CMA STUDENT E-Bulletin

VOL 09 | NO. 02 | FEBRUARY 2024

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, enrols 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 Kolkata having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 116 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 5,00,000 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.

Vision Statement

"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 सद्गमय	From ignorance, lead me to truth
तमसोमा ज्योतिर् गमय	From darkness, lead me to light
मृत्योर्मामृतं गमय	From death, lead me to immortality
ॐ शान्ति शान्ति शान्तिः	Peace, Peace, Peace

CMA STUDENT E-Bulletin

VOL 09 | NO. 02 | FEBRUARY 2024

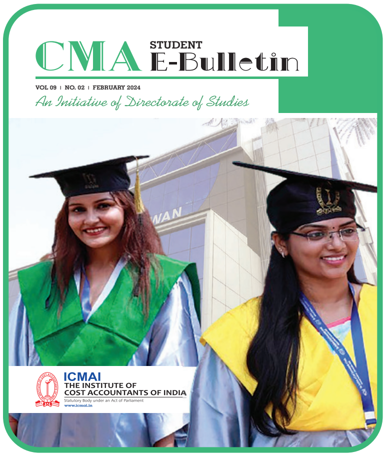
An Initiative of Directorate of Studies

ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
Statutory Body under an Act of Parliament
www.icmai.in

CONTENTS

CMA STUDENT E-Bulletin
VOL 09 I NO. 02 I FEBRUARY 2024

Editorial Office
The Institute of Cost Accountants of India
CMA Bhawan
12, Sudder Street, KolKata - 700016
studies.ebulletin@icmai.in



CHAIRMAN'S COMMUNIQUE

Dear CMA Students,

I hope this message finds you well and thriving in your pursuit of excellence as future management accountants.

I want to express my heartfelt appreciation to all our dedicated students, faculty members and staff who continue to demonstrate resilience and commitment to the profession amidst challenging times. Your perseverance and passion are truly inspiring and they serve as a driving force behind our collective progress.

As we forge ahead, let us reaffirm our commitment to excellence, integrity and lifelong learning. Remember, your journey to becoming a Cost & Management Accountant is not just about acquiring a professional qualification; it is about embracing a mind-set of continuous improvement and making a positive impact in the world around you.

I wish you all the very best in your endeavours and look forward to celebrating your achievements in the days to come.

Warm regards,

CMA Vinayaranjan P.
Chairman
Training & Educational Facilities Committee
ICMAI
29th February 2024

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of Business Laws -

Module 2:
Indian Contract 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)

1. Voidable contract is one
   (a) Which is lawful
   (b) Which is invalid
   (c) Which is valid so long it is not avoided by the party entitled to do so
   (d) None of these
2. The difference between an advertisement for sale and a proposal is
   (a) No difference at all
   (b) That a proposal becomes a promise as soon as the party to whom it is made accepts it but an advertisement does not
   (c) Every case will be viewed according to the circumstances
   (d) None of these
3. In a Book depot a catalogue of books enlisting the price of each book and specifying the place where the particular book is available is
   (a) An invitation to offer
   (b) An offer
   (c) An invitation to visit the book shop
   (d) None of these
4. A catalogue of the goods of a company for sale a series of offers but only an invitation for offers.
   (a) Is
   (b) Is not
   (c) In normal cases is
   (d) In normal cases is not
5. An offer does not lapse if the
   (a) Offeror dies before acceptance
   (b) The Offeree dies before acceptance
   (c) Acceptance is made by the Offeree in ignorance of the death of the Offeror
   (d) Acceptance is made by the Offeree with knowledge of the death of the Offeror
6. A telephonic acceptance is complete when the offer is
   (a) spoken into the telephone
   (b) heard but not understood by the Offeror
   (c) heard and understood by the Offeror
   (d) is received, heard and understood by some person in the offeror's house
7. With regard to the contractual capacity of a person of unsound mind, which one of the following statements is most appropriate?
   (a) A person of unsound mind can never enter into a contract
   (b) A person of unsound mind can enter into a contract
   (c) A person who is usually of unsound mind can contract when he is, at the time of entering into a contract, of sound mind
   (d) A person who is occasionally of unsound mind can contract although at the time of making the contract, he is of unsound mind
8. While obtaining the consent of the promisee, keeping silence by the promisor when he has a duty to speak about the material facts, amounts to consent obtained by:
   (a) Coercion
   (b) Misrepresentation
   (c) Mistake
   (d) Fraud
9. 'A' threatened to commit suicide if his wife did not execute a sale deed in favour of this brother. The wife executed the sale deed. This transaction is:
   (a) Voidable due to under influence
   (b) Voidable due to coercion
   (c) Void being immoral
   (d) Void being forbidden by law
10. A contract which is vitiated by undue influence is declared as which one of the following by the Indian Contract Act?
   a. Invalid
   b. Void
   c. Illegal
   d. Voidable

11. Consider the following:
    1. Active concealment of fact.
    2. Promise made without any intention of performing it.
    3. Breach of duty which gains an advantage to the person committing it.
    4. Inducing mistakes as to subject matter.

    Which of the above amount to fraud?
    (a) 1and 2
    (b) 2and 3
    (c) 3and 4
    (d) 1and 4
12. Factors vitiating consent are:
    a. Coercion, Undue influence
    b. Fraud, Misrepresentation
    c. Mistake
    d. All of these
13. Misrepresentation means:
    (a) Unwarranted assertion
    (b) Any breach of duty without an intent to deceive
    (c) Innocent mistake
    (d) All the above
14. If a party stands in a fiduciary relation to the other:
    (a) He cannot dominate
    (b) He can dominate the will of another
    (c) The trust should be maintained
    (d) None of these
15. A person is deemed to be in a position to dominate the will of another if he:
    a. Holds real or apparent authority
    b. Stands in a fiduciary relationship
    c. Both (a) and (b)
    d. Either (a) or (b)
16. If both the parties to a contract believe in the existence of a subject, which in fact does not exist, the agreement would be
    a. Unenforceable
    b. Void
    c. Voidable
    d. None of these
17. For a valid contract
    a. Both the parties should have given their consent
    b. The consent should be free
    c. Both (a) and (b)
    d. Either (a) or (b)
18. When both the parties to an agreement are under a mistake as to a matter of fact essential to an agreement, the agreement is:
    a. Void
    b. Valid
    c. Voidable
    d. Illegal
19. In Indian Contract Act, the term consensus ad idem means
    (a) Parties under a mistake
    (b) Parties under the free consent
    (c) Parties agreeing upon the same thing in same sense
    (d) None of these
20. To prove undue influence, the plaintiff has to prove that:
    a. The relations, subsisting between the parties are such that the defendant was in a position to dominate the will of the plaintiff
    b. The defendant used that position to obtain an unfair advantage from the plaintiff
    c. Both (a) and (b)
    d. None of these
21. The validity of contract is not affected by
    a. Mistake of fact
    b. Mistake of Indian law
    c. Misrepresentation
    d. Fraud
22. Unlawful agreements comprise
    a. Illegal agreements
    b. Immoral agreements only
    c. Agreements opposed to public policy only
    d. All the agreements mentioned above

SECTION – B: BUSINESS COMMUNICATION

23. The exceptions to the rule that an agreement in restraint of trade is void, are contained in
    a. The provisions of Sec.27 of the Contract Act only
    b. Secs.11, 36, 54 and 55 of the Partnership Act only
    c. Both the above mentioned provisions of the Contract Act & Partnership Act respectively
    d. None of the above provisions
24. A contract to trade with an enemy is
    a. an immoral agreement
    b. a valid agreement
    c. an agreement opposed to public policy
    d. an enforceable agreement
25. If a message is short and to the point, the message is said to be ?
    a) Correct
    b) Concise
    c) Coherent
    d) Complete
26. The way the information is described or translated into a message and put in verbal or non-verbal medium is called .
    a. Feedback
    b. Decoding
    c. Encoding
    d. None of the above
27. Affirming comments with regard to future behaviour is called .
    a. Positive Feedback
    b. Negative Feed forward
    c. Positive Feed forward
    d. Decoding
28. Corrective comments with regard to past behaviour-
    a. Encoding
    b. Positive Feedback
    c. Negative Feed forward
    d. Negative Feedback
29. Interpretation and conversion of information communicated in to the intelligible form so that the recipient can fully understand the true meaning of the information is called _________.
    a. Decoding
    b. Encoding
    c. Feedback
    d. None of the above
30. What is the first step of communication process?
    a. Encoding
    b. Transmitting
    c. Decoding
    d. Developing an idea

ANSWER

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

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)

Answer the following Questions –

1. Which one of the following is not an Accounting Convention –
   a. Accrual
   b. Consistency
   c. Materiality
   d. Conservatism
2. Asset for resale purposes is a -
   a. Capital Expenditure
   b. Revenue Expenditure
   c. Business Expenditure
   d. None of the above
3. Chart of Accounts must have –
   a. Identification code for every account description
   b. Account description with approving authority
   c. Accounts with grouping for Balance Sheet
   d. Naming Accounts in alphabetical order
4. In computerised accounting environment a wrong entry can be rectified by –
   a. Reversing the entry with same value
   b. Deleting the entry from computer database
   c. Reversing the entry with double value
   d. Block the entry
5. Trial Balance will tally even in the presence of –
   a. Compensating errors
   b. Deletion of Debit Entry
   c. Suspense Account
   d. Deletion of Credit Entry
6. Fresh Debit of Rs.3 Lacs made in Purchases Account means –
   a. Purchases made
   b. Inventory build-up
   c. Advance made to Vendor
   d. Advance adjustment
7. Obsolete Asset means –
   a. Asset not in use
   b. impact of Technological break-through
   c. Lost Asset.
   d. Assets destroyed
8. Original Cost Rs.100000, Depreciation @ 10% on SLM. Asset value at the end of 3rd year will be –
   a. Rs.70000
   b. Rs.30000
   c. Rs.60000
   d. Rs.90000
9. Journal for carriage on purchase of Asset –
   a. Purchase Account is debited
   b. Carriage Account is debited
   c. Asset Account is debited
   d. Bank. Account is debited
10. 'Suspense Account' can show –
    a. Debit Balance
    b. Credit Balance
    c. Differential Balance
    d. Balance to equalize debit and credit side of Trial Balance
11. 'Matching Principle' is applied –
    a. Cost against Revenue
    b. Income against Loss
    c. Profit against Loss
    d. Debtors against Creditors
12. Balances of Personal and Real Account transferred to –
    a. Profit & Loss Account
    b. Balance Sheet
    c. Receipt and Payment Account
    d. None of the above
13. 'Interest. Credited by Bank , not recorded in Cash Book"
    a. Interest to be considered as. Income in P & L Account
    b. Interest to be considered as. Expense in P & L Account
    c. No entry is required in P & L Account
    d. To be considered as. Balance Sheet item

14. Netting off of Debit and Credit Balance w.r.t same entity is called –
    a. Set-off
    b. Net off
    c. Adjustment Entry.
    d. Closing Entry
15. 'Printing Experience' debited to 'Travelling Expenses' wrongly, the mistake was identified after preparation of Profit & Loss Account. The rectification entry will be –
    a. Dr. Printing, Cr. Travelling
    b. No entry to be passed
    c. Dr. Travelling. Cr. Printing
    d. Dr. P & L Adjustment Account Cr. Printing
16. Entries are made in Journal as per Calendar dates in chronological order –
    a. Not necessarily
    b. Must follow the same
    c. High value items first
    d. in seriatim of value
17. Registration charges for the newly acquired plot will be recorded –
    a. Debit to Land Account
    b. Debit to Registration Account
    c. Credit to Bank Account
    d. Debit to Legal Expenses Account
18. Expenses of Managing Director in a city club to entertain probable Customers is in the nature of-
    a. Capital Expenses
    b. Business Expenses
    c. Personal Expenses
    d. Club Expenses
19. Sales Invoice is raised to recognize –
    a. Sales
    b. Revenue Expenses
    c. Capital Income
    d. Revenue Income
20. Debit and Credit Column of Trial Balance will not agree , if
    a. one entry passed twice
    b. one transaction is omitted
    c. casting mistake in Trial Balance
    d. purchase of Furniture Debited in purchase Account
21. Bad Debt can happen when –
    a. Credit Sales are made
    b. Cas Sales are made
    c. Entity manages Cash Flow
    d. When failed to collect
22. Batch Costing is mostly used in ------------ industry.
    a. Air Conditioning
    b. Shoe
    c. Cement
    d. Printing
23. Operation Costing is used in -------------- industry
    a. Automobile
    b. Soap and Detergent
    c. Advertisement
    d. Foundries
24. In Cost Accounting , Stock is valued -
    a. At cost or market price whichever is lower
    b. At Cost
    c. At Market price
    d. At Standard Cost
25. Which one is not 'idle time'
    a. Wait for material supply
    b. Machine down time
    c. Power cut
    d. Re-working time
26. Two Machines on same floor produce same item. The machines are supervised by one supervising Engineer. His salaries to be classified as –
    a. Direct Wages
    b. Indirect Wages
    c. Overhead
    d. Productive Wages
27. Selling Overhead is added to 'cost of production' to give
    a. Total cost of production

b. Cost of sales

c. Product cost

d. None of the above

28. Direct Material consumption is part of 'prime cost' –

a. True

b. False

c. Not relevant

d. When 'opening' and 'closing' stock is not there

29. Appropriate 'cost unit' w.r.t Hotel –

a. Room per night

b. Tariff per Guest

c. Occupancy rate

d. Facility Rates

30. Imputed Costs are-

a. Import Cost

b. Notional Cost

c. Avoidable Cost

d. Overhead Cost

ANSWER

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

Topic

Fundamentals of Business Mathematics -

Module 1: Arithmetic

Fundamentals of Business Statistics

Module 4: Statistical Representation of Data

FOUNDATION

Paper-3

Fundamentals of Business Mathematics and Statistics (FBMS)

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

1. Sum to terms of three AP's are. The first term of each of them is 1 and common difference are 1, 2 and 3 respectively. As a result if also forms an AP series then common difference of the series is

(a) n(n-2)(n-4)

(b) n(n+1)

(c) n(n-1)/2

(d) n

2. The sum of first terms of two AP are 3n+8,7n+15. The ratio of their 15th term is

(a) 95/218

(b) 38/120

(c) 38/95

(d) 120/218

3. The ratio between ₹10 and ₹12 is

(a) ₹ $\frac{10}{12}$

(b) $\frac{10}{12}$

(c) $\frac{₹10}{₹12}$

(d) $\frac{10}{12}$ ₹

4. Sum of the series $r^2 - 2r + 2, r^2 - 2r + 3, r^2 - 2r + 4$ up to (2r-1) terms is

(a) $4r^3 + 2r^2 + r + 3$

(b) $r^3 + 5r^2 - 7r - 1$

(c) 1

(d) $2r^3 - 3r^2 + 3r - 1$

5. Work done by (x - 3) men in (2x + 1) days and the work done by (2x + 1) men in (x + 4) days are in the ratio 3 : 10. The value of is

(a) 4

(b) 2

(c) 5

(d) 6

6. If ₹1 was deposited in the post office savings bank on 1st April, 2003, then on 1st April 2033 at a compound interest of 3% p.a. it amount to around

(a) ₹1.78

(b) ₹1.21

(c) ₹5.67

(d) ₹2.43

7. If nominal rate of interest is 24% and the frequency of compounding is twelve times a year then effective rate of interest (r) is

(a) $r = (1.02)^{24} - 1$

(b) $r = (1.12)^{1} - 1$

(c) $r = (1.02)^{12} - 1$

(d) $r = (1.24)^{12} - 1$

8. If E is the yardstick for efficiency of two vehicles, where E = (Speed * Time) / Distance. With the time taken by 2nd Vehicle is increased by 5%, what would be the impact on E?

(a) E for 2nd Vehicle would increase by 5%

(b) E for 1st Vehicle would increase by 5%

(c) E for none of the vehicles would change

(d) None of the Above

9. For any G.P. series with $r^{n-1} = 418$, what does 'a' signify?

a. Last Term

b. First Term

c. Difference between Two Terms

d. Common Ratio between Two Terms

10. If $\frac{1}{A} - \frac{1}{B} \propto \frac{1}{A-B}$ then

(a) $A^2 + B^2 \propto A^2B^2$

(b) $A^2 + B^2 \propto AB^2$

(c) $A^2 + B^2 \propto \frac{A}{B}$

(d) $A^2 + B^2 \propto AB$

11. If $(\frac{A}{B}) \propto A + B$ & $(\frac{B}{A}) \propto A - B$, then $A^2 - B^2$

(a) Varies directly with $A^2 + B^2$

(b) Is constant

(c) Varies inversely with $A^2 + B^2$

(d) Is equal to A

12. If you insert 9 arithmetic means between ¼ and (-) 39/4, then 1st arithmetic mean is

(a) -1/5

(b) -1/8

(c) 0

(d) -3/4

13. Which one of the following is correct?

(a) $\frac{AM}{GM} = \frac{HM}{AM}$

(b) $\frac{AM}{GM} = \frac{GM}{HM}$

(c) $\frac{HM}{AM} = \frac{AM}{2GM}$

(d) $\frac{GM}{HM} = \frac{HM}{AM}$

14. If arithmetic mean of a series in is 10 & $\sum f = 50$, then $\sum fx$ is

(a) 5

(b) 0.2

(c) 500

(d) 2

15. Which one of the following is correct?

(a) 'Average' is a single value which is considered as the most representative value for agiven set of data.

(b) 'Average' is the most prominent value which appears most of the times in a given set of data.

(c) 'Average' is a single value which is considered as the most extreme value for a given set of data.

(d) 'Average' is a single value which is considered as the least representative value for a given set of data.

16. Average is frequently referred to as Central Tendency because

(a) The average of a data set is the smallest value in the data set.

(b) The average of a data set is the largest value in the data set.

(c) The average of a data set is a number whose value is somewhere in middle of the data set

(d) The average of a data set is a number whose position is somewhere in middle of the data set

17. Which one of the following is not an objective of the study of averages?

(a) To get one single value that describes the characteristic of the entire data.

(b) To facilitate comparison by reducing the mass of data in one single figure

(c) To facilitate study of the characteristic of the entire population

(d) To facilitate development of other values of central tendencies like median and mode

18. If the weights $f_1, f_2, f_3 \ldots \ldots \ldots f_n$ are all equal then the weighted arithmetic mean becomes a

(a) Geometric mean

(b) Harmonic mean

(c) Simple arithmetic mean

(d) Quadratic mean

19. Which one of the following is correct?

(a) $\sum x = \sum f / \overline{x}$

(b) $\sum fx = \sum f \times \sum x$

(c) $\overline{x} = \frac{\sum x}{\sum f}$

(d) $\overline{x} = \frac{\sum fx}{\sum f}$

20. Which one of the following is not a characteristics of a good average?

(a) It should not be rigidly defined

(b) It should be based on all observation

(c) It should be capable of further algebraic treatment

(d) It should have sampling stability

21. Which one of the following is correct?

(a) The algebraic sum of the deviations of the values from their AM is zero

(b) The algebraic sum of the deviations of the values from their AM is +1

(c) The algebraic sum of the deviations of the values from their AM is – 1

(d) The algebraic sum of the deviations of the values from their AM is ±1

22. Values of a variable are 2,5,9,11 with weights 8,7,3,2. This gives a mean of

(a) 5

(b) 6.75

(c) 25

(d) 3.70

23. $\sum_{i=1}^{n} (x_i - A)^2$ is minimum only when

(a) $A = \sum f$

(b) $A = \sum fx$

(c) $A = (\overline{x})^2$

(d) $A = \overline{x}$

24. If A is the assumed mean and is the deviation of respective values in the data set from A then weighted mean of the data set containing number of values is

(a) $\overline{x} = \dfrac{\sum(A + d_i)}{\sum f_i}$

(b) $\overline{x} = \dfrac{\sum A + \sum d_i}{\sum f_i}$

(c) $\overline{x} = \dfrac{\sum f_i (A + d_i)}{\sum f_i}$

(d) $\overline{x} = \dfrac{\sum(A + d_i)}{\sum x_i}$

25. The sum of deviations of monthly income of five persons from ₹360 is (-) 20. Arithmetic average income of the 5 persons is

(a) ₹375

(b) ₹356

(c) ₹350

(d) ₹360

26. Consider the following table

Frequency	Deviation from A(= 5) [d = x-5]
7	-4
11	-3
16	-2
17	-1
26	0
31	1
11	2
1	3
1	4

From above arithmetic mean is computed as

(a) 1.59

(b) 3.59

(c) 5.59

(d) 4.59

27. Frequencies of respective classes in a frequency distribution are 5, 11, 18, 22, 16 & 8. Summated value of (frequency * deviations of mid values of respective classes from 54.5 are -230.

Arithmetic mean of the frequency distribution is

(a) 57.375

(b) 51.625

(c) 80

(d) 54.152

28. Two samples of sizes 50 and 100 respectively are combined to form a big sample of size 150 for which the mean is obtained as 51.57. If mean of the first group of size 50 is 54.1 then mean of the other group is

(a) 50.3

(b) 52.2

(c) 52.84

(d) 50.94

29. Geometric mean of 3, 6, 24 and 48 is

(a) 20736

(b) 6

(c) 144

(d) 12

30. Cumulative frequency distribution of marks obtained by 22 students is

Marks below 10	3
Marks below 20	8
Marks below 30	17
Marks below 40	20
Marks below 50	22

The mode of the distribution is

(a) 24

(b) 22

(c) 21

(d) 20

Answer Keys:

1	c	$S_n = (\frac{n}{2})[2a + (n - 1)d]$. So $s_1 = (\frac{n}{2})[2 \times 1 + (n - 1)1] = \frac{n(n+1)}{2}$, $s_2 = (\frac{n}{2})[2 \times 1 + (n - 1)2] = n$ & $s_3 = \frac{n}{2}[2 \times 1 + (n - 1)3] = \frac{n}{2}(3n - 1)$. Now $s_2 - s_1 = s_3 - s_2 = \frac{n}{2}(n - 1)$
2	a	By question we can write $\frac{2a + (n - 1) \times d}{2a` + (n - 1) \times d`} = \frac{3n + 8}{7n + 15}$ We have to find $\frac{a + 14d}{a` + 14d`} = ?$ $\frac{a + 14d}{a` + 14d`} = \frac{2a + 28d}{2a` + 28d`}$ Now in $\frac{2a + (n - 1) \times d}{2a` + (n - 1) \times d`}$ = we put n = 29 we get $\frac{2a + 28d}{2a` + 28d`}$ But $\frac{2a + 28d}{2a` + 28d`} = \frac{3n + 8}{7n + 15} = \frac{3 \times 29 + 8}{7 \times 29 + 15} = \frac{95}{218}$. So the answer
3	b	
4	d	The given series is AP with c.d. = 1 and hence the result
5	d	$\frac{(x - 3)(2x + 1)}{(2x + 1)(x + 4)} = \frac{3}{10}$ & hence the answer.
6	d	By question we could write $A=1*(1+0.03)^{30}$ Or, $A=(1.03)^{30} \cong 2.43$
7	c	
8	c	E = (Speed * Time) / Distance With increase in 5% in time taken, Where, Speed = Distance / Time E = (Distance / Time * Time) / Distance E = Distance / Distance = 1 So, with any changes made to any factors, there would be no change in the Efficiency.
9	b	
10	d	$\frac{1}{A} - \frac{1}{B} \propto \frac{1}{A-B}$ Or, $\frac{B - A}{AB} = \frac{K}{A - B}$ $\qquad \frac{1}{B} \propto \frac{1}{A-B}$ Or, (B - A) (A - B) = KAB Hence the result
11	b	$(\frac{A}{B}) \propto A + B$ .... (1) & $(\frac{B}{A}) \propto A - B$ ...... (2) Multiply (1) & (2) and hence the result
12	d	9^{th} arithmetic means mean we have 11 terms as whole. So -39/4 = ¼+(11-1)d. Hence the result

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

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 understand the correct answer of each question. For development of clear concept brief explanations are given in selected answers. Formula used here are all covered in study guide.

VOL 09 | NO. 02

Topic

Fundamentals of Business Economics -

Module 1: Basic Concepts

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 FEBRUARY 2024

Hello friends!! Hope all of you are keeping fine. It is necessary to have a sound health in your young age. It is best to do yoga under the supervision of a qualified instructor. There goes the saying "mens sana in corporate sano". This means that a sound mind in a sound body. In simpler terms this implies that if you have a strong body, then and then only your brain will gain strength. I hope I have been able to drive home my point. Let us start our usual exercise of Mock Test.

I. Choose the correct answer:

1. Who was the proponent of the growth definition of economics?
   A. Lord john maynard Keynes
   B. Abba P Samuelson
   C. Adam Smith
   D. None of the above
2. The 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
3. According to the Marginal Utility theory of demand, a consumer gains maximum utility when
   A. MU=P
   B. MU is falling
   C. Both A and B
   D. None of the above
4. Taxi fares are often raised in Kolkata. But a rise in taxi fare is not a gain to the taxi owners if the demand for taxi rides is
   A. Price inelastic
   B. Price elastic
   C. Unitary price elastic
   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. Completely inelastic
6. When AP is falling, then
   A. AP=MP
   B. AP<MP
   C. AP>MP
   D. None of the above
7. When TP is maximum, then
   A. MP=0
   B. MP<0
   C. MP>0
   D. None of the above
8. The law of diminishing returns to scale operates in the
   A. Short run
   B. Medium run
   C. Long run
   D. None of the above
9. The necessary condition of profit maximization for a perfectly competitive firm is
   A. P>MC
   B. P=MC
   C. P=AC
   D. None of the above
10. In which market form there is no distinction between the firm and the industry?
    A. monopolistic competition
    B. perfect competition
    C. monopoly
    D. none of the above

11. The components of micro business environment are
    A. firms and consumers
    B. market and competitors
    C. organization
    D. all of the above
12. Management is the art and science of decision making and leadership
    A. H Koontz
    B. D J Clough
    C. L Allan
    D. Terry
13. Which theory is also called traditional authority theory
    A. Formal authority theory
    B. Acceptance of authority theory
    C. Competence theory
    D. Organization theory
14. Concept of span of management is central to
    A. Neo-classical organization theory
    B. Classical organization theory
    C. Systems theory
    D. Contingency theory
15. 'cybernetics' was coined by
    A. Weiner
    B. Terry
    C. Haimann
    D. None of the above
16. Break-even analysis is adopted as a tool for
    A. Profit planning
    B. Cost planning
    C. Sales planning
    D. None of the above
17. Dispersal of authority throughout the organization
    A. Centralization
    B. Delegation of Authority
    C. Decentralization
    D. None of the above

Key: 1. B, 2. A, 3. C, 4. B, 5. C, 6. C, 7. A, 8. C, 9. B, 10. C, 11. D, 12. B, 13. A, 14. B, 15. A, 16. A, 17. C

II. Fill in the blanks:

1. Note issue is the responsibility of ………………
2. ICICI is a ……………. Sector bank
3. Fisher's theory states that money is demanded for ……………. Purposes
4. Bonds, Govt. securities refer to ……………. Money
5. Full form of MIS is ………….. …………………… …………..

Key: 1. RBI, 2. Private, 3. Transaction, 4. Near, 5. Management information system

III. True or False:

1. FERA has been replaced by FEMA
2. EXIM bank is authorized to raise loan from the International market
3. Certificate of deposits are issued by banks to companies
4. Subordinate is always responsible to his peers

Key: 1. True, 2. False, 3. True, 4. False

IV. Matching:

1.	Advertisement	A. interdependence
2.	Oligopoly	B. AR curve
3.	Maslow's motivation theory	C. selling cost
4.	Demand curve	D. human needs

Key: 1. C, 2. A, 3. D, 4. B

So friends!

