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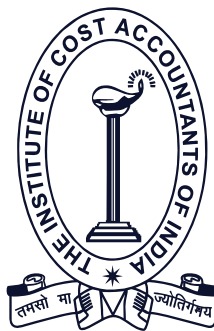
March

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CMA Student E - Bulletin

INTERMEDIATE



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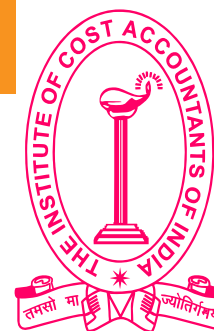
Behind every successful business decision, there is always a **CMA**

Message from The Chairman

CMA Manas Kumar Thakur

Chairman,

Training & Education Facilities (T& EF) Committee



CMA MANAS KUMAR THAKUR

Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)



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MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings,

"Satisfaction lies in the effort, not in the attainment"- M.K. Gandhi.

My sincere thanks to those who have cleared their examination for December, 2018 term of examination. You continued your winning streak and go forward with your educational journey. It will be a long journey but I know will make it to the very end successfully. Congrats!

Now I want to state few words to those who, despite their good efforts could not make it. It is a mistake to suppose that people succeed through success; they often succeed through failures. Strength does not come from physical capacity. It comes from an indomitable will. To lose patience is to lose the battle. I am including one interesting quote that may inspire you during times of disappointment and depression – times when you feel the whole world is against you.

"Success and failure, we think of them as opposites, but they are really not. There are companions. The hero and the sidekick." – Laurence Shames.

Success builds character, failure reveals it. You might be aware that the Directorate of Studies has started e-version of **Work Book for all levels**; which will help you in practicing all papers. My request is to all of you that please try to grab the opportunities coming your ways to make you more knowledgeable and competent at the same time. **New Mock Test Papers (MTPs)** are getting uploaded for the forthcoming June, 2019 term of examination. Study Materials are revised with new contents; wherever applicable. **Notifications and circulars** are also been uploaded for providing sufficient awareness to compete you better, keep on watching. E-bulletins are also getting uploaded every month, containing matters related to individual papers. As you all are aware that there is no substitute for sincere and hard working and it gives rich dividend if tried sincerely. Do it now, sometimes later, becomes never.

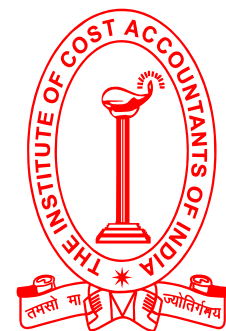
In the words of Swami Vivekananda- "Arise, Awake and stop not until the Goal is achieved".

Best of luck for your entire future endeavour,

CMA Manas Kumar Thakur

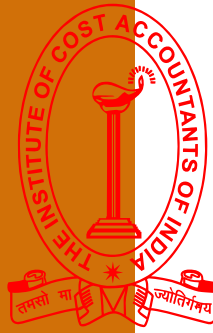
Be a CMA, be a Proud Indian

"Behind every successful business decision there is always a CMA"



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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.

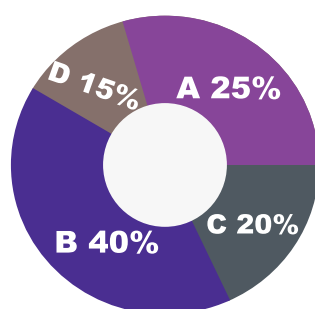


GROUP: 1, PAPER: 5

FINANCIAL ACCOUNTING (FAC)

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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.

INSURANCE CLAIM - LOSS OF STOCK

Every business entity keeps sufficient stock as per the need and size of its respective business for smooth running of the business, but at the same time **risk of loss by fire** is a there. To safeguard the businesses from any unforeseen circumstantial loss, most of the business entities buy insurance policy, which covers loss of stock (by fire) — is known as **stock policy**.

In consideration of the premium, insurance company takes the responsibility to compensate — if any loss occurs by fire or by other means, applicable under the insurance terms. It is in the best interest of the firm to take fire insurance policy because it covers wide range of losses (by fire) including Building damage, Furniture and Fixture loss, Plant & Machinery destruction, etc.

FOLLOWING STEPS TO BE FOLLOWED TO CALCULATE THE AMOUNT OF CLAIM:

1. Find the date of fire
2. Find the accounting year in which it relates (current accounting year)
3. Find the previous accounting year
4. Prepare trading account of the previous accounting year
5. Calculate gross profit ratio. $GP \text{ ratio} = GP / \text{sales} \times 100 = x\%$ say
6. Prepare the trading account of the current accounting year upto the date of fire
7. Apply the $GP \%$ as calculated above on sales
8. Closing stock will come out as a balancing figure.
9. Prepare the statement of claim as follows:

Statement of claim

| | |
|-----------------------------------|----|
| Closing stock as calculated above | xx |
| Less : salvage value | xx |
| Gross claim | xx |

Following are the important points to be considered for the estimation of stock -

In case, where stock is not valued at the cost, first it will be valued at the cost in the last year trading account and then in the memorandum account of the current year. For example, if it is given that stock of Rs. 80,750 is valued at 85% of the cost in the last year, then first it should be valued as $(80,750 \times 85) = 68,637.50$ in the last year and then in the current year memorandum Trading account.

Cost of the sample given free of cost or withdrawal of stock by proprietor or partner of the firm for personal use, it should be adjusted in the Trading Account of the last year as well as in the current year's memorandum trading account.

In case, where gross profits of the last several years are given, average gross profit should be taken to determine the gross profit of the current year. However, in case where clear upward trend of the gross profit or downward trend of the gross profit is identified, **weighted average gross profit** or reasonable trend of upward or downward trend should be applied to determine the gross profit of the current year.

To find out the gross profit on normal sales, poor selling sale should be eliminated from the sale of the current year. Similarly, poor selling items should be eliminated from the opening and closing stock of the last years to prepare the trading account of the current year.

AVERAGE CLAUSE

An average clause is applied to find out the value of a claim where value of the stock on the date of fire is more than the value of insured stock. Average clause is applied by the insurance companies to discourage the under insurance of stock or any other assets.

In that case claim will be reduced by the following formula:

$$\text{Net claim} = \left(\frac{\text{Gross claim}}{\text{Value of stock}} \right) \times \text{Policy value}$$

Tips:

You can see the first letters are highlighted. This is done to remember the formula:

As per sequence in the alphabet G comes first then P and finally V.

Following illustration help you to understand it in a better way -
Suppose, value of insurance policy is Rs. 15,00,000 and at the date of fire, value of stock in hand is Rs.18,00,000, out of which Rs.12,00,000 worth of stock is destroyed, then the value of the claim admitted will be -

$$\text{Net claim} = 12,00,000 \times 15,00,000 / 18,00,000 = \text{Rs. } 10,00,000$$

Value of stock of Rs. 1,200,000 will not be admissible to the insured, rather admissible claim will be Rs. 1,000,000. In this way

the firm is penalized by Rs 200000 due to under insurance.

Illustration

Fire occurred on the business premises of 'Style India' on 1st April, 2018 and most of the stock destroyed. Please ascertain the insurance claim from the following given particulars -

| Particulars | Amount (Year 2017) | Amount (01 Jan to 31 st March 2018) |
|-----------------------------------|--------------------|--|
| Sale | 2,500,000 | 750,000 |
| Purchases | 1,800,000 | 350,000 |
| Opening Stock (01-01-2017) | 270000 | |
| Closing Stock (31-12-2017) | 498,750 | |
| Direct Expenses (Freight & wages) | 150,000 | 30,000 |

Stock as on 01-01-2017, valued 10% less at the cost.

Stock as on 31-12-2017 valued 5% more at the cost.

Value of stock salvaged Rs. 45,000.

Insurance policy (for fire) was for Rs. 300,000.

Solution:

- Find the date of fire 1.4.2018
- Find the accounting year in which it relates (current accounting year):
1.1.18 to 31.03.2018
- Find the previous accounting year: 1.1.2017 to 31.12.2017
- Prepare trading account of the previous accounting year:

**Trading Account of M/s Style India
(For the year ending on 31st December, 2017)**

| Particulars | Amount | Particulars | Amount |
|--------------------------------------|------------------|--------------------------------------|------------------|
| To Opening Stock {270,000/90×100} | 300,000 | By Sales | 2,500,000 |
| To Purchases | 1,800,000 | By Stock Stock=498750/ 105×100 | 475,000 |
| To Direct Expenses | 150,000 | | |
| To Gross Profit | 725,000 | | |
| | 29,75,000 | | 29,75,000 |

- Calculate gross profit ratio. GP ratio = $GP/sales \times 100 = x\%$
say

$$725000/2500000 \times 100 = 29\%$$

- Prepare the trading account of the current accounting year upto the date of fire:

**Memorandum Trading Account of M/s Style India
(Up to 01-4-2018)**

| Particulars | Amount | Particulars | Amount |
|-------------------------------------|------------------|--------------------------------|------------------|
| To Opening Stock | 475,000 | By Sales | 750,000 |
| To Purchases | 350,000 | By Stock (Balancing Figure) | 322,500 |
| To Direct Expenses | 30,000 | | |
| To Gross Profit (29% of 750,000) | 217,500 | | |
| | 10,72,500 | | 10,72,500 |

- Apply the GP % as calculated above on sales: (29% of 750,000) = 217500

- Closing stock will come out as a balancing figure.: Rs. 322500

- Prepare the statement of claim as follows:

| | |
|----------------------|--------------|
| Value of Stock= | Rs. 3,22,500 |
| Less: Stock Salvage= | Rs.45,000 |
| Gross claim= | Rs.2,77,500 |

- Insurance Claim to be lodged will be -

| | |
|-------------|---|
| Net claim = | gross claim x policy value / value of stock |
| = | 277500 x 300000/322500 |
| = | 258139.53 |
| = | 258140 (rounded off) |

Here an average clause will be applied because the value of insurance policy (Rs.300,000) is less than the value of stock (Rs. 322,500) on the date of fire.

