

CMA STUDENT E-Bulletin

VOL 10 | NO. 08 | AUGUST 2025

An Initiative of Directorate of Studies



ICMAI
**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

Statutory Body under an Act of Parliament
www.icmai.in

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in New Delhi having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 117 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000 qualified CMAs and over 6,00,000 students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

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"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute Motto

असतोमा सदगमय
तमसोमा ज्योतिर् गमय
मृत्योर्मा मृतं गमय
ॐ शान्ति शान्ति शान्तिः

From ignorance, lead me to truth
From darkness, lead me to light
From death, lead me to immortality
Peace, Peace, Peace

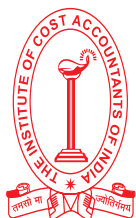
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CHAIRMAN'S COMMUNIQUE

Dear CMA Students,

It gives me immense pleasure to connect with you through the August 2025 issue of the CMA Student E-Bulletin. As the Chairman of the Training & Educational Facilities Committee of ICAI, I am excited to share the latest developments and initiatives that aim to enhance your learning experience and professional growth.

At ICAI, our commitment to excellence in education and training remains unwavering. We continuously strive to provide you with the best resources, state-of-the-art facilities, and cutting-edge training programs that will prepare you to excel in the field of cost and management accounting. Your success is our primary motivation, and we are dedicated to supporting you every step of the way.

In today's digital age, leveraging technology to facilitate learning is paramount. We have introduced several innovative learning platforms to ensure that you have access to high-quality education regardless of your location. Our online classes, interactive webinars, and virtual workshops provide you with the flexibility to learn at your own pace while maintaining the highest standards of education.

In addition to theoretical knowledge, practical skills are crucial for your professional development. We have designed a variety of skill development programs that focus on real-world applications and industry-relevant practices. These programs include case studies, simulation exercises, and hands-on training sessions that bridge the gap between academic knowledge and practical implementation.

Our collaborations with leading organizations and industry experts provide you with invaluable insights and opportunities to apply your knowledge

in real-world scenarios. Through internships, live projects, and guest lectures, you can gain practical experience and understand the nuances of the industry. These collaborations also open doors to networking opportunities that can be instrumental in your career growth.

At ICAI, we believe in the holistic development of our students. Alongside academic excellence, we emphasize the importance of soft skills such as communication, leadership, and teamwork. Our comprehensive training programs include workshops and seminars focused on developing these essential skills, ensuring that you are well-rounded professionals ready to take on leadership roles.

I am confident that the initiatives and programs we have implemented will significantly enhance your learning experience and prepare you for a successful career. I encourage you to take full advantage of these opportunities and remain dedicated to your goals.

I extend my best wishes to all of you. Your hard work, determination, and passion are the driving forces behind our efforts. Let us continue to work together to achieve excellence and elevate the standards of the cost and management accounting profession.

Warm regards,

CMA Vinayranjan P.

Chairman, Training & Educational Facilities
Committee, ICAI

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of
Business Laws -

Module 2:
Indian Contracts
Act, 1872

Business
Communication -

Module 5:
Business
Communication

FOUNDATION

Paper-1

Fundamentals of
Business Laws and
Business
Communication
(FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

MULTIPLE CHOICE QUESTIONS (MCQ)

- A, a minor, borrows ₹50,000 from B by misrepresenting his age as 21 years. Later, B sues to recover the money. What will be the outcome?
 - A is personally liable to repay
 - A's guardian is liable
 - A's estate is liable only for necessities, not loan
 - A must repay with interest
- X offers to sell his car to Y for ₹ 5 lakh. Before Y accepts, X revokes the offer. Y insists that X must sell since he had the "intention" to accept. Which of the following is correct?
 - Revocation is valid only after acceptance
 - Revocation is valid before acceptance is communicated
 - Revocation is not possible at all
 - Revocation is valid only through court order
- P advertises in a newspaper that he will pay ₹10,000 to anyone who finds and returns his lost gold chain. Q, without knowing of the advertisement, finds and returns the chain. Can Q claim reward?
 - Yes, because he returned the chain
 - No, because there was no knowledge of the offer
 - Yes, because performance constitutes acceptance
 - Yes, if P is satisfied
- A threatens B to sign a contract for selling land at a very low price. Later, B sues to set aside the contract. The contract is:
 - Void
 - Valid
 - Voidable at the option of B
 - Illegal
- X agrees to marry Y if Y's father dies within 6 months. The father survives. What is the nature of the agreement?
 - Valid contract
 - Void agreement
 - Contingent contract, unenforceable
 - Quasi-contract
- A singer agrees to perform at B's theatre for three months. Before the first performance, she falls seriously ill.

What is the status of the contract?

 - Discharged due to impossibility
 - Breach of contract
 - Voidable at B's option
 - Illegal
- Z contracts to build a house for X by 31st December. Before that date, Z informs X he will not complete the work. This is:
 - Actual breach
 - Anticipatory breach
 - Novation
 - Rescission
- M delivers goods to N by mistake. N uses the goods. Later, M demands payment. Is N liable?
 - No, since there was no contract
 - Yes, under quasi-contract
 - No, unless a written contract is signed
 - No, unless goods are returned
- A, a shopkeeper, sells a bottle of lemonade to B. Unknown to both, it already contains poison. B suffers injury. What is A's liability?
 - No liability as it was an accident
 - Liability for fraud
 - Liability under breach of implied condition (fitness for purpose)
 - Liability for coercion
- K agrees to supply rice to L at ₹40/kg. Later, due to a government ban, export of rice is prohibited. K refuses to deliver. What is the outcome?
 - K is liable for breach
 - Contract becomes void due to supervening impossibility
 - K must supply alternative goods
 - L can sue for damages

11. X makes a proposal to Y by post. Y posts his letter of acceptance, but before it reaches X, Y dies. Is there a valid contract?
 - a) Yes, contract is formed as acceptance is complete when posted
 - b) No, because Y died before acceptance reached X
 - c) Yes, provided X had knowledge of Y's death
 - d) No, because death automatically revokes proposal
12. An agreement in restraint of marriage is:
 - a) Void
 - b) Valid if in writing
 - c) Voidable
 - d) Valid if registered
13. A enters into a contract with B to supply 500 bags of rice. Before delivery, a flood destroys A's entire stock. Is A discharged?
 - a) Yes, by doctrine of frustration
 - b) No, because commercial hardship is not impossibility
 - c) Yes, because specific stock destroyed
 - d) Only if B agrees
14. When one person promises to do something for another without consideration, it is valid if:
 - a) In writing and registered
 - b) Made out of natural love and affection between near relatives
 - c) Expressed in a promissory note
 - d) Both (a) and (b)
15. A principal tells his agent not to disclose the name of principal to third parties. The agent contracts personally with T. Who is liable?
 - a) Only the agent
 - b) Only the principal
 - c) Both agent and principal
 - d) None
16. If a contract is partly legal and partly illegal:
 - a) Entire contract is valid
 - b) Entire contract is void
 - c) Valid part can be separated and enforced
 - d) Only court can decide enforceability
17. A agrees to sell his horse to B if C approves. C refuses approval. Can B enforce?
 - a) Yes, because A made an offer
 - b) No, because it was contingent on C's approval
 - c) Yes, if B pays consideration
 - d) Yes, because consent was free
18. When parties agree to substitute a new contract in place of the old one, it is called:
 - a) Rescission
 - b) Novation
 - c) Alteration
 - d) Remission
19. Specific performance of a contract is generally granted when:
 - a) Damages are an adequate remedy
 - b) Subject matter is unique or irreplaceable
 - c) Breach is minor
 - d) The parties consent again
20. In case of anticipatory breach, the promisee:
 - a) Must wait till due date
 - b) Can treat contract as rescinded immediately and sue for damages
 - c) Cannot claim damages before performance date
 - d) Is bound to perform his part
21. Which of the following statements about quasi-contracts is correct?
 - a) They arise from mutual consent
 - b) They are imposed by law to prevent unjust enrichment
 - c) They are always voidable
 - d) They require written agreement
22. The principle of "quantum meruit" applies when:
 - a) A contract is performed completely
 - b) A contract is partially performed and accepted
 - c) A contract is illegal
 - d) A contract is void ab initio
23. Which case law established that a minor's contract is void ab initio?
 - a) Mohori Bibee v. Dharmodas Ghose
 - b) Lalman Shukla v. Gauri Dutt
 - c) Carlill v. Carbolic Smoke Ball Co.
 - d) Balfour v. Balfour

24. Which of the following is true about consideration?
- Must be adequate
 - Must be lawful
 - Must be gratuitous
 - Must always be monetary
25. A CEO writes a quarterly report to shareholders, highlighting company achievements, financial data, and future strategies. This is an example of which type of business communication?
- Upward communication
 - Downward communication
 - Horizontal communication
 - External communication
26. A multinational company adopts English as the official language for meetings, even though many employees are non-native speakers. To ensure clarity, they use simple words and visuals.
- Which feature of effective business communication is being emphasized here?
- Completeness
 - Clarity
 - Feedback
 - Formality
27. A marketing team collaborates using Google Docs, where all members can simultaneously edit and comment on content drafts.
- This is an example of which form of communication?
- Grapevine communication
 - Internet-based communication
 - Non-verbal communication
 - Formal downward communication
28. A senior executive shares a confidential business proposal through a private, password-protected document portal instead of email.
- Which legal aspect of business communication is being ensured here?
- Copyright compliance
 - Data security and confidentiality
 - Intellectual property
 - Non-disclosure agreement
29. A company's HR department posts updates on its official LinkedIn page about employee achievements and job openings. This is an example of:
- Internal communication
 - Informal communication
 - External communication through social media
 - Grapevine communication
30. A Japanese firm collaborates with an Indian partner. The Japanese manager interprets long pauses as disagreement, while the Indian counterpart uses silence as a sign of respect.
- This scenario highlights which dimension of business communication?
- Cross-cultural communication
 - Downward communication
 - Written communication
 - Informal communication

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	b	b	c	c	a	b	b	c	b	a	a	c	d	c
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
c	b	b	b	b	b	b	a	b	d	b	b	b	c	a

Topic

Fundamentals
of Financial
Accounting -

Module 1:
Accounting
Fundamentals

Fundamentals of
Cost Accounting -

Module 4:
Fundamentals of
Cost Accounting

FOUNDATION

Paper-2

Fundamentals of
Financial and Cost
Accounting (FFCA)

Sl. No.	Questions	Option			
		(a)	(b)	(c)	(d)
1	Fixed Assets and Current Assets are categorized as per concept of Going Concern	Separate Entity	Going Concern	Consistency	Time period
2	The manufacturing account is prepared:	To ascertain the profit or loss on the goods produced	To ascertain the cost of the manufactured goods	To show the sale proceeds from the goods produced during the year	both (b) and (c)
3	S.B.I Account is a	Nominal	Artificial Personal Account	Representative Personal Account	None of these
4	Errors of carry forward from one year to another affects :	Personal Account	Real Account	Nominal Account	both (a) and (b)
5	Accounting records financial transactions because of	Entity Concept	Accrual Concept	Cost Concept	Money Measurement
6	Balance Sheet is prepared with	All three types of Accounts (Personal, Real and Nominal)	Real Account and Personal Account	Real Account, Personal Account and Balance of Nominal Accounts	None of these
7	Anand having two Bank Accounts with PNB and Axis Bank. Triple Colum Cash Book for him means	Cash and Two Bank Columns	Two Bank Account Columns and Discount Column	Cash , Bank and Discount column	All of these
8	Mr. Martin opened a business naming Martin Burnt Associates in 2023. Since then he used to draw items from business for his consumption, thinking that he and business owned by him is same. He violates which accounting concept.	Going concern	Merging concept	Entity concept	Separation value
9	Petty cash book records -	Petty Expenses	All type of Expenses	Staff Expenses	Bill / Claim Reimbursement
10	Rectification entries relating to Purchase transactions are recorded in	Purchase Day Book	Journal Proper	Personal Ledger	Bank Book
11	Final Accounts are prepared and completed. Subsequently, it was noticed that Stationery Account wrongly Debited by Rs. 1 Lacs instead of Printing Account. How this will be rectified -	No entry is required to be passed	Printing Account Debit and Stationery Account Credit by Rs. 1 Lacs	Suspense Account Debit and Stationery Account Credit by Rs. 1 Lacs	Printing Account Debit and Stationery Account Credit by Rs. 2Lacs

Sl. No.	Questions	Option			
		(a)	(b)	(c)	(d)
12	Loss of Goods by fire is credited to	Capital Account	Purchase Account	Loss of Goods by Fire Account	Drawings Account
13	If a receipt of ₹ 200 from Rajesh (debtor) has not been recorded in the books the profits would show	An increase of ₹ 2,000	A decrease of ₹ 200	Neither an increase nor a decrease	None of the above
14	A Trial Balance will tally even if, the one or more situations may prevail	A transaction recorded twice	A transaction not recorded	Debit Credit mismatch	Both (a) & (b)
15	What is the nature of Suspense Account	Real Account	Personal Account	Nominal Account	None of these
16	Which of these is/are not recurring expenses?	Transit insurance and freight	Carriage on asset purchase	Newspaper Advertisement for staff recruitment	Company's Legal expenses
17	Trial Balance is prepared for the	Whole Year	Month end date	Specific date	All of these
18	Balance of Petty Cash Book shall always be -	Debit	Credit	Zero	Debit or Zero
19	Compensation received from government for compulsory acquisition of land	Revenue Expenditure	Capital Expenditure	Deferred Revenue Expenditure	None of these
20	Premium paid on LIFE INSURANCE Policy of the proprietor will be debited to -	Capital Account	Drawings Account	Premium Account	Bank Account
21	Which of the following items is excluded from cost Accounts?	Income tax	Interest on debentures	Cash discount	All of these
22	In behavioral analysis', costs are divided into :	Production and non-production costs	Controllable and noncontrollable costs	Direct and indirect costs	Fixed and variable costs
23	Directors remuneration and expenses form a part of :	Production overhead	Administration overhead	Selling overhead	Distribution overhead
24	Interest on own capital is :	Cash cost	Notional cost	Sunk cost	Part of Prime Cost
25	Which of the following is a part of both Prime cost and conversion cost	Direct Material	Indirect Labour	Indirect Material	Direct Labour
26	Direct expenses are also known as :	Overhead expenses	Process expenses	chargeable expenses	Absorbed expenses
27	Process cost is applicable in:	Construction industry	Pharmaceutical industry	Airlines	Hotel

Sl. No.	Questions	Option			
		(a)	(b)	(c)	(d)
28	Opportunity cost is the best example of:	Sunk cost	Standard cost	Relevant cost	Cost Reduction
29	Costs are classified into fixed costs, variable costs and semi-variable costs, it is known as:	Functional classification	Behavioral classification	Element wise classification	Classification according to controllability
30	Which of the following is not a relevant cost?	Replacement cost	Sunk cost	Marginal cost	standard cost

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b	b	b	d	d	c	c	c	a	b	a	b	c	d	b
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	c	d	d	b	d	d	b	b	d	c	b	c	b	b

Topic

Fundamentals
of Business
Mathematics -

Module 1:
Arithmetic

Fundamentals of
Business Statistics -

Module 5:
Measures of Central
Tendency and
Dispersion

FOUNDATION

Paper-3

Fundamentals
of Business
Mathematics and
Statistics (FBMS)

In this issue we will carry out MCQs on Arithmetic & Central Tendency/Dispersion – refer Module 1 and Module 5 of Study guide.

- Two numbers are in the ratio 5:7, if the sum of the numbers is 216, then the greater number is
 - 126
 - 162
 - 90
 - 54
- The ratio of the bank charges debited in Savings A/c and Current A/c is 7:8. If the charges to be debited in Savings A/c for next year would be ₹231 more, how much should be debited from Current A/c in order to keep the ratio of the bank charges debited unchanged?
 - 246
 - 264
 - 213
 - 222
- If $A \propto \frac{1}{B}$ and $A = 7$ when $B = 3$, then when $B = 2\frac{1}{3}$, A is
 - $\frac{3}{7}$
 - 3
 - 9
 - 1
- If $(\frac{A}{B}) \propto A + B$ & $(\frac{B}{A}) \propto A - B$, then $A^2 - B^2$ is
 - Varies directly with $A^2 + B^2$
 - Constant
 - Varies inversely with $A^2 + B^2$
 - Equal to A
- If in a ratio $X : Y$ it is given $X > Y$ and A is a number which must be less than either X or Y then
 - $\frac{X+A}{Y+A} > \frac{X}{Y}$
 - $\frac{X-A}{Y-A} > 1$
 - $\frac{X+A}{Y+A} < 1$
 - $\frac{X-A}{Y-A} > \frac{X}{Y}$
- A ratio $a : b$ is said to be of less inequality if
 - $a < b$
 - $a > b$
 - $a = b$
 - $a \leq b$
- The mean proportional between 80 and $\frac{1}{5}$ is
 - 16
 - 4
 - 8
 - 32
- If 4, 6, p, 27, q are in continued proportion, find the values of p and q.
 - $p = 9, q = 9$
 - $p = 9, q = 81$
 - $p = 81, q = 9$
 - $p = 81, q = 81$
- The ratio of the pocket money saved by Rakesh and his sister is 5:6. If the sister saves ₹60 more, how much more the brother should save in order to keep the ratio of their savings unchanged?
 - 60
 - 40
 - 50
 - 70
- If $O : P = 2:3$ and $P : Y = 4:7$, find $O : P : Y$.
 - 12 : 8 : 21
 - 4 : 12 : 21
 - 8 : 12 : 21
 - 8 : 16 : 21
- The ratio between ₹10 and 12 is
 - ₹ $\frac{10}{12}$
 - $\frac{10}{12}$
 - $\frac{₹10}{₹12}$
 - $\frac{10}{12}$ ₹
- If $x:y = \frac{x}{y}$ then $\frac{x}{y}$ is equal to
 - $\frac{p \cdot x}{m \cdot y}$
 - $\frac{p \cdot x}{y}$
 - $\frac{x}{m \cdot y}$
 - $\frac{p \cdot m \cdot x}{p \cdot m \cdot y}$

13. The greater of the two numbers whose arithmetic mean is 34 and the geometric mean is 16
- 4
 - 256
 - 68
 - 64
14. If the AM and GM for two numbers are 6.50 and 6 respectively then the two numbers are
- 6 and 7
 - 9 and 4
 - 10 and 3
 - 8 and 5
15. The relationship between AM, GM & HM is
- $GM = (AM) \times (HM)$
 - $(GM)^2 = (AM) \times (HM)$
 - $GM = (AM \times HM)^2$
 - $GM^2 = (AM)^2 \times (HM)^2$
16. ____ & ____ are called ratio averages
- HM & GM
 - HM & AM
 - AM & GM
 - None
17. ____ is used for calculation of speed and velocity
- GM
 - AM
 - HM
 - None is used
18. What is the HM of 1, $\frac{1}{2}$, $\frac{1}{3}$... $\frac{1}{n}$?
- n
 - 2n
 - $\frac{2}{(n+1)}$
 - $\frac{n(n+1)}{2}$
19. An aero plane flies from A to B at the rate of 500 km/hour and comes back from B to A at the rate of 700 km/hour. The average speed of the aero plane is
- 60 km per hour
 - 583.33 km per hour
 - 100 35 km per hour
 - 620 km per hour
20. In ____ the distribution has open – end classes
- Median
 - Mean
 - Standard deviation
 - None
21. ____ always lies in between the arithmetic mean and mode.
- GM
 - HM
 - Median
 - None
22. Median divides the total number of observations into parts
- 3
 - 4
 - 5
 - 2
23. 50% of actual values will be below & 50% of will be above ____
- Mode
 - Median
 - Mean
 - None
24. In Ogive, abscissa corresponding to ordinate $N/2$ is
- Median
 - 1st quartile
 - 3rd quartile
 - None
25. The second quartile is known as
- Median
 - Lower quartile
 - Upper quartile
 - None
26. Which of the following relationship is true in a symmetrical distribution?
- Median – $Q_1 = Q_3$ – Median
 - Median – $Q_1 > Q_3$ – Median
 - Median – $Q_1 < Q_3$ – Median
 - Median – $Q_1 \neq Q_3$ – Median

27. What is the median for the following observations 5, 8, 6, 9, 11, 4
- (a) 6
 - (b) 7
 - (c) 8
 - (d) None of these
28. For the values of a variable 3, 1, 5, 2, 6, 8, 4 the median is
- (a) 3
 - (b) 5
 - (c) 4
 - (d) None
29. If the median of 5, 9, 11, 3, 4, x, 8 is 6, the value of x is equal to
- (a) 6
 - (b) 5
 - (c) 4
 - (d) 3
30. If the difference between mean and mode is 63, the difference between mean and median is
- (a) 189
 - (b) 21
 - (c) 31.5
 - (d) 48.5

Answer:

1	a	Ratio = 5:7 Sum of numbers = 216 Sum of ratios = 5+7 = 12 Greater number = $216/12 \times 7 = 126$
2	b	Bank charges in Savings : Current be 7x : 8x Savings A/c to be debited by ₹231, Current be debited by ₹y, $(7x-231) : (8x-y) = 7 : 8$ $(7x-231) \times 8 = 7 \times (8x-y)$ $56x - 1848 = 56x - 7y$ $7y = 1848$ $Y = 1848/7 = 264$
3	c	
4	b	
5	d	
6	a	
7	b	Mean Proportional between 80 and $\frac{1}{5}$ is $\sqrt{(80 \times \frac{1}{5})}$ $\sqrt{16} = 4$

8	b	4,6,p, 27, q are in continued proportion $4/6 = 6/p$ and $p/27 = 27/q$ $4 \times p = 6 \times 6$ $4 \times p = 36$ $p = 36/4 = 9$ $p/27 = 27/q$ $p \times q = 27 \times 27$ $9 \times q = 729$ $q = 729/9 = 81$ $p = 9$ and $q = 81$
9	c	Let the savings of Rakesh to his sister be 5x and 6x, And Rakesh would save ₹ y more, $(5x+y) / (6x+60) = 5/6$ $(5x+y) \times 6 = 5 \times (6x+60)$ $30x+6y = 30x+300$ $6y=300$ $Y=300/6 = 50$
10	c	O : P = 2:3 and P : Y = 4:7, find O : P : Y L.C.M. would be 12, O : P = 8 : 12 and P : Y = 12 : 21 O : P : Y = 8 : 12 : 21

11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	d	d	b	b	a	c	c	b	a	c	d	b	a	a	a	b	c	a	b

Suggestions:

The study guide needs to be read thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts developed in the respective modules/sub modules of the study guide. Students should try to solve individual questions with expertise developed from studying guide book to understand the correct answer of each question. Formula used here are all covered in study guide. Brief solutions are given as keys in selected problems.

Best Wishes.

Topic

Fundamentals of
Business Economics -

Module 2 :
Forms of Market

Fundamentals of
Management -

Module 5:
Fundamentals of
Management

FOUNDATION

Paper-4

Fundamentals of
Business Economics
and Management
(FBEM)

TIPS ON BUSINESS ECONOMICS AND MANAGEMENT FOR THE MONTH OF AUGUST 2025

Let us start our mock test.

I. Choose the correct answer:

1. Who was the father of economics?
 - A. Alfred Marshall
 - B. Samuelson
 - C. Lionel Robbins
 - D. Adam Smith
2. An individual demand curve assumes that except the price of the commodity
 - A. Money income of the consumer remains constant
 - B. Taste and preference pattern of the consumer remains constant
 - C. Prices of other related goods remain constant
 - D. All the above should remain constant
3. Market demand curve for a commodity can be derived from the
 - A. Horizontal summation of individual demand curves
 - B. Vertical summation of individual demand curves
 - C. Cumulative summation of individual demand curves
 - D. None of the above
4. The negative slope of the normal demand curve can be explained by
 - A. Only the substitution effect
 - B. Only the income effect
 - C. Both the income and substitution effect
 - D. None of the above
5. The mid point of a linear demand curve shows a price elasticity of demand which is
 - A. Relatively elastic
 - B. Relatively inelastic
 - C. Unit elastic
 - D. Perfectly inelastic
6. If the demand curve is unit elastic, the shape of the curve
 - A. Will be horizontal
 - B. Will be upward rising
 - C. Will be rectangular hyperbola
 - D. None of the above
7. The demand for durable goods usually remains
 - A. Relatively elastic($e > 1$)
 - B. Relatively inelastic($e < 1$)
 - C. Unitary elastic($e = 1$)
 - D. None of the above
8. A steeper demand curve implies
 - A. Relatively inelastic demand
 - B. Relatively elastic demand
 - C. Perfectly elastic demand
 - D. None of the above
9. If the price of a substitute good rises, the demand curve shifts to the
 - A. Right
 - B. Left
 - C. Upward direction
 - D. None of the above
10. When TR rises, then MR will be
 - A. Positive
 - B. Negative
 - C. Zero
 - D. None of the above
11. When $e > 1$, then with a fall in price, TR will
 - A. Fall
 - B. Rise
 - C. Remains unchanged
 - D. None of the above
12. For an inferior good, the value of income elasticity of demand is
 - A. Positive
 - B. Negative
 - C. Unity
 - D. Zero

13. When the price elasticity of demand is infinity, then MR will be
 - A. Greater than price
 - B. Equal to price
 - C. Less than price
 - D. None of the above
14. When AR curve is rising, what will be the behavior pattern of the MR curve?
 - A. MR curve will be rising
 - B. MR curve will be falling
 - C. Nothing can be said definitely
 - D. None of the above
15. The necessary condition for profit maximization of a competitive firm is
 - A. $P > MC$
 - B. $P = MC$
 - C. $P < MC$
 - D. $P = AC$
16. At the profit maximizing level of output of a competitive firm
 - A. $P = AVC$
 - B. $P \geq AVC$
 - C. $P > AVC$
 - D. $P < AVC$
17. If $P < SAC$ at the profit-maximizing level of output of a competitive firm, then the firm
 - A. Incurs a loss
 - B. Earns excess profit
 - C. Earns normal profit
 - D. None of the above
18. In which market form, there is no distinction between the firm and the industry?
 - A. Monopolistic competition
 - B. Monopoly
 - C. Perfect competition
 - D. None of the above
19. Which institution controls the capital market in India?
 - A. RBI
 - B. IDBI
 - C. SEBI
 - D. None of the above
20. In quantity theory of money, a rise in money supply will result in
 - A. Inflation
 - B. Deflation
 - C. Stagflation
 - D. None of the above
21. What is the name of the central bank of America?
 - A. Bank of America
 - B. Reserve Bank of America
 - C. Federal Reserve Bank of America
 - D. None of the above
22. Which is inherent in managerial job and embodied in all the functions of management?
 - A. Planning
 - B. Organizing
 - C. Control
 - D. Co-ordination
23. A manager has to exhibit the style of leadership depending on the
 - A. Performance
 - B. Time
 - C. Situation
 - D. Period
24. The view that sees profit maximization as the main objective is known as
 - A. Shareholder theory
 - B. Agency theory
 - C. Stakeholder theory
 - D. Stewardship theory
25. Which one of the following is not an agency cost?
 - A. Residual loss
 - B. Bonding costs
 - C. Concurrent loss
 - D. Monitoring costs
26. Selection is a process of rejection and hence it is called a
 - A. Positive process

- B. Negative process
C. Either A or B
D. None of the above
27. The process of increasing the knowledge and skill of an employee is known as
A. Training
B. Development
C. Education
D. None of the above
28. Training conducted away from the actual work setting is called
A. On-the-job training
B. Off-the-job training
C. Step-by-step training
D. None of the above
29. Which of the following are the methods of off-the-job training?
A. Role playing
B. Case studies
C. Lectures, classroom instruction
D. All of the above
30. External sources of recruitment include
A. Employment Exchanges
B. Advertisements
C. Employee walk-ins
D. All of the above

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
D	D	A	C	C	C	B	A	A	A	B	B	B	C	B
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
B	A	B	C	A	C	D	C	B	C	B	A	B	D	D

So friends,

I hope you have enjoyed solving all the problems in the mock test. Try to give more attention to the problems concerning price elasticity of demand. This also involves a bit of mathematics. So it will be better if you brush up your mathematics knowledge.

It will be wise for you if you keep track of your progress in Business Economics and Management from the scores you have obtained in consecutive mock tests. Of course you can consult the KEY, but not before you finish answering all the questions in the test.

Wish you all the best !!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 5:
Indian Partnership
Act, 1932 and

Module 6:
Limited Liability
Partnership Act,
2008

INTERMEDIATE

Group I - Paper-5

Business Laws and
Ethics (BLE)

Registration and Non-Registration of Partnership Firms under the Indian Partnership Act, 1932

Introduction

Partnership as a form of business organization continues to occupy a central position in India due to its structural flexibility, low compliance requirements, and adaptability to small and medium enterprises. The legal foundation of partnerships rests primarily on the Indian Partnership Act, 1932 (hereinafter “the Act”), which consolidates the law relating to partnerships and prescribes their rights, obligations, and liabilities.

