# CMA STUDENTS'
# E-BULLETIN
# INTERMEDIATE

VOL: 2, No: 4

APRIL, 2017 ISSUE

(Syllabus 2016)

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THE INSTITUTE OF OST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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

# message from the president

Dear Students,
Greetings,

***"Education is what remains after one has forgotten everything he learned in school"-Albert Einstein.***
In this connection it is said that the true purpose of 'Education' is to make minds not careers. Now, in this digital era, you can learn easily using the modern technology and distance is not at all a bar. Thus, I am sure that you are deriving the desired knowledge on various subjects covering the syllabus from the monthly publication of this E-bulletin. Never stop learning because life never stops teaching.
I must sincerely acknowledge the tips given by those learned professors who despite their own busy schedules have spared their timing for enhancing your knowledge. It is said that ***"A Teacher takes a Hand, opens a Mind and Touches a Heart"***.
Success is the sum of small efforts repeated day in and day out. It is you and you alone who can achieve success by keeping your dedication and determination intact. None, other than you can judge you better than yourself.
I believe that education is not received, it is achieved. I must appreciate the effort of the Director of Studies and his team for coming out with these monthly publications of the E-bulletins. I will be very happy with your further views and expectations about these publications.
***"The aim of education is the knowledge not of facts but of values"-*** I firmly believe in that and I am sure that our students must contribute to the development of the Society and will be a true Ambassador of the profession and make their country proud.

Please look into the attached photographs of the successful students and be ready to participate in the forthcoming National Students Convocation in the years to come!

Enjoy your reading,

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

**Be a CMA, be a Proud Indian**

# message from the chairman

***"You are the greatest book that ever was or ever will be, the infinite depository of all that is. Until the inner teacher opens, all outside teaching is in vain"- Said by Swami Vivekananda.***

I am very hopeful about the profession and what I feel that with your right knowledge you can make yourself happy as well as make the Country proud. In the National Students Convocation, 2017, many students' have received their certificates and awards and I have seen the right courage and needed zeal in them. They must be the torch bearer of the profession. All of you are having requisite knowledge and skill and only thing needed is to channelize them towards the right direction.

***"When an idea exclusively occupies the mind, it is transformed into an actual physical or mental state",*** have faith on our predecessors and try to achieve to the best of your ability. Time is the most precious thing in the world so try to utilise it the most and in an efficient and planned way.

To succeed in your examination you need to read the publication released by the Institute very carefully and to derive the maximum benefit out of it. Mock Test Papers / MTPs are prepared by the Directorate of Studies and uploaded under student's section in the site of the Institute. Please see the uploaded questions papers and start solving the questions. The correct answers will be uploaded shortly and meantime if you start solving you may gauge your performance and your preparation for appearing the examination will be in the right direction.

I wish you all a very bright future,

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

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# contents

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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.

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STUDENTS' E-bulletin Intermediate

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# Group - I

# PAPER: 5

# FINANCIAL ACCOUNTING (FAC)

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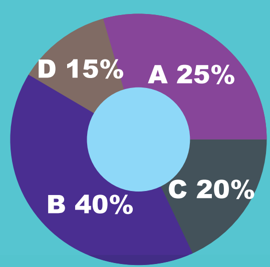
CMA

## 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%**

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**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

## INSURANCE CLAIM – LOSS OF PROFIT

In the last issue we have discussed the claim for loss of stock. Now we will discuss about the claim of loss of profit. "Loss of profit" sounds uncanny. Isn't it? Let us discuss the term first. It simply means the profit foregone due to accident. It is not loss. It is the amount that could have been earned but due to accident could not be earned. For example a business house normally earns Rs. 100000 but due to accident or fire it could earn only Rs. 60000. Therefore Rs.40000 is the loss of profit.

We will follow the following steps to find out the value of claim as we did in case of loss of stock also:

**Step 1.** Find the date of fire.

**Step 2.** Locate the date of fire in the accounting year it relates and its previous year. (e.g. date of fire : 17.07.2016 –means it relates to the current accounting year 1.1.2016 to 31.12.2016 and the previous year is 1.1.2015 to 31.12.2015)

**Step 3.** Calculate Gross profit of the last year. Here gross profit means **Net Profit +insured standing charges.** Standing charges are those fixed expenses that will continue to be spent even under the period of dislocation.

**Step 4.** Calculate the **short sales.** Short Sales means (standard sales – actual sales.). Actual sales is sales for the period of dislocation and standard sales is the sales for the same period in the previous year.

**Step 5.** Calculate the Gross Profit on short sales. (i.e GP Ratio x short sales)

**Step 6.** Prepare statement of claim :

| | |
|---|---|
| Loss of profit as calculated in step 5 | xxx |
| Add admissible expenses (see note below) | xxx |
| Less saving in standing charges | xxx |
| Gross claim. | |

**Step 7.** Apply average clause if policy value is less than gross profit on annual turnover.

**AVERAGE CLAUSE :**

In simple terms it is a strategy adopted by the insurance company to discourage under insurance. It is a kind of penalty imposed to the insured for under insurance. Therefore average clause will be applicable if the Policy Value is less than the value of GP on annual turnover.

**ADMISSIBLE EXPENSE**

Calculate the amount of admissible expense as follows:

The least of the following will be taken as additional expenses admissible for deduction :

i. Actual expense incurred
ii. Gross profit on additional sales
iii. Additional expense x (NP +insured standing charges)/(NP +all standing charges)

### Illustration:

Cover ltd. has a loss of profit policy of Rs. 1260000. The period of indemnity is three months. A fire occurred on 31.03.2016. following information are available (all figures in rupees):

| | |
|---|---|
| Sales for the year ended 31.12.2015 | 4200000, |
| Sale for the period 1.4.2015 to 31.03.2016 | 4800000, |
| Sales for the period 1.4.2014 to 30.06.2014 | 1080000, |
| Sales for the period 1.4.2016 to 30.06.2016 | 72000, |
| Standing charges for 2015 | 960000, |
| Profit for 2015 | 300000, |
| Saving in standing charges because of fire | 30000, |
| Additional expenses to reduce loss of turnover | 60000. |

Calculate the amount of claim.

Solution :

I. Date of fire 31.03.2016
II. Current accounting year 2016
III. Previous accounting year 2015
IV. Calculation of gross profit net profit + insured standing charges 300000 + 960000 = 1260000/-
V. Sales for the yaer 2015 4200000.
VI. Therefore GP percentage = 1260000/4200000x100 = 30 %
VII. Short sales = standard sales – actual sales
= sales from 1.4.15 to 30.06.2015 minus sales from 1.4.2016 to 30.06.2016
= 1080000-72000
= 1008000/-
VIII. Loss of gross profit :
Short sales x GP ratio = 1008000x30% = 302400/-

IX. STATEMENT OF CLAIM

| | |
|---|---|
| Loss of gross profit from step VIII | 302400 |
| Admissible expenses (see note below) | 21600 |
| | 324000 |
| Less : saving in standing charges | 30000 |
| GROSS CLAIM | 294000 |

X. NOTE : admissible expense :– least of the following

| | |
|---|---|
| Actual expense to reduce turnover | 60000 |
| Gross profit on additional sales (30%of 72000) | 21600 |
| Additional expense x (NP +insured standing charges)/ (NP +all standing charges) | 6 0 0 0 0 |

60000x(300000+960000)/(300000+960000)

Since all expenses are assumed to be insured.

XI. Applicability of average clause:

| | |
|---|---|
| Policy value | 1260000 |
| GP on turnover = 30 % of 4800000 = | 1440000 |

Since policy value is less than GP on turnover average clause will be applicable and in that case the claim will be :

Gross claim x policy value / GP on turnover

= 294000 x 1260000 / 1440000

= 257250

Therefore the final claim to be submitted will be **Rs. 257250**

Go through the study material as provided by the institute. For reference you can go through the following books

Financial accounting by A. Mukherjee and M Hanif

Financial accounting by Amitava Basu

Financial accounting by Avik Mukherjee ans Soumya Mukherjee.

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Group - I

PAPER: 6

# LAWS & ETHICS (LNE)

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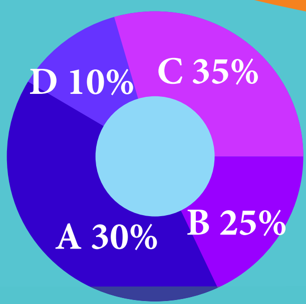
## Your Preparation Quick Takes

**Syllabus Structure**

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

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**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.

## SALE OF GOODS ACT, 1930

In the earlier issues we have gone through an overview of the Sale of Goods Act, 1930 and also with the rights of an unpaid seller as well as conditions and stipulations in a contract for sale. Getting deeper into the issues of the said act we will discuss about 'sale' and its variations as per the act.