Practice this kind of sums. In the next issue we will take some problems with various adjustments.



GROUP: 1, PAPER: 6

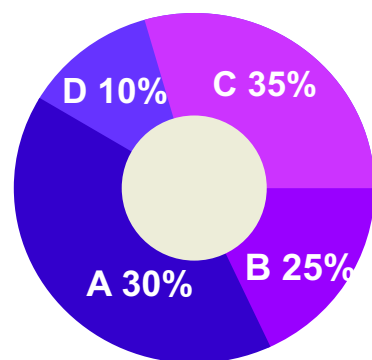
LAWS & ETHICS (LNE)

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Your Preparation Quick Takes



Syllabus Structure

A Commercial Laws 30%

B Industrial Laws 25%

C Corporate Law 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.

LAW & 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 respect of such papers, you are reminded that since you are taking an exam, you must first focus on securing marks. For that, you must study the relevant Sections of the Act, first read the question carefully and then write what the question wants and attempt to elaborate by analyzing and commenting on the interpretations of the Act.

In this issue let us study - Payment of Bonus Act, 1965

The first question coming to mind is - **What is meant by Bonus ?** The answer is - Bonus is a type of reward given to an employee for working for the organization in order to help the organization to earn more profits due to contribution of the labour.

In India, the Act applies to every factory/establishment/Company which employs not less than 20 persons on any day during an accounting period. However, this Act shall continue to apply to an establishment or factory or company even if the total number of employees falls below 20 persons subsequently. **Employees cover part-time workers but not Apprentices.**

The term Establishment is of two types - establishment in private sector and establishment in public sector.

A Public Sector establishment is one which is owned , controlled or managed by - a Government Company or a Corporation in which not less than 40% of the capital is held by the Government or Reserve Bank of India and it includes all departments , undertakings and branches of such establishments situated in the same place or in different places .

Bonus is to be paid within 8 months of close of the Book of Accounts.

The minimum Bonus of 8.33% is payable by every industry and establishment under section 10 of the Act.

The Maximum Bonus including productivity linked bonus that can be paid in any accounting year shall not exceed 20% of the salary/wage of an employee under Sec.31A of the Act.

As per the last amendment to the Act in 2015 , duly notified on 1st January,2016, the amendment became effective from 1st April,2014.

There is no bonus applicable to employees having Basic Salary of more than Rs.21,000 per month.

If Basic Salary plus Dearness Allowance (DA) is below Rs.7000 per

month, then the bonus will be calculated on the actual amount. Example: If Basic plus DA is Rs.6000 , bonus will be calculated on Rs.6000.

If Basic plus DA is Rs.16000, bonus will be calculated n Rs.7000 or the minimum wages as specified by the appropriate government - whichever is higher.

Salary and Wages includes all remuneration **except overtime allowance** payable to an employee in respect of his employment and **includes dearness allowance(DA).**

Salary does not include :

- ❖ Any allowance other than DA
- ❖ House Rent Allowance, other allowances for light, water, medical or any other amenities, concessional supply of food grains or other articles ;
- ❖ Any travelling concession ;
- ❖ Any Bonus including incentive/production/attendance bonus ;
- ❖ Any contribution to Provident Fund / Pension Fund
- ❖ Any retrenchment compensation / gratuity or other retirement benefits payable to the employee / any ex-gratia payment made to the employee

It may be noted that where an employee is given any free food allowance or free food by his employer, in lieu of the whole or part of the salary or wages, such food allowance or the value of the food supplied , shall be deemed to form part of the salary or wages of such employee.

The following conditions must be satisfied for the payment of bonus :-

1. An employee must have worked in that company/factory/establishment for at least 30 working days in that accounting year;
2. A **minimum of 8.33%** or Rs.100 [Rs.60 in case of employee below the age of 15 years] whichever is higher (whether or not the employer has any allocable surplus in the accounting year) and where an allocable surplus of any accounting year exceeds **the amount of Maximum Bonus** , there in such case, the employer shall pay every employee the bonus which shall be an amount in proportion to the salary or wages of an employee during the accounting year , subject

to a maximum of 20% of the Basic (earned) salary or wage is to be paid to the employee.

So, now we must know the following :

Computation of Bonus

The following steps are required to be followed for the Computation of Bonus :-

1. Computation of Gross Profit
2. The deductions from the gross profit as per Sec.6 of the Act.
3. Computation of Available Surplus
4. Computation of Allocable Surplus

Computation of Gross Profits - for the purpose of Calculation of Allocable Surplus and Available Surplus for the purpose of determination of bonus.

Section 16 of the Act provides that the Gross Profit derived by an Employer from an establishment, in respect of an accounting year shall -

- ❖ Be calculated in the manner specified in the First Schedule - in the case of a Banking Company ; and
- ❖ Be calculated in the manner specified in the Second Schedule - in any other case

The following sums deductible from the gross profit as per Sec.6 of the Act

- ✓ Depreciation on Assets admissible under Sec 32 of the Income Tax Act,1961
- ✓ Development Rebate/Investment Allowance/Development Allowance which the employer is entitled to deduct from his income under the Income Tax Act,1961
- ✓ Any direct tax payable for the accounting year by the employer ;
- ✓ Such other sums deductible by a Company (other than a Banking Company) viz.

Dividend payable on Preference Share Capital

8.5% of the Paid-up Equity Share Capital as on the commencement of the accounting year

6% of the Company's Reserves as shown in the Balance Sheet at the commencement of the accounting year

In case of Foreign Company - 8.5% on the aggregate value of Net Fixed Assets and the Current Assets of the Company in India after deducting the amount of its Current Liabilities in India

In case of Banking Company - the following

are deductible :

Dividend payable on Preference Share Capital

7.5% of the Paid-up Equity Share Capital as on the commencement of the accounting year

5% of the Company's Reserves as shown in the Balance Sheet at the commencement of the accounting year

Any sum transferred to Reserve Fund under Section 17(1) of the Banking Regulation Act,1949 or to any reserves in India pursuant to any direction or advice given by the Reserve Bank of India

In case of Foreign Banking Company - the following are deductible :

Dividend payable on Preference Share Capital

7.5% of the total Paid-up Equity Share Capital as its Total Working Funds in India bears to its Total Working Funds

5% of such amounts as bears the same proportion to its Total Disclosed Reserves as its Total Working Funds in India bear to its Total Working Funds

Any sum deposited with Reserve Bank of India under Section 11(2) (b)(ii) of the Banking Regulation Act,1949, not exceeding the amount required to be deposited.

In case of a Corporation - the following are deductible :

8.5% of the Paid-up Capital as at the commencement of the accounting year

6% of its Reserves, if any, as shown in the Balance Sheet at the commencement of the accounting year

In case of Co-operative Society - the following are deductible :

8.5% of the Capital invested by such Society in its establishment

Such sum as has been carried forward to a Reserve Fund

In case of any other Employer not falling under any category mentioned above - the following are deductible :

8.5% of the Capital invested at the commencement of the accounting year

Allocable Surplus as per Sec.2(4) of the Act means -

In respect of an employer being a Company (not being a Banking Company) which has not made the arrangements prescribed under the Income Tax Act for the declaration and payment within India of the Dividends payable out of its profits in accordance with the provisions of Sec.194 of the Income Tax Act,1961, 67% of the Available Surplus in an accounting year.

In respect of any other case, 60% of such Available Surplus in the accounting year.

Available Surplus as per Sec.2(6) means the Available Surplus as Computed Under Sec.5

Computation of Available Surplus

Section 5 provides that the available surplus in respect of any accounting year shall be the Gross Profit for that year after deducting there from the eligible sums.

The Available Surplus shall be the aggregate of :-

The Gross Profit for that accounting year after deducting -An amount equal to the difference between - The Direct Tax (calculated under Sec.7 in respect of an amount

Equal to gross profits of the employer for the

Immediately preceding accounting year) ; and The Direct Tax(calculated under Sec.7 in respect of an amount Equal to gross profits of the employer for such preceding accounting year after deducting the bonus which the employer has paid or is liable to pay to his employee in accordance with the provisions of the Act for that year) ;

Computation - Set on and Set off of Allocable Surplus

Sec.15(1) provides that , if allocable surplus, in any accounting year , exceeds the amount of maximum bonus payable, than the excess shall, subject to a limit of 20% of the total salary or wage of the employee be carried forward for being set on in the succeeding accounting year and so on up to and inclusive of the 4th accounting year, to be utilized for the purpose of bonus.

