CMA Students Newsletter(For Foundation Students)

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Paper 1: Fundamentals of Economics and Management (FEM)

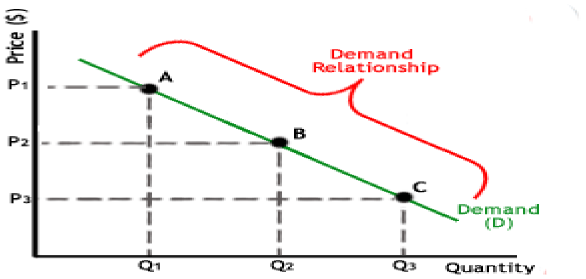
Supply and Demand

Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.

The relationship between demand and supply underlie the forces behind the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. How? Let us take a closer look at the law of demand and the law of supply.

A. The Law of Demand

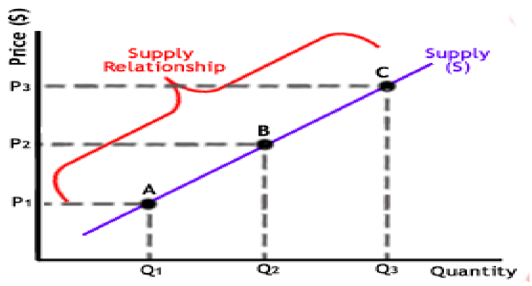
The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people w ill naturally avoid buying a product that will force them to forgo the consumption of something else they value more. The chart below shows that the curve Is a downward slope.



A, Band C are points on the demand curve. Each point on the curve reflects a direct correlation between quantity demanded (Q) and price (P). So, at point A, the quantity demanded will be QI and the price will be PI, and so on. The demand relationship curve illustrates the negative relationship between price and quantity demanded. The higher the price of a good the lower the quantity demanded (A), and the lower the price, the more the good will be in demand (C).

B. The Law of Supply

Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at higher price increases revenue.



A, B and C are points on the supply curve. Each point on the curve reflects a direct correlation between quantity supplied (Q) and price (P). At point B, the quantity supplied will be Q2 and the price will be P2, and so factors are used in currency trading, read *Forex Walkthrough: Economics*.)

Time and Supply

Unlike the demand relationship, however, the supply relationship is a factor of time. Time is important to supply because suppliers must, but cannot always, react quickly to a change in demand or price. So it is important to try and determine whether a price change that is caused by demand will be temporary or permanent.

Let's say there's a sudden increase in the demand and price for umbrellas in an unexpected rainy season; suppliers may simply accommodate demand by using their production equipment more intensively. If, however, there is a climate change, and the population will need umbrellas year-round, the change in demand and price will be expected to be long term; suppliers will have to change their equipment and production facilities in order to meet the long-term levels of demand.

C. Supply and Demand Relationship

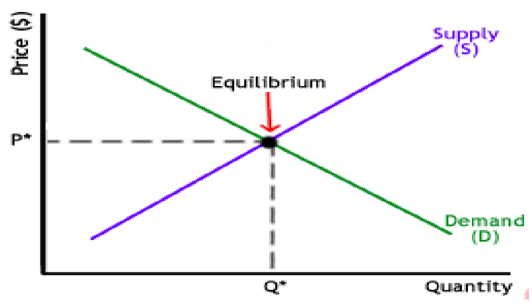
Now that we know the laws of supply and demand, let's turn to an example to show how supply and demand affect price.

Imagine that a special edition CD of your favorite band is released for $20. Because the record company's previous analysis showed that consumers will not demand CDs at a price higher than $20, only ten cost were released because the opportunity cost is too high for suppliers to produce more. If, however, the ten COs are demanded by 20 people, the price will subsequently rise because, according to the demand relationship, as demand increases, so does the price. Consequently, the rise in price should prompt more CDs to be supplied as the supply relationship shows that the higher the price, the higher the quantity supplied.

