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Azadi Ka Amrit Mahotsav

# CMA Student E - Bulletin

# INTERMEDIATE

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# CONTENTS

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# 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.

Azadi Ka Amrit Mahotsav

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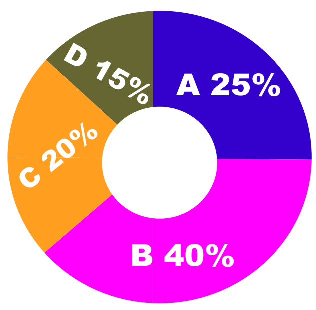
# GROUP: I, PAPER: 5
# FINANCIAL ACCOUNTING (FAC)

## Your Preparation Quick Takes




**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 Objective:**

- 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

Welcome once again to another new issue in your e bulletin.
A psychology professor entered the classroom with half a glass of water in his hand. The students expected the old common question "was it half empty or half full?" But to the surprise, he asked them "How heavy is this glass of water?"

The answers given by the students ranged from 25 mlts To 50 mlts But the professor replied that the actual weight of the glass with water doesn't always matter but how long you hold the glass is what matters.

If you hold the glass for a minute, you won't feel much weight. But if you hold for 10 minutes, you will feel a little more weight and it gets heavier for you with hours.

If you hold it for the entire day, then your hands would go numb and pain. Similar is the case when you carry stress with you. If you think about it for a while and leave it, then there is no problem but if you think about it for hours, it starts becoming a problem and it becomes worse if you sleep with it.

Definitely some of you have appeared for intermediate examination held last month. Those who have done well or even if you have not done well- go ahead. Life is big journey. Don't carry stresses. Enjoy your learning. Accept – come whatever may.

Best wishes to all you.

In the last issue we have revised the topic Joint Venture. Here again some exercises are given for your practice and revision of the chapter – Departmental Accounting and Branch Accounting.

**State whether the following statements are True' or 'False:**

(1) Departmental trading results are prepared because of statutory requirements.
(2) The ratio of sale prices and the ratio of cost prices will be one and same if the gross profit margin is uniform for all the departments.
(3) All expenses are to be apportioned between the departments on the basis of turnover.
(4) When inter-departmental transfer is based on market price, provision must be made for the unrealised profit included in the stocks lying with the transferee department.
(5) Provision for unrealised profit is to be charged to departmental profit and loss accounts.
(6) Depreciation is to be apportioned on the basis of value of machinery in each department.

**Answers: (1) False (2) True (3) False (4) True (5) False (6) True.**

**Fill in the blanks:**

(7) Rent and rates are apportioned to different departments on the basis of ..................... occupied by each department.
(8) In the case of inter-departmental transfers the simple rule to be applied is to debit the receiving department and credit the supplying department for the..............................................of the goods or services.
(9) Recording inter-departmental transfer price helps the management to evaluate the-............................and......................-of the departments concerned.

**Answers: (7) Floor area (8) Cost or market price (9) Efficiency and performance.**

**Indicate the correct answer.**

1) Rent and rates are apportioned to different departments on the basis of
a)Floor area occupied
b) number of workers
c)sales of each department
d)value of the assets kept

2)The turnover ratio is used for the allocation of
a) Income tax
b) bad debts
c) depreciation
d) staff welfare expenses

3) Provision for unrealised profit with respect to stocks when transferred at transfer price is to be charged to:
a) Departmental trading account

b) Departmental Profit and Loss account
c) Either a or b
d) General Profit and Loss account

**Answer: 1(a), 2 (b), 3 (d).**

**Branch Accounting**

**State whether the following statement are True' or 'False':**

1. Branch account under debtors system is a real account.

2. Under debtors system branch account is debited with losses like bad debts, discounts allowed and depreciation.

3. When the branch manager is allowed petty cash on imprest system, the amount remitted by HO. to reimburse the actual expenses will be debited to the branch account.

4. Under the stock and debtors system branch stock account is a real account.

5. Branch stock account is always prepared at cost price.

6. Under stock and debtors system branch adjustment account discloses the gross profit made by the branch.

7. In the case of independent branches the head office account in the books of the branch is analogous to capital account.

8. The items goods-In-transit and remittances-in-transit normally figure in the balance sheets of branch and head office respectively.

9. In the case of branch assets maintained in H.O. books, depreciation is to be debited to the profit and loss account of head office.

10. The balances shown by head office account and the branch account are always equal although the nature of balance differs.

**Answers: 1. False 2. False 3. True 4. True 5. False 6. True 7. True 8. False 9. False 10. False.**

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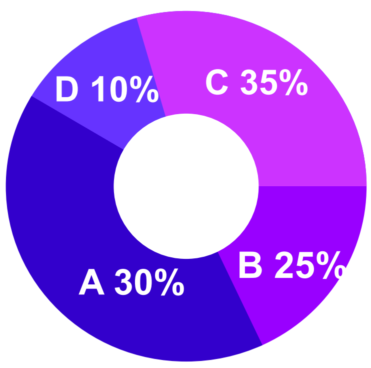
GROUP: I, PAPER: 6

# LAWS & ETHICS (LNE)

## Your Preparation Quick Takes




**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 penalise 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

**Punishment for violation of Section 94 of the Companies Act 2013**

(1) If any inspection or the making of any extract or copy required under this section is refused, the company and every officer of the company who is in default shall be liable, for each such default, to a penalty of Rs.1,000 (one thousand) for every day subject to a maximum of Rs.1,00,000 (One lakh) during which the refusal or default continues.

(2) The Central Government may also, by order, direct an immediate inspection of the document, or direct that the extract required shall forthwith be allowed to be taken by the person requiring it.

**Preservation Period - As per Sec.95 read with Rule 15(3)** of **The Companies (Management and Administration) Rules, 2014** provides that copies of Annual Return prepared and copies of certificates and documents required to be annexed thereto shall be ***preserved for a period of 8 years*** from the date of filing with the Registrar.

**Rule 16 of The Companies (Management and Administration) Rules, 2014** provides that **copies of the registers and annual return** maintained under section 88 or entries therein and annual return filed under section 92 shall be furnished to any member, debenture-holder, other security holder or beneficial owner of the company or any other person on payment of such fee as may be specified in the Articles of Association of the company but not exceeding Rs.10 for each page and such copy shall be supplied by the company within a period of 7 days from the date of deposit of fee to the company.

**Conclusive Evidence - Sec.95 of Companies Act,2013** provides that the registers, and copies of annual returns maintained under sections 88 and 94 shall be prima facie evidence of any matter directed or authorised to be inserted therein by or under this Act.

Now, we will discuss about **Meetings of a Company**

We will start with **Notice** under **Section 101**

**Notice of Meeting**

Section **101**. (1) A general meeting of a company may be called by giving not less than clear 21 days notice either in writing or through electronic mode .

**In case of private company** - Section 101 shall apply, unless otherwise specified in respective sections or the articles of the company

**In case of section 8 company**, in Section 101(1)(i) fourteen days clear notice shall be given

**In case of** Specified IFSC Public Company - Section 101 shall apply, unless otherwise specified in the articles of the company. Notification Dated 4th January, 2017.

**Meeting at Short Notice :** Effective From 09th February 2018

**A** general meeting may be called after giving shorter notice than that specified in Section 101(1) , if consent, in writing or by electronic mode, is accorded thereto—

(i) in the case of an annual general meeting, by not less than 95 per cent of the members entitled to vote thereat; and

(ii) in the case of any other general meeting, by members of the company -

(a) holding , if the company has a share capital, majority in number of members entitled to vote and who represent not less than ninety-five per cent. of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or

(b) having , if the company has no share capital, not less than 95 per cent. of the total voting power exercisable at that meeting

Effective From 09th February 2018 where any member of a company is entitled to vote only on some resolution or resolutions to be moved at a meeting and not on the others, those members shall be taken into account for the purposes of Sec.101(1) in respect of the former resolution or resolutions and not in respect of the latter.

Sec.101(2) provides that every notice of a meeting shall specify :

- the place,
- date,
- day and the hour of the meeting , and
- shall contain a statement of the business to be transacted at such meeting.

Sec.102(2) provides that –

(a) in the case of an annual general meeting, all business to be transacted thereat shall be deemed special, other than—

*(i)* the consideration of financial statements and the reports of the Board of Directors and auditors;

*(ii)* the declaration of any dividend;

*(iii)* the appointment of directors in place of those retiring;

(iv) the appointment of, and the fixing of the remuneration of, the auditors; and

(b) in the case of any other meeting, all business shall be deemed to be special:

**Provided that** where any item of special business to be transacted at a meeting of the company relates to or affects any other company, the extent of shareholding interest in that other company of every promoter, director, manager, if any, and of every other key managerial personnel of the first mentioned company shall, if the extent of such shareholding is not less than two per cent of the paid-up share capital of that company, also be set out in the statement.

**Notice to whom to be given :** Sec.101(3) provides that the notice of every meeting of the company shall be given to—

(a) every member of the company, legal representative of any deceased member or the assignee of an insolvent member;
(b) the auditor or auditors of the company; and
(c) every director of the company.

Sec.101(4) provides that any accidental omission to give notice to, or the non-receipt of such notice by, any member or other person who is entitled to such notice for any meeting shall not invalidate the proceedings of the meeting.

**Notice by Electronic mode : Rule 18 of the Companies (Management and Administration) Rules, 2014** provides that :

In case company elects to send the notice by electronic mode , then it has to send the notice to all the members who have provided electronic mail address to the company .

In case of failure of transmission of email, company has to resend the email to the members .

The company shall not be in default for not delivering notice of meeting via e-mail in case member entitled to receive notice fails to provide or update relevant e-mail address to the company, or to the depository participant as the case may be.

The subject line in e-mail shall state the name of the company, notice of the type of meeting, place and the date on which the meeting is scheduled.

The company's obligation shall be satisfied when it transmits the e-mail and the company shall not be held responsible for a failure in transmission beyond its control.

The company may send e-mail through in-house facility or its registrar and transfer agent or authorize any third party agency providing bulk e-mail facility.

The notice of the general meeting of the company shall be simultaneously placed on the website of the company if any and **on the website as may be notified** by the Central Government.

For the purpose of Rule 18 of the Companies (Management and Administration) Rules, 2014 , it is hereby declared that the extra ordinary general meeting shall be held at a place within India.

**Section 20** of the Companies Act, 2013 provides that a member may request for delivery of any document through a particular mode.

Sec.102(1) (1) A statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting, namely:—

*(a)* the nature of concern or interest, financial or otherwise, if any, in respect of each items of—
   (i) every director and the manager, if any;
   (ii) every other key managerial personnel; and
   (iii) relatives of the persons mentioned in Sec.102(1)(i) and (ii);

*(b)* any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

**Deemed Special Transaction :** Sec.102(2) provides that -

(a) in the case of an annual general meeting, all business to be transacted thereat shall be deemed special, other than—

*(i)* the consideration of financial statements and the reports of the Board of Directors and auditors;
*(ii)* the declaration of any dividend;
*(iii)* the appointment of directors in place of those retiring;
(iv) the appointment of, and the fixing of the remuneration of, the auditors; and

(b) in the case of any other meeting, all business shall be deemed to be special:

**Provided that** where any item of special business to be transacted at a meeting of the company relates to or affects any other company, the extent of shareholding interest in that other company of every promoter, director, manager, if any, and of every other key managerial personnel of the first mentioned company shall, if the extent of such shareholding is not less than two per cent of the paid-up share capital of that company, also be set out in the statement.