A distinctive feature of the Act is its approach to registration: forming a partnership does not require approval or registration, but Section 69 imposes substantial disabilities on unregistered firms. This creates a statutory balance; registration is optional for existence but essential for the enforceability of rights in court.

This article analyzes the legislative structure governing partnership registration, outlines the registration process, examines the consequences of non-registration, and evaluates the development of judicial and policy perspectives on these issues.

Legal Framework and Nature of Partnership

Definition and Essential Features

Section 4 of the Act defines a partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” The essential elements, therefore, include:

- **Contractual basis:** A partnership is not a creation of statute; it emerges from mutual agreement among partners.
- **Business objective:** The association must relate to a business carried on for profit.
- **Mutual agency:** Partners act as both principals and agents, a feature that distinguishes partnerships from mere co-ownership.

The Act applies throughout India (except Jammu & Kashmir) and incorporates principles of the Indian Contract Act, 1872, reinforcing that partnerships are governed by general contract law save for specific statutory provisions (Section 3).

Registration of Partnership Firms

Optional Registration under the Act

Unlike companies or LLPs, partnerships under the 1932

Act do not require compulsory registration. Sections 58 and 59 allow registration at any stage during the firm’s life. Although mandatory registration is absent to uphold contractual freedom, the Act indirectly compels compliance through disabling provisions for unregistered firms under Section 69.

Statutory Procedure

The registration process under Section 58 entails filing a statement in the prescribed form (Form I) with the Registrar of Firms for the relevant state. The statement must disclose:

- The firm’s name and principal place of business,
- Names and addresses of partners,
- Date of joining for each partner, and
- Duration of the firm, if any.

The statement must be signed and verified by all partners or their authorized agents and submitted with the required fee. The Registrar’s role is mainly ministerial. After verifying compliance, an entry is made in the Register of Firms under Section 59, marking the completion of the registration process. This was clarified in *CIT v. Jayalakshmi Rice & Oil Mills Contractors Co.* (1971), where the Supreme Court held that registration is effective only upon such entry, not on the date of application.

The Registrar lacks discretion to reject an application on extraneous grounds, as affirmed in *Hiralal Agrawal v. State of Bihar* (1972). Substantial compliance is deemed sufficient; minor irregularities do not invalidate registration.

Legal Consequences of Registration

Registration confers significant procedural and commercial advantages:

- The firm acquires locus standi to institute suits against third parties for contractual claims.
- Partners gain the right to sue each other or the firm to enforce partnership rights.
- A registered firm enjoys enhanced credibility in commercial transactions and facilitates access to credit.

Therefore, although registration is not required to form a partnership, it is essential for the enforceability of rights and legal certainty.

Effect of Non-Registration: Section 69

Statutory Disabilities

Section 69 of the Act imposes stringent limitations on unregistered firms:

- Under Section 69(1), a partner cannot institute a suit against the firm or co-partners to enforce rights arising from the partnership agreement unless the firm is registered and the partner's name appears in the register.
- Under Section 69(2), the firm cannot sue third parties to enforce contractual obligations without registration.
- The prohibition extends to claims of set-off under Section 69(3).

However, the Act provides critical exceptions under Section 69(3)(a), which preserve suits for (i) dissolution of the firm, (ii) accounts of a dissolved firm, and (iii) realization of property belonging to a dissolved firm. Further, Section 69(4) exempts firms operating wholly outside India and claims under ₹100.

Judicial Interpretations

The judiciary has consistently upheld the mandatory nature of Section 69. In *Seth Loonkaran Sethiya v. Ivan E. John* (1977), the Supreme Court held that the disability imposed is “compulsive and comprehensive,” barring enforcement of contractual rights by unregistered firms. Recently, in *Sunkari Tirumala Rao v. Penki Aruna Kumari* (2025), the Court reiterated that even recovery suits by partners of an unregistered firm are barred; the remedy lies in seeking dissolution and accounts.

Conversely, the Court has adopted a narrow interpretation of the bar. In *Raptakos Brett & Co. Ltd. v. Ganesh Property* (1998), it clarified that the prohibition applies only to rights arising from a partnership contract. Statutory or common-law rights—such as eviction under tenancy laws—remain enforceable by an unregistered firm. This position was reaffirmed in *Shiv Developers v. Aksharay Developers* (2022), where the Court allowed an unregistered firm to maintain a suit seeking declaratory relief unrelated to contractual enforcement.

Amendments and Contemporary Developments

The Partnership Act has remained largely static since 1932. A significant attempt to extend registration requirements occurred through the Maharashtra Amendment Act, 1984, which introduced Section 69(2A), mandating registration even for dissolution suits. However, this provision was

invalidated in *V. Subramaniam v. Rajesh Raghuvandra Rao* (2009) on grounds of unconstitutionality, as it infringed partners' proprietary rights under Articles 14, 19(1)(g), and 300A of the Constitution.

At the policy level, the enactment of the Limited Liability Partnership Act, 2008, marked a shift toward mandatory registration for modern partnership forms, reflecting the increasing formalization of business structures. LLPs, unlike traditional partnerships, enjoy separate legal personality and limited liability but are subject to compulsory registration.

Comparative Perspective

In comparative common-law jurisdictions, such as the United Kingdom and the United States, general partnerships arise automatically upon fulfilling essential conditions: mutual agency and profit motive, without any statutory obligation of registration. For instance, the UK Partnership Act, 1890, imposes no registration requirement for general partnerships. Similarly, U.S. partnership law does not condition the enforceability of rights upon registration. India's regime under Section 69, therefore, represents a distinctive legislative choice: while not mandating registration, it creates a strong disincentive for non-compliance by withholding judicial remedies for contractual enforcement. This difference impacts practical business outcomes. In India, unregistered firms encounter more obstacles in accessing credit and conducting litigation compared to their UK and US counterparts, where the absence of compulsory registration facilitates easier access to legal and financial resources. Additionally, UK and US partnerships often navigate legal disputes with fewer constraints, due to the automatic recognition of their formation and rights. Thus, while India prioritizes legal formalities, it potentially restricts the operational flexibility observed in the UK and US business environments.

Policy Considerations and Practical Implications

The optional registration framework maintains contractual autonomy and lowers entry barriers for small businesses. However, since registration is crucial for enforceability, the option is largely theoretical. Unregistered firms face increased litigation risks and reduced legal security. In modern commercial contexts, where transparency and creditworthiness are essential, registration is a strategic requirement rather than just a procedural step.

To address these challenges, a reevaluation of the current balance between business autonomy and enforceability is necessary. While the existing regime provides flexibility,

it may no longer fully serve the needs of contemporary businesses that operate in increasingly complex and interconnected markets. Possible reforms could include incentivizing voluntary registration through tax benefits or simplified compliance processes to encourage more firms to register. Another approach could involve establishing a tiered registration system, offering different levels of legal and commercial advantages based on the firm's size, turnover, and nature of business. Such measures would aim to enhance legal enforceability and commercial credibility while still preserving the core principles of the Indian Partnership Act, 1932.

Conclusion

The Indian Partnership Act, 1932, adopts a nuanced approach by permitting unregistered partnerships while imposing significant limitations to encourage compliance.

Judicial decisions have affirmed the binding nature of these restrictions, allowing only limited exceptions for statutory rights. The rise of Limited Liability Partnerships and the trend toward formalization suggest that the optional registration regime requires thorough reassessment.

To address these challenges, specific reforms could include introducing partial mandatory registration for partnerships above a certain size or turnover threshold. This could enhance legal enforceability without overly burdening small enterprises. Streamlining the registration process by reducing paperwork and adopting digital platforms for registration may also encourage greater compliance. Additionally, offering incentives such as reduced fees for early registration could promote timely adherence to the registration requirement.

Formation of LLP under the Limited Liability Partnership Act, 2008

Introduction

The Limited Liability Partnership (LLP) form has become a preferred business structure in India, blending the flexibility of a partnership with the limited liability feature of a company. The Limited Liability Partnership Act, 2008 (hereafter "LLP Act") introduced this model to provide an alternative that accommodates entrepreneurial ventures, professional firms, and start-ups. By granting separate legal entity status and limited liability, LLPs resolve critical shortcomings of traditional partnerships governed by the Indian Partnership Act, 1932.

Judicial pronouncements such as *Jayamma Xavier v. Registrar of Firms* (Kerala HC, 2021) affirm that an LLP, like a company, is distinct from its partners, enabling it to contract, own property, and sue or be sued independently. This core attribute has profound implications for formation, governance, and compliance.

Historical Background & Legislative Intent

The introduction of LLPs in India was influenced by global practices. Countries like the United Kingdom (LLP Act, 2000) and Singapore had already established LLP regimes for professional services and small businesses. Indian law-makers recognized the limitations of traditional partnerships unlimited liability, absence of corporate personality, and rigid dissolution rules creating a need for a hybrid entity that ensures:

- Operational flexibility comparable to partnerships.
- Corporate features, including perpetual succession and separate legal identity.
- Lower compliance costs compared to private companies.

The Naresh Chandra Committee Report (2003) and J.J. Irani Committee (2005) strongly recommended an LLP structure for India's growing services sector and knowledge-based industries.

Statutory Framework for LLP Formation

a) Name Reservation

Under Sections 15 and 16, the LLP's name must be unique and not undesirable or identical to an existing entity. Reservation is facilitated through the RUN-LLP service or combined in Form FiLLiP. The name must end with "LLP" or "Limited Liability Partnership."

b) Designated Partners

As per Section 7, an LLP requires a minimum of two designated partners, one of whom must be a resident in India (now defined as staying in India for 120 days in a financial year post-2021 amendment). Each designated partner must obtain a DIN (Director Identification Number). Earlier DPIN was merged with DIN to streamline processes.

c) **Incorporation**

The LLP comes into existence upon filing Form FiLLiP under Section 11, which includes partner details, registered office proof, and consent forms. The Registrar issues a Certificate of Incorporation and LLPIN under Section 14, granting the entity corporate status.

d) **LLP Agreement**

The LLP Agreement (Section 23) governs internal rights and duties of partners. It must be executed within 30 days of incorporation and filed in Form 3. Absence of a filed agreement subjects the LLP to default provisions under the Act.

Implications of Separate Legal Entity at Formation Stage

Recognizing the LLP as a separate legal entity has far-reaching consequences:

- **Autonomy of Obligations:** Obligations of the LLP are distinct from those of its partners (Sections 27 and 28). Partners are not liable for the wrongful acts of other partners, except in cases of fraud or deliberate misconduct.
- **Property Ownership and Contractual Capacity:** The LLP can own property, sue and be sued, and even become a partner in another firm—an aspect acknowledged by the judiciary in *Jayamma Xavier*.
- **Agency Principle:** Each partner acts as an agent of the LLP, not of the other partners, limiting exposure to unauthorized actions if the LLP Agreement is well-structured.

Formation Procedure: Step-by-Step

1. **Document Preparation:** Collect identity and address proofs of partners, Digital Signature Certificates (DSCs), and registered office documents (e.g., lease deeds or owner consent).
2. **Name Reservation:** Apply through RUN-LLP or FiLLiP, ensuring compliance with naming norms and trademark laws.
3. **FiLLiP Filing:** Submit incorporation details, attach requisite documents, and pay statutory fees. Apply for DIN if required.

4. **Obtain Certificate of Incorporation:** Upon approval, the Registrar issues the certificate and LLPIN, granting legal existence.

5. **Execute and File LLP Agreement:** Complete execution on appropriate stamp paper and file Form 3 within 30 days to avoid penalties.

6. **Post-Incorporation Compliances:** Maintain books of account under Section 34 and file annual returns under Section 35. The LLP (Amendment) Act, 2021 introduced an in-house adjudication mechanism for certain defaults, reducing criminal penalties.

Drafting the LLP Agreement: Key Points to remember

- a) **Authority and Decision-Making:** Specify approval matrices and reserved matters to prevent unauthorized commitments.
- b) **Capital Contributions:** Define valuation methods for non-monetary contributions.
- c) **Entry and Exit Mechanisms:** Include clauses for admission, retirement, and buyout to minimize disputes.
- d) **Dispute Resolution:** Provide for arbitration or mediation with clear governing law and jurisdiction.
- e) **Fraud Exception:** Emphasize consequences of fraudulent conduct as per Section 30, which now carries extended limitation for prosecution.

Conversions and Tax Neutrality

Many LLPs originate through the conversion of existing partnership firms or private companies under the Act's Second, Third, and Fourth Schedules. Although the Act ensures smooth transfer of assets and liabilities, tax neutrality under Section 47(xiii b) of the Income Tax Act, 1961 is conditional. In *ISC Specialty Chemicals LLP v. ITO* (ITAT Mumbai, 2025), conversion of a private company into an LLP was deemed a “transfer,” and though no capital gains arose (due to book value transfer), the judgment reinforces that non-compliance with prescribed conditions (e.g., turnover limits) can trigger tax liabilities.

Judicial Interpretations & Case Laws

In *Jayamma Xavier v. Registrar of Firms* (Kerala HC, 2021), the court held that an LLP, being a separate legal entity, can be a partner in another firm, reinforcing its

flexible legal status for joint ventures. Similarly, in *ISC Specialty Chemicals LLP v. ITO* (ITAT Mumbai, 2025), the tribunal clarified that conversion of a company into an LLP is tax-neutral if conditions under Section 47(xiiib) of the Income Tax Act are met, emphasizing the need for meticulous tax compliance during formation. In *Registrar of Companies v. Golden Tobacco Ltd.* (CLB, 2017), the board stressed strict adherence to procedural requirements for company-to-LLP conversions, highlighting that lapses in documentation and approvals can invalidate the process.

Impact of LLP (Amendment) Act, 2021

The 2021 amendment introduced several business-friendly measures:

1. Decriminalization of minor offences, shifting to in-house adjudication.
2. Reduced penalties and introduction of Small LLP concept to lower compliance costs for start-ups.
3. Residency requirement relaxed from 182 days to 120 days, easing cross-border partner participation.
4. Extended limitation for fraud cases under Section 30 (from 2 to 5 years).

These changes aim to make LLPs an attractive structure for MSMEs and professional firms.

Future Outlook

The LLP model aligns with India's ease of doing business agenda and suits the start-up ecosystem, especially for ventures seeking investor flexibility without complex corporate formalities. Anticipated reforms include:

- a) Digitalization of compliance filings on MCA V3.

- b) Possible integration with GSTN for seamless tax compliance.
- c) Greater adoption in professional service networks and foreign collaborations due to liberalized residency norms.

Common Pitfalls to Avoid

- a) **Delayed Filing of LLP Agreement:** Results in default provisions taking effect, creating governance ambiguity.
- b) **Ignoring Resident Designated Partner Requirement:** Cross-border start-ups often overlook the statutory residency norm.
- c) **Failure to Check Tax Conditions in Conversions:** Can lead to avoidable tax exposure.
- d) **Weak Drafting of Authority Provisions:** May expose the LLP to unauthorized transactions.

Conclusion

The LLP structure, governed by the 2008 Act, offers a robust balance between operational flexibility and liability protection. However, effective utilization of this form demands meticulous attention at the formation stage particularly in relation to compliance with statutory requirements, timely filing of the LLP Agreement, and sound governance frameworks. Judicial interpretations reinforce that while the LLP form limits liability, it also expects transparency, good faith, and adherence to the law. For entrepreneurs and professionals seeking a versatile business vehicle, the LLP remains a compelling choice provided its formation is executed with foresight and precision.

Topic

Module 1:
Accounting
Fundamentals

INTERMEDIATE

Group I - Paper-6

Financial Accounting (FA)

Capital and Revenue Transactions / Adjustment Entries and Rectification of Errors

Capital and Revenue Transactions

Capital and Revenue Transactions are two fundamental concepts in accounting that distinguish between different types of expenditures and receipts. They help in understanding how different financial activities impact a company's financial statements.

Capital Transactions

Capital Expenditure: These are expenses incurred to acquire or improve fixed assets (e.g., purchasing machinery, buildings, vehicles). Such expenses provide benefits over a long period and are capitalized, i.e., added to the cost of the asset on the balance sheet.

Examples:

- Purchase of land, building, or machinery.
- Installation costs for new equipment.
- Legal fees for purchasing property.

Capital Receipts: These are funds received that either reduce liabilities or increase the owner's equity without impacting the company's profit or loss. They are not generated from the day-to-day business activities.

Examples:

- Sale of fixed assets.
- Issue of shares or debentures.
- Loans received from banks or financial institutions.

Revenue Transactions

Revenue Expenditure: These are the costs incurred in the ordinary course of business to maintain daily operations. These expenses provide benefits for a short term, typically within a single financial year, and are charged to the profit and loss account.

Examples:

- Wages and salaries.
- Rent, utilities, and insurance.
- Repairs and maintenance.

Revenue Receipts: These are incomes generated from the core business activities, typically recurring in nature. They contribute directly to the profit of the business.

Examples:

- Sales revenue from goods and services.
- Interest received on investments.
- Commission received.

Differences between capital expenditure and revenue expenditure

Criteria	Capital Expenditure	Revenue Expenditure
Nature	Incurred to acquire or improve long-term assets.	Incurred for day-to-day operations.
Purpose	Aimed at increasing earning capacity or extending asset life.	Aimed at maintaining earning capacity and daily functions.
Treatment in Financial Statements	Capitalized and shown as an asset on the balance sheet.	Expensed in the income statement (profit and loss account).
Recurrence	Typically non-recurring, involves large sums.	Recurring, involves regular and smaller amounts.
Impact on Financial Statements	Affects both the balance sheet and income statement through depreciation.	Directly impacts the income statement by reducing profit.
Examples	Purchase of machinery, construction of a building.	Payment of wages, rent, repairs, utilities.
Long-Term vs. Short-Term Impact	Provides long-term benefits, often over several years.	Provides short-term benefits within the current year.
Depreciation	Subject to depreciation over the useful life of the asset.	Not subject to depreciation; fully expensed in the current year.

Criteria	Capital Expenditure	Revenue Expenditure
Impact on Profitability	Initially reduces cash flow but spreads cost over time.	Directly reduces profits in the year incurred.
Example Scenarios	Buying a new factory, installing new equipment.	Routine maintenance, office supplies, utility bills.

Differences between capital receipts and revenue receipts

Criteria	Capital Receipts	Revenue Receipts
Nature	Non-recurring receipts that affect liabilities or equity.	Recurring receipts from normal business operations.
Source	Derived from non-operational activities like financing.	Generated from operational activities like sales.
Impact on Financial Statements	Recorded on the balance sheet.	Recorded on the income statement (profit and loss account).
Recurrence	Typically non-recurring.	Regular and recurring.
Impact on Capital Structure	Affects capital structure (increases equity or liabilities).	No impact on capital structure.
Examples	Sale of fixed assets, issue of shares, loans received.	Sales revenue, interest earned, commission received.
Long-Term vs. Short-Term Impact	Long-term impact, linked to investment/financing activities.	Short-term impact, related to current period's earnings.
Repayment or Obligation	May involve future obligations (e.g., loan repayment).	No repayment obligation.
Tax Treatment	May not be taxable, subject to specific rules.	Fully taxable as business income.
Example Scenarios	Selling land, borrowing from a bank, issuing shares.	Income from sales, interest on deposits, rent received.

Adjustment Entries and Rectification of Errors

Adjustment Entries

Adjustment entries are made at the end of an accounting period to update the accounts before financial statements are prepared. They ensure that revenues and expenses are recorded in the period they occur, regardless of when the cash is received or paid.

Key Types of Adjustment Entries:

- 1. Accrued Revenues:** Revenue earned but not yet received or recorded.
 - Example: Interest receivable.
- 2. Accrued Expenses:** Expenses incurred but not yet paid or recorded.
 - Example: Salaries payable.
- 3. Prepaid Expenses:** Payments made in advance for expenses that have not yet been incurred.

- Example: Prepaid rent.

- 4. Unearned Revenues:** Cash received before revenue is earned.

- Example: Advance payments from customers.

- 5. Depreciation:** Allocation of the cost of a tangible fixed asset over its useful life.

- Example: Depreciation on machinery.

Rectification of Errors

Rectification of errors involves correcting mistakes in financial records. Errors can occur due to omission, incorrect recording, or misclassification of transactions.

Types of Errors:

- 1. Errors of Omission:** A transaction is completely omitted from the books.

- **Example:** Forgetting to record a purchase.

- **Rectification:** Record the omitted entry in the relevant accounts.
2. **Errors of Commission:** A transaction is recorded but with the wrong amount or in the wrong account.
 - **Example:** Recording Rs.500 as Rs.50.
 - **Rectification:** Correct the amount or the account in which the entry was made.
 3. **Errors of Principle:** A transaction is recorded in violation of accounting principles.
 - **Example:** Treating revenue expenditure as capital expenditure.
 - **Rectification:** Reverse the incorrect entry and record it correctly.
 4. **Compensating Errors:** Two or more errors that cancel each other out.
 - **Example:** Understating income by Rs.200 and overstating expenses by Rs.200.
 - **Rectification:** Identify and correct each error separately.
 5. **Errors of Duplication:** Recording the same transaction more than once.
 - **Example:** Entering a purchase invoice twice.
 - **Rectification:** Reverse the duplicated entry.

Methods of Rectification:

1. **Before Preparation of Trial Balance:** Correct the error directly in the ledger accounts.
2. **After Preparation of Trial Balance:** Use a Suspense Account to temporarily hold discrepancies until they are resolved.

Importance of Adjustment Entries

Adjustment entries are crucial for accurate financial reporting and ensuring compliance with accounting principles. Here's why they are important:

1. **Accurate Financial Statements:** Adjustment entries ensure that revenues and expenses are recognized in the correct accounting period, providing a true and fair view of the financial position.
2. **Compliance with Accounting Standards:** These entries are necessary to adhere to the **Matching Principle** (matching revenues with related expenses) and **Accrual Principle** (recording transactions when they occur, not when cash is received or paid).

3. **Reflect True Profit or Loss:** Adjustments for accrued expenses, prepaid expenses, depreciation, and provisions help calculate the actual profit or loss for the accounting period.
4. **Preparation for Audit:** Adjustment entries help ensure that the books of accounts are accurate, reducing discrepancies during audits.
5. **Improved Decision-Making:** Adjusted financial statements provide stakeholders with accurate data for making informed decisions.
6. **Legal and Tax Compliance:** Proper adjustments ensure that income and expenses are reported accurately, aiding in compliance with tax laws and regulations.

Importance of Rectification of Errors

Rectification of errors is vital to maintain the integrity and reliability of financial records. Here's its importance:

1. **Correct Representation of Financial Data:** Rectifying errors ensures that the financial statements reflect the true financial position of the business.
2. **Maintaining Trustworthiness:** Accurate books of accounts enhance the credibility of the business among stakeholders, investors, and regulatory authorities.
3. **Facilitating Audit Process:** Errors in financial records can complicate audits. Rectification ensures smooth audits by presenting accurate data.
4. **Compliance with Laws and Standards:** Correcting errors helps in adhering to accounting standards and legal requirements, avoiding penalties or legal complications.
5. **Avoidance of Misinterpretation:** Financial errors can mislead management and stakeholders, resulting in poor decisions. Rectification prevents such issues.
6. **Reduction of Financial Risks:** Errors, if uncorrected, can escalate over time, causing larger discrepancies. Rectification mitigates such risks.
7. **Smooth Preparation of Future Accounts:** Correcting errors in the current period ensures that opening balances for the next period are accurate.
8. **Transparency and Accountability:** Identifying and rectifying errors fosters transparency and accountability in accounting practices.

Questions:

1. Which of the following is a capital expenditure?
 - A) Payment of salaries
 - B) Purchase of machinery
 - C) Repair of machinery
 - D) Rent for the office building
2. Which of the following is considered a revenue receipt?
 - A) Loan from a bank
 - B) Sale of old furniture
 - C) Revenue from sales
 - D) Issue of shares
3. Which of the following would be recorded as a capital receipt?
 - A) Cash sales
 - B) Loan from a bank
 - C) Rent received
 - D) Interest received on investments
4. Revenue expenditure is typically incurred for which of the following?
 - A) Acquiring new machinery
 - B) Day-to-day operations
 - C) Purchasing land
 - D) Constructing a new building
5. Which of the following is NOT a characteristic of capital expenditure?
 - A) Long-term benefit
 - B) Non-recurring in nature
 - C) Expensed in the profit and loss account
 - D) Increases the earning capacity of the business
6. Which of the following is an example of an accrued expense?
 - A) Prepaid Rent
 - B) Unearned Revenue
 - C) Salaries Payable
 - D) Depreciation Expense
7. If a transaction is completely omitted from the books, it is an error of:
 - A) Commission
 - B) Principle
 - C) Omission
 - D) Compensating
8. Which of the following errors will not affect the Trial Balance?
 - A) Posting to the wrong account
 - B) Omitting an entry in the ledger
 - C) Entering a debit as a credit
 - D) Adding up the ledger incorrectly
9. The process of distributing the cost of a tangible asset over its useful life is known as:
 - A) Amortization
 - B) Depreciation
 - C) Accrual
 - D) Prepayment
10. A customer paid in advance for services, but the services have not yet been provided. This should be recorded as:
 - A) Revenue
 - B) Expense
 - C) Asset
 - D) Liability

Answer:

1	2	3	4	5	6	7	8	9	10
b	c	b	b	c	c	c	a	b	d

Topic

Module 2:
Heads of Income

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DT)

Income from House Property

Income from House Property constitutes the second head of income under the Income-tax Act, 1961 (Section 22 to Section 27). This segment governs taxation related to income arising from ownership of buildings and the land appurtenant thereto. The taxability of such income hinges on occupancy status, ownership type, and manner of use. Precise classification of property (self-occupied, let-out, or deemed let-out) is critical for accurate computation.

1. Annual value of a property shall be taxable under the head “Income from house property” subject to fulfilment of the following conditions:

- There must be a property consisting of any building or land appurtenant thereto.
- Assessee is the owner (including deemed owner).
- Such property is not used in any assessable business or profession carried on by the assessee.

Taxpoint: Where the assessee is engaged in the business of letting out of **commercial properties**, income therefrom would be chargeable under the head Profits and Gains of Business or Profession.

2. Annual value of a property is assessed to tax only in the hands of the owner. Income from sub-letting is taxable as business income or as income from other sources. Owner includes legal owner, beneficial owner and deemed owner.

Deemed Owner [Sec. 27]

- Transfer of property to spouse or minor child (not being a married daughter) without adequate consideration;
 - The holder of an impartible estate;
 - Property held by a member of a housing co-operative society, company, etc.;
 - A person who acquired a property u/s 53A of the Transfer of Property Act against part performance of a contract;
 - Lessee of a building for more than 12 years u/s 269UA(f).
3. Co-owners are not taxable as an AOP provided their respective share are definite and ascertainable. The share of each co-owner shall be taxable in his hands.
4. **Exempted Properties:** Anyone palace or part thereof of an ex-ruler (provided the same is not let out) a farmhouse; house property of a local authority, of an approved scientific research association, of an educational institution, of a hospital, of a person being resident of Ladakh, of a political party, of a trade union; house property held for a charitable purpose.
5. **Composite Rent:** Composite Rent = Rent for building + Rent for assets / Charges for various services

Case	When rent is separable		When rent is not separable	
	Property is acceptable by the tenant without amenities	Property is not acceptable by tenants without amenities	Property is acceptable by the tenant without amenities	Property is not acceptable by tenants without amenities
Income shall be taxable under the head	Rent for Property: ‘Income from house property’ Rent for Amenities: ‘Profits & gains of business or profession’ or ‘Income from other sources’.		‘Profits & gains of business or profession’ or ‘Income from other sources’.	

6. **Property held as stock-in-trade**

Where house property is held as stock-in-trade & not let out during any part of the previous year, then annual value of such property shall be computed as under:

Period	Annual Value
Up to 2 years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority	Annual value of such property shall be taken to be <i>nil</i> .
After the completion of aforesaid period	Annual value of such property shall be computed as per other provisions.

Let-Out House Property

Gross Annual Value (GAV)

Step 1: Calculate reasonable expected rent (RER) of the property, being higher of a) GMV or b) Fair rent.

Note: RER cannot exceed Standard Rent.

Step 2: Calculate Actual Rent Receivable (ARR) for the year *less* current year unrealised rent (UR).

Step 3: Compare the values calculated in step 1 and step 2 and take the higher one.

Step 4: Where there is vacancy and *owing to such vacancy* the 'ARR – UR' is less than the RER, then 'ARR - UR' computed in step 2 will be treated as GAV.

Municipal Tax including service taxes, water taxes and other taxes levied by local authority: Such taxes shall be computed as a % of Net Municipal Value and allowed as deduction if such taxes are actually paid during the previous year by the assessee.

Standard deduction: 30% of net annual value is allowed irrespective of the actual expenditure incurred.

