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CMA STUDENTS' E- bulletin
INTERMEDIATE

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)
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Behind every successful business decision, there is always a CMA

Message from the President

Dear Students,

Greetings!!!

"Education is not the learning of facts, but the training of mind to think" – Albert Einstein

Education is a very vital tool that is used in the contemporary world to succeed. Education is like a candle in darkness which brings light. This light shows the correct way to follow. Education can only enable a human being to attain the greatest possible and also make a person ready to face any challenge in life.

I sincerely request you that everyday do something which will inch you closer to a better tomorrow. Push yourself because no one else is going to do it for you. Start believing in yourself, overcome fear of failure, develop from the negatives and if things don't work out take another shot, enjoy life, never give up, success is bound to come.

I have full faith on your capacity and strength and I believe that you will deliver your best in the years to come and will make your Institute and your country happy.

I hope you find E-bulletin helpful in your preparation and I am sure that you must capture good things out of it.

My sincere thanks goes 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.

Best wishes

CMA Sanjay Gupta,

President
The Institute of Cost Accountants of India

Be a CMA, be a Proud Indian

Message from the Vice-President

My Dear Student Friend,

"Work to Learn, Learn to Work"

We firmly believe that knowledge cannot be stolen or confiscated; neither can it be divided. Knowledge increases when it is shared, hence, knowledge is the greatest wealth. If your education imparts such knowledge then you have earned yourself the greatest asset. However, whether that knowledge can be correlated to success can only be decided by the way you put it to use. Education is just the process of learning. Education doesn't stop because you have left college and does not stop because you started attending professional course.

A great career without a great education is only a dream. The Directorate of Studies of the Institute of Cost Accountants of India and CMA Manas Kumar Thakur President (2016-17) who is Chairman, Training, Education and Placement Committee ICAI and his team is ready to guide and co-operate with you to realize your dream that is, smart success. Please read the study materials, business newspapers for updates meticulously, follow the tips given by the experts, raise doubts and revert back with your queries.

We have enormous faith on our students and we trust that the future of the World is with us as our students will deliver their best to the society and help to build the pillars of future India in the years to come!

Our best wishes to all future CMAs whom we are sure will be part of the Government of India mission and its Nation Building Process, Grow and Let the Nation Grow.

Thanks and ensure CMA SHINES

CMA H Padmanabhan

Vice President
The Institute of Cost Accountants of India

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Message from the Chairman

Dear Students,
Greetings,

"When Educating the minds of our youth we must not forget to educate their hearts"- Dalai Lama.

Your professional journey must be a quest for knowledge that goes far beyond the limitations of conventional curricula, text books and standardised examinations. I believe that when the students are pursuing the course they must try to secure the ability, be strong in their principles and be confident to face challenges. We learn to do by doing and mistakes are proof that you are trying. He who is afraid of asking is ashamed of learning. So, if you want to be more powerful in life, educate yourself; it is that simple. Always keep in mind that the expert in anything was once a beginner and you should have the courage to follow your heart and intuition.

E-bulletin helps you in your preparation as 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 their team spirit in making the timely issues.

Hope all of you have enjoyed Durga Puja, Dussehra & Onam festivals. As Diwali is approaching; I wish all of you A Happy Diwali!

Remember the sayings of M.K.Gandhi-***"Live as if you were to die tomorrow, Learn as if were to die forever"***.
Best wishes to you all,

CMA Manas Kumar Thakur

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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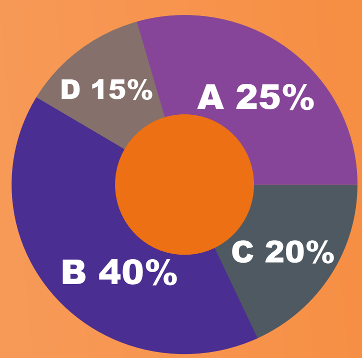
Your Preparation Quick Takes



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

RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT

Common perception in society is that accounting for business is to find out profit or loss. But this is not true because there are many organizations which are formed to serve people without the motive of profit making and they need to maintain records of financial transactions. For example, a club, a charitable institute, an educational institute or a hospital is not profit making organization. The main features of such organizations are:

- *Non profit motive*
- *Service motive*
- *Fund based accounting*
- *Incomes are mainly donations and subscriptions from members or government grants.*

So far as the accounting is concerned they maintain regular books of accounts like journal, ledger, cash book, receipts and payments account , income and expenditure account and balance sheet.

RECEPTS AND PAYMENTS ACCOUNT

It is as good as cash book showing the opening balance of cash plus the cash receipts in the debit side and all cash payments plus the closing balance of cash in the credit side. Very important to note that receipts and payments of cash do not discriminate between capital and revenue transactions. That means 'Purchase of asset' and 'Repairs to asset' both have the same importance in receipts and payments account while recording them as expenses. Same concept is applied for recording receipts. In short it is a Real Account.

INCOME AND EXPENDITURE ACCOUNT

It is as good as profit and loss account and is prepared under accrual basis to find out surplus or deficit. Unlike receipts and payments account it a Nominal Account. Considering the above example (between purchase of asset and repair of asset) only 'repair to asset' will be considered to record as expenditure. Same concept is applied while recording the incomes.

ACCOUNTING PROCESS

If receipts and payments account is given and you are asked to prepare income and expenditure account the only thing that is to be kept in mind that income and expenditure account is a subset of receipts and payments account. You have to pick up the 'revenue' transactions from the receipts and payments account and put into income and expenditure account with necessary adjustments to convert such item from cash basis to accrual basis.

EXAMPLE: 1

Receipts and payments account for the year ended 31.03.2017(extract)

Receipts	Rs.	Payments	Rs.
Subscriptions	150000	Purchase of furniture	100000
		Rent	26000
		Honourarium	11000

Additional information:

	31.03.2016	31.03.2017
Subscription due	30000	60000
Subscriptions received in advance	45000	30000
Rent paid in advance		2000
Honourarium due		1000

Income and expenditure account for the year ended 31.03.2017(extract)

Expenditure		Rs.	Income		Rs.
Rent	26000		Subscriptions	150000	
Less : paid in advance	2000	24000	Add: outstanding 2017	60000	
Honourarium	11000		Add : advance 2016	45000	
Add : due	1000	12000	Less : outstanding 2016	30000	
			Less : advance 2017	30000	195000
Surplus		159000			
		195000			**195000**

OBSERVATIONS:

From the above example you must have followed that we have not considered the purchase of furniture while preparing the income and expenditure account since this is a capital expenditure.

Again the items like rent, honourarium and subscriptions are taken on accrual basis considering the adjustments as provided.

EXAMPLE: 2

From the following Receipts and Payments account prepare an Income and Expenditure account for the year ended 31.12.2016

Receipts and payments account for the year ended 31.12.2016

Receipts	Rs.	Payments	Rs.
To balance b/d: cash in hand	1200	By Purchase of furniture	10000
: cash at bank	3400	By Rent	3600
To Subscriptions	24500	By Honourarium	4000
To Entrance fees	3000	By Salaries	2100
		By Sports expenses	4700
		By Sundry expenses	1100
		By Printing and Stationery	800
		By balance c/d : cash in had	1700
		: cash at bank	4100
	32100		**32100**

Additional information:

	31.12.2015	31.12.2016
Subscription due	2100	3200
Subscriptions received in advance	1400	2700
Rent outstanding	600	300
Salaries paid in advance	1200	900
Furniture	18000	23000

60 % of the entrance fees are to be capitalized. Interest on savings bank account for Rs.280 has not been entered in the cash book. An old furniture (WDV Rs. 8000) was exchanged at an agreed price of Rs. 5000 for a new furniture costing Rs. 15000.

Income and expenditure account for the year ended 31.12.2016

Expenditure	Rs.		Rs.
To Rent	3300	By Subscriptions	24300
To Honourarium	4000	By Entrance fees (3000x40%)	1200
To Salaries	2400	By Interest	280
To Sports expenses	4700		
To sundry expenses	1100		
To Printing and stationery	800		
To loss on exchange of furniture	3000		
To Depreciation on furniture	2000		
To surplus	**4480**		
	25780		**25780**

Note :

1. *Subscription*

Subscription	24500
Add: due for 2016	3200
Add : advance for 2015	1400
Less : advance for 2016	2700
Less : due for 2015	2100
Transfer to income and expenditure a/c	**24300**

2. *Salaries*

Salaries	2100
Add : advance for 2015	1200
Less : advance for 2016	900
Transfer to income and expenditure a/c	**2400**

3. *Rent*

Rent	3600
Add: due for 2016	300
Less : due for 2015	600

Transfer to income and expenditure a/c **3300**

4. *Loss on exchange of furniture*

WDV of furniture	8000
Less : agreed price of exchange	5000
Loss transferred to I&E A/C	**3000**

5. *Depreciation on furniture*

	Rs.		Rs.
To balance b/d	*18000*	*By creditors*	5000
To creditors	*15000*	*By loss on exchange*	3000
		By balance c/d	23000
		By depreciation	2000
	33000		**33000**

With best wishes

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

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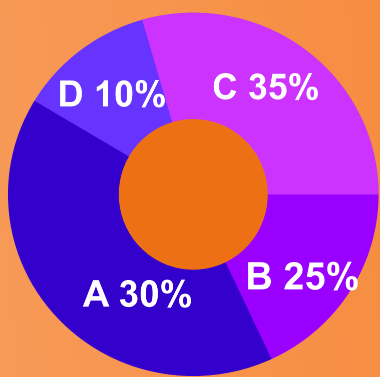
Your Preparation Quick Takes

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.