Sec.102(3) **regarding Inspection of documents,** provides that where any item of business refers to any document, which is to be considered at the meeting, the time and place where such **document can be inspected** shall be specified in the statement under Sec.102 (1).

Sec.102(4) **regarding Non-disclosure in Statement,** provides that where as a result of the **non-disclosure or insufficient disclosure in any statement** referred to Sec.102(1), being made by a promoter, director, manager, if any, or other key managerial personnel, any benefit which accrues to such promoter, director, manager or other key managerial personnel or their relatives, either directly or indirectly, the promoter, director, manager or other key managerial personnel, as the case may be, shall hold such benefit in trust for the company, and shall, without prejudice to any other action being taken against him under this Act or under any other law for the time being in force, be liable to compensate the company to the extent of the benefit received by him.

Sec.102(5) **regarding Penalty,** provides that without prejudice to the provisions of Section 102(4), if any default is made in complying with the provisions of this section, every promoter, director, manager or other key managerial personnel of the company who is in default shall be **liable to a penalty** of Rs.50,000 (fifty thousand) or five times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher.

**Quorum for Meetings**

Let us first understand what we mean by Quorum. 'Quorum' simply means the minimum number of members that have to be present , under the Act, for a General Meeting, a Board Meeting and an Extraordinary General Meeting. The Act enumerates the numbers required within its provisions.

Section 103 of the Act states that, unless the Articles of Association of the company provide for a larger quorum, the quorum required for a General Meeting shall be as follows :

**For public companies:**

- 5 members present if as on the date of the meeting being held, the number of members in the company does not exceed one thousand.
- 15 members present if as on the date of the meeting there are more than one thousand members but less than five thousand members.
- 30 members present if as on the date of the meeting there are more than five thousand members.

**For private companies:**

- In the case of a private company regardless of the number of members, two members must be present for the quorum to be met for a meeting.

Sec. 103(2) and Sec.103(3), of the Act lays down what to do when the quorum has not been met. If the quorum is not present within half an hour of the time set for the meeting to begin, then the following options will be applicable:

- The meeting will be adjourned, and it shall be held on the same day and at the same time next week, or any other date and time as the Board may determine.

- If the meeting is adjourned then the date, time and place of the meeting has to be notified personally or via advertisement. The advertisement must be published in both English as well as the vernacular language in a newspaper which is in circulation at a place where the registered office of the company is situated.
- The meeting, which are called by requisition under Section 100, shall stand cancelled.
- Under Sec. 103(3), if the quorum is not present at the adjourned meeting, then the members present shall form the quorum.

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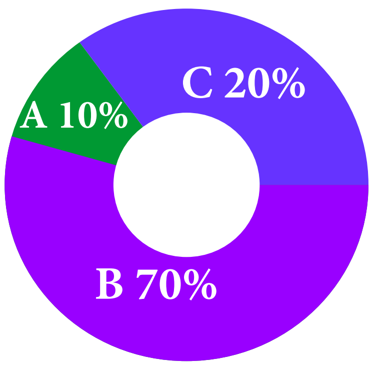
GROUP: I, PAPER: 7

# DIRECT TAXATION (DTX)

## Your Preparation Quick Takes




**Syllabus Structure**

**A** Income Tax Act Basics **10%**

**B** Heads of Income and Computation of Total Income and Tax Liability **70%**

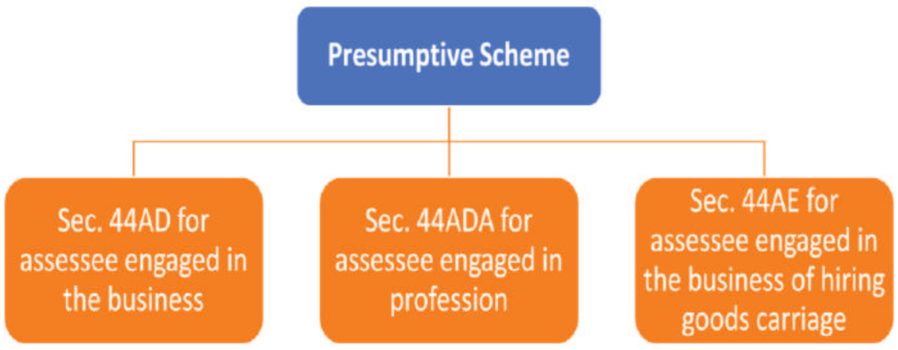
**C** Tax Management, Administrative Procedures and ICDS **20%**

**Learning Objectives:**

- Identify the key concepts and functions 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 file tax returns.

# Presumption Income in case of Business of Plying, Leasing or Hiring Goods Carriage [Sec. 44AE]

To give relief to small assessees, the Income-tax Law has incorporated a simple scheme commonly known as Presumptive Taxation Scheme. There are three schemes provided under section 44AD, 44ADA and 44AE. An assessee adopting these provisions is not required to maintain the regular books of account and also exempt from getting the accounts audited. In this bulletin, I am covering the provisions of the presumptive taxation scheme provided in section 44AE which is designed to give relief to small assessees engaged in the business of goods carriage. The detailed provisions in this regard are as follows:




| | | |
|---|---|---|
| **Applicable to** | All assessee engaged in the business of plying, hiring or leasing goods carriage. | |
| **Condition** | **Number of carriages**: Assessee must not own more than 10 goods carriages at any time during the previous year. *Owner* of carriages includes a buyer under hire purchase or installment system even if the whole amount is unpaid. *Goods carriage* means any motor vehicle constructed or adapted for use solely for the carriage of goods, or any motor vehicle not so constructed or adapted when used for the carriage of goods; | |
| **Estimated income** | Income from each goods carriage shall be: | |
| | **Type of Goods Carriage** | **Presumptive Income (Per month or part of a month)** |
| | Heavy | ₹ 1,000 per ton of gross vehicle weight or unladen weight |
| | Other | ₹ 7,500 |
| | 1. Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not.<br>2. An assessee can declare higher income. | |

***Taxpoint*:**

1. **Heavy goods vehicle** means any goods carriage, the gross vehicle weight of which exceeds 12000 kilograms
2. ***Deduction u/s 30 to 38***: The estimated income is comprehensive and no further deductions u/s 30 to 38 shall be allowed.
3. ***Deduction u/s 40(b)***: In the case of a firm, deduction in respect of remuneration and interest to partner u/s 40(b) shall be further deductible from income so computed.
4. ***Depreciation***: Depreciation is deemed to have been already allowed. The written down value of asset will be calculated, as if depreciation has been allowed.
5. ***Deductions***: The above estimated income is aggregated with other income of the assessee, from any other business or under any other heads of income. Further deduction under chapter VIA shall be available to the assessee as usual.
6. ***Brought forward loss***: Brought forward loss (if any) shall be adjusted from such estimated income.
7. ***Maintenance of books of account and audit***: An assessee, who estimates income from such business as per section 44AE, or a higher income, is not required to -
   - Maintain books of account u/s 44AA; and
   - Get his accounts audited u/s 44AB

   - in respect of his income from such business.

   However, he has to comply with the requirements of both sec. 44AA and 44AB in respect of his other businesses. Further to note that in computing the monetary limits u/s 44AA and 44AB, the gross receipts or income from the said business shall be excluded.
7. ***Effect if assessee declares lower income***: An assessee can declare his income lower than the estimated income as per provision of this section. In such case he will have to
   - Maintain books of account and other documents as required u/s 44AA; and
   - Get his accounts audited and furnish a report of such audit as prescribed u/s 44AB *irrespective of amount of turnover or*

*gross receipts.*

**Note**: Assessee can change his option from year to year.

**Example**

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2021, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton). On 2/5/2021, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6th May, 2021. This new vehicle could however be put to use only on 15-6-2021.

Compute the total income of Mr. Sukhvinder for the A.Y. 2022-23, taking note of the following data:

| Particulars | Amount | Amount |
|---|---|---|
| Freight Charges collected | | 8,70,000 |
| *Less*: Operational expenses | 6,25,000 | |
| Depreciation as per Sec. 32 | 1,85,000 | |
| Other Office expenses | 15,000 | 8,25,000 |
| Net Profit | | 45,000 |
| Other business and non-business income | | 70,000 |

**Solution**

Alternative 1) Direct estimation of income u/s 44AE

| Vehicle | No. of vehicle | Details | Amount |
|---|---|---|---|
| Light | 4 | ₹ 7,500 x 4 vehicles x 12 months | 3,60,000 |
| Heavy | 5 | ₹ 1,000 x 5 vehicles x 12 months x 20 ton | 12,00,000 |
| Heavy | 1 | ₹ 1,000 x 1 vehicle x 2# months x 20 ton | 40,000 |
| Light | 1 | ₹ 7,500 x 1 vehicles x 11# months | 82,500 |
| **Income from business of plying goods carriage** | | | 16,82,500 |
| ***Add*: Other business and non-business income** | | | 70,000 |
| Total Income | | | **17,52,500** |

# Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not. For this purpose, any fraction of the month shall be considered as month.

Alternative 2) Computation of income as per the provision of sec. 28 to 38

| Particulars | Amount | Amount |
|---|---|---|
| Freight charges collected | | 8,70,000 |
| *Less*: Expenditure related to business | | |
| Operational expenses | 6,25,000 | |
| Depreciation u/s 32 | 1,85,000 | |
| Other office expenses | 15,000 | 8,25,000 |
| **Income from business of plying goods carriage** | | 45,000 |
| ***Add*: Other business and non-business income** | | 70,000 |
| Total Income | | **1,15,000** |

Since Mr. Sukhvinder has lower taxable income in alternative 2 hence his total income is ₹ 1,15,000. But to claim such lower income than the estimated income (computed in alternative 1) as per provision of section 44AE, he will have to —

- Maintain books of account as required u/s 44AA; and
- Get his accounts audited.

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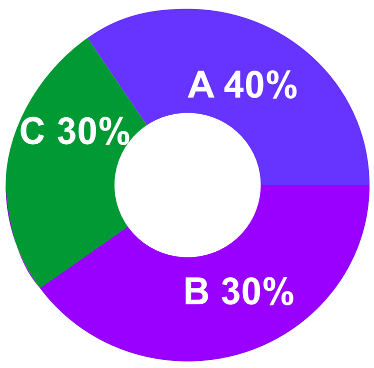
## GROUP: I, PAPER: 8

# COST ACCOUNTING (CAC)

# Your Preparation Quick Takes




**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

The World of Cost Accounting is vast and varied. That is why we bring out Cost Accounting with a new approach and in an inimitable style. Although manufacturer are now willing to accept as a principle that Costing is of value , there is still a considerable lack of appreciation by many of them is to where its value lies. Costing enable a business not only to find out what various jobs or processes have cost but also what they should have cost; it indicates where loses and waste are occurring before the work is finished, and there for immediate action may be taken if possible to avoid such losses or waste . Business policy may require the consideration of alternative methods and procedures, and this is facilitated by cost information correctly presented. At present 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 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.

In our study the 8th paper is a scoring subject out of all papers in the intermediate course of the Institute of Cost Accountants of India. It is observed from the past experience that 70% to 80% of the total questions are set from practical problems and the balance is theoretical part. Although only 20% questions are set from theoretical part, but a greater emphasis should be given on theoretical part, as most of the students are very much weak in theory. For easy understanding the topic you should go through the theory in details and then try to solve the exercise problems. Starting from the first chapter we should go through all other chapter serially to understand the succeeding chapters in a better way.