Section 4 of the Sale of Goods Act, 1930 defines ' a contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for price'. From the definition it can be said that a sale refers to a transfer of property of goods from a seller to the buyer for a contracted and agreed upon price. Since it is said that a sale takes place when there is a transfer of property in goods from seller to the buyer, a sale is an executed contract.

ESSENTIAL ELEMENTS OF A CONTRACT OF SALE:

- **There must be at least two parties in a sale** - the first essential is that the buyer and the seller must be different persons. Since the goods has to pass from one person to another and also since a person cannot buy his own goods a contract for sale is bilateral in nature. Please note that a minor or a lunatic cannot be a transferor or vendor as he is not competent to contract as per the Indian Contract Act, 1872. However, a minor or a lunatic can be a transferee or a purchaser, if represented by his Guardian.
- **There must be a transfer or an agreement to transfer the ownership of goods** – a mere possession of the physical goods or having a limited interest on the goods will not amount to sale. In order to constitute a valid contract for sale it is the ownership that is to be transferred.
- **The subject matter must necessarily be goods** – the Sale of Goods Act,1930 covers the laws relating to sale of 'goods' as defined in section 2(7) of the said act. Sale of immovable properties are not covered under the Sale of Goods Act, 1930.
- **There must be a consideration, which must be price** – if the goods are agreed to be transferred in lieu of goods it would not be termed as sale as it amounts to barter. If there is no consideration then it amounts to gift and hence not sale. In order to be a valid sale there must necessarily be money or the legal tender as the consideration for sale. In this connection please note that where there is a sale of goods and it is effected partly by cash and partly by kind as its consideration, it is to be a termed as valid sale.
- **There may not be any particular form** – a contract for sale may be made in writing or by word of mouth. i.e It may be express or may be implied by the conduct of the parties involved. No particular form is necessary to constitute a valid contract for sale.
- **The contract may be absolute or conditional** – an absolute contract is a contract without any conditions to be fulfilled. A contract for sale may also be a conditional contract when the sale is subject to performance or non performance of a condition whether being a precedent or a subsequent condition. The conditions may have to be fulfilled by the buyer and/or the seller.
- **There must be all other essentials of a valid contract** – since the contract for sale is a specie of contract, it must conform to all other essential elements of a valid contract as per the Indian Contract Act, like the capacity of the parties, intention of the parties, free consent, legality of the object ect.

If we consider section 4 of the Sale of Goods Act, 1930, then two things come up – 1) **a transfer** of the property to the buyer for a price 2) **an agreement to transfer** of the property to the buyer for a price.

## SALE & AGREEMENT TO SELL

A sale takes place when there is a transfer of property in the goods from the seller to the buyer. It is an executed contract. In this case since the property has passed from the seller to the buyer, the seller can sue the buyer for non payment of the price of the goods.

On the other hand where the transfer of property or the ownership of goods takes place at a future date or subject to some conditions to be fulfilled it is called an agreement to sell. Since the seller purports to affect the present sale of future goods, the agreement to sell is an executor contract.

It is to be noted that the distinctions between the two is of paramount importance as they have different legal repercussions since the rights and obligations of the parties vary with the fact that whether it is a sale or an agreement to sell.

## SALE & HIRE – PURCHASE AGREEMENT

A hire purchase agreement is an agreement for hire with an option to purchase. A hirer under this agreement is required to pay certain fixed amount of money for a fixed number of months as installments and he may become the owner of the goods after the payment of the last installment. Unlike sale where the property passes as soon as the sale is made though the price is not fully paid, in the hire purchase system, if the hirer fails to pay any installment the contract can be terminated and the goods can be taken away by the seller as he still remains as the legal owner of the goods. Thus the main distinction between sale and hire purchase is that in the later the buyer is given an option to purchase while the former is affected by transfer of property from the seller to the buyer at an agreed upon price.

Tip – Supplement your readings with famous case laws and while answering make reference of relevant case laws as far as possible to establish your view and solve the case study.

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# Group - I

# PAPER: 7

# DIRECT TAXATION (DTX)

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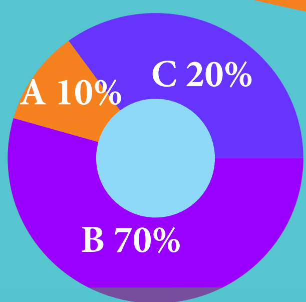
## Your Preparation Quick Takes

## 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 **10%**

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**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.

**Introduction:** Sections 70-80 of the Income-tax Act deal with the provisions related to Set off and Carry Forward of Losses. It is an important chapter since the total income, on which the assessee pays tax, is obtained only after setting off losses, if any, incurred under any one or more of the sources or the heads of income, as the case may be.

Accordingly, under the Income-tax Act, subject to the provisions of Sections 70 to 80, an assessee is entitled to the following :

**Inter - source adjustments**

**Inter - head adjustments**

**Carry forward of losses**

**Meaning of intra-head adjustment**

If in any year, the taxpayer has incurred loss from any source under a particular head of income, then he can adjust such loss against income from any other source falling under the same head. For example, a short-term capital loss can be set off against any short-term capital gains or long-term capital gains.

**When Intra-head adjustments not allowed:**

**General restrictions:** If income from a source is exempt from tax, then loss from such source cannot be set off against any other income which is chargeable to tax.

**Other restrictions**:

a. Long-term capital loss can be set off against long-term capital gains only. However, short-term capital loss can be set off against long-term or short-term capital gain.

b. Loss from speculative business can be set off only against any income income from another speculative business. However, non-speculative business loss can be set off against income from speculative business.

c. No loss can be set off against income from winnings from lotteries, crossword puzzles, race including horse race, card game, and any other game of any sort or from gambling or betting of any form or nature.

d. Loss from the business of owning and maintaining race horses can be set off against income from the business of owning and maintaining race horses only.

e. Loss from business specified under section 35AD cannot be set off against any other income except income from specified business.

**Inter-head Adjustments :**

Inter-head adjustments entitle an assessee to adjust the loss from one head of income against the income from another head. For example, a loss under the head "Profits and gains of business or profession may be allowed to be set off against Income under the head Capital gains. Or Loss under the head Income from house property can be set off against income under the head Salaries.

**Restrictions :** The restrictions that apply to intra-head adjustments ( as mentioned above) also apply to Inter-head adjustments. Besides, in the following cases also, inter-head adjustments cannot be made:

(a) Loss under the head Capital gains: As provided under section 71(3), Loss under the head Capital gains cannot be set off against income under any other head.

(b) Loss under the head Profits and gains of business or profession: As provided under section 71(2A), a loss under this head cannot be adjusted against income under the head Salaries.

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## Group - I

## PAPER: 8

# COST ACCOUNTING (CAC)

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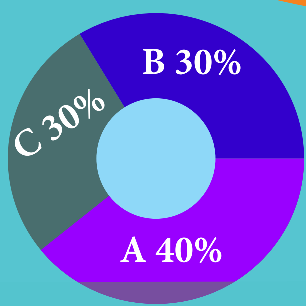
## Your Preparation Quick Takes

## Syllabus Structure

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

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**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.

World is now facing the problem of scarcity of resources. Optimum utilization of resources is the urgent need of the day. Cost Accounting in this regard plays a vital role all over the world. Hence, theory as well as solving of practical problems is very much essential for successful preparation of the subject. 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 mainly depends on student's perseverance, seriousness of study, regularity and through practice.

Some tips based on experiences-

1. A well defined plan of completing syllabus within scheduled time.
2. Go through your study note very carefully.
3. This paper is based on mainly practical problems (70%).
4. Analyse the trends of question settings.
5. Prepare yourself based on previous papers setting.
6. Clarity of concepts and self expression is essential for success in life.
7. Try to improve your speed by practice and revision.
8. Finally, develop the habit of reading the questions seriously by underlining and understanding the specific requirements.

In respect of examination is concerned, all chapters may not have equal important, but you should not leave out any chapter in this type of professional examination.

As per your Study Material, the entire syllabus is divided into six major chapters. The first chapter is related to basic concepts of Cost Accounting. The Nest Chapter described the Elements of Cost in details. We know that three elements of Cost are- Material, Labour and Overheads. Here, The major elements of costs are discussed elaborately with sufficient number of examples. You Should read the Scope and objectives of different Cost Accounting Standards in details. This will help to grasp the concept of Cost accounting easily.

The third Chapter is associated with Cost Book Keeping Which includes integrated accounting system also. This Chapter is very easy to understand, but the process is lengthy. In practice different accounts are to be opened, but it is not necessary to give much to complete it.

