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CMA STUDENTS' E-BULLETIN

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Behind every successful business decision, there is always a CMA

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KNOWLEDGE UPDATE

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

Group - I
Paper - 5
Financial Accounting (FAC)

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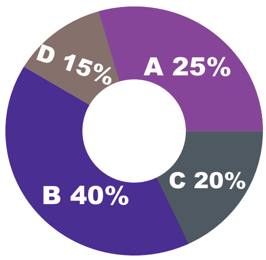
Your Preparation Quick Takes



Syllabus Structure

A Accounting Basics **25%**
B Preparation of Financial Statements **40%**
C Self Balancing Ledger, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts **20%**
D Accounting in Computerised Environment and Accounting Standards **15%**

Learning Objective:

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

SECTION B UNIT 6 (a)
PARTNERSHIP

PAST ADJUSTMENTS AND GUARANTEE, PROFIT AND LOSS APPROPRIATION ACCOUNT

There are various existing forms of business in India. 'Forms of business' means the nature of ownership and control (for example sole proprietorship, partnership etc.). In this issue we will discuss the basics of accounting of partnership business.

This form of business is enacted by Partnership Act 1932.According to section 4 of this act partnership is defined as a relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all.

The basic accounting starts with distribution of profits in a partnership firm among the partners through profit and loss appropriation account. The format and accounting procedure of profit and loss appropriation account is shown below :

Profit and Loss Appropriation a/c

To Partners salary, bonus, commission etc.	xxx	By P/L A/C : net profit transferred	xxx
To Interest on capital	xxx	By Interest on drawings	xxx
(All the above items are incomes of partners and expenses of the firm and hence debited.)		(Interest is paid by partner on the amount drawn. It is credited because it is income of the firm.)	
To Reserve (transfer of undistributed profit and hence debited.)			
To Interest on loan(for loan given by the partner)		By Interst on loan (for loan taken by the partner)	
To capital accounts of partners : (Net distributable profit left after all appropriation is distributed among the partners in their agreed profit sharing ratio.)	xxx		
Total	xxxxxx	Total	Xxxxxx

Note on section 13:

a. Regarding interest on loan if the deed is silent partner is to interest pay @ 6 % p.a.

b. Regarding interest on capital and interest on drawings if the deed is silent nothing is to be done. Note on capital and current account:

a. If the deed provides for maintaining fixed capital all adjustments will be treated through the current account.

b. If the deed provides for maintaining fluctuating capital all adjustments will be treated through capital accounts itself.

Guarantee clause:

The distribution of profits among the partners depends on the existence of guarantee clause in the partnership deed. Normally profits are to be distributed in the agreed ratio as per deed. If the deed is silent about that the profit will be distributed equally among the partners as per sec 13 of partnership act 1932.

Generally to provide confidence among the new partner to be admitted existing partners may guarantee a minimum amount of profit to him. In this way the existing partners are committed beforehand to pay such amount of profit. If the profit falls below such guaranteed level the guaranteeing partners are bound to share such deficiency. The accounting implication is that the new partner will get such minimum guaranteed amount from the firm.

<u>Example relating to past adjustment:</u>

A B C and D are partners sharing profits and losses in the ratio 4:3:2:1 and their respective capitals on Dec 31 2016 were Rs. 30000, Rs.45000, Rs.60000 and Rs. 45000. After closing the accounts it was found that interest on capital @ 10 % p.a was omitted to be recorded. Instead of altering the signed accounts it was decided to pass a single entry on Jan 01 2017.

Pass such entry.

Solution:

date	Particulars	debit	credit
Jan 01, 2017	A's Current Account..dr	4200	
	B's Current Account..dr	900	
	TO C's Current Account		2400
	To D's Current Account		2700
	(being adjustment made for wrong distribution of profit)		

Note:

Interest on capital:

A 10% on Rs.30000 = 3000

B 10% on Rs. 45000 = 4500

C 10% on Rs.60000 = 6000

D 10% on Rs.45000 = 4500

Thus it is found that an amount of Rs. 18000 had been distributed among the partners in their profit sharing ratio instead of putting this into interest on capital.

This is to be written back in capital ratio. Let us see the excess or deficit to be adjusted

	A	B	C	D
CAPITAL RATIO	3000	4500	6000	4500
PROFIT RATIO	7200	5400	3600	1800
ADJUSTMENT	(4200)	(900)	2400	2700

<u>Example relating to past adjustment guaranteed profit:</u>

The summarized capital account of the partners of M/S NDP sons appear as under.

Capital A/C

particulars	N	D	P	particulars	N	D	P
31.12.2014 TO drawing	12000	12000	12000	1.1.2014 By bal. b/f	20000	30000	40000
To bal c/f	23000	33000	43000	By P/L appn	15000	15000	15000
	35000	45000	55000		35000	45000	55000

On jan 1st 2015 it is agreed that the following would be retrospectively effective from jan 01 2014

a. N shall be entitled to salary of Rs.750 p.m

b. interest shall be allowed on partners capital @ 10% on opening ba;ances

c. Profit shall be shared in proportion to opening balance of capital accounts and

d. P's share of profit inclusive of interest on capital shall not fall below Rs. 18000, the deficit, if any, being contributed by N out of his share.

You are required to show entries in the capital account on jan 1st 2015 by a single journal entry to effect to the above arrangement.

Solution : Capital A/C

particulars	N	D	P	particulars	N	D	P
31.12.2014 TO P		3000		1.1.2014 By bal. b/f	20000	30000	40000
To bal c/f	23000	30000	46000	By D			3000
	23000	33000	46000		23000	33000	46000

Workings :

	Total	N	D	P
Salary of N (750x12)	9000	9000		
Interest on capital @ 10%	9000	2000	3000	4000
Total	18000			
Share of profit (45000-18000) in 2:3:4	27000	6000	9000	2000
Deficit of P				2000
Deficit of P borne by N		(2000)		
Total	45000	15000	12000	18000
Guaranteed amount	18000			18000
Old distribution	45000	15000	15000	15000
Adjustment between D and P			(3000)	3000

Best wishes to all.

Group - I
Paper - 6
Laws & Ethics (LNE)

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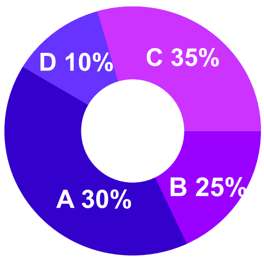
Your Preparation Quick Takes



Syllabus Structure

A Commercial Laws **30%**
B Industrial Laws **25%**
C Corporate Law **35%**
D Ethics **10%**

Learning Objectives:

Prior to start discussing on the Paper, we need to understand few basic points about the paper. Unlike other papers, this particular may turn to be very interesting and scoring as well, provided you pay attention to the points discussed below:

Read the Act carefully and try to know the meaning of the contents in it,

All the Acts are having practical implications in the real life world and it will help you to solve the problems in your real life situations once you join in the industry and / or practicing field,

Answers should be specific and to the point,

Please don't try to elaborate your answers adding irrelevant terms and items ; it may penalise you With the Tips given here, please follow the Suggested Answers and Mock Test Papers of the Institute to have a fair idea about writing the paper in the examination.

LAWS & ETHICS

In continuation to our discussion on **'Negotiable Instruments Act,1881**; we are discussing about Acceptance, Assignment & Negotiation.

A bill is said to be accepted when the drawee (i.e., the person on whom the bill is drawn), after putting his signature on it, either delivers it or gives notice of such acceptance to the holder of the bill or to some person on his behalf.

After the drawee has accepted the bill, he is known as the acceptor. It is only the bill of exchange (other than cheque) which requires acceptance. However, acceptance is not necessary to make a valid bill. If a bill is not accepted, it does not become invalid. It only becomes dishonoured by non-acceptance.

When presentation for acceptance is necessary:

(a) Where the bill is payable at a given time after acceptance or after sight.
(b) Where the bill expressly stipulates that it shall be presented for acceptance before presented for payment.
(c) Where the bill is made payable at a place other than the place of residence or business of the drawee.

In no other case is presentation for acceptance necessary in order to render liable any party to the bill.

Presentation for acceptance may be excused in the following circumstances:

(a) Where the drawee is dead or insolvent.
(b) Where the drawee is a fictitious person or one incapable of contracting.
(c) When the drawee can cannot be found with reasonable efforts.
(d) When acceptance has been refused on some other ground

Types of Acceptance:

Acceptance may be either general or qualified.

1.General Acceptance:
An acceptance is said to be general when the drawee accepts the bill without qualification to the order of the drawer. If the acceptance is not absolute, the holder may treat the bill as dishonoured by non- acceptance

2.Qualified Acceptance:
An acceptance is said to be qualified when the drawee accepts the bill subject to qualification.
It may be noted that an acceptance will not be treated as a qualified acceptance unless the qualification is expressed on the bill in the clearest language. The qualification may relate to an event, amount, place, time, etc.

Examples of Qualified Acceptance:

(a) Accepted payable when in funds.
(b) Accepted payable on giving up bill of lading.
(c) Accepted payable when a cargo consigned to me is sold.
(d) A bill drawn for Rs.1,000 accepted for Rs.900 only.
(e) Accepted payable at Delhi only where no place of payment is specified in the order.
(f) Accepted payable at Delhi only where the place of payment specified in the order was Bombay.
(g) Accepted payable 4 months after date where the bill drawn as payable 3 months after date.
(h) Accepted by A, B and C where drawees were A. B. C and D who not partners.
(i) Accepted payable on receiving income tax refund.