Interest on borrowed capital: Interest payable on amount borrowed for the purpose of purchase, construction, renovation, repairing, extension, renewal or reconstruction of house property can be claimed as deduction on accrual basis. For this purpose, interest on loan is divided into 2 parts:

Interest for pre-construction period	Interest for post-construction period
The period starts from the day of commencement of construction or the day of borrowing whichever is later and ending on March 31 immediately prior to the year of completion of construction. Interest for pre-construction period will be accumulated and claimed as deduction over a period of 5 equal installments commencing from the year of completion of construction.	The period starts from the beginning of the year in which construction is completed and continues until the loan is repaid. Interest for such period is allowed in the respective year(s).

Note: Any interest chargeable under this Act which is payable outside India, is not allowed as deduction if on such interest, tax has not been deducted at source.

8. **Self-occupied Property:** The annual value of such house or part of the house shall be *nil*. If an assessee occupies more than two house properties as self-occupied, he is allowed to treat only two houses as self-occupied at his option. The remaining self-occupied properties shall be treated as 'Deemed to be let out'. Interest on loan u/s 24(b) shall be allowed under the **old tax regime** (No deduction under the default tax regime) as under:

Conditions	Maximum Interest Allowed in aggregate
Where loan is taken on or after 1/4/1999 for construction or acquisition and such construction or acquisition is completed within 5 years from the end of the financial year in which the capital was borrowed & certificate received from lender.	₹ 2,00,000
In any other case	₹ 30,000

Property not Occupied by the Owner / Unoccupied Property: Where an assessee has a residential house (kept for self-occupation) and it cannot actually be occupied by him owing to his employment, business or profession and he has to reside at a place not belonging to him, then such house shall be termed as unoccupied property. It shall be treated at par with self-occupied property.

10. Deemed to be let-out House Property: Where the assessee occupies more than two house properties as self-occupied, then for any two of them, benefit u/s 23(2) can be claimed (at the choice of the assessee) and remaining property or properties shall be treated as 'deemed to be let out' and shall be treated same as let out house property.

11. Partly Self-occupied and Partly Let-out

Case 1) Area wise Division: In this case, a house property consists of two or more independent units and one or more of which are self-occupied and remaining units are let out.

Treatment: Self-occupied portion & let out portion shall be treated as two separate house (i.e., Unit A & Unit B); Income of both units shall be computed accordingly.

Case 2) Time wise Division: In such case, the house property is self occupied by the assessee for a part of the year and let out for remaining part of the year.

Treatment: In such case assessee will not get deduction for the self-occupied period and income will be computed as if the property is let out throughout the year. Reasonable expected rent (RER) shall be taken for the full year but the actual rent receivable (ARR) shall be taken only for the let-out period.

Case 3) Area as well as Time-wise Division: Merger of Case 1 and Case 2

12. Taxation of arrears of rent or recovery of unrealised rent in the year of receipt [Sec. 25A]

$\text{Taxable Amount} = 70\% * [\text{Recovery of Arrear Rent} + \text{Recovery of Unrealised Rent}]$

The taxation of income from house property requires careful classification of property type, ownership, and usage. Understanding the provisions related to self-occupation, let-out treatment, interest deduction, and deemed ownership helps students compute taxable income precisely and prepares them for practical tax situations in professional practice.

Topic

Module 5:
Goods and Services
Tax (GST) Laws

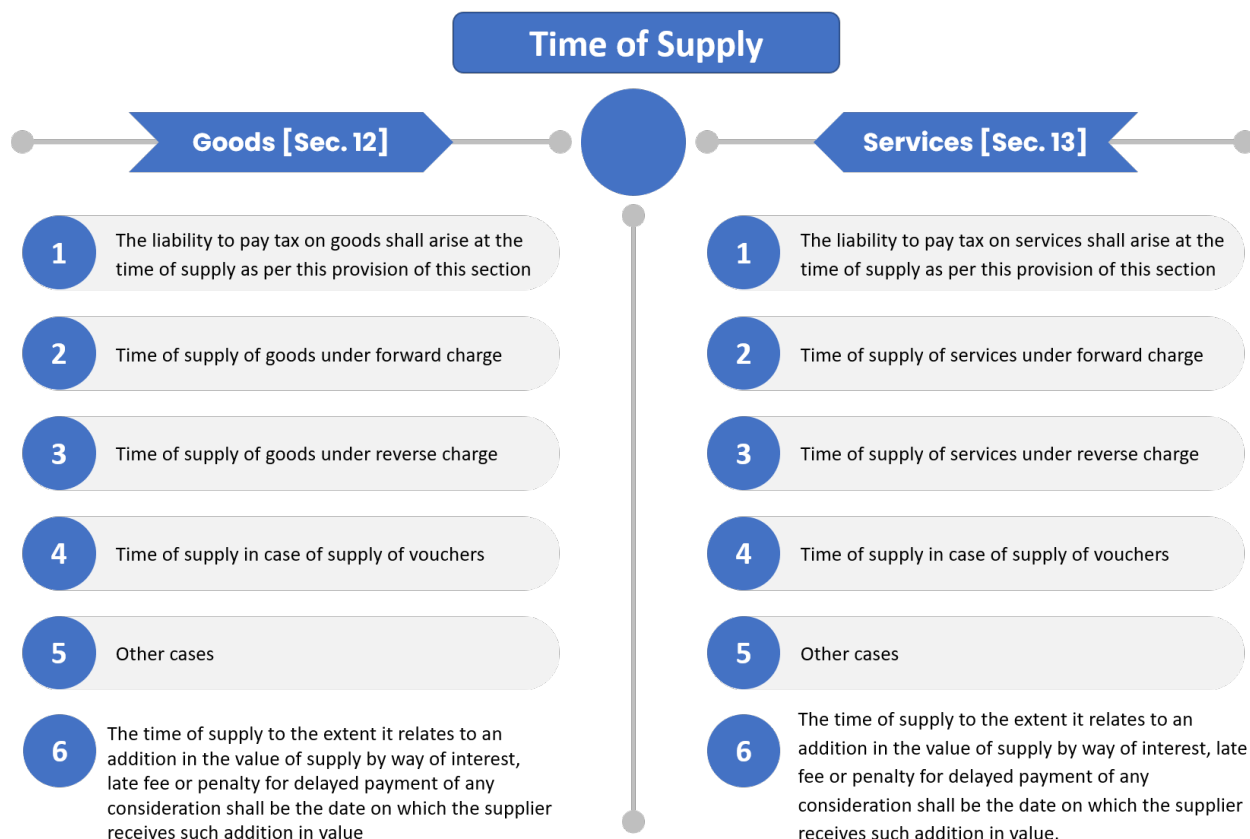
INTERMEDIATE

Group I - Paper-7B

Indirect Taxation
(IDT)

Time of Supply

The concept of Time of Supply is fundamental in the Goods and Services Tax (GST) framework as it determines the point at which the supply of goods or services is deemed to have taken place. This is crucial because it helps in determining the due date for the payment of taxes, filing of returns, and availing input tax credits. Under GST, the time of supply is different for goods and services, and separate provisions cater to each scenario. The schema of the provisions is enumerated here in below:



Time of Supply of Goods – Forward Charge [Sec. 12(2)]

The time of supply of goods shall be the **earlier** of the following dates:

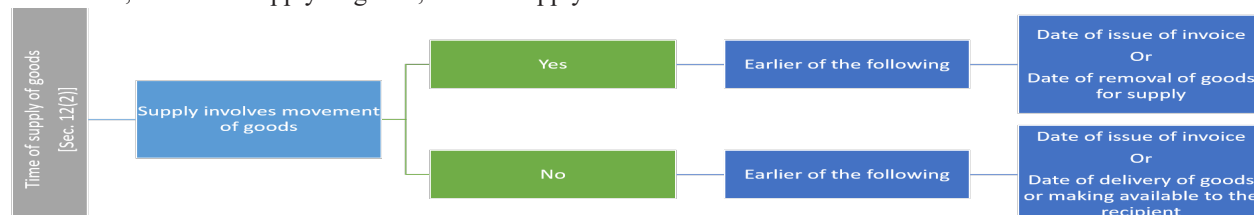
- a. the date of issue of invoice by the supplier; or
- b. the last date on which he is required to issue the invoice with respect to the supply u/s 31; or

Taxpoint

A registered person supplying taxable goods shall issue a tax invoice, **before or at the time of:**

Where the supply involves movement of goods	Removal of goods for supply to the recipient
Where the supply does not involve movement of goods	Delivery of goods or making available thereof to the recipient

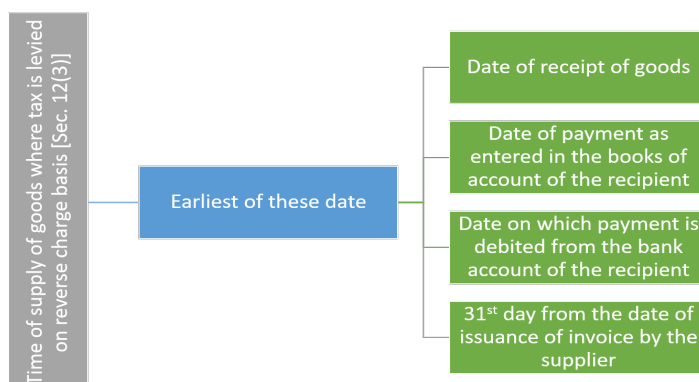
In nutshell, in case of supply of goods, time of supply is as under:



Time of Supply of Goods in case of reverse charge [Sec. 12(3)]

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earliest of the following dates:

- the date of the receipt of goods; or
- the date of payment as entered in the books of account of the recipient; or
- the date on which the payment is debited in his bank account; or
- the date immediately following 30 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier.

**Taxpoint:**

- ☐ Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.
- ☐ Please note that in case of reverse charge, to determine time of supply, payment date is relevant

Time of Supply in case of Voucher [Sec. 12(4)]

In case of supply of vouchers by a supplier, the time of supply shall be:

If the supply is identifiable at the point at which voucher is issued	The date of issue of voucher
In all other cases	The date of redemption of voucher

Taxpoint:

- ☐ As per sec. 2(118), “voucher” means an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services or both and where the goods or services or both to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

Time of Supply of goods in residual cases [Sec. 12(5)]

Where it is not possible to determine the time of supply under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 12(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Time of Supply of Services – Forward Charge [Sec. 13(2)]

The time of supply of services shall be the earliest of the following dates, namely:

Situation	Time of Supply
If the invoice is issued within the period prescribed u/s 31	<ol style="list-style-type: none"> The date of issue of invoice by the supplier; The date of receipt of payment <ul style="list-style-type: none"> - whichever is earlier
If the invoice is not issued within the period prescribed u/s 31	<ol style="list-style-type: none"> The date of provision of service; The date of receipt of payment <ul style="list-style-type: none"> - whichever is earlier
In any other case	The date on which the recipient shows the receipt of services in his books of account

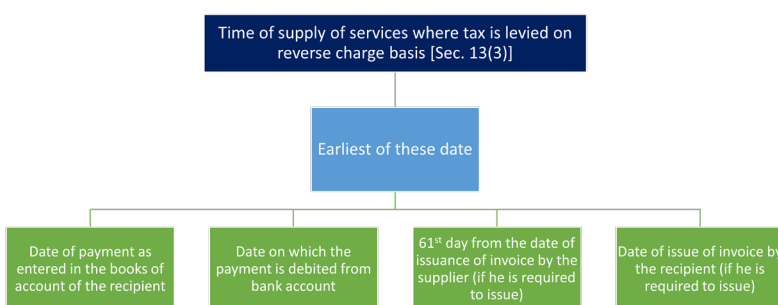
Taxpoint

- “The date of receipt of payment” shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.
- The supply shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment.
- Where the supplier of taxable service receives an amount up to ₹ 1,000 in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the **option** of the said supplier, be the date of issue of invoice relating to such excess amount.
- *Time limit for issuance of invoice u/s 31 r.w. r. 47 is general scenario:* Within 30 days from the date of the supply of service (45 days in case of insurance/banking company or a financial institution, including NBFC)

Time of Supply of Services – Reverse Charge [Sec. 13(3)]

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earlier of the following:

- a. the date of payment as entered in the books of account of the recipient; or
- b. the date on which the payment is debited in his bank account; or
- c. the date immediately following 60 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier, in cases where invoice is required to be issued by the supplier.



- d. the date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient, the date of issue of invoice by the recipient

Taxpoint

- *Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.*
- *In case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.*

Time of Supply of Services – Voucher [Sec. 13(4)]

In case of supply of vouchers by a supplier, the time of supply shall be:

If the supply is identifiable at the point at which voucher is issued	The date of issue of voucher
In all other cases	The date of redemption of voucher

Time of Supply of Services – Residual Cases [Sec. 13(5)]

Where it is not possible to determine the time of supply of service under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 13(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Change in rate of tax in respect of supply of goods or services [Sec. 14]

The time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner

Invoice issued	Payment received	Time of Supply	Applicable Rate
A. Where the goods or services or both have been supplied before the change in rate of tax			
After	After	a. Date of receipt of payment; or b. Date of issue of invoice - whichever is earlier	New Rate
Before	After	Date of issue of invoice	Old Rate
After	Before	Date of receipt of payment	Old Rate
B. Where the goods or services or both have been supplied after the change in rate of tax			
Before	After	Date of receipt of payment	New Rate
Before	Before	a. Date of receipt of payment; or b. Date of issue of invoice - whichever is earlier	Old Rate
After	Before	Date of issue of invoice	New Rate

Taxpoint:

Rate applicability rule: There are three events viz. (a) supply; (b) issuance of invoice; (c) receipt of payment. Out of these 3 events, atleast two events are occurred after change of rate of tax, new rate is applicable. On the other hand, any of the 2 events are occurred before change of rate of tax, old rate is applicable.

Quick Summary

Scenario	Time of Supply
Goods (Forward Charge)	Earlier of Invoice or Due date of invoice
Goods (Reverse Charge)	Earliest of receipt of goods, payment, or 30 days
Services (Forward Charge)	Earlier of Invoice or Payment
Services (Reverse Charge)	Earliest of payment date, bank debit, or 60 days
Vouchers	Issue date or redemption date based on identification
Rate Change	2 out of 3 events i.e., invoice issue, receipt of payment, supply, after rate change → New rate applies

Conclusion

In GST, determining the correct time of supply is vital for timely tax payment and ITC claims. Since provisions vary across goods, services, reverse charge, vouchers, and rate change scenarios, students must memorise the default rules and identify exceptions. A solid understanding of these rules ensures practical and exam success.

Topic

Module 4: Cost Book Keeping

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

Reconciliation of Cost Accounting and Financial Accounting

This chapter is very important for Intermediate courses of the students. Transactions exclusively relevant to Cost Accounts and Financial Accounts are to be identified and to be considered in the reconciliation statement. The amount of difference in items of costs or incomes appearing in both sets are to be identified and to be considered while preparing reconciliation statement. Sometimes profits in per cost accounts and Financial Accounts are to be worked out first and thereafter reconciliation statement is to be prepared. In the method of absorption of overhead at predetermined rates, there arises the difference between the actual expenses and the predetermined amount charged to cost accounts. If the profit shown in the cost ledger is taken as starting point and the amounts that give rise to differences are added or subtracted from it, the resultant figure should agree with the profit as shown in the Financial Ledger.

Management is also interested to know the cause of differences in order to check the arithmetical accuracy of both set of accounts. Thus this will facilitate internal control by highlighting the variations causing increase or decrease of profit. Hence such reconciliation is to be made at regular intervals.

The following are some basic reasons for variation in profit :

- 1) Under or over absorption of overhead .
- 2) Items purely of financial nature .
- 3) Items purely of cost accounts.
- 4) Adoption of different methods of valuation of stock.
- 5) Appropriation of profits not dealt with in the cost accounts, and
- 6) Others.

(a) Under or over absorption :

In cost accounts in order to ascertain unit cost of a product predetermined rates are charged in respects of overhead. The basis normally used are percentage on prime cost, rate per unit, percentage of direct wages, rate per labour of machine hour. When overhead is recovered on predetermined rates it may not exactly agree with overheads actually incurred during a period. The difference between overhead 'incurred' and the overhead 'recovered' is known as over/under absorption of overhead. In case of under absorption the costing profit will be higher than financial profit and in case of over absorption costing profit will be lower than the financial profit. Now in order to reconcile costing profit with financial profit two adjustments are necessary with financial profit :

- (i) In case of under absorption of overhead, the amount of under absorption overhead will have to be added back to financial profit and
- (ii) In case over absorption of overhead, the amount of over absorption overhead will have to be deducted from financial profit.

(b) Adoption of different methods of valuation of Stock:

In financial accounts the stock is valued based on the principle of "Cost or Market Value, whichever is lower". But in cost accounts the stock of raw materials are valued on the basis of FIFO, LIFO or other methods of pricing issues, WIP may be valued at prime cost or prime cost plus variable cost or prime cost plus variable and fixed overhead. Thus the stock valuation under two sets of accounts will be different and, as such, reconciliation is necessary. This reconciliation will be easier if the following principles are followed :

- (i) The lower the opening stock the higher will be the profit, and
- (ii) The higher the closing stock the higher is the profit, and vice versa.

For instance if the opening stock figures are more in financial accounts, profit as per financial accounts are to be increased to arrive at the profit as per cost accounts, and vice versa.

(c) Items purely of financial nature :

There are some items which are of purely financial nature having no counterpart in cost accounting. This will lead to difference in profit. The common financial expenses are :

- (1) Lapses on sale of fixed assets.
- (2) Interest on bank loan, debentures, mortgage etc.
- (3) Remuneration paid to proprietor in excess at fair reward for services rendered.
- (4) Damages payable at Law.
- (5) Penalties payable.
- (6) Preliminary expenses or goodwill written-off.
- (7) Cost for issue of shares, debentures and bonds.
- (8) Discount on issue of bonds, debentures etc.

On the other hand, the common financial incomes are :

- (1) Profit on sale of Fixed assets.
- (2) Interest received on bank deposits.
- (3) Interest, dividends etc. received on investments.

(4) Rent received.

(5) Fees or commission received on issue of shares, debentures etc.

(6) Transfer fees received

(d) Items purely of cost accounts :

The items which appear only in cost accounts generally are :

(1) Interest on capital supplied by the proprietor.

(2) Rent on own premises.

(3) Depreciation on fully depreciated assets.

(e) Appropriations of profit not dealt with in the cost accounts :

(1) Transfer to reserve or other funds.

(2) Corporate tax.

(3) Dividend paid.

(4) Additional provisions for depreciation, bad debts etc.

(5) Appropriation to sinking funds for the purpose of providing for repayment of loans or debentures.

(f) Others :

There are some other items which may lead to difference in profits in two sets of accounts. For example, the rates and methods of charging depreciation may vary in two sets of accounts.

Someone may adopt the method of charging direct wages to cost of products at predetermined rates. This will result in a difference between the predetermined amount charged to cost accounts and the actual wages booked in the financial accounts.

Steps for Reconciliation

Step 1

Start with a profit as base as per any set of books (either cost or financial).

Step 2

Items of expenditures already deducted to calculate the above base profit, but not considered

for profit shown by other set should be added back.

Step 3

Items of income already added to calculate the above base profit but not considered for profit shown by other set should be deducted.

Step 4

Similarly, the expenditures not taken into account in calculating the base profit should be deducted.

Step 5

The incomes not taken into accounts in calculating the base profit should be added back.

Step 6

The expenditures under-charged for calculating base profit should be deducted.

Step 7

The amount of income under-stated in calculating base profit should be added.

Step 8

The expenditures over-stated in calculating base profit should be added.

Step 9

The income over-stated in calculating base profit should be deducted.

Step 10

The resultant figures will be the profit as per the other set of books.

Advantages of Reconciliation

Although in an interlocking system both cost and financial accounts are to be maintained separately, it is preferred to integrated system, because of the following advantages:

(1) As the two profits are ascertained independently, arithmetical inaccuracies, if any, are detected quickly.

(2) From the magnitude of variations validity of cost account can be judged. As for example, a high under-absorption of overhead indicates that products are under cost.

(3) Further variation may also indicate inefficiency which required controlling measures.

(4) Frauds may also be detected if there is any wide difference in value of physical stock and the stock as per books of accounts.

(5) Independency of cost book is preferred as these are not relevant to preparing profit and loss account and so not subject to statutory audit.

Now we are going to solve a problem in order to clear the concept of reconciliation.

Problem :

The following is the summarized Trading and Profit and Loss Accounts of Bitu Ltd. for the year ended 31st December 2024.

Material consumed	708000	Sales	1500000
Direct wages	371000	Finished Stock (1000 units)	40000
Works Overheads	213000	Works in Progress	
Administration Overheads	95000	Materials 17000	
Selling and Distribution OH	113000	Wages 8000	
Net profit for the year	69000	Works OH 5000	30000
	1570000		1570000

The Company's cost records show that in course of manufacturing a Standard unit

- works overheads have been charged @ 20% on Prime Cost,
- Administration overheads have been recovered at ₹ 4 per unit sold .

The under absorbed overheads have not been adjusted in the Costing Profit and Loss A/c.

You are required to prepare

- the Costing Profit and Loss A/c. including the net profit .
- a statement reconciling the profit as disclosed by the cost accounts and hat shown in the financial accounts.,

Solution:

- Closing Profit and Loss A/c for the year ended 31st December 2024 under Cost Accounting.

Particulars	₹
Material Consumed	7,08,000
Direct wages	3,71,000
Prime cost	10,79,000
Works Overhead (20% Prime cost)	2,15,800
	12,94,800
Less: Work in progress	30,000
Factor Cost	12,64,800
Adm. OH @ 3/per unit	93,000
Cost of Production of goods produced	13,57,800
Less: Finished stock	40,000
Cost of Production of goods sold	13,17,800
Selling and Distribution OH @ ₹ 4 per unit sold.	1,20,000
Cos of Sales	14,37,800
Net Profit (balancing figure)	62,200
Sale (30000 units)	15,00,000

- b) Statement reconciling the Profit as per Costing Profit and Loss Account with the Profit as per Financial Accounts.

Profit as per Cost records		62200
Add : Over absorbed overhead		
Works (215800 - 213000)	2800	
Selling and Distribution (120000 - 113500)	6500	9300
		71500
Less: Under absorbed Adm. Overheads (95500 - 93000)		2500
Profit as per Financial Accounts		69000

Workings:

$$\text{Units Produced} + \text{No. of units sold} + \text{Finished Stock} = 30000 + 1000 = 31000.$$

Integrated Account --

Cost Accounting follows the fundamental principles of double entry book-keeping. The students need to have a clear idea about Integrated system of accounts. Here Cost Ledger Control is kept to record all financial transactions. This CLC Account is prepared to make the Cost Ledger Self-balancing. At least a question is expected from this chapter, either theoretical or practical. It is a single set of accounts, which provides both financial and cost accounting information required for management information system. The purpose of financial accounting is to ascertain the financial position of enterprise at the end of the accounting period, whereas the purpose of cost accounting is to ascertain the cost of a product and record the transactions related to costs only. Under financial system no records relating to stock movements, cost apportionments, absorption of costs, wastage are available but under cost accounting system it is possible to know the movement of different stocks through W.I.P. Control Account, Finished Goods Cost A/c and Cost of Sales A/c. Similarly, cost related to different departments as well as product units will be available separately when cost accounts are maintained properly.

As the cost ledger summarizes the detailed information regarding costs in subsidiary records, it is an invaluable tool of Management in formulation of policies for decision making. It provides information relating to unprofitable situation with their causes. This the system controls waste of materials, labour and overhead costs, thereby reducing the cost of production. It assists by providing the basis for analysis of costs and preparation of accounts for each cost center or cost units for ascertainment and control costs. purchase and issues of material and supplies may be properly controlled. Wages and overheads may also be analysed according to function, elements and variability. Through the use of cost Ledger Maintenance of Cost Ledger helps in preparation of financial statements in more details. Cost and responsibility centers may be fixed in order to locate the responsible persons of the Center.

Topic

Module 4:
Production Planning
and Control

INTERMEDIATE

Group II - Paper-9

Operations
Management
and Strategic
Management
(OMSM)

Operations Management

In this issue let us discuss few numerical on Production Planning.

Under Production Planning first planning is made for Gross level then it is detailed for individual products.

Illustration:

A business unit produces 5 products;

The products are A, B, C, D, and E;

Market Demand forecasted for all these products together are 6000 units;

Production is to be planned for 6000 units---1st Gross level planning;

Market forecast indicates that during the year demands for A, B, C, D and E are respectively 600, 840, 1560, 2400, 600 units;

Production is to be planned for 600 units of A, 840 units of B, 1560 units of C, 2400 units of D & 600 units of E, ---Breaking of 1st Gross level planning;

Production is carried out evenly throughout the year;

Production is to be planned for 50 units of A, 70 units of B, 130 units of C, 200 units of D & 50 units of E on monthly basis---Breaking of 2nd Gross level planning;

There are three types of Machines M1, M2 and M3 which are used for producing all these products;

Production is to be planned in such a way that all the machines are optimally utilized for meeting the monthly market demand of respective demand----Short term production planning;

Under this short term production planning one needs to balance the requirements of individual products with the availability of individual machines/equipment and labour of different skill categories. For such production planning the operation research techniques such as Linear Programming, Queuing theory, PERT/CPM, assignment problem etc. are useful.

Illustration:

Five employees of a company are to be assigned to five jobs which can be done by any one of them. Because of different number of years with the firm, the workers get different wages per hour. These are Rs5/hour for A, B and C each and Rs.3/hour for D and E each. The amount of time taken by each employee to do a given job is in the following table. Determine the assignment pattern that i) minimize the total time taken and ii) minimize the total cost, of getting five units of work done.

Job	Employee				
	A	B	C	D	E
1	7	9	3	3	2
2	6	1	6	6	5
3	3	4	9	10	7
4	1	5	2	2	4
5	6	6	9	4	2

Answer:

(i) 1st Iteration, Subtracting smallest element of each row from each element of the same row

Job	Employee				
	A	B	C	D	E
1	5	7	1	1	0
2	5	0	5	5	4
3	0	1	6	7	4
4	0	4	1	1	3
5	4	4	7	2	0

2nd Iteration, Subtracting smallest element of each column from each element of the same row

Job	Employee				
	A	B	C	D	E
1	5	7	0	0	0
2	5	0	4	4	4
3	0	1	5	6	4
4	0	4	0	0	3
5	4	4	6	1	0

3rd Iteration, Draw the minimum no of lines covering all zeros

Job	Employee				
	A	B	C	D	E
1	5	7	0	0	0
2	5	0	4	4	4
3	0	1	5	6	4
4	0	4	0	0	3
5	4	4	6	1	0

4th Iteration, since the number of lines drawn is equal to $5 = n$, the optimal solution is reached. Assignments are made after scanning the rows and columns for unit zeros.

Job	Employee				
	A	B	C	D	E
1	5	7	0	0	0
2	5	0	4	4	4
3	0	1	5	6	4
4	0	4	0	0	3
5	4	4	6	1	0

Assignments are made in the following order. Rows 2, 3, and 5 contain only one zero each. So assign Job2 –Employee B, Job3 – Employee A, Job5 – Employee E.

After assigning Job3 – Employee A, we cross the zero in column A. Similarly we cross the zero in column E after assigning Job5 – Employee E.

After these assignments no row(s)/column(s) are left with single zero. We are now having Row 1 & 4/Column C & D with 2 zeros each. We now therefore assign arbitrarily. Assign Job 1 – Employee C and Cross balance zero in column C. Assign Job 4 – Employee D and cross out the balance zero in column D.

Therefore our final assignments are (Marked in Red):

Job	Employee	Time	Total
1	C	3	
2	B	1	
3	A	3	
4	D	2	
5	E	2	11

The same result is obtained in Excel Solver (available in DATA tool bar) as given below:

Job	A	B	C	D	E	Available	Assigned
1	0	0	1	0	0	1	1
2	0	1	0	0	0	1	1
3	1	0	0	0	0	1	1
4	0	0	0	1	0	1	1
5	0	0	0	0	1	1	1
Demand	1	1	1	1	1		
Assigned	1	1	1	1	1		
TOTAL	11						

1 indicates assigned position, 0 indicates non-assigned position

ii) Cost minimization

Cost matrix is given below:

Job	Employee				
	A	B	C	D	E
1	35	45	15	9	6
2	30	5	30	18	15
3	15	20	45	30	21
4	5	25	10	6	12
5	30	30	45	12	6

1st Iteration, Subtracting smallest element of each row from each element of the same row

Job	Employee				
	A	B	C	D	E
1	29	39	9	3	0
2	25	0	25	13	10
3	0	5	30	15	6
4	0	20	5	1	7
5	24	24	39	6	0

2nd Iteration, Subtracting smallest element of each column from each element of the same row

Job	Employee				
	A	B	C	D	E
1	29	39	4	2	0
2	25	0	20	12	10
3	0	5	25	14	6
4	0	20	0	0	7
5	24	24	34	5	0

3rd Iteration, Draw the minimum no of lines covering all zeros

Job	Employee				
	A	B	C	D	E
1	29	39	4	2	0
2	25	0	20	12	10
3	0	5	25	14	6
4	0	20	0	0	7
5	24	24	34	5	0

4th Iteration, as the number of lines drawn above is smaller than select the smallest uncovered cost element, subtract this element from all uncovered elements including itself and add this element to each value located at the intersection of any two lines. The resultant figure is:

Job	Employee				
	A	B	C	D	E
1	27	37	2	0	0
2	25	0	20	12	12
3	0	5	25	14	8
4	0	20	0	0	9
5	22	22	32	3	0

5th Iteration, Repeat Iteration 3 and the result is

Job	Employee				
	A	B	C	D	E
1	27	37	2	0	0
2	25	0	20	12	12
3	0	5	25	14	8
4	0	20	0	0	9
5	22	22	32	3	0

6th Iteration, since the number of lines drawn is equal to 5 = n, the optimal solution is reached. Assignments are made after scanning the rows and columns for unit zeros.

