

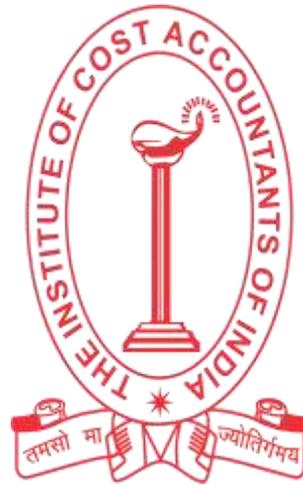


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Knowledge Update



KNOWLEDGE Update



In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

Financial Accounting (FAC)



GROUP: 1, PART: 5

FINANCIAL ACCOUNTING - (FAC)

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Your Preparation Quick



Syllabus Structure

- A Accounting Basics 25%
- B Preparation of Financial Statements 40%
- C Self Balancing Ledger, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts 20%
- D Accounting in Computerised Environment and Accounting Standards 15%

Learning Objectives:

- Students will demonstrate their knowledge of the fundamental and technical concepts of accounting.
- Students will reveal critical-thinking and problem-solving skills.
- Students will exhibit the ability to recognize when change is appropriate, to adapt to change as it occurs, and to take the lead in creating change.
- Students will display a sense of responsibility and a capacity for the subject after learning.

Financial Accounting

Wish you all a **very happy new year**. Hope you all are keeping well. You must have celebrated the 31st night with bursting crackers, illuminating lights, and enjoyed with music. Many of you must have noted down the new year resolution also. In whatever way you have spent try to remember the resolution every day. It should not be confined in pages. Try to be a better person every day. Try to learn at least one new thing per day. Gathering knowledge can only improve a person, can purify a person. So, delete evil thoughts and purify your soul. Do not wait for the rewards to come for acquiring knowledge because “knowledge” is the best trophy in your heart’s showcase.

Let us proceed with a discussion on some special issues with this topic today

CONSIGNMENT**COST PRICE VS INVOICE PRICE**

As a business strategy a consignor may add an extra amount over the cost price and sends goods to the consignee. In that case the consignee thinks this loaded price as his cost and sells in the market with additional profit margin. This protects the consignor from any loss due to market price fluctuations. The loaded price is called the Invoice Price. **At the same time, it will not be possible for the consignee to know the actual profit earned by the consignor.**

Invoice price = cost price plus loading

Example: if cost price is 100 and loading is 25% over cost price, the invoice price will be Rs. 125. Consignee will sell goods at a price which is more than Rs. 125. (Say Rs. 130)

Apparently, it looks the profit is Rs. 5 (130-125). However, the real profit earned by the consignor is Rs. 30. This indicates the accrual of a secret profit which is known to the consignor only which must be set off while preparing accounts in his books.

This is done in the following way.

Consignment a/c

	₹		₹
To Goods sent on Consignment a/c	125	By Goods sent on Consignment a/c	25
		- Loading set off	
To P/L a/c – Profit on Consignment a/c	30	By Consignee a/c – sale	130
	155		155

ORDINARY COMMISSION VS DEL CREDERE COMMISSION

Other than ordinary commission a consignor may provide for an extra commission which is known as del credere commission for reward of extra risk by the consignee for collection from debtors. If any bad debt occurs obviously the burden of such loss is not borne by the consignor (since he pays del credere commission). However, if del credere commission is not paid the loss due to bad debt must be borne by the consignor.

Therefore, in a consignment account Bad Debt and Del credere commission will never appear together.

NORMAL LOSS VS ABNORMAL LOSS

Instead of saying normal and abnormal loss the more appropriate term to understand will be unavoidable and avoidable loss. Abnormal or accidental loss is avoidable. This occurs due to some mistake or carelessness. Therefore, it must be accounted for and can be insured too. However normal loss is beyond control and it is natural to occur and hence unavoidable. This cannot be insured also. For example, due to the inherent quality of spirit it is evaporated. Therefore, a very small quantity may be lost even after taking all protective measures. This quantity or weight is only adjusted without any monetary valuation of it.

VALUATION OF UNSOLD STOCK

a. When goods are sent at cost price

	Quantity	Amount
Goods sent on consignment at cost	xxx	xxx
Add: expenses incurred by consignor		xxx
Less normal loss (only quantity) in transit	xxx	
Less abnormal loss in transit	xxx	xxx
Add non-recurring expenses by Consignee **		xxx
Less Loss in godown if any	xxx	xxx
	xxx (N)	xxx (M)

Less Goods sold	xxx	
Value of unsold stock ****	xxx(Q)	xxx(P)

**

Non-recurring expense means the expenses which are paid by the consignee for shifting the goods from the Port or station to his Godown. For example, carriage to Godown is a non-recurring expense whereas the rent of Godown is recurring in nature.

Value of closing stock will be:

$$P = M/N \times Q$$

b. When the goods are sent at invoice price

	Quantity	Amount
Goods sent on consignment at Invoice Price	xxx	xxx
Add : expenses incurred by consignor		xxx
Less normal loss (only quantity) in transit	xxx	
Less abnormal loss in transit	xxx	xxx
Add non recurring expenses by Consignee **		xxx
Less Loss in godown if any	xxx	xxx
	xxx (N)	xxx (M)
Less Goods sold	xxx	
Value of unsold stock ****	xxx(Q)	xxx(P)

Everything will be same except the value of goods sent on consignment will be taken at Invoice Price.

The loading in the value of closing stock and in abnormal loss will be set off in Consignment account.

Example:

If the value of closing stock is Rs. 1000 for 10 units and total loading while sending goods is Rs. 5000 for 100 units

The unloading on closing stock will be: $5000/100 \times 10 = 500/-$

Simply, loading is Rs. 50 per unit. So, unloading for closing stock of 10 units will be $10 \times Rs. 50 = Rs. 500$.

Such unloading will be debited to consignment account

Consignment account

To stock reserve- unloading	500	By unsold stock	1000
To abnormal loss – unloading		By abnormal loss	

Illustration 1

Form the following information calculate the value of closing stock on consignment , value of goods lost in transit.

X of Kolkata consigned 10000 kg of an item costing Rs. 80 per kg to Y of Mumbai and paid Rs. 80000 as freight and insurance. 200 kg of the item were lost in transit. Y took delivery of the remaining consignment and paid unloading charges Rs. 19000, godown rent Rs. 2500, printing and advertisement Rs. 20000.

200 kg were lost due to leakage in the godown of Y. Y sold 8000 kg @ Rs. 120 per kg.

Y is entitled to a commission of 5% on sales.

CONSIGNMENT ACCOUNT

		₹			₹
To	Goods sent on consignment(10000x80)	800000	By	Consignee a/c:	
	Bank account:			- Sale proceeds	960000
	- Freight	80000		(8000x 120)	
	-				
	-			Abnormal loss a/c	17600
	-				
	Consignee a/c			Consignment stock a/c	146900
	- Printing & advt	20000			
	- Unloading charges	19000			
	- Godown rent	2500			
	- Selling expenses				
	- Ordinary commission (960000x 5%)	48000			
	Bad debt a/c				
	Profit and loss a/c -			Profit and loss a/c -	

	- Profit on consignment	155000		- Loss on consignment	
		1124500			1124500

Consignee account

To	Consignment	960000	By	Consignment	89500
				Bank a/c	870500
		960000			960000

Valuation of closing stock and abnormal loss

	Quantity (kg)	Amount
Goods sent on consignment at cost	10000	800000
Add: expenses incurred by consignor		80000
	10000	880000
Less normal loss (only quantity) in transit		0
Less abnormal loss in transit (880000/10000x200)	200	17600
	9800	862400
Add non recurring expenses by Consignee ()		19000
	9800	881400
Less Loss in Godown if any (normal loss)	200	0
	9600	881400
Less Goods sold	8000	
Value of unsold stock (881400/9600x 1600)	1600	146900

Illustration 2

X consigned 5000 kg of rice costing Rs. 32 per kg to Y on February 01, 2021 by paying Rs. 5000 as freight. During transit 200 kg of rice were destroyed by an accident. Y paid clearing charges Rs. 6100, godown rent Rs. 300, salesman salary Rs. 900. Y is entitled to 6% ordinary commission and 4% del credere commission on sales. Y reported on June 30 that 4000 kg were sold @ Rs. 165000 and 100 kg were lost due to some unavoidable cause. Entire amount was received except in case of a customer who bought rice for Rs. 1500 could pay only

40 % of his dues. Y sent a cheque for final settlement to X along with the account sales. Show consignment account and Y account in the books of X.

CONSIGNMENT ACCOUNT

		₹			₹
To	Goods sent on consignment(5000x32)	160000	By	Consignee a/c:	
	Bank account:			- Sale proceeds	165000
	- Freight	5000		(4000x41.25)	
	-				
	-			Abnormal loss a/c	6600
	-				
	Consignee a/c			Consignment stock a/c	24500
	- Clearing charges	6100			
	- Godown rent	300			
	- Salesman salary	900			
	- Ordinary commission (165000x 6%)	9900			
	- Del credere commission (165000x 4 %)	6600			
	Bad debt a/c	NIL			
	Profit and loss a/c -			Profit and loss a/c -	
	- Profit on consignment	7300		- Loss on consignment	
		196100			196100

Consignee account

To	Consignment a/c	165000	By	Consignment	23800
				Bank a/c	141200
		165000			165000

Valuation of closing stock and abnormal loss

	Quantity (kg)	Amount
Goods sent on consignment at cost	5000	160000
Add: expenses incurred by consignor		5000
	5000	165000
Less normal loss (only quantity) in transit		
Less abnormal loss in transit ($165000/5000 \times 200$)	200	6600
	4800	158400
Add non recurring expenses by Consignee (clearing charges)		6100
	4800	164500
Less Loss in Godown if any (normal loss)	100	nil
	4700	164500
Less Goods sold	4000	
Value of unsold stock ($164500/4700 \times 700$)	700	24500



Laws & Ethics (LNE)



GROUP: 1, PART: 6

LAWS & ETHICS (LNE)

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Your Preparation Quick



Syllabus Structure

A Commercial Laws 30%

B Industrial Laws 25%

C Corporate Laws 35%

D Ethics 10%

Learning Objectives:

Prior to start discussing on the paper, we need to understand few basic points about the paper, unlike other papers, this particular may turn to be very interesting and scoring as well, provided you pay attention to the points discussed below:

- Read the Act carefully and try to know the meaning of the contents in it.
- All the Acts are having practical implications in the real life world and it will help you to solve the problems in your real life situations once you join in the industry and / or practicing field,
- Answers should be specific and to the point,
- Please don't try to elaborate your answers adding irrelevant terms and items; it may penalize you with the Tips given here, please follow the Suggested Answers and Mock Test Papers of the Institute to have a fair idea about writing the paper in the examination.

Laws & Ethics

It is hoped 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 TIP is that you must read the Bear Act and the Sections and start asking questions to yourself and find your own answers.***

In this issue we shall continue to deal with Corporate Laws – Companies Act, 2013 and Rules

Independent Directors – Sec.149(6) provides that an independent director in relation to a company, means a director other than a managing director or a whole time director or a nominee director.

- (a) who in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience.
- (b) (i) who is or was **not a promoter** of the company or its holding company or, subsidiary or an associate company;
- (ii) who is **not related to promoters or directors** in the company, its holding, subsidiary or associate company
- (c) Effective from 7th April, 2018, an Independent Director **must not have or ever had any pecuniary relationship** (a relationship concerning money), other than remuneration as such director or having transaction not exceeding ten per cent. of his total income or such amount as may be prescribed, with the

company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

(d) Effective from 7th April,2018, an Independent Director must be a person **,none of whose relatives—**

(i) is **holding any security of or interest in the company**, its holding, subsidiary or associate company during the two immediately preceding financial years or during the current financial year:

Provided that the relative may hold security or interest in the company of face value not exceeding Rs.50,000 (fifty lakh) or two per cent. of the paid-up capital of the company, its holding, subsidiary or associate company or such higher sum as may be prescribed;

(ii) **is indebted to the company**, its holding, subsidiary or associate company or their promoters, or directors, in excess of such amount as may be prescribed during the two immediately preceding financial years or during the current financial year;

(iii) **has given a guarantee or provided any security** in connection with the indebtedness of any third person to the company, its holding, subsidiary or associate company or their promoters, or directors of such holding company, for such amount as may be prescribed during the two immediately preceding financial years or during the current financial year; or

(iv) has **any other pecuniary transaction or relationship with the company**, or its subsidiary, or its holding or associate company amounting to two per cent. or more of its gross turnover or total income singly or in combination with the transactions referred to in sub-clause (i), (ii) or (iii);]

(e) who, neither himself nor any of his relatives -

(i) **holds or has held the position of a key managerial personnel** or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

Provided that in case of a relative who is an employee, the restriction under this clause shall not apply for his employment during preceding three financial years.