Hope you have enjoyed solving the problems in the mock test. Take a red ink pen and check how many of the problems you have not been able to solve. Keep a record of your performance. Thus you will come to know whether your performance is improving or not. Please study the self study material thoroughly because all your questions in the final exam will come from the study material.

So, best of luck in the exam!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 1:

Introduction to Law and legal System in India

INTERMEDIATE

Group I - Paper-5

Business Laws and Ethics (BLE)

BUSINESS LAWS AND ETHICS

It is expected that you - the students prepare a time-table with time allotted for each subject and read, write, revise and recapitulate all that you keep on reading. The first important point is that you must read the Bare Act and the Sections and start asking questions to yourself and find your own answers. In this issue we shall deal with legal terminology and maxims.

A legal maxim is an established principle or proposition of law or a legal policy usually stated in Latin. These principles are used in Courts to denote the application of certain laws. Such principles do not have the authority of law but when Courts apply the maxims in deciding issues of law or the legislature incorporates such maxims while framing laws, they have the force of law. Few important legal terminology and maxims are given below -

- Ab Initio – From the beginning
- Actionable per se –The very act is punishable, and no proof of damage is required.
- Actio personalis moritur cum persona – A personal right of action dies with the person. In other sense, if he dies, the right to sue is gone.
- Actori incumbit onus probandi – The burden of proof is on the plaintiff.
- Actus me invito factus non est mens actus - An act done by me against my will is not my act. Read with section 94 of IPC.
- Actus non facit reum nisi mens sit rea – An act does not make one guilty unless it is accompanied by a guilty mind.
- Actus reus – Guilty act.
- Actus Reus Non Facit Reum Nisi Mens Sit Rea – Conviction of a crime requires proof of a criminal act and intent. Or an act does not make a defendant guilty without a guilty mind. Or an act does not constitute guilt unless done with a guilty intention.
- Ad hoc – For the particular end or case at hand.
- Alibi – At another place, elsewhere.
- Amicus Curiae – A friend of court or member of the Bar who is appointed to assist the court.
- Ante Litem Motam – Before suit brought; before controversy instituted, or spoken before a law suit is brought.
- Assentio mentium –The meeting of minds, i.e. mutual assents.
- Audi alteram partem – No man shall be condemned unheard.
- Bona fide – In good faith.
- Bona vacantia – Goods without an owner.
- Boni judicis est ampliare jurisdictionem – it is the part of a good judge to enlarge his jurisdiction, i.e. remedial authority.
- Caveat – A caution registered with the public court to indicate to the officials that they are not to act in the matter mentioned in the caveat without first giving notice to the caveator.
- Caveat actor – Let the doer beware.
- Caveat emptor – Let the buyer beware.
- Caveat venditor – Let the seller beware.
- Certiorari – A writ by which orders passed by an inferior court is quashed.
- Communis hostis omnium – They are common enemies of all. The common enemy of everyone.
- Corpus – Body.
- Corpus delicti –The facts and circumstances constituting a crime and concrete evidence of a crime, such as a corpse (dead body).
- Damnum sine injuria – Damages without injuries.
- De facto – In fact.
- De jure – By law.
- De minimis – About minimal things.
- De Minimis Non Curat Lex – The law does not govern trifles (unimportant things). Or law is not concerned with small or insignificant things/matters.
- De novo –To make something a new.
- Dictum – Statement of law made by the judge in the course of the decision but not necessary to the decision itself.
- Doli capax – Capable of forming necessary intent to commit a crime.
- Doli incapax – Incapable of crime. Or incapable of forming the intent to commit a crime.
- Detinue –Tort of wrongfully holding goods that belong to someone else.
- Donatio mortis causa – Gift because of death. Or a future gift given in expectation of the donor's imminent death and only delivered upon the donor's death.
- Estoppel – Prevented from denying.
- Ex gratia – As favour.

- Ex officio – Because of an office held.
- Ex parte – Proceedings in the absence of the other party.
- Ex post facto – Out of the aftermath. Or after the fact.
- Factum probans – Relevant fact.
- Fraus est celare fraudem – It is a fraud to conceal a fraud.
- Functus officio – No longer having power or jurisdiction.
- Furiosi nulla voluntas est – Mentally impaired or mentally incapable persons cannot validly sign a will, contract, or form the frame of mind necessary to commit a crime. Or a person with mental illness has no freewill.
- Furiosis furore suo punier – A madman is best punished by his own madness.
- Furiosis nulla voluntas est – A madman has no will.
- Habeas corpus – A writ to have the body of a person to be brought in before the judge.
- Ignorantia facit doth excusat – Ignorance off act is an excuse
- Ignorentia juris non excusat – Ignorance of law is not an excuse.
- Injuria sine damnum – Injury without damage
- Ipso facto – By the mere fact
- In promptu –In readiness.
- In lieu of – Instead of.
- In personam – A proceeding in which relief I sought against a specific person.
- Innuendo – Spoken words that are defamatory because they have a double meaning.
- In status quo –In the present state.
- Inter alia – Among other things.
- Inter vivos – Between living people
- Jus cogens or ius cogens – Compelling law.
- Jus in personam – Right against a specific person.
- Jus in rem – Right against the world at large.
- Jus naturale – Natural law. Or in other words, a system of law based on fundamental ideas of right and wrong that is natural law.
- Jus Necessitatis – It means a person’s right to do what is required for which no threat of legal punishment is a dissuasion.
- Jus non scriptum – Customary law.
- Jus scriptum – Written law.
- Jus – Law or right.
- Justitia nemini neganda est – Justice is to be denied to nobody.
- Jus soli – Right of soil.
- Jus sanguins – Right of blood or descent.

Topic

Module 1: Accounting Fundamentals and

Module 9 : Accounting Standards

INTERMEDIATE

Group I - Paper-6

Financial Accounting (FA)

Capital and Revenue Transactions

The concept of Capital and Revenue is very important in order to determine the accounting process correctly for a particular period of time. At the end of the accounting year, it is very necessary to bifurcate the transactions between capital and revenue for the recognition of the assets of the business.

Accounting is the process of identifying, recording, classifying, summarizing, interpreting, and communicating financial information relating to an organization to the interested users for judgment and decision-making. The transactions which have long-term effects on the business are known as capital transactions.

Capital and Revenue Expenditures

A business organization incurs expenditures for various purposes during its existence. Some of these expenditures are meant to bring in more profits for the organization in the long-term, while some expenditures are for the short-term.

The main reason for incurring expenditure is to increase the efficiency of the business and drive in higher returns. Based on the nature of the expenditure, they are categorized as capital expenditure and revenue expenditure.

Capital Expenditure

The expenditures that are incurred by an organization for long-term benefits are known as capital expenditures. These expenditures serve the purpose of increasing the capacity or capabilities of the long-term asset by either enhancing or adding new assets to the organization.

These expenditures are added on the asset side of the balance sheet. It is done mostly on assets such as land, equipment, furnishings, or vehicles that help to drive benefits for the organization by increasing the operating capability.

Revenue Expenditure

Revenue expenditure is referred to as the expenditure incurred by an organization to manage the day-to-day functions of a business, which include employee wages, inventory, rent, electricity, insurance, stationery, postage, and taxes.

These are the expenditures that neither help in the creation of assets nor in reducing the liabilities of a business. It is recurring in nature and very essential to maintain the daily operations of a business or an organization.

Revenue expenditures can be divided into two categories

1. Expenditures for generating revenue for a business: These are the expenditures that are essential for meeting the operational cost of a business, hence these are classified as operating expenses.
2. Expenditures for maintaining revenue-generating assets: Such expenses are incurred by business towards repair and maintenance of the assets of an organization to keep them in working condition without enhancing their lifespan. Such expenses can be towards repairing and repainting of assets.

The following are the key differences between capital expenditure and revenue expenditure to develop a clear understanding of their functions in a business.

Capital Expenditure	Revenue Expenditure
Definition	
Expenditure incurred for acquiring assets, to enhance the capacity of an existing asset that results in increasing its lifespan	Expense incurred for maintaining the day to day activities of a business
Tenure	
Long Term	Short term
Value Addition	
Enhances the value of an existing asset	Does not enhance the value of an existing asset
Physical Presence	
Has a physical presence except for intangible assets	Does not have a physical presence
Occurrence	
Non-recurring in nature	Recurring in nature
Availability of Capitalization	
Yes	No
Impact on Revenue	
Do not reduce business revenue	Reduce business revenue
Potential Benefits	
Long-term benefits for business	Short-term benefits for business
Appearance	
Appears as assets in the balance sheet and some portion in the income statement	Always appears in the income statement

Indian Accounting Standards (Ind AS)

Indian Accounting Standard (abbreviated as Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977.

The Accounting Standards Board (Board) of ICAI through various initiatives and measures, strives to equip the members with the necessary knowledge, skills, and resources to effectively implement and comply with Ind AS. The Board has championed numerous causes and initiatives to ensure effective implementation of Ind AS that have benefitted the stakeholders at large.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IFRS Standards (which comprise pronouncements with IAS, IFRS, SIC and IFRIC) and departures have been made where considered absolutely essential.

Need for Accounting Standards

- Accounting is an information system and its main aim is to provide financial information to a number of parties such as investors, management, creditors, government etc.
- Such information is provided through a set of financial statements such as profit and loss account, balance sheet, and cash flow statement etc.
- The set of financial statements of a company should depict a true and fair view of its operating results and financial position.
- There is need to harmonise and standardise the different accounting policies so that financial statements become consistent and comparable.
- Certain standard must be followed for preparing the financial statements, so that there is minimum ambiguity and uncertainty about the figures contained in financial statement.

Advantages of Accounting Standards

Guider: Accounting Standards serve as a guide for the whole accounting system. Accounting standards govern the manner in which financial statements are prepared and presented.

Mandatory to follow: All companies must have to follow the accounting standards; these guidelines are not optional in nature.

Brings uniformity: It sets the same guidelines and standards for every business for accounting treatments. Companies are required to prepare & present financial statements as per the same accounting standards. For example, each company has to prepare its balance sheet according to format given in schedule III of companies act.

Flexible: In many cases, companies are free to adopt any method from the option of different accounting practices. As in case of accounting for depreciation companies can adopt any depreciation method (straight line or written down method) according to their will.

Avoids frauds and data manipulation: It aims at reducing the errors & chances of manipulation of data by management. Companies are strictly bound to follow the guidelines of accounting standards.

Comparability: All companies follow the same guidelines for the same accounting treatments. This makes the comparison between financial statements possible and easy.

Assist auditors: These standards help auditors in verifying the correctness of company accounts. Accounting standards provides all accounting rules and regulations to be followed in a written format that enables auditors to follow uniform practices.

Questions

1. Transactions that have long-term effects in business are called:
   a) Short-term transaction
   b) Long-term transactions
   c) Paper transactions
   d) Credit transactions
2. An expenditure is a capital expenditure because:
   a) Amount is paid in lump sum
   b) It is intended to benefit current period
   c) Amount is large
   d) It is intended to benefit future period
3. An expenditure that benefits only the current period is known as a:
   a) Capital expenditure
   b) Revenue expenditure
   c) Current expenditure
   d) Deferred expenditure
4. Which of the following is a capital transaction?
   a) Purchase of goods
   b) Payment of wages
   c) Sale of goods
   d) Purchase of machinery
5. Long-term transactions are also called:
   a) Capital transactions
   b) Revenue transactions
   c) Non-monetary transactions
   d) Paper transactions
6. IFRS stands for___________________
   a) International Financial Reporting Statements
   b) International Financial Reporting Standards
   c) Indian Financial Reporting Statements
   d) Indian Financial Reporting Standards
7. The main aim of accounting standard is_________
   a) Standardize diverse accounting policies
   b) Lower the accounting dissimilarities
   c) Ensuring the comparability of financial statement
   d) All of the above
8. The accounting standards are mandatory for___________
   a) Sole trader
   b) Firms
   c) Companies
   d) Societies
9. When accounting standard board has been constitute?
   a) 21 Feb 1977
   b) 21 April 1977
   c) 21 March 1977
   d) 21 May 1977
10. How many Ind AS are there in India?
    a) 39
    b) 38
    c) 42
    d) 41

Answer:

Question No	Answer
1	b
2	d
3	b
4	d
5	a
6	b
7	d
8	c
9	b
10	d

Topic

Module 5: Goods and Services Tax Laws

INTERMEDIATE

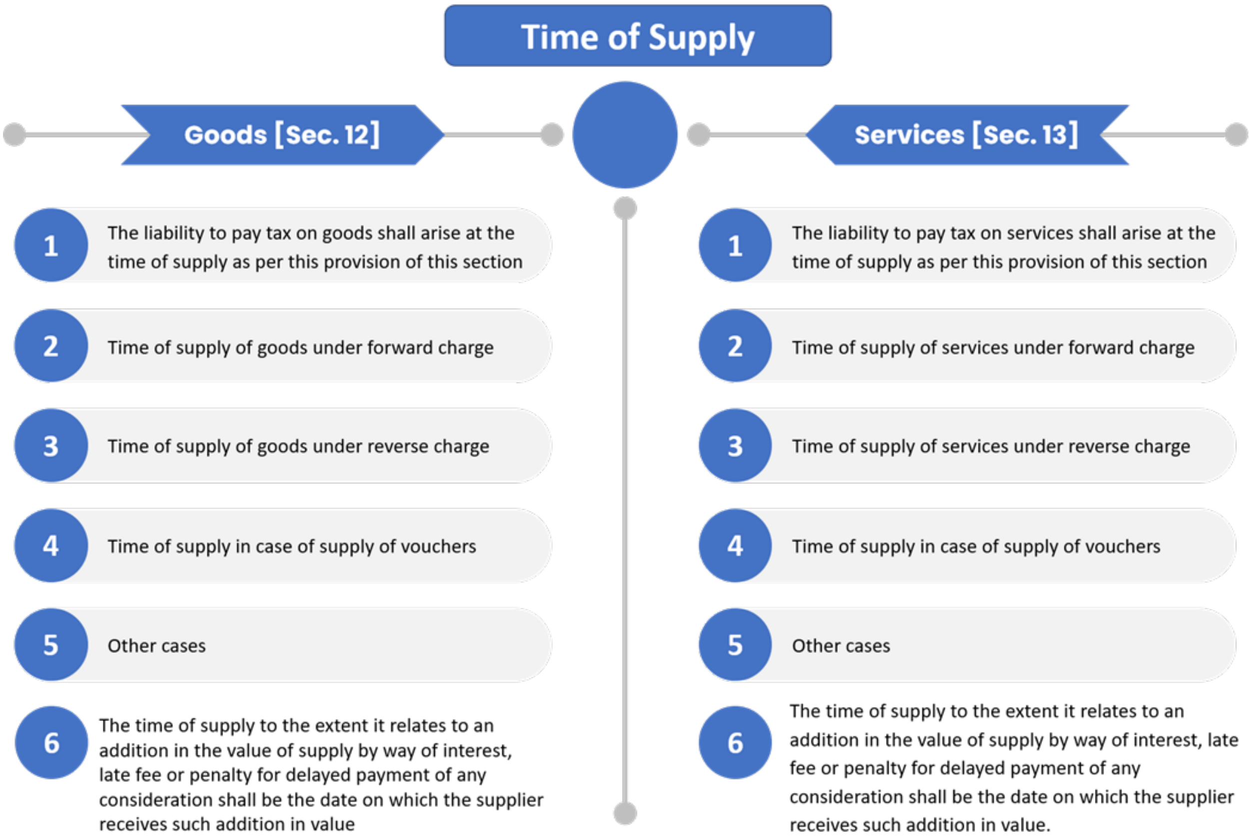
Group I - Paper-7A

Direct and Indirect Taxation (DITX)

Time of Supply

In order to calculate and discharge tax liability it is important to know the date when the tax liability arises i.e. the date on which the charging event has occurred. In GST law, it is known as Time of Supply. Time of supply means the point of time when goods/services are considered as supplied. If the seller knows the time of supply, then it will help him to recognize the due date for the payment of taxes.

GST law has provided separate provisions to determine the time of supply of goods and time of supply of services. 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

c. the date on which the supplier receives the payment with respect to the supply [Not relevant]

Taxpoint

➢ The registered person who did not opt for the composition levy u/s 10 shall pay the Central tax on the outward supply of goods at the time of supply as specified in section 12(2)(a) (i.e. the date of issue of invoice by the supplier or the last date on which he is required, u/s 31(1), to issue the invoice with respect to the supply). Therefore, no GST is payable on advances received against supply of goods. (Notification No. 66/2017-CT dated 15/11/2017). However, benefit of this notification is not available in case of supply of service.

- Where the supplier of taxable goods 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 in respect of such excess amount. However, this provision is also subject to aforesaid notification.
- "The date on which the supplier receives the payment" shall be the date on which the payment is entered in his books of account or the date on which the payment is credited to his bank account, whichever is earlier.
- 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.

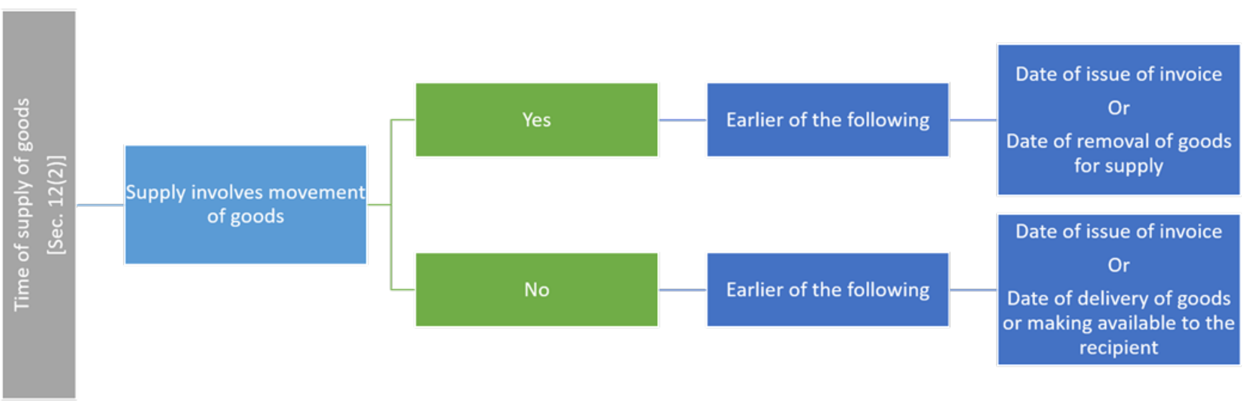
Tax Invoice [Sec. 31]

1. 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

2. In case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice shall be issued before or at the time each such statement is issued or, as the case may be, each such payment is received [Sec. 31(4)]
3. Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier [Sec. 31(7)]

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)]

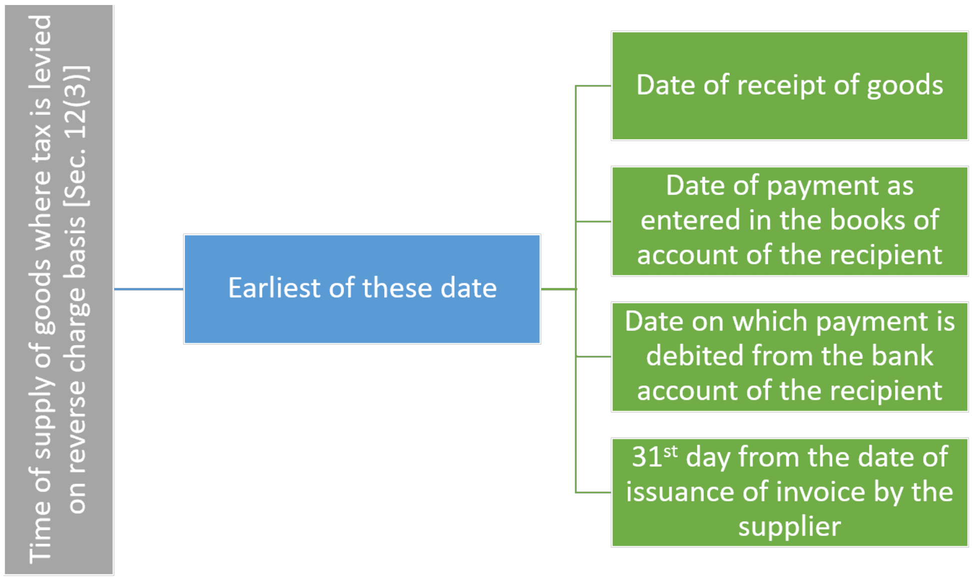
In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earliest of the following dates:

a. the date of the receipt of goods; or

b. the date of payment as entered in the books of account of the recipient; or

c. the date on which the payment is debited in his bank account; or

d. 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, benefit of notification no. 66/2017-CT dated 15/11/2017 is not available.

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	a. The date of issue of invoice by the supplier; b. The date of receipt of payment - whichever is earlier
If the invoice is not issued within the period prescribed u/s 31	a. The date of provision of service; b. The date of receipt of payment - 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.

Example:

A telephone company receives ₹ 4,000 on 27th July 2022 against an invoice of ₹ 3,800 on 23rd July 2022 in respect of the services provided. The excess amount of ₹ 200 can be adjusted against the invoice to be issued in the next month. Time of supply will arise only for ₹ 3,800 on 23rd July 2022. For the balance amount of ₹ 200, the time of supply may not arise on 27th July 2022 at the option of the supplier and may be adjusted against the next month's invoice.

If the payment received was ₹ 5000 instead of ₹ 4000

Since, the amount exceeds ₹ 1000 in terms of the excess payment received, there is no option with the supplier. Here, the supply will be deemed to have been made to the extent of the invoice of ₹ 3,800 on 23rd July 2022 and the balance amount of ₹ 1,200 will be liable to tax on 27th July 2022.

- Time limit for issuance of invoice u/s 31 r.w. r. 47:

Situation	Time limit for issuance of invoice
General cases	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)
In a case where the supply of services ceases before the completion of the supply	At the time when the supply ceases. • Such invoice shall be issued to the extent of the supply made before such cessation
In case of continuous supply of services	
⅄ Where the due date of payment is ascertainable from the contract	On or before the due date of payment;
⅄ Where the due date of payment is not ascertainable from the contract	Before or at the time when the supplier of service receives the payment;

⅄ Where the payment is linked to the completion of an event	On or before the date of completion of that event
In case of an insurance / banking company or a financial institution (including NBFC), or a telecom operator, or any other class of notified supplier of services, making taxable supplies of services between distinct persons as specified in sec. 25 ⅄ A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons [Sec. 25(4)]	Before or at the time such supplier records the same in his books of account or before the expiry of the quarter during which the supply was made.

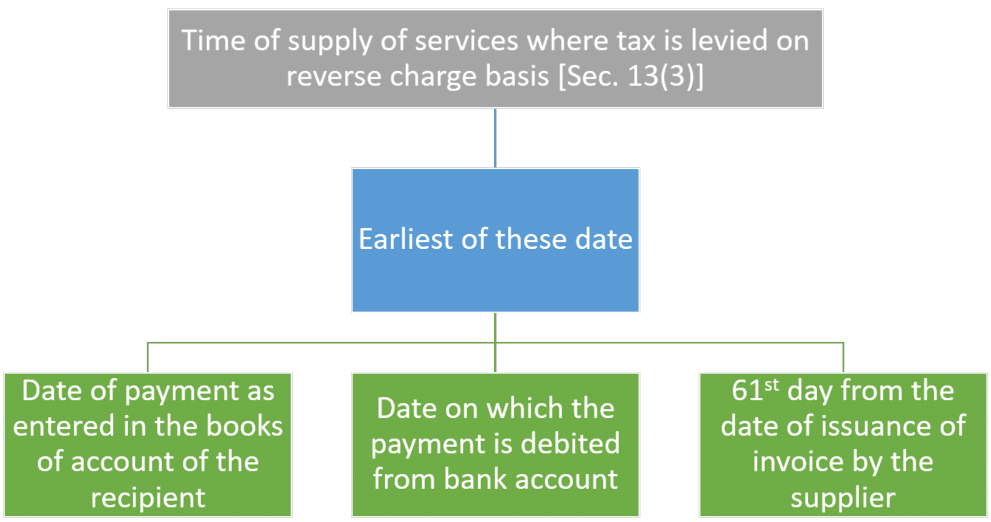
Time of Supply of Services – Reverse Charge [Sec. 13(3)]

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.



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.
- ⅄ "Associated Enterprises" shall have the same meaning as assigned to it in sec. 92A of the Income-tax Act, 1961

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:

- "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.
- However, the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after 4 working days from the date of change in the rate of tax.
- It is to be noted that in respect of supply of goods, notification no. 66/2017-CT dated 15/11/2017 is applicable.
- 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.

Topic

Module 1:

Basics of Income Tax Act

INTERMEDIATE

Group I - Paper-7B

Direct Taxation (DTX)

Agricultural Income

Meaning

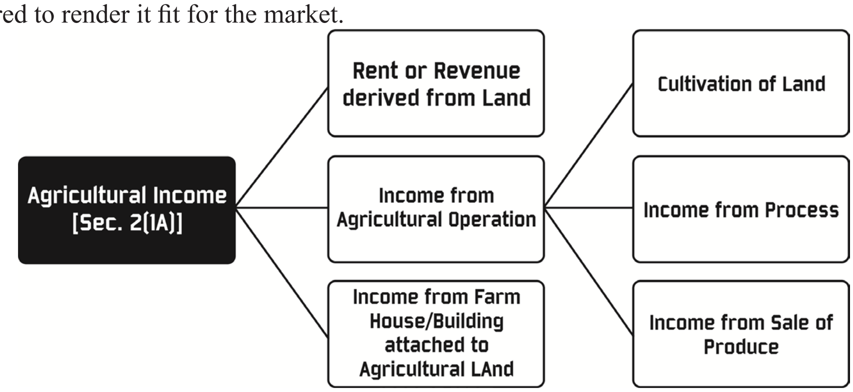
Agricultural income means -

a. Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes;

b. Any income derived from such land by agricultural operations#;

c. Any income derived from such land by the cultivator by processing the agricultural produce raised or by the receiver of rent in kind by processing the agricultural produce received; so as to render it fit for sale in market.

d. Any income derived from such land on sale made by the cultivator of the agricultural produce raised; or by the receiver of rent in kind of the agricultural produce received; without carrying on any process, other than the process required to render it fit for the market.

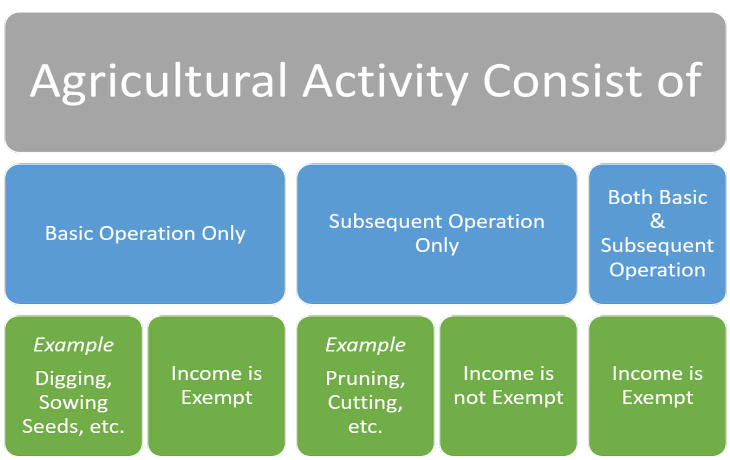


e. Any income derived from a building subject to fulfillment of the following conditions

- ➢ The building should be occupied by the cultivator or receiver of rent in kind.
- ➢ The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes.
- ➢ The building should be used as dwelling house or store-house or other out building.
- ➢ The land is either situated in rural area or assessed to land revenue.

