CMA STUDENTS' E-BULLETIN

INTERMEDIATE

VOL:2 NO: 6

JUNE, 2017 ISSUE

(SYLLABUS 2016)

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158

Behind every successful business decision, there is always a CMA

Message from the President

Dear Students,
Greetings,

Education is the ability to listen to almost anything without losing your temper or your self-confidence." — Robert Frost

We all acknowledge the importance of education, knowledge and truth for promoting the world outlook. Education is a must for global citizenship and such a person always works for the benefits of humanity. I personally believe that education produces citizens who are men of intellectual and moral integrity. Education aims at producing ideal human-beings. These people are truly cultured, wise, tolerant and public-spirited.

The more we learn, the easier learning becomes. Once our mind develops that aptitude for absorbing new facts it becomes much more efficient at learning things. A good education is useful in professional course as well and an all round education will get a person off to a good start in life.

I am happy to know that you are finding E-bulletins useful in your preparation and for that I must appreciate the effort taken by the Directorate of Studies. My sincere thanks go to all the eminent academicians; contributed in this issue of the bulletin.

I am sure all of you have come to know that the **Hon'ble President of India, Shri Pranab Mukherjee** has consented to be the **Chief Guest of the Global Summit 2017** to be held on 29th and 30th June, 2017 in Kolkata. **Hon'ble Governor of West Bengal Shri Keshari Nath Tripathi** and **Hon'ble Minister of State for Finance and Corporate Affairs, Govt. of India, Shri Arjun Ram Meghwal** will be the **Guests of Honour**.

Being the true Ambassador of your Institute I am asking you to please come and join in the programme and make it remarkable. Boost up your energy and participate in the programme whole-heartedly!

Best wishes,

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

Be a CMA, be a Proud Indian

Message from the Chairman

"When an idea exclusively occupies the mind, it is transformed into an actual physical or mental state" -Swami Vivekananda

Dear Students,

Hope, those who appeared in the June term of examination have done well. A truly educated man always seeks perfection. He is not a specialist who has perfected only his body or the intellect or the mind but one who seeks the development of all his faculties.

To face with all kinds of challenges in life you need to be educated. Education is important for the personal, social and economic development of the nation. Education is important to live with happiness and prosperity. The value of education and its significance can be understood from the fact that as soon as we are born, our parents start educating us about an essential thing in life.

In today's era, it is extremely important to know about the significance of a good education. A good education does not simply consist of getting a degree. It goes beyond that. Education provides the capability to know what is important for him, what is wrong and what is right. Through this course we are trying to offer you a comprehensive knowledge so that tomorrow you may combat with the challenges efficiently. After getting professionally qualified, you will be able to fight the various social evils and feels empowered to eradicate such problems too.

Thorough preparation in the subjects will help you and I feel the issues of E-bulletin are helping you in that way. Mock Test Papers are also giving you the needed impetus.

All of you must be knowing about the Global Summit,2017 to be held in Kolkata on 29th & 30th June, 2017. Please try to attend the Summit as the **Hon'ble President of India, Hon'ble Governor of West Bengal and Hon'ble Minister of State for Finance & Corporate Affairs, Government of India** has kindly consented to grace the occasion.

"Education is the passport to the future, for tomorrow belongs to those who prepare for it today".

Have a bright future ahead,

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

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GLOBAL SUMMIT 2017

Venue

Day - 1 (29th June 2017) 11.00 a.m.
Main Auditorium of Science City
JBS Haldane Avenue, Kolkata - 700046
&
Day - 2 (30th June 2017) 09.00 a.m.
Eastern Zonal Cultural Centre (EZCC)
IB-201, Sector-III, Salt Lake City
Kolkata - 700106

ACADEMIC & ECONOMIC REFORMS

Role of Cost & Management Accountants

CHIEF GUEST

Shri Pranab Mukherjee
Hon'ble President of India

GUESTS OF HONOUR

Shri Keshari Nath Tripathi
Hon'ble Governor of West Bengal

Shri Arjun Ram Meghwal
Minister of State for Finance and Corporate Affairs, Govt. of India

Organized by

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

Behind Every Successful Business Decision, there is always a CMA

Contents

Behind every successful business decision, there is always a CMA

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.

STUDENTS' E-bulletin Intermediate
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VOL: 2, No.: 6
JUNE, 2017 ISSUE

Group - I

PAPER: 5

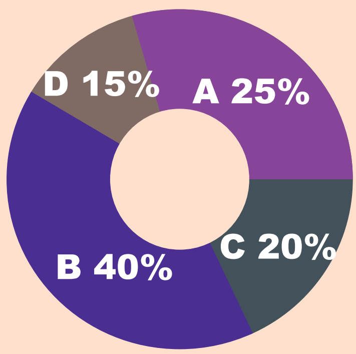
FINANCIAL ACCOUNTING (FAC)

CMA (Dr.) Nibir Goswami
Associate Professor in Commerce
Vidyasagar Mahavidyalaya, W.B.
He can be reached at:
drnibirgoswami@gmail.com

Your Preparation Quick Takes

Syllabus Structure

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



Behind every successful business decision, there is always a CMA

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

In the last issue we discussed about branch accounts. In this issue we will discuss about Departmental accounts. To provide service to the customers under one roof is the motto of departmental business. As like branch a department is also a profit centre. The basic objective of preparing departmental accounts is to know the profitability and operating result of each department separately. Identifying gross profit department wise is not a problem because the information relating to stock, purchase, sales etc are easily identifiable for each department. However, various operating expenses like rent, salary, insurance premium etc are common expenses and to be allocated between departments on some suitable bases.

Following table will help to get an outline of apportionment of such common expenses:

Sl. no	Common expenses	Bases of apportionment
1	All selling expenses : discount allowed, carriage outward, salesmen commission, provision for discount on debtors, salesmen salary etc.	Net sales
2	Rent rates and taxes	Area or floor space
3	Lighting	Light points
4	Insurance on stock	Average stock
5	Insurance on building	Area or value of building
6	Insurance of plant and machinery	Value of plant and machinery
7	Group insurance premium	Direct wages
8	Power	HP of machines, or HP x hours worked
9	Depreciation of asset	Value of asset
10	Repairs	Value of asset
11	Canteen expenses	Number of workers
12	Labour welfare expenses	Number of workers
13	Carriage inward	Purchase of each department
14	Works managers salary	Time spent in each department

While preparing departmental trading and profit and loss account one more important thing is to be carefully considered. That is inter departmental transfer. One department may transfer goods to other department at cost or at an inflated price. The following entry is to be passed for such transfer:

Receiving or transferee department A/C............ Dr {transfer price}

To supplying department or transferor department

The effect of such will be a contra entry in the departmental trading and profit and loss account. If the goods are transferred at cost no further adjustment is necessary. However if good are transferred at an inflated price the adjustment for unrealized profit on stock must be made because at the year end such goods may remain included in the closing stock. In that case following entry is to be passed :

General profit and loss a/c .... Dr

To provision for unrealised profit on stock

And at the beginning of the next year reverse entry will be passed as

Provision for unrealized profit on stock a/c.......Dr

To General profit and loss a/c

ILLUSTRATION :

A & Co has two departments P and Q. Department P sells goods to Department Q at normal selling prices. From the following particulars prepare departmental trading and profit and loss account for the year ended 31.03.2017 and also ascertain the net profit to be transferred to balance sheet :

	P	Q
Opening stock	500000	nil
Purchase	2800000	300000
Goods from P	Nil	800000
Wages	350000	200000
Travelling expenses	20000	160000
Closing stock at cost to the department	800000	209000
Sales	3000000	2000000
Printing and stationery	30000	25000

The following expenses incurred for both the departments were not apportioned between the departments

a. *Salaries 330000 b. advertisement expenses 120000, c. general expenses 500000 d. depreciation are to be charged @ 30 % on the machinery having value of 96000.*

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation are to be apportioned in the ratio 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio 3:1.

DEPARTMENTAL TRADING AND P/L ACCOUNT
For the year ended 31.03.2017

DR CR

Particulars	P	Q	Particulars	P	Q
To opening stock	500000		By sales	3000000	2000000
To purchase	2800000	300000	By goods transferred to dept Q	800000	
To goods from dept P		800000	By closing stock	800000	209000
To wages	350000	200000			

To gross profit	950000	909000			
	4600000	**2209000**			
To travelling expenses	20000	160000	By gross profit	950000	909000
To Printing and stationery	30000	25000			
To salaries (2:1)	220000	110000			
To advertisement expenses(3:2)	72000	48000			
To general expenses (3:1)	375000	125000			
To depreciation on machinery(1:3)	7200	21600			
To net profit	225800	419400			
	950000	**909000**		**950000**	**909000**
To provision for unrealized profit on closing stock		38000	By net profit		645200
To capital a/c(net profit)		607200	By provision for unrealized profit on opening stock		nil
		645200			**645200**

"Department P sells goods to Department Q at normal selling prices." – see carefully this line. It means that the goods are transferred at an inflated price but the percentage of profit is not given. Let us now find out the gross profit ratio of department P: GP/Sales x 100 = 950000/(3000000+800000)x100 = 25 %.
Note : Sales figure is considered to be 3000000 as a sale to outsiders and 800000 as a sale to the department Q. Hence 25 % profit is included in the sales made by P to Q.
Again the problem is also silent about the proportion of unsold stock included in the closing stock of Q transferred from P.
Total purchase of department Q is Rs. 1100000 and goods purchased from department P is Rs. 800000. Therefore, proportion of P department's stock lying in the Q department's stock is :
Purchase from dept P/total purchase of dept Q x total closing stock of dept Q
= 800000/1100000x209000 = Rs. 152000.
So, the amount of unrealized profit included in the stock is 25 % x 152000 = Rs.38000/-
Note : since there is no opening stock of department Q as well as the Gross Profit Percentage of previous year is also not given in the problem therefore provision for unrealized profit on opening stock is nil.
The above problem is given to cover most of the adjustments in departmental accounts. Keep solving similar types of problems from books as well as past terms questions. go through the suggested answers also.
Reference: Financial accounting: Haniff and Mukherjee, Financial accounting: Amitava Basu

With best wishes

VOL: 2, No.: 6
JUNE, 2017 ISSUE

Group - I

PAPER: 6

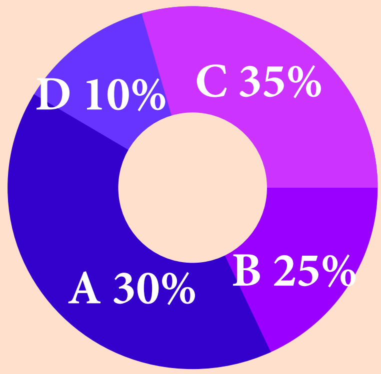
LAWS & ETHICS (LNE)

CMA Aditi Dasgupta
Dy. Director, Examination
She can be reached at:
exam.dd1@icmai.in

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

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

In continuation to our discussion regarding various facets of Sale of Goods Act, 1930, in this issue we would peep into the rules and its exceptions regarding 'transfer of title by non owners'. Section 27 to section 30 of the Sale of Goods Act, 1930, deals with the transfer of title by non owners.

