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INTERMEDIATE

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CMA STUDENTS' E - bulletin

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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Behind every successful business decision, there is always a CMA

Message from the President

Dear Students,
Greetings,

"Education is not preparation for life; education is life itself" - John Dewey
Hope you all have enjoyed the Global Summit 2017. You must admit that it was a great occasion of your Institute where the Hon'ble President of India with the Hon'ble Governor of W.B. and Hon'ble Union Minister of State for Finance and Corporate Affairs, has attended to encourage all of us. I am sure that no words can fully describe all the feelings you had on the day.

As I believe that life is like a camera; focus on what's important, capture the good times, develop from the negatives and if things don't work out take another shot, hence, my suggestion to all of you that-never give up because great things take time; and you really can do whatever you want. Start believing that ***'I do it because I can, I can because I want to, I want because you said I could not'.*** Difficult roads often lead to beautiful destinations. Enjoy life today. Yesterday is gone and tomorrow may never come & in your life you should never sacrifice three things; your family, your heart or your dignity.

Your first examination under syllabus 2016 is already over. Hope you did well and have started counting days for getting good news. If it is not as per the expectation then my suggestion is ***'Do not give up, the beginning is always the hardest'.***

E-bulletin helps you in your preparation and I have received information from many of you and I am sure that you must capture good things out of it. My sincere thanks go to all the eminent academicians who are constantly giving input for it. I must appreciate the effort of Directorate of Studies for timely running the issues.

'No amount of guilt can change the past and no amount of worrying can change the future'. Be Strong and Keep Moving............

Best wishes to all of you,

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

Be a CMA, be a Proud Indian

Message from the Chairman

Education is not filling the mind with a lot of facts. Perfecting the instrument and getting complete mastery of my own mind is the ideal of education-Swami Vivekananda

Dear Students,

I am sure that you must agree with me that only book-learning is not education. TThe perfect blending of knowledge and practical exposure can make you truly educated and you have to grow inside out. Education plays its continuous role in all spheres of life. When we are not making an effort to learn, our mind is always processing new information or trying to analyze the similarities as well as the tiny nuances within the context which makes the topic stand out or seem different. Education, if looked at beyond its conventional boundaries, forms the very essence of all our actions.

I feel that your journey with the Institute has started with a positive note and you should accomplish your study and reach your target in a desired way. Receiving a good education helps empower you, thus making you strong enough to look after yourself in any given situation. It keeps you aware of your given surrounding as well as the rules and regulations of the society you're living in. We are trying to impart you to the best possible manner and your duty is to learn at best.

Directorate of Studies are issuing this E-bulletin and I am sure that you are trying to utilise the opportunity at best. I am receiving positive feed-back from the students and requesting you further to enrich yourself by going through the Mock Test Papers / MTPs and to read carefully your study materials as well.

I am happy to know that you are very much delighted to see the august presence of the dignitaries in the Global Summit-2017 in Kolkata.

Education is not the learning of facts but the training of the mind to think-Albert Einstein
Wishing you a very bright career ahead,

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

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Contents

KNOWLEDGE UPDATE

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

Group - I

PAPER: 5

FINANCIAL ACCOUNTING (FAC)

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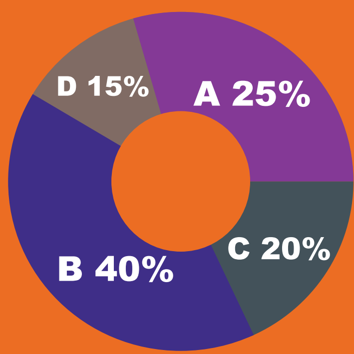
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objective:

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

STOCK RECONCILIATION

1. RECONCILIATION

In accounting, reconciliation plays a very important role. Though it is not a part and parcel of the books of accounts, yet the importance of reconciliation cannot be ignored.

Reconciliation may be defined as a process of finding causes of differences between the balance s of two accounts at a particular date, and its analysis with explanation and for proper justification. In this way reconciliation statement is a statement showing the causes of differences and establishes the reasons behind such differences between the balance s of two accounts at a particular date. For example at any date the bank balance as pee cash book and the bank balance as per pass book may vary for various reasons so a bank reconciliation statement supports the accounting system and logically establishes the causes of such differences. Bank reconciliation will be discussed in next issue.

2. STOCK RECONCILIATION

In this issue we will discuss about stock reconciliation. In big business houses valuation of closing stock at the year end is a voluminous job. It is also impractical to complete such job keeping the normal activities of the business closed for some days. For example, say we need to value the materials lying in stores on 31.03.2106 with proper physical verification keeping the normal business operations active. If it takes a week to complete such job the stock is valued actually as on 08.04.2016. There may be a lot of transactions taken place between 01.04.2016 to 08.04.2016. Therefore value as shown in the books of accounts on 31.03.2016 for stock will not tally with the value as taken on 08.04.2016. Here lies the importance of stock reconciliation statement. A statement is now required to be prepared to get the figure as on 31.3.2016 based on the figure as derived on 08.04.2016.

3. METHODS

There are two methods of physical verification and valuing stocks- perpetual and periodic. As the very name suggests "perpetual method"(*perpetual means continuous*) always values stock at a regular basis and therefore chance of discrepancy (between the value of stock on the balance sheet date and date of physical verification) is very rare in this case.

However, from the name of "periodic method" it is clear that stock is counted at certain intervals. So chance of discrepancy between the 'balance sheet date' and 'date of actual stock taking' is obvious. Refer now to the discussions at point 2 above for details once more.

Thus reconciliation as discussed above is required only in case of periodic inventory valuation.

4. ILLUSTRATIONS:

PHYSICAL STOCK TAKEN AFTER BALANCE SHEET DATE

a. *The stock is actually taken on 8th April valuing Rs.12500/- in a business house when its accounting year ends on 31st March. Considering the following observations find out the value of stock as on 31st march:*

i. *Sales are entered in the sales day book on the day of despatch and returns in the returns inward book on the goods are received back.*

ii. *Purchases are entered in the purchases day book on the day the invoices are received.*

iii. *Sales between 31st March and 8th April as per sales day book and cash book are Rs. 860/-*

iv. *Purchase between 31st March and 8th April as per purchase day book is Rs. 600 but goods amounting to Rs. 200/- are not received till the stock was taken.*

v. *Of goods invoiced during March, goods amounting to Rs. 500/- were not received till 31st March, of which goods worth Rs. 350/- were received between 31st March and 8th April.*

Rate of gross profit is $33^{1/3}$% on cost.

Particulars	Amount	Amount
Value of stock as on 8th April		12500
Add : cost of goods sold during April 1 to April 8 (see note 1)		645
		13145
Less : purchase of goods received between April 1 to April 8 (600-200)	400	
Less : goods invoiced during march received between April 1 to April 8	350	750
Value of stock as on 31st March		12395

Note 1. Given GP is 33 1/3 % on cost i.e 1/3 rd on cost = ¼ th on sales.

So, cost of goods sold will be = 860 -860x1/4 = 860-215=645/-

PHYSICAL STOCK TAKEN BEFORE BALANCE SHEET DATE

a. *Physical verification of stock in a business was done on June 23, 2017 valuing Rs. 480000/-. The following transactions took place between June 23 to June 30, 2017.*

i. *Out of the goods sent on consignment, goods costing Rs. 24000/- were unsold.*

ii. *Purchases of Rs. 40000 were made out of which goods worth Rs. 16000/- were delivered on 5th July, 2017.*

iii. *Sales were Rs. 136000/- which include goods worth Rs.32000/- sent on approval. Half of these goods were returned before June 30, 2017 but no information is available regarding the remaining goods.*

iv. *Goods are sold at cost plus 25%. However goods costing Rs. 24000/- had been sold for Rs. 12000/- .*

Determine the value of stock as on June 30, 2017.

Particulars	Amount	Amount
Value of stock as on 23rd June		480000

Less : cost of goods sold during June 23rd to June 30 (see note 1)		110400
		369600
Add : purchase of goods received between June 23rd to June 30		24000
Value of physical stock as on June 30, 2017		393600
Add: stock in transit	16000	
Add: consignment stock	24000	
Add : stock in hand with customers(16000-16000x1/5)	12800	52800
Value of owned stock as on June 30, 2017		446400

Note 1. Goods are sold at cost plus 25 % i.e if cost is 100 sales = 125. So profit on sales = 25/125 1/5th .