The next Chapter Contract Costing is very important for this type of examination. There are some standard norms for computation and recognition of profit/ loss of incomplete Contract. Students Sometimes experience difficulty in recommending the amount of profit to be taken in to account during a period for long term Contract. Student are also advised to go through the topic a profit on incomplete contracts based on SSAP-9 Problems on escalation clause is used to be set at this level of examination also.

The next Chapter Operating Cost in relates to find out operating Cost per unit of output. This Chapter also includes Transport Costing, Power -house Costing, Hotel/ Hospital Costing, Hotel costing etc. Composite unit is important for solving the problem.

The Chapter Marginal Costing is very important from the Students Perspective. It aims to find out cost- volume- profit relationship. Some times more than one problems may be set from this Chapter. The main thrust should be to follow the wording and to determine the desired impact on profitability. Break- even Analysis and finding the B E.P. is the basic 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.

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 cost.

Budget and Budgetary Control which requires the preparation of flexible, functional and Cash budget. 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 purchase budget. The students should also go through the theoretical parts- lake , concept of Zero Based Budgeting, Behaviour and classification of Budgets.

Now for explaining Contract Costing a problem may be set in this way.

A Construction Co. with a paid up share Capital of Rs. 50 Lakhs undertook a contract to Construct houses for lower income group of Govt. employees. The construction work was started on 1st Jan 2016 and the Contract price was Rs.50 Lakhs. Cash received on account of contract work on 31st Dec-2016 was Rs.18 Lakhs, ie . 90% of the work certified . On that date work completed but not Certified was estimated at Rs. 100 000. As on 31.12.2016 material at site was estimated at Rs. 30000 and machinery at site costing Rs. 2 Lakhs was returned to Stores. Plant and Machinery at site is to be depreciated at 5%. Wages outstanding on 31st Dec-2016 was Rs. 5000/-. The other in formations were as follows –

| | Rs. | Rs. |
|---|---|---|
| Land & Building | | 15,00 000 |
| Vehicles. | | 8,00 000 |
| Plaut and Machinery at Cost(60%at Site) | 25, 00 000 | |
| Furniture, | | 50,000 |
| Office Equipments, | | 10,000 |
| Masteries Sent to Site, | 14,00,000 | |
| Fuel and Power, | | 1,25,000 |
| Site expenses | | 5,000 |
| Postage and telegraph | 4,000 | |
| Office expenses | | 8,000 |
| Rates and taxes | | 15,000 |
| Wages, | | 2,50,000 |
| Cash at Bank | | 1,33,000 |

Prepare the Contract Account to ascertain the profit from the Contract and show the WIP in the Balance Sheet.
We can try to solve the above problem in the following way-
Contract Account for the period ending 31.12.2016

| | Rs. | | Rs. |
|---|---|---|---|
| To Materials for site 1400000 less: closing materials at 30,000 Site. ---------------- | 13,70,000 | By Work Certified (1800 000*100/90) | 20,00 000 |
| | | Work Uncertified | 100,000 |
| To Wages. 250,000 Add: Outstanding. 5000 ---------------- | 2 55 000 | | |
| To Expenses. | | | |
| To Postage and Telegraph. | 5,000 | | |
| To Fuel and Power | 4,000 | | |
| To Office Expenses | | | |

| | | | |
|---|---|---|---|
| To Rates and Taxes. | 1,25,000 | Work Uncertified | |
| To Depreciation- | 8,000 | | |
| (25,00,000*60/100*5/100) | 15,000 | | |
| To Balance c/d | 75,000 | | |
| | 2,43,000 | | |
| To Profit & Lose A/c. | 21,00,000 | | 21,00,000 |
| (1/3*90/100*243000) | | | |
| | 72900 | | 2,43,000 |
| To Work in Progress(W/P) | | | |
| (Reserve for unrealized profit) | | | |
| | 1,70,100 | | |
| | | By Balance b/d | |
| | 243000 | | 243 000 |

**Balance Sheet as at 31.12.2016**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Paid up Capital Outstanding Wages. | 50,00,000 | Laud & Buildings* | 15,00,000 |
| Profit & Loss A/c | 5,000 | Vehicles * | 8,00,000 |
| | 72,900 | Furniture * | |
| | | Office Equipments * | |
| | | Machinery 15,00,000 | |
| | | (At Site) | |
| | | Less: Depreciation 75,000 | |
| | | 14,25000 | |
| | | Less: Returned | |
| | | (200000-10000 | |
| | | Already depreciated)190000 | |
| | | | 12,35,000 |
| | | Machinery(40%) 10,00 000 | |
| | | (at office) | |
| | | Add: From Store, 1,90,000 | |
| | | | 11,90,000 |
| | | Materials at Site- | 30,000 |
| | | Works in Progress- | 1,29,900 |
| | | Cash at Bank | 1,33,000 |
| | 50,77,900 | | 50,77,900 |

**Workings.-**

| | |
|---|---|
| **(**1) WIP. - | Rs. |
| Work certified | 20,00,000 |
| Less: cash received | 18,00,000 |
| | 2,00,000 |
| Less: Reserve for unrealized Profit | 1,70,000 |
| | 29,900 |
| Add: Work done but not certified | 1,00,000 |
| (2) These Assets may be depreciated at their usual rate | 1,29,900 |

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Group - II

PAPER: 9 PART- i

# OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - OPERATIONS MANAGEMENT

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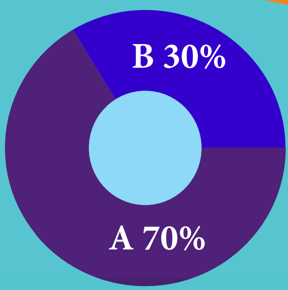
Your Preparation Quick Takes

## Syllabus Structure

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




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

**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.

## Work Measurement:

Work measurement is defined as the application of techniques designed to establish the work content of a specified task determining the time required for carrying out the task at a defined standard of performance by a qualified worker.

The calculation of Standard time is done in the following way:

1. Observed time-> Apply rating factor then we can calculate Normal time
2. Add relaxation allowances to the normal time to find work content
3. Add contingency and other allowances if required to calculate standard time.

Rating factor= Rating of the observed worker/ Rating of the qualified worker.

Normal or Basic time= Observed time * Rating Factor
Where Rating Factor= Observed rating/ Standard Rating
Let us discuss some problems on the above concept

1. For a certain element of work the basic time is established to be 20 seconds. If for three observations, a time study observer record ratings of 100, 125 and 80 respectively on a 100- normal scale. What are the observed timings?

Observed time* Observed rating= Basic or Normal time* Standard Rating.

Observed time= (Basic or Normal Time* Standard Rating)/ Observed Rating

Basic or Normal time= 20 seconds
Standard Rating=100
For Observed Rating =100
Observed time= (20*100)/100=20seconds
Observed time= (20*100)/125=16 seconds
Observed time=(20*100)/80=25 seconds

2. An 8 hour work measurement study in a plant reveals the following Units Produced=320 nos. Idle time=15% Performance rating=120% Allowances =12% of normal time. Determine the standard time per unit produced.

Observed time for 320 units= Working time- Idle time= 8-(8*0.15)=6.8 hours=408 minutes
Observed time per unit= 408/320=1.275 minutes
Normal time per unit= (Observed time/unit* Observed Rating)/ Standard Rating

Therefore Normal time per unit= (1.275*120)/100=1.53 minutes
Standard time per unit= Normal time/unit + Allowances
=1.53+12% of 1.53
=1.53+0.184
=1.714 minutes

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VOL: 2, No.: 4
April, 2017 ISSUE

Group - II

# PAPER: 9 PART- ii

# OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - STRATEGIC MANAGEMENT

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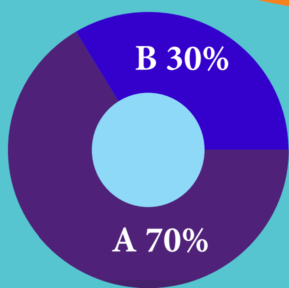
## Your Preparation Quick Takes

**Syllabus Structure**

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




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

**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 a days every business is to cope with constant environment change. Be it change of legislation or change in customer taste and preferences or change in innovative technology they have to be ready to make changes in strategy accordingly. A strategic change is vital as it would keep the business going and also help it to achieve competitive advantage. Framing the right strategy at the right time is not the only important act but it is also important to see that the strategy in mind is actually been implemented for higher organizational performance.

Strategy implementation is the topic for this issue. Execution of the strategic game plan is utmost important. A strategy which is dependent on many internal and external factors must be executed or implemented right after setting the organizational structure, developing the right corporate culture and climate and after integration of the internal and external factors in order to achieve organizational objectives.