As per section 27 of the Sale of Gods Act, 1930 a seller can sell only such goods for which he is an absolute owner or in other words only the absolute owner of the goods can transfer a good title. Thus if the seller himself does not have the title of the goods or has a defective title for the goods the buyer's title would be equally defective irrespective of the fact that the buyer was a bonafide purchaser for value. This rule is expressed by the maxim '*Nemo dat quod non habet'* which means that '*no one can give what he himself has not'*. Section 27 thus read as "subject to the provisions of the act and of any other law at the time in force, where the goods are sold by a person, who is not the owner, the buyer acquires no better title to the goods that what the seller had, unless the owner is precluded by his conduct from denying the seller's authority to sell". For e.g. A finds a ring of B and sells it to C who purchases it from A with value in bonafide. Since A does not have the title of the ring to pass, B can recover the ring from C.

But if this is followed rigidly then it may amount to heavy loss to the innocent and bonafide buyers. Having said this there are several exceptions to this rule. They are laid down in sections 27 to 30.

EXCEPTIONS TO THE RULE

1) **Sale by mercantile agent** – if a mercantile agent who is in possession of either of the goods or its title sells the goods in the ordinary course of business as a mercantile agent with the consent of the owner, the buyer gets a good title of the goods provided he buys in good faith and for value. In a case of Folkes v/s. King, a motor car agent sold the car at a price below that authorized by the seller, and misappropriated the proceeds , it was held that the innocent purchaser obtained a good title.

2) **Sale by a joint owner** (section 28) – if one of the several joint owners of a good has the possession of the goods with the consent of the other owners, the property of the goods can be transferred to a purchaser who purchases it in good faith and value and does not at the time of the contract for sale have the notice that the seller has no authority to sell the goods. For e.g. A and B are the co owners of a ring. While the ring was in possession of B, A secretly takes it away and sells it to C. Since A possessed the ring without the permission of B, C cannot get a good title of the ring.

3) **Sale by a person in possession under a voidable contract** (section 29) - a buyer would get a good title of the goods from the seller who has acquired it under a contract voidable on the grounds of fraud coercion or misrepresentation, provided the contract is not avoided until the sale takes place. For e.g. A by way of undue influence buys a car from B at a very low price and sells it to a innocent buyer C. Here C has a good title and B cannot recover it even if the contract is subsequently set aside.

4) **Sale by the seller in possession of goods after sale** (section 30) – where a seller continues to be in possession and or title of the goods even after a sale, and sells it to another buyer, the buyer will get a good title of the goods provided the second buyer acted in good faith and without notice of the previous sale. Two conditions are required to be fulfilled for this section to apply, namely –
   - ✓ The seller must be in possession of the goods as seller and not as any other capacity,
   - ✓ The purchaser must be a bonafide purchaser and for value.

5) **Sale by buyer in possession of goods** [section 30(2)] – where a buyer has obtained the goods with the consent

of the seller before the property of the goods has passed to him, the buyer may sell or dispose otherwise to a third person and if the third person obtains the goods in good faith without notice of the original seller's lien, he would get a good title of the goods. In this connection it is to be noted that a person in possession of goods under a hire – purchase agreement which gives him only an option to buy is not covered under within this section unless it amounts to a sale.

6) **Sale by an unpaid seller** – As per section 54 (3) of the Sale of Goods Act,1930, an unpaid seller who has exercised his rights of lien or stoppage in transit, can sell his goods to another buyer who shall hold a valid title of the goods, though no notice of such resale has been given to the original buyer .

7) **Exceptions under other acts** –

- ✓ A finder of the goods may sell the goods found if i) the owner cannot be found with reasonable diligence or ii) if the owner found but he refuses to pay lawful charges to the finder or iii) if the lawful charges mentioned is 2/3 of the value of the goods found or iv) if the goods are of perishing nature.
- ✓ Sale by a pawnee or pledgee
- ✓ Sale by an Official Receiver or Official Assignee or Liquidator of Companies

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.

Group - I

PAPER: 7

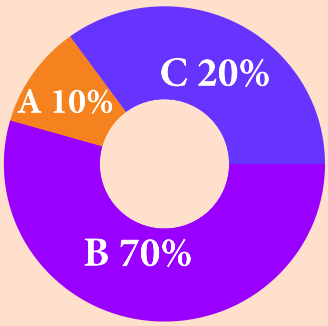
DIRECT TAXATION (DTX)

Dr. Sujit Kr. Roy
Associate Professor,
Goenka College of Commerce,
He can be reached at:
roysujitk@gmail.com

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%**



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.

Objectives:

In this brief note we shall study :

- The background of Equalization Levy
- The legislative back grounds
- After studying this one should be able to answer the following important questions :

(a) When was Equalization levy introduced ?

(b) Who are liable to pay this tax ?

(c) What is the rate of Equalization levy ?

(d) what is the meaning of specified services on which this tax is imposed ?

(e) When Equalization Levy is not chargeable ?

(f) When the return of Equalization levy is to be submitted ?

(g) What is the penal provision for not furnishing return ?

(h) What is the time limit for rectification of mistakes ?

(i) What is the rate of interest for non-payment or delayed payment of Equalization Levey ?

(j) What is the punishment for false return ?

Introduction :

As the world is now like a global village, the ubiquity of electronic commerce is now beyond question. People are now seamlessly connected and trade and commerce has spread overarching the physical boundaries. In short, the digital economy is robustly in place and it is likely to overtake the physical trade and commerce in no time. In consequence, it is now possible for the businesses to have significant participation in the economic life of another country without any physical presence.

The problem of market distortion and direct tax issues

However, the digital economy is not an unmixed bag of boons. There are many economic and taxation issues which could be ignored when the size of the digital economy was small. But now these digital enterprises have acquired significant space in global economy, and as per current and anticipated trends, their proportion in the total economy will continue to rise.

One, out of the several concerns, of the digital economy is the tax implications for the digital economy. The tax administration in every country wants to be neutral to the various forms of business. But under the present system this tax neutrality is being violated in the absence of any effective mechanism to rope in the digital enterprises within the tax net. Thus, while a purely domestic enterprise is taxed at the marginal tax rate under the domestic laws, a multinational enterprise may not be taxable at all in the country of source due to the ability of digital enterprises to conduct their business through digital and telecommunication networks without requiring any physical presence in the country of source. However, Equalization Levy, which has been introduced by the Finance Act 2016 with effect from 1.6.2106, provides a simpler option that can be adopted under domestic laws without needing amendment of a large number of tax treaties.

The basic provisions of related to Equalization Levy are as under:

- As introduced by the Finance Act 2016, Chapter VIII (Sections 163 – 180 of the Finance Act 2016) contains the provisions relating to the Equalization Levy.
- The rate of Equalization Levy is 6 percent.
- The Levy is charged on the amount of consideration for any *specifiedservice* received or receivable by a non-resident from:

(I a person resident in India and carrying on business or profession; or

(ii) a non-resident having a permanent establishment in India

- Specified service means online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other service as may be notified by the Central Government in this behalf.
- Equalization levy is not chargeable when the amount of aforesaid service does not exceed Rs. 1 lakh or the non-resident providing the specified service has a permanent establishment in India.
- A Return in accordance with Rule 1 of the Equalization Levy Rules 2016 is to be furnished electronically under digital signature or with digital verification code.
- A rectification of the Return is possible within one year from the end of the financial year in which the intimation sought to be amended was issued.
- A delayed payment of Equalization Levy attracts penal interest @1% every month or part of a month by which such crediting of the tax or any part thereof is delayed.
- A penalty equal to the amount of Equalization Levy is chargeable on failure of the assessee to deduct Equalization Levy; On the other hand, if after collection of the Levy, it is not deposited, a penalty of one thousand rupees for every day during which the failure continues.
- A failure to furnish Statement of Equalization Levy attracts a penalty of one hundred rupees for each day during which the failure continues.
- A false return is punishable with an imprisonment up to 3 years and fine.

Group - I

PAPER: 8

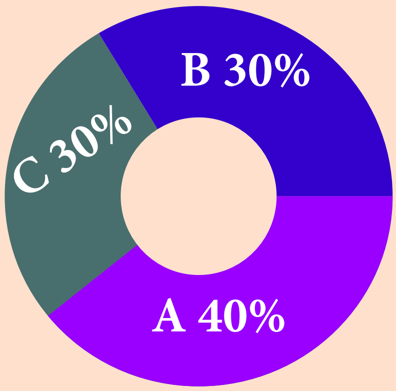
COST ACCOUNTING (CAC)

CMA (Dr.) Subir Kr. Datta
Principal,
Kshudiram Bose Central College,
He can be reached at:
duttasubirkumar1958@gmail.com

Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

In modern times of actual competition and complexities, an effective cost accounting system is an integral part of the management for efficient running of the business. Cost Accounting , by exercising control over the entire business operations, enables management to eliminate wastages, leakages, increase efficiency and productivity, achieve economies and helps decision making by suitably fixing prices in case of competition, trade depression, idle capacity with a view to maximizing the gains or minimizing the losses. This paper is a scoring paper out of the eight papers in the intermediate course of the Institute of Cost Accountants of India. It is observed from the past experience that 65% to 75% of the total questions are set from practical problems and the balance is theoretical part. Although only 25% questions are set from theoretical part, but a great emphasis should be given on theoretical part as most of the students are very much weak in theory. Hence, go through the theory very carefully for easy understanding the topic and then try to solve the exercise problems. Start from Chapter one and try to understand the other chapters serially as this will enable you to understand the succeeding chapters in a better way.

Don't forget this is a professional examination. So, emphasis should be given mainly on testing comprehension, self expression and managerial ability to apply knowledge in divergent situation. Chances of repetition of questions are normally avoided. The true success of these examination mainly depends on style of preparation which should have, perseverance, regularity of efforts, through practice, vision and objectively.