If, however, there are 30 CDs produced and demand is still at 20, the price will not be pushed up because the supply more than accommodates demand. In fact after the 20 consumers have been satisfied with their CD purchases, the price of the leftover CDs may drop as CD producers attempt to sell the remaining ten CDs. The lower price will then make the CD more available to people who had previously decided that the opportunity cost of buying the CD at $20 was too high.

D. Equilibrium

When supply and demand are equal (i.e. when the supply function and demand function intersect) the economy is said to be at equilibrium. At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded. Thus, everyone (individuals, firms, or countries) is satisfied with the current economic condition. At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.



As you can see on the chart, equilibrium occurs at the intersection of the demand and supply curve, which indicates no allocative inefficiency. At this point, the price of the goods will be P* and the quantity will be Q*. These figures are referred to as equilibrium price and quantity.

In the real market place equilibrium can only ever be reached in theory, so the prices of goods and services are constantly changing in relation to fluctuations in demand and supply.

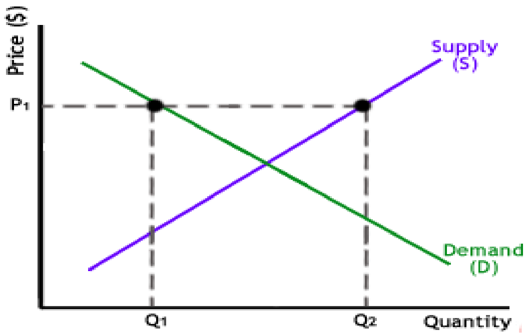
E. Disequilibrium

Disequilibrium occurs whenever the price or quantity is not equal to P* or Q*.

1. Excess Supply

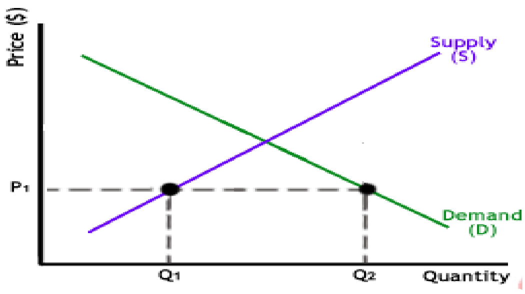
If the price is set too high, excess supply will be created within the economy and there will be allocative inefficiency.

At price P1 the quantity of goods that the producers wish to supply is indicated by Q2. At Pl, however, the quantity that the consumers want to consume is at Q1, a quantity much less than Q2. Because Q2 is greater than Q1, too much is being produced and too little is being consumed. The suppliers are trying to produce more goods, which they hope to sell to increase profits, but those consuming the goods will find the product less attractive and purchase less because the price is too high.



2. <u>Excess Demand</u>

Excess demand is created when price is set below the equilibrium price. Because the price is so low, too many consumers want the good while producers are not making enough of it.



In this situation, at price P1, the quantity of goods demanded by consumers at this price is Q2. Conversely, the quantity of goods that producers are willing to produce at this price is Q I. Thus, there are too few goods being produced to satisfy the wants (demand) of the consumers. However, as consumers have to compete with one other to buy the good at this price, the demand will push the price up, making suppliers want to supply more 1nd bringing the price closer to its equilibrium.

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Paper 2: Fundamentals of Accounting (FOA)

1. Which of the following will disturb the balancing of the trial balance?
   - **a. Error in adding up a book of prime entry**
   - b. Entering an acquisition of an asset, on credit terms, in the Purchase Day Book
   - c. Posting to an asset account instead of an expenditure account
   - d. Entering a wrong amount in a book of prime entry

2. A Company makes a purchase on 10th may some office equipment. The correct journal entry will be

Debit	Credit
(i) Office equipment	Supplies
(ii) Purchases	Office Equipment
(iii) Accounts payable	Office Equipments
(iv) Office equipment	Accounts payable

   - **a. 1**
   - b. 2
   - c. 3
   - d. 4

3. At the happening of below mentioned event what will happen. A cheque is deposited with bank
   - a. Bank pass book will be credited
   - b. Bank pass book will be debited
   - **c. Bank's column in cash book is debited**
   - d. Bank's column in cash book is credited