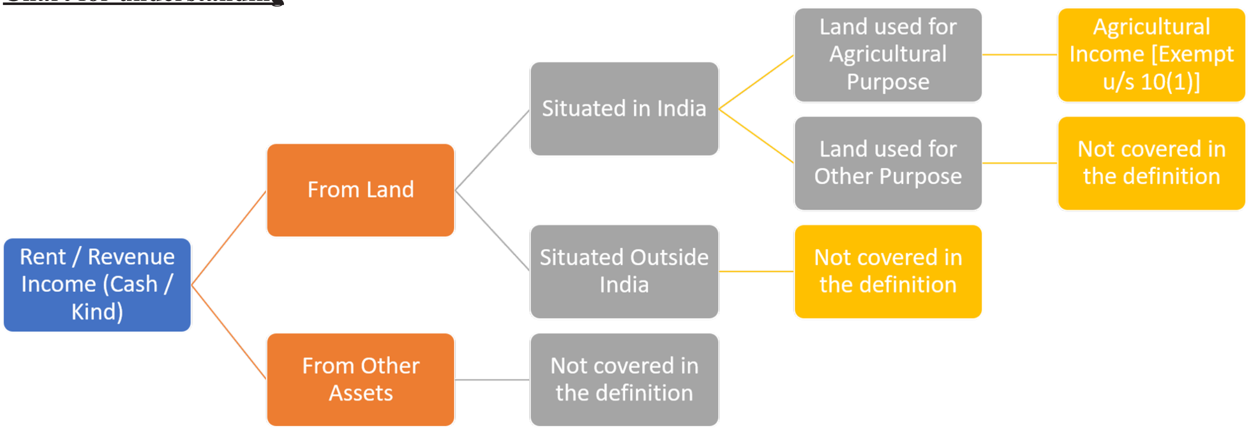
#**Agricultural operation** means:

- **Basic Operation:** It means application of human skill & labour upon the land, prior to germination. E.g. Tilling of land, sowing of seeds, planting, irrigation, etc.



- **Subsequent Operation:** It means operations which fosters the growth and preserves the produce; for rendering the produce fit for sale in market; and which are performed after the produce sprouts from the land. E.g. pruning, cutting, harvesting, etc.

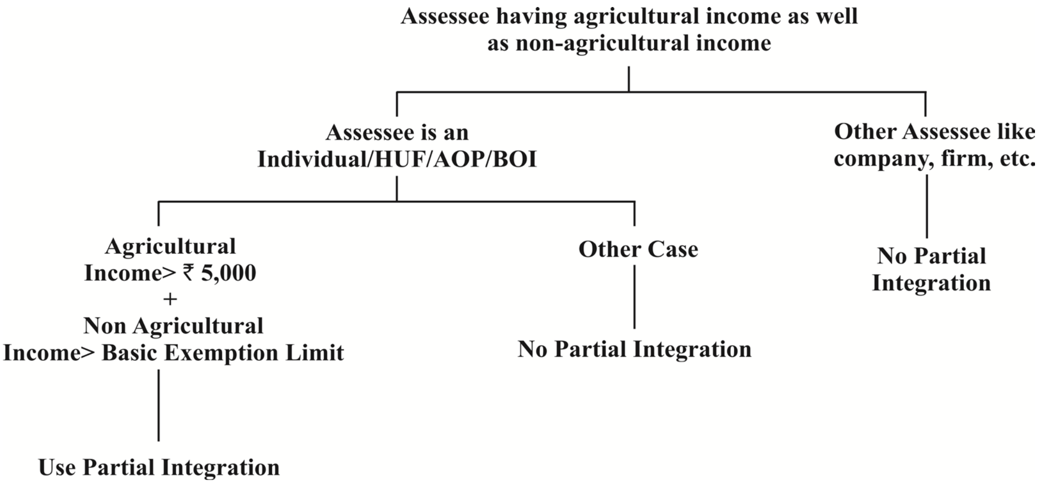
Chart for understanding



Treatment of Partly Agricultural & Partly Non-Agricultural Income

- Growing & manufacturing tea: 60% is agricultural income and 40% is non-agricultural income.
- Growing & manufacturing rubber: 65% is agricultural income and 35% is non-agricultural income.
- Growing & manufacturing coffee:
  - If coffee grown and cured by the seller: 75% is agricultural income and 25% is non-agricultural income.
  - If coffee grown, cured, roasted and grounded by the seller: 60% is agricultural income and 40% is non-agricultural income.
- **Any Other Case:** In such case, assessee will prepare two statements of income, i.e., one for agro-business and another for non agro-business and for computing agricultural income, the market value of any agricultural produce, which is utilised as raw material in such business, is to be treated as revenue for agro-business and deductible expenditure for non agro-business.

Impact of Agricultural Income on Tax Computation (Partial Integration)



Conditions:

1. The assessee is an individual, HUF, a BOI, an AOP, or an artificial juridical person.
2. The assessee has non-agricultural income exceeding exempted limit of income.
3. The agricultural income of assessee exceeds ₹ 5,000.

Treatment

Step 1: Compute income tax on total income of assessee including Agro-income.

Step 2: Compute income tax on (Agricultural income + Maximum exempted limit)

Step 3: Tax liability before cess = (Tax as per step 1) - (Tax as per step 2)

Choose the correct option:

1. Which of the following is an agriculture income?
   (a) Dividend paid by a company to its shareholders out of agricultural income
   (b) Share of Profit of a Partner from a firm engaged in an agriculture operation
   (c) Income from supply of water by an assessee from a tank in agriculture land
   (d) Interest received by a money lender in the form of agricultural produce
2. Which of the following incomes received by an assessee are exempt under section 10 of the Income-tax Act, 1961?
   (a) Agriculture Income
   (b) Salary of a partner from a firm
   (c) Salary received by a member of a ship's crew
   (d) Cash gift of ₹ 5,00,000 received from a friend
3. In case of an individual or HUF, agricultural income is –
   (a) Exempted
   (b) Exempted but included in the total income for the rate purpose
   (c) Fully taxable provided it is earned from India
   (d) Taxable at a flat rate of 10%
4. In case of an assessee engaged in the business of manufacturing of tea, his agricultural income is –
   (a) 60% of total receipt of the business
   (b) 60% of income of the business
   (c) Nil
   (d) 40% of income of the business
5. Remuneration to partner of a firm engaged in the business of growing and manufacturing of rubber in India is –
   (a) Partly agricultural income and partly non-agricultural income
   (b) Agricultural income
   (c) Non-Agricultural income
   (d) Exempted income
6. Out of the following, which activity shall be considered as agricultural activity?
   (a) Subsequent operation on the agricultural land
   (b) Basic operation on the agricultural land
   (c) Marketing operation of the agricultural produce
   (d) None of the above
7. Agricultural income is exempt u/s _______ of the Indian Income-tax Act, 1961.
   (a) 10(1)
   (b) 2(1A)
   (c) 10(2A)
   (d) 10A
8. Income from saplings shall be considered as __________ .
   (a) Agricultural Income
   (b) Business Income
   (c) Partly agricultural income and partly business income
   (d) Income from other sources
9. Which of the following is not an agriculture income?
   (a) Rent received from a land situated in India for agriculture purpose
   (b) Income derived from agriculture produce
   (c) Income derived from land being let out for marriage of a farmer
   (d) Income from producing of tea leaves
10. Mr. X is engaged in growing and manufacturing tea in India. His income from this activity is ₹ 1,40,000. His agriculture income will be –
    (a) ₹ 70,000
    (b) ₹ 84,000
    (c) ₹ 1,40,000
    (d) ₹ 56,000

Answer:

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

Topic

Module 4:
Cost Book - Keeping

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

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 unites will be available separately when cost accounts are maintained properly.

As the cost ledger summarizesthe 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.

Generally, following type Problem are expected from this Section—

PROBLEM —

Dutta and Mukhergee Enterprise operates a Integral System of Accounting. You are required to pass the Journal entries for the following transactions that took place for the year ended 31st December 2023:- (Narration are not required)

Particulars	₹
Raw materials purchased (50% on credit)	6,00,000
Materials issued to production	4,00,000
Wages paid (15% direct)	2,00,000
Wages charged to production	1,00,000
Factory Overhead incurred	80,000
Factory Overhead charged to production	1,00,000
Selling and Distribution Overhead incurred	40,000
Finished goods at cost	5,00,000
Sales (50% credit)	7,50,000
Closing Stock	NIL
Received from Debtors	2,00,000
Payments to Creditors	2,00,000

Solution:

JOURNAL ENTRIES UNDER INTEGRAL SYSTEM OF ACCOUNTING

		₹	₹
Stores Ledger Control A/c	Dr	6,00,000	
To Sundry Creditors A/c			3,00,000
To Cash at Bank A/c			3,00,000
Wages in progress Control A/c	Dr	4,00,000	
To Store Ledger Control			4,00,000
Wages Control A/c	Dr	2,00,0000	
To Cash			2,00,000
Work in Progress Control A/c	Dr	1,00,000	
Factory Overhead Control A/c	Dr	1,00,000	
To Wages Control A/c			2,00,000
Factory Overhead Control A/c	Dr	80,000	
To Cash or Bank			80,000
Work in progress Control A/c	Dr	1,00,000	
To Factory Overhead Control A/c			1.00.000
Selling and Distribution Overhead Control A/c	Dr	40,000	
To Cash or Bank.			40,000
Finished Goods Ledger Control A/c	Dr.	5,00,000	
To Work in Progress Control A/c			5,00,000
Cost of Sales A/c	Dr	5,40,000	
To Finished Goods Ledger Control A/c			5,00,000
To Selling and Distribution Overhead Control A/c.			40,000
Sundry Debtors a/c	Dr.	3,75,000	
Cash or Bank	Dr.	3,75,000	
To Sales A/c.			7,50,000
Cash or Bank	Dr,	2,00,000	
To Sundry Debtors			2,00,000
Sundry Creditors	Dr	2,00,000	
To Cash or Bank A/c.			2,00,000

Reconciliation of Cost Accounts And Financial Accounts

This Chapter is also important for Intermediate Examinations. Students should go through the theory parts very carefully, otherwise they are not able to solve the practical problems. Transactions exclusively relevant to Cost Accountants and Financial Accountants are to be identified and to be considered in the reconciliation statement. This is necessary in order to match these two profit figures. Besides, management is also interested to know the causes of differences in order to check arithmetical accuracy of both set of accounts. Thus this will facilitate internal control by highlighting the variations causing increasing or decrease in profits. Such reconciliation is to be made at regular intervals. The figures of profit either as per cost ledger or as per financial ledger is taken as starting points for reconciliation.The Profit / Loss under two different set of accounts may not agree due to following reasons –

Under or over absorption of overhead. Adoption of different methods of valuation of stock. Items purely of financial accounts, Items purely of cost accounts, Appropriation of profit not dealt with in the cost accounts and some other reasons etc.

We can easily understand the problem relating to reconciliation through the following problem---

PROBLEM—

From the following figures prepare a statement reconciling the profits as per Cost Accounts and the profits as per Financial Accounts as on 31st December 2024:--

Net profit as per the Financial Accounts	₹ 1,28,755
Net profit as per the Cost Accounts	₹ 1,72,400
Works Overheads under-recovered	₹ 3,120
Administration Overhead over-recovered	₹ 1,700
Depreciation charged in the Financial Accounts	₹ 11,200
Depreciation charged in Cost Accounts.	₹ 12,500
Interest received but not included in the Cost Accounts	₹ 8,000
Loss due to obsolescence charged in the Financial Accounts	₹ 5,700
Income Tax provided in Financial Accounts	₹ 40,300
Stores Adjustments credited in the Financial Accounts	₹ 475
Depreciation of stock charged in the Financial Accounts	₹ 6,750
Bank Interest credited in Financial Accounts	₹ 750

Solution –

Reconciliation Statement as at 31st December 2024.

	₹	₹
Net profit as per Cost Accounts		1,72,400
Less- Works Overheads under-recovered	3,120	
Loss due to obsolescence charged in Financial A/cs.	5,700	
Income Tax provided in Financial A/cs.	40,300	
Depreciation of Stocks charged in Financial A/cs.	6,750	
		55,870
		1,16,530
Add- Administration Overhead over absorbed	1,700	
Excess Deprn. Charged in the Cost A/cs	1,300	
Interest received but not included in Cost A/cs.	8,000	
Stores adjustment credited in Financial A/cs.	475	
Bank interest Credited in the Financial A/cs.	750	12,225
Net Profit as per Financial Accounts.		1,28,755

Topic

Module 4: Application of Operation Research - Production Planning and Control

INTERMEDIATE

Group II - Paper-9

Operations Management and Strategic Management (OMSM)

Operations Management

In this issue discussions are made on complex Line Balancing problems under Production Planning and Control (Refer module 4 of guide book)

Illustration:

The tasks shown in the following table are to be assigned to workstations with the intent of minimising idle time. Management has designed an output rate of 300 units per day. Assume 600 minutes are available per day

a) Draw a precedence diagram;

b) Determine the appropriate cycle time

c) What is the minimum number of stations possible?

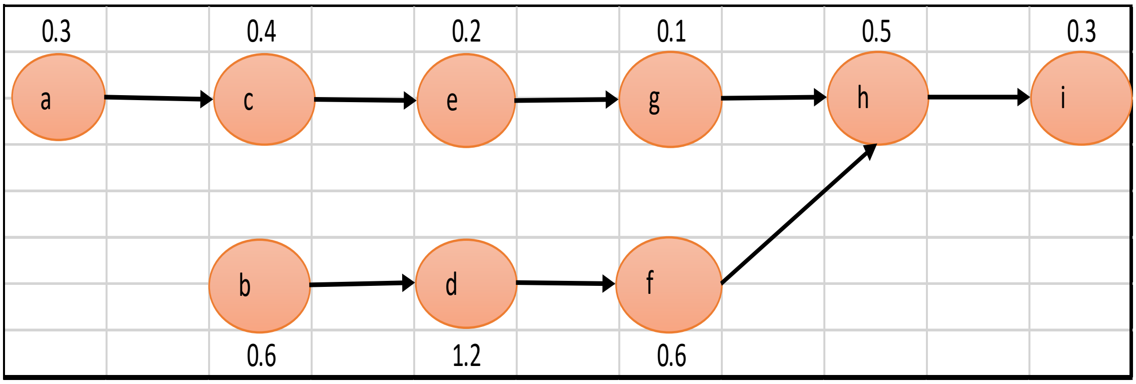
d) Assign tasks using the "positional weight" rule: Assign tasks with highest following times (including task's own time) first. Break ties using greatest number of following tasks.

e) Compute efficiency

Task	Immediate Predecessor	Task Time (in minutes)
a	-	0.3
b	-	0.6
c	a	0.4
d	b	1.2
e	c	0.2
f	d	0.6
g	e	0.1
h	f, g	0.5
i	h	0.3
Σt		4.2

Answer:

(a)

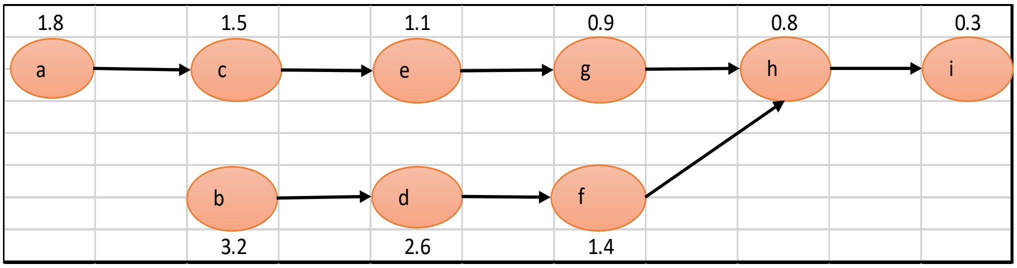


(b) Cycle time = $\dfrac{\text{Operating time per day}}{\text{Desired output rate}} = \dfrac{600}{300}$ = 2 minutes per unit

(c) Theoretical minimum number of stations = $N_{min} = \dfrac{\Sigma t}{\text{Cycle time}} = \dfrac{4.2}{2}$ = 2.2 = rounded to 3 station

(d) The solution is given in the following table.

Positional weights i.e. task time plus the sum of all following times of each task is shown below.



Station	Time Remaining	Eligible	Assign Task/Time	Time used	Revised Time Remaining	Station idle Time
1	2	a, b	b	0.6	1.4	
	1.4	a, d	d*	1.2	0.2	
	0.2	none	none			0.2
2	2	a, f	a	0.3	1.7	
	1.7	c, f	c	0.4	1.3	
	1.3	e, f	f	0.6	0.7	
	0.7	e	e	0.2	0.5	
	0.5	g	g	0.1	0.4	
	0.4					0.4
3	2	h	h	0.5	1.5	
	1.5	i	i	0.3	1.2	1.2
Total						1.8

- In the solution the initial "time remaining" for each workstation is equal to the cycle time;
- For a task to be eligible, tasks preceding it must have been assigned and the task's time must not exceed station's remaining time;
- In workstation 1 task b is to be assigned first as it has the maximum possible weight.
- *Time remaining in workstation 1 after assigning b is 1.4min. Now within this time tasks a and d both are eligible. But since d has more positional weight (2.6 in comparison to 1.8 of a) task d has been assigned first. Therefore station's remaining time 0.2 min is the idle time of the station;

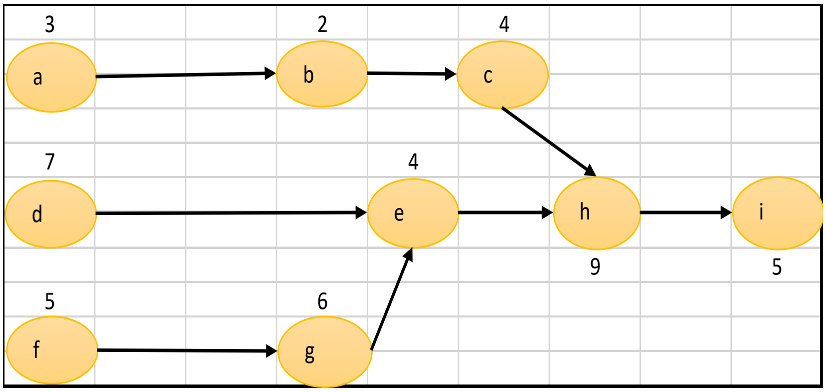
Illustration:

A manger wants to assign tasks to workstations as efficiently as possible and achieve an hourly output of four units. The department uses a working time of 56 minutes per hour. Assign the tasks shown in the accompanying precedence diagram (times are in minutes) to workstations using the following rules:

a) In order of most following tasks. Tiebreaker: greatest positional weight

b) In order of greater positional weight. Tiebreaker: most following tasks

c) What is efficiency?



Answer:

The following table shows the order of most following tasks and against each task positional weights are shown:

Task	Number of tasks following	Positional Weight
a	4	23
b	3	20
c	2	18
d	3	25
e	2	18
f	4	29
g	3	24
h	1	14
i	0	5

(b) Cycle time $= \dfrac{\text{Operating time per day}}{\text{Desired output rate}} = \dfrac{56}{4} = 14$ minutes per unit

(c) Theoretical minimum number of stations $= N_{min} = \dfrac{\Sigma t}{\text{Cycle time}} = \dfrac{45}{14} = 3.21$ = rounded to 4 station

a) The solution is given in the following table.

Station	Time Remaining	Eligible	Assign Task/Time	Time used	Revised Time Remaining	Station idle Time	Reason
1	14	a, d, f	a	3	11		as a has maximum follower
	11	b, d, f	f	5	6		as f has maximum follower
	6	b, g	g	6	0		as g has greatest positional weight
2	14	b, d	d	7	7		as d has greatest positional weight
	7	b, e	b	2	5		as b has maximum follower
	5	c, e	e	4	1		Refer Note 1 below
	1	None				1	
3	14	c	c	4	10		Only task, no choice
	10	h	h	9	1		Only task, no choice
	1	None				1	
							Only task, no choice
4	14	i	5	5	9		
	9					9	
	Total					11	

- In the solution the initial "time remaining" for each workstation is equal to the cycle time;
- For a task to be eligible, tasks preceding it must have been assigned and the task's time must not exceed station's remaining time;

Note 1: Task c and e both have same number of followers and same positional weights. So to tie break we have assigned task e arbitrarily.

b) In this case we have to assign the tasks to stations on the basis of greatest positional weights. In case of ties, tie break is done by assigning the task with maximum followers.

The solution is given in the following table:

Station	Time Remaining	Eligible	Assign Task/Time	Time used	Revised Time Remaining	Station idle Time	Reason
1	14	a, d, f,	f	5	9		as f has greatest positional weight
	9	a, d, g	d	7	2		as d has greatest positional weight
	2	None				2	
2	14	a, e, g	g	6	8		as g has greatest positional weight
	8	a, e	a	3	5		as a has greatest positional weight
	5	b, e	b	2	3		as b has greatest positional weight
	3	None				3	
3	14	c, e	c	4	10		Refer Note 1 below
	10	e	e	4	6		Only task, no choice
	6	None				6	
4	14	h	h	9	5		Only task, no choice
	5	i	i	5	0		Only task, no choice
	Total					11	

- In the solution the initial "time remaining" for each workstation is equal to the cycle time;
- For a task to be eligible, tasks preceding it must have been assigned and the task's time must not exceed station's remaining time;

Note 1: Task c and e both have same positional weights and same number of followers. So to tie break we have assigned task c arbitrarily.

Efficiency:

Under (a) & (b)

$$\text{Percentage of idle time} = \frac{\text{Idle time per cycle}}{N_{actual} * \text{Cycle time}} \times 100 = \frac{11}{4 * 14} * 100 = 19.64\%$$

Similarly with the help of formula for ***Efficiency of the line*** could be found as:

Efficiency = 100% - Percentage of idle time = 100% - 19.64% = 80.36% or

$$\text{Efficiency of the line} = \frac{N_{Actual} * \text{Cycle time - Idle time}}{N_{actual} * \text{Cycle time}} \times 100 = \frac{4*14-11}{4 * 14} * 100 = 80.36\%$$

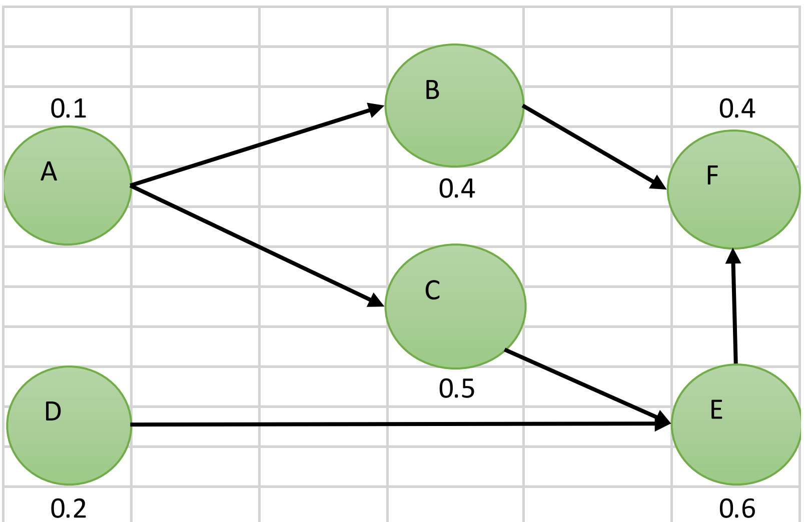
Illustration:

ABC Company needs to produce 4000 boxes of blocks per 40 hour week to meet upcoming holiday demand. The process of making block can be broken into six tasks. The precedence and time requirements for each task are as follows. Draw the precedence diagram and set up a balanced assembly line and calculate the efficiency.

Task	Precedence	Performance Time (Min)
A	-	0.1
B	A	0.4
C	A	0.5
D	-	0.2
E	C, D	0.6
F	B, E	0.4
		2.2

Answer:

The precedence diagram is as follows:



Cycle time = $\frac{\text{Operating time per day}}{\text{Desired output rate}}$ = $\frac{40*60}{4000}$ = 0.6 minutes per unit

(c) Theoretical minimum number of stations = $N_{min} = \frac{\Sigma t}{\text{Cycle time}}$ = $\frac{2.2}{0.6}$ = 3.67 = rounded to 4 station

The solution is given below.

We are doing in order of greater positional weight. Tiebreaker: most following tasks

Task	Number of tasks following	Positional Weight
A	3	1.6
B	1	0.8
C	2	1.5
D	2	1.2
E	1	1
F	-	0.4

Station	Time Remaining	Eligible	Assign Task/Time	Time used	Revised Time Remaining	Station idle Time	Reason
1	0.6	A, D	A	0.1	0.5		as A has greatest positional weight
	0.5	B, C, D	C	0.5	0		as C has greatest positional weight
2	0.6	B, D	D	0.2	0.4		as D has greatest positional weight
	0.4	B	B	0.4	0		Only task, no choice
3	0.6	E	E	0.6	0		Only task, no choice
4	0.6	F	F	0.4	0.2		Only task, no choice
	0.2					0.2	
	Total					0.2	

$$\text{Percentage of idle time} = \frac{\text{Idle time per cycle}}{N_{actual} * \text{Cycle time}} \times 100 = \frac{0.2}{4 * 0.6} * 100 = 8.33\%$$

Similarly with the help of formula for ***Efficiency of the line*** could be found as:

Efficiency = 100% - Percentage of idle time = 100% - 8.33% = 91.67% or

$$\text{Efficiency of the line} = \frac{N_{Actual} * \text{Cycle time - Idle time}}{N_{actual} * \text{Cycle time}} \times 100 = \frac{4*0.6 - 0.2}{4 * 0.6} * 100 = 91.67\%$$

Suggestions:

The study notes need to be read thoroughly. Supplementary readings could be made from other resources. This issue is made as an extended aid to the topic discussed in guide book.. The problem is just indicative type from which 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 to be thoroughly consulted. All concepts/formula used in the problems are taken from guided book and so detail discussions made here.

Topic

Module 1:
Preparation of Statement of Profit and Loss and Balance Sheet

Module 6:
Basic Concepts of Auditing

INTERMEDIATE

Group II - Paper-10

Corporate Accounting and Auditing (CAA)

Section A: Corporate Accounting

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

- **Inventory Related Line Items in the Statement of Profit and Loss**

While preparing the Statement of Profit and Loss, two important line items involve inventory related details to be computed and shown – These are:

(i) Cost of Raw Materials Consumed: This item of expense relates to raw- materials, other direct materials consumed in the manufacturing process and primary packing materials, if any. It is applicable formanufacturing companies only. It is ascertained as follows:

Cost of materials consumed = Opening balance of materials + Purchases of materials - Closing balanceof materials

(ii) Changesin Inventory: The term 'Changes in inventories' means the difference between Opening balance and Closing balance of inventories. Here, inventory refers to finished goods, work-in-progress and stock-in-trade. Mathematically, for the purpose of Statement of Profit and Loss, Changes in inventories = Opening balance - Closing balance. Such differences should be disclosed separately for finished goods, work-in-progress and stock-in-trade in the Notes to Accounts section.