Negotiation:
Section 14 defines the term 'negotiation'. When a promissory note, bill of exchange or cheque is transferred to any person, so as to constitute that person the holder thereof, the instrument is said to be negotiated.

Negotiation by delivery:
Section 47 provides that subject to the provisions of Section 58 a promissory note, bill of exchange or cheque payable to bearer is negotiable by delivery thereof. There is an exception to this. A promissory note, bill of exchange or cheque delivered on condition that it is not to take effect except in certain event is not negotiable (except in the hands of a holder for value without notice to the condition) unless such event happens.

Example: A, the holder of a negotiable instrument payable to bearer, which is in the hands of A's banker, who is at the time, the bank of B, directs the banker to transfer the instrument to B's credit in the banker's account with B. The banker does so, and accordingly now possesses the instrument as B's agent. The instrument has been negotiated, and B has becomes the holder of it.

Negotiation by indorsement:
Section 48 provides that subject to the provisions of Section 58, a promissory note, a bill of exchange or cheque payable to order is negotiable by the holder by indorsement and delivery thereof.

Effect of indorsement:
Section 50 provides that the indorsement of a negotiable instrument followed by delivery transfer to the indorsee the property therein with the right of further negotiation, but the indorsement may, by express words, restrict or exclude such right, or may merely constitute the indorsee an agent to indorse the instrument, or to receive its contents for the indorser, or for some other specified person.

Example:
B signs the following indorsements on different negotiable instruments payable to bearer-
(a) 'Pay the contents to C only'
(b) 'Pay C for my use'
(c) 'Pay C for order for the account of B'
(d) 'The within must be credited to C'

These indorsements exclude the right of further negotiation by C
(e) 'Pay C'
(f) 'Pay C value in account with the Oriental bank'
(g) 'Pay the contents to C, being part of the consideration in a certain deed of assignment executed by C to the indorser and others'
These indorsements do not exclude the right of further negotiation by C.

Who may negotiate?
Section 51 provides that every sole maker, drawer, payee or indorsee, or all of several joint makers, drawers, payees or indorsees, of a negotiable instrument may, if the negotiability of such instrument has not been restricted or excluded as mentioned in Section 50, indorse and negotiate the same.

Example - A bill is drawn payable to A or order. A indorses it to B, the indorsement not containing the words 'or order' or any equivalent words. B may negotiate the instrument.

Instrument indorsed in blank-Section 54 provides that subject to the provisions contained as to crossed cheques, a negotiable instrument indorsed in blank is payable to the bearer thereof even although originally payable to order.

Accommodation bill:
Any person, who in good faith and for consideration becomes the holder, after maturity, of a promissory note or a bill of exchange made, drawn or accepted without consideration, for the purpose of enabling some party thereto to raise money thereon, may recover the amount or bill from any party.

Example–The acceptor of a bill of exchange, when he accepted it, deposited with the drawer certain goods as a collateral security for the payment of the bill, with power to the drawer to sell the goods and apply the proceeds in discharge of the bill but if it were not paid at maturity. The bill not having been paid at maturity the drawer sold the goods and retained the proceeds, but indorsed the bill to A. A's title is subject to the same objection as the drawer's bill.

Assignment of Negotiable Instruments:
Assignment takes place where the holder of an instrument transfers it to another so as to confer a right on the transferee to receive the payment of the instrument. All negotiable instruments are chose in action and as such are transferable by assignment without endorsement under sections 130-132 of the Transfer of property act. Assignment of a negotiable instrument is effected by writing without endorsement. The main feature of assignment is that the assignee obtains the right of the assignor. Therefore if the assignor's title is defective assignee's title will also be defective.

Difference between Negotiation & Assignment:

Consideration is presumed until contrary is proved.	Consideration must be proved
If transferee is a holder in due course he takes the instrument free from any defects	Assignee's title is always subject to defenses and equities between the original debtor and assignor
Notice of transfer is not necessary	Notice of assignment must be given
Negotiation is effected by delivery in case of instruments payable to bearer and by delivery and endorsement in case of instrument payable to order	Assignment is effected only by writing
Transferee can sue the third party in his own name.	Assignee can not do so
There are a number of presumptions in favour of holder in due courses.	There are no such presumptions

Cheque payable to order:

Section 85 provides that where a cheque payable to order purports to be indorsed by or on behalf of the payee, the drawee is discharge by the payment in due course. Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any indorsement whether in full or in blank appearing thereon, and notwithstanding that any such indorsement purports to restrict or exclude further negotiation.

Group - I
Paper - 7
Direct Taxation (DTX)

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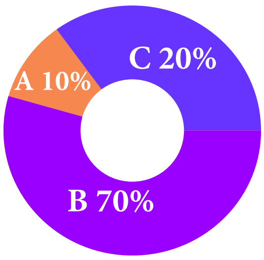
Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

Alternate Minimum Tax (AMT) [Sec. 115JC]

The Finance Act, 2011 had introduced the concept of AMT in relation to LLPs and accordingly the LLPs were subject to AMT @ 18.5% of adjusted total income. Total income shall be increased by deductions claimed under Part C of Chapter VI-A and deductions claimed u/s 10AA to arrive at adjusted total income. The Finance Act, 2012 extended the levy of AMT to certain persons other than companies.

Subsequently, the investment linked deductions have been provided in place of profit linked deductions. With a view to include the investment linked deduction claimed u/s 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it was amended so as to include deduction claimed u/s 35AD for the purpose of computation of adjusted total income.

At present the Act provides that where the regular income-tax payable by a person, other than a company, for a previous year computed as per the provisions of the Income-tax Act, 1961 (other than Chapter XII-BA) is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5%.

Applicable to

All assessee (other than company) who has claimed any deduction under:

Sec. 80H to Sec. 80RRB (other than sec. 80P); or
Sec.10AA
Sec.35AD

Exception

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.
Taxpoint: The exception is not applicable in case of Firm and Limited Liability Partnership. That means, AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.

Scheme of Alternate Minimum Tax (AMT)

Step 1	Compute regular income tax liability (before surcharge and cess) of the assessee covered under these provisions		**A**	****
Step 2	Compute Adjusted Total income of the assessee i.e.			*****
	Total income of the assessee	****	**B**	
	Add: ★ Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P) ★ Deduction claimed u/s 35AD *less* Depreciation u/s 32 ★ Deduction u/s 10AA	*** *** ***	**C** **D** **E**	
	Adjusted Total Income	****	**F**	
	Note: **(i)** If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee. **(ii)** If 'F' does not exceed ₹ 20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm.			
Step 3	Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income]		**G = F * 18.5%**	****
Step 4	Income Tax liability		**Higher of A & G**	****
	Add: Surcharge, if applicable			**
	Tax and surcharge payable			****
	Add: Education Cess & SHEC			**
	Tax liability after Cess			****

<u>Impact where AMT is applicable i.e., case where value of Step 3 is higher than value of Step 1</u>

a. Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.

b. Tax liability of the assessee shall be 18.5% (+ surcharge + cess) of adjusted total income of the assessee.

c. A report in Form 29C from a chartered accountant is required to be obtained on or before the due date of furnishing of return of income u/s 139(1).

d. All other provisions of the Act, like advance tax, interest, etc. is applicable to such assessee.

<u>Provision Illustrated</u>

Compute tax of the following assessee:

Particulars	Mr. W	Mr. X	Mr. Y	A LLP	B LLP
Gross Total Income being Business Income	15,00,000	25,00,000	27,00,000	32,00,000	8,00,000
Deduction u/s 80C	1,00,000	1,00,000	1,00,000	Nil	Nil
Deduction u/s G	25,000	1,00,000	Nil	1,00,000	1,00,000
Deduction u/s 80IE	7,75,000	Nil	8,00,000	Nil	2,00,000
Total Income	**6,00,000**	**23,00,000**	**18,00,000**	**31,00,000**	**5,00,000**
Regular Tax	45,000	5,15,000	3,65,000	9,30,000	1,50,000
Adjusted Total Income	13,75,000	23,00,000	26,00,000	31,00,000	7,00,000
Whether sec. 115JC is applicable or not 1. As adjusted total income does not exceed Rs.20 lakh 2. As no deduction is claimed u/s 80H to 80RRB (other than sec. 80P) or u/s 10AA	No[1]	No[2]	Yes	No[2]	Yes
Alternate Minimum Tax (AMT) u/s 115JC [18.5% of adjusted total income]	NA	NA	4,81,000	NA	1,29,500
Tax (Higher of Regular Tax and AMT)	**45,000**	**5,15,000**	**4,81,000**	**9,30,000**	**1,50,000**
Add: Education Cess & SHEC	1,350	15,450	14,430	27,900	4,500
Tax and Cess Liability (Rounded off)	**46,350**	**5,30,450**	**4,95,430**	**9,57,900**	**1,54,500**

Tax credit for alternate minimum tax [Sec. 115JD]

- The excess of alternate minimum tax paid over the regular income-tax payable of that year shall be allowed as tax credit.
  Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable
- However, no interest shall be payable on the tax credit allowed.
- The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 10th assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.
- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

Examples

(a)	Tax liability u/s 115JC (AMT)	500	
	Regular Tax liability	1,000	
	Difference	**500**	
	Rs. 500 cannot be treated as credit as liability u/s 115JC (AMT) is not greater than regular tax liability.		
(b)	***Year 1***		
	Liability u/s 115JC (AMT)	2,000	
	Regular Tax Liability	1,000	
		1,000	It shall be carried forward
	Year 2		
	Liability u/s 115JC (AMT)	2,500	
	Regular Tax Liability	5,000	
	Difference	**2,500**	
	Now regular liability is more than liability u/s 115JC (AMT), the credit carried forward can be set off to the extent of the difference *i.e.*, ₹ 2,500		
	In year 2, tax payable shall be as under:		
	Regular Tax Liability	5,000	
	Less : Set off of AMT credit	1,000	
	Tax payable (before surcharge and cess)	**4,000**	
	In the above example, if the credit carried forward was ₹ 3,500, then tax payable in year 2 would be calculated as under:		
	Regular Tax Liability	5,000	
	Less : Set off of AMT credit	2,500	
	Tax payable (Credit available ₹ 3,500 but restricted to ₹ 2,500)	**2,500**	
	Here ₹ 1,000 (being balance credit left i.e., ₹ 3,500 – ₹ 2,500) is carried forward to the next year. In other words, the excess of regular tax over AMT u/s 115JC is the amount of maximum set off permissible.		