Negotiable Instruments Act,1881

The law relating to negotiable instruments is contained in the negotiable Instruments Act, 1981. It is an act to define and amend the law relating to promissory note, bills of exchange and cheques. The purpose of the Act is to present an orderly and authoritative statement of the leading rules of law relating to the negotiable instruments.

Section 13 of the Act defines the terms 'negotiable instrument' as a promissory note, bill of exchange or either payable either to order or to bearer. A promissory note, bill of exchange or cheque-

- is payable to order which is expressed to be so payable or which is expressed to be payable to a particular person and does not contain words prohibiting transfer or indicating an intention that it shall not be transferable;
- is payable to the bearer which is expressed to be so payable or on which the only or last endorsement is an endorsement in blank;
- either originally or by endorsement, is expressed to be payable to two or more payees jointly, or it may be made payable in the alternative to one of two, or one or some of several payees.

Section 13 shows that the Act is confined to three specific types of instruments most in common use, namely,

promissory notes,
bills of exchange and
cheques.

Essential Features of a Negotiable Instrument:

1. It must be in writing.
2. It should be signed by the maker or drawer.
3. There must be a promise or order to pay.
4. The promise or order must be unconditional.
5. It must call for payment in money and money only.
6. It should call for payment of a certain sum.
7. The property in the instrument may be passed in two ways:
   (a) by mere delivery; and
   (b) by endorsement and delivery.
8. The consideration is also presumed to have been passed.

Promissory Note:
Section 4 of the Act defines the term 'promissory note' as an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Example –
I promise to B or order Rs. 50000/-;
The instrument in the above example is promissory notes.

I promise to pay B Rs.20000/- seven days after my marriage with Helen.
I promise to pay Rs.50000/- on D's death, provided D leaves me enough to pay that sum.
The instruments in the above two examples do not amount to promissory notes.

That an instrument is a promissory note if there are present the following elements-

There should be an unconditional undertaking to pay;
The sum should be a sum of money and should be certain;
The payment should be the order of a person who is certain, or to the bear of the instrument.

Bill of exchange:

Section 5 defines the expression 'bill of exchange' as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

The following are the bills of exchange-
A banker's draft – Birbhum Central Co-op bank V. Pioneer Bank Limited – AIR 1956 Cal. 615;

A demand draft even if it be drawn upon another office of the same bank – S.N. Shukla V. Punjab National Bank Limited' – AIR 1960 All. 238;

An order issued by a District Board Engineer on Government Treasury for payent to or order of a certain person – Rangaswami V. Sankaralingam – ILR 43 Mad 816.

Cheque:

The term 'cheque' is defined under **Section 6** of the Act. It is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

For the purposes of this section, the terms 'a cheque in the electronic form', and 'truncated cheque' are defined which has been substituted by the Negotiable Instruments (Amendment) Act, 2015, with effect from 26.12.2015.

'**A cheque in the electronic form'** is a cheque drawn in electronic form by using any computer resource and signed in a secure system with digital signature (with or without biometric signature) and asymmetric crypto system or with electronic signature, as the case may be.

'A truncated cheque' is a cheque which is truncated during the course of a clearing cycle, either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing.

Group - I
Paper - 7
Direct Taxation (DTX)

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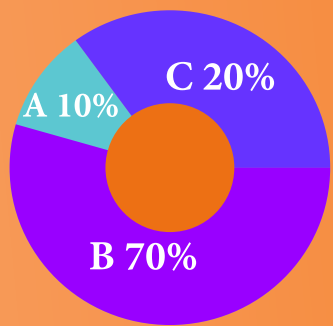
Your Preparation Quick Takes

Syllabus Structure

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



Learning Objectives:

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

Relief under Section 89

Relief under section 89 may be provided in the enunciated cases provided the conditions stipulated under **Rule 21A** is fulfilled;

(i) In respect of Salary received in advance or in arrears,
(ii) In respect of compensation or termination of employment,
(iii) In respect of commutation of employment,
(iv) In respect of other payments,
(v) In case of family pension paid in arrears to family members of the deceased employee.

Tutorial Notes:

In Case of **Voluntary Retirement Scheme (VRS)** the assessee has an option either to claim exemption under **Section 10(10C) or Relief under section 89(1)** ***but not the both*.**

Illustrative Example:

Mr Pankaj (aged 29 years), an employee of CIL Ltd, gives you the enumerated information for computation of Relief under section 89 (1):

Sl/No.	Particulars	Amount (Rs.)
1.	Salary income after all deduction	20,00,000
2.	During the year arrear of Salary(not included above) was received relating to Financial Year (F.Y) 2012-2013	2,00,000
3.	Assessed Income of Financial Year (F.Y) 2012-2013	5,00,000

The Slab rate for the Assessment Year 2013-14 is enunciated below;

Income level	Tax Rate
Upto Rs. 2,00,000	Nil
From Rs. 2,00,001 to Rs. 5,00,000	10%
From Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

Solution:

Calculation of Income and tax payable by Mr. Pankaj for the Assessment Year (A.Y) 2017-18

Sl/No.	Particulars	Total Income on Accrual Basis	Total Income on Receipt Basis
		Amount (Rs.)	Amount (Rs.)
1.	Salary income from all deduction	20,00,000	20,00,000
2.	Arrear on Salary	-	2,00,000
3.	Total Income	20,00,000	22,00,000
4.	Tax Payable	4,25,000	4,85,000
5.	Add: Education Cess and SHEC @ 3%	12,750	14,550
6.	Tax Liability	4,37,750	4,99,550

Computation of Income and Tax payable by Mr Pankaj for the Assessment Year (A.Y) 2013-14

Sl/No.	Particulars	Total Income on Accrual Basis	Total Income on Receipt Basis
		Amount (Rs.)	Amount (Rs.)
1.	Salary income from all deduction	5,00,000	5,00,000
2.	Arrear on Salary	2,00,000	-
3.	Total Income	7,00,000	5,00,000
4.	Tax Payable	70,000	30,000
5.	Add: Education Cess and SHEC @ 3%	2,100	900
6.	Tax Liability	72,100	30,900

Additional Tax required to be paid in A.Y 2017-18:
=Rs. 4,99,550 - Rs. 4,37,750
= Rs. 61,800
Additional Tax that would have been paid if charged to tax in Assessment Year (A.Y) 2013-2014:
= Rs. 72,100- Rs. 30,900
= Rs. 41,200
Difference of the two: Rs. 61,800 – Rs. 41,200
= Rs. 20,600
Excess Tax Payable – Relief under Section 89 (1)

Sl/No	Particulars	Amount (Rs.)
1.	Tax Payable	4,99,550
2.	Less: Relief under Section 89(1)	20,600
3.	Tax Payable	4,78,950

Key Note:
Slab rate of the Earlier Year will be given in the Examination to the students so, calculate the tax accordingly **don't be** panic about how to know (remember) about slab rates of previous Assessment Years. **It will always be given.**

Group - I
Paper - 8
Cost Accounting (CAC)

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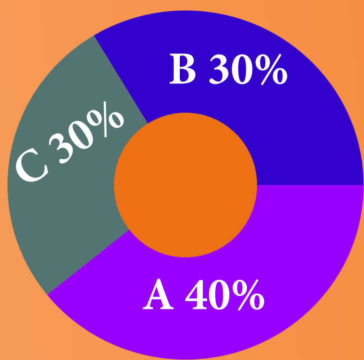
Your Preparation Quick Takes

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

This paper is most scoring out of the eight papers in the intermediate course, as 65% to 75% questions are set from practical problems and the rest are theoretical questions. Hence, you please go through the theoretical part first for easy understanding the topic and then try to solve the problems that are in exercise. Start from Chapter one and try to complete the other chapters serially as this will enable you to understand better the succeeding chapters.