Sec.15(2) provides that where for any accounting year , there is no available surplus or allocable surplus in respect of that year fall short of the amount of minimum bonus payable to the

employees and there is no amount or sufficient amount carried forward and set on which could be utilized for the purpose of payment of the minimum bonus, then such minimum amount or deficiency , as the case may be , shall be carried forward for being set off in the succeeding accounting year and so on up to and inclusive of the 4th accounting year in the manner illustrated in Fourth Schedule.

Sec.15(4) provides that where in any accounting year, any amount has been carried forward and set on or set off, then in calculating bonus for the succeeding accounting year, the amount set on or set off carried forward from the earliest accounting year, shall first be taken into account.

The following are **Exempted Establishments under the Act** :

1. Employees of Life Insurance Company ;
2. Seamen defined under Clause 42 of the Merchant Shipping Act,1958 ;
3. Employees who are registered or listed under the Dock Workers Act,1948 and employed by the registered or listed employers ;
4. Employees of any industry controlled by Central or State Government ;
5. Employees working in any Red Cross Society or Educational Institution or Non-Profit organization ;
6. Employees employed by the Contractor or Building operators ;
7. Employees of the Reserve Bank of India ;
8. Employees of any Financial Corporation under Sec.3 or 3a of the State Financial Corporation Act,1951 ;
9. Employees of IFCI, Deposit Insurance Corporation, Agricultural Refinance Corporation ;
10. Any Financial Institution in the Public Sector notified by the Central Government ;

Employees of Inland Water Transport establishment.

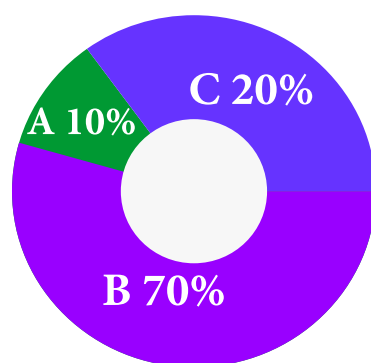


GROUP: 1, PAPER: 7

DIRECT TAXATION (DTX)

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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 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.

GIFT [Sec. 56(2)(x)]

Following receipts by any person shall be considered as his income:

| Category | Nature of Receipt | Conditions to be satisfied for considering income | Extent of Income | Remarks |
|----------|------------------------|--|--|---|
| A | Any sum of money | a. During the previous year, such person has received any sum of money (cash, cheque, draft, etc.) from one or more persons b. Such sum is received without consideration c. The aggregate value of such receipt during the previous year exceeds ₹ 50,000 | The whole of the aggregate value of such sum shall be considered as income of that previous year. | Aggregate amount of cash gift received during the period shall be considered. |
| B | Any immovable property | a. During the previous year, such person has received immovable property b. Such immovable property is received without consideration. c. The stamp duty value of such property exceeds ₹ 50,000 d. Such asset is a capital asset in hands of recipient. | The stamp duty value of such property shall be considered as income of that previous year. | The limit of ₹ 50,000/- is applicable per incidence |
| C | Any immovable property | a. During the previous year, such person has received immovable property b. Such immovable property is received for a consideration c. Stamp duty value of such property exceeds such consideration d. Such excess is more than the higher of the following: - ₹ 50,000; or - 5% of the consideration Note: Where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement may be taken. This benefit is available only in a case where the amount of consideration or a part thereof, has been paid by of an account payee cheque or an account payee bank draft or by use of electronic clearing system through a bank account, on or before the date of the agreement for the transfer of such immovable property. | The stamp duty value of such property Less consideration paid, shall be considered as income of the previous year. | The limit (₹ 50,000/- or 5%) is applicable per incidence. |

| | | | | |
|---|----------------------|---|---|--|
| D | Any movable property | <ul style="list-style-type: none"> a. During the previous year, such person has received movable property from one or more persons b. Such movable property is received without consideration c. The aggregate fair market value of such receipts during the previous year exceeds ₹ 50,000 d. Such asset is a capital asset in hands of recipient. | The whole of the aggregate fair market value of such property shall be considered as income of the previous year. | Aggregate amount of gift received during the period shall be considered. |
| E | Any movable property | <ul style="list-style-type: none"> a. During the previous year, such person has received movable property from one or more persons b. Such movable property is received for a consideration. c. Such consideration is less than the aggregate fair market value of the property by an amount exceeding ₹ 50,000 d. Such asset is a capital asset in hands of recipient. | The aggregate fair market value of such property Less consideration paid, shall be considered as income of the previous year. | Aggregate amount of gift received during the period shall be considered. |

Taxpoint:

The limit of ₹ 50,000/- is also for per category. In other words, one may receive cash gift of ₹ 35,000 and gift in kind of ₹ 36,000 without attracting any tax.

Exceptions

This section shall not apply to any sum of money or any property received

1. from any relative#.

#Relative here means -

In case of an individual

- i. spouse of the individual
- ii. brother or sister of the individual
- iii. brother or sister of the spouse of the individual
- iv. brother or sister of either of the parents of the individual
- v. any lineal ascendant or descendant of the individual
- vi. any lineal ascendant or descendant of the spouse of the individual
- vii. spouse of the person referred to in clauses (ii) to (vi)

In case of HUF: Any member thereof

- 2. on the occasion of the marriage of the individual (whether gift is received from relative or outsiders).
- 3. under a will or by way of inheritance.
- 4. in contemplation of death of the payer or donor.
- 5. from local authority
- 6. from or by any fund or foundation or university or other educational institutions or hospital or other medical institutions or any trust or institution referred u/s 10(23C).
- 7. from or by any trust or institution registered u/s 12A or 12AA.
- 8. from an individual by a trust created or established solely for the benefit of relative of the individual.
- 9. by way of distribution at the time of total or partial partition covered u/s 47(i)
- 10. by way of transactions in the nature of amalgamation or demerger covered u/s 47(iv) or (v) or (vi) or (via) or (vial) or (vib) or (vic) or (vical) or (vicb) or (vid) or (vii).

Other Points

- 1. Fair market value of a property, other than an immovable property, means the value determined in accordance with the method as may be prescribed;
- 2. Property means the following **capital asset** of the assessee, namely

| | | | |
|--|--------------------|------------------------|-------------|
| a. Immovable property being land or building or both | | b. Shares & securities | |
| c. Archaeological collections | d. Paintings | e. Jewellery | f. Drawings |
| g. Sculptures | h. Any work of art | I Bullion | |

Taxpoint:

- Property does not include furniture, clothes, etc. (provided it does not fall in the definition of Jewellery).
- If an assessee receives aforesaid assets without consideration (or against inadequate consideration in some cases) as stock in trade, the provision of this section shall not apply.

3. Stamp duty value means the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property

Examples

| Case | Consequences |
|--|---|
| Cash Gift | |
| 1. Mr. Anand received cash gift of ₹ 1,00,000 from his friend Mr. Lathi as on 10-10-2018 | ₹ 1,00,000 shall be considered as income of Mr. Anand for A.Y. 2019-20 |
| 2. Mr. Mohak received cash gift from his following friends during the previous year: - Yash: ₹ 18,000 - Devnika: ₹ 25,000 | Since aggregate amount of gift received during the year does not exceed ₹ 50,000. Hence, nothing shall be taxable in hands of Mohak u/s 56(2)(x). |
| 3. During the previous year, Mrs. Vinita received ₹ 1,00,000 from her brother as gift. | Since the amount is received from relative of the recipient hence the provision of sec. 56(2)(x) is not applicable though the amount exceeds ₹ 50,000 |
| 4. During the previous year, Mr. Roshan receives following cash gift: - Mr. Ashok (father of Roshan): ₹ 58,000 - Ramesh (brother in law): ₹ 18,000 - Prapti (friend): ₹ 25,000 - Aziz (friend): ₹ 27,000 | Gift received from relatives (in the instant case gift from father and brother in law) is not taxable u/s 56(2)(x). Aggregate amount of cash gift received from non-relatives (in the instant case gift from Prapti and Aziz) is ₹ 52,000/- Since cash gift from non-relatives exceeds ₹ 50,000/- hence entire amount (₹ 52,000/-) received from non-relatives is taxable u/s 56(2)(x) in hands of Mr. Roshan |
| 5. During the marriage ceremony of Mr. Mohak, he receives cash gift of ₹ 11,000/- each from 5 of his friends. | Gift received on the occasion of the marriage of the individual (whether gift is received from relative or outsiders) is not taxable. Hence nothing shall be taxable u/s 56(2)(x) |
| 6. During the celebration of 25 th marriage anniversary, Mrs. Sonam receives cash gift of ₹ 11,000/- each from 5 of her friends. | Since aggregate amount of gift received during the year exceeds ₹ 50,000. Hence, ₹ 55,000/- shall be taxable in hands of Mrs. Sonam u/s 56(2)(x). Note: Gift received on the occasion of marriage ceremony of the assessee is exempt but marriage anniversary is not covered under exemption. |
| 7. During the marriage ceremony of Mr. Vikram, Mr. Mohak (nephew of Mr. Vikram) receives cash gift of ₹ 15,000/- each from 5 of his friends. | Since aggregate amount of gift received during the year exceeds ₹ 50,000. Hence, ₹ 75,000/- shall be taxable in hands of Mrs. Mohak u/s 56(2)(x). Note: Gift received on the occasion of marriage ceremony of the assessee is exempt but marriage ceremony of a relative is not covered under exemption. |
| Gift of immovable property | |
| 1. As on 10-01-2019, Mr. Pati received a piece of land (stamp duty value is ₹ 75,000) from his friend Mr. Raja without any consideration. Such land was acquired by Raja in 2001-02 for ₹ 10,000. | <u>Consequence of such gift in hands of Mr. Pati</u> Since stamp duty value of the property exceeds ₹ 50,000, hence ₹ 75,000 shall be considered as income of Mr. Pati u/s 56(2)(x) for A.Y. 2019-20. <u>Consequence of such gift in hands of Mr. Raja</u> Mr. Raja has transferred the capital asset by way of gift, which is not considered as transfer (sec. 47), hence no tax is required to be paid by him. |