(ii) **is or has been an employee or proprietor or a partner**, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of –

(A) a firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or

(B) any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten per cent. or more of the gross turnover of such firm;

(iii) holds together with his relatives two per cent. or more of the total voting power of the company; or

(iv) is a Chief Executive or director, by whatever name called, of any nonprofit organization that receives 25 % (twenty-five per cent) or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent. or more of the total voting power of the company; or

(f) who possesses such other qualifications as may be prescribed in Rule 5 **Qualifications of Independent Director**

Small shareholder Directors – Under Sec.151 a listed company may have one director elected by such small shareholders in such manner and with such terms and conditions as may be prescribed. |

Explanation - for the purposes of this section “Small Shareholders” means a shareholder holding shares of nominal value of not more than twenty thousand rupees or such other sum as may be prescribed in **Rule 7 Companies (Appointment and Qualification of Directors) Rules,2014**

Women Director – Sec.149(1)

Rule 3 of Companies (Appointment and Qualifications of Directors) Rules, 2014 deals with Woman Director in detail and it also prescribes the class of companies as referred to in Section 149 of the Act on which this provision is applicable. The said rule lays down the following:

1. The class of companies for which appointment of woman director is mandatory are given below :

- Every listed company;
- Every other public company having:
 - a) paid-up share capital of one hundred crore rupees or more; or
 - b) turnover of three hundred crores rupees or more.

The paid up share capital or turnover, as the case may be, as on the last date of latest audited financial statements shall be taken into account.

2. The Time period given to the company for compliance with the provision is as follows :

When the provision of appointment of woman director is applicable to the company, the company shall comply with such provisions within a period of six months from the date of its incorporation.

3. Intermittent Vacancy of a Woman Director

Any intermittent vacancy of a woman director shall be filled-up by the Board at the earliest but not later than:

- (a) Immediate next Board meeting; or

(b) Three months from the date of such vacancy.

Further, a Woman Director can be an executive director or a non-executive director. A woman director can :

- I. hold the position of a director until the next Annual General Meeting from the date of appointment.
- II. She is also entitled to seek reappointment at the general meeting.

It may be noted regarding the tenure of a woman director that she is liable to retirement by rotation as per Section 152 (6) similar to other types of directors.

Additional Director – Sec.161(1) provides that the Articles of Association of a company may confer on its Board of Directors the power *to appoint any person, other than a person who fails to get appointed as a director in a general meeting, as an additional director at any time* who shall hold office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier.

Alternate Director - Sec.161(2) provides that the Board of Directors of a company may, if so authorized by its Articles of Association or by a resolution passed by the company in general meeting, appoint a person, not being a person holding any alternate directorship for any other director in the company, **to act as an alternate director for a director during his absence** *for a period of not less than 3 (three) months from India:*

Provided that no person shall be appointed as an alternate director for an independent director unless he is qualified to be appointed as an independent director under the provisions of this Act:

Provided further that an alternate director shall not hold office for a period longer than that permissible to the director in whose place he has been appointed and shall vacate the office if and when the director in whose place he has been appointed returns to India:

Nominee Director - Sec.161(3) provides that - subject to the Articles of Association of a company, the Board may appoint any person **as a director nominated** by any institution in pursuance of the provisions of any law for the time being in force or of any agreement or by the Central Government or the State Government by virtue of its shareholding in a Government company.

Qualification of Independent Directors

There is nothing is specified in the Act laying any specific qualifications for directors. Section 162 (3) provides that a motion for approving a person for appointment as a director, or for nominating a person for appointment as a director, shall be treated as a motion for his appointment.

The relevant provision of the law that deals with the disqualification of directors are Section 152, 164, 165, and 188 of the Act and The Companies (Appointment and Qualification of Directors) Rules, 2014.

However, as per amendment (effective from 1st December 2019) to **Rule 5 of The Companies (Appointment and Qualification of Directors) Rules, 2014**, the Rule states the qualification of the Independent Director and the following **Compliances are now required by a Person Eligible And Willing to be Appointed as an Independent Director** :

Every individual -

- i. Existing Independent Directors shall within a period of three months from commencement of the **Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019** ; and
- ii. Every individual who intends to get appointed as an Independent Director after such commencement shall : -
 1. Apply online to **the Indian Institute of Corporate Affairs (Institute)** for inclusion of his name in the data bank for a period of one year or five years or for his life-time till he continues to hold the office of an independent director in any company.
 2. Every individual whose name has been included in the data bank shall file an application for renewal for a period of 1 year, 5 years or for his life time, within 30 days from the date of expiry of the period upto which the name of the individual had applied for inclusion in the data bank, failing which, the name of such individual shall stand removed from the data bank of the institute.
 3. Every independent director shall submit a declaration of compliance of sub-rule (1) and sub-rule (2) of the Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2019 to the Board, each time he submits the declaration required under section 149(7) of the Act.
 4. Every individual whose name is so included in the data bank ***shall pass an online proficiency self-assessment test conducted by The Indian Institute of Corporate Affairs (Institute) within a period of 1 year from the date of inclusion of his name in the data bank***, failing which, his name shall stand removed from the databank of the institute.
 5. **Passing of the online proficiency self-assessment test is not applicable** to an individual :
 - a) who has served for a period of not less than ten years as on the date of inclusion of his name in the databank as director,
 - b) or key managerial personnel in a listed public company or
 - c) in an unlisted public company having a paid-up share capital of Rs. 10 crores

Sec.152 provides that in the case of appointment of an independent director in the general meeting, an explanatory statement for such appointment, annexed to the notice for the general meeting, shall include a statement that in the opinion of the Board, he fulfils the conditions specified in this Act for such an appointment.

Sec.164 provides the **Disqualifications for Appointment of Director**, which are as follows :

Under Sec.164(1) A person shall not be eligible for appointment as a director of a company if :

- (a) he is of unsound mind and stands so declared by a Competent Court ;
- (b) he is an undischarged insolvent ;
- (c) he has applied to be adjudicated as an insolvent and his application is pending ;
- (d) he has been convicted by a court of any offence , whether involving moral turpitude or otherwise and sentenced in respect thereof to imprisonment for not less than 6 months and a period of 5 years has not elapsed from the date of expiry of the sentence.

Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of 7 (seven) years or more, he shall not be eligible to be appointed as a director in any company;

- (a) an order disqualifying him for appointment as a director has been passed by a court or Tribunal and the order is in force;
- (b) he has not paid any calls in respect of any shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call;
- (c) he has been convicted of the offence dealing with related party transactions under Sec. 188 at any time during the last preceding 5 (five) years; or
- (d) he has not complied with sub-section (3) of Sec.152.

Sec.165 of the Companies Act, 2013 provides that an individual can become director in 20 Companies (including a maximum of 10 Public Companies).

This Sec.165 intends to prohibit an Individual person from becoming director in more than 20 companies (including maximum 10 public companies) so that such person can devote sufficient and effective time to the companies as a director while discharging the functions of a director.

Direct Taxation (DXT)



GROUP: 1, PART: 7

DIRECT TAXATION (DXT)

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Your Preparation Quick



Syllabus Structure

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

Learning Objectives:

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

Retirement Benefits**Gratuity [Sec. 10(10)]**

Gratuity is a lump sum payment made by an employer to its employee in consideration of his past services when the employment is terminated. Gratuity scheme serves as an instrument of social security to the salaried assessee.

An employee may be covered by Payment of Gratuity Act, 1972 (hereinafter referred as Gratuity Act) or may not be covered by that Act depending on the circumstances given under the said Act.

Tax Treatments of Gratuity are as under:

Gratuity received	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(iii)]
2. At the time of retirement to the employee of:	
a) Government	Fully exempted [Sec. 10(10)(i)]
b) Any other Employer	
i) Covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(ii): <ol style="list-style-type: none"> 1. Actual Gratuity received; 2. ₹ 20,00,000; 3. 15 working days¹ salary² for every completed year of service³ [$\frac{15}{26} * \text{Completed year of service} * \text{Salary p.m.}$]
ii) Not covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(iii) <ol style="list-style-type: none"> 1. Actual Gratuity received; 2. ₹ 20,00,000; 3. $\frac{1}{2} * \text{Completed year of service}^4 * \text{Average Salary p.m.}^5$
1. Seven working days in case of employees of seasonal establishment	
2. Salary means Basic + DA (forming part of retirement benefit), last drawn	

In case of piece-rated employees, salary shall be calculated by applying average of last three months wages immediately preceding his termination.

3. Completed year of service includes any fraction in excess of 6 months.
4. Completed year of service ignores any fraction of month.
5. Average Salary here means, Basic + DA (forming part of retirement benefit) + Commission (as a fixed percentage on turnover) being last 10 months average salary, immediately **preceding the month of retirement.**

Leave Encashment Salary [Sec. 10(10AA)]

As per service contract and discipline, normally, every employee is allowed certain period of leave (with pay), every year. Such leave may be availed during the year or accumulated by the employee. The accumulated leave lying to the credit of an employee may be availed subsequently or encashed. When an employee receives an amount for waiving leave lying to his credit, such amount is known as leave salary encashment.

Tax Treatment of leave encashment is as under

Case	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(va)]
2. At the time of retirement by employee of:	
a) Government	Exempted [Sec.10(10AA)(i)]
b) Other Employer	Minimum of the following shall be exempted from tax u/s 10(10AA)(ii): <ol style="list-style-type: none"> a) Actual amount received; b) ₹ 3,00,000; c) 10 months average salary¹ d) Cash equivalent of 30 days average salary for every completed year of service² as reduced by actual leave availed or encashed during the tenure of service. <p>The period of 30 days is the maximum ceiling. If employer allows leave for less than 30 days p.a. then such lesser days shall be considered.</p>
1. Average salary means Basic + DA (forming part of retirement benefit) + Commission (as a fixed percentage on turnover) being last 10 months average salary <u>from the date of retirement.</u>	
2. While calculating completed year of service, <u>ignore</u> any fraction of the year.	

Pension [Sec. 10(10A)]

Pension, normally means, a periodical payment received by an employee after his retirement. However, on certain occasion, employer allows to withdraw a lump sum amount as the present value of periodical pension.

When pension is received periodically by employee, it is known as Uncommuted Pension. On the other hand, pension received in lump sum is known as Commuted pension.

Tax Treatment of pension is as under

Cases	Treatment
1. Uncommuted Pension received by any employee	Fully Taxable [Sec. 17(1)(ii)]
2. Commuted Pension (i.e lump sum payment) received by a	
a) Government employee	Fully exempted [Sec.10(10A)(i)]
b) Other employee	
i) If employee receives gratuity	1/3 rd of total value of commuted pension, which he is normally entitled, is exempted. [Sec. 10(10A)(ia)]
ii) If employee does not receive gratuity	½ of total value of commuted pension, which he is normally entitled, is exempted. [Sec. 10(10A)(ib)]

Illustration

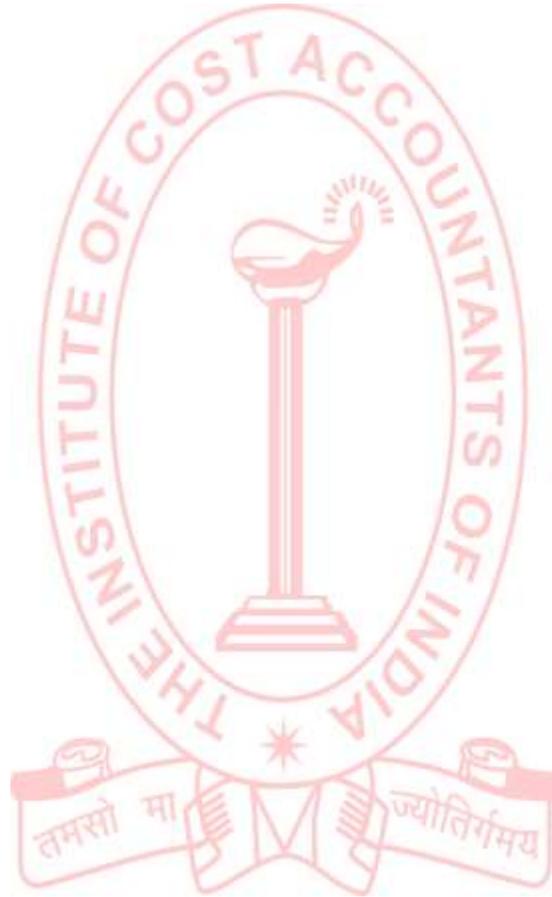
Mr. Narayan retired from service on 1/6/2022. As on that date, his monthly salary was Basic ₹ 5,000 p.m., Commission on turnover 5%. Total turnover achieved by him during last 10 months (occurred evenly) ₹ 5,00,000. On retirement, after 20 years 6 months of service, he received gratuity ₹ 5,00,000, leave salary ₹ 3,00,000. He is entitled to pension of ₹ 1,500 p.m. On 1/1/2023, he commuted 60% of his pension and received ₹ 90,000. Compute gross salary assuming he is covered by the Payment of Gratuity Act.