Try to remember that in professional examinations, emphasis be given65 on testing comprehension self expression, understanding and ability to apply knowledge in divergent situation. Success of these examinations considerably depends on style of preparation which should have perseverance , regularity of efforts, through practice, vision and objectivity.

The following tips are given based on my long term experience -

1. A well defined plan for completing the syllabus.
2. Go through your Study Note and know the syllabus properly.
3. Analyze the trends of setting questions.
4. Time schedule with specified activities, which will help you to avoid procrastination.
5. Clarity of concepts and self expression is essential for successful result.
6. Improve your speed by practice and revision to be able to attempt all questions in limited time.
7. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

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.

The chapter contract costing is important for this type of examination. Students often experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. Make sure that you are familiar with various methods/formulas for different stage of complesion and share of profit . Students are also advised to be through on the topic " Profit on incomplet contracts based on SSAP-9. ". Problems on escalation clause used to be set at this level of examination also.

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

The chapter Marginal Costing aims to find out cost-volume-profit relationships. The main thrust should be to follow the wording and determine the desired impact of cost on profitability. The basic part of the problem is to solve Brake –even-point. Sometimes a questions gives details of costs but not the split into fixed and variable elements . Students are advised to segregate total costs into fixed and variable elements using high-low method. 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. For easy understanding you have to solve various types of problems.

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. You, 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. Depending upon the causes of variance steps should be taken.

The next chapter deals with 'Budget and budgetary control'. Budget can be expressed as a pre-determined plan of action in details. Budgetary control requires preparation of 'Flexible Budget', Functional Budget, and 'Cash Budget' for taking necessary actions. Theoretical and problem oriented questions may be set from this chapter. The students can easily understood 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. This chapter is very easy to understand and a student can secure full marks by solving this type of problems.

In solving various problems segregation of variable and fixed cost are very much essential. There are a number of methods of segregating semi-variable cost into fixed and variable elements. One of the very important method is discussed here which can help to solve various related problem.

Example – Anindita Industries Ltd. is a single product organization having a manufacturing capacity of 6000 units per week of 48 hours. The output data vis-à-vis different elements of cost for three consecutive weeks are given below –

Units produced	Direct material	Direct Labour	Total factory overhead
2400	Rs. 4800.00	Rs. 6000.00	Rs. 37,200.00
2800	Rs. 5600.00	Rs. 7000.00	Rs. 38,400.00
3600	Rs. 7200.00	Rs. 9000.00	Rs. 40,800.00

As Cost Accountant, you are asked by the Company management to work out the selling price assuming an activity level of 4000 units per week and a profit of 20% on selling price.

Solution :-

Production and different elements of cost for three consecutive weeks have been given. The total factory overheads have to be segregated into variable and fixed overheads . The variable portion will be calculated in this way –

$$\frac{\text{Change in total factory overhead}}{\text{Change in production level}} = \frac{38400 - 37200}{2800 - 2400} = 3 \text{ per unit}$$

Fixed factory overheads = (Total fixed overheads at 2400 units less variable overhead at 2400 units) = Rs. 37200 – (2400 x 3) = Rs. 30,000.00

Computation of selling price of 4000 units.

Direct materials @ Rs. 2 per unit	Rs. 8000.00
Direct Labour @ Rs. 2.50 per unit	Rs. 10000.00
Variable Overhead @ Rs. 3 per unit	Rs. 12,000.00
Fixed factory overheads	Rs. 30,000.00
Total Factory Cost	Rs. 60,000.00
Profit (20 % of S.P. or 25% of cost)	Rs. 15,000.00
Total Selling Price	Rs. 75,000.00

Selling price per unit 75000 ÷ 4000 = 18.75

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

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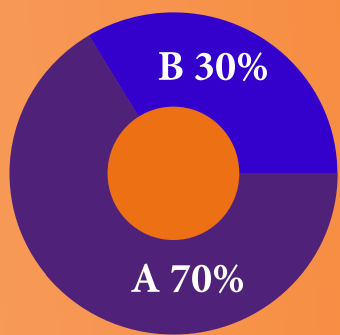
Your Preparation Quick Takes

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.

Operations Management

In this issue let us discuss Capacity Planning with one or two numerical examples. This discussion may add to the knowledge shared in item 2.2 in Study notes issued by our institute for paper 9.

All we know that Capacity planning is a long term strategic decision in operations/productions management that establishes a production unit's overall productive resources.

Capacity can be augmented in anticipation of demand growth--- Capacity lead strategy (Fig3);

Capacity is augmented after an increase in demand ---Capacity lag strategy (Fig4);

Augmentation of capacity is coincided with average expected demand--- Average Capacity strategy (Fig5). Quantum of Capacity expansion depends on i) the volume and certainty of anticipated demand; ii) strategic objectives in terms of growth, customer service, competition; iii) the costs of expansion and operation;

Capacity can be increased incrementally or in one large step as in the following figure 1 & 2.

In this lesson as an aid in to our study note problem we will discuss economic evaluation of capacity plans.

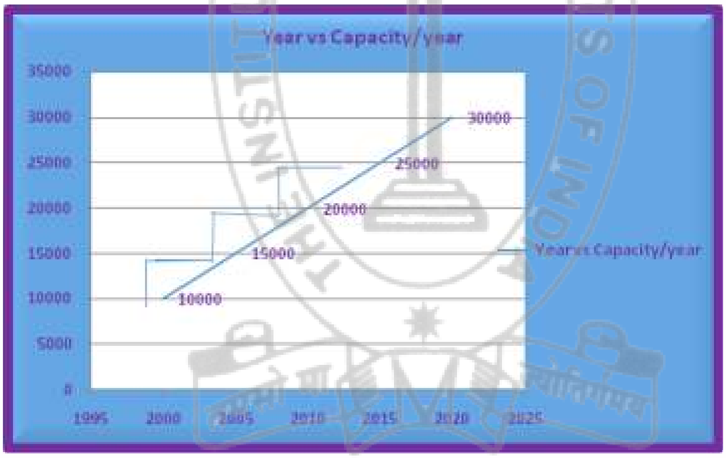


Fig 1: Capacity plans in increments through 5000 unit increments every 5 years.

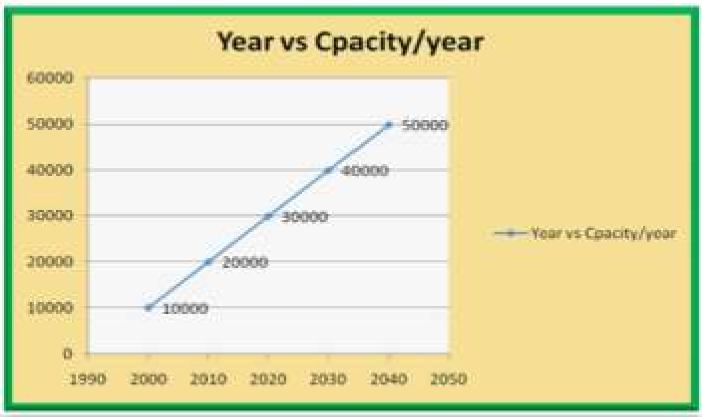


Fig 2: Capacity plans in one step through 10000 unit increments every 10 years.

As an example, assume the situation described in the figures 1 & 2. In order to simplify the analysis, we shall consider only for the first ten years with four alternatives:

1. Capacity added January 1,2000 and January 1,2005 , in increments of 5000 units;
2. Capacity of 10000 units added January 1, 2000;
3. Capacity added July 1, 2000 and July 1, 2005 in increments of 5000 units depending on overtime and multiple shifts to meet requirements during the first six months of 2000 and 2005;
4. Capacity of 10000 units added January 1, 2001 depending on overtime and multiple shifts to meet requirements during 2000;

Costs: The investment and operating costs are given in the following table:

Table 1: Original Investment requirements and operating costs

Plant Size, units per year	Original Investment (Rs.)	Operating Costs per unit (Rs.)	Operating costs per unit when using alternative means (Rs.)
5000	5,000,000	50	55
10000	8,000,000	45	50

Alternative means mean using existing capacity to meet the demand through overtime, multiple shifts etc. instead of increasing capacity.

Our objective here is to decide a simple question: Shall we go for small scale increments as in fig 1 or in large scale as in fig 2. And what we will follow ---Capacity lead or Capacity lag. In evaluating this sort of problem we will use discounted cash flow techniques (present value method). We are assuming 10% is our cost of capital and cost for producing from new capacity is centered in a year.

Solution: Alternative 1--- The present value is Rs. 9466151 as shown in the following table2.