Developed in early 1980's by Tom Peters and Waterman the McKinsey 7s framework is a model which found that there are 7 basic internal aspects of an organization which needs to be realigned in order to achieve organizational goals. This model involves 7 interdependent factors which are divided as Hard elements and Soft elements.
.

| Hard Elements | Soft Elements |
|---|---|
| Strategy | Shared Values |
| Structure | Skills |
| Systems | Style |
| | Staff |

The hard elements are much easier to indentify and manage compared to the soft elements which are more difficult to describe, less tangible than the hard elements and are more influenced by corporate and individual culture.

Strategy – is the plan to maintain and gain more competitive advantage in the market.

Structure – is the order in which the business divisions are organized and the reporting chain as to who is accountable to whom.

Systems – is the process and procedures of how the business is done or how decisions are taken.

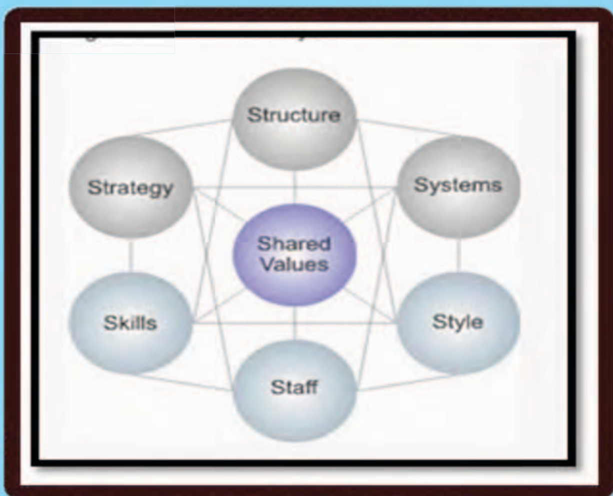
Shared values – is the core of this model as well as every organization as it depicts the norms that guide employee behavior and company actions.

Skills – are the abilities and competencies of the firm's employees that are really needed to plan and implement newer strategies.

Staff – general capabilities of the employees and how they will be recruited trained motivated and recruited.

Style - leadership style adopted by the organization

The main focus of the model is that all the 7 areas are interconnected and any change in any one of the element will call for a required change in the other elements of the model to let the firm function effectively. The figure below represents the interdependency of the elements and indicates how a change in one element affects the other elements in the model.




McKinsey's 7s Model.

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April, 2017 ISSUE

Group - II

PAPER: 10

# COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT (CMFM)

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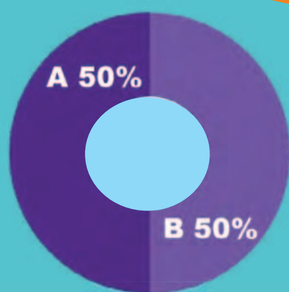
## Your Preparation Quick Takes

## Syllabus Structure

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




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

**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.

▪ **Characteristics of Capital Budgeting Decision:**

Capital budgeting decisions have following characteristics:

1. These decisions are irreversible.
2. They involve huge amount of investment.
3. These are also characterized by high risk.
4. These are long term investment

• **Steps in Capital Budgeting Decisions:**

1. Planning or Generation of the Project
2. Evaluation or Appraisal
3. Selection
4. Implementation/ Execution
5. Control
6. Review

▪ **Types of Capital Budgeting Decisions:**

These decisions can be of three types –

1. Acceptance/ Rejection Decision: Here only one project is given and the decision maker has to decide whether to accept or reject it based on the appraisal technique used.
2. Mutually Exclusive Decision: Here two or more projects are given and the decision maker has to decide which one to accept based on the appraisal technique used.
3. Capital Rationing Decision: Here a fund constraint is given and the objective of the decision maker will be to maximize the return within such constraint.

• **Capital Budgeting Decision; Profit vs. Cash Flow:**

Often a debate arises as to which form of benefit should be considered while evaluating a capital budgeting decision – Profit or Cash Flow.

In this context it can said that it is always better to use cash flow instead of profit in evaluating capital budgeting decisions because –

1. There is no unique definition of profit, but cash flow is one and unique.
2. Profit depends on the use of accounting principles and estimates, but cash flow is free of all these estimates and changes in accounting principles.
3. Profit, at times, becomes subjective, but cash flow is always objective.

▪ **Capital Budgeting Appraisal Techniques:**

The techniques used to appraise the capital budgeting decisions can broadly be categorized into two groups as follows:Traditional MethodsTime Adjusted Methods

| Traditional Methods | Time Adjusted Methods |
|---|---|
| • Accounting Rate of Return<br>• Pay Back Period | • Net Present Value<br>• Internal Rate of Return<br>• Profitability Index<br>• Discounted Pay<br>• Back Period<br>• Terminal Value Method |

The above classification is based on whether the method considers time value of money or not.

[Concept of Time Value of Money: As per the time value of money concept, Rs. 100 received today is not of the same worth like Rs. 100 received after one year. Hence these two nominal figures cannot directly be added to calculate any surplus.

The reasons for such disparity are:

1. Inflation;
2. Uncertainty; and
3. Opportunity Cost.

Thus in order to add the figures, they must be discounted first.]

Here we shall discuss some critical issues with regards to the above methods. Students can refer to the numerical problem given in the study material for preliminary idea.

• Pay Back Period Method:

This is a traditional or non-time value adjusted technique. In other words here numerical values of benefits i.e. cash flow are added over the years directly i.e. without discounting them.

▪ **Definition of Pay Back Period (PBP):**

Pay-back period is the period required by the firm to recover the original investment from the net cash flows of an investment project. It is basically an application of the 'break-even' concept to investment.

▪ **Determination of PBP:**

a) When annual cash inflows are uniform:

PBP = Cost of Investment/Annual Cash flow.

e.g.1. A project requires an initial investment of Rs. 3, 00,000. It yields annual cash inflow of Rs. 60, 000 for 8 years. You are required to find out the pay-back period of the project.

**Solution:**

PBP = Cost of Investment/Annual Cash flow. = 300000/60000 = 5 Years.

b) When the annual cash inflows are not uniform:

Here PBP is determined at that point of time when cumulative cash flow becomes equal to the initial investment. Generally simple interpolation technique is used for this purpose.

e.g.2. A project requires an initial investment of Rs. 300000. It yields cash inflow of Rs. 60 000, Rs. 50000, Rs. 70000, Rs.75000, Rs. 90000, Rs. 60000 for next 6 years. You are required to find out the pay-back period of the project.

**Solution:** If cumulative cash flow is calculated, it can be identifies that Rs. 300000 is achieved in between 4th and 5th year. By simple interpolation the PBP can be calculated as follows:

$$\frac{PBP-4}{5-4} = \frac{300000-255000}{345000-255000}$$

Or, PBP = 4.5 years.

- Decision Rules:

1. Acceptance/ Rejection Decision:

A project is accepted only if the PBP is lower than the target PBP set by the management.

2. Mutually Exclusive Decision:

The project with least PBP should be accepted.

- **Some Critical Issues:**

Though PBP method, as a traditional or non-time value adjusted method, is considered to be a better method than Accounting Rate of Return, in a number of situations it may mislead the decision maker.

For example, if the projects differ significantly in terms of the investment size, then it is very likely that the larger project will have higher PBP than the smaller one. In that case PBP may mislead while choosing between mutually exclusive projects. This dilemma is due to the size difference of the projects.

Similarly, if the projects differ in terms of life, then again accepting a project with lower PBP may not be a wise decision, if the other one is having a longer life after PBP where the profit potential is likely to be better.

In order to overcome the above limitations, traditional PBP method should not be used blindly but should be supported by some other criteria.

Two important extensions of traditional PBP are suggested therefore.

1. Pay Back Profitability:

This extension of traditional PBP is suggested to overcome the limitation of life difference between projects.

In this method, the decision maker needs to calculate the total profit of the project post pay-back period. It is calculated based on the following formula.

a) In case of Uniform Cash inflow:

Payback Profit = (Total Life – PBP) * Annual Cash Flow

e.g.3. Refer to e.g.1

Payback Profit = (8-5)*60000 = Rs. 180000.

b) In case of non-uniform cash inflow.

Payback Profit = Total Cash Inflow over the life – Initial Investment.

e.g.4. Refer to e.g.2

Payback Profit = 405000 – 300000 = Rs. 105000.

**Decision Rule:**

a. Acceptance/ Rejection Decision:

A project is accepted only if the PB Profit is higher than the target PB Profit set by the management.

b. Mutually Exclusive Decision:

The project with higher PBP should be accepted.

**Note:** However, it may be noted that this method should be used along with the traditional PBP method for best results, especially when there arises a tie between the projects under traditional PBP.

