the amount to be paid as Customs duty depend upon a number of factors like its *transaction value, quantum of taxation, event of its taxability and other costs included in transaction*. Keeping such topics in mind a brief outline of the chapter is put down trying to answer the doubts for the chapter.

- Background of Customs Duty
- Types of Customs duty
- Event of taxability of Customs Duty
- Exemptions of Customs Duty
- Valuation of Customs Duty.

Background of Customs Duty

The concept of customs law was developed in the historic era where it was a custom for a merchant to pay a certain amount as a gift or a customary to the king whenever his ship entered to the port. This was getting permission from the king to sell his goods. Similarly Customs duty as per the customs ACT of 1962 and Customs Tariff ACT of 1975 provides for levy and collection of customs duty due to import/ export procedure, prohibition on importation and exportation of goods, penalties and offences.

While calculating customs duty and its valuation on the amount to be exported or imported is divided into different categories and they are:-

- ❒ Customs Valuation Rules 2007 (Determination of value of imported and exported goods)
- ❒ Customs Valuation Rules 1998 (For Valuation of imported goods for computing the quantum of duty payable)
- ❒ Customs and Central Excise Drawback Rules 1995
- ❒ Export manifest Regulation 1976

Thus, each of this type of Customs are implemented in our nation while importation and exportation of goods.

Types of Customs Duty

During the valuation of the customs duty payable, we can segregate customs duty into different categories in case of either import or export:

Basic Custom Duty- It is levied under Section 12 of the Customs Act and specified under Section 2 of the Customs Tariff Act. It is normally levied at a percentage of "value" as determined. The duty may be fixed on *ad-valorem* basis or specific rate basis. The Central government has got the authority to reduce or exempt any goods from these duties.

Countervailing Duty *(CVD)* - It is equal to the excise duty, if goods are manufactured in India. It is an additional duty levied under section 3(1) of the Customs Tariff Act. CVD is imposed when excises able goods are imported in order to counter balance the excise duty which is liveable on similar goods manufactured in India. Rationale behind this is to safeguard the interest of Indian manufacturers and indigenous producers.

- ❒ **Education Cess**
- ❒ **National Calamity Contingent Duty *(NCCD)***

- **Safeguard Duty** – It falls under section 8B of the Customs Tariff Act, the Central government can impose such a duty. It can be imposed on specified imported goods if the Central government is not satisfied that the goods imported in such increased quantities are causing serious threats to the domestic industry.

- **Anti-Dumping Duty** - If an article is exported by an exporter/ producer from outside India to India at less than its normal value, the Central Government can impose anti-dumping duty on such transaction. It can be imposed by issue of a notification under section 9A of the Customs Tariff Act. This anti-dumping duty cannot exceed " *margin of dumping*"

  Margin of Dumping – It is the difference between 'normal value' and 'export price'. Normal value is the price of the good in its ordinary course of business, when consumed in the exported country. Export price is the price at which the goods are exported.

- **Protective Duty**

- **Special CVD**- it is equal to maximum sales tax/ VAT, if goods are purchased from India.

Therefore we can derive from the above discussion on types of Customs Duty that when goods are subject to import from overseas not only it is charged for duty but also charged separately if there is an indigenous market for the same product. Thus this maintains the production level of the domestic industry as well.

Importation of the goods also needs to be dumped or reached to the destination country and its valuation needs to be ascertained. The concept of margin of dumping which is the difference between the normal value with the export price. This margin gives you the escalated price excess value paid due to import.

Event of Taxability of Customs Duty

As the goods subject to customs duty are on board either for import or export, there are different stages when the goods are restored. The broad classification would be when the goods reach home shore, when they are warehoused and when they are consumed. These three stages are respectively taxable in case of the occurrence. The event under which customs duty falls taxable are as follows:-

1. In case the goods entered for home consumption	Date on which a bill of entry in respect of such goods are presented
2. In case of warehoused goods	Date on which a bill of entry in respect of such goods are presented foe clearance from warehouse for home consumption
3. Any other case	Date on which the duty is paid

Common features in Customs and Central Excise duty:-

However, while calculating customs duty we can often trace similarities of it with excise duty. Out of the many similarities few of the common features of Customs and excise duty can be read as-

- Both are governed by List I of the Schedule VII of the Constitution.