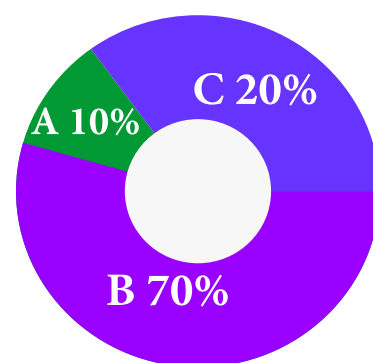
| Acquisition of immovable property at concessional amount | |
|--|---|
| 1. As on 10-01-2019, Tipu purchased a piece of land (stamp duty value is ₹ 75,000) from his friend Mr. Uday against consideration of ₹ 30,000. Mr. Uday has acquired such land for ₹ 25,000 in F.Y. 2006-07. On 10-04-2020, Tipu sold such land for ₹ 1,75,000 (stamp duty value ₹ 1,60,000/-). | <u>Consequences in hands of Mr. Tipu</u> <u>Applicability of sec.56(2)(x)</u> : Since the difference between stamp duty value of the land (as on 10-01-2019) and actual consideration does not exceed ₹ 50,000, hence, the provision of sec. 56(2)(x) is not applicable. |
| 2. As on 10-02-2019, Mundhra Services Pvt Ltd purchased a piece of land (stamp duty value is ₹ 7,50,000) from one of the friend, Mita, of the Director, against consideration of ₹ 3,90,000. Mita has acquired such land for ₹ 25,000 in 2000 (Fair Market Value as on 1-4-2001 was ₹ 32,000). On 10-04-2020, the company has sold such land for ₹ 10,75,000 (stamp duty value ₹ 12,00,000/-). | <u>Consequences in hands of Mundhra Services Pvt Ltd</u> <u>Applicability of sec.56(2)(x)</u> : Since the difference between stamp duty value of the land (as on 10-02-2019) and actual consideration exceeds ₹ 50,000, hence, the provision of sec. 56(2)(x) is applicable. Consequently, ₹ 3,60,000/- shall be considered as 'Income from Other Sources' in hands of the company in the A.Y.2019-20. |
| 3. On 10-10-2018, Sonam purchased a piece of land from her friend Shweta (stamp duty value ₹ 12,54,000) for ₹ 12,00,00. | <u>Consequences in hands of Sonam</u> <u>Applicability of sec.56(2)(x)</u> : Since the difference between actual consideration and stamp duty value does not exceed 5% of actual consideration (being ₹ 60,000 i.e., 5% of ₹ 12,00,000), hence nothing shall be taxable u/s 56(2)(x) even though the difference between actual consideration and stamp duty value exceeds ₹ 50,000. |
| 4. On 10-10-2018, Priya purchased a piece of land from her friend Monica (stamp duty value ₹ 8,45,000) for ₹ 8,00,000. | <u>Consequences in hands of Priya</u> <u>Applicability of sec.56(2)(x)</u> : Nothing shall be taxable as the difference between stamp duty value of property and actual consideration does not exceed ₹ 50,000/-. |
| Gift of movable property | |
| 1. As on 10-01-2019, Narendra received gold necklace (fair value is ₹ 1,85,000) from Vivek without any consideration. | <u>Consequences in hands of Narendra</u> <u>Applicability of sec. 56(2)(x)</u> : Since fair market value of gift exceeds ₹ 50,000, hence the provision is applicable and consequently ₹ 1,85,000 shall be taxable as income from other sources in A.Y. 2019-20. <u>Consequences in hands of Vivek</u> Gift is not considered as transfer, hence nothing shall be taxable in his hands. |
| Acquisition of movable property at concessional amount | |
| 1. On 10-10-2018, Kamal purchased jewellery from Kishore (fair value ₹ 46,000) for ₹ 30,000. Kishore has acquired such jewellery in 10-04-2018 for ₹ 25,000 | <u>Consequences in hands of Kamal</u> <u>Applicability of sec. 56(2)(x)</u> : Since fair market value of jewellery does not exceed ₹ 50,000, hence the provision is not applicable. |



GROUP: 1, PAPER: 8
COST ACCOUNTING
(CAC)

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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** Administrative Procedures and ICDS **20%**

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

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

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

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

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

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

The next chapter, Cost Book-Keeping, including integrated accounting system is not at all difficult. In this system, different accounts are to be opened, but it is not necessary to give much effort to complete its solution. It's a lengthy process. Here, separate ledgers are maintained by the cost sections.

This chapter relates to Contract Costing. Only Job/Batch/Contract Costing is very important for the Intermediate Examinations. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. You should make sure that you are familiar with various methods/formulae for different stages of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP - 9". Various problems on 'escalation clause' is used to be set at this level of examination also.

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

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

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

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

Charging the overhead to Cost Centres and cost units is the most important consideration in the operation of a Cost Accounting system. In this context we like to solve a problem relating to overhead distribution.

Problem

A machine shop of a factory has 3 cost centres having distinct sets of machines. The following estimates are available for the year 2018.

| | Total for factory | Centre I | Centre II | Centre III |
|---------------------------|----------------------|-------------|--------------|---------------|
| Direct Wages | 160000 | 50000 | 50000 | 60000 |
| Share of Service Expenses | 5000 | 1000 | 1500 | 2500 |
| Power | 10000 | | | |
| Repair & Maintenance | 13000 | | | |
| Insurance | 3900 | | | |
| Rent | 3000 | | | |
| Lighting | 1800 | | | |
| Indirect Wages | 14400 | | | |
| Labour Welfare Expenses | 20000 | | | |
| Value of Machines | 325000 | 100000 | 75000 | 150000 |
| Floor Area (sq. ft.) | | 120 | 240 | 360 |
| Power of Motor (H.P.) | | 10 | 10 | 20 |
| Machine Hours | | 5000 | 6000 | 10000 |
| No. of workers | | 12 | 10 | 18 |

(a) Compute a suitable machine hour rate of overhead absorption of each of the machine centres.

(b) Job No. 3301 passes through all the above three cost centres and the time required in each centre is :

Centre I - 4 hrs , Centre II - 3 hrs , Centre III - 8 hrs .

What price should the company quote for Job No. 3301 to yield a profit of 20% on cost if its direct materials and direct labour costs are estimated at Rs. 500 and 300, respectively, and other expenses are 20% on work cost?

Solution

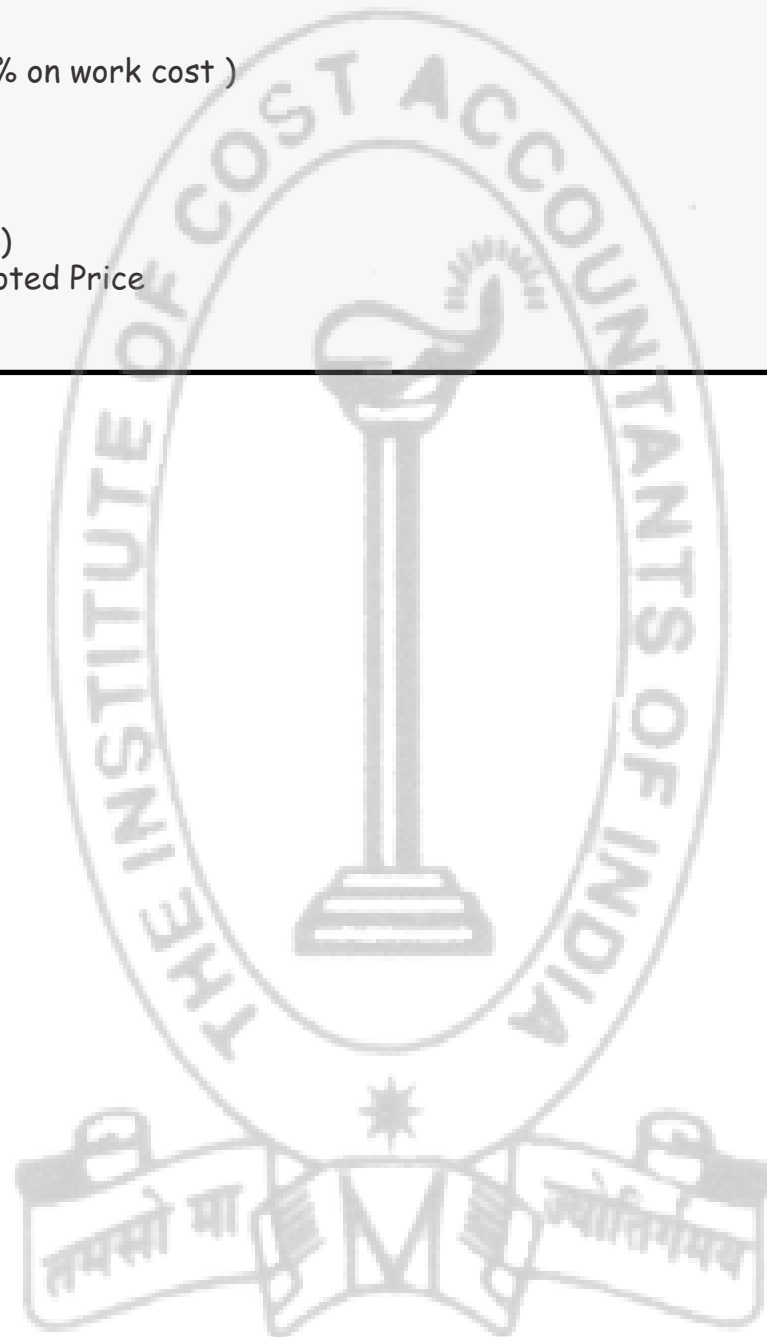
(a) **Computation of Suitable Machine Hour Rate**