Job	Employee				
	A	B	C	D	E
1	27	37	2	0	0
2	25	0	20	12	12
3	0	5	25	14	8
4	0	20	0	0	9
5	22	22	32	3	0

Assignments are made in the following order. Rows 2, 3, and 5 contain only one zero each. So assign Job2 – Employee B, Job3 – Employee A, Job5 – Employee E.

After assigning Job3 – Employee A, we cross the zero in column A. Similarly we cross the zero in column E after assigning Job5 – Employee E.

After these assignments Row D is left with single zero. We assign Job 1 – Employee D and cross out the balance 0 in column D. We are now Column C with 1 zeros and assign Job 4 – Employee C.

Therefore, our final assignments are (Marked in Red):

Job	Employee	COST	Total
1	D	9	
2	B	5	
3	A	15	
4	C	10	
5	E	6	45

The same result is obtained in Excel Solver (available in DATA tool bar) as given below:

JOB	A	B	C	D	E	Available	Assigned
1	0	0	0	1	0	1	1
2	0	1	0	0	0	1	1
3	1	0	0	0	0	1	1
4	0	0	1	0	0	1	1
5	0	0	0	0	1	1	1
Demand	1	1	1	1	1		
Assigned	1	1	1	1	1		
TOTAL	45						

1 indicates assigned position, 0 indicates non-assigned position

Illustration:

Using the data in the following table compare the total incremental costs involved in a level production plan. Normal plant capacity is 400 units per working day.

Months	Production Days	Production Requirements	Required Buffer stocks
Jan	22	3000	600
Feb	18	2500	500
Mar	22	4000	800
April	21	6000	1200
May	22	8000	1600
June	21	12000	2400
July	21	15000	3000
Aug	13	12000	2400
Sept	20	10000	2000
Oct	23	8000	1600
Nov	21	4000	800
Dec	20	3000	600
Total	244	87500	17500

Inventory carrying cost is ₹30 per unit per year & Shortages cost ₹15 per unit short. Beginning inventory is 600 units or must be determined for some plans.

Answer:

This is a problem with fluctuating demand requirements.

Refer the following Table: 1

It shows

- forecast of production requirements and buffer inventories;
- cumulative requirements;
- average buffer inventories;
- cumulative maximum production requirements;

The table shows the ratio of peak to valley in the requirement schedule is 15000 in July and 2500 in February or $15000/2500 = 6$

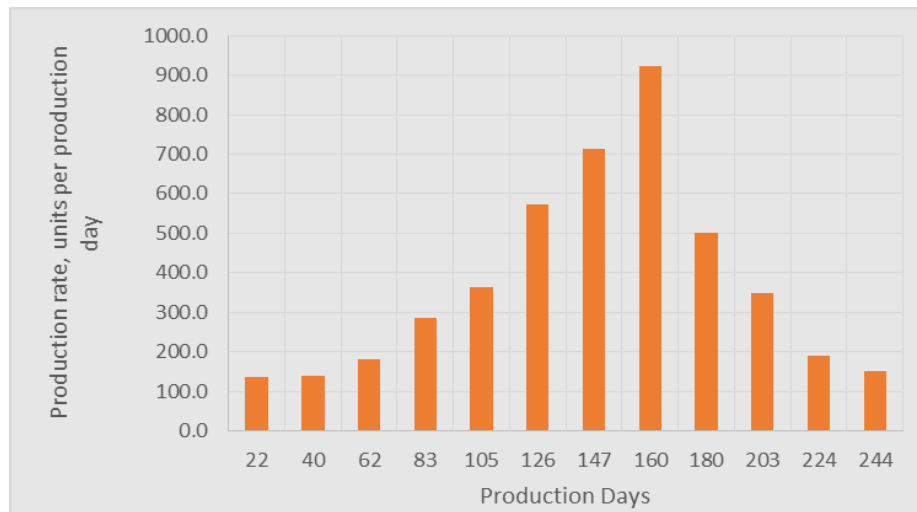
The no of working days per month, shown in column 2, varies considerably from 23 working days in October to only 13 days in August.

Therefore the swing in production requirement per production day (seen in Col. 9) varies from 923.1 in August to 136.4 in January, a ratio of $923.1 / 136.4 = 6.77$.

Month	Production Days	Cumulative Production Days	Expected Production Requirements	Cumulative Production Requirements	Required Buffer Inventories	Cumulative Maximum Production Requirements	Col 2 x Col 6	Production Requirements per Production Day
Jan	22	22	3000	3000	600	3600	13200	136.4
February	18	40	2500	5500	500	6000	9000	138.9
March	22	62	4000	9500	800	10300	17600	181.8
April	21	83	6000	15500	1200	16700	25200	285.7
May	22	105	8000	23500	1600	25100	35200	363.6
June	21	126	12000	35500	2400	37900	50400	571.4
July	21	147	15000	50500	3000	53500	63000	714.3
Aug	13	160	12000	62500	2400	64900	31200	923.1
Sept	20	180	10000	72500	2000	74500	40000	500.0
Oct	23	203	8000	80500	1600	82100	36800	347.8
Nov	21	224	4000	84500	800	85300	16800	190.5
December	20	244	3000	87500	600	88100	12000	150.0
Total						Col 5 + Col 6	350400	Col 4/Col 2

Table: 1

This substantial variance in daily production requirements is shown on the following graph:



Average buffer inventory = $350400 / 244 = 1436.07$ units;

Normal plant capacity is 400 units per working day.

Column 6 of Table 1 shows buffer inventories, which are the minimum stocks required. Their purpose is to provide for the possibility that market requirements could be greater than expected. When we add the buffer inventories for each month to the cumulative production requirements in column 5, we have the cumulative maximum requirements shown in column 7.

Level production is the simplest production plan which establishes an average output level that meets annual requirements.

The total annual requirements = 87500 units (last figure in column 5).

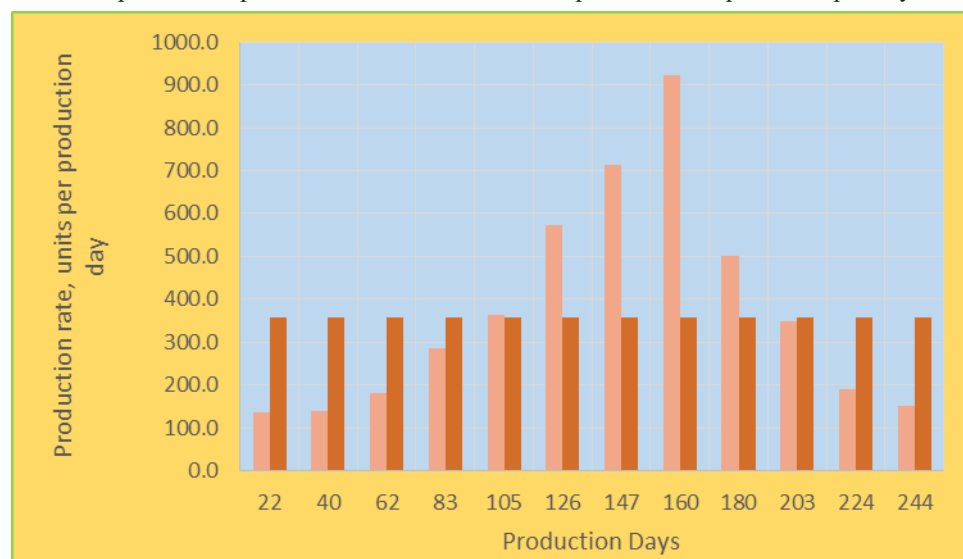
Total working days = 244 days.

Average daily output = $87500 / 244 = 358$ units.

The strategy is:

Accumulate seasonal inventory during the slack production requirement months for use during peak requirement months.

The level production plan is shown in relation to the production requirement per day in the following fig:



The inventory requirements for this plan are calculated in Table 2 below.

From the table 2 it is observed that the seasonal inventories for this plan in column 6 vary from a maximum of 13614 units in April to a minimum of -9460 in September.

The significance of the negative seasonal inventories is that the plan calls for dipping into buffer stocks.

In July we propose to use 274 units out of the planned buffer of 3000 units but in August we actually exceed the planned buffer by 7020 units and in September by 9460 units. In other words the negative figures indicate expected loss of sale. Total shortages for the year is 30236 units ($274+7020+9460+8826+4508+148$).

Production Days	Production Rate Units/Day	Production in Month, Units Col.1 x Col.2	Cumulative units available Cumulative Production + Beginning Inventory(600)	Cumulative Maximum Requirements Col.7 of Table 1	Seasonal Inventory Col.4 - Col.5	Col.1 x Col.6
22	358	7876	8476	3600	4876	107272
18	358	6444	14920	6000	8920	160560
22	358	7876	22796	10300	12496	274912
21	358	7518	30314	16700	13614	285894
22	358	7876	38190	25100	13090	287980
21	358	7518	45708	37900	7808	163968
21	358	7518	53226	53500	-274	-5754
13	358	4654	57880	64900	-7020	-91260
20	358	7160	65040	74500	-9460	-189200
23	358	8234	73274	82100	-8826	-202998
21	358	7518	80792	85300	-4508	-94668
20	358	7160	87952	88100	-148	-2960
						1280586

Table: 2

We can adjust the plan to take the negative seasonal inventories into account. This can be done by increasing the inventory by the most negative seasonal inventory balance of (-) 9460 units in September. As a result the Table 2 becomes Table 3 below with increase of column 4 figures by 9460. Then average seasonal inventories will also be increased 9460 units.

Production Days	Production Rate Units/Day	Production in Month, Units Col.1 x Col.2	Cumulative units available Cumulative Production + Beginning Inventory(600+9460)	Cumulative Maximum Requirements Col.7 of Table 1	Seasonal Inventory Col.4 - Col.5
22	358	7876	17936	3600	14336
18	358	6444	24380	6000	18380
22	358	7876	32256	10300	21956
21	358	7518	39774	16700	23074
22	358	7876	47650	25100	22550
21	358	7518	55168	37900	17268
21	358	7518	62686	53500	9186
13	358	4654	67340	64900	2440
20	358	7160	74500	74500	0
23	358	8234	82734	82100	634
21	358	7518	90252	85300	4952
20	358	7160	97412	88100	9312

Average seasonal inventories under Table 2 is $1280586 / 244 = 5248.3$ units, = weighted by production days, assuming that we use buffer stocks and record shortages as indicated in column 6 of Table 2.

If we revise the plan so that the buffer inventories are not used, the average seasonal inventory would be $5248.3 + 9460 = 14708.3$

Inventory holding costs ₹30 per unit per year and that shortage costs are ₹15 per unit short.

If beginning inventories are only 600 units, the annual inventory costs are = $30 \times 5248.3 = \text{Rs } 157449$ and the shortage costs are = $15 \times 30236 = \text{Rs. } 453540$. The total incremental costs are then Rs.610989

By comparison if we decide not to use buffer inventory, the incremental costs are = $30 \times 14708.3 = \text{Rs. } 441249$.

It is obviously more economical to plan on large inventories. Different situations may arise if holding and shortage costs vary.

Level production strategy has several advantages:

- It does not require the hiring or layoff of personnel;
- It provides stable employment for workforce;
- It is favoured by labour unions in organized sectors;
- Under this scheduling is simple—358 units per day;

It fails to consider, however, the effects of variation in labour force through overtime/under time for meeting seasonal demand. These factors will be discussed in next issue.

Suggestions:

The study notes need to be read thoroughly. Supplementary readings could be made from other resources. The illustrations are just indicative type. Maximum benefits could be reached once Guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on New Syllabus along with reference books are thoroughly consulted.

Best Wishes.

Topic

Module 2:
Preparation of
the Statement of
Profit and Loss and
Balance Sheet (As
per Schedule III of
Companies Act,
2013)

Module 6 :
Basic Concepts of
Auditing

INTERMEDIATE

Group II - Paper-10

Corporate
Accounting and
Auditing (CAA)

Section A: Corporate Accounting

Topic: Preparation of the Statement of Profit and Loss and Balance Sheet (As per Schedule III of Companies Act, 2013)

• Multiple Choice Questions

1. The term 'FPO', in the context of issuing shares by a company, refers to
 - A. First Public Offer
 - B. Future Public Offer
 - C. **Follow-on Public Offer**
 - D. Full Public Offer
2. As per Schedule III of Companies Act 2013, interest received on convertible debentures is shown under _____ in the Statement of Profit and Loss.
 - A. **Finance Cost**
 - B. Employee Benefits
 - C. Other Expenses
 - D. Depreciation and Amortization
3. Trade payable likely to be settled within the normal operating cycle is _____.
 - A. current assets
 - B. **current liabilities**
 - C. non-current assets
 - D. non-current liabilities
4. The abbreviation IPO stands for
 - A. **Initial Public Offer**
 - B. Investment Public Offer
 - C. Individual Public Offer
 - D. International Public Offer
5. Rent and Rates is shown under _____ in the Statement of Profit and Loss.
 - A. Finance Cost
 - B. Employee Benefits
 - C. **Other Expenses**
 - D. Depreciation and Amortization
6. While preparing the Balance Sheet of a company as per Schedule III of the Companies Act 2013, Deferred Tax Assets should be shown under the head _____.
 - A. Non-current Liabilities
 - B. Current Liabilities
 - C. **Non-current Assets**
 - D. Current Assets

Answer: 1-C; 2-A; 3-B; 4-A; 5-C; 6-C

• Comprehensive Problem

1. The following is the trial balance of Moon Ltd. as on 31.03.2023:

Particulars	Rs.	Particulars	Rs.
Stock in trade on 01.04.22	600000	Purchase returns	80000
Purchases	1960000	Sales	2720000
Salaries	240000	Discount received	24000
Freight, carriage etc.	7600	Balance of Profit and Loss (Cr.)	120000
Furniture	136000	Share capital (Rs. 10)	800000
Contribution to P. F	40000	Trade payables	196000
Rent and Rates	32000	General reserve	124000
Stationary	15200		
Repairs	16000		
Insurance	24000		
Misc. expenses	1200		
Interim dividend paid	72000		
Staff welfare expenses	20000		
Plant and machinery	232000		

Particulars	Rs.	Particulars	Rs.
Cash at bank	369600		
Patents	38400		
Trade receivables	260000		
	4064000		4064000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2023 and Balance Sheet as at that date after taking into consideration the following information:

- Closing stock as at 31.03.2023 is Rs.704000.
- Make a provision for income tax @30%.
- Depreciate plant and machinery @ 15%, furniture @ 10% and patents @ 5%.
- Outstanding rent Rs. 6400 and outstanding salaries Rs. 7200.
- The directors recommended a dividend @ 15% for the year after transfer to General Reserve Rs. 16000.
- Provide Rs. 4080 for doubtful debts.
- The authorized capital of the company is Rs. 1600000 divided into 160000 equity shares of Rs. 10 each of which 80000 shares have been issued and fully paid up.

Notes to Accounts should form part of your answer.

Solution:

Moon Ltd.

Balance Sheet as on 31st March, 2023

Particulars	Note No.	As on 31.03.2023
EQUITY AND LIABILITIES		
Shareholders' funds:		
(a) Share capital	1	800000
(b) Reserves and surplus	2	524800
Non-current liabilities		Nil
Current liabilities:		
(a) Trade payables		196000
(b) Other current liabilities	3	13600
(c) Short-term provisions (Provision for tax)		151200
Total		1685600
ASSETS		
Non-current assets:		
(a) PPE	4	319600
(b) Intangible assets	5	36480
Current assets:		
(a) Inventories		704000
(b) Trade receivables	6	255920
(c) Cash and cash equivalents	7	369600
Total		1685600

Foot Note: Contingent Liability for Proposed Dividend = Rs. 24,000

Statement of Profit and Loss
For the year ended 31st March, 2023

Particulars	Note No.	31.03.2023
Revenue from operations (Sales + Discount Received)		27,44,000
Other income		Nil
Total revenue (A)		27,44,000
Expenses: Purchases of stock-in-trade (980000 – 40000)		1880000
Changes in inventories of stock-in-trade (3,00,000 – 3,52,000)		(104000)
Employee benefits expense	7	307200
Depreciation and amortization expenses	8	50320
Other expenses	9	106480
Total expenses (B)		2240000
Profit before tax (A ~B)		504000
Less: Provision for taxation @ 30%		151200
Profit after tax		352800

Notes to Accounts:

Particulars	Rs.	Rs.
1. Share Capital		
Authorized: 160000 equity shares of Rs. 10 each		1600000
Issued, Subscribed and Paid up: 80000 equity shares of Rs. 10 each		800000
2. General Reserve: as on 1.4.22	124000	
Add: transfer during the year	16000	140000
Profit and loss: as on 1.4.22	120000	
Add: profit during the year	352800	
	472800	
Less: Interim Dividend paid	72000	
Transfer to General reserve	16000	384800
		524800
3. Other Current Liabilities		
Outstanding Rent		7200
Outstanding Salaries		6400
		13600
4. PPE: Plant and machinery	232000	
Less: Depreciation	34800	197200
Furniture	136000	
Less: Depreciation	13600	122400
		319600

5. Intangible Assets: Patent	38400	
Less. amortization	1920	36480
6. Trade receivables:		
Trade receivable		260000
Less: Provision for doubtful debts		4080
		255920
7. Employee benefits expense:		
Salary add: outstanding (240000+7200)	247200	
Contribution to PF	40000	
Staff welfare exp.	20000	
		307200
8. Depreciation and amortization expenses:		
Depreciation: Plant and machinery @15%	34800	
Furniture @ 10%	13600	
Amortization: Patents @ 5%	1920	50320
9. Other expenses:		
Rent and rates including outstanding: Rs. (32000 + 6400)		38400
Freight and carriage		7600
Stationary		15200
Repairs		16000
Insurance		24000
Miscellaneous expenses		1200
Provision for doubtful debts		4080
		106480

Working Notes: Proposed Dividend

1) Dividend for the year: 15% on Rs. 800000	120000	
Less: Interim dividend paid	72000	
Proposed dividend		48000

Section B: Auditing

Topic: Basic Concepts of Auditing

• Multiple Choice Questions

1. _____ is conducted with a particular object in view, viz. to know financial position, earning capacity, prove fraud, invest capital, etc.
 - A. Auditing
 - B. Accounting
 - C. Investigation
 - D. Sampling
2. Audit working papers are the property of
 - A. the client
 - B. the auditor
 - C. the government
 - D. the audit clerks
3. SA 210 stands for
 - (i) Audit Planning
 - (ii) Audit Working Papers
 - (iii) Agreeing the terms of Audit Engagements
 - (iv) Audit Documentation

Answer: 1-C; 2-B; 3-C

Question:

What do you mean by Audit Note Book? What are the contents of Audit Note Book?

Answer:

Audit Note Book is a register maintained by the audit staff to record important points observed, errors, doubtful queries, explanations and clarifications to be received from the clients. It also contains definite information regarding the day-to-day work performed by the audit clerks. In short, in an Audit Note Book a large variety of

matters observed during the course of audit are recorded. The note book should be maintained clearly, completely and systematically. It serves as authentic evidence in support of work done to protect the auditor against any legal charge initiated against him for negligence after the end of the auditing. It also acts as a valuable guide for conducting audit for future years.

Contents of Audit Note Book

The following matters are generally incorporated in an Audit Note Book.

1. A list of the account books normally used and maintained.
2. Names of the principal officers, their duties and responsibilities.
3. Extracts of minutes and contracts affecting the accounts.
4. Extracts of correspondence with statutory authorities.
5. Copy of audit programme.
6. Nature of business carried on and important documents relating to the constitution of business like Memorandum of Association, Articles of Association, Partnership deed etc.,
7. Accounting methods, internal control and internal check system in operation.
8. Points to be included in audit report.
9. Routine queries like missing receipts and vouchers etc.
10. Details of all important information to be used as reference for future audits.
11. Date of commencement and completion of audit.
12. Details of errors and frauds discovered during the course of audit.

Topic

Module 1:
Fundamentals
of Financial
Management

Module 9:
Data Processing,
Organisation,
Cleaning and
Validation

INTERMEDIATE

Group II - Paper-11

Financial
Management and
Business Data
Analytics (FMDA)

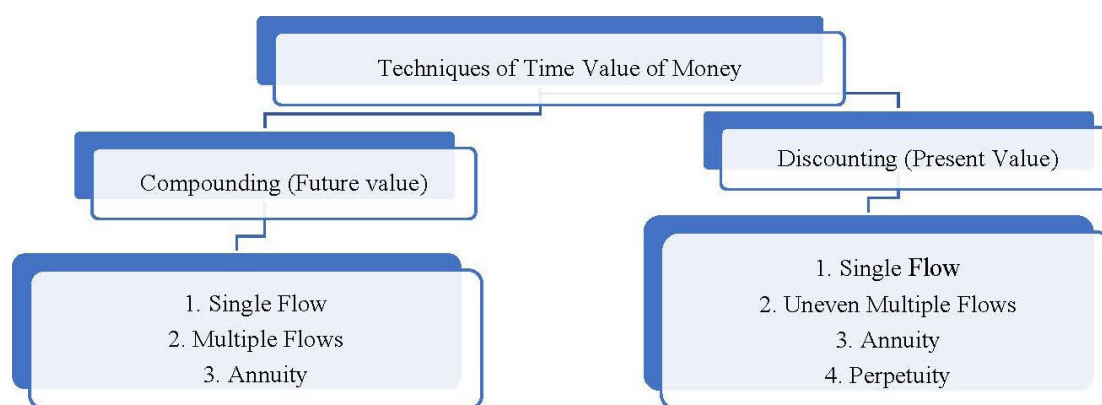
Subject: Financial Management and Business Data Analytics

Time Value of Money

Money has time value. A rupee today is more valuable than a rupee a year hence. Money has, thus, a future value and a present value. Although alternatives can be assessed by either compounding to find future value or discounting to find present value, financial managers rely primarily on present value techniques as they are at zero time ($t = 0$) when making decisions.

Future value relies on compound interest to measure the value of future amounts. When interest is compounded, the initial principal/deposit in one period, along with the interest earned on it, becomes the beginning principal of the following period and so on. Interest can be compounded annually, semiannually (half-yearly), quarterly, monthly and so on. The more frequently interest is compounded, the larger the future amount that would be accumulated and the higher the effective interest rate.

Present value represents an opposite of future value. The present value of a future amount is the amount of money today equivalent to the given future amount on the basis of a certain return on the current amount.



- **Future Value of Single Cash Flow**

The general formula for the future value of single flow:

$$FV = PV (1+r)^n$$

Where FV = Future value n years hence

PV = Amount invested today

r = Interest rate per period

n = Number of periods of investments

- **Future Value of Multiple Cash Flows**

The general formula for the future value of single flow:

$$FV = PV \left(1 + \frac{r}{m}\right)^{mn}$$

PV = Present value

FV = Future value

r = Interest rate

n = Number of years

m = Number of times compounding done say quarterly then $m = 4$, half-yearly $m = 6$ and so on.

Present Value of a Single Flow

Annually single cash flow

$$PV = FV \left\{ \frac{1}{(1+r)^n} \right\}$$

$$\text{or, } PV = FV (1 + r)^{-n}$$

$$\text{or, } PV = FV (PVIF_{r,n})$$

PV = Present value

FV = future value

r = discount

n = no. of years

$PVIF_{r,n}$ = Present Value Interest Factor

- **Present Value of Multiple Cash Flows**

$$PV = FV \left\{ \frac{1}{\left(1 + \frac{r}{m}\right)^{mn}} \right\}$$

PV = Present value

FV = future value

r = discount rate

n = no of years

m = no of times discounting done say quarterly then

m = 4, half-yearly m = 6 and so on.

Example 1

You expect to receive Rs.10,000 as a bonus after 5 years on the job. You have calculated the present value of this bonus and the answer is Rs. 8000. What discount rate did you use in your calculation?

Answer:

To find the present value of a future sum of money, we use:

$$PV = FV / (1 + r)^n$$

$$\text{This gives } 8000 = 10000 / (1 + r)^5$$

$$\text{Or, } (1 + r)^5 = 10,000 / 8000 = 1.25$$

$$1 + r = (1.25)^{1/5} = 1.0456, \text{ and}$$

$$\text{Thus } r = 4.56\%$$

To solve the problem on an Excel sheet, we may use follow following table:

	A	B	C
1	Future value, \$	10000	
2	Available after 5	5	years
3	Its present value, \$	8000	
4	The <i>required</i> discount rate	=(B1/B3)^(1/B2)-1	

Annuity: An annuity is a stream of equal annual cash flows. Annuities involve calculations based upon the regular periodic contribution or receipt of a fixed sum of money. We may calculate future value of ordinary annuity and present value of ordinary annuity.

- **Future value of ordinary annuity**

In an ordinary annuity, payments or receipts occur at the end of each period. In a ten-year ordinary annuity, the last payment is made at the end of the tenth year.

Future Value of Ordinary Annuity can be calculated by using the following formula:

$$FVA_n = A \left\{ \frac{(1+r)^n - 1}{r} \right\}$$

or

$$FVA_n = A \left[\frac{(1+r)^n - 1}{r} \right]$$

Where,

FVA_n = Future value of an annuity which is the sum of the compound amounts of all payments and a duration of n periods

A = Amount of each instalment or constant periodic flow

r = Interest rate per period

n = Number of periods

$\frac{[(1+r)^n - 1]}{r}$ is known as the future value interest factor of an annuity ($FVIFA_{r,n}$)

Present Value of Ordinary Annuity

Present Value of Ordinary Annuity can be calculated by using the following formula:

$$PVA_n = A \left[\frac{1 - (1/r)^n}{r} \right]$$

where,

PVA_n = Present value of an annuity which is the sum of the compound amounts of all payments and a duration of n periods

A = Amount of each instalment or constant periodic flow

r = Discount rate

n = Number of periods

$\left[\frac{1 - (1/r)^n}{r} \right]$ is called present value interest factor.

Example 2

Mr BOLT deposits Rs 20,000 at the end of every year for 5 years in his saving account paying 5 per cent interest compounded annually. He wants to determine how much sum of money he will have at the end of the 5th year.

Answer:

Annual Compounding of Annuity

End of year (1)	Amount deposited (2) (Rs.)	Number of years compounded (3)	Compounded interest for Re.1 as per FV Table (4)	Future value (5 = 2 × 4) (Rs.)
1	20,000	4	1.216	24,320
2	20,000	3	1.158	23,160
3	20,000	2	1.103	22,060
4	20,000	1	1.050	21,000
5	20,000	0	1.000	20,000
				1,10,540

Perpetuity

Perpetuity is an annuity with an indefinite life, making continuous annual payments. The value of the perpetuity is finite because receipts that are anticipated far in the future have extremely low present value.

$$P_{\infty} = A \times PVIF A_{r,\infty}$$

where,

P_{∞} = Present value of a perpetuity

A = Constant annual payment

$PVIF A_{r,\infty}$ = Present value interest factor of perpetuity

• Compound Annual Growth Rate (CAGR)

The compounded annual growth rate (CAGR) is one of the most accurate ways to calculate and determine returns for anything that can rise or fall in value over time.

Steps involved in calculating the CAGR of an investment:

Step 1: Divide the value of an investment at the end of the period by its value at the beginning of that period.

Step 2: Raise the result to an exponent of one divided by the number of years.

Step 3: Subtract one from the subsequent result.

Step 4: Multiply by 100 to convert the answer into a percentage.

$$\text{CAGR} = \left[\left(\frac{\text{EV}}{\text{BV}} \right)^{1/n} - 1 \right] \times 100$$

EV= Ending balance is the value of the investment at the end of the investment period.

BV= Beginning balance is the value of the investment at the beginning of the investment period.

n = Number of years amount invested.

Example 3

The earnings of Fair Ltd. were Rs 3 per share in year 1. They increased over a 10-year period to Rs 4.02. Compute the rate of growth or compound annual rate of growth of the earnings per share.

