CMA STUDENT E-Bulletin

VOL 09 | NO. 03 | MARCH 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

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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 filled with enthusiasm for your journey in the world of management accounting.

As the Chairman of the Training & Educational Facilities Committee of ICMAI, it gives me immense pleasure to connect with you through this platform. Our committee is dedicated to ensuring that you receive the highest quality training and educational resources to excel in your CMA journey.

In our continuous efforts to enhance your learning experience, we have been diligently working on various initiatives aimed at providing you with comprehensive support. From refining our curriculum to leveraging innovative teaching methodologies, we are committed to equipping you with the skills and knowledge needed to thrive in today's dynamic business environment.

I encourage each of you to actively engage with the resources and opportunities made available to you by ICMAI. Whether it's attending workshops, accessing online learning materials or participating in industry events, take advantage of every opportunity to expand your knowledge and broaden your horizons.

Remember, your success as future CMAs is not only a testament to your hard work and dedication but also a reflection of the support and guidance provided by ICMAI and its committees.

As you embark on this transformative journey, know that the Training & Educational Facilities Committee is here to support you every step of the way. Together, let us strive for excellence and set new benchmarks in the field of management accounting.

Wishing you all the best in your academic pursuits and beyond.

Warm regards,

CMA Vinayaranjan P.
Chairman
Training & Educational Facilities Committee
ICMAI
30th March 2024

CMA FOUNDATION COURSE

Syllabus 2022

VOL 09 | NO. 03

Topic

Fundamentals of Business Laws -

Module 2: Indian Contracts Act, 1872

Business Communication -

Module 5: Business Communication

FOUNDATION

Paper-1

Fundamentals of Business Laws and Business Communication (FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

MULTIPLE CHOICE QUESTIONS (MCQ)

1. A proposal when accepted becomes a _____ and an agreement enforceable by law is ____.

   (A) agreement, acceptance

   (B) promise, contract

   (C) contract, promise

   (D) acceptance, consideration

2. An agreement which prevents a person from carrying a lawful business is _____ under____ of the Indian Contract Act, 1872.

   (A) void/section 27

   (B) voidable/section 28

   (C) illegal/section 26

   (D) valid/section 10

3. Which of the following statements is true?

   (A) Contract=agreement + enforceability at law

   (B) agreement = offer+ acceptance

   (C) Both A and B

   (D) none of the above

4. A and B entered into an agreement for the share of profit, among them, which is to be acquired by them by fraud. It is not a valid argument because-

   (A) Its object is unlawful

   (B) its considerations is unlawful

   (C) its offer is unlawful

   (D) it is an exceptional agreement

5. Contracts classified on the basis of performance are-

   (A) Executed contract

   (B) executory contracts

   (C) partly executed or partly executory contracts

   (D) all of the above.

6. Mistake of Fact can be two types-

   (A) Own and foreign

   (B) Unilateral & Bilateral

   (C) Unilateral & Foreign

   (D) Own and bilateral

7. Section 68 to ____ the Indian Contract Act describes the cases which are deemed____ contracts.

   (A) 72, Quasi

   (B) 73, Contingent

   (C) 74, Invalid

   (D) 75, Void

8. *Quantum Meruit* means-

   (A) as much as earned

   (B) as much as performed

   (C) as much as found

   (D) as much as worked

9. The bailment of ____ as security for payment of a debt or performance of a promise is called __.

   (A) Goods, pledge

   (B) rule, void

   (C) product, services

   (D) services, void

10. Barun went into a restaurant and took a cup of tea. In this case, there is-

    (A) No contract by Barun to pay for the cup of tea

    (B) An implied contract that he will pay for the cup of the tea

    (C) An express contract to pay for the cup of the tea

    (D) A quasi contract to pay for the cup of tea.

11. Every agreement and promise enforceable at law is a contract" - defined by

    (A) Salmond

    (B) Pollok

    (C) Anson

    (D) Halsey

12. Section _____ of Indian Contract Act, 1872 define 'proposal'.

    (A) 2(a)

    (B) 2(b)

    (C) 2(d)

    (D) 2(e)

13. Section 2(j) of the Indian Contract Act, 1872 defined-

    (A) Valid contract

    (B) void contract

    (C) voidable contract

    (D) quasi contract

14. The person to whom the proposal is made is called the -

    (A) offerer

    (B) offeree

    (C) proposer

    (D) promisor

15. Consideration can be classified into ____ types.

    (A) four

    (B) five

    (C) six

    (D) three

16. An agreement with a party who is not competent to contract is-

    (A) void

    (B) voidable

    (C) valid

    (D) illegal

17. Contingent contract is defined in section ____ of Indian Contract Act

    (A) 30

    (B) 31

    (C) 32

    (D) 34

18. Pledge is a special kind of-

    (A) Bailment

    (B) Rule

    (C) Business

    (D) product

19. An agreement will be unlawful if:

    (A) There is no consent

    (B) Consent is not free

    (C) There is no consideration

    (D) The object is forbidden by law

20. In a wagering agreement:

    (A) Both the parties win

    (B) Both the parties lose

    (C) None of the parties wins

    (D) One party wins and the other looses

21. Which one of the following statements is correct?

    (A) Void agreements are always illegal

    (B) Illegal agreements are voidable

    (C) Illegal agreement can be ratified by the parties

    (D) Illegal agreements are always void

22. Which one of the following is not a wagering agreement?

    (A) A lottery

    (B) An agreement to buy a ticket for a lottery

    (C) Commercial transaction, the intention of which is not to deliver the goods but only to pay the difference in price

    (D) A contract of insurance

23. A wagering agreement in India is declared by the Contract Act as

    (A) Illegal and void

    (B) Void but not illegal

    (C) Voidable at the option of the aggrieved party

    (D) Immoral

24. Which one of the following is a void agreement?

    (A) An agreement without consideration

    (B) An agreement in restraint of marriage

    (C) An agreement in restraint of trade

    (D) All of the above

ANSWER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
B	A	A	A	D	B	A	A	A	B	B	A	B	B	D
16	17	18	19	20	21	22	23	24						
A	B	A	D	D	D	B	D	D						

SECTION – B: BUSINESS COMMUNICATION

1. Communication that originates at a lower level and flows to a higher level is called-

   A) Upward Communication

   B) Diagonal Communication

   C) Downward Communication

   D) None of the above

2. Communication among employees at the same level in the organizational structure is called-

   A) Grapevine Communication

   B) Diagonal Communication

   C) Lateral Communication

   D) None of the above

3. Which of the following should be avoided in the Group discussion?

   A) Positive body language

   B) Leadership initiative

   C) False statements

   D) Confidence

4. Which business communication usage provides a bird's eye view on a matter?

   A) Speech

   B) Group Discussion

   C) Debate

   D) Presentation

5. How many types of communication take place in an organisation?

   A) 5

   B) 1

   C) 3

   D) 4

6. In which business communication, a speaker has to clearly speak for or against a topic?

   A) Presentation

   B) Debate

   C) Speech

   D) Group discussion

ANSWER

1	2	3	4	5	6
A	C	C	D	A	B

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)

Financial Accounting

1. If Liability is ₹80,000 and Capital is ₹1,20,000; What will be the total Assets of the entity ?

   a.₹2,00,000 ;

   b.₹40,000 ;

   c.₹2,40,000 ;

   d. ₹4,00,000

2. Excess of Expenses over Revenue of a business is called

   a. Loss ;

   b. Profit ;

   c. Surplus ;

   d. Deficit

3. The nature of Capital is

   a. Liability ;

   b. Asset ;

   c. Working Capital

   d. Ownership

4. Debit Balance of Profit and Loss Account is a …………… Asset

   a. Fictitious ;

   b. Current ;

   c. Non-Current;

   d. Intangible

5. Closing Stock is an item of

   a. Current Asset ;

   b. Fictious Asset ;

   c. Wasting Asset ;

   d-None of the a,b,c

6. Which Account is related to Property and Asset ?

   a. Real Account ;

   b. Property Account ;

   c. Personal Account

7. Purchase Day Book includes

   a. All Credit Purchases ;

   b. All Cash Purchases ;

   c. All Asset Purchases ;

   d. All Business related Purchases

8. Return outward is related to

   a. Purchases Return ;

   b. Sales Return ;

   c. Defective Goods ;

   d. Unpaid goods

9. Liability arises against

   a. Only credit transaction ;

   b. only cash transaction ;

   c. cash as well as credit deal ;

   d. when agreed upon

10. Compound Journal entry means

    a. More than one debit and credit entry

    b. More than one Debit entry

    c. More than one Credit entry

    d. Entry with rectification of errors

11. Journal is a Book of

    a. Prime entry ;

    b. Secondary entry ;

    c. Memorandum entry;

    d. Voucher entry

12. Trial Balance is prepared

    a. After completion of Ledger posting ;

    b. After preparation of Balance Sheet ;

    c. After closing Cash Book ;

    d. Any time

13. Trial Balance will not agree

    a. If Debit and Credit not matched ;

    b. If 'Error of Principle' exist ;

    c. If 'entries are not recorded/made' ;

    d. If compensating errors are there

14. Balance Sheet totals always agree , when

    a. Assets are more than Liabilities

    b. Liabilities are more than Assets

c. Assets equals Liabilities plus Capital

d. No clerical errors found out

15. Double column Cash Book having two Columns , representing

a. Cash and Discount

b. Bank and Cash

c. Bank and payments

d. Cash and liability

16. Cash Book balance represents

a. Cash in hand

b. Surplus

c. Cash Deposits

d. None of the above

17. Ram is the owner of RAM ENTERPRISE, which accounting concept is applicable here

a. Entity Concept ;

b. Ownership Concept ;

c. Business Concept;

d. Capital Concept

18. Which one is not a Personal Account

a. South Point School Account ;

b. Tractor and Equipment ;

c. Rama Account ;

d. None

19. Name of Buyer is required for

a. Credit Purchases ;

b. Cash Purchases ;

c. Further procurement ;

d. Sending invitation

20. Imprest System is associated with

a. Petty Cash Book ;

b. Finalization of Accounts ;

c. Payment process ;

d. Double Column Cash Book

21. Annual Accounts relates to

a. Accounting period ;

b. Maturity of Fixed Deposits ;

c. Income Tax Return ;

d. Inventory valuation

Cost Accounting

22. Hotel Industry is covered under which method of Costing

a. Job Costing ;

b. Operating Costing ;

c. Batch Costing ;

d. Activity Based Costing

23. Unit of cost for Hospitals (tick the correct one)

a. Room per Night ;

b. Bed Occupancy ;

c. Doctor visit ;

d. Multiple costing

24. Telecom expense is an example of

a. Fixed Expenses ;

b. Variable Expenses ;

c. Semi-variable Expenses ;

d. Communication Expenses

25. Batch Costing is not suitable for

a. Repair Shop ;

b. Toy manufacturing ;

c. Garment stitching ;

d. Medicine

26. Absorption Costing charges

a. Only Fixed cost ;

b. Only Variable Cost ;

c. Both Variable and Fixed Cost ;

d. Semi-variable Cost

27. Marginal Cost can be

    a. Variable Cost ;

    b. Fixed Cost ;

    c. Standard Cost ;

    d. Replacement Cost

28. Name the method of costing appropriate to Ship Building

    a. Batch Costing ;

    b. Contract Costing ;

    c. Operating Costing ;

    d. Service Costing

29. Prime Cost consists of

    a. Direct Material ;

    b. Indirect Material ;

    c. Factory Overhead ;

    d. Indirect Labour

30. Indirect Material , Indirect Labour and Indirect Expenses are the result of

    a. Function-wise classification ;

    b. Element-wise classification ;

    c. Behaviour-wise classification ;

    d. Industry-wise classification

ANSWER

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

Topic

Fundamentals of Business Mathematics -

Module 2: Algebra

Fundamentals of Business Statistics

Module 6: Correlation and Regression

FOUNDATION

Paper-3

Fundamentals of Business Mathematics and Statistics (FBMS)

In this issue we will carry out MCQs on Algebras and Correlation Regression Module 2 and Module 6 of Study guide.

1. If Set A = {8, 11, 13, 15, 17} and Set B = {9, 10, 12, 15, 17}, find (A-B).
(a) Set (A-B) = {9, 10, 12}
(b) Set (A-B) = {8, 11, 13}
(c) Set (A-B) = { 15, 17}
(d) None of the Above

2. If Set B= {B, G, R, E, O, K} is a subset of Set A= {Q, E, R, T, Y, U, I, O, P, K, G, B}, find the number of elements of A and B.

(a) Set A = 12, Set B = 6
(b) Set A = 6 , Set B = 12
(c) Set A = Set B = 6
(d) Set B = Set A = 12

3. What will be the value of $(6^3*6^2)/(6^{-3}*6^4)$?

(a) $(6^2)^2$

(b) 6^5

(c) 6

(d) None of the above

4. Find the value of 19^9 / 19^2

(a) 19^2

(b) 19^7

(c) 19^9

(d) 19^0

5. Find the value of: 8^2*8^1

(a) 2^9

(b) 8^3

(c) Both ‘a’ and ‘b’

(d) None of the above

6. Compute $\frac{8!*3!}{7!}$

(a) 4!*2!

(b) 8!

(c) 6!

(d) 3!

7. From among 28 members in a bank, one manager, one cashier and one teller needs to be appointed. In how many ways could this be done?

(a) 19556

(b) 19665

(c) 19656

(d) 19565

8. Find the value of k, if (k-1)!*56 = (k+1)!
(a) 8

(b) 7

(c) 9

(d) 6

9. In how many ways can the below mentioned balls be arranged in a row, 3 yellow balls, 2 blue balls and 9 red balls?

(a) 11460 ways.

(b) 11550 ways.

(c) 20020 ways.

(d) None of the Above

10. In 3 loan availed – Personal Loan, Car Loan and Home Loan, the outstanding balances are ₹6 Lakhs, ₹5 Lakhs and ₹11 Lakhs respectively. In how many ways can ₹1 Lakh be paid towards each loan availed?

(a) 330

(b) 320

(c) 310

(d) 340

11. For what value of ‘b’, would the equation 4x*3x=8 hold true.

(a) b = 0

(b) b = -1

(c) b = 1

(d) None of the Above

12. Find the value of x in $3(x^2+1) = 10x$

(a) x = 3 or 1/3

(b) x = -3 or 1/3

(c) x = 1/6 or 3

(d) x = 1/6 or -3

13. Given that $\overline{x} = 36$, $\overline{y} = 85$, $\sigma_x = 11$, $\sigma_y = 8$, r = 0.66. The regression equation of on is

(a) y = 0.9075x - 41.41

(b) y = x

(c) y = 1.5x + 72.52

(d) y = 0.48x + 67.72

14. In a bivariate analysis two regression equations are x = - y + 9 & y = -x + 9. Correlation coefficient is

(a) -1

(b) 1

(c) 0

(d) 0.921

15. In a bivariate analysis two regression equations are 4x - 5y + 33 = 0 & 20x - 9y - 107 = 0. Which one of the following is correct?

(a) Correlation coefficient between x & y is equal to 1

(b) 4x - 5y + 33 = 0 is regression equation of y on x

(c) Arithmetic mean of two regression coefficients is 0.5

(d) Mean of the y series is 13

16. Regression equation of y on x is y = 3.25x + 5 . If $\overline{x}$ = 5, then $\overline{y}$ is equal to

(a) 21.25

(b) 5

(c) 16.25

(d) 1

17. For a data set the regression equation of y on x is y = 72 - 5x. The correlation coefficient for this data must be

(a) 0

(b) Less than 1

(c) Less than 0

(d) – 1

18. Let $x = X - \overline{X}$ & $y = Y - \overline{Y}$. If $\sum xy = 122$, r = 0.28 & $\sigma_x = 3$, n = 20. σ is

(a) 6.23

(b) 3.45

(c) 5.81

(d) 7.26

19. Consider the following data:

X	1	2	3	4	5	6	7
Y	6	8	11	9	12	10	14

The co-efficient of correlation is

(a) 0.1679

(b) 0.8457

(c) 0.3678

(d) 0.7002

20. $\sum_{i=1}^{12} (X_i - \overline{X})^2 = 360, \sum_{i=1}^{12} (Y_i - \overline{Y})^2 = 250, \sum_{i=1}^{12} (X_i - \overline{X})(Y_i - \overline{Y}) = 225$

The coefficient of correlation between X and Y series from the above data is

(a) 0.75

(b) 1

(c) -1

(d) 0.65

21. Karl Pearson's coefficient of correlation between two variables X and Y is 0.52, their covariance is +7.8. If the variance of X is 16, then the standard deviation of Y series is

(a) 1.36

(b) 4

(c) 3.75

(d) 7.8

22. You are given the following data.

	X	Y
Arithmetic Mean	20	25
Standard Deviation	5	4

Coefficient of correlation between X and Y is 0.6. The regression equation of is

(a) Y = 0.61X + 10.2

(b) Y = 0.31X + 22.3

(c) Y = 0.48X + 15.4

(d) Y = 0.75X + 18.1

23. Find $Cov_{x,y}$ for the following data

X:3,4,5,6,7; & Y: 8,7,6,5,1;

(a) -1

(b) -2

(c) -3.2

(d) 2

24. $Cov_{x,y}$ for pair of observations (16,27), (28,12), (10,9), (1,5) is

(a) 27.94

(b) 14.78

(c) 20.14

(d) 24

25. Find coefficient of correlation between X & Y for the following data X: 5,4,3,2,1; & Y: 4,2,10,8,6

(a) -1

(b) 0

(c) -0.7

(d)-0.5

26. Following data represents height (given in inches) of husbands(X) and wives (Y):

X:76,73,75,72,72,71,70,70,68,69,68,68,61,67,62

Y:71,70,70,67,71,65,60,67,64,66,65,66,60,65,61

The correlation coefficient is

(a) 0.82

(b) 0.89

(c) 0.78

(d) 0.65

27. For the observations (1,2),(2,3),(3,4),(4,5),(5,6),(6,7),(7,8),(8,9),(9,10) Covariance is

(a) 2.35

(b) 10.65

(c) 6.67

(d) 8.91

28. Consider the following two series of data:

X:1,2,3,4,5,6,7,8,9 & Y:3,9,12,15,18,15,12,9,3

We take u = X - 5 & v = Y - 12. As a result we get $\Sigma u = 0$ & $\Sigma uv = 0$. The coefficient of correlation between X & Y is

(a) -0.89

(b) -1

(c) 1

(d) 0

29. Consider N = 10, $\Sigma X = 100$, $\Sigma Y = 150$, $\Sigma(X-10)^2 = 180$, $\Sigma(Y - 15)^2 = 215$, $\Sigma(X - 10)(Y - 15) = 60$. Correlation coefficient is

(a) 0.305

(b) 1

(c) 0.385

(d) -0.501

30. If, $\Sigma X = 30$, $\Sigma Y = 42$, $\Sigma XY = 199$, $\Sigma X^2 = 184$, $\Sigma Y^2 = 318$ & n = 6 then regression coefficient of Y on X is

(a) 1

(b) – 0.324

(c) – 0.458

(d) -1

Answer Keys:

1	b	Set A = {8, 11, 13, 15, 17} and Set B = {9, 10, 12, 15, 17} Set (A-B) = {8, 11, 13} Since, 8, 11, 13 are present in Set A but not present in Set B.
2	a	Set B={ B, G, R, E, O, K} = having 6 elements and Set A={Q, E, R, T, Y, U, I, O, P, K, G, B} = having 12 elements Hence, Set A – 12 elements and Set B – 6 elements
3	a	$(6^3*6^2)/(6^{-3}*6^4) = (6^{3+2})/(6^{-3+4}) = (6^5)/(6^1) = 65^{-1} = 6^4 = 6^{2*2} = (6^2)^2$
4	b	$19^9 / 19^2 = 19^{9-2} = 19^7$
5	c	$8^2*8^1 = 8^{2+1} = 8^3 = 512\ (2^9)$
6	a	(8!*3!)/7! = 8*7!*3*2*1/7! = 8*6 = 48=4!*2!
7	c	28*27*26 = 19656
8	b	(k-1)!*56 = (k+1)! Or, (k-1)!*56=(k+1)*k*(k-1)! Or, 56 = (k+1)*k or, 8*7 = (k+1)*k or, k=7
9	c	14!/3!*2!*9! = 20020 ways.
10	a	6C1 * 5C1 * 11C1 = 6*5*11 = 330
11	a	$4x*3x = 8$ or, $12x^2-8 = 0$ or, $12x^2-0.x-8 = 0$ Hence $b = 0$
12	a	$3x^2-10x+3 = 0$ or, $3x^2-9x-x+3 = 0$ or, $3x(x-3)-1(x-3) = 0$, $(x-3)(3x-1) = 0$ Hence, x = 3 or 1/3
13	d	
14	a	
15	b	
16	a	
17	c	
18	d	
19	b	
20	a	
21	c	
22	c	
23	c	
24	a	
25	d	
26	a	
27	c	
28	d	
29	a	
30	b	

Suggestions:

The study guide needs to be read thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts developed in the respective modules/sub modules of the study guide. Answer keys for correlation regression parts are not provided with brief computations as hints. Students should try to solve individual questions with concepts developed from guide book to understand the correct answer of each question. For development of clear concept brief explanations are given in algebra portion.. Formula used here are all covered in study guide.

Topic

Fundamentals of Business Economics -

Module 2: Forms of Market

Fundamentals of Management -

Module 5: Fundamentals of Management

FOUNDATION

Paper-4

Fundamentals of Business Economics and Management (FBEM)

TIPS ON BUSINESS ECONOMICS AND MANAGEMENT FOR THE MONTH OF MARCH 2024

Hello friends! Have you heard about "Income Threshold Model" ?

Income Threshold Model states that if the income of the consumer crosses a particular threshold limit of the income level, the consumer will be willing to purchase a particular consumer durable. For example, in Malaysia, the income threshold for buying a car is about $ 5,000 per month.

Many firms believe that this model's predictions will apply to China. Incomes are rising rapidly in China and are approaching the threshold levels for many types of durable goods. As a result, these companies are predicting that the greatest consumer durable goods sales boom in history will take place there over the next decade. Anticipating this boom, these companies have greatly increased their investments in durable goods manufacturing plants in China. Anticipating this growth potential, even traditional political opponents of the People's Republic – Taiwan, South Korea and Russia – have been investing in China. Just imagine the growth rate of the Chinese economy which has emerged as a formidable economic rival of the Indian economy.

Let us now start our Mock test.

I. Choose the correct answer:

1. The main economic problems faced by any society include
   A. What to produce
   B. How to produce
   C. For whom to produce
   D. All of these
2. The negative slope of a normal demand curve can be explained by
   A. Only the substitution effect
   B. Only the income effect
   C. The income and substitution effects jointly
   D. None of them
3. In the long run
   A. All costs are fixed
   B. All costs are variable
   C. Some costs are variable
   D. None of them
4. The law of variable proportion explains the shape of
   A. AFC Curve
   B. LAC Curve
   C. SAC Curve
   D. All of them
5. SMC curve cuts the minimum point of the SAC curve
   A. From above
   B. From below
   C. Both of them
   D. None of them
6. When AVC is falling
   A. SMC>AVC
   B. SMC<AVC
   C. SMC=AVC
   D. None of the above
7. When LAC is minimum, we have
   A. LMC>LAC
   B. LMC<LAC
   C. LMC=LAC
   D. None of the above
8. For an optimum plant size, the LAC curve touches the SAC curve at its
   A. Maximum point
   B. Minimum point
   C. Downward sloping portion
   D. Upward sloping portion
9. If the plant size is optimal for any particular level of output, then
   A. SMC=LMC
   B. SMC<LMC
   C. SMC>LMC
   D. None of the above

10. If the long run production function of a firm satisfies constant returns to scale, then the LAC curve is
    A. V-shaped
    B. Upward rising
    C. Downward sloping
    D. Horizontal

11. At the equilibrium level of output, the positive vertical distance between TR and TC of that firm becomes
    A. Maximum
    B. Minimum
    C. Zero
    D. None of the above

12. The first order condition for profit maximization of a competitive firm is
    A. P=AC
    B. P>MC
    C. P=MC
    D. None of the above

13. The MR curve of the competitive firm becomes
    A. Vertical
    B. Horizontal
    C. Upward rising
    D. Downward falling

14. The equilibrium level of output for a perfectly competitive firm is given by the point where
    A. MR=MC
    B. AR=AC
    C. MR=MC and MC is rising
    D. MR=MC and MC is falling

15. Despite a short run loss, a competitive firm would continue production if
    A. P<AVC<SAC
    B. AVC<P<SAC
    C. P<SAC
    D. None of the above

16. If P=SAC at the profit-maximizing level of output of a competitive firm, then the firm
    A. Incurs a loss
    B. Earns excess profit
    C. Earns normal profit
    D. None of the above

17. If SAC=AR of a competitive firm at its short run equilibrium point, then it is called
    A. Shut down point
    B. Break- even point
    C. Turning point
    D. None of the above

18. In the long-run, each firm in a competitive market will earn only
    A. Normal profit
    B. Super-normal profit
    C. Sub-normal profit
    D. None of the above

19. The principal goal of a competitive firm is assumed to be
    A. Sales maximization
    B. Revenue maximization
    C. Profit maximization
    D. None of the above

20. Which is the apex bank for agricultural credit in India?
    A. RBI
    B. SIDBI
    C. NABARD
    D. IDBI

21. The letter ‘A’ in VUCAFU stands for
    A. Aesthetic
    B. Ambiguity
    C. Appropriate
    D. None of the above

22. According to Mary Parker Follett which of the following cannot be the principle for achieving effective coordination?
    A. Continuity
    B. Early beginning
    C. Self-coordination
    D. Managerial Audit
23. Which of the following statements is not correct?
    A. Management is a goal-oriented process
    B. Management is a universal process
    C. Management is a continuous process
    D. Management is a rigid process
24. The view that sees profit maximization as the main objective is known as
    A. Shareholder theory
    B. Agency theory
    C. Stakeholder theory
    D. Stewardship theory
25. Quick decision making is possible in case of
    A. Centralization
    B. Decentralization
    C. Delegation
    D. Both B and C
26. Which model is compatible with the economic theory of demand?
    A. Theory X and Theory Y
    B. Alderfer's ERG theory
    C. Herzberg's Two Factor theory
    D. Maslow's Need Hierarchy theory
27. Which factors are intrinsic parts of the job?
    A. Motivational factors
    B. Maintenance factors
    C. Hygiene factors
    D. None of the above
28. The leader makes decisions in consultation with his followers is called
    A. Autocratic style
    B. Liberal leader
    C. Democratic leader
    D. Institutional leader
29. High motivation provides
    A. Optimum utilization of resources
    B. Better industrial relations
    C. Reduction in labour turnover
    D. All of the above
30. Programmed decisions are made by
    A. Lower level managers
    B. Top level managers
    C. Middle level managers
    D. None of the above

ANSWER

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

So friends!

Hope you have enjoyed solving this mock test paper. We do not have any 'fill in the blanks', 'true or false', 'matching' in your test paper. With the change in syllabus, the question pattern has undergone a drastic change. Now you have MCQ all the way. First you try to solve the test paper yourself without consulting the key. Then find out your level of performance. Keep a record of your performance so that you know whether you are improving or not.

All the best!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 3:
Sale of Goods Act, 1930

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 Sale of Goods Act, mainly rules for ascertaining passing of property as per Sale of Goods Act, 1930.

The Sections 18 to 26 of the Sale of Goods Act, determine when the property passes from the seller to the buyer and other provisions relating to transfer of ownership.

Rules for Ascertaining Passing of Property

a) **Goods must be ascertained [Section18]:** As per section 18 in a contract for sale of unascertained goods, the property in the goods does not pass to the buyer unless and until the goods are ascertained.

b) **Intention of the parties for such transfer [Section 19]:** As per section 19(1), in a contract for the sale of specific or ascertained goods, the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred. Section19 (2) provides that the intention of the parties is ascertained from the terms of the contract, the conduct of the parties and the circumstances of the case.