Now sales =				136000
Less : Sale of abnormal items		12000		
Less : Sale on approval (32000x1/2)	16000		28000	
				108000
Less : GP (1/5th of 108000)			21600	
Cost of goods sold			**86400**	
Add : Cost of abnormal items				24000
				110400

Note on owned stock

Goods owned by a firm may not be possessed physically by the firm under various situations. For example unsold goods lying with consignee, goods sent on sale or approval not yet confirmed by customers, branch stock, stock out on hire purchase etc.

For the above reason it is important to show the stock position separately – physical stock as well as owned stock.

Keep practicing from the past year question papers and refer the books as listed below for more illustrations.

Group - I

PAPER: 6

LAWS & ETHICS (LNE)

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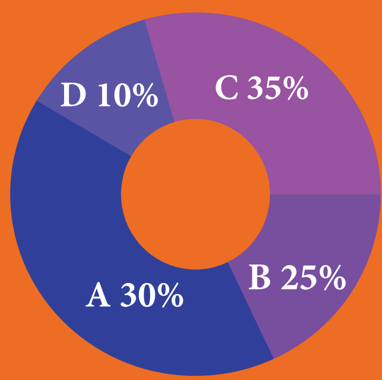
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

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

SECTION A – COMMERCIAL LAWS

LAWS RELATING TO THE SALE OF GOODS ACT, 1930.

Continuing with our discussion on The Sale of goods Act, 1930, in this issue we will discuss about some miscellaneous topics that are requires attention for our understanding the said act. Section 64 of the Sale of Goods Act, 1930 deals with the rules applicable for Sale by Auction. In case of sale by auction following rules apply –

1. When the goods are put for sale in lots, then each lot is deemed, prima facie to be the subject matter of a separate contract.
2. At an auction the sale is said to be complete when the auctioneer announces its completion by the fall of the hammer or in other customary manner but the practice is to put the hammer 3 times. And until such completion any bidder can withdraw his bid.
3. A right to bid may be expressly reserved by or on behalf of the seller, and the seller or any other person on behalf of the seller may bid at the auction where such rights are expressly so reserved and not in any other way.
4. Where a sale is not notified to be taken on bid on behalf of the seller, it shall not be lawful on part of the seller to bid himself or employ any other person on his behalf to bid, or if the auctioneer knowingly takes bids from the seller, such a sale and such a person will be termed as fraudulent by the buyer.
5. The sale may be notified to be subject to a reserved or upset price.
6. Where the seller pretends a bid only to raise the price, such a sale is voidable at the option of the buyer. Since the buyer is the victim of the fraud on part of the seller in artificially raising the price by making false bids, the sale will be voidable at the option of the buyer. This contention is also strengthened by the judgment delivered in the case Thornett v/s Haines, 1846.

Section 64A of the Sale of Goods Act,1930 deals with the change in amount due to increase or decrease in tax in contracts for sale. As per sub section 2 of section 64A of the Sale of Goods Act,1930, sub section1 of the section applies to the following taxes only –

a. Any duty of customs or excise on goods
b. Any tax on the sale or purchase of goods.

Sub section 1 of section 64A states that unless different intention appears from the terms of the contract, in the event of any tax as described in section 2 above, is imposed, increased or decreased or remitted in respect of any goods after making the contract for sale or purchase, whether tax was charged at the time of the sale or whether tax was not chargeable at the time of making the contract then –

a. The seller may add so much to the contract of sale as would be equivalent to the amount paid or payable in respect of such tax or increase of tax. And the seller in that case shall be entitled to be paid and to sue for and recover such addition, and
b. If such imposition decreases the tax or if no tax is payable the buyer may deduct from the contract ptice such amount as may be equivalent to the amount of decrease and the buyer shall not be liable to pay or he may not be sued for in respect of such decrease.

With this we come to an end of our discussion for the past few months with Sale of Goods Act, 1930 and will come back with another topic of Law and Ethics.

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)

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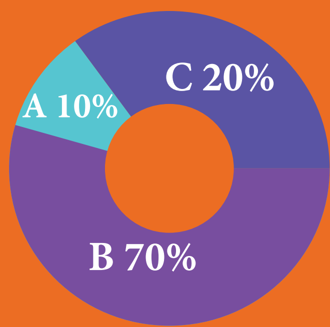
Your Preparation Quick Takes

Syllabus Structure

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



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.

The basis of charge: Following the landmark judgment of the Supreme Court *in Kika Bahai Premchand v. CIT* it is now a settled principle of law that a person cannot make income out of a transaction with himself, nor can he be taxed on an anticipated income. Thus, if a trader withdraws some goods for his own consumption from his stock, he cannot be taxed for the difference between the market price and the cost price of the goods so withdrawn. For the purpose of taxation, the income must be real and it must arise from an arm's-length transition with a third party.

However, income from house property constitutes an exception to this principle. Here, the basis of tax is not the income but the potential or ability of the property to fetch an income. This is known as the Annual Value of the property. In Lallmal v. CIT, the Supreme Court has defined it as the 'sum which the property might reasonably be expected to let from year to year'.

Accordingly, under section 22, the basis of charge under the head "Income from house property" is not the rent, but the annual value of the property. It may so happen that the property is not at all let out during the year or the property might have been used for the residence of the owner. Despite that, the law presumes that the owner has derived some income from the property, accordingly, it becomes the subject of taxation under section 22 of the Income-tax Act.

In this brief discussion, we shall discuss the procedure for computation of Annual Value from the let-out properties.For the purpose of our discussion here, let-out property includes the flowing:

(a) House property which is let out throughout the previous year.
(b) House property which is let out but remains vacant for any part or whole of the previous year.
(c) Self-occupied house property which is let out for any part of the previous year.

It also includes the cases where the owners are using more than one house for their own use.
Again, there may be some cases, where some rent remains unrealized. Similarly, a property may remain vacant for some time and there may be some unrealized rent the same time. In view of these kind of complexities, a general approach for arriving at the correct Annual Value is as under:

Step 1. Find out the reasonable expected rent (higher of municipal value and fair rent, but subject to a maximum of Standard rent)
Step 2. Find out the annual rent (i.e. if the property is let out throughout the previous year) excluding unrealised rent, if any.
Step 3. Select the higher of Step 1 and Step 2.
Step 4. From the amount determined in Step 3, deduct rent for the vacancy period.
Example:
X is the owner of four house properties. The particulars of the houses for the previous year are as under

Particulars	A Rs.	B Rs.	C Rs.	D Rs.
(a) Gross municipal value	24,000	24,000	24,000	24,000
(b) Fair rent	36,000	36,000	36,000	36,000

(c) Standard rent under the Rent Control Act.		25,000		25,000
(d) Annual rent (if the property is let out throughout the year)	30,000	48,000	30,000	48,000
(e) Unrealised rent	Nil	Nil	6,000	6,000
(f) Vacancy period	2 months	3 months	4 months	5 months
(g) Municipal tax paid by X	10%	10%	10%	10%

Compute annual value of the properties for the assessment year 2017-2018.

Solution: Computation of Annual value for the assessment year 2017-18

Particulars	A Rs	B Rs	C Rs	D Rs
Step 1. Reasonable expected rent [higher of (a) or (b) but subject to a maximum of (c)]	36,000	25,000	36,000	25,000
Step 2. Annual rent less unrealised rent	30,000	48,000	24,000	42,000
Step 3. Higher of Step 1 and Step 2	36,000	48,000	36,000	42,000
Step 4. Step 3 minus rent for the vacancy period (See note)	31,000	36,000	26,000	22,000
Gross annual value as in Step 4	31,000	36,000	26,000	22,000
Less : Municipal tax paid by X	2,400	2,400	2,400	2,400
Net Annual Value	28,600	33,600	23,600	19,600

Note :

Rent for vacancy period :		
Property A	Rs. 30,000 X 2/12	= Rs. 5,000
Property B	Rs. 48,000 x $^3/_{12}$	= Rs. 12,000
Property C	Rs. 30,000 x V12	= Rs. 10,000
Property D	RS. 48,000 X 5/,2	= Rs. 20,000

- Step 3 minus rent for the vacancy period :

Property A	Rs. 36,000 - ? 5,000	= Rs. 31,000
Property B	Rs. 48,000-? 12,000	= Rs. 36,000
Property C	Rs. 36,000-? 10,000	= Rs. 26,000
Property D	Rs. 42,000-? 20,000	= Rs. 22,000

Group - I

PAPER: 8

COST ACCOUNTING (CAC)

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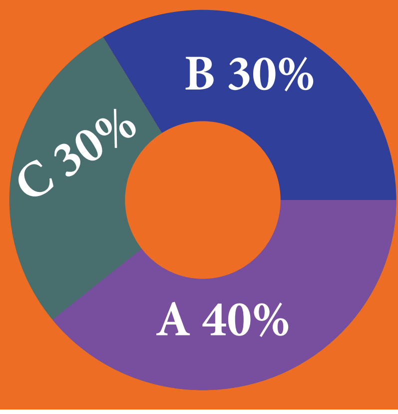
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Cost Accounting (CAC)

Optimum utilization of resource is the urgent need of the day. The role of Cost Accounting in this regard plays a vital role all over the world. Hence, theory as well as solving of practical problems is very much essential for successful preparation of the subject. 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. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. Success of these examinations mainly depends on student's perseverance, seriousness of study, regularity and through practice.