Answer:

$$F_n = P \times \text{FVIF}_{i,n}$$

$$\text{FVIF}_{i,n} = F_n / P$$

$$\text{FVIF}_{i,10} = \text{Rs } 4.02 / \text{Rs } 3 = 1.340$$

According to Futures Value Table (compound sum of Rupee One), an FVIF of 1.340 at 10 years is at 3 per cent interest. The compound annual rate of growth in earnings per share is, therefore, 3 per cent.

Data Analytics

Data Organisation

Organizing data allows us to arrange it in a way that makes it easy to read and work with. Working with raw data can be challenging, so we need to organize it effectively to present it appropriately. Data organization is crucial for efficient data management, analysis, and decision-making.

Importance of Data Organisation

- 1. Improved Efficiency and Time Savings:** Organized data allows for quick and easy access to the information needed, saving valuable time and resources.
- 2. Enhanced Accuracy and Reduced Errors:** Proper organization of data helps prevent accidental data loss or corruption and minimizes the risk of errors and inconsistencies in data analysis and reporting.
- 3. Better Decision-Making:** Organized data allows

organizations to identify trends, patterns, and correlations within the data, enabling the development of more effective strategies.

- 4. Cost Efficiency:** Efficient data management reduces the time and resources needed for data collection, processing, and analysis.
- 5. Increased Security:** Organized data allows for better implementation of security measures, such as access controls and encryption, protecting sensitive information from unauthorized access.
- 6. Enhanced Collaboration:** Well-organized data facilitates data sharing across different departments or with external partners, promoting collaboration and knowledge sharing. Clear data structures improve communication and understanding among team members, reducing misinterpretations and promoting a shared understanding of the data.

Data Distribution

Data distribution refers to the way data points are spread across a range of values within a dataset. There are two primary types of data distribution: discrete and continuous. Discrete data can only take specific, separate values, while continuous data can fall anywhere within a range. Each type has various distributions that describe how the data is arranged.

Discrete Distributions:

- (i) **Binomial:** It represents the probability of a specific number of successes in a fixed number of independent trials (e.g., the number of heads in 10 coins flips).
- (ii) **Poisson:** It models the probability of a certain number of events occurring within a fixed interval of time or space (e.g., the number of customers arriving at a store in an hour).
- (iii) **Geometric:** It represents the probability of the number of trials needed for the first success.

Continuous Distributions:

- (i) **Normal (Gaussian):** It is a symmetrical, bell-shaped distribution, commonly found in many natural phenomena (e.g., human height).
- (ii) **Uniform:** All values within a range have equal probability (e.g., rolling a fair die).
- (iii) **Exponential:** It models the time until an event occurs (e.g., the time until a light bulb burns out).
- (iv) **Gamma:** A generalization of the exponential distribution, often used to model waiting times or lifetimes.
- (v) **Log-normal:** A distribution where the logarithm of the data follows a normal distribution (e.g., income distribution).
- (vi) **Chi-square:** It used in hypothesis testing and confidence interval estimation.
- (vii) **T-Student:** It used when the population standard deviation is unknown and sample sizes are small.
- (viii) **F-distribution:** It used in ANOVA (Analysis of Variance) tests.

Topic

Module 4:
Data Processing,
Organisation,
Cleaning and
Validation and
Module 5:
Transfer Pricing

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 4: Applications of Marginal Costing in Short Term Decision Making

Marginal costing is a vital managerial accounting tool widely used in short-term decision-making. It focuses on the behavior of costs and revenues relevant to specific decisions, enabling managers to make economically sound choices by considering only variable costs and contributions rather than full costs. This module explains the applications of marginal costing in short-term decision making.

Concept of Marginal Costing in Short-Term Decisions

Marginal costing is based on the separation of costs into variable and fixed components. Variable costs change with the level of production, whereas fixed costs remain constant regardless of output within a given period. Marginal costing treats fixed costs as period costs, charging only variable costs to the product or service. This approach is particularly beneficial for decisions that affect production levels or involve choosing among alternatives over a short time frame, where fixed costs are often unavoidable and irrelevant to the decision.

In short-term decision making, the focus is on incremental costs and revenues — costs and revenues that will change as a direct result of the decision. Marginal costing helps identify the contribution margin (sales revenue minus variable costs), which is pivotal in understanding the profitability of an option.

Key Applications of Marginal Costing in Short-Term Decision Making

1. Pricing Decisions

Setting the right price is critical for both new products and existing ones, especially under competitive and dynamic market conditions. Marginal costing helps in pricing decisions by emphasizing on the contribution margin rather than total costs. For instance, when a company faces price reductions due to external pressures or special orders, it should base the decision primarily on whether the selling price covers the variable cost and contributes something towards fixed costs.

Full cost pricing can be misleading because it includes fixed costs which do not vary in the short term, potentially resulting in overpricing or missed market opportunities. Marginal costing helps to identify the price at which profit is maximized by focusing on variable costs and additional revenues are generated by increasing sales.

2. Make-or-Buy Decisions

A frequent managerial dilemma is whether to manufacture a component in-house or buy it from an external supplier. Marginal costing evaluates this by comparing the

marginal cost of in-house production with the purchase price, considering the opportunity cost of displaced work or resources.

If producing internally requires sacrificing contribution from other profitable activities due to limited resources, the effective cost includes not just direct variable costs but also the lost contribution. The decision hinges on minimizing incremental costs and maximizing contributions, reflecting marginal cost principles.

3. Accept or Reject Special Orders

Companies often receive one-time or special orders at prices lower than regular prices. Using marginal costing, management evaluates whether accepting the order will increase overall profit. If the special order price exceeds the additional variable costs incurred and contributes towards fixed costs, accepting it can be profitable in the short run.

This analysis ignores sunk fixed costs and focuses on whether the incremental revenue surpasses incremental cost, thereby improving the overall contribution margin.

4. Product Discontinuation Decisions

Marginal costing allows managers to assess the profitability of continuing or discontinuing a product line by analyzing the contribution margin each product offers. Products that fail to cover their variable costs and contribute positively toward fixed expenses may warrant discontinuation.

However, decisions should also consider possible fixed costs that might become avoidable upon discontinuation and the strategic implications of withdrawing products.

5. Limiting Factor or Key Factor Analysis

Many businesses face constraints such as limited machine hours, labor, or raw materials — referred to as limiting factors. Under such conditions, marginal costing guides product mix decisions by prioritizing products that yield the highest contribution per unit of the limiting resource.

This helps maximize total contribution and, consequently, profits, by efficiently allocating scarce resources where they generate the most value.

6. Shutdown or Continue Decisions

Sometimes, firms must decide between continuing production or shutting down temporarily due to adverse market conditions. Marginal costing aids these decisions by comparing the contribution margin against avoidable fixed costs and shutdown costs.

If the contribution margin covers avoidable fixed costs, it is generally preferable to continue production, minimizing losses compared to shutting down. The fixed portion of shutdown costs and the unavoidable expenses that persist even when production halts must also be taken into account while taking the decision.

7. Replacement Decisions

Marginal costing provides a framework to evaluate whether replacing equipment or machinery is financially beneficial. When the incremental cost of operating older equipment exceeds the marginal cost associated with new equipment, replacement can enhance overall profitability.

8. Expansion and Subcontracting Decisions

In case of opportunities to expand business or subcontract production, marginal costing analyses the additional variable costs, contributions, and fixed costs to decide whether expansion or subcontracting is financially advantageous.

Important Considerations in Marginal Costing

- **Relevance of Fixed Costs:** Typically, fixed costs are considered irrelevant for short-term decisions as they do not change with production volume. However, if fixed costs can be altered or avoided due to a decision (incremental fixed costs), they must be included.
- **Opportunity Costs:** Marginal costing decisions must consider opportunity costs, especially when scarce resources are involved.
- **Non-financial Factors:** Although marginal costing focuses on financial data, strategic and qualitative factors, such as supplier reliability or market positioning, should also influence decisions.

Conclusion

Marginal costing is a powerful decision-making tool in short-term managerial choices, helping managers focus on relevant costs and revenues—primarily variable costs and contribution margins. It simplifies complex cost structures by ignoring sunk and unavoidable fixed costs, directing attention to the incremental impact of decisions. Applications range from pricing, make-or-buy, and special order acceptance to product discontinuation, limiting factor analysis, and shutdown decisions.

Using marginal costing assists businesses in optimizing profitability and resource utilization during short-term operational challenges, enabling informed tactical decisions aligned with overall strategic objectives.

Multiple Choice Questions (MCQs):

- Which of the following is the main focus of marginal costing?
 - Fixed cost control
 - Profit planning
 - Variable cost analysis
 - Standard costing
- In marginal costing, contribution is calculated as:
 - Sales – Fixed Cost
 - Sales – Variable Cost
 - Profit – Fixed Cost
 - Sales – Overheads
- The P/V ratio is calculated as:
 - Contribution ÷ Sales × 100
 - Sales ÷ Contribution × 100
 - Contribution ÷ Fixed Cost × 100
 - Sales ÷ Profit × 100
- The margin of safety represents:
 - Excess of actual sales over break-even sales
 - Contribution per unit
 - Sales at break-even point
 - Profit after tax
- In decision making, fixed costs are generally considered as:
 - Relevant costs
 - Irrelevant costs
 - Semi-variable costs
 - Sunk costs
- Break-even point occurs when:
 - Total cost = Fixed Cost
 - Contribution = Fixed Cost
 - Profit = Variable Cost
 - Sales = Variable Cost
- Which technique is used in “make or buy” decisions?
 - Standard costing
 - Marginal costing
 - Budgetary control
 - Absorption costing
- In shutdown decisions, a firm should close when:
 - Sales > Total Cost
 - Contribution < Fixed Costs saved by closure

- c) Variable cost < Sales
d) Fixed costs are low
9. Key factor in marginal costing decision making is also called:
a) Limiting factor
b) Contribution factor
c) Profit factor
d) Break-even factor
10. Differential cost refers to:
a) Difference in cost between two alternatives
b) Fixed cost of a unit
c) Cost at break-even point
d) Average variable cost
11. In product mix decisions, the most profitable mix is achieved by:
a) Maximizing contribution per unit of limiting factor
b) Minimizing fixed cost
c) Increasing selling price
d) Reducing production
12. Contribution is also known as:
a) Gross profit
b) Net profit
c) Marginal income
d) Operating profit
13. If P/V ratio increases, break-even point:
a) Increases
b) Decreases
c) Remains constant
d) Becomes zero
14. In "accept or reject" special order decisions, the main factor considered is:
a) Fixed cost
b) Contribution
c) Profit after tax
d) Average cost
15. In shutdown point analysis, variable cost per unit is compared with:
a) Sales price per unit
b) Fixed cost per unit
c) Contribution per unit
d) Break-even point

Answers

1. C
2. B
3. A
4. A
5. B
6. B
7. B
8. B
9. A
10. A
11. A
12. C
13. B
14. B
15. A

Fill in the Blanks:

1. Contribution = _____.
2. The point where total cost equals sales revenue is called the _____.
3. P/V ratio is calculated as _____.
4. Margin of safety = Actual Sales – _____.
5. In marginal costing, fixed costs are treated as _____.

Answers

1. Sales – Variable Cost.
2. Break-even Point
3. $\text{Contribution} \div \text{Sales} \times 100$
4. Break-even Sales
5. Period Costs

True/False Questions:

1. In marginal costing, fixed costs are charged to product cost.
2. Contribution is equal to Sales minus Variable Cost.
3. Break-even point is reached when Contribution = Fixed Cost.
4. Marginal costing is mainly useful for long-term planning.
5. Key factor and limiting factor mean the same in decision making.

Answers

1. False
2. True
3. True
4. False
5. True

Module 5: Transfer Pricing

Transfer Pricing in Cost and Management Accounting

In cost and management accounting, **transfer pricing** is a critical mechanism for allocating costs and assessing performance within multinational corporations. It involves setting prices for goods, services, or intangible assets exchanged between different divisions or subsidiaries. The objective is to ensure fair cost allocation, accurately capture transaction value, and support informed decision-making on pricing, resource allocation, and performance evaluation.

Methods and Techniques

Cost and management accountants use a range of methods to determine transfer prices that meet both strategic business objectives and regulatory requirements. Traditional approaches—such as the **Cost-Plus Method**, which applies a markup to production costs—remain common. More advanced techniques, such as **Activity-Based Costing (ABC)**, allocate costs with greater accuracy by linking them to the specific activities that generate them. These methods help organizations establish transfer prices that reflect actual costs while providing valuable insights for managerial decision-making.

Divisional Performance and Goal Congruence

Transfer pricing significantly influences divisional performance assessment. Accountants strive to ensure that transfer prices align with corporate performance metrics and encourage **goal congruence** across divisions. However, conflicts can arise when managers prioritize divisional targets over organizational objectives. To address this, performance measures must be designed to encourage cooperation and reinforce alignment with the company's overall strategy.

Inter-Departmental and Inter-Company Pricing

Accurate pricing between departments or subsidiaries is essential for efficient resource use and smooth coordination. These transfer prices should reflect the actual cost of goods or services, incorporating production expenses, overhead, and prevailing market conditions. Transparent, equitable pricing structures enable effective resource allocation and enhance operational efficiency.

International Transfer Pricing

Global operations add complexity to transfer pricing, with variations in tax regulations, currency exchange rates, and compliance requirements across jurisdictions. Cost and management accountants must develop

strategies that balance **tax efficiency** with strict regulatory adherence. Their expertise in cost analysis and performance measurement enables multinational corporations to navigate these challenges and achieve strategic objectives.

Transfer pricing lies at the heart of multinational business operations. Common methods include the **Comparable Uncontrolled Price (CUP) Method**, **Resale Price Method**, **Cost-Plus Method**, **Transactional Net Margin Method** and **Profit Split Method**. These must be adapted to reflect performance metrics, promote goal congruence, and comply with legal standards. Whether domestic or international, effective transfer pricing demands a balance between profitability, efficient resource allocation, tax compliance, and alignment with corporate goals.

Multiple Choice Questions (MCQs):

- Many firms use _____ transfer prices even though they may not lead to optimal results for individual products.
 - Market-based
 - Negotiated
 - Cost plus
 - Residual income-based
- Which of the following is **NOT** considered a method of transfer pricing?
 - Fixed cost based
 - Market-based
 - Cost-plus
 - Comparable uncontrolled price
- In transfer pricing, variations in _____ rates across countries create challenges for multinational corporations.
 - Transfer pricing
 - Overhead allocation
 - Income tax
 - Royalty
- In the absence of a _____ for the intermediate product, the theoretically correct transfer price can be determined.
 - Cost analysis
 - Competitive market

- c) Divisional benchmark
d) Transfer agreement
5. **Statement:** While _____ transfer pricing focuses on fairly compensating an internal division for products supplied to another division, _____ transfer pricing often serves purposes like minimizing a company's global tax burden.
- a) International, domestic
b) Domestic, international
c) Strategic, operational
d) Negotiated, cost-plus
6. The _____ principle states that intercompany transactions should be priced as if they occurred between unrelated parties under similar conditions.
- a) Arm's-length
b) Market parity
c) Fair value
d) Competitive advantage
7. A multinational enterprise (MNE) may declare low profits in a host country to:
- a) Increase import tariffs
b) Discourage local competition
c) Reduce operating capacity
d) Boost internal transfer pricing
8. _____ are responsible for all operations—production, sales, and related activities—pertaining to their product within a division.
- a) Cost accountants
b) Divisional managers
c) Tax auditors
d) Regional heads
9. _____ is a concept that requires both theoretical understanding and numerical application skills.
- a) Decision making
b) Activity-based costing
c) Transfer pricing
d) Performance evaluation
10. As managers become more skilled in _____, they enhance their qualifications for senior management roles.
- a) Decision making
b) Budget control
c) Profit maximization
d) Resource allocation
11. Which of the following is a disadvantage of using market value as a transfer price?
- a) The market price might be temporary.
b) There might be an imperfect external market.
c) Many products do not have an equivalent market price.
d) All of the above.
12. Transfer prices based on full cost are most suitable when top management treats divisions as:
- a) Profit centers
b) Cost centers
c) Investment centers
d) Strategic units
13. Many organizations prefer to base transfer prices on _____ because it is simple to calculate and apply.
- a) Cost
b) Market value
c) Negotiated price
d) Residual income
14. When _____ is used to measure divisional performance, the goal is to maximize total profit, not the overall ROI figure.
- a) ROI
b) RI (residual income)
c) EVA
d) Market share
15. M Group has two divisions; Division P and Division Q. Division P manufacture an item that is transferred to Division Q. The item has no external market and 6,000 units are transferred internally each year. Costs are as follows: Variable Cost: Division P – Rs. 100/unit; Division Q – Rs. 120/unit. Fixed Cost per year: Division P – Rs. 1,20,000; Division Q – Rs. 90,000. Head office wants a transfer price that gives Division P a profit of Rs. 30,000. What should be the transfer price per unit?

- a) Rs. 145
- b) Rs. 125
- c) Rs. 120
- d) Rs. 135

Answer

- 1. c
- 2. a
- 3. c
- 4. b
- 5. b
- 6. a
- 7. b
- 8. b
- 9. c
- 10. a
- 11. d
- 12. b
- 13. a
- 14. b
- 15. b

True and False

- 1. Transfer Price set through a process of negotiation between the buying and selling divisions is called Market based Transfer Price.
- 2. Transfer pricing is concerned with the price one profit centre charges another profit centre within the company for products or services provided.
- 3. Multinational companies use transfer pricing to minimize their worldwide taxes, duties, and tariffs.

- 4. The decision-making and the performance evaluation objectives for establishing a transfer pricing system does not conflict with each other.
- 5. A Profit Centre is a company's department that is responsible for the profits of the company.

Answer

- 1. False
- 2. True
- 3. True
- 4. False
- 5. True

Fill in the blanks

- 1. A company with a _____ organizational structure is one where mid- and lower-level managers make most of the decisions, rather than the senior management team.
- 2. Domestic transfer pricing is concerned with fairly compensating an _____ for products.
- 3. _____ is the degree of freedom a division manager can exercise in decisions making.
- 4. In most circumstances, where there is a _____ market for an intermediate product, the current market price is the most suitable basis for setting the transfer price.
- 5. _____ transfer pricing uses two separate transfer prices to price each inter- divisional transaction.

Answer

- 1. decentralized
- 2. internal division
- 3. Divisional Autonomy
- 4. perfectly competitive
- 5. Dual-rate

CMA FINAL COURSE

Syllabus 2022

Topic

Module 5:
The Competition
Act, 2002

FINAL

Group III - Paper-13

Corporate and
Economic Laws
(CEL)

Competition Act - an overview

1.0 Competition Act, 2002

- The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970. Based on a committee recommendation the Competition Act, 2002, was enacted on 13th January 2003. It was last amended in April, 2023. It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission and constitution of , Competition Commission of India and the Competition Appellate Tribunal which have been established in October 2003.

1.1. Objectives of the Act

The objectives of the Competition Act are to:

- prevent anti-competitive practices,
- promote and sustain competition,
- protect the interests of the consumers and
- ensure freedom of trade.
- competition advocacy by creating awareness among various levels at Government, industry and consumers.

The objectives of the Act are being achieved through the Competition Commission of India.

1.2. Competition Commission of India (CCI)

CCI is a body corporate and shall have a full time chairman with minimum 2 and maximum 6 to 7 members. Commission may appoint Secretary and other officers as may be required.

- CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.
- Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc. and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.
- It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.

- CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.

- Inquiry into certain agreements and dominant position by giving notices to the parties.

1.3. Prohibition of certain agreement

An agreement includes any arrangement, understanding or concerted action entered into between parties, oral or in writing or intended to be enforceable in law. Anti-competitive agreement shall be presumed to have appreciable adverse effect on competition and thereby deemed to be restrictive.

- An anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include:-
 - agreement to limit production & supply, storage, distribution
 - agreement to allocate markets
 - agreement to fix price
 - bid rigging (manipulating the bids) or collusive bidding (bidding with understanding among the bidders)
 - conditional purchase/sale (tie-in arrangement)
 - exclusive supply/distribution arrangement-limit/restrict/withhold/allocation of an area
 - resale price maintenance
 - refusal to deal

The whole agreement shall be construed as “void” if it contains anticompetitive clauses. However, agreement for restriction for protection of intellectual property shall not fall under this category.

1.4. Abuse of dominance

Dominance refers the strength which enables a the firm to operate independently in India of competitive forces or to affect its competitors or consumers or the market in its favour.

- ☐ impedes fair competition between firms,
- ☐ exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit.

- imposing unfair conditions or price, predatory pricing, limiting production/market, creating barriers to entry and applying dissimilar conditions to similar transactions.

Specific instances of dominance under Competition Act

- (a) directly or indirectly, imposes unfair or discriminatory conditions in purchase or sale of goods or services, including predatory price;
- (b) limits, restricts production of goods/ provision of services/ technical development
- (c) denial of market access
- (d) uses dominant positioning one market to enter into other relevant market.

2.0 Who can make a complaint?

- Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.
- A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.

3.0. Orders the Commission

- To grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position
- To impose a penalty of not more than 10% of turnover and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher
- To discontinue and not to re-enter anti-competitive agreement or abuse the dominant position
- To award compensation
- To modify agreement
- To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.
- * Declare an agreement to be void.
- * Violation of orders may result to imprisonment.

4.0 “Combination” under the Act and regulation thereof

Combination includes acquisition of shares, acquisition of control, shares, voting rights or assets of an enterprise over another merger and amalgamation between or amongst enterprises.

Combination, that exceeds the threshold limits, which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India, can be scrutinized by the Commission

4.1 In case of combination the threshold limits are-

- For acquisition –
 - **Individual:** Combined assets of the firms (acquirer and the enterprise) is more than Rs 2000 Cr. or turnover is more than Rs 6000 Cr. (these limits are US\$ 1 billion including at least Rs.1000 Cr. in India and 3 billions including at least 3000 cr. in India in case one of the firms is situated outside India).
 - **Group:** The limits are more than Rs 8000 Cr or Rs 24000 Cr and US\$ 4 billion including at least Rs.1000 Cr. in India and 12 billions including at least Rs.3000 Cr. in India in case acquirer is a group in India or outside India respectively.

CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than Rs.350 Cr. and turnover of not more than Rs.1000 Cr.

4.2 For merger/amalgamation –

- the above limit will be valid for mergers also.

A firm proposing to enter into a combination, may, at its option, notify the Commission the details of the proposed combination within 30 days approval of the board of directors or execution of the agreement or other document for acquisition. No combination shall come into effect until 210 days have passed from the day on which the notice has been given to the Commission or Commission has given no objection, whichever is earlier.

5.0 Procedure for investigation of combinations

If the Commission is of the opinion that a combination is likely to cause or has caused adverse effect on competition,

- It shall issue a notice to show cause the parties.
- On receipt of the response, if Commission is of the opinion that the combination has or is likely to have appreciable adverse, it may direct publication of details inviting objections of public and hear them.

- It may invite any person, likely to be affected by the combination, to file his objections. It may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

5.1 Orders the Commission can pass in case of combinations

- ☐ It shall approve the combination if no appreciable adverse effect on competition is found
- ☐ It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition
- ☐ May propose suitable modification in the agreement/ arrangement.

5.2 Prohibition of abuse of dominance

- i) an enterprise shall be considered to be dominant in the referent market in India, if -
 - (a) operate independently of competitive forces;
 - (b) affects the consumer, competitor or the relevant

market in its favour.

- ii) using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

5.3 Regulation of combinations

- i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;
- ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the Board or execution of any agreement;
- iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;
- iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

Topic

Module 3:
Leasing Decisions
and

Module 17:
Digital Finance

FINAL

Group III - Paper-14

Strategic Financial
Management (SFM)

Topic: Leasing Decision

• Multiple Choice Questions

1. In a lease arrangement, the owner of the asset is:
 - A. the lesser.
 - B. the lessee.
 - C. the lessor.
 - D. the leaser.
2. If the lessor borrows much of the purchase price of a leased asset, the lease is called:
 - A. a leveraged lease.
 - B. a sale-and-leaseback.
 - C. a capital lease.
 - D. a nonrecourse lease.
3. In valuing the lease versus purchase option, the relevant cash flows are the:
 - A. tax shield from depreciation.
 - B. investment outlay for the equipment.
 - C. a decrease in the firm's operating costs that are not affected by leasing.
 - D. All of the above are relevant.
4. The appropriate discount rate for valuing a financial lease is:
 - A. the firm's after-tax weighted average cost of capital.
 - B. the after-tax required return on assets of risks similar to the leased asset.
 - C. the after-tax cost of secured borrowing.
 - D. Either A or B.
5. The WACC is not used in the lease versus purchase decision because:
 - A. the WACC was used in the decision to acquire the asset, this is only a financing decision.
 - B. the WACC is used only when a lease alone is considered and not a lease versus purchase.
 - C. the WACC does not include the lease cost of capital and therefore should not be used.
 - D. tax rates of the lessor may be different than the lessee and therefore the WACC is incorrect.
6. Which of the following is probably not a good reason for leasing instead of buying?
 - A. Taxes may be reduced by leasing.
 - B. Leasing may reduce transactions costs.
 - C. Leasing may provide a beneficial reduction of uncertainty.
 - D. All of the above are good reasons.
7. _____ would be evidence the lease is being used to avoid taxes and not a legitimate business purpose.
 - A. Early balloon payments
 - B. Late balloon payments
 - C. Capitalizing a lease
 - D. Transfer of lease payments to a second owner

Answer: 1-C; 2-A; 3-D; 4-C; 5-A; 6-D; 7-A

• Comprehensive Problems

Y Limited has decided to go in for a new model of Lamborghini Car. The cost of the vehicle is Rs. 80 lakhs. The company has two alternatives: (i) taking the car on finance lease, or (ii) borrowing and purchasing the car.

X Limited is willing to provide the car on finance lease to Y Limited for five years at an annual rental of Rs. 17.5 lakhs, payable at the end of the year.

The vehicle is expected to have useful life of 5 years, and it will fetch a net salvage value Rs.20 lakhs at the end of year five. The depreciation rate for tax purpose is 40% on written-down value basis. The applicable tax rate for the company is 35%. The applicable before tax borrowing rate for the company is 13.8462%.

What is the net advantage of leasing for the Y Limited?

The values of present value interest factor at different rates of discount are as under:

Rate of Discount	1	2	3	4	5
13.8462%	0.8784	0.7715	0.6777	0.5953	0.5229
9.00%	0.9174	0.8417	0.7722	0.7084	0.6499

Solution:

Calculation of NPV if car is acquired on Finance Lease

Year	Lease rentals	Tax shield gained on lease rental @ 35%	Tax, shield lost on depreciation	Net cash outflow	Discount factor @ 9%	P.V. of cash. outflows
	(a)	(b)	(c)	(a) - (b) + (c)		
1	17,50,000	6,12,500	11,20,000	22,57,500	0.9174	2071031
2	17,50,000	6,12,500	6,72,000	18,09,500	0.8417	1523056
3	17,50,000	6,12,500	4,03,200	15,40,700	0.7722	1189729
4	17,50,000	6,12,500	2,41,920	13,79,420	0.7084	977181
5	17,50,000	6,12,500	1,45,152	12,82,652	0.6499	833596
5	Loss of salvage value			20,00,000	0.6499	12,99,800
Net Present Value of Cash Outflows						78,94,393

Calculation of Depreciation on WDV Basis

Year	1	2	3	4	5
WDV at the beginning of the year	80,00,000	48,00,000	28,80,000	17,28,000	10,36,800
Depreciation @ 40% WDV	32,00,000	19,20,000	11,52,000	6,91,200	4,14,720
WDV at the end of year	48,00,000	28,80,000	17,28,000	10,36,800	6,22,080
Tax shield on depreciation @ 35%	11,20,000	6,72,000	4,03,200	2,41,920	1,45,152

Net Benefit of Leasing = Rs. 80,00,000 - Rs. 78,94,393 = Rs. 1,05,607

Suggestion - Since the NPV of leasing is lower than the cost of purchase, it is suggested to acquire the car on finance lease basis.

Topic: Digital Finance

Subtopic: Fintech

• Concept of Fintech

Fintech is a portmanteau of the words “financial” and “technology”. It refers to any app, software, or technology that allows people or businesses to digitally access, manage, or gain insights into their finances or make financial transactions.

As consumers increasingly adopted digital tools, fintech arose as a means to help consumers address financial challenges and make progress toward financial goals. In turn, consumers have come to rely on fintech for a range of uses - from banking and budgeting to investments and lending - as well as for its tangible everyday benefits.

Consumers report numerous benefits of using fintech, including saving time, feeling in control of their money, and saving money - and 90% report fintech has helped them in some way.

• Types of Fintech

1. Blockchain and Cryptocurrency

Blockchain and cryptocurrency startups have been at the forefront of fintech innovation, upending established financial infrastructures. Bitcoin and Ethereum are decentralized and secure ledger technology based on blockchain. These businesses enable peer-to-peer transactions in a trustless setting by offering efficiency, security, and transparency.