| Particulars | Basis | Total Rs. | Centre I Rs. | Centre II Rs. | Centre III Rs. |
|-------------------------|--------------------------|--------------|--------------|---------------|----------------|
| Share of Service Exp. | Given | 5000 | 1000 | 1500 | 2500 |
| Power | H.P. of Machine (1:1:2) | 10000 | 2500 | 2500 | 5000 |
| Repairs & Maintenance | Value of machine (4:3:6) | 13000 | 4000 | 3000 | 6000 |
| Insurance | Do | 3900 | 1200 | 900 | 1800 |
| Rent | Floor Area (1:2:3) | 3000 | 500 | 1000 | 1500 |
| Lighting | Do | 1800 | 300 | 600 | 900 |
| Indirect Wages | Direct Wages (5:5:6) | 14400 | 4500 | 4500 | 5400 |
| Labour Welfare Expenses | No. of workers (6:5:9) | 20000 | 6000 | 5000 | 9000 |
| Total | | 71100 | 20000 | 19000 | 32100 |

| | | | | | |
|-------------------|--|--|------|-------|-------|
| Machine Hours | | | 5000 | 6000 | 10000 |
| Machine Hour Rate | | | 4 | 3.167 | 3.21 |

(b) Statement showing Quoted Price for Job No. 3301

| Particulars | Amount Rs. | Amount Rs. |
|---|------------|------------|
| Direct Materials | 500 | |
| Direct Labour | 300 | |
| PRIME COST | | 800 |
| Add : Factory overhead : | 16 | |
| Centre I -- Rs. 4 x 4 | 9.50 | |
| Centre II -- Rs. 3.167 x 3 | 25.68 | |
| Centre III -- Rs. 3.21 x 8 | | 51.18 |
| Factory Cost | | 851.18 |
| Add : Other expenses (20% on work cost) | | 170.24 |
| | | 1021.42 |
| Add : Profit (20% on cost) | | 204.28 |
| Quoted Price | | 1226.70 |





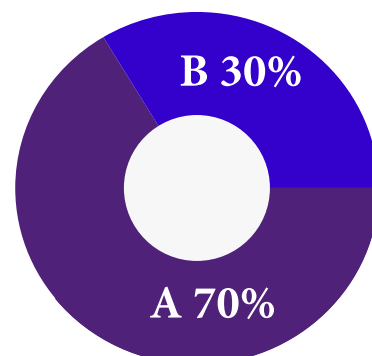
GROUP: 2, PAPER: 9, Part- i

OPERATIONS

**MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Operation Management**

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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 let me extend our discussions on Production Planning and Control with Master Scheduling.

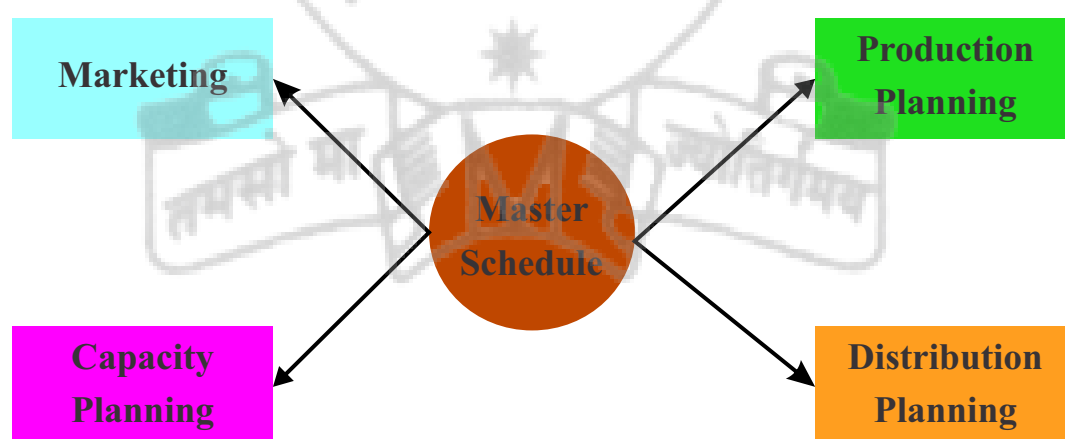
In aggregate planning the management formulates a general strategy by which capacity can be made to satisfy demand in a most economical way during a specific moderate time period, say for one year.

The aggregate planning is made operational through a Master Schedule that gives the manufacturing schedule (Products and dates of manufacture).

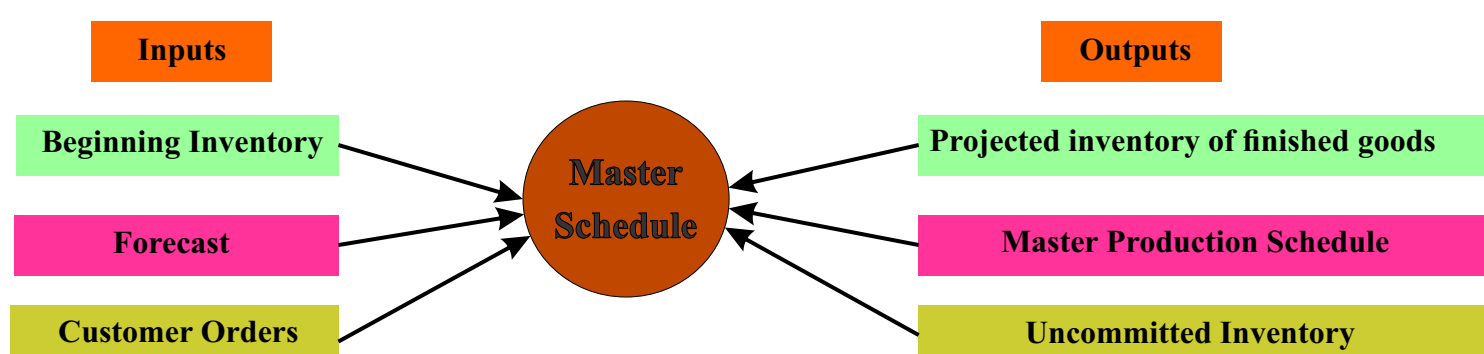
Master schedule determines the quantities needed to fulfil demand received from all sources and administers all key decisions and activities throughout the organization.

A rough difference between aggregate plan and master schedule are drawn in the following table:

| Aggregate Plan For Maruti Udyog Ltd | | | |
|---------------------------------------|-------|-----|------|
| | April | May | June |
| Total Car Production | 500 | 400 | 200 |
| Master Schedule for Maruti Udyog Ltd. | | | |
| | April | May | June |
| Alto | 200 | 180 | 75 |
| Swift | 150 | 100 | 25 |
| Wagon R | 150 | 120 | 100 |
| Total Car Production | 500 | 400 | 200 |



The process of master scheduling has the following Inputs & Outputs:



Master Production Schedule is one of the primary outputs of the master scheduling process as shown above. It details how many end items will be produced within specified periods of time. It serves as the basis for short range planning. Aggregate plan covers an interval of say 12 months whereas Master Schedule covers only a portion of this. Monthly updating is required for master schedule even though it covers two or three months.

Illustration 1:

A company that makes Cars wants to prepare a master production schedule for April and May. Inputs are:

Beginning Inventory: 94 Cars;

Forecast: Marketing has forecasted demand of 180 Cars for April and 200 Cars for May, evenly distributed over the four weeks in each month;

Customer Orders: There are customer orders that have been committed and must be filled:

| | April | | | | May | | | |
|-----------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |

Production lot size of the company is 70 cars.

Initiate master scheduling.