When intention of the parties cannot be ascertained, rules contained in Sections 20 to 24 are required to be applied for ascertaining the time of transfer of property and the same are discussed hereunder:

i) Specific goods [Sections 20 to 22]

a) **Specific goods in a deliverable state[Section 20]**

In an unconditional contract for the sale of specific goods in a deliverable state, the property in the goods passes to the buyer when the contract is made, and it is immaterial whether the time of payment of the price or the time of delivery of the goods, or both, is postponed. Goods are said to be in deliverable state when they are in such a state that the buyer would under the contract is bound to take delivery thereof.

b) **Specific goods to be put in to a deliverable state [Section 21]**

Where there is a contract for the sale of specific goods and the seller is bound to do something to the goods for the purpose of putting them into a deliverable state, the property does not pass until such thing is done and the buyer has notice thereof.

c) **Specific goods in a deliverable state, when the seller has to do anything thereto in order to ascertain Price [Section22]**

If there is a contract for the sale of specific goods in a deliverable state, but the seller is bound to weigh, measure, test or do some other act or thing with reference to the goods for the purpose of ascertaining the price, the property does not pass until such act or thing is done and the buyer has notice thereof.

ii) Unascertained goods [Section23]

a) Where there is a contract for the sale of unascertained or future goods by description and goods of that description and in a deliverable state are unconditionally appropriated to the contract, either by the seller with the assent of the buyer or by the buyer with the assent of the seller, the property in the goods there upon passes to the buyer. Such assent may be expressed or implied, and may be given either before or after the appropriation is made.

b) Delivery to carrier: Where, in pursuance of the contract, the seller delivers the goods to the buyer or to a carrier or other bailee for the purpose of transmission to the buyer and does not reserve the right of disposal, he is deemed to have unconditionally appropriated the goods for the purpose of the contract.

iii) Goods on approval or 'on sale or return' [Section 24]

In order to push up the sales generally there is a practice of sending goods to the customer with the clear cut understanding that he has option to approve or return the goods within a given period. This type of sales is known as "approval or sale or return". In such cases, the transaction does not culminate into sale until the goods are approved by the customer and the property in goods still remains with the seller. When goods are delivered to the buyer on approval or on sale or return or other similar terms, the property there in passes to the buyer:

a) When he signifies his approval or acceptance to the seller

b) When he does any other act adopting the transaction.

c) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time.

Reservation of Right of Disposal [Section25]

Section 25(1) – Where there is a contract for the sale of specific goods or where goods are subsequently appropriated to the contract, the seller may, by the terms of the contract or appropriation, reserve the right of disposal of the goods until certain conditions are fulfilled. In such case, notwithstanding the delivery of the goods to a buyer, or to a carrier or other bailee for the purpose of transmission to the buyer, the property in the goods does not pass to the buyer until the conditions imposed by the seller are fulfilled.

Section 25(2) – Where goods are shipped or delivered to a railway administration for carriage by railway and by the bill of landing or railway receipt, as the case may be, the goods are deliverable to the order of the seller or his agent, the seller is prima facie deemed to reserve the right of disposal.

Section 25(3) –Where the seller of goods draws on the buyer for the price and transmits to the buyer the bill of exchange together with the bill of lading or, as the case may be, the railway receipt, to secure acceptance to payment of the bill of exchange, the buyer is bound to return the bill of lading or the railway receipt if he does not honour the bill of exchange, and, if he wrongfully retains the bill of lading or the railway receipt, the property in the goods does not pass to him.

Example: Magic Co. Ltd., based in England, shipped 50 tons of wool to Mr. Norton, based in Spain. Mr. Norton was supposed to claim the shipment through the bill of lading he received from Magic Co. Ltd. However, when the shipment arrived, Mr. Norton was not present in person at the dock. The wharfinger therefore took the shipment to his cloak room for safekeeping. Thereupon upon producing the bill of lading, the wharfinger will then deliver the same goods to the buyer.

Effect of Destruction of Goods

As per section 26 of the Act, unless otherwise agreed, the goods remain at the seller's risk until the property there in is transferred to the buyer, but when the property in goods is transferred to the buyer, the goods are at the risk of the buyer whether delivery of the goods has been made or not. Thus, risk prima facie passes with property unless otherwise is agreed by the parties. In other word, the parties may in the contract have different stipulation as to time of passing of risk irrespective of what is provided in section 26 of the Act.

Risk Prima Facie Passes with Property: Exceptions

The rule regarding risk passes with the property enshrined in section 26 is subject to the following exceptions:

a) This rule of 26 will apply only if there is no agreement to the contrary. It is permissible for the parties to provide in the agreement that although the property does not pass, the risk passes and they may fix the point of time when it is to pass.

b) Where delivery has been delayed through the fault of either party the buyer or the seller, the goods are at the risk of the party at fault as regards any loss which might not have been occurred but for such fault. The goods are at the risk of the party who is at fault in delay of delivery.

c) If there is accustom in that particular trade that the risk does not pass with property, in such a case the risk will pass as per the custom.

d) Risk and property may be separated by agreement between the parties. Section 40 of the Act also provides that where the seller agrees to deliver the goods at his own risk at a distant place from where they are, the buyer shall unless otherwise agreed, not take any risk of deterioration in the goods incidental to the transit.

Topic

Module 1: Accounting Fundamentals and

Module 2 : Bills of Exchange, Consignment, Joint Venture

INTERMEDIATE

Group I - Paper-6

Financial Accounting (FA)

Bills of Exchange and Consignment

Bills of Exchange

According to the Negotiable Instruments Act 1881, a bill of exchange is defined as "an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

Features of Bill of Exchange

- It is important to have a bill of exchange in writing
- It must contain a confirm order to make a payment and not just the request
- The order should not have any condition
- The bill of exchange amount should be definite
- Fixed date for the amount to be paid
- The bill must be signed by both the drawee and the drawer
- The amount stated on the bill should be paid on-demand or on the expiry of a fixed time
- The amount is paid to the beneficiary of the bill, specific person, or against a definite order

Types of Bill of Exchange

- **Documentary Bill-** In this, the bill of exchange is supported by the relevant documents that confirm the genuineness of sale or transaction that took place between the seller and buyer.
- **Demand Bill-** This bill is payable when it demanded. The bill does not have a fixed date of payment, therefore, the bill has to be cleared whenever presented.
- **Usance Bill-** It is a time-bound bill which means the payment has to be made within the given time period and time.
- **Inland Bill-** An Inland bill is payable only in one country and not in any other foreign country. This bill is opposite to the foreign bill.
- **Clean Bill-** This bill does not have any proof of a document, so the interest is comparatively higher than the other bills.
- **Foreign Bill-** A bill that can be paid outside India is termed as a foreign bill. Two examples of a foreign bill are an export bill and import bill.
- **Accommodation Bill-** A bill that is sponsored, drawn, accepted without any condition is known as an accommodation bill.
- **Trade Bill-** This kind of bill is specially related only to trade.
- **Supply Bill-** The bill that is withdrawn by the supplier or contractor from the government department is known as the supply bill.

Difference between trade bill and accommodation bill:

Trade Bill:

- There are drawn for trade purposes.
- These are drawn against proper consideration.
- These bills are proof of debt.
- For obtaining the debt from drawee, drawee can resort to legal action.

Accommodation Bill:

- These are drawn and accepted for financial assistance.
- These are drawn in the absence of any consideration.
- These bills are not a proof of debt.
- Legal action cannot be resorted the recovery of amount against these bills by the immediate parties.

Parties of Bill of Exchange

A bill of exchange has three parties:

(1) **Drawer:**

- The drawer is the maker of a bill of exchange.
- The bill is signed by Drawer.
- A creditor who is entitled to receive payment from the debtor can draw a bill of exchange.

(2) **Drawee:**

- Drawee is the person upon whom the bill of exchange is drawn.
- Drawee is the debtor who has to pay the money to the drawer.
- He is also known as 'Acceptor'.

(3) **Payee:**

- The payee is the person to whom payment has to be made.

- The payee may be the drawer himself or a third party.

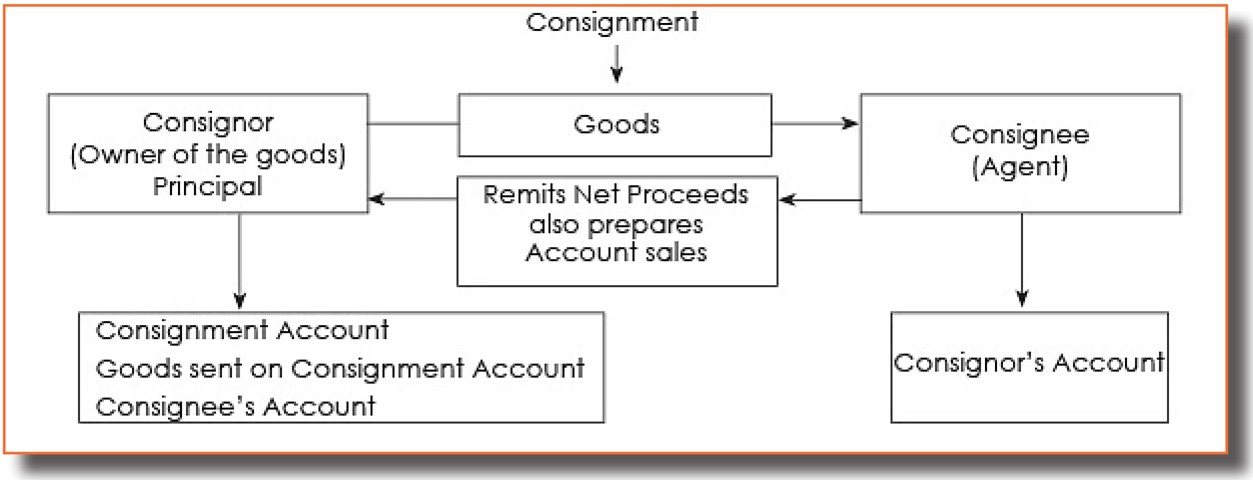
Advantages of Bill of Exchange

- **Legal Document-** It is a legal document, and if the drawee fails to make the payment, it will be easier for the drawer to recover the amount legally.
- **Discounting Facility-** In cases where the drawer is in immediate need of money, the bill can be converted into cash by discounting it from a bank by paying some nominal charges.
- **Endorsement Possible-** This bill of exchange can be exchanged from one individual to another for the adjustment of the debt.

Consignment

Consignment in accountancy is related to goods that are kept with an authorized third party who is called a consignee. This consignee is responsible for selling the goods on the behalf of the consignor. While the consignee sells the good in consignment, the ownership of the goods is retained by the consignor. There is a legal agreement made between the consigner and the consignee that facilitates the process of transactions. The involved terms and conditions of the agreement are also stipulated within this arrangement. Mostly, products like music, instruments, shoes, apparel, clothing, cosmetics, toys, and furniture are sold on a consignment.

Diagramatic Representation



Consignment is a process under which the owner consigns/handovers his materials to his agent/salesman for the purpose of shipping, transfer, sale etc.

Following are the points that throw more light on the nature and scope of a consignment –

- Here, ultimate ownership of the goods remains with the manufacturer or whole seller who handovers goods to his agent for sale on commission basis. Consignment is merely a transfer of possession of goods not an ownership.
- Since ownership of goods remain with the manufacturer (consignor), consignee (agent) is not responsible for any loss or destruction of goods.
- The goods are sold on owner's risk and hence, profit/loss goes to owner.
- Consignee only gets re-imbursement of expenses incurred by him and commission on sale made by him, because sale that proceeds, belongs to owner (consignor).

Features of Consignment

- Two parties- The consignor and consignee are involved in this process
- No ownership transfer- the ownership is retained by the consignor
- Agreement- an agreement is made during consignment that facilitates the process of transactions
- Separate accounting- Accounting is done independently Consignment accounts are prepared separately and entries are made on an individual basis in accounting records
- Procession transfer- Goods are transferred from the consignor to the consignee who does the selling
- Reconciliation- Annually or periodically Consignors give Pro-forma invoices
- Consignee sends records of the sales and then reconciliation is done

Objectives of Consignment

- To make large consignments and increase sales volume by attracting customers.
- To launch a new product and create and capture the market for the same.
- Earning higher revenue from a different geographical area for the same product.
- To grow and expand the business.
- Sustainment in the domestic and international market.
- To increase sales by utilizing the talent and expertise of the consignee.

Difference Between Sale and Consignment

SALE	CONSIGNMENT
MEANING	
When the products or goods are sent by a seller to its purchaser to receive the value of these products, then it is called a sale.	When goods are sent from the producer or manufacturers to representatives for sales of such goods on the basis of commission, then it is called consignment.
ACCOUNT OF SALE	
In case of a sale, no account of the sale needs to be given to the purchaser by the seller.	In the case of consignment, an account of sale needs to be submitted periodically by the consignee to the consignor.
RELATIONSHIP	
In the case of sale, the relationship between the purchaser and the seller is that of a creditor and debtor.	In the case of consignment, the consignee is the agent and the consignor is the principal.
OWNERSHIP	
In case of a sale, the ownership of goods is transferred immediately to the purchaser.	In consignment, ownership is not transferred to the consignee. He works entirely on behalf of the consignor. He only possesses the goods.
RISK	
In the case of a sale, the risk of the goods sold is immediately transferred to the purchaser.	In consignment, the consignor assumes all the risk involved of the product till the sales have been made by the consignee.
ORDER	
In the sale, the seller can send the products to the purchaser only after receiving an order from the buyer.	In consignment, the principal can send goods to the agent without any order received from the agent.
EXPENSE	
In the sale, the buyer bears the expenses after delivery.	In consignment, the agent is not responsible for any liability. All expenses incurred during the entire process are borne by the consignor.
RETURN OF GOODS	
In case of a sale, the products once received can't be returned to the seller once they are sold.	In consignment, when the goods are not sold, then the products can be returned to the consignor by the consignee.

Questions

1. What is the Bill receivable account?

A) Personal Account

B) Machinery Account

C) Real Account

D) Nominal Account

2. Which bill is drawn and accepted in the same country?

A) Trade Bill

B) Foreign Bill

C) Inland Bill

D) Accommodation Bill

3. Who draws a bill of exchange?

A) Creditor

B) Debtor

C) Drawer

D) None of the above

4. What kind of acceptance is known as when the bill is accepted without any condition?

A) Qualified acceptance

B) Conditional acceptance

C) Blank acceptance

D) General acceptance

5. When the drawee signs the bill, it is considered as

A) Accepted

B) Retired

C) Renewed

D) Endorsed

6. The person who send the goods to the agent to be sold by him on commission is called

A) Consignee

B) Consignor

C) Merchant

D) None of these

7. The commission given by consignor to the consignee for taking additional risks of recovery of debts on account of sales made on credit is known as----------------------.

A) Over riding commission

B) Declared recommission

C) Normal commission

D) Sales commission

8. ---------------------- is the statement sent by the consignee to the consignor regarding the sale of goods consigned.

A) Invoice

B) Bill

C) Account sales

D)None of these

9. A shipment of goods by a manufacturer to an agent to be sold by him on commission basis on the risk and account of the former called -------------------.

A) Consigning

B) Consignment

C) Agreement

D) None of these

10. What are the two types of losses of goods?

A) Normal and abnormal losses

B) Simple loss and pure loss

C) Executive and execute loss

D) None of these

ANSWER

1	2	3	4	5	6	7	8	9	10
A	C	C	D	A	B	B	C	B	A

Topic

Module 3: Total Income and Tax Liability of Individuals & HUF

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DTX)

Clubbing of Income

Generally, an assessee is taxed on income accruing to him only and he is not liable to tax for income of another person. However, there are certain exceptions to the above rule (mentioned u/s 60 to 64). Sec. 60 to 64 deals with the provisions of clubbing of income, under which an assessee may be taxed in respect of income accrued to other person, e.g. certain income of minor child shall be clubbed in the hands of his parents, income from asset transferred to spouse for inadequate consideration shall be clubbed in the hands of the transferor, etc. These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose off their income or income generating assets to escape tax liability. Various provisions relating to clubbing are enumerated here in below:

<table>
<tr><th>Section</th><th colspan="2">Particulars</th></tr>
<tr><td>60</td><td colspan="2">Where an income is transferred without transferring the asset yielding such income, then income so transferred shall be clubbed in the hands of the transferor.</td></tr>
<tr><td>61</td><td colspan="2">If an assessee transfers an asset under a revocable transfer, then income generated from such asset, shall be clubbed in the hands of the transferor.
Revocable transfer means, there is any provision for the retransfer of any part or whole of the income/ assets to the transferor or gives the transferor a right to re-assume power over any part or whole of the income/ assets.
<u>Exceptions</u>: a) A transfer by way of creation of a trust which is irrevocable during the lifetime of the beneficiary; b) Any transfer which is irrevocable during the lifetime of the transferee; or c) Any transfer made before 1.4.61, which is not revocable for a period of 6 years or more.</td></tr>
<tr><td>64(1)(ii)</td><td colspan="2">Salary, commission, fees or any other remuneration to the spouse from a concern in which assessee has substantial interest. An individual shall be deemed to have substantial interest in a concern if he shares 20% profits of that concern or holds 20% voting power of that company.
Exception: If income to spouse generated due to his/her technical or professional qualification, skill etc.
Where both, husband and wife, have substantial interest in a concern, remuneration will be included in hands of spouse, whose total income excluding such remuneration, is higher.</td></tr>
<tr><td>64(1)(iv)</td><td colspan="2">Subject to sec. 27(i), any income arising from assets transferred (directly or indirectly) to spouse otherwise than in connection with an agreement to live apart without adequate consideration, shall be included in the income of the transferor.</td></tr>
<tr><td>64(1)(vii)</td><td colspan="2">If asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of spouse, then income on asset so transferred shall be clubbed in the hands of the transferor.</td></tr>
<tr><td>64(1)(vi)</td><td colspan="2">Income arising (directly or indirectly) from assets transferred to son's wife, without adequate consideration, shall be included in income of transferor.</td></tr>
<tr><td>64(1)(viii)</td><td colspan="2">If an asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of son's wife, then income on asset so transferred shall be clubbed in the hands of the transferor.</td></tr>
<tr><td rowspan="6">Note applicable on sec. 64(1)(iv), (vi), (vii), (viii)</td><td colspan="2">If assets so transferred, is invested in business then tax treatment shall be as under:</td></tr>
<tr><td>Business</td><td>Income to be clubbed</td></tr>
<tr><td rowspan="2">Proprietary</td><td>Income of such business x Value of such assets as on the 1st day of the P.Y.</td></tr>
<tr><td>Total investment in the business by the transferee as on the same day</td></tr>
<tr><td rowspan="2">Partnership</td><td>Interest on capital x Value of such assets as on the 1st day of the P.Y.</td></tr>
<tr><td>Total investment in the firm by the transferee as on the same day</td></tr>
<tr><td>64(1A)</td><td colspan="2">Income of a minor child shall be clubbed with income of the parent whose total income (excluding this income) is higher. Once clubbing is made with either parent, then in any subsequent years clubbing shall be made with the same parent, unless the AO is satisfied. If marital relationship does not subsist, income shall be clubbed with that parent who maintains the minor child.
Exceptions: a) Income arises or accrues to the minor child due to any manual work, his skill, talent; or b) The minor child is suffering from any disability of nature specified u/s 80U.</td></tr>
</table>

	Exemption u/s 10(32) lower of a) ₹ 1,500; or b) Income so clubbed Such exemption is available only if assessee has opted for old tax regime.	
64(2)	Where an individual has converted his property into property of HUF, for inadequate consideration, then income derived from such converted property shall be clubbed with individual as under:	
	Before partition	The entire income from such property
	After partition	Income from the assets attributable to the spouse of transferor.
65	After application of provisions of clubbing (on transfer of property without adequate consideration as discussed above in several sections), income is taxable and tax liability arises in the hands of the transferor. But sec. 65 empowers the tax authorities to serve demand notice (in respect of tax on clubbed income) upon transferee.	
Notes	• Clubbing of income includes clubbing of negative income • The credit of TDS shall be given to the person in whose hands the income is taxable. • Income shall be clubbed even when form of the transferred asset is changed. • Income arising from the accretion of such property is not to be clubbed. • Income on income is not to be clubbed. • Income shall be, first, computed in hands of recipient & then clubbing shall be made head wise. • If the clubbed income is eligible for deduction u/s 80C to 80U, then such deduction shall be allowed to the assessee in whose hands such income is clubbed.	

Illustration

Mr. A owned a residential house for his own residential purpose, details of which are as follows –

Particulars	**Amount**
Gross Annual value	5,00,000
Municipal tax (paid)	10,000
Interest on loan taken for construction of house	25,000

On 1/4/2023, Mr. A gifted ₹ 10,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. New house has gross municipal value of ₹ 50,000. She paid corporation tax of ₹ 2,000. Compute income from house property of Mr. & Mrs. A under both tax regimes. (Assume that Mrs. A does not own any other property).

Solution

Computation of income from house property of Mr. A for the A.Y. 2024-25

Particulars	Old Regime ₹	Default Regime ₹
Self-occupied house		
Net Annual Value	Nil	Nil
Less: Deduction u/s		
24(b) Interest on loan	25,000	NA
	(25,000)	Nil
Add: Income of Mrs. A clubbed u/s 64(1)(iv)	Nil	Nil
Income from house property	(25,000)	Nil

Computation of income from house property of Mrs. A for the A.Y. 2024-25

Particulars	**Amount**
Self-occupied house	
Net Annual Value	Nil
Less: Deduction u/s	
24(b) Interest on loan	Nil

	Nil
Less: Income clubbed u/s 64(1)(iv) with the income of Mr. A	Nil
Income from house property	Nil

Choose the correct answer:

1. Mr. X's minor daughter earned ₹ 50,000 from his special talent. This income will be clubbed with –
   (a) The income of Mr. X
   (b) The income of Mrs. X
   (c) Mr. X or Mrs. X, whoever's income is higher
   (d) It will not be clubbed
2. Maximum exemption available in clubbing of income to mother or father is under old tax regime –
   (a) ₹ 1,500
   (b) ₹ 1,500 per child
   (c) ₹ 1,200 per child
   (d) ₹ 100 per month per child
3. Mr. A gifted debenture of ₹ 1,00,000 to his wife. She received ₹ 10,000 interest which she reinvests and earns ₹ 1,000. This ₹ 1,000 will be taxable in the hands of –
   (a) Mr. A
   (b) Mrs. A
   (c) Not Taxable
   (d) Mr. A or Mrs. A, at the choice of the Assessing Officer
4. Income arising to a minor married daughter shall be –
   (a) assessed in the hands of minor married daughter
   (b) clubbed with the income of that parent whose total income is higher
   (c) Exempt from tax
   (d) clubbed with the income of her spouse
5. Income of a minor child suffering from any disability of the nature specified in section 80U shall be –
   (a) assessed in the hands of minor
   (b) clubbed with the income of that parent whose total income is higher
   (c) Exempt from tax
   (d) taxable in hands of provider of income like reverse charge
6. Mr. X gives ₹ 2,00,000 to Mrs. X as gift. She invests in a proprietary concern and incurs a loss of ₹ 40,000.
   (a) This loss shall be clubbed in the hands of Mr. X
   (b) The loss shall be borne by Mrs. X
   (c) The loss shall not be clubbed
   (d) The loss shall be ignored while computing income of both Mr. and Mrs. X
7. In certain cases, income of other person is included in the income of assessee. It is called –
   (a) Clubbing of income
   (b) Addition to income
   (c) Increase in income
   (d) Set-off of income
8. In whose total income, the income of a minor child is included –
   (a) Father
   (b) Mother
   (c) Father & Mother both
   (d) Parent whose total income is greater
9. When the income of an individual includes ₹ 20,000 as the income of his minor child in terms of section 64(1A), taxable income in this respect will be, if he has opted for old tax regime –
   (a) Nil
   (b) ₹ 20,000
   (c) ₹ 18,500
   (d) ₹ 15,000
10. Mr. A has three minor children deriving interest from bank deposits to the tune of ₹ 2,000, ₹ 1,300, ₹ 1,600 respectively. Exemption available u/s 10(32) of the Income Tax is under old tax regime –
    (a) ₹ 4,900
    (b) ₹ 4,300
    (c) ₹ 4,500
    (d) ₹ 5,000

Answer:

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

Topic

Module 5:

Goods and Services Tax (GST) Laws

INTERMEDIATE

Group I - Paper-7B

Direct and Indirect Taxation (DITX)

Levy and Collection

Article 265 of the Constitution of India mandates that no tax shall be levied or collected except by the authority of law. The charging section is a must in any tax law for levy and collection of tax. Before imposing any tax, it must be shown that the transaction falls within the ambit of the taxable event and that the person on whom the tax is so imposed also gets covered within the scope and ambit of the charging section. The scope of the taxable event being 'supply' has been discussed in the earlier Chapter. This chapter will provide an insight into the chargeability of tax on a supply. Sec. 9[1] is the charging provision of the CGST Act. It provides the maximum rate of tax that can be levied on supplies leviable to tax under this law, the manner of collection of tax and the person responsible for paying such tax. There are four aspects of levy viz taxable event, tax rate, collection or levy, and the person liable to pay. Sec. 9 of the CGST Act covers all these aspects.

Levy & Collection [Sec. 9]

Sec. 9(1)	Sec. 9(2)	Sec. 9(3)	Sec. 9(4)	Sec. 9(5)
Forward Charge	GST not levied	Reverse Charge	Reverse charge where goods are supplied by an unregistered person	Intra-State supply through e-commerce operator

Tax payable on Forward Charge Basis [Sec. 9(1) and 9(2)]

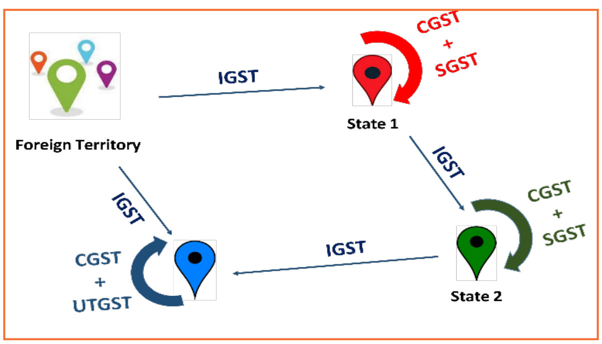
A tax called the central goods and services tax shall be levied

- on all intra-State supplies of goods or services or both,
- except on the supply of alcoholic liquor for human consumption,
- on the value determined u/s 15; and
- at such rates, not exceeding 20%, as may be notified by the Government on the recommendations of the Council; and
- collected in such manner as may be prescribed; and
- shall be paid by the taxable person.

Alcohol for human consumption	Power to tax remains with the State
Five petroleum products – crude oil , diesel, petrol, natural gas and ATF	GST Council to decide the date from which GST will be applicable
Tobacco	Part of GST but power to levy additional excise duty with Central Government
Entertainment tax levied by local bodies	Power to tax remains with the State

Taxpoint

- ➢ As per sec. 5 of the IGST Act, IGST shall be levied on all inter-State supplies and on goods imported into India. In case of IGST, maximum rate of tax would be 40% (20% for CGST + 20% for SGST/UTGST)
- ➢ SGST / UTGST shall also be levied on all intra-State supplies
- ➢ The central tax on the supply of
  a. petroleum crude,
  b. high speed diesel,
  c. motor spirit (commonly known as petrol),
  d. natural gas and
  e. aviation turbine fuel



1 Sec. 5 in case of IGST Act

shall be levied with effect from such date as may be notified by the Government on the recommendations of the Council. That means, GST is not leviable on aforesaid items.