Based on my personal experience following tips may be suggested for the examinees –

1. A well defined plan for completing the whole syllabus as well as revision.
2. Go through your Study Note and know the complete syllabus. Remember all chapters are interlinked.
3. Analyse the trends of setting questions by taking at least ten terms.
4. Time schedule with specified activities is very much essential for time-management.
5. Clarity or concepts is different from cramming which exerts avoidable strain on the students.
6. Write down all the important terms in your own words and read them regularly.
7. Improve your speed by regular practice and revision.
8. Finally , try to develop a habit of reading the questions well , underlining and understanding the specific requirements.
9. Always try to answer all objective type questions as practice, which carries 100% marks.

As per your study material, your 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 thoroughly. The three major elements of costs are – material, labour and overheads. In this chapter cost concepts are discussed and analyzed element-wise. Material consists of the major part of total cost of a product, hence it is necessary to control this cost. You must read the scope and objectives of different Cost Accounting Standards. 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, 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. It's a lengthy process.

This chapter relates to Contract Costing only Job/Batch/Contract Costing is very important for the Intermediate examinations. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. Make sure that you are familiar with various methods/formulae for different stage of completion and share of profit. Students are also advised to be through on the topic "Profit on incomplete contracts based on SSAP – 9". Various problems on 'exaltation clause' used to be set at this level of examination. Generally full credit is expected by solving the problem.

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. Finding out the 'Composite Unit' is very important for finding the solution of these type problems.

The next chapter 'Marginal Costing' aims to find out cost-volume-profit relationships of a product. This is an important chapter from the student's perspective. Students should understand the concepts. Uses, needs and importance of 'Marginal Costing' carefully. The main thrust should be to follow the wording and determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basic part for solving the problem. For a product of different sales-mix, contribution per unit of key-factor should be found out and then different options should be marked on the same basis, i.e. contribution per unit of key factor. Here you should also study the effect on profits due to various changes, in Fixed Cost/ Variable Cost/ selling price/ sales-mix and again the effect of the above on BEP, Margin –of-safety. More than one problem is generally set from this chapter. Hence, various types of problems should be worked out for easy understanding.

The chapter 'Variance Analysis' helps the management to fix responsibility for each department and to identify the activities or areas of exceptions. Any problem on standard cost for working out different variances can be worked out by using a standard format applicable to all variance analysis. The 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.

The next chapter is related to 'Budget and budgetary control'. The term budget can be expressed as a pre-determined plan of action in details. Budgetary control requires preparation of 'Flexible Budget', 'Functional Budgets' and 'Cash Budget' for taking necessary actions. Both 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.

It is the general trend of the market to increase cost of production. Simultaneously it is also the practice of the producer to maintain at least same percentage of profit. In such a situation the cost accountant has to play a vital role. Now we are going to solve a problem of this type under Marginal Costing Chapter –

ABC Co. currently sells their product at a cost of Rs. 35000/-. Increase in price of material and labour cost is anticipated to the extent 10% and 15% respectively in the coming year 2018. The present Material cost represents 40% of cost of sales and labour cost 30% of cost of sales. The remaining relate to overheads. If the existing selling price is retained despite the increase in material and labour prices, the company would face a 20% decrease in the existing amount of profit on the product.

You are required to arrive at a selling price so as to give the same percentage of profit on increased cost of sales, as before.

Prepare also a statement of profit / loss per unit, showing the new selling price and cost per unit in support of your answer --

For solving this particular type of problem, some workings to be done at the earlier stage.

(i) As per given problem, we know that –

Existing material cost	= 40% of cost of sales.
Existing labour cost	= 30% of cost of sales
Existing Overhead cost (rest) (balance%)	= 30% of cost of sales
	= 100%

(ii) **Anticipated increase in cost of sales would be as under** :-

Material	= 10% of existing 40% = 4%
Labour	= 15% of existing 30% = 4.5%
and the Over head	-- No Change
Hence, total increase	= 4% + 4.5% = 8.5%

(iii) **Anticipated decrease in Profit** -- 20%

(iv) Let, cost of sales = x, and Profit = y

therefore x+y = Rs. 35000/- ……………. (i)

It is given that cost increase is equal to 20% of profit.

therefore 8.5 % of x = 20% of y

$$\text{or } x = \frac{.20}{0.085}\, y \qquad \ldots\ldots\ldots\ldots\ldots\ldots\text{(ii)}$$

By putting the values of (i) in (ii)

$$\frac{0.20}{0.085}\, y + y = \text{Rs. } 35000.00$$

or, y = Rs. 10439.00

Therefore existing profit	= Rs. 10439.00
Existing cost of sales	= Rs. 35000.00 – Rs. 10439.00 = Rs. 24561.00
Existing material cost	= Rs. 24561.00 x 0.40 = Rs. 9825.00
Existing labour cost	= Rs. 24561.00 x 0.30 = Rs. 7368.00
Existing overhead cost	= Rs. 24561.00 x 0.30 = Rs. 7368.00
	Rs. 24561.00

Therefore % of profit to cost of Sales = (10439 / 24561) x 100 = 42.5%

(v) **Anticipated cost of Sales is as under --**

Material = 1.10 x Rs. 9825	= Rs. 10808
Labour = 1.15 x Rs. 7368	= Rs. 8473
overhead = Same as before	= Rs. 7368
	Rs. 26649

Anticipated profit on cost of sales = 425 %

Hence, **anticipated profit** = 26649 x 0.425 = Rs. 11326.00

Now as per requirement **statement** should be Prepared showing profit under changed condition -

	Existing	**Revised**
Selling Price	Rs. 35000.00	Rs. 37975.00
Less Elements of Cost (working)		
Materials	Rs. 9825.00	Rs. 10808.00
Labour	Rs. 7368.00	Rs. 8473.00
Overhead	Rs. 7368.00	Rs. 7368.00
	Rs. 24561.00	Rs. 26649.00
Profit	Rs. 10439.00	Rs. 11326.00
% of Profit on Cost of sales	42.5%	42.5%

Group - II

PAPER: 9 PART - i

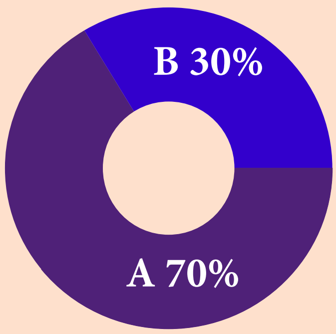
OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - OPERATIONS MANAGEMENT

CMA Ankan K Bandyopadhyaya
He can be reached at:
abanerjee8533@gmail.com

Your Preparation Quick Takes

Syllabus Structure

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

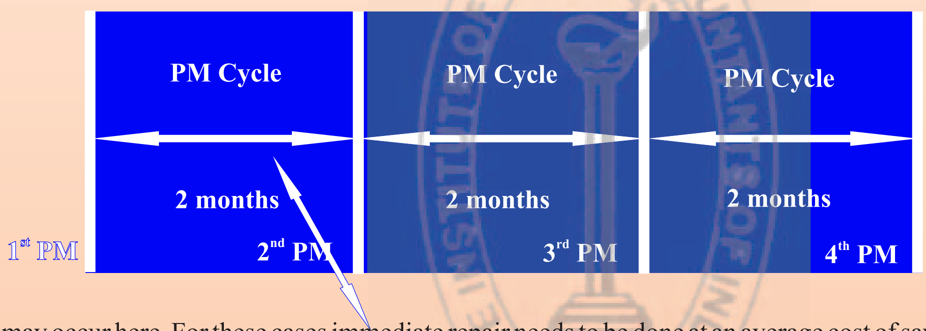


Learning Objectives:

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

This time we will discuss on Preventive Maintenance Policy (PMP) vs. Repair Policy (RP)

Preventive maintenance policy provides, after machines & equipment run for a fixed time, for inspections and replacement of weak parts if required.
The fixed time interval is called Preventive maintenance cycle *(PM cycle)* like PM cycle for 1 month, PM cycle for 2 months, PM cycle for 1 year etc.
PM cycle for 2 months mean particular machine or equipment, after a run of 2 months, will be inspected and replacement of weak parts if any.
PM cycle requires an average cost say C_{PM}.
But breakdowns may occur on the particular machine or equipment before completion of the 2 months i.e. before completion of PM cycle. That is situation may be like following:



Breakdowns may occur here. For these cases immediate repair needs to be done at an average cost of say C_R. This is Repair cycle.
Therefore management has to take decision whether a Preventive Maintenance policy would be a better option than simply repairing each machine when it breaks down.
To have this decision management needs probability distribution of the time between machine breakdown and the length of the standard PM cycle.
Let us take following examples to understand how management takes decision on the issue.

Q1.

Assume the following three breakdown probability distribution

Month following Maintenance	Probability of Breakdown		
	(1)	(2)	(3)
1	0.5	0.1	0.1
2	0.1	0.1	0.1
3	0.1	0.1	0.5
4	0.1	0.1	0.1
5	0.1	0.2	0.1
6	0.1	0.4	0.1

Which, if any, of these distributions lend themselves to a preventive maintenance program? Why?

Ans:

Policy 1:

Month following Maintenance (i)	Probability of Breakdown	Average free run time
	(p)	($I* p$)
1	0.5	0.5
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.1	0.5
6	0.1	0.6
		$\sum$ 2.5months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 2.5 months 1 breakdown
So for 1 machine in 1 month (1/2.5) breakdown
So for 100 machines in 1 month (100/2.5) = 40 breakdowns

Policy 2:

Month following Maintenance (i)	Probability of Breakdown (p)	Average free run time ($I* p$)
1	0.1	0.1
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.2	1.0
6	0.4	2.4
		$\sum$ 4.4months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 4.4 months 1 breakdown
So for 1 machine in 1 month (1/4.4) breakdown
So for 100 machines in 1 month (100/4.4) = 22.73 breakdowns
Policy 3:

Month following Maintenance (*i*)	Probability of Breakdown (*p*)	Average free run time (*i* * *p*)
1	0.1	0.1
2	0.1	0.2
3	0.5	1.5
4	0.1	0.4
5	0.1	0.5
6	0.1	0.6
		$\sum$ 3.3months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 3.3 months 1 breakdown
So for 1 machine in 1 month (1/3.3) breakdown
So for 100 machines in 1 month (100/3.3) = 30.30 breakdowns

Preventive maintenance programs are generally applicable to breakdown distributions with low variability. Policy 2 has the lowest variability as no of breakdowns in a month for a pool of say 100 machines are 22.73---the lowest among three policies.