2. Insurance (InsurTech)

Technology is used by insurance businesses to improve and streamline the insurance sector. These businesses modernize insurance services by introducing efficiency and customization using AI-powered underwriting procedures and data analytics for risk assessment.

3. Regulatory (RegTech)

RegTech has emerged as a critical ally for financial firms dealing with ever-changing regulatory frameworks.

4. Lending (LendTech)

LendTech businesses are committed to modernizing and streamlining the loan process. These organizations determine the creditworthiness of borrowers more precisely by using alternative credit scoring methods and data analytics. Peer-to-peer lending services do away with the need for intermediaries by putting borrowers and lenders in direct contact.

5. Payments (PayTech)

PayTech businesses are transforming how we transact by providing cutting-edge payment options beyond conventional banks. The PayTech ecosystem includes digital payment systems, mobile wallets, and contactless payment methods.

6. Trading (TradeTech)

TradeTech enterprises utilize technology to optimize and mechanize trading procedures inside the financial markets. Among the technologies that maximize trade execution are intelligent order routing, high-frequency trading, and algorithmic trading.

7. Digital Banking

Fintech’s term “digital banking” describes providing financial services through digital platforms and technology. Fintech companies use digital tools to assist, including contactless payments, mobile banking apps, virtual customer care, and online account management.

8. Personal Finance Management (PFM)

Fintech’s definition of Personal Finance Management (PFM) is the use of technology to assist people in managing their money. Fintech solutions include goal-setting, credit score monitoring, bill administration, automatic savings and investments, tracking expenses, budgeting, and account integration.

Topic

Module 5:
Business
Restructuring

FINAL

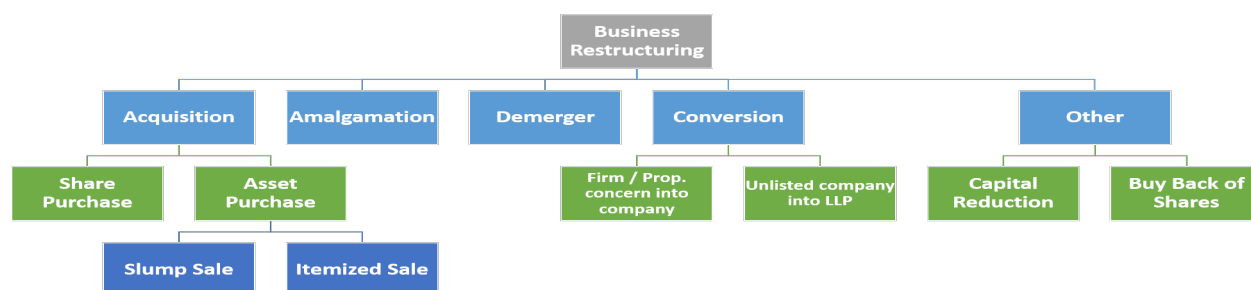
Group III - Paper-15

Direct Tax Laws
and International
Taxation (DIT)

Amalgamation

Restructuring is term used for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Companies are resorting to acquisitions as a means to consolidate and grow rapidly in an ever changing business environment. As a result, there is an increase in the level of restructuring activity in various sectors. Change in ownership or operational structure transaction have tax implication. The purpose of a suitable business strategy for restructuring must increase efficiency, consolidate operations, increase market share, assist in turn around, increase market capitalization and create entry barrier for competitors. Proper tax planning in this regard shall reduce the cost of restructuring in this front.

Corporate restructuring, particularly through amalgamation, is a strategic tool for enhancing operational efficiency, market competitiveness, and shareholder value. Under the Income-tax Act, amalgamations have been granted tax neutrality subject to prescribed conditions to ensure genuine business reorganisation. This article discusses the tax implications of amalgamation from the perspective of shareholders, amalgamating companies, and amalgamated companies.



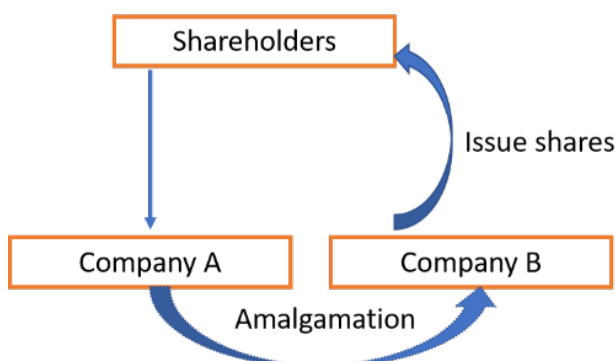
Definition [Sec. 2(1B)]

Amalgamation (in relation to companies) means:

- the merger of one or more companies with another company; or
- the merger of two or more companies to form one company;

in such a manner that—

- all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;
- shareholders (both equity or preference) holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders (equity or preference) of the amalgamated company.
 - Number of shares allotted to the shareholders of the amalgamating company by the amalgamated company is not relevant.
 - Where C Ltd. merges with Z Ltd., in a scheme of amalgamation, and immediately before the amalgamation, Z Ltd. holds 20% of the share in C Ltd., the aforesaid mentioned condition will be satisfied if shareholders holding not less than $\frac{3}{4}$ th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof ($\frac{3}{4} \times 80$), become shareholders of Z Ltd., by virtue of the amalgamation. Where, however, the whole of the share capital of a company is held by another company, the merger of the two companies will qualify as an amalgamation within sec. 2(1B), if the other two conditions are satisfied [Circular 5P, dated 9-10-67]



Exceptions:

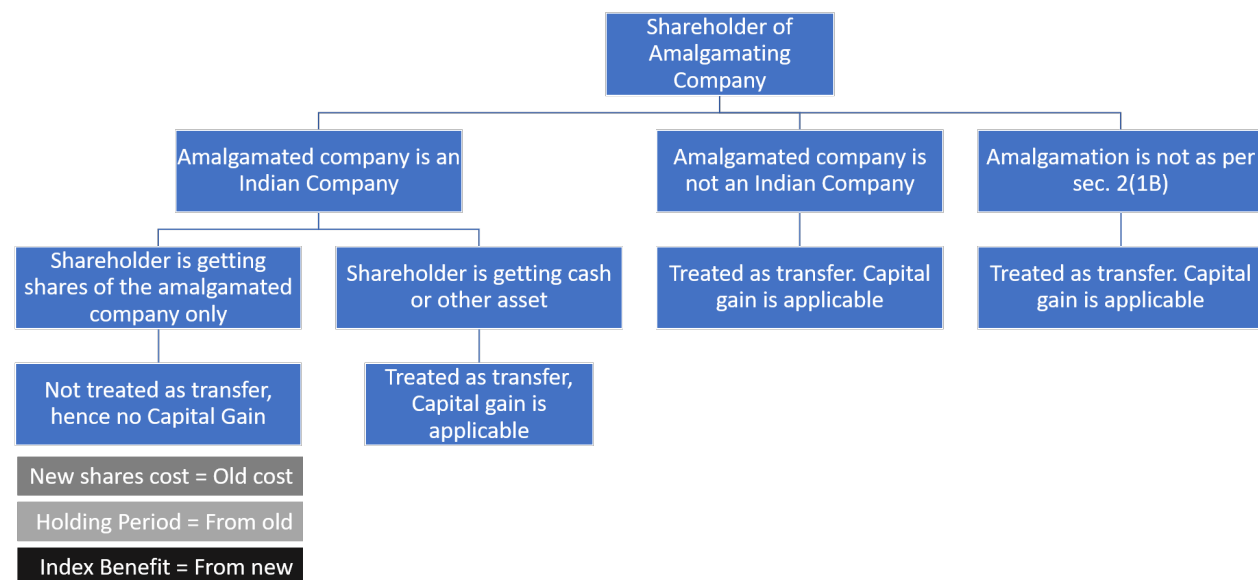
Following mergers shall not be treated as amalgamation -

- Merger as a result of acquisition of the property of one company by another company pursuant to the purchase of such property by the other company; or
- Merger as a result of distribution of such property to the other company after the winding up of the first-mentioned company.

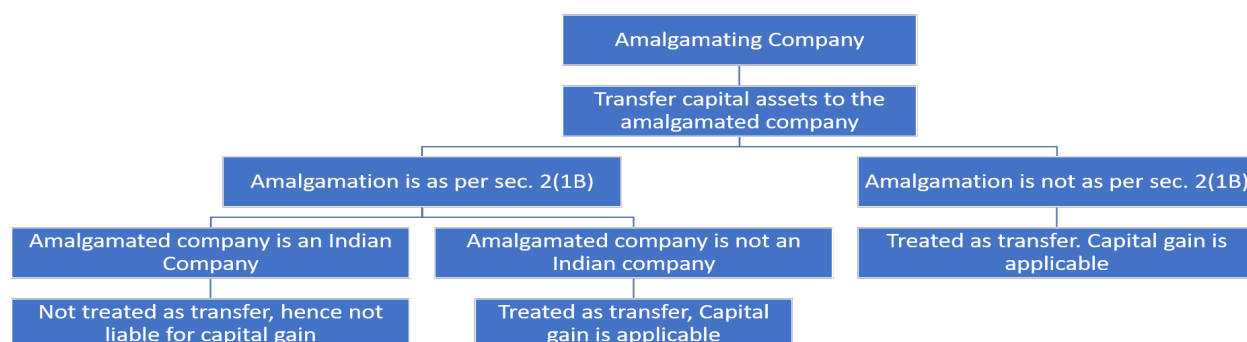
Amalgamation & Shareholder of the amalgamating company

Effect of amalgamation on a shareholder are as under:

Transfer of shares of amalgamating company	As per sec. 47(vii), any transfer by a shareholder, in a scheme of amalgamation, of share(s) held by him in the amalgamating company is not treated as transfer and hence not liable to capital gain tax, if following conditions are satisfied: i. The transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company; and ii. The amalgamated company is an <i>Indian</i> company.
Cost of shares in amalgamated company	The cost of shares in amalgamating company shall be deemed to be the cost of shares in amalgamated company. [Sec. 49(2)]
Determination of nature of assets	To find whether shares in amalgamated company are long-term or short-term capital asset, the period of holding shall be calculated from the date when shares in the amalgamating company were acquired. [Sec. 2(42A)]

**Amalgamation & amalgamating company**

- ⚙ As per sec. 47(vi), any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company is not treated as transfer (hence not liable to capital gain) provided the amalgamated company is an *Indian* company.
- ⚙ If amalgamation does not satisfy condition of sec. 2(1B) **and** of sec. 47(vi), then exemption is not available.

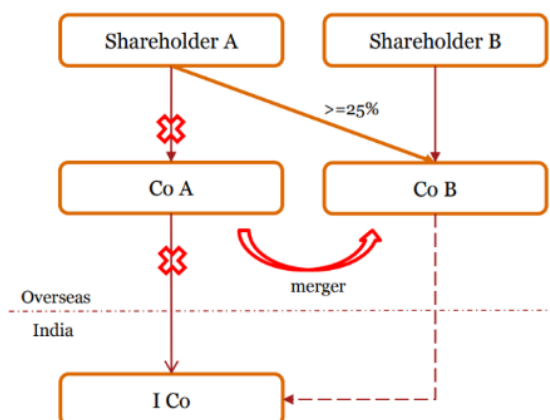


✿ As per sec. 47(viab), any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company, (referred to in the Explanation 5 of sec.9(1)(i)), which derives, directly or indirectly, its value substantially from the share or shares of an Indian company, held by the amalgamating foreign company to the amalgamated foreign company, if:

- at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
- such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.

✿ As per sec. 47(via), any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company is not treated as transfer (hence not liable to capital gain) provided:

- at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and
- such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.



Taxpoint

- Such transfer is in a scheme of amalgamation by the amalgamating foreign company to the amalgamated foreign company.
- Transferred asset must be a capital asset being a share or shares held in an Indian company.
- At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.
- Such transfer does not attract tax on capital gain in the country, in which the amalgamating company is incorporated.

Amalgamation & amalgamated company

✿ Value of non-depreciable capital assets for the purpose of capital gain

- As per sec. 49(1), where a capital asset became the property of amalgamated (Indian) company in a scheme of amalgamation, the cost of acquisition of the asset to the amalgamated company shall be deemed to be the cost for which the previous owner (i.e., amalgamating company) of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner or the assessee, as the case may be.
- It is to be noted that where non-depreciable asset was acquired before 1-4-2001, the cost of acquisition can be taken as cost of acquisition or fair market value of the asset as on 1-4-2001, at the option of the assessee.

- In determining the period of holding of such asset, period of holding of previous owner shall also be considered.

❁ Value of depreciable asset for the purpose of business income

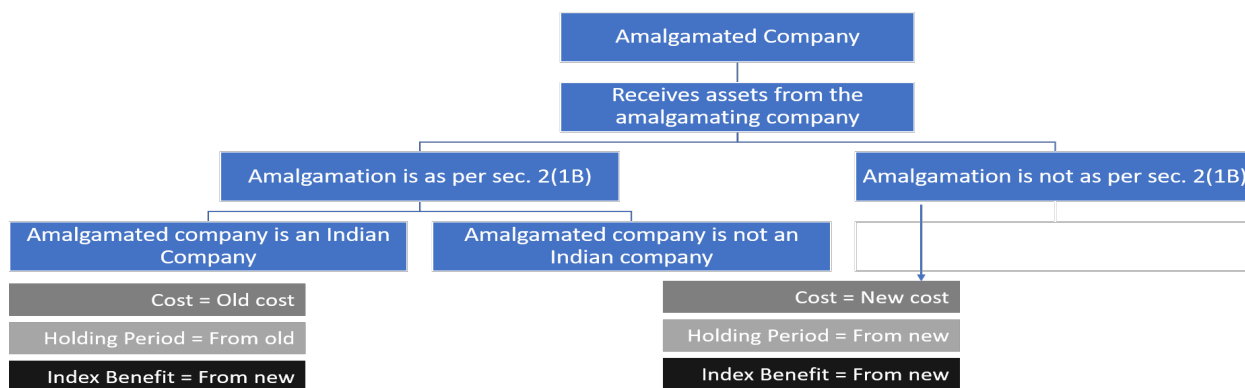
- Where in any previous year, any block of assets is transferred by the amalgamating company to the amalgamated (Indian) company in a scheme of amalgamation, then, the actual cost of the block of assets in the case of the amalgamated company shall be the written down value of the block of assets as in the case of the amalgamating company for the immediately preceding previous year as reduced by the amount of depreciation actually allowed in relation to the said preceding previous year [Exp. 2 to sec. 43(6)]
- *Allocation of depreciation in the year of amalgamation:* The aggregate deduction, in respect of depreciation allowable to the amalgamating company and the amalgamated company in the case of amalgamation shall not exceed in any previous year the deduction calculated at the prescribed rates as if the amalgamation had not taken place and such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

❁ Value of asset transferred as stock in trade

- Where an asset [not being an asset referred to in sec. 45(2)] which becomes the property of an amalgamated company under a scheme of amalgamation, is sold by the amalgamated company as stock-in-trade of the business carried on by it, the cost of acquisition of the said asset to the amalgamated company in computing the profits and gains from the sale of such asset shall be the cost of acquisition of the said asset to the amalgamating company, as increased by the cost, if any, of any improvement made thereto, and the expenditure, if any, incurred, wholly and exclusively in connection with such transfer by the amalgamating company [Sec. 43C(1)]

Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

- Stock-in-trade
 - Capital asset converted to stock-in-trade
 - Capital asset
- Sec. 43C is also applicable where an asset becomes the property of the assessee on the total or partial partition of HUF or under a gift or will or irrevocable trust.



❁ Set-off and carry forward of business loss and unabsorbed depreciation [Sec. 72A]

Applicable

- There has been an amalgamation of a company owning -
 - an industrial undertaking; or
 - a ship; or
 - a hotel,
 with another company; or

Taxpoint: Industrial undertaking means an undertaking engaged in—

- ☛ manufacture or processing of goods; or
 - ☛ manufacture of computer software; or
 - ☛ business of generation or distribution of electricity or any other form of power; or
 - ☛ business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services; or
 - ☛ mining; or
 - ☛ the construction of ships, aircrafts or rail systems.
2. There has been amalgamation of a banking company with a specified bank.
 3. There has been amalgamation of one or more public sector company or companies with one or more public sector company or companies; or
 4. There has been amalgamation of an erstwhile public sector company with one or more company or companies, if the share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company and the amalgamation is carried out within 5 years from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends
- *“Erstwhile public sector company” means a company which was a public sector company in earlier previous years and ceases to be a public sector company by way of strategic disinvestment by the Government;*
 - *“Strategic disinvestment” means sale of shareholding by the Central Government or any State Government in a public sector company which results in reduction of its shareholding to below 51% along with transfer of control to the buyer.*

Conditions to be satisfied

The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless:

- (a) The amalgamating company—
 - (i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years;
 - (ii) has held continuously as on the date of the amalgamation at least $\frac{3}{4}$ th of the book value of fixed assets held by it two years prior to the date of amalgamation.
 - (b) The amalgamated company—
 - (i) holds continuously for a minimum period of 5 years from the date of amalgamation at least $\frac{3}{4}$ th of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;
 - (ii) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation;
 - (iii) fulfils such other conditions* as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose.
- * Conditions for carrying forward or set-off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation [Rule 9C]
- (a) The amalgamated company, owning an *industrial undertaking* of the amalgamating company by way of amalgamation, shall achieve the level of production of at least 50% of the installed capacity (i.e., the capacity of production existing on the date of amalgamation) of the said undertaking before the end of 4 years from the date of amalgamation and continue to maintain the said minimum level of production till the end of 5 years from the date of amalgamation.

Provided that the Central Government, on an application made by the amalgamated company, may relax the condition of achieving the level of production or the period during which the same is to be achieved or both in

suitable cases having regard to the genuine efforts made by the amalgamated company to attain the prescribed level of production and the circumstances preventing such efforts from achieving the same.

- (b) The amalgamated company shall furnish to the Assessing Officer a certificate in Form No. 62, duly verified by an accountant, with reference to the books of accounts and other documents showing particulars of production, along with the return of income for the assessment year relevant to the previous year during which the prescribed level of production is achieved and for subsequent assessment years relevant to the previous years falling within five years from the date of amalgamation.

Treatment

- The accumulated business (non-speculative) loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected, and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.
- In a case where any of the conditions are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with.

Deduction of expenses incurred in case of amalgamation or demerger [Sec. 35DD]

Applicable to: An Indian company

Conditions

- Assessee has incurred certain expenditures wholly & exclusively for the purpose of amalgamation or demerger.
- No deduction has been claimed for such expenses under any other section.

Quantum of deduction: 1/5th of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.

Other Provisions

Capital Expenditure on Scientific Research [Sec. 35(5)]: Provisions of sec. 35 shall apply to the amalgamated company, as it would have been applied to the amalgamating company, if the latter had not transferred such asset.

Telecom or spectrum licence: The amalgamated company or resulting company (being Indian company) as the case may be shall be entitled to claim deduction u/s 35ABB (or sec. 35ABA) for the residual period as if the amalgamating or demerged company had not transferred the licence.

Amortisation of Preliminary Expenses: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) shall be entitled to claim deduction u/s 35D for the residual period as if the amalgamation or demerger had not taken place.

Amortisation of expenditure incurred under VRS: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) as the case may be, shall be entitled to claim deduction u/s 35DDA for the residual period as if the amalgamation or demerger had not taken place.

In nutshell, we can say that where an amalgamated company is an Indian company, subject to other conditions, amalgamation is tax-neutral.

Topic

Module 9:
Game Theory

FINAL

Group III - Paper-16

Strategic Cost
Management (SCM)

Game Theory

1.0 Introduction

Game Theory may be defined as a type of Decision Making situation when two or more intelligent and rational opponents are involved under conditions of conflict and competition. It is a type of Decision Theory in which one's choice of action is determined after taking into account all possible alternatives available to the opponent participating in the same game. Game Theory does not insist on how a game should be played but tells the procedure and principles by which action should be selected. 'Game' is defined as an activity between two or more participants according to a set of rules, at the end of which each participant either gets some benefit or suffers some loss.

2.0 Basic Terminology

- **Play:** Start when each player has chosen a course of action
- **Player:** Participants, Minimum 2 or Maximum N
- **Zero Sum Game:** Total resultant sum involved for game is Zero. Gain of one player is loss of another, then sum of game is 0.
- **Non - Zero Sum Game:** When gain of one player is not exactly the loss of other player. Then Game is called Non Zero Sum Game.
- **Strategy:** is a predetermined rule that helps player to decide his course of action from his available options.
- **Pure Strategy:** is a deterministic situation, when the strategy of opponent is known, and objective is to maximize the gain
- **Mixed Strategy:** is a probabilistic situation, when the strategy of opponent is not known, and objective is to maximize the gain
- **Pay Off:** is the outcome of playing the game for all the players
- **Pay off Matrix:** is a Tabular presentation of payoff for participating players. Rows will be represented by 'A' i.e. maximizing player & Columns by 'B' i.e. minimizing player
- **Value of the Game:** Sum of Payoff of all players, If 0 – Fair, Non 0 – Unfair
- **Saddle Point:** exists when Maximin is equal to Minimax. Optimum Solution is obtained at this point and that is the Value of the Pure Strategy fair game
- If saddle point ≥ 1 , Optimum Solutions ≥ 1

3.0 Assumptions

- The players act Rationally & Intelligently

- Each player has finite set of strategies
- Players attempt to maximize gains & Minimize Losses
- All relevant information is available to all Players
- The Players take Individual decisions no communication with other players
- The Players select their Strategies Simultaneously
- The payoff is fixed and determined in advance

4.0 Pure Strategy Game

As we know that Strategy is the predetermined rule by which a Player decides the course of action from his available courses of action. Pure Strategy is a deterministic situation, where a player knows exactly what his opponent is going to do. The objective of this strategy is to maximize the gain. Thus, it is a decision in advance, of all players always to choose a particular course of action. A pure strategy is usually represented by a number with which the course of action is associated.

Pure Strategy Games are solved by using Maximin – Minimax criteria. The maximising player (whose strategies are shown along the rows of the Payoff Matrix) arrives at his optimal strategy on the basis of Maximin criteria and the minimising player (whose strategies are shown along the columns of the Payoff Matrix) follows Minimax criteria. The game is solved when Maximin and Minimax values are equal.

Steps to determine Maximin value are as follows:

- Find minimum value in each row of the given payoff matrix. This denotes minimum possible gain against each strategy of the Maximising Player.
- Maximin value is the maximum of these minimum values.

Steps to determine Minimax value are as follows:

- Find maximum value in each column of the given payoff matrix. This denotes maximum possible loss against each strategy of the Minimising Player.
- Minimax value is the minimum of these maximum values.

Saddle Point is said to exist when the Maximin and Minimax values are equal. Thus, Saddle Point is the position of such an element in the payoff matrix, which is minimum in its row and maximum in its column. The Saddle Point is the solution or Value of the game. The strategies of the two players corresponding to the Saddle Point are their optimal strategies. If there is more than one Saddle Point, then multiple solutions will be possible corresponding to each Saddle Point.

Let's understand with the help of an illustration

		Strategies of Player B		Row Minimum
		B ₂		
Strategies of Player A	A ₁	9	2	2
	A ₂	8	6	6 = Maximin
	A ₃	6	4	4
Column Maximum		9	6 = Minimax	

In the table above, A is the maximising player with strategies represented along the rows and B is the minimising player with strategies represented along the columns.

Suppose, Player A starts the game knowing fully well that whatever strategy he adopts B will select that particular counter strategy that will minimise the payoff to A. If A selects A₁ then B will definitely select B₂, So that Player A gets minimum possible gain i.e. 2 under the situation. Similarly if A chooses A₂ then B will go for B₂ and so on. Thus, A wants to maximise his gain that is possible by going for the maximum value among the Row minimums or the Maximin value. Similarly, Player B wants to minimise his loss which is the minimum among the Column maximums or the Minimax value.

We observe here that both Maximin and Minimax values are equal to 6. Hence there exists a Saddle Point. Also this value corresponds to the cell A₂B₂. That means the Optimal strategy for the Player A is A₂ and that for the Player B is B₂. Value of the Game is 6 for A and -6 for B that means the game is Zero Sum.

5.0 Principle of Dominance

Principle of Dominance can be applied to both Pure Strategy as well as Mixed Strategy problems. Its basic objective is to reduce the size of the given Payoff Matrix. Aim should always be made to get a (2×2) matrix by using this Principle.

For deleting the ineffective rows and columns, the following Rules are used –

Rule 1 – If all the elements of a row (say *i*th row) of a payoff matrix are less than or equal to the corresponding elements of another row (say *j*th row) then the Maximising Player will never choose the *i*th strategy. In other words *i*th strategy is dominated by the *j*th strategy.

Rule 2 – If all the elements of a column (say *p*th column) of a payoff matrix are more than or equal to the corresponding elements of another column (say *q*th column) then the Minimising Player will never choose the *p*th strategy. In other words, *p*th strategy is dominated by the *q*th strategy.

Rule 3 – A pure strategy may be dominated if it is inferior to average of two or more other pure strategies. If all the elements of a row are less than or equal to the average of the corresponding elements of two or more other rows then this row is said to be dominated by the other group of rows for which average is computed. Similar concept is also applicable for column with the exception of having its elements more than the average of the corresponding elements of two or more columns.

The same can be understood with the help of following illustration.

6.0 Illustration

For following game find optimal strategies of A and B and value of game using principle of dominance.

		Player B			
		B ₁	B ₂	B ₃	B ₄
Player A	A ₁	7	6	8	9
	A ₂	-4	-3	9	10
	A ₃	3	0	4	2
	A ₄	10	5	-2	0

Solution:

		Player B				Row Minimum
		B1	B2	B3	B4	
Player A	A1	7	6	8	9	6
	A2	-4	-3	9	10	-4
	A3	3	0	4	2	0
	A4	10	5	-2	0	-2
Column Maximum		10	6	9	10	

Comparing the A1 and A3 strategies of Player A, A1 gives more gain than A3 in all conditions (for all strategies of B), A1 dominates over A2. Hence, we can ignore A3, and the effective payoff shall be as follows:

In this reduced matrix B3 is dominating B4, which gives lessor loss in all conditions (corresponding to all strategies of A). So B4 is redundant ignoring this, the effective payoff would be:

		Player B			Row Minimum
		B1	B2	B3	
Player A	A1	7	6	8	6
	A2	-4	-3	9	-4
	A4	10	5	-2	-2
Column Maximum		10	6	9	

Hence, we find that the saddle point exists, and A's optimum strategy is A1 whereas B's optimum strategy will be B2, and value of game is Rs.6. It implies that A cannot gain more than Rs.6 and B cannot reduce his loss below Rs.6 in the case.

Topic

Module 15:
Operational Audit
and Internal Audit
under Companies
Act, 2013

FINAL

Group IV - Paper-17

Cost and
Management Audit
(CMAD)

Operational Audit and Internal Audit under Companies Act, 2013

The Global body, IIA (Institute of Internal Auditors) defined internal Audit as “It is an independent, objective assurance and consulting activity designed to **add value and improve an organisation’s operations**. It helps an organisation accomplish its objectives by bringing a **systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.**”

Purpose and Objectives of Internal Audit

Corporates exist to create value or benefit to their owners, other stakeholders (not only stockholders), customers, and clients.



In view of the above, we can summarize the Objectives of Internal Audit as follows.

The basic purpose of the Internal Audit activity is to examine adequacy of controls related to each of the ‘Operational System/Activities’ to pre-empt possibilities of any leakage which results in ‘loss’ in monetary terms as well as ‘mitigation of risk’ prevalent to the concerned area of activity. Moreover, to ensure beyond ‘risk and control’, the Internal Audit function is to create ‘value add’ w.r.t the prevalent System/ Processes by way of searching for cost savings and/or areas of potential savings, process improvement, improvement of workflow structure etc. One Rupee saved is more than equals to one Rupee earned. The purposes of Internal Audit also includes –

- o Safeguarding Assets
- o Ensuring compliance against different statutes
- o Detection and prevention of Fraud and inaccuracy
- o Promoting an urge for organisational improvement
- o Supporting timely and flawless decision making process
- o Ensuring embedding of risk management culture in the organisational activities and processes
- o And, last but not the least ‘promoting good Governance’

Statutory recognition

CARO (Companies Auditor’s Report Order) 2020, issued under the Companies Act, 2013, mandates specific reporting requirements for Statutory auditors of certain companies in India. This reporting includes assessing the internal audit department’s adequacy, the qualifications and competency of internal auditors, and their reporting structure. Here’s a breakdown of CARO 2020’s relevance to internal audit:

1. Evaluation of Internal Audit System:

- CARO 2020 Clause 14 specifically requires auditors to report on the “existence of an internal audit system commensurate with the size and nature of the business”.
- This means auditors must assess whether the company has an internal audit function, and if so, whether it is appropriate for the company’s operations, complexity, and geographical spread.
- Auditors need to evaluate the adequacy of the internal audit department, considering factors like staffing, expertise, and resources.
- The qualifications and competency of the internal auditors (whether in-house or outsourced) are also assessed to ensure they possess the necessary skills and independence.
- The reporting structure of the internal audit function is another key area of evaluation, ensuring it is independent and reports to the board or audit committee.