Some tips based on Experiences –

1. A plane should be developed for completing the whole syllabus within the scheduled time .
2. Try to go through your Study Note and know the complete syllabus. Remember all chapters are interlinked.
3. This paper is based on mainly practical problems.
4. Analyze the trends of setting questions by taking at least ten terms.
5. Prepare yourself based on previous paper setting.
6. Clarity of concepts and self expression is essential for success in life.
7. Time schedule with specified activities is very much essential for time-management.
8. Write down all the important terms in your own words and read them regularly.
9. Try to improve your speed by regular practice and revision.
10. Always try to answer all objective type questions, which carry 100% marks.
11. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

According to our study material, your entire syllabus is divided into six main chapters. The first chapter is related to the basic concept of cost accounting. The second chapter described the Elements of cost in details. We know that the three major elements of costs are – Material, Labour and Overheads. Here, the major elements of cost are discussed elaborately with sufficient number of examples. You should read the scope and objectives of different Cost Accounting standards in details. This will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Here Cost allocation, Cost apportionment and Cost absorption should be understood very clearly.

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

The next chapter Contract /Job/ Batch Costing is very important for this type of examination. There are some slandered norms for computation and recognition of profit or loss of incomplete contract. 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.

The next chapter, 'Operating Costing' relates to find out operating cost per unit of output. This chapter also includes 'Transport Costing' , 'Hospital Costing', 'Power House Costing' , 'Hotel/ Hostel Costing' etc. Composite unit finding is important for solving the problem.

The next chapter 'Marginal Costing' is very important from the students' perspective. It aims to find out cost-volume-profit relationships of a product. Some times more than one problem may be set from this chapter. The main thrust should be to follow the working and determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basic part for solving problem. You should also study the effect on profits due to various changes in Fixed Cost/ variable cost / selling price/sales- mix.

The next chapter relates to 'Variance Analysis' which 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 main purpose of Variance analysis is to enable the management to improve the operations for effectives utilization of resources need to increase the efficiency by reducing cost.

- 'Budget and Budgetary control', which 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. All functional budget are summarized into master budget consisting of a budgeted Profit and Loss account, a Balance Sheet and Cash Flow Statement . A common mistake is to incorrectly deduct closing stocks and opening stocks when preparing production and material purchase budget.

Sometimes it is very difficult to decide whether a car should be hired or a loan be taken for purchase the car for the use of executives. This is a managerial decision and for which a comparative cost analysis is required. Now we are going to solve a problem of this type under the chapter Operating / Transportations costing. :-

Due to increase in cost of operating own fleet of cars, your company is presently considering two proposals, viz.,

a) Hire a car with driver from an agency @ 800/- per car per month. The company will bear the cost of petrol, oil and tyres.

b) On the other hand the executive will be given Rs. 25000/- interest free loan repayable in 5 years to buy his own car. The Company will , however, provide him free petrol and Rs. 500/- p.m. for maintenance and driver's wages.

If the present cost of a car is Rs. 50000/- and monthly running of the car is 2000 km. , you are required to find out the most economic way, based on the following information-

Item	Paise per Km
Petrol	65
Oil	8
Tyre	7
Repair	10
Tax and Insurance	Rs. 560/- per year
Driver's wages and bonus	Rs. 720/- per month
Life	5 years
Re- sale value at the end of 5th yr	Rs. 10000/-
Assume interest @ 18 % p.a.	
The above problem may be solved in this way –	

Statement showing comparative cost of operation per car per month –--

Item	Alternative (I)	Alternative (II)	Alternative (III)
	Own Car in Rs.	Hired Car in Rs.	Executive's Car in Rs.
Petrol	1300.00	1300.00	1300.00
Oil	160.00	160.00	-----------
Tyre	140.00	140.00	-----------
Repair	200.00	-----------	-----------
Tax and Insurance (560 ÷ 12)	46.67	-----------	-----------
Wages and Bonus	720.00	-----------	-----------
Depreciation [(50000 – 10000)x1/5x1/12]	666.67	-----------	-----------
Hire charges	-----------	800.00	-----------
Maintenance allowance	-----------	-----------	500.00
Interest on lone [25000x18/100x1/12]	-----------	-----------	375.00
Total cost	3233.34	2400.00	2175.00
Cost per km.	Rs. 1.62 *	Rs. 1.20	Rs. 1.09

* The cost of Alternative (I) will still go up and the Alternative (III) cost is the lowest cost. Hence Executive car is recommended. Further, the company can invest Rs. 50000/- elsewhere for some gain.

Group - II

PAPER: 9 PART - i

OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - OPERATIONS MANAGEMENT

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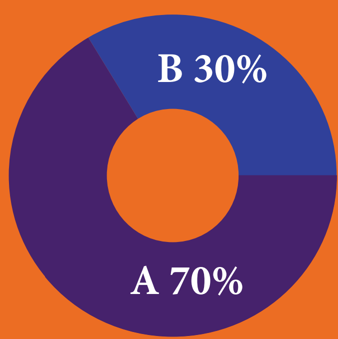
Your Preparation Quick Takes

Syllabus Structure

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



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.

In continuation to our discussions in June e-bulletin this time we will discuss on Preventive Maintenance Policy (PMP) vs. Repair Policy (RP) and Replacement

All equipment have some life and sooner or later all machineries and equipment are to be replaced.

A replacement is needed when economically new machines are more efficient in all respects.

Preventive maintenance policy as well as Repair policy has some time limit beyond which keeping production with old PME (Plant Machineries and Equipment) would be difficult with cost effectiveness. At this juncture Replacement is necessary---either individually or in groups.

Like our previous discussions in June e-bulletin let us take a simple example to discuss PM, Repair and Replacement together.

Q1.

Assume the following three breakdown probability distribution

End of month	Probability of Breakdown
1	0
2	0.1
3	0.1
4	0.1
5	0.2
6	0.5

Let us take Average Repair Cost on breakdown C_R = D100 & Cost of Preventive maintenance C_{PM} = D75, Cost of Individual Replacement CI = D80, Cost of Group Replacement = D50/machine

For a pool of 100 machines, Could you recommend PM? When you will go for Replacement?