YEAR	Demand	Production 1st Unit	Production 2nd Unit	Total Production	Pv Factor	Pvalues of Op Cost	PV Cap Cost	Total PV
2000	10000						5000000	
2001	11000	500			0.95346259	23836.5647		
2002	12000	1500			0.86678417	65008.8129		
2003	13000	2500			0.78798561	98498.2014		
2004	14000	3500			0.71635056	125361.347		
2005	15000	4500			0.65122778	146526.25	3104607	
2006	16000	5000	500	5500	0.59202525	162806.944		
2007	17000	5000	1500	6500	0.53820477	174916.552		
2008	18000	5000	2500	7500	0.48927707	183478.901		
2009	19000	5000	3500	8500	0.44479733	189038.867		
2010	20000	5000	4500	9500	0.40436121	192071.576		
						1361544.02	8104607	9466151

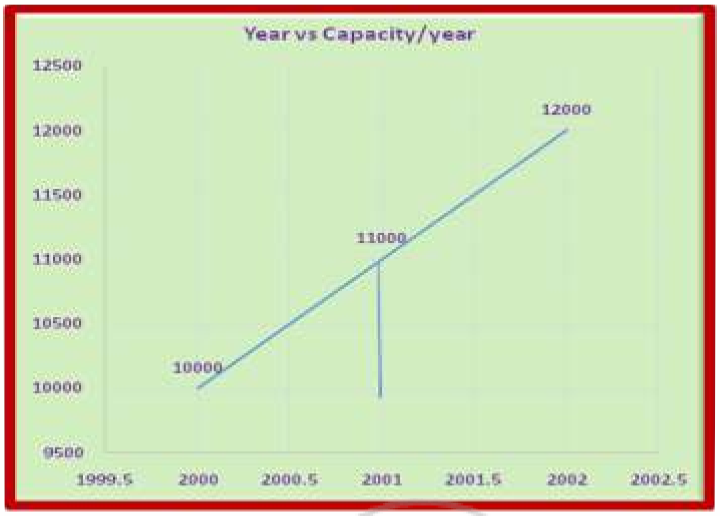
2nd column is taken from the fig 1. Increment is coming out 1000/year.

Now expecting demand growth at 1000 units per year a capacity is augmented with 5000 units in January 2000.

With this additional capacity during the first year 500 units will be produced. During the second year 1500 units will be produced, 3rd year 2500 units will be produced and so on. At the end of the fifth year the first expansion will be fully utilized.

Why only 500 units are produced in the 1st year, why 1500 units in 2nd year?

To understand this let us take the following figure extracted from fig 1.



Area of the Right angle triangle shown with hypotenuse (10000-11000) is ½ * 1 * 1000 = 500 is the no of units produced in the first year. Area of the Right angle triangle shown with hypotenuse (10000-12000) is ½ * 2 * 2000 = 2000 is the no of units produced in the first two years. From this if we subtract 1st year production then production in 2nd year will come out as 2000-500 = 1500 units.

Similarly area of the Right angle triangle with hypotenuse 10000-13000 is ½ * 3 * 3000 = 4500 is the no of units produced in the first three years. From this if we subtract 1st year production and 2nd year production then production in 3rd year will come out as 4500-1500-500 = 2500 units. No 3 is coming from (year 2003- year 2000) and 3000 is coming from (Production13000 – Production10000).
On the same logic production from new capacity in 4th year = ½ * 4 * 4000-500-1500-2500 = 3500 units.

And production from new capacity in 5th year = ½ * 5 * 5000-500-1500-2500-3500 = 4500 units.
At the end of the 5th year on 1/1/2005 further capacity of 5000 units are added. In its first year of operation this new capacity will produce 500 units. But that time the capacity which was added on 1/1/2000 had started production of 5000 units. So in 6th year total units produced = Units produced from 1st unit + units produced from 2nd unit = 5000+500 =5500units.
Similarly –

Units produced in 7th year = 5000+1500 =6500 units;
Units produced in 8th year = 5000+2500 =7500 units;
Units produced in 9th year = 5000+3500 =8500 units;
Units produced in 10th year = 5000+4500 =9500 units;
Assuming production is centered in a year the present value @10% is calculated.
PV factor at 2001 = $1/(1.10)^{0.5}$ = 0.95346259, PV factor at 2002 = $1/(1.10)^{1.5}$ = 0.86678417 and so on.
PV of operating cost = Total production * Operating cost p.u * PV factor
1st year = 500 * 50 * 0.95346259 = Rs. 23836.5647 and so on.
PV of capital cost = 5000000 * 1 + 5000000*$1/(1.10)^{5}$ = 5000000 + 3104607 = Rs. 8104607
Therefore PV of the alternative 1 = 1361544.02 + 8104607 = Rs. 9466151

Solution: Alternative 2--- The present value calculation is shown in the table3.
In this alternative one step expansion is done @ 10000 units after every 10 years as in figure 2. Here also increment per year is 1000. But in this alternative since operating cost is Rs. 45 p.u so PV of operating costs = No of units produced in a year * 45 * PV factor.
Logic behind computation of No of units produced from the new capacity and computation of PV factors are same as given in solution to alternative 1.
Alternative 2--- The present value is Rs. 9225390 as shown in the following table3.

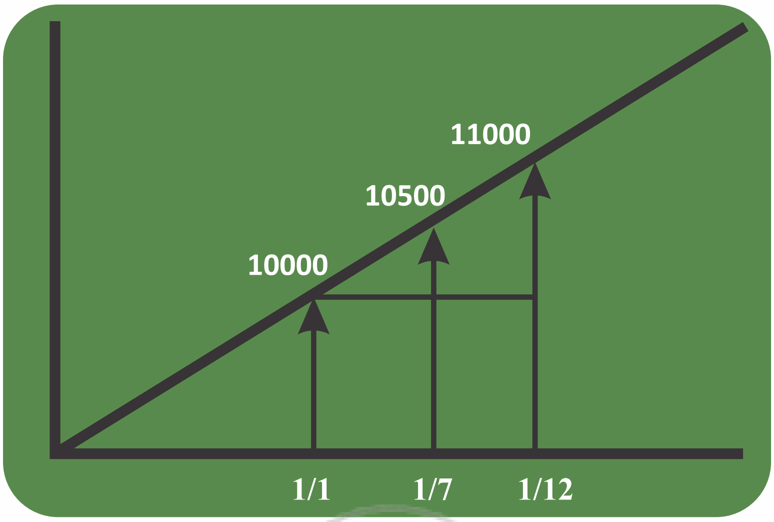
Year	Demand	Production from new unit	PV Factor	PV of Operating costs	PV of Investments	Total PV
2000	10000				8000000	
2001	11000	500	0.953463	21452.90826		
2002	12000	1500	0.866784	58507.93161		
2003	13000	2500	0.787986	88648.38123		
2004	14000	3500	0.716351	112825.2125		
2005	15000	4500	0.651228	131873.625		
2006	16000	5500	0.592025	146526.25		
2007	17000	6500	0.538205	157424.8967		
2008	18000	7500	0.489277	165131.0105		
2009	19000	8500	0.444797	170134.9805		
2010	20000	9500	0.404361	172864.4187		
				1225389.615	8000000	9225390

Solution: Alternative 3--- The present value is Rs. 9089949 as shown in the following table 4.

Year	Demand	Production Alternative source Plus 1st unit	Total production Alternative Plus 1st unit	Production Alternative Source Plus 2nd unit	PV Factor	PV Operating Costs	PV of Investments	Total PV
2000	10000						4767312.95	
2001	11000	125+375	500		0.953463	24432.47885		
2002	12000		1500		0.866784	65008.8129		
2003	13000		2500		0.787986	98498.20137		
2004	14000		3500		0.716351	125361.3472		
2005	15000		4500		0.651228	146526.25		
2006	16000		5000	125+375	0.592025	163176.9602	2960126.26	
2007	17000		5000	1500	0.538205	174916.5518		
2008	18000		5000	2500	0.489277	183478.9005		
2009	19000		5000	3500	0.444797	189038.8672		
2010	20000		5000	4500	0.404361	192071.5763		
						1362509.946	7727439.21	9089949

This alternative is more or less similar to alternative 1 except that in this case the augmentation of new capacity is delayed by ½ an year. Therefore production required in 1st year ---some portion will be met from alternative sources @ Rs. 55 p.u. and balance from new capacity.

In alternative 1 we have calculated that if new capacity comes n 1st January then in the first year production available from this will be 500 units. But capacity addition now is delayed by ½ an year. During this time production from alternative sources = ½ * base * altitude = ½ * (2000.5 -2000) * (10500 -100000) = ½ * 0.5 * 500 = 125 units.