Here emphasis should be given mainly on testing comprehension, self expression and managerial ability to apply knowledge in divergent situation. There is no scope of repetition of questions. 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 the following tips based on my personal teaching experiences during this longer period.

1. A time bound plan should be there for completing the whole syllabus as well as revision within the target periods.
2. Try to 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 to fifteen terms.
4. Please try to write all the important terms in your own words and read them regularly.
5. Improve your speed by regular practice and revision.
6. Always try to answer all objective type questions as practice, which carries 100% marks.
7. Try to develop a habit of reading the questions well, underlining and understanding the specific demands.
8. Clarity or concepts is different from cramming which exerts avoidable strain on the students.

The main purpose of our study, Paper – 8 are to understand the concept of cost, determining the Cost of product or services, understanding the concept of Standard Cost, applying the concept of the marginal costing , Budgetary Control and formulating of business strategy and operational planning.

The syllabus is divided into six main chapters. In first chapter the basic concepts 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. Here a classification has to be made to arrive at the detailed cops of departments, process, production orders , jobs or other cost units. 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 by solving the practical problems. This will help to realize the concept of Cost Accounting very clearly.

The third chapter is related to Cost Book-keeping, which includes integrated accounting system also. In the cost books, only nominal accounts, as per example, income and expenses , losses and gains, etc, and some extent, real accounts are recorded. Costing department is concerned with income and expenditure relating to business carried on. The transactions are recorded on the basis of double entry principles. This chapter is very easy to understand but the process is lengthy. In practice, different accounts are to be opened, but it is not necessary to give much effort to complete its solution.

The next chapter is associated with Contract Costing, which is used when job or orders are undertaking in the factory or workshop and when contracts are taken for building a house , construct roads, bridges, damps etc. Students often face difficulty in recommending the profits to be taken into account in case of incomplete contract. There are some standard norms for computation and recognition of profit /loss of incomplete contract. Students sometimes experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. Make sure that you are familiar with various methods/formulas for different stage of completion and share of profit. Students are also advised to go through the topic " Profit on incomplete contracts based on SSAP-9. ". Problems on escalation clause are also very important for this chapter.

The next chapter, 'Operating Costing' relates to find out operating cost per unit of output. Operating costing has derived its name from cost ascertainment by each operation. This chapter also includes 'Transport Costing' , 'Hospital Costing', 'Power House Costing' , 'Hotel/ Hostel Costing' etc. Composite unit finding is important for solving the problem.

The next chapter "Marginal Costing" is not a particular method of cost ascertainment but a technique dealing with the nature and behavior of cost and there effects upon the profitability of an organization. It aims to find out cost-volume-profit relationships of a product. Some times more than one problem may be set from this chapter. The main thrust should be to follow the working and determine the desired impact on profitability. Finding the B.E.P. in Break-even Analysis is the basic part for solving problem. In this analysis you should also study the effect on profits due to various changes in Fixed Cost, variable cost, selling price and sales- mix.

In Slandered Costing, variances are analyzed in detail according to their originating causes. It provides a valuable guidance to the management in several management functions, such as in formulating policies, in determining prices, etc. The chapter relates to 'Variance Analysis' which helps the management to fix responsibility for each department and to identify the activities or areas of exceptions. Standard Costing, an accounting technique, came to be developed as a systematic method of Comparing the actual cost with the predetermined standard of cost and performance. 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 careful study and realization of the requirement in the problem can eliminate such difficulties. The main purpose of Variance analysis is to enable the management to improve the operations for effectives utilization of resources need to increase the efficiency by reducing cost.

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. A budget is thus a slandered with which to measure the actual achievement of pupil, departments , farms etc. It is the planning in advanced of various functions of a business so that the business as a whole can be controlled. 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.

Selection of method of remuneration to workers is the most complex problem nowadays ---
from the view point of both workers as well as employers. There is not any single method which is acceptable to both. Hence prosperity of a concern depends on the joint and co-ordinate efforts of both the employers and employees. Here we have suggested some important questions in MCQ pattern for understanding the concept of labour clearly.

**A. State which statements are correct (C) and which are wrong(W) :**

(i) The cost of labour turnover is recovered through departmental overhead recovery rates.
(ii) Measurement of labour turnover gives an idea of the degree of mobility of labour.
(iii) Labour mobility being purely personal, nothing can be done to reduce high labour turnover.
(iv) Defection of workers is one of the reasons for labour turnover.
(v) The cost of abnormal idle time may be recovered by inflating the hourly rate.
(vi) The cost of normal idle time may be charged to departmental overhead.
(vii) The treatment of idle time in cost accounting depends upon the destination between normal and abnormal idle time.
(viii) The difference between time clocked and time booked is known as idle time.
(ix) Time booking is the recording of time spent by a worker on a specific job or work order.
(x) Time booking is not necessary when time keeping is accomplished.
(xi) Time keeping facilitates the preparation of payroll.
(xii) Labour cost can be reduced by recruiting cheap labour.
(xiii) A well-satisfied team of workers can raise productivity to a large extent.
(xiv) Productivity of workers can be improved only if they are supervised closely.

**[ Ans. Correct (C) : (i), (ii), (iv), (vi), (vii), (viii), (ix), (xi), (xii).**
**Wrong (W) : (iii), (v), (x), (xii), (xiv).**

**B. State which statements are correct and which are wrong :**

(i) The Halsey Plan protects workers against loose premium rate setting.
(ii) Piece rate system cannot be successfully applied when the work is of repetitive type.
(iii) Time wages system is suitable where output cannot be measured.
(iv) Price rate system is suitable when quality of goods produced is of extreme importance.
(v) There are two principal wage system.
(vi) Low time wages do not necessarily mean low cost of production and high wages mean high cost of production.

**[ Ans. Correct ( C ) : (iii), (v), (vi).**
**Wrong (W) : (i), (ii), (iv) ]**

**C. State which statements are correct and which are wrong :**

(i) Muster roll is necessary for the preparation of the payroll.
(ii) High wages need not necessarily mean high cost per unit.
(iii) Non-financial incentive or labour based costs are also fringe benefits.
(iv) Fringe benefits are labour – related costs.
(v) Group bonus plans distinguish between efficient and inefficient workers.
(vi) Under the Rowan Plan bonus is a fixed percentage.
(vii) The Halsey plan guarantees a minimum hourly wage.
(viii) Incentive plans benefit only the employees.
(ix) Premium Bonus plans induce workers to increased efficiency and greater output.
(x) payment by result method lowers the cost of production through their impact on fixed on fixed costs.
(xi) Time and Motion study, which is function of the Engineering department , is useless for the determination of Wages.

**[ Ans. Correct ( C ) : (i), (ii), (iv), (vi), (ix), (x).**
**Wrong (W) : (iii), (v), (vii), (viii), (xi). ]**

Comprehensive Machine Hour 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. A problem related to this method is given below.

**Problem :**

A machine costs Rs. 90000 and is deemed to have a scrap value of 5% at the end of its effective life ( 19 years ) . Ordinarily the machine is expected to run for 2400 hours per annum but it is estimated that 150 hours will be lost for normal repairs and maintenance and further 750 hours will be lost due to staggering . The other details in respect of the machine shop are :

| | |
|---|---|
| ( a ) Wages, bonus and provident fund Contribution of each of two operators ( each operator is in charge of two machines ) | 6000 per year |
| ( b ) Rent & rates of the shop | 3000 per year |
| ( c ) General Lighting of the shop | 250 per month |
| ( d ) Insurance Premium for the machine | 200 per quarter |
| ( e ) Cost of repairs & maintenance per machine | 250 per month |
| ( f ) Shop Supervisor's Salary | 500 per month |
| ( g ) Power Consumption of the machine per hour 20 units , rate of power per 100 units | Rs. 10 |
| ( h ) Other factory overhead attribute to the shop | 4000 per year |

There are four identical machines in the shop. The supervisor is expected to devote one-fifth of his time for supervising the machine. Compute a comprehensive machine hour rate from the above details.

**Solution**

**Statement showing Computation of machine Hour Rate**

Machine No. .......... Cost Rs. 90000 Life of Machine = 19 Years
Scrap value - 5% of Rs. 90000 Working hours = 2400 hours
Idle time = 150 + 750 = 900

| Particulars | Per Year Rs. | Per hour Rs. |
|---|---|---|
| Fixed Expenses : | | |
| Rent & Rates Rs. 3000/4 | 750 | |
| General Lighting $\frac{Rs.\ 250 \times 12}{4}$ | 750 | |
| Insurance Rs. 200 × 4 | 800 | |
| Supervisor's Salary $\frac{Rs.\ 500 \times 12}{5}$ | 1200 | |
| Allocated Overheads $\frac{Rs.4000}{4}$ | 1000 | |
| For 1500[ 2400 – 900 ] hours | 4500 | 3.00 |
| **Variable Expenses :** | | |
| Wages, Bonus & Provident Fund $\left[\frac{Rs.\ 6000}{2 \times 1500}\right]$ | | 2.00 |
| Power Rs. 10 × $\frac{20}{100}$ | | 2.00 |
| Repairs & Maintenance $\frac{Rs.\ 250 \times 12}{1500}$ | | 2.00 |
| Depreciation $\frac{Rs.\ (90000 - 4500)}{1500 \times 19}$ | | 3.00 |
| Machine Hour Rate | | 12.00 |

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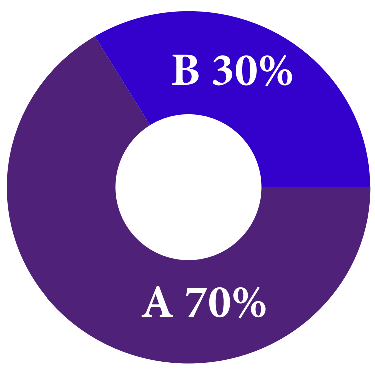
GROUP: II, PAPER: 9, Part- i

# OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM)

## Operations Management

# Your Preparation Quick Takes




**Syllabus Structure**
**A** Operations Management **70%**
**B** Strategic Management **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 we will discuss on Capacity Requirement Planning with illustrations

$$Capacity\ Requirement\ (M) = \frac{Processing\ hours\ required\ to\ meet\ year's demand}{Hours\ available\ from\ a\ single\ capacity\ unit\ per\ year\ after\ deducting\ desired\ cushion}$$

[Single capacity means an employee, a machine, a computer etc]

$$= \frac{D_p}{N[1 - \left(\frac{C}{100}\right)]} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(1)$$

$Where$

$D = demand\ forecast\ for\ the\ year\ (number\ of\ customers\ serviced\ or\ units\ of\ product)$

$p = processing\ time\ (in\ hours\ per\ customer\ served\ or\ unit\ product)$

$N = total\ number\ of\ hours\ per\ year\ during\ which\ the\ process\ operates$

$C = desired\ capacity\ cushion\ (expressed\ as\ a\ percent)$

$M$ is the number of input units (Say no of machines) required and should be calculated for each year in the time horizon.