Applicability of Internal Audit

All Listed Companies:

Any company listed on a stock exchange in India must appoint an internal auditor.

• Unlisted Public Companies:

Unlisted public companies meeting specific criteria are required to appoint an internal auditor. These criteria include:

- Turnover of ₹200 crore or more during the preceding financial year.
- Paid-up share capital of ₹50 crore or more.
- Outstanding loans or borrowings from banks or financial institutions exceeding ₹100 crore at any point during the preceding financial year.
- Outstanding deposits exceeding ₹25 crore at any point during the preceding financial year.

• Private Companies:

Certain private companies must also appoint an internal auditor based on turnover, loans/borrowings, or deposits, as per the criteria mentioned above.

In essence, Section 138 ensures that companies, especially those with significant financial activity or those listed on stock exchanges, have a robust

internal audit function to safeguard their operations and financial health.

- Statutory & Non-statutory –Internal Audits

In view of the above provisions, the Companies falling under above clauses, are bound by the statute/s to carryout Internal Audit function. However, benefits derived from Internal Audit, many a times outweigh the costs incurred. Hence, Companies not even bound by any legislature to conduct Internal Audit mandatorily, also appoint Internal Auditors for safeguarding Company Assets and reap benefits from auditing. These are called non-statutory internal audit.

Importance of Internal Audit

Internal audit is fundamentally concerned with evaluating an organization’s management of risk. Risk Management and Internal Control are two sides of the same coin, as risk management focuses on the identification of threats and opportunities, and controls are designed to effectively counter threats and take advantage of opportunities. Successful organizations seek to integrate risk management and internal control into all activities, through a framework of risk identification, risk assessment and risk response.

Any Industry is dominated by four ‘M’s viz. Man, Machine, Materials and Money; Cement Industry is also no exception in this regard. The aforesaid four basic inputs coupled with Outputs create Operational Systems/Processes /Activities for the Industry. Each such Operational System is again agglomeration of many sub-systems /activities.

Other than statutory obligation, Internal Audit helps to accomplish the following organizational objectives.

- o Provide independent assurance on effectiveness of risk management, governance, and internal control processes within the Organization.
- o Identify deficiencies of Processes and Operational inefficiencies which results in cost reduction, increase in profitability and value for shareholders.
- o Internal audit strengthens the organization’s ability to achieve its objectives by ensuring compliance, improving internal controls, and safeguarding against fraud and other risks.
- o It also protects Company’s assets from mishandling, misappropriation.

Identify deficiencies of Processes and Operational inefficiencies which results in cost reduction, increase in profitability and value for shareholders.

This clearly reflects the operational reviews/audits forming part of Internal Audit and result in value addition to the organization.



The aforesaid diagram indicates ‘active’ and ‘passive’ approach in all types of ‘audit assignments’ and especially for ‘operational Audit’ for a paradigm shift to ‘beyond compliance’. As evident from above, the active zone of ‘operational audit’ is to prevent “wasteful activities” with a view ‘to reduce revenue leakages and cost’. This in turn having a positive impact on business performance.

Operational Audit” Objective:

‘Operational Audit’ objective has been coined here after the name of connoisseur of TQM (Total Quality Management), W.E. Deming. To define the objective the word ‘DEMING’ is used, where each of the word stands for a definitive objective accomplishment.



To carry out the heightened expectations of ‘stakeholders’ on their shoulder, Auditors can no longer spend their time looking down at financial controls and compliances rather to spend much more time in operation Reviews.

Case Study

In a large cement plant, number of Transporters are deployed to distribute cement in various part of the country. Company, requisitions vehicle of different capacities (Mt.) as per Dealer Orders to fulfil their requirement. Accordingly, the Transporters place Vehicles at the Plant Gate and report to Gate Security. Through Company’s Logistic Data Management System (DMS), Vehicle arrivals are intimated to Despatch section (Invoicing) and Loading Department (physical loading of vehicles and tallying with Invoice the volume to be loaded and actual load). The Vehicles provided permission to enter inside the Plant i.e ‘Gate In’. Since cement is sold on weightment basis, both ‘Tare’ and Loaded Vehicle (after loading) being weighed inside the Plant Weighbridges. The time at every point with respect to each Vehicle is recorded till ‘Gate Out’. The Management Audit Team carried out an Operational Review to reduce Vehicle Turn Around Time (TAT) from ‘Gate In’ to ‘Gate Out’, which seems to be found very high.

This implicates strain on logistic for arranging Vehicles for evacuation of material from ‘Packing Centre’ as well as timely availability for end Customer. On the other hand ‘truckers’ are also looser due to high TAT, as number of trips gets reduced impacting capping of their revenue. The Team collected the actual data from DMS. You being part of Internal/Operational Audit Team, prepare your findings.

Time between “Loading In” to “Loading Out”			
(Hours)	No. of Trips	p. c	Cum. %
Upto 1	4917	15.7	15.7
1 – 2	12143	38.8	54.5
2 – 3	7859	25.2	79.7
> 3	6338	20.3	100.0
Total	31257	100	

Data Analysis and outcome:

Vehicles Post ‘Gate In’, reports at Packing Centre Loading Section and the datum collected for the same movement. The Vehicles engaged for delivery in the core command area i.e within the vicinity of 250 Km. radius from Plant. Tare weight of Vehicle being recorded therein and provided with a ‘Load Slip’ with time clocked.

The said ‘Load Slip’ is provided to Loaders and Tally Checker for Loading. On loading completion, the slip with signature of Checker handover to Vehicle Driver, who surrenders it at the time of ‘Gate Out’ to Security at Gate. Datum also collected for every step of Vehicle movement and operations carried out. The time clocked is as follows:

Loading operation of about 55% Vehicles were completed within 2 Hours of ‘Loading In’. ‘**Time and Motion Study**’ conducted for actual time taken in loading; a maximum of 45 minutes for the highest capacity of Vehicle i.e 60 Mt. was noted. In view of the same, scope for further time reduction in loading operation exists. The prevalent average rate of Rs. 200 per MT/Km. applicable for Core Command Area, TAT improvement of at least 20% of vehicles through proper monitoring in each of the stages i.e., between ‘Reporting’ to ‘Loading Out’ will result in a savings* of **Rs. 4.2 Crores** (on 50 % sharing basis with Transporter).

*Rs. 200 x20%x50% x300 Km. average for 7000 trips (approx.)

Topic

Module 1:
Specific Accounting
Standards and

Module 3:
Accounting
of Financial
Instruments

FINAL

Group IV - Paper-18

Corporate Financial
Reporting (CFR)

Topic: Specific Accounting Standards

• Multiple Choice Questions

- Ram Ltd. enters into an arrangement with a customer for infrastructure outsourcing deal. Based on its experience, Ram Ltd. determines that customizing the infrastructure will take approximately 400 hours in all to complete the project and charges Rs. 150 per hour. After spending 200 hours of time, Ram Ltd. and the customer agree to change an aspect of the project and increase the estimate of the labour hours by 100 hours @ Rs. 100 per hour. Revenue to be recognized and adjustment in revenue already recognized are:
 - Rs. 30,000 and Rs.2,000
 - Rs.28,000 and Rs. 2,000
 - Rs.28,000 and (Rs. 2,000)
 - Rs.30,000 and (Rs. 2,000)

Solution

Correct Answer is (C)

Justification: Considering that the remaining goods or services are not distinct, the modification will be accounted for on a cumulative catch-up basis as under:

Particulars	Hours	Rate (Rs.)	Total (Rs.)
Initial contract amount	400	150	60,000
Modification in the contract	100	100	10,000
Contract amount after modification	500	140*	70,000
Revenue to be recognized	200	140	28,000
Revenue already recognized	200	150	30,000
Adjustment in revenue	-	-	(2,000)

*Rs.70,000/500=Rs.140.

• Comprehensive Problem

Problem 1

Alpha Ltd. has leased equipment over its useful life that costs Rs.3,73,27,550 for a three-year lease period starting from 01.04.2022. After the lease term the asset would revert to the Lessor. You are informed that:

The estimated unguaranteed residual value would be Rs.50,000 only.

The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

Implicit interest rate is 10%.

Required: Ascertain the annual lease payment and the unearned finance income as per Ind AS 116. P.V. factors @10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively.

Solution

Calculation of Annual Lease Payment

Cost of the equipment	3,73,27,550
Unguaranteed Residual Value	50,000
PV of unguaranteed residual value of 3 years @ 10% (Rs.50,000 x 0.751)	37,550
Fair value to be recovered from Lease Payment (Rs. 3,73,27,550 – Rs.37,550)	3,72,90,000
PV Factor for 3 years @ 10%	2.486
Annual Lease Payment (Rs.3,72,90,000/ PV Factor for 3 years @10% i.e. 2.486)	1,50,00,000

Unearned Finance Income

Total lease payments [Rs.1,50,00,000 x 3]	4,50,00,000
Add: Residual value	<u>50,000</u>
Gross Investments	4,50,50,000
Less: Present value of Investments (Rs.3,72,90,000 + Rs.37,550)	<u>(3,73,27,550)</u>
Unearned Finance Income	<u>77,22,450</u>

Problem 2

Radhey Ltd. is engaged in the manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, Shyam Ltd., which is engaged in the business of pharmaceuticals. Shyam Ltd. purchases the bottles from its parent company. The demand of Shyam Ltd. is very high and hence to cater to its shortfalls, it purchases bottles from other companies also. Purchases are made by Shyam Ltd. at competitive prices.

Radhey Ltd. sold pharmaceutical bottles to Shyam Ltd. for Euro 24 lakhs on 1st February, 2023. The cost of these bottles was Rs. 1,660 lakhs in the books of Radhey Ltd. at the time of sale. At the year-end i.e., on 31st March, 2023, all these bottles were lying as closing stock and payable with Shyam Ltd.

Euro is the functional currency of Shyam Ltd. whereas rupee is the functional currency of Radhey Ltd. The rates of exchange between Euro and Rupee were as under:

(i) 1st February 2023: 1 Euro = Rs. 83; and (ii) 31st March, 2023: 1 Euro = Rs. 85.

Based on the above, you are required to provide the accounting treatment in the books of Radhey Ltd. and Shyam Ltd. and also to show its impact on consolidated financial statements. The answer should be supported by journal entries, wherever necessary, in the books of Radhey Ltd.

Solution:**Accounting treatment in the books of Radhey Ltd. (functional currency being Indian rupee)**

Radhey Ltd. will recognize the sales of Rs. 1,992 lakhs (24 lakh Euro x Rs. 83). Profit to Radhey Ltd. on sale of inventory to Shyam Ltd. is Rs. 332 lakhs (Rs.1,992 lakhs-Rs.1,660 lakhs). At the Balance sheet date i.e., on 31st March, 2023, the receivable from Shyam Ltd. will be recognized at Rs.85=1 Euro. Hence, unrealized forex gain will be recorded in the stand-alone profit or loss of Rs. 48 lakhs [24 lakhs (Rs. 85-Rs.83)].

Journal entries in the books of Radhey Ltd.

Date	Particulars	L.F.	Dr. (Rs. in lakhs)	Cr. (Rs. in lakhs)
01.02.2023	Shyam Ltd. A/c Dr. To Sales A/c (Being sales to Shyam Ltd. recognized)		1,992	1,992
31.03.2023	Shyam Ltd. A/c Dr. To Foreign Exchange Gain A/c (Being foreign exchange gain recorded at the year-end)		48	48

Accounting treatment in the books of Shyam Ltd. (Functional currency being Euro)

Date	Particulars	L.F.	Dr. (Euro in lakhs)	Cr. (Euro in lakhs)
01.02.2023	Purchases A/c Dr. To Radhey Ltd. A/c (Being purchases from Radhey Ltd. recognized)		24	24

Accounting treatment in the consolidated financial statements

Receivables and payables in respect of the above transaction of purchase and sale will be eliminated as intra group transactions. The closing stock of Shyam Ltd. will be recorded at the lower of cost and net realizable value.

Cost of closing stock is Rs. 1,992 lakhs [24 lakhs x Rs. 83) and net realizable value of closing stock is Rs.2,040 lakhs (24 lakhs x Rs. 85). Since the cost is lower, no write off is required. The amount of closing stock of Rs. 1,992 lakhs include two components i.e., cost of inventory of Rs. 1,660 lakhs and profit element of Rs.332 lakhs. At the time of consolidation, the second element of Rs. 332 lakhs will be eliminated. The journal entry is as under:

Date	Particulars	L.F.	Dr. (Rs. in lakhs)	Cr. (Rs. in lakhs)
31.03.2023	Consolidated Profit or Loss A/c Dr. To Inventory A/c (Being profit element of intra-group transaction eliminated)		332	332

Topic: Accounting for Financial Instruments

• Multiple Choice Questions

- The issuer of a financial instrument shall classify the financial instrument, or its component parts on initial recognition, as a financial asset or a financial liability or an equity instrument according to:
 - the substance of the contractual arrangement
 - the definitions of a financial asset, a financial liability and an equity instrument
 - both (A) and (B) above
 - only (A) above

Answer: 1-C

• Comprehensive Problem

B Ltd. issued 6% convertible debentures amounting to Rs. 18 crore on 1st April, 2022 and repayable on 31st March, 2027 at par, the holder on maturity can elect to exchange their convertible debentures for ordinary shares in the company at a discount of 20% of prevailing market price on 31.03.2027. The prevailing market interest rate for 5 yearly convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of Re.1 payable in five years is 0.68 and the cumulative present value of Re.1 payable at the end of years one to five is 3.99.

Required: Calculate the value the debt & equity components of the proceeds of the issue. Also calculate finance cost with respect to Convertible Debentures for the year ended 31.03.2023 and 31.03.2024.

Solution

Calculation of the liability and equity components on 6% convertible debentures:

		(Rs. '000)
Present value of principle payable at the end of 5 th year (A)	(Rs.180,000 thousand × 0.68)	122400
Present value of interest payable annually for 5 years(B)	(Rs.180,000 thousand × 6% × 3.99)	43092
Total liability component(A+B)		165492
Total proceeds from the issue		180,000
Equity Component		14508

Calculation of finance cost and closing balance of 6% convertible debentures

Year Ended	Opening balance (Rs. in '000)	Finance cost @ 8% (Rs. in '000)	Interest paid @ 6% (Rs. in '000)	Closing balance (Rs. in '000)
	a	b = a × 8%	c	d = a + b - c
31.03.2023	165492	13240	10,800	167932
31.03.2024	167932	13434	10800	170566

Finance cost of convertible debentures for the year ended 31.03.2023 is Rs.13,240 thousand and that for the year ended 31.03.2024 is Rs.13,434 thousand.

Topic

Module 4:
Valuation
(Advanced)

FINAL

Group IV - Paper-19

Indirect Tax Laws and Practice (ITLP)

Value of Supply

The Goods and Services Tax (GST) is a comprehensive indirect tax reform in India that replaced a plethora of central and state taxes with a single unified tax. Under the GST regime, the “value of supply” is a fundamental concept that determines the tax liability of businesses. It represents the price at which goods or services are transacted and serves as the basis for calculating GST. Section 15 of the CGST Act lays down rules for valuation, particularly in diverse and complex transactions involving consideration in cash, kind, or through related parties. A thorough understanding of valuation principles is crucial for ensuring correct GST payment and input tax credit utilisation.

Value of Supply

The value of supply is defined under Section 15 of the Central Goods and Services Tax Act, 2017 (CGST Act) as the price actually paid or payable for the supply of goods or services when the supplier and recipient are not related. It includes all taxes, duties, cesses, fees, and charges levied under any law (other than GST itself) that are charged separately by the supplier. Additionally, expenses incurred by the supplier on behalf of the recipient, such as freight and insurance, are also included if they are part of the transaction price.

Inclusions in the Value of Supply

The following elements need to be included in the value of supply:

- **Price** paid by the recipient (excluding GST)
- **Taxes, duties, cesses, fees, and charges** (excluding GST) paid by the supplier which are incidental to the supply
- Any amount that the supplier is liable to pay but has been charged to the recipient (e.g., freight, insurance)
- **Incidental expenses**, such as commission and packing, charged by the supplier to the recipient if they form part of the price of supply
- **Interest, late fees, or penalty** for delayed payment
- **Subsidies** linked to the supply, except for subsidies provided by the Central and State governments

Exclusions from the Value of Supply

Certain components are excluded from the value of supply:

- **Discounts** given before or at the time of supply, if such discounts are recorded in the invoice
- **Post-supply discounts** provided they are established in the agreement and can be linked to relevant invoices

Key Considerations in Determining the Value of Supply

Several factors are crucial in determining the value of supply under GST:

1. **Transaction Value:** The transaction value is the most common method of determining the value of supply. It is the price agreed upon between the supplier and the recipient in an arm’s-length transaction. However, certain conditions must be met for the transaction value to be considered the value of supply:
 - The buyer and seller must not be related parties.
 - The price must be the sole consideration for the supply.
 - The payment must be made or payable in cash or kind.
2. **Related Party Transactions:** If the supplier and recipient are related parties, the transaction value may not reflect the true value of the supply. In such cases, the tax authorities may apply special valuation rules to determine the arm’s-length price. These rules may involve comparing the transaction price with prices in similar transactions between unrelated parties.
3. **Barter Transactions:** When payment is made in kind, the value of supply is determined based on the open market value of the goods or services received. This ensures that the tax liability is based on the true value of the transaction.
4. **Supplies to Government:** Specific rules apply to determine the value of supply in transactions with government entities. These rules may involve considering factors such as the nature of the supply, the terms of the contract, and the prevailing market prices.
5. **Exclusions from Value of Supply:** Certain items are specifically excluded from the value of supply. These include:
 - The GST amount itself
 - Genuine discounts offered and recorded in the invoice
 - Subsidies received from the government
 - Taxes and duties that are not charged separately by the supplier

Special Cases in Value Determination

In certain specific scenarios, the determination of the value of supply requires careful consideration and may

involve applying specific valuation rules. These cases include:

- 1. Composite Supplies:** Composite supplies involve a combination of goods and services that are inextricably linked. The value of supply for composite supplies is determined based on the principal supply, which is the primary object of the transaction.
- 2. Mixed Supplies:** Mixed supplies involve a combination of goods and services that are not inextricably linked. The value of supply for mixed supplies is determined based on the predominant supply, which is the supply that contributes the most to the overall value of the transaction.
- 3. Leases and Rentals:** The value of supply for leases and rentals is determined based on the consideration received for the use of the property. This may include factors such as the duration of the lease, the location of the property, and the prevailing market rates.
- 4. Works Contracts:** Works contracts involve the supply of both goods and services. The value of supply for works contracts is determined based on the total consideration received for the contract, including the cost of materials and labour.

Significance of Value of Supply in GST

The value of supply plays a pivotal role in the GST regime for several reasons:

- 1. Tax Calculation:** The value of supply is the base on which GST is calculated. The tax liability is determined by multiplying the value of supply by the applicable GST rate.
- 2. Input Tax Credit (ITC):** The ITC is a mechanism that allows businesses to set off the GST paid on inputs against the GST payable on outputs. The ITC available to businesses is linked to the value of supply of inputs.
- 3. Accurate Record-Keeping:** Businesses are required to maintain accurate records of the value of supply for various purposes, including tax compliance, reconciliation, and audits.
- 4. GST Returns:** The value of supply is a critical element in the preparation and filing of GST returns. Businesses must report the value of supply of both taxable and exempt supplies in their returns.

Quick Revision

Inclusions in Value of Supply	Exclusions from Value of Supply
Taxes/duties (excluding GST) charged separately	GST component
Incidental expenses (freight, insurance, packing, etc.)	Discounts mentioned on invoice or post-supply linked to invoice
Interest, penalty, late fee	Government subsidies
Amounts paid by recipient but liable to be paid by supplier	Duties/taxes not charged separately

Conclusion

The concept of “value of supply” is vital under the GST law as it forms the base for levy of tax. Errors in valuation can lead to short payment or overpayment of GST, interest, and penalties. Hence, businesses must strictly adhere to Section 15 and related valuation rules, especially in cases of barter, composite supplies, or dealings with related persons.

Topic

Module 4:
Enterprise Risk
Management

ELECTIVES

Paper-20A

Strategic
Performance
Management and
Business
Valuation (SPMBV)

Enterprise Risk Management Write Up

In a world increasingly characterised by disruption, uncertainty, and rapid transformation, enterprise risk management (ERM) has emerged as an indispensable discipline for organisations striving not merely to survive but to thrive. Traditional risk management models, which once prioritised static controls and reactive strategies, are now giving way to dynamic, integrated frameworks designed to respond swiftly to volatility.

Volatile times—be they driven by geopolitical instability, economic downturns, pandemics, environmental crises, or technological upheaval—require a re-evaluation of the assumptions and methodologies underpinning ERM. This essay explores the challenges of implementing ERM during periods of volatility, examines the practical adjustments organisations must make, and discusses where risk management efforts often falter under stress. It concludes with a case study that illustrates ERM in action during one of the most turbulent periods in recent memory.

1. Understanding Volatility in the Context of Risk

Volatility is defined by rapid, unpredictable change. In financial markets, it typically refers to the degree of variation in trading prices over time. However, in the broader context of ERM, volatility refers to external and internal changes that increase uncertainty in the organisation's ability to achieve its objectives.

Sources of volatility may include:

Sudden shifts in regulatory regimes.

Global health crises, such as the COVID-19 pandemic.

Geopolitical conflicts or trade wars.

Technological disruption.

Climate events and environmental disasters.

Social unrest and demographic shifts.

Each of these introduces systemic risks that can cascade across an enterprise, often simultaneously. During such times, a linear or siloed approach to risk management is insufficient; instead, organisations must adopt a more adaptive, interconnected risk framework.

2. The Challenges of ERM in Volatile Environments

Implementing ERM in volatile contexts introduces a set of practical challenges that are markedly different from

those encountered during stable periods.

a) The Speed of Change

Volatility compresses decision-making timelines. Risk identification, assessment, and mitigation processes that once operated on monthly or quarterly cycles must now be near real-time.

Issue: Most organisations are structurally and culturally unprepared to move at such speed. ERM frameworks often lack the agility required for instantaneous adjustments, especially when embedded in bureaucratic governance structures.

b) Data Deficiency and Information Overload

Paradoxically, in volatile periods, risk managers often face both insufficient data and excessive noise.

Issue: In the early days of the COVID-19 pandemic, organisations were forced to make critical decisions with incomplete data—yet they were also bombarded with conflicting information from governments, health agencies, media, and analysts. The ability to distinguish signal from noise becomes essential, and many ERM frameworks lack robust mechanisms for doing so.

c) Scenario Planning Under Extreme Uncertainty

Scenario planning, a core ERM tool, becomes increasingly complex in volatile environments. The range of possible outcomes broadens dramatically, rendering traditional models less effective.

Issue: During extreme volatility, even the “worst-case scenario” may underestimate actual outcomes. For example, financial institutions that had prepared for economic downturns in 2007–08 had not foreseen the systemic collapse that occurred. Black Swan events remain difficult, if not impossible, to predict.

d) Resource Allocation and Strategic Trade-offs

ERM typically requires coordinated cross-functional input, but in volatile times, resources are stretched thin, and competing priorities abound.

Issue: Crisis response often takes precedence over long-term risk planning. As departments focus on immediate operational continuity, the strategic oversight required for effective ERM may diminish.

This can result in misaligned responses and fragmented risk ownership.

3. The Evolution of ERM Tools and Methodologies in Response to Volatility

In recent years, organisations and researchers have been refining ERM methodologies to better cope with instability and complexity.

a) Dynamic Risk Registers

Traditional risk registers are static documents updated periodically. In volatile times, these must become dynamic, cloud-based platforms integrated with real-time data feeds, allowing for continuous monitoring and updates.

b) Agile Risk Governance

An emerging best practice is the formation of cross-functional risk “tiger teams” or rapid response units. These teams operate outside of conventional hierarchies and can quickly convene to assess emerging risks and formulate coordinated responses.

c) Predictive Analytics and Early Warning Systems

Machine learning and predictive analytics are increasingly embedded in ERM to anticipate risks before they materialise. These systems learn from historical and real-time data to flag anomalies, emerging patterns, or leading indicators of potential crises.

Limitation: In environments with no precedent—such as a novel pandemic—machine learning systems are of limited utility. Human oversight remains crucial.

d) Risk Appetite Recalibration

Volatile environments often necessitate a recalibration of the organisation’s risk appetite. During crises, organisations may shift from aggressive growth to preservation of capital and stability.

Example: A private equity firm may halt new investments and focus on operational triage for portfolio companies. A manufacturing firm may postpone expansion plans in favour of cash conservation.

4. Cultural and Psychological Aspects of ERM in Volatile Times

ERM is not merely a technical process; it is also deeply

embedded in organisational culture. Volatility reveals latent weaknesses in risk culture and decision-making processes.

a) Risk Blindness and Overconfidence

During stable periods, success may breed complacency. Organisations may underestimate the likelihood or severity of certain risks, particularly those they have never encountered before.

Problem: This overconfidence can be catastrophic in volatile environments. Companies unaccustomed to disruption may take longer to react or deny the seriousness of emerging threats.

b) Communication Breakdowns

Clear and honest communication is essential during uncertain times. ERM frameworks often fail when information does not flow freely across levels and functions.

Problem: Silence or misinformation can exacerbate panic, degrade morale, and paralyse response strategies. In worst-case scenarios, it can result in regulatory breaches or reputational damage.

c) Short-Termism and Strategic Drift

Under pressure, organisations may abandon long-term strategies in favour of short-term fixes. ERM must ensure that decisions taken during crises are consistent with the organisation’s core values and risk appetite.

Solution: Embedding risk-informed thinking into the strategic planning process helps organisations remain grounded and resilient, even when forced to make rapid adjustments.

5. Areas Where ERM Typically Fails in Volatile Times

Even the most well-conceived ERM frameworks can falter under pressure. Understanding common failure points is critical to improving resilience.

a) Siloed Risk Ownership

In volatile periods, risks are no longer confined to one domain (e.g., finance, operations, or compliance). They are interconnected.

Failure Point: ERM frameworks that operate in silos fail to capture the compound nature of emerging threats. For instance, a cyberattack may begin as a technical

issue but quickly evolve into a legal, reputational, and operational crisis.

b) Inadequate Stress Testing

Many organisations conduct stress testing only at annual intervals, often using benign assumptions.

Failure Point: In volatile times, these tests are inadequate. Stress testing should be dynamic, iterative, and designed to break assumptions rather than confirm them.

c) Poor Board Oversight

Boards are ultimately responsible for enterprise-wide risk. However, in many firms, board engagement with ERM remains superficial.

Failure Point: When volatility strikes, boards that have not meaningfully engaged in scenario planning or risk governance may be unprepared to guide the organisation effectively.

d) Over-Reliance on Historic Data

Traditional ERM models rely heavily on historical data to inform risk probabilities.

Failure Point: In volatile environments, past performance is often a poor predictor of future outcomes. The models themselves become unreliable, particularly when encountering novel disruptions.

Case Study: ERM at Maersk During the NotPetya Cyberattack

Background

A.P. Møller–Mærsk, a Danish conglomerate and one of the world's largest shipping companies, became a high-profile casualty of the NotPetya cyberattack in June 2017. The malware, originally targeted at Ukraine, spread indiscriminately and encrypted critical systems across the Maersk network.

Response and ERM Implications

Maersk's operations came to a standstill. Ports, terminals, and logistics services were paralysed. ERM failures were immediately evident—while cyber risks were acknowledged in their risk register, the organisation had not anticipated the scale and speed of the disruption.

However, Maersk also demonstrated remarkable adaptive capacity:

It rebuilt critical infrastructure within 10 days.

Risk governance was shifted temporarily to an emergency response unit that bypassed usual bureaucracy.

External partnerships (e.g., Microsoft) were leveraged to accelerate systems recovery.

Lessons Learned

Volatility requires resilience, not just prevention. Maersk's rapid response mitigated damage even though its initial risk defences failed.

Cross-functional ERM is vital. The company's ability to mobilise resources across departments was crucial.

Board-level engagement in cybersecurity became a priority post-incident, leading to long-term improvements in Maersk's digital risk posture.

Conclusion

Enterprise Risk Management in volatile times is no longer an option—it is a strategic imperative. The traditional emphasis on identification, control, and compliance must evolve into a broader, more dynamic practice that anticipates change, absorbs shocks, and responds with agility. While volatility introduces profound challenges, it also offers organisations an opportunity to strengthen their resilience, rethink outdated models, and emerge stronger.