Answer:

The following table contains the three primary inputs to the master scheduling process:

| | April | | | | May | | | |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week |
| Beginning Inventory | 94 | | | | | | | |
| Forecast | 45 | 45 | 45 | 45 | 50 | 50 | 50 | 50 |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |

Now let us determine projected on hand inventory till master scheduling initiates master production schedule and it is as follows:

Projected on hand inventory

Opening inventory forecast or customer order whichever is maximum

In the first week of April Forecast is for 45 units and Customer orders are for 48. Since 48 is maximum so in 1st week of April projected on hand inventory = $94 - 48 = 46$ and details are:

| | April | | | | May | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week |
| Beginning Inventory | 94 | 46 | 1 | | | | | |
| Forecast | 45 | 45 | 45 | 45 | 50 | 50 | 50 | 50 |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |
| Projected on hand inventory | 46 | 1 | -44 | | | | | |

Projected on hand inventory in the 1st week of April acts as Opening inventory of 2nd week. In 2nd week Forecast $45 >$ Customer orders 35. So projected on hand inventory of 2nd week of April = $46 - 45 = 1$. If we proceed in this way projected on hand inventory in the 3rd week of April will become negative (-44) as shown above and output—Master production Schedule is initiated.

It means that a signal that production is needed to replenish the inventory.

As per question production lot size is 70 units it means that whenever production is called for 70 cars will be produced. Hence the negative projected on hand inventory in the 3rd week of April will require production of 70 cars which will meet the projected shortfall of 44 cars and leave 26(70-44) cars for future demand. Then again we compute projected on hand inventory for subsequent week and continue our schedule as follows:

| | April | | | | May | | | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week |
| Beginning Inventory | 94 | 46 | 1 | 26 | 51 | 1 | 21 | 41 |
| Forecast | 45 | 45 | 45 | 45 | 50 | 50 | 50 | 50 |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |
| Projected on hand inventory | 46 | 1 | -44 | -19 | 1 | -49 | -29 | -9 |
| Master Production Schedule | | | 70 | 70 | | 70 | 70 | 70 |
| Projected on hand inventory after MPS | | | 26 | 51 | | 21 | 41 | 61 |

So the resultant master schedule is given below:

| | April | | | | May | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week | 1 st Week | 2 nd Week | 3 rd Week | 4 th Week |
| Beginning Inventory | 94 | 46 | 1 | 26 | 51 | 1 | 21 | 41 |
| Forecast | 45 | 45 | 45 | 45 | 50 | 50 | 50 | 50 |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |
| Projected on hand Inventory | 46 | 1 | 26 | 51 | 1 | 21 | 41 | 61 |
| Master Production Schedule | | | 70 | 70 | | 70 | 70 | 70 |

It is said earlier that master scheduling has three outputs: i) Projected inventory of finished goods; ii) Master production schedule & iii) Uncommitted inventory

The first two outputs are shown in the above table. Now let us now determine the uncommitted inventory.

Uncommitted inventory is the inventory not yet committed and still available for promise. This is also called Available to Promise (ATP) inventory. ATP quantity is only calculated for the first week and for other weeks in which there is an MPS quantity. For our illustration it is calculated for 1st week of April, 3rd week of April, 4th week of April, 2nd, 3rd and 4th week of May.

In the first week ATP is $\text{Opening inventory} - \text{MPS} - \text{Sum of Customer orders in week 1 \& 2}$

In other weeks opening inventory is not considered in calculation and ATP is

$$\text{MPS} - \text{Sum of Customer orders in current and next week}$$

This procedure is called "Look ahead" method of computation of uncommitted inventory. But under this computation never consider customer orders of a week if MPS is there for the week.

In the first week

Opening Inventory 94

Customer orders in 1st and 2nd week of April 48 35 83

MPS 0

ATP 94 0 83 11

In the 3rd week of April

Opening inventory not to be considered

Customer orders in 3rd and 4th week of April = 25+19 = 44

MPS = 70

ATP = 70 - 44 = 26

So the detail ATP computation for our illustration is

| | April | | | | May | | | |
|-----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 1st Week | 2nd Week | 3rd Week | 4th Week | 1st Week | 2nd Week | 3rd Week | 4th Week |
| Beginning Inventory | 94 | 46 | 1 | 26 | 51 | 1 | 21 | 41 |
| Forecast | 45 | 45 | 45 | 45 | 50 | 50 | 50 | 50 |
| Customer Orders | 48 | 35 | 25 | 19 | 12 | | | |
| Projected on hand inventory | 46 | 1 | 26 | 51 | 1 | 21 | 41 | 61 |
| Master Production Schedule | | | 70 | 70 | | 70 | 70 | 70 |
| ATP | 11 | | 45 | 39 | | 70 | 70 | 70 |

Illustration 2:

Prepare a schedule from the following.

The forecast is 80 units for each of the first two periods and 60 units for each of the next three periods. The starting inventory is 20 units. The company uses a chase strategy for determining the production lot size except there is an upper limit on the lot size of 70 units. Also the desired safety stock is 10 units. ATP quantities are based on maximum allowable production. A negative projected on hand can occur. Committed orders are as

| Period | Customer orders |
|--------|-----------------|
| 1 | 82 |
| 2 | 80 |
| 3 | 60 |
| 4 | 40 |
| 5 | 20 |

Answer:

Inputs are given in the following table:

| | Period | | | | |
|---------------------|--------|----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 |
| Beginning Inventory | 20 | | | | |
| Forecast | 80 | 80 | 60 | 60 | 60 |
| Customer Orders | 82 | 80 | 60 | 40 | 20 |

Since on first period Customer orders 82 > Forecast, projected on hand inventory is

Beginning inventory Customer orders 20 82 62

| | Period | | | | |
|-----------------------------|--------|-----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 |
| Beginning Inventory | 20 | -62 | | | |
| Forecast | 80 | 80 | 60 | 60 | 60 |
| Customer Orders | 82 | 80 | 60 | 40 | 20 |
| Projected on hand Inventory | -62 | | | | |

This will initiate MPS. Since Safety stock is 10 we have to produce $10+62 = 72$ units so that we could cover the negative stock in hand (-62) and 10 units of safety stock. But maximum production limit is 70 units. So MPS signal is taken at 70. Accordingly subsequent periods are also computed and presented below:

| Period | | | | | |
|---------------------------------------|-----|-----|-----|-----|-----|
| | 1 | 2 | 3 | 4 | 5 |
| Beginning Inventory | 20 | 8 | -2 | 8 | 10 |
| Forecast | 80 | 80 | 60 | 60 | 60 |
| Customer Orders | 82 | 80 | 60 | 40 | 20 |
| Projected on hand Inventory | -62 | -72 | -62 | -52 | -50 |
| MPS | 70 | 70 | 70 | 62 | 60 |
| Projected on hand Inventory after MPS | 8 | -2 | 8 | 10 | 10 |

Resultant MPS& ATP is shown below:

ATP for the first period

= Beginning Inventory + MPS - Customer order for 1st Period.

Look ahead method must consider customer orders of all the next periods until the period is falling in a MPS month. In this illustration since second week is under MPS ATP computation 1st period is not considering the customers demand for 2nd week which is considered for ATP computation of 2nd period.

| Period | | | | | |
|-----------------------------|----|----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 |
| Beginning Inventory | 20 | | | | |
| Forecast | 80 | 80 | 60 | 60 | 60 |
| Customer Orders | 82 | 80 | 60 | 40 | 20 |
| Projected on hand Inventory | 8 | -2 | 8 | 10 | 10 |
| MPS | 70 | 70 | 70 | 62 | 60 |

| Period | | | | | |
|-----------------------------|----|-----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 |
| Beginning Inventory | 20 | | | | |
| Forecast | 80 | 80 | 60 | 60 | 60 |
| Customer Orders | 82 | 80 | 60 | 40 | 20 |
| Projected on hand Inventory | 8 | -2 | 8 | 10 | 10 |
| MPS | 70 | 70 | 70 | 62 | 60 |
| ATP | 8 | -10 | 10 | 22 | 40 |

Suggestions:

This lesson could be used as an aid to teaching in study notes on Scheduling. Master scheduling technique is vital for aggregate planning under chapter Production, Planning and control. Look ahead method is used here for available to promise inventory (ATP). But there are several other methods. Proper understanding of development of MPS as shown in the solutions are most important. Attempts are made here to indicate detail computation. Study note are required to be read thoroughly to have a proper understanding on master scheduling to tackle theoretical questions on the same. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson, Productions and Operations management by R.B. Khanna.



GROUP: 2, PAPER: 9, Part- ii

OPERATIONS

**MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Strategic Management**

CMA (Dr.) Sumita Chakraborty

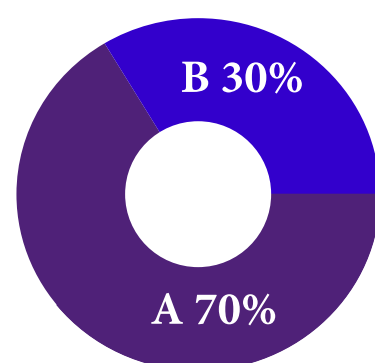
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Your Preparation Quick Takes



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**Choosing of correct Answers:**

1. A strategic business unit (SUB) is defined as a division of an organization:
 - (a) That help in the marketing operation
 - (b) That enable managers to have better control over the resources
 - (c) That help in the choice of technology
 - (d) That help in the allocation of scarce resources
 - (e) That help in identifying talents and potentials of people

Answer:

- (b) A strategic business unit (SBU) is defined as a division of an organization: that enable managers to have better control over the resources.
2. Mckinsey's 7-s framework consists of:
 - (a) Structure, strategy, software, skills, styles, staff and supervision
 - (b) Structure, strategy, systems, skills, styles, syndication and shared values
 - (c) Structure, strategy, systems, skill, steering power, styles and shared values.
 - (d) Structure, strategy, staff, skills, systems, shared values, super ordinate goal.
 - (e) None of the above.