Therefore we may conclude that policy 2 could lead to a preventive maintenance program.

Q2.

Refer Q1. Let us take Average Repair Cost on breakdown C_R = Rs. 90 & Cost of Preventive maintenance C_{PM} = Rs. 30
Could you prove your conclusion given in A1 for a pool of 100 machines?

Ans:

Repair Policy Cost of Policy 1 = Average number of repairs per month X Average repair cost on breakdown = 40 X 90 = Rs. 3600

Data taken from Ans 1.

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles : Table-I

Preventive Maintenance Cycle (n) , months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x Rs 90)	Expected Monthly PM Cost (Rs.30 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	50	50	4500	3000	7500
2	85	42.5	3825	1500	5325
3	117.5	39.17	3525.3	1000	4525.3
4	152.25	38.06	3425.4	750	4175.4
5	191.38	38.28	3445.2	600	4045.2
6	236.16	39.36	3542.4	500	4042.4

Computation of Col.2:

Month 1: 100*0.5 =50
Month2: 100*(0.5+0.1) +50*0.5 = 85
Month3: 100*(0.5+0.1+0.1) + 50*0.1 +85*0.5 = 117.5
Month4: 100*(0.5+0.1+0.1+0.1) + 50*0.1+85*0.1+117.5*0.5 = 152.25
Month5: 100*(0.5+0.1+0.1+0.1+0.1) +50*0.1+85*0.1+117.5*0.1+152.25*0.5 = 191.38
Month6: 100*(0.5+0.1+0.1+0.1+0.1+0.1) +50*0.1+85*0.1+117.5*0.1+152.25*0.1+191.38*0.5 = 236.16

Graphical Representation Policy 1:

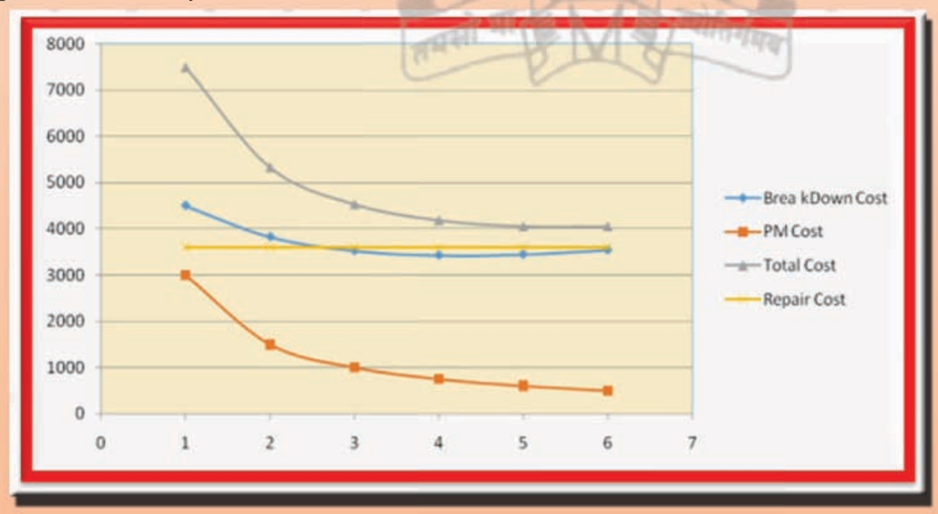


Fig -I

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Repair Policy Cost of Policy 2 = Average number of repairs per month X Average repair cost on breakdown = 22.73 X 90 = Rs. 2045.7

Data taken from Ans 1.

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles

Preventive Maintenance Cycle (n) , months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x Rs. 90)	Expected Monthly PM Cost (Rs. 30 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	10	10	900	3000	3900
2	21	10.5	945	1500	2445
3	33.1	11.03	992.7	1000	1992.7
4	46.41	11.60	1044	750	1794
5	71.05	14.21	1278.9	600	1878.9
6	119.16	19.86	1787.4	500	2287.4

Computation of Col.2:

Month 1: 100*0.1=10
Month2: 100*(0.1+0.1) +10*0.1 = 21
Month3: 100*(0.1+0.1+0.1) + 10*0.1 +21*0.1 = 33.1
Month4: 100*(0.1+0.1+0.1+0.1) + 10*0.1+21*0.1+33.1*0.1 = 46.41
Month5: 100*(0.2+0.1+0.1+0.1+0.1) +10*0.1+21*0.1+33.1*0.1+46.41*0.1 = 71.05
Month6:100*(0.4+0.2+0.1+0.1+0.1+0.1)+10*0.2+21*0.1+33.1*0.1+46.41*0.1+71.05*0.1= 119.16

Graphical Representation Policy 2:

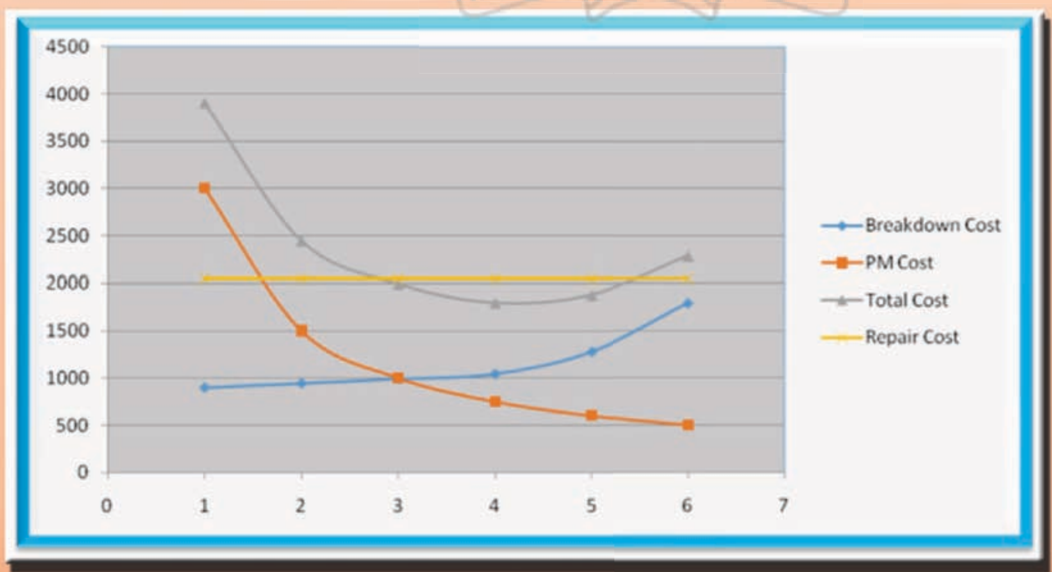

Fig -II

Repair Policy Cost of Policy 3 = Average number of repairs per month X Average repair cost on breakdown = 30.30 X 90 = Rs. 2727

Data taken from Ans 1.

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles

Preventive Maintenance Cycle (n) , months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x Rs. 90)	Expected Monthly PM Cost (`30 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	10	10	900	3000	3900
2	21	10.5	945	1500	2445
3	73.1	24.37	2193.3	1000	3193.3
4	94.41	23.60	2124	750	2874
5	118.25	23.65	2128.5	600	2728.5
6	160.92	26.82	2413.8	500	2913.8

Computation of Col.2:

Month 1: 100*0.1=10
Month2: 100*(0.1+0.1) +10*0.1 = 21
Month3: 100*(0.5+0.1+0.1) + 10*0.1 +21*0.1 = 73.1
Month4: 100*(0.1+0.5+0.1+0.1) + 10*0.5+21*0.1+73.1*0.1 = 94.41
Month5: 100*(0.1+0.1+0.5+0.1+0.1) +10*0.1+21*0.5+73.1*0.1+94.41*0.1 = 118.25
Month6:100*(0.1+0.1+0.1+0.5+0.1+0.1)+10*0.1+21*0.1+73.1*0.5+94.41*0.1+118.25*0.1= 160.92

Graphical Representation Policy 3:

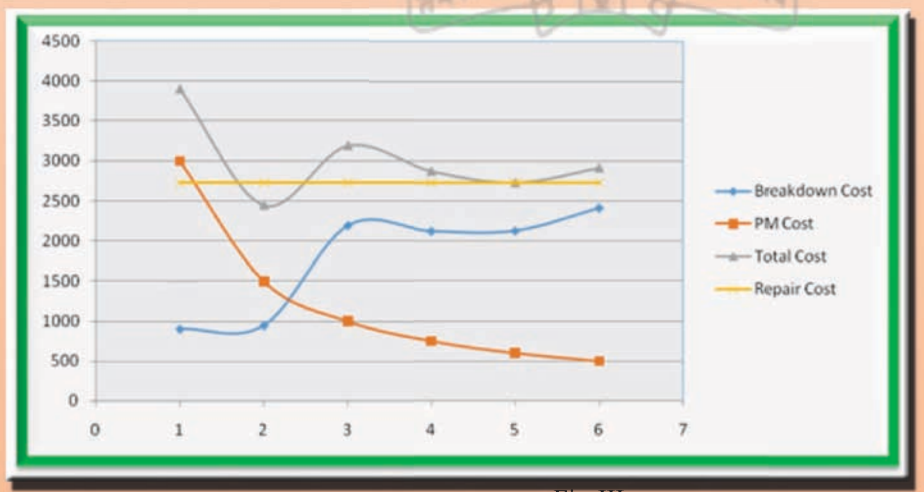

Fig-III

If we refer three graphs it is clear that –

Under Policy 1 (Fig –I) Repair cost Rs. 3600 is always less than cost of all PM cycles -Refer Col.6 of Table-I. Therefore if breakdown

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probability distribution is like under Policy 1, management will opt for policy of repairing machine when it breaks down.

Under Policy 2 (Fig –II) PM cycle of 4 months with the cost of Rs.1794 - Refer Col.6,Row 4 of Table-II, is less than Repair cost Rs. 2045.7. Therefore if breakdown probability distribution is like under Policy 2, management will opt for PM policy of 4 months instead of going for policy of repairing machine when it breaks down. This way management can save Rs. 251.7

On similar logic Under policy 3 PM is preferable to Repair as and when required policy. But in comparison to policy 2, policy 3 is inferior as

Repair cost under policy 2 - Rs. 2045.7 < Repair cost under policy 3-Rs. 2727
PM policy Cost under policy 2 - Rs. 1794 < PM policy Cost under policy 3 - Rs. 2445

The decision concerning preventive maintenance versus Repair depends on i) factor costs C_R and C_{PM} ii) the breakdown probability distribution; besides other sensitivities.