Out of total 500 units (production in first year as in alternative 1) balance 500 -125 = 375 units will be produced from new capacity. No of units produced in other years will be same as given in solution of alternative 1. Further in 6th year units produced from 2nd capacity addition will be 375 units with 125 units needs to be produced via alternative sources. But by that time 1st capacity addition of 5000 units will be at its full. So in 6th year total units produced will be 5500 out of which 5375 from with normal operating coasts @Rs. 50 p.u whereas 125 units are to be produced @Rs. 55 p.u.

Present value of Capital cost = $5000000/(1.10)^{0.5} + 5000000/(1.10)^{5.5}$

Solution: Alternative 4--- The present value is Rs. 9225390 as shown in the following table5.

This alternative is like in alternative 2 but uses a lag strategy by delaying the investment by one year. Therefore since the capacity addition is delayed by one year so during this one year i.e in the first year the production needed are carried through alternative means @ Rs. 50 p.u and once capacity addition is done then normal operating costs are to be incurred @ Rs. 45 p.u.

PV of capital cost = 8000000/(1.10)

The detail computation are given in table

Alternative 4--- The present value is Rs. 73955046 as shown in the following table5.

Year	Demand	Production	PV factors	PV Operating Cost	PV Capital	Total PV
2000	10000					
2001	11000	500	0.953462589	23836.56473	72727273	
2002	12000	1500	0.866784172	58507.93161		
2003	13000	2500	0.787985611	88648.38123		
2004	14000	3500	0.716350555	112825.2125		
2005	15000	4500	0.651227778	131873.625		
2006	16000	5500	0.592025252	146526.25		
2007	17000	6500	0.538204775	157424.8967		
2008	18000	7500	0.489277068	165131.0105		
2009	19000	8500	0.444797335	170134.9805		
2010	20000	9500	0.404361213	172864.4187		
				1227773.271	72727273	73955046

Therefore the present values of all the four alternatives are:

Alternative 1--- The present value is Rs. 9466151;

Alternative 2--- The present value is Rs. 9225390;

Alternative 3--- The present value is Rs. 9089949;

Alternative 4--- The present value is Rs. 73955046;

So alternative 4 is the best option. Cost structure in this case study favored delayed investment and a one step large investment is preferable to others.

Fig3 & 4

Fig: 5

Suggestions:

The study notes, again I am reiterating, need to be read thoroughly. Proper understanding of various capacity planning is prerequisite to challenge different cases. Study note problems are required to be practiced thoroughly instead through a bird's eye view. Clear differentiation between "Incremental expansion" & "one step expansion" is to be made for making an appropriate decision. For supplementary readings one can refer Modern Production/Operations Management by Buffa and Sarin, Operations Management by R.S Russell & BW Taylor. Attempts here are made to clearly explain decision making problems between Incremental expansion and one step expansion. From guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on Syllabus -16, item 2.2 idea on capacity planning could be developed.. Students should also attempt additional numerical problems from the referred books with their own efforts. For better clarity, again I am advising, one could do these sorts of problems in "EXCEL" changing increments and factor costs items.

Best Wishes

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

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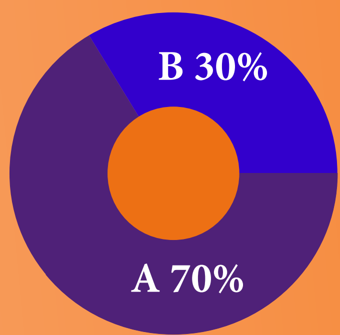
Your Preparation Quick Takes

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.

Situation Analysis

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of both external environment and internal environment.

A company's macro environment consists of all related dimensions and influences outside the company's boundaries; by relevant factors like direction, objectives, strategy, and business model. But influences coming from the outer globe of the macro environment have a small impact on a company's business situation.

Enterprises and businesses worldwide carry out analyses to assess conditions and environment for strategic planning. Every company consists of certain frameworks that permit them to understand the market and analyze their products. Companies carry out market research by conducting surveys to evaluate market requirements and trends. SWOT (strengths, weaknesses, opportunity and threats) & PEST (political, economical, social, and technological) analyses are two methods through which companies plan ahead by conducting research. Without swot and pest analysis companies might fail to achieve desired goals.

Advantages & disadvantages of PEST & SWOT Analysis:

Both **swot** & **pest** analysis are simple and easy to list but hard to implement fully. It takes time and research to completely analyze the situation.

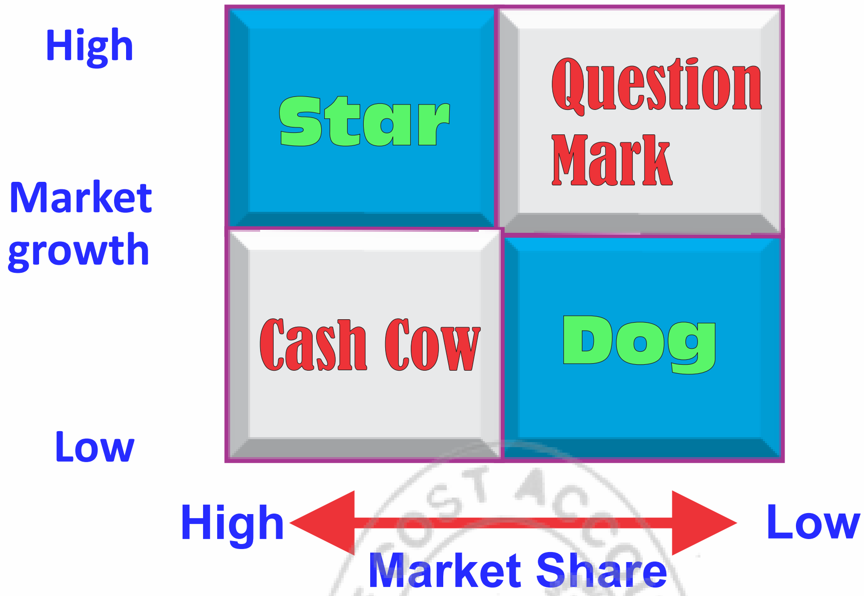
Swot analysis might not be able to provide results for each factor plus for the analysis to be successful, it requires expertise which would analyze all possible threats and weaknesses and turn them into strength and opportunity. It requires resources and capital to perform and a positive outcome cannot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

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

Swot analysis is considered the best because it focuses on internal and external factors both while pest only focuses on external factors.

Some top companies like Ford, Microsoft and Sony prefer monthly swot analysis as their markets are expanding and growing every month and they consider internal factors of the company important.

BCG Matrices
Boston Matrix: the Boston consulting group (Bcg)'s matrix analyses 'products and businesses by market share and market growth.'



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

Stars are products with a high share of a high growth market. In the short term, these require capital expenditure,

In due course, however, stars will become cash cows, with a high share of a low-growth market. Cash cows need very little capital expenditure and generate high levels of cash income. The important strategic feature of cash cows is that they are already generating high cash returns, which can be used to finance the stars.

Question marks are products in a high-growth market, but where they have a low market share.

Because considerable expenditure would be needed to turn a question mark into a star by building up market share, question marks will usually be poor cash generators and show a negative cash flow.

Dogs are products with a low share of a low growth market. they may be ex-cash cows that have now fallen on hard times. Dogs should be allowed to die, or should be killed off.

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

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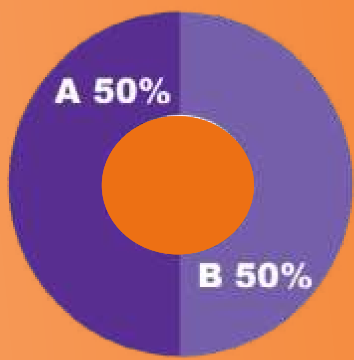
Your Preparation Quick Takes



Syllabus Structure

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

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.

Section B

Chapter 9: Dividend Decision Theories:

▪ **Criticism of Walter's model:**

Walter's model has been highly criticized by various experts mainly because of its assumptions which are far from reality in most of cases. The main points of criticism are as follows–

1. The model assumes that additional financing will be sourced from retained earnings only and no new share or debt will be issued. However, judicious use of debt capital helps a firm to enjoy higher returns due to trading on equity. Thus the model deliberately ignores the benefits of optimum capital structure by restricting retain earnings as the only source for additional financing.
2. The model also assumes that rate of return on investment will remain unchanged throughout. This assumption is also not realistic As more and more investment proposals are taken up internal rate of return generally declines. Moreover the internal productivity of retained earnings i.e. r is also not precisely quantifiable always.
3. The assumption that cost of capital will remain constant may not hold good in reality. As more and more investment proposals are taken up, operating risk of the firm will increase leading to an increase in the cost of capital (k).
4. Walter ignores the fact that market price of shares depend on many factors other than dividend expectation of the shareholders. In reality market price fluctuates more because of the changes in industry structure and other macro economic variables rather than dividend alone.