Solution

Computation of Gross Salary of Mr. Narayan for the A.Y.2023-24

Particulars	Details	Amount	Amount
Basic Salary	5,000 x 2		10,000
Commission on turnover	(5,00,000/10x2) x 5%		5,000
<u>Gratuity</u>		5,00,000	
<i>Less:</i> Minimum shall be exempted u/s 10(10)(ii)			
a) Actual Amount Received	5,00,000		
b) Statutory Amount	20,00,000		
c) $15/26 \times 20 \times ₹ 5,000$	57,692	57,692	4,42,308
<u>Leave Encashment</u>		3,00,000	
<i>Less:</i> Minimum shall be exempted u/s 10(10AA)(ii)			
- Actual Amount Received	3,00,000		
- Statutory Amount	3,00,000		

- 10 x ₹ 7,500	75,000		
- 1 x 20 x ₹ 7,500	1,50,000	75,000	2,25,000
<u>Pension</u>			
Uncommuted Pension	(1500 x 7) + (600 x 3)		12,300
Commuted Pension Received		90,000	
<i>Less:</i> Exempted u/s 10(10A)(ii)	1/3 rd x 1,50,000	50,000	40,000
Gross Taxable Salary			7,34,608



Cost Accounting (CAC)



GROUP: 1, PART: 8

COST ACCOUNTING (CAC)

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Your Preparation Quick



Syllabus Structure

- A Introduction To Cost Accounting 40%
- B Methods of Costing 30%
- C Cost Accounting Techniques 30%

Learning Objectives:

- Before taking the examination, it is necessary to read thoroughly the study material first.
- After that select the suitable text book or reference books available in the market for your further study and follow them.
- Next, follow the question papers of previous years and you will be able to get a general idea about the trend or pattern of questions generally set for this type of examination.
- So, if you want to score high marks then along with practical problems you have to answer properly the theoretical part.
- Due to lack of theoretical concepts they cannot score good marks not only in the theoretical part but also in tricky problems.
- Prepare notes on the theoretical part to improve your performance in the examination.

Cost Accounting

An efficient system of costing is an essential factor for industrial control under modern conditions of business, and as such may be regarded as an important part in the efforts of any management to secure business stability. The organization of an undertaking has to be so control that the desired volume of production is secured at the least possible cost in relation to the scheduled quantity of the product. Cost accounting provides the measurement of the degree to which this objective is attained, and thus has a definite place in the organization of the business. All expense is localized, and thereby controlled, in the light of information provided by the cost records.

In the present era the value and importance of cost accounting need hardly be overemphasized. Cost accounting, by exercising control over the entire business operations, enables management to eliminate wastages, leakages, increase efficiency and productivity, achieve economies and helps decision making by suitably fixing prices in case of competition, trade depression, and idle capacity with a view to maximizing the gains or minimizing the losses. This paper is a scoring paper out of the eight papers in the intermediate course of the Institute of Cost Accountants of India. It is observed from the past experience that 65% to 75% of the total questions are set from practical problems and the balance is theoretical part. Although only 25% questions are set from theoretical part, but a great emphasis should be given on theoretical part as most of the students are very much weak in theory. Hence, go through the theory very carefully for easy understanding the topic and then try to solve the exercise problems. Start from Chapter one and try to understand the other chapters serially as this will enable you to understand the succeeding chapters in a better way.

You should remember this is a professional examination. So, emphasis is to be given mainly on testing comprehension, self expression and managerial ability to apply knowledge in divergent situation. Chances of repetition of questions are normally avoided. The true success of this examination mainly depends on style of preparation which should have, perseverance, regularity of efforts, through practice, vision and objectivity.

Here I have suggested some tips based on my personal experiences: -

1. A well-defined plan for completing the whole syllabus as well as revision.
2. Go through your Study Note and know the complete syllabus. Remember all chapters are interlinked.
3. Analyze the trends of setting questions by taking at least ten terms.
4. Time schedule with specified activities is very much essential for time-management.
5. Clarity or concepts is different from cramming which exerts avoidable strain on the students.
6. Write down all the important terms in your own words and read them regularly.
7. Improve your speed by regular practice and revision.
8. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.
9. Always try to answer all objective type questions as practice, which carries 100% marks.
10. Try to develop a habit of reading the questions well, underlining and understanding the specific demands.

We study the Cost Accounting Paper – 8 because of the following purposes:

- a) Understanding the concept of Cost
- b) Determining the Cost of product or service
- c) Understanding Standard Cost
- d) Applying the concept of Marginal Costing
- e) Formulating of business strategy and operational planning.

As per your study material, your entire syllabus is divided into six main chapters. In first chapter the basic concept of cost accounting are discussed, besides its other two branches viz, Financial accounting and Management accounting. The second chapter described the Elements of cost thoroughly. The three major elements of costs are – material, labour and Overheads. In this chapter cost concepts are discussed and analyzed element-wise. Material consists of the major part of total cost of a product, hence it is necessary to control this cost. You must read the scope and objectives of different Cost Accounting Standards. It will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. The meaning of Cost allocation, Cost apportionment and cost absorption should be very clear.

The next chapter, Cost Book-Keeping, including integrated accounting system is not at all difficult. Students need to have a clear conception about the integrated and non-integrated system of Accounts . Questions are sometimes set to journalize the transactions. In this system, different accounts are to be opened, but it is not necessary to give much effort to complete its solution. It's a lengthy process. Here, separate ledgers are maintained by the cost sections.

This chapter relates to Contract Costing. Only Job/Batch/Contract Costing is very important for the Intermediate Examinations. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. You should make sure that you are familiar with various methods/formulae for different stages of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP – 9". They should remember that for Escalation Clause both changed quantity and price is to be considered.

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

The next chapter 'Marginal Costing' aims to find out cost-volume-profit relationships of a product. This is an important chapter from the students' perspective. Students should understand the concepts, Uses, needs and importance of 'Marginal Costing' carefully. The main thrust should be to follow the wording and determine the desired impact on profitability. Break-even Analysis and finding out the Breakeven point is the basic part for solving the problem. For a product of different sales-mix, contribution per unit of key-factor should be found out and then different options should be marked on the same basis, i.e. contribution per unit of key factor. Here you should also study the effect on profits due to various changes, in Fixed Cost/ Variable Cost/ selling price/ sales-mix and again the effect of the above on BEP, Margin-of-safety. More than one problem is generally set from this chapter. Hence, various types of problems should be worked out for easy understanding.

The chapter 'Variance Analysis' deals with creating responsibilities and identifying the activities or areas of exceptions. Any problem on standard cost for working out different variances can be worked out by using a standard format applicable to all variance analysis. The students are afraid of this important chapter only because of different formulae for different analysis. Only a serious study and realization of the requirement in the problem can eliminate such difficulties. The main objective of this analysis is to improve the operation by effective utilization of resources for reducing its product cost. Calculation of Mix-variances is essential only when there are more than one type of components.

The next chapter is related to 'Budget and budgetary control'. The term budget can be expressed as a pre-determined plan of action in details. Budgetary control requires preparation of 'Flexible Budget', 'Functional Budgets' and 'Cash Budget' for taking necessary actions. Both theoretical and practical problems may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students are also suggested to go through the theoretical parts-like, concept of Zero based Budgeting, behavior and classification of Budgets etc. very carefully.

In order to bring uniformity and consistency in classification, measurement and assignment of costs CAS – 1 to 24 should read carefully. Questions are generally set from any one or two standards.

Now we are dealing with some short questions related to Contract Costing.

1. State which of the following statements are correct or incorrect:

- (i) In contract costing credit is taken only for a part of the profit on incomplete contracts.
- (ii) Escalation clause in a contract provides that the contract price is fixed.
- (iii) Final contract price is to be paid is certain in cost plus contract.
- (iv) In contract plus costing, the contract runs a risk of incurring loss.
- (v) Most of the items of cost are direct in contract costing than in job costing.
- (vi) Contract costing is a basic method of specific order costing.

Ans. Correct : (i), (v), (vi)

Incorrect :(ii), (iii), (iv).

2. Which of the following is correct ?

A. An essential of long-term costing is that :

- (i) It has a duration in excess of twelve calendar months.
- (ii) It is a progress at a financial year-end and has a significant effect on the activity of the Contractor for the period under review.
- (iii) Its completion will require a number of stages, each of which must be certified and valued for Profit calculation purpose.
- (iv) It has a duration in excess of six calendar months.

B. A debit balance on the contractee account should be incorporated in the balance sheet as :

- (i) A current liability as 'contract balance outstanding'.
- (ii) Set- off against contract stock valuation.
- (iii) Excess payments on account not set off against contract stock value.
- (iv) In debtors as 'amount recoverable on contract'.

C. Retention monies are best defined as :

- (i) Cash withheld by the contractee in order to improve the cash flow of the contractor.
- (ii) Payment to the contractor. Where it is desired to secure his services for a future contract.
- (iii) Cash return to the contractee if actual profits on a contract are 10% higher than agreed figure.
- (iv) Cash withheld by the contractee under the terms of the contract when payment of the value Certified are being made.

D. A zero value of attributable profit should be assumed where :

- (i) Any foreseeable loss is estimated for a later stage in the contract.
- (ii) The interim estimated profit is less than 10% of value certified.
- (iii) The profit outcome of the contract cannot be estimated with reasonable certainty
- (iv) The contract is less than 60% completed.

E. Which of the following is the most appropriate definition of turnover at intermediate stage in a contract?

- (i) The value of work done which leaves the agreed attributable profit when the cost of work certified is subtracted from it.
- (ii) Cost of work certified to date plus estimated profit to the end of the contract.
- (iii) The value of work certified less any foreseeable losses.
- (iv) Cost of work to date minus the cost of work not certified plus estimated profit to date.

F. Foreseeable losses estimated for a contract should be treated in which of the following ways?

- (i) Ignore until they are known to be accurate with reasonable certainty .
- (ii) Write off immediately that they are estimated.
- (iii) Write off in the same proportion as any estimated profits are recognized.
- (iv) Write up only if the work to which they relate is 50% completed.

Ans. A. (I), B. (iv), C. (iv), D.(iii), E. (I), F(ii).

Composite or comprehensive machine our rate method takes into account not only expenses directly allocated to machine as mention above , but also other expenses which cannot be directly allocated to machine , but also other expenses which cannot be directly allocated to machine, such as supervisory charges , heating , lighting , rent etc. This indirect expenses are known as Standing Charges or Fixed Charges. This fixed or standing charges are then apportioned among the various departments.

Following problem will clear the concept.

Problem

A S Ltd. A chemical company having 20 different types of machines, supplied you the following information relating to the year ended on 31.03.07 in respect of a Machine No. 10 :

	Rs.
(A) Cost of the machine	120000
Life	10 years
Scrap value	20000

(B) Overhead Expenses :

Rent & Rates	100000 p.a.
Heat & Lighting	50000 p.a.
Supervision	200000 p.a.
Special Equipment for Machine No 10	5000 p.a.
Area of the factory	10000 sq. ft.
Area occupied by Machine No. 10	1000sq. ft.
Power cost Rs. 0.80 per hr when in operation.	