Suggestions:

The study notes need to be read thoroughly. Proper theoretical understanding on the issue is most important to tackle the preventive maintenance cases. Numerical problems given in study notes needs to be practiced. Procedures for finding "Expected breakdowns under PM cycle" need to be properly understood. For supplementary readings one can refer Modern Production/Operations Management by Buffa and Sarin. Attempts here are made to clearly explain decision making problems between PM cycle and Repairs cycle. Ideas are made here purely from guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on Syllabus -16. Students should also attempt additional numerical problems from the referred book on their own instead of memorizing. For better clarity on could do these sorts of problems in "EXCEL" changing breakdown probability distribution figures and factor costs-C_R & C_{PM}. This way graphs could be nicely interpreted.

Best Wishes

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Group - II

PAPER: 9 PART - ii

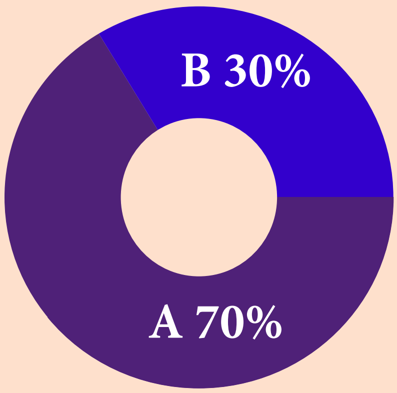
OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - STRATEGIC MANAGEMENT

CMA Aditi Dasgupta
Dy. Director, Examination
She can be reached at:
exam.dd1@icmai.in

Your Preparation Quick Takes

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.

CONTINGENCY PLANNING

Uncertainty is inherent in any business which cannot be negated. It may so happen in a business situation that the strategic planners fail to assess the outcome with accuracy since it is hard to predict or define the future or the result of any proposed course of action. Since there may be multiple alternatives to achieve the outcome, strategists cannot sometimes predict the probability of the desired outcome. In this modern dynamic world when things are changing so fast, every business has the possibility of facing situations that might affect the business adversely and a delayed or poor response to such an impact on operations can be fatal and long term in terms of loss of business, loss of customers, data etc. Contingency planning is done to address such mentioned situations.

Contingency planning is about developing responses in advance for various situations that might have an impact on the business and its functioning. The basic premise of strategic management is that businesses plan in advance ways to deal with both favorable and unfavorable situations that may arise in future so that the operations are not disrupted and they find themselves equipped to fight with any unforeseen events. It is often mistaken that contingency planning is only for the rainy days i.e. for negative situations but a good contingency plan should also address positive situations that impact a business for e.g. receipt of a bulk order for which the firm is technically not equipped to handle etc.

Contingency plans are developed to help any company face any unforeseen event both good or bad which might have substantial effect in the organization. It is a 7 step process that must be conclusively undertaken to achieve maximum effectiveness and efficiency. In order to develop a focused, practical and full proof contingency plan, all the key members of the organization must actively participate in identifying key processes and operations necessary to secure seamless & uninterrupted flow of operations and long term survival of the business.

THE 7 STEP PROCESS OF CONTINGENCY PLANNING-

1) **Identify the unfavorable events & benefits** – the worst case scenarios are analyzed in this step by the team to understand and identify the uncommon and negatives events. The counter measures to be undertaken along with the probable adverse effects are identified through thorough analysis. This step helps in reducing indecision and uncertainties.

2) **Specify trigger points**- the potential risks thus identified in the first step are reviewed in this step and instances when the contingent actions should be effected are identified in this step.

3) **Assess the impact & potential harm or benefit estimation** – in this step the impacts of the identified unfavorable events are assessed and the potential harm and/or benefits of those events are estimated comprehensively.

4) **Develop contingency plan** – strategies should be developed in this stage to counter and tackle the unforeseen events. The contingency plans thus developed must be made with great precision and care so that it fits with the company's current strategy and is also economically feasible.

5) **Assess the counter impacts** – in this step the capacity of each plan to mitigate the risks arising out of the unforeseen events are analyzed and quantified and plug the loopholes in such plans. This helps in strengthening each plan even more.

6) **Determine and monitor early warning signs** – the plan managers should be alert and cautious to identify and effectively handle the signs of occurrence of the events.

7) **Communicate** – The plans those identified and mapped are to be communicated to all members responsible to take action during the occurrence of the contingent event.

Since contingency plans are used as an alternative in case the expected results fail to materialize for a predetermined action, it is also termed as 'Plan B'. Contingency planning helps the organization in minimizing the loss and preventing the panic and hence its importance cannot be overemphasized.

"The great test lies not in the crisis itself but in the ways we respond" – Steve Forbes

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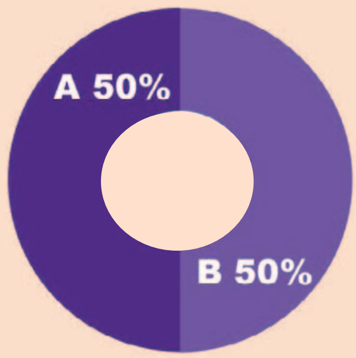
Group - II

PAPER: 10

COST & MANAGEMENT ACCCOUNTING AND FINANCIAL MANAGEMENT (CMFM)

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

Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

The paper Cost & Management Accounting and Financial Management (Group II; Paper 10) is a unique blend of theoretical elaborations and practical illustrations. The aim of this paper is to equip the students with a working level knowledge regarding the two disciplines and prepare a ground for a few advanced level papers like Strategic Financial Management (Final Group 3: Paper 14), Strategic Cost Management decision Making (Final Group 3:Paper 15) and Strategic Performance Management and Business Valuation (Final Group 4: Paper 20) in the CMA Final Course. The entire syllabus of the paper is segregated into two segments namely Cost & Management Accounting (Section A: Full Marks 50) and Financial Management (Section B: Full Marks 50). Each of the individual sections has further been divided into five chapters each highlighting a specific aspect of the subject concerned. In this section of e- bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

Chapter 10: Capital Budgeting:

Time Adjusted Methods:

Unlike Traditional Methods, these methods consider time value of money. These are also known as Discounted Cash Flow Based Techniques. As mentioned in our earlier issue, these methods include –

1. Net Present Value Method
2. Profitability Index Method
3. Internal Rate of Return Method
4. Discounted Payback Period Method
5. Terminal Value Method

In this issue we shall try to cover some relevant aspects relating to these methods.

1. Net Present Value (NPV) Method:

NPV is defined as the excess of present value of cash inflows in any investment project over and above the present value of cash outflows in that project. In other words, NPV = PV of Cash Inflows – PV of Cash Outflows.

i.e. NPV = $\sum_{t=1}^{n} \frac{CI_t}{(1+K)^t}$ - $\sum_{t=1}^{n} \frac{CO_t}{(1+K)^t}$ where, CI_t = Cash inflow for the period t, CO_t = Cash Outflow for the period t and K = Appropriate discounting rate.

However, in case of projects with single cash outflow, if cash is invested only initially, the above formula may be modified as

NPV = $\sum_{t=1}^{n} \frac{CI_t}{(1+K)^t}$ - I_0 where I_0 = Initial Investment

Example 1: Consider the following information:

Initial Investment Rs. 50000; Life of the project is 5 years. Cost of capital 10%.

Cash flows estimated: Rs. 18000, Rs. 15000, Rs. 12000, Rs. 10000, Rs. 8000.

Calculate NPV.

Solution:

Calculation for NPV

Year	CF (Rs.)	PVIF (10%)	PVCF (Rs.)
1	18000	0.909	16362
2	15000	0.826	12930
3	12000	0.751	9012
4	10000	0.683	6830

5	8000	0.621	4968
Total PV			50102
(-)Initial Investment			50000
NPV			102

Decision Rule:
Single Project: A project is accepted if its NPV is positive and rejected if the NPV is negative. For a project with NPV equals to zero, the decision maker remains indifferent.
For example, in example 1, the investment project is having a positive NPV of Rs. 102. Hence it may be accepted.
Mutually Exclusive Projects: Here the project with highest NPV is selected.
Consider the following example.
Example 2: The following information is available in respect of two projects A and B.

Particulars	Project A	Project B
NCF (Rs.)	10000	12000
Life in years	5	6
Initial Investment (Rs.)	35000	50000
Cost of Capital	10%	10%

Calculate NPV and advise the management.
Solution:
Calculation of NPV

Particulars	Project A	Project B
NCF (Rs.)	10000	12000
PVIFA at 10%	PVIFA (10%,5) = 3.79	PVIFA (10%,6) = 4.35
PVCF (Rs.)	10000*3.79 = 37900	12000*4.35 = 52200
Initial Investment (Rs.)	35000	50000
NPV (Rs.)	2900	2200

Since NPV is higher for Project A, it is acceptable.
2. Profitability Index Method: Since NPV is an absolute measure, it may not be suitable in case the projects differ significantly in respect of the initial investment. In such a situation, Profitability Index method may be helpful.

PI is calculated by the following formula:

$$PI = \frac{\textit{Present value of Cash inflow}}{\textit{Present value of Cash outflow}}$$ (in case multiple cash outflow projects) or,

$$= \frac{\textit{Present value of Cash inflow}}{\textit{Initial outlay}}$$ (in case single initial cash outflow projects)

This method is also known as Benefit-Cost Ratio method.

Example 3: Please refer to example 1. Calculate Profitability Index.

Solution:

$$\text{Profitability Index} = \frac{\textit{Present value of Cash inflow}}{\textit{Initial outlay}} = \frac{50102}{50000} = 1.00204.$$

- **Decision Rule:**

Single Project: A project is accepted if its PI is more than one and rejected if the PI is less than one. For a project with PI equals to one, the decision maker remains indifferent. For example, in example 3, the investment project is having a PI of 1.00204. Hence the project may be accepted.

Mutually Exclusive Projects: In case of mutually exclusive projects, the project with highest PI is selected.

Consider the following example.

Example 4: Please refer to example 2. Calculate PI for the projects and advise the management.

Solution:

Calculation for PI

Particulars	Project A	Project B
PVCF (Rs.)	37900	52200
Initial Investment(Rs.)	35000	50000
PI	1.083	1.044

Since PI is higher for project A, it is accepted.