Illustration 1

The following details relate to inventories of M Ltd., a manufacturing-cum-trading organization for the year 2022-23:

Inventory	Balance on Apr. 1, 2022	Balance on Mar. 31, 2023	Purchases during the year
Raw materials (₹)	14,73,000	11,02,200	38,70,000
Work-in-progress (₹)	2,60,400	3,75,000	_
Finished goods (₹)	8,26,800	3,98,520	_
Stock-in-trade (₹)	1,32,000	2,67,000	10,68,000

You are required to draft the extract of Statement of Profit and Loss and also the relevant Notes to Accounts for reflecting the above details.

Solution:

1. Cost of materials consumed

Particulars	₹
Opening stock of raw materials	14,73,000
(+) Purchases of raw materials	38,70,000
(-) Closing stock of raw materials	11,02,200
Cost of materials consumed	42,40,800

2. Changes in inventories

Particulars		₹	₹
Finished goods:	Opening stock	8,26,800	
	(-) Closing stock	3,98,520	
			4,28,280
WIP	Opening stock	2,60,400	
	(-) Closing stock	3,75,000	
			(1,14,600)
Stock-in-trade	Opening stock	1,32,000	
	(-) Closing stock	2,67,000	(1,35,000)
			1,78,680

- **Comprehensive Problem**

E Ltd. provides the following Trial Balance as on 31st March 2023:

Particulars	Dr. Balances (₹)	Cr. Balances (₹)
Equity Share Capital: 300000 shares of ₹10 each fully paid		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non-current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest Received on Investment		20,000
Interest on Bank Loan	20,000	
Purchase	33,20,000	
Purchase Returns		4,20,000
Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent and Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit fees	27,000	
Contribution to P.F	60,000	
Cash at Bank and in hand	1,32,000	
Total	85,20,000	85,20,000

Additional Information:

(i) Closing Stock as on 31st March 2023 was ₹ 2,12,500

(ii) Depreciation Rates: Furniture 10%,; Machinery 20% and Building 10%

(iii) Outstanding salaries as on 31st march 2023 was ₹ 62,250

(iv) Trade receivables include a sum of ₹ 25,000 due from Mr. B. Reddy and trade payables include ₹ 15,000 due to him.

(v) Create a provision for doubtful debt @ 5% on trade receivables.

(vi) Provide for income tax ₹ 80,000

Prepare a Statement of Profit and Loss for the year ended on 31st March 2023 and a Balance Sheet as on that date.

Solution

Notes to Accounts:

1. Employee Benefit Exp.		2. Finance Cost:		3. Other Exp.	₹
Salaries	4,00,750	Interest on loan	20,000	Discount	6,250
Outstanding Salaries	62,250	Outstanding Int.	4,000	Carriage	1,39,000
Contribution to P.F	60,000		24,000	Rent	60,000
	5,23,000			Advertisement	1,20,000
				Bad Debt	10,000
				Audit fees	27,000
				Prov. for B/D	59,250
					4,21,500

4. Trade Receivable:		5. PPE	Furniture	Machine	Building
Totalreceivable	12,00,000	Balance	2,25,000	7,50,000	12,50,000
(-) set off	15,000	(-) Depreciation	22,500	1,50,000	1,25,000
	11,85,000		2,02,500	6,00,000	11,25,000
(-) Provision @ 5%	59,250	Total Fixed Assets			19,27,500
	11,25,750	Depreciation			2,97,500

Statement of Profit and Loss for the year ended on 31.03.2023

Particulars	Note	₹
I. Revenue from operation (sales less returns)		44,00,000
II. Other Income (Income from investment)		20,000
III. Total revenue		44,20,000
IV. Expenses:		
Purchase		29,00,000
Changes in inventory i.e. opening less. Closing		(12,500)
Employee Benefit expenses	1	5,23,000
Finance cost	2	24,000
Depreciation	5	2,97,500
Other expenses	3	4,21,500
		41,53,500
V. Profit before exceptional and extraordinary items and tax		2,66,500
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		2,66,500
VII. Extraordinary items		Nil
VIII. Profit before tax		2,66,500
IX. Tax (provision for tax)		80,000
X. Profit after tax		1,86,500

Balance Sheet as on 31.03.2023

	Note	₹
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital		30,00,000
(b) Reserve and Surplus (Balance of Profit)		1,86,500
2. Share Application money pending allotment		nil
3. Non-current liabilities (12% Bank loan)		2,00,000
4. Current Liabilities		
Trade Payable (after set off of ₹15,000)		65,000
Outstanding interest		4,000
Outstanding salary		62,250
Provision for Tax		80,000
Total		35,97,750
II. Assets		
1. Non-current Assets		
(a) PPE	5	19,27,500
(b)Non-current Investment		2,00,000
2. Current Assets		
Inventories		2,12,500
Trade Receivable	4	11,25,750
Cash and cash equivalent		1,32,000
Total		35,97,750

Section B: Auditing

Basic Concepts of Auditing

Multiple Choice Questions

a. Audit programme

(i) is the final product of every audit

(ii) is the records of the important information obtained during the audit engagement.

(iii) is the detail list of audit procedures to be performed

(iv) is a method of obtaining audit evidence

Answer:(iii) is the detail list of audit procedures to be performed

b. Internal Auditor is appointed by

(i) Audit Committee

(ii) Shareholders in General Meeting

(iii) Extraordinary General Meeting

(iv) Board of Directors

Answer: (iv) Board of Directors

c. Current Audit files contains

(i) Articles of Association and Memorandum of Association

(ii) Analysis of significant ratios and trends

(iii) Notes regarding significant accounting policies

(iv) Audit Programme

Answer: (iv) Audit Programme

Q. Define Audit Programme. How does an Audit Programme help an auditor in discharging his duty effectively?

Solution:

An audit programme refers to an elaborate plan of the work to be performed while conducting the audit of an organisation. It contains the procedures to be followed while verifying different items of the financial statements. In addition, it also contain a schedule for various works to be done.

Accordingly, an audit programme helps an auditor in discharging his duty effectively by the following ways:

(i) From audit programme the audit clerks get a ready reference of the works to be performed by them.

(ii) The auditor can effectively distribute the workload among his audit staff by preparing a well-thought-out audit programme.

(iii) The auditor can effectively monitor the progress of the audit assignment by simply comparing the work done against the works planned in the audit programme.

(iv) The auditor may continue the same programme time to time and thereby maintain uniformity.

(vi) The auditor can prepare the next year's plan based on the current year's audit programme..

(vii) In case auditor is accused of any negligence, he can produce the audit programme as evidence to counter the charges against him.

Topic

Module 3:
Tools of Financial Analysis

Module 9:
Data Processing, Organisation, Cleaning and Validation

INTERMEDIATE

Group II - Paper-11

Financial Management and Business Data Analytics (FMDA)

Ratio Analysis

Types of Ratios

Ratios can broadly be classified into six groups: (1) liquidity, (2) capital structure or leverage, (3) profitability, (4) activity and (5) integrated

1. **Liquidity ratios** measure the ability of a firm to meet its short-term obligations and reflect its short-term financial strength or solvency.

   The main liquidity ratios are computed as follows:

   (i) Current ratio = Current assets/Current liabilities.

   (ii) Acid test ratio = (Current assets – Stock – Pre-paid expenses)/Current liabilities. (iii) Super-quick ratio = (Cash + Marketable securities)/ Current liabilities.

2. **The capital structure or leverage ratios** throw light on the long-term solvency of a firm. The important leverage ratios are:

   (i) Debt/equity ratios = Total debt (long-term debt + current liabilities)/Shareholders' funds.

   (ii) Debt to total capital ratio = Total debt/ Permanent capital (shareholder's funds + long-term debt). (iii) Debt to total assets ratio = Total debt/Total assets.

   (iv) Proprietary ratio = Owner's funds/Total assets.

   (v) Capital gearing ratio = (Preference share capital + Debentures + Other borrowed funds)/ Equity funds (net worth).

   (vi) Interest coverage ratio (times-interest earned) = Earnings before interest and taxes (EBIT/ Interest.

   (vii) Dividend coverage ratio = Earnings after taxes (EAT)/Preference dividend (Dp).

3. The profitability of a firm can be measured by the profitability ratios. Such ratios can be computed either from sales or investment.

   Sales related ratios:

   (i) Gross profit ratio/margin =Gross profit (sales – cost of goods sold)/Net sales.

   (ii) Operating profit ratio/margin = EBIT/Net sales.

   (iii) Net profit ratio/margin = Earnings after taxes (EAT)/Net sales.

   (iv) Cost of goods sold ratio = Cost of goods sold/ Net sales.

   (v) Operating expenses ratio = (Administrative expenses + Selling expenses)/Net sales.

   (vi) Administrative expenses ratio = Administrative expenses/Net sales.

   (vii) Selling expenses ratio = Selling expenses/Net sales.

   (viii)Operating ratio = (Cost of goods sold + Operating expenses)/Net sales.

Ratios related to total investment are as follows:

(i) Return on total assets = (EAT +Interest – Tax advantage on interest)/Average total assets. (ii) Return on capital employed = (EAT+ Interest – Tax advantage on interest)/Average total capital employed.

(iii) Return on shareholders' equity = EAT/Average total shareholders' equity.

(iv) Return on equity funds = (EAT – Preference dividend)/Average ordinary shareholders' equity (net worth).

(v) Earnings per share (EPS) = Net profit available to equity shareholders' (EAT – Dp)/Number of equity shares outstanding (N)

(vi) Dividends per share (DPS) = Dividend paid to ordinary shareholders/Number of ordinary shares outstanding (N).

(vii) Earnings yield = EPS/Market price per share.

(viii) DPS/Market price per share.

(ix) Dividend payment/payout (D/P) ratio = DPS/EPS.

(x) Price-earnings (P/E) ratio = Market price of a share/ EPS.

(xi) Book value per share = Ordinary shareholders' equity/Number of equity shares outstanding.

4. The activity ratios or turnover ratios are concerned with measuring the efficiency in asset management. Activity ratios are:

(i) Raw material turnover = Cost of raw materials used/Average raw materials inventory.

(ii) Work-in-process turnover = Cost of goods manufactured/Average work-in-process inventory.

(iii) Finished goods inventory turnover = Cost of goods sold/Average finished goods inventory.

(iv) Debtors turnover ratio = Total credit sales/(Average debtors + Averages bills receivable).

(v) Average collection period = Months (days) in year/ Debtors turnover ratio.

(vi) Total assets turnover = Cost of goods sold/Average total assets.

(vii) Fixed assets turnover = Cost of goods sold/Average fixed assets.

(viii) Current assets turnover = Cost of goods sold/ Average current assets.

(ix) Working capital turnover ratio = Cost of goods sold/Average net working capital.

5. Integrated ratios provide better insight about financial and economic analysis of a firm.

ROE can be decomposed into net profit margin (EAT/Sales) and assets turnover (Sales/Total assets).

Likewise, the ROE can be decomposed in the following two ways:

(i) (EAT/Sales)(Sales/Assets) (Assets/Equity) and

(ii) (EAT/EBT) (EBT/EBIT) (EBIT/ Sales) (Sales/ Assets) (Assets/Equity).

Multiple Choice Questions:

1. Which of the following is a liquidity ratio?

(a) Equity ratio

(b) Propriety Ratio

(c) Capital Gearing Ratio

(d) Net Working Capital Ratio

Answer: (d)

2. A company has net profit margin of 5%, total assets of ₹ 90,00,000 and return on assets of 9%. Its total asset turnover ratio would be:

(a) 1.6

(b) 1.7

(c) 1.8

(d) 1.9

Answer (c)

3. A two-months debtor collection period implies that debtors turnover ratio is ________

(a) 2 times

(b) 3 times

(c) 4 times

(d) 6 times

Answer (d)

4. Reliance Ltd. has an ROA of 10% and a Profit Margin of 2%. The company's total Asset Turnover is

(a) 3%

(b) 4%

(c) 5%

(d) 6%

Answer: (c)

5. ZENEETH Ltd. is a manufacturing company having asset turnover ratio of 2 and debt-asset ratio of 0.60 for the year ended 31st March, 2009. If its net profit margin is 5 percent, the Return on Equity (ROE) of the company will be

(a) 20%

(b) 25%

(c) 16.7%

(d) Data insufficient

Answer: (b)

6. Durga Farm Supplies has an 8 percent return on total assets of ₹ 3,00,000 and a net profit margin of 5 percent. Its sales are then

(a) ₹ 37,50,000

(b) ₹ 4,80,000

(c) ₹ 3,00,000

(d) ₹ 15,00,000

Answer: (b)

7. The capital of PQR Limited is as follows:

9% preference shares of ₹10 each	₹ 3,00,000
Equity shares of ₹ 10 each	₹ 8,00,000

Following further information is available:

Profit after Tax	₹ 2,70,000
Equity Dividend paid	20%
The market price of equity shares	₹ 40 each

Then the EPS and PE ratio are:

(a) ₹ 3.12 and 10.80

(b) ₹ 3.33 and 10.34

(c) ₹ 4.51 and 12.56

(d) ₹ 3.04 and 13.16

Answer: (d)

8. XYZ Ltd. has a Debt Equity Ratio of 1.5 as compared to 1.3 Industry average. It means that the firm has:

(a) Higher Liquidity

(b) Higher Financial Risk

(c) Higher Profitability

(d) Higher Capital Employed.

Answer (b)

9. Inventory Turnover measures the relationship of inventory with:

(a) Average Sales

(b) Cost of Goods Sold

(c) Total Purchases

(d) Total Assets

Answer (b)

10. Statement of cash flows are included in –

(a) Ind AS - 3

(b) Ind AS - 6

(c) Ind AS - 7

(d) Ind AS - 113

Answer (c)

Business Data Analytics

Data Processing

Meaning of Data Processing: Data processing (DP) is the process of organising, categorising, and manipulating data in order to extract information. Information in this context refers to valuable connections and trends that may be used to address pressing issues. In recent years, the capacity and effectiveness of DP have increased manifold with the development of technology.

Data processing involves:

(a) Validation – Ensuring that supplied data is correct and relevant.

(b) Sorting – “arranging items in some sequence and/or in different sets.”

(c) Summarization(statistical) or (automatic) – reducing detailed data to its main points.

(d) Aggregation – combining multiple pieces of data.

(e) Analysis – the «collection, organization, analysis, interpretation and presentation of data.”

(f) Reporting – list detail or summary data or computed information.

(g) Classification – separation of data into various categories.

Stages of Data Processing Process

(a) Collection: The process begins with the collection of raw data from various sources. The stage establishes the foundation for subsequent processing, ensuring a comprehensive pool of data relevant to the intended analysis. It could include surveys, sensors, databases, or any other means of gathering relevant information.

(b) **Preparation:** Data preparation focuses on organizing, data cleaning, and formatting raw data. Irrelevant information is filtered out, errors are corrected, and the data is structured in a way that facilitates efficient analysis during subsequent stages of processing.

(c) **Input:** During the data input stage, the prepared data is entered into a computer system. This can be achieved through manual entry or automated methods, depending on the nature of the data and the systems in place.

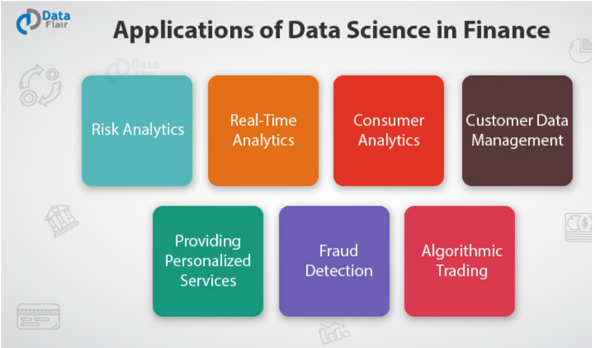
(d) **Data Processing:** The core of data processing involves manipulating and analyzing the prepared data. Operations such as sorting, summarizing, calculating, and aggregating are performed to extract meaningful insights and patterns.

(e) **Data Output:** The results of data processing are presented in a comprehensible format during the data output stage. This could include reports, charts, graphs, or other visual representations that facilitate understanding and decision-making based on the analyzed data.

(f) **Data Storage:** The final stage entails storing the processed data for future reference and analysis. This is crucial for maintaining a historical record, enabling efficient retrieval, and supporting ongoing or future data-related initiatives. Proper data storage ensures the longevity and accessibility of valuable information.

How to Apply Data Science in Finance?

1. Risk analytics
2. Real-time Analytics
3. Consumer analytics
4. Customer data management
5. Providing personalized service
6. Fraud Prevention
7. Algorithmic Trading



Source: https://data-flair.training/blogs/data-science-in-finance/

1. Data Analytics uses ___ to get insights from data.

   (a) Statistical figures

   (b) Numerical aspects

   (c) Statistical methods

   (d) None of the mentioned above

   Answer: (c)

2. Amongst which of the following is / are the true about regression analysis?

   (a) Describes associations within the data

   (b) Modeling relationships within the data

   (c) Answering yes/no questions about the data

   (d) All of the mentioned above

   Answer: (b)

Topic

Module 3:
Marginal Costing

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

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 3.2: Cost-Volume-Profit Analysis

Cost-Volume-Profit (CVP) analysis, also known as break-even analysis, examines how costs, volume, and profit are interconnected. It helps management understand potential profits if production and sales targets are met. CVP analysis determines the break-even point and identifies the margin of safety. By considering fixed and variable costs, sales volume, and profit levels, it aids in making decisions regarding pricing, production, and achieving desired profits.

It operates on the premise that variable costs fluctuate in proportion to sales volume, while fixed costs remain constant within a specified range. By using the break-even equation, management can assess the impact of proposed changes in variable costs, fixed costs, or a combination of both on the outcome. The break-even point denotes the minimum sales volume required to cover total costs, resulting in zero profit.

Various formulas and ratios, such as contribution per unit, contribution/sales ratio, and margin of safety, aid in CVP analysis. This method examines the relationship between costs, sales revenue, activity levels, and profits. It is vital for businesses to understand their break-even point to make informed decisions and maximise profitability. CVP analysis focuses on how changes in sales volume affect costs and operating profits, distinguishing between variable and fixed expenses. Ultimately, it helps businesses determine the level of sales needed to achieve profitability and guides short-term planning and decision-making.

Formula used in CVP analysis:

- Contribution per unit = unit selling price – unit variable costs
- Profit = (sales volume × contribution per unit) – fixed costs
- Break-even point = activity level at which there is neither profit nor loss = Total Fixed Costs÷ Contribution per unit = Contribution required to break-even÷ Contribution per unit
- Contribution÷ sales (C÷ S) ratio = profit/volume (P/V) ratio = (contribution÷ sales) × 100%
- Sales revenue at break-even point = fixed costs ÷ C/S ratio
- Margin of safety (in units) = Budgeted sales units – Break-even sales units
- Margin of safety (as %) = [(Budgeted sales - Break-even sales) ÷ Budgeted sales] × 100%
- Sales volume to achieve a target profit = (Fixed cost + Target profit) ÷ Contribution per unit

The assumptions of Cost-Volume-Profit (CVP) Analysis are as follows:

a) All other variables remain constant: The analysis assumes that factors other than volume remain unchanged, but variations in variables like production efficiency or sales mix can impact costs and revenues, potentially affecting the accuracy of CVP analysis.

b) Single product or constant sales mix: CVP analysis assumes either a single product or a consistent sales mix. Deviations from this assumption require careful interpretation of the analysis results.

c) Total costs and total revenue are linear functions of output: The assumption is that unit variable costs and selling prices remain constant, valid only within the relevant production range.

d) Profits are calculated on a variable costing basis: Fixed costs are treated as period expenses, assuming variable-costing profit calculations. Absorption-costing profit calculations require production to equal sales for accurate predictions.

e) Costs can be accurately divided into fixed and variable elements: CVP analysis assumes accurate separation of costs into fixed and variable components, though this may be challenging with semi-variable costs.

f) Analysis applies only to the relevant range: CVP analysis is suitable only within the relevant production range and cannot accurately predict costs and revenues beyond this range.

g) Analysis applies only to a short-term time horizon: CVP analysis is based on short-term relationships between volume, sales revenue, costs, and profit, typically limited to one year, as significant changes to selling prices and costs are unlikely within this timeframe. Long-term decision-making is beyond its scope.

The limitations of Cost-Volume-Profit (CVP) Analysis are as follows:

a) Assumptions about fixed and variable costs: CVP Analysis assumes fixed costs remain constant in total and variable costs remain constant per unit at all output levels. However, in reality, fixed costs may change significantly with substantial changes in output, and variable costs per unit may fluctuate due to economies or diseconomies of scale. These assumptions are only accurate within a normal or relevant range of output.

b) Constant sales prices assumption: CVP Analysis assumes sales prices remain constant regardless of activity levels. However, in practice, sales prices may vary, particularly at higher output volumes where price reductions might be necessary to stimulate additional sales.

c) Ignoring production and sales differences: CVP Analysis assumes production and sales are identical, overlooking any variations such as increases in inventory levels or reductions in stock levels (de-stocking).

d) Neglecting uncertainty in cost estimates: CVP Analysis often disregards uncertainties in estimating fixed costs and unit variable costs, potentially leading to inaccurate predictions.

Breakeven Analysis for Multi-Product Organisations

In breakeven analysis for multi-product organisations, the assumption of a constant product sales mix is crucial. This assumption implies that when a certain quantity of one product is sold, a corresponding proportion of other products is also sold. For instance, if 100 units of Product A are sold, a predetermined number of units of Product B and Product C are also assumed to be sold in specific proportions.

This assumption allows for the calculation of a weighted average contribution per mix. The calculation involves assigning weights to each product based on the quantities sold in the assumed constant mix. For example, if Product A constitutes 40% of the mix, Product B constitutes 30%, and Product C constitutes 30%, then the weighted average contribution per mix is calculated accordingly.

The unit contribution of each product refers to the amount by which each unit contributes towards covering fixed costs and generating profit. In the context of a multi-product organisation, the unit contribution of the product that makes up the largest proportion of the mix has the greatest impact on the average contribution per mix. This is because changes in the sales volume of this product will have a more significant effect on the overall profitability of the mix.

MCQ:

1. Break-even analysis is the study of the interrelationships between_________.
   a) Costs, volume and profit
   b) Control costs
   c) Contribution and fixed cost
   d) Sales and profit
2. The effect of volume changes can be predicted when
   a) degree of variability in costs is known
   b) only fixed cost is known
   c) break-even point is known
   d) profit is known
3. At break-even point
   a) Profit is minimum
   b) Profit is maximum
   c) Profit is zero
   d) None of the above
4. The formula for calculation of contribution is
   a) (sales volume × contribution per unit) – fixed costs
   b) unit selling price – unit variable costs
   c) fixed costs ÷ C/S ratio
   d) None of the above
5. The formula for margin of safety is
   a) Budgeted sales units – Break-even sales units
   b) [(Budgeted sales - Break-even sales) ÷ Budgeted sales] × 100%
   c) fixed costs ÷ C/S ratio
   d) Both a and b
6. The cost volume profit analysis is a
   a) Short term tool
   b) Long term tool
   c) Medium term tool
   d) None of the above

7. Operating income can be calculated by using which formula
   a) Sales – Variable Costs – Fixed Costs
   b) Variable Costs – Fixed Costs– Sales
   c) Sales +Fixed Costs— Variable Costs
   d) All of the above
8. Calculate the contribution if the company A may know that the sales price for product X in a particular year is going to be in the region of ₹500, its variable costs are approximately ₹300 and fixed cost is ₹200.
   a) ₹800
   b) ₹300
   c) ₹200
   d) ₹700
9. Which one of the following is not the assumption of break-even analysis.
   a) Fixed cost remains constant at all volumes of output.
   b) There will be no change in the general price-level.
   c) There is synchronization between production and sales.
   d) Sales mix of the product will change with the number of products.
10. For an organization producing a product, the fixed cost per month is ₹ 12,000. The variable cost per product is ₹ 24. The unit selling price of the product is ₹ 48. To achieve break-even, the minimum unit of production per month shall be
    a) 400 unit
    b) 480 unit
    c) 500 unit
    d) 600 unit
11. Breakeven point is the point where
    a) Fixed and variable cost lines intersect
    b) Fixed and total cost lines intersect
    c) Variable and total cost lines intersect
    d) Sales revenue and total cost lines intersect
12. Fixed cost of an equipment is ₹ 6,000, if variable cost of an item it produces is ₹ 2 per item and sells it for ₹7 per item, what is the break-even point?
    a) 1200 items
    b) 460 items
    c) 3000 items
    d) 500 items
13. The data for break-even analysis of a product are given as-fixed cost is ₹ 10,000, variable cost is ₹10/unit; selling price is ₹ 15/unit. The break-even volume is
    a) 2000
    b) 1000
    c) 666
    d) 5000
14. A toy manufacturing factory has the break-even point of 5000 units, variable cost rupees 20 per unit and the selling price rupees 40 per unit, find out the fixed cost of factory.
    a) 200,000
    b) 300,000
    c) 100,000
    d) 400,000
15. Breakeven point (BEP) indicates
    a) Recovery of fixed cost
    b) Recovery of variable cost
    c) Recovery of both of above cost
    d) Recovery of fixed cost, variable and margin of safety
16. At the break-even point, which of the following statements is true?
    a) Profit is maximized
    b) Loss is minimized
    c) Total revenue equals total variable costs
    d) Total revenue equals total costs

Answer

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

True and False

1. Break-Even Point is the volume of production or sales where total costs are equal to revenue.
2. In break-even chart it is estimated that production and sales volume are not equal.
3. If the angle is larger in angle of incidence, the rate of growth of profit is higher.
4. If the selling price per unit decreases, the break-even point increase.
5. Break-even analysis assumes that fixed cost remains constant.

Answer

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

Fill in the blanks

1. It is assumed that in CVP analysis sales prices will be __________at all levels of activity.
2. The difference between actual sales and breakeven point is known as__________.
3. The break-even point is the point at which _________ equals _________.
4. The contribution margin is calculated by subtracting _________ costs from _________.
5. Break-even analysis is often used to determine the minimum level of _________ needed to cover all costs.
6. If the contribution margin ratio increases, the break-even point _________.

Answer

1. constant
2. margin of safety
3. total revenue, total costs
4. variable, total revenue
5. sales
6. decrease

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

Marginal costing is an invaluable tool for short-term decision making across various aspects of business operations. One significant application lies in pricing decisions, where it aids in determining optimal selling prices by focusing on variable costs incurred per unit. By comparing marginal costs with market demand and competitor pricing, companies can adjust their pricing strategies to maximize profitability while staying competitive. Additionally, marginal costing plays a crucial role in special order decisions, helping businesses evaluate the profitability of one-time orders by analyzing incremental revenues against incremental variable costs.