(C) Wages of operator is Rs. 32 per day of 8 hrs including all benefits. He can look after one machine when it is under set-up and two machines while under operation.

(D) Estimated Production hrs.	3600 p.a.
Set-up time hrs.	400 p.a.

Compute comprehensive machine hour rate and also find out the cost of the following Job :

	Job No . 007
Set-up time (hrs)	80
Operation time (hrs)	120

Solution

Computation of Comprehensive Machine Hour Rate

Estimated effective working hrs. = 3600 + 400 = 4000 hrs

Particular	Per Annum (RS.)	Per Hour (RS.)
Standing Charges :		
Depreciation [$\frac{120000 - 20000}{10}$]	10000	
Rent & Rates [$\frac{100000}{1000} \times 1000$]	10000	
Heat & Lighting [$50000 \times \frac{1000}{1000}$]	5000	

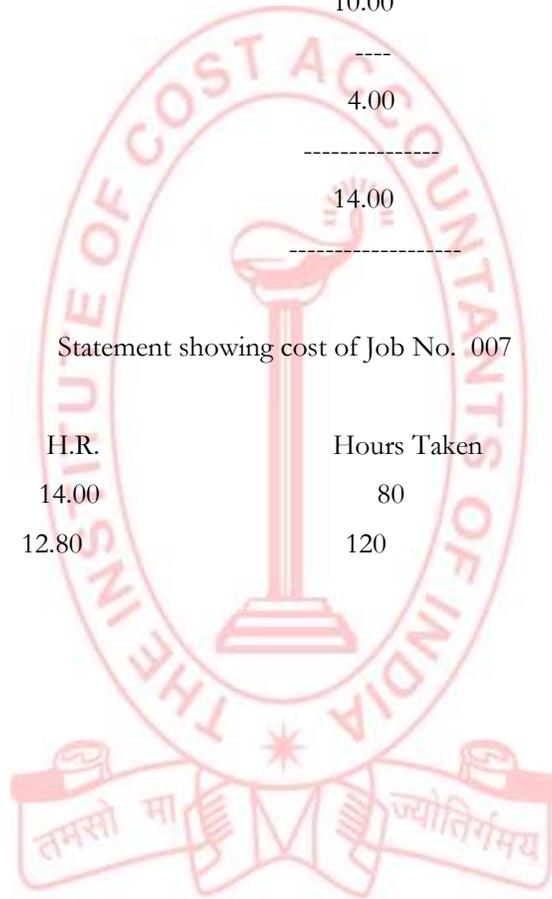
Supervision [<u>200000</u>]	10000	
20000	<u>5000</u>	
Special Equipment	<u>40000</u>	10.00
		0.80
		<hr/>
		10.80

Comprehensive Machine hour Rate

	Set up.	Operation
Fixed Rate	10.00	10.00
Power	---	0.80
Wages of Operator	4.00	2.00
	<hr/>	<hr/>
Comprehensive MHR	14.00	12.80
	<hr/>	<hr/>

Statement showing cost of Job No. 007

Particulars	H.R.	Hours Taken	Amt.
Set up	14.00	80	1120.00
Operation	12.80	120	1536.00
			<hr/>
			2656.00
			<hr/>



Operations Management & Strategic Management (FBMS)



GROUP: 2, PART: 9, PART - I

OPERATIONS

MANAGEMENT & STRATEGIC
MANAGEMENT
(OMSM) - OPERATION
MANAGEMENT

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Your Preparation Quick



Syllabus Structure

- A Introduction To Cost Accounting 40%
- B Methods of Costing 30%
- C Cost Accounting Techniques 30%

Learning Objectives:

- Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments.
- Eventually, student's ability for leadership positions in the production and service industries gets increased.
- To solve business processes, it helps to apply knowledge of fundamental concepts of operations management and helps to apply knowledge of approaches to operational performance improvement.

Operations Management

In this issue let us discuss few MCQ type questions.

Q1. Which one of the following is not correct?

- The entire manufacturing needs to be geared to serve intangible and perishable nature of the services;
- The entire manufacturing needs to be geared to serve constant interaction with production professionals including production workers;
- The entire manufacturing needs to be geared to serve small volumes of production to serve local markets;
- The entire manufacturing needs to be geared to serve local markets by locating facilities near to them;

Q2. Which one of the following is not an usual factor for selecting the location of a Retail & Service facilities?

- Transportation costs – pre and post operation stage
- Proximity to customers
- No of customers
- Land/Leasing costs

Q3. FMS means:

- Fixed Manufacturing Systems
- Flexible Machine Shops
- Flexible Manufacturing Systems
- Flexible Multipurpose Services

Q4. One producer produces two products: A with R70 per unit profit and B with R40 per unit profit. The producer is facing certain resource constrains. To maximises profit if he produces q_1 units of A and q_2 units of B, the objective function for LPP model for solving this problem the objective function is

- (a) To maximise $Z = 70q_1 + 40q_2 + Constraints$
- (b) To maximise $Z = 70q_1 + 40q_2$
- (c) To maximise $Z = (70q_1 + 40q_2) * \frac{q_1 * q_2}{q_1 + q_2}$
- (d) To maximise $Z = (110) * \frac{q_1 * q_2}{q_1 + q_2}$

Q5. This method of forecasting in is more appropriate where users of the product are numbered. The method is:

- a) Trend projection method
- b) Executive judgment method
- c) Sales force composite method
- d) Users' expectation method

Q6. When Prices of products are uniform in all probable locations location choice for the facility should be on the basis of

- (a) Proximity to resources
- (b) Proximity to potential customers
- (c) Maximising revenue
- (d) Minimising cost criteria

Q7. While formulating regression equation of Y on X, & $\Sigma X \neq 0$, we have to depend on which of the following equation?

- a) $\Sigma Y = n a + b \Sigma X$; ΣY ;
- b) $\Sigma XY = b \Sigma X^2$;
- c) $\Sigma Y = a \Sigma Y^2 + b \Sigma X^2$
- d) $\Sigma XY = a \Sigma X + b \Sigma X^2$

Q8. It is the process of planning the quantity and timing of output over the intermediate time horizon (3 months to one year). This is called

- (a) Total Planning
- (b) Aggregate Planning
- (c) Intermediate planning
- (d) 9months' Planning

Q9. Problem of Centralising of averages may occur in calculation of moving average when period of moving averages taken as:

- a) 4;
- b) More than 3;
- c) Less than 5;
- d) $3 < \text{period} < 7$;

Q10. Which one of the following is correct?

- (a) Aggregate planning increases the range of alternative use for capacity for management for getting answers to many type questions
- (b) In aggregate planning identification and measurement of relevant costs need to be done before forecasting demand for planning period
- (c) The most effective strategy depends on the demand fluctuation, competitive position and cost structure of the firm or product line
- (d) Aggregate planning ends with development of some logical overall unit for measuring output

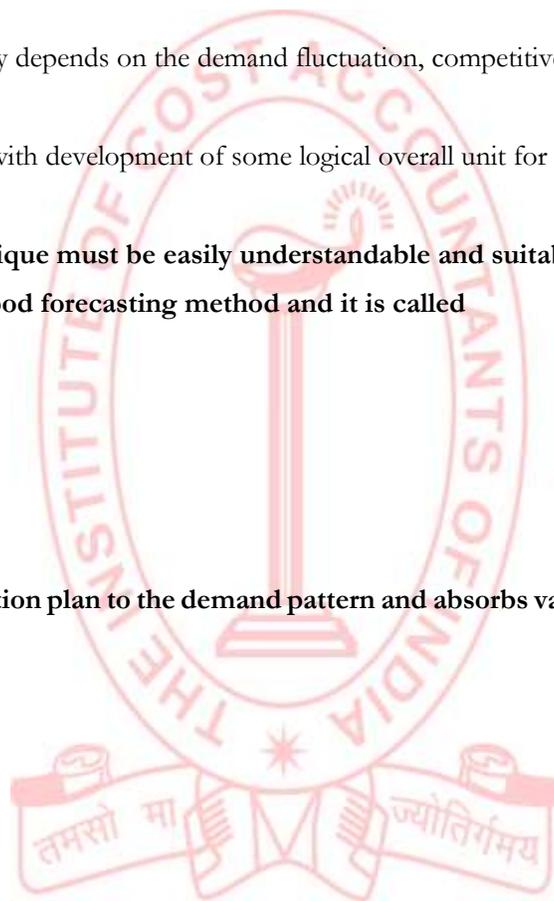
Q11. The forecasting technique must be easily understandable and suitable to the management.

This is a qualification of good forecasting method and it is called

- a) Utility;
- b) Economy;
- c) Availability;
- d) Simplicity;

Q12. It matches the production plan to the demand pattern and absorbs variations in demand by hiring and firing workers. It is

- (a) Level production strategy
- (b) Chase demand strategy
- (c) Mixed strategy
- (d) None of the above



Q13. Match the items in Column A with items in Column B

A	B
a) Trend projection method	i) Provides a subjective feel of the market
b) Expert's Opinion	ii) Collects opinion from finance personnel of the organisation
c) Sales force composite method	iii) Collects time series data

d) Executive Judgement method	iv) Collects opinions from specialists in the field outside the organisation.
e) Users' expectation method	v) Consolidates estimates individual salesman

Q14. In 1st period available to promise inventory (ATP) is equal to

- (a) Opening inventory + Master Production schedule quantity *Sum of committed customer orders in the periods starting from 1st period to period till there is a new master production schedule quantity.
- (b) Opening inventory + Master Production schedule quantity +Sum of committed customer orders in the periods starting from 1st period to period till there is a new master production schedule quantity.
- (c) Opening inventory + Master Production schedule quantity – Sum of committed customer orders in the periods starting from 1st period to period till there is a new master production schedule quantity.
- (d) Master Production schedule quantity – Opening inventory – Sum of committed customer orders in the periods starting from 1st period to period till there is a new master production schedule quantity.

Q15. The chief advantages of this method are: i) it provides a subjective feel of the market and of the thinking behind the buying intention of the actual uses. It may help the development of a new product in the market. (iii) This method is more appropriate where users of the product are numbered and a new product is to be introduced for which no previous records can be made available. (iv) it is most suitable for short-run forecasting. The method is

- a) Production forecasting by users' expectation method;
- b) Sales forecasting by producers' expectation method;
- c) Market forecasting;
- d) Sales forecasting by consumers' expectation method;

Q16. Which one of the following is not correct?

- (a) Higher productivity provides the nation with a competitive advantage in the marketplace
- (b) Productivity increases add value to the economy while controlling inflation
- (c) Higher productivity provides the basis for a sustainable long-term growth in the economy.
- (d) It allows companies to follow competitors' prices to improve their market share

Q17. Under this approach to customer's order fulfilment products are assembled, to the specification desired by the customers, from a stock of standard and modular components. It is a production model where the final goods are produced once the manufacturer receives the order from the customers. This is

- (a) ATP
- (b) ATS

- (c) ATO
- (d) ATD

Q18. Which one of the following is not an activity under productions and operations management?

- a) Location of facilities;
- b) Plant layouts and Material Handling;
- c) Product Design;
- d) Market penetration;

Q19. Which one of the following is not a feature of averaging technique for demand forecasting model?

- (a) Averaging techniques smooth variations in the data
- (b) Averaging techniques never smoothen larger variations reflecting real changes
- (c) Averaging techniques are used in forecasting to smooth the randomness
- (d) A forecast based on an average tends to exhibit less variability than the original data

Q20. Regression equation of Sales(Y) on Years (X) is $Y = 65 + 5X$. It is constructed with the past sales figures taken from 2012 to 2017. The sales for the year 2019 will be

- a) 110;
- b) 65;
- c) 80;
- d) 75;

Q21. A job is ahead of schedule. Which one of the following is appropriate for this job?