Ans:

Month following Maintenance (*i*)	Probability of Breakdown (*p*)	Average free run time (*i* p*)
1	0.0	0.0
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.2	1.0

6	0.5	3.0
		$\sum$ 4.9months/breakdown/machine

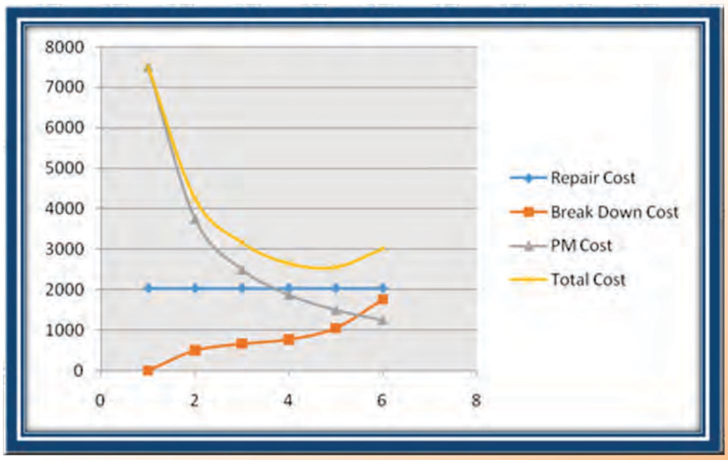
Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 4.9 months 1 breakdown
So for 1 machine in 1 month (1/4.9) breakdown
So for 100 machines in 1 month (100/4.9) = 20.40816 breakdowns

Repair Policy Cost = Average number of repairs per month X Average repair cost on breakdown = 20.40816 X 100 = D2040.816
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.100)	Expected Monthly PM Cost (Rs.75 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	0	0	0	7500	7500
2	10	5	500	3750	4250
3	20	6.667	666.70	2500	3166.7
4	31	7.75	775	1875	2650
5	53	10.6	1060	1500	2560
6	106.1	17.683	1768.3	1250	3018.3

Computation of Col.2:
Month 1: 100*0.0 =0
Month2: 100*(0.0+0.1)+0*0.0 = 10
Month3: 100*(0.0+0.1+0.1) + 0*0.1 +10*0.0 = 20
Month4: 100*(0.0+0.1+0.1+0.1) + 0*0.1+10*0.1+20*0.0 = 31
Month5: 100*(0.0+0.1+0.1+0.1+0.2) +0*0.1+10*0.1+20*0.1+31*0.0 = 53
Month6: 100*(0.0+0.1+0.1+0.1+0.2+0.5) +0*0.2+10*0.1+20*0.1+31*0.1+53*0.0 = 106.1
Graphical Representation of PM/Repair Policy:



So from the above it is clearly observed that PM policy is inferior to Repair policy. But will repair policy sustainable?

Answer is NO. After continuing for some time with repair policy cost effectiveness of the policy will be lost and at this stage we have to replace ---either individual machines or in blocks.

To do this analysis we will follow the steps below mentioned:

Step-I: Determination of Number of failures in different weeks. Table-II

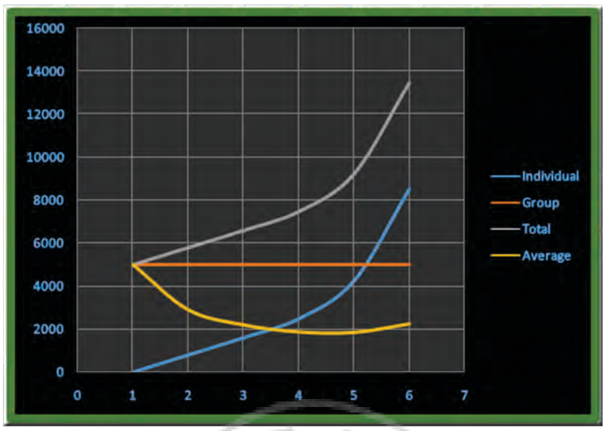
Maintenance Cycle (n) , months	Probability of Breakdown (*p*)	Expected Breakdowns
1	0.0	0
2	0.1	10
3	0.1	20
4	0.1	31
5	0.2	53
6	0.5	106.1

Column 2 of Table 1

Step-2: Determination of Average Cost of Different Policies Table-III

Months	No of Individual Replacements	Cost of Replacements			
		Individual (Col2 x 80)	Group (100 X 50)	Total (Col3 +Col4)	Average Cost (Col5/Col1)0
1	0	0	5000	5000	5000
2	10	800	5000	5800	2900
3	20	1600	5000	6600	2200
4	31	2480	5000	7480	1870
5	53	4240	5000	9240	1848
6	106.1	8488	5000	13488	2248

From the table it is observed that the minimum cost per month is obtained by replacing all the machines (whether failed or not) after every 5 months together with individual replacements as and when required Thus optimal replacement time interval = 5 months.



But we can go for a policy "Replace as and when a machine fail" and in that case there will not be any group replacement.

To check the feasibility of "Replace as and when a machine fails" the computation will be as following assuming a machine can fail at any time during the month:

Life (months)	Mean value (Xi)	Probability (pi)	pi x Xi
0-1	0.5	0.0	0
1-2	1.5	0.1	0.15
2-3	2.5	0.1	0.25
3-4	3.5	0.1	0.35
4-5	4.5	0.2	0.9
5-6	5.5	0.5	2.75
			4.4

Mean life of a machine is = 4.4

Expected no of failures of a machine during a month = No of Machines/ Mean life of a machine

= 100/4.4
= 22.727

Monthly replacement cost = Expected no of replacements X cost of replacements
= 22.727 X 80
= ₹1818.16

Since the cost of the policy of individual replacement i.e."Replace as and when a machine fail" is less than that of the group replacement, it is advisable to go for individual replacement.

But if the policy is "Replace all if one fails" then a different type of Group replacement breakdown decision problem comes. To illustrate let us take the following problem:

Q2.

A replaceable item shows the following failure behavior. There are 5 such similar items in the office:

Month	Probability
1	0.05
2	0.15
3	0.35
4	0.25
5	0.20

Currently as each item fails, the failed item is replaced by a new one. Instead if it is thought off for changing over to a group breakdown replacement policy i.e. when one of these items fails, all items are replaced.

If the cost of replacing all items together is D50/item while the cost of replacing an item individually is D80, is group breakdown replacement policy justified?

Ans.

Probability of an item serving up to 1st month = 1-0.05 = 0.95
Hence probability of all 5 items surviving up to 1st month = $(0.95)^5$ = 0.774
Hence probability that the first failure occurs at month 1 = 1-0.774 = 0.226

Probability of an item serving up to 2nd month = 1-(0.05+0.15) = 0.80
Hence probability of all 5 items surviving up to 1st month = $(0.80)^5$ = 0.328
Hence probability that the first failure occurs either at month 1 or at month 2 = 1-0.328 = 0.672
Hence probability that the first failure occurs at month 2 = 0.672-0.226 = 0.446

Probability of an item serving up to 3rd month = 1-(0.05+0.15+0.35) = 0.45
Hence probability of all 5 items surviving up to 1st month = $(0.45)^5$ = 0.0185
Hence probability that the first failure occurs either at month 1 or at month 2 or at month 3 = 1-0.0185 = 0.982
Hence probability that the first failure occurs at month 3 = 0.982-0.672 = 0.310

Probability of an item serving up to 4th month = 1-(0.05+0.15+0.35+0.25) = 0.20
Hence probability of all 5 items surviving up to 1st month = $(0.20)^5$ = 0.00032
Hence probability that the first failure occurs either at month 1 or at month 2 or at month 3 or at 4th month = 1-0.00032 = 0.99968
Hence probability that the first failure occurs at month 4 = 0.99968-0.982 = 0.01768

Probability of an item serving up to 5th month = 1-(0.05+0.15+0.35+0.25+0.20) = 0
Hence probability of all 5 items surviving up to 1st month = $(0)^5$ = 0
Hence probability that the first failure occurs either at month 1 or at month 2 or at month 3 or at 4th month or at 5th month = 1-0 = 1
Hence probability that the first failure occurs at month 5 = 1-0.99968 = 0.00032

Therefore average life for first failure is
= 1 X 0.226 + 2 X 0.446 + 3 X 0.310 + 4 X 0.01768 + 5 X 0.00032 = 2.12032

Hence per month cost of group breakdown replacement policy = 5 X 50/ 2.12032 = D117.91

To check the feasibility of "Replace as and when a machine fails" the computation will be as following like in Q1.

Life (months)	Mean value (Xi)	Probability (pi)	pi x Xi
0-1	0.5	0.05	0.025
1-2	1.5	0.15	0.225
2-3	2.5	0.35	0.875
3-4	3.5	0.25	0.875
4-5	4.5	0.20	0.9
			2.9

Mean life of a machine is = 2.9

Expected no of failures of a machine during a month = No of Machines/ Mean life of a machine

= 5/2.9

Monthly replacement cost = Expected no of replacements X cost of replacements
= 80 X 5/29
= D137.93

Therefore Group breakdown replacement policy is better than individual breakdown replacement policy as in the first case there will be a saving per month.

Suggestions:

The study notes, again I am reiterating, need to be read thoroughly. Proper understanding of different replacement policies is most important to face different cases. Study note problems are required to be practiced thoroughly without just mugging. Clear differentiation between "Group Replacement" & "Replacement as and when PME fails" is to be made for arriving at a decision. For supplementary readings one can refer Modern Production/Operations Management by Buffa and Sarin, Quantitative Techniques in Management by ND Vohra & Production And Operations Management by S. N. CharyAttempts here are made to clearly explain decision making problems between PMcycle, Repairs cycle, Group Replacement and "Replacement as and when failure occurs". From guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on Syllabus -16, idea was taken here. Students should also attempt additional numerical problems from the referred bookswith their own efforts. For better clarity, again I am advising, one could do these sorts of problems in "EXCEL" changing breakdown probability distribution figures and factor costs-$C_{R,}C_{PM}$& other costs items.