4. The proper treatment of unrecorded deposits (deposits in transit) on a bank reconciliation is to show them as an
   - a. Addition per book balance of cash
   - b. Deduction per book balance of cash
   - **c. Addition per bank statement balance**
   - d. Deduction per bank statement balance

5. In annuity method interest is calculated
   - a. On the value of the asset at the time of purchase
   - b. **On the value of the asset at the beginning of each year**
   - c. On the value of asset as expected at the end value of asset
   - d. Both a & b

6. The items in the balance sheet are marshaled in a way that assets that are to be used permanently are put on top order; this type of arrangement is called.

a. Liquidity order
b. According to time
c. Permanence order
d. Both a & b

7. Costs that change in response to alternative courses of action are called:

a. Relevant costs
b. Differential costs
c. Target costs
d. Sunk costs

8. The total cost incurred in the operation of a business undertaking other than the cost of manufacturing and production is known as

a. Direct cost
b. Variable cost
c. Commercial cost
d. Conversion cost

9. A worker has a time rate of ₹ 15/hr. He makes 720 units of component (standard time: 5minutes/unit) in a week of 48 hours. His total wages including Rowan bonus for the week is

a. ₹ 792
b. ₹ 820
c. ₹ 840
d. ₹ 864

10. ABC Ltd. is having 400 workers at the beginning of the year and 500 workers at the end of the year. During the year 20 workers were discharged and 15 workers left the organization. During the year the company has recruited 65 workers. Of these, 18 workers were recruited in the vacancies of those leaving, while the rest were engaged for an expansion scheme. The labour turnover rate under separation method is:

a. 22.20%
b. 7.78%
c. 4.00%
d. 14.40%

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Paper 3: Fundamentals of Laws and Ethics (FLE)

What is Law?

Law means a **'set of rules'** which governs our behaviours and relating in a civilized society. So there is **no need of Law in a uncivilized society.**

Why Should One Know Law?

One should know the law to which he is subject because ignorance of law is no excuse.

Sources of Mercantile Law in India

English Mercantile	Indian Status Law	Judicial Decisions	Customs and Usages

INDIAN CONTRACT ACT, 1872

Commencement and applicability: -

Short Title	Extent and	Commencement
The Indian Contract Act 1872	Applicable to whole Indian except the state Of Jammu & Kashmir	First day of September 1872(1st Sept.1872)

- Prior to this English law of contract was followed in India.
- It has **XI** chapter.
- Law of contract creates jus in **personem** and **not in jus in rem.**
- The Indian Contract Act consists of the following two parts:
  (a) General Principals of the Law of Contract.
  (b) Special Kinds of Contracts.
- The general principals of the Law of Contract are contained in Sections 1 to 75 of the Indian Contract Act. These principles apply to all kinds of contracts irrespective of their nature.
- Special contracts are contained in Sections 124 to 238 of the Indian Contract Act. These special contracts are Indemnity, Guarantee, Bailment, pledge and Agency.

Contracts as Defined by Eminent Jurists

1. "Every agreement and promise enforceable at law is a contract." - Pollock
2. "A Contract is an agreement between two or more persons which is intended to be enforceable at law and is contracted by the acceptance by one party of an offer made to him by the other party to do or abstain from doing some act." Halsury
3. :A contract is an agreement creating and defining obligation between the parties" - Salmond

DEFINITIONS (Sec 2)

1. **Offer(i.e. Proposal) [section** 2(a)]:-When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other person either to such act or abstinence, he is said to make a proposal.

2. **Acceptance 2(b):-** When the person to whom the proposal is made, signifies his assent there to , the proposal is said to be accepted.

3. **Promise** 2(b):- A Proposal when accepted becomes a promise. In simple words, when an offer is accepted it becomes promise.

4. **Promisor and promise 2(c):**- When the proposal is accepted, the person making the proposal is called as promisor and the person accepting the proposal is called as promisee.