▪ **Gordon's Model:**

Myron J. Gordon advocates that dividend policy of a firm significantly affects the value of share of the firm. Hence dividend policy should be so designed as to have favourable impact on the market price of shares of the firm. The model proposed by Gordon in this respect is known as Gordon's Model on dividend policy.

▪ **Assumptions:**

Gordon's model is based on a number of assumptions some of which are common with the assumptions under Walter's Model.

Common Assumptions:

1. The firm is an all equity firm. Its capital structure does not comprise any debt capital.
2. It employs only retained earnings for additional financing.
3. The internal rate of return (r) and cost of capital (k) are constant.
4. There is no corporate tax.
5. The firm has an infinite lifespan.

Additional Assumptions:

1. The retention ratio (b) once decided, is constant and the growth rate in dividend is a product of retention ratio (b) and internal rate of return(r) i.e. $g = b*r$
2. The cost of capital (k) is higher than the growth rate (g) i.e. $k>g$ or $k>b*r$. Thus retention ratio should always be lower than k/r.

▪ **Substance/Main Theme:**

Similar to Walter's model, in Gordon's model also, the dividend policy of a firm is assumed to be dependent on the availability of profitable investment opportunities. The propositions of Gordon's model are discussed as follows.

1. For growth firm i.e. when $r>k$, the value per share (P) increases with increase in the retention ratio (b) i.e. value per share increases as dividend payout decreases. Thus when $r>k$, the firm should distribute lesser dividend and retain as much as possible. However, the maximum retention should always be lower than k/r.
2. For declining firm i.e. when $r<k$, the value per share (P) increases

with decrease in the retention ratio (b). In other words retention of profits is not welcome by the shareholders. Thus when r<k, the firm should distribute higher dividend and retain less. However the maximum dividend payout ratio will surely be restricted by the condition b<k/r.

3. For Normal firms i.e. when r=k, the value per share under Gordon's model becomes indifferent to the retention ratio (b) and hence the dividend payout adopted. Thus dividend policy seems to be irrelevant for the firm.

Tutorial Note: Though initially Gordon argued that a normal firm may adopt any dividend policy he later on modified his proposition under the given context. Gordon assumed that under situation of uncertainty–

a) The shareholders (investors) are risk averse, and

b) They prefer certain return to uncertain return.

Because of these two assumptions, under situation of uncertainty, the cost of capital (k) of a normal firm increases over r. As a result dividend payment becomes inevitable.

- **Computation Formula:**

According to Gordon, value per share is nothing but the present value of the infinite stream of dividend growing at a constant rate, g (=b*r). Hence,

$$P = \frac{E(1-b)}{k-b*r}$$ where P = Market price per share, E = Earnings per share, b = retention ratio r = rate of return on investment, k = cost of capital, 1-b = dividend payout ratio.

- **Illustration:**

From the following information compute the value per share of each of the companies under Gordon's Dividend Model assuming dividend payout ratios of 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)	15%	10%	5%
Cost of Capital (k)	10%	10%	10%

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

According to Gordon, value per share -

$$P = \frac{E(1-b)}{k-b*r}$$ where P = Market price per share, E = Earnings per share, b = retention ratio
r = rate of return on investment, k = cost of capital, (1-b) = dividend payout ratio.

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 = 15% i.e. 0.15 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 = 5% i.e. 0.05 k = 10% i.e. 0.10
Where Dividend Payout ratio = 25% i.e. 1-b = 0.25 and hence, b = 0.75	$P = \frac{20*0.25}{0.10-0.75*0.15}$ = -400 20	$P = \frac{20*0.25}{0.10-0.75*0.10}$ = 200	$P = \frac{20*0.25}{0.10-0.75*0.05}$ = 80
Where Dividend Payout ratio = 50% i.e. 1-b = 0.5 and hence, b = 0.5	$P = \frac{20*0.5}{0.10-0.5*0.15}$ = 400	$P = \frac{20*0.5}{0.10-0.5*0.10}$ = 200	$P = \frac{20*0.5}{0.10-0.5*0.05}$ = 133.33

Where Dividend Payout ratio = 75% i.e. 1-b = 0.75 and hence, b = 0.25	P = $\frac{20*0.75}{0.10-0.25*.0.15}$ = 240	P = $\frac{20*0.75}{0.10-0.25*.0.10}$ = 200	P = $\frac{20*0.75}{0.10-0.25*.0.05}$ = 171.42
Where Dividend Payout ratio = 100% i.e. 1-b = 1 and hence, b = 0	P = $\frac{20*1}{0.10-0*.0.15}$ = 200	P = $\frac{20*1}{0.10-0*.0.10}$ = 200	P = $\frac{20*1}{0.10-0*.0.05}$ = 200

- **Comment:**
  1. 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. Hence to maximize the benefits to the shareholders, it should retain more and pay lesser dividend. However, maximum retention should be lower than k/r i.e. 66.67%. (It may be observed that violation of this limit will produce absurd results. For example, a dividend payout of 25% i.e. retention of 75% has resulted into a negative value per share.)
  2. In case of Z Ltd, rate of return (r) is lower than the cost of capital (k). Hence it is a declining firm. It can be observed here that as Z Ltd. increases the dividend payout ratio value per share also increases. Value per share is the maximum when dividend payout ratio is 100%. (This time it is feasible as k/r is 2 here). Therefore, optimal dividend policy for the firm is to pay more dividends and retain less. Maximum retention should however, not violate the limit k/r.
  3. In case of Y Ltd, rate of return (r) is exactly equal to the cost of capital (k). Hence it is a normal firm. It can be observed here in spite of change in the dividend payout ratio value per share has remained unaltered. In other words value per share has been indifferent to the dividend policy adopted by the firm. Hence there exists no single dividend policy for the firm. Dividend payout can be anything between zero and 100%.

- **Criticism of the Model:**

Gordon's model shares the same criticisms like Walter's model (**Refer to Walter's model**). Additionally it is also criticized on the following two grounds.

1. There may be some values of b for which the share price may become undefined (when b = k/r) or negative (when b > k/r) which is absurd.
2. Taxes do exist in reality. Moreover in many countries capital gain is taxed at a lower rate than dividend income. Here shareholders will prefer capital gain to dividend. Hence in those situations non-payment of dividend may bring some adverse impact on the share price.

Group - II
Paper - 11
Indirect Taxation (ITX)

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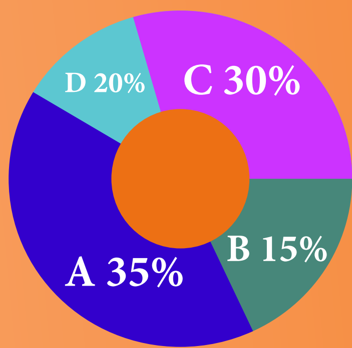
Your Preparation Quick Takes

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

Case Studies – Issues in CENVAT credit

Facts:

Banking company: - mainly engaged in lending activities. Facilitated / provided support services to one of its account holder for obtaining ECB from overseas lenders. The bank has paid foreign investment bankers find fees, etc for sourcing, arranging funds, coordinating meetings with lenders, etc. The bank was advised that such a payment would be covered under the reverse charge mechanism and that it would have to deposit service tax in respect there to.

Issue:

a) Whether the bank can claim full CENVAT credit of the tax deposited on a reverse charge basis or will it be hit by the sub rule (3B)
b) Can a position be adopted that sub- rule (3B) cannot be applied on the basis that there is a direct attribution of services received and their use in rendering taxable services or that the services received as not common services and that reversal is not required in such cases
c) Would your answer differ if the services were rendered in March 2011 and the tax was deposited in April 2011?

Banking company:- has lent money to its account holder against the security of shares. As per the terms of the loan agreement, the borrower is required to transfer demat Securities / Shares to the banks demat account. At the end of the quarter, the Depository participant debited the banks account for demat account charges along with service tax.

Issue:

a) Can the bank claim CENVAT credit for the service tax on the demat charge?
b) The banks service tax consultant has suggested two alternatives:
i) The bank to amend the loan agreement to provide that the borrower would reimburse the bank for all the charges (including service tax). In this case can the borrower claim credit
ii) As an alternative, the bank should charge custody charges to the borrower and charge service tax on the same (and claim CENVAT on the input services

Do you agree with the above position . Are there any other alternatives?

c) If the CENVAT can be availed, whether the same would be hit by sub-rule (3B)

Common services:- A developer is engaged in the development of real estate and construction of residential properties. For this purpose, the developer is receiving various input services on which he is paying service tax. In most of his project, the developer has undertaken to construct at 20 storey tower with 5 flats on each floor). At the time of launch he received a good response and was able to sell 50 flats. The construction is now midway (60% complete) and the developer had managed to sell only 10 flats. Given the market condition and there is a perception that he will be able to sell more flats only after the construction is over.