Best Wishes

Group - II

PAPER: 9 PART - ii

OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM) - STRATEGIC MANAGEMENT

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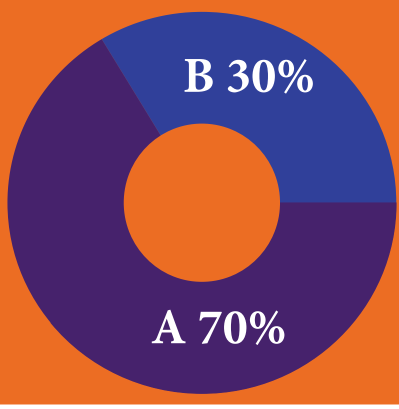
Your Preparation Quick Takes

Syllabus Structure

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



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.

In this issue we will discuss about Portfolio management. Portfolio as we know is the collection of investments made by a company and its management refers to the art of selecting the right investment tool in the right proportion for getting optimum returns in terms of profit.

The ADL model is a portfolio management method by Arthur D. Little which helps managers decide on the strategic position of their SBUs on the basis of 2 dimensions i.e. the environmental assessment and the firm strength assessment or in other words the SBUs' strategic position in the Industry and Industry life cycle. So the basic thinking behind the ADL model is that it is a portfolio management method based of Product Life cycle. The industry maturity is similar to the PLC and hence one of the dimensions is stated as Industry life cycle. While deciding about the competitive position of each SBU the strategy makers have to decide on

a) At what stage of life cycle is the industry of the concerned SBU?
b) How strong is the SBU's strategic position?

Industry life cycle stage

Competitive Position	Embryonic	Growth	Mature	Ageing
Dominant	All out push for share. Hold position.	Hold position. Hold share.	Hold position. Grow with industry.	Hold position.
Strong	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold position. Grow with industry.	Hold position or harvest.
Favourable	Selective. Selectively attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Phased out withdrawal or harvest.
Tenable	Selectively push for position.	Find niche and protect it.	Phased out withdrawal or find niche and hang on.	Phased out withdrawal or abandon.
Weak	Up or out.	Turnaround or abandon.	Turnaround orphaned out with drawal.	Abandon

ADL PORTFOLIO MANAGEMENT MATRIX

The matrix above shows the combination of the various stages of the Industry Life Cycle and the strategic position of the SBUs and also speaks about the organization's strategy at that particular level. In the matrix we can see there are 4 stages of the industry life cycle namely –

a) Embryonic stage – this is the introductory stage of the product characterized by rapid growth market and little competition
b) Growth stage – at this stage few competitors come in and the market continues to strengthen and sales keep soaring high.
c) Maturity stage – at this stage the market is stable and the price falls due to influx of more competitors.
d) Ageing stage – this stage is characterized by decreased demand for the product and the companies start abandoning the market.

The assessment of the industry life cycle stage of each business is made on the basis of Business market share, Profitability and cash flow and Investments made.

Now coming to another dimension, Aurther D. Little formulated 5 categories of competitive position within the matrix.

- Dominant position – a company falls into this category if it enjoys a monopoly position. At this stage there is little or no competition the product is new in the market. This is very rare.
- Strong position – this is characterized by strong and stable market without too much consideration of the moves by the rivals because it has already started earning a loyal customer base.
- Favorable position – at this stage there are many competitors and the company enjoys competitive advantage in certain segments of the market with fragmented industry.
- Tenable position – at this position the company enjoys a geographical or product niche and its position in the overall market tends to be small.
- Weak position – at this position the company faces continuous loss and it becomes too small to be profitable or survive over the long term.

The limitations of the ADL matrix framework –

- The standard length of the life cycles are not mentioned,
- Determination of the industry life cycle requires great know how.

Group - II

PAPER: 10

COST & MANAGEMENT ACCCOUNTING AND FINANCIAL MANAGEMENT (CMFM)

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Your Preparation Quick Takes

Syllabus Structure

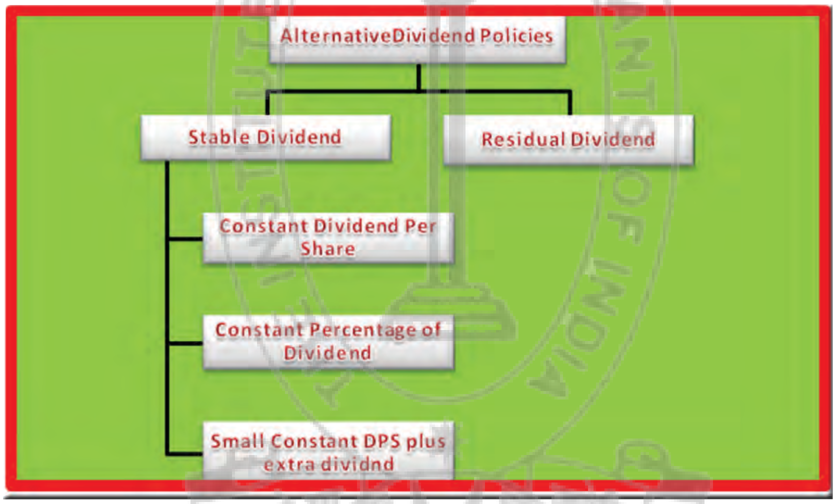
A Cost & Management Accounting **50%**
B Financial Management **50%**

Learning Objectives:

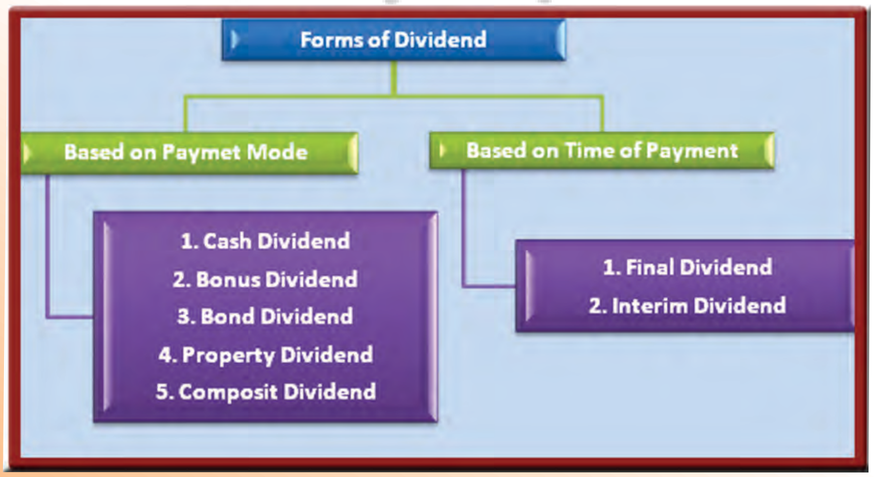
The paper Cost & Management Accounting and Financial Management (Group II; Paper 10) is a unique blend of theoretical elaborations and practical illustrations. The aim of this paper is to equip the students with a working level knowledge regarding the two disciplines and prepare a ground for a few advanced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

Chapter 9: Dividend Decision Theories:

- **Meaning of Dividend:** Dividend is the part of divisible profit which is actually distributed among the shareholders as a return on their investment in the company in form of share capital.
- **Nature of Dividend:** Based on a number of factors including the working capital position of the company, future profitability and shareholders' expectations, a company decides its dividend policy. Accordingly the following types of dividend payments are observed –



- **Types of Dividend:** A company may pay dividend in different forms as follows:



- **Factors Determining Dividend Policy:** The factors that determine the dividend policy of a company are as follows:

- **Dividend Theories:** Dividend theories attempt to explain the relationship between dividend payment and market price of shares. In other words, they explain whether payment of dividend can affect the market price of share of the company in any way. There are basically two alternative approaches in this respect, viz. relevance approach and irrelevance approach. Under relevance approach which says dividend policy do affect the share price and hence it should be very carefully designed. The other approach simply denies any role of dividend payment in deciding the share value.
  While under relevance approach two popular theories are – Walter's Model and Gordon's Model, irrelevance approach is has Modigliani and Miller Hypothesis.