**Illustration1 :** Say a business house has the following demand forecast for the next five years for their single product X

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Demand (units) | 2000 | 2500 | 3000 | 4000 | 6000 |

Let one unit requires 2 hours to complete (ignoring the learning effect) and in a year there will be 250 working days with 8hours per day working hours. If 20% is the desired cushion then in 1$^{st}$ year

Total demand = 2000 units

Total Hours required to meet the demand = 2000* 2 = 4000 hours

Total working hours available in the year = 250* 8 = 2000 hours

Without any cushion No of machines required in 1$^{st}$ year = 4000/2000 = 2

With cushion no of machines required = 2/(1-0.2) ≅ 3 machines. Similarly calculations for each year are done and the result is

| | | | | | |
|---|---|---|---|---|---|
| D | 2000 | 2500 | 3000 | 4000 | 6000 |
| p | 2 | 2 | 2 | 2 | 2 |
| N | 2000 | 2000 | 2000 | 2000 | 2000 |
| (250*8) | | | | | |
| $D_p$ | 4000 | 5000 | 6000 | 8000 | 12000 |
| C/100 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| | | | | | |
| M (by formula) | 2.5 | 3.125 | 3.75 | 5 | 7.5 |
| M(rounding off) | 3 | 4 | 4 | 5 | 8 |

It is impossible to buy a fractional machine. In case of fraction round up the fractional part, unless it is cost efficient to use short term options such as overtime or stock-outs to cover any shortfalls. If instead the capacity unit is the number of employees at a process, a value of 19.8 may be achieved by employing 19 employees and a modest use of overtime equivalent to 0.8 i.e. 80% of another full time person.

The above illustration is done with a single product. When multiple products are being manufactured SETUPs may be involved and equation (1) above will be accordingly adjusted.

Setup time is the time required to change a process or an operation from one service or product to making another.
Say Durgapur Steel Plant has a rolling mill which rolls raw steel to produce ribbed rods (X) and to produce railway wheels (Y). X and Y requires different varieties of rolls in rolling mill operation. The rolling mill operates alternatively to roll steel for producing--- one batch of ribbed rods followed by one batch of railway wheels. So machines of rolling mill requires adjustment after completion of every roll. This adjustment is called setup and time required for this adjustment is called setups time.
So after accounting for both processing and setup times equation (1) above for multiple products/services can be modified as

$$Capacity\ Requirements\ (M)$$
$$= \frac{Processing\ \&\ Set\ up\ \ hou\quad required\ to\ meet\ year's demand\ summed\ over\ all\ services/products}{Hours\ available\ from\ a\ single\ capacity\ unit\ per\ year\ after\ deducting\ desired\ cushion}$$
$$= \frac{[Dp + \left(\frac{D}{Q}\right)s]_{product1} + [Dp + \left(\frac{D}{Q}\right)s]_{product2} + \cdots \dots \dots . + [Dp + \left(\frac{D}{Q}\right)s]_{productn}}{N[1 - \left(\frac{C}{100}\right)]} \dots \dots \dots (2)$$

Where
$Q$
$= number\ of\ units\ in\ each\ lot. Say\ in\ our\ rolling\ mill\ example\ steel\ will\ be\ rolled\ to\ produc$
$500\ tons\ of\ ribbed\ rod\ and\ 1000\ tons\ of\ railway\ wheel\ in\ each\ rolling\ operation$
$s = set\ up\ time\ (in\ hours) per\ lot$

**Illustration2**: Let our rolling mill in Durgapur steel plant has provided the following data related to year 2021:

| Particulars | Ribbed Rods (X) | Railways wheel (Y) |
|---|---|---|
| Annual demand forecast | 12000 T | 18000 T |
| Standard processing time (hours of rolling/T) | 2 hours | 3 hours |
| Average lot size (Ton/rolling) | 500 | 1000 |
| Standard set up time (hours) | 20 minutes = 1/3 hours | 25 minutes = 5/12 hours |
| The plant operates for 300 day in 3shift operation of 8 hours each. Cushion 20% | | |

With the above data computation details for finding out No of rolling bed in Rolling Mill are:

| | Particulars | Ribbed Rod X | Railway Wheels Y | Total |
|---|---|---|---|---|
| 1 | Annual demand (T) | 12000 | 18000 | |
| 2 | Proceesing time (hrs) | 2 | 3 | |
| 3 | Dp (1*2) | 24000 | 54000 | |
| 4 | Average Lot size [Q] | 500 | 1000 | |
| 5 | No of lots (1/4)[D/Q] | 24 | 18 | |
| 6 | Set up time (hours/lot)[s] | 1/3 | 5/12 | |
| 7 | Set up time (hours) [(D/Q)*s] (5*6) | 8 | 7.5 | |
| 8 | Dp+ (D/Q)*s | 24008 | 54007.5 | 78015.5 |
| 9 | N*(1-C/100)= 300*24*(1-0.2) | | | 5760 |
| 10 | M (as per formula) | | | 13.54436 |
| 11 | M (rounding off) | | | 14 |
| | (M no of rolling bed in rolling mill) | | | |

**Illustration3:** For your company capacity measures is in number of machines. The company produces three product A, B and C. Processing and Set up times (Time standard), lot sizes and demand forecasts are given in the following table. The firm operates 3-8hour shifts, 5 days week, 50 weeks per year. A capacity cushion of 5% is sufficient.

| Product | Time standard | | Lot Size (units/lot) | Demand Forecast (units/year) |
|---|---|---|---|---|
| | Processing(hr/unit) | Setup(hr/unit) | | |
| A | 2 | 0.5 | 300 | 18000 |
| B | 5 | 1 | 500 | 50000 |
| C | 3 | 1 | 1000 | 9000 |

(i) How many machines are needed?
(ii) If the operation currently has fifty machines, what is the capacity gap?

**Answer:**

(i) The number of hours of operation per year, $N = \frac{3shifts}{day} * \frac{8hours}{shift} * \frac{5day}{week} * 50week = 6000hours$

The number of machines required $M$ is the sum of machine hour requirements for all three products divided by the number of productive hours available for one machine

$Capacity\ Requirements\ (M)$

$$= \frac{Processing\ \&\ Set\ up\ \ hou\ \ \ \ required\ to\ meet\ year's demand\ summed\ over\ all\ services/products}{Hours\ available\ from\ a\ single\ capacity\ unit\ per\ year\ after\ deducting\ desir\ \ \ \ cushion}$$

$$= \frac{[Dp + (\frac{D}{Q})\, s]_A + [Dp + (\frac{D}{Q})\, s]_B + [Dp + (\frac{D}{Q})\, s]_C}{N[1 - (\frac{C}{100})]}$$

$$= \frac{\left[18000 * 2 + \left(\frac{18000}{300}\right) 0.5\right] + \left[50000 * 5 + \left(\frac{50000}{500}\right) 1\right] + \left[9000 * 3 + \left(\frac{9000}{1000}\right) 1\right]}{6000[1 - \frac{5}{100}]}$$

$$= \frac{313139}{5700} = 54.9 \cong 55\ machines$$

(ii) The capacity gap is $55 - 50 = 5\ machines$. 20 more machines should be purchased unless management decides to use short term options, if any available, to fill the gap

**Illustration4:** Up, Up and Away is a producer of kites and wind socks. Relevant data on a bottleneck operation in the shop for the upcoming fiscal year are given in the following table:

| Item | Kites | Wind Socks |
|---|---|---|
| Demand forecast | 30000 units/year | 12000 units/year |
| Lot size | 20 units | 70 units |
| Standard processing time | 0.3hours/unit | 1.0 hour/unit |
| Standard setup time | 3hours/lot | 4hours/lot |

The shop works for two shifts per day, 8 hours per shift, and 200 days per year. Currently, the company operates four machines and desires a 25% capacity cushion. How many machines should be purchased to meet the upcoming year's demand without resorting to any short term capacity solution?

**Answer:**

The number of hours of operation per year, $N = \frac{2\ shifts}{day} * \frac{8 hours}{shift} * 200\ days = 3200 hours$

The number of machines required $M$ is the sum of machine hour requirements for all two products divided by the number of productive hours available for one machine

$Capacity\ Requirements\ (M)$

$$= \frac{Processing\ \&\ Set\ up\ \ hours\ required\ to\ meet\ year's demand\ summed\ over\ all\ services/products}{Hours\ available\ from\ a\ single\ capacity\ unit\ per\ year\ after\ deducting\ desired\ cushion}$$

$$= \frac{[Dp + (\frac{D}{Q})\, s]_K + [Dp + (\frac{D}{Q})\, s]_W}{N[1 - (\frac{C}{100})]}$$

$$= \frac{\left[30000 * 0.3 + \left(\frac{30000}{20}\right) 3\right] + \left[12000 * 1 + \left(\frac{12000}{70}\right) 4\right]}{3200[1 - \frac{25}{100}]}$$

$$= \frac{26185.71}{2400} = 10.91 \cong 11\ machines$$

So another $11 - 4 = 7$ machines are to be purchased

**Illustration5:** Turf-Rider Inc. manufactures touring bikes and mountain bikes in a variety of frame sizes, colors and component combinations. Identical bicycles are produced in lots of 100. The projected demand, lot size and time standards are shown in the following table:

| Item | Touring | Mountain |
|---|---|---|
| Demand forecast | 5000 units/year | 10000 units/year |
| Lot size | 100 units | 100 units |
| Standard processing time | 25hours/unit | 5 hour/unit |
| Standard setup time | 2hours/lot | 3hours/lot |

The shop currently works 3shift 8 hours a shift, 5 days a week, 50 weeks a year. It operates hundred workstations, each producing one bicycle in the time shown in the table. The shop maintains a 15% capacity cushion. How many workstations will be required next year to meet expected demand without using overtime and without decreasing the firm's current capacity cushion?

**Answer:**

The number of hours of operation per year, $N = \frac{3\,shif}{day} * \frac{8hours}{shift} * 5\,\frac{days}{week} * 50\,week = 6000hours$

The number of machines required $M$ is the sum of machine hour requirements for all two products divided by the number of productive hours available for one machine

$Capacity\ Requirements\ (M)$

$$= \frac{Processing\ \&\ Set\ up\ \ hours\ required\ to\ meet\ yea\ 'sdemand\ summed\ over\ all\ services/products}{Hours\ available\ from\ a\ single\ capacity\ unit\ per\ year\ after\ deducting\ desired\ cushion}$$

$$= \frac{[Dp + \left(\frac{D}{Q}\right)s]_T + [Dp + \left(\frac{D}{Q}\right)s]_M}{N[1 - \left(\frac{C}{100}\right)]}$$

$$= \frac{\left[5000 * 25 + \left(\frac{5000}{100}\right)2\right] + \left[10000 * 50 + \left(\frac{10000}{100}\right)3\right]}{6000[1 - \frac{15}{100}]}$$

$$= \frac{625400}{5100} = 122.63 \cong 123\ workstations$$

**Cost Volume Analysis:**

- Focuses on relationships between Cost, Revenue and Volume of Output
- Purpose is to estimate the income of an organisation under different operating conditions
- Require identification of all costs related to the production of a given product
  - ➢ $Total\ Cost\ (TC) = Fixed\ Cost(FC) + Variable\ Cost\ (VC)$
  - ➢ Fixed costs tend to remain constant regardless of volume of output—Rent, Property tax, Central administrative costs etc.
  - ➢ Variable costs vary directly with volume of outputs - Direct Material costs, direct labour costs etc.

- $VC = Volume\ of\ output\ (Q) * variable\ cost\ per\ unit\ (v)$
- $Total\ Revenue(TR) = Revenue\ per\ unit\ (R) * Q$
- $v$ & $R$ remain constant regardless of volume of output
- $Profit(P) = TR - TC = R * Q - v * Q - FC$
- $Break\ Even\ point\ (BEP) = \frac{FC}{R-v}$
- $No\ of\ units\ to\ generate\ a\ specified\ profit\ = \frac{F+P}{R-v}$
- Usually Fixed costs change in steps i.e. remain constant up to a certain level of production and then changes to a new level. This new level will again remain constant up to another level and then again change. So fixed cost is called step costs
- Under this method capacity alternatives are to be evaluated with step costs.