Moreover, in make or buy decisions, marginal costing allows companies to assess whether manufacturing a product in-house or outsourcing it is more cost-effective by considering the variable costs associated with each option. In essence, marginal costing provides insights into the incremental costs of decisions, enabling businesses to make informed choices that enhance short-term profitability and operational efficiency. Marginal costing is a useful tool in short-term decision making due to its ability to provide insights into the incremental costs associated with producing additional units of a product or service. Here are some applications of marginal costing in short-term decision making:

1. **Pricing Decision**: Pricing decisions involve determining the optimal price for a product or service. Marginal costing assists in this process by focusing on variable costs and contribution margin. By comparing marginal costs with market demand and competitor pricing, businesses can set prices that maximize profitability while remaining competitive.
2. **Make or Buy Decisions**: Make or buy decisions entail choosing whether to produce a component internally or purchase it from an external supplier. Marginal costing helps in evaluating the cost-effectiveness of each option by comparing the incremental costs associated with in-house production against the cost of outsourcing. This analysis ensures that businesses choose the most cost-efficient method to meet their production needs.
3. **Accept an Order or Reject**: When businesses receive special orders or contracts, they must decide whether to accept or reject them based on their potential profitability. Marginal costing aids in this decision-making process by assessing the incremental revenues and costs associated with fulfilling the order. By comparing these factors, companies can determine whether accepting the order aligns with their financial objectives.
4. **Optimum Utilization of Factor of Production (Limiting Factor Analysis)**: Limiting factor analysis involves identifying the key factor limiting production capacity and optimizing its utilization. Marginal costing helps in this analysis by focusing on the contribution margin per unit of the limiting factor. By allocating resources to products or services with the highest contribution margin per unit of the limiting factor, businesses can maximize overall profitability.
5. **Subcontracting and Ancillarisation**: Subcontracting and ancillarisation involve outsourcing specific tasks or processes to external suppliers or partners. Marginal costing helps in evaluating the cost-effectiveness of subcontracting by comparing the incremental costs and benefits. This analysis enables businesses to optimize their operations by leveraging external resources when it is financially advantageous to do so.

In conclusion, marginal costing serves as a versatile tool for guiding short-term decision making across various aspects of business operations. Whether it's pricing decisions, make or buy choices, special order evaluations, or optimizing resource utilization, marginal costing provides valuable insights into the incremental costs and benefits of different options. By focusing on variable costs and contribution margins, businesses can make informed decisions that enhance profitability, efficiency, and strategic alignment with their financial objectives. Additionally, marginal costing enables businesses to evaluate alternative choices, assess expansion opportunities, and navigate challenging situations such as replacement decisions or the need to consider subcontracting. Overall, by leveraging marginal costing effectively, businesses can enhance their decision-making processes and drive sustainable growth and success in today's dynamic and competitive business environment.

MCQ

1. What is the primary focus of marginal costing in pricing decisions?
   (a) Fixed costs
   (b) Variable costs
   (c) Total costs
   (d) Overhead costs
2. XYZ Ltd. manufactures a single product which it sells for ₹ 80 per unit. Fixed cost is ₹ 70,000 per year. The Contribution to sales ratio is 50%. XYZ Ltd.'s Break Even Point in units is
   (a) 1500
   (b) 1700
   (c) 2750
   (d) 1750
3. The break-even point of a manufacturing company is ₹1,80,000. Fixed cost is ₹90,000. Variable cost is ₹12 per unit. The PV ratio will be:
   (a) 20%
   (b) 50%
   (c) 30%
   (d) 45%
4. What factor is analyzed in limiting factor analysis?
   (a) Total production costs
   (b) Variable costs per unit
   (c) Contribution margin per unit of limiting factor
   (d) Selling price per unit
5. Replacement decisions involve comparing the incremental costs and benefits of:
   (a) Expanding operations
   (b) Buying new equipment
   (c) Reducing production capacity
   (d) Maintaining current assets
6. Which decision-making technique involves comparing the incremental costs and benefits of different options to determine the most financially advantageous course of action?
   (a) Cost-benefit analysis
   (b) Marginal costing
   (c) Break-even analysis
   (d) Activity-based costing
7. When analyzing the profitability of a product line using marginal costing, which of the following costs is not included in the calculation of contribution margin?
   (a) Variable manufacturing costs
   (b) Fixed manufacturing overhead
   (c) Variable selling and administrative expenses
   (d) Variable distribution costs
8. In marginal costing, which of the following statements regarding variable costs is true?
   (a) They remain constant per unit regardless of the level of activity.
   (b) They decrease on a per unit basis as activity levels increase.
   (c) They fluctuate on a per unit basis based on activity levels.
   (d) They increase on a per unit basis as activity levels increase.
9. What is the term used to describe the cost that has already been incurred and cannot be changed by any decision made now or in the future?
   (a) Differential cost
   (b) Marginal cost
   (c) Sunk cost
   (d) Opportunity cost
10. Which decision-making technique focuses on maximizing contribution margin per unit of the scarce resource?
   (a) Target costing

(b) Relevant costing

(c) Cost-volume-profit analysis

(d) Limiting factor analysis

11. Which of the following techniques of costing differentiates between fixed and variable costs?

    (a) Marginal costing

    (b) Standard costing

    (c) Absorption costing

    (d) Budgetary Control

12. The profit-to-volume ratio in marginal costing can be improved due to the following factors?

    (a) If the fixed cost is decreased

    (b) If the variable cost is increased

    (c) If the selling price is increased

    (d) If the fixed cost is increased

13. Company X is considering outsourcing a component that currently costs ₹ 30 per unit to produce internally. The supplier offers to provide the component for ₹ 25 per unit. If fixed costs remain unaffected, how much will the company save per unit by outsourcing?

    (a) ₹ 5

    (b) ₹ 10

    (c) ₹ 15

    (d) ₹ 20

14. A company has a product with a selling price of ₹ 100 per unit, variable costs of ₹ 60 per unit, and fixed costs of ₹ 20,000. If the company desires a target profit of ₹ 10,000, how many units must be sold to achieve this target profit?

    (a) 500 units

    (b) 600 units

    (c) 700 units

    (d) 800 units

15. How does the fixed cost affect the break-even point?

    (a) If there is an increase in the fixed cost, there is a decrease in the break-even point

    (b) If there is a decrease in the fixed cost, there is an increase in the break-even point

    (c) The fixed cost will not be a fake the break-even point

    (d) If the fixed cost is constant, then the break-even point will decrease

Answer

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

Fill in the blanks

1. ____________ represent the lost contribution to profits arising from the best alternative foregone.
2. ___________ is necessary when an organization decides to increase its production or introduce new products into the market or to increase the volume of production.
3. ____________ refer to off- loading, some of the jobs to outside vendor thus hiring the capacity to meet the requirements of the organization.
4. The point at which a businessman thinks that there is no benefit in continuing the business operations is called ______________.

5. ___________ is a useful method of appraising the respective profit contributions of the several products in a company's business.

Answer

1. Opportunity costs
2. Capacity planning
3. Subcontracting
4. Shutdown point
5. Marginal costing

State True or False

1. The principal of marginal costing states that the amount of contribution from each alternative is to be considered and the alternative which ensures higher amount of contribution is to be preferred.
2. Labour force is not necessary for the purpose of converting the raw materials into finished goods.
3. Capacity Decisions helps to compare the actual capacity utilization with the budgeted capacity utilization and to analyze the deviations for taking corrective action.
4. The business should not continue operation above shut down point, since avoidable fixed costs are recovered and further contribution leads to recovery of balance fixed cost.
5. Cost is not only criterion for deciding in the favor of shut down but also non-cost factors are worthy of consideration in context of decision making.

Answer

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

CMA FINAL COURSE

Syllabus 2022

Topic

Module 5:

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 subsequently amended in 2007. 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 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 sought to be achieved through the instrumentality of the Competition Commission of India (CCI) which has been established by the Central Government with effect from 14th October, 2003.

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.

i) CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.

ii) 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.

iii) It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/Central Government.

iv) 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.

v) 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. It need not be in writing or formal or intended to be enforceable in law.

A. 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 <u>Who can make a complaint?</u>

- 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.
- A consumer is a person who buys for personal use or for other purposes.

3.0. <u>Orders the Commission</u>

- During the course of enquiry, the Commission can 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 turn-over 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
- The Commission may direct a delinquent enterprise 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 <u>"Combination" under the Act and regulation thereof</u>

Combination includes acquisition of shares, acquisition of control by the enterprise over another 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 <u>In case of combination the threshold limits are-</u>

✦ For acquisition –

- **Individual :**Combined assets of the firms (acquirer and the enterprise) is more than ₹ 2,000 Cr. or turnover is more than ₹ 6,000 Cr. (these limits are US$ 1 billion including at least ₹1,000 Cr. in India and 3 billions including at least 3,000 cr. in India in case one of the firms is situated outside India).
- **Group:** The limits are more than ₹ 8,000 Cr or ₹ 24,000 Cr and US$ 4 billion including at least ₹1,000 Cr. in India and 12 billions including at least ₹3,000 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 ₹350 Cr. and turnover of not more than ₹1,000 Cr.

Turnover means amount on sale of product or rendering of services of similar or substitutable goods or services. Group means two or more enterprises which directly or indirectly exercise 26% or more of voting right in other enterprise or appoint more than 50%of the directors or control affairs of the other enterprise.

4.2 <u>For merger/amalgamation</u> –

- 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

Module 17: Digital Finance

FINAL

Group III - Paper-14

Strategic Financial Management (SFM)

Topic 1: Leasing Decisions

- **Lease vs. Buy Decision**

The decision to own or lease an asset is a critical strategic choice that firms face while considering their capital expenditures. Both the choices have their own advantages and disadvantages. Ownership confers the benefits of long-term control, potential appreciation, and the ability to customize the asset to specific needs. However, ownership also entails upfront costs, ongoing maintenance responsibilities, and last but not the least - the risk of depreciation. On the other hand, leasing provides flexibility, cost savings in the short term, and the opportunity to access the latest technologies without a large initial investment. Yet, it comes with the trade-off of not building equity in the asset and may result in higher total costs over time.

Thus, deciding on whether to buy an asset or take it on lease sometime appears appear to be very difficult. Firms generally apply Net Present Value method for comparing both the alternatives. In order to make a comparative analysis all the relevant cash flows are required to be identified. In addition, any tax savings shall also be taken into consideration. Finally, based on the PV of cash outflow under the two options, the final choice is made.

Consider the following illustration for a detail understanding.

Illustration on Lease vs. Buy

S Ltd. is faced with a decision to purchase or acquire on lease a mini car. The cost of the mini car is ₹ 1,26,965. It has a life of 5 years. The mini car can be obtained on lease by paying equal lease rentals annually. The leasing company desires a return of 10% on the gross value of the asset. S Limited can also obtain 100% finance from its regular banking channel. The rate of interest will be 15% p.a. and the loan will be paid in five annual equal instalments, inclusive of interest. The effective tax rate of the company is 40%. For the purpose of taxation, it is to be assumed that the asset will be written off over a period of 5 years on a straight-line basis.

(a) Advise S Ltd. about the method of acquiring the car.

(b) What should be the annual lease rental to be charged by the leasing company to match the loan option?

For your exercise use the following discount factors:

Discount Rate	Year 1	Year 2	Year 3	Year 4	Year 5
10%	0.91	0.83	0.75	0.68	0.62
15%	0.87	0.76	0.66	0.57	0.49
9%	0.92	0.84	0.77	0.71	0.65

Solution

(a) Annual loan repayment = Loan amount/ Annuity factor of 15% =126965/3.86 = ₹ 32,892

Note -*Annuity factor is based on the assumption that loan instalment is repaid at the beginning of the year to be at par with lease rentals. Such annuity factor at 15% works out to be 3.86*.

Computation of Interest in Debt Payments (₹)

Year	0	1	2	3	4
Opening balance of principal	1,26,965	94,073	75,292	53,694	28,856
Interest @ 15%	Nil	14,111	11,294	8,054	4,036*
Total	1,26,965	1,08,184	86,586	61,748	32,892
Repayment of instalment	32,892	32,892	32,892	32,892	32,892
Closing balance	94,073	75,292	53,694	28,856	Nil

*Difference between the instalment amount and opening balance of 4th year.

Schedule of Cash Outflows in Debt Financing (₹)

End of	Loan re-payment	Interest @ 15%	Depreciation	Tax. shield [(2) + (3) × 0.40]	Net cash outflows - (4)	PV factor @ 9%	P.V. of cash outflows
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
0	32,892	-	-	-	32,892	1.00	32.892
1	32,892	14,111	25,393	15,802	17,090	0.92	15,723
2	32,892	11,294	25,393	14,675	18,217	0.84	15,302
3	32,892	8,054	25.393	13,379	19,513	0.77	15,025
4	32,892	4,036	25,393	11,772	21,120	0.71	14,995
5		-	25,393	10,157	(10,157)	0.65	(6,602)
Total present value of cash outflows							87,335

Annual lease rental = Cost of the asset/Annuity factor of 10% = 126965/4.17 = ₹30,447

Schedule of cash outflows - Leasing Alternative (₹)

End of the year	Lease payment	Tax shield	After tax cash outflows	PV factors at 9%	Present value of cash outflows
0	30,447	-	30,447	1.00	30,447
1-4	30,447	12,179	18,268	3.24	59,188
5		12,179	(12,179)	0.65	(7,916)
Total present valueof cash outflows					Rs. 81,719

Decision - The present value of cash outflows under lease financing is ₹ 81,719 while that of debt financing *(i.e.,* owning the asset) is ₹ 87,335. Thus, leasing has an advantage over ownership in this case and hence may be recommended.

(b) Let the Annual Lease Rentals be *'x'*

Therefore, the after-tax cost of lease rentals will be 0.60 x

Present value will be 0.60 x × 4.17 = 2.502 x

Equating 2.502 x = ₹ 87,335

The value of x is obtained at ₹ 34,906.

Therefore, the lease rental should be ₹ 34,906 to match the loan option.

Topic 2: Digital Finance

- **Central Bank Digital Currency (CBDC)**

1. Concept of CBDC:

CBDCs are a digital form of a paper currency and unlike cryptocurrencies that operate in a regulatory vacuum, these are legal tenders issued and backed by a central bank. CBDC is the same as a legal fiat currency of a country and is exchangeable one-to-one with the fiat currency. A fiat currency is a national currency that is not pegged to the price of a commodity such as gold or silver. The digital fiat currency or CBDC can be transacted using wallets backed by block chain.

Though the concept of CBDCs was directly inspired by Bitcoin, it is different from decentralized virtual currencies and crypto assets, which are not issued by the state and hence lack the 'legal tender' status.

2. Objectives of CBDC:

There are two basic objectives behind CBDCs as follows:

(i) Use of CBDCs are expected to mitigate the risks and trim costs in handling physical currency, costs of phasing out soiled notes, transportation, insurance and logistics.

(ii) CBDCs will also drive people away from cryptocurrencies as a means for money transfer.

3. Expected Use of CBDCs

(i) Cross-Border Transactions: Instant settlement feature of CBDCs has a significant advantage in making cross-border payments cheaper, faster, and more secure.

(ii) Traditional as well as Innovative: CBDC is envisaged to bring in the best of both worlds: the convenience and security of digital forms like cryptocurrencies and the regulated, reserved-backed money circulation of the traditional banking system.

(iii) Financial Inclusion: The increased use of CBDC could be explored for many other financial activities to push the informal economy into the formal zone to ensure better tax and regulatory compliance.

4. Some of the Challenges in Adopting CBDCs

The challenges behind adopting CDBCs include the following:

(i) Privacy and Cyber Security Concerns

(ii) Disintermediation of Banks

(iii) Technological risk

(iv) Operational burden and costs for the central bank in managing CBDC.

5. CBDC Adoption in India – Current Status

India joined other nations such as Australia, China, and the US in announcing pilots for its very own central bank digital currency (CBDC) also known as the 'Digital Rupee'. The Reserve Bank of India (RBI) issued a concept note on Central Bank Digital Currency (CBDC) on October 7, 2022. Following this the pilot in wholesale segment, known as the Digital Rupee -Wholesale (e₹-W), was launched on November 1, 2022, with use case being limited to the settlement of secondary market transactions in government securities. RBI has further rolled out a pilot in the retail version of the CBDC (e₹-R), on December 01, 2022.As of 30 June, more than a million users as well as 262,000 merchants had registered for the pilot on retail CBDC transactions.

Topic

Module 5:

Business Restructuring

Module 6:

Different Aspects of Tax Planning

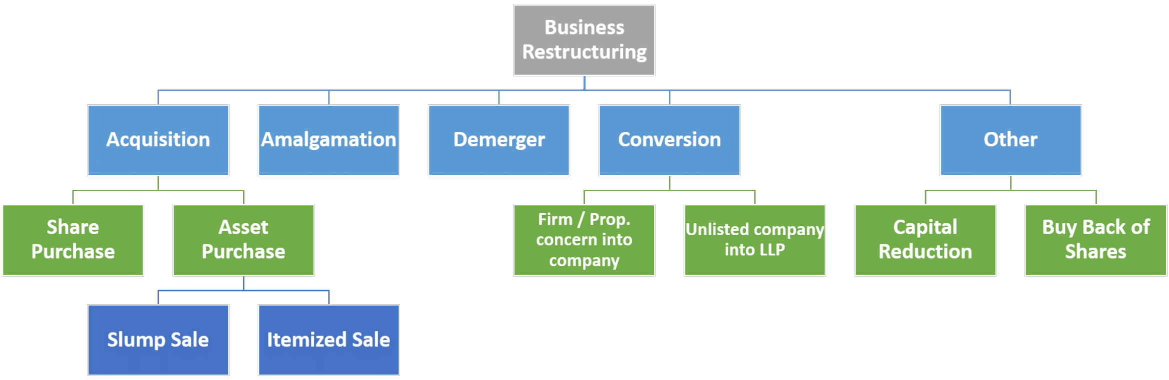
FINAL

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. The chapter highlights the various tax aspect in hands of all concerned person.



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—

(a) all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;

(b) 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 ¾th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof (3/4 x 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:

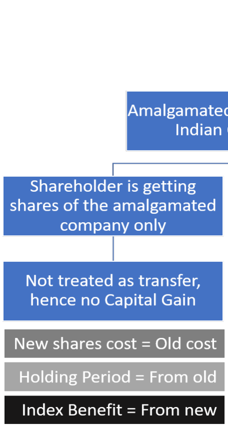
Following mergers shall not be treated as amalgamation -

- 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 amalgamating company

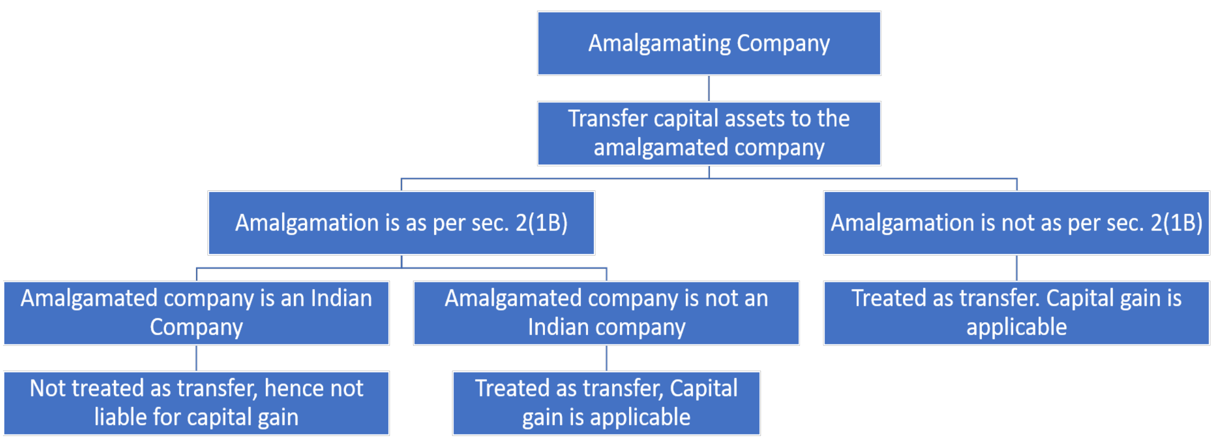
Effect of amalgamation on a shareholder are as under:

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 *Indian* 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)]
Indexation benefit	Indexation benefit shall be available from the year in which shares of amalgamated company were acquired by the assessee.



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:

a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and

b. 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:

a) at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and

b) 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, however, indexation benefit is available from the year of amalgamation.

☸ **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)]

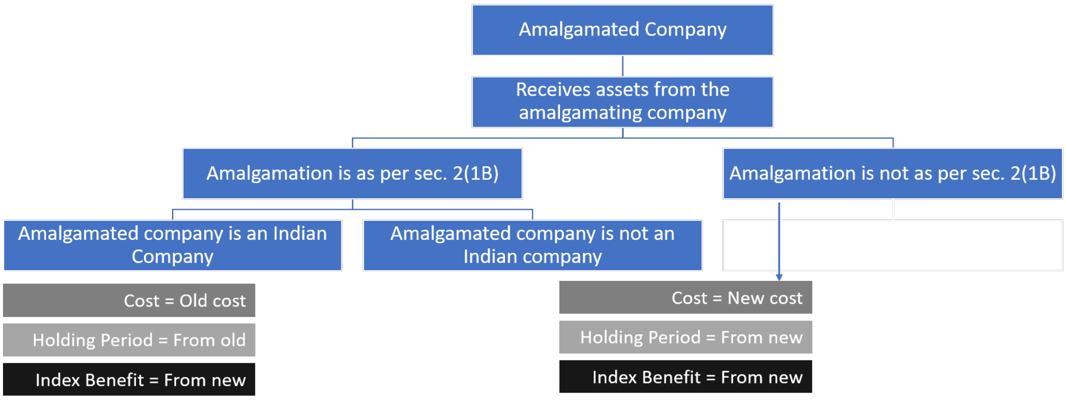
Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

a) Stock-in-trade

b) Capital asset converted to stock-in-trade

c) 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

1. 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 ¾th 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 ¾th 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

a) Assessee has incurred certain expenditure wholly & exclusively for the purpose of amalgamation or demerger.

b) 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 amalgamated company is an Indian company, subject to other conditions, amalgamation is tax neutral.

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act.

Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. *Reducing taxable income*: As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.

2. *Deferring payment of taxes to the extent possible*: An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

*The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, conc*essions, allowance, rebates and *relief provided in the Act*

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. *Reduction of Tax liability*

Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. *Minimisation of litigation*

In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. *Productive investment*

A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

d. *Healthy growth of economy*

The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

e. *Economic stability*

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

- Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.
- Disclosure of full and true material information
- Avoid sham transactions or make-believe transactions or colourable devices
- Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) *Short-range and long-range tax planning:* Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/ NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

(b) *Permissive tax planning*: Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

(c) *Purposive tax planning*: Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.

Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

Exercise

State whether the following acts can be considered as tax evasion or tax management or tax planning:

(a) Amit paid life insurance premium of ₹ 10,000 on the life of himself and claim entire amount as deduction u/s 80C.

(b) Bikash received remuneration of ₹ 54,000 for acting as a visiting faculty which he did not furnish in his return.

(c) Chandrani submitted her return within the time specified u/s 139(1).

(d) Dulal donated ₹ 10,000 to PM's National Relief Fund and enjoyed deduction in full u/s 80G.

(e) Era deposited ₹ 1,00,000 in SBI in the name of her daughter (age 4 years) and interest on such deposit has not clubbed in her hand.

Topic

Module 2: Quality Cost Management

FINAL

Group III - Paper-16

Strategic Cost Management (SCM)

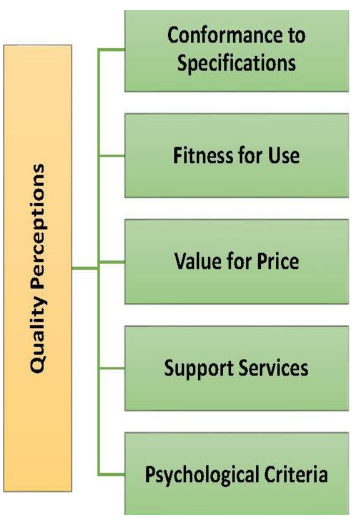
Quality Cost Management

01.00: Concept of Quality

Quality may be perceived as that characteristic or a combination of characteristics that distinguishes one article from the other or goods of one manufacturer from that of competitors or one grade of product from another when both are the outcome of the same factory. The main characteristics that determine the quality of an article may include such elements as design, size, materials, chemical composition, mechanical functioning, electrical properties, workmanship, finish and appearance. The quality of a product may, thus, be defined as the sum of a number of related characteristics such as shape, dimension, composition, strength, workmanship, adjustment, finish and colour. In simple terms, quality is "features" or "worth" or "value". In terms of ISO 9000, "Quality is the degree to which a set of inherent characteristics fulfils requirements".

Here follow some of the general perceptions assumed of the Quality:

a. **Conformance to Specifications:** Conformance to specifications measures how well the product or service meets the targets and tolerances determined by its designers. For example, the wait for hotel room service may be specified as 20 minutes, but there may be an acceptable delay of an additional 10 minutes. Also, consider the amount of light delivered by a 60-watt light bulb. If the bulb delivers 50 watts it does not conform to specifications. As these examples illustrate, conformance to specification is directly measurable, though it may not be directly related to the consumer's idea of quality.



b. **Fitness for Use:** Fitness for use focuses on how well the product performs its intended function or use. For example, a Mercedes Benz and a Jeep Cherokee both meet a fitness for use definition if one considers transportation as the intended function. However, if the definition becomes more specific and assumes that the intended use is for transportation on mountain roads and carrying fishing gear, the Jeep Cherokee has a greater fitness for use.

c. **Value for Price:** Value for price paid is a definition of quality that consumers often use for product or service usefulness. This is one definition that combines economics with consumer criteria; it assumes that the definition of quality is price sensitive. For example, suppose that you wish to sign up for a personal finance seminar and discover that the same class is being taught at two different colleges at significantly different tuition rates. If you take the less expensive seminar, you will feel that you have received greater value for the price.

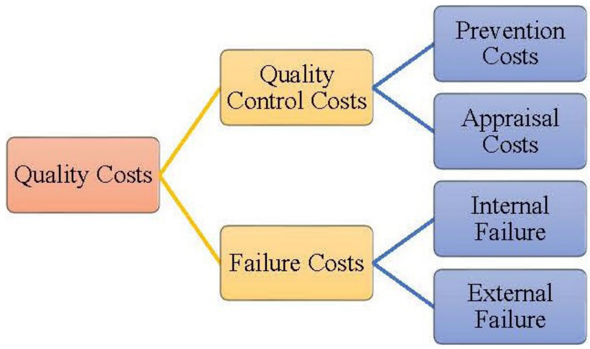
d. **Support Services:** Support services provided are often how the quality of a product or service is judged. Quality does not apply only to the product or service itself; it also applies to the people, processes, and organizational environment connected to it. For example, the quality of a university is judged not only by the quality of staff and course offerings, but also by the efficiency and accuracy of processing paper work.

e. **Psychological Criteria:** Psychological criteria is a subjective definition that focuses on the judgmental evaluation of what constitutes product or service quality. Different factors contribute to the evaluation, such as the atmosphere of the environment or the perceived prestige of the product. For example, a hospital patient may receive average health care, but a very friendly staff may leave the impression of high quality. Similarly, we commonly associate certain products with excellence because of their reputation; Rolex watches and Mercedes-Benz automobiles are examples.

02.00: Cost of Quality

The reason quality has gained prominence is that organizations have gained an understanding of the high cost of poor quality. Quality affects all aspects of the organization and has dramatic cost implications. Costs of quality can be divided into two categories. The first category consists of costs necessary for achieving high quality, which are called *quality control costs*. These are of two types: *prevention costs* and *appraisal costs.* The second category consists of the cost consequences of poor quality, which are called *quality failure costs.* These include *external failure costs* and *internal failure costs*. The first two costs are incurred in the hope of preventing the second two.

02.01 Prevention Costs: Prevention costs are all costs incurred in the process of preventing poor quality from occurring. They include quality planning costs, such as the costs of developing and implementing a quality plan. Also included are the costs of product and



process design, from collecting customer information to designing processes that achieve conformance to specifications. Employee training in quality measurement is included as part of this cost, as well as the costs of maintaining records of information and data relating to quality.