Some important definition

Sec.	Term	Meaning
2(107)	Taxable person	*Taxable person* means a person who is registered or liable to be registered u/s 22 or sec. 24
2(78)	Non-taxable supply	Non-taxable supply means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act.
2(105)	Supplier	*Supplier* in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied. Further w.e.f. **01-10-2023**, a person who organises or arranges, directly or indirectly, supply of specified actionable claims, including a person who owns, operates or manages digital or electronic platform for such supply, shall be deemed to be a supplier of such actionable claims, whether such actionable claims are supplied by him or through him and whether consideration in money or money's worth, including virtual digital assets, for supply of such actionable claims is paid or conveyed to him or through him or placed at his disposal in any manner, and all the provisions of this Act shall apply to such supplier of specified actionable claims, as if he is the supplier liable to pay the tax in relation to the supply of such actionable claims.
2(108)	Taxable supply	*Taxable supply* means a supply of goods or services or both which is leviable to tax under this Act
2(56)	India	"India" means - the territory of India as referred to in article 1 of the Constitution, - its territorial waters, seabed and sub-soil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976, and - the air space above its territory and territorial waters;

Rate of GST

GST Rates for various goods	GST Rates for various services
0.25%	1.5%
3%	5%
5%	7.5%
12%	12%
18%	18%
28%	28%

Taxpoint:

- These rates are IGST rate i.e., combined rate of CGST and SGST/UTGST
- Where services being not covered under any specific heading shall be taxable @ 18%
- Item wise applicable rate of GST are provided at portal of CBIC.

Tax payable on Reverse Charge Basis [Sec. 9(3)]

Generally, the supplier of goods or services is liable to pay GST. However, in specified cases like imports and other notified supplies, the liability may be cast on the recipient under the reverse charge mechanism. Reverse Charge means the liability to pay tax is on the recipient of supply of goods or services instead of the supplier of such goods or services in respect of notified categories of supply.

As per sec. 2(98), reverse charge means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both u/s 9(3) or 9(4), or u/s 5(3) or 5(4) of the Integrated Goods and Services Tax Act.

The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to the supply of such goods or services or both.

Tax payable on Reverse Charge where the supplies are made by unregistered person [Sec. 9(4)]

The Government may, on the recommendations of the Council, by notification, specify a class of registered persons who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both, and all the provisions of this Act shall apply to such recipient as if he is the person liable for paying the tax in relation to such supply of goods or services or both.

Tax on intra-State supply through e-commerce operator [Sec. 9(5)]

The Government is empowered to notify categories of services wherein the person responsible for payment of taxes would neither be the supplier nor the recipient of supply, but the e-commerce operator through whom the supply is effected liable to pay tax.

Taxpoint

- As per sec. 2(44), "electronic commerce" means the supply of goods or services or both, including digital products over digital or electronic network.
- As per sec. 2(45), "electronic commerce operator" means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce.
- However, where an electronic commerce operator does not have a physical presence in the taxable territory, any person representing such electronic commerce operator for any purpose in the taxable territory shall be liable to pay tax.
- Further, where an electronic commerce operator does not have a physical presence in the taxable territory and also he does not have a representative in the said territory, such electronic commerce operator shall appoint a person in the taxable territory for the purpose of paying tax and such person shall be liable to pay tax.

The following services are specified:

1. Services by way of transportation of passengers by a radio-taxi, motor-cab, maxi-cab, motor-cycle, omnibus or any other motor vehicle
    - Radio taxi means a taxi including a radio cab, by whatever name called, which is in two-way radio communication with a central control office and is enabled for tracking using Global Positioning System (GPS) or General Packet Radio Service (GPRS).
    - Motor cab means any motor vehicles constructed or adapted to carry not more than 6 passengers, excluding the driver, for hire or reward
    - Maxi cab means any motor vehicle constructed or adapted to carry more than 6 passengers but not more than 12 passengers, excluding the driver, for hire or reward
    - Motorcycle means at two-wheeled motor vehicle, inclusive of any detachable side-car having an extra wheel, attached to the motor vehicle

- Omnibus means any motor vehicle constructed or adapted to carry more than 6 persons excluding the driver

2. Services by way of providing accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes, except where the person supplying such service through electronic commerce operator is liable for registration u/s 22(1) of the CGST Act
3. Services by way of house-keeping, such as plumbing, carpentering etc., except where the person supplying such service through electronic commerce operator is liable for registration u/s 22(1) of the CGST Act.
4. Supply of restaurant service other than the services supplied by restaurant, eating joints etc. located at specified premises
   - Specified premises means premises providing hotel accommodation service having declared tariff of any unit of accommodation above ₹7,500 per unit per day or equivalent.

W.e.f. **20-10-2023, serial number 1 of the specified services has been amended and amended provision are as under:**

- Services by way of transportation of passengers by a radio-taxi, motorcab, maxicab, motorcycle, or any other motor vehicle **except omnibus.**

Further, following services are also specified from **20-10-2023:**

- Services by way of transportation of passengers by **an omnibus except where the person supplying such service through ECO is a company.**

Thus, w.e.f. 20-10-2023, the tax on services by way of transportation of passengers by an omnibus provided by a company through ECO is not payable by ECO. It will be payable by the supplier i.e., company itself under forward charge.

Topic

Module 5:
Methods of Costing

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

COST ACCOUNTING

In Cost Accounting there are two principle methods o accumulating and applying costs to products viz., specific order costing and process costing. CIMA. Terminology defines specific –order – costing as, “the basic costing method applicable where work consists of separate contracts, job or batches, each of which is authorized by a special order or contract”. Hence, this method is generally used by the business concerns which carry on production against customer’s specification or special requirements. Under this method costs are collected and accumulated separately in respect of each Job, or Work Order.

JOB COCTING is a particular form of Specific –order –Costing g which applies where work is undertaken to customer’s specific requirements and each order is of comparatively shorter duration than Contract Costing. Under the method cost are collected in respect of each job separately. The method is used in such industries as printing, foundry, repair shop, engineering, readymade garments, shoes etc.

On the other hand, in BATCH COSTING, a batch of similar products is treated as a job. This type of costing applies where similar articles are manufactured in batches either for sale or for use within the undertaking. Under the method, costs are collected and analyzed according to batch numbers allotted. The method is suitable for making component parts, pharmaceutical industries, spare parts, watches, radio sets, cycles etc.

The Job or Batch Costing has some special features that are explained below:-

1) A separate Job/ Batch cost-sheet is to be prepared for calculating cost in respect of each job.
2) A separate WIP Ledger is to be maintained for each job.
3) Here production is always against customer’s orders.
4) Each job is of shorter duration
5) Each job has its own characteristics and needs separate treatment.
6) The distinction between direct and indirect cost is more urgent.
7) There is no uniformity in the flow of production from one department to another in respect of jobs.
8) Generally the method is labor intensive.

The method also has some specific advantages that are listed below:-

1) Profitability can be analyzed job-wise.
2) It helps the management in preparing estimates for like jobs for the purpose of submitting quotations.
3) It helps in producing detailed analysis of materials, labor and overheads, as the distinction between direct and indirect costs is more important here.
4) Spoilage and defective work is easily identified with each job or product and hence responsibility can be fixed on departments or persons.
5) The management can fix selling price more easily for each job.
6) Job costing is particularly helpful for cost-plus contracts where contract price is determined directly on the basis of costs.
7) It helps in the introduction of budgetary control of overheads, since the overheads are applied on the basis of predetermined overhead rates.
8) It helps management to know the cost trends in respect of jobs and the efficiency of operation.

There are two types of cost generally found in Batch costing viz.—Set-up or preparation Cost and Caring Cost.

Set-up cost means the cost involved in setting up of the machines or tools for production which is fixed in nature and it should be computed after taking into consideration the time lost due to change-over from one batch to another , loss of speed due to change-over , material wastage etc.

Carrying cost means the cost which is related with the cost of manufacture, storage, interest on capital invested, depreciation etc.

The general formula that are used for Batch Costing –

ECONOMIC BATCH QUANTITY (EBQ) = Square Root

Service costing is usually applied to transport services, utility services and distribution services. It is generally adopted by such types of industries as render services instead of producing goods. Service may be classified into two parts internal and external. The services which can be performed on an inte-rdepartmental basis in factory it self, i.e, supplying electricity from own power house to other departments. Services are termed as external when they have to be rendered to outside parties, Such as, service rendered by State Transport Corporation,, Hospitals, Gas Companies etc. In both cases service costing are required. It is just a variant of unit of output costing.

The term Operating Costing has now been replaced by Service or Function costing as per latest CIMA terminology. It is defined as the cost of providing a service or function. The cost of rendering the services for a particular period is related to quantum of services rendered during the period to arrive at cost per unit of service rendered.

Transport costing

Costing in transport undertaking consists of determining the operating cost of each vehicle and applying this cost to find out the cost per unit of service rendered by a vehicle. The cost unit is selected by taking into account factors like weight, bulk of goods carried and distance covered etc. In most cases composite units are chosen. The example of composite units are per ton kilometre, passengers kilometre etc.

Selection of units

In transport costing a composite unit is generally used. The composite unit is nothing but the two types of units considered simultaneously, Such as, when tonne and kilometre are both considered simultaneously, then the composite unit would be tonne- km. The following are some examples of composite units:

Service	Cost Units
1) Passenger Transport	Per-passenger k.m.
2) Goods Transport	Per-tonne km
3) Hospital/ Nursing Home	Per bed per day.
4) Lodge	Per border per day
5) Electricity Companies	Per kilowatt- per hour
6) Cinema	Per seat per show
7) School / College	Per student- hour

In case of service of non-specific nature , like service of accountants or auditors or managers , it is very difficult to measure per unit cost.

Proforma for calculation of composite unit :-

Composite units = (No of trips * distance * days * capacity

Sometimes service costs are used for decisional purpose. In such a case, the decision has to be taken on the basis of unit service cost, when the total units remain constant under different alternatives, But if units are subject to fluctuations from alternative to alternative, decision will be on the basis of total service cost i.e. total cost under each of the alternatives should be considered and the alternative having lowest cost should be the profitable one.

But there are certain circumstances, where comparative costs may not be the only decisive factor, in such case, other non cost factors like necessity, public service, customers satisfaction etc. may influence a particular decision irrespective of its costs.

Boiler house costing:-

The main purpose of boiler house costing is to ascertain the cost per unit of steam production in the boiler house. The fundamental principles remain the same.

Canteen house costing :-

Now a days many organizations provide the facilities of canteen to its employees. The principle of service costing may also be extended to this field.

Hospital costing:-

Now a days many organisations maintain hospitals to provide effective and timely medical facilities to their workers. Thus arises the need of hospital costing. The hospitals are generally Departmentalised into the following activities

A) Out-patient department

B) Wards

C) Medical service departments

D) General service departments

E) Other service departments

Cost of department(a to d) can be determined separately on the basis of cost procedure which is used for cost accumulation of service, while the cost of departments mentioned in(e) will have to be apportioned To other departments on suitable basis .

Generally following units are used for hospital costing:

Purpose	**Units**
Out– patient	Per out-patient attendance
Wards	Per case
X-ray	Per 100 units
Pathology	Per 100 request

The expenses of a hospital are generally divided into two board categories, viz, capital expenditure and maintenance expenses. All items of cost are allocated appropriately in the above categories in order to ascertain the cost per unit of a specific hospital service

We can clarify the Operating Cost by solving the following problem.t least one problem is expected from these chapters.

Problem

Shankar has been promised a contract to run a tourist car on a 20 km long route for the chief executive of a multinational firm. He buys a car costing ₹ 1,50,000. The annual cost of Insurance and Taxes are ₹ 4,500 and ₹ 900, respectively. He has to pay ₹ 500 per month for a garage where he keeps the car when it is not in use. The annual repair cost is estimated at ₹ 4,000. The car is estimated to have a life of 10 years , at the end of which scrap value is likely to be ₹ 50,000. He hires a driver who is to be paid ₹ 300 per month plus 10% of taking as commission . Other incidental expenses are estimated at ₹ 200 per month.

Petrol and oil will cost ₹100 per 100 kms. The car will make four round trips each day. Assuming that a profit of 15% on takings is desired and that the car will be on the road for 25 days on an average per month, what should he charge per round trip?

Solution

Statement showing operating Cost of the Tourist car owned by Shankar Per month

	Amount	Amount
(A) Variable expenses:	₹	₹
Petrol and oil cost @ Rs. 100 Per 100 kms. ($\frac{₹\ 100}{100\text{ kms}}$ × 4000 kms)		4,000
(B) Standing Charges:		
Insurance (₹ 4500 ÷ 12 months)	375	
Taxes (₹ 900 ÷ 12 months)	75	
Garage rent	500	
Repair cost (₹ 4000 ÷ 12 months)	334	
Depreciation (Working - b)	833	
Driver Fixed salary	300	
Incidental expenses	200	
Total Standing Charge of the Month		2,617
(C) Total operating cost excluding driver's commission		6,617
Add : Driver Commission @ 10 % of the taking (working - C)		882
(D) Total operating cost of the tourist car		7,499
Add : Profit of Shankar @ 15 % on taking (Working -C)		1,324
(E) Total taking of the month		8,823
(F) Total no.of round trips in a month (4 round trips each day) 4x 25 Days		100
(G) Charge per trip (E/F)		88.23

Working :

(a) Total km run = 20 km x 2 times x 4 trips x 25 days = 4000 km.

(b) Description of the car per month = $\frac{\text{Cost price} - \text{Scrap value}}{\text{Life of the car}} = \frac{₹1{,}50{,}000 - 50{,}000}{10 \text{ years} \times 12} = ₹\ 833$

(c) Calculation of drivers' commission and profit are made in the following manner :

Gross Taking	Commission	Profit	Net taking
₹100	₹10	₹15	₹75
	₹ x	₹ Y	₹ 6,617

$X = \frac{6617 \times 10}{75} = ₹\ 882$ $Y = \frac{6617 \times 15}{75} = ₹\ 1{,}323$

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 SIMULATION with the help of numerical. Refer module 4.8 of the guide book.

The behavior of a real operational system can be studied by building a model of the system and then experimenting with the model to gather the desire information.

Often however realistic models of a system are too complex to allow analytical solutions. These models could be studied by means of simulation.

Simulation is the representation of a real life situation by different means. It is popular because---

- It may be the only method available as it is difficult to observe the actual environment;
- It may not be possible to develop a mathematical model;
- Actual observation of a system may be too expensive or too disruptive;
- There may not be sufficient time to allow the system to operate extensively;

Monte Carlo Simulation is the most widely adopted method of simulation. It involves the use of random numbers.

The procedure is as follows:

- Determine the frequency distributions ;
- Convert the frequency distribution to cumulative probability distributions;
- Sample at random from the cumulative distributions to use in simulating operations;
- Simulate the actual operation;

Simulation can be used in few of the following problem areas:

- ➢ Production and manufacturing systems;
- ➢ Inventory Management;
- ➢ Queuing Problems
- ➢ Capital Investment and budgeting;
- ➢ Service operations;

Illustration 1:

The materials manager of a firm wishes to determine the expected demand for a particular item in stock during the reorder lead time. The information is needed to determine how far in advance to reorder before the stock level is reduced to zero. However both the lead time in days and the demand per day of the item are random variables, described by the probability distribution given in following table:

Lead Time (Days)	Probability	Demand/ Day(Units)	Probability
1	0.5	1	0.1
2	0.3	2	0.3
3	0.2	3	0.4
		4	0.2

Manually simulate the problem for ten reorders to estimate the demand during lead time. Use the random numbers 84, 20, 57, 42, 75, 70, 86, 69, 83, 41, 90, 12, 23, 06, 79, 14, 36, 31, 27, 35, 01, 41, 60, 91, 82, 14, 02, 06, 64.

Answer:

The solution is given in the following tables. In the third table the procedure is :

Demand	Probability	Cumulative Probability(%)	Range
1	0.1	10	00-09
2	0.3	40	10-39
3	0.4	80	40-79
4	0.2	100	80-99

Lead Time Days	Probability	Cumulative probability (%)	Range
1	0.5	50	00-49
2	0.3	80	50-79
3	0.2	100	80-99

Day	Random no	Lead time	Demand During Lead Time			Demand During Lead Time
1	84	3	20(2)	57(3)	42(3)	8
2	75	2	70(3)	86(4)		7
3	69	2	83(4)	41(3)		7
4	90	3	12(2)	23(2)	6(1)	5
5	79	2	14(2)	36(2)		4
6	31	1	27(2)			2
7	35	1	1(1)			1
8	41	1	60(3)			3
9	91	3	82(4)	14(2)	2(1)	7
10	6	1	64(3)			3
						47

From the random numbers given we have selected the first number i.e.84. As per this random number and 2nd table it is found that lead time correspond to 3. So next three random numbers i.e. 20, 57 42 we have used for determining the demand. Corresponding demand from first table are 2, 3 and 3 respectively. So total demand for 1st simulation comes out at 8. In this way balance table of third table is drawn.

Total demand during lead time is 47 and therefore average is 4.7

Illustration 2:

The manager of a warehouse is interested in designing an inventory control system for one of the products in stock. The demand for the product comes from the numerous retail outlets and orders arrive on a daily basis. The warehouse receives its stock from a factory but the lead time is not constant. The following table reveals the distribution for daily demand of products and distribution for lead time:

Daily Demand	Probability	Lead Time (Days)	Probability
2	0.2	1	0.2
3	0.5	2	0.5
4	0.2	3	0.3
5	0.1		

Whenever the inventory level drops below 6 units, order 10 units. The ordering cost is ₹100 per order, the holding cost is ₹3 per unit per day and the stock-out cost is ₹20 per unit. The manager wishes to know what would be the total cost after a 20 day simulation. Opening inventory is 12 units. Use the following random numbers: 01, 14, 66, 37, 85, 79, 74, 26, 40, 49, 97, 93, 78, 52, 00, 25, 62, 49, 61, 08, 56, 10, 73, 87, 93, and 63.

Answer:

In the following four tables the result of the simulation is given:

Daily Demand	Probabilty	Cumulative Probabilty (%)	Range
2	0.2	20	00-19
3	0.5	70	20-69
4	0.2	90	70-89
5	0.1	100	90-99

Lead Time	Probability	Cumulative Probability (%)	Range
1	0.2	20	00-19
2	0.5	70	20-69
3	0.3	100	70-99

Following table is drawn with an assumption that an order will not be placed until a previously placed order materializes.

Day	Opening Balance	Random Number	Demand	Closing Balance	Random Number	Lead Time	Order	Stock out
1	12	1	2	10				
2	10	14	2	8				
3	8	66	3	5	37	2	10	
4	5	85	4	1				
5	11	79	4	7				
6	7	26	3	4	40	2	10	
7	4	49	3	1				
8	11	97	5	6				
9	6	93	5	1	78	3	10	
10	1	52	3	0				2
11	0	0	2	0				2
12	10	25	3	7				
13	7	62	3	4	49	3	10	
14	4	61	3	1				
15	1	8	2	0				1
16	10	56	3	7				
17	7	10	2	5	73	3	10	
18	5	87	4	1				
19	1	93	5	0				4
20	10	63	3	7				

Holding Cost	Ordering Cost	Stock Out Cost	Total
30			30
24			24
15	100		115
3			3
21			21
12	100		112
3			3
18			18
3	100		103
0		40	40
0		40	40
21			21
12	100		112
3			3
0		20	20
21			21
15	100		115
3			3
0		80	80
21			21
		Total Cost	905

Illustration 3:

A company manufactures around 250 mopeds. The daily production varies from 246 to 254 depending upon the variability of raw materials and other working conditions

Production per day	Probability
246	0.04
247	0.09
248	0.12
249	0.14
250	0.11
251	0.10
252	0.20
253	0.12
254	0.08

The finished mopeds are transported in a specially arranged lorry accommodating only 250 mopeds. Using following random numbers 80, 81, 76, 75, 64, 43, 18, 26, 10, 12, 65, 68, 69, 61, 57 simulate the process to find out:

i) What will be the average number of mopeds waiting in the factory?

ii) What will be the average number of empty spaces on the lorry?

Answer:

The following two tables contain the solution

Production per Day	Probabilty	Cumulative Probability (%)	Range
246	0.04	4	00-03
247	0.09	13	04-12
248	0.12	25	13-24
249	0.14	39	25-38
250	0.11	50	39-49
251	0.1	60	50-59
252	0.2	80	60-79
253	0.12	92	80-91
254	0.08	100	92-99

Average number of scooters waiting for space in the lorry

$$= \frac{\text{Total no of scooters waiting for space}}{\text{Total no of days}} = \frac{21}{15} = 1.6$$

Average number of empty spaces in the lorry

$$= \frac{\text{Total No of empty spaces in Lorry}}{\text{Total number of days}} = \frac{9}{15} = 0.6$$

S. No	Random Number	Production	No of Scooters waiting for space	No of Empty Spaces in a Lorry
1	80	253	3	0
2	81	253	3	0
3	76	252	2	0
4	75	252	2	0
5	64	252	2	0
6	43	250	0	0
7	18	248	0	2
8	26	249	0	1
9	10	247	0	3
10	12	247	0	3
11	65	252	2	0
12	68	252	2	0
13	69	252	2	0
14	61	252	2	0
15	57	251	1	0
		Total	21	9

Illustration 4:

Kolkata Municipal Corporation while making disasters management plan against waterlogging with operation of heavy duty underground pumps observed from historical data collected that the occurrence of rain in Kolkata on a day is dependent upon whether it rained on the previous day. If it rained on the previous day, the rain distribution is given by

Event	Probability
No Rain	0.50
1 cm Rain	0.25
2 cm Rain	0.15
3 cm Rain	0.05
4 cm Rain	0.03
5 cm Rain	0.02

If it did not rain the previous day the rain distribution is given by:

Event	Probability
No Rain	0.75
1 cm Rain	0.15
2 cm Rain	0.06
3 cm Rain	0.04

On behalf of the operations manager of KMC simulate Kolkata's weather for 15 days and determine by simulation the total days without rain as well as the total rainfall during the period. Use the following random numbers: 97, 93, 78, 52, 00, 25, 62, 49, 61, 08, 56, 10, 73, 87, 93. Assume that for the first day of the simulation it had rained the day before.

Answer:

Table: Rained on Previous day			
Event	Probability	Cumulative Probability (%)	Range
No Rain	0.5	50	00-49
1 cm Rain	0.25	75	50-74
2 cm Rain	0.15	90	75-89
3 cm Rain	0.05	95	90-94
4 cm Rain	0.03	98	95-97
5 cm Rain	0.02	100	98-99

Table: No Rain on previous day			
Event	Probability	Cumulative Probability (%)	Range
No Rain	0.75	75	00-74
1 cm Rain	0.15	90	75-89
2 cm Rain	0.06	96	90-95
3 cm Rain	0.04	100	96-99

Day	Random No.	Rainfall	Table Reference
1	97	4 cm	1st table
2	93	3cm	1st table
3	78	2cm	1st table
4	52	1cm	1st table
5	0	No Rain	1st table
6	25	No Rain	2nd table
7	62	No Rain	2nd table
8	49	No Rain	2nd table
9	61	No Rain	2nd table
10	8	No Rain	2nd table
11	56	No Rain	2nd table
12	10	No Rain	2nd table
13	73	No Rain	2nd table
14	87	1cm	2nd table
15	93	3 cm	1st table
	Total	14	

Accordingly total days without rain = 9, and total rainfall during the period = 14 cm.

Suggestions:

The study guide needs 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 no detailing on concepts are made here.

Topic

Module 3:
Cash Flow Statement

Module 7:
Provisions Relating to Audit under Companies Act, 2013

INTERMEDIATE

Group II - Paper-10

Corporate Accounting and Auditing (CAA)

Section A: Corporate Accounting

Topic: Cash Flow Statement

Concept of Cash Flow Statement

A company's survival does not only depend on its ability to earn profits, it is also important for the company to generate sufficient cash for its survival. Company must pay great attention to liquidity as well as profitability if they are to succeed. A Statement of Cash Flow provide vital information about the cash flows of an entity during a particular accounting period. A cash flow statement is extremely useful for proper financial planning and control.

Advantages of Cash flow Statement

(a) It provides information about an entity's liquidity, flexibility and ability to generate future cash flows, which is critically important to survival and to successful growth.

(b) It can provide information about an entity's ability to meet its obligations as they become due.

(c) It helps to assess the reliability of the amount of net profit.

(d) It can provide information concerning cash and non-cash, financing and investing transactions during an accounting period.

Preparation of Cash flow Statement

The cash flow statement shall be prepared in accordance with the Accounting Standard AS 3, Cash Flow Statement, issued by Institute of Chartered Accountants of India. AS-3 is mandatory for the following enterprises in respect of accounting periods commencing on or after April 1, 2004. For companies following Ind AS, it is guided by Ind AS 7, Statement of Cash Flow.

As per AS 3, a Cash Flow Statement shall present the movement of cash flows in three different heads namely – Cash Flow from Operating Activities, Cash Flow from Investing Activities and Cash Flow from Financing Activities.

(a) Operating Activities : Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

(b) Investing Activities : Investing activities are the acquisition and disposal of long-term assets not included in cash equivalents.

(c) Financing Activities : Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

The term 'cash' shall be interpreted to include cash in hand, cash at bank and cash equivalents. The format for preparation of Cash Flow Statement is given in AS-3 and there are two alternative methods of preparing Cash Flow Statement as per AS-3. These are Direct Method and Indirect Method.

Consider the following Illustrations.

Illustration 1

Calculate net cash flows from operating activities from the following information :

Particulars	2022	2023
Stock	1,20,000	1,00,000
Debtors	50,000	46,000
Creditors	64,000	56,000
Expenses Outstanding	7,000	9,000
Bills Payable	70,000	44,000

Cash generated from operation before working capital changes is ₹20,000

Solution:

Cash Flow from Operating Activities

Particulars	₹	₹
Cash generated from operation before WC changes		20,000
Add: Decrease in Stock	20,000	
Add: Decrease in Debtors	4,000	
Less: Decrease in Creditors	(8,000)	
Add: Increase in Expenses Outstanding	2,000	
Less: Decrease in Bills Payable	(26,000)	(8,000)
		12,000

Illustration 2

Calculate net cash flows from operating activities from the following :

(i) Profits made during the year ₹ 2,50,000 after considering the following items :

(a) Depreciation on furniture ₹10,000

(b) Amortisation of patent rights ₹5,000

(c) Transfer to Dividend Equalization Reserve ₹7,000

(d) Profit on sale of building ₹3,000

(ii) The following is the position of current assets and current liabilities :

Particulars	2022	2023
Debtors	15,000	12,000
Creditors	10,000	15,000
Bills Receivable	64,000	56,000
Prepaid Expenses	8,000	10,000
	4,000	6,000

Solution:

Cash Flow from Operating Activities

Particulars	₹	₹
Net Profit (as given)		2,50,000
Add: Transferred to Dividend Equalization Reserve		7,000
Add: Depreciation on furniture		10,000
Add: Amortisation of patent rights		5,000
Less: Profit on sale of building		3,000
Cash generated from operation before WC changes		2,69,000
Less: Increase in Debtors	(3,000)	
Less: Decrease in Creditors	(5,000)	
Add: Decrease in Bills Receivable	2,000	
Add: Decrease in prepaid expenses	2,000	(4,000)
		2,65,000

Multiple Choice Questions

1. Interest received by other than financial enterprises is shown in the Cash Flow Statement under :

   A. Operating Activities

   B. Investing Activities

   C. Financing Activities

   D. Any one of the above

Answer: B

2. Dividends received by other than financial enterprises is shown in the Cash Flow Statement under :

   A. Operating Activities

   B. Investing Activities

   C. Financing Activities

   D. Any one of the above

Answer: B

3. Dividends received by financial enterprise is shown in the Cash Flow Statement under :

   A. Operating Activities

   B. Investing Activities

   C. Financing Activities

   D. Any one of the above

Answer: A

4. Interest paid by other than financial enterprise is shown in the Cash Flow Statement under :

   A. Operating Activities

   B. Investing Activities

   C. Financing Activities

   D. Any one of the above

Answer: C

5. How should the revaluation of a fixed asset be treated in a cash flow statement ?

   A. It should be included in the cash flow from financing activities;

   B. It should be included in the cash flow from investing activities;

   C. It should not be included in the cash flow statement.

   D. None of the above

Answer: C

Section B: Auditing

Topic: Provisions Relating to Audit under Companies Act, 2013

Multiple Choice Questions

1. Which of the following is not a right of a company auditor as per Section 143 of the Companies Act 2013?
   A. Right to inspect the books of accounts
   B. Right to obtain information and explanation
   C. Right to inspect branch office and branch accounts
   D. Right to attend board meetings

Answer: D

2. No audit firm shall be appointed or reappointed as auditor for more than two terms of __________ consecutive years.
   A. 3
   B. 5
   C. 7
   D. 10

Answer: B

3. The abbreviation CARO refers to _____________.
   A. Company (Accountant's Responsibility) Order
   B. Company (Auditor's Responsibility) Order
   C. Company (Auditor's Report) Order
   D. Company (Accountant's Report) Order

Answer: C

4. In case of a Govt. company, an auditor shall be appointed in respect of a financial year within ______ days from the commencement of the financial year.
   A. 30
   B. 60
   C. 120
   D. 180

Answer: D

Descriptive Questions and Answers

Question:

Discuss the rights of lien of a company auditor.