**Illustration6:** A manager has the option of purchasing one, two or three machines. Fixed costs and potential volumes are as follows:

| Number of Machines | Total Annual Fixed Cost (R) | Corresponding Range of output |
|---|---|---|
| 1 | 9600 | 0 to 300 |
| 2 | 15000 | 301 to 600 |
| 3 | 20000 | 601 to 900 |

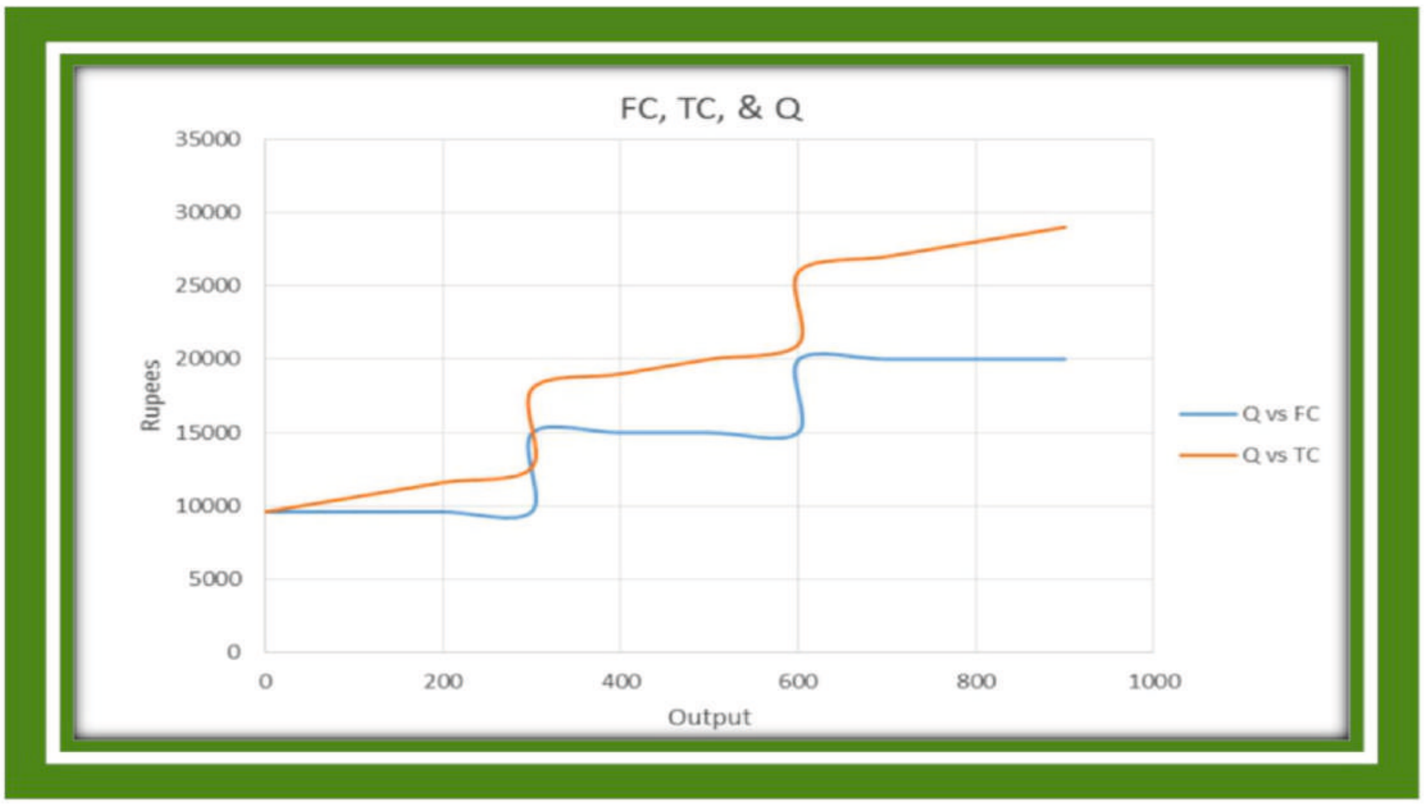
Variable cost is R10 per unit and revenue is R40 per unit

(i) Determine the break-even point for each range

(ii) If projected annual demand is between 580 and 660 units, how many machines should the manager purchase?

**Answer:** Detail computations are

| Output | No of machines | Revenue p.u | Variable Cost p.u | FC | TR | TC | BEP |
|---|---|---|---|---|---|---|---|
| 0 | 1 | 40 | 10 | 9600 | 0 | 9600 | |
| 100 | 1 | 40 | 10 | 9600 | 4000 | 10600 | |
| 200 | 1 | 40 | 10 | 9600 | 8000 | 11600 | 320 |
| 300 | 1 | 40 | 10 | 9600 | 12000 | 12600 | |
| 301 | 2 | 40 | 10 | 15000 | 12040 | 18010 | |
| 400 | 2 | 40 | 10 | 15000 | 16000 | 19000 | |
| 500 | 2 | 40 | 10 | 15000 | 20000 | 20000 | 500 |
| 600 | 2 | 40 | 10 | 15000 | 24000 | 21000 | |
| 601 | 3 | 40 | 10 | 20000 | 24040 | 26010 | |
| 700 | 3 | 40 | 10 | 20000 | 28000 | 27000 | |
| 800 | 3 | 40 | 10 | 20000 | 32000 | 28000 | 666.6667 |
| 900 | 3 | 40 | 10 | 20000 | 36000 | 29000 | |




Comparing the projected range of demand (580 to 600) to the two ranges for which a breakeven point occurs (refer the following figure), we can see that the BEP is 500, which is in the range 301 to 600. This means that even if demand is at the low end of the range (580) it would be above BEP and thus yield a profit. That is not true of range 601 to 900, as under this range even at the top of projected demand (i.e.600), it is less than BEP (667) & there will be no profit. Hence the manager should choose two machines

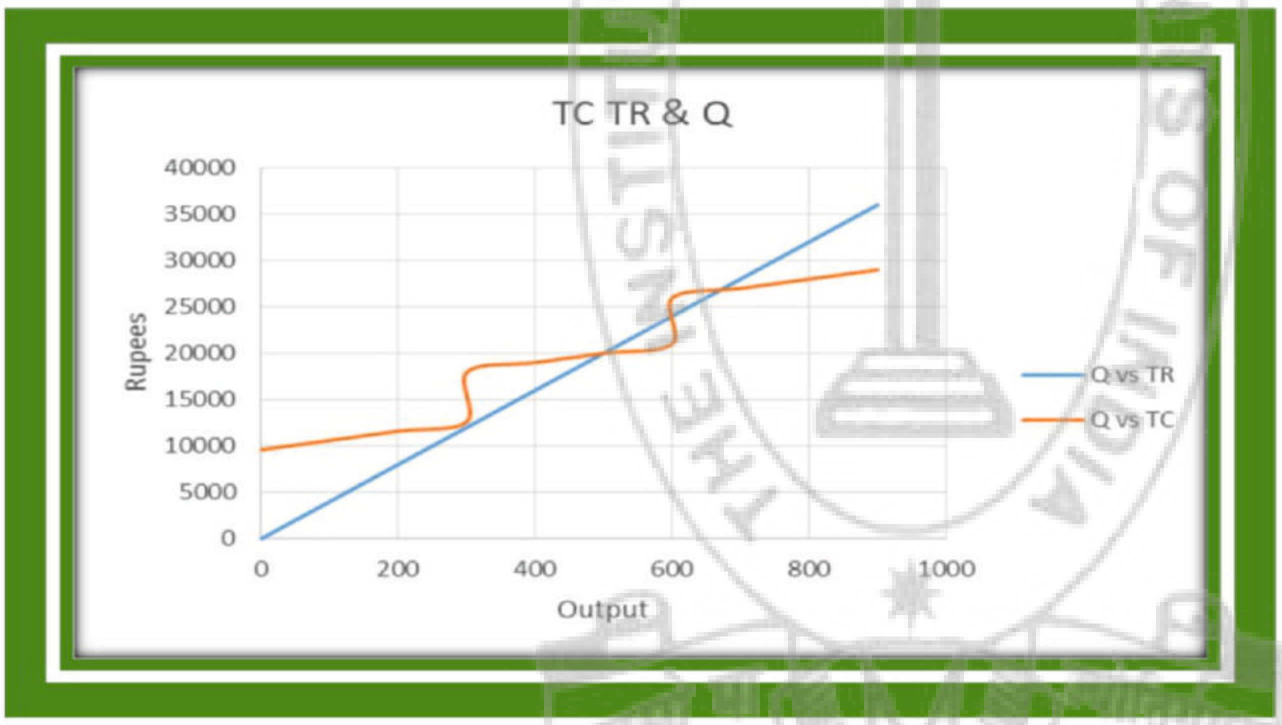



**Illustration7:** A business house is experiencing a boom in business. The owner expects to sale 80000 units of its product in the current year. The production division has a capacity to produce 105000 units per year. Forecasted Demand for the next 5 years is 90000 units for the next year, followed by a 10000 units increase in each of the succeeding years. One alternative is to expand the production capacity now-bringing the production capacity up to 130000 units per year. The initial investment would be R200000, made at the end of this year. The average market price of the product is set at R10 and before tax profit margin is 20%. The 20% figure was arrived at by considering production cost as R8 per unit.

What are the pretax cash flows from this project for the next 5 years compared to those of the base case of doing nothing?

**Answer:** In the base case of doing nothing every year the production will be 80000 units irrespective of increasing demand. So there will be revenue loss.
Say in first year end i.e. end of one year from current year forecasted demand is 90000 units. If we do nothing to increase the capacity then there will be a revenue loss and the resultant pretax profit loss will be (90000-80000)*2 = R20000. If we increase capacity as per the given alternative, this loss of profit we could prevent and that will appear as incremental cash flow to the business house. Similarly for other years the incremental cash flows in comparison to base case are:

| year | 0 (Current year) | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Forcasted sale (units) | 80000 | 90000 | 100000 | 110000 | 120000 | 130000 |
| Increamental sale Compared to base i.e current year (units) | | 10000 | 20000 | 30000 | 40000 | 50000 |
| Average profit p.u | | 2 | 2 | 2 | 2 | 2 |
| Increamental cash flow (Rs) | | 20000 | 40000 | 60000 | 80000 | 100000 |

Now suppose that our business house decided to increase the production capacity by investing R200000 today i.e. at the end of current year i.e. at the beginning of next year and this fund is arranged at a cost of 10% p.a. With this information we could find that the decision of increasing the capacity by investing R200000, could increase the value of the business. This we could find by finding out the Net present Value (NPV) with the application of Time Value of Money concept as follows:

| | year | 0 (Current year) | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|
| 1 | Initial Investment | -200000 | | | | | |
| 2 | Incremental cash flow on investment | | 20000 | 40000 | 60000 | 80000 | 100000 |
| 3 | PV factor $(1/1.10)^n$ (Since cost of fund 10%, n = no of years) | 1 | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |
| 4 | PV (2*3) [except under current year it is (1*3)] | -200000 | 18181.82 | 33057.85 | 45078.89 | 54641.08 | 62092.13 |
| 5 | NPV (Sum of Row 4) | 13051.76621 | | | | | |

Suggestions:

*This lesson could be used as an aid to teaching on Capacity Requirement in study notes. Concept of capacity planning is vital in studying Operations Management. These discussions are in addition to knowledge imparted by study guide. For Proper understanding read supplementary readings by referring Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson, Productions and Operations management by R.B. Khanna.*