Group - I
Paper - 8
Cost Accounting (CAC)

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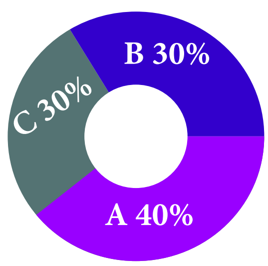
Your Preparation Quick Takes



Syllabus Structure

A Introduction to Cost Accounting **40%**
B Methods of Costing **30%**
C Cost Accounting Techniques **30%**

Learning Objectives:

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

Cost Accounting

World is now facing the problem of scarcity of natural resources. For this reason optimum utilization of resources is very much essential to meet need of the day. In this context Cost Accountant can play P-votal role all over the world. Hence, theory as well as solving the practical problems are very much essential for securing good marks in the exam. You please go through the theoretical part first for easy understanding the topic and then try to solve the problems that are in exercise. Start from Chapter one and try to complete the other chapters serially as this will enable you to understand better the succeeding chapters. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. Success of these examinations considerably depends on style of preparation which should have perseverance, regularity of efforts, detailed practice, vision and objectivity.

Some tips based on experience are suggested here:

1. A plane should be developed for completing the syllabus within specified time.
2. Try to go through your Study Note and know the syllabus properly.
3. Analyze the trends of setting questions.
4. This paper is based on mainly solving the practical problems.
5. Clarity of concepts and self expression is essential for successful result.
6. Try to improve your speed by practice and revision for able to attempt all questions in limited time.
7. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

Here the entire syllabus is divided into **six main chapters**. In first chapter the basic concept of cost accounting are discussed, beside its other two branches viz, financial accounting and management accounting. The second chapter described the Elements of cost in details. The three major elements of costs are – Material, Labour and Overheads. Here the major elements of costs are discussed elaborately and analyzed element-wise with sufficient number of examples. Material consists of the major part of total cost of a product, hence it is necessary to control this cost. You should read the scope and objectives of different Cost Accounting Standards in details. It will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Cost allocation, Cost apportionment and cost absorption should be understood very clearly. The next chapter is associated with Cost book-keeping; including integrated accounting system is not at all difficult. In this system, different accounts are to be opened, but it is not necessary to give much effort to complete its solution.

The chapter contract costing is important for this type of examination. Students often experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. There are some standard norms for completion and recognition of profit/ Loss of incomplete contract. Make sure that you are familiar with various methods/formulas for different stage of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP-9". Problems on escalation clause are also very important for this paper.

In Operating Costing we have to find out operating cost per unit of output. This chapter also includes 'Transport Costing' , 'Hospital Costing', 'Power House Costing' , 'Hotel/ Hostel Costing' etc. The finding out the 'Composite Unit' is very important for finding the solution of these type problems.

The chapter Marginal Costing aims to find out cost-volume-profit relationships. And it is very important form the students perceptive. It aims to find out Cost-volume-profit relationships. Some times more than one problem may be expected from this chapter. The main objective should be to understand the wordings of the problem and to determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basis part for solving problem. You should also study the effect on profits due to various changes in Fixed Cost/ Variable Cost/ Selling Price / Sales Mix and the effect of the above on Brake-Even-Point as well as Margin of Safety.

The next chapter relates to 'Variance Analysis' which deals with creating responsibilities and identifying the activities or areas of exceptions. The main purpose of variance analysis is to enable the management to improve the operation for effective utilization of resources and to increase the efficiency by reducing costs. Some students are afraid of this important chapter only because of different formulae for different analysis. Only careful study and realization of the requirement in the problem can eliminate such difficulties. Finally the step should be taken based on the causes of variance.

'Budget and Budgetary Control' which requires preparation of 'Flexible Budget', Functional Budget, and 'Cash Budget' for taking necessary actions. Theoretical and problem oriented questions may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students are also suggested to go through the theoretical parts-like, concept of Zero-based Budgeting, behavior and classification of Budgets etc very carefully. All functional budgets are summarized into master budget consisting of a Budgeted Profit and Loss Account, a Balance Sheet and Cash Flow Statement. A common mistake is to incorrectly deduct closing stocks and opening stocks when preparing production and material purchased budget. The students should also go through the theory –like, concepts of Zero-Based Budgeting, Behavior and Classifications of Budgets etc.

Sometimes problems may arise regarding utilization of overhead rates VIZ. Departmental as well as plant-wise. Due to variation of rates of overhead valuation of product may differ. Hence, depending on the circumstance , the decision may be taken in different ways . Let us take an example , which will clear the problem to some extent.

Example :-
A Company produces two products **X** and **Y**. For the purpose of product costing , an overhead rate of application of Rs. 1.70 per direct labour hour was used , based on budgeted factory overhead of Rs. 340000/- and budgeted direct labour hours of 200000 as follows.

	Budgeted Factory O/H	**Budgeted lab. hours**
Department - 1.	Rs. 240000.00	100000.00
Department – 2.	Rs. 100000.00	100000.00
	Rs. 340000.00	200000.00

The number of labour hours required to manufacture each of these product was :

In Department -1	4	1
In department -2	1	4
	5	5

At the end of the year, there was no work in process. There were however, 2000 and 6000 finished units, respectively, of product **X** and **Y** on hand. Assume that budgeted activity was attained

a) What was the effect on the Company's income of using a plant-wise overhead rate instead of departmental overhead rates ?

b) Assuming that material and labour costs per unit of product **X** were Rs. 10/-- and the selling price was established by adding 40% to cover profit and selling and administrative expenses . What difference in selling price would result from the use of departmental against plant-wise overhead rates ?

We may solve the above problem in this way –

a) Plant-wise overhead Rates and Departmental Overhead Rates : –

Department 1 = Rs. 240000 ÷100000 = 2.40 per D.L.H.

Department 2 = Rs. 100000 ÷ 100000 = 1.00 per D.L.H.

		Product - X	Product – Y
i)	Plant-wise overhead	5 x 1.70 = Rs. 8.50	5 x 1.70 = Rs. 8.50
ii)	Departmental overhead		
	Department -1	4 x 2.40 = Rs. 9.60	1 x 2.40 = Rs. 2.40
	Department -2	1 x 1.00 = Rs. 1.00	4 x 1.00 = Rs. 4.00
		Rs. 10.60	Rs. 6.40
iii)	Difference between [(i) – (ii)]	(-) 2.10	(+) 2.10
iv)	Difference in finished units	2000 x (-2.10) = (-)4200	6000 x 2.10 = 12600

Hence, Overall difference = 12600 – 4200 = 8400

Effect on the Company –

By using plant-wise overhead rate, the closing stock of product **X** was under valued to the extent of Rs. 4200 and closing stock of product **Y** was overvalued to the extent of Rs. 12600. The overall over-valuation of these products comes to Rs. 8400. In other words, the company's income was overstated by Rs. 8400.

b)

	Product A (in Rs.)
I) Material and labour cost @ Rs. 10.00 per unit	10.00
Plant wise overheads	8.50
Work cost	18.50
Add : 40% to cover profit , selling and administrative expenses	7.40
Selling price	25.90

ii)

Material and labour cost	10.00
Departmental overheads	10.60
Work cost	20.60
Add : 40% to cover profit, selling and administrative expenses	8.24
Selling Price	28.84
Difference (ii - i)	2.94

Group - II
Paper - 9 , Part - i
Operations Management & Strategic Management (OMSM) - Operation Management

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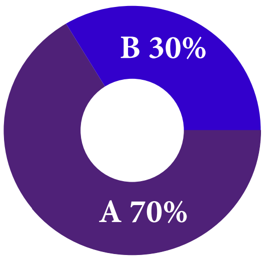


Syllabus Structure
A Operations Management **70%**
B Strategic Management **30%**

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.

Operations Management

In this issue we will discuss on basic preliminaries on Operations Management.

Operations management is the management of that part of the organization that is responsible for producing goods and/or services.

For producing goods and services organizations have to do different works.

Operations management designs and operates productive systems – systems for getting work done.

Productive systems are defined as the means by which resources as input are transformed to create useful goods and services as outputs.

Resources as input are material, machines, labour, management and capital.

Therefore operations is often defined as transformation process wherein requirements and feedback from customers are used to adjust factors in the process, which in turn adjust the inputs.