- Both are governed by Department of Revenue which is under Ministry of Finance.

- Quantum of Central Excise and Customs Duty depends upon 'assessable value'. In both the cases assessable value is principally based on 'transaction value'. Both follow the principle of related persons.

Exemptions to the Customs Duty:-

- General exemptions are granted for imports by privilege persons/ organizations.

- Exception on Moral grounds- where goods are in transit, where goods have reached Indian soil but not ready for consumption, where goods do not reach Indian soil at all.

- It is applicable where exemptions are basically used for industrial growth of the country for controlling the economy.

- Exemptions given under notifications.

Valuation of Customs duty:-

In case Customs duty the most important is the valuation or the quantum of duty to be paid. Therefore valuation is the integral concept for customs duty for importation or exportation of goods.

Custom duty is payable as a percentage of “assessable value”. The ‘assessable value’ is calculated as follows-

Transaction Value (FOB)	XX
(+) Cost of transportation of imported goods to India	XX
(+) Cost of Insurance	XX
CIF	XX
(+) Loading, unloading and Handling charges	XX
Total (CIF + 1%)	XX

Illustration:

Find out assessable value, if CIF is Rs. 95,00,000. Goods are transported by air. CIF includes air transportation cost. Amount of transportation cost and insurance cover is not available separately

Solution:

Transaction value (FOB is assumed to be x)	x
(+) Cost of transportation (cannot exceed more than 20%)	0.2x
(+) Cost of insurance cover (1.125% of FOB)	<u>0.01125x</u>
CIF	1.21125x

1.21125x= 95,00,000

X= 78,43,137 (95,00,000/1.21125)

Or, Transaction Value (FOB) 78,43,137.

Group: II

Paper 12:

Company Accounts & Audit (CAA)

Dr. Malay Kr. Nayak
Associate Prof., Dept. Of Commerce,
M.B.B.College,Tripura
He can be reached at: *malay_nayak@ymail.com*

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.

Enjoy the logic and statute of 'company accounts and audit'- of paper 12. In the introduction of 'Company Accounts and Audit' paper we are to know the main thrust area of knowledge content which is accounts of joint stock companies and Auditing thereof. In the arena of joint stock companies we are to get adherence of companies Act as well as Accounts. In the same way we are to extend Companies Act in the way of Auditing. Hence we are to learn the relevant pronouncement of Companies Act minutely.

How to prepare yourself for better excelling in examination.

At first you must know the subject content thoroughly. Do not over emphasise on examination. This time the Institute comes up with study notes in a very delicate way as well as nicely. Please go through the entire study notes broadly without any deep understanding in time frame of starting days of your preparation. It requires hardly two to three days. It reveals the whole philosophy of the subject. For answering any critical question your base may help firmly to find out the solution.

Now, come to the subject contents. In the chapters of issues of various shares, share capital is formed against of some incoming of assets mostly in the form of appreciation of bank balance. As Allotment of shares is basically a contract for non payment of any call money, earlier payment is forfeited and for further issue this forfeited amount is adjusted against short fall. The rest is going to capital reserve account.

Therefore Accounts are basically the translation of Acts and laws. You have to understand the underlying Acts and rules behind any recording. Similarly the redemption of shares and debentures etc you must know the concerned sections of Companies Act. In case of presentation of Financial statement you are to get adherence of format of Balance Sheet as per part I of schedule III.It is in vertical form not in horizontal form as many texts suggest. For statement of profit and loss as per part II of schedule II, it is also in vertical form of statement not in ledger form as earlier practice.

Regarding Cash Flow Statement it is to present AS3, you are to follow both direct method and indirect method. As SEBI requires Cash Flow from operation using indirect method, you are to stress on it .You have to prepare on Projected Cash Flow Statement too.