3. Internal rate of Return (IRR) Method:

IRR is defined as the rate of discount at which the total present value of cash inflow will be exactly equal to the initial investment (in case of single initial cash outflow projects) or the total present value of cash outflow ((in case multiple cash outflow projects).

Symbolically, if IRR is denoted as 'r', then at 'r'

(a) $\sum_{t=1}^{n} \frac{CI_t}{(1+r)^t} = I_0$ (in case of single initial cash outflow projects); and

(b) $\sum_{t=1}^{n} \frac{CI_t}{(1+r)^t} = \sum_{t=1}^{n} \frac{CO_t}{(1+r)^t}$ (in case multiple cash outflow projects).

Steps to Calculate IRR:

IRR calculation involves the following steps –

1. Calculate the modified or fake payback period by the following formula

   Fake payback period

   $$= \frac{\textit{Initial investment}}{\textit{Average Annual Cash inflow}}$$

2. Go across the 'n' th year (n = life of the project) row of the PVIFA (present value interest factor of an annuity) table and search a value nearest to the value of the fake payback period.
3. Identify the rate corresponding to the value. This may be considered as the first trial rate.

4. Increase the trial rate if the NPV is positive and reduce the same if the NPV is negative. If at any trial rate NPV becomes zero, it is the IRR.
5. In case exact match is not available consider two rates (preferably with a gap of one percentage only, in order to get better approximation) one with a positive value of NPV and the other with a negative value of NPV. IRR is expected to lie in between the two rates.
6. Apply simple interpolation technique to find out the exact IRR.

Consider the following example:
Example 5: M Ltd. is considering the following information in respect of a project:
Initial Outlay Rs. 22000. Project Life 4 years.
Cash inflow from the project:

Year	1	2	3	4
Cash Inflow (Rs.)	12000	4000	2000	10000

Calculate IRR of the project.
Solution:

$$\text{Fake Payback Period} = \frac{\textit{Initial Investment}}{\textit{Average Annual cash inflow}} = \frac{22000}{(12000+4000+2000+10000)/4} = 3.14 \text{ years.}$$

From the 4th year row of the PVIFA table we find that the value nearest to the fake payback period is 3.17 and the corresponding rate is 10%. So 10% should be the first trial rate.
At 11%, NPV = 112 and at 12% NPV = (-) 312. Thus, it is evident that IRR lies between 11% and 12% (as NPV at IRR = 0).
Applying simple interpolation, we get,

$$\frac{IRR - 11}{12 - 11} \quad \frac{0 - 112}{-312 - 112}$$

Or, IRR – 11 = 0.26
Or, IRR = 11.26%
So, IRR of the project is 11.26%.

- **Decision Rule**:

Single Project: A project is accepted if its IRR is greater than the cost of capital and rejected if IRR is lower than the cost of capital. For a project with IRR equals to cost of capital, the decision maker remains indifferent.
Mutually Exclusive Projects: In case of mutually exclusive projects, the projects are first ranked based on their respective IRR and then the project with highest IRR is selected.

4. Discounted Payback Period Method:

DPBP is defined as the time period within which the initial investment in the project is received back along with the interest cost of fund. Hence the time value of invested capital is maintained intact.
Example 6: X Ltd. is considering a project with following cash flow patter.

Year	1	2	3	4	5
CIAT (Rs.)	20000	30000	40000	50000	40000

Initial investment of the project is Rs. 120000 and cost of capital is 10% .a. Calculate DPBP.
Solution:
Calculation for DPBP

Year	CIAT (Rs.)	PVIF @ 10%	PV of CIAT (Rs.)	Cumulative PV (Rs.)
1	20000	0.909	18180	18180
2	30000	0.826	24780	42960
3	40000	0.751	30040	73000
4	50000	0.683	34150	107150
5	40000	0.621	24840	131990

From the table it appears that initial investment of Rs. 120000 is recovered along with the interest cost of fund in between 4th and 5th year.

We apply simple interpolation to get

$$\frac{DPBP - 4}{5 - 4} = \frac{120000 - 107150}{131990 - 107150}$$

Or, DPBP -4 = 0.52

Or DPBP = 4.52 years

- **Decision Rule:**

Single Project: Under DPBP method a project is accepted if the DPBP is lower than the management cut-off. In case the project DPBP is higher than the management expectation, the project is rejected.

Mutually Exclusive Projects: In case of mutually exclusive projects, the project that offers the least DPBP is selected as it recovers the invested funds faster than all other projects.

5. Terminal Value Method:

Under this method future cash flows are first compounded at the estimated reinvestment rate for the rest of the life of the project. The aggregate future value of all cash inflows is then discounted at an appropriate rate of return (generally cost of capital) to determine the present value. Finally this present value is compared against the initial outlay (for conventional cash flow projects) or the present value of cash outflows (for non- conventional cash flow projects) for final selection.

Example 7:

A company is contemplating an investment project of 4 years with an initial outlay of Rs.60000. The cash inflows estimated from the project are Rs. 15000, Rs. 20000, Rs. 15000, and Rs. 18000. The estimated rates at which the above cash flows will be reinvested are:

Year End	1	2	3	4
Reinvestment Rate (%)	8	9	10	9

The cost of capital is 10% p.a. Analyze the viability of the project under terminal value method.

Solution:

Calculation for Terminal Value

Year	CF (Rs.)	Rate	Years of reinvestment	FVIF	FV OF CF(Rs.)
1	15000	8	3	1.26	18900
2	20000	9	2	1.881	37620

3	15000	10	1	1.1	16500
4	18000	9	0	1	18000
Terminal Value					91020

So, Present Value of Terminal Value = Terminal Value PVIF (Cost of capital, Years)

= Rs. 91020 PVIF (10%, 4)

= Rs. 91020 0.683

= Rs. 62167

Since the Present Value of Terminal Value (Rs. 62167) is higher than the initial outlay of Rs. 60000, the project is advisable.

Decision Rule:

Single Project: Under Terminal value method a project is accepted if the present value of aggregate future value of cash inflows (or terminal value) is more than the initial outlay or present value of cash outflows and vice-versa.

Mutually Exclusive Projects: In case of mutually exclusive projects, the project that offers the highest surplus of PV of terminal value over the initial outlay or PV of cash outflow, is ultimately selected.

VOL: 2, No.: 6
JUNE, 2017 ISSUE

Group - II

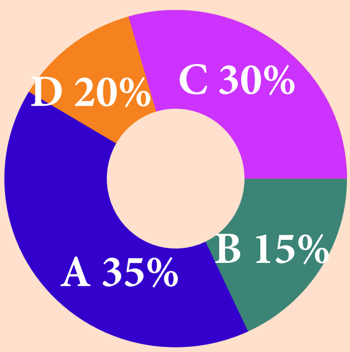
PAPER: 11

INDIRECT TAXATION (ITX)

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

CMA

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

Indirect Taxes

Indirect tax is a **type of tax collected by the government** from an intermediary such as manufacturer or retailer. The eventual burden of the tax falls on to consumers who buy goods and services from the intermediary, as the intermediary applies indirect taxes on the product in the form of Value Added Tax (VAT), service tax, sales tax etc.

Indirect taxes are called so because they are collected indirectly from consumers by the government through intermediaries, who are the first payers of the tax to the government. These taxes are different from direct taxes such as income tax which is collected directly from taxpayers. Indirect taxes include taxes such as sales tax, service, tax, VAT etc. whereas income tax, wealth tax, corporation tax etc. fall under the ambit of direct taxes.

Unlike direct taxes, indirect taxes are levied on goods and services rather than individuals. Individuals pay the taxes indirectly in the form of higher prices on their purchases. A retailer selling a product to you has already levied indirect taxes on the product, which is then passed on to the relevant tax-collection authorities.

Indirect Tax in India:

There are a number of indirect taxes applied by the government. Taxes are levied on import, manufacture, sale and even purchases of goods and services. These laws aren't also well-defined in terms of Acts from the government; rather orders, circulars and notifications are given out by relevant government bodies to this end. As such, it can be cumbersome trying to understand every feature of indirect taxes in India.

Indirect taxes are touted to be streamlined following the introduction of the uniform Goods and Services Tax (GST). The GST is under deliberation in the parliament and may be approved by mid-2016. The points below will help you understand more about the types of indirect taxes and where they are applicable from a consumer's perspective.

Features of Indirect Taxes:

- Levied on goods and services sold by an intermediary to final consumers. Consumers than pay the tax in the form of higher price of items.
- Broadly divided into categories such as sale of goods, imported/exported goods, offering of services and manufacture of goods.
- Indirect taxes are levied on clearance of goods and services from the origin, instead of actual sale of the products to the customers. What this means is that the intermediary will pay excise duties irrespective of whether they could sell the good or service to consumers.
- Indirect taxes fall under both the central and state governments according to specific type of indirect tax. For instance, VAT is levied by the state governments whereas CST is levied by the central government.

Types of Indirect Taxes:

Indirect taxes is a broad category under which different kinds of indirect taxes fall. There are 4 basic sub-categories with further sub-divisions according to goods and services.

List of Indirect Taxes or Examples of Indirect Taxes:

- Service tax
- Excise duties
- VAT

Service Tax:

Service tax is applied generally at the rate of 12.36%, which has been revised to 14% from April 2015. This type of indirect tax is levied by the service tax provider and paid by the recipient of the services. However, in some cases the liability for the tax is divided between the recipient as well as the provider of service.

There is also a provision for abatement of service tax if the final price is a mixture of services as well as material, such as restaurant bills. In general, restaurants levy service tax on 40% of the bill amount as 60% of the amount is considered to be cost of materials. Service taxes fall under the ambit of the central government.

Manufactured Goods:

The central government collects excise duties on manufacture of goods subject to clearance of the products from warehouse or factory. As such, this tax can be said to apply on clearance of goods from storage rather than being applied on the sale of the manufactured goods. Excise duties are further divided into 4 categories, of which basic excise duty is levied for the most part while the others are levied only in special cases.

1. **Basic excise duty:** This is the most common type of excise duty which is levied on goods manufacturing and falls under the Central Excise Act, 1944. This tax is exempted in special cases such as manufacture of salt or export of manufactured goods of less than Rs.1.5 crores

overall value per year, among others. The excise duty rates vary from product to product.

2. **Special excise duty:** Levied on a small list of items and falls under Central Excise Tariff Act, 1985.

3. **Textile duties:** As the name suggests, only applicable on specific textile goods and falls under the Additional Duties of Excise Act, 1978.