Answer:

The right of 'Lien' refers to the 'right of one person to retain the property of another person who owes money to the former'. The right of lien of an auditor of a limited company indicates an auditor's right to retain documents and records of the client for his unpaid fees.

(a) Lien on Books of Accounts: An auditor's lien is not upheld on books of accounts, which the company has to keep in its possession as per the provisions of the Companies Act.

(b) Lien on Working Papers: Audit working papers are those documents and records, which the auditors prepare in connection with his audit work. The auditor has a right to retain the working papers as if it were their own property even after the payment of the audit fees.

(c) Lien on Communication Documents: If the auditor makes correspondence with third parties not as an agent, but as a professional man for discharging his duties, the correspondence with the third parties will be his property.

(d) General or Special Lien: An auditor has only lien on the particular document in respect of which he has rendered his professional service, but he has not yet been paid. He cannot have general lien, that is, he cannot retain other documents with which he has not been concerned.

Topic

Module 1:
Fundamentals of Financial Management

Module 10:
Data Presentation: Visualisation and Graphical Presentation

INTERMEDIATE

Group II - Paper-11

Financial Management and Business Data Analytics (FMDA)

Financial Management

Risk and Return

Risk in an investment asset may be divided into: (i) Systematic Risk and (ii) Unsystematic Risk.

- **Systematic Risk:** It represents that portion of Total Risk which is attributable to factors that affect the market as a whole. Beta is a measure of Systematic Risk.

Examples of Systematic Risk

- Changes of interest rate policy.
- Corporate tax rate is increased.
- Government resorts to massive deficit financing.
- Inflation rate increases.
- The RBI promulgates a restrictive credit policy.
- The government withdraws tax on dividend payments by companies.
- The government eliminates or reduces the capital gain tax rate.

- **Unsystematic Risk**: It is the residual risk or balancing figure, i.e., Total Risk Less Systematic Risk.

- Company workers declare strike.
- Formidable competitor enters the market.
- Company loses a big contract in a bid.
- Company makes a breakthrough in process innovation.
- The government increases custom duty on the material used by the company.
- The company is unable to obtain adequate quantity of raw material

Total Risk= Systematic Risk + Unsystematic Risk

Example 1

An investor has three alternatives. The data available to each of these alternatives are given below:

Alternative	Expected Return (%)	Standard Deviation of Return (%)
I	23	8.00
II	20	9.50
III	18	5.00

Calculate the coefficient of variation for each alternative. If the investor wishes to minimize risk, which alternative do you recommend? Why?

Answer:

The Coefficient of Variation is the ratio of standard deviation to mean.

Alternative	Expected Return (%)	Standard Deviation of Return (%)	Coefficient of Variation
I	23	8	0.35
II	20	9.5	0.48
III	18	5	0.28

Alternative III is the best as its coefficient of variation is the lowest.

Example 2

An investor is seeking the price to pay for a security, whose standard deviation is 6.50%. The correlation coefficient for the security with the market is 0.70 and the market standard deviation is 5.20%. The return from Government securities is 6.0% and from the market portfolio is 10.50%. The investor knows that, by calculating the required return, he can then determine the price to pay for the security. What is the required return on security?

Solution:

Beta (β) = Correlation co-efficient between Security (S) and the Market (M) ×

$$\frac{\text{Standard Deviation of the Security Return}}{\text{Standard Deviation of the Market Return}}$$

Beta = 0.70 x (6.50.20/5.20) = 0.875

Computation of Required Rate of Return (Based on CAPM)

Expected Return = RF + β of Security × (RM - RF)

RF = Risk Free Return = 6.00%

β = Beta of Security = 0.875

RM = Return on Market Portfolio = 10.50%

Expected Return = 6.00% + 0.875 × (10.50% - 6.50%) = 9.94%

Comparative, Common-Size Financial Statements and Trend Analysis

1. Comparative Analysis: If the financial statement is re-casted for comparing the all elements of financial conditions from year to year in absolute term as well as in percentage then the re-casted statement is called comparative financial statement.

This statement is designed to provide time view of various elements of financial statement. This statement is made by: -

(a) Showing absolute money values of each element of Income Statement and Balance Sheet of different periods.

(b) Showing increase / decrease in absolute money value of each element by deducting elements of current period from past period.

(c) Showing increase / decreasing value in terms of percentage

a. i.e., $\dfrac{\text{Increasing / decreasing amount}}{\text{Amount in past period}} \times 100$

(d) Keeping in mind that the principles and procedures followed in the collection, and presentation of data should not materially differ over the periods.

2. Common size analysis: Common size financial statement is restated financial statement showing percentage of total items with common base for comparison.

This statement is made in the following procedure: -

(a) Assets side is classified in fixed assets, investments, current assets (CA), fictitious assets showing individually and in total. Then total assets (TA) are taken as common base 100.

(b) Then, $\dfrac{\text{Investments}}{\text{Total Assets}} \times 100$; $\dfrac{\text{Current Assets}}{\text{Total Assets}} \times 100$; $\dfrac{\text{Fictitious Assets}}{\text{Total Assets}} \times 100$ etc. are calculated.

(c) Liabilities side is classified in proprietor's fund, long term loan, and current liabilities showing individually and in total. Then percentage of each liability to total liability is calculated.

(d) Income statement is classified in sales, cost of goods sold, operating expenses, net profit, interest, tax, EAT (earning after tax) etc. Then percentage of each element to sales is calculated.

3. Trend Analysis: Trend analysis or trend ratio is an index number of each financial item in the financial statement of different periods. The method of calculating trend percentages involves the calculation of percentage relation of necessary items with the same items of base year. i.e., trend percentages are not calculated for all items of financial statements. They are calculated only for major items since the purpose is to highlight important changes. On the other hand, any year may be taken as base year – generally the earliest year is taken as base. Any intervening year may also be taken as the base year.

Thus, trend percentage or trend ratio =

$$\frac{\text{Value of each item in financial statement of any period}}{\text{Value of same item in financial statement of base period}} \times 100$$

Example 3

The income statements and balance sheets of X Ltd. for year 2022 and 2023 are as follows:

(₹ in '000')

Particulars	2022	2023
Revenues from Operations	2000	3000
Other income	10	12
Total revenues	2010	3012
Expenses		
Material expenses	820	1200
Employee benefit expenses	400	540
Finance costs	98	140
Depreciation and	88	104
Amortization expenses	Nil	Nil
Other expenses	120	194
Total expenses	1526	2178
Profit before exceptional items and other income	484	834
Exceptional Items	40	42
Profit before Extraordinary Items and Tax	524	876
Extraordinary Items	Nil	Nil
Profit Before Tax	524	876
Tax Expense	158	270
Profit (Loss) for the period	366	606
Dividends	100	120
Retained earnings	266	486

Using the per cent of sales method, prepare the proforma income statement for the year 2024. Assume that the revenues from operations will be ₹40,00,000 in year 2024. If dividends are raised to ₹ 2,00,000, what amount of retained earnings can be expected for year 2024?

Answer

Pro Forma Statement of Profit and Loss of X Ltd. for the Year 2024

(₹ in '000')

	2021	2023	Average per cent of sales	Assuming revenues from operations of 4000
Revenues from Operations	2000	3000	100	4000
Other income	10	12	0.45	18
Total revenues	2010	3012	100.45	4018
Expenses				
Material expenses	820	1200	40.50	1620
Employee benefit expenses	400	540	19.00	760
Finance costs	98	140	4.78	191
Depreciation and	88	104	3.93	157
Amortization expenses				
Other expenses	120	194	6.23	249
Total expenses	1526	2178	74.45	2978
Profit before exceptional items and other income	484	834	26.00	1040
Exceptional Items	40	42	1.70	68
Profit before Extraordinary Items and Tax	524	876	27.70	1108
Extraordinary Items				
Profit Before Tax	524	876	27.70	1108
Tax Expense	158	270	8.45	338
Profit (Loss) for the period	366	606	19.25	770
Dividends	100	120		
Retained earnings	266	486		770-200 =570

If dividends are raised to ₹2,00,000, retained earnings expected for year 2024 is ₹5,70,000.

Data Analytics (Data Visualization)

Data Analytics (Data Visualization)

Data visualization is the graphical representation of information and data. By using visual elements like charts, graphs, and maps, data visualization tools provide an accessible way to see and understand trends, outliers, and patterns in data. Additionally, it provides an excellent way for employees or business owners to present data to non-technical audiences without confusion. In the world of Big Data, data visualization tools and technologies are essential to analyze massive amounts of information and make data-driven decisions.

Why is Data Visualization important?

Visually depicting data often makes it easier to understand and draw insights from. It is an effective means of making data more accessible across an organization. This, in turn, can empower employees to back their actions using concrete information instead of relying on assumptions—resulting in more data-driven organizational processes.

(a) Data visualization can also play an important role in communication with parties outside of a business, such as the media, investors, regulatory agents, and other stakeholders.

(b) Data visualization has become so important to modern business that many organizations are now specifically hiring individuals proficient in it, among other data science skills.

(c) It translates complex, high-volume, or numerical data into a visual representation that is easier to process.

The common data visualization techniques

(a) Pie charts

(b) Bar charts

(c) Histograms

(d) Gantt charts

(e) Heat maps

(f) Box-and-whisker plots

(g) Waterfall charts

(h) Area charts

(i) Scatter plots

(j) Infographics

(k) Maps

Data Visualization Tools for Business

1. **Microsoft Excel (and Power BI)**

   Microsoft Excel is a spreadsheet software, not a data visualization tool. Even so, it has useful data visualization capabilities. Given that Microsoft products are widely used at the enterprise level.

   We can use Excel to design at least 20 types of charts using data in spreadsheets. These include common options, such as bar charts, pie charts, and scatter plots, to more advanced ones like radar charts, histograms, and treemaps.

   There are limitations to what you can create in Excel. If your organization is looking for a more powerful data visualization tool but wants to stay within the Microsoft ecosystem, Power BI is an excellent alternative. Built specifically as a data analytics and visualization tool, Power BI can import data from various sources and output visualizations in a range of formats.

2. **Google Charts**

   For professionals interested in creating interactive data visualizations destined to live on the internet, Google Charts is a popular free option.

   The tool can pull data from various sources—including Salesforce, SQL databases, and Google Sheets—and uses HTML5/SVG technology to generate charts, which makes them incredibly accessible. It offers 18 types of charts, including bar charts, pie charts, histograms, geo charts, and area charts.

3. **Tableau**

   Tableau is one of the most popular data visualization tools on the market for two main reasons: It is relatively easy to use and incredibly powerful. The software can integrate with hundreds of sources to import data and output dozens of visualization types—from charts to maps and more. Owned by Salesforce, Tableau boasts millions of users and community members, and it's widely used at the enterprise level.

   Tableau offers several products, including desktop, server, and web-hosted versions of its analytics platform, along with customer relationship management (CRM) software.

4. **Zoho Analytics**

   Zoho Analytics is a data visualization tool specifically designed for professionals looking to visualize business intelligence. As such, it's most commonly used to visualize information related to sales, marketing, profit, revenues, costs, and pipelines with user-friendly dashboards. More than 500,000 businesses and two million users currently leverage the software.

5. **Datawrapper**

   Datawrapper is a tool that, like Google Charts, is used to generate charts, maps, and other graphics for use online. The tool's original intended audience was reporters working on news stories, but any professional responsible for managing a website can find value in it.

   While Datawrapper is easy to use, it's somewhat limited, especially compared to others on this list. One of the primary limitations is that it doesn't integrate with data sources. Instead, you must manually copy and paste data into the tool, which can be time-consuming and liable to error if you aren't careful.

   Some common outputs include scatterplots, line charts, stacked bar charts, pie charts, range plots, and a variety of maps and tables. Free and paid options are available, depending on how you intend to use the tool.

6. **Infogram**

   Infogram is another popular option that can be used to generate charts, reports, and maps.

   What sets Infogram apart from the other tools on this list is that you can use it to create infographics (where its name comes from), making it especially popular among creative professionals. Additionally, the tool includes a drag-and-drop editor, which can be helpful for beginners.

(source: https://online.hbs.edu/blog/post/data-visualization-tools)

Topic

Module 6: Standard Costing and Variance analysis

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 6.1: Standard Costing

Standard costing is a vital tool used in cost accounting to determine the efficiency and performance of manufacturing processes within an organization. It involves the predetermination of costs for producing goods or services during a specific period, providing a benchmark against which actual costs can be measured. By establishing standards for materials, labour, and overheads, standard costing enables companies to evaluate their performance through variance analysis.

At its core, standard costing aims to answer the fundamental question: what should the cost be? By setting predetermined costs based on technical information and considering current conditions, standard costing provides a realistic estimation of production costs. These standards serve as a yardstick for measuring efficiency, guiding management in evaluating performance and identifying areas for improvement.

Standard costing is particularly well-suited for organisations engaged in repetitive manufacturing processes, where the inputs required for each unit of output can be specified. In such environments, standard costing enables companies to accurately predict costs and assess performance over time.

The comparison between standard costs and actual costs forms the basis of variance analysis, a key component of standard costing. Variances, or differences between standard and actual costs, are calculated for each cost element, allowing management to pinpoint inefficiencies and take corrective action where necessary.

Overall, standard costing provides a structured framework for cost control and performance evaluation within an organization. By establishing clear benchmarks and enabling systematic analysis of variances, standard costing helps companies achieve greater efficiency and profitability in their operations.

Standard Costing vs. Budgetary Control

Budgetary control involves planning and controlling using predetermined targets, assessing departmental performance. Standard costing determines efficiency through standards versus actual performance, essential for budget planning. Budgets cover overall concern, while standard costing focuses on product/service specifics. Budgets rely on past data and future forecasts, while standard costs are based on technical information. Budgetary control encompasses a wider scope, including incomes, expenditures, and departmental functions, while standard costing focuses mainly on manufacturing costs. Budgets set expenditure targets to avoid exceeding limits, while standard costing aims to achieve set standards. Budgetary control can be applied partially, but standard costing must be implemented wholly for all cost elements. Both systems complement each other, operating in different spheres.

Definition of Standard Cost:

Standard cost is a predetermined estimate of the cost of producing goods or services, expressed in monetary terms. It serves as a benchmark for comparison with actual costs.

Concept of Standards:

Standards are fixed for units to be produced, standard quantities of materials, standard labour rates, and standard overhead rates. They need regular review and updating to reflect changing conditions.

Standard Costing:

Standard costing is an accounting system used by manufacturers to identify variances between actual costs and predetermined standard costs.

It involves establishing standard costs, collecting actual costs, and comparing the two to analyse variances.

Purpose of Standard Costing:

Standard costing serves two primary purposes:

- ➢ Valuing inventories and production costs for cost accounting purposes.
- ➢ Acting as a control mechanism by highlighting variances and areas needing corrective action through management by exception.

Advantages of Standard Costing

The following are the important advantages of standard costing:

(1) It guides the management to evaluate the production performance.

(2) It helps the management in fixing standards.

(3) Standard costing is useful in formulating production planning and price policies.

(4) It guides as a measuring rod for determination of variances.

Limitations of Standard Costing

Besides all the benefits derived from this system, it has a number of limitations which are given below:

(1) Standard costing is expensive and a small concern may not meet the cost.

(2) Due to lack of technical aspects, it is difficult to establish standards.

(3) Standard costing cannot be applied in the case of a- concern where non-standardized products are produced.

(4) Fixing of responsibility is 'difficult'. Responsibility cannot be fixed in the case of uncontrollable variances.

Types of Standards:

(i) Current Standard:

- A current standard is established for a short period, typically one year, based on current conditions.
- It may be an ideal standard, assuming perfect conditions, or an expected standard, considering realistic conditions and allowances for human error.

(ii) Basic Standard:

- Basic standards are set for an indefinite or long period and are revised only with changes in material specifications or production technology.

(iii) Normal Standard:

- Normal standards are projected for a future period, covering a trade cycle of, for example, 5 to 10 years, to anticipate average sales and production levels.

MCQ

1. A cost center can be
   a) Department
   b) equipment
   c) person
   d) All of the above
2. An ideal standard represents
   a) high level of efficiency
   b) Low level of efficiency
   c) medium level of efficiency
   d) All of the above
3. Difference between Standard and Actual Consumption of material is known as
   a) Material usage variance
   b) Direct labour variance
   c) Material cost variance
   d) Material yield variance
4. During September, 300 labour hours were worked for a total cost of ₹ 4,800. The variable overhead expenditure variance was ₹ 600 (A). Overheads are assumed to be related to direct labour hours of active working. What was the standard cost per labour hour?
   a) ₹ 14
   b) ₹ 16.50
   c) ₹ 17.50
   d) ₹ 18
5. Which of the following statement is correct?
   a) Audit fees is a part of the administration overhead in an organization.
   b) Audit fees is a part of the distribution overhead in an organization.
   c) Audit fees is a part of the selling overhead in an organization.
   d) Audit fees is a part of the works on cost in an organization.
6. Standards that can be attained only under the best circumstances are referred to as:
   a) Attainable standards
   b) Budget standards
   c) Ideal standards
   d) Practical standards
7. Which of the following is not a criticism of a standard costing system?
   a) It is more expensive than other systems
   b) Variances calculated under standard costing come too late to be useful
   c) It can cause dysfunctional behavior in a JIT/ FMS environment
   d) Traditional cost variances are not tied to specific product lines
8. The standard which is attainable under favorable conditions is:
   a) Theoretical standard
   b) Expected standard
   c) Normal standard
   d) Basic standard

9. Which of the following statements is true concerning standard costs?
   a) Standard costs are estimates of costs available only under the most ideal conditions, but rarely predictable.
   b) Standard costs are difficult to use with a process-costing system
   c) If properly used, standards can help motivate employees
   d) Unfavorable variances, material in amount, should be investigated, but large favorable variances need not be investigated
10. In most companies, machines break down occasionally and employees are often less than perfect. Which type of standard acknowledges these characteristics when determining the standard cost of a product?
   a) Efficiency standard
   b) Ideal standard
   c) Practical standard
   d) Budgeted standard
11. A difference between standard costs used for cost control and the budgeted costs representing the same manufacturing effort can exist because:
   a) Standard costs must be determined after the budget is completed
   b) Standard costs represent what costs should be while budgeted costs represent expected actual costs
   c) Budgeted costs are historical costs while standard costs are based on engineering studies
   d) Budgeted costs include some "slack" or "padding" while standard costs do not
12. Assertion: Standard costing facilitates better cost control and management decision-making in manufacturing companies.

   Reason: By setting predetermined standards for costs, standard costing provides a benchmark against which actual performance can be measured, enabling management to identify areas of inefficiency and take corrective actions.
   a) Both the assertion and reason are correct, and the reason is the correct explanation of the assertion.
   b) Both the assertion and reason are correct, but the reason is not the correct explanation of the assertion.
   c) The assertion is correct, but the reason is incorrect.
   d) The assertion is incorrect, but the reason is correct.

Answer

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

True and False

1. Ideal standards are based on the most unfavorable operating conditions, with no wastage and no inefficiencies.
2. Price inflation can cause difficulties in setting realistic standard prices.
3. The purpose of standard costing is to determine efficiency or inefficiency in manufacturing a particular product.
4. A basic standard is established for use for an indefinite period or a long period.
5. Standard costing is not expensive and a small concern may meet the cost.

Answer

1	2	3	4	5
F	T	T	T	F

Fill in the blanks

1. Standard Costs are the scientifically ________cost of manufacturing a single unit.
2. CIMA defines standard cost as "a standard expressed in________.
3. ___________ is a yardstick against which actuals are measured to ascertain the degree of achievement made.
4. The standard cost serves as a basis of cost control and as a measure of _____________.
5. Standard costing is a control technique that reports variances by comparing actual costs to pre-set standards so facilitating action through____________________.

Answer

1	Predetermined
2	Money
3	Standard
4	Productive Efficiency
5	Management by Exception

Module 6.2: Variance Analysis

Variance Analysis

Variance analysis compares actual results with set standards to identify differences and their causes. It involves examining variances in costs or revenues, with the goal of managerial action for control. CIMA defines variance as the disparity between planned or standard costs and actual costs. Variances are assessed to maximise managerial intervention opportunities. Standard costs serve as a benchmark for comparing actual costs, aiding in variance determination and control measure implementation. The primary aim of standard costs is to compare and analyse variances, enabling effective management action.

Classification of Variances:

A. Material Variances:

1. Material Cost Variance: This represents the difference between the standard cost of materials specified for the actual output and the actual cost of materials used. It is divided into Material Price Variance and Material Quantity or Usage Variance.
2. Material Price Variance: It arises due to the difference between the standard price specified and the actual price paid for materials. This can be caused by changes in market prices, bulk purchases, quality changes, etc.
3. Material Quantity or Usage Variance: It measures the efficiency in the use of material and indicates whether materials were properly utilized. This variance is due to the difference between the standard quantity for actual output and the actual quantity used.
4. Material Mix Variance: This arises when two or more types of materials are used for production. It measures the difference between the standard composition of the mix and the actual composition used.
5. Material Yield Variance: It is a part of the Material Usage Variance and arises due to spoilage, low-quality materials, or defective production planning. It represents the difference between the standard yield specified and the actual yield obtained.

B. Direct Labour Variances:

1. Labour Cost Variance: It represents the difference between the standard cost of labour allowed for the actual output achieved and the actual wages paid. It consists of Labour Rate Variance, Labour Efficiency Variance, and Idle Time Variance.
2. Labour Rate Variance: This variance is due to the difference between the standard rate specified and the actual rate paid for actual hours worked.
3. Labour Efficiency Variance: It measures the efficiency in the use of labour and indicates whether labour was properly utilized. This variance arises due to the difference between standard labour hours specified and the actual labour hours spent.
4. Labour Idle Time Variance: This arises due to abnormal situations like strikes, breakdown of machinery, etc., and represents the difference between the standard cost of labour hours utilized and the actual payment made.
5. Labour Mix Variance: It arises due to the difference between the standard composition of a gang for total actual hours and the actual composition used.
6. Labour Yield Variance: This variance arises due to the variation in labour cost on account of an increase or decrease in yield or output compared to the standard.

C. **Variable Overhead Variances:**

Variable overhead variances are a crucial aspect of cost accounting, providing insights into the differences between expected and actual variable overhead costs in manufacturing processes. Here's a brief overview of the theoretical aspects:

1. **Variable Overhead Cost Variance:**

   This variance measures the distinction between the standard variable overhead cost allocated for the actual output and the actual variable overhead cost incurred. It comprises both expenditure (spending) variance and efficiency variance.
2. **Expenditure Variance:** Reflects the variance caused by differences in the actual and budgeted variable overhead costs. It is calculated as the difference between the standard variable overheads for actual output and the actual variable overheads incurred.
3. **Efficiency Variance:** Represents the variance due to differences in the actual hours worked and the standard hours allowed, multiplied by the standard variable overhead rate per hour.
4. **Variable Overhead Rate or Expenditure Variance:**

   This variance calculates the difference between the allowed or budgeted variable overheads based on actual hours worked and the actual variable overheads incurred. It measures the portion of the variable overhead cost variance attributable to the difference between actual and standard variable overheads relative to the level of activity.

It is computed by multiplying the difference between the standard and actual variable overhead rates per unit or per hour by the actual output or actual hours worked.

5. **Variable Overhead Efficiency Variance:**

This variance indicates the difference between the standard variable overhead for actual output and the actual hours worked at the standard variable overhead rate.

It is calculated by multiplying the difference between the standard hours for actual output and actual hours worked by the standard variable overhead rate per hour or per unit.

A favourable variance occurs when actual hours worked are less than standard hours, while an adverse variance occurs when actual hours exceed standard hours.

D. **Fixed Overhead Variances:**

- Expenditure Variance: Increase or decrease in fixed overhead expenditure. (Chief Accountant cum-Controller)
- Efficiency Variance: Increase or decrease in budgeted output rate for hours worked.
- Capacity Variance: Increase or decrease in output.
- Idle Time Variance: Unabsorbed standard fixed overhead.
- Calendar Variance: Difference between budgeted and actual working days. (Uncontrollable)

E. Sales Variances:

- Value Variance: Difference between budgeted and actual sales value. (Sales Manager)
- Price Variance: Difference between actual and standard sales prices.
- Volume Variance: Difference between budgeted and standard sales volumes.
- Mix Variance: Difference between revised standard sales and standard sales.

MCQ

1. The difference between actual cost and standard cost is known as_______.
   a) Variance
   b) Control costs
   c) Cost of sales
   d) profit
2. The difference between actual cost and standard cost is known as_______.
   a) Variance
   b) Control costs
   c) Cost of sales
   d) profit
3. Who is responsible for labour idle time variance
   a) Personnel Manager
   b) Production Manager
   c) Chief Accountant cum- Controller (Cost)
   d) Uncontrollable
4. Who is responsible for labour Calendar Variance
   a) Personnel Manager
   b) Production Manager
   c) Chief Accountant cum- Controller (Cost)
   d) Uncontrollable
5. Material Cost Variance includes
   a) Material price variance
   b) Material quantity or usages variance
   c) Labour mix variance
   d) A and B
6. Material Cost Variance includes
   a) Material price variance
   b) Material quantity or usages variance
   c) Labour mix variance
   d) A and B
7. A certain process needed standard labour of 24 skilled labour hours and 30 unskilled labour hours at Rs. 60 and Rs. 40 respectively as the standard labour rates. Actually, 20 and 25 labour hours were used at Rs. 50 and Rs. 50 respectively. Then, the labour mix variance will be
   a) Adverse
   b) Favorable
   c) Zero
   d) Favorable for skilled and unfavorable for unskilled

8. Standard price of material per kg is ₹ 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchased at the rate of ₹ 22 per kg. Material cost variance is

    a) 2,440 (A)

    b) 1,440 (A)

    c) 1,440 (F)

    d) 2,300 (F)

9. Standard cost of material for a given quantity of output is ₹ 15,000 while the actual cost of material used is ₹ 16,200. The material cost variance is:

    a) ₹ 1,200 (A)

    b) ₹ 16,200 (A)

    c) ₹ 15,000 (F)

    d) ₹ 31,200 (A)

10. For the purpose of Proof, Material Cost Variance is equal to:

    a) Material Usage Variance + Material Mix variance

    b) Material Price Variance + Material Usage Variance

    c) Material Price Variance + Material yield variance

    d) Material Mix Variance + Material Yield Variance

11. Cost variance is the difference between

    a) The standard cost and marginal cost

    b) The standard cost and budgeted cost

    c) The standard cost and the actual cost

    d) The standard cost and the prime cost

12. If the total materials variance (actual cost of materials used compared with the standard cost of the standard amount of materials required) for a given operation is favorable, why must this variance be further evaluated as to price and usage?

    a) There is no need to further evaluate the total materials variance if it is favorable

    b) Financial reporting standards require that all variance be analyzed in three stages

    c) All variances must appear in the annual report to equity owners for proper disclosure

    d) To allow management to evaluate the efficiency of the purchasing and production functions

Answer

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

True and False

1. The management can take corrective measures to set the things right on the basis of different variances.

2. Difference between Revised Standard Sales and Standard Sales is known as material mix variance.

3. An adverse variance is achieved when the actual performance is better than the expected results.

4. The Material Cost Variance represents the difference between the Standard cost of materials for the Actual Output and the Actual Cost of materials used for producing actual output.