5. **Consideration 2(d):-** When at the desire of the promisor, the promisee or any other person has done or abstained from doing something or **does** or abstains from doing something or promises to do or abstain from doing something, such act or abstinence or promise is called a consideration for the promise.
❖ Price paid by the one party for the promise of the other Technical word meaning **QUID- PRO – QUO i.e. something in return.**

6. **Agreement 2(e):-** Every promise and set of promises is forming the consideration for each other. In short, agreement = offer + acceptance.
7. **Contract 2(h):**- An agreement enforceable by Law is a contract.
8. **Void agreement 2(g):-** An agreement not enforceable by law is void.
9. **Voidable contract 2(i):-** An agreement is a voidable contract if it is enforceable by Law at the option of one or more of the parties there to (i.e. the aggrieved party), and it is not enforceable by Law at the option of the other or others.
10. **Void contract:-** A contract which ceases to be enforceable by Law becomes void when it ceases to be enforceable.

ESSENTIALS OF A VALID CONTRACT

"All agreements are contracts, if they are made –

- By free consent of the parties, competent to contract,
- For a lawful consideration and
- With a lawful object, and
- Not hereby expressly declared to be void." **- Sec. 10.**

ESSENTIALS OF VALID CONTRACT

Offer + acceptance = Promise
+
Consideration
=
Agreement
+
Enforceability By Law
↓
Contract

1. **Proper offer and proper acceptance with intention to create legal relationship.**
Cases; - A and B agree to go to a movie on coming Sunday. A does not turn in resulting in loss of B's time B cannot claim any damages from B since the agreement to watch a movie is a domestic agreement which does not result in a contract.
- In case of social agreement there is no intention to create legal relationship and there the is no contract (Balfour v. Balfour)
- In case of commercial agreements, the law presume that the parties had the intention to create legal relations.
- [an agreement of a purely domestic or social nature is not a contract]

2. **Lawful consideration:-** consideration must **not** be **unlawful, immoral or opposed to the public policy.**

3. **Capacity:-** The parties to a contract must have capacity (legal ability) to make valid contract.
Section 11:- of the Indian contract Act specify that every person is competent to contract provided.
   (i) Is of the age of majority according to the Law which he is subject, and
   (ii) Who is of sound mind and
   (iii) Is not disqualified from contracting by any law to which he is subject.
   - Person of unsound mind can enter into a contract during his lucid interval.
   - An alien enemy, foreign sovereigns and accredited representative of a foreign state. Insolvents and convicts are not competent to contract.

4. **Free consent: -** consent of the parties must be genuine consent means agreed upon **samethins in the same sense** i.e. there should be **consensus - ad - idem.** A consent is said to be free when it is not caused by coercion, undue influence fraud misrepresentation or mistake.

5. **Lawful object**
   - The object of agreement should be lawful and legal.
   - Two persons cannot enter into an agreement to do a criminal act.
   - Consideration or object of an agreement is unlawful if it
     (a) is forbidden by law; or
     (b) is of such nature that, if permitted, would defeat the provisions of any law; or
     (c) is fraudulent; or
     (d) Involves or implies, injury to person or property of another; or
     (e) Court regards it as immoral, or opposed to public policy.

6. **Possibility of performance:**
   - The terms of the agreement should be capable of performance.
   - An agreements to do act, impossible in itself cannot be enforced.

   Example: A agrees to B to discover treasure by magic. The agreement is void because the act in itself is impossible to be performed from the very beginning.

7. **The terms of the agreements are certain or are capable of being made certain [29] Example:** A agreed to pay ₹5 lakh to B for ultra-modem decoration of his drawing room. The agreement is void because the meaning of the term " ultra - modem" is not certain.

8. Not declared Void

- The agreement should be such that it should be capable or being enforced by law.
- Certain agreements have been expressly declared illegal or void by the law.

9. Necessary legal formalities

- A contract **may be oral or in writing**.
- Where a particular type of contract is required by law to be in writing and registered, it must comply with necessary formalities as to writing, registration and attestation.
- If legal formalities are not carried out then the contract is not enforceable by law.

Example: A promise to pay a time. Barred debt must be in writing.

❖ Agreement is a wider term than contract where as all contracts are agreements. All agreements are not contracts.