- **Walter's Model:** According to Prof. James E. Walter, the dividend policy of a firm should be so designed as to maximize the shareholders' value or market capitalization.
  (a) Assumptions:
  Walter's model on dividend is based on certain assumptions. These are as follows-
  a) The firm does not issue any new share or debt.
  b) It makes additional financing only through retained earnings.
  c) The firm either distributes its entire earnings as dividend or re-invests immediately as additional capital into the business.
  d) Its internal rate of return (r) and cost of capital (k) remain constant so that the business risk is unchanged with additional investment proposals.
  e) Firms beginning EPS and DPS are constant and given.
  f) The firm has a perpetual life.

- **Substance/ Main theme:**
  According to Walter, reinvestment of earnings should always be given priority over dividend payment in situations when investments are rewarding and the market recognizes that by placing higher value to the firm. Walter's model can be summed up as follows –
  1. Where rate of return (r) > cost of capital (k): This is the situation for growth firms. These firms generally have investment proposals which are profitable i.e. which can surely earn returns higher than the cost of funding them. Since higher profits are translated into higher market price for shares, a firm maximizes the share price by simply investing entire retained earnings into such projects. Hence optimal dividend payout ratio turns out to be nil i.e. zero.
  2. Where rate of return (r) < cost of capital (k): This is the situation for declining firms. These firms generally have investment proposals which are not profitable i.e. which can barely earn returns to recoup the cost of funding them. In such a situation it would be wise for the firm to distribute its entire earnings as dividends as that may enable shareholders to earn higher returns from investments elsewhere. Thus, for a declining firm, market value will increase as the dividend payout is more. Consequently, optimum payout ratio will be 100%.
  3. Where rate of return (r) = cost of capital (k): This is the situation for normal firms. Since the firms can just break even at this

situation they will be indifferent towards the acceptance or rejection of any investment proposal. Thus market price will also become insensitive to the payout ratio. Hence, for a normal firm, dividend policy will become completely irrelevant.

(b) Formula:

Walter explained his propositions by means of the following mathematical model.

$P = \frac{D + \frac{r}{k}(E - D)}{k}$ where P = Market price per share, D = Dividend per share, E = Earnings per share,

r = rate of return on investment, k = cost of capital.

Since in this model r and k are likely to remain fixed for a given category of firms, varying values of D, keeping E fixed can easily show how market price of share is maximized.

(C) A case study:

From the following information compute the value per share of each of the companies under Walter's Dividend Model assuming dividend payout ratios of zero, 25%, 50%, 75% and 100%.

Particulars	X Ltd.	Y Ltd.	Z Ltd.
Earnings per share (E)	Rs. 20	Rs. 20	Rs. 20
Rate of return on investment (r)	18%	10%	8%
Cost of Capital (k)	10%	10%	10%

Also comment on the optimal dividend policy to be followed by individual firms.

- **Solution:** According to Walter, the value per share can be determined by the formula –

$P = \frac{D + \frac{r}{k}(E - D)}{k}$ where P = Market price per share, D = Dividend per share, E = Earnings per share,

r = rate of return on investment, k = cost of capital.

Statement Showing Computation of Market Price per Share			
Particulars	X Ltd.(where r > k)	Y Ltd. (where r = k)	Z Ltd. (where r < k)
Given	E = Rs.20 r = 18% i.e. 0.18 k = 10% i.e. 0.10	E = Rs.20 r = 10% i.e. 0.10 k = 10% i.e. 0.10	E = Rs.20 r = 8% i.e. 0.08 k = 10% i.e. 0.10
Where Dividend Payout ratio = 0	D = E*Payout ratio =20*0 = 0 Hence, $P = \frac{0+\frac{0.18}{0.10}(20-0)}{0.10}$ =360	D = E*Payout ratio =20*0 = 0 Hence, $P = \frac{0+\frac{0.10}{0.10}(20-0)}{0.10}$ =200	D = E*Payout ratio =20*0 = 0 Hence, $P = \frac{0+\frac{0.08}{0.10}(20-0)}{0.10}$ =160
Where Dividend Payout ratio = 25%	D = E*Payout ratio =20*0.25 = 5.00 Hence, $P = \frac{5.00+\frac{0.18}{0.10}(20-5.00)}{0.10}$ =320	D = E*Payout ratio =20*0.25 = 5.00 Hence, $P = \frac{5.00+\frac{0.10}{0.10}(20-5.00)}{0.10}$ =200	D = E*Payout ratio =20*0.25 = 5.00 Hence, $P = \frac{5.00+\frac{0.08}{0.10}(20-5.00)}{0.10}$ =170
Where Dividend Payout ratio = 50%	D = E*Payout ratio =20*0.50 = 10 Hence, $P = \frac{10+\frac{0.18}{0.10}(20-10)}{0.10}$ =280	D = E*Payout ratio =20*0.50 = 10 Hence, $P = \frac{10+\frac{0.10}{0.10}(20-10)}{0.10}$ =200	D = E*Payout ratio =20*0.50 = 10 Hence, $P = \frac{10+\frac{0.08}{0.10}(20-10)}{0.10}$ =180
Where Dividend Payout ratio = 75%	D = E*Payout ratio =20*0.75 = 15.00 Hence, $P = \frac{15+\frac{0.18}{0.10}(20-15.00)}{0.10}$ =120	D = E*Payout ratio =20*0.75 = 15.00 Hence, $P = \frac{15+\frac{0.10}{0.10}(20-15.00)}{0.10}$ =100	D = E*Payout ratio =20*0.75 = 15.00 Hence, $P = \frac{15+\frac{0.08}{0.10}(20-15.00)}{0.10}$ =95
Where Dividend Payout ratio = 100%	D = E*Payout ratio =20*1.00 = 20 Hence, $P = \frac{20+\frac{0.18}{0.10}(20-20)}{0.10}$ =200	D = E*Payout ratio =20*1.00 =20 Hence, $P = \frac{20+\frac{0.10}{0.10}(20-20)}{0.10}$ =200	D = E*Payout ratio =20*1.00 = 20 Hence, $P = \frac{20+\frac{0.08}{0.10}(20-20)}{0.10}$ =200

- **Comment:**

In case of X Ltd, rate of return (r) is higher than the cost of capital (k). Hence it is a growth firm. It can be observed here that as X Ltd. increases the dividend payout ratio value per share decreases. Value per share is the maximum when dividend payout ratio is zero. Therefore, optimal dividend payout ratio for X Ltd. is zero. In other words it should retain its entire earnings and should not pay any dividend.

Group - II

PAPER: 11

INDIRECT TAXATION (ITX)

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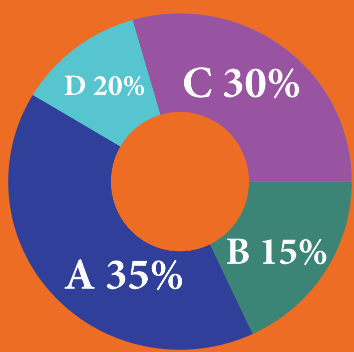
Your Preparation Quick Takes

Syllabus Structure

A Canons of Taxation - Indirect Tax & Central Excise **35%**
B Customs Law **15%**
C Servce Tax **30%**
D Central Sales Tax and VAT **20%**



Learning objectives:

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

A Revision on Customs & Excise Duty

The **Central Board of Excise and Custom** renamed as Central Board of Indirect taxes and Customs (CBIC) is the nodal national agency responsible for administering Customs, Central Excise, Service Tax & Narcotics in India. The Customs & Central Excise department was established in the year 1855 by the then British Governor General of India, to administer customs laws in India and collection of import duties / land revenue. It is one of the oldest government departments of India.

Currently the Customs and Excise department comes under the Department of Revenue, Ministry of Finance. The agency is staffed by IRS officers who start their careers as Assistant Commissioners in the field and within 20–25 years rise to the post of Chief Commissioners, with a few senior most officers who become Members of CBEC / CESTAT / Settlement Commission.

The **Central Board of Excise & Customs** (CBEC) is headed by **Chairperson CBEC** and consists of six members from **CBEC**.