5. Material Usage Variance is not a part of Material Cost Variance.

Answer

1	2	3	4	5
T	F	F	T	F

Fill in the blanks

1. Difference between Actual sales and Standard sales is known as __________.

2. Responsibility for Material price Variance is mainly of __________department.

3. Standard costs are used as scale of reference to compare the actual cost with the standard cost with a view to determine the ___________.

4. __________may arise due to ability of the workers, inappropriate team of workers, inefficiency of production manager or foreman etc.

5. Fixed Overhead Volume Variance is the difference between the budgeted fixed overheads and the standard fixed overheads recovered on the _________________.

Answer

1	Price variance
2	Purchase
3	Variances
4	Efficiency variance
5	Actual Production

CMA
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COURSE

Syllabus 2022

Topic

Module 6:

Foreign Exchange Management Act, 1999

FINAL

Group III - Paper-13

Corporate and Economic Laws (CEL)

Few important terminologies under Foreign Exchange Management Act (FEMA)

Authorized Bank

'Authorized Bank' means a bank including a co-operative bank (other than an authorized dealer) authorized by the Reserve Bank to maintain an account of a person resident outside India.

Authorized Dealer

'Authorized Dealer' means a person authorized as an authorized dealer under sub-section (1) of section 10 of FEMA. (c)

Authorized person

Section 2(c) 'Authorized person' means an authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized under sub-section (1) of section 10 to deal in foreign exchange or foreign securities.

Capital

'Capital' means equity shares, fully, compulsorily & mandatorily convertible preference shares, fully, compulsorily & mandatorily convertible debentures and warrants. Preference shares and convertible debentures shall be required to be fully paid, and should be mandatorily and fully convertible. Further, 'warrant' includes Share Warrant issued by an Indian Company in accordance to provisions of the Companies Act, as applicable.

Capital account transaction

Section 2(e) 'capital account transaction' means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions referred to in sub-section (3) of section 6.

Current account transaction

Section 2(j) 'current account transaction' means a transaction other than a capital account transaction and includes: (1) payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business. (2) payments due as interest on loans and as net income from investments. (3) remittances for living expenses of parents, spouse and children residing abroad, and (4) expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Foreign currency

Section 2(m) 'foreign currency' means any currency other than Indian currency.

Foreign Currency Convertible Bond (FCCB)

'Foreign Currency Convertible Bond' (FCCB) means a bond issued by an Indian company expressed in foreign currency, the principal and interest of which is payable in foreign currency. FCCBs are issued in accordance with the Foreign Currency Convertible Bonds are issued in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part.

Foreign exchange

Section 2(n) 'foreign exchange' means foreign currency and includes,- (1) deposits, credits and balances payable in any foreign currency. (2) drafts, travelers cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency. (3) drafts, travelers cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency.)

FIPB

means the Foreign Investment Promotion Board constituted by the Government of India which stand abolished from May, 2017.

Foreign Institutional Investor (FII)

'Foreign Institutional Investor'(FII) means an entity established or incorporated outside India which proposes to make investment in India and which is registered as a FII in accordance with the Securities and Exchange Board of India (SEBI) (Foreign Institutional Investor) Regulations 1995.

Foreign Portfolio Investor(FPI)

'Foreign Portfolio Investor' (FPI) means a person registered in accordance with the provisions of Securities and Exchange Board of India (SEBI) (Foreign Portfolio Investors) Regulations, 2014, as amended from time to time.

Foreign Venture Capital Investor (FVCI)

'Foreign Venture Capital Investor' (FVCI) means an investor incorporated and established outside India, which is registered under the Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000 [SEBI (FVCI) Regulations] and proposes to make investment in accordance with these Regulations.

Foreign security

Section 2(o) 'foreign security' means any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in Indian currency.

Automatic route of FDI

Areas of investment in Indian entities by foreign investors which do require nay approval, other than filing with RBI

Government route of FDI

'Government route' means that investment in the capital of resident entities by non-resident entities can be made only with the prior approval of Government, Department of Promotion of Industry and International trade, under Ministry of Commerce and Industry. Before, 2017, this used to be done by FIPB.

Indian currency

Section 2(q) 'Indian currency' means currency which is expressed or drawn in Indian rupees but does not include special bank notes and special one rupee notes.

Investment on repatriable basis 'Investment on repatriable basis' means investment, the sale proceeds of which, net of taxes, are eligible to be repatriated out of India and the expression 'investment on non-repatriable basis' shall be construed accordingly.

Non-resident entity

'Non-resident entity' means a 'person resident outside India' as defined under FEMA.

(w) Non-Resident Indian (NRI) 'Non-Resident Indian' (NRI) means an individual resident outside India who is a citizen of India or is an 'Overseas Citizen of India' cardholder.

Topic

Module 2: Evaluation of Risky Proposals for Investment Decisions

Module 13: Financial Derivatives – Instruments for Risk Management

FINAL

Group III - Paper-14

Strategic Financial Management (SFM)

Topic: Decision Tree Analysis

Unit: Evaluation of Risky Proposals for Investment Decisions

Topic: Decision Tree Analysis

- **Concept of Decision Tree Analysis**

A decision tree is a tree-like model that acts as a decision support tool, visually displaying decisions and their potential outcomes, consequences, and costs. From there, the "branches" can easily be evaluated and compared in order to select the best courses of action.

Decision tree analysis is helpful for solving problems, revealing potential opportunities, and making complex decisions regarding cost management, operations management, organization strategies, project selection, and production methods.

Consider the following comprehensive problems.

- **Steps in Decision Tree Analysis:**

The steps in decision tree analysis consist of:

(i) Define the problem area for which decision making is necessary.

(ii) Draw a decision tree with all possible solutions and their consequences.

(iii) Input relevant variables with their respective probability values.

(iv) Determine and allocate payoffs for each possible outcome.

(v) Calculate the Expected Monetary Value for every chance node in order to determine which solution is expected to provide the most value. Circles represent chance nodes in a tree diagram.

- **Advantages of Decision Tree Analysis**

The advantages of decision tree analysis include the following:

(i) Decision trees are simple and easy to interpret

(ii) These are concise presentation of large amounts of hard data;

(iii) It helps decision makers ascertain best, worst, and expected results for various scenarios; and can be combined with various decision techniques.

Consider the following comprehensive problems on decision tree analysis.

Problem 1

The Asian Boat Company has developed a new cabin cruiser which they have earmarked for the medium to large boat market. A market analysis has a 30% probability of annual sales being 5,000 boats, a 40% probability of 4,000 annual sales and a 30% probability of 3,000 annual sales. This company can go into limited production, where variable costs are ₹ 10,000 per boat, and fixed costs are ₹ 8,00,000 annually. Alternatively; they can go into full scale production, where variable costs are ₹9,000 per boat, and fixed costs are ₹50,00,000 annually. If the new boat is to be sold for ₹11,000, should the company go into limited or full-scale production when their objective is to maximize the expected profits?

Solution

The various alternative available to the company and the associated payoffs are shown in the table given below (*alternatively the data may also be presented in decision tree like diagram*):

S T A R T	Type of Production	Sales	Probability	Payoffs (₹)	Calculation
	Limited Production	5000	0.3	42,00,000	5000 (11000 – 10000) - 800000
		4000	0.4	32,00,000	4000 (11000 – 10000) - 800000
		3000	0.3	22,00,000	3000 (11000 – 10000) - 800000
	Full Scale Production	5000	0.3	50,00,000	5000 (11000 – 9000) - 5000000
		4000	0.4	30,00,000	4000 (11000 – 9000) - 5000000
		3000	0.3	10,00,000	3000 (11000 – 9000) - 5000000

Pay-off Table (₹)

		5000 Sales	4000 Sales	3000 Sales
Alternative courses	Limited Production	42,00,000	32,00,000	22,00,000
	Full Scale Production	50,00,000	30,00,000	10,00,000
Probability		0.3	0.4	0.3

The expected value of annual profits for each of the alternatives is as follows:

Alternative	Expected Annual Profits (₹ in lakhs)	
Limited production	0.3(42) + 0.4(32) + 0.3(22)	= ₹ 32 lakhs
Full scale production	0.3(50) + 0.4(30) + 0.3(10)	= ₹ 30 lakhs

The expected annual profits for the company under limited production alternative is more. Hence, the company should go into limited production and realise an expected annual profit of ₹ 32 lakhs.

Problem 2

A company is currently working with a process, which generates a net profit of ₹12,000. The company has the following alternatives:

(i) The company can conduct research R1, which is expected to cost ₹10,000 and having 90% probability of success, If successful, the gross income will be ₹26,000.

(ii) The company can conduct research R2, expected to cost ₹6,000 and having a probability of 60% success. If successful, the gross income will be ₹24,000.

(iii) The company can pay ₹5,000 as royalty of a new process which will bring a gross income of ₹20,000.

Because of limited resources, only one of the two types of research can be carried out at a time. Draw the decision tree and find the optimal strategy for the company.

Solution:

The Required decision tree is as follows:

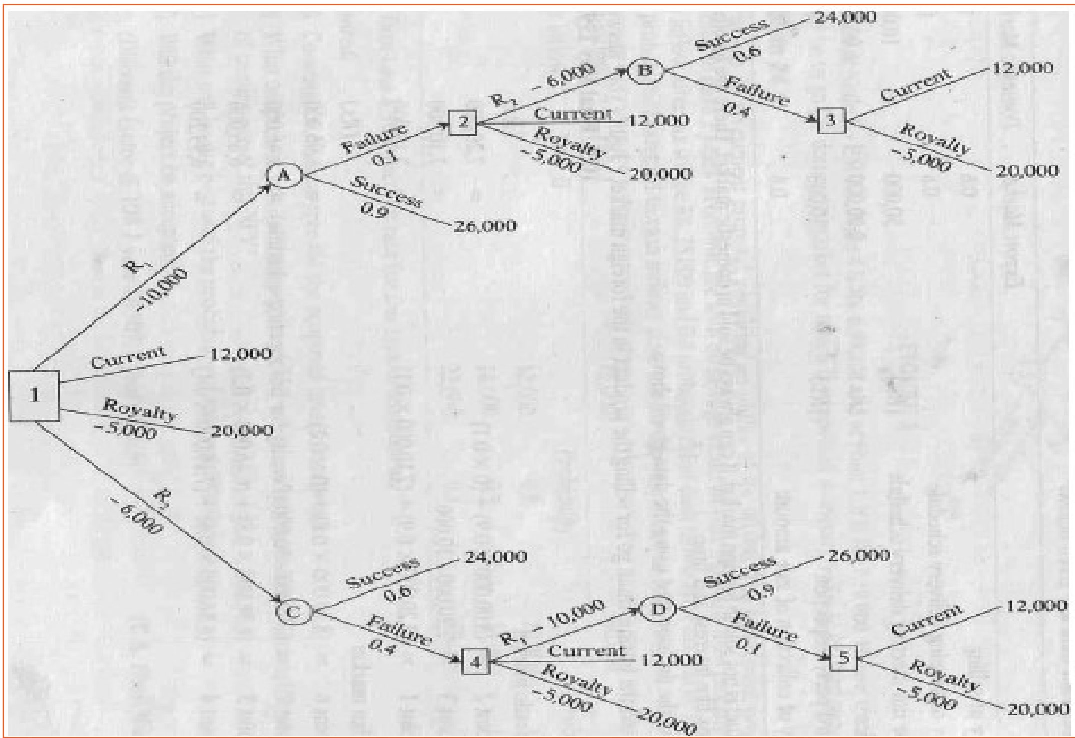


Figure 1: Decision Tree

Expected Monetary Value at 3 & 5 is given by:

	= Max [(20,000-5,000), 12,000]	= 15,000
EMV at Node B	= (0.4 × 15,000) + (0.6 × 24,000)	= 20,400
EMV at 2	= Max [(20,400 - 6,000), 12,000, (20,000-5,000)]	
	= Max [14,400, 12,000, 15,000]	= 15,000
EMV at Node A	= (0.1 × 15,000) + (0.9 × 26,000)	= 24,900
EMV at Node D	= (0.9 × 26,000) + (0.1 × 15,000)	= 24,900
EMV at 4	= Max [(24,900 - 10,000), 12,000, (20,000 - 5,000)]	
	= Max [14,900, 12,000, 15,000]	= 15,000
EMV at C	= (0,6 × 24,000) + (0.4 × 15,000)	= 20,400
EMV at 1	= Max [(24,900 - 10,000), 12,000, 15,000, (20,400 - 6,000)]	
	= Max [14,900, 12,000, 15,000, 14,400]	= 15,000

Decision: The company should pay ₹ 5,000 as royalty of a new process which will fetch it maximum expected monetary value (EMV) of ₹ 15,000.

Unit: Financial Derivatives – Instruments for Risk Management
Topic: Forwards and Futures

Problem 1

The following data relates to XYZ Ltd.'s share prices :

Current price per share	₹ 360
Price per share in the futures market-6 months	₹ 390

It is possible to borrow money in the market for securities transactions at the rate of 12% per annum.

Required :

(i) Calculate the theoretical minimum price of a 6 month-forward contract.

(ii) Explain if any arbitraging opportunities exist.

Solution:

(i) Calculation of Theoretical Minimum Price of a 6-month Forward Contract

Current share price ₹ 360

Interest rate prevailing in money market for securities transactions 12%

Then,

Theoretical Minimum Price = ₹ 360 + (₹ 360 × 12/100 × 6/12) ₹ 381.60

(ii) Arbitrage opportunities

The current price per share in the futures market-6 months is ₹ 390 and the theoretical minimum price of 6-month forward is ₹ 381.60. The arbitrage opportunities exist for the XYZ Ltd.'s share. An arbitrageur can invest in XYZ Ltd.'s shares at ₹ 360 by borrowing at 12% p.a. for 6 months and at the same time he can sell the share in the futures market at ₹390. On the expiry date i.e. after 6 months period, the arbitrageur can collect ₹ 390 and pay off ₹ 381.60 and can record a profit of ₹ 8.40 (i.e., ₹390 - ₹381.60).

Problem 2

Ram buys 10,000 shares of X Ltd. at ₹ 44 and obtains a complete hedge of shorting 400 Nifties at ₹ 2,200 each. He closes out his position at the closing price of the next day at which point the share of X Ltd. has dropped 2% and the nifty future has dropped 1.5%. What is the overall profit/loss of this set of transaction ?

Solution

(i) Profitability of Investment in X Ltd. shares

10,000 shares × ₹ 44 = ₹ 4,40,000

Drop in share price (₹ 4,40,000 × 2/100) = ₹ 8,800 Loss

(ii) Profitability by Shorting 400 Nifties

400 Nifties × ₹ 2,200 = ₹ 8,80,000

Drop in Nifty future (₹ 8,80,000 × 1.5/100) = ₹ 13,200

(iii) Net Gain = ₹ 13,200 - ₹ 8,800 = ₹ 4,400

Topic

Module 3: Grievance Redressal

FINAL

Group III - Paper-15

Direct Tax Laws and International Taxation (DIT)

Appeal before JCIT (Appeals)

One Law Dictionary defines 'appeal' as the act of asking a higher authority to change a decision of a lower authority. Right to appeal under income tax law is a creation of statute and not an inherent right. Appeal can be filed only against orders listed in the Income Tax Act and not any order.

Initially, following course of action are available in the Income-tax Act:

Assessee	Department
Rectification u/s 154	Rectification u/s 154
Appeals	Revision u/s 263
Revision u/s 264	Reassessment u/s 147

In general, any cases being filed and heard first in Civil Court, thereafter aggrieved parties may file a case in High Court and for further relief or justice, aggrieved party finally file case in Supreme Court. However, the route of revenue cases is different. Any Assessee or any deductor or any collector of tax at source, who is aggrieved from the order passed by the Assessing officer, shall first file an appeal to the Joint Commissioner (Appeal) / Commissioner (Appeals). Then case shall be moved and an appeal shall be filed to Appellate tribunal, by the assessee or Deductor or Collector of tax at source or the department, if they are aggrieved with the order passed by the Commissioner (Appeal). Thereafter case shall be moved to High Court, if assessee or Deductor or Collector of tax at source or the department is aggrieved to the order passed by the Appellate tribunal and at last to Supreme Court, if Assessee or Deductor or Collector of tax at source or the department is aggrieved to the order passed by the High court.

Appeals before Joint Commissioner (Appeals) [JCIT (A)] [Sec. 246]

As per the existing scheme for appeals, the first appellate authority for an assessee aggrieved by any order issued under the Act is the Commissioner (Appeals). Such Commissioner (Appeals) has the powers to confirm, reduce, enhance or annul/ cancel an order of assessment or an order of penalty, after providing an opportunity of being heard to the assessee and the AO. The order passed by the Commissioner (Appeals) are appealable before the Appellate Tribunal.

However, as the first authority for appeal, Commissioner (Appeals) were overburdened due to the huge number of appeals and the pendency being carried forward every year. In order to clear this bottleneck, a new authority for appeals is created at Joint Commissioner/ Additional Commissioner level to handle certain class of cases involving small amount of disputed demand. Such authority has all powers, responsibilities and accountability similar to that of Commissioner (Appeals) with respect to the procedure for disposal of appeals

Any assessee aggrieved by any of the following orders of an Assessing Officer (below the rank of Joint Commissioner) may appeal to the Joint Commissioner (Appeals) against:

a. an intimation u/s 143(1), where the assessee objects to the making of adjustments; or

b. Any order of assessment u/s 143(3) or sec. 144, where the assessee objects to the amount of income assessed, or to the amount of tax determined, or to the amount of loss computed, or to the status (*Status* means the category under which the assessee is assessed as "individual", "Hindu undivided family" and so on) under which he is assessed;

c. an order of assessment, reassessment or recomputation u/s 147;

d. an intimation u/s 200A(1);

e. an order u/s 201;

f. an intimation u/s 206C(6A);

g. an order u/s 206CB(1);

h. an order imposing a penalty under Chapter XXI; and

i. an order u/s 154 or sec. 155 amending any of the orders mentioned above

Exception

No appeal shall be filed before the Joint Commissioner (Appeals) if any of the aforesaid order is passed by or with the prior approval of, an income-tax authority above the rank of Deputy Commissioner.

Taxpoint

- *Transfer of appeals*: Where any appeal filed against any of the aforesaid order is pending before the Commissioner (Appeals), the Board or authorised income-tax authority may transfer such appeal and any matter arising out of or connected with such appeal and which is so pending, to the Joint Commissioner (Appeals) who may proceed with such appeal or matter, from the stage at which it was before, it was so transferred.

  The Board or authorised income-tax authority may transfer any appeal which is pending before a Joint Commissioner (Appeals) and any matter arising out of or connected with such appeal and which is so pending, to the Commissioner (Appeals) who may proceed with such appeal or matter, from the stage at which it was before, it was so transferred.

  After such transfer of an appeal, the appellant shall be given an opportunity of being reheard.

- The provision shall not apply to any case or any class of cases as specified by the Board.

- *Scheme for disposal of the appeal*: For the purposes of disposal of appeal by the Joint Commissioner (Appeals), the Central Government may make a scheme so as to dispose of appeals in an expedient manner with transparency and accountability, by eliminating the interface between the Joint Commissioner (Appeals) and the appellant, in the course of appellate proceedings to the extent technologically feasible and direct that any of the provisions of this Act relating to jurisdiction and procedure for disposal of appeals by the Joint Commissioner (Appeals), shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification.

Revision u/s 263 -vs.- Revision u/s 264

Sec. 263 of the Income Tax Act, 1961, stands as a custodian, guarding the integrity of the tax assessment process in India. It is a mechanism to rectify orders perceived as both erroneous and prejudicial to the interests of the revenue. There is a virtually parallel provision – Section 264 of the Act, which also empowers the Commissioner to revise any order other than the order under Section 263, passed by an authority subordinate to him, on his own motion or on an application by the assessee for revision.

A comparative study of revision u/s 263 & revision u/s 264 are given here in below:

Basis	Sec. 263	Sec. 264
Which order can be revised	Order, which is prejudicial to the interest of revenue.	Order, which is prejudicial to the interest of assessee.
Proceedings at the motion of	At the own motion of the authorities.	At the own motion of the authorities or on the application of the assessee.
Scope	Revision is possible of the issues which have not been considered and decided in an appeal, i.e., doctrine of partial merger is applicable	Revision u/s 264 is not possible on any issue if an appeal has been filed, i.e., doctrine of total merger is applicable
Time limit for application	Assessee does not apply	Within 1 year from the date on which the order in question was communicated to the assessee
Time limit for passing a revisional order	2 years from the end of the financial year in which the order sought to be revised was passed.	• *Where the authorities act on his own motion*: within 1 year from the date of original order. • *Where the application is made by the assessee*: within 1 year from the end of the financial year in which such application is made.
Fee	Not applicable	₹ 500 where the application for revision is made by the assessee.
Appeal against order	Appeal can be filed to the Tribunal	No appeal can be filed.
Beneficial to	Revenue	Assessee

Topic

Module 3: Decision Making Techniques

FINAL

Group III - Paper-16

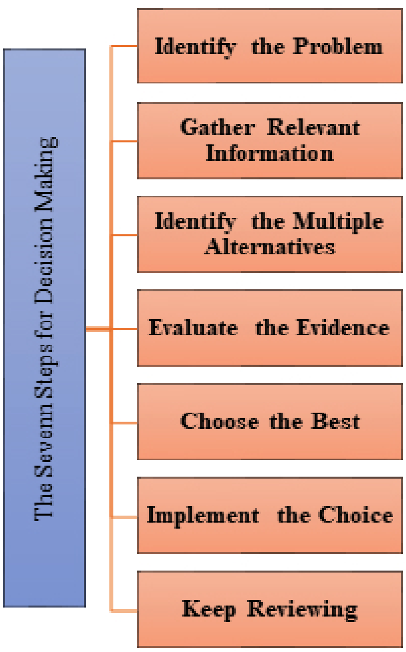
Strategic Cost Management (SCM)

Decision Making Techniques

01.00 Decisions Involving Alternative Choices

Decision making is the outcome resulting from the process of evaluation of the available alternatives and choosing the best. Some instances of alternative choice decisions are: make or buy, change the product-mix, take or refuse orders, place special orders, export versus local, shut down or continue, expand or contract, own or lease, retain or replace, repair or renovate, now or later, change versus status quo, slower or faster, select sale territories, replace present equipment with new machinery, sell at split-up point or process further, etc.

Professionals generally adopt the following seven steps for decision making purposes.



i. **Identify the Problem:** In order to make a decision, you must first identify the problem you need to solve or the question you need to answer.

ii. **Gather Relevant Information:** Once you have identified your problem for decision making, it's time to gather the information relevant for the purpose.

iii. **Identify the Multiple Alternatives:** With relevant information now at your fingertips, identify possible solutions to your problem.

iv. **Evaluate the Evidence:** Once you have identified multiple alternatives, evaluate the evidence for or against said alternatives.

v. **Choose the Best:** This is that part of the decision-making process where you actually make the decision by choosing the best of the lot.

vi. **Implement the Choice:** Once you've made your decision, develop a plan to make your decision tangible and achievable; assign tasks to your team; and then implement it.

vii. **Keep Reviewing:** Keep reviewing the results at periodic intervals for any corrective actions and for eventual refinements.

Relevant to recall, here, is that Strategic Cost Management encompasses the entire spectrum of value addition process which involves taking crucial decisions.

02.00 Illustrative Example on Evaluation of Alternative Choices

02.01 Problem

ABC Computer Ltd. is planning to introduce a new computer "Speedo". The maximum production capacity will be 40,000 units per annum. The company plans to produce full capacity in the first year.

The cost per computer is as follows:

	₹
Direct material	6,000
Direct labour	5,000
Variable factory overheads	3,000

Fixed factory overheads are ₹1,600 Lakhs and selling and distribution overheads will be ₹800 lakhs per annum. Fixed factory overheads are estimated on the basis of full capacity. The marketing department has come out with the following price and demand forecast for the first year.

Price Range	Sales Volume
14001 -24000	36000
24001 – 30000	32000

30001 – 36000	18000
36001 – 42000	10000

ABC Computers has decided to price the computers at full cost plus 20% for the first year

a. Work out the price/unit at which ABC wishes to sell the computer for the first year and arrive at the demand.

b. Can you work out a better proposal?

c. Determine the profit and the value of stock for year 1 for figures obtained under (a) above following Marginal cost approach (for the demand arrived at based on company's pricing policy for 1st year).

02.02 Solution

(a) **Computation of Price/unit at which ABC wishes to sell the computer for the first year**

Particulars	Per unit ₹	Total for 40000 units (₹ In Lakhs)
Variable Costs		
Direct Materials	6,000	2,400
Direct Labour	5,000	2,000
Variable factory overheads	3,000	1,200
Total Variable Costs	14,000	5,600
Fixed Costs		
Factory Overheads	4,000	1,600
Selling and Distribution overheads	2,000	800
Total Fixed Costs	6,000	2,400
Total Costs	20,000	8,000
Add Markup @ 20%	4,000	1,600
Selling Price	24,000	9,600

At a selling price of ₹24,000/- per unit, the maximum demand, as given in the price – sales matrices, is 36,000. Therefore, the price per unit at which ABC wishes to sell the computer for the first year is ₹24,000/- and the demand is 36,000.

(b) **Workings for a better the Proposal**

Volume	Price per unit (₹)	Contribution per unit (₹) = (Price – Total Variable Costs of ₹14,000)	Contribution for the entire Volume of Sales (₹ Lakhs)
36000	24,000	10,000	3,600
32000	30,000	16,000	5,120
18000	36,000	22,000	3,960
10000	42,000	28,000	2,800

The contribution is maximum (₹5,120 lakhs) at a sale volume of 32,000 units and price per unit of ₹30,000/- which, evidently, is a better proposal

(c) Determination of the profit and the value of stock for year 1 for figures obtained under (a) above following Marginal Cost Approach:

Number of units produced = 40,000

Number of Units to be sold = 36,000
Selling Price = ₹24,000/-
Contribution per Unit = ₹10,000/-

Contribution for the entire volume of Sales = (36,000 × 10,000) = ₹3,600 lakhs

Fixed Costs = (Factory Overheads + Selling and Distribution Overheads)

= 1600+800 = ₹2,400 lakhs

Profit on Sales = (Contribution – Fixed Costs) = (3,600-2,400) =₹1,200 lakhs

Closing Stock = (Production – Sales) = (40000-36000) = 4000 units

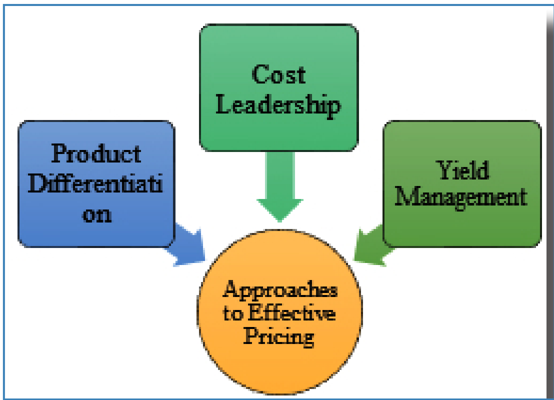
Value of Closing Stock @ Marginal Cost = (4000 ×14000) = ₹560 lakhs

Profit on Production = (1200 + 560) = ₹1760 lakhs

(Comment: The problem reveals multiple conceptual dimensions during the course of evaluation of alternatives.)

03.00 Effective Pricing

Effective Pricing is the one that satisfies all the stakeholders, viz. the producer, distributor and the consumer. It fits into the criteria of profit orientation, competition, demand base as also the cost plus and markup. In a way it may be called the long run calibrator



of price equilibrium over a business cycle. It is the price set by the producer and accepted by all. It is what that all stakeholders can bear. Three important approaches that warrant discussion in relation to effective pricing are:

i. **Product Differentiation:** Product Differentiation is the process of distinguishing a product or service from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as the firm's own products.

ii. **Cost Leadership:** Cost Leadership is a generic strategy adopted to gain competitive advantage. The Strategy aims at the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive).

iii. **Yield Management:** Yield Management, also known, as Revenue Management is the innovation that addresses the ticklish issue of underutilisation of available capacity. Yield Management is a set of revenue maximization strategies and tactics meant to improve the business profitability. It is a technique that determines the best pricing policy for optimising profits. It adopts the principle of pricing the products and services at what the market can bear. In the process, it facilitates optimum utilisation of the resources.