- (a) $CR = 0$
- (b) $CR < 1$
- (c) $CR > 1$
- (d) $CR = 1$

Q22. With respect to Capacity planning for products and services judge the following sentences as true or false. In case of false write down the correct sentence

- (a) Capacity planning can be classified into two planning horizons: Long-range & Medium-range
- (b) Capacity planning refers to the activities of the firm in determining the capacity of a plant or a facility in terms of equipment, machines, space, workers, and processes based on the resource utilisation by the facility
- (c) A major function of capacity planning is to match the capacity of the machine or facility with the demand

for the products of the firm

- (d) Capacity is the effective bound on the load that a facility or a plant can serve or manufacture
- (e) The amount of time covered by each of the capacity planning horizons can vary from industry to industry

Q23. The objective of application of linear programming in industrial problems is

- (a) To determine a plan for production and procurement in the time period under consideration
- (b) To determine an optimal solution of the problem under the given constraints
- (c) To determine the cost effective solution of the problem under scarce resources
- (d) To determine a plan for time based solution to the problem for increasing productivity

Q24. Match items in column A with that in column B

Column A	Column B
a) Man hour output	i) Production control
b) Channels	ii) Productivity
c) Subcontracting	iii) Product life cycle
d) Growth stage	iv) Capacity Requirement Planning
e) Block control	v) Waiting line

Q25. Negative float signifies

- (a) Reduction in target time to finish the work in time
- (b) Adjustment of target time to finish the work before schedule
- (c) Reduction in target time to crash the critical path
- (d) Adjustment of target time to maintain the most likely time of activities

Q26. The probability that a product will function for a specific time period without failure is termed as product's:

- (a) Maintainability
- (b) Availability
- (c) Reliability
- (d) Predictability

Q27. Remanufacturing of products refers to

- (a) An examination of the function of parts and materials in an effort to reduce the cost and/or improve the performance of the product;

- (b) Refurbishing use of products by replacing worn-out or defective components and reselling the products;
- (c) A programme to reduce the dumping of products, particularly electronic equipment in landfills or third world countries;
- (d) An assessment to choose products and services that have the least environmental impact while still taking into economic consideration;

Q28. Which one of the following is not the factor influencing effective capacity?

- (a) Level of automations desired;
- (b) Forecasts of Demand;
- (c) Plant and labour efficiency;
- (d) Multiple Shift operation;

Q29. Say True or False

- a) An insurance product is to be procured only if the expected value of the down time costs exceeds or equals the purchase value of the spare
- b) On an average the reliability of Breakdown spares for a machinery has been observed to be as high 95 to 99% over the life span of the machinery
- c) The objective of maintenance is to facilitate the optimal use of capital equipment through replacement
- d) In maintenance hyper exponential distribution shows a steep fall in the probability density function as the time to failure increases
- e) Reliability of a plant depends upon the design of the plant system that is the way various equipment are linked functionally with each other

Q30. Match Column A with Column B

Column A	Column B
a) Project Initiating	i) Includes completion of activities, consumption of resources with attainment of milestones;
b) Project Executing	ii) Includes defining the major project goals and choosing a project manager;
c) Project Planning	iii) Involves comparing actual progress with planned progress and undertakes corrective action if needed;
d) Project Controlling	iv) Checks the corrective actions on deviations to make sure it achieves desired effect;

e) Project Monitoring	v) Provides details on deliverables, scope of the project, the budget, the schedule and milestones, performance objectives, resources needed, a quality plan and a plan for handling risks;
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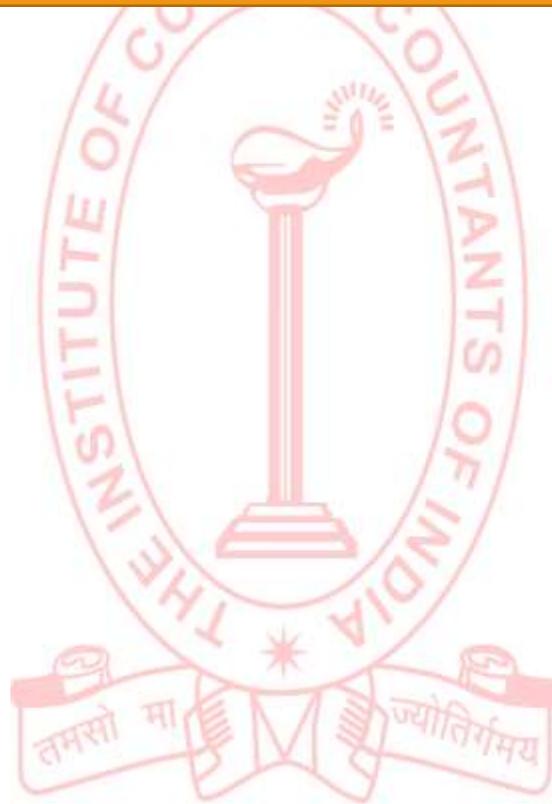
Answer key:

Q1	b	
Q2	a	
Q3	c	
Q4	b	
Q5	d	
Q6	d	
Q7	d	
Q8	b	
Q9	a	
Q10	a	
Q11	a	
Q12	b	
Q13	a b c d e	(iii) (iv) (v) (ii) (i)
Q14	c	
Q15	d	
Q16	d	
Q17	C, Assemble to Order	
Q18	d	
Q19	b	
Q20	a	
Q21	c	
Q22	(a) F	Capacity planning can be classified into three planning horizons: Long-range Medium-range & Short-range

	(b) F (c) T (d) F (e) T	Capacity planning refers to the activities of the firm in determining the capacity of a plant or a facility in terms of equipment, machines, space, workers, and processes based on the resource constraints by the facility Capacity is the upper bound on the load that a facility or a plant can serve or manufacture
Q23	a	
Q24.	a b c d e	(ii) (v) (iv) (iii) (i)
Q25	a	
Q26	d	
Q27	b	
Q28	a	
Q29	a b c d e	T F F T T
Q30	a b c d e	ii i v iii iv

Suggestions:

The study guide needs to be studied thoroughly. Supplementary readings could be made from other resources. This issue is based on theoretical discussions made on different topics in Modern Production/ Operations Management by Buffa and Sarin. Production and Operations Management by SN Chery, Operations Management by R.S Russell & BW Taylor, Operations Management by J Stevenson and institute's guide book. Discussions are made here as an extension & supplementary to the knowledge shared on topics in study guide and previous issues of bulletin. This is for updating of knowledge and could be used as an aid to the study guide. No discussions are held on formulae used for numeric as everything are available in guide book.



Operations Management & Strategic Management (FBMS)



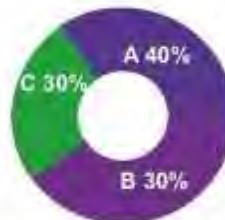
GROUP: 2, PART: 9, PART - II

OPERATIONS

MANAGEMENT & STRATEGIC
MANAGEMENT
(OMSM) - STRATEGIC
MANAGEMENT

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Your Preparation Quick



Syllabus Structure

- A Introduction To Cost Accounting 40%
- B Methods of Costing 30%
- C Cost Accounting Techniques 30%

Learning Objectives:

- The course will follow in general terms the strategy development process from audit to formulation of strategic plans, their implementation and evaluation.
- Students will be introduced to strategic management in a way so that their understanding can be better.
- The ultimate aim of the course is to develop students as future managers who will add value by 'strategically managing' the organisation's resources and capabilities.

Strategic Management

- 1. Which of the following is a crucial aspect of strategic planning?**
 - A. It is a broad concept that consists of business and corporate strategy
 - B. It is an overall concept that consists of strategy formulation and implementation
 - C. It is a broad concept that consists of environmental and internal analysis
 - D. It is a general concept that consists of business inputs and outputs
- 2. What type of strategy is stability strategy?**
 - A. Corporate level
 - B. Functional level
 - C. Strategic level
 - D. Business level
- 3. Which statement best applies to emergent strategies. Emergent strategy...**
 - A. Implies an ability to react to the events
 - B. Implies strategizing
 - C. Implies no deviation from plans
 - D. Implies constant evaluation of the bigger picture
- 4. Which of the following shows concern for non-profit organizations?**
 - A. The markets to service
 - B. Identifying suppliers to deal with
 - C. Developing capabilities
 - D. Building monopolies
- 5. A possible and desirable future state of an organisation is called**
 - A. Mission
 - B. Strategy implementation
 - C. Strategy formulation

D. Vision

6. BCG matrix is based on

- A. Attractiveness of industry and business strength
- B. Growth of industry and business strength
- C. Attractiveness of industry and relative market share
- D. Growth rate of industry and relative market share

7. How long is the long term in strategic thinking approximately?

- A. 1 month to 1 year
- B. 2 to 3 years
- C. 3 to 5 years
- D. More than 5 years

8. One company buying another company means

- A. Joint venture
- B. Acquisition
- C. Amalgamation
- D. Merger

9. How many cells are there in a SWOT matrix?

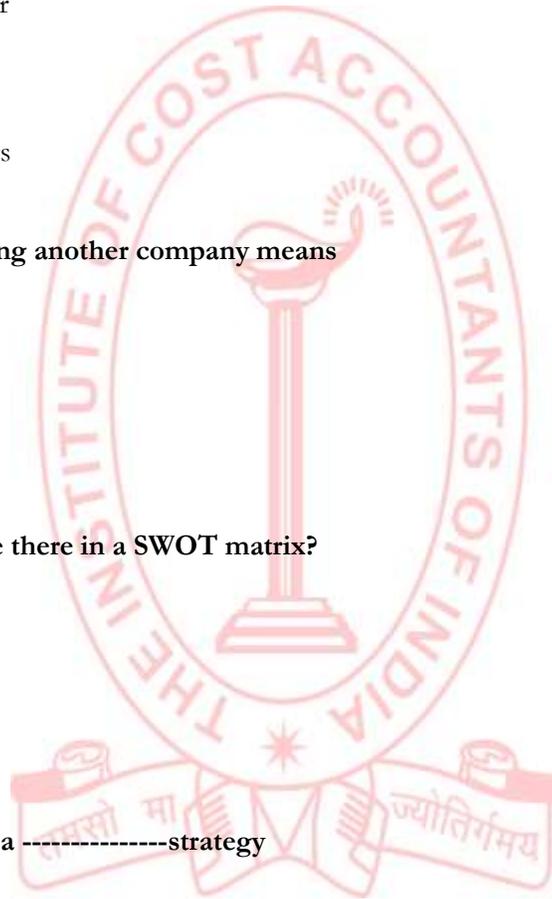
- A. 9
- B. 6
- C. 3
- D. 2

10. Stability strategy is a -----strategy

- A. Corporate level
- B. Business level
- C. Functional level
- D. Strategic level

11. Hierarchy of Strategic Intent:

- A. i. Vision > Mission > Goals > Objectives > Plans
- B. ii. Mission > Vision > Goals > Objectives > Plans
- C. iii. Plans > Vision > Mission > Goals > Objectives
- D. iv. Goals > Vision > Mission > Objectives > Plans



12. Which of the following is not a major element of the strategic management process?

- A. Formulation strategy
- B. Implementing strategy
- C. Evaluating strategy
- D. Assigning administrative tasks

13. The corporate level is where top management directs:

- A. All employees for orientation
- B. Its efforts to stabilise recruitment needs
- C. Overall strategy for the entire organisation
- D. Overall sales projections

14. Which environment can create new markets and new business segments?

- A. Political environment
- B. Economic environment
- C. Sociocultural environment
- D. Technological environment

15. Strategic Management handles:

- A. External issues
- B. Administrative issues
- C. Internal issues
- D. Management issues

Answer: -

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

Cost & Management Accounting and Financial Management (CMFM)



GROUP: 2, PART: 10,

COST & MANAGEMENT

ACCOUNTING AND FINANCIAL
MANAGEMENT - (CMFM)

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Your Preparation Quick



Syllabus Structure

A Cost & Management Accounting 50%

B Financial Management 50%

Learning Objectives:

The paper Cost & Management Accounting and Financial Management (Group II; Paper 10) is a unique blend of theoretical elaborations and practical illustrations. The aim of this paper is to equip the students with a working level knowledge regarding the two disciplines and prepare a ground for a few advanced level papers like Strategic Financial Management (Final Group 3: Paper 14), Strategic Cost Management decision Making (Final Group 3: Paper 15) and Strategic Performance Management and Business Valuation (Final Group 4: Paper 20) in the CMA Final Course. The entire syllabus of the paper is segregated into two segments namely Cost & Management Accounting (Section A: Full Marks 50) and Financial Management (Section B: Fill Marks 50). Each of the individual sections has further been divided into five chapters each highlighting a specific aspect of the subject concerned. In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

GR – II CMA & FM**Question No. – 1 (Material & Labour)**

XYZ Ltd. follows standard costing system and the following information is available for the month of December, 2022.