- **Central Excise Duty**

  It is levied on a manufacturer or producer in respect of the commodities produced or manufactured by it, with intention to sell or proceed to sale of those particular goods. The department of revenue of the ministry of finance exercises control in matters relating to all indirect taxes through statutory board named the Central Board of Excise and Customs [CBEC]. The board was constituted under The Central Board of Revenue Act 1963, and Central Board of Direct Tax [CBDT] is also constituted under this act. Central Excise Duty is levied on certain goods for their production or sale catering or on licenses on specific services and activities. Excise duty is an inland tax unlike custom duties is an inland tax. Also this duty charges are a form of Indirect Tax. Indirect taxes are generally collected by a retail store or an intermediary body from the person who ultimately bears the responsibility of paying the tax as a consumer. The producer of the goods then pays this tax to the government. This amount is excise of the VAT (Value Added Tax) and sales tax that is charged to the consumers when purchasing a good.

The excise duty falls under the Central Excise Duty Act, 1944. The state government charges them on certain goods such as narcotics, alcohol and alcoholic products; the duty charges on other goods are collected by the central government, hence the term *Central Excise Duty*. The tax is, however, collected by the government when the goods are being removed from the factory and dispatch

In the 2016 Union budget of India, an excise of duty of 1% without input tax credit and 12.5% with input tax credit was imposed on articles of jewellery with the exception of silver jewellery. The government had earlier proposed an excise duty in the Budget 2011-12, which had to be rolled back after massive protests by jewellers.

- **Customs**

  It is an authority or agency in a country responsible for collecting tariffs and for controlling the flow of goods, including animals, transports, personal effects, and hazardous items, into and out of a country. The movement of people into and out of a country is normally monitored by immigration authorities, under a variety of names and arrangements. The immigration authorities normally check for appropriate documentation, verify that a person is entitled to enter the country, apprehend people wanted by domestic or international arrest warrants, and impede the entry of people deemed dangerous to the country.

Each country has its own laws and regulations for the import and export of goods into and out of a country, which its customs authority enforces. The import or export of some goods may be restricted or forbidden.[2] In most countries, customs are attained through government agreements and international laws. A customs duty is a tariff or tax on the importation (usually) or exportation (unusually) of goods. Commercial goods not yet cleared through customs are held in a customs area, often called a bonded store, until processed. All authorized ports are recognized customs areas.

Difference between Excise Duty and Custom Duty

Excise duty is basically a form of indirect tax levied by the government on goods that are manufactured within the country. It is expected to be paid by the manufacturer when they introduce their goods for consumption into the market. This form of taxing is also called the manufacturing tax, since it is a tax levied on the manufacturer and consumers are not required to pay it. Excise duty is of three types: Basic Excise Duty, Additional Duty of Excise, and Special Excise Duty.

On the other hand, Custom Duty is a form of indirect tax levied by the government on goods that are sold in India but are manufactured outside the country. In other words, this tax is levied on imports that are shipped from other nations.

The biggest difference between VAT/sales tax and excise duty is that the prior to be charged on consumption of goods, whereas excise is charged on the manufacture and production of goods. Excise duties are also chargeable on a narrower range of products, as compared to VAT and sales tax. For example, excise is not chargeable on fossil fuels unlike sales tax and VAT. The excise amount is generally accounts for a higher percentage of the maximum retail price of the products. Excise is chargeable on per unit basis, i.e. it is calculated on the costing of good for a specific amount in the form of volume, weight or units. VAT and sales tax amounts are calculated proportional to the maximum retail price of the product or services.

Excise Duty V/s Customs Duty:

If you take a look at both of these taxes at first, both are taxes levied by the government of India but the most significant difference between the two is that customs duty is a tax levied upon goods imported into the country from foreign countries while excise duty is levied by the government on the goods manufactured in the country. It is important to note that many provisions are common to both customs and excise duty. Also, both taxes have similar procedures of administration, tribunal and settlement. At the same time the refund search, principles of valuation, confiscation and appeal are similar for both taxes.

What is the Purpose of Excise Duty?

There is a necessity of taxes in any country but it is important to know what the Government does with that money. Taxes are levied to ensure the smooth running of the public services in India. Excise duty is a part of it.

It makes sure that the manufacturing sector is involving themselves in the taxation to cover all aspects. Taxes can also be a tool to control the sale of a good, especially narcotic substances and alcohol. The increase in tax amount of such products may have eventually lead to reduction of purchase due to ill affordability.

Taxes in general, help Governments in infrastructure projects such as building roads, railway networks that are used by the public. It also helps to ensure that the defense forces i.e. navy, airforce and army are being maintained and the required arms are being funded, so that taxpayer or not, a citizen of India feels safe and secure at home. Other maintenances such as public parks, water treatment and cleanliness in public places are funded by such taxes. A lot of free public healthcare is funded through these taxes. Any Government or public building, organization, area or service is indeed funded by such taxes.

Also, under the Indian law system excise tax, unless exempted under the corresponding acts. If an individual or an organization is caught evading excise tax, the penance could be a fine of 20-50% of duty evaded. It also spoils the organization and the involved individual's image.

How do you Evaluate Excisable Goods?

It is done in the basis any one of the 2 two provisions enshrined in the Central Excise law in India. These provisions are Valuation under section 4 of the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985, The earlier act is based on normal price where maximum retail price is not to the Central Government or where Tariff values have not been fixed for the articles. Under section 3(2) of the Central Excise Tariff Act, 1985 the valuation is simply based on maximum retail price (MRP) under section 4A of the Central Excise Act, 1944. Section 4A of the Central Excise Act of 1944 applies on the excisable goods that are notified by the Central Govt.

Group - II

PAPER: 12

COMPANY ACCOUNTS & AUDIT (CAA)

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Your Preparation Quick Takes

Syllabus Structure

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

Learning Objectives:

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

Today after long discussion on various issues within syllabus we are to move our necks towards some basics of accounting and financial statements to refine our preparation and to push thrust on corporate accounting. We should refine the theoretical background. Now accounting is in an age of rapid transition. Its environment has undergone vast changes in the last two decades due to advent of technology coupled with globalisation.

Changing Social attitudes combined with development of information technology, quantitative methods and the behavioural sciences affect the environment in which the accounting operates.

The central purpose of accounting is to make possible the periodic matching of costs and revenues but accounting is not only the profit determining tool. It is the art of recording, classifying and summarising the transactions of financial character and interpreting the result thereof.

In this light the purpose of preparation of financial statement is to provide information which is potentially useful for making economic decision.

The scope of accounting should not be restricted to the private use of information which has the limited perspective. In the past, the interests of the shareholders, investors and creditors have exerted a dominating influence on accounting practices. But now the interests of employees, consumers and the public at large ought to be taken into account.

Before engulfing on hardcore techniques of presenting financial statements according to accounting standards and IFRS the factors which affect accounting may be identified as follows -

1. Development in quantitative methods and the behavioural sciences have shifted the focus of interest towards decision making. Management now has become less descriptive and more analytical. Advances in the behavioural sciences have also increased the level of knowledge existing about the organisational decision making process.

2. The emphasis on decision making in recent years has brought together various disciplines. Since there are different aspects of decision making- economic, behavioural, sociological and quantitative, accounting has become an interdisciplinary subject. The accountant has to be knowledgeable over a broad area for efficient providing information which is relevant and useful for decision making. Students of CMA may get pride that they will be more vibrating accountant than traditional accountant.

3. Traditional accounting is being faded today. Accounting with new knowledge and different skills are very much needed today to cope up the challenges of modern business.

4. Accounting is not an exact science. It is a social science. Accounting concepts do not rest on universal truth or general laws. Rather they are routed in the value system of the society in which they operate. Hence value judgements are applied for the preparation of financial statements and also for interpretation of various outputs. The subjective nature of these values implies that there is ample opportunities for controversy as to how events should be measured and to whom such measurements are intended.

5. The nature of external financial reporting has caused much concern in recent years for the widespread of stock market operation accounting is not country specific as the business is global Accounting is also global.

6. Increasingly business corporations are viewed as accountable to society in general in addition to being answerable to

shareholders .

PREMISE OF FINANCIAL STATEMNTS

Users of accounting information should be regarded as decision makers interested in determining the sacrifices which must be made for the benefits which are expected to flow from the decisions . The rational decision makers will seek to maximise long run returns consistent with the degree of risk which they are willing to accept.

The users of accounting information may be shareholders and investors, management, governments, creditors, employees and other groups. Financial statements should provide information which provides basis of decisions for the users aforesaid. The effectiveness of financial statements depends on decisioning aspects of users. By identifying the basic goal of financial statements as being the provision of information for decision making we provide a framework for inculcating the effectiveness of the system.