Choose Correct Answer:

Which one of the following figure correctly represents operations as a transformation process?

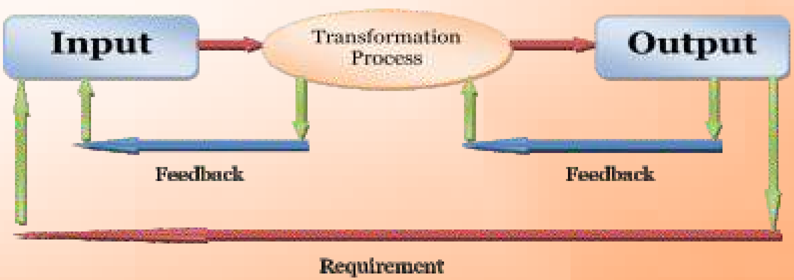
Q1.

a)

b)

c)

d)



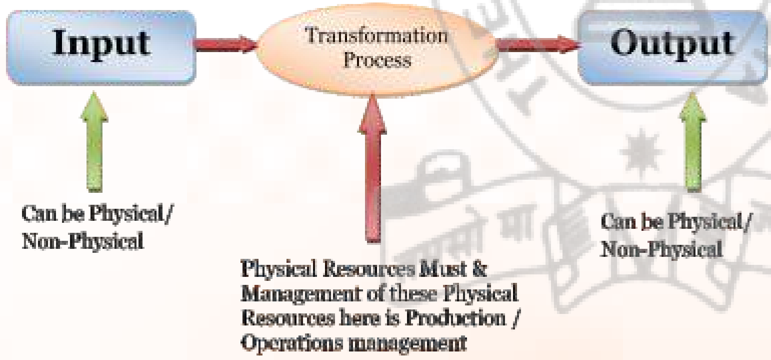
Conversion of inputs into outputs is to provide the desired utility/utilities – of form, place, possession, state or a combination thereof to the customer.In detail the transformation process can be physical, locational, exchange, physiological, psychological and informational.

Q2.

Match the item in Colum I with that in Column II

Column I (Input)	Column II (output)
a) Physical	i) BSNL telecommunication service
b) Exchange	ii) Health Service in Medical College
c) Locational	iii) Railway Service
d) Psychological	iv) Shopping in Big bazar
e) Physiological	v) Movie in Inox
f) Informational	vi) Production of Ignis in Maruti Ltd

The input and/or output could be physical or non-physical but the conversion/transformation process uses physical resources in addition to other non-physical resources. The management of the uses of physical resources for the conversion process is what distinguishes Production and Operations management from other functional disciplines namely marketing, Finance and HR.



For example:

A. In case of Outpatient ward of a general hospital—---

► Input: Unhealthy patient (Physical)
► Transformation Process: Uses physical resources like Doctors, Nurses, and other Staff & Equipment etc.
► Output: Healthier/Cured Person (Physical)

B. In case of Sales office—---

► Input: Raw data from Market (Non-Physical)
►Transformation Process: Use physical resources like Personnel, Equipment & Facilities etc.

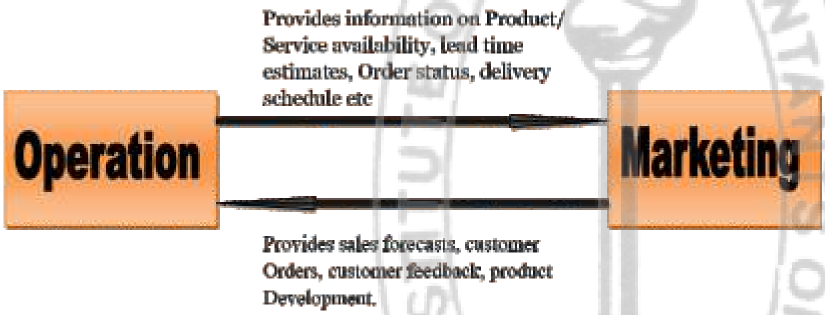
►Output: Processed Information (Non-Physical)

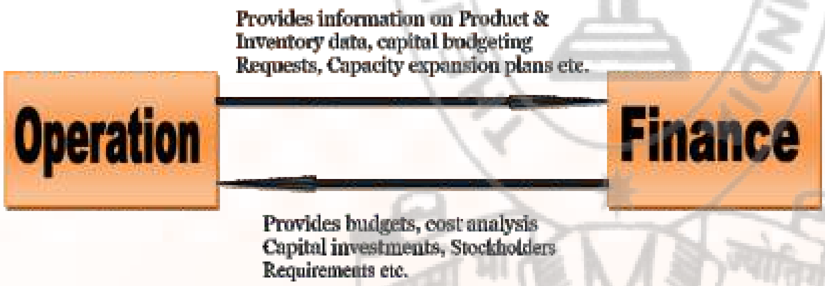
Therefore Input, output can be Physical or Non-physical but Transformation/Conversion process always uses Physical resources.

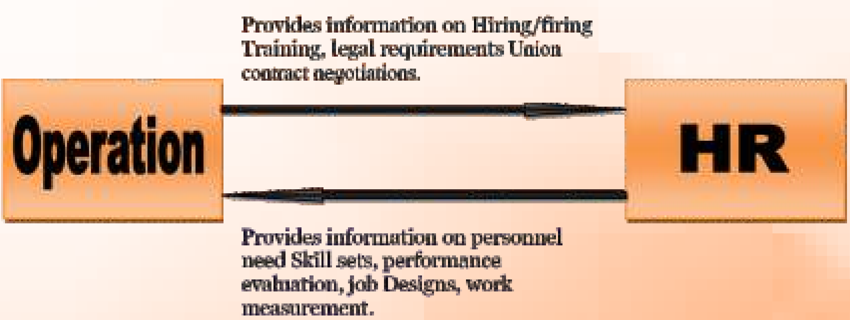
An operating system can provide physical goods as well as services together and clear demarcation of the output activity may not be always possible. A mobile manufacturer in addition to mobile sets (good) also provides after sales service.Therefore the concepts of "physical goods production" and "service provision" are not mutually exclusive. In fact in most cases these are mixed, one being more predominant than the other.

The goods-service combination is a continuum. It can range from primarily goods, with little service, to primarilyservice, with few goods. Because there are relatively few pure goods or pure services, companies usually sellproduct packages, which are a combination of goods and services. There are elements of both goods productionand service delivery in these product packages. This makes managing operations more interesting, and also morechallenging.

The four primary functional areas of a business unit are marketing, finance, operations and human resources. The interactions between them are:







Three objectives or criteria of performance of the production and operations management system are:

i) Customer satisfaction; ii) Efficiency; iii) Effectiveness;

Efficiency----

► Productive or optimal utilization of resources.

Effectiveness ----

► Optimality in the fulfillment of multiple objectives with a possible prioritization within the objectives.
► It is to be viewed in terms of short and long time horizons (which is effective today may not be in the future)
► It is dependent not only upon a multi objectives satisfaction but also on its flexibility or adaptability to changed situations in the future so that it continues to fulfil the desirable objectives set while maintaining optimal efficiency
Four dimensions of competitiveness that measure the effectiveness of the operations function are

i) Cost; ii) Quality; iii) Dependability as a supplier; iv) Flexibility

Thus the primary objective "Customer satisfaction" can be satisfied by providing the 'right thing (quality) at the right price (cost) at the right time (dependability)'.

To compete on the basis of price requires an operations function capable of producing at low cost.

Plant Location
Product Design
Equipment use and Replacement
Labour Productivity
Good Inventory Management
Employment of Process Technology etc

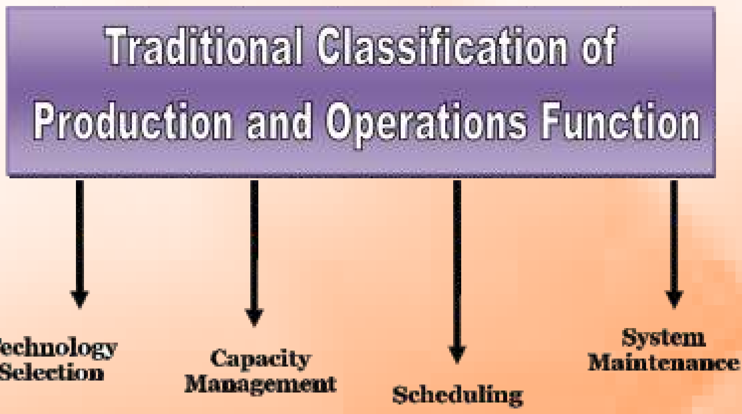
→ All contribute to the resulting costs.

Cost improvement was earlier thought as the result of a learning effect among workers.
But now-a-days cost improvement is the result from a wide variety of additional sources such as

- Improved production methods & tools;
- Improved product design;
- Standardization;
- Improved material utilization;
- Reduction of system inventories;
- Improved layout and flow;
- Economies of scale;

→ the entire effect for all these is called Organizational Learning

Actually the worker learning effect occur rather quickly and is minor compared to the total organizational learning effect.



•Technology Selection

►Generally a long term decision.
►A decision which has impact on the management of manpower, machinery and material.
►A decision which fixes the maintenance requirement.