Actual Production – 1500 kg.

Material consumed			Labour Deployed		
Type	Quantity (kgs.)	Rate per kg. (Rs.)	Worker	Hours Worked	Rate per Hour (Rs.)
A	550	5.00	P	32	11.00
B	200	6.00	Q	14	9.00
C	350	2.00	R	20	11.00
D	400	5.00	S	10	18.00

Details of standard materials and labour cost based on production of 1000 Kgs. are as under:

Material consumed			Labour Deployed		
Type	Quantity (kgs.)	Rate per kg. (Rs.)	Worker	Hours Worked	Rate per Hour (Rs.)

A	400	4.00	P	20	10.00
B	100	5.00	Q	10	8.00
C	200	2.50	R	15	12.00
D	300	6.00	S	7	20.00

What shall be the :-

REG. MATERIAL

- 1) Standard Cost of Actual Production (SCAP) : (a) Rs.6500 (b) Rs.6600 (c) Rs.6700 (d) Rs.6800
- 2) Standard Cost of Actual Quantity used : (a) Rs.6475 (b) Rs.6480 (c) Rs.6485 (d) Rs.6490
- 3) Actual Cost : (a) Rs.6620 (b) Rs.6630 (c) Rs.6640 (d) Rs.6650
- 4) Price Variance of product 'B' : (a) Rs.180 F (b) Rs.180 A (c) Rs.200 A (d) Rs.200 F
- 5) Usage Variance of product 'C' : (a) Rs.125 A (b) Rs.125 F (c) Rs.135 F (d) Rs.135 A
- 6) Cost Variance : (a) Rs.40 A (b) Rs.40 F (c) Rs.50 A (d) Rs.50 F
- 7) Standard Quantity for Actual Production : (a) 1200 Kg. (b) 1300 Kg. (c) 1400 Kg. (d) 1500 Kg.

REG. LABOUR

- 8) Standard Cost of Actual Production (SCAP) : (a) Rs.825 (b) Rs.850 (c) Rs.875 (d) Rs.900
- 9) Std. Hour for Actual Production : (a) 76 Hr. (b) 78 Hr. (c) 80 Hr. (d) 82 Hr.
- 10) Actual Hours : (a) 72 Hr. (b) 74 Hr. (c) 76 Hr. (d) 78 Hr.
- 11) Standard Cost of Actual Hours worked : (a) Rs.872 (b) Rs.873 (c) Rs.874 (d) Rs.875
- 12) Wage Rate Variance in respect of product 'P' : (a) Rs.32 A (b) Rs.32 F (c) Rs.34 A (d) Rs.34 F
- 13) Efficiency Variance in respect of product 'S' : (a) Rs.8 A (b) Rs. 8 F (c) Rs.10 A (d) Rs.10 F
- 14) Cost Variance : (a) Rs.20 F (b) Rs.20 A (c) Rs.22 F (d) Rs.22 A

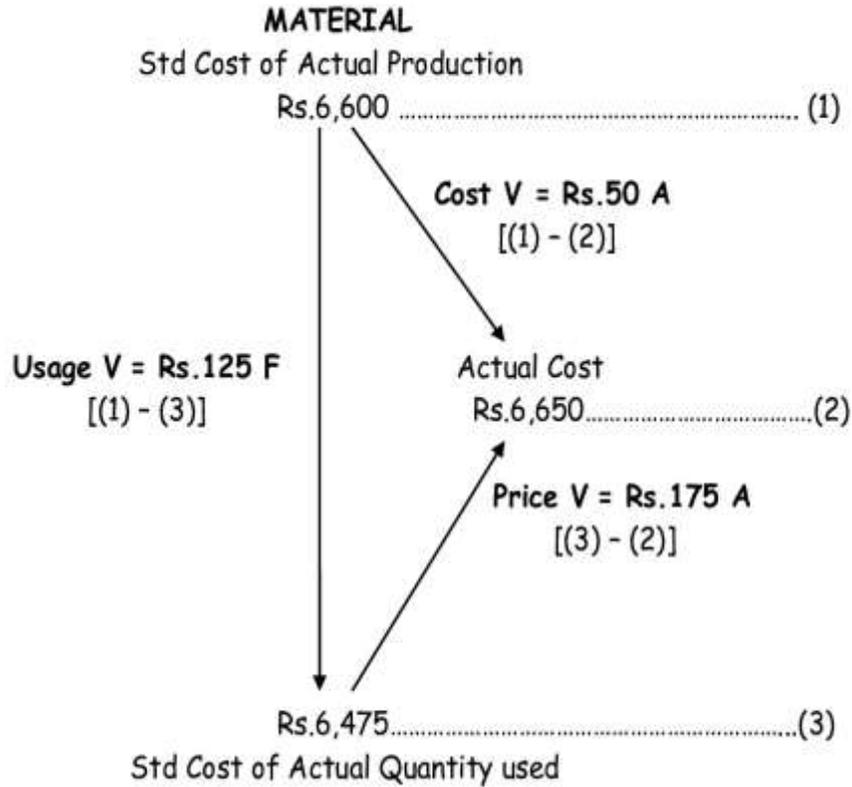
Answer:

- | | | |
|-----------------|-----------------|-----------------|
| 1) (b) Rs.6600 | 2) (a) Rs.6475 | 3) (d) Rs.6650 |
| 4) (c) Rs.200 A | 5) (a) Rs.125 A | 6) (c) Rs.50 A |
| 7) (d) 1500 Kg. | 8) (d) Rs.900 | 9) (b) 78 Hr. |
| 10) (c) 76 Hr. | 11) (a) Rs.872 | 12) (a) Rs.32 A |
| 13) (d) Rs.10 F | 14) (c) Rs.22 F | |

Steps for Solution through diagrams for Question 1:

- 1) Draw diagrams as shown in respect of each part of the Question.
- 2) Put the given data as well as data derived from the Working Notes in the appropriate places of the diagrams as specified.
- 3) Start connecting the same by the arrows having spearheads in the way embodied therein.
- 4) The requisite Variances / data will emerge automatically.
- 5) In case of any difficulty, please have a look to the **Solutions through diagrams** at the end of this e-bulletin.

Solution with Working Notes



Basic data : Actual Production (AP) = 1,500 kg.

Working Notes :

- 1) Standard is given for 1,000 kg.
But Actual production is 1,500 kg.

i.e. 1.5 times of the standard.

Standard Cost of Actual Production (SCAP)

Type	Qty (Kg)	Rate (Rs.)	Amount (Rs.)
A	1.5 x 400 = 600	4	2400
B	1.5 x 100 = 150	5	750
C	1.5 x 200 = 300	2.5	750
D	1.5 x 300 = 450	6	2700
	1500 Kg.		Rs.6600

- 2) **Actual Cost (for 1,500 kg)**

Type	Qty (Kg)	Rate (Rs.)	Amount (Rs.)
A	550	5	2750
B	200	6	1200
C	350	2	700
D	400	5	2000
			Rs.6650

- 3) **Std Cost of Actual Qty used (SC of AQ used)**

Type	Qty (Kg)	SR (Rs.)	Amount (Rs.)
A	550	4	2200
B	200	5	1000
C	350	2.5	875
D	400	6	2400
			Rs.6475

4) Price Variances = SC of AQ used – AC

A : Rs.2,200 – Rs.2,750 = Rs.550 A

B : Rs.1,000 – Rs.1,200 = Rs.200 A

C : Rs. 875 – Rs. 700 = Rs.175 F

D : Rs.2,400 – Rs.2,000 = Rs.400 F

Rs.175 A

5) Usage Variance = SCAP – SC of AQ used

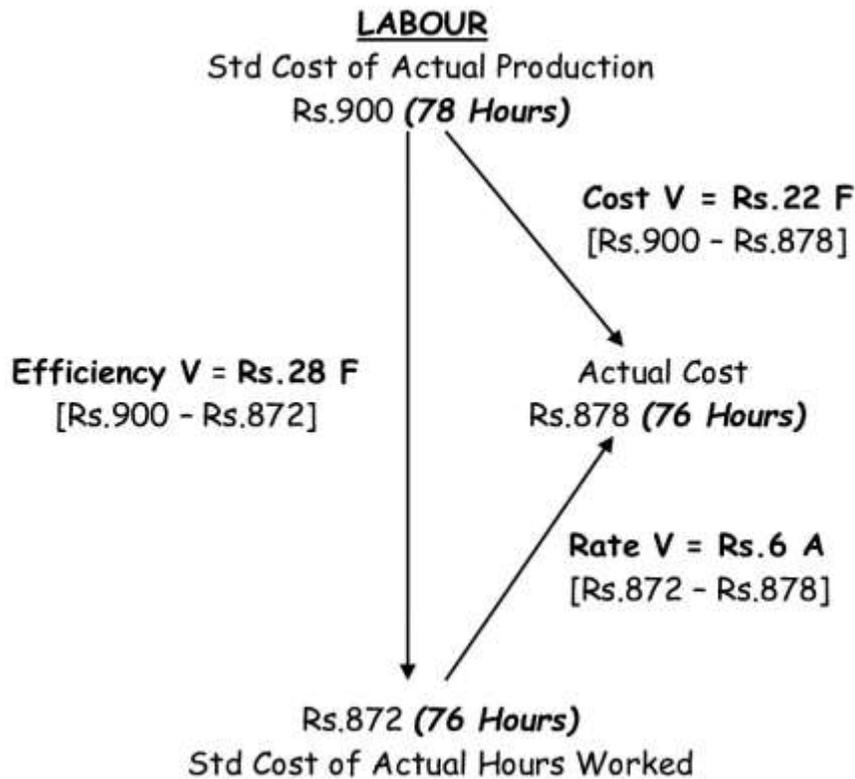
A : Rs.2,400 – Rs.2,200 = Rs.200 F

B : Rs. 750 – Rs.1,000 = Rs.250 A

C : Rs. 750 – Rs. 875 = Rs.125 A

D : Rs.2,700 – Rs.2,400 = Rs.300 F

Rs.125 F



Working Notes :

Standard is given for 1,000 kg. But actual production is 1,500 kg i.e. 1.5 times of Standard

1) **Std Cost of Actual Production (SCAP)**

Worker	Hours	SR (Rs.)	Amount (Rs.)
P	1.5 X 20 i.e. 30	10	300
Q	1.5 x 10 i.e. 15	8	120
R	1.5 x 15 i.e. 22.5	12	270
S	1.5 x 7 i.e. 10.5	20	210
	78		900

2) **Actual Cost**

Worker	Hours Worked	SR (Rs.)	Amount (Rs.)
P	32	11	352
Q	14	9	126
R	20	11	220
S	10	18	180
	76		878

3) **Std Cost of Actual Hours worked (SC of AH worked)**

Worker	Hours Worked	SR (Rs.)	Amount (Rs.)
P	32	10	320
Q	14	8	112
R	20	12	240
S	10	20	200
	76		872

4) **Wages Rate Variance = SC of AH worked - AC**

Worker	Calculation (Amt in Rs.)	Total
P	320 – 352	32 A
Q	112 – 126	14 A
R	240 – 220	20 F

S	200 – 180	20 F
		6 A

4) Efficiency Variance = SCAP – SC of AH worked

Worker	Calculation (Amt in Rs.)	Total
P	300 – 320	20 A
Q	120 – 112	8 F
R	270 – 240	30 F
S	210 – 200	10 F
		28 F

FOR UNDERSTANDING OF STUDENTS

Reconciliation Statement of Actual and Standard Cost

Actual Cost		Rs.7,528						
	<table border="0"> <tr> <td style="font-size: 2em;">[</td> <td>Material Rs.6,650</td> <td style="font-size: 2em;">]</td> </tr> <tr> <td></td> <td>Labour Rs. 878</td> <td></td> </tr> </table>	[Material Rs.6,650]		Labour Rs. 878		
[Material Rs.6,650]						
	Labour Rs. 878							
Add : Favorable variances :		Rs.153 F						
	<table border="0"> <tr> <td style="font-size: 2em;">[</td> <td>Material Usage Rs.125</td> <td style="font-size: 2em;">]</td> </tr> <tr> <td></td> <td>Labour Efficiency Rs.28</td> <td></td> </tr> </table>	[Material Usage Rs.125]		Labour Efficiency Rs.28		
[Material Usage Rs.125]						
	Labour Efficiency Rs.28							
Less : Adverse variances :		Rs.181 A						
	<table border="0"> <tr> <td style="font-size: 2em;">[</td> <td>Material Price Rs.175</td> <td style="font-size: 2em;">]</td> </tr> <tr> <td></td> <td>Labour Rate Rs.6</td> <td></td> </tr> </table>	[Material Price Rs.175]		Labour Rate Rs.6		
[Material Price Rs.175]						
	Labour Rate Rs.6							
Standard Cost		<u>Rs.7,500</u>						
	<table border="0"> <tr> <td style="font-size: 2em;">[</td> <td>Material Rs.6600</td> <td style="font-size: 2em;">]</td> </tr> <tr> <td></td> <td>Labour Rs. 900</td> <td></td> </tr> </table>	[Material Rs.6600]		Labour Rs. 900		
[Material Rs.6600]						
	Labour Rs. 900							

Note : All the above figures synchronize with that of diagrams.