The three broad objectives may set for financial statements:

1. Financial statements should provide information that is useful to present and potential investors and creditors and other users in making rational investment

2.The should provide information to users in assessing the amounts, timing and uncertainty of prospective receipts and payments

3. They should provide information about the economic resources of the enterprise, the claims of those resources and the effects of transactions that change resources and claims thereof.

Serious students should undergo the premise of financial statements before engulfing on techniques of preparation of financial statements as per statutes and standards. Enjoy the reading and get the pleasure of reading.

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.

This E-bulletin is very much helpful for the revision purpose. Such bulletins should be uploaded from time to time. Hoping for more such bulletins.
Thank you

swarna chowkhani
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I want to say thanks to all my honourable mentors who have given me such a priceless Researches. These e-bulletins are very helpful and makes me feel as a part of yours. It ignites my passion to become a successful Cost Accountant like you.
Keep sending me these e-bulletins and other related matters.

Thank You,
Tushar Mukherjee
Mail id: tushmukz@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.

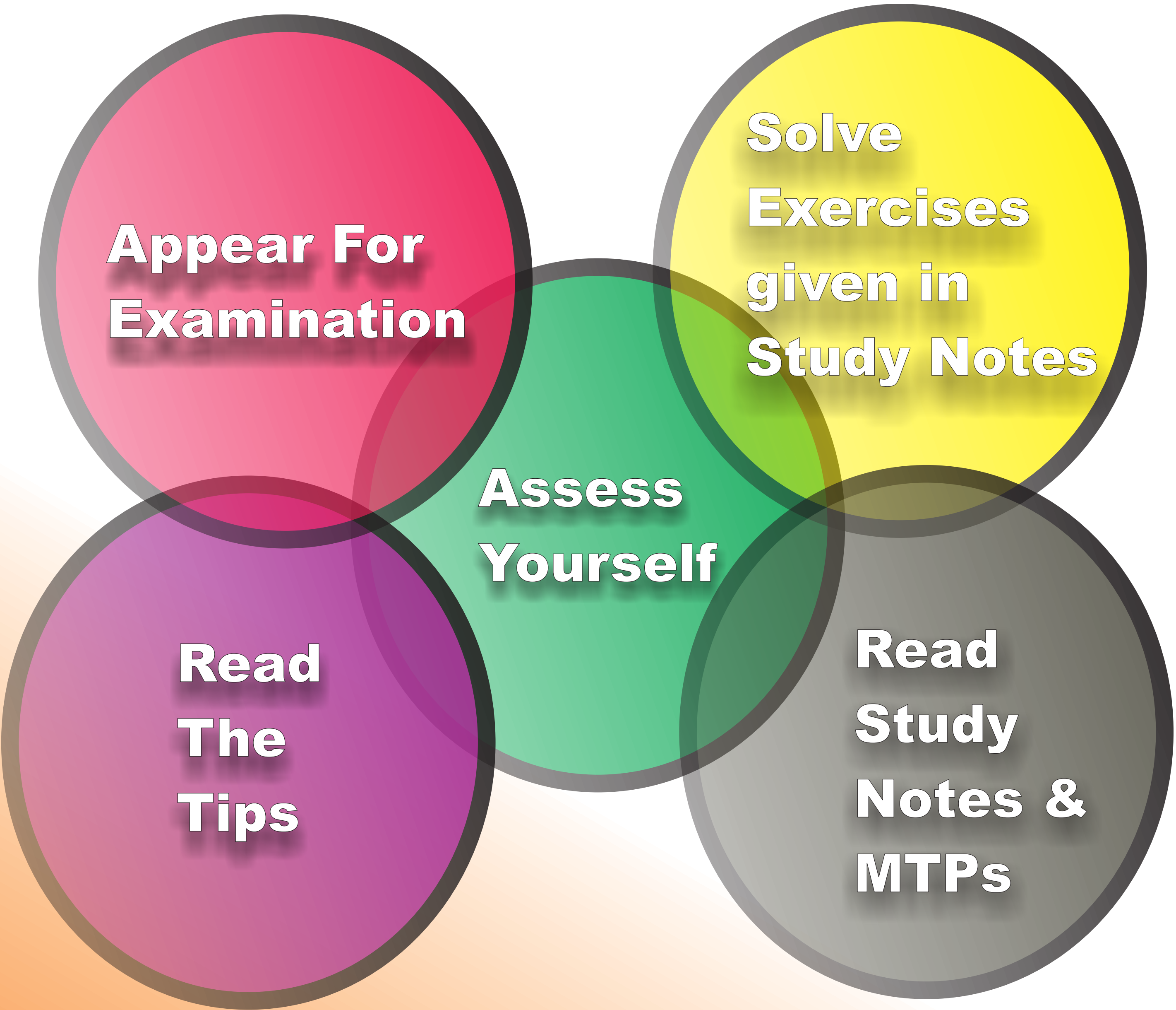
Please put your opinions so that we can make your e-bulletin everything that you want it to be.

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

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 Practice Tips

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There is nothing that replaces practice and experience. Here under are a few tips that will help prepare you to walk into any interview with a much-needed confidence.

1. There are a number of different interview settings you may encounter and it is essential to see and know how to respond in every scenario. Do one interview with a friend or colleague, where you speak to this one individual. Then answer the questions in front of five to ten friends or colleagues. And finally, answer the same questions speaking straight to the camera. Notice how each can take on a different tone, but try to keep up the trust and likeability you portray in each scenario.

2. No matter what the interview, the most common question is in reference to you and your personal traits. Practice describing yourself with language and tones that come across as confident but not cocky. Make sure you know your strengths and key characteristics you'd like your audience to know about you.

3. Ask a friend to put three random topics in a box. Pull one out at a time and practice your impromptu responses. Have the friend include one question in which you might not know the answer. It is better to rehearse how you will handle an answer you don't know before you are in a critical interview.

4. Watch a taped interview of a polished interviewee and pause the video before they give their responses to the questions. Try your hand at the answers and see how your responses differ from the actual subject. Look for differences in dialogue, eye contact, body language and expressions.

5. Your body language can often tell more to your audience than your words do. Take one of your practice videos and watch it through with the volume turned off. See what your expressions and body language is portraying to the public. Ask a friend or colleague to watch the muted video as well and see if they can interpret the mood and impressions of your interview. Try playing around with different facial and body expressions in your next test interview from the feedback you receive.

6. In many interviews, you can't control what the interviewer is going to ask you, but you often have an agenda you want to accomplish or a point you want to make. Have a friend ask you an obscure question and try to work in a natural sounding transition to incorporate the point you want to make. Politicians are experts at this. Watch a few of their interviews to see how they always work an answer in the direction they want it.

7. Try being the interviewer and ask someone else the questions. It often helps to be on the other side of the microphone. It gives us a new perspective on how to answer questions.

8. Have fun! Even when you practice, put a smile on and try to focus on the positive aspects of your answers so you always portray an affable demeanor. Your good mood can influence others so keep the positive energy coming.

Interviews can be extremely important and can be quite influential in the outcome of your career. Knowing how important an interview can be, isn't it worth putting in the time to perfect your skills? Your interest in the improvement shows you are already halfway there.

Resource: 10 Practice Tips and Activities to Improve Your Interview Skills; www.huffingtonpost.com; 06.06.2017

CCI NATIONAL LEVEL ESSAY COMPETITION, 2017-18

The Competition Commission of India (CCI) is pleased to announce a National Level Essay Competition for students pursuing Under-Graduate courses – including students
in first 3 years of an Integrated PG course including CA/CS/CMA (Category I)or Post-Graduate degrees (Category II) including PG Diploma/M.Phil./Ph.D./CA/CS/CMA/MBA.

TOPIC FOR THE ESSAY
Growth of Digital Economy – A Challenge for Competition Regulators
OR
Eight Years of Competition Law Enforcement in India

Winners stand a chance to secure attractive cash prizes.
Participants can submit their entries by email
to advocacy@cci.gov.in latest by
31st October, 2017
duly forwarded by their respective educational institutions

For further details, please visit CCI's website(http://www.cci.gov.in)

Snapshots of Global Summit 2017

14th National Awards for Excellence in Cost Management - 2016 & 4th CMA Awards - 2016

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Behind every successful business decision, there is always a CMA