02.02 Appraisal Costs: Appraisal costs are incurred in the process of uncovering defects. They include the cost of quality inspections, product testing, and performing audits to make sure that quality standards are being met. Also included in this category are the costs of worker time spent measuring quality and the cost of equipment used for quality appraisal.

02.03 Internal Failure Costs: Internal failure costs are associated with discovering poor product quality before the product reaches the customer site. One type of internal failure cost is *rework*, which is the cost of correcting the defective item. Sometimes the item is so defective that it cannot be corrected and must be thrown away. This is called *scrap,* and its costs include all the material, labour, and machine cost spent in producing the defective product.

02.04 External Failure Costs: External failure costs are incurred when inferior products are delivered to customers. They include cost of handling customer complaints, warranty replacements, repairs of returned products and cost arising from a damaged company reputation.

02.05 Tabulation: We may tabulate the above details with suitable examples as below:

Prevention Costs	Ensuring the failures do not happen Examples: • Quality training • Quality circles • Statistical process control activities • System Development for prevention Quality improvement
Appraisal Costs	Checking for failures Examples: • Testing and inspecting materials • Final product testing and inspecting • WIP testing and inspecting • Package inspection Depreciation of testing equipment
Internal Failure Costs	Keeping defective products from falling into the hands of customers Examples: • Cost of Scrap (net of realization) • Cost of Spoilage • Cost of Rework • Down time due to defect in quality Retesting
External Failure Costs	Costs of defects discovered by the customers Examples: • Cost of field servicing • Cost of handling complaints • Warranty repairs • Lost sales Warranty replacements

03.00: Illustration

Zebra Limited introduced a quality improvement program, and the following results are observed.

₹ In lakhs

Particulars	2021-22	2022-23
Sales	20000	20000
Scrap	200	100
Rework	1300	1100
Production inspection	500	650
Product Warranty	1000	500
Quality Training	250	500
Materials inspection	240	180

Required:

(a) Classify the quality costs and express each class as a percentage of sales.

(b) Compute the increase in the amount of profit due to quality improvement.

Solution

(a) Classification of Quality Costs

Serial	Cost classification	Element	₹ Lakhs		As % to Sales	
			2021--22	2022-23	2021--22	2022-23
1	Prevention Costs	Quality Training	250	500		
		Materials Inspection	240	180		
		Sub Total	490	680	2.45%	3.40%
2	Appraisal Costs	Production Inspection	500	650	2.50%	3.25%
3	Cost of Internal Failures	Scrap	200	100		
		Rework	1300	1100		
		Sub Total	1500	1200	7.50%	6.00%
4	Cost of External Failures	Product Warranty	1000	500	5.00%	2.50%
5	Total		3490	3030	17.45%	15.15%

(b) Increase in profits due to quality improvement

Quality costs incurred in 2021 -22 = ₹ 3,490 lakhs

Quality costs incurred in 2022 -23 = ₹ 3,030 lakhs

Total cost saving during 2022 -23 = ₹ 460 lakhs

Therefore, increase in the amount of profit during 2022 -23 due to quality improvement is ₹ 460 lakhs

04.00 Case-let: Learnings from Pepsi-Cola

The main components of Pepsi-Cola Supply Chain Management's Quality Management System include quality assurance, process optimization, and risk management. Quality assurance ensures that the products meet customer requirements and expectations by performing inspections at every production stage. Process optimization ensures that any processes used in their supply chain are efficient and have minimal room for error. Risk management is used to identify any potential risks that could lead to decreased product quality or customer dissatisfaction before they occur.

In terms of numerical data, Pepsi-Cola Supply Chain Management has seen a dramatic reduction in its costs about quality control since implementing the Quality Management System. They have reported spending up to 40% less on quality control than before and have achieved a 90% customer satisfaction rating. This illustrates the system's effectiveness in minimizing wasted resources and ensuring that customers receive high-quality products.

Along with cost savings, the Quality Management System has allowed Pepsi-Cola Supply Chain Management to improve its delivery times by up to 20%. This has resulted in shorter lead times between when an order is placed and when it is fulfilled. This improves customer satisfaction and allows the company to reduce its inventory costs and maximize profits.

By utilizing a comprehensive Quality Management System, Pepsi-Cola's Supply Chain Management has been able to minimize the potential for risks while still ensuring the best possible product quality. Their system has resulted in cost savings, improved delivery times, and a 90% customer satisfaction rating. These are just some of the achievements that Pepsi-Cola Supply Chain Management has seen since implementing its Quality Management System. These successes have set an example for companies everywhere on managing their supply chains and ensuring customer satisfaction effectively.

(**Resource:** https://ibottling.com/11-key-points-in-pepsi-cola-supply-chain-management_06.02.2024)

05.00 Quick Take

No matter what the business is, Quality Cost Management can reduce the Total Costs and enhance the Profits.

Topic

Case Studies

FINAL

Group IV - Paper-17

Cost and Management Audit (CMAD)

COST AND MANAGEMENT AUDIT

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 weighment 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 Management Audit Team, prepare your findings.

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:

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	

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 ₹ 200 per MT/Kilometre 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 ₹ 4.2 Crores (on 50 % sharing basis with Transporter).

*₹ 200 x 20% x 50% x 300 Km. average for 7000 trips (approx.)

Case Study

Now Fertilizer Company appointed Goodman Cost Accountants as Management Auditor. Management having a concern over Product Quality. You are asked to prepare a Audit Programme (scope document) for the area of review and discuss the same with Management. The detailed Programme is as follows :

Sr. No.	Audit Scope & Objective
Quality Control & Assurance Framework	
1	Whether the Co./Unit has its Quality Policy Manual related to each of the Product/services?
2	Whether the Quality Manual clearly defines responsibility and authority as to approval of deviation?
3	Whether the Manual is reviewed periodically and updated for the requisite purposes?
4	Whether Quality Laboratory is accredited with certification from any outside agency.
5	Whether calibration schedule exists for testing Equipment and is it adhered? Whether records of the result of the quality instrument calibration maintained?

Raw-Materials, Packaging Quality Control & Assurance	
6	Whether all Purchase Order contains quality norms for the item ordered for?
7	Whether sample size, volume, number etc. are predetermined and adhered to.
8	Whether inspection/Quality-testing time is specified and results furnished within the said time?
9	Whether inspection reports are communicated to Indenting and Purchases Department?
10	Whether testing results are entered in ERP? Whether system control exists to block payments to Supplier till goods are cleared in quality?
11	Whether all acceptances are made after the same being certified for quality compliance?
12	Whether suppliers/manufacturers are all accredited with Quality standard certification?
13	Whether the manufacturer/supplier have means to ensure that corrective actions taken to identify and eliminate the cause of non-conformities in order to prevent recurrence?
14	Whether the materials rejected are stored separately to prevent its consumption? Whether such material is returned back to the suppliers within define time-limits?
Finished Goods Quality Control & Assurance	
15	Whether quality specifications required to be adhered is communicated in advance to Production Department?
16	Whether In-Process quality checks are performed by collecting samples from different section of the plants?
17	Whether materials test certificates are approved by Head - analytical laboratory?
	Customer Complaints Management
18	Whether quality related customer complaints resolution mechanism is available?
19	Whether all quality related customer complaints resolved in time and if not, escalated to next higher authority?
20	Whether in case of sales return or customer complaint on account of quality issues, reports are sought from outside agencies?
21	When quality disputes are resolved on getting inspection report of external agency, whether the same is compared with own inspection report & variation analysed?
22	Whether periodical management reporting/ review mechanism with regard to repetitive quality problems exists?
	Other Issues
23	Whether Vendor Rating system is in place and quality of supply mapped / tracked for these purposes?
24	Whether cost of poor quality (COPQ) is tracked and the trend analyzed?
25	Whether third party Quality Surveyors is engaged after verifying their credentials and cost involved?
26	Whether periodical assessment of such third parties are made and reviewed?
27	Whether third parties test results are also verified against in-house test results and deviations analyzed.
28	Whether credential, job performance etc. measured for the third parties to assure appropriate quality level

Topic

Module 1:

Specific Accounting Standards

Module 3:

Accounting of Financial Instrument

FINAL

Group IV - Paper-18

Corporate Financial Reporting (CFR)

Corporate Financial Reporting

Now we shall face some questions regarding financial instruments.

1. What is a financial instrument?

   A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (Ind AS 32).

2. What are financial assets?

   Financial assets are (as per Ind AS 32):

   (a) cash;

   (b) an equity instrument of another entity;

   (c) a contractual right:

   (i) to receive cash or another financial asset from another entity; or

   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

   (d) a contract that will or may be settled in the entity's own equity instruments and

   (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

   (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

3. What is a financial liability?

   A financial liability is any liability that is (as per Ind AS 32):

   (a) a contractual obligation:

   (i) to deliver cash or another financial asset to another entity; or

   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

   or

   (b) a contract that will or may be settled in the entity's own equity instruments and

   (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

   (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

4. What is an equity instrument?

   An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (as per Ind AS 32).

5. What is a puttable instrument?

   A puttable instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder. Ordinarily it satisfies the conditions of being classified as financial liabilities. Where it entitles the holder a pro rata share of the entity's net assets on liquidation it is classified as equity. (as per Ind AS 32).

6. How are financial assets recognised and measured as per Ind AS 109?

   An entity shall classify financial assets as subsequently measured at

   (i) amortised cost,

   (ii) fair value through other comprehensive income or

   (iii) fair value through profit or loss.

   The classification is made on the basis of both:

   (a) the entity's business model for managing the financial assets and

   (b) the contractual cash flow characteristics of the financial asset.

   (i) A financial asset shall be measured at amortised cost if both of the following conditions are met:

   (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

   (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

However, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

(ii) A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

However, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

(iii) A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

Examples of such category of financial asset:

- Any financial asset held for trading purpose
- An investment in equity of any other company where there is no contractual cash flows for interest or principal.

However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

7. State the disclosure requirement (Ind AS 107) for different categories of financial instruments.

(a) The carrying amounts of each of the following categories, as specified in Ind AS 109, shall be disclosed either in the balance sheet or in the notes:

(i) financial assets measured at fair value through profit or loss,

(ii) financial liabilities at fair value through profit or loss

(iii) financial assets measured at amortised cost.

(iv) financial liabilities measured at amortised cost.

(v) financial assets measured at fair value through other comprehensive income.

(b) The following items of income, expense, gains or losses shall be disclosed either in the statement of comprehensive income or in the notes:

(i) Net gains and losses on financial assets or financial liabilities measured at fair value through profit and loss.

(ii) Net gains and losses on financial assets and financial liabilities measured at amortised cost.

(iii) Net gains and losses on financial assets measured at fair value through other comprehensive income.

(iv) Total interest revenue or expenses for financial assets measured at amortised cost or at fair value through other comprehensive income or for financial liabilities not measured at fair value through profit and loss.

Let us face some questions on IND AS 16: Property, Plant and Equipment (PPE).

1. What are PPE?

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes,

(b) are expected to be used during more than one period.

2. How are PPE recognized?

An item of property, plant and equipment shall be recognised as an asset if, and only if:

(i) it is probable that future economic benefits associated with the item will flow to the entity; and

(ii) the cost of the item can be measured reliably.

3. How are PPE measured?

(a) Property Plant and Equipment are initially measured at cost.

(b) In subsequent measurement, Property Plant and Equipment are carried

(i) at cost less depreciation, less impairment loss, or

(ii) at revalued amount less post revaluation depreciation and impairment loss.

4. How is revaluation profit or loss treated in accounts?

(a) Revaluation loss is charged to SP&L (if any revaluation surplus already exists, current revaluation loss is charged to the existing revaluation surplus to the extent possible and the rest is charged to SP&L)

(b) Revaluation profit is credited to revaluation surplus (it will be credited to SP&L to reverse a revaluation loss charged to SP&L before)

5. For what assets Ind AS 16 does not apply?

Ind AS 16 does not apply to

(i) PPE classified as held for sale as per Ind AS 105

(ii) Biological assets (other than bearer plants) related to agricultural activity (Ind AS 41)

(iii) Assets in exploration for and evaluation of Mineral Resources (Ind AS 106)

(iv) Mineral rights and mineral reserves such as oil, natural gas etc.

6. How is initial measurement of PPE made?

Initial measurement of PPE is made at cost (i.e., at historical cost).

The elements of costs are:

(a) Purchase Price—

(i) trade discount and rebate are deducted

(ii) duties and non-refundable taxes are added

(iii) cash discount not subtracted

(iv) GST not added

(v) only cash price to be recognized; if interest element is included in the price, that should be subtracted (unless capitalized as per Ind AS 23).

(vi) if the asset is acquired in exchange of another asset, purchase price is the fair value of the assed acquired or the asset given up (the carrying amount of the asset given up when neither of the fair values is reliably measured).

(b) Costs directly attributable to bringing the asset to its location and in the condition so as to make it available for its intended use—

(i) employee cost

(ii) cost of preparing the site

(iii) freight and delivery cost

(iv) installation and assembly cost

(v) costs during the test run

(vi) Professional fees (Architects fees)

(c) Dismantling cost—

(i) The estimated dismantling cost **at present value**.

(ii) Estimated cost of removing the item and restoration of site **at present value**.

(d) Elements of costs **do not** include:

(i) Administration and general overhead.

(ii) Advertising and promotion cost of a new product.

(iii) Cost of relocating

(iv) Initial losses when asset is operating at low level

(v) Incidental cost not directly related to installation.

7. How is subsequent measurement of PPE made?

Subsequent measurement of PPE is made at carrying amount which is:

(a) cost less depreciation less impairment loss, or

(b) revalued amount at fair value less post revaluation depreciation and impairment loss.

(c) obtained after addition of all subsequent capital expenditure

(i) expenditure which enhances the revenue generating capacity

(ii) cost of replacements

(iii) major inspection and overhauling expenses

8. How are PPE classified?

Property, plant and equipment are classified as:

(a) Land

(b) Land and building (not Investment Property under Ind AS 40)

(c) Machinery

(d) Ships

(e) Aircraft

(f) Motor vehicles

(g) Furniture and future

(h) Office equipment and

(i) Bearer plants.

9. What is depreciation on PPE?

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset or other amount substituted for cost, less its residual value.

The revalued amount is one such other amount substituted for cost. The fair value on exchange is another such amount.

10. What are the methods of depreciation?

Methods of depreciation are:

(a) The straight lime method: Annual depreciation amount = Depreciable amount/ No. of years of useful life. It is a constant amount.

(b) The reducing (diminishing) balance method: Annual depreciation is calculated at a fixed percentage on the carrying amount. The carrying amount is getting reduced over the years and at the end of useful life of the asset it becomes equal to the estimated residual value. Here the annual depreciation amount is reducing over the years.

(c) The units of production method: Annual depreciation amount = (Annual production units/Life time production units) × Depreciable amount.

11. What is Impairment Loss of PPE?

Impairment loss is dealt in Ind AS 36.

Impairment Loss = Carrying amount less recoverable amount.

Recoverable amount is the higher of the fair value of asset less cost to sell and the value in use.

Fair value is defined in Ind AS 113. It is the exit value in an orderly transaction between market participants. Value in use is the entity specific value. It is the present value of all expected future cash flows from the asset.

12. How is accounting of PPE made?

Accounting of PPE involves—

(a) Recognition as non-current and as PPE classified as in question 8.

(b) Measurement at initial cost

(c) Subsequent measurement based on initial cost or on subsequent revaluation

and addition of all capital expenditure

(i) expenditure which enhances the revenue generating capacity

(ii) cost of replacements

(iii) major inspection and overhauling expenses

(d) For subsequent measurement of PPE two deductions are there—

(i) Depreciation (ii) Impairment loss

(e) Presentation:

(i) PPE appears under non-current assets classified as above.

(ii) Revaluation profit/Loss is accounted through revaluation surplus a/c or SP&L a/c.

(iii) Depreciation and impairment loss are accounted through SP&L a/c.

13. When and how are PPE Derecognised?

The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in statement of profit or loss when the item is derecognised.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

14. What disclosures are required for PPE?

The financial statements shall make necessary disclosures as required in the Ind AS- 16.

The financial statements shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:
(i) additions;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with Ind AS 36;

(v) impairment losses recognised in profit or loss in accordance with Ind AS 36;

(vi) impairment losses reversed in profit or loss in accordance with Ind AS 36;

(vii) depreciation;

(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(ix) other changes.

The financial statements shall also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(d) if it is not disclosed separately in the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

Topic

Module 4: Valuation (Advanced)

FINAL

Group IV - Paper-19

Indirect Tax Laws and Practice (ITLP)

VALUATION (ADVANCED)

Value of Supply in common terms is nothing but the amount paid by the recipient of supply to the supplier as consideration for supply (also known as transaction value). It means Value of supply is the figure upon which tax is levied and collected.

It is important to know to ascertain correct value of supply for correct levy of GST.

Valuation rules determine value of goods or services or both on which tax under GST has to be charged. Valuation rules have been prescribed under GGST Rules, 2017 for the purpose of determination of fair market value of goods or services or both supplied by the registered person. It means valuation rules are helpful to determine the value of supply where value not determined under section 15(1) as mentioned under section 15(4) CGST Act, 2017.

SPECIFIC VALUATION RULES:

Section 15(1)G the price is sole consideration for sale.

Under GST, the valuation is done based on the transaction value only if price is a sole consideration where supplier and the recipient are not related.

Sole consideration means by paying GST on such consideration there is no revenue loss to the department.

Value of a supply of goods and / or services shall be:

"Transaction Value (TV), that is the price actually paid or payable for the said supply of goods and/or services"

Where"

- The supplier and the recipient of the supply are not-related and
- The price is the sole-consideration for the supply.

Payment of taxes, duties, cesses, fees and charges (Section 15(2)(a) of CGST Act, 2017)

Any taxes, duties cesses, fees and charges levied under any law for the time being in force other than CGST/SGST/UTGST/IGST/Compensation Cess shall be added to the value of supply.

TCS would not be includible in the value of supply under GST:

The Central Government vide Corrigendum to Circular No.76/50/2018-GST, dated 31st December, 2018 has clarified that Tax collection at source (TCS) is not a tax on goods but an interim levy on the possible "income" arising from the sale of goods by the buyer and to be adjusted against the final income-tax liability of the buyer. Accordingly, for the purpose of determination of value of supply under GST, Tax collected at source (TCS) under the provisions of the Income Tax Act, 1961 would not be includible as it is an interim levy not having the character of tax.

Commission and packing charges (Section 15(2)(c)]

The transaction value will include commission and packing charges charged by the supplier to the recipient of supply and transaction value to include any amount charged by the supplier for anything done in respect of supply either at the time or before delivery of goods or services.

Interest or late fee or penalty for delayed payment [Section 15(2)(d) of the CGST Act, 2017]

It is specifically provided that interest or late fee or penalty for delay in payment of any consideration for supply will from part of the value of supply.

Donation or gifts from individual donors – Levy of GST on service display of name plates or donor in premises of charitable organisation (CBIC Circular No.116/35/2019 GST, dated 11-10-2019):

Individual donors provide financial help or any other support in the form of donation or gift to institutions such as religious institutions, charitable institutions, schools, hospitals, orphanages, old age homes etc. the recipient institutions place a name plate or similar such acknowledgement in their premises to express gratitude.

When the name of the donor is displayed in recipient institution premises, in such a manner, which can be said to be an expression of gratitude and public recognition of donor's act of philanthropy and is not aimed at giving publicity to the donor in such manner that it would be an advertising or promotion of his business, then it can be said that there is no supply of service for a consideration (in the form of donation). There is no obligation (quid pro quo) on part of recipient of the donation or gift to do anything (Supply a services. Therefore, there is no **GST liability** on such consideration.)

Transaction value not available [Section 15(4) read with CGST Rules, 2017 (i.e. Determination of value of supply)]

Rule 27: Value of supply of goods or services where the consideration is not wholly in money

a) Open market value of such supply

b) Sum total of consideration equal to money, if such amount is known at the time of supply provided (a) not applicable.

c) The value of supply of like kind and quality if (a) and (b) not applicable.

d) Based on cost as per rule 30, if not as per residual method rule 31 in that order, provided (a) to (c) not applicable.

Rule 28: Value of supply or goods or services or both between distinct or related persons, other that through an agent

Rule 29: Value of supply of goods made or received through an agent.

Rule 30: Value of supply of goods or services or both based on Cost.

Rule 31: Residual method for determination of value of supply of goods or services or both.

15.4.1 Rule 27: Value of supply of goods or services where the consideration is not wholly in money:

Valuation based on based on open market value of such supply.

(a) **"Open market value"** of supply of goods or services or both means the full value in money, excluding the integrated tax, central tax, State tax, Union territory tax and the cess payable by a person in a transaction, where the supplier and the recipient of the supply are not related and price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

The value of supply of like kind and quality if (a) and (b) not applicable:

If the value of supply is not determinable as per open market value and monetary value of non-monetary values, the values of supply shall be of like kind and quality.

Factors facilitating to determine value of supply:

- Goods or services of same kind and quality
- Identical or Similar nature
- Similar circumstances
- Comparison of various factors and so on...

Example 11

R Academy teaching or coaching budding CMA's Tuition fee of R Academy can be compared with another academy of same kind and nature. It means we should not compare with home tuition of a faculty to 4thStandard students.

Example 12

Feather light chairs price compare with **Identical or similar nature** product. It means feather light product compare with Godrej chair products.

Example 13

Value of product in Chennai will be on higher than the product in Sikkim or Assam. Therefore, the rule provides that the supply of goods or services shall be in **similar circumstances.** It means that if the supply of goods or services which value is required to be determined has been made in Chennai, supply of goods or services which is considered as base shall be made in Chennai.

Example 14

Cannon heavy duty machines cannot be **compared** with ordinary laser Jet printer. Likewise, interior decorator completed interior decoration of a residential house measuring 1000 sq. Ft. Cannot be considered as similar service for doing interior decoration of 1000 sq. Ft. Of office area.

Based on cost as per rule 30 or based on residual method as per rule 31 in that order, provided (a) to (c) not applicable.

As per rule 30 of the CGST Rules, 2017 value of supply of goods or services or both on cost. The value shall be 110% of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

As per Rule 31 of the CGST Rules, 2017 Residual method for determination of value of supply of goods or services or both.

It is provided that where the value of supply of goods or services or both cannot be determined under rule 27 to rule 30 of the CGST Rules, 2017, value shall be determined by using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter IV of the CGST Rules, 2017.

Value of service can be on basis of rule 31 instead of on cost plus 10% basis:-

In case of supply of services, the supplier may opt for rule 31 ignoring rule 30 (as per proviso to Rule 31 of CGST and SGST Rules, 217).

It means to say that efforts should be made by proper officer to determine the by using his best judgment assessment.

Rule 28 of the CGST Rules 2017 value of supply or goods or services or both between distinct or related persons other than through an agent.

The value of the supply of goods or services or both between distinct persons as specified in section 25(4) and section 25(5) of the CGST Act, 2017 or where the supplier and recipient are related, other than where the supply is made through an agent, shall –

a) Be Open market value of such supply

b) If the open market value is not available, be the value of supply of goods or services of like kind and quality.

c) If value is not determinable under clause (a) or (b), be the value as determined by application of rule 3 or rule 31. In that order.

Provided that where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to 90% of the price charged of the supply of goods of like kind and quality by the recipient to his customer not being a related person:

Provided further that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of goods or services.

Topic

Module 1:
Introduction to Performance Management

Module 6:
Laws and Compliance in Business Valuation

ELECTIVES

Paper-20A

Strategic Performance Management and Business Valuation (SPMBV)

Module 1 : Introduction to Performance Management

SLOB Mapped against the module : To create an indepth understanding about emerging issues which enable a company to achieve its long term objective of 'superior performance' and 'expanding market share' (CMLO 1a, 1b)

The Balanced Scorecard typically includes four perspectives:

1. Financial Perspective: This perspective focuses on financial objectives and measures that indicate the financial health and performance of the organization. Examples of financial metrics include revenue growth, profitability, return on investment (ROI), and cash flow.

2. Customer Perspective: This perspective considers objectives and measures related to customer satisfaction, retention, and market share. It helps organizations understand how they are perceived by their customers and how well they are meeting customer needs. Metrics in this perspective may include customer satisfaction scores, customer retention rates, and market share.

3. Internal Business Processes Perspective: This perspective looks at the internal processes and activities that drive organizational success. It involves identifying key processes and measures to improve efficiency, quality, and innovation. Examples of metrics in this perspective include cycle time, defect rate, process efficiency, and product/service innovation.

4. Learning and Growth Perspective: This perspective focuses on the organization's ability to innovate, learn, and grow in order to adapt to changing market conditions and achieve long-term sustainability. It includes objectives and measures related to employee training and development, organizational culture, and technological capabilities. Metrics may include employee satisfaction, employee turnover rate, employee skill levels, and investment in research and development.

The Balanced Scorecard encourages organizations to balance their focus across these four perspectives, recognizing that success in one area may be dependent on success in others. By aligning objectives and measures across these perspectives, organizations can ensure that their strategies are well-rounded and address all aspects of their business.

Implementing a Balanced Scorecard typically involves several steps, including:

1. Developing the Strategy: Clarifying the organization's vision, mission, and strategic objectives.

2. Identifying Key Performance Indicators (KPIs): Selecting the most relevant metrics for each perspective that will indicate progress toward strategic objectives.

3. Setting Targets: Establishing target values for each KPI to define what success looks like.

4. Collecting Data: Gathering data on the selected KPIs to track performance over time.

5. Analyzing and Interpreting Data: Reviewing performance data to identify trends, strengths, weaknesses, and areas for improvement.

6. Taking Action: Using insights from the Balanced Scorecard to make informed decisions and take corrective actions as needed to improve performance.

Overall, the Balanced Scorecard provides a framework for organizations to effectively manage performance, align strategic objectives with day-to-day operations, and drive continuous improvement across all areas of the business.

Company Overview: BSC Inc. offers a wide range of IT consulting services, including software development, cybersecurity, cloud computing, and digital transformation solutions. The company operates in a competitive market and aims to differentiate itself by providing high-quality services and exceptional customer satisfaction.

Balanced Scorecard Implementation:

1. Financial Perspective: Objective: Increase Revenue and Profitability
   - o Key Performance Indicators (KPIs):
     - ▪ Revenue Growth Rate: Target 10% annual growth
     - ▪ Profit Margin: Target 20% profit margin
2. Customer Perspective: Objective: Improve Customer Satisfaction and Retention
   - o Key Performance Indicators (KPIs):
     - ▪ Customer Satisfaction Score (CSAT): Target 90%
     - ▪ Customer Retention Rate: Target 85%
3. Internal Business Processes Perspective: Objective: Enhance Service Delivery Efficiency and Quality
   - o Key Performance Indicators (KPIs):
     - ▪ Project Delivery Cycle Time: Target 20% reduction
     - ▪ Defect Rate: Target less than 5%

4. Learning and Growth Perspective: Objective: Invest in Employee Development and Innovation

o Key Performance Indicators (KPIs):

▪ Employee Training Hours: Target 40 hours per employee annually

▪ Employee Satisfaction Score: Target 85%

▪ Investment in Research and Development: Target 10% of revenue

Case Study Progress: BSC Inc. implemented the Balanced Scorecard framework at the beginning of the fiscal year and has been monitoring progress regularly.