Question No. – 2 (Variance Ratios)

NAB Limited has produced the following figures relating to production for the month ended 31st December, 2022

	Production (in Units)	
	Budgeted	Actual
Product A	400	400
Product B	400	300
Product C	100	140

Standard production times were :

	Standard hours per unit
Product A	5.0
Product B	2.5
Product C	1.0

During the week 2800 hours were worked on production.

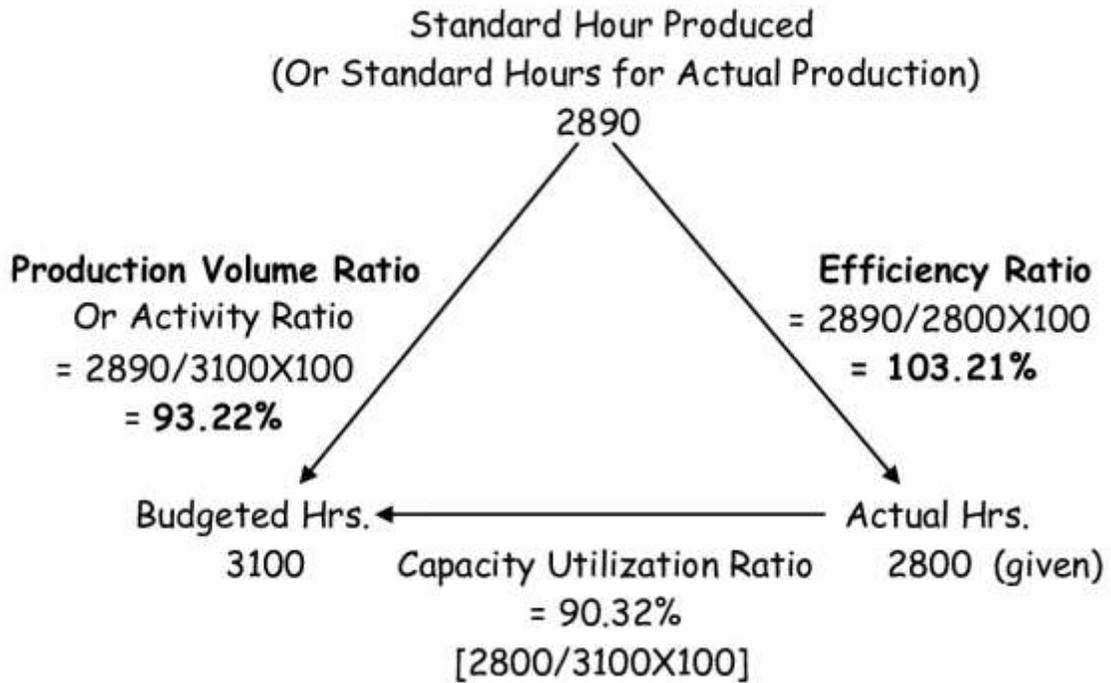
What shall be the :-

- 1) Production Volume Ratio or Activity : (a) 91.22% (b) 92.22% (c) 93.22% (d) 94.22%
Ratio
- 2) Efficiency Ratio : (a) 103.21% (b) 104.21% (c) 105.21% (d) 106.21%
- 3) Capacity utilization Ratio : (a) 87.32% (b) 88.32% (c) 89.32% (d) 90.32%

Answer :

1) (c) 93.22%	2) (a) 103.21%	3) (d) 90.32%
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Solution with Working Notes : In respect of Variance Ratios, the diagrammatic solution takes the following patterns as distinct from other varieties.

Working Notes :1) **Standard Hours for Actual Production**

Product	Units	Std Hours	SH for AP
A	400	5	2000
B	300	2.5	750
C	140	1	140
			2890

2) **Budgeted Hours**

Product	Units	Std Hours	Budgeted Hours
A	400	5	2000
B	400	2.5	1000
C	100	1	100
			3100

Tutorial Notes:

- i) The production volume ratio or Activity Ratio indicates the number of Standard hours equivalent to the work produced expressed as a percentage of budgeted hours. This shows how far the original expectations relating to volume of output have been met.
- ii) The efficiency ratio is the standard hours equivalent to the work produced, expressed as a percentage of the actual hours spent in producing that work. This ratio shows the significance of any change from original budget level of efficiency.
- iii) Capacity utilization Ratio is the relationship between Actual Hours in a budget period and the budgeted working hours in the period.
- iv) The relationship between the Ratios are shown below :-
Production Volume Ratio or Activity Ratio = Efficiency Ratio x Capacity Utilization Ratio / 100
 = 103.21 x 90.32 / 100 = **93.22%**

Solution through diagrams

A diagrammatic solution is characterized by arrows having spearhead in one side. The basic principle is that the amount standing at the spearhead side should always be deducted from that of the bottom side of the same. The resulting balance, if positive, signifies a Favourable Variance whereas a negative balance invariably signifies an Adverse or Unfavourable Variance, automatically. The principle involved can be clearly understood with a simple illustration following :

- 1) Rs.52 – Rs.48 = (+) Rs.4 = Rs.4 Favourable Variance, shown as Rs.4 (F)
- 2) Rs.52 – Rs.61 = (-) Rs.9 = Rs.9 Adverse or Unfavourable Variance, shown as Rs.9 (A)

Some of the multiple advantages associated with the diagrammatic solution of Variance Analysis are noted hereunder :

- 1) Diagram works as a road map which leads one to reach destination in the easiest way.
- 2) Diagrams are simple, easy to understand and use.
- 3) Solution can be arrived at within the shortest possible time.
- 4) Nature of Variance (Favourable or Adverse) emerges automatically due to in-built system.
- 5) Inter-relationship of related Variances are clearly visible and understood.
- 6) Inconsistency in on-going computation is promptly detected for correction.
- 7) It is easier to memorize the diagrams than a bunch of confusion-raising formulae.

A sincere practice of Variance Analysis through diagrams over a couple of days is likely to pay a rich dividend.

Indirect Taxation (ITX)



GROUP: 2, PART: 11,

INDIRECT TAXATION (ITX)

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Your Preparation Quick



Syllabus Structure

A Canons of Taxations -
Indirect Tax GST **80%**
B Customs Laws **20%**

Learning Objectives:

- The concept of tax and the objective for its levy
- The concept of direct and indirect tax and the differences between the two
- The basic features of indirect taxes
- What are the principal indirect taxes
- As to how the indirect taxes are administered in the country

Recent Clarification on GST till 22nd January 2023

CBIC has empowered Additional Assistant Directors of GST Intelligence or Audit to act as Superintendents for the purpose of GST law. GSTN has made available the functionality of Letter of Undertaking (LUT) for FY 2023-24 on portal. CBIC has already issued Notifications and clarifications Circulars to implement decisions of 48th GST Council meeting held in December, 2022. The Central Board of Indirect Taxes & Customs (CBIC) has got the approval to set up five in-house digital forensic laboratories in the Directorate General of GST Intelligence to facilitate investigations into tax evasion. CBIC has issued twocirculars, to clarify various issues of taxability such as accommodation services by Air force Mess, incentive paid by MeitY to banks, Compensation Cess on SUV's classification, carbonated beverages of fruit drink etc. GST on by-products of Milling of Dal / Pulses CBIC has clarified on the applicable GST. Rate on by-products of milling of Dal/ Pulses such as Chilka, Khanda and Churi/Chuni. GST Council has already recommended exemption of such goods irrespective of its end use in its 48th meeting on 17.12.2022. The said goods shall be exempt under GST. Further, matters that arose during the intervening period have been regularized on an "as is" basis from the date of issuance. CBIC has the applicable six-digit HS code for the goods with description 'Carbonated Beverages of Fruit Drink' or 'Carbonated Beverages with Fruit Juice' is HS 2202 99. The said goods attract GST at the rate of 28% and Compensation Cess at the rate of 12%.

Snack pellets CBIC clarified on classification and applicable GST rate on snack pellets manufactured through the process of extrusion (such as 'fryums'). Accordingly, it has been clarified that the snack pellets (such as 'fryums'), which are manufactured through the process of extrusion, are appropriately classified under tariff item 1905 90 30, which covers goods with description 'Extruded or expanded products, savory or salted', and thereby attract GST at the rate of 18% .

The GST Council in 48th meeting held on 17.12.2022 clarified on the definition of sports utility vehicles (SUVs) that would attract the highest cess of 22 per cent, over and above the GST rates on cars. CBIC has now clarified on applicability of Compensation Cess to Sports Utility Vehicles (SUV's) based on GST Council recommendation. It states specification of motor vehicles, which attract Compensation Cess @ 22 percent. Accordingly, it is clarified that Compensation Cess at the rate of 22 percent is applicable on motor vehicles, falling under heading 8703, which satisfy all four specifications, namely – these are popularly known as SUVs,

the engine capacity exceeds 1500 cc, the length exceeds 4,000 mm, and the ground clearance is 170 mm and above. Thus, in the case of SUVs, the clarification provides that the higher rate of compensation cess of 22 per cent is applicable to a motor vehicle fulfilling all four conditions — it is popularly known as SUV; has engine capacity exceeding 1,500cc; length exceeding 4,000 mm; has a ground clearance of 170 mm and above. This applies only to SUV's. This clarification is confined to and applies only to SUVs.

IGST rate has been increased from 5% to 12% on goods, falling under any Chapter, specified in the list annexed to the notification No. 1/2017-Central Tax (Rate), dated the 28th June, 2017). , when imported for the specified purpose (like Petroleum operations/Coal bed methane operations) and subject to the relevant conditions. Some goods specified in the list annexed to notification No. 3/2017-Integrated Tax (Rate), dated the 28th June, 2017., are also eligible for a lower schedule rate of 5% by virtue of their entry in Schedule I of notification No. 1/2017-Central Tax (Rate), dated the 28th June, 2017) It has been clarified now that on goods specified in the list annexed to the notification No. 3/2017-Integrated Tax (Rate), dated the 28th June, 2017., which are eligible for IGST rate of 12% under the said notification and are also eligible for the benefit of lower rate under Schedule I of the notification No. 1/2017-Central Tax (Rate), dated the 28th June, 2017) or any other IGST rate notification, the importer can claim the benefit of the lower rate. GST on accommodation services by Air Force Mess CBIC has issued a clarification on applicability of GST on accommodation services supplied by Air Force Mess to its personnel. All services supplied by Central Government, State Government, Union Territory or local authority to any person other than business entities (barring a few specified services such as services of postal department, transportation of goods and passengers etc.) are exempt from GST. It has been clarified that accommodation services provided by Air Force Mess and other similar messes, such as, Army mess, Navy mess, Paramilitary and Police forces mess to their personnel or any person other than a business entity are covered by S.No. 6 of notification No. 12/2017 – Central Tax (Rate) dated 28.06.2017. provided the services supplied by such messes qualify to be considered as services supplied by Central Government, State Government, Union Territory or Local Authority. (Source: Circular No. 189/01/2023-GST dated 13.01.2023) GST on Incentive paid by MeitY to Banks CBIC has clarified on Applicability of GST on incentive paid by Ministry of Electronics and Information Technology (MeitY) to acquiring banks under Incentive Scheme for promotion of RuPay Debit Cards and low value BHIM-UPI transactions. Under such scheme, the Government pays the acquiring banks an incentive as a percentage of value of RuPay Debit card transactions and low value BHIM-UPI transactions up to Rs.2000/-. Under the Payment and Settlements Systems Act, 2007, banks and system providers cannot charge any amount from a person making or receiving a payment through RuPay Debit cards or BHIM-UPI. The consideration for such services, instead of being paid by the merchant or the user of the card, is paid by the central government in the form of incentive. The incentive is in the nature of a subsidy directly linked to the price of the service and the same does not form part of the taxable value of the transaction in view of the provisions of section 2(31) and section 15 of the CGST Act, 2017. CBIC has therefore clarified that incentives paid by MeitY to acquiring banks under the Incentive scheme for promotion of RuPay Debit Cards and low value BHIM-UPI transactions are in the nature of subsidy and thus not taxable.