●Capacity Management

►Capacity creation is long term decision.
►Capacity management involves either matching of available capacity to demand or making certain capacity available to meet the demand variation. Management is done both on intermediate and short time horizon
► Important decision to achieve customer satisfaction, efficiency and overall effectiveness.
►Depending upon selection of technology, there should be some flexibility "built in" into capacity availability. The degree of flexibility depends upon variability of demand of the customers---- as illustrated in the following table:

Output/Product Variety	Production/Operations Volume	Type of Production
High	Low	Job/Provide to order service type
Less than Previous one	More than Previous one	Batch
Less than Previous one	More than Previous one	Mass
Less than Previous	More than Previous one	Continuous flow

•Scheduling

►It means time phasing of the capacities to meet the fluctuating demand.
►It is important for system effectiveness and system efficiency.

●System Maintenance

►Required to have desired outputs in the normal condition of physical resources and that the condition will be maintained normal.
►Technology and/or Process selection determines the degree of maintenance required.

Under present day perspective production and operations function is placing increasing emphasis on relationships with the people who interact with the firm like employees, customers, suppliers, business associates etc. These interactions activate either HR decision, or Supply decision or timing decision and so on. Therefore today's Production and operations function is more People centric than Product centric as was earlier.

Choose Correct Answer:

Q.3 Under people centric production and operations management function to maintain desired quality and productivity which of the following people centric decision is required most?

a) HR decision; b) Supply decision; c) Spatial decision; d) Timing decision;

Q4. Modern views classifies Production management decisions pertaining to a) People; b) People, supply, space; c) People, supply, space and time; d) People, supply, space, time and feelings;

Q5. Relate the following characteristics to either Product (P) or Service (S):

a) High contact with clients or customers;
b) Location dependent on location of local customers, clients and users;
c) Large units that can take advantage of economies of scale;
d) Availability achieved by keeping the productive system open for operation;
e) Achievable Inventory;
f) Markets served by the productive system are regional, national and international;
g) Demand on system variable on weekly, monthly and seasonal basis;
h) Complex and interrelated processing;

Ans:
Q1.(d);
Q2. (a)/(vi); (b)/(iv); (c)/(iii);(d)/(v);(e)/(ii);(f)/(i)
Q3. (a)
Q4. (c)
Q5. a) S; b) S; c) P, d) S; e) P; f) P; g) P; h) S;

Suggestions:

The study notes need to be read thoroughly. Supplementary readings could be made from other resources. This issue is based on Modern Production/Operations Management by Buffa and Sarin.
Production and Operations Management by SN Cherry, Operations Management by R.S Russell & BW Taylor. Attempts here are made to discuss the introductory portion of the study guide on operations management in more detail. This is for updating of knowledge and could be used as an aid to the study guide. Few examples on objective parts on this portion is also placed to have an idea. Guide book on the paper 9-Operations Management & Strategic Management written and issued by Institute on Syllabus -16. Students should go thoroughly for clear conception on the subject.

Group - II
Paper - 9 , Part - ii
Operations Management & Strategic Management (OMSM) - Strategic Management

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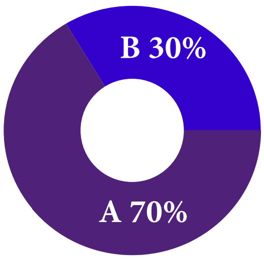


Syllabus Structure
A Operations Management **70%**
B Strategic Management **30%**

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.

STRATEGIC MANAGEMENT

In the previous issue we discussed about Strategy and strategic management framework. The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of both external environment and internal environment.

Enterprises and businesses worldwide carry out analyses to assess conditions and environment for strategic planning. every company consists of certain frameworks that permit them to understand the market and analyze their products. Companies carry out market research by conducting surveys to evaluate market requirements and trends. **SWOT & PEST** analyses are two methods through which companies plan ahead by conducting research.

PEST analysis refers to political, economical, social, and technological factors which manipulate the business environment. SWOT analysis refers to strengths, weaknesses, opportunity and threats. these factors are prime determinants of strategic planning. Without SWOT and PEST analysis, companies might fail to achieve desired goals.

Both SWOT & PEST analyses are simple and easy to list but hard to implement fully.

SWOT analysis might not be able to provide results for each factor plus for the analysis to be successful, it requires expertise which would analyze all possible threats and weaknesses and turn them into strength and opportunity. it requires resources and capital to perform and a positive outcome cannot be guaranteed.

PEST analysis is to be used if the SWOT analysis of a company fails and they need to study markets. it focuses on external factors and not on the firm's internal factors which can cause conflict. PEST analysis works on a macro scale as it includes economic factors. these factors are uncertain and change constantly depending on the state of the country.

SWOT analysis is considered the best because it focuses on internal and external factors both, while PEST only focuses on external factors.

Examples of Corporate STRENGTHS:

Highly professionalised managerial group including directors and the chief executive an environment prevailing for commitments to jobs and responsibility with team spirit by the work force.

(i) Financially very sound
(ii) Good products and product-mix with high demand including future prospects
(iii) Full capacity utilisation,
(IV) Locational advantages
(iv) Good infrastructures
(v) Good industrial relations
(vi) No political interference

Corporate WEAKNESSES:

Similar to corporate strengths, there may be corporate weaknesses too. these may be enumerated as under:

(i) Under-utilisation of capacity due to economic slump
(ii) High debt burden in the capital structure
(iii) Poor product-mix
(iv) Lack of managerial strengths
(v) Industrial unrest
(vi) Technology gap
(vii) Demand gap
(viii) Poor infrastructures

Corporate OPPORTUNITIES:

The following may be termed as 'opportunities' which should be timely utilised and availed of by the organisation gainfully:

(i) Seasonal/climatical demand of products
(ii) Global markets for the company's products/services (export opportunities)
(iii) Rural markets to explore and to penetrate
(iv) To explore the markets in the undeveloped/under-developed/developing states/places
(v) To avail of the incentives/concessions declared by central and state governments
(vi) Diversifications opportunities
(vii) Mergers/acquisition opportunities

Corporate THREATS:

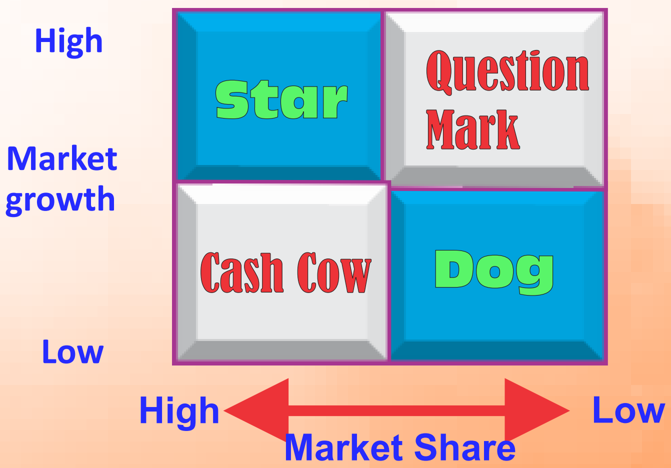
Similar to opportunities, there may be threats too prevailing from time to time, which must be examined and necessary action taken to be free from these or to solve these prudently so that loss to the organisation may be minimum

(i) Globalisation
(ii) Competition
(iii) Price cutting war
(iv) Free imports
(v) Industrial unrest
(vi) Political instability
(vii) Quality thrusts.

BCG MATRICES:

Boston Matrix:

The Boston consulting group (Bcg)'s matrix analyses 'products and businesses by market share and market growth.'



This growth/share matrix for the classification of products into cash cows, dogs, rising stars and question marks is known as the Boston classification for product-market strategy.

(i) Stars are products with a high share of a high growth market. In due course, however, stars will become cash cows, with a high share of a low-growth market.
(ii) Cash cows need very little capital expenditure and generate high levels of cash income. the important strategic feature of cash cows is that they are already generating high cash returns, which can be used to finance the stars.
(iii) Question marks are products in a high-growth market, but where they have a low market share.Because considerable expenditure would be needed to turn a question mark into a star by building up market share, question marks will usually be poor cash generators and show a negative cash flow.
(iv) Dogs are products with a low share of a low growth market. They may be ex-cash cows that have now fallen on hard times.

Product development Strategy:
This involves extending the product range available to the firm's existing markets. These products may be obtained by:
(i) Investment in the research and development of additional products;
(ii) Acquisition of rights to produce someone else's product;
(iii) Buying-in the product and 'badging' it;
(iv) Joint development with owners of another product who need access to the firm's distribution channels or brands.

The critical factor to the success of this strategy is the profitability of the customer group for which the products are being developed. Also the firm's present Competitive advantages in serving the market must confer on to the new good. these can include:
(i) Customer information that allows accurate targeting;
(ii) Established distribution channels;
(iii) A brand which can be credibly applied to the new product.

Market development Strategies:
Here the firm develops through finding another group of buyers for its products.
examples include:
(i) Different customer segments - for example, introducing younger people to goods previously purchased mainly by adults;
(ii) Industrial buyers for a good that was previously sold only to households;
(iii) New areas or regions of the country;
(iv) Foreign markets.

This strategy is more likely to be successful where:
(i) The firm has a unique product technology it can leverage in the new market;
(ii) It benefits from economies of scale if it increases output;
(iii) The new market is not too different from the one it has experience of;
(iv) The buyers in the market are intrinsically profitable.

STRATEGIC PLANNING:
The stages in strategic planning are given below:
Stage i: Strategic Option Generations

At this stage, a variety of alternatives are considered, relating to the firm's product and markets, its competitors and so forth. examples of strategies might be:
(a) increase market share
(b) penetration into international market

(c) concentration on core competencies
(d) acquisition or expansion etc.