**2. Pay Back Reciprocal:**

This method is extremely helpful in case the projects differ significantly in terms of the amount or size of the investment.

Under this method a rate of return known as Payback Reciprocal is calculated based on the following formula.

a) In case of Uniform Cash inflow:

Payback Reciprocal = (Annual Cash flow/ Initial investment)*100 or (1/PBP)*100

e.g.5. Refer to e.g.1

Payback Reciprocal = (60000/300000)*100 = 20%. Or

b) In case of non-uniform cash inflow.

Payback Reciprocal = (1/PBP)*100

e.g.6. Refer to e.g.2

Payback Reciprocal = (1/4.5)*100 = 22.22%

**Decision Rule:**

a. Acceptance/ Rejection Decision:

A project is accepted only if the PB Reciprocal is higher than the target PB Reciprocal set by the management.

b. Mutually Exclusive Decision:

The project with higher PB Reciprocal should be accepted.

Note: However, it may be noted that this method should be used along with the traditional PBP method for best results, especially when there arises a tie between the projects under traditional PBP.

VOL: 2, No.: 4
April, 2017 ISSUE



## Group - II

## PAPER: 11

# INDIRECT TAXATION (ITX)

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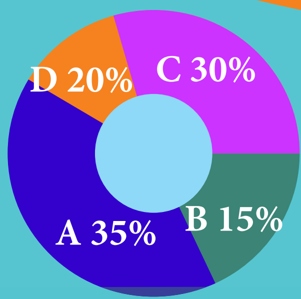
## Your Preparation Quick Takes

### 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%**




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

**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

## Service Tax

Service tax is a tax levied by Central Government of India on services provided or agreed to be provided excluding services covered under negative list and considering the Place of Provision of Services Rules, 2012 and collected as per Point of Taxation Rules, 2011 from the person liable to pay service tax. Person liable to pay service tax is governed by Service Tax Rules, 1994 he may be service provider or service receiver or any other person made so liable. It is an indirect tax wherein the service provider collects the tax on services from service receiver and pays the same to government of India. Few services are presently exempt in public interest via Mega Exemption Notification 25/2012-ST as amended up to date and few services are charged service tax at abated rate as per Notification No. 26/2012-ST as amended up to date. Presently from 1 June 2016, service tax rate has been increased to consolidated rate at 14% +0.5%+0.5%= 15% of value of services provided or to be provided. The service tax rate now is consolidated rate as education cess and secondary higher education cess are subsumed with 2% of "Swach Bharat Cess(0.50%)" has been notified by the Government.

From 15 November 2015, the effective rate of service tax plus Swachh Bharat Cess, post introduction of Swachh Bharat Cess, was 14.5%. Currently, Swachh Bharat Cess and Krishi Kalyan Cess would also be levied on all services on which Service Tax is being levied and therefore, the Service Tax (including Swachh Bharat Cess and Krishi Kalyan Cess) applicable from 1 June 2016 has become 15%.

Rates

Service Tax which started out at a nominal 5% is now at 15%

It was increased to 14% for transactions that happened on or after 1 June 2015 and then for transactions that occurred on or after 15 Nov 2015, the new *Swachh Bharat* Cess at 0.5% was also added to the Service Tax. Therefore, the effective rate became 14.5% with effect from 15 Nov 2015.

For transactions that occurred on or after 1 June 2016 this tax is at 15%.

2016 Union budget of India has proposed to impose a cess, called the *Krishi Kalyan* Cess, at 0.5% on all taxable services effective from 1 June 2016. The current service tax is at 15%.

***Krishi Kalyan Cess:-***

With introduction of Krishi Kalyan Cess at 0.5% w.e.f June 1, 2016, effective rate of Service tax would eventually go up to 15%, which was earlier increased to 14% (with subsumation of Education Cess and Secondary and Higher Education Cess) from 12.36% w.e.f June 1, 2015 and Swachh Bharat Cess at 0.5% on value of all taxable services imposed w.e.f November 15, 2015. Krishi Kalyan Cess, which was announced during the 2016–17 Budget, has become applicable from 1 June. A tax of 0.5% would be levied over and above the Service Tax and Swachh Bharat Cess. Till 31 May 2016, the Service Tax rate was 14.5%. With Krishi Kalyan cess, the service tax would increase to 15%. While Swachh Bharat Cess was levied to conduct cleanliness drive in India, the new cess has been levied for the purpose of financing and promoting initiatives to improve agricultural growth.

***Krishi Kalyan Cess Cenvat Credit Rules***

CENVAT Credit will be available on Krishi Kalyan Cess. CENVAT (central value added tax) credit, whose rules will be revised according the change in service tax, will be available to service providers on the cess they are pay..

***Small Scale Exemption***

Service tax is only liable to be paid in case the total value of the service provided during the financial year is more than ₹10 lakh (US$15,000). If the value of services provided during a preceding financial year is less than ₹10 lakh (US$15,000), only then this exemption is applicable in the current financial year. It is optional for he wants to avail this exemption or not.

***Declared Services***

In the year of 2012, service tax laws have witnessed a paradigm shift when the taxation shifts from positive list of services to negative list of services. At that time, another concept of declared service was introduced by the Government of India via Section 66E of Finance Act, 1994.

Declared service is the deeming fiction of law. It provides the lawmakers with an arbitrary power to declare any activity as a service. Section 65B(22) defines the declared service as any activity carried out by a person for another person for consideration and declared as such under section 66E. Further, the definition of service under section 65B(44) also specifically covers the declared service under the definition of service.

This section is also one of the vital sections of Finance Act, 1994. Any service included under this section will be liable to service tax straight.

***Negative list***

Budget 2012 revamped the taxation provisions for services by introducing a new system of taxation of services in India. In the new system all services, except those specified in the negative list, are subject to taxation. Earlier the levy of service tax was based on positive list—specified 119 taxable services.

As per clause (34) of section 65B of the Finance Act, 1994, the term "Negative List" means the services which are listed in section 66D;government service

***Registration of Service Tax***

As per Service Tax Law it is mandatory for the following categories of persons obtain registration:-

- Every person liable to pay service tax under Reverse Charge
- An input service distributor
- Ever provider of taxable service whose aggregate value of taxable service exceeds 9 lakhs in a financial year.

Every person mentioned above will have to get them registered under the service tax law **within 30 days** from the date of commencement of such service or business.

Whereas in case of service provider whose aggregate value of taxable service not exceeded 9 lakhs in a financial year **not need to obtain registration**, where in case he has obtained registration he is liable to payment of service tax only if the value of taxable services exceeds 10 lakhs rupees.

***Payment of Service Tax***

As per Rule 6(1) of Service Tax Rules 1994 Service tax is paid to the credit of the central government by **5th or 6th** as the case maybe **immediately following the calendar month** (**5th or 6th** as the case maybe immediately following the quarter in case of **partnership, individual and proprietary firm**) in which the service deemed to provided as per rules framed in this regard.

**The time limit for the payment of Service Tax as follows:-**

1. By the 6th day of immediately following calendar month if the duty is deposited by electronically through internet banking and
2. by the 5th day of immediately following calendar month in any other case.

In case of individuals and partnership firms whose aggregate value of taxable services provided from one or more premises is fifty lakh rupees or less in the previous financial year, the service provider shall have the option to pay tax on taxable services provided or agreed to be provided by him up to a total of rupees fifty lakhs in the current financial year, in which payment is received.

**Service Tax Return**

Every person liable to pay service tax shall himself assess the tax and shall submit a half yearly return in From ST-3 or ST-3A in case of provisional assessment as the case may for the months covered in the half-yearly return. Every assessee shall submit the half yearly return by the 25th of the month following the particular half-year.

The half years for this purpose will cover

1st half year 1 April to 30 September due date for the return is 25 October

2nd half year 1 October to 31st march due date for the return is 25 April.

**Late filing of Return**

Where the return is furnished after the date prescribed for submission of such return, the person liable to furnish the said return shall penalty for the period of delay of as

1. fifteen days from the date prescribed for submission of such return, an amount of five hundred rupees;
2. beyond fifteen days but not later than thirty days from the date prescribed for submission of such return, an amount of one thousand rupees; and
3. beyond thirty days from the date prescribed for submission of such return an amount of one thousand rupees plus one hundred rupees for every day from the thirty first day till the date of furnishing the said return:

The total amount of penalty for delayed submission of return, shall not exceed Rs.20,000/-

i.e., maximum penalty is penalty as calculated above or Rs.20,000/- whichever is lower.

**Records**

According to Rule 5 of Service Tax Rules, 1994, a record include computerized data and means the record as maintained by an assessee in accordance with the various laws in force from time to time. Records maintained as such shall be acceptable to Central Excise Officer.