Company Accounts & Audit (CAA)



GROUP: 2, PART: 12,

COMPANY

ACCOUNTS & AUDIT
(CAA)

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Your Preparation Quick



Syllabus Structure

A Accounts of Joint Stock Companies 50%
B Auditing 50%

Learning Objectives:

- Apply appropriate judgment derived from knowledge of accounting theory, to financial analysis and decision making.
- Effectively define the needs of the various users of accounting data and demonstrate the ability to communicate such data effectively, as well as the ability to provide knowledgeable recommendations.
- Prepare financial statements in accordance with Generally Accepted Accounting Principles.
- Demonstrate an understanding of current auditing standards and acceptable practices, as well as the impact of audit risk on the engagement.

Company Accounts & Audit

Today we will discuss some issues of CFS

1.State the different categories into which cash flow transaction should be classified as per AS-3 “Cash Flow Statement”. Classify the following items into appropriate cash flow category:-

- i) Proposed dividend;
- ii) Payment to creditors for purchase of machinery;
- iii) Payment for buy back of share;
- iv) Loans to group companies;
- v) Payment of Income Tax.

Ans:- a)Cash flows from operating activities(v)

(b) Cash flows from Investing Activities (ii) and (iii)

(c) Cash flows from Financing Activities (i) and (iii)

2. For each of the following items, state how it should be reported in the cash flow statement for the year.

- i) Issue of 1,00,000 equity shares of Rs.10 each at a premium of Rs.2 per share.
- ii) purchase of equipment for Rs.5,00,000
- iii)Sale of equipment Rs.90,000(book value Rs.1,00,000)
- iv)Declared and paid dividend Rs.2,00,000
- v)Received interest Rs.10,000 from Investments.

Ans:- i) Cash inflow from financial activities Rs. 12,00,000

ii)Cash used in investing activities Rs.5,00,000

iii) Cash inflow from investing activities Rs.90,000

iv) Cash used for financial activities Rs.2,00,000

v) Cash inflow from investing activities Rs.10,000**3. Classify the following into cash flows from:**

- a) Operating Activities;
- b) Investing Activities ;
- c) Financial activities .
- i) Cash sales of goods-in-trade.
- ii) Cash paid to suppliers of Raw materials
- iii) cash payment of salaries and wages to employee
- iv) Cash payment to acquire a fixed assets, Machinery.
- v) Cash proceeds from issuing shares at a premium,
- vi) Payment of dividends
- vii) Interest received on investments.
- viii) interest Paid on debentures.
- ix) Payment of income Tax
- x) cash repayment of a long-term loan.

Ans:-{ a) i),ii),iii),ix); b) iv), vii); c) v), vi), viii), x)}

4. Choose the correct answer:

- a) Cash from operation is equal to:
 - i) Net profit plus decrease in current assets.
 - ii) Net profit plus decrease in current liabilities.
 - iii) Net profit plus bonus paid in the form of fully paid bonus shares.
- b) increase in the amount of prepaid expenses results in :
 - i) Increase in cash, ii) Decrease in cash , iii) No charge in cash,
- c) Cash flow statement is based upon:
 - i) accrual basis of accounting , ii) Cash basis of accounting .
- d) Increase in the amount of creditors result in:
 - i) Decrease in cash, ii) Increase in cash, iii) No change in cash.

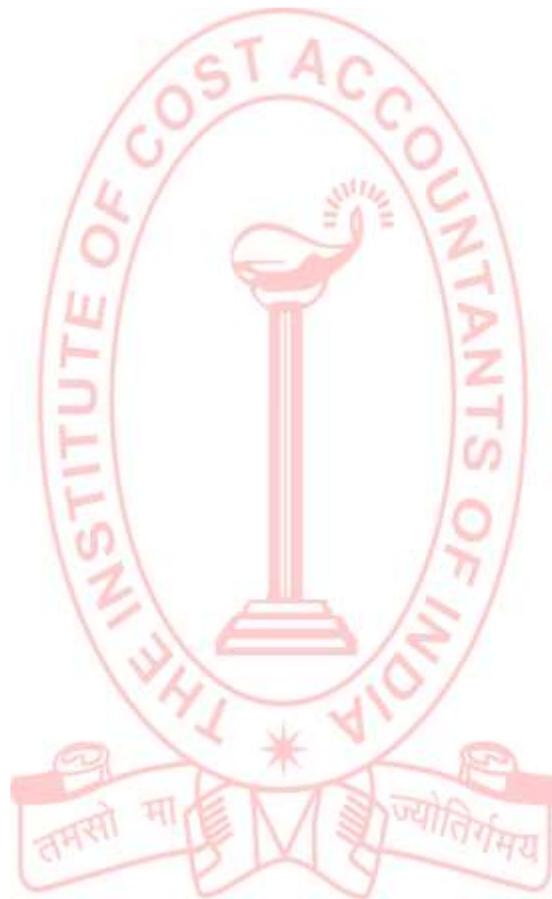
Ans:-{ a) i); b)ii); c) ii); d) ii)}

5. State whether the following statement are true or false;

- a) Cash flow statement is useful for short-term financial planning.
- b) Cash flow statement is based upon accrual basis of accounting.
- c) Cash flow statement is concerned with changes in working capital position between two balance sheet dates.
- d) whenever there is inflow of cash there will definitely be inflow of funds though reverse is not true.

- e) Cash from operations and funds from operations mean the same thing .
- f) Cash flow statement is a substitute of cash account .
- g) Increase in current liabilities is a sources of cash.
- h) Cash generated from trading operation is equal to the net profit as reported in the profit and loss account.
- i) Cash lost in operations is not equal to the net loss as reported in the profit and loss account.
- j) increase in provision for doubtful debts should be added back in order to find out cash from operations.
- k) Increase in the amount of debtors result in decrease in cash.

Ans:- True:- a), d), g),i),j) and k); False:- b), c), e), f),h).



Practical Advice



PRACTICAL Advice

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

01

Read Study Notes, MTPs, E-Bulletin, Work Books, Attend Webinar sessions

Solve Exercises given in Study Note

02

03

Assess Yourself

Appear For Examination

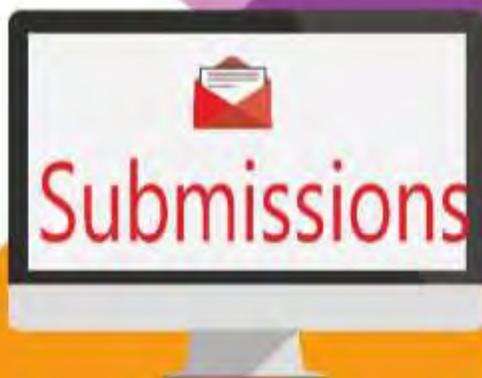
04

FINISHED

Submissions



SUBMISSIONS



Update of E-Mail Address/Mobile:

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

Dear Students,

We are very much delighted to receive responses from all of you; for whom our effort is!

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

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

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

Message from Directorate of Studies



Message from Directorate of Studies

Dear Students,

We from the Directorate of Studies understand your expectations from us and accordingly we are trying to deliver some meaningful tips through various publications in soft versions like-E-bulletins, Mock Test Papers (MTPs), and we also have conducted Webinar Sessions for the benefit of the students. Supplementary and Amendments are also uploaded from time to time to keep the students updated about the recent changes made in the papers; wherever applicable.

You must be aware that India is celebrating Azadi Ka Amrit Mahotsav, which is an initiative of the Government of India to celebrate and commemorate 75 years of independence and the glorious history of its people, culture and achievements. Along with pan India, your Institute has also observed and took part in various meaningful activities throughout the year. We also expect that our students should also take part in the development of the nation and make the country proud.

“Freedom has only one motto, may our country be happy and prosperous”

let you all observe the message cited above.

- Certain general guidelines are listed below and which will help you in preparing for the examinations:
- Conceptual understanding and overall understanding of the subjects should be clear,
- Students are advised to go through the study material provided by the Institute meticulously,
- Students should know and learn the basic understandings of the subjects with focus on core concepts,
- Students are expected to give to the point answer which is a pre-requisite for any professional examination,
- To strengthen the answers, students are advised to answer precisely and in the structured manner,
- Proper time management is also important while answering.

Please refer the link mentioned below:

<https://icmai.in/studentswebsite/index.php>

GOOD LUCK

Be prepared and be successful

Disclaimer:

Although due care and diligence have been taken in preparation and uploading this E-Bulletin, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this E-Bulletin.



**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**
Statutory Body under an Act of Parliament

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CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

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of the same Calendar Year

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Councils

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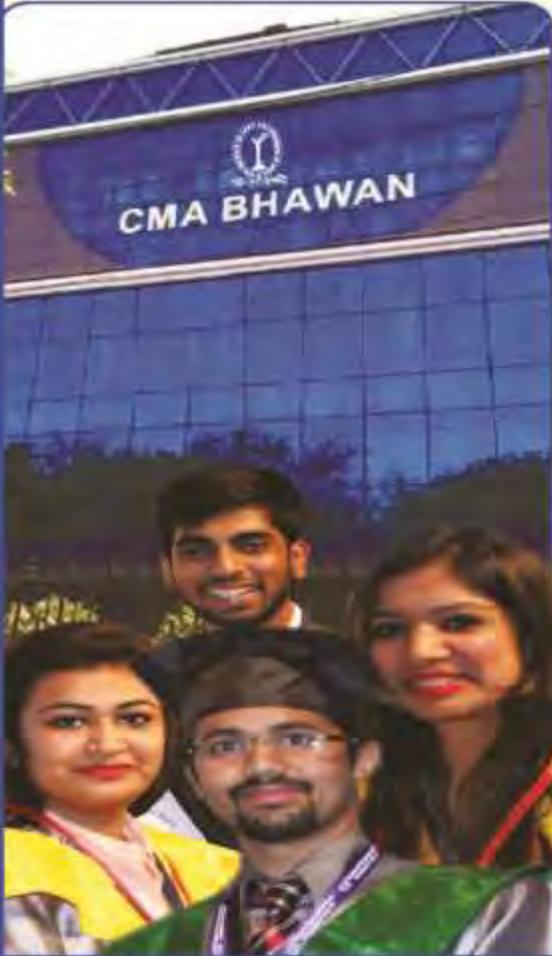
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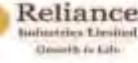
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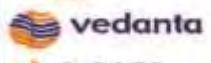
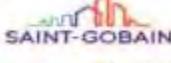



















and many more...

✉ placement@icmai.in / cpt@icmai.in

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Behind every successful business decision, there is always a **CMA**

Few Snapshots

Few Snapshots



CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.



CMA Vijender Sharma elected as President and CMA Rakesh Bhalla as Vice President of the Institute for the year 2022-23.



CMA Vijender Sharma, President of the Institute along with CMA B.B. Goyal, Former Addl Chief Advisor (Cost), MoF, GoI extending greetings to Shri Gyanesh Kumar, IAS, Secretary to the Government of India, Ministry of Cooperation on 6th December, 2022.



CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.



CMA Vijender Sharma, President along with CMA Rakesh Bhalla, Vice President, CMA Biswarup Basu, Past President and CMA Kaushik Banerjee, Secretary of the Institute extending greetings to Shri Manoj Govil, IAS, Secretary to the Government of India, Ministry of Corporate Affairs on 29th November 2022.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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