04.00 Case Study: Yield Management in Indian Railways

04.01 Rail vs Air: Captain Gopinath dreamt of bringing air travel within the reach of the common man and conceived Air Deccan which became the first low-cost airline to fly pan-India in 2003. Air Deccan took to the strategy of Yield Management and gradually pioneered the concept of low-cost travel. Air travel was offered at peanut prices as low as one rupee per ticket. The market was taken by storm, and air travel was perceived as an affordable comfort. By 2006 Air Deccan was perceived to have converted air travel into a mass commodity and thus changed the face of aviation sector in India. For the first time, train travellers started shifting from rail journey to flight journey.

It was in 2006 that Indian Railways decided to introduce a Dynamic Pricing Policy for freight as well as passenger, for peak and non-peak seasons, premium and non-premium services, and for busy and non-busy routes. As per this policy the rates for non-peak season, non-premium service and empty flow directions would be less than the general rates and the rates for peak season and premium services could be higher than normal. For the freight the non-peak season would be 1st July to 31st October. For the passenger segment this period would be 15th January to 15th April and 15th July to 15th September.

The tricky issue in dynamic pricing is to figure out how high the tariff can go and to what extent a passenger will pay higher rail tariffs, given that one can get an air-ticket at around the same price. The revenue managers of Indian Railways had perceived the market threat posed by the low-cost air carriers to the rail traffic in a proper perspective and have gone forward in adopting the technique of yield management to optimise its capacity utilisation and counter the switchovers.

04.02 Reservation Against Cancellation (RAC): As a corollary to its governmental and social obligations, Indian Railway earmarks considerable portion of its accommodations towards various categories of passengers such as Government Exigencies, Defence, Foreign Tourist, Specially Abled, Women, Senior Citizens, etc. The quota is kept open till the last moment and the unfilled seats and berths are allotted to accommodate the passengers from the general wait list. However, the risk of some of the seats and births remaining vacant would always remain. Similarly, last minute cancellations and no shows add up to the idle berths and seats.

The concept of Reservation Against Cancellation (RAC) was evolved with a view to fill up vacant berths and seats that go idle due to passenger cancellations, quota vacancies, no shows, etc. Each train is given a fixed number of RAC allocations by splitting some of the berths into seats. RAC passengers are offered confirmed sitting accommodation with the assurance of providing berths against probable vacancies arising from any sort of quota lapses or cancellations. The system facilitates assured accommodation to the travellers while, at the same time, yielding additional earnings to the Railways. RAC is a practical example of programmed overbooking towards enabling better capacity utilisation.

04.03 Auto Up-gradation: In case of upper-class seats remaining vacant, lower-class passengers are upgraded to higher class travel whereby more lower-class vacancies can be offered to waitlisted passengers. It is reported that on the average there are two upgrades for every wait listed upgraded confirmation. Impliedly, whenever an upgrade does happen, then at least two passengers are happy, viz. the one who is upgraded to the higher class and as also the one who is confirmed in the lower class. The process of auto up-gradation, certainly, maximises the passenger capacity utilisation. In addition, this is one measure that had generated a lot of good will and proved to be a brand builder for the Indian Railways.

04.04 Tatkal: Tatkal is an example of demand driven differential pricing wherein the last-minute passengers are offered tickets at a premium. Tatkal bookings start a day before the scheduled journey. The tatkal charges are levied as a percentage of the basic fare, i.e., at the rate of 10% for second class and 30% for all other classes, subject to certain minimum and maximum limits. No refunds are granted on cancellation of confirmed tatkal tickets. The tatkal scheme has gained popularity amongst the rail travellers, eventually leading to Premium Tatkal. Premium Tatkal is an advancement of tatkal wherein dynamic pricing has been introduced by increasing the fare for the subsequent bookings.

. **04.05 Slack Season:** Towards addressing the supply driven constraints, Indian Railways have implemented the concept of differential pricing by offering lower train fares during the non-peak travel periods. The slack season fares are kept marginally lower than the normal, the objective being to attract more customers for the rail travel, and thereby minimise capacity losses.

04.06 Surge Pricing: Surge Pricing is the latest adoption of Indian Railways. Rajdhani Express models introduced in 1985, Durontos of 2010 and Shatabdis of the present day - all of them can be construed as demand driven & need warranted premium trains. Effective from 9th September 2016, i.e., exactly ten years after the introduction of dynamic pricing, IR has gone for Surge Pricing on an experimental basis. Ticket prices of Rajdhani, Duronto and Shatabdi trains will keep increasing by ten percent of the basic fare with every ten percent of the tickets sold. The fares will keep raising progressively as the tickets are sold out. Of course, the surging is subject to maximum ceiling.

04.07 Learning Track: The capacity for every train trip remains fixed; once the train is scheduled the seats and berths acquire the nature of perishability; trip based marginal costs are practically nil; the demand for travel can be influenced by the pricing mechanism; passenger market is segmented with different categories of travellers; and the facility of advance booking exists. All the major features of yield management are, thus, visible in the Indian Railway Model.

Topic

Case Studies

FINAL

Group IV - Paper-17

Cost and Management Audit (CMAD)

Sales and Cash Receipts Procedures of GSW Ltd.

All sales to customers are net/30, FOB shipping point.

Description of GSW's sales and cash receipts procedures.

Sales

The sales department receives customer orders by hard copy mail or fax. Upon receipt of the order, a member of the sales staff accesses the customer record and reviews the available credit before creating a Sales Invoice. For customers with insufficient available credit, the clerk refers the order to Salil (credit manager), for approval. If granted, then Salil verbally authorizes the clerk to increase the customer's line of credit. For approved sales, the clerk creates Sales Invoice file via his terminal. The system automatically assigns Invoice Number, however, it does not facilitate automated data entry. The clerk must therefore manually enter the transaction details into the Sales Order record including Product Number, Sales Price, Quantity, Amount Due, Sales Date.

Warehouse

Triggered by the sales invoice the system automatically prints a stock release document on the warehouse terminal, which a warehouse staff uses for picking the goods. The clerk then sends the goods, along with the stock release document, to Shipping Department. Once the goods leave the warehouse, the warehouse clerk adjusts the Quantity on Hand of the respective record in the inventory file to reflect sales.

Shipping

The department clerk receives the stock release and the inventory, prepares them for shipment, selects a carrier and prints the packing slip and bill of lading (BOL). The clerk then adds record of the shipment to Shipping file and physically hands over the goods to the carrier. Assuming no unusual circumstances, sales orders received by 2 PM are shipped the same day and Items after 2 PM ones shipped on following day.

Billing

At the day end, the system automatically searches Sales Invoice file and prints hard copy customer invoices and remittance advices, which a clerk mails to customers. The system automatically calculates due dates based on net/30 terms of trade.

Cash

Maria, cash receipts clerk, receives the customer cheques and remittance advises directly from customer. She begins by creating a record in the Cash Receipts file to which the system automatically assigns a Remittance Number as the primary key. Then, using invoice number (taken from the hard copy remittance advice) as a search key, she locates the invoice and manually adds the remittance Number. This closes the invoice and marks it paid. Maria also adds the Invoice Number to the cash receipts record as a cross reference. She then manually adds the customer number, amount, payment date to Cash Receipts. At day end, she prepares a deposit slip and sends the cheques to bank. She files the remittance advices in her office. The Sales Invoice file serves to calculate both total sales for the period and accounts receivable. The total of the Amount Due field for all items that have been shipped by the end of the period constitutes total sales. Invoiced items shipped, but not paid by period end are accounts receivable.

Identify the Internal Control weakness from the above description.

a. There is a lack of transaction authorization here. Credit approval of customers is provided verbally and informally. Hence, a sales clerk could extend credit without management approval.

   Unmitigated risk: Sales may be made to non-creditworthy customers, which results in excessive bad debts.

   Possible account misstatements:

   - AR overstated.
   - Bad Debts is understated.
   - Revenue is overstated.

b. Lack of Computer /ERP Controls over Creation of Sales Invoice

   Internal Control Weakness: Due to inadequate system functionality and computer controls, sales clerks are required to manually enter sales transaction details including sales prices, quantities, and calculate amounts due.

   Unmitigated Risk: This environment lends itself to clerical errors in the creation of sales invoice.

Possible account misstatements:

- Sales incorrectly recorded
- AR is incorrect.
- Bad Debt incorrect.

Internal Control Weakness: The system prepares hard copy sales invoices based on existence of record in the Sales Invoice file without verification of shipping.

Unmitigated Risk: Recognizing sales before shipping may result in end of period errors.

c. Warehouse Asset Custody

Internal Control Weakness: Segregation of duties are lacking. The warehouse staff have custody of inventory and record keeping responsibility for updating the inventory ledger.

Unmitigated Risk: Because the warehouse clerks have access to the accounting records, they may conceal inventory losses and thefts.

Possible account misstatements:

- Inventory understated.
- Cost of Goods Sold (COGS) overstated.

d. Custody of Cash Assets

Internal Control Weakness: Inadequate segregation of duties. The cash receipts clerk has custody of cash and posting payments to open invoices.

Unmitigated Risk: Risk of errors such as posting incorrect amounts or posting of wrong invoices. The risk of frauds such as skimming or lapping also exist.

Possible account misstatements:

- Cash Receipts understated.
- Accounts receivable overstated.
- Sales are overstated.
- Bad Debts understated.

e. Lack of Computer /ERP Controls

Internal Control Weakness: Due to inadequate system functionality and computer controls the cash receipts clerk is required to manually enter cash receipts details including Remittance Number, Customer Number, Amount, Payment Date.

Unmitigated Risk: Possible clerical errors.

Possible account misstatements:

- Discrepancies between customer dues and remittance in Cash Receipts.

Audit of different Service Organizations

'Fleet Own' having Container Trucks of various sizes and types to carry Milk, Edible Oil, Cement, Chemicals, Fertilizers, Agri items etc. The Company operates on 'hub and spoke' model. The Company is ready with a fund to invest in technology for proper control over its' fleet operating from hubs to minimize operating expenses and generating net surplus. Suggest management, the control mechanism w.r.t operating expenses. Assume various heads of spent.

Suggestions are as follows:

- Entity having more than 1000 Vehicles scattered over 10 hubs. Each hub having more than 50 Vehicles. Hubs are situated in Plant Clusters and Agri Zones. Cost rationalization is prime focus for operational excellence and improvement in profitability.
- All hubs are to be monitored centrally, Customer orders assignment through 'auto pilot' mode reflecting in nearest hub database as well as central monitoring center.
- Non-availability of vehicle at the relevant hub, the order/s need to be re-directed to next nearest hub.
- All vehicles are to be fitted with GPS to map route and distance cover, which again need to be analyzed for vehicle fuel efficiency.
- Every vehicle is to be provided with a 'Fuel Card', through which re-fueling can be done without making payment.
- Fleet mechanical team to examine every vehicle after return to hub post plying of 5000 Km.s and Report to be submitted on health of Spares with outlook for replacement.
- Tie-up with vehicle brand garages to be in place, for quickest possible service of the vehicle.
- Few such garages are to be manned by vehicle mechanical team also for supervision of repairing.
- Each hub needs to have a 'bonded warehouse' to store Tyres, Engine with spares etc.
- OEMs are to be paid only against drawing of spares.
- Driver, helper expenses on duty are to be paid at a fixed rate.
- Any abnormal claims are to be approved by Hub Operational Head.
- Hub-wise spent budget needs to be in place and deviations approval by HO.

Topic

Module 4:

NBFCs – Provisioning Norms, Accounting and Reporting

Module 5:

Accounting for Business Combination and Restructuring

FINAL

Group IV - Paper-18

Corporate Financial Reporting (CFR)

Provision Requirements for NBFCs as per RBI Regulations with particular attention to Standard Assets.

A. Provision against sub-standard assets, doubtful assets and loss assets

Every NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:

1. On loans, advances and other credit facilities including bills purchased and discounted

Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books forany reason, 100% of the outstanding should be provided for;	

Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the non-banking financial company has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;	
	(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. Estimated realisable value of the outstanding) shall be made on the following basis:	
	Period for which the asset has been considered as doubtful:	Per cent of provision
	- Up to one year	20
	- One to three years	30
	- More than three years	50
Sub-standard assets	A general provision of 10 per cent of total outstanding shall be made	

2. On Lease and Hire Purchase assets

As per the RBI Directions, the provisioning requirements in respect of hire purchase and leased assets shall be as under:

- In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by: (a) the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges: and (b) the depreciated value of the underlying asset, shall be provided for.

Explanation: For the purpose of this paragraph, (1) the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of twenty per cent per annum on a straight line method; and (2) in the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

- **Additional provision for hire purchase and leased assets:** In respect of such assets, additional provision shall be made as under:

(a) Where hire charges or lease rentals are overdue upto 12 months	Nil
(b) Where hire charges or lease rentals are overdue for more than 12 monthsbut upto 24 months	10 per cent of the net book value
(c) Where hire charges or lease rentals are overdue for more than 24 monthsbut upto 36 months	40 per cent of the net book value
(d) Where hire charges or lease rentals are overdue for more than 36 monthsbut upto 48 months	70 per cent of the net book value
(e) Where hire charges or lease rentals are overdue for more than 48 months	100 per cent of the net book value

On expiry of a period of 12 months after the due date of the last instalment of hire purchase/ leased asset, the entire net book value shall be fully provided for.

Notes:

1. The amount of caution money/ margin money or security deposits kept by the borrower with the non-banking financial company in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.

2. The amount of security deposits kept by the borrower with the non-banking financial company in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement may be deducted only against the provisions stipulated under clause (ii) above.

3. It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on an NPA has not been recognised cannot be taken as reason for not making provision. An asset which has been renegotiated or rescheduled as referred to in paragraph (2) (1) (xxv) (b) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

4. The balance sheet to be prepared by the NBFC may be in accordance with the provisions contained in subparagraph (2) of paragraph 11.

5. All financial leases written on or after April 1, 2001 attract the provisioning requirements as applicable to hire purchase assets.

6. In case of NBFC-MFIs, if the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.

B. Provision against Standard Assets

Four Layers of NBFCs

- The Reserve Bank of India (RBI) issued the much-awaited Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (MD) on 19 October 2023. [The MD has been issued in supersession of the existing Master Directions Systemically Important and Non-Systemically Important NBFCs.]

- All the NBFCs, except the expressly exempt ones, shall be governed by this MD. RBI has established a layered approach with incremental obligations being assigned to each layer, as the NBFC progresses based on its asset size, scale of activity and perceived riskiness. For ease of reference, the MD is divided into sections applicable for different categories of NBFCs, viz. NBFC-Base Layer, NBFC-Middle Layer, NBFC-Upper Layer, etc. depending upon size and function. The MD has come into force with immediate effect (i.e., 19 October 2023).

Provision against Standard Assets

RBI vide its circular dated October 22, 2021[1] has introduced Scale Based Regulation (SBR) for all NBFCs and has classified NBFCs in four layers-Base, Middle, Upper and Top layer. Through the said circular, RBI has directed that the NBFCs in the Upper Layer (NBFC-UL) shall be required to hold differential provisioning towards different classes of standard assets. Accordingly, RBI vide its Circular dated June 6, 2022[2], has issued guidelines on differential provisioning for NBFC-UL which shall be effective from October 01, 2022 ('Circular').

According to the regulations, these large or upper layer NBFCs will have to set aside a loan amount in the range of 0.25 – 2 percent for standard assets as provisions, depending on different asset categories like small and micro enterprises (SMEs), real estate, and housing loans.

Category of assets	Rate of provision (percent)
Individual housing loans and loans to SMEs	0.25%
Housing loans extended at teaser (introductory) rates, that is, housing loans having comparatively lower rates of interest in the first few years after which the rates of interest are reset at higher rates	2%, which will decrease to 0.40% after one year from the date on which the rates are reset at higher rates (if the accounts remain 'standard')
Advances to commercial real estate – residential housing (CRE – RH) sector	0.75%
Advances to commercial real estate (CRE) sector (other than CRE-RH)	1%
Restructured advances	As stipulated in the applicable prudential norms for restructuring of advances
All other loans and advances not included above, including loans to medium enterprises	0.40%

The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

Let us have a test of MCQs on Business Combination under Ind AS 103.

1. In a business combination, acquiree is the
   a) entity that acquires the business of the acquirer
   b) business whose assets and liabilities are taken over by the acquirer
   c) entity that the acquirer obtains control of
   d) business that acquires the control of the acquirer
2. In a business combination, acquirer having 75% voting power in the acquiree is required to
   a) recognise 75% of the assets and liabilities in the acquiree
   b) recognise all the identifiable assets and liabilities assumed in the acquiree for its stand-alone balance sheet
   c) recognise all the identifiable assets and liabilities assumed in the acquiree at fair value for its consolidated balance sheet
   d) recognise all the identifiable assets and liabilities assumed in the acquiree at agreed value for its consolidated balance sheet
3. In a business combination, acquirer already having 70% equity holding in the acquiree acquires further 30% equity shares in the acquiree on 31 March 2023. On that date the acquirer
   a) recognises 30% of the assets and liabilities in the acquiree
   b) recognises all the identifiable assets and liabilities assumed in the acquiree at fair value for its consolidated balance sheet
   c) recognises change in goodwill
   d) does not recognise any assets or liabilities in the acquiree
4. **Which of the statements is wrong? Applying** the acquisition method requires:
   (a) identifying the acquirer;
   (b) determining the acquisition date;
   (c) recognising investment in the acquiree
   (d) recognising and measuring goodwill or a gain from a bargain purchase.
5. The consideration transferred in a business combination shall be measured
   a) at fair value
   b) at nominal value of the shares issued
   c) at agreed value
   d) at issue price
6. The pooling of interest method is considered to involve the following:
   (i) The assets and liabilities of the combining entities are reflected at their carrying amounts.
   (ii) No adjustments are made to reflect fair values, or recognize any new assets or liabilities.
   (iii) The equity share capital will be recorded at nominal value only. Consideration in excess of equity share capital will be recorded as goodwill (Capital reserve in case of deficiency).
   (iv) The other equity of the transferor shall be carried by the transferee in the same form in which they appeared in the financial statements of the transferor.

   Which of the above statements is/are true?
   a) (i) only
   b) (i) and (iii) only
   c) (ii) and (iv) only
   d) All the statements (i) to (iv)
7. In a business combination Debentures of the acquiree is exchanged by issue of Debentures of the acquirer.
   (i) Debentures issued are part of Purchase Consideration
   (ii) Debentures issued are recognised as Liabilities
   (iii) Debentures of the acquiree are recognised as liabilities assumed
   (iv) Debentures issued are not a part of Purchase Consideration

   Which of the above statements is/are true?
   a) (i) only
   b) (i) and (iii) only
   c) (ii) and (iv) only
   d) All the statements (i) to (iv)

8. In a business combination, Contingent liabilities of the Acquiree are recognized as of the acquisition date

   (i) if there is a present obligation

   (ii) if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation

   (iii) the fair value of the obligation can be measured reliably

   Which of the above statements is/are true?

   a) (i) only

   b) (i) and (iii) only

   c) (ii) and (iii) only

   d) All the statements (i) to (iii)

9. At what value is non-controlling interest recorded in the books of the acquiree at the acquisition date of a business combination transaction under Ind AS 103?

   (i) It is recognised at fair value

   (ii) It is recognised at proportionate fair value of net assets

   (iii) It is recognised at nominal value of the share holding

   a) at (i) only

   b) at (ii) only

   c) at either(i) or (ii)

   d) at (iii)

10. As per Ind AS 103, while accounting and reporting for business combination goodwill is calculated as

   a) Consideration + Non controlling Interest + Fair value of previously held interest in the Acquiree – Net assets

   b) Consideration + Non controlling Interest + Book value of previously held interest in the Acquiree – Net assets

   c) Consideration + Non controlling Interest - Fair value of previously held interest in the Acquiree – Net assets

   d) Consideration - Non controlling Interest - Fair value of previously held interest in the Acquiree – Net assets

Ans Key:

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

Topic

Module 8:
E-way Bill

FINAL

Group IV - Paper-19

Indirect Tax Laws and Practice (ITLP)

ELECTRONIC WAY BILL

What is E-way bill: Electronic Way Bill (E-way Bill) is a compliance mechanism wherein by way of a digital interface the person causing the movement of goods uploads the relevant information prior to the commencement of movement of goods and generates e-way bill on the GST portal. In other words, E-way bill is an electronic document generated on the GST portal evidencing movement of goods.

Information to be furnished prior to commencement of movement of goods and generation of e-way bill (Rule 138):

(a) Registered person is required to electronically furnish information prior to movement of goods on the common portal and generation of e-way bill if value of consignment exceeds ₹50,000/-.

(b) E-way bill can be generated by the consigner or the recipient of supply as the consignee or by the transporter if not generated by the consignment.

(c) E-way bill can be generated by unregistered person or by transporter also. E-commerce operator or courier agency on authorization may furnish information for generation of E-Way bill.

(d) Special situations where e-way bill needs to be issued even if the value of the consignment does not exceed ₹50,000:

  (i) Inter-State transfer of goods b principal to job-worker,

  (ii) Inter-State transfer of handicraft goods by a person exempted from obtaining registration.

(e) E-way Bill in case of 'Bill To Ship To' Model: In a "Bill To Ship To" model of supply, there are three persons involved in a transaction, Namely:

  ➢ 'A' is the person who has ordered 'B' to send goods directly to 'C'.

  ➢ 'B' is the person who is sending goods directly to 'C' on behalf of 'A'

  ➢ 'C' is the recipient of goods.

  Invoice -1: Which would be issued by 'B' to 'A'

  Invoice-2: which would be issued by 'A' to 'C'.

  It is clarified that as per the CGST Rules, 2017, either A or B can generate the e-Way Bill but it may be noticed that only one e-Way Bill is required to be generated. (Press Release dated 23-04-2018)

(f) Transport by rail/by air/vessel – E-way bill to be generated by Supplier or Recipient.

(g) Upon generation of the e-way bill on the common portal, a unique e-way bill number (EBN) shall be made available to the supplier, the recipient and the transporter on the common portal.

(h) In case of transfer of goods from one conveyance to another – the details are to be updated in e-way bill except where the goods are transported for a distance of upto 50 km within the State or Union territory from the place of business of the transporter finally to the place of business of the consignee, the details of conveyance may not be updated in the e-way bill.

(i) Consolidated e-way bill can be generated in case of multiple consignments transported in one conveyance by indicating the serial number of e-way bills generated in respect of each such consignment electronically on the common portal.

(j) If goods are not transported e-way bill generated is to be cancelled within 24 hours of its generation.

(k) Validity period of E-way Bill/Consolidated E-Way bill: An e-way bill or a consolidated e-way bill generated shall be valid for the period from the relevant date, for the distance the goods have to be transported, as mentioned below:

	Distance within country	Validity period from relevant date
1.	Upto 200 km	One day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship
2.	For every 200 km or part thereof thereafter	One additional day in cases other than Over Dimensional Cargo or multimodal shipment in which at least one leg involves transported by ship.

3.	Upto 20 km.	One day in case of Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship.
4.	For every 20 km or part thereof thereafter	One additional day in case of Over Dimensional Cargo or multimodal shipment in which at least one leg involves transport by ship.

However, the Commissioner may, by notification, extend the validity period of e-way bill for certain categories of goods as may be specified therein.

The Validity of the e-way bill may be extended within eight hours from the time of its expiry.

(l) The details of e-way bill shall be communicated to supplier/recipient for his acceptance or rejection of the consignment covered by the e-way bill and if no communication is received within 72 hours of the details being made available to him on the common portal it shall be regarded as deemed acceptance by the recipient.

(m) The e-way bill generated shall be valid in every State and Union territory.

(n) No e-way bill is required to be generated-

(i) E-way bill is not required to be generated being-

- ➢ LPG for supply to household and non-domestic exempted category (NDEC) customers;
- ➢ Kerosene oil sold under PDS
- ➢ Postal baggage transported by Department of Posts.
- ➢ Natural or cultured pearls and precious or semi-precious stones precious metal and metals clad with precious metals (Chapter 71)
- ➢ Jewellery, goldsmiths' and silversmiths' wares and other articles (Chapter 71)
- ➢ Currency Used personal and household effects
- ➢ Coral, unworked (0508) and worked coral (9601)

(ii) Where the goods are being transported by a non-motorised conveyance;

(iii) Where the goods are being transported from the customs port, airport, air cargo complex and land customs station to an inland container depot or a container freight station for clearance by Customs;

(iv) in respect of movement of goods within such areas as are notified under Rule 138(14)(d) of the GST Rules of the concerned State or Union Territory;

(v) Where the goods, other than de-oiled cake, being transported, are specified in the Schedule appended to Notification No.2/2017-CT (Rate) dated the 28-06-2017 as amended from time to time;

(vi) Where the goods being transported are alcoholic liquor for human consumption, petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas or aviation turbine fuel;

(vii) where the supply of goods being transported is treated as no supply under Schedule III of the Act;

(viii) where the goods are being transported –

- ➢ Under customs bond from an inland container depot or a container freight station to a customs port, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port, or
- ➢ Under customs supervision or under customs seal;

(ix) where the goods being transported are transit cargo from or to Nepal or Bhutan;

(x) where the goods being transported are exempt from tax under Notification No.7/2017-CT (Rate), dated 28-06-2017 as amended from time to time and notification No.26/2017-CT (Rate), dated 21-09-2017 as amended from time to time;

(xi) any movement of goods caused by defence formation under Ministry of defence s a consigner or consignee;

(xii) Where the consigner of goods is the Central Government, Government of any State or a local authority for transport of goods by rail;

(xiii)where empty cargo containers are being transported; and

(xiv)where the goods are being transported upto a distance o 20 Kms from the place of the business of the consigner to a weighbridge for weighment or from the weighbridge back to the place of the business of challan issued in accordance with Rule 55.

(xv)where empty cylinders for packing of liquefied petroleum gas are being moved for reasons other than supply.

Explanation: The facility of generation, cancellation, updation and assignment of e-way bill shall be made available through SMS to the supplier, recipient and the transporter, as the case maybe

(a) The person in charge of a conveyance shall carry the invoice or bill of supply or delivery challan and a copy of the e-way bill or the e-way bill number, either physically or electronically or mapped to a Radio Frequency Identification Device (RFID embedded on to the conveyance in such manner as may be notified by the Commissioner.

(b) In case, of e-invoice is issued, the Quick Response (QR) code having an embedded Invoice Reference Number (IRN) in it, may be produced electronically, for verification by the proper officer in lieu of the physical copy of such tax invoice.

In case of imported goods: In case of imported goods, the person in charge of a conveyance shall also carry a copy of the bill of entry filed by the importer of such goods and shall indicate the number and date of the bill of entry in Part A of FORM GST EWB-01.

(c) RFID will be obtained by notified transporters and the said device shall be embedded on to the conveyance and map the e-way bill to the RFID prior to the movement of goods.

(d) The commissioner may require the person-in-charge of the conveyance to carry the following documents instead of the e-way bill –

(i) Tax invoice or bill of supply or bill of entry; or

(ii) A delivery challan, where the goods are transported for reasons other than by way of supply.

Verification of documents and conveyance (Rule 138B):

(a) Commissioner or an officer empowered by him in this behalf may authorise the proper officer to intercept any conveyance to verify the e-way bill or the e-way bill number in physical form for all inter-State and intra-State movement of goods.

(b) Physical verification of a specific conveyance can also be carried out by any officer, on receipt of specific information on evasion of tax after obtaining necessary approval of the Commissioner or an officer authorised by him in this behalf.

Topic

Module 2:

Performance Measurement, Evaluation and Improvement Tools

Module 7:

Business Valuation Methods and Approaches

ELECTIVES

Paper-20A

Strategic Performance Management and Business Valuation (SPMBV)

Module 1 : Performance Measurement, Evaluation and Improvement Tools

Managing Partner, Chakra Legal

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)

Performance enhancement tools are methods or approaches utilized by individuals or entities to bolster efficiency, effectiveness, productivity, and overall performance across various domains. These tools are deployed to optimize operations in realms like business, sports, education, and personal development.