4. **Goods of special importance:** This is levied as per the Additional Duties of Excise Act, 1957 on specific goods mentioned under the article.

5. **National calamity contingent duty (NCCD):** This is levied on goods like cigarettes, chewing tobacco, pan masala, mobile phones and crude oil, and is applicable U/S 135 of the Finance Act, 2001.

Imported Goods:

Imported goods are charged taxes as per excise duties. This is further divides in specific duties and ad-valorem duties.

1. **Specific duties:** These are applicable on all individual components of a good imported into the country, for instance a cloth imported from abroad will be charged excise per meter of the material, or laptops imported will be charged excise on each unit of the order.
2. **Ad-valorem duties:** These are levied on the overall value of goods exported or imported. For instance, 10% of the overall bill of imported clothes or 10% of the overall order value for laptops.
3. **Anti-dumping duties:** These are levied so as to shield the domestic market against foreign goods dumped at very low or below cost prices. For instance, plastic products imported from China, which can be cheaper than the domestic market rates.
4. **Countervailing Duty of Customs:** This is another type of excise duty used to help Indian produced goods sell on a level playing field. This is additional to the ad-valorem or specific duties already applied on goods.

Goods Sold:

Finally, goods sold directly to consumers are levied Value Added Taxes (VAT), which is collected by the respective state government on intra-state sales, as well as Central Sales Tax, which is collected by the central government on inter-state sales. Every state levies its own VAT figure, which usually lies between 5% and 12.5%. There may be some exceptions to this tax as per state laws.

Apart from all the types of indirect taxes discussed above, Octroi or Local Body Taxes (LBT) are also applicable as per local rules and regulations.

Advantages of Indirect Tax

Indirect Tax comes with a number of advantages. Some of these are -

- **Convenience**

  Indirect taxes are so called because they are paid for directly by the taxpayer to the government but through the goods and services that they consume. Due to the nature of this tax, consumers do not feel as deep a pinch in their pocket as they would if they paid this amount all at once to the government. Indirect taxes are paid in small amounts and only when purchasing certain goods and services. Also this tax is a part of the price of the product and is not separate, hence will have to be paid when the product is being purchased.

  Indirect taxes are also convenient from the point of view of the government as well as they can collect the said tax at the factory or port directly from the traders or manufacturers.

- **Hard to evade**

  Most individuals try to evade paying taxes and usually through illegal methods. However, through the concept of indirect taxes, evasion becomes very hard. This is because indirect tax is paid by the customer not to the government to the seller of the product or service that they are purchasing and these costs are a part of the actual price of the product. Hence, they have no way of evading this tax.

- **Coverage and Elasticity**

  Unlike direct taxes, a large number of services and products come with indirect taxes hence individuals do not have a choice but to pay this tax. If not, they will have to forgo the product or service they wanted.

  Whenever the government believes that its revenue needs to increase, taxes can be increased wherein indirect taxes provides a lot of revenue to the government.

- **Universality and Influence**

  Indirect taxes are paid by everyone regardless of their class or economic status depending on the type of product and service procured.

  The government can allocate resources better and understand the spending habits of individuals by imposing taxes on specific sectors or commodities such as luxury goods and other niche services.

  The money collected through indirect taxes can be used for positive purpose such as social welfare and infrastructure. Indirect taxes are also flexible.

Difference between Direct Tax and Indirect Tax

- Direct tax is referred to the type of tax that is levied on an individual's wealth and income and is paid to the government directly. Indirect tax is levied on an individual who consumes products and services and is paid indirectly to the government as the price of the particular product or service comprises of the tax amount as well.
- Direct Tax is progressive in nature whereas Indirect tax is regressive.

- Examples of Direct Tax includes Wealth Tax, Property Tax, Income Tax, Import and Export Duties and Corporate Tax.
- Example of Indirect Tax includes VAT or Value Added Tax, Service Tax, Central Sales tax, Custom Duty, Excise Duty, Security Transaction Tax and so on.
- Tax evasion is possible with Direct Tax but is not the case with Indirect Tax.
- Direct Tax helps to reduce inflation whereas Indirect tax promotes inflation.
- Direct Tax is collected from and imposed on assessees such as Individuals, Hindu Undivided Family, Firm, Company and so on.
- Indirect Tax is collected from those consumers of products and services but is deposited and paid by the assessee.
- Burden of Direct Tax cannot be shifted but can be shifted in case of Indirect tax.

Is Withholding Tax an Indirect Tax?

Withholding Tax which is also known as retention tax is a government requirement for the payer of income to deduct or withhold tax from the payment and subsequently pay that tax to the government. The amount that is withheld acts as a credit against the income taxes that the employee will have to pay during the year.
Withholding tax is not an indirect tax but comes under the bracket of direct tax.

Payment of Indirect Tax

Indirect tax is paid by the customer indirectly to the government, as the name suggest, when they pay for a particular product or service. The amount that is paid for the particular goods/product or service is inclusive of the tax amount and is therefore a more convenient method of paying this particular tax.

VOL: 2, No.: 6
JUNE, 2017 ISSUE

Group - II

PAPER: 12

COMPANY ACCOUNTS & AUDIT (CAA)

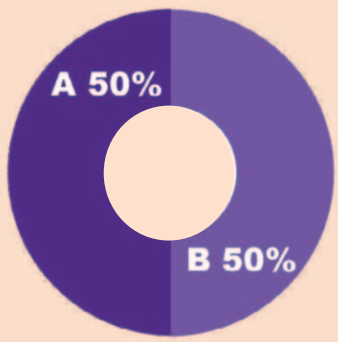
Dr. Malay Kr. Nayak
Associate Prof., Dept. Of Commerce,
M.B.B.College,Tripura
He can be reached at:
malay_nayak@ymail.com

Your
Preparation
Quick
Takes

Syllabus Structure

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

B Auditing **50%**



Learning Objectives:

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

In the mean time, the institute's examination falls due on 11th June to 18th June but for the sake of continuation of study, we are to discuss on some important issues for the sake of study and knowledge.

Let us discuss about Accounting Standards.

Why it is required?

-It is required to standardise the diverse accounting policies.

What is its main focus?

-Its main focus is to facilitate comparability of information and reliability of financial statements.

Weighing the advantages and disadvantages, we get that Accounting Standards provide information to the stake holders on more consistencies but may suffer from rigid, bureaucratic rules.

We may discuss some specific Accounting standards as endorsed in syllabus.

Let us hold AS-11, accounting for the effect of exchange rates: This standard is mandatory for transaction in foreign currencies and for inclusion of foreign branches in the financial statements of the reporting enterprise.

Transactions in a foreign currency is recorded in the financial records at spot rate i.e., rate on the date of transaction or at approximate actual rate i.e., average of the weekly or monthly rates.

The exchange difference on the reporting date of financial statements should be treated as under:

Monetary items at closing rate, non monetary items i.e., fixed assets at the rate on the date of transaction and non monetary items (other than fixed assets) at fair value or net realizable value.

AS-11 demands disclosure on:
The amount of exchange difference in the net profit or loss for the period, the amount of exchange difference adjusted in the carrying amount of fixed assets, the amount of exchange difference in respect of forward contracts.

Let us discuss about AS-12, Accounting for Government Grants: It includes various subsidies and incentives in cash or kind favouring an enterprise. It should reflects the extend of benefit during the reporting period. Disclosure under the statement demands the accounting policy, method of presentation in the financial statement-grants of non-monetary assets on free or concessional rate.

Now we may step down to AS-15, accounting for employee benefits. It applies to benefit comprising of provident fund, pension fund, gratuity, leave encashment etc.

Disclosure under AS-15 encompasses method of accounting for understanding of the significance of cost to employee, disclosure for statutory compliance and disclosure about actuarial valuation at the end of accounting period or earlier.

Now we may hold AS-16, borrowing costs: Borrowing costs mean interest and other costs incurred by an enterprise in connection with the borrowing of funds. This standard facilitates accounting for borrowing costs which includes interest and commitment charges on bank and other short term borrowing, amortisation of discounts /premium relating to borrowings, amortisation of ancillary costs, finance charges under financial lease and exchange difference in foreign borrowings.
Disclosure should be made under AS-16 regarding accounting policy adopted and amount of borrowing costs capitalised during the accounting period.

AS-17, Segment Reporting: We may put our step towards AS-17, segment reporting. A segment reporting is a distinguishable component of an enterprise .Segment may denote nature of product or service, production process, type or class of customers, nature of regulatory environment etc.

A reportable segment reporting is a business segment or a geographical segment identified on the basis of economic or political conditions, proximity of operations, risks associated with operations etc. Business entity should disclose segment result i.e., segment revenue less segment expenses, segment assets and segment liabilities. Disclosure requirements under this standard includes total cost incurred during the period to acquire segment assets., total amount of significant non-cash expenses, depreciation and amortisation in respect of segment assets. Students are to practise disclosure as required by this standard.

Now we forward towards AS-18 i.e., accounting standard related party disclosures: A related party is any party that controls or significantly influence the management during the reporting period .According to this accounting standard disclosure should be made on related party, relationship and transactions between a reporting enterprise and its parties.

Now we may move forward towards AS-19 i.e., Accounting for lease: Lease is an arrangement by which the lessee gets the right to use an asset from lessor for given period of time on rent. Lease may be finance lease or operating lease, under financial lease risks and rewards incidental to ownership of asset transfer to the lessee without transferring legal ownership.
Under the operating lease risks and rewards incidental to ownership does not transfer to the lessee.

For understanding of this standard, students are to get adherence of guaranteed residual value (G.R.V), unguaranteed residual value (U.R.V) , minimum lease payment (M.L.P) , gross investments, fair value of leased asset, contingent rent. This standard enumerates accounting for finance lease, operating lease in the books of lessor as well as in the books of lessee. Students should practice short questions and theoretical questions based on this standard.

Accounting standards are very much relevant for the maintenance of accounts. Professional expertise of various accounting standards is the demand of the day; hence students should lay stress on the accounting standards as incorporated in study materials and reliable books based on syllabus.

Love the subject, love the course curriculum and form groups for reaping results on study and get success in least possible time.Enjoy.

SUBMISSIONS

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.