Azadi Ka Amrit Mahotsav

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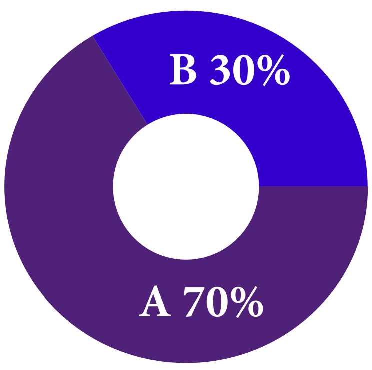
GROUP: II, PAPER: 9, Part- ii

# OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM)

## Strategic Management

# Your Preparation Quick Takes




**Syllabus Structure**
**A** Operations Management **70%**
**B** Strategic Management **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 not a major element of the strategic management process?**
   A. Formulation strategy
   B. Implementing strategy
   C. Evaluating strategy
   D. Assigning administrative tasks
   **Answer: D**

2. **The word tactics is most likely to be associated with:**
   A. Business strategy
   B. Corporate strategy
   C. Operational strategy
   D. All of the above
   **Answer: C**

3. **Strategic Management handles:**
   A. External issues
   B. Administrational issues
   C. Internal issues
   D. Management issues
   **Answer: A**

4. **When does horizontal integration occur?**
   A. When a firm acquires or merges with a major competitor
   B. When a firm acquires or merges with a an unrelated business
   C. When a firm acquires or merges with a distributor
   D. When a firm acquires or merges with a supplier firm
   **Answer: A**

5. **The three organizational levels are**
   A. Corporate level, business level, functional level
   B. Corporate level, business unit level, functional level
   C. Corporate strategy level, business unit level, functional level
   D. None
   **Answer: A**

6. **Low cost, Differentiation and Focus are examples of:**
   A. Corporate strategies
   B. Operational strategies
   C. Business strategies
   D. Functional strategies
   **Answer: C**

7. **Strategy is developed by the visionary chief executive in ___________ mode of strategic Management**
   A. Option a: planning mode
   B. Option b: adaptive mode
   C. Option c: strategic mode
   D. Option d: entrepreneurial mode
   **Answer: C**

8. **What do 'Cash Cow' symbolize in the BCG matrix?**
   A. Remain Diversified
   B. Invest
   C. Liquidate

D. Stable
Answer: D

9. **What is the starting point of strategic intent?**
A. Goals
B.Vision
C.Objectives
D. Mission
Answer: B

10. **_________ is the foundation of the Blue Ocean Strategy**
A. Innovation
B.Value Creation
C.Value Innovation
D. Cost-Benefit analysis
Answer: C

11. **_________ is not a recognized element of corporate strategy**
A. Competitive Advantage
B.Closure
C.Acquisition
D. Divestment
Answer: A

12. **In Porter's Generic Strategy Model, a focus strategy involves:**
A. Selling a limited range of products
B.Selling to a narrow customer segment
C.Selling to one particular region
D.Selling simple products that are cheap to produce
Answer: B

13. **The sketch of the BCG matrix, _________ is the label of the horizontal axis.**
A. Market Growth
B.Market Share
C.Business Strength
D. Industry Growth Rate
Answer: B

14. **Competitive advantage can be best described as _________**
A.Increased Efficiency
B.What sets an organization apart.
C.A strength of the organization
D. Intangible Resources
Answer: A

15. **What does DOG symbolize in the BCG matrix?**
A. Introduction
B.Growth
C.Maturity
D. Decline
Answer: D

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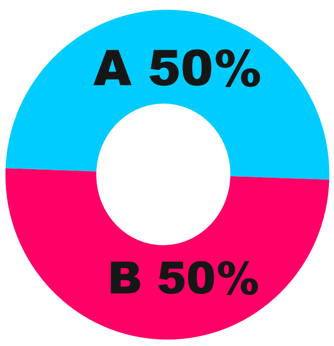
GROUP: II, PAPER:10

# COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT(CMFM)

## Your Preparation Quick Takes




**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:Paper15) 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: Full 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 (All Costs)

(a) The standard process cost card for a processed item is as under :

| | Rs. per kg of finished product |
|---|---|
| Direct Material 2 kgs @ Rs.10 per kg. | 20 |
| Direct Labour 3 hours @Rs.20 per hour | 60 |
| Fixed Overhead | 90 |
| Total | 170 |

Budgeted output for the period is 1000 kg
Actual production and cost data for a month are as under :
Actual production (on equivalent production basis)

| | |
|---|---|
| Material | 1400 kg |
| Labour | 1140 kg |
| Overheads | 1140 kg |

| | | | | |
|---|---|---|---|---|
| Direct Material | 2900 kg | = | Cost | Rs.32000 |
| Direct Labour | 3300 hrs. | = | cost | Rs.68000 |
| Fixed Overhead | | | | Rs.88000 |

**What shall be the :-**

**[ REG. MATERIAL ]**

1) Standard Cost of Actual Production (SCAP) : (a) Rs.27,000 (b) Rs.28,000 (c) Rs.29,000 (d) Rs.30,000
2) Standard Quantity for Actual Production : (a) 2800 kg (b) 2850 kg (c) 2900 kg (d) 2950 kg
3) Standard Cost of Actual Quantity : (a) Rs.27,500 (b) Rs.28,000 (c) Rs.28,500 (d) Rs.29,000
4) Price Variance : (a) Rs.2500 F (b) Rs.2500 A (c) Rs.3000 A (d) Rs.3000 F
5) Usage Variance : (a) Rs.950 F (b) Rs.950 A (c) Rs.1000 F (d) Rs.1000 A
6) Cost Variance : (a) Rs.4000 A (b) Rs.4000 F (c) Rs.4500 A (d) Rs.4500 F

**[ REG. LABOUR ]**

7) Standard Cost of Actual Production (SCAP) : (a) Rs.68,000 (b) Rs.68,200 (c) Rs.68,400 (d) Rs.68,600
8) Standard Hour for Actual Production : (a) 3420 Hr (b) 3430 Hr (c) 3440 Hr (d) 3450 Hr
9) Std Cost of Actual Hour : (a) Rs.64500 (b) Rs.65000 (c) Rs.65500 (d) Rs.66000

10) Wage Rate Variance : (a) Rs.2000 F (b) Rs.2000 A (c) Rs.2050 A (d) Rs.2050 F

11) Efficiency Variance : (a) Rs.2400 F (b) Rs.2400 A (c) Rs.2500 A (d) Rs.2500 F

12) Cost Variance : (a) Rs.350 F (b) Rs.350 A (c) Rs.400 A (d) Rs.400 F

**[REG. FIXED OVERHEADS]**

13) Budgeted Fixed Overheads : (a) Rs.85,000 (b) Rs.90,000 (c) Rs.95,000 (d) Rs.1,00,000

14) Standard Hour for Actual Production : (a) 3400 Hrs. (b) 3410 Hrs. (c) 3420 Hrs. (d) 3430 Hrs.

15) Standard Fixed Overheads for Actual Prtoduction : (a) Rs.1,01,600 (b) Rs.1,02,600 (c) Rs.1,03,600 (d) Rs.1,04,600

16) Expenditure Variance : (a) Rs.2000 F (b) Rs.2000 A (c) Rs.2500 A (d) Rs.2500 F

17) Volume Variance : (a) Rs.12000 A (b) Rs.12000 F (c) Rs.12600 A (d) Rs.12600 F

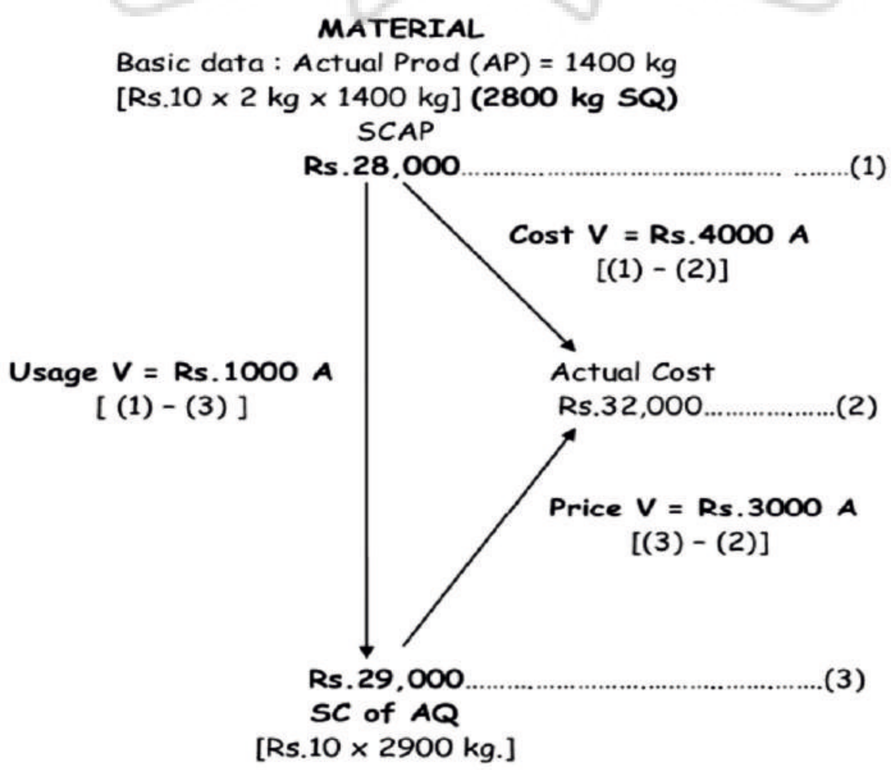
<u>**Answer**</u> :

| | | |
|---|---|---|
| 1) (b) Rs.28,000 | 2) (a) 2800 kg | 3) (d) Rs.29000 |
| 4) (c) Rs.3000 A | 5) (d) Rs.1000 A | 6) (a) Rs.4000 A |
| 7) (c) Rs.68400 | 8) (a) 3420 Hrs. | 9) (d) Rs.66000 |
| 10) (b) Rs.2000 A | 11) (a) Rs.2400 F | 12) (d) Rs.400 F |
| 13) (b) Rs.90000 | 14) (c) 3420 Hrs. | 15) (b) Rs.1,02,600 |
| 16) (a) Rs.2000 F | 17) (d) Rs.12600 F | |

<u>**Steps for Solution for both Question 1 and 2**</u> :

1) Draw diagrams as shown in respect of each 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.

<u>**Solution with Working Notes**</u>



**LABOUR**

Basic data : Actual Prod (AP) = 1140 kg

[Rs.20 x 3 Hours x 1140 kg
Rs.20 x **3420 Std Hour**]

SCAP

**Rs.68,400**.......................................... ........(1)

**Cost V = Rs.400 F**
[(1) – (2)]

**Efficiency V = Rs.2400 F**
[ (1) – (3) ]

Actual Cost
**Rs.68,000**...................(2)

Rate V = **Rs.2000 A**
[(3) – (2)]

**Rs.66,000**..........................................................(3)
**SC of Actual Hour**
[Rs.20 x 3300 Hours]

**FIXED OVERHEAD**

Basic data : Actual Prod (AP) = 1140 kg

[Rs.30 x 3 Hours x 1140 kg
Rs.30 x **3420 Std Hrs.**]

Std F.OH for AP

**Rs.102600**.......................................... ........(1)

**Total V = Rs.14600 F**
[(1) – (2)]

**Volume V = Rs.12600 F**
[ (1) – (3) ]

Actual F.OH
**Rs.88,000**...................(2)

**Budget or Exp V = Rs.2000 F**
[(3) – (2)]

**Rs.90,000**..........................................................(3)
**Budgeted F.OH**
[Rs.90 x 1000 kg]

**<u>Question No. – 2 (Material)</u>**

A Company is manufacturing a chemical product marking use of four different types of raw material as follows :

| Raw Material | Share of total input (%) | Cost of raw material (Rs./Kg.) |
|---|---|---|
| A | 40 | 50 |
| B | 30 | 80 |
| C | 20 | 90 |
| D | 10 | 100 |

There is an inevitable normal loss of 10% during the processing for June 2022, the management furnished the following information :

| Raw Material | Quantity consumed (kg) | Cost of raw material (Rs./kg) |
|---|---|---|

| | | |
|---|---|---|
| A | 42,000 | 48 |
| B | 31,000 | 80 |
| C | 18,000 | 92 |
| D | 9,000 | 110 |

Output obtained for the month was 92,000 kg.