Stage ii - Strategic Options evaluation each option is then examined on its merits.
(a) does it increase existing strengths ?
(b) does it alleviate existing weaknesses ?
(c) is it suitable for the firm's existing position ?
(d) is it acceptable to stakeholders ?

Stage iii - Strategic Selection
It involves choosing between the alternative strategies. This process is strongly influenced by the values of the managers in selecting the strategies.

Strategic Management and Strategic Planning: Distinction

The basic difference between Strategic management and Strategic planning are as follows:

Strategic Management	Strategic Planning
It is focussed on particular strategic results; new markets; new products; new technologies etc.	It is focused on making optimal strategic decisions
It is management by results	It is management by plans
It is an organizational action process	It is analytical process
It broadcasts focus to include psychological, sociological and political variables	It is focussed on business, economic and technological variables
It is about choosing things to do and also about the people who will do them.	It is about choosing things to do.

Group - II
Paper - 10
Cost & Management Accounting and Financial Management (CMFM)

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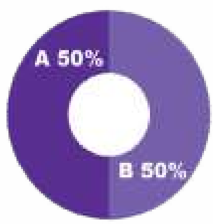


Syllabus Structure
A Cost & Management Accounting **50%**
B Financial Management **50%**

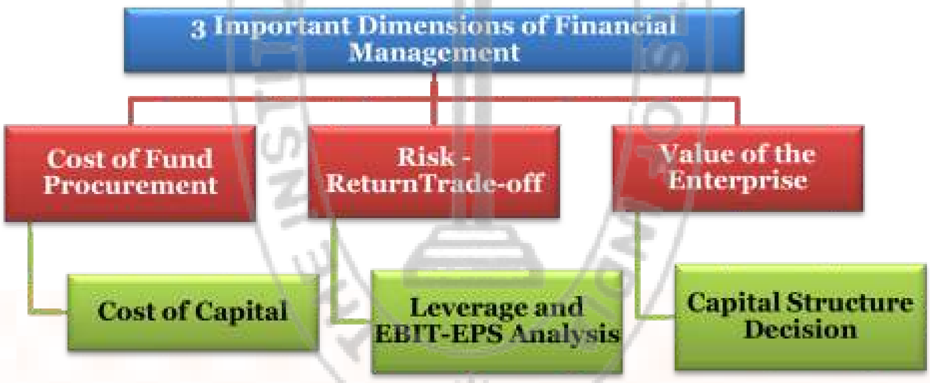
Learning Objectives:

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.

Cost & Management Accounting and Financial Management
Section B

Chapter 10: Capital Structure Theories:

- **Capital Structure Decision; An Important Dimension of Financial Management:**



- **Concept of Capital Structure:**

'Capital Structure' of a firm refers to the proportion of various long term sources of capital (such as Long Term Loan, Preference Shares and Equity Shares and Reserve and Surplus) in the total capital of the firm.
For example, if the total long term capital of a firm comprises of Rs. 500000 of equity share capital, Rs. 300000 of preference share capital and Rs. 200000 of debt capital, then, the relative ratio 5:3:2 of all these three sources will denote the capital structure of the concerned firm.

- **Capitalization and Capital Structure:**

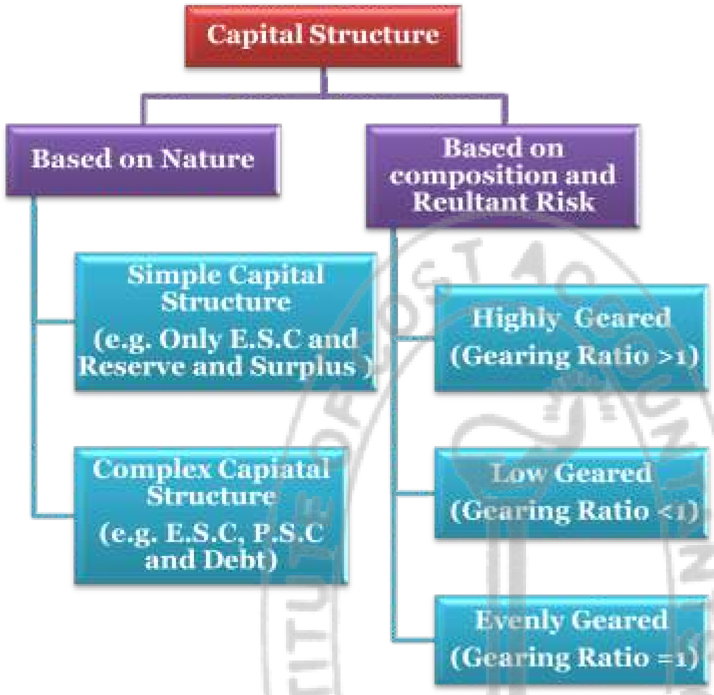
'Capitalization' refers to the total amount of fund or capital procured by a firm from different sources (preferably long term). On the other hand, 'capital structure' refers to the respective proportion of various long term sources in the aggregate long term capital of the firm.

Hence as per the above example, the capitalization of the firm would be Rs. (500000+300000+200000) =Rs.1000000, while the respective proportion of 5:3:2 for equity shares, preference shares and debentures would be the capital structure.

- **Financial Structure vs. Capital Structure:**

Though used interchangeably, these two terms are not synonymous. Financial Structure refers to the respective proportion of all items on the liabilities side of the balance sheet. In other words financial structure represents the relative proportion of different long term as well as short term capital. So in our previous example if Current Liabilities is Rs. 100000, then 5:3:2:1 will be called the Financial Structure of the firm. However, capital structure will represent the respective proportion of various long term sources in the aggregate long term capital of the firm. Thus the proportion of 5:3:2 for equity shares, preference shares and debentures would be the capital structure.

- **Classification of Capital Structure:**



Where, Capital Gearing Ratio = $\dfrac{\text{Fixed charge bearing securities}}{\text{Equity shareholders' fund}}$

$$= \frac{\text{Fixed interest bearing debt capital+Preference Share Capital}}{\text{Equity share capital+Retained Earnings net of fictititious assets}}$$

Here, the higher the gearing ratio the higher is the financial risk.

- **Importance of Capital Structure:**

Capital structure decision of a firm has far reaching impact on different aspects of a firm's operation and long term growth. The importance can be felt in the following areas –

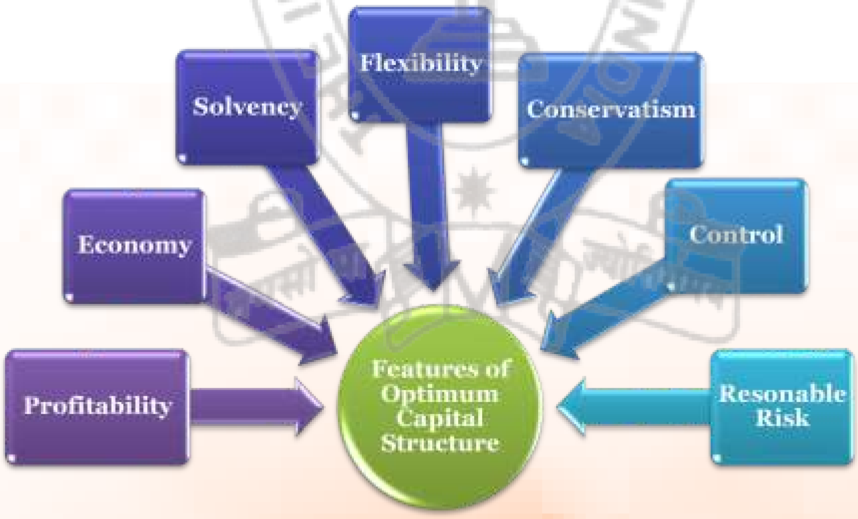
- **Factors Determining Capital Structure:**

- **Optimum Capital Structure:**

Since debt capital offers relatively lower cost, a company significantly reduces its average cost of capital by increasingly employing higher proportion of debt capital. This leads to continuous increase in the return available for equity shareholders in the form of increased EPS and return on equity up to a certain level of debt. Beyond this level, however, cost of equity rises sharply to offset the benefit of cheaper debt and average cost of capital start rising leading to fall in EPS and ROE. The level where cost of capital becomes the minimum and EPS or ROE becomes the maximum is considered to be the optimum capital structure. At this level the market price per share also becomes maximum and thus firm value becomes the maximum.

Hence, an optimum capital structure may be defined as the best combination of debt and equity which maximizes the value of the firm.

- **Features of Optimum Capital Structure:**



Group - II
Paper - 11
Indirect Taxation (ITX)

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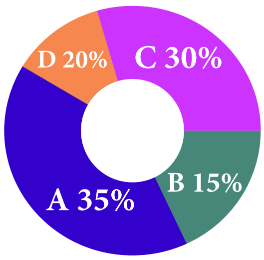
Your Preparation Quick Takes



Syllabus Structure

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

A Revision on Excise Duty

The Indian tax structure, there are a lot of taxes that people pay for different reasons. Income tax, sales tax, entertainment tax, value added tax etc. All these taxes are existent because in some way or the other it impacts and helps the economy. One such tax that is prevalent in any manufacturing sector is the excise duty.

What is excise duty?
An excise or excise tax (sometimes called an excise duty) is a type of tax charged on goods produced within the country (as opposed to customs duties, charged on goods from outside the country). It is a tax on the production or sale of a good. This tax is now known as the Central Value Added Tax (CENVAT).