Answer:

- (d) Structure, strategy, staff, skills, systems, shared values, super ordinate goal.
3. Benchmarking is:
 - (a) The analytical tool to identify high cost activities based on the "Pareto Analysis".
 - (b) The search for industries best practices that lead to superior performance
 - (c) The simulation of cost reduction schemes that help to build commitment and improvement of actions
 - (d) The process of marketing and redesigning the way a typical company works
 - (e) The framework that earmarks a linkage with suppliers and customers

Answer:

- (b) The search for industries best practices that lead to superior performance

4. Organization culture is:
 - (a) Appreciation for the arts in the organization
 - (b) Ability of the organization to act in a responsible manner to its employees
 - (c) Combination of (a) and (b) above
 - (d) Deeper level of basic assumptions and beliefs that are shared by the members of the firm
 - (e) None of the above

Answer:

- (d) Deeper level of basic assumptions and beliefs that are shared by the members of the firm

5. Intensity of competition is _____ in low return industries.
 - (a) Law
 - (b) Non - existent
 - (c) High
 - (d) Not important
 - (e) Dependant on industry nature

Answer:
(c) High

6. What are enduring statements of purpose that distinguish one business from other similar Firms?
- Policies
 - Mission statements
 - Objectives
 - Rules
 - Nature of ownership

Answer:
(b) Mission statements

7. Ansoff proposed that for filling the corporate planning gap, one follows four strategies namely.
- Market penetration, product differentiation, market identification and diversification
 - Market penetration, product development, market identification and diversification
 - Market penetration, product development, market development and diversification
 - Market identification, product development, positioning and diversification
 - Differentiation, product innovation, market opportunity and diversification

Answer:
(c) Market penetration, product development, market development and diversification

8. For an actress in Bollywood, her pretty face would a/an
- Asset
 - Strategic asset
 - Core competency
 - Capability
 - All of the above

Answer:
(b) Strategic asset

9. The strategy which concentrates around a production market is:
- Vertical integration
 - Niche
 - Horizontal Expansion
 - Diversification

Answer:
(b) Niche

10. Corporation vision' is the same as
- Corporate dream
 - Corporate mission
 - Corporate goal
 - Corporate strategy

Answer:
(a) Corporate dream

State whether the following statement is True or False

- Penetration Pricing is the use of price to drive a competitor out of business.
- "Strategic Management" is concerned with the formulation of possible courses of actions, their evaluation and the choice between them.
- Business Process Re-engineering is an important ingredient of Reverse Engineering.
- Synergy signifies a condition where the whole is greater than the sum of its parts.
- Brand equity is the added value to the shares held by the equity share - holders of a company.

- Answer**
- False
 - False
 - False
 - True
 - False



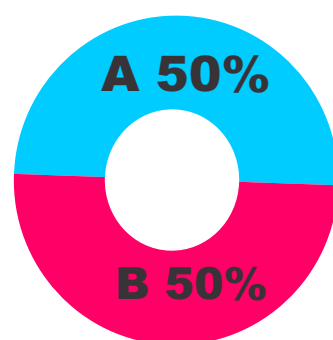


GROUP: 2, PAPER:10

COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT(CMFM)

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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: Paper 15) and Strategic Performance Management and Business Valuation (Final Group 4: Paper 20) in the CMA Final Course. The entire syllabus of the paper is segregated into two segments namely Cost & Management Accounting (Section A: Full Marks 50) and Financial Management (Section B: 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.

Cost & Management Accounting and Financial Management Section B

Chapter 10: Cost of Capital:**Cost of Retained Earnings (K_r):**

Retained earnings refer to the part of the distributable profit which is set aside without distributing among the shareholders in order to strengthen the financial position of the business. This fund does not cost any real payout. However, there is an opportunity cost involved because in case the fund was not available, the company would have to arrange it from any other source. Since retained earnings are otherwise attributable to the shareholders, the opportunity cost of retained earnings may simply be the cost expected by the equity shareholders.

There are alternative criteria or methods for measuring this cost. These are as follows:

1. Reinvestment Criterion: It assumes that the shareholders would have invested the dividend in alternative investments on receipt. So the cost of equity is to be adjusted by the marginal tax rate and the applicable commission, brokerage, etc payable at the time of investment. Thus, the formula for calculating K_r would be as follows:

$$K_r = K_e (1 - t) (1 - C)$$

where, K_e = Cost of equity

t = Marginal tax rate

C = Commission, brokerage, etc.

Consider the following example:

Case Study 1:

A firm's K_e (return available to shareholders) is 10%, the average tax rate of shareholders is 30% and it is expected that 2% is brokerage cost that shareholders will have to pay while reinvesting their dividends in similar company. What is the cost of retained earnings?

Solution:

$$\text{Cost of Retained Earnings, } K_r = K_e (1 - t) (1 - C)$$

where,

K_e = rate of return available to shareholders

t = tax rate

C = brokerage cost

$$\text{So, } K_r = 10\% (1 - 0.3) (1 - 0.02)$$

$$= 10\% \times 0.7 \times 0.98$$

$$= 4.9\%$$

2. External Yield Criterion: This method assumes the retained earnings as the investment of existing shareholders in the firm itself. So the retained earnings may be treated at par with the equity share capital. The cost of retained earnings may be measured in the same way as that of equity share capital.

Hence in our previous example, cost of retained earnings under external yield criterion would have been $K_r = 10\%$.

Step 2: Determination of the weights of each individual source.

Overall cost of capital is nothing but the average cost of individual sources from which capital has been raised by the firm. Though average can be both simple as well as weighted, only weighted average is appropriate in this case. This is because firms hardly use various sources of capital equally in the capital structure. Hence, the second step in determining the overall cost of capital is to determine the weights to be used.

Following three types of weights are generally used in calculating the weighted average or overall:

1. Book value weights
2. Market value weights
3. Marginal value weights

Book Value Weights

In this method, weighted average cost of capital is computed by taking relative proportions of various sources of capital to the existing capital structure of the firm. In other words, the relative proportions of book value of different sources of capital in the total capital are used as the weights here.

Consider the following example:

| Sources of capital | Book value (Rs.) | Book value weights |
|-------------------------------------|------------------|---------------------|
| E.S.C (100000 shares @ Rs. 10 each) | 1000000 | $\frac{1}{3}$ 0.333 |
| P.S.C (5000 shares @ Rs. 100 each) | 500000 | $\frac{1}{6}$ 0.167 |
| Retained earnings | 500000 | $\frac{1}{6}$ 0.167 |
| 10% Debentures | 1000000 | $\frac{1}{3}$ 0.333 |
| Total | 3000000 | 1.000 |

The advantages and disadvantages of book value method are as follows:

| Advantages of Book Value Method | Disadvantages of Book Value Method |
|--|---|
| <ul style="list-style-type: none"> • The method is easy to use. • Book values are readily available. • They reflect the real capital structure. | <ul style="list-style-type: none"> • Market values are more representative. • Futuristic attitude is absent. • Specific costs of capital are calculated using market value information. So here the weights are not consistent with costs. |

Market Value Weights

In this method, the relative proportions of market values of various sources of capital are assigned as weight in computing the weighted average cost of capital. Market value weights are superior to book value weights. This is because, though, using book value weights is operationally convenient, market value weights are theoretically more consistent as they reflect the present position of the capital structure. Moreover, since costs of capital are calculated using market value information, using market value weights seems more logical.

Consider the following example:

| Sources of capital | Book value (Rs.) | Current Market Price |
|-------------------------------------|------------------|----------------------|
| E.S.C (100000 shares @ Rs. 10 each) | 1000000 | Rs. 36 per share |
| P.S.C (5000 shares @ Rs. 100 each) | 500000 | Rs. 120 per share |
| Retained earnings | 500000 | ----- |
| 10% Debentures (Rs. 100) | 1000000 | Rs. 120 per share |
| Total | 3000000 | |

The market value weights can be calculated as follows:

Market value of E.S.C and Retained earnings = $100000 \times 36 = \text{Rs. } 3600000$. This is to be distributed between E.S.C and Retained earnings in their book value ratio i.e. 2:1.

So, Market value of E.S.C = $3600000 \times \frac{2}{3} = \text{Rs. } 2400000$.

So, Market value of Retained earnings = $3600000 \times \frac{1}{3} = \text{Rs. } 1200000$.