The following is a list of some commonly employed performance improvement tools. Please note that this list is indicative only:

1. **Lean Six Sigma**: This methodology combines Lean manufacturing principles with Six Sigma techniques to reduce waste and defects in processes, thereby enhancing efficiency and quality.

2. **SWOT Analysis**: SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. This analysis technique helps identify internal strengths and weaknesses as well as external opportunities and threats, enabling the development of strategies to capitalize on strengths and opportunities while mitigating weaknesses and threats.

3. **Key Performance Indicators (KPIs)**: These are quantifiable measures used to evaluate the success or performance of an organization, department, or individual against specific objectives or goals.

4. **Balanced Scorecard**: A strategic planning and management system that aligns business activities with the organization's vision and strategy. It measures performance across multiple perspectives, including financial, customer, internal processes, and learning and growth.

5. **PDCA (Plan-Do-Check-Act) Cycle**: This is a continuous improvement methodology comprising four stages: Plan (identify the problem and plan a solution), Do (implement the plan), Check (evaluate the results), and Act (adjust and improve the process based on feedback).

6. **Performance Appraisal Systems**: These systems are used by organizations to assess the performance of employees against predetermined criteria, providing feedback and identifying areas for improvement.

7. **Time Management Techniques**: These encompass tools and strategies used to manage time effectively, such as prioritization, goal setting, task scheduling, and eliminating time-wasting activities.

8. **Quality Management Tools**: Various tools such as Pareto analysis, Ishikawa (fishbone) diagrams, control charts, and scatter diagrams are employed to identify, analyze, and solve quality-related issues.

9. **Continuous Improvement (Kaizen)**: This philosophy and methodology focus on continuously improving processes, products, or services through small, incremental changes.

10. **Training and Development Programs**: These programs are designed to enhance the skills, knowledge, and capabilities of individuals or teams to improve performance in specific areas.

11. **Performance Dashboards and Metrics Tracking Tools**: Software applications or tools used to monitor and track performance metrics in real-time, providing visibility into progress and areas needing improvement.

12. **Root Cause Analysis**: This problem-solving technique is used to identify the underlying causes of issues or problems, allowing for the implementation of effective solutions to prevent recurrence.

These tools can be employed individually or in combination, depending on the specific needs and objectives of the individual or organization seeking performance improvement.

What is PDCA?

The PDCA (Plan-Do-Check-Act) Cycle is a systematic approach to continuous improvement. It involves four key stages:

1. **Plan**: In this stage, the problem or objective is identified, and a plan is developed to address it. This plan includes defining goals, identifying resources needed, and establishing a timeline for implementation.
2. **Do**: Once the plan is in place, it is executed. This involves carrying out the activities outlined in the plan and implementing any changes or improvements identified.
3. **Check**: After the plan has been executed, its outcomes are evaluated against the predetermined goals and objectives. This evaluation involves measuring performance, collecting data, and comparing results to the expected outcomes.
4. **Act**: Based on the results of the check stage, adjustments and improvements are made to the plan or process. This may involve refining the plan, addressing any issues or problems that arose during implementation, and identifying opportunities for further improvement. The cycle then repeats itself, with continuous iterations of planning, doing, checking, and acting to drive ongoing improvement.

Case Study: Enhancing Customer Service with the PDCA Cycle

Background: ABC Commodity, a mid-sized Commodity retailer, faces declining customer satisfaction due to issues like prolonged wait times, staffing shortages during peak hours, and inventory management challenges. To address these concerns, the management opts for the PDCA cycle methodology.

Problem Identification: Through feedback surveys, customer complaints, and staff observations, ABC Commodity identifies key customer service issues:

1. Lengthy wait times at checkout and service desks.
2. Inadequate staffing during peak hours.
3. Lack of product knowledge among sales associates.
4. Inventory management inefficiencies leading to stockouts.

Plan: ABC Commodity devises a plan to tackle these issues:

1. Implement a staff scheduling system for optimal coverage.
2. Conduct training sessions to enhance staff product knowledge and service skills.
3. Upgrade the inventory management system.
4. Introduce self-checkout kiosks to expedite the shopping process.

Implementation: The management executes the plan by rolling out initiatives across all stores, scheduling staff training sessions, upgrading systems, and installing self-checkout kiosks.

Evaluation: After implementation, ABC Commodity monitors key metrics like wait times, customer satisfaction scores, and product availability. Feedback from customers and staff helps gauge the effectiveness of the changes.

Adjustments: Based on feedback and performance data, ABC Commodity refines its initiatives. This includes optimizing staff scheduling, providing ongoing training, and fine-tuning inventory management processes.

Results: Over time, ABC Commodity observes tangible improvements: reduced wait times, higher customer satisfaction, and improved product availability. The company's commitment to using the PDCA cycle for continuous improvement leads to a more positive shopping experience and increased customer loyalty.

Detailed analysis of the ABC Commodity case:

ABC Commodity, a medium-sized Commodity retailer, faced a decline in customer satisfaction attributed to prolonged wait times, staffing shortages during peak hours, and inventory management challenges. To address these issues, the company adopted the Plan-Do-Check-Act (PDCA) cycle, a structured approach to continuous improvement.

Firstly, ABC Commodity identified the key challenges through feedback surveys, customer complaints, and staff observations. These included long wait times at checkout counters, inadequate staffing levels during peak hours, staff lacking product knowledge, and inventory management issues leading to stockouts.

Subsequently, a comprehensive plan was developed to tackle these challenges. This plan involved implementing a staff scheduling system to ensure optimal coverage, conducting training sessions to enhance staff product knowledge and service skills, upgrading the inventory management system, and introducing self-checkout kiosks to expedite the shopping process. These initiatives aimed to streamline operations and enhance the overall customer experience.

During the implementation phase, ABC Commodity rolled out the plan across all stores, ensuring effective execution of the proposed initiatives. Staff training sessions were conducted, systems were upgraded, and self-checkout kiosks were installed to improve efficiency and service quality.

In the evaluation stage, ABC Commodity monitored key performance metrics such as wait times, customer satisfaction scores, and product availability. Feedback from both customers and staff was collected and analyzed to assess the effectiveness of the implemented changes.

Based on the feedback and performance data, necessary adjustments were made to the initiatives. This included optimizing staff scheduling, providing ongoing training and support for staff members, and refining inventory management processes to minimize stockouts. These adjustments were crucial for ensuring that the initiatives remained aligned with the company's objectives and continued to drive improvements in customer satisfaction.

Over time, ABC Commodity observed tangible improvements as a result of its efforts. Wait times decreased, customer satisfaction scores improved, and product availability increased. The company's commitment to using the PDCA cycle for continuous improvement proved successful in addressing the initial challenges and enhancing the overall customer experience.

In conclusion, ABC Commodity successfully utilized the PDCA cycle to address customer service issues and drive continuous improvement within the organization. By identifying challenges, developing a comprehensive plan, implementing initiatives, evaluating performance, and making necessary adjustments, the company achieved significant improvements in customer satisfaction and service quality. This case study demonstrates the effectiveness of the PDCA cycle as a tool for organizational change and operational excellence.

Module 7: Discounted Cash Flow Analysis (DCF) and Other Important Valuation Methods

SLOB Mapped against the Module:

To develop detail understanding on methods of valuation, assessing qualitative and quantitative factors affecting valuation, identifying which method to apply in respective circumstance.

Comparable Earnings Method of Valuation:

The Comparable Earnings Valuation Method, also known as the Market Multiple Method or Market Approach, is a widely used technique for determining the value of a business or asset. It relies on comparing the earnings or cash flow of the target company to similar entities in the market. This method is commonly applied in valuing both publicly traded and privately held companies.

The following is a breakdown of how the Comparable Earnings Valuation Method operates:

1. **Identifying Comparable Companies**: The process begins by identifying publicly traded companies that closely resemble the target company in terms of industry, size, growth potential, and other pertinent factors. These companies are often referred to as "comparables" or "peer companies."

2. **Collecting Financial Data**: Financial data for both the target company and the comparable companies are gathered. Key financial metrics typically include earnings before interest, taxes, depreciation, and amortization (EBITDA), net income, revenue, and cash flow.

3. **Calculating Valuation Multiples**: Valuation multiples are ratios that relate a company's market value to its financial performance. Common multiples used in this method include the Price-to-Earnings (P/E) ratio, Enterprise Value-to-EBITDA (EV/EBITDA) ratio, Price-to-Sales (P/S) ratio, and Price-to-Cash Flow (P/CF) ratio. These multiples are computed for both the target company and the comparable companies.

4. **Application of Multiples to the Target Company**: The valuation multiples derived from the comparable companies are then applied to the financial performance metrics of the target company. For instance, if the average P/E ratio of the comparable companies is 15 and the target company has earnings of $1 million, the implied market value of the target company would be $15 million (15 × $1 million).

5. **Adjusting for Differences**: Recognizing that no two companies are identical, adjustments may be required to account for variations in growth prospects, risk, capital structure, and other relevant factors between the target company and its comparables. These adjustments refine the valuation and ensure comparability.

6. **Determining the Value**: Finally, the value of the target company is ascertained based on the adjusted valuation multiples. This provides an estimate of the fair market value of the business or asset.

The Comparable Earnings Valuation Method offers a straightforward and logical approach to estimating a company's value by leveraging market data and industry comparables. However, it's essential to exercise prudence and conduct comprehensive due diligence when selecting comparable companies and adjusting ensure the accuracy and reliability of the valuation.

Choosing the right comparable company- Steps-

1. **Industry Alignment**: The first step is to focus on companies operating within the same industry as the target company. This ensures comparability in terms of market dynamics, regulations, and industry-specific trends. Classification systems like the Global Industry Classification Standard (GICS) or Standard Industrial Classification (SIC) codes help in this categorization.

2. **Size and Market Capitalization**: Comparable companies should share similar size characteristics, particularly in terms of market capitalization, revenue, or other key financial metrics. This ensures that the financial scale and operational scope are aligned.

3. **Geographic Considerations**: Companies operating in similar geographic regions are more likely to face comparable market conditions, regulatory environments, and consumer behaviors. Hence, geographic proximity or market presence is an important criterion for identifying comparable companies.

4. **Business Model Analysis**: Analyzing the business model, product offerings, customer segments, and distribution channels helps in finding companies with similar operational structures and revenue streams. This ensures a closer match in terms of business operations.

5. **Financial Performance Metrics**: Comparable companies should exhibit similar financial performance metrics such as revenue growth rates, earnings, profitability margins, and operating efficiencies. These metrics provide insight into the financial health and performance trajectory of the target company.

6. **Lifecycle Stage**: Assessing the lifecycle stage of the target company helps in identifying peers at similar developmental phases. This includes early-stage growth companies, mature enterprises, or those in decline, ensuring comparability in growth prospects and risk profiles.

7. **Risk Assessment**: Companies with comparable risk profiles are crucial for accurate valuation. Factors like leverage, volatility, regulatory exposure, and industry-specific risks should be evaluated to find peers with similar risk characteristics.

8. **Strategic Fit and Competitive Landscape**: Identifying companies with similar strategic positioning, competitive landscape, and market positioning ensures relevance in terms of market dynamics, competitive pressures, and strategic outlook.

9. **Public Listing Status**: For publicly traded companies, peers should also be publicly listed and traded on major stock exchanges. Access to relevant financial data and market valuation metrics is crucial for meaningful comparisons.

10. **Data Sources and Research Reports**: Utilizing financial databases, industry reports, analyst insights, and market research publications helps in identifying potential comparable companies. These sources often provide curated lists of peer companies based on various criteria.

By carefully considering these factors, analysts and valuation professionals can compile a set of comparable companies that closely resemble the target company in terms of industry alignment, size, financial performance, risk profile, and strategic positioning. This ensures that the valuation analysis is based on relevant and comparable data, leading to more accurate and reliable valuation outcomes.

Case Study: Identifying Comparable Companies for Valuation

Company Background: XYZ Corporation, a mid-sized technology firm specializing in software development and IT services, seeks to ascertain its market value for strategic planning and potential investment opportunities. To achieve this, XYZ Corporation opts to conduct a valuation using the Comparable Companies Analysis (CCA) method.

Problem Statement: XYZ Corporation faces the challenge of pinpointing comparable companies within the technology sector for the valuation analysis. The company needs to identify peers that closely mirror its business in terms of industry, size, financial performance, and market dynamics.

Potential Solution: In response to the challenge, XYZ Corporation employs a systematic approach to identify comparable companies for the valuation analysis:

1. **Industry Classification:** Initiating the process, XYZ Corporation focuses on identifying companies operating within the technology sector. Utilizing classification systems like the Global Industry Classification Standard (GICS), the company narrows its search to firms engaged in software development and IT services.

2. **Size and Market Capitalization:** XYZ Corporation seeks peers with similar size characteristics, considering factors such as revenue, market capitalization, and asset base. This ensures comparability in financial scale and operational scope, aiding in the selection of companies of a similar size.

3. **Geographic Considerations:** Taking into account the geographic footprint of its operations, XYZ Corporation targets companies operating in comparable regions or markets. This ensures similarity in terms of market conditions, regulatory environments, and consumer behaviors.

4. **Business Model Analysis:** The company analyzes potential peers' business models, product offerings, and customer segments to identify firms with analogous operational structures and revenue streams. Focusing on companies offering software solutions, IT consulting services, and related technology products helps ensure alignment.

5. **Financial Performance Metrics:** XYZ Corporation evaluates potential peers' financial performance metrics, including revenue growth rates, profitability margins, and operating efficiencies. Seeking peers with comparable financial metrics ensures relevance and accuracy in the valuation analysis.

6. **Lifecycle Stage:** Considering its own growth trajectory, XYZ Corporation identifies peers at similar stages of the business lifecycle. This involves assessing companies experiencing comparable growth rates, market penetration, and expansion strategies.

7. **Risk Assessment:** XYZ Corporation assesses potential peers' risk profiles, considering factors like leverage, volatility, regulatory exposure, and industry-specific risks. Identifying peers with similar risk characteristics ensures meaningful comparisons.

8. **Strategic Fit and Competitive Landscape:** The company evaluates potential peers' strategic positioning and competitive landscape to identify firms with similar market positioning and competitive advantages. Seeking peers with comparable strategic outlooks and market share enhances relevance.

9. **Public Listing Status:** For publicly traded companies, XYZ Corporation ensures potential peers are publicly listed and traded on major stock exchanges. This facilitates access to relevant financial data and market valuation metrics for accurate comparison.

10. **Data Sources and Research Reports:** XYZ Corporation utilizes various sources, including financial databases, industry reports, analyst insights, and market research publications, to identify potential comparable companies. These sources offer curated lists of peer firms based on diverse criteria, aiding in the identification process.

By methodically following this approach, XYZ Corporation successfully identifies a roster of comparable companies for the valuation analysis. Armed with this information, the company can proceed with the Comparable Companies Analysis (CCA) method to determine its market value accurately. This enables XYZ Corporation to make informed decisions regarding future growth strategies and potential investment opportunities.

Topic

Module 3:
Credit Risk and Liquidity Risk

Module 7:
Insurance Intermediaries, General Insurance, Health Insurance and Life Insurance

ELECTIVES

Paper-20B

Risk Management In Banking and Insurance (RMBI)

Risk Management in Banking

Credit Risk

Every business, individual or organization takes different risks when conducting transactions. These could be financial (e.g., the risk of not being paid), legal (e.g., the risk of being sued) or operational (e.g., the risk that a process will not be executed as planned). Credit risk is one specific type of financial risk. It refers to the possibility that a debtor won't repay what they owe according to agreed terms, often resulting in losses for creditors such as banks and other lenders.

Many factors can contribute to credit risk, including deteriorating economic conditions, changes in interest rates, company failures, and war. When assessing credit risk, lenders typically use analytical methods such as ratios, trends and historical data to understand how likely it is that an applicant will renege on their loan obligations. Lenders may also require collateral from borrowers, which can help mitigate potential losses if things go wrong.

Credit risk has become increasingly important over time largely due to deregulation within global banking systems and increased competitive pressures among lenders vying for customers looking for finance for their business ventures, both large and small scale, making all types of lending activities far riskier than ever before.

How is Credit Risk Measured?

There is no one-size-fits-all answer to this question, as the way credit risk is measured will vary according to the business. However, lenders typically look at a few key factors when assessing a borrower's credit risk.

One important factor is the borrower's credit score. This number reflects how likely it is that the borrower will default on their loan obligations, and lenders generally consider borrowers with lower scores to be higher risk. Another important consideration is the amount of debt the borrower already owes. Lenders want to ensure that borrowers don't take on too much debt relative to their income, as this could indicate financial instability and an increased probability of defaulting on loans. Additionally, lenders may look at borrowers' credit history to understand how responsible they have been with past debts. If a borrower has consistently missed payments or defaulted on loans in the past, that signals a high risk for potential future defaults. Finally, lenders may also require collateral from borrowers, which can help mitigate potential losses if things go wrong.

Why should Lenders Care About Credit Risk?

There are a few key reasons why lenders care about credit risk. First, if a borrower defaults on their loan, the lender can lose money. This is especially true for unsecured loans, where the lender has no way to recover its losses other than through legal action. Second, high levels of credit risk can indicate that a borrower may be struggling financially and potentially have trouble repaying their debts in the future.

All these factors together mean that lenders must carefully assess a potential borrower's credit risk before lending them money. Doing so can minimize their chances of losing money if things go wrong and also ensure that they're lending to people who are likely to repay what they owe.

Types of Risk Associated with Lending Money:

When issuing loans, lenders have to assess a borrower's credit risk. This is the likelihood that the borrower will be unable to repay their debt in the future. Several factors can contribute to this, including a person's credit history, current financial situation and overall credit score.

Lenders need to be careful when lending money as various risks are associated with doing so. One such risk is the risk of default. Lenders can lose out financially when borrowers don't repay what they owe. In extreme cases, they may even have to take legal action to recoup their losses.

Another potential risk is if the borrower cannot afford repayments due to poor financial circumstances. If interest rates rise or the economy takes a turn for the worse, some borrowers may struggle to meet minimum payments on their loans.

Liquidity Risk

Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. Liquidity risk is the inability of a bank to meet such obligations as they become due, without adversely affecting the bank's financial condition. Effective liquidity risk management helps ensure a bank's ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing. This assumes significance on account of the fact that liquidity crisis, even at a single institution, can have systemic implications.

Traditionally, liquidity has been defined as. the capacity of financial institutions to finance increases in their assets and comply with their liabilities as these mature. Bank liquidity has two distinct but interrelated dimensions: liability (or cash) liquidity, which refers to the ability to obtain funding on the market and asset (or market) liquidity, associated with the possibility of selling the assets. Both concepts are interrelated, and the interaction between them tends towards their mutual reinforcement.

However, under adverse conditions this dependency tends to weaken market liquidity because adverse circumstances that affect one dimension can rapidly be transferred to the other. Under normal circumstances liquidity management is basically a cost-benefit trade off, because a financial institution will be able to obtain funding provided it is willing to pay the prevailing market prices, or has the choice of selling or committing its assets. In like manner a bank can store a stock of liquid assets to ensure some liquidity (liquidity warehousing), although at the expense of smaller returns. However, in the event of a crisis specific to a bank, its access to liquidity may be found to be severely restricted because its counterparties may be unwilling to provide it neither with funds, not even providing collateral nor in exchange for high rates. In a systemic liquidity crisis it may even be impossible for the bank to place its assets on the market.

The liquidity risk of banks arises from funding of long-term assets by short-term liabilities, thereby making the liabilities subject to rollover or refinancing risk. Liquidity risk is usually of an individual nature, but in certain situations may compromise the liquidity of the financial system. As in overall terms it is about a situation that is very dependent on the individual characteristics of each financial institution, defining the liquidity policy is the primary responsibility of each bank, in terms of the way it operates and its specialization.

Bank Deposits generally have a much shorter contractual maturity than loans and liquidity management need to provide a cushion to cover anticipated deposit withdrawals. Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims. The cash flows are placed in different time buckets based on future likely behaviour of assets, liabilities and off-balance sheet items. The liquidity risk is closely linked to other dimensions of the financial structure of the financial institution, like the interest rate and market risks, its profitability, and solvency, for example.

The interest rate risk that results from mismatches of maturities or the dates for interest rate adjustments may appear as either market or refinancing (and/or reinvestment) risk. Also, as it operates to transform maturities, subject to these risks, the bank collects a yield that is related to its profitability. Having a larger amount of liquid assets or improving the matching of asset and liability flows reduces the liquidity risk, but also its profitability. This relationship also operates in the opposite direction: loans in an irregular situation will impact jointly on profitability and liquidity, as the expected cash flows do not appear.

In addition, there is a relationship with solvency: more capital reduces liquidity creation, but allows for more strength to face financial crises.

Risk Management in Insurance
Insurance Intermediaries
(General Insurance, Health Insurance and Life Insurance)

Insurance intermediaries facilitate the placement and purchase of insurance, and provide services to insurance companies and consumers that complement the insurance placement process. Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers. The distinction between the two relates to the manner in which they function in the marketplace.

Insurance Agents:

Insurance agents are, in general, licensed to conduct business on behalf of insurance companies. Agents represent the insurer in the insurance process and usually operate under the terms of an agency agreement with the insurer. The insurer-agent relationship can take a number of different forms. In some markets, agents are "independent" and work with more than one insurance company (usually a small number of companies); in others, agents operate exclusively – either representing a single insurance company in one geographic area or selling a single line of business for each of several companies. Agents can operate in many different forms – independent, exclusive, insurer-employed and self-employed.

Insurance Brokers:

Insurance brokers typically work for the policyholder in the insurance process and act independently in relation to insurers. Brokers assist clients in the choice of their insurance by presenting them with alternatives in terms of insurers and products. Acting as "agent" for the buyer, brokers usually work with multiple companies to place coverage for their clients. Brokers obtain quotes from various insurers and guide clients in determining the adequate policy from a range of products. In some markets, there are distinctions among brokers depending upon the types of insurance they are authorized (licensed) to intermediate – all lines of insurance, property and casualty or life / health coverage. While most, if not all, brokers are active in commercial lines, some also intermediate personal lines policies.

There are also distinctions between "retail brokers," who negotiate insurance contracts directly with consumers, and "wholesale brokers," who negotiate insurance contracts with retail brokers and agents, but not directly with consumers. Reinsurance brokers solicit, negotiate and sell reinsurance cessions and retrocessions on behalf of ceding insurers seeking coverage with reinsurers. Reinsurance brokers can also be involved in a reinsurer's retrocession of parts of its risk.

As a technical matter, a broker's role may change during an insurance transaction and over the course of an on-going relationship with a client. Many brokers sometimes act as an "agent" of the insurer and other times as a "broker" of the client when assisting a client with insuring its risk exposures through an insurance contract with a traditional carrier.

For example, the broker acts on behalf of the client when negotiating the contract of insurance and placing the policy. When the broker provides services that would otherwise be handled directly by the insurance company, such as premium payments and claims handling, the broker is essentially acting as agent for the company. This unique concept makes the insurance process more efficient for both the policyholder and the insurer. As a practical matter, regardless of the legal role in which a broker is acting, the manner in which the broker approaches all such placements for their clients is as an intermediary – working on behalf of their clients to facilitate the consummation of insurance contracts with carriers that have the ability and capacity to properly insure their risks.

An intermediary's status is determined by the totality of the facts regarding the specific transaction at issue. An intermediary might be called a "broker," but actually represent the insurance company in a particular transaction. In such situations, the broker is actually – and legally – considered the company's agent, not that of the customer. Although, such an activity-based approach is increasingly used around the world, the legal status of insurance intermediaries varies throughout the international insurance market.

The Role of Insurance Intermediaries:

As players with both broad knowledge of the insurance marketplace, including products, prices and providers, and an acute sense of the needs of insurance purchasers, intermediaries have a unique role – indeed many roles – to play in the insurance markets in particular and, more generally, in the functioning of national and international economies.

The role of insurance intermediaries in the overall economy is, essentially, one of making insurance – and other risk management products – widely available, thereby increasing the positive effects of insurance generally – risk-taking, investment, provision of basic societal needs and economic growth.

There are several factors that intermediaries bring to the insurance marketplace that help to increase the availability of insurance generally:

Innovative Marketing:

Insurance intermediaries bring innovative marketing practices to the insurance marketplace. This deepens and broadens insurance markets by increasing consumers' awareness of the protections offered by insurance, their awareness of the multitude of insurance options, and their understanding as to how to purchase the insurance they need.

Dissemination of Information to Consumers:

Intermediaries provide customers with the necessary information required to make educated purchases/ informed decisions. Intermediaries can explain what a consumer needs, and what the options are in terms of insurers, policies and prices. Faced with a knowledgeable client base that has multiple choices, insurers will offer policies that fit their customers' needs at competitive prices.

Dissemination of Information to the Marketplace:

Intermediaries gather and evaluate information regarding placements, premiums and claims experience. When such knowledge is combined with an intermediary's understanding of the needs of its clients, the intermediary is well-positioned to encourage and assist in the development of new and innovative insurance products and to create markets where none have existed. In addition, dissemination of knowledge and expansion of markets within a country and internationally can help to attract more direct investment for the insurance sector and related industries.

Sound Competition:

Increased consumer knowledge ultimately helps increase the demand for insurance and improve insurance take-up rates. Increased utilization of insurance allows producers of goods and services to make the most of their risk management budgets and take advantage of a more competitive financial climate, boosting.

Spread Insurers' Risks:

Quality of business is important to all insurers for a number of reasons including profitability, regulatory compliance, and, ultimately, financial survival. Insurance companies need to make sure, the risks they cover are insurable – and spread these risks appropriately – so they are not susceptible to catastrophic losses.

Intermediaries help insurers in the difficult task of spreading the risks in their portfolio. Intermediaries work with multiple insurers, a variety of clients, and, in many cases, in a broad geographical spread. They help carriers spread the risks in their portfolios according to industry, geography, volume, line of insurance and other factors. This helps insurers from becoming over-exposed in a particular region or a particular type of risk, thus freeing precious resources for use elsewhere.

Reducing Costs:

By helping to reduce costs for insurers, broker services also reduce the insurance costs of all undertakings in a country or economy. Because insurance is an essential expense for all businesses, a reduction in prices can have a large impact on the general economy, improving the overall competitive position of the particular market.