Issue:

a) The developer wants your advice on how to compute the CENVAT credit available to him
b) The builder has been approached by a financier, who has proposed to fund the project. As per the terms, the financier will be allotted the remaining flats (which he will hold as collateral) until the developer returns the borrowed funds. The developer has 2 alternatives:
i) As and when the flats get sold, the developer would transfer the allotment from the financier to the buyer and return the funds borrowed
ii) If the flats remain unsold at the end of the project, he will buyback all the flats from the borrower at cost and return the funds borrowed

Film Producer:- A film production house is producing a new film called ***"Hum honge kamyaab"***. For this purpose it is availing various input services on which it is being charged service tax. The production house is likely to earn revenue from a variety of sources i.e. sale of music right; sale of cinematographic rights, satellite rights; sale of rights to overseas distributors, etc.

Issue:

a) Can the production house claim full Cenvat credit for all the input services received if no what are the restrictions?

b) How should the production house compute the reversal on account of consideration received on account of sale of cinematographic rights in light of the fact that his consideration is linked to actual tickets sold? Can you advice the production house on how to proceed?

Law Applicable:- Company had taken premises on rent in year 2007-08 At that time the issue related to taxability of renting services was still under debate. Given this lessee company and the land lord had agreed that service tax would be collected and paid only once the issue is resolved finally. In September 2013 the land lord approached the company and demanded service tax stating that the wanted to go through the VCES and save on the interest and penalty.

Issues:

a) The company had invoices in its name showing rent paid and service tax applicable thereon; since 2007. Could the company have claimed CENVAT credit on the basis of that services were received and paid for in 2007-08 itself and there was an invoice in support of claim, specifically considering that the lessee company had paid only the rent and not the service tax?

b) If the lessee company pays the service tax amount today can it claim the CENVAT?

c) If the company was a banking company and if the service tax amount was paid today and the company claims the same in H1 /2013-14 return, would the company be hit by reversal under sub rule (3B)?

d) The landlord has indicated that he intends to go for VCES. Do you foresee any hurdle?

VCES: Service provider A has defaulted in his service tax obligations of filing returns and depositing taxes:- A has now decided to come clean before the service tax authorities by making a declaration under the VCES Scheme. He is likely to issue supplementary invoices to all his customers. A has also realized that he has failed to deposit tax (on a reverse charge basis) on certain services imported by him. He intends to clear these dues under VCES.

Issues:

a) A intends to claim CENVAT credit on the tax deposited by him under reverse charge mechanism. Can he do so?

b) A has assured his customers that they will be able to claim CENVAT credit on the basis of the supplementary invoices issued by him. Is he correct?

Bad Debts:- M/s Good Advisors Management Consultants (a partnership firm with less than Rs 40 lakhs turnover) have been approached by M/s Tall Talk for providing a FEMA and FDI related consultancy. M/s Good Advisors were tasked to study various issues under FEMA and current FDI policy as is applicable multi-product retail. M/s Good Advisors in turn engage the services of lawyer firms to confirm the validity of their advice. After the entire project was over and the service was rendered M/s Tall Talk scrapped the entire project and refused to pay m/s Good Advisors. M/s Good Advisors filed their returns without reporting the revenues due from M/s Tall Talk on the basis that no money has been realized and hence no tax payable. In the said return they have claimed CENVAT credit on the input services received for the M/s Tall Talks project.

Issue:

An audit has been initiated in case of M/s Good Advisors and they have been told that due to non-recovery of consideration for output services provided & the fact that Ms Good Advisors wrote them off as bad debts – the audit team is arguing that since service tax was payable under Rule 6(1) of Service Tax Rules, 1994 on actual receipt of consideration and there was no receipt of consideration in this case, assessed was required to reverse proportionate credit of input services attributable to output services on which no service tax was payable owing to non-receipt of consideration

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

Dr. Malay Kr. Nayak
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Dept. Of Commerce,
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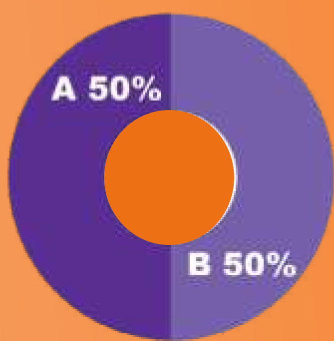
Your Preparation Quick Takes



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.

Company Accounts & Audit:

Let us discuss today about cash flow statement. It is a statement which discloses the changes in cash position between two accounting period. It is otherwise known as 'where got where gone statement' as it describes inflows of cash and side by side outflows of cash. It is useful for short term planning.

From AS 3 (revised), we may have some brief definitions whereas-

1. Cash comprises cash on hand and demand deposits with banks
2. Cash equivalents are short term highly liquid investments which are readily convertible into cash
3. Cash flows are outflows of cash and cash equivalents

The cash flow statement should report cash flows during the period classified into three categories namely operating activities, investing activities and financial activities.

Operating activities are the principal revenue producing activities of an enterprise. Cash flows from operating activities may channel into cash receipts from sale of goods and services, cash receipts from royalties, fees etc., cash receipts from premium, claims etc., cash receipts from contracts, cash payments to suppliers, cash payments to employees, cash payments from premiums, cash payments of income tax and similar activities.

Investing activities are the acquisition and disposal of long term assets. Examples of cash flow from investing activities may include cash receipts from disposal of fixed assets, cash receipts from disposal of shares or debt instruments, cash receipts from loans, cash receipts from contracts and cash payments to acquire fixed assets, to acquire shares, debt instruments, cash advances to third parties.

Financial activities are activities that result in the size and composition of owner's capital. Examples of cash flows from financial activities may include cash proceeds from issuing of shares and other instruments, cash proceeds from issuing debentures, bonds etc. and cash repayments of amounts borrowed.

Chief advantages of cash flow statement:

1. Cash management- CFS provide information about liquidity and solvency
2. Internal financial management- Proper planning of cash resources
3. Movement of cash- Disclosure of volume and speed of cash flows in different segments of business
4. Analysis of profitability vis-à-vis net cash flow- Relationship between profitability and net cash flow.

We may have some limitations of cash flow analysis too. Cash flow analysis is a useful tool of financial analysis but having some limitations which may be:

1. It can not be equated with Income statement. CFS takes into account cash and cash equivalent whereas Income statement takes both cash and non-cash items
2. It may not represent the real liquid position as it lends itself by postponing purchases and payments
3. CFS can not replace Fund Flow Statement

Now we may take forward stepping into the preparation aspect of Cash Flow Statement. AS 3(revised) has not provided any specific format for the preparation of Cash Flow Statement, but the general idea we may get from appendix of standard whereas Cash Flow Statement must depict cash flow from operating activities, cash flow from investing activities and cash flow from financing activities separately. It also shows cash and cash equivalents at the beginning of the period and cash and cash equivalents at the end of the period.

Reporting of cash flow from operating activities:

The financial statements are generally prepared on accrual basis. In order to calculate the net cash flows in operating activities, it is necessary to replace revenues and expenses with actual receipts and payments in cash.

There are two methods of getting cash flow from operating activities, namely direct method and indirect method.

Under direct method the actual cash receipts and actual cash payments for operating expenses are arranged and presented in CFS. It may look into as cash basis Profit & Loss Account.

Under indirect method the net profit or loss is used as base and adjusted for items that affects net profit but does not affect cash.

Adjustment may be made for non-current and non-operating items namely depreciation, interest, foreign exchange, profit and loss on sale of fixed assets and investments etc. Cash flows from investing activities include purchase and sale of fixed assets whereas cash flows from financial activities involve proceeds and repayments of share capital and long term borrowings.

Students are to get that Cash Flow Statement is disclosure issue. It is not involved too much measurement aspects. CFS is disclosure requirement as pronounced by SEBI listing requirements and entrusted by accounting standard. Moreover it is the requirement under Companies Act, 2013.

Fund Flow Statement is management tool but Cash Flow Statement is statutory requirement though it serves financial management arena.

Students are to go on practicing preparations of CFS from the standard text books and to go through Cash flow statement from different published Annual reports of some big companies.

Enjoy pre-puja days and have flow of merriment in study.