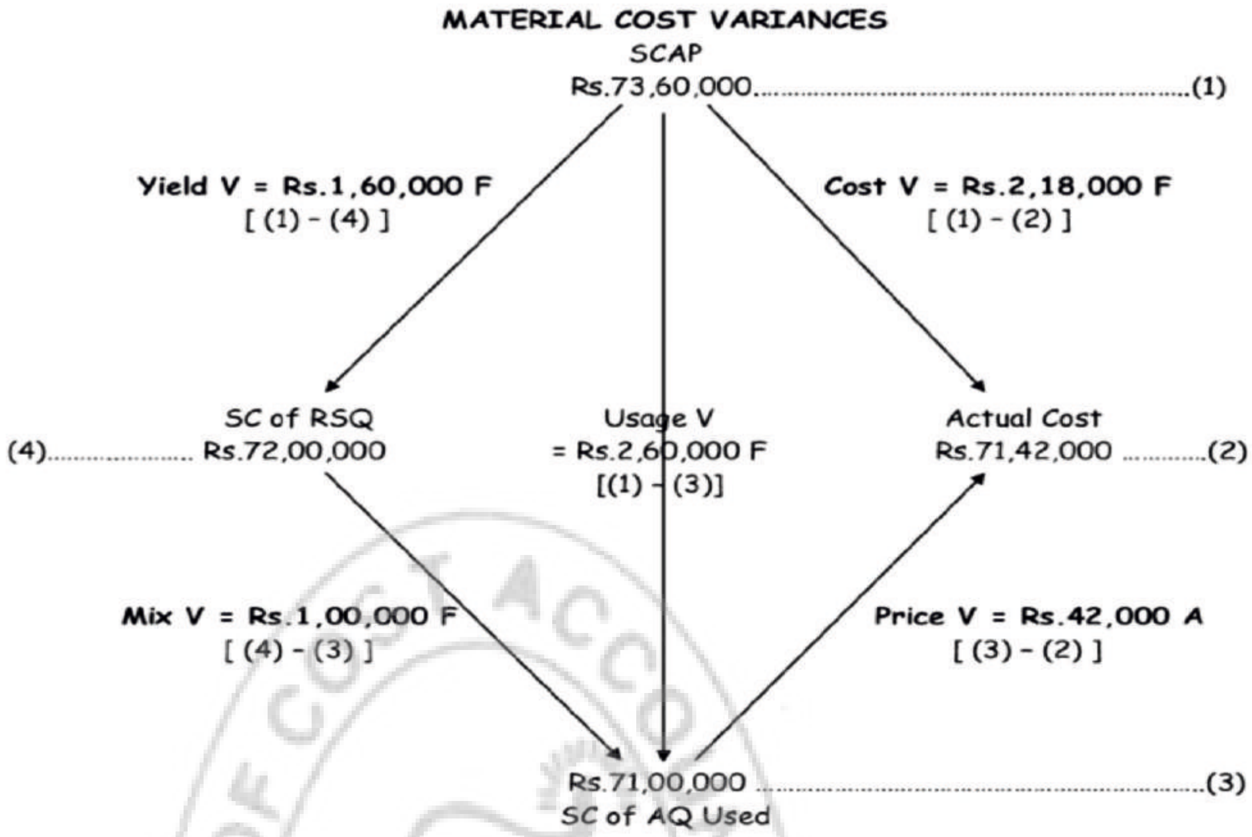
**What shall be the :-**

1) Standard Cost of Production : (a) Rs.7,100 (b) Rs.7,200 (c) Rs.7,300 (d) Rs.7,400
2) Average Std Rate per Kg of input : (a) Rs.70 (b) Rs.71 (c) Rs.72 (d) Rs.73
3) Average Std Rate per Kg of output : (a) Rs.77 (b) Rs.78 (c) Rs.79 (d) Rs.80
4) Standard Cost of Actual Production (SCAP) : (a) Rs.73,40,000 (b) Rs.73,50,000 (c) Rs.73,60,000 (d) Rs.73,70,000
5) Actual Cost : (a) Rs.71,42,000 (b) Rs.71,43,000 (c) Rs.71,44,000 (d) Rs.71,45,000
6) Standard Cost of Actual Quantity used : (a) Rs.70,00,000 (b) Rs.71,00,000 (c) Rs.72,00,000 (d) Rs.73,00,000
7) Standard Cost of Revised Std Quantity (SC of RSQ) : (a) Rs.69,00,000 (b) Rs.70,00,000 (c) Rs.71,00,000 (d) Rs.72,00,000
8) Material Price variance in respect of 'A' : (a) Rs.84000 A (b) Rs.84000 F (c) Rs.80000 A (d) Rs.80000 F
9) Material Price Variance in respect of 'B' : (a) NIL (b) Rs.35000 A (c) Rs.35000 F (d) Rs.36000 A
10) Material Usage Variance : (a) Rs.258000 F (b) Rs.258000 A (c) Rs.260000 F (d) Rs.260000 A
11) Material Mix Variance in respect of 'C' : (a) Rs.180000 A (b) Rs.180000 F (c) Rs.190000 A (d) Rs.190000 F
12) Material Mix Variance in respect of 'D' : (a) Rs.95000 F (b) Rs.95000 A (c) Rs.100000 A (d) Rs.100000 F
13) Material yield Variance : (a) Rs.159000 A (b) Rs.159000 F (c) Rs.160000 F (d) Rs.160000 A
14) Material Cost Variance : (a) Rs.218000 F (b) Rs.218000 A (c) Rs.220000 F (d) Rs.220000 A

**Answer** :

| | | |
|---|---|---|
| 1) (b) Rs.7,200 | 2) (c) Rs.72 | 3) (d) Rs.80 |
| 4) (c) Rs.73,60,000 | 5) (a) Rs.71,42,000 | 6) (b) Rs.71,00,000 |
| 7) (d) Rs.72,00,000 | 8) (b) Rs.84,000 F | 9) (a) NIL |
| 10) (c) Rs.2,60,000 F | 11) (b) Rs.1,80,000 F | 12) (d) Rs.1,00,000 F |
| 13) (c) Rs.1,60,000 F | 14) (a) Rs.2,18,000 F | |

## Solution with Working Notes




## Working Notes :

1) ***Standard Cost**

| Material | % | Qty (Kg) | Rate (Rs.) | Amt (Rs.) | Av. Std Rate |
|---|---|---|---|---|---|
| A | 40 | 40 | 50 | 2,000 | |
| B | 30 | 30 | 80 | 2,400 | |
| C | 20 | 20 | 90 | 1,800 | |
| D | 10 | 10 | 100 | 1,000 | |
| | | | Rs. | **7,200** | |
| | Input | 100 | | | **Rs.72 per kg** |
| | Loss 10% | 10 | | | |
| | Output | 90 | | | **Rs.80 per kg** |

2) * Std Cost of Actual Production (SCAP)

= SR per kg of Production x Actual Production

= Rs.80 x 92,000 kg = **Rs.73,60,000**

3) **Actual Cost**

| Material | Qty (Kg) | Rate (Rs.) | Amount (Rs.) |
|---|---|---|---|
| A | 42,000 | 48 | 20,16,000 |
| B | 31,000 | 80 | 24,80,000 |
| C | 18,000 | 92 | 16,56,000 |
| D | 9,000 | 110 | 9,90,000 |
| Total : | 1,00,000 | Total : | **Rs.71,42,000** |
| Loss | 8,000 | | |
| | 92,000 | | |

4) **Std Cost of AQ used**

| Material | Qty (Kg) | SR (Rs.) | Amount (Rs.) |
|---|---|---|---|
| A | 42,000 | 50 | 21,00,000 |
| B | 31,000 | 80 | 24,80,000 |

| | | | |
|---|---|---|---|
| C | 18,000 | 90 | 16,20,000 |
| D | 9,000 | 100 | 9,00,000 |
| | 1,00,000 | | **71,00,000** |

5) Std Cost of Revised Std Quantity (SC of RSQ)

| Material | Qty (Kg) | Rate (Rs.) | Amount (Rs.) |
|---|---|---|---|
| A 40% | 40,000 | 50 | 20,00,000 |
| B 30% | 30,000 | 80 | 24,00,000 |
| C 20% | 20,000 | 90 | 18,00,000 |
| D 10% | 10,000 | 100 | 10,00,000 |
| Total | 1,00,000 | Total | **72,00,000** |

Check : Average SR per Kg of inpur x AQ
= Rs.72 x 1,00,000 Kg = Rs.72,00,000

| 6) **Material Price Variance** | = SC of AQ used | (-) Actual Cost | |
|---|---|---|---|
| **A** | **21,00,000 (-)** | **20,16,000 =** | **84,000 F** |
| **B** | **24,80,000 (-)** | **24,80,000 =** | **NIL** |
| C | 16,20,000 (-) | 16,56,000 = | 36,000 A |
| D | 9,00,000 (-) | 9,90,000 = | 90,000 A |
| | | | Rs.42,000 A |

| 7) **Material Mix Variance** | = SC of RSQ (-) | SC of AQ used | |
|---|---|---|---|
| A | 20,00,000 (-) | 21,00,000 = | 1,00,000 A |
| B | 24,00,000 (-) | 24,80,000 = | 80,000 A |
| **C** | **18,00,000 (-)** | **16,20,000 =** | **1,80,000 F** |
| **D** | **10,00,000 (-)** | **9,00,000 =** | **1,00,000 F** |
| | | | Rs.1,00,000 F |

8) Check : Yield V = Average SR per kg of production (Actual Production – Std Production)
= Rs.80 x (92,000 – 90,000) kg
= Rs.1,60,000 F

9) Note :

Actual Input is 1,00,000 Kg and Standard loss is 10% i.e. 10,000 kg. So Standard Yield or production is 90,000 kg. But Actual Production is 92,000 [Loss being 8000 kg only] which gives a favourable Yield Variance.

10) RECONCILIATION :

- Material Cost V Rs.2,18,000 F
  - Price V Rs.42,000 A
  - Usage V Rs.2,60,000 F
    - Mix V Rs.1,00,000 F
    - Yield V Rs.1,60,000 F

**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.

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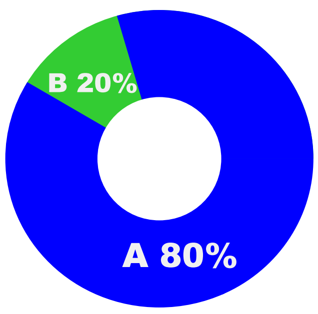
GROUP: II, PAPER:11

# INDIRECT TAXATION (ITX)

# Your Preparation Quick Takes




**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

## GST MCQs

1. **Which of the following taxes will be levied on imports ?**
   a) CGST
   b) SGST
   c) IGST
   **d) None of the above**

2. **Which of the following activities is outside the scope of supply and not taxable under GST ?**
   a) Services by an employee to the employer In the course of or in relation to this employment.
   **b) Services of funeral**
   c) Actionable claims, other than lottery, betting and gambling.
   d) All of the above.