Though the collection of tax is to augment as much revenue as possible to the government to provide public services, over the years it has been used as an instrument of fiscal policy to stimulate economic growth. Thus it is one of the socio-economic objectives.

What are the types of excise duty?
There are three different types of central excise duties which exist in India which are as follows:

Basic - Excise Duty, imposed under section 3 of the 'Central Excises and Salt Act' of 1944 on all excisable goods other than salt produced or manufactured in India, at the rates set forth in the schedule to the Central Excise tariff Act, 1985, falls under the category of basic excise duty in India.

Additional - Section 3 of the 'Additional Duties of Excise Act' of 1957 permits the charge and collection of excise duty in respect of the goods as listed in the schedule of this act. This tax is shared between the central and state governments and charged instead of sales tax.

Special - According to Section 37 of the Finance Act, 1978, Special Excise Duty is levied on all excisable goods that come under taxation, in line with the Basic Excise Duty under the Central Excises and Salt Act of 1944. Therefore, each year the Finance Act spells out that whether the Special Excise Duty shall or shall not be charged, and eventually collected during the relevant financial year.

Which goods are excisable goods?
The term 'excisable goods' means the goods which are specified in the first schedule and the second schedule to the Central Excise Tariff Act, 1985, as being subject to a duty of excise and includes salt.

Who is liable to pay excise duty?
The liability to pay tax excise duty is always on the manufacturer or producer of goods. There are three types of parties who can be considered as manufacturers:

- Those who personally manufacture the goods in question
- Those who get the goods manufactured by employing hired labour
- Those who get the goods manufactured by other parties

Is it mandatory to pay duty on all goods manufactured?
Yes, it is mandatory to pay duty on all goods manufactured, unless exempted. For example, duty is not payable on the goods exported out of India. Similarly exemption from payment of duty is available, based on conditions such as kind of raw materials used, value of turnover (clearances) in a financial year, type of process employed etc.

What is the consequence of evading payment of excise duty?

Under the different sections of the central excise act, the fines for evading tax can range from twenty-five to fifty per cent of the amount of duty evaded. When you look at the amount of excise you may have to pay, this is a rather large amount and along with the financial repercussions, you also have to encounter a tarnished image.

Central Excise duty is an indirect tax levied on those goods which are manufactured in India and are meant for home consumption. The taxable event is 'manufacture' and the liability of central excise duty arises as soon as the goods are manufactured. It is a tax on manufacturing, which is paid by a manufacturer, who passes its incidence on to the customers. The term "excisable goods" means the goods which are specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act, 1985 , as being subject to a duty of excise and includes salt.

The term "manufacture" includes any process, Incidental or ancillary to the completion of a manufactured product and

Which is specified in relation to any goods in the Section or Chapter Notes of the First Schedule to the Central Excise Tariff Act, 1985 as amounting to manufacture or

Which, in relation to the goods specified in the Third Schedule, involves packing or repacking of such goods in a unit container or labelling or re-labelling of containers including the declaration or alteration of retail sale price on it or adoption of any other treatment on the goods to render the product marketable to the consumer.

As incidence of excise duty arises on production or manufacture of goods, the law does not require the sale of goods from place of manufacture, as a mandatory requirement. Normally, duty is payable on 'removal' of goods. The Central Excise Rules provide that every person who produces or manufactures any 'excisable goods', or who stores such goods in a warehouse, shall pay the duty leviable on such goods in the manner provided in rules or under any other law. No excisable goods, on which any duty is payable, shall be 'removed' without payment of duty from any place, where they are produced or manufactured, or from a warehouse, unless otherwise provided. The word 'removal' cannot be necessarily equated with sale.

The removal may be for:-

Sale
Transfer to depot etc.
Captive consumption
Transfer to another unit
Free distribution

Thus, it can be seen that duty becomes payable irrespective of whether the removal is for sale or for some other purpose.

Group - II
Paper - 12
Company Accounts & Audit (CAA)

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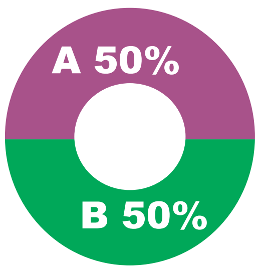
Your Preparation Quick Takes



Syllabus Structure
A Accounts of Joint Stock Companies **50%**
B Auditing **50%**

Learning Objectives:

Apply appropriate judgment derived from knowledge of accounting theory, to financial analysis and decision making

Effectively define the needs of the various users of accounting data and demonstrate the ability to communicate such data effectively, as well as the ability to provide knowledgeable recommendations.

Prepare financial statements in accordance with Generally Accepted Accounting Principles.

Demonstrate an understanding of current auditing standards and acceptable practices, as well as the impact of audit risk on the engagement.

GET INTEREST ON COMPULSORY PART

In 2016 syllabus, the students should get adherence that accounting of Shares and Debentures, Presentation of Financial Statements, Cash Flow statement carry 25% marks whereas Banking, Electricity and Insurance with AS 11, 12, 15, 16, 17, 18, and 19 carry 25% marks.

Generally for compulsory part of 25% marks is subdivided into MCQ, true /false marking, fill up the blanks and matching. Today we will discuss the compulsory part of Accounting. For getting good marks students are to lay stress on this compulsory part. Questions of this section are usually based on concepts and theory building. To get preparation of this part students are to go through initial pages of each chapter both from study materials and good text book.

For easy understanding we may put some examples of questions which may form compulsory part:

MCQ

1. Share Application Account is a-

   i) Nominal Account
   ii) Real Account
   iii) Personal Account
   iv) None.

[Key iii)]

2. Public Ltd Companies cannot issue-

   i) Equity Shares
   ii) Deferred Share
   iii) Preference Shares
   iv) Bonus Shares.

[Key ii)]

3. Preference Share holders are-

   i) Creditors of the Company
   ii) Owners of the Company
   iii) Customers of the Company
   iv) Trustees of the Company

[Key ii)]

4. Which of the following represents the value of the shares with which a Company is registered-

   i) Called up Capital
   ii) Paid up Capital
   iii) Authorised capital
   iv) Issued capital

[Key iii)]

5. The balance in the Share for Feature a/c after the forfeited shares are issued should be transferred to-

   i) General Reserve a/c
   ii) Securities Premium a/c
   iii) Capital Reserve a/c
   iv) Goodwill a/c

[Key- iii)]

6. It is usual to prefix the debentures with annual rate of –

   i) Return

ii) Interest
iii) Dividend
iv) Redemption

[Key- ii)]

7. Register of members is a-

i) Statutory book
ii) Statistical book
iii) Accounting book
iv) None

[Key- i)]

8. If a share of Rs. 10 of which Rs. 8 has been called and Rs. 6 paid, is forfeited, the Capital Account should be debited with-

i) Rs. 10
ii) Rs. 8
iii) Rs. 6
iv) Rs. 2

[Key- ii)]

9. Dividends are usually paid on-

i) Paid up capital
ii) Authorized capital
iii) Called-up capital
iv) Issued capital

[Key- i)]

10. Amount set aside to meet losses due bad debts is a-

i) Reserve
ii) Provision
iii) Liability
iv) Loans and advances

[Key-ii)]

11. Cash from operations is equal to-

i) Net Profit+ Decrease in current assets
ii) Net Profit+ Increase in current assets
iii) Net Profit+ Decrease in current liabilities
iv) Net Profit+ Bonus paid

[Key- i)]

12. Cash sales of goods in trade comes under-

i) Operating activities
ii) Investing activities
iii) Financing activities
iv) None

[Key- i)]

13. The Profit and Loss account under Double account system is –

i) Revenue a/c
ii) Receives and Expenditures a/c
iii) Income and Expenditure account
iv) Profit & Loss a/c

[Key- i)]

14. Share forfeited account of Electricity company is shown on-

i) Credit side of the net revenue a/c
ii) Credit side of the receipts and expenditure on capital a/c
iii) Liability side of the General balance sheet
iv) None

[Key- ii)]

15. Cost of Licence appears in-

i) Revenue a/c
ii) Net revenue a/c
iii) Capital a/c
iv) General balance sheet

[Key- iii)]

True/ False

1. A company can redeem its preference shares
[Key- True]

2. Partly paid preference shares can be redeemed
   [Key- False]
3. Capital redemption reserve a/c can be utilized in writing off preliminary expenses
   [Key- False]
4. Redemption of preference shares cannot be made out of fresh issue of debentures
   [Key- True]
5. No dividend is paid on calls in advance
   [Key- True]
6. Dividend can be declared after providing only for current year's depreciation
   [Key- False]
7. Interest out of capital during construction period cannot be paid
   [Key- False]
8. Cash flow statement is based upon accrual basis of accounting
   [Key- False]
9. Cash from operations and funds from operations man the same thing
   [Key- False]
10. Cash flow statement is a substitute of cash a/c
    [Key- False]
11. Increase in current liabilities is a source of cash
    [Key- True]
12. The term's double entry system and double account system are synonymous
    [Key- False]
13. Double account system is applied to Public Utility Concerns
    [Key- True]
14. Under Double account system, Balance sheet is prepared in 2 parts
    [Key- True]
15. General insurance includes all types of Insurance
    [Key- False]