Every assessee shall furnish to the Superintendent of Central Excise at the time of filing of first return after 28-12-2007 a list in duplicate, of all the records prepared or maintained by the assessee for accounting of transactions in regard to

(a) providing of any service,

(b) receipt or procurement of input services and payment for such input services;

(c) receipt, purchase, manufacture, storage, sale, or delivery, as the case may be, in regard of inputs and capital goods;

(d) other activities, such as manufacture and sale of goods, if any.

and all other financial records maintained by him in the normal course of business. This intimation may be sent along with a covering letter while filing the service tax return for the first time.

All such records shall be preserved at least for a period of five years immediately after the financial year to which such records pertain.

**Invoice**

Rule 4A prescribes that taxable services shall be provided and input credit shall be distributed only on the basis of a bill, invoice or challan. Such bill, invoice or challan will also include documents used by service providers of banking services (such as pay-in-slip, debit credit advice etc.) and consignment note issued by goods transport agencies. Rule 4B provides for issuance of a consignment note to a customer by the service provider in respect of goods transport booking services.[11]

Every person providing taxable service shall issue an invoice/bill/challan within **30 days** (**45 days** in case of banking and other financial service providers) from the date of completion of such service or receipt of any amount for such taxable service.

The invoice/bill/challan signed by such person or a person authorized by him in respect of taxable service provided or agreed to be provided and such invoice, bill or, as the case may be, challan shall be serially numbered and shall contain the following, namely :-

(i) the name, address and the registration number of such person;

(ii) the name and address of the person receiving taxable service;

(iii) description and value of taxable service provided or agreed to be provided; and

(iv) the service tax payable thereon:

In case the provider of taxable service is a banking company or a financial institution including a non-banking financial company, or any other body corporate or any other person, providing service to any person an invoice, bill or, as the case may be, challan shall include any document, by whatever name called, whether or not serially numbered, and whether or not containing address of the person receiving taxable service but containing other information as prescribed above.

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VOL: 2, No.: 4
April, 2017 ISSUE

Group - II

PAPER: 12

# COMPANY ACCOUNTS & AUDIT (CAA)

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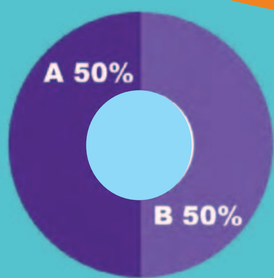
## Your Preparation Quick Takes

**Syllabus Structure**

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

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




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

**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.

Today we are to discuss about AS 19- Accounting for Lease.

What is *Lease?*

(i) Lease is an agreement.

(ii) Lessor gives the right to use an asset to Lessee.

(iii) For given period of time.

(iv) Lessee paid rent.

What are the *Types of Lease?*

Lease is of 2 types-

1. Financial lease- whereas lessee assumes all the risks and rewards incidental to ownership of asset but not legal ownership
2. Operating lease- whereas lessee does not assume risks / rewards incidental to ownership of assets.

Where the AS 19 is not applicable?

AS 19 is not applicable:

1. Lease agreement to explore natural resources such as oil, gas, metal, etc.
2. Lease agreement for motion picture film, video recording, patents, etc.
3. Lease agreement to use land.

Before going to Accounting Treatment of Lease, students are to know the basic definitions of some terminology.

What is Guaranteed Residual Value (GRV)?

In respect of Lessee, it is part of residual value which is guaranteed by or on behalf of the lessee.

In respect of Lessor, it is part of residual value which is guaranteed by or on behalf of the lessee or by an independent third party.

Guarantee by third party arises when the asset is lease to the third party after the first lease has expired.

What is unguaranteed Residual Value (URV)?

URV= RV-GRV

What is Gross Investment?

Gross Investment= Min. Lease payment for lessor (MLP) + URV to lessor

What is Interest Rate implicit in the lease?

It is the discount rate at which fair value of leased asset at the inception of the lease= Present value of MLP of lessor + URV accruing to lessor

What is Contingent Rent?

Lease rent fixed on the basis of percentage of sales, amount of usage, price indices, market rate of interest is called Contingent Rent. In other words, rent based on factors other than time.

What is Minimum Lease Payment (MLP)?

MLP for Lessor = Total lease rent to be paid by the lessee + GRV of lessee – Contingent rent – Cost of service and tax to be paid by lessor + residual value guaranteed by the third party

MLP for Lessee = Total lease rent to be paid by the lessee + GRV of lessee – Contingent rent – Cost of service and tax to be paid by lessor

What is the provision of Accounting for finance lease in the books of lessor?

The lessor should recognise asset given under finance lease as receivable at an amount = Net Investment in the lease and corresponding credit to sale of asset.

Net investment = Gross investment – Unearned finance income, whereas

Gross investment = MLP from lessor view + URV and

Unearned finance income = Gross investment – Present value of Gross investment

What is the provision of Accounting for finance lease in the books of lessee?

Leased asset as well as liability for lease should be recognised at the lower of –

(i) Fair value of leased asset at the inception of lease

(ii) Present value of MLP from the lessee point of view.

Each lease payment is to apportion between finance charge and principal amount.

The lessee should charge depreciation on financed lease asset as per AS 6

Initial direct cost for financial lease is to include in asset under lease

What is the provision of Accounting for Operating lease in the books of lessor?

Record leased out asset as the fixed asset in the balance sheet

Charge depreciation as per AS 6.

Recognize lease income in Profit & Loss account using straight line method

Other cost of operating lease should be recognised as expense in relevant year

Initial direct cost of lease may be expensed immediately or deferred.

What is the provision of Accounting for Operating lease in the books of lessee?

The lease payment should be recognised as an expense in the Profit & Loss account using straight line basis over the leased term.

# Sub: Clarification for June 2017 term of Examination

| SL. NO | Issue | Applicable for | Reference Papers | Facilities Provided |
|---|---|---|---|---|
| 1 | Companies (Cost Records And Audit) Rules, 2014 as amended till 14th July 2016 | Intermediate and Final under syllabus 2012 and 2016 | Syllabus 2012 Paper 10- Cost & Management Accountancy (Inter) Paper 19 - Cost and Management Audit (Final) Syllabus 2016 Paper 12- Company Accounts & Audit (Inter), Paper 19- Cost & Management Audit (Final) | For Syllabus 2012, soft copy uploaded in website under student section. For syllabus 2016 included in study material. |
| 2 | CAS 1-24 (as per version till December 2016) | Intermediate and Final under syllabus 2012 and 2016 | Syllabus 2012- Paper 8- Cost Accounting and Financial Management (Inter) Paper 19 - Cost and Management Audit (Final) Syllabus 2016- Paper 8- Cost Accounting (Inter) Paper 19- Cost & Management Audit (Final) | For Syllabus 2012 soft copy uploaded in website under student section. For syllabus 2016 included in study material. |
| 3 | Companies Act 2013 | Intermediate and Final under syllabus 2012 and 2016 | Syllabus 2012- Paper 6 -Laws, Ethics and Governance (Inter) Paper 12- Company Accounts and Audit(Inter) Paper 13- Corporate Laws & Compliance (Final) Paper 18- Corporate Financial Reporting (Final) Paper 19- Cost & Management Audit (Final) Syllabus 2016- Paper 6- Laws & Ethics (Inter), Paper 12- Company Accounts & Audit (Inter), Paper- 13 Corporate Laws & Compliance (Final), Paper 17- Corporate Financial Reporting (Final), Paper 19- Cost & Management Audit (Final) | List of notified sections applicable for June 2017 examination will be uploaded shortly. |

# Sub: Clarification for June 2017 term of Examination

| SL. NO | Issue | Applicable for | Reference Papers | Facilities Provided |
|---|---|---|---|---|
| 4 | CARO- Companies (Auditor Report) Order 2016 | Intermediate and Final | Syllabus 2012 Paper 12- Company Accounts & Audit (Inter) Paper 13- Corporate Laws & Compliance (Final) Syllabus 2016 Paper 13 -Corporate Laws & Compliance (Final) | For Syllabus 2012, soft copy will be uploaded shortly. For Syllabus 2016, included in study material |
| 5 | Finance Act 2016 | Intermediate and Final | Syllabus 2012- Paper 7- Direct Taxation (Inter), Paper 11- Indirect Taxation (Inter) Paper 16- Tax Management & Practice. Syllabus 2016 Paper 7- Direct Taxation (Inter) Paper 11- Indirect Taxation (Inter), Paper 16- Direct Tax Laws and International Taxation (Final), Paper 18-Indirect Tax Laws & Practice (Final) | For Syllabus 2012 amendments will be uploaded in website shortly material. |
| 6 | GST | Not Applicable | | |
| 7 | IND AS | Not Applicable | | |

**All concerned to make appropriate advisory and facilitate the student.**

# SUBMISSIONS

Give you thoughts on the Student E-Bulletin. Do you have some news, an achievement, or an aspect of achievement that you would like to share? It so, We would love to hear from you.