- Financial Perspective:

o Revenue growth has been on target, with a 12% increase compared to the previous year.

o Profit margin has improved to 18%, slightly below the target due to increased investment in marketing and infrastructure.

- Customer Perspective:

o CSAT has reached 92%, exceeding the target, indicating high levels of customer satisfaction.

o Customer retention rate stands at 83%, slightly below the target due to increased competition.

- Internal Business Processes Perspective:

o Project delivery cycle time has been reduced by 15%, close to the target.

o Defect rate has improved to 4%, meeting the target, thanks to process improvement initiatives.

- Learning and Growth Perspective:

o Employee training hours have surpassed the target, with an average of 50 hours per employee.

o Employee satisfaction score remains at 83%, below the target, indicating the need for further engagement initiatives.

o Investment in research and development is at 8% of revenue, slightly below the target due to budget constraints.

Action Plan: Based on the analysis of performance against the Balanced Scorecard targets, BSC Inc. plans the following actions:

- Increase focus on customer retention strategies to achieve the target retention rate.
- Enhance employee engagement initiatives to improve satisfaction levels.
- Allocate additional resources to research and development to meet the target investment level.
- Continue process improvement efforts to further reduce project delivery cycle time.

By using the Balanced Scorecard as a strategic management tool, BSC Inc. can align its objectives across different perspectives, monitor performance effectively, and take proactive measures to achieve its strategic goals and improve overall business performance.

How frequently are Balanced Score Cards used in the modern business setting?

My view is that the frequency of using the Balanced Scorecard (BSC) can vary depending on the organization's needs, strategic cycle, and operational requirements. However, there are common practices regarding the frequency of BSC reviews:

1. Monthly Reviews: Some organizations conduct monthly reviews of their Balanced Scorecard to closely monitor performance trends, identify any emerging issues, and make timely adjustments to their strategies and tactics.

2. Quarterly Reviews: Quarterly reviews are a common practice for many organizations. This frequency allows for a more comprehensive assessment of performance over a slightly longer timeframe while still enabling timely adjustments.

3. Annual Reviews: Annual reviews are often used to assess performance over the entire fiscal year. These reviews provide a broader perspective on the organization's progress towards its strategic objectives and allow for more in-depth analysis and reflection.

4. Continuous Monitoring: In addition to regular reviews, many organizations continuously monitor key performance indicators (KPIs) included in the Balanced Scorecard. This ongoing monitoring allows for real-time insights into performance and helps in quickly identifying and addressing issues as they arise.

5. Ad Hoc Reviews: In certain circumstances, organizations may conduct ad hoc reviews of the Balanced Scorecard. These reviews may be triggered by significant changes in the business environment, shifts in strategic priorities, or the need for urgent performance assessment.

Ultimately, the frequency of using the Balanced Scorecard depends on factors such as the organization's culture, the pace of change in the industry, the availability of resources for analysis, and the level of detail required for decision-making. It's important for organizations to strike a balance between regular reviews to maintain visibility into performance and flexibility to adjust the review frequency as needed to accommodate changing circumstances.

Module 6 Laws and Compliance in Business Valuation

SLOB Mapped against the Module:

To obtain an understanding of regulatory framework around valuation; Different regulations that govern valuation in India and globally

Learning Outcome : Apply different regulations that govern valuation in India and globally.

Various methodologies exist for the valuation of a company, each chosen based on the intricacies of the business, industry characteristics, developmental stage, and the objectives of the valuation. The following are distinct approaches commonly employed:

The Insolvency and Bankruptcy Code (IBC) is a comprehensive legislation enacted by the Government of India to address and resolve insolvency issues and facilitate the revival or orderly liquidation of financially distressed companies, partnership firms, and individuals in a time-bound manner. The IBC was introduced to streamline the insolvency resolution process and provide a consolidated framework for dealing with insolvency and bankruptcy proceedings across various sectors.

Key features of the Insolvency and Bankruptcy Code include:

1. Timely Resolution: The IBC aims to expedite the resolution process by setting strict timelines for the insolvency resolution process. It emphasizes the maximization of the value of assets and the revival of viable businesses.

2. Insolvency Professionals: The code introduces the concept of Insolvency Professionals (IPs) who act as intermediaries between the debtor and creditors. They are licensed professionals responsible for managing the insolvency resolution process impartially.

3. Insolvency Resolution Process (IRP): The IBC provides for a structured insolvency resolution process, which may involve restructuring of debt, sale of assets, or liquidation of the debtor's business. The process is overseen by the National Company Law Tribunal (NCLT).

4. Moratorium: Upon the initiation of insolvency proceedings, a moratorium is imposed on the debtor's assets, preventing creditors from initiating or continuing any legal action against the debtor. This allows for a breathing space to formulate and implement a resolution plan.

5. Cross-Border Insolvency: The IBC includes provisions for dealing with cross-border insolvency, enabling cooperation and coordination with foreign jurisdictions in insolvency proceedings involving Indian entities with assets or creditors abroad.

6. Liquidation: In cases where the insolvency resolution process fails or is not feasible, the debtor's assets are liquidated to repay creditors in a prescribed order of priority.

7. Fast-Track Insolvency Process: The code provides for a fast-track insolvency process for certain small companies and individuals, aimed at resolving their insolvency issues within a shorter timeframe.

The Insolvency and Bankruptcy Code, 2016, has significantly transformed the insolvency landscape in India, providing a transparent and efficient mechanism for resolving insolvency and bankruptcy cases, promoting creditor rights, and enhancing the ease of doing business in the country.

Initiating an insolvency process in India – General outline

The Insolvency and Bankruptcy Code (IBC) is a comprehensive legislation enacted by the Government of India to address and resolve insolvency issues and facilitate the revival or orderly liquidation of financially distressed companies, partnership firms, and individuals in a time-bound manner. The IBC was introduced to streamline the insolvency resolution process and provide a consolidated framework for dealing with insolvency and bankruptcy proceedings across various sectors.

Key features of the Insolvency and Bankruptcy Code include:

1. Timely Resolution: The IBC aims to expedite the resolution process by setting strict timelines for the insolvency resolution process. It emphasizes the maximization of the value of assets and the revival of viable businesses.

2. Insolvency Professionals: The code introduces the concept of Insolvency Professionals (IPs) who act as intermediaries between the debtor and creditors. They are licensed professionals responsible for managing the insolvency resolution process impartially.

3. Insolvency Resolution Process (IRP): The IBC provides for a structured insolvency resolution process, which may involve restructuring of debt, sale of assets, or liquidation of the debtor's business. The process is overseen by the National Company Law Tribunal (NCLT).

4. Moratorium: Upon the initiation of insolvency proceedings, a moratorium is imposed on the debtor's assets, preventing creditors from initiating or continuing any legal action against the debtor. This allows for a breathing space to formulate and implement a resolution plan.

5. Cross-Border Insolvency: The IBC includes provisions for dealing with cross-border insolvency, enabling cooperation and coordination with foreign jurisdictions in insolvency proceedings involving Indian entities with assets or creditors abroad.

6. Liquidation: In cases where the insolvency resolution process fails or is not feasible, the debtor's assets are liquidated to repay creditors in a prescribed order of priority.

7. Fast-Track Insolvency Process: The code provides for a fast-track insolvency process for certain small companies and individuals, aimed at resolving their insolvency issues within a shorter timeframe.

Fast Track Procedure Snapshot:

1. Eligibility Criteria: To qualify for the fast track process, the debtor must meet certain eligibility criteria prescribed under the IBC. Typically, the debtor must be a small company, as defined under the Companies Act, 2013, or an individual with relatively lower financial exposure.

2. Lower Threshold for Default: The threshold for default to initiate the fast track process is lower compared to regular insolvency proceedings. This enables faster resolution of cases involving smaller amounts of debt.

3. Appointment of Interim Resolution Professional (IRP): Similar to regular insolvency proceedings, upon initiation of the fast track process, an interim resolution professional (IRP) is appointed to manage the affairs of the debtor during the insolvency resolution process.

4. Time-bound Process: The fast track procedure is designed to be completed within a shorter timeframe compared to regular insolvency cases. The entire process, including resolution plan submission, evaluation, and approval, is expedited to ensure timely resolution.

5. Simplified Requirements: The fast track process involves simplified requirements and procedures to reduce administrative burden and expedite resolution. For example, there may be fewer meetings of the Committee of Creditors (CoC), and the timelines for various steps in the process are compressed.

6. Focused Resolution: The fast track process emphasizes a focused approach to resolution, with an emphasis on maximizing the value of assets and achieving a quick turnaround for the debtor's business. This may involve a more limited scope of assets and liabilities compared to regular insolvency cases.

7. Direct Oversight by Adjudicating Authority: The NCLT (National Company Law Tribunal) or the adjudicating authority overseeing the fast track process closely monitors the proceedings to ensure compliance with the prescribed timelines and expedited resolution of the case.

8. Outcome: The objective of the fast track process is to either revive the debtor's business through a viable resolution plan or facilitate an orderly liquidation process to maximize the recovery for creditors within a shorter timeframe.

Overall, the fast track insolvency resolution process is aimed at providing an efficient and effective mechanism for resolving insolvency cases involving smaller debtors, thereby promoting the ease of doing business and facilitating the timely resolution of financial distress.

Basics of Insolvency Process:

1. Where any corporate debtor commits a default, a financial creditor, an operational creditor or the corporate debtor itself may initiate CIRP in respect of such corporate debtor in the manner as provided under this Chapter.

2. The minimum amount of default for being admitted into Corporate Insolvency Resolution Process (CIRP) is ₹1 crore.

3. The CIRP shall be completed within a period of 180 days from the date of admission of the application to initiate such process. This can be extended if at least 66 percent voting of Committee of Creditors (COC).

4. "Resolution plan" means a plan proposed by resolution applicant for insolvency resolution of the corporate debtor as a going concern. A resolution plan may include provisions for the restructuring of the corporate debtor, including by way of merger, amalgamation and demerger.

5. From the date of appointment of the interim resolution professional, the management of the affairs of the corporate debtor shall vest in the interim resolution professional.

6. The interim resolution professional shall make every endeavour to protect and preserve the value of the property of the corporate debtor and manage the operations of the corporate debtor as a going concern.

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)

The guidelines on Interest Rate Risk in the Banking Book (IRRBB) were issued by the Reserve Bank of India (RBI) on 17 February 2023. These guidelines require banks to assess, monitor, and disclose their exposure to IRRBB based on predetermined interest rate shock scenarios and assumptions about the balance sheet. These factors have the potential to impact the capital base and future earnings of banks.

One crucial aspect emphasized by the regulator is the need for banks to model the behaviour of assets and liabilities for cashflow profiling. This modelling should take into account the impact of macroeconomic variables.

In the Indian banking system, deposits constitute a significant portion of the liability portfolio. Given recent global events, such as the collapse of SVB, and the rapid increase in interest rates, it is essential for banks to evaluate the behaviour of these products in relation to macroeconomic factors. It has been observed historically in other regions that non-maturing deposits are particularly sensitive to such factors. Therefore, it is imperative for Indian banks to evaluate this sensitivity for their own portfolio and initiate the development of a macro-sensitive behavioural model for deposit segments.

On the other hand, the majority of loans in India have a floating interest rate, which results in lower prepayment risk. As a result, the macro-sensitivity on the asset side is expected to be much lower, and the development of macro-sensitive models is not anticipated to yield significant outcomes. However, banks still need to analyse and provide evidence that the macro-sensitivity for their loan portfolio is not high.

Banks should approach the latest guidance with the intention of establishing a strong and strategic framework for managing their balance sheets in the long term. In line with this, they may consider the following:

Book Separation: Banks should carefully separate their banking book exposures for IRRBB measurement and management. The guidelines provide clear boundaries between the banking and trading books, along with restrictions on moving instruments across regulatory books. While banks are currently expected to follow existing guidelines for book segregation, they should review this classification in light of the new guidelines in the future.

Data Granularity: Banks need to assess their existing data management and governance framework to ensure they can appropriately provision and store detailed historical data. This includes data on contractual maturity, associated optionality, early maturity dates, and other attributes required for behavioural modelling, while also meeting expected data quality requirements.

NII Stabilization: IRRBB can be utilized to stabilize a bank's targeted Net Interest Income (NII), as determined by the Bank's Board of Directors (BoD). This should be aligned with the optimal level of NII required to achieve the expected interest rate outlook over the next one to two years. Additionally, residual interest rate risk can be mitigated through the use of interest rate swaps (IRS) or other derivative instruments.

Measurement Approach: Banks have the option to adopt the standardized approach (SA) as mandated by the RBI for their measurement approach. The SA technique is designed to aid banks in benchmarking their internal models. Both the Basel standard and the revised RBI guidelines require IRRBB to be measured across three risk types, namely gap, basis, and options. Banks will need to attribute and identify how each risk type contributes to their interest rate risk.

Model Validation: In order to comply with the firm's risk management policy, banks must ensure that any existing IRRBB models are identified and validated. They should also inventory the requirements for new models or enhancements and take mitigating actions until these models are put into production. It is expected that the integration of these models with the bank's IRRBB framework will capture deposit repricing, early redemption, prepayment of assets, and other optionality. This integration will require ongoing scrutiny and validation support.

Risk Management in Insurance
(Introduction to Insurance Business)

Risk management in the insurance business is a bit of a head-scratcher. On one hand, insurance companies are selling what many people consider to be a risk mitigation. On the other, insurance companies themselves face a variety of risks they need to mitigate.

A misconception about insurance as it pertains to risk management: Too often, people think insurance is a sufficient, catch-all control activity. But while insurance is a perfect way to protect a business from many risk scenarios, there are other scenarios insurance just can't cover. Oftentimes, risk insurance does not cover the core competencies of a business.

Insurance companies can "self-insure" or purchase coverage from a reinsurer, but this doesn't ensure all of the company's risk is accounted for. One of the biggest values an insurance company provides is customer service for those who need to submit a claim. If customers consistently have poor customer service experiences, they're likely to share their stories on social media, tarnishing the company's reputation and leading the company to fall behind their competition.

According to a study by the National Association of Insurance Commissioners (NAIC), core risks in the insurance business include "underwriting, credit, market, operational, liquidity risks, etc." Given this wide variety of concerns, there is a tremendous opportunity for risk management in insurance companies to make a positive impact.

To return to the customer service example above, let's look at how enterprise risk management could help:

✓ Risk management involves identifying, assessing, and mitigating risk. The beauty of a well-implemented risk management program is that it's built on a foundation of standardized risk assessments to help companies prioritize their risk based on its potential impact. Naturally, this process will surface risks that will impact the business's core competencies.

✓ For an insurance company, customer service would inevitably come to the forefront of a risk assessment. To address this risk, the insurance company could take steps to integrate incident management and risk management. Most companies have a way to track incidents like customer complaints, but many do not have a way of categorizing, prioritizing, and escalating incidents across teams. Risk management in the risk insurance business helps centralize and identify trends in customer feedback.

✓ From there, insurance companies can implement controls to address those trends, such as hiring more customer service reps to resolve long wait times or implementing call screenings to identify less-than-helpful interactions.

Improving customer service is only one example of how insurance companies can leverage risk management. A fully integrated enterprise risk management program can help insurance companies develop proactive mitigation activities to protect the core of their business. Insurance companies operate under the increased scrutiny of an ever-changing regulatory environment. Risk managers are expected to fully understand how changes in the economy impact their organization, as well as meet customer expectations for substantial coverage with fair requirements and claims processes.

Topic

Module 3: Idea to Action

ELECTIVES

Paper-20C

Entrepreneurship and Start Up (ENTS)

Paper 20C : Entrepreneurship and Startup
Idea to Action

Business Idea:

A business idea is a concept envisioned by individuals or teams that can be monetized through the delivery of products or services.

Characteristics of a Good Business Idea:

(a) Innovative: Your products or services should be new or improved version.

(b) Unique: You should offer something that is not readily available in the market.

(c) Problem solving: You should address specific problems or fulfil unmet needs.

(d) Profitable: You have a clear path to financial sustainability. Google's search engine, through its ad revenue model, transformed information access and became one of the most profitable ideas in the internet age.

(e) Understandable: It can be easily grasped and communicated. The concept behind Uber, using an app to hail a ride, is simple yet transformed urban mobility.

Steps of Idea to Action:

Nine steps to turn your business idea into a reality.

1. **Validate your idea:** The best way to validate your business idea is by asking people for their thoughts on it. Don't ask for money or investment.

2. **Write a business plan and business model:** Writing down your ideas and plans not only helps you clarify what you want to do, but it also allows you to make sure there are no holes in your plan. In a business model one should include:

   (a) A description of your business, including its mission statement and goals

   (b) A description of the target market for your product or service

   (c) A description of the competition in your industry

   (d) A description of how customers will find out about your product or service

   (e) How much funding is needed for startup costs and ongoing expenses

3. **Talk to your potential customers:** In order to put your business idea into action, you have to talk to your potential customers. When creating a new product or service, you cannot assume that your customers' needs will align with yours, because they might not. You need to speak directly to potential customers and ask them what they want and how much they would be willing to pay for it.

4. **Develop a prototype:** If you have a great idea for a product or service but want to know if people will buy it before you invest time and money into making it, you need to create a prototype.A prototype is a working model of your idea that allows you to see if it works, what needs to be reworked and how you might improve it.

5. **Test it out and prove the concept:** Test your business idea in a small way. For instance, if you plan on starting a food truck business, make one or two dishes and sell them at one or two events. You can also use tools like Google Analytics or SurveyMonkey to see which ideas are most popular with customers before you launch your business.

6. **Understanding the legal implications and registering your business:** A big part of creating a business is selecting one available business structure.Instead, many different types of entities can be formed for small businesses, including corporations, limited liability companies (LLCs), partnerships and sole proprietorships.

7. **Financing and investors:** While not all startups fail, those that do usually make one of two mistakes. First, they run out of money before they have developed a market for their product or service; second, they fail to persuade investors to give them money in exchange for equity. The best way to avoid these mistakes is to demonstrate that people will want your product or service enough to pay for it.

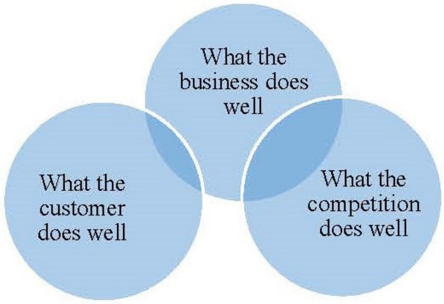
8. **Build market awareness:** Before starting your business idea, building awareness and credibility with potential customers is essential. Start by creating a website, social media profiles and a mailing list. Reach out to people who can help you get feedback on your idea; find out what business would best suit your skillset and where there is enough demand for it in your area.

What is Unique selling proposition?

A unique selling point (USP) is the factor that makes a company or a product stand out from its competitors, whether it is through; pricing, quality, customer service or innovation.A unique selling point (USP), also called a *unique selling proposition*, is a marketing statement that differentiates a product or brand from its competitors.

A USP might boast the lowest cost, the highest quality, the most experience, the first in its product class or another trait that sets the offering apart from the competition. A unique selling point can be thought of as "what you have that competitors don't."

USP



Bootstrapping

Bootstrapping in the startup refers to the process of launching and growing a business without external help or capital. It involves starting from the ground up, using personal savings and/or existing resources instead of relying on investors or loans.

Bootstrapping involves:

(a) Bootstrapping is founding and running a company using only personal finances or operating revenue.

(b) This form of financing allows the entrepreneur to maintain more control, but it also can increase financial strain.

(c) Owners can bootstrap by cutting costs, personally financing operations, cutting back operations, or looking for other creative short-term financing solutions.

(d) The term also refers to a method of building the yield curve for certain bonds.

(e) GoPro, Facebook, and Amazon are examples of companies with humble beginnings and bootstrapped starts.

Bootstrapping Pros and Cons of Bootstrapping

Pros

(a) Often allows for an owner to have greater control of the company

(b) Naturally reduces the expenses of a company due to cost avoidance measures

(c) May make it possible for someone to start a business due to lower barrier of entry

(d) Places a heightened emphasis on business operations

Cons

(a) Increases financial risk as a company may not be able to cover emergency or unexpected costs

(b) Requires a company to operate with limited resources

(c) May diminish how customers, suppliers, or investors view the company.

Financing to Startups

Different popular methods or alternatives of financing to startups are discussed below:

1. **Self-funding:** Self-funding, also known as bootstrapping, is an effective way of startup financing, especially when you are just starting your business.

2. **Crowdfunding:** Crowdfunding is one of the newer ways of funding a startup that has been gaining lot of popularity lately. It is like taking a loan, pre-order, contribution or investments from more than one person at the same time.

3. **Angel Financing:** Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting a up to 30% equity.

4. **Small Business Credit Cards:** A number of credit card issuers specifically cater to the small business market, and many come with special benefits: cash back rewards, airline mileage points, and other perks.

5. **Family and Friends' Circle:** In startups, often small amount of fund is required. Funds from family members, relatives and friends may be used as source of finance in startups.

6. **Venture Capital (VC):** Venture capitals usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide expertise, mentorship and acts as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view.

7. **Funding From Business Incubators and Accelerators:** Early-stage businesses can consider Incubator and Accelerator programmes as a funding option. Incubators are like a parent to a child, who nurtures the business providing shelter tools and training and network to a business. Accelerators so more or less the same thing, but an incubator helps/assists/nurtures a business to walk, while accelerator helps to run/take a giant leap.

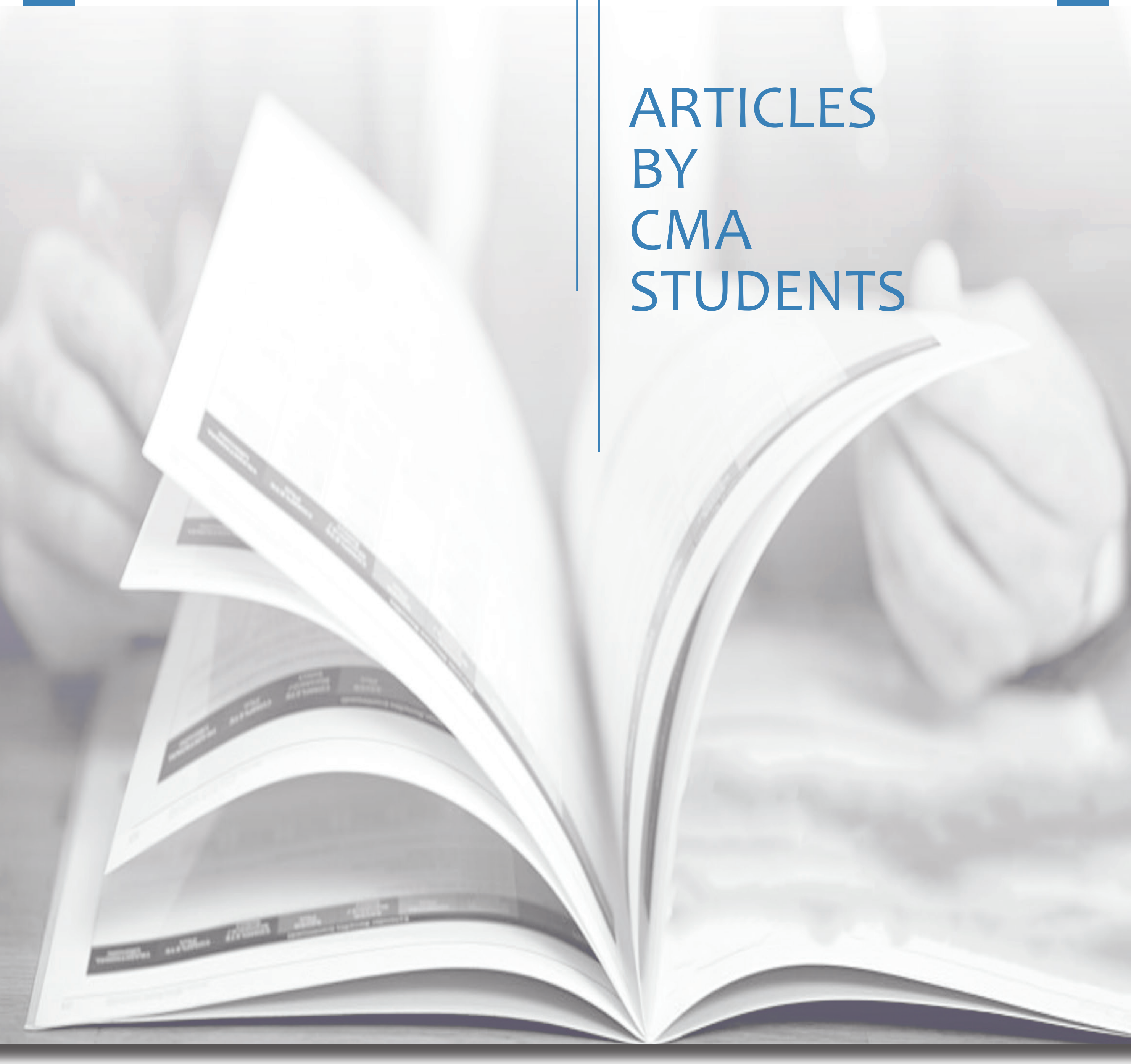
8. **Funds by Winning Contests:** An increase in the number of contests has tremendously helped to maximize the opportunities for fund raising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.
9. **Bank Loans:** The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding.
10. **Loans from Microfinance Providers or NBFCs:** Non-Banking Financial Companies (NBFCs) provide Banking services without meeting legal requirements of a bank.
11. **Government's Assistance:** The Government of India launched Startup Fund and other schemes for the startups.
12. **Product Pre-sale:** Selling of products before launching is an often-overlooked but it is highly effective way to raise the finance for startups.

Multiple Choice Questions:

1. Which of the following is/are the important guidelines for monetizing of the product?
   a) Emphasizing customer experience
   b) Long-term thinking process
   c) Creative in approach
   d) All of the above
2. Which one of the following typesis concerned details on how to deliver a product or service?
   a) Market feasibility
   b) Financial feasibility
   c) Technical feasibility
   d) Organizational feasibility
3. People Choose Bootstrapping because:
   (i) Lack of experience in formulating business plans and in entrepreneurship
   (ii) They know how to raise financing
   (iii) They do not want to spend time searching for an investor
   a) Option (i) is correct only
   b) Option (ii) is correct only
   c) Option (iii) is correct only
   d) Option (i) and (ii) are correct only.
4. Which one of the following sequences is correct for sources of startup financing?
   a) (i) Idea Generation (ii) Pre-seed Stage (iii) Validation (iv) Seed Stage
   b) (i) Idea Generation (ii) Validation (iii) Pre-seed Stage (iv) Seed Stage
   c) (i) Idea Generation (ii) Pre-seed Stage (iii) Seed Stage (iv) Validation
   d) (ii) Pre-seed Stage(ii) Idea Generation (iii) Seed Stage (iv) Validation
5. A---------- is a specialized firm that finances young, startup companies.
   a) Small finance company
   b) Venture capital firm
   c) NBFCs
   d) Commercial banks

Answer: 1. (d); 2. (c); 3. (d); 4. (a); 5. (b).

ARTICLES BY CMA STUDENTS



Student's Journey Through Errors: Success or Failure?

Anumukonda Harika
CMA Final Student
Registration number: 02201081899

As a student navigating the complex yet captivating world that this course offers, I feel compelled to share my experiences. If you're a student exploring this world of balance sheets, budgeting, and the occasional existential crisis over debits and credits, I think you might be going through the same struggles as I do.