Fill up the blanks

1. A balance sheet is a statement of what an enterprise__________ and what it __________ at a particular date
   [Key- owns, owes]
2. The various amounts of money owed by an enterprise are called its __________
   [Key- liabilities]
3. Right shares are shares which are first offered to__________ share holders
   [Key- existing]
4. Premium on issue of shares can be used for issue of __________ shares
   [Key- bonus]
5. Increase in the amount of creditors result in __________ in cash
   [Key- increase]
6. Payment of dividends is __________ activities
   [Key- Financing]
7. Cash payments of salaries to employees is __________ activities
   [Key- Operating]
8. Cash payment to acquire fixed asset is __________ activities
   [Key- Investing]
9. The way of presenting the balance sheet in 2 parts is called the __________ account system
   [Key- Double]
10. Life-Insurance is more appropriate to be called Life __________
    [Key- assurance]
11. Revenue a/c of Life-Insurance business is prepared under __________ act.
    [Key- IRDA]
12. An enterprise is said to be solvent if it can meet its current liabilities out of its __________
    [Key- Current assets]
13. Current assets less current liabilities is equal to __________
    [Key- working capital]
14. Capital reserve and __________ reserve are part of the __________ fund
    [Key- revenue, share-holders]
15. Profits made by an enterprise are likely to __________ the share holders fund
    [Key- increase]

Answer to these types of questions demands memorizing and analysis of covered syllabus. Students are to pay attention on topics in very intuitive mood. Concentration requires complete focus on subject and paying attention for a period of time. Too much hasty decision may lead to incorrect path. Students are to drill on such questions after the end of studying each chapter. This is very interesting as well as remunerative. Do enjoy and secure marks in one basket!

Perceive Yourself with Wisdom

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01.00 Time Tested Wisdom

There are several ways and means of inculcating wisdom nodes from generation to generation. The instances could be drawn from mythological stories, religious preachings, historical tales, or even from one's own anecdotes. The enshrined objective is to carry forward the learnings drawn from the time tested wisdom.

Fools perceive themselves with an inflated supremacy and get stuck to their ego. Wise-men perceive themselves as humble learners and continue inventing forever. It is one's own perception, through time tested wisdom, that can make a whole lot of difference.

Assuming that two fools happen to cross each other from opposite directions on a single lane-way, each one expects the other to step aside and give him the way. In the process, they stick to their own lane and remain standstill without allowing the neither to move forward. In a situation when a fool and a wise man happen to come across, the wise one steps aside, carves out a new lane for him to stead forward, at the same time allowing the fool to continue the onward journey in the existing lane. When two wise men happen to cross each other, each one steps aside and invents two more new lanes for them to go ahead. The existing trail is left free for the commoners to continue the normal course.

The inferred moral is that foolishness halts the progress whereas wisdom multiplies the ways and means of prosperity. Every wise man acts as a teacher for the contemporary folks. It is the wise teachers who guide the current generation as also build the future generations. And that is how humanity can grow in leaps and bounds.

02.00 Self-Perception

Self-Perception is the primary source for our feelings and actions. As such, our actions and reactions are a product of our own perception. Self-perception is the way you think of and understand yourself; It is a means of analyzing your inherent attributes as also the needs. Practically speaking, perception is an integrated sensor. The key elements of perception include life style, likes and dislikes, passion and aspirations.One of the obvious exercisesto move forward the carrier path, therefore,is an analysis of each of the key elements of perception.

02.01 Life Style

Life style is the way in which a person lives. It reveals the standards of life of an individual. A life style typically reflects an individual's attitudes, way of life, values, or world view. Therefore, a lifestyle is a means of forging a sense of self that creates cultural symbols and resonates with personal identity.

Life style is a combination of tangible and intangible factors. Tangible factors relate specifically to demographic variables, such as an individual's education, race, religion, income level, consumption pattern, etc., whereas intangible factors concern the psychological aspects of an individual such as personal values, preferences, and outlooks.

Life style is the way in which a person lives.

Before carving out your onward path, be sure to identify the key characteristics of your ideal lifestyle;analyze your current and future lifestyle; and elicit answers to the three vital questions:

a. Are you happy with your current lifestyle?

b. Do you want to maintain it or change it?
c. Does your current career path allow you the lifestyle you seek?

02.02 Likes & Dislikes

Like is Proposition. Dislike is Opposition. Likes reflect things one is fond of doing whereas dislikes are the things one does not want to do. Likes are reverberated by enthusiastic functioning whereas dislikes throw up repulsive working. Enthusiasm adds to efficiency whereas repulsiveness diminishes the output.

Like is Proposition. Dislike is Opposition.

We all differ in many ways. Out of them all, one major area is on account of our likes and dislikes. The difference exists owing to our family background, company of friends and climatic conditions. Our likes and dislikes, however, give us an insight into our inner-self. They are the sum and substance of our character, temperament and disposition.

An important step is carrying out an unambiguous analysis of your likes and dislikes.Find out: What kinds of activities -- both at work and at play -- do you enjoy? What kind of activities do you avoid? You can make a list of both the types of activities. Now take a close look at your current job and career path in terms of your list of likes and dislikes. Jot down the factual answer to the question: Does your current job have more likes or dislikes?

02.03 Passion

Passion is an intense emotion, a compelling enthusiasm or desire for something. Passion is reflected when extra energy is voluntarily infused into something than is normally warranted. It is much more than simple enthusiasm or excitement.

Passion is an ambition that is crystalized into action with heart, mind, body and soul acting together.Feelingsof satisfaction and fulfillment turn the passion into a hobby. Passion leads to perpetual happiness.

Passion is an intense emotion, a compelling enthusiasm or desire for something.

You can ask friends, family members and others who know you well if they can provide clues as to what they believe are your strengths and abilities, but it is only YOU who can figure out where your passion lies.

Analyze your passion with a pragmatic approach. Reflect on the times and situations in which you feel most passionate, most energetic, most engaged - and see if you can develop a common profile of these situations. Develop a list of your passions. List out: How many of these items keepoccurring while you are at work?

02.04 Aspirations

Aspirations reflect the ambitions. One of the key elements to achieving career success is to clearly define your aspirations.

Aspirations reflect the ambitions.

Begin the analysis of your aspirations by taking time and sitting in a quiet location and answer these questions:

What were my original childhood career hopes and dreams?

What are the things that are important to me in life?

What am I good at in accomplishing at work?

What are the things I don't enjoy?

Three to five years from now, what would I like to be doing? What could I envision myself doing? What would I like to have achieved?

How would I describe my perfect job?

Spend some time thinking about how you define success. What is success to you: wealth, power, control, contentment...

03.00 An Example

Appended hereto is an example titled 'As you perceive Yourself...' that depictsthe self-perception of an illustrative character of a Cost Manger

04.00 Quick Take

Chart out a true perception of yourself with Wisdom; Choose the best-fit career path that is available to you; And Move Forward!

AS You perceive Yourself...

1	Life Style	Leads the life of a semi rich urban Hindu vegetarian; Intends to be richer Lives in an air-conditioned bed room in a two-room rented apartment; Intends to own an air conditioned three room apartment Commutes by a two-wheeler; intends to own a four-wheeler Works six days a week; Intends to have five days a week • Goes for monthly outings; Intends to go for weekly outings
Observation: In order to catch up with my intended lifestyle, the current carrier path needs an upliftment.		
2 (a)	Likes	Appreciation of my work by seniors Ethical and supportive work culture Exposure to new avenues • Incentives and Promotions
2 (b)	Dislikes	Being bossed over Interference from colleagues in my work Working on holidays • Monotonous work
Observation: Theonly limitation in my current job is that of 'Working on holidays'		
3	Passion	Acquiring additional professional knowledge Reading and writing articles on professional matters Training juniors • Developing social contacts
Observation: All the items keep recurring in my present job.		
4	Aspirations	To be regarded as a Cost Manager of par excellence during the next ten years To be a National Council Member of my profession during the next fifteen years • To become a role model professional by the next twenty years
Observation: Success to me implies wealth and contentment.		

Practical ADVICE

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

Appear For Examination

Solve Exercises given in Study Notes

Assess Yourself

Read The Tips

Read Study Notes & MTPs

Submission

Dear Students,

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

I am CMA Vijay Pal Singh and I am a regular reader of e-bulletin which is being published every month and uploaded in our Institutes website for students. During my studies I always studied and referred Students Newsletter that helped me a lot to update my self and keep on doing value addition.

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

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

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

Message from the Directorate of Studies

Dear Students,

For the smooth and flawless preparation. Directorate of studies have provided meaningful tips which will help you to gain sufficient knowledge about each subject.

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

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

Essentials for Preparation:

- Conceptual understanding & Overall understanding of the subject both should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students Should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer 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;

Photo Gallery

Release of Guidance Note on Anti Profiteering by Shri P.P.Chaudhary, Hon'ble Minister of State for Law & Justice and Corporate Affairs during Workshop on "Paradigm Shift in Valuation - Opportunities for Professionals" on November 23, 2017 at India Habitat Centre, Lodhi Road, New Delhi.

Shri P. P. Chaudhary, Hon'ble Union Minister of State for Law & Justice and Corporate Affairs was Chief Guest at Workshop on "Paradigm Shift in Valuation – Opportunities for Professionals" on November 23, 2017 at New Delhi.

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CMA Sanjay Gupta, President presenting a bouquet to Mr. Robert Thomason, Executive General Manager, CPA Australia on 4th December,2017 at CMA Bhavan, New Delhi

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