E- Mail:- studies.ebulletin@icmai.in
Website: http://www.icmai.in

It you do not think you are getting the e-bulletin via E-Mail, Please let us know, as all students should receive it.

## Updation of E-Mail Address / Mobile:

Students are advised to update their E-Mail ID and Mobile nos. timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. Students may update their E-mail ID/Mobile no. instantly after loggin 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.

# PRACTICAL ADVICE

## ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

# Examination TIME TABLE

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

| Day & Date | Intermediate Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m. | Intermediate Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m. |
|---|---|---|
| 11th June, 2017 Sunday | Financial Accounting | Financial Accounting |
| 12th June, 2017 Monday | Laws, Ethics and Governance | Laws & Ethics |
| 13th June, 2017 Tuesday | Direct Taxation | Direct Taxation |
| 14th June, 2017 Wednesday | Cost Accounting & Financial Management | Cost Accounting |
| 15th June, 2017 Thursday | Operation Management and Information Systems | Operations Management & Strategic Management |
| 16th June, 2017 Friday | Cost & Management Accountancy | Cost & Management Accounting and Financial Management |
| 17th June, 2017 Saturday | Indirect Taxation | Indirect Taxation |
| 18th June, 2017 Sunday | Company Accounts and Audit | Company Accounts & Audit |

VOL: 2, No.: 4
April, 2017 ISSUE

# Message from the Directorate of Studies

Dear Students,

National Students' Convocation-2017 was held on 30th March, 2017 at Kolkata. Prospective students have received their awards and certificates of merit. It gives us immense pleasure to see their bright faces and we appreciate the spirit of our budding cost accountants.

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 your preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to brush up their knowledge and also to swim across.

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

## Essentials for Preparation:

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

# SET THE GOAL

CMA Dr. Sreehari Chava
Director, Shantiniketan Business School, Nagpur
He can be reached at : sreeharichava@yahoo.co.in

**01.00 Goal**

A goal may be described as a desired result or possible outcome that a student envisions, plans and commits to achieve. It could be a personal goal or an organizational goal; It is the desired end-point for the visualised development. Many an individual endeavour to reach goals within a finite time by setting deadlines.


There are several individuals who assume as if they're adrift in the world. They work hard, but they don't seem to get anywhere worthwhile. A key reason that they feel this way is that they haven't spent enough time thinking about what they want from life, and haven't set themselves any formal goals. After all, would you set out on a major journey with no real idea of your destination? Probably not!

Goal setting is a powerful process for thinking about your ideal future, and for motivating yourself to turn your vision of this future into reality. The process of setting goals helps you choose where you want to go in life. By knowing precisely what you want to achieve, you know where you have to concentrate your efforts. You'll also quickly spot the distractions that can, so easily, lead you astray.

**02.00 The Need for Goals**

Here goes a popular narrative that highlights the importance of goal setting. In 1979 to 1989, a study was conducted in Harvard Business School where the MBA graduates of the school were asked "Have you set a clear, written goals for your future and made plans to accomplish them?"

- 3% of the graduates had written goals and a plan
- 13% had unwritten Goals
- 84% had no goals at all

Ten years later, in 1989, the researcher interviewed the respondents again and it was discovered; that the 13% who had unwritten goals were earning on an average, twice as much as the 84% of the students who had no goals; that the 3% who had clear, written goals when they left Harvard, were earning 10 times as much as the other 97% of the students.

The narrative clearly throws up the competitive edge that arises from well set goals. Top-level athletes, successful business-people and achievers in all fields do all have their goals set. Setting goals gives you long-term vision and short-term motivation. It focuses your acquisition of knowledge, and helps you to organize your time and your resources so that you can make the very best of your life.

By setting sharp, clearly defined goals, you can measure and take pride in the achievement of those goals, and you'll see forward progress in what might previously have seemed a long pointless grind. You will also raise your self-confidence , as you recognize your own ability and competence in achieving the goals that you've set.

**03.00 The Process of Setting Goals**

You set your goals on a number of levels through a systematized process:

- First you create your "big picture" of what you want to do with your life - or over, say, the next 10 years-, and identify the large-scale goals that you want to achieve.
- Then, you break these down into the smaller and smaller targets for the next 5 years, next year, next month, next week and toady that you must hit to reach your lifetime goals.
- Finally, once you have your plan, you start working on it to achieve these goals.

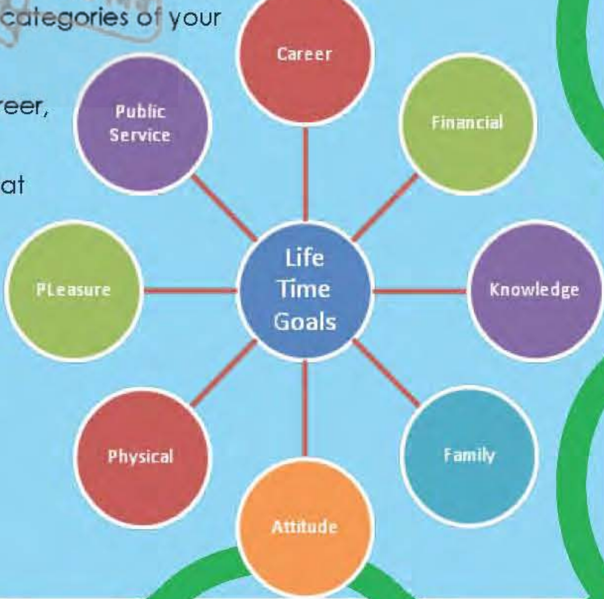

This is how we start the process of setting goals by looking at your lifetime goals. Then, we work them down to the things that you can do in, say, the next five years, then next year, next month, next week, and today, to start moving towards goals.

**04.00 Lifetime Goals**

The first step in setting personal goals is to consider what you want to achieve in your lifetime or at least, by a significant and distant age in the future. Setting lifetime goals gives you the overall perspective that shapes all other aspects of your decision making. In a way, life time goals reflect the vision of an individual.

To give a broad, balanced coverage of all important areas in your life, try to set goals in some of the following categories or in other categories of your own, as are considered important to you:

- **Career:** What level do you want to reach in your career, or what do you want to achieve?
- **Financial:** How much do you want to earn, by what stage? How is this related to your career goals?
- **Knowledge:** Is there any knowledge you want to acquire in particular? What information and skills will you need to have in order to achieve other goals?
- **Family:** What sort of partner you want? How are you going to be a good parent? How do you want to be seen by a partner or by members of your extended family?



- **Attitude:** Is any part of your mindset holding you back? Is there any part of the way that you behave that upsets you? If so, set a goal to improve your behavior or find a solution to the problem.
- **Physical:** Are there any athletic goals that you want to achieve, or do you want good health deep into old age? What steps are you going to take to achieve this?
- **Pleasure:** How do you want to enjoy yourself?
- **Public Service:** Do you want to make the world a better place? If so, how?

Spend some time brainstorming these things, and then select one or more goals in each category that best reflect what you want to do. Then consider trimming again so that you have a small number of really significant goals that you can focus on.

As you do this, make sure that the goals that you have set are ones that you genuinely want to achieve, not ones that your parents, family, or employers might want. If you have a partner, you probably want to consider what he or she wants – however, make sure that you also remain true to yourself! Crafting a personal mission statement can help bring your most important goals into sharp focus.

**05.00 Setting Smaller Goals**

Once you have set your lifetime goals, set a five-year plan of smaller goals that you need to complete if you are to reach your lifetime plan.Then create a one-year plan, six-month plan, and a one-month plan of progressively smaller goals that you should reach to achieve your lifetime goals. Each of these should be based on the previous plan.Then create a daily To-Do-List of things that you should do today to work towards your lifetime goals.

Smaller goals are reflective of mission on hand. At an early stage, your smaller goals might be to read books and gather information on the achievement of your higher-level goals. This will help you to improve the quality and feasibility of your goal setting.Finally review your plans, and make sure that they fit the way in which you want to live your life.

Once you've decided on your first set of goals, keep the process going by reviewing and updating your To-Do List on a daily basis.Periodically review the longer term plans, and modify them to reflect your changing priorities and experience. A good way of doing this is to schedule regular, repeating reviews using a digital diary.

**06.00 SMART Goals**

A useful way of making goals more powerful is to use the SMART mnemonic.There are many variations of what SMART stands for, but the essence is this – goals should be: Specific, Measurable, Attainable, Relevant, and Time Bound.