In the symphony of numbers, where even a decimal counts, we students find ourselves dancing on the fine line between sanity and chaos (although sanity seems like a ship that has already sailed). It's like a balancing act, akin to walking on a tightrope, but with our trusty calculators instead of balancing poles.

Albert Einstein once said, "Do not worry about your difficulties in Mathematics. I can assure you mine are still greater." I can't help but chuckle at the thought that even a genius like him might have had his fair share of stumbling upon the occasional decimal point mishap.

From accidentally multiplying instead of dividing to mistaking debits for desserts, each misstep highlights how absurd things can become. Little did we know that these seemingly stoic digits would be the source of both our joys and, let's face it, a fair share of head-scratching moments and the occasional facepalm.

Navigating through those accounting mistakes often feels like deciphering a secret code. It's a puzzle wrapped in an enigma, with the occasional "aha" moment that feels more like finding a pearl in an ocean of sand — challenging, entertaining, and just a tad bit sadistic.

Remember, every mistake is a lesson in disguise. Thomas Edison once said, "I have not failed. I've just found 10,000 ways that won't work." Apply this to your accounting mishaps, and suddenly that misplaced decimal point is just another step toward brilliance. We're all in this trial-and-error game together.

Now, don't get me started about budgeting; it's like planning a grand feast on a student budget — you want the family-sized biryani, but you end up with ramen. It's a constant battle of desires versus reality, where the desire for an extravagant banquet meets the reality of a modest picnic.

Whilst all this absurdity, we encounter our best friend: procrastination. It's a classic tale of temptation versus responsibility, and let's be honest, temptation wins most of the time. From convincing ourselves that cleaning our room is vital for productivity (spoiler alert: it's not) to going on snack runs under the pretense of "brain fuel," each procrastination tactic showcases our creative genius. Who knew that one missing sock could be so essential to our academic success?

And let's not forget our talent in last-minute cramming – a time-honored tradition that somehow manages to produce results, albeit with a side serving of panic-induced hysteria. It's a dual fueled by adrenaline between absorbing information at lightning speed and desperately praying that the exam questions will align with our hastily memorized notes.

But amidst the chaos of procrastination, there lies a glimmer of hope — a recognition that even the most procrastination-prone among us can still emerge victorious in the end. So, the next time you find yourself procrastinating, remember: you're not alone, and you're definitely not the only one binge-watching those cat videos when you should be studying right now.

As a student, you're not just learning about accounting and finance; you're mastering the art of staying awake during lectures and understanding tricky topics. So take pride in your ability to keep going. When things get hard, remember that you don't have to be great to start, but you have to start to be great. Tackle those practice problems head-on!!

We might not have fancy job titles like our friends just yet, but our unwavering determination sets us apart from everyone else. If at first, you don't succeed, consider it version 1.0 of yourself and move on. Call it delayed gratification.

We students waltz through the intricate steps of learning something new, find solace in the words of Winston Churchill: "Success is not final, failure is not fatal: It is the courage to continue that counts." So, here's to courage, to balance sheets that balance, and to a future where we emerge victorious from this labyrinth, perhaps a little bruised, but definitely wiser and armed.

Advancements in Finance and Significance in Healthcare sector

Prabhakar Jogimahanthi
CMA Intermediate Student
Registration number: 03181033607

In the ever-evolving landscape of finance, advancements continue to shape the industry, revolutionizing how businesses manage their finances, investors make decisions, and individuals access financial services. From technological innovations to regulatory changes, the finance sector is experiencing a profound transformation. This article explores some of the key advancements, industry insights, case studies, and emerging trends driving this evolution.

Technological Advancements:

1. **Blockchain and Cryptocurrencies:** The rise of blockchain technology has disrupted traditional financial systems, offering decentralized and secure transactions.

   Case Study: Companies like Ripple are revolutionizing cross-border payments, reducing costs and increasing efficiency.

2. **Artificial Intelligence (AI) and Machine Learning:** AI algorithms are being used for risk management, fraud detection, and investment strategies.

   Case Study: Wealth front and Betterment utilize AI-powered robo-advisors to provide personalized investment recommendations to clients.

3. **Fintech Innovation:** Fintech start-ups are challenging traditional banking models with innovative solutions, including digital banking, peer-to-peer lending, and payment processing.

   Case Study: Square Inc. has transformed payment processing for small businesses with its Square Point of Sale system.

Industry Insights:

1. **Shift towards Digitalization:** The finance industry is rapidly digitizing, with online banking, mobile payments, and digital currencies becoming mainstream.

   Case Study: The COVID-19 pandemic accelerated the adoption of digital banking, with many customers shifting towards online services.

2. **Focus on Sustainability and ESG Investing:** Environmental, Social, and Governance (ESG) factors are increasingly influencing investment decisions, reflecting a growing awareness of sustainability issues among investors.

   Case Study: BlackRock's commitment to ESG integration demonstrates the importance of sustainable investing in today's market.

3. **Regulatory Changes and Compliance Challenges:** Regulatory frameworks are evolving to keep pace with technological advancements, presenting challenges and opportunities for financial institutions.

   Case Study: The implementation of GDPR (General Data Protection Regulation) in the EU has forced financial companies to enhance data privacy measures.

Emerging Trends:

1. **Decentralized Finance (DeFi):** DeFi platforms are leveraging blockchain technology to offer decentralized lending, borrowing, and trading services, bypassing traditional intermediaries. Case Study: Compound Finance provides decentralized lending and borrowing protocols, allowing users to earn interest on their crypto assets.

2. **Digital Currencies and Central Bank Digital Currencies (CBDCs):** The rise of cryptocurrencies and the development of CBDCs by central banks are reshaping the future of money and payment systems. Case Study: China's digital yuan pilot program highlights the potential for CBDCs to modernize payment infrastructure and enhance financial inclusion.

3. **Remote Work and Virtual Banking:** The shift towards remote work has accelerated the demand for virtual banking services, including online account opening, virtual financial consultations, and digital wealth management platforms.

Healthcare sectors particularly for Hospitals

The advancements in finance highlighted in the article are indeed crucial for the healthcare sector, particularly for hospitals, as they can significantly impact financial management, operational efficiency, and patient care. Here's how each point is relevant to hospitals, along with personal experiences:

1. **Technological Advancements:** Hospitals rely on advanced technologies for patient care, medical records management, and billing processes. Implementing blockchain technology can enhance the security and integrity of patient data, ensuring confidentiality and accuracy in medical records. Personally, I've seen hospitals adopt electronic health record (EHR) systems integrated with blockchain technology to streamline data sharing among healthcare providers securely.

2. **Industry Insights:** Understanding industry insights helps hospitals navigate complex regulatory requirements, optimize revenue cycles, and improve cost management. Insights into digitalization trends can guide hospitals in adopting telemedicine solutions, digital patient engagement platforms, and online payment systems, enhancing accessibility and convenience for patients. In my experience, hospitals have leveraged industry insights to implement revenue cycle management software, leading to faster claims processing and reduced revenue leakage.

3. **Emerging Trends:** Hospitals are increasingly embracing emerging trends such as AI-driven diagnostics, remote patient monitoring, and personalized medicine. These trends require robust financial infrastructure to support investments in technology, talent acquisition, and research initiatives. Personally, I've witnessed hospitals explore AI-powered predictive analytics tools to forecast patient volumes, optimize resource allocation, and improve operational efficiency.

Role of CMAs

Cost and management accountants play a crucial role in the context of the advancements in finance as we discussed in the article. Let us have a look

1. **Financial Analysis and Planning:** Cost and management accountants analyse financial data to assess the financial health of organizations, identify cost-saving opportunities, and optimize resource allocation. They play a vital role in financial planning and budgeting, helping organizations set strategic goals, allocate resources efficiently, and monitor performance against targets.

2. **Cost Control and Efficiency:** Cost accountants focus on controlling costs and improving efficiency within organizations. They analyse cost structures, identify areas of inefficiency, and implement cost-saving measures. In the healthcare sector, for example, cost accountants may analyse the cost of medical supplies, equipment, and labour to identify opportunities for cost reduction without compromising patient care quality.

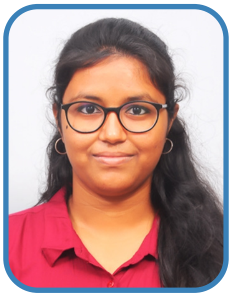
3. **Risk Management and Compliance:** Management accountants assess risks related to financial operations, regulatory compliance, and market dynamics. They help organizations develop risk management strategies, ensure compliance with regulatory requirements, and mitigate financial risks. In the finance sector, management accountants play a crucial role in ensuring that financial transactions comply with regulatory standards and internal policies.

4. **Decision Support:** Cost and management accountants provide decision support to organizational leaders by providing financial analysis, forecasts, and insights. They help executives make informed decisions regarding investments, resource allocation, pricing strategies, and business expansion opportunities. In the context of emerging trends such as blockchain technology and digital currencies, cost and management accountants may provide insights into the financial implications and risks associated with adopting these technologies.

Overall, cost and management accountants play a multifaceted role in helping organizations navigate the complexities of the finance industry, optimize financial performance, manage risks, and drive strategic decision-making. Their expertise is essential for organizations seeking to leverage advancements in finance to achieve their business objectives and sustain long-term growth

In conclusion, the finance industry is undergoing a period of rapid transformation driven by technological innovation, changing consumer preferences, and regulatory reforms. As advancements continue to reshape the landscape, businesses and financial professionals must adapt to stay competitive and capitalize on emerging opportunities. By embracing digitalization, sustainability, and innovation, the finance industry can navigate the challenges ahead and unlock new avenues for growth and prosperity.

Blockchain, CBDC and E-Rupi: Redefining the financial landscape in India



Tejasvi Pulipati
CMA Final Student
Registration number: 02191056061

The Indian financial sector is undergoing a period of rapid transformation, driven by technological advancements and a growing focus on financial inclusion. Three key innovations in this landscape are blockchain, Central Bank Digital Currencies (CBDCs), and the e-RUPI initiative. These hold immense potential to revolutionize how we interact with money.

Blockchain:

Blockchain is a distributed ledger technology, a secure and transparent database shared across a network of computers. Transactions are recorded as blocks, chronologically linked, and cryptographically secured, making them auditable. This inherent transparency and security have captivated industries worldwide, including finance.

Blockchain offers many possibilities such as automating document verification and payments, blockchain can reduce costs and delays in trade finance, benefiting both businesses and exporters. Tracking goods from origin to destination becomes transparent and efficient with blockchain, improving product traceability. Blockchain eliminates intermediaries and provides secure access to financial services. Streamlines process as Smart contracts, automates complex processes and reduces manual intervention.

However, blockchain is still in its initial stages in India hence, there are many challenges to overcome, such as scalability, regulatory uncertainty, energy consumption, and interoperability between different blockchain platforms.

CBDC:

CBDCs are digital representations of central banks' currency. it offers several advantages over traditional currency and existing digital payment methods. Unlike cryptocurrencies like Bitcoin they are legal tender backed by the government, which increases trust and stability. The main participants in CBDC are Central banks, commercial banks, organizations, and individuals.

It provides numerous advantages such as a faster, cheaper, and more convenient way to make a transaction when compared to the traditional payment methods, and enables access to digital payments for the unbanked and underbanked population. It helps central banks to implement new monetary policy tools and better manage the money supply.

Types of CBDCs:

Wholesale CBDCs: Primarily used by financial institutions for interbank settlements and large-value transactions.

Retail CBDCs: Available to individuals and businesses for everyday use, similar to cash but in digital form.

There are two types of retail CBDCs. They differ in how individual users access and use their currency

- Token-based retail CBDCs are accessible with private keys, public keys, or both. This method of validation allows users to execute transactions anonymously.
- Account-based retail CBDCs require digital identification to access an account.

There are still potential risks that need to be taken care of to ensure proper regulation of the CBDCs such as Data privacy. It is crucial to protect sensitive financial information collected at the time of transactions and improve technological infrastructure that will be scalable to handle large volumes of transactions effectively as and when necessary. Develop a clear and comprehensive regulatory framework to address legal, operational, and financial aspects and also ensure a healthy and vital banking system.

E-RUPI:

E-Rupi is an initiative taken by the Indian government to showcase the potential of digital payments which is targeted towards the welfare programs. Though it is not a true CDBC it is a cashless and contact-less voucher system delivered via SMS or a QR code. A very large part of the Indian population indeed has limited access to the internet, but E-rupi presents a smooth and convenient method, these vouchers can be redeemed for a specific purpose without the need for a bank or access to the internet. The SMS vouchers or QR codes will be linked with a pre-allocated sum and can be utilized only once by the individual in whose name it was issued. Mainly the payment can only be completed by the beneficiary only after availing of the relevant service.

The goals that the government of India is trying to achieve through the E-Rupi initiative are to enable real-time transaction tracking minimizing leakages and promoting transparency, eliminating the need for physical cash with easier access to beneficiaries mainly focused in the rural area. It is designed for a specific purpose and ensures the funds are used for such purpose.

A Collaborative Future:

While these three innovations may be seemingly distinct, they have a common goal of transforming the financial landscape of India for a better financial future. Blockchain technology can be used to build a transparent and secure infrastructure for the CBDCs which builds trust in CBDCs privacy concerns and also enables offline access to CBDCs by extending their reach in those areas with limited internet access. This in turn enables the CBDCs to help in E-Rupi's targeted approach to reach a specific segment of the population. E-Rupi can be integrated with blockchain technology to improve its traceability and accountability.

Conclusion

Blockchain, CBDCs, and E-Rupi represent a significant advancement in the Indian financial landscape. Although they have their advantages and limitations, all digital financial technologies together provide a healthy financial system that is more inclusive, effective, and secure. India can make the best use of these innovations to create a future where everyone has access to digital finance.

Emergence of a CMA role in maintaining cost consciousness and sustainability on satisfying human wants

SRIKANTH N
CMA final student
Registration number: 02182042698

Introduction

The First part of the article deals with establishing the relationship between strategic performance in manufacturing and human wants in this global era. Further it provides detailed view on how human desires shape the innovation process and product design which affects the utility of end customers. The second part of this article provides the functional relationship among cost consciousness, sustainability and human wants. The last part of this article deals with emergence of CMA role in maintaining cost consciousness and sustainability on satisfying human wants.

Human desire that shapes the manufacturing of goods

The idea of reverse mapping inculcated the importance of satisfying the intended utility to the consumers by analysing their taste, desire and preferences. Therefore, manufacturers and strategic thinkers tried to absorb the ground reality and started to design the product, elevated the innovation process and finally created utility through their efforts at the optimum cost. It triggered the economic development through competition and product differentiation at the next level.

Product differentiation to product failure

However, this continued trend resulted in the Product failure to some concerns. Now a days some companies in the ultra-competitive industries are under immense pressure to develop next products, innovate something in order to be differentiated from other players for their survival. In some industries, this trend of pressure resulted in creation and imposition of unnecessary utilities in the disguise of product differentiation which stimulated the demand of people in the world to consume that. It affected adversely the manufacturers, environment, behaviour pattern, physical and mental health that eventually led us to recognise these are wastage of resources and contributed for carbon foot print. Let us see some notable product failures.

- **New Coke:** In 1985, Coca-Cola introduced "New Coke" in an attempt to differentiate their product from competitors. However, the new formula was poorly received by consumers who preferred the original taste of Coca-Cola. This led to a significant backlash, forcing Coca-Cola to reintroduce the original formula as Coca-Cola Classic.
- **Microsoft Windows Vista:** Windows Vista, released in 2007, was criticized for its excessive differentiation from its predecessor, Windows XP. It introduced significant changes to the user interface and system requirements, leading to compatibility issues with existing software and hardware. This resulted in poor adoption rates and dissatisfaction among users.
- **Segway:** The Segway Personal Transporter was introduced in 2001 with much anticipation as a revolutionary mode of transportation. However, it failed to capture widespread consumer interest due to its high price, limited utility in everyday life, and concerns about safety and practicality.
- **Juicero:** Juicero, a Silicon Valley startup, introduced a high-tech juicing machine in 2016 along with a subscription-based service for pre-packaged juice packets. However, the product faced criticism for its high price, cumbersome design, and the revelation that the juice packets could be squeezed by hand, making the machine unnecessary. Juicero shut down in 2017 after failing to generate sufficient consumer interest.

Product consumption to unsustainability

There are more products that are produced and consumed but are far from promoting sustainable development. These products are welcomed, provide intended utility but it affects the sustainability adversely. Some notable products are:

Non- Biodegradable Beauty and Personal Care Products: Many beauty and personal care products contain non-biodegradable microplastics and other synthetic ingredients that can accumulate in the environment, particularly in water bodies, posing risks to aquatic life and ecosystems.

Disposable diapers: Disposable diapers create significant waste, as they are used once and then thrown away. They can take hundreds of years to decompose in landfills, and their production requires large amounts of water, energy and raw materials.

Functional relationship among cost consciousness, sustainability and human wants.

We know that human wants are unsatiable and resources are limited. Conspicuous consumption and continuous wants irrespective of awareness on environmental impact inculcated the concept of alignment of cost consciousness with sustainability objectives by considering the lifecycle cost and benefits of goods and service including their environmental and social impacts. This alignment brings balance between human wants and sustainability. It infuses the concept of ceiling on desires that protect us from unsustainable consumption. More Cost Consciousness leads to satisfying the adverse environmental impact free wants and more sustainability. Meeting human wants sustainably often requires balancing short-term costs with long-term benefits and considering the trade-offs between economic efficiency, social equity, and environmental stewardship. Cost-consciousness can drive the adoption of sustainable practices by highlighting the economic rationale for investing in resource efficiency, renewable energy, waste reduction, and other sustainable initiatives.

The emergence of a Cost and Management Accountant (CMA) role is pivotal in maintaining cost consciousness and sustainability while satisfying human wants.

Cost Consciousness: CMAs play a crucial role in promoting cost consciousness within organizations. They analyse costs across various processes, identify inefficiencies, and implement cost-saving measures. By scrutinizing expenditures and advocating for cost-effective practices, CMAs help organizations optimize resources and enhance financial performance without compromising quality or customer satisfaction. Cost consciousness influences decisions regarding the allocation of resources to satisfy human wants. It encourages individuals, businesses, and policymakers to seek cost-effective solutions that maximize utility while minimizing expenditure.

Sustainability: CMAs contribute to sustainability initiatives by integrating environmental and social considerations into decision-making processes. They evaluate the environmental impact of business operations, assess the lifecycle costs of products and services, and identify opportunities for waste reduction and resource conservation. By promoting sustainable practices such as energy efficiency, waste management, and responsible sourcing, CMAs help organizations minimize their ecological footprint and foster long-term environmental stewardship.

Satisfying Human Wants: CMAs play a critical role in aligning organizational strategies with customer needs and preferences. They analyse market trends, conduct cost-benefit analyses, and develop pricing strategies that balance affordability with value creation. By understanding consumer behaviour and preferences, CMAs help organizations deliver products and services that effectively satisfy human wants while optimizing resource utilization and maintaining financial viability.

By considering the Product failure on one hand and unsustainable consumption on other hand, which contributes to the wastages of resources and carbon foot print, the CMA role is essential for balancing cost consciousness, sustainability, and the satisfaction of human wants. CMAs enable organizations to achieve these objectives by driving efficiency, promoting responsible resource management, and aligning business strategies with customer needs and societal expectations. By integrating cost management principles with sustainability initiatives and customer-centric strategies, CMAs help organizations achieve long-term success while contributing to economic, environmental, and social well-being. Indirectly CMAs are one of the sustainability checkers in this technological era. Thus,

Technically, Sustainable consumption = f (Conscious Human Wants, CMA, Cost Consciousness, Conscious Producers, Conscious Consumption, No Product Failure, No Wastages of Resources)

i.e. Sustainability to be ensured from CMA = f (CHW, CMA, CC, CP, C.Con, NPF, NWR)

CMAs ensures **'Product differentiation but not product failure' and 'product consumption but not unsustainability'.**

CMAs pave the way for ultimate theme **'Human desires with cost consciousness considering sustainability shapes the manufacturing to the next level'.**

CMA SUCCESS STORIES

CMA Srishti
24 Years
June 2023 Term
Patna, Bihar

Gas Authority of India Limited (GAIL)
Executive Trainee (F&A)
Vijaypur, Madhya Pradesh
CTC - 19 Lakhs per annum (Approx)

The ICMAI has provided all the qualified CMAs a great opportunity to get placed in some of the renowned companies, such as GAIL India Ltd., ITC Ltd., ITC Hotels, ITC Foods, Capegemini, etc. It was a life changing experience for me. The pre placement orientation programme was indeed a learning platform which enabled us to meet the newly qualified CMAs as well as some of the experts in the industry. The interactive sessions provided insights about the practical work and new methodologies. It has added to our professional knowledge as well as personal grooming. During some sessions, we were given tips regarding the interview process. It helped me a lot in my preparations for the interview.

Talking about my campus placement experience, the placement cell did an appreciable job. I got a golden opportunity to appear for interview for companies such as ITC Ltd. and GAIL India Ltd. The officials of placement cell aided in the smooth interview process. They coordinated well with the companies and made sure that the candidates don't face any difficulties.

Fortunately, I was selected for GAIL India Ltd as ET(F&A). It have only been made possible by continuous efforts of the Kolkata Placement Cell. Many other candidates were selected for good companies and proper help and feedback was provided by all the officials of placement cell.

At last, I would like to show my gratitude towards the Institute which has made me capable enough to get such opportunity.

CMA TVS Chandrasekhar
23 Years
June 2023 Term
Visakhapatnam, Andhra Pradesh

Vedanta Power
Officer Trainee
Raigarh, Chhattisgarh
CTC - 13.45 Lakhs per annum (Approx)

A course that has shaped my career and provided me with an opportunity to work with a Fortune 500 company through its campus placement. The curriculum and the robust examination system helped me gain immense knowledge in the field of finance & costing. I am also grateful that the institute supports every student by providing a library, required materials, mock tests, classes, and conducting various seminars and sessions for continuous upskilling of our knowledge.

I am delighted to share that ICMAI, in recognizing talent, also organizes various events, such as a business quiz every year. I take pride in being the title winner of the CMA & THE HINDU National Business Quiz 2022. The institute has also given me the opportunity to showcase my talent on international platforms. As a national-level quiz winner of ICMAI, I was nominated for the South Asian Federation of Accountants Quiz (SAFA Quiz 2022) held in Kathmandu, Nepal, where participants represented accounting bodies from all South Asian countries. I am proud to say that I secured the second runner-up position in that quiz.

The encouragement from the institute fueled my determination to excel, evident in my achievement of clearing all CMA levels on the first attempt and securing an impressive All India Rank 9 in the CMA final. I can confidently say that CMA is a course that not only shapes your career but also your life.

NOTES

NOTES

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 ICMAI, 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.

Submission Deadline: We kindly request you to submit your article by **20th of the previous month of publication.** This will allow us ample time to review and prepare the upcoming issues of the CMA Student E-Bulletin.

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.

Recognition and Rewards: Selected articles will be featured prominently in the CMA Student E-Bulletin, providing you with a valuable platform to showcase your expertise. Additionally, authors of published articles will be acknowledged and the top contributors may be eligible for special recognition and rewards.

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

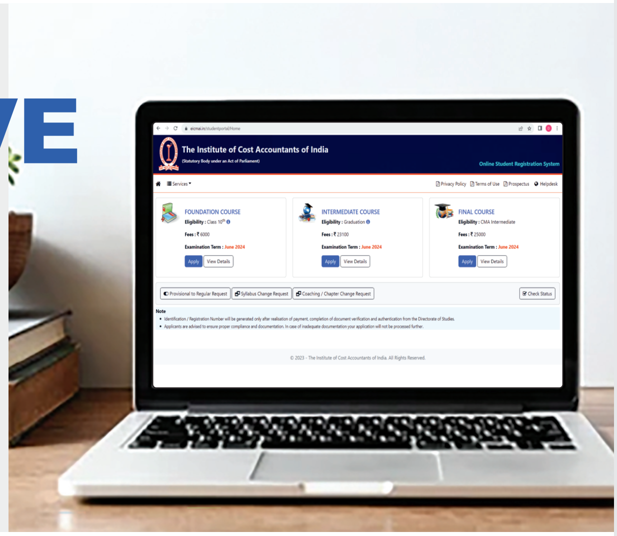
E-mail – studies.ebulletin@icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

NEW IT INITIATIVE TO PROVIDE ENHANCED FACILITIES TO CMA STUDENTS



A login feature has been integrated into the **ONLINE REGISTRATION APPLICATION SYSTEM** enabling students to access various services through their accounts.

To utilize this feature, students need to create a login account by verifying their email address through an OTP sent to their registered email ID. Once the email ID is verified, it becomes the user ID and students can set their password during the account creation process.

The introduced system enables students to:

- Register online for Foundation, Intermediate & Final Courses
- Check the status of their online applications
- Request Conversion from Old Syllabus to New Syllabus
- Request changes in Oral / Postal Coaching and opt for Chapter-to-Chapter Conversion
- Convert from Provisional to Regular status

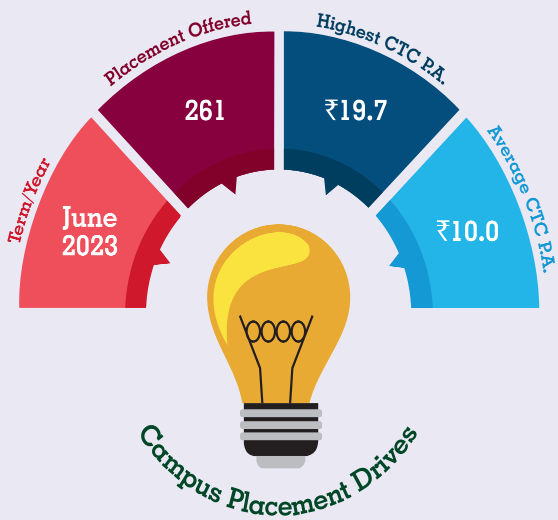
Additional services for students will be seamlessly incorporated in the near future.

Behind every successful business decision, there is always a CMA

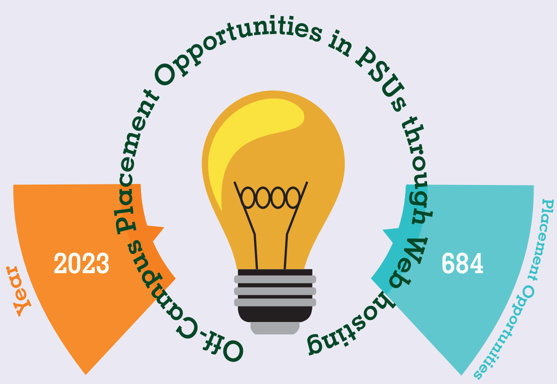
ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in

CMA Campus Placement Initiatives 2023

Campus Placement Statistics



Organized 1st Overseas Campus Placement Drive in December 2023



Career Counselling & Placement Committee
The Institute of Cost Accountants of India

placement@icmai.in / cpt@icmai.in / career-counseling@icmai.in

+91 94323 82747 / 98308 86751 / 98748 57118

Headquarters:
CMA Bhawan, 12, Sudder Street, Kolkata - 700016
Delhi Office:
CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110003

Behind every successful business decision, there is always a CMA

ICMAI

THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

Headquarters
CMA Bhawan, 12, Sudder Street, Kolkata - 700016
Ph: 033-40364777/40364722/40364726

Delhi Office
CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 011-24622156/24622157/24622158

studies@icmai.in

Behind every successful business decision, there is always a CMA