3. **Renting of immovable property is ___________**
   **a) Supply of goods**
   b) Supply of services
   c) Neither as a supply of goods nor a supply of services.
   d) Either as a supply of goods or a supply of services.

4. **Gifts not exceeding _______ in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.**
   **a) 50,000**
   b) 1,00,000
   c) 2,00,000
   d) 2,50,000

5. **Which of the following is – the supply in which possession of the goods are transferred but the title on the same will be transferred at the future date?**
   a) Rent a car.
   **b) Hire Purchase**
   c) Normal sale of goods
   d) None of the above.

6. **What would be the tax rate applicable in case of composite supply ?**
   **a) Tax rate as applicable on principal supply**
   b) Tax rate as applicable on ancillary supply
   c) Tax rate as applicable on respective supply
   d) None of the above

7. **What is the threshold limit of turnover in the preceding financial year for opting to pay tax under composition scheme for states other than special category states ?**
   a) Rs. 20 lacs.
   **b) Rs. 10 lacs**
   c) Rs. 50 lacs
   d) Rs. 1.5 crore.

8. **Can composition scheme be availed if the registered person effects inter-state supplies ?**
   a) Yes
   b) No
   c) Yes, subject to prior approval of the Central Government.
   **d) Yes, subject to prior approval of the concerned State Government.**

9. **Which of the following will be excluded from the computation of aggregate turnover?**
   a) Value of taxable supplies
   b) Value of exempt supplies
   c) Non taxable supplies
   **d) Value of inward supplies on which tax is paid on reverse charge basis.**

10. **Which of the following persons can opt for composition scheme?**
   **a) Person making any supply of goods which are not leviable to tax under this act.**
   b) Person making any inter-state outward supplies of goods.
   c) Person effecting supply of goods through an ex-cooperator liable to collect tax at source.
   d) None of the above.

11. **Services to a single residential unit is, exempted if:**
   **a) It is pure labour service only**
   b) It is works contract only
   c) It is a part of residential complex only
   d) It is on ground floor without further super structure.

12. **Tax invoice must be issued by _________ on supplies made by him.**
   a. Every supplier
   **b. Every taxable person**
   c. Every registered person not paying tax under composition scheme
   d. All the above.

13. **Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued:-**
   a) before/at the time of supply
   b) 6 months from the date of removal
   **c) earlier of (a) & (b)**
   d) none of the above.

14. **What is time of supply of goods liable to tax under reversed charge mechanism ?**
   a. Date of receipt of goods
   b. Date on which the payment is made
   c. Date immediately following 30 days from the date of issue of invoice by the supplier.
   **d. Earlier of (a) or (b) or (c)**

15. **_________ is levied on inter-state supply of goods and services.**
   **a) CGST.**
   b) SGST
   c) IGST
   d) Both (a) and (b)

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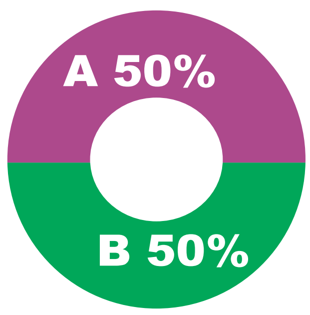
## GROUP: II, PAPER:12

# COMPANY

## ACCOUNTS & AUDIT (CAA)

# Your Preparation Quick Takes




**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

Let us discuss today some peripheries of banking accounts. We will discuss in the form of small questions and answers. At first you try on your own way to find out the probable answer then you check with the provided answer keys.

**1) Fill up the blanks**

a) A banker is a __ debtor
b) A banker's lien is always a __ lien
c) Accepting a bill and making it payable at the bank is called __
d) For willful dishonor of a cheque __ damage is payable by the banker
e) To claim a banking debt __ in writing is necessary
f) Honouring a cheque is a __ obligation, whereas maintenance of secrecy is a __ obligation.

**Answer Keys:**
**a)privileged b)general c)domiciliation of a bill of exchange d)vindictive e)an expressed demand f)statutory, contractual**

**2) State whether the following statements are true or false**
a) A fixed deposit is not a negotiable instrument and hence it can not be assigned to third parties
b) Simultaneous OD facility can be enjoyed by fixed deposit holders also
c) In the case of fixed deposit, the relationship between a banker and a customer is that of a trustee and beneficiary till the maturity of the deposit
d) Savings deposit is more suitable to business people
e) A fixed deposit maturing on Sunday can be paid on the preceding Saturday
f) A new account can be opened with a cheque
**Answer Keys:**
**a)False b)True c)False d)False e)False f)True**

**3) Choose the best answer from the following**
**a) The following one does not constitute a settlement of account as far as a passbook is concerned:**
i) a wrong entry favourable to a customer
ii) a wrong entry favourable to banker
iii) a fictitious entry
iv) (i) and (ii) together
**b) A wrong entry in a passbook favourable to a customer constitutes a settlement of account provided:**
i) a customer acts upon it immediately
ii) a customer acts upon it in good faith and without negligence
iii) the customer has altered his position by relying upon it
iv) (ii) and (iii) together but not (i)
**c) A wrong entry favourable to a banker constitutes a settlement of account**
i) yes -always
ii) no- never
iii) at times- depending upon circumstances
iv) (i) and (ii) together
**Answer Keys:**
**a)(iii) b)(iv) c)(iii)**

**4) What do you mean by payment in due course?**
**Answer:** Payment in due course means payment in accordance with the apparent tenor of the instrument, in good faith and without negligence, to any person in possession thereof, under circumstances which do not afford a reasonable ground for believing that, is not entitled to receive payment of the amount therein mentioned

**5) What is RTGS?**
**Answer:** RTGS is the Real Time Gross Settlement. Its main objective is to enable online clearing and settlement of payments on a real time basis across banks in different cities. This is an upgraded technology aimed at reducing dependence on payments through cheques. There is a certainty of payments and the receiving bank can credit the beneficiaries account and allow full use of funds.

# 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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

# SUBMISSIONS


**Updation 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.



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

# *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

# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

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

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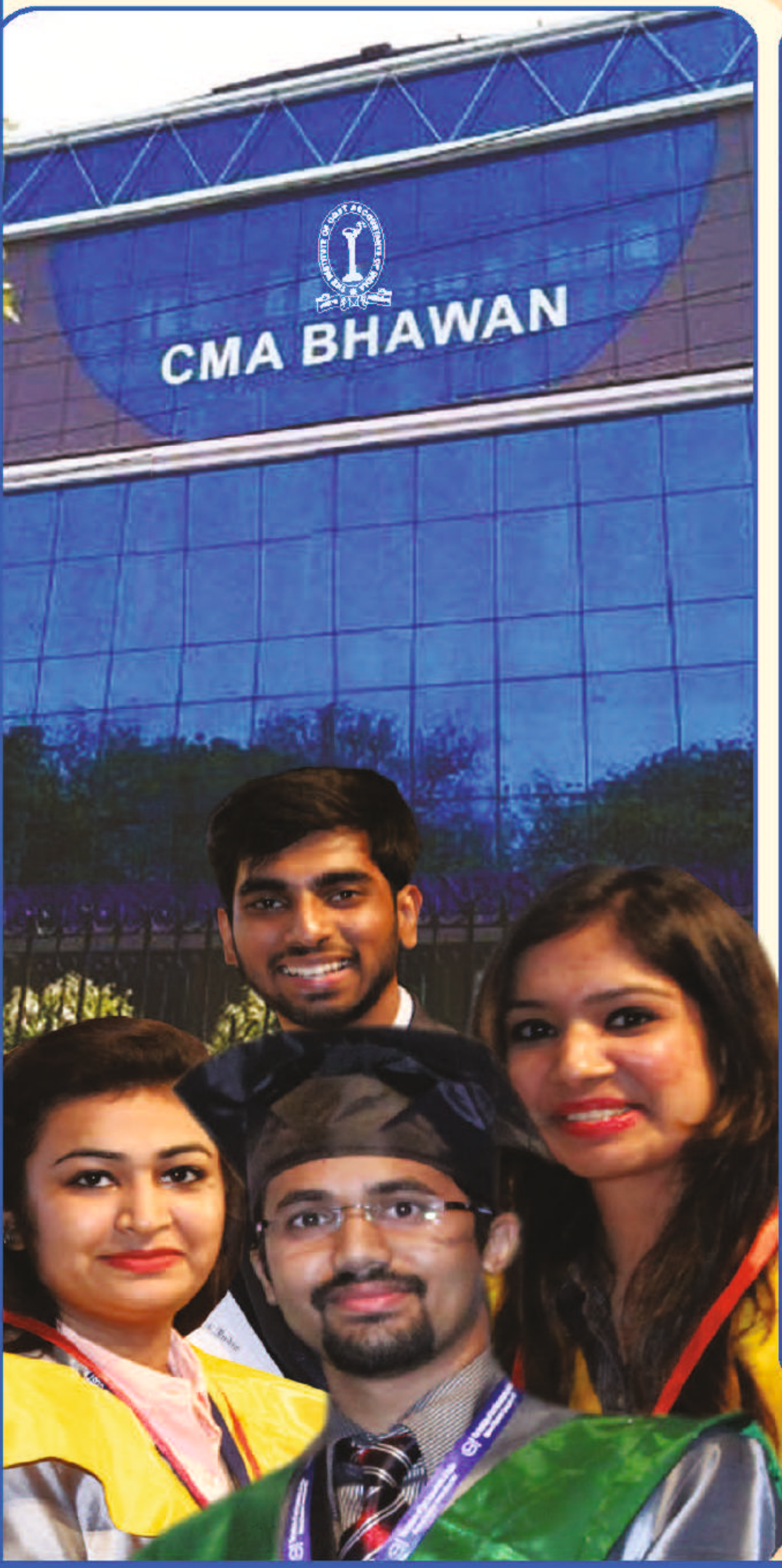


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Behind every successful business decision, there is always a CMA

# Few Snapshots

CMA P. Raju Iyer, President along with CMA Vijender Sharma, Vice President of the Institute and CMA B.B. Goyal, Former Addl Chief Advisor (Cost), MoF, GoI extending greetings to Shri Rajnath Singh, Hon'ble Union Minister of Defence on 7th July, 2022.


Glimpses of Observance of GST Day 2022 : GST in India - Poised to deliver Sustainable Growth on 06 July 2022 at Scope Complex, New Delhi

CMA P. Raju Iyer, President along with CMA Vijender Sharma, Vice President of the Institute and CMA B.B. Goyal, Former Addl Chief Advisor (Cost), MoF, GoI extending greetings to Lt. Gen Anil Puri, Additional Secretary, Deptt of Military Affairs, Ministry of Defence on 7th July, 2022.


CMA P. Raju Iyer, President and Prof. Sanghamitra Bandyopadhyay, Director, ISI, Kolkata along with CMA Biswarup Basu, Immediate Past President, CMA Chittaranjan Chattopadhyay, Chairman, BFSI and other dignitaries at a MoU signing ceremony on academic and research collaboration with Indian Statistical Institute (ISI), Kolkata on 13th July, 2022.

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