**06.01 Specific Goals**

Your goal must be clear and well defined. Vague or generalized goals are unhelpful because they don't provide sufficient direction. Remember, you need goals to show you the way. Make it as easy as you can to get where you want to go by defining precisely where you want to end up.

### 06.02 Measurable Goals

Include precise amounts, dates, and so on in your goals so that you can measure your degree of success. If your goal is simply defined as "To reduce expenses" how will you know when you have been successful? In one month's time if you have a 1 percent reduction or is it in two years' time when you have a 10 percent reduction? Without a way to measure your success you miss out on the celebration that comes with knowing you have actually achieved something.

### 06.03 Attainable Goals

Make sure that it's possible to achieve the goals you set. If you set a goal that you have no hope of achieving, you will only demoralize yourself and erode your confidence. However, resist the urge to set goals that are too easy. Accomplishing a goal that you didn't have to work hard for can be anticlimactic at best, and can also make you fear setting future goals that carry a risk of non-achievement. By setting realistic yet challenging goals, you hit the balance you need. These are the types of goals that require you to "raise the bar" and they bring the greatest personal satisfaction.

### 06.04 Relevant Goals

Goals should be relevant to the direction you want your life and career to take. By keeping goals aligned with this, you'll develop the focus you need to get ahead and do what you want. Set widely scattered and inconsistent goals, and you'll fritter your time – and your life – away.

### 06.05 Time-Bound Goals

Your goals must have a deadline. Again, this means that you know when you can celebrate success. When you are working on a deadline, your sense of urgency increases and achievement will come that much quicker.For example, instead of having "to sail around the world" as a goal, it's more powerful to use the SMART goal "To have completed my trip around the world by December 31, 2017." Obviously, this will only be attainable if a lot of preparation has been completed beforehand!

### 07.00 Achieving Goals

When you've achieved a goal, take the time to enjoy the satisfaction of having done so. Absorb the implications of the goal achievement, and observe the progress that you've made towards other goals.If the goal was a significant one, reward yourself appropriately. All of this helps you build the self-confidence you deserve.

With the experience of having achieved this goal, review the rest of your goal plans:

- If you achieved the goal too easily, make your next goal harder.
- If the goal took a dispiriting length of time to achieve, make the next goal a little easier.
- If you learned something that would lead you to change other goals, do so.
- If you noticed a deficit in your skills despite achieving the goal, decide whether to set goals to fix the deficit.

It is important to remember that failing to meet goals does not matter much, just as long as you learn from the experience. Feed lessons you have learned back into the process of setting your next goals.

Remember too that your goals will change as time goes on. Adjust them regularly to reflect growth in your knowledge and experience, and if goals do not hold any attraction any longer, consider letting them go.

Recall the example of Thomas Alva Edison. Edison was successful because he was creative and had a strong willingness to learn new things. He had a mastermind alliance with a group of experts, to bridge his weakness. He was also persistent in whatever he does. When he failed 10,000 times to perfect the electric light bulb, he did not treat it as 10,000 failures. To Edison, he discovered 10,000 ways that do not work!

**08.00 An Example of Personal Goal**

As a New Year's Resolution, Vijay has decided to think about what he really wants to do with his life. His lifetime Career Goal is set "To be the Managing Director of the Company that I work for."Now that Vijay had set his lifetime career goal, he then breaks down each one into smaller, more manageable goals.

Let's take a closer look at as to how Vijay might break down his lifetime career goal of becoming the managing director:

- Five-year goal: "Become General Manager."
- One-year goal: "Volunteer for projects that the current Managing Director is heading up."
- Six-month goal: "Go back to a management school and finish the research."
- One-month goal: "Talk to the current managing director to determine what skills are needed to do the job."
- One-week goal: "Fix the meeting with the Managing Director."

As you can see from this example, breaking big goals down into smaller, more manageable goals makes it far easier to see how the goal can get accomplished.

**09.00 The Five Golden Rules**

**09.01 Set Goals that Motivate You**


When you set goals for yourself, it is important that they motivate you: this means making sure that they are important to you, and that there is value in achieving them. If you have little interest in the outcome, or they are irrelevant given the larger picture, then the chances of you putting in the work to make them happen are slim. Motivation is key to achieving goals.

Set goals that relate to the high priorities in your life. Without this type of focus, you can end up with far too many goals, leaving you too little time to devote to each one. Goal achievement requires commitment. So to maximize the likelihood of success, you need to feel a sense of urgency and have an "I must do this" attitude.

When you don't have this, you risk putting off what you need to do to make the goal a reality. This in turn leaves you feeling disappointed and frustrated with yourself, both of which are de-motivating. And you can end up in a very destructive "I can't do anything or be successful at anything" frame of mind.

**09.02 Set SMART Goals**

The simple fact is that for goals to be powerful, they should be designed to be SMART. This concept has already been discussed in one of the previous sections.

**09.03 Set Goals in Writing**

The physical act of writing down a goal makes it real and tangible. Remember the saying: "Idea is just a dream until you write it down...Then it is a goal". You have no excuse for forgetting about it. As you write, use the word "will" instead of "would like to" or "might." For example, "I will reduce my operating expenses by 10 percent this year," not "I would like to reduce my operating expenses by 10 percent this year." The first goal statement has power and you can "see" yourself reducing expenses, the second lacks passion and gives you an excuse if you get side tracked. Post your goals in visible places to remind yourself every day of what it is you intend to do. Put them on your walls, desk, computer monitor, bathroom mirror or refrigerator as a constant reminder.

**09.04 Make an Action Plan**

This step is often missed in the process of goal setting. You get so focused on the outcome that you forget to plan all of the steps that are needed along the way. By writing out the individual steps, and then crossing each one off as you complete it, you'll realize that you are making progress towards your ultimate goal. This is especially important if your goal is big and demanding, or long-term.

**09.05 Stick to the Action Track**

Remember, goal setting is an ongoing activity and not just a means to an end. Build in reminders to keep yourself on track, and make regular time-slots available to review your goals. Your end destination may remain quite similar over the long term, but the action plan you set for yourself along the way can change significantly. Make sure the relevance, value, and necessity to remain high on your action track.

**10.00 Key Takeaways**

Goal Setting is an important method of:

- Deciding what you want to achieve in your life.
- Separating what is important from what is relevant, or a distraction.
- Motivating yourself.
- Building self-confidence, based on successful achievement of goals.

Set your life time goals first. Then, set a five-year plan of smaller goals that you need to complete if you are to achieve your life time plan. Keep the process going by regularly reviewing and updating your goals. And remember to take time to enjoy the satisfaction of achieving your goals when you do so. Adapt the Five Golden Rules as a way of life.

As you make this technique part of your life, you'll find your career accelerating as also stimulating.

**11.00 A True Inspirator**

Sandeep Singh Bhinder, is an Indian professional field hockey player and an ex-captain of the Indian National Team. He made his international debut in January 2004 in Sultan Azlan Shah Cup in Kuala Lumpur. He took over as the captain of the Indian national team in January 2009. At a time when he was at his peak, he was said to have the best speed in the world in drag flick (speed 145 km/h).

On 22 August 2006, Singh was seriously injured after being hit by an accidental gunshot in Shatabadi train, while on his way to join the national team due to leave for the World Cup in Germany two days later. He was almost paralyzed and on a wheelchair for two years of his life. Sandeep Singh Bhinder not only recovered from that serious injury, but also established himself again in the team.

Under his captaincy, the Indian team managed to clinch the Sultan Azlan Shah Cup in 2009 after defeating Malaysia in the finals at Ipoh. India won the title after a long wait of 13 years. Singh was also the top goal scorer of the tournament.

The India men's national Hockey team had qualified for the 2012 Summer Olympics in London after a gap of 8 years. The team had a resounding victory over France in the finals of the Olympic qualifiers by beating France 8–1. Ace drag-flicker Singh starred in the final against France by scoring five goals – including a hat-trick – all from penalty corners (19th, 26th, 38th, 49th and 51st minutes). Singh was the highest scorer of the Olympic qualifiers tournament by scoring 16 goals.

Sandeep Singh Bhinder had set his goal to become the best drag flicker; and to-date he is regarded as one of the best drag flickers of the game. A true inspirator-indeed!

**12.00 Quick Take**

**Hey budding Manager, Get up and Set Your Goal!**

**Resources**

1. Researched inputs by the faculty of Shantiniketan Business School, Nagpur
2. www.mindtools.com
3. www.wikipedia.org
4. www.skillsyouneed.com
5. www.helpguide.org
6. 10 Inspirational & Successful People Who Did Not Let Failure Define Them, Akanksha Prabhune, www.storypick.com, 12.04.2017

# Glimpses of National Students' Convocation - 2017 held on March 30, 2017 at Kolkata.



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