Topic

Module 4: Value Addition

ELECTIVES

Paper-20C

Entrepreneurship and Start Up (ENTS)

Paper 20C : Entrepreneurship and Startup Value Addition

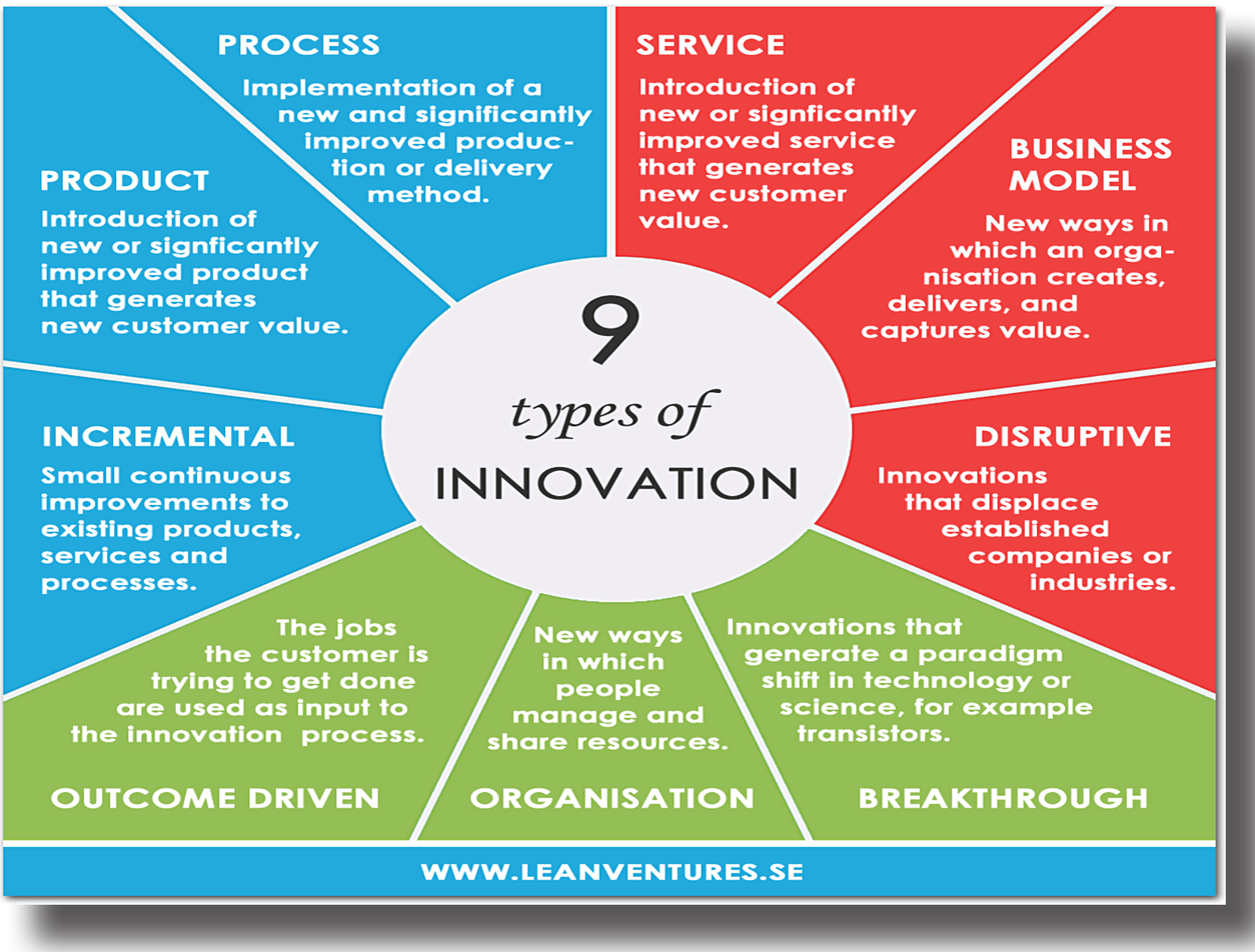
Innovation in Entrepreneurship

Innovation in entrepreneurship means the practice of creating new business ideas and plans with the intention of generating profits, helping the community, and accompanying company goals.

An innovative entrepreneur is a person who has the potential of designing and bringing innovative products into the market. Innovative entrepreneur in the name itself reflects a responsibility over a person's shoulder to generate and bring new ideas into business which can later be converted into life-changing products.

Innovative entrepreneurs design business models to meet the corporate needs of businesses and improve their competitiveness in the market. Innovative entrepreneurs are individuals with innovative ideas to create long-lasting solutions for common problems shared by a large number of people or countries.

Types of Innovation



Process or stages Innovation

There are six stages in the process of innovation:

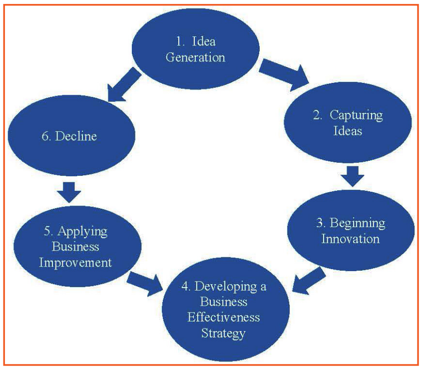


Figure 4.1: Process of Innovation

1. **Idea Generation:** Idea generation is the exhilarating part of the process. It is best to do this in teams, rather than individually. Innovative ideas generally come from a vision, an unreasonable demand, or a goal.

2. **Capturing Ideas:** Capturing the ideas from the first stage is done by means of team discussion or discussion among peers. It is important to record the ideas.

3. **Beginning Innovation:** Put ideas into practice, constantly improve and iterate.

4. **Developing a Business-Effectiveness Strategy:** An innovative strategy guides decisions on how resources are to be used to meet a business's objectives for innovation, deliver value and build competitive advantage.

5. **Applying Business Improvement:** Once the innovation is applied, it is necessary to continuously examine it for possible improvements (to the process, product, or service). This is followed by identifying the blockages and barriers to implementing the innovation. Estimating the difficulties, benefits, costs, support required, and risks are necessary before the team can refine the innovation process. Then it will be ready to apply the improvements identified.

6. **Decline:** In time, it often becomes obvious that what was once an innovation no longer fits. Continuous improvement of the existing process, product, or service is no longer of value; the former innovation has become outdated or outmoded. It is time for new innovations in response to external pressure.

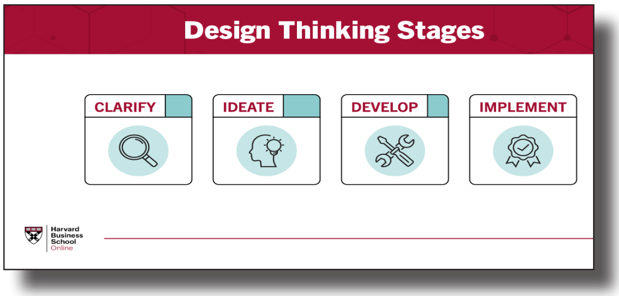
Design Thinking

Design thinking is different from other innovation and ideation processes in that it is a solution-based and user-centric rather than problem-based. This means it focuses on the solution to a problem instead of the problem itself.

For example, if a team is struggling with transitioning to remote work, the design thinking methodology encourages them to consider how to increase employee engagement rather than focus on the problem (decreasing productivity).

The essence of design thinking is human-centric and user-specific. It is about the person behind the problem and solution, and requires asking questions such as "Who will be using this product?" and "How will this solution impact the user?"

Stages of Design Thinking



Source: Harvard Business School online

1. **Clarify:** The first phase is about narrowing down the focus of the design thinking process. It involves identifying the problem statement to come up with the best outcome. This is done through observation and taking the time to determine the problem and the roadblocks that prevented a solution in the past.

2. **Ideate:** Once the problem statement or question has been solidified—not finalized—the next step is ideation. You can use a tool such as systematic inventive thinking (SIT) in this stage, which is useful for creating an innovative process that can be replicated in the future.

3. **Develop:** The third phase involves developing concepts by critiquing a range of possible solutions. This includes multiple rounds of prototyping, testing, and experimenting to answer critical questions about a concept's viability.

4. **Implement:** The fourth and final phase, implementation, is when the entire process comes together. As an extension of the develop phase, implementation starts with testing, reflecting on results, reiterating, and testing again. This may require going back to a prior phase to iterate and refine until you find a successful solution. Such an approach is recommended because design thinking is often a nonlinear, iterative process.

Design Thinking in Entrepreneurship

Leading global brands have implemented design thinking into their processes, and that has helped them in achieving greater success. Companies such as Apple, Adidas, Airbnb, and PepsiCo have outperformed of using design thinking.

Let us try to understand how design thinking can help you as an entrepreneur. Through the design thinking process, we first work on breaking down the business problem into smaller aspects and then start thinking from the base level to come up with various solutions. Solutions are compared with each other, and depending on the situation, the most suitable solution is selected. Design thinking thus involves understanding the target users in an empathetic manner.

The five primary steps that an entrepreneur must remember are:

- Empathizing with the customers
- Defining the challenges, needs, and wants
- Forming Ideas different approaches are taken to come up with solutions for the problem.
- Prototyping products are made based on the different approaches
- Testing here the prototypes are tested and the faults plus benefits of the products are carefully studied

Lean Startup

A lean startup is a strategy used to initiate a new company or launch a new product on behalf of a present entrepreneur. In other words, lean startup is an approach to building new businesses based on the belief that entrepreneurs must investigate, experiment, test and iterate as they develop products. The concept of lean startup originated in the early 2000s and evolved into a methodology around 2010.

The Lean Startup provides a scientific approach to creating and managing startups and get a desired product to customers' hands faster.

Lean Startup Methodology

Too many startups begin with an idea for a product that they think people want. They then spend months, sometimes years, perfecting that product without ever showing the product, even in a very rudimentary form, to the prospective customer. When they fail to reach broad uptake from customers, it is often because they never spoke to prospective customers and determined whether or not the product was interesting. When customers ultimately communicate, through their indifference, that they don't care about the idea, the startup fails.

The lean startup methodology is used to develop products and businesses in a short period of time, which allows the creator of the product or business to quickly determine if their business model is a viable one.

When implementing the lean startup methodology, the business that uses this methodology will focus on developing a product while also gaining customer feedback, which usually involves releasing a minimum viable product to the market or a small subset of your customers. This includes the following:

(a) **Build:** This methodology begins with the creation of a minimum viable product, which refers to a service or product that has enough features to keep customers satisfied while you test your theory that the product can be successful on the market.

(b) **Measure:** When looking at the measure component of this methodology, it's essential that you effectively measure the results of your minimum viable product while you continue to develop the product. The feedback that's provided to you by these customers can be used to fine-tune the product and make it more feature-rich.

(c) **Learn:** It is not enough to measure the results from the product that you've received and to obtain feedback from the initial customers. If you want to eventually create a product or service that's ready to be placed on the market, it's important that you learn from the data and feedback that you've received, which isn't always an easy thing to do.

(Source:https://www.universitylabpartners.org/blog/what-is-lean-startup-methodology)

Multiple Choice Questions

1. How a lean startup works?

   a) Write a detailed business plan, operate in stealth, release fully functional prototypes

   b) Test hypotheses, discover early adopting customers, release MVP (minimum viable product)

   c) All the above

   d) None of the above

2. What is the lean startup?

   a) Lean start-up is smaller version of big corporations.

   b) Lean start-up is an organization designed to execute a scalable, repeatable and profitable business model

   c) Lean start-up is a temporary organization designed to search for a scalable, repeatable and profitable business model

   d) All the above

3. What is the lean startup customer development sequence?

   A. Customer Creation

   B. Customer Discovery

   C. Company Building

   D. Customer Validation

   Please choose the correct answer:

   a) A -> B -> C -> D

   b) B ->D -> A -> C

   c) C -> A -> D -> B

   d) D -> C -> B -> A

4. Design thinking typically helps in

   a) Operation efficiency

   b) Data analytics

   c) Financial planning

   d) Innovation

5. Design thin king is

   a) Asking users to solve problems

   b) Define, framing and solving problems from users' perspectives

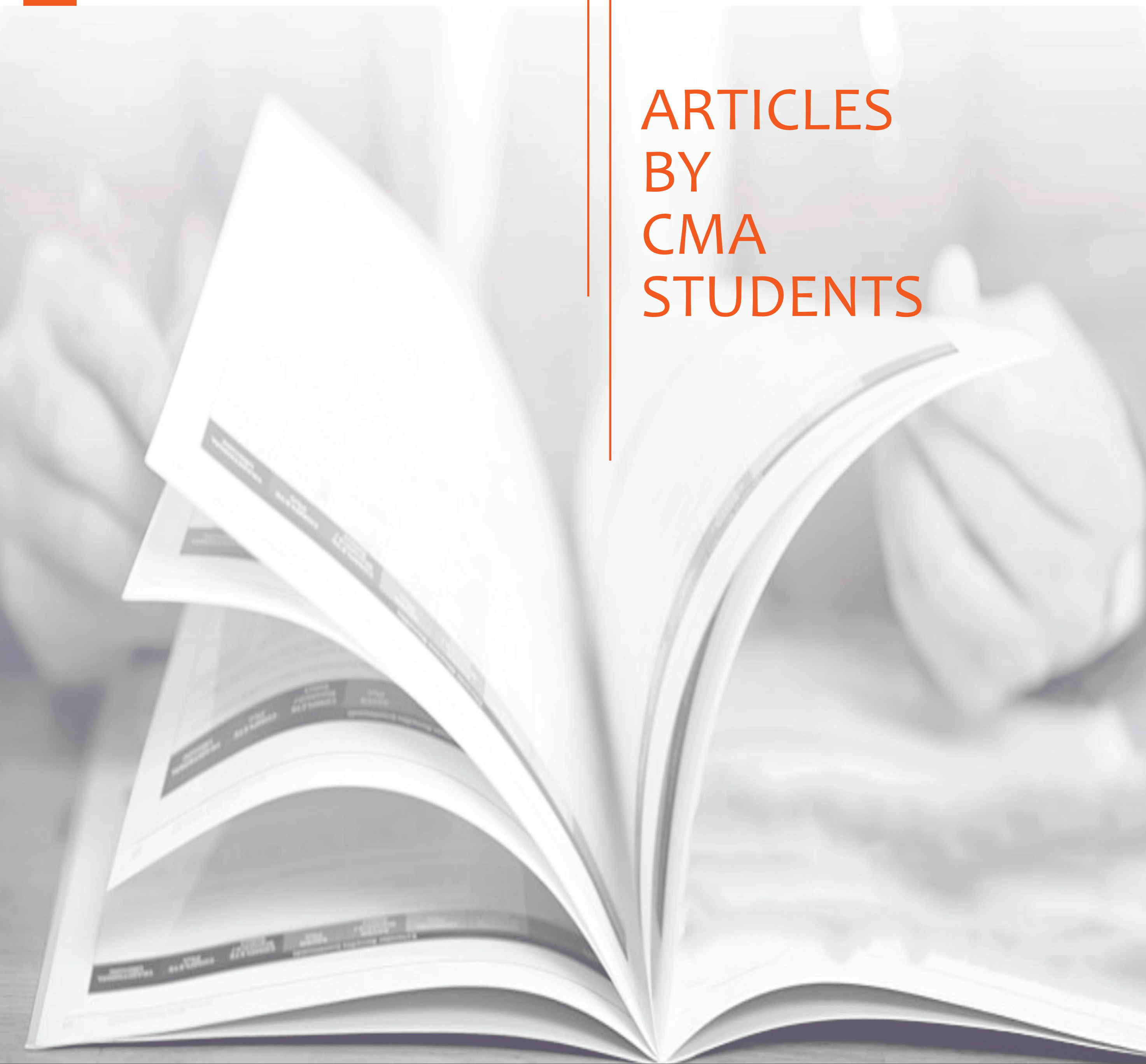
   c) Thinking about design

   d) Designing ways in which people think

Answer Key:

1	2	3	4	5
b	c	d	d	b

ARTICLES BY CMA STUDENTS



Is Section 43B (h) of the Income Tax Act placing an undue burden on businesses? A critical analysis.

Robin Ghosh
CMA Intermediate Student
Registration number: 03182039231

Hi myself Robin I'm deeply passionate about taxation and auditing, with a commitment to both professional excellence and environmental conservation,

The **Finance Act of 2023** introduced a new section that permits deductions to be given to MSMEs on an actual payment basis rather of an accrual one, provided that the payment is made under the threshold level. As of April 1, 2023, this section is applicable. It is critical that we closely examine our operations as the year draws to a close in order to prevent any disallowances under the Income Tax Act of 1961.

Prior to jumping right into the section, it is necessary to understand its foundation, the reasons behind the Act's introduction by the Indian government, and its need.

The importance of small-scale enterprises has been recognized even before India's independence, despite the nation still being in the process of growth. The 1948 Industrial Policy Resolution emphasized the contribution of cottage and small-scale enterprises to the nation's economic growth. Small-scale industrial growth was prioritized in the first five-year plans. To support these businesses, a number of initiatives such as concessional financing, subsidies, and technical support were put in place. The Small Industries Development Organization (SIDO) was established in 1973 with the goal of promoting and developing small-scale industry. Upgrading technology, developing skills, and supporting infrastructure were the main priorities.

Micro, Small, and Medium-Sized Enterprises (MSMEs) are companies engaged in the production, processing, and manufacture of commodities and goods. It helps to improve underdeveloped and rural areas and creates job possibilities. India has approximately 6.3 crore MSMEs. Over the last three years, MSMEs have accounted for over 40% of India's exports, and more significantly, over 100 million people are employed in this sector of the economy alone. Over the previous ten years, MSMEs have contributed 30% of the country's GDP. They are also regarded as a feasible source of revenue for anyone wishing to enter the industrial sector because of the following characteristics.

On June 16, 2006, the Micro, Small, and Medium Enterprises Development (MSMED) Act was enacted. This landmark legislation aimed to facilitate the promotion, development, and enhancement of competitiveness within the MSME sector. The Government of India has addressed a long-standing need expressed by this sector by implementing the Micro, Small and Medium Enterprises Development Act, 2006. The purpose of this Act is to help small businesses grow and prosper while also making them more competitive. In addition to unifying the three levels of these enterprises—micro, small, and medium—it offers the first-ever legal framework for the acknowledgment of the idea of "enterprise" (which includes both manufacturing and services). A policy package aimed at providing small and medium-sized businesses with more credit has also been revealed by the government, guaranteeing among other things a 20 percent yearly increase in credit flow. Another problem is how well this works.

Size Classifications:

Sr. No	Type of Enterprises	Manufacturing	Service Providing
		Investment in Plant and Machinery	Investment in Equipment
1	**Micro Enterprises**	Up to 25 Lacs	Up to 10 Lacs
2	**Small Enterprises**	From 25 Lacs to 5 Cr	From 10 Lacs to 2 Cr
3	**Medium Enterprises**	From 5 Cr to 10 Cr	From 2Cr to 5 Cr

Now that we are aware of the objectives of MSME, we can go on to Section 43B (h) of the Income Tax Act 1961.

Extract of the Finance act of 2023.

"(iii) after clause (g), the following clause shall be inserted, namely:—

"(h) any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006,"

If we put it simply, under Income Tax, this provision has allowed the credit limit in accordance with Section 15 of the MSMED Act, 2006, which specifies that the maximum credit period is 45 days if both parties have consent in writing, or 15 days if no written agreement has been made. The buyer would be responsible for paying compound interest at three times as per prescribed bank rates announced by the RBI if the payment is not made within the stipulated 15 or 45 days.

Consequences if the payments are not made within due time i.e. 15 days/45 days:

Transaction type	Consequences
Revenue/ Capital Nature	In accordance with section 2(b) 15 Days- {day before the appointed day i.e. 15 days}
Penalty	Compound interest at three times as per prescribed bank rates announced by the RBI.
Interest payment	Such interest payment is a penal in nature and hence, will not be considered as business expenditure u/s 37
If payment is paid in default, that is, after 15 or 45 days, but within the same fiscal year 2023–2024, that is, until March 31, 2024	Interest must be paid to the supplier; however, under Income Tax act 43B, only the invoice amount—interest free—may be paid (h)
In the event of default, which occurs when payment is received after 15 or 45 days and reaches March 31, 2024, or during the next fiscal year, FY 2024–25, but either before or after the deadline for filing the ITR for the AY 2024–25 (FY 2023–24) in both scenarios	Under section 43B (h), such payment and interest will be prohibited in FY 2023–2024, and its interest will be prohibited under section 37(1). However, such a payment (interest-free) will only be accepted if it is paid during the applicable fiscal year, which is FY 2024–2025. The response provided while submitting an ITR is unaffected.

So, what advantages MSME derive from this additional part will be examined below.

- **Financial Stability for MSMEs:** One of the primary advantages of Section 43B (h) is that it provides financial stability for Micro, Small, and Medium Enterprises (MSMEs). Timely payments ensure that MSMEs receive the funds they are owed promptly, enabling them to meet their financial obligations, manage cash flow effectively, and invest in growth opportunities.

- **Encourages Business Growth:** By ensuring prompt payments to MSME suppliers, Section 43B (h) facilitates business growth and expansion. MSMEs can invest in new equipment, hire additional staff, and explore new markets knowing that they will receive timely payments for their goods and services.

- **Enhanced Creditworthiness:** Timely payments from buyers improve the creditworthiness of MSMEs, making it easier for them to access financing from banks and financial institutions. This access to credit can further support business expansion and investment in capital-intensive projects.

- **Stimulates Economic Growth:** By supporting the financial health and growth of MSMEs, Section 43B (h) contributes to overall economic growth and development. MSMEs play a significant role in job creation, innovation, and fostering entrepreneurship, and ensuring their financial stability benefits the broader economy.

However, everything beneficial comes with a drawback, therefore in this instance, MSMEs confront the following challenges

- **Compliance Burden for Buyers:** One of the main disadvantages of Section 43B (h) is that it imposes a compliance burden on buyers, requiring them to monitor payment deadlines closely and ensure timely disbursement of funds to MSME suppliers. This may require additional administrative efforts and resources, particularly for buyers with large supplier bases.
- **Cash Flow Constraints:** For some buyers, making timely payments to MSME suppliers may pose challenges, especially if they are facing cash flow constraints or experiencing delays in their own receivables. Meeting payment deadlines under Section 43B (h) may require careful cash flow management and could impact the buyer's ability to invest in other areas of the business.
- **Potential Impact on Market Competitiveness:** In some cases, strict enforcement of payment deadlines under Section 43B (h) could impact the competitiveness of buyers, particularly in industries where payment terms are traditionally longer. Buyers may face pressure to adjust pricing or terms to accommodate shorter payment cycles, which could affect their profitability and competitiveness in the market.
- **Strained Relationships:** Stricter enforcement of payment timelines under Section 43B (h) may strain relationships between buyers and MSME suppliers, particularly if buyers are unable to meet the deadlines due to genuine reasons. This could lead to friction in business relationships and potentially impact future collaborations and partnerships.

In summary, while Section 43B(h) of Income tax Act 1961 offers significant benefits in terms of financial stability for MSMEs and promoting fair business practices, it also presents challenges for buyers in terms of compliance, cash flow management, and operational adjustments. Finding a balance between supporting MSMEs and mitigating the potential disadvantages for buyers is essential for fostering a healthy and sustainable business ecosystem.

Driving Forces and Implications of Increased Focus on ESG Investing in India: A Perspective for Cost and Management Students

Karan Singh Nagpal
CMA Final Student
Registration number: 04212123315

Introduction:

In recent years, Environmental, Social, and Governance (ESG) investing has gained substantial traction globally, and India is no exception. ESG investing involves considering non-financial factors alongside financial performance to evaluate the sustainability and societal impact of an investment. This paradigm shift towards sustainable investing is influencing various stakeholders, including investors, corporations, regulators, and academia. For cost and management students, understanding the dynamics of ESG investing is becoming increasingly crucial as it reshapes traditional investment practices and financial management strategies. This article delves into the driving forces behind the surge in ESG investing in India and explores its implications, providing valuable insights for cost and management students.

Understanding ESG Investing:

ESG investing evaluates companies based on three main criteria:

Environmental: Assessing a company's impact on the environment, including its carbon footprint, energy efficiency, waste management, and resource utilization.

Social: Evaluating a company's relationships with its employees, customers, suppliers, and communities. This involves considerations such as labor practices, diversity and inclusion, human rights, and community development initiatives.

Governance: Examining the quality and effectiveness of a company's leadership, board structure, internal controls, shareholder rights, and adherence to ethical standards and regulations.

ESG factors are increasingly recognized as material to financial performance and risk management, leading investors to integrate these considerations into their decision-making processes.

Drivers of ESG Investing in India:

a. **Regulatory Initiatives:** The Securities and Exchange Board of India (SEBI) has been proactive in promoting ESG disclosures and integrating sustainability practices into corporate governance norms. SEBI's mandates require listed companies to disclose ESG-related information, fostering transparency and accountability.

b. **Investor Demand:** Institutional investors, including pension funds, sovereign wealth funds, and asset management firms, are increasingly incorporating ESG considerations into their investment strategies. This trend is driven by growing awareness of sustainability issues among investors and their desire to align their investments with their values and long-term objectives.

c. **Corporate Sustainability Practices:** Indian companies are recognizing the importance of sustainable business practices in enhancing competitiveness, mitigating risks, and fostering long-term value creation. Many corporations are adopting sustainability frameworks, pursuing renewable energy initiatives, implementing responsible supply chain practices, and engaging in community development activities to address ESG concerns.

d. **Risk Mitigation:** ESG factors are increasingly seen as indicators of long-term business resilience and risk management. Companies with robust ESG practices are better equipped to navigate environmental and social challenges, regulatory changes, and reputational risks, thereby reducing their exposure to financial liabilities.

Implications for Cost and Management Students:

a. **Integration of ESG into Financial Analysis:** Cost and management students need to incorporate ESG considerations into financial analysis and investment appraisal techniques. Understanding how ESG factors impact financial performance, risk assessment, and valuation models is essential for making informed investment decisions.

b. **Sustainable Cost Management Practices:** Cost management techniques play a pivotal role in driving sustainability initiatives within organizations. Students should learn how to identify cost-saving opportunities through energy efficiency measures, waste reduction strategies, and sustainable procurement practices, thereby aligning cost management with ESG objectives.

c. **Corporate Reporting and Compliance:** As ESG reporting requirements evolve, cost and management professionals will play a vital role in ensuring compliance and accuracy in ESG disclosures. Students should familiarize themselves with reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) standards to facilitate transparent and comparable ESG reporting.

d. **Stakeholder Engagement and Ethical Leadership:** Effective stakeholder engagement and ethical leadership are integral to ESG performance. Cost and management students should cultivate skills in stakeholder analysis, communication, and ethical decision-making to contribute positively to organizational sustainability efforts.

Conclusion:

The rise of ESG investing in India reflects a growing recognition of the interconnectedness between sustainability, financial performance, and societal impact. For cost and management students, embracing ESG principles is imperative for staying relevant in a rapidly evolving business landscape. By understanding the drivers and implications of ESG investing, students can leverage their knowledge to drive organizational value creation, promote responsible stewardship, and contribute to a more sustainable future.

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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

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NEW IT INITIATIVE

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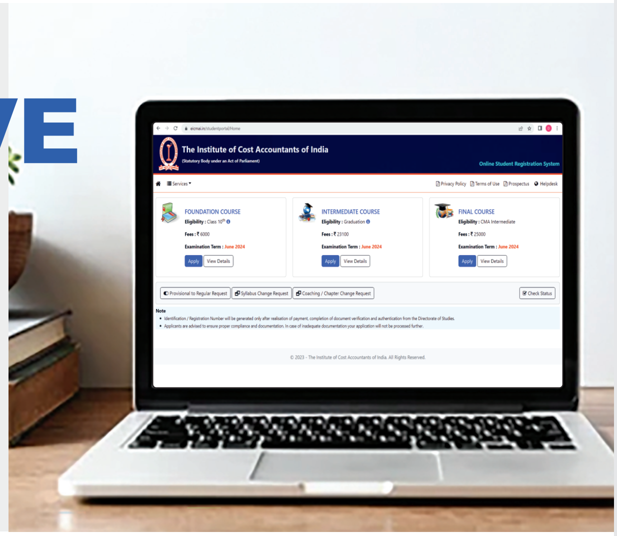

A login feature has been integrated into the **ONLINE REGISTRATION APPLICATION SYSTEM** enabling students to access various services through their accounts.

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- Request changes in Oral / Postal Coaching and opt for Chapter-to-Chapter Conversion
- Convert from Provisional to Regular status

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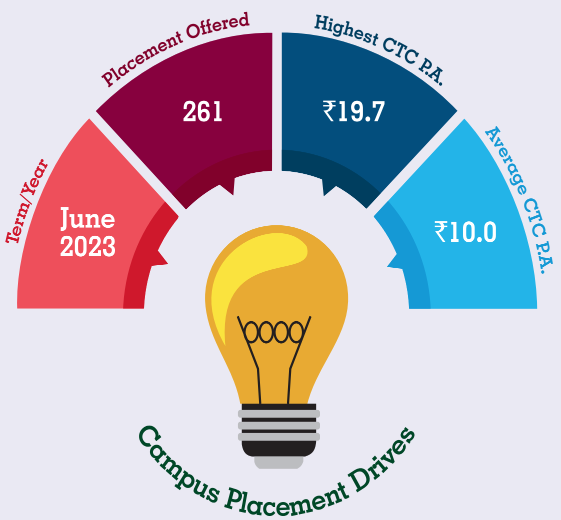
CMA Campus Placement Initiatives 2023

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

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Headquarters

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Ph: 033-40364777/40364722/40364726

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CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110003

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