All Contracts are Agreements, but all Agreements are not contracts

The various agreements may be classified into two categories:

Agreement not enforceable by law	**Agreement enforceable by law**
Any essential of a valid contract is not available	**Any essential of a valid contract are available**

Conclusion:

Thus we see that an agreement may be or may not be enforceable by law, and so **all agreement are not contract.** Only those agreements are contracts, which are enforceable by law, In short.

Contracts = Agreement + Enforceability by Law

Hence, we can conclude "All contracts are agreement, but all agreements are contracts"

Distinction between Contract & Agreement

Basis	Contract	Agreement
1. Section :	Sec. 2(h)	Sec. 2 (e)
2. Definition :	A contract is an agreement enforceable by law.	Every promise or every set of promises forming consideration for each other is an agreements.
3. Enforceability:	Every contract is enforceable	Every promise is not enforceable.
4. Interrelationship	A contract includes an agreement	An agreement does not include a contract.
5. Scope	The scope of a contract is limited, as it includes only commercial agreements.	Its scope is relatively wider, as it includes both social agreement and commercial agreements.
6.Validity	Only legal agreements are called contracts.	An agreement may be both legal and illegal.
7. Legal Obligation	Every contract contains a legal obligation.	It is not necessary for every agreement to have legal obligation.

Types of contracts:

(1) On the Basis of Creation
a. Express contract
b. Implied contract
c. Tacit contract
d. Quasi contract
e. E contract

(2) On the Basis of Validity
a. Valid contract
b. Void contract
c. Voidable contrac
d.Unenforceabl contract
e. Illegal contract

(3) On the Basis of execution
a. Executed contract
b. Executed contract
c. Partly executed and party executory

(4) On the Basis of Liability
a. Bilateral contract
b. Unilateral contract

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Paper 4: Fundamentals of Business Mathematics and Statistics (FBMS)

1. The ratio of present age of Jadu to that of Madhu is 4: 5. If the present age of Madhu is 30 years, then the present age of Jadu is:
   a. 20 years
   b. 25 years
   c. **24 years**
   d. 35 years

2. If $\frac{a}{3} = \frac{b}{4} = \frac{c}{7}$ then $-\infty < x < 2$ is equal to:
   a. 7
   b. 2
   c. $\frac{1}{2}$
   d. $\frac{1}{7}$

3. Total number of ways in which the letters of the word "STRANGE" can be arranged so that the vowels may appear in the odd places is:
   a. 1370
   b. 1440
   c. 1470
   d. None of these

4. Out of 18 points in a plane, no three are in the same straight line except 5 points which are collinear. Then the number of straight lines obtained by joining them is
   a. 140
   b. 142
   c. 144
   d. 146

5. If x is a real number and $f(x)=\frac{x}{\log(2+x)}$, then the domain of f(x) is:
a. $-\infty < x < 2$
b. $-\infty < x < -1$
c. $-2 < x < -\infty$
d. None of these

6. The median of marks 55, 60, 50, 40, 57, 45, 58, 65, 57, 48 of 10 students is
   (a) 55
   (b) 57
   (c) 52.5
   (d) None of them

7. If mean, mode and standard deviation of 10 observations are 65, 80 and 25 respectively then type of skewness of the data is
   a. Symmetric
   b. Positively skewed
   c. Negatively Skewed
   d. None of them

8. Find the number of terms in the expansion of $(1\text{-}5x)^7 + (1+5x)^7$
   a. {1}
   b. {5}
   c. {1, 5}
   d. None of these

9. If coefficient of correlation between x and y is 0.6, standard deviation of x is 4, standard deviation of x is 4, standard deviation of y = 1.33, Mean of x is 15, and Mean of Y = 10, the regression line of x on y is ……………………..
   a. x = 01.3Y+5.6
   b. (b) x=0.125Y + 10
   c. x = 0.6Y+9
   d. x=0.3Y-8

10. At what point the given function is discontinuous $f(x)=(x^2+6x+9) / (x^2 - 9)$
   a. (3)
   b. (2)
   c. (+1)
   d. (-1)

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