Absolutely great learning from the e-bulletin provided by all of you!! Concepts became very clear after solving e- bulletin! The kind of questions contained by this bulletin is can be solved by the students acquainted with basic knowledge!! I hope that this service of providing bulletin to the students is great, it must continued in future!! Thanks

Manish Singh
NF2016000990
Mail id: coolmanish22998@gmail.com

Updation of E-Mail Address/Mobile:

Students are advised to update their E-Mail id and Mobile Numbers timely so that important communications are not missed as the same are sent through bulk mail/SMS nowadays. 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

SUBMISSION

VOL: 2, No.: 6
JUNE, 2017 ISSUE

PRACTICAL ADVICE
ABOUT YOUR STUDIES - INTERMEDIATE

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

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.
- Student should improve basic understanding of the subject with focus on concepts.
- 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;

Interview Tips

CMA (Dr.) Sreehari Chava
Cost & Management Consultant,
Nagpur, Maharastra,
He can be reached at:
sreeharichava@yahoo.co.in

01.00 Interview *With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.* In common parlance, the word "interview" refers to a one-on-one conversation with one person acting in the role of the interviewer and the other in the role of the interviewee. The interviewer asks questions and the interviewee responds. Interviews usually take place face to face and in person, although modern communications technologies such as the internet have enabled the conversations to happen through video conferencing, etc. Job interviews are conducted for the purpose of evaluating the suitability of the interviewee for a specific position.

With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.

Interviewing for a job can be nerve-wracking. You may feel uncomfortable "selling" yourself or fielding unexpected questions. Or the prospect of having to meet and impress new people may be enough to trigger anxiety. However, interviewing is a skill you can learn. With the right tips and techniques, you can become a master at sharing your value with potential employers, presenting yourself effectively at interviews, and getting the job you want.

02.00 Prepare, Prepare and Prepare
You've just landed a job interview for a position you really want. Congratulations. Now, you know you only get one chance to impress, but how exactly do you do that? Given all of the conflicting advice out there and the changing rules of getting a job, it's no wonder that job seekers are confused about how to best prepare for and perform in an interview.

Interviews range from conversations lasting a few minutes to several formal meetings, sometimes with more than one interviewer. Interviews allow you to demonstrate that you are the right candidate for the job.

Most people know they need to show up to the interview having done their homework, but the fact is,"Y'ou can never invest enough in terms of preparation".The better prepared you are, the more relaxed and comfortable you will be when the questions start coming your way.

02.01 Do your research
Gather information about the company and the position available. Try to specifically relate your experience to the duties the job opportunity entails.

02.02 Practice interviewing
Enlist a friend - better yet, a group of friends and colleagues - to ask you sample questions. Practice making eye contact.

02.03 Practice Positive Body Language
Pay attention to body language and verbal presentation. Eliminate verbal fillers, like "uh," and "um." Practice using positive body language to signal confidence, even when you're not feeling it. Instead of tentatively entering an interview with your head down and eyes averted, try standing tall with your shoulders back, smiling and maintaining eye contact, and delivering a firm handshake. It will make you feel more self-confident and help to put the other personat ease.

02.04 Handle logistics early
Have your clothes, resume, and directions to the interview site ready ahead of time, to avoid any extra stress.

02.05 Be in touch with your references
Don't let your references be the last to know about your job search, or even worse, get an unexpected call from a potential employer. Many offers are withdrawn over bad references. Why take that chance? Be in touch with your references right away to seek help and to avoid surprises on either side.

A few questions that you should ponder over:

Do your research
Practice interviewing
Practice Positive Body Language
Handle logistics early
Be in touch with your references

- Are your references relevant to your current job search? Who should you add or subtract?
- Are there any reference gaps? Gaps that an employer will question? What is your story about those gaps?
- Can a colleague, vendor, customer, or board member be added to replace or enhance the list?
- What is the current status of your relationship with your references?

03.00 Ace the first 30 seconds

First impressions matter. John Lees, a career strategist points to psychological research that shows that people form opinions about your personality and intelligence in the first 30 seconds of the interview. “How you speak, how you enter the room, and how comfortable you look are really important,” he says. People who perform best in interviews start off by speaking clearly but slowly, walk with confidence, and think through what “props” they will carry so they don't appear over-cluttered. Lees suggests rehearsing your entrance several times. You can even record yourself on video and play it back without the sound so you can see precisely how you are presenting yourself and make adjustments. The same applies to phone interviews. You need to use the first 30 seconds of the conversation to establish yourself as a confident, calm voice on the line.

04.00 Anticipate likely questions

Anticipate the likely questions and be prepared with answers. The following tips might help:

- Review your research about the company and the position.
- Make a list of key attributes for your desired job.
- Write sample interview questions that are likely to uncover the attributes you identified as important.
- Create answers to the sample interview questions based on a template such as “Situation – Action – Result” with specific details from your work experience.
- Practice answering the interview questions and follow-up questions so that you are very familiar with several detailed examples/stories. Rehearse key points.

05.00 Ask questions during the interview

Being prepared and asking great questions about the position and the employer shows your interest during the interview. You can't just be an effective responder. You need to assert yourself, too. By the time you reach the interviewing stage, you should be clear about what you want and what you offer to the company.

Try to be thoughtful and self-reflective in both your interview questions and your answers. Show the interviewee you know yourself—your strengths and your weaknesses. Be prepared to talk about which areas would present challenges and how you would address them. Admitting true areas of weakness is much more convincing than claiming: "I have what you need and I can do anything I put my mind to."

06.00 Use your EQ

Many of the interviewers tend to fall prey to unconscious biases and focus too heavily on experience rather than competence. It is your responsibility to ensure that it does not happen. It could be that it's not always the smartest person or the one with the most relevant skills that gets the job. Rather, the successful candidate is often the one who has the best “people skills”, who can relate easily to others. In other words, it's the person with a high emotional quotient (EQ).

Emotional Quotient is the ability to identify, use, understand, and manage emotions in positive ways to communicate effectively and empathize with others. If you have a high EQ you are able to:

- Recognize your own emotional state and the emotional states of others.
- Engage with people in a way that draws them to you.
- Pick up on emotional cues, communicate effectively, and develop strong relationships.

One way to apply emotional awareness in an interview situation is to find common human connections with the interviewer. If you set out with the intention to discover how you and the person interviewing you are connected and what you share, you will discover commonalities much faster. And the interviewing process will be much less
intimidating because of it. Here follow some clues in this context.

06.01 Do your research

Google every person you know you are going to meet or think you might meet in the interview, especially senior executives. Learn what might be common areas of interest in advance.

06.02 Listen and pay attention

If you listen during the interview and look for commonalities, they will seem omnipresent. When your interviewer mentions his or her alma mater, weekend plans, kids, or favorite restaurant, you have the chance to ask questions and find common ground. You can also take a look around the office. Do you see a book you've read, a product you want or just bought, or a photo you like? If so, you have a means to discuss commonalities.

06.03 Lead with your interests and passions

How you introduce yourself and talk about yourself in the interview matters. If you integrate facts and interests into your spiel about yourself, then you create opportunities to connect. After the "What do you do?" or "Tell me about yourself" query, tell your story.

06.04 Find common ground in the context

Where you are meeting, your surroundings, and the purpose of your connection are all reference points. There is a reason why both of you find yourself at this unique place and time. Why are you both in this business? Do you know the any of the same people?While searching for commonalities, avoid pummeling your interviewer with a series of set questions. Let the interview happen naturally, but keep an eye out for hints of commonalities. Once you do, the world will feel like a smaller, friendlier place and your anxiety over interviewing will shrink.

07.00 When it's going poorly

There are times when it's clear the interview is not going well. Perhaps the interviewer is not engaged or you stumbled over answers to some important questions. Resist the temptation to agonize over what's already happened. “That's a surefire way to get lost,” Lees says. Instead, focus on the moment. “Concentrate on answering the current question as if it's the first,” he says. You can also redirect the conversation by acknowledging the situation. You might say something like, “I'm not sure if I'm giving you what you need” and see how the interviewer reacts. “You just have to be sure you aren't digging a deeper hole,” says Lees.

08.00 Common Questions and Answers

Being well prepared for an interview will help you be confident and impress the interviewer(s).The key to a successful interview is adequate preparation. Most employers ask the same basic questions, so prepare answers before an interview. Below is a list of questions frequently asked by employers, with some ideas on how you might answer.

Avoid memorizing answers, but become confident about what you will say so that you can leave a positive first impression. Find someone to coach you through the questions—a friend, someone at the employment resource center, self-reliance center, or your ward or stake employment specialist.

08.01 Tell me something about yourself.

Develop a brief summary (two minutes or less) that includes positive work and volunteer habits. Use your “Me in 30 Seconds” statement along with “Power Statements” to answer.

08.02 What are some of your strengths? or Why should we hire you?

Know your strengths, and use your Power Statements to prove them. Tell how you can add value to the company and how you can help make or save money.

08.03 Why do you want to work for us? or What do you know about our company?

Do research before the interview in order to give an appropriate answer. Discuss how your skills would fill the needs of that company. Use a Power Statement.

08.04 What are some of your weaknesses?

Explain how you have turned perceived weaknesses into strengths. For example: “Some people say that I am too nice. But I have found that by being nice I am able to serve 14 percent more customers per shift, and I have 40 percent fewer complaints than my average co-worker.”

08,05 What do you think of your present [or past] employer?

Never criticize your last company or boss. Always use positive terms. Try using a Power Statement for your previous employer.

08.06 What do you hope to be doing in five years?

Indicate how you hope to make a positive contribution to the employer's company. For example: “I'd like to be working for you in a position of responsibility.” Use a Power Statement to describe how you plan to benefit the company.

08.07 What do you expect as a salary or compensation?

Avoid mentioning a specific salary. You may respond with:

- *What do you normally pay someone with my experience?*
- *What does your budget allow for this type of position?*
- *I know that I have to make you more money than it costs you to employ me. Let me first explain how I can do that. [Use a Power Statement.]*

Or you can ask to not discuss money until you find that you and the employer are a good match. Suggest that if you both find that you want to work together, then you can agree on a salary arrangement later.

08.08Do you have any questions for me?

Ask questions such as:

- *Where do you see this company in five years?*
- *What have been your experiences with this company?*
- *Why is this position open?*
- *Do you have any concerns about my abilities to do this job? Would you share them with me?*
- *What is your time frame for making a decision?*

09.00 Quick Take
Take on the interview with full steam; Sell yourself with ease; Be the Winner!

Resources

1. Researched inputs by the faculty of Shantiniketan Business School
2. Stand Out in your Interview, Amy Gallo, Harvard Business Review, 26th September 2012
www.mindtools.com

www.icmai.in

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158

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