However, ERM can falter when it is divorced from operational realities, reliant on historical data, or hindered by organisational silos. To succeed, it must be integrated, adaptive, and aligned with both culture and strategy. As the Maersk case shows, even when volatility overwhelms defences, the right cultural and operational reflexes can mitigate impact and ensure recovery.

In a volatile world, risk cannot be eliminated—but it can be managed intelligently, provided organisations are willing to rethink how they see it, measure it, and respond to it. The challenge for modern ERM is not simply to protect against the unexpected but to prepare the enterprise to flourish in its midst.

Topic

Module 2:
Interest Rate Risk
and Market Risk

Module 6:
Introduction to
Insurance Business

ELECTIVES

Paper-20B

Risk Management
In Banking and
Insurance (RMBI)

Risk Management in Banking

Interest Rate Risk and Market Risk

Interest rate risk is the risk where changes in market interest rates might adversely affect a FI's financial condition. The immediate impact of changes in interest rates is on FI's earnings (i.e. reported profits) by changing its Net Interest Income (NII). A long-term impact of changing interest rates is on FI's Market Value of Equity (MVE) or Net Worth as the economic value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

The interest rate risk when viewed from these two perspectives is known as 'earnings perspective' and 'economic value' perspective, respectively. The risk from the earnings perspective can be measured as changes in the Net Interest Income (NII) or Net Interest Margin (NIM). There are many analytical techniques for measurement and management of Interest Rate Risk. In the context of poor MIS, slow pace of computerisation in FIs, the traditional Gap analysis is considered to be a suitable method to measure the Interest Rate Risk in the initial phase of the ALM system.

However, the FIs, which are better equipped, would have the option of deploying advanced IRR management techniques with the approval of their Board / ALCO, in addition to the Gap Analysis prescribed under the guidelines. It is the intention of RBI to move over to the modern techniques of Interest Rate Risk measurement like Duration Gap Analysis, Simulation and Value at Risk over time when FIs acquire sufficient expertise and sophistication in acquiring and handling MIS.

The Gap or Mismatch risk can be measured by calculating Gaps over different time intervals as at a given date. Gap analysis measures mismatches between rate sensitive liabilities and rate sensitive assets (including off-balance sheet positions). An asset or liability is normally classified as rate sensitive if:

- i) Within the time interval under consideration, there is a cash flow;
- ii) The interest rate resets/reprices contractually during the interval;
- iii) It is contractually pre-payable or withdrawable before the stated maturities;
- iv) It is dependent on the changes in the Bank Rate by RBI.

Market Risk:

Market risk in Indian banks is primarily driven by changes in interest rates and exchange rates. Interest rate risk arises from mismatches between the interest rate sensitivities of a bank's assets and liabilities. Exchange rate risk, on the other hand, arises from the bank's foreign exchange positions.

Risk Management Process in Indian Banks

The risk management process in Indian banks involves identifying, assessing, monitoring, and controlling risks. This process is underpinned by a robust risk management framework, which provides the necessary guidelines and tools for risk management.

Identification of risks involves recognizing the potential sources of losses. Assessment involves evaluating the potential impact and likelihood of the identified risks. Monitoring involves keeping track of the risk levels and the effectiveness of the risk mitigation measures. Control involves implementing strategies to reduce the risk to an acceptable level.

Identification of Risks:

Risk identification in Indian banks is a continuous process. It involves recognizing the potential sources of losses, both from within and outside the bank. This process requires a deep understanding of the bank's business model, its operating environment, and the various factors that could potentially lead to losses.

The identification of risks is typically carried out by the risk management department, with inputs from various other departments. The identified risks are then documented and categorized based on their nature and potential impact.

Assessment of Risks:

Risk assessment involves evaluating the potential impact and likelihood of the identified risks. This process requires a combination of quantitative and qualitative analysis. Quantitative analysis involves the use of statistical models to estimate the potential loss from a risk, while qualitative analysis involves the use of expert judgment to assess the likelihood and impact of the risk.

The output of the risk assessment process is a risk map, which provides a visual representation of the risks based on their potential impact and likelihood. This risk map serves as a guide for risk mitigation efforts.

Role of Regulatory Bodies in Risk Management:

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) play a crucial role in risk management in Indian banks. These regulatory bodies provide the necessary guidelines for risk management and oversee the banks' compliance with these guidelines.

The RBI, as the central bank of India, is responsible for the overall stability of the Indian banking system. It provides guidelines for risk management in banks and monitors their compliance with these guidelines. The SEBI, on the other hand, is responsible for the regulation of the securities market in India. It provides guidelines for risk management in the securities business of banks and monitors their compliance with these guidelines.

Reserve Bank of India (RBI):

The RBI has been instrumental in promoting sound risk management practices in Indian banks. It has issued various guidelines on risk management, covering areas such as credit risk, market risk, operational risk, and liquidity risk. These guidelines provide a comprehensive framework for risk management in Indian banks.

In addition to issuing guidelines, the RBI also conducts regular inspections of banks to assess their compliance with the risk management guidelines. The findings of these inspections are used to identify areas of improvement and to take corrective actions, if necessary.

Securities and Exchange Board of India (SEBI):

The SEBI, as the regulator of the securities market in

India, plays a crucial role in risk management in the securities business of banks. It provides guidelines for risk management in this area and monitors the banks' compliance with these guidelines.

The SEBI's guidelines cover areas such as market risk, credit risk, and operational risk in the securities business. These guidelines are complemented by regular inspections of the banks' securities business to assess their compliance with the risk management guide

Indian banks manage market risk through a combination of gap analysis, duration analysis, and Value at Risk (VaR) models. However, the effectiveness of these tools is contingent on the accuracy of the underlying assumptions and the volatility of market variables.

Conclusion:

Risk management is a critical aspect of banking operations, particularly in the context of the volatile and dynamic Indian market. This article delves into the intricacies of risk management in Indian banks, providing a comprehensive understanding of the various facets involved in this complex process. From the types of risks faced by banks to the strategies employed to mitigate them, this glossary entry aims to cover all aspects of risk management in Indian banks.

Indian banks, like their counterparts around the world, are exposed to a variety of risks. These risks, if not managed effectively, can lead to financial instability and even bank failures. Therefore, risk management is not just a regulatory requirement but a crucial element of a bank's survival and growth strategy. In the following sections, we will explore the different types of risks, the risk management process, and the role of regulatory bodies in risk management in Indian banks.

Risk Management in Insurance

Introduction to Insurance Business

In a world where uncertainties are an inherent part of life, insurance plays a pivotal role in providing financial security and peace of mind. Understanding the fundamentals and definition of insurance and the various types available in India is essential for making informed decisions about safeguarding future. The insurance industry is critical for any country's economic development. A well-developed insurance sector boosts risk-taking in the economy, as it provides some security in the event of an unforeseen, loss-causing incident. It also provides much-needed support to family members in the case of loss of life or health.

What is Insurance?

Insurance, in simple terms, is a financial arrangement that provides protection against potential financial losses. When an individual or entity purchases an insurance policy, they are essentially transferring the risk of a specific event, such as an accident, illness, or damage, to the insurance provider. In return for regular premium payments, the insurer promises to compensate the policyholder in case of covered losses, offering a safety net that helps mitigate financial hardships.

History

The history of India's insurance industry reflects the history of India's economy. Insurance companies in India were nationalised during pre-liberalisation. This was done to protect the interests of policyholders. Two state-owned insurance companies were thus created: the Life Insurance Corporation in 1956, and the General Insurance Corporation in 1972 for the non-life insurance business.

Post liberalization, the industry was opened up. The Insurance Regulatory and Development Authority of India (IRDAI) was created in 1999 to regulate the insurance industry in India. Thus, the insurance sector was opened to private players. This allowed foreign players to collaborate with Indian entities to enter the sector.

The number of insurance companies in India has increased quickly and continuously, and this has led to a vibrant insurance sector- with more variety and affordability for the consumer.

Why is Insurance Important?

Insurance is crucial for several reasons.

Firstly, it provides a safety net for individuals and businesses, helping them recover financially after unexpected events. Whether it's a medical emergency, a natural disaster, or a car accident, insurance ensures that the financial burden is shared, reducing the impact on an individual's or business's financial stability.

Secondly, insurance promotes a sense of security and peace of mind. Knowing that one is protected against unforeseen circumstances allows to focus on daily life without constant worry about potential financial setbacks. This sense of security is especially important for families, ensuring that their financial future remains stable even in challenging times.

What are the Types of Insurance Policies in India?

The diverse landscape of insurance policies available in India, covering a wide range of needs and scenarios.

Life Insurance:

Life insurance is a fundamental part of financial planning, offering protection to loved ones in the event of demise. It provides a lump sum amount, known as the death benefit, to the nominee or beneficiaries mentioned in the policy. Life insurance comes in various forms, such as term travel insurance, whole life insurance, and endowment plans, catering to different financial goals and needs.

Travel Insurance:

Travel insurance is essential for those who frequently travel domestically or internationally. It covers a range of unforeseen events, including trip cancellations, medical emergencies, lost baggage, and travel delays. Having travel insurance ensures that one can enjoy journeys with added peace of mind, knowing that one is financially protected against unexpected events.

Health Insurance:

Health insurance is designed to cover medical expenses, offering financial protection in the event of illness, accidents, or hospitalization. This type of insurance ensures that individuals have access to quality healthcare without facing exorbitant out-of-pocket expenses. Health

insurance plans often include coverage for hospitalization, medical tests, surgery, and other related expenses.

In addition to covering basic medical expenses, health insurance plans may also offer preventive care benefits to encourage individuals to prioritize their overall well-being. Preventive care services, such as vaccinations, screenings, and wellness check-ups, are often included to help detect and address health issues at an early stage. By promoting preventive measures, health insurance not only contributes to individual health but also aids in reducing long-term healthcare costs. This emphasis on proactive healthcare underscores the holistic approach of health insurance, aiming to enhance both the quality of medical care and the overall health of the insured individuals.

Home Insurance:

Home insurance, also known as property insurance, provides protection for home and its contents against risks such as fire, theft, natural disasters, and vandalism. It safeguards one of the most significant investments 'Home' ensuring that can rebuild or repair it without bearing the full financial burden in case of unexpected events.

Additionally, home insurance often extends coverage beyond the physical structure of home. Many policies also include personal liability protection, which can be invaluable in the event someone is injured on property and decides to take legal action. This coverage helps with legal expenses and any potential settlements, offering a layer of financial security beyond the physical aspects of home. Moreover, some policies may cover additional living expenses if home becomes uninhabitable due to a covered peril, providing temporary housing and essential living expenses while home is being repaired or rebuilt. Home insurance, therefore, plays a crucial role in not only protecting property but also in providing a comprehensive safety net for various unforeseen circumstances.

Auto Insurance:

Auto insurance is mandatory in India and covers financial losses arising from accidents involving vehicles. It includes coverage for damages to the insured vehicle, third-party liability, and personal accident cover for the policyholder. This insurance type is crucial for protecting both the vehicle owner and other parties involved in a road incident.

Additionally, Auto Insurance in India offers a range of optional add-ons to enhance coverage based on individual preferences and needs. These add-ons may include zero depreciation cover, roadside assistance, engine protection, and more. Zero depreciation cover ensures that the policyholder receives the full cost of repairs or replacements without factoring in depreciation, providing more comprehensive protection for the insured vehicle. Roadside assistance, on the other hand, offers timely help in case of breakdowns, flat tires, or other emergencies, offering peace of mind to the policyholder. The flexibility of choosing these add-ons allows individuals to tailor their auto insurance policies to best suit their specific requirements, providing a more comprehensive and customized level of protection on the road.

General Insurance:

General insurance encompasses a broad category of non-life insurance policies that cover a variety of risks. This includes insurance for assets such as property, vehicles, and valuables, as well as liability insurance that protects against legal obligations. General insurance policies are diverse and tailored to specific needs, offering comprehensive coverage for various aspects of life.

Is Insurance an Asset?

While insurance itself is not considered an asset in the traditional sense, it serves as a financial safety net and risk management tool. Insurance protects assets and finances from unexpected events, ensuring that don't face severe financial setbacks in times of crisis. Therefore, the security and stability provided by insurance policies can be considered an intangible asset, safeguarding overall financial well-being.

Conclusion:

In conclusion, insurance is a vital component of financial planning, offering protection and security in the face of uncertainties. Understanding the different types of insurance policies available in India empowers individuals and businesses to make informed choices that align with their specific needs. Whether it's health insurance, home insurance, auto insurance, life insurance, travel insurance, or general insurance, each type plays a crucial role in mitigating financial risks and ensuring a more secure future.

Topic

Module 3:
Idea to Action

ELECTIVES

Paper-20C

Entrepreneurship
and Start Up (ENTS)

Sustainable Revenue Models for Startups

Sustainable Revenue

Sustainable revenue can be defined as income that a business is able to generate consistently over the long term, without compromising its ability to operate, or its mission or the planet's future well-being. Whereas revenue sustainability refers to the ability of a business to maintain a consistent and reliable income over time. The factors affecting revenue sustainability include market demand, competition, economic conditions, and changes in consumer behaviour.

Startup Revenue Model

Startups are focused on finding a repeatable and scalable business model that can rapidly grow their user base and eventually generate substantial revenue. Startups need to be agile and willing to experiment with different revenue models to find the most effective approach for their target market and product/service. Startups often aim to disrupt existing markets with innovative products or services, requiring a revenue model that aligns with their disruptive potential. A revenue model is not merely a strategy but the lifeline of an entrepreneurial venture, enabling it to create impact and sustain its momentum. So, startups outline the pricing strategies, revenue sources, and how cash flow will be managed to achieve profitability and sustainable growth.

Scalable Revenue Model for Startups

All entrepreneurs dream of scaling their startups—growing from small, fledgling operations into thriving, high-impact enterprises of tomorrow. The key to sustainable growth lies in creating a scalable revenue model—one that not only supports expansion but accelerates it without proportionally increasing costs or resources. In a revenue model, scalability means that as your startup grows, the cost to acquire new customers, deliver products or services, and operate effectively doesn't increase exponentially.

A scalable revenue model has three key characteristics:

- (i) **Flexibility:** The ability to adapt to new markets, customer segments, and business models without significant changes to the existing system.
- (ii) **Efficiency:** The optimization of resources, ensuring that the cost of acquiring new customers and

delivering your product or service doesn't increase disproportionately with growth.

- (iii) **Adaptability:** The capability to adjust to changing customer preferences, economic conditions, and competitive landscapes.

When you build a scalable revenue model, you are designing your startup to take on more customers, enter new markets, and offer new products or services without being limited by your existing infrastructure or workforce.

Types of Startup Revenue Models

There are several popular revenue models that startups can use to generate income and achieve profitability. Each has its own strengths and weaknesses, and the most effective revenue model for a startup will depend on its industry, target market, and product or service offering. By understanding the different types of revenue models available, startup founders can make informed decisions about how to generate revenue and achieve long-term sustainability. Popular startup revenue models are highlighted below:

1. Subscription Revenue Model

The subscription-based revenue model charges customers a recurring fee typically on a monthly or annual basis, to access a company's product or service. It differs from a transactional revenue model where customers typically pay for products or services on a one-time basis. This model has become increasingly popular in recent years, particularly in the software and media industries, as it provides a predictable and recurring source of revenue for startups.

Examples

- (i) **Netflix:** Charges monthly for entertainment.
- (ii) **Spotify:** Monthly fee for music streaming.
- (iii) **Adobe Creative Cloud:** Subscription for software use.

2. Freemium Model

The freemium model is a revenue model in which a basic version of a product or service is offered for free, with the option to upgrade to a premium version for a fee. This model is commonly used by software and app-based startups. However, it can be applied

to a wide range of industries. Ideally, freemium conversion rates are between 2-5%, although typically, the conversion rate is around 1%.

Examples

- (i) **Spotify:** Free with ads; pay for ad-free.
- (ii) **LinkedIn:** Basic profiles are free, but premiums cost extra.
- (iii) **Dropbox:** Free storage with paid upgrades.

3. Ad-based Revenue Model

The advertising model is a revenue model in which a company generates income by displaying advertisements to its users or customers. This model is commonly used by media and content-based startups, as well as social media platforms and search engines.

Examples:

- (i) **YouTube:** Streams ads before or during videos.
- (ii) **Facebook:** Displays ads throughout the feed.
- (iii) **Google Search:** Fills search results with sponsored links.

4. E-commerce Revenue Model

The e-commerce model is a revenue model in which a company generates income by selling products or services online through a website or mobile app. This model is commonly used by retail and consumer goods startups, as well as service-based startups that offer online bookings or subscriptions.

Examples

- (i) **Amazon:** Sells everything under the sun.
- (ii) **Etsy:** Home for unique, handmade products.
- (iii) **Shopify Stores:** Entrepreneurs create branded online stores.

5. Commission Marketplace

A commission marketplace startup model is a business strategy where the platform earns revenue by taking a percentage of each transaction between buyers and sellers on the platform. This model is popular because it allows both buyers and sellers to join and operate without upfront costs, with the marketplace only taking a cut when a sale is made.

Examples

- (i) **eBay:** Charges sellers a percentage of each sale.
- (ii) **Airbnb:** Takes a commission on bookings.
- (iii) **Fiverr:** Collects a fee from freelancers' earnings.

6. Licensing

A licensing revenue model is a strategy where a company (licensor) grants another party (licensee) the right to use its intellectual property (IP), such as patents, trademarks, copyrights, or trade secrets, for a fee or royalty.

Examples

- (i) **Disney Merchandise:** Licensed characters on various products.
- (ii) **Microsoft Software:** Licensed software for OEMs.
- (iii) **Patented Tech:** Licensed to manufacturers.

7. Retail

The retail revenue model demands setting up a traditional store in which you offer physical goods to your customers. Keep in mind that this brick-and-mortar style of sales requires shelf space (that you'll have to pay for) at existing stores, and is designed for companies that have logistics and storage capabilities.

Examples

- (i) **Walmart:** Buys wholesale, sells retail.
- (ii) **Zara:** Retail stores and online sales.
- (iii) **Whole Foods:** Sells goods with a markup.

8. Affiliate Revenue Model

Another popular web-based strategy is the affiliate revenue model, which works by promoting links to relevant products and collecting a commission on the sales of those products. It can work in conjunction with ads or separately. This method is basically a contract between a supplier of a product/service and a promoter where the promoter redirects buyers to the sellers, who then finalize the transaction.

Examples

- (i) **Amazon Affiliates:** Earns commission by promoting Amazon products.

- (ii) **Rakuten:** Works with a range of retailers.
- (iii) **ClickBank:** Offers digital products with high commission rates.

9. Transactional Revenue Model (Direct and Web)

A straightforward “you buy, we earn” approach. Companies generate revenue each time a transaction occurs, covering both direct and web-based sales.

Examples

- (i) **Etsy:** Charges a fee per sale.
- (ii) **PayPal:** Collects a transaction fee.
- (iii) **eBay:** Takes a percentage of each sale.

10. Indirect Sales / Channel Sales

The channel sales model consists of agents selling your product for you and either you or the reseller delivering the product. The affiliate revenue model is a good companion to this one, especially if your offering is a virtual product.

Examples

- (i) **Apple & Best Buy:** Apple products are sold through Best Buy.
- (ii) **Microsoft & Dell:** Software available on Dell computers.
- (iii) **Samsung & Retailers:** Phones in various electronic stores.

11. Donations

A donation model for startups involves raising funds by requesting voluntary contributions from individuals, often through crowdfunding platforms, rather than offering financial returns or equity.

Examples

- (i) **Wikipedia:** Funds operations through user donations.
- (ii) **GoFundMe:** Crowdfunding platform, donations fund projects.

12. Pay-per-use Revenue Model

Pay-per-use charges customers each time they use a service. Think of it like a toll road—every time you pass, you pay up!

Examples

- (i) **AWS (Amazon Web Services):** Charges based on usage.
- (ii) **Utility Companies:** Charge for actual consumption.
- (iii) **Car Rentals:** Pay only for miles driven.

13. Arbitrage Revenue Model

In this model, businesses buy products or services in one market and sell them in another at a higher price. It’s all about capitalizing on price differences, like a skilled bargain hunter.

Examples

- (i) **Stock Market Arbitrage:** Buying and selling stocks.
- (ii) **Currency Exchange:** Buy currency low, sell high.
- (iii) **Product Reselling:** Buy from one market, sell on another.

14. Franchise Revenue Model

Franchising is like renting out your successful playbook for others to follow. Startups let others run a location under their brand for a fee, of course.

Examples

- (i) **McDonald’s:** Fast food with a global footprint.
- (ii) **Subway:** Sandwiches around every corner.
- (iii) **7-Eleven:** Convenience worldwide.

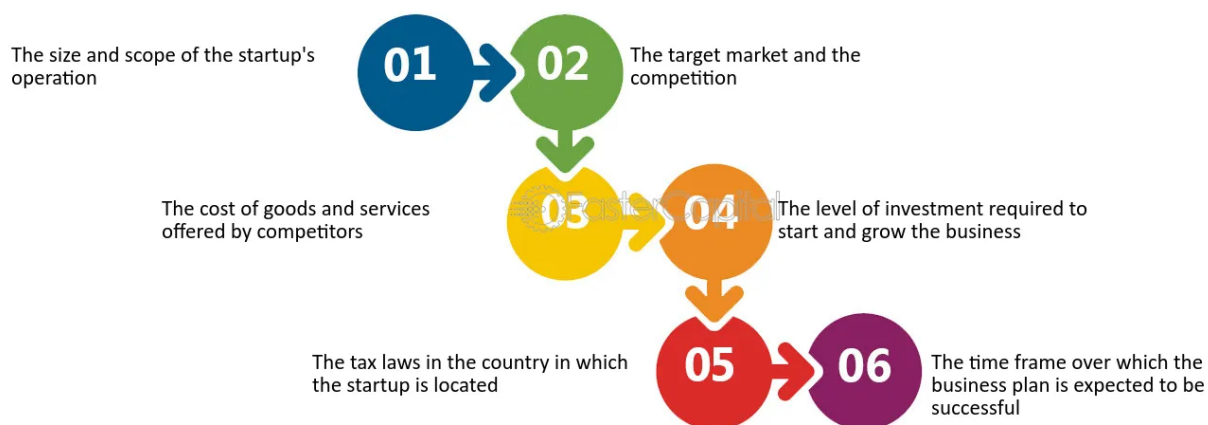
15. Auction Model

An auction model for startups involves using an auction mechanism, either traditional or online, to facilitate the sale of products or services. This model can be applied in various contexts, including e-commerce platforms, asset liquidation, and even in the sale of advertising space.

Examples

- (i) **eBay:** Classic online auctions.
- (ii) **Sotheby’s:** High-value art auctions.
- (iii) **Government Auctions:** Selling surplus assets.

Challenges of Developing a Sustainable Revenue Model



Source: <https://fastercapital.com/topics/how-to-create-a-sustainable-revenue-model-for-your-startup.html/1>

IOTP Training Schedule

Sl. No.	Region/Chapter	Commencement Date	End Date	Mobile No.	Email Id
1	Ahmedabad Chapter	16-09-2025	26-09-2025	9428480333	ahmedabad@icmai.in
2	Angul Chapter	15-09-2025	25-09-2025	9437018894	talcher@icmai.in
3	Asansol Chapter	05-09-2025	14-09-2025	9434797020	asansol@icmai.in
4	Baroda Chapter	18-08-2025	28-08-2025	9316794647	baroda@icmai.in
5	Beawar Chapter	16-09-2025	25-09-2025	7014752563	beawar@icmai.in
6	Bhilai Chapter	01-09-2025	10-09-2025	9407982350	bhilai@icmai.in
7	Bhubaneswar Chapter	19-08-2025	30-08-2025	6370813308	cbc@icmai.in
8	Cochin Chapter	06-10-2025	15-10-2025	7994663508	cochin@icmai.in
9	Dhanbad Chapter	01-09-2025	10-09-2025	8789563770	dhanbad@icmai.in
10	Dindigul Chapter	20-09-2025	29-09-2025	9080429993	dindigul@icmai.in
11	Durgapur Chapter	31-08-2025	10-09-2025	9434538451	durgapur@icmai.in
12	EIRC-ICMAI (Kolkata)	25-08-2025	05-09-2025	9007565299	eirc.studies@icmai.in
13	Guwahati Chapter	10-10-2025	19-10-2025	6900821288	guwahati@icmai.in
14	Howrah Chapter	27-08-2025	15-09-2025	9123856167	howrah@icmai.in
15	Hyderabad Chapter	17-09-2025	26-09-2025	6302822213	hyderabad@icmai.in
16	Jaipur Chapter	23-09-2025	04-10-2025	9829062718	jaipur@icmai.in
17	Jamshedpur Chapter	01-09-2025	10-09-2025	9304302164	jamshedpur@icmai.in
18	Jodhpur Chapter	15-09-2025	26-09-2025	7357207909	jodhpur@icmai.in
19	Kalyan-Ambernath Chapter	07-09-2025	16-09-2025	9320153351	kalyan@icmai.in
20	Kanpur Chapter	03-11-2025	14-11-2025	8795240825	kanpur@icmai.in
21	Kolhapur Chapter	09-09-2025	18-09-2025	9975626183	kolhapur@icmai.in
22	Kota Chapter	13-09-2025	24-09-2025	9460006743	kota@icmai.in
23	Kottayam Chapter	22-09-2025	27-09-2025	8606927764	kottayam@icmai.in
24	Kozhikode-Malappuram Chapter	15-09-2025	10-10-2025	8590669449	kozhikode@icmai.in
25	Madurai Chapter	15-09-2025	26-09-2025	8903063920	madurai@icmai.in
26	Nellore Chapter	18-09-2025	27-09-2025	9700985569	nellore@icmai.in
27	NIRC-ICMAI (Delhi)	25-08-2025	03-09-2025	9868112062	nirc@icmai.in
28	Palakkad Chapter	13-09-2025	12-10-2025	6282796780	nml181968@gmail.com
29	Patna Chapter	01-09-2025	10-09-2025	9693217894	patna@icmai.in
30	Patna Saheb Chapter	11-08-2025	22-08-2025	9304625188	patna.saheb@icmai.in
31	Pimpri Chinchwad Chapter	08-09-2025	17-09-2025	8308769459	pimpri@icmai.in

Sl. No.	Region/Chapter	Commencement Date	End Date	Mobile No.	Email Id
32	Pune Chapter	23-08-2025	28-09-2025	9420479794	pune.admin@icmai.in
33	Ranchi Chapter	01-09-2025	10-09-2025	8987827748	ranchi@icmai.in
34	Ranipet-Vellore Chapter	30-08-2025	28-09-2025	9489320084	ranipet@icmai.in
35	Sambalpur Chapter	03-10-2025	12-10-2025	8280808060	sambalpur@icmai.in
36	South Odisha Chapter	12-09-2025	21-09-2025	9437448309	south_orissa@icmai.in
37	Thrissur Chapter	03-08-2025	30-08-2025	9946522440	thrissur@icmai.in
38	Tiruchirappalli Chapter	08-09-2025	17-09-2025	9385577613	tiruchirappalli@icmai.in
39	Vijayawada Chapter	10-09-2025	20-09-2025	9848333877	vijayawada@icmai.in
40	Visakhapatnam Chapter	08-09-2025	18-09-2025	7989335292	visakhapatnam@icmai.in
41	WIRC-ICMAI (Mumbai)	25-08-2025	05-09-2025	8828061444	wirc.admin@icmai.in

NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Invitation to Contribute Articles for CMA Student E-Bulletin - Showcasing Your Expertise!

Dear CMA Student,

We are excited to extend an invitation to you to contribute an article for the **CMA Student E-Bulletin**, our esteemed monthly e-journal exclusively crafted for CMA students. This platform, managed by the Directorate of Studies at ICAI, aims to provide a space for your insights, experiences and knowledge-sharing within the CMA community.

Submission Guidelines:

- ⦿ **Article Length:** Please prepare articles ranging between 1200 to 1500 words.
- ⦿ **Topic:** The articles can cover a wide spectrum of subjects, including but not limited to advancements in finance, industry insights, case studies, personal experiences and emerging trends in the field.
- ⦿ **Originality:** We encourage you to share your unique perspectives and experiences. Ensure that your submission has not been published elsewhere.

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Submission Process: Please send your article to studies.ebulletin@icmai.in with the subject line **"CMA Student E-Bulletin Submission - [Your Name, Registration No.]"**. Include a brief author bio and a high-resolution photograph to be featured alongside your article.

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We believe that your unique insights and experiences will contribute significantly to the enrichment of the CMA Student E-Bulletin. Your participation will not only enhance your visibility within the CMA community but also foster a culture of knowledge-sharing and collaboration.

Best Regards,

Team DoS

The Institute of Cost Accountants of India

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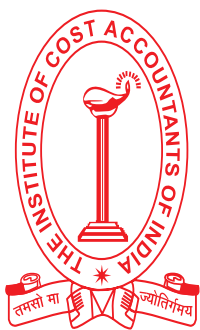
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