Then Accounts of Banking, Electricity and Insurance Companies- all sums are relevant to formats only. You are to memorise the formats, rest will be done automatically. Comparatively this portion is easier to handle but don't fail to eye washing the format just the preceding day of examination.

Let us come to the Accounting Standards. Only seven Accounting Standards we are to know. For better understanding we are to consult Institute of Chartered Accountants website for Compendium of Accounting Standard. Two parts of Accounting Standards are endorsed –application and disclosure. The study note is sufficient to have the exposure.

For the whole Accounting arena you are to take care of the conceptual part. The recent trend is to face the small sums. If you get the rules and norms clearly, you will be able to score good marks.

Now we may enter to Sec B. There are two halves- Auditing concepts and Companies Audit. For the conceptual part weightage is 20 % and for the others it is 30 %.

You must take the glimpse of nature, scope and significance of Audits. You get the concepts first and try to communicate in a simple language.

For Audit programme, Audit working papers and Audit note book you are to take everything point wise.

Unnecessarily you should not bear the burden of language.

If you get the differences among internal check, internal control and internal audit you will come to know the details of all of them. As these are all internal matters- nothing is statute driven. Take them as management aspects. You are to frame the logical synopsis of this part.

But the second aspect i.e. Audit under Companies Act, you are to know the appointment, power, duties etc in terms of dictates of Companies Act. You are to go through the formats of reports and differences of reports and certificates.

Regarding Audit of divisible profits and dividends you are to go through the Sec 123 to 127 of the Companies Act in detail.

You are to go through the revised Auditing and Assurance Standards.

You have to get Audit of different types of undertaking. Audit of Educational Institute, hospital etc flows in rationale format depending on the organisation structure and functionaries. Once you know the rationale you may frame the flow and consequent Audit programme etc.

The part of Auditing provides cushion to your any mishappenings in accounting part. But the score depends on Accounting part. Hence the balancing between two halves provides you a comfortable position in the examination hall.

This whole paper is technical as well as rational in approach. Once you go on practising you will surely get success. Practising in Accounting part may be a part of your daily routine. Only then you may not face any difficulty.

ENJOY STUDY

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. Dear Sir/Mam,
Thank you for the guidance through the Ebulletin, It's very helpful for the students.
princesspavi
[princespavitm097@gmail.com]

2. Dear sir/Mam,
E-bulletin published by the institute is very useful for us. But I request you to add the following things:
* Writing Tips - How to write answers in examination for better scoring with examples & share practical experiences also.
* Amendments - Include amendments related to upcoming examinations and mention the such term when such amendment will be applicable.
Thanking You
Regards,
Pratik Prakash
(M): 9798864714
[pratikagrawal@rocketmail.com]

3. Respected Sir,
I am so glad that I am a member of this ICMAI Institute. I am thankful to the whole team member of ICMAI, you people are giving great efforts to take up this Institute. This e-bulletin really help us to get motivated towards are studies. This is such a great idea for students like who prepare by own.
Thanking You
Yours Obediently
G SHANTI
(CMA Intermediate)
[shantishanu7@gmail.com]

4. A excellence initiate by ICMAI , this is going to be very useful for us .
Thank you sir
Ravindra Burnwal
[ravindra.burnwal76@gmail.com]

5. Sir,The e-bulletin what i have received is one of a kind. It gives a great boost and motivation to me. We always get get confused about how to plan our study. Earlier we had Target success and now this bulletin. It greatly helped me to the core and also made me at ease. Will follow the saying - BE A CMA. BE A PROUD INDIAN.
Wish me Luck.
Yours Sincerely,
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[manaskashyap1990@gmail.com]

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

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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 tipa which will help you to gain sufficent 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 studients 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 begining 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;

Wishing you a very Happy & Prosperous Year ahead!

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(Statutory body under an Act of Parliament)

Headquarters: CMA Bhawan 12, Sudder Street, Kolkata – 700 016
Tel: +91-33 2252 1031/1034/1035/1492/1602/1619/7373/7143

Delhi Office: CMA Bhawan 3, Institutional Area Lodhi Road, New Delhi - 110003
Phones : +91 11 24666100, 24622156/57/58

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