PRACTICAL ADVICE

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

Appear For Examination

Solve Exercises given in Study Notes

Assess Yourself

Read The Tips

Read Study Notes & MTPs

Submission

Dear Students,

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

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

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

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

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

SWOT Matrix

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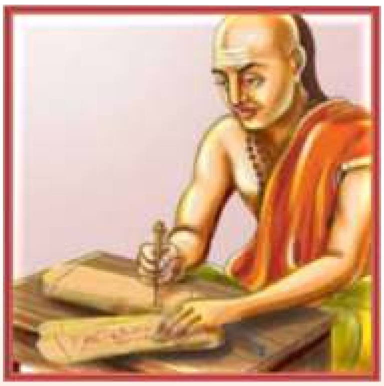
Acharya Chanakya

Over two thousand three hundred years ago, one fiery afternoon, a bare footed fuming scholar was taking long strides in a jungle road. Suddenly he was struck by a piercing thorn in his foot. The scholar dug out the thorn along with its bush, burnt it to aches, mixed the ashes in water, and drank the water. A bewildered youngster who witnessed the entire episode greeted the scholar and sought enlightenment about the actions of the scholar. Pleased by the inquisitive youngster, the scholar explained that his actions are demonstrative as to how one should eliminate the evil powers from the surface of the mother earth.



The scholar was Acharya Chanakya and the youngster was Chandragupta Maurya. It was a chance meeting which laid foundations to the medieval Indian history. The moment they met, Chanakya was impressed by the young boy's personality and intelligence. He was able to sense the great military and executive abilities in Chandragupta and immediately took on the mentorship. And, Chandragupta became a willing disciple. Eventually Chanakya articulated Chandragupta's rise as the first Maurya emperor.

Chanakya was not just a teacher to Chandragupta; but also a friend, well-wisher and advisor. Chandragupta was not just a student to Chanakya; but also a perpetuator of gurus's dreams and wishes. Chanakya inspired Chandragupta to extend Mauryaempire from Bengal in the east to Afghanistan in the west, to the Himalayas and Kashmir in the north, and to the Deccan Plateau in the south. It was the largest empire yet seen in Indian history. Chanakya may, thus, be regarded as one of the earliest visionaries who envisaged the united India spanning the entire subcontinent.

Chanakya'sArthashastra discusses monetary and fiscal policies, welfare, international relations, and war strategies in detail. The text also outlines the duties of a ruler. As such, Chanakya is considered as the pioneer of the field of economics and political science in India, and his work is thought of as an important precursor to Classical Economics and to Modern Costnomics.

All said Chanakya is a mixture of Innovative Academics, Shrewd Politics and Welfare Economics – a Role Model Guru that every searching student would love to seek!

02.00 Role Model

The first thing that any aspiring professional can do to is to think of a Role Model. A role model is perceived as the person whose behaviour, example, or success can be emulated by others., especially by younger people. A role model stands for a clear set of values and is a perpetual inspirer.

A role model stands for a clear set of values and is a perpetual inspirer.

The term "role model" is credited to sociologist Robert K. Merton, who coined the phrase during his career. Merton hypothesized that individuals compare themselves with reference groups of people who occupy the social role to which the individual aspires. An example being the way young fans will idolize and imitate professional athletes or entertainment artists.

A person's chosen role models may have a considerable impact on his or her career opportunities and choices. The suitability of a role model depends, in part, on the admirer's perceived commonality with the model, who should provide an image of an ambitious yet realistic goal. For example, Benjamin Franklin served as the role model for countless nineteenth-century white businessmen, including several notables.

Parent role models also significantly influence a person's "education and training aspirations, task self-efficacy, and expectancy for an entrepreneurial career". It is well said that: "Being a role model is about being true to one self".

Acharya Chanakyastands tall not only in being a role model to Chandragupta, but also to a fleet of leading personalities from several walks of life. So, start with the analysis of the values,attitudes,behaviours, and the success factors that your role model stands for; And draw inspiration.

03.00 SWOT Matrix

Second important thing that a career seeker should do is to draw an SWOT matrix of own personality. A SWOT matrix is a framework for analyzing individual's strengths and weaknesses as well as the opportunities and threats (challenges) that one faces. This helps an individual to focus on strengths, remedy weaknesses, take the greatest possible advantage of opportunities and counter the threats.

The SWOT matrix enables identification of gaps in an individual and helps preparation to be the best candidate for the position being aspired.Here are a few sample questions that can help formulation of the SWOT matrix for an individual.

03.01 Strengths

- What advantages do you have that others don't have (for example, skills, certifications, education, or connections)?
- What do you do better than anyone else?
- What personal resources can you access?
- What do other people (and your boss, in particular) see as your strengths?
- Which of your achievements are you most proud of?
- What values do you believe in that others fail to exhibit?
- Are you part of a network that no one else is involved in? If so, what connections do you have with influential people?

03.02 Weaknesses

- What tasks do you usually avoid because you don't feel confident doing them?
- What will the people around you see as your weaknesses?

Are you completely confident in your education and skills training? If not, where are you the weakest?

What are your negative work habits (for example, are you often late, are you disorganized, do you have a short temper, or are you poor at handling stress)?

Do you have personality traits that hold you back in your field? For instance, if you have to conduct meetings on a regular basis, a fear of public speaking would be a major weakness.

03. 03 Opportunities

What new technology can help you? Or can you get help from others or from people via the Internet?

Is your industry growing? If so, how can you take advantage of the current market?

Do you have a network of strategic contacts to help you, or offer good advice?

What trends (management or otherwise) do you see in your company, and how can you take advantage of them?

Are any of your competitors failing to do something important? If so, can you take advantage of their mistakes?

Is there a need in your company or industry that no one is filling?

Do your customers or vendors complain about something in your company? If so, could you create an opportunity by offering a solution?

Could you share some of your colleague's projects to gain experience?

Is there any new role or project that forces you to learn new skills, like public speaking or international relations.

Do you have specific skills (like a second language) that could help with the process of a company expansion or acquisition?

03.04 Threats (Challenges)

What obstacles do you currently face at work?

Are any of your colleagues competing with you for projects or roles?

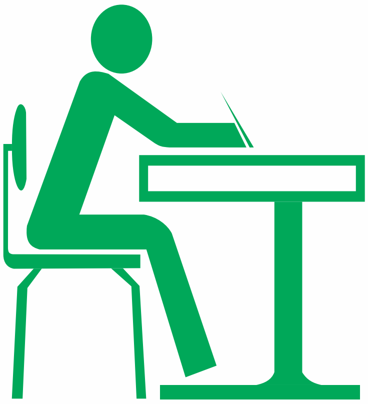
Is your job (or the demand for the things you do) changing?

Does changing technology threaten your position?

Could any of your weaknesses lead to threats?

04.00 Quick Bite

'Chance Meeting' with Chanakya was the opportunity that Chandragupta could convert into his 'Core Strength'.So, step back and look at yourself from the perspective of compatible employability.Choose a role model and be inspired.Think in terms of work experience, education, training, skill development, talents and abilities, technical knowledge, and personal characteristics. Map yourself; identify the gaps; and Pour in the fillers to build the gaps; and do reap the benefits of any chances that you may come across.



Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

Day & Date	Intermediate Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.	Intermediate Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
10th Dec, 2017 Sunday	Financial Accounting	Financial Accounting
11th Dec, 2017 Monday	Laws, Ethics and Governance	Laws & Ethics
12th Dec, 2017 Tuesday	Direct Taxation	Direct Taxation
13th Dec, 2017 Wednesday	Cost Accounting & Financial Management	Cost Accounting
14th Dec, 2017 Thursday	Operation Management and Information Systems	Operations Management & Strategic Management
15th Dec, 2017 Friday	Cost & Management Accountancy	Cost & Management Accounting and Financial Management
16th Dec, 2017 Saturday	Indirect Taxation	Indirect Taxation
17th Dec, 2017 Sunday	Company Accounts and Audit	Company Accounts & Audit

Message from the Directorate of Studies

Dear Students,

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

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

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

Essentials for Preparation:

- Conceptual understanding & Overall understanding of the subject both should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students Should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Be Prepared and Get Success;

Photo Gallery

CMA Sanjay Gupta, President along with other dignitaries during the Inaugural Session of ASSOCHAM Global Summit on Corporate Restructuring, Insolvency Resolution and Sustainability held on August 19th, 2017 at Mumbai.

CMA Sanjay Gupta, President and CMA H Padmanabhan, Vice-President of the Institute greeting Shri Tapan Ray, IAS, Secretary to the Government of India, Ministry of Corporate Affairs in the presence of CMA P Raju Iyer, Council Member.

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Behind every successful business decision, there is always a CMA