Market value of P.S.C = $5000 \times 120 = \text{Rs. } 600000$

Market value of 10% Debentures = $10000 \times 120 = \text{Rs. } 1200000$.

| Sources of capital | Book value (Rs.) | Current Market Value (Rs.) | Market Value Weights |
|-------------------------------------|------------------|----------------------------|----------------------|
| E.S.C (100000 shares @ Rs. 10 each) | 1000000 | 2400000 | $\frac{4}{9}$ 0.444 |
| P.S.C (5000 shares @ Rs. 100 each) | 500000 | 600000 | $\frac{1}{9}$ 0.112 |
| Retained earnings | 500000 | 1200000 | $\frac{2}{9}$ 0.222 |
| 10% Debentures (Rs. 100) | 1000000 | 1200000 | $\frac{2}{9}$ 0.222 |
| Total | 3000000 | 5400000 | 1.000 |

The advantages and disadvantages of book value weights are as follows:

| Advantages of Market Value Weights | Disadvantages of Market Value Weights |
|--|---|
| <p>The method is consistent with the costs calculated.</p> <p>Consistent with the 'maximization of value' objective of the firm.</p> <ul style="list-style-type: none"> Reflects the current cost of capital. | <p>Market values are subject to change frequently.</p> <p>not readily available always.</p> <ul style="list-style-type: none"> May not be available for all sources. |

Marginal Value Weights

Under marginal value weight the value of new or incremental capital is considered rather than the past (book) values or current market values. This is more logical in the sense that a firm trying to procure funds for a new project may not intend to raise the funds from all the sources that it has used already in the capital structure. Rather, it may resort to any one or two of them. Hence, considering only those sources which will be actually used for raising the requisite amount of capital is more rational. Moreover, cost of capital determined under this method can effectively be used to make decision on the acceptance or rejection of the proposed project.

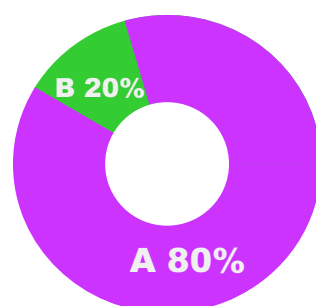


GROUP: 2, PAPER:11

INDIRECT TAXATION (ITX)

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Your Preparation Quick Takes



Syllabus Structure
A 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 Reverse Charge -- Explained with 7 Examples and - Infographics

GST Reverse Charge Mechanism (RCM) basically means that the GST is to be paid and deposited with the Govt by the recipient of Goods/ Services and not by the supplier of Goods/ Services.

Under the normal mechanism of levy of GST, the receiver of goods/services pays the GST to the supplier of goods/ services and such supplier then deposits the GST with the Govt. (after taking the benefit of input tax credit).

However, under the Reverse Charge Mechanism, the GST is paid and deposited by the recipient with the Govt. on behalf of the supplier of service. The normal mechanism of levy of GST and the Reverse Charge Mechanism has been explained below with the help of this Infographic.

When is GST Reverse Charge Mechanism applicable?

GST Reverse Charge Mechanism (also known as RCM) is not applicable under normal circumstances. It is only applicable under the circumstances which are specifically mentioned in Section 9(4) and Section 9(3) which have been mentioned below.

It is important to note that the Reverse Charge under Section 9(4) i.e. for transactions with Unregistered Dealers is currently not applicable as it has been suspended till 30th Sept 2019.

Reverse Charge under Section 9(3) i.e. for Transactions for specified goods and services are still applicable and Reverse Charge would continue to be levied.

Reverse Charge under Section 9(4) - Supply from Unregistered to Registered Person.

If a person not registered under GST supplies Goods or Services to a person who is registered under GST, then in such cases - Reverse Charge Mechanism would get applicable i.e. the GST would be required to be paid by the Registered Person directly to the Govt on behalf of the supplier.

However, in case of supply of exempt goods or services, GST under Reverse Charge

Mechanism shall not be applicable. This can be explained with the help of an example.

Example 1: A registered person hires an Auto Rickshaw for commuting from one place to another, then in such cases - Section 9(4) would not be applicable since the transportation of

passenger by auto rickshaw is an exempted service.

Example 2: A registered person stays in a hotel whose room tariff is less than Rs. 1000. Section 9(4) would not be applicable since the services by a hotel having declared value less than Rs. 1000 per day or equivalent is an exempt service.

It is pertinent to note here that the provisions of Reverse Charge under Section 9(4) are applicable only for supplies within the same state. The provisions of Reverse Charge under this Section are not applicable to Inter-state supplies as inter-state supplies cannot be made by unregistered suppliers.

To make an inter-state supply, the 1st condition is that the supplier should be registered under GST. And if the supplier is registered, the provisions of Reverse Charge under Section 9(4) would not apply and the normal mechanism of levy of GST would apply.

Example 3: Rajat (based in New Delhi) provides Consultancy Services to Sachin (based in Bangalore) and charges Rs. 20,000 for the same. Rajat is not registered under GST but Sachin is registered. Would the provisions of Reverse Charge apply in this case?

Solution: In the above mentioned case, as Mr. Rajat is providing an inter-state service, he would be required to mandatorily get registered under GST. Without getting registered - he cannot provide inter-state service. Only registered persons can provide inter-state service.

To provide inter-state service, Mr. Rajat would be required to get registered. And once, he gets registered, this would be a transaction between Rajat and Sachin both of whom are registered under GST and therefore the provisions of Section 9(4) won't apply for the levy of GST.

Exemption to Reverse Charge under Section 9(4)

Reverse Charge provisions would not be applicable if the **aggregate value** of such supplies of goods or services or both received by a taxable person from any or all the suppliers, who are not registered, **does not exceed Rs. 5,000 in a day**. In other words, if the total supply of goods or services from unregistered persons does not exceed Rs. 5,000 in a day, then the provisions of reverse charge would not be applicable.

Example 4: Karan Batra (Registered under GST) gets his website redesigned from Rajan based in New Delhi (unregistered person based) on 15th July 2017 for Rs. 4,000. He does not get any other service/good from any other unregistered supplier on 15th July 2017.

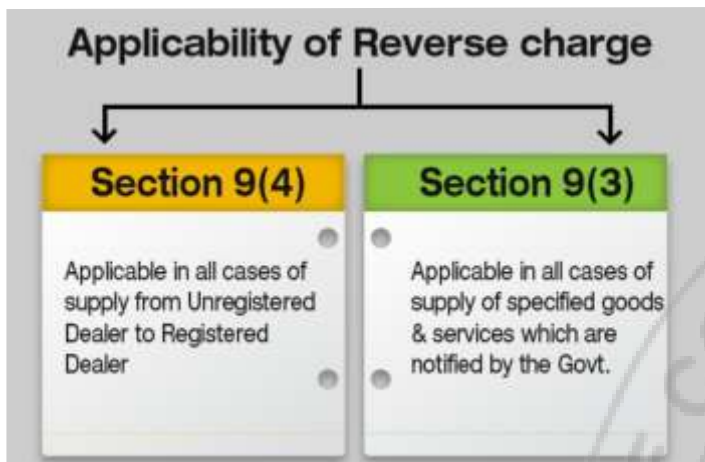
In such a case, the provisions of Reverse Charge would not be applicable as the aggregate value of such supplies for

unregistered dealers is less than Rs. 4000 in a single day.

Example 5: Karan Batra gets his website redesigned from Rajan based in New Delhi (an unregistered person under GST) on 15th July for Rs. 4000. He also hires Sahil, a digital marketer based in New Delhi (Unregistered under GST) for promotion of his website on

15th July for Rs. 3000.

In such a case, the provisions of Reverse Charge would be applicable as the aggregate value of such supplies is Rs. 7000 which is more than Rs. 5,000 in a day.



Reverse Charge under Section 9(3) - Goods & Services notified by Govt for levy of Reverse Charge Mechanism

Reverse Charge Mechanism is also applicable on certain goods and services which are notified by the Govt. Reverse Charge under Section 9(3) is applicable for both inter-state as well as same state transactions. The goods and services on which GST shall be levied under the Reverse Charge Mechanism have been mentioned below.

Reverse Charge on Goods under Section 9(3)

The Goods on which GST shall be levied under Reverse Charge have been announced vide Notification No. 04/2017 dated 28th June 2017 and these have been mentioned below for ready reference

| S. No. | Description of Supply | Supplier of Goods | Recipient of Supply |
|--------|--------------------------|---|--------------------------------|
| 1 | Cashew nuts, not shelled | Agriculturist | Any registered person |
| 2 | Bidi wrapper leaves | Agriculturist | Any registered person |
| 3 | Tobacco Leaves | Agriculturist | Any registered |
| 4 | Silk Yarn | Any person who manufactures silk yarn from raw silk | Any registered person |
| 5 | Supply of Lottery | State Govt., Union Territor | Lottery Distributer or Selling |

Reverse Charge on Services under Section 9(3)

The Services on which GST shall be levied under Reverse Charge have been mentioned below for ready reference

| S. No | Description of Supply of Services | Supplier of Goods |
|-------|---|---|
| 1. | Any service supplied by any person who is located in a non-taxable territory. | Any person located in N taxable territory. |
| 2. | Supply of Service by a Goods Transport Agency (GTA) | Goods Transport Agency (GTA) |
| 3. | Services provided by an individual advocate including a Senior Advocate by way of Representational Services before any Court, Tribunal or Authority by way of Legal Services, to a Business Entity | Any Individual Advocat including a Senior Advocate or firm of Advocates |
| 4. | Services provided by an Arbitral Tribunal to a Business Entity | Any Arbitral Tribunal |
| 5. | Sponsorship Service | Any Person |
| 6. | Services provided by the Govt. ,or Local Authority excluding Renting of Immovable Property, and -Service specified below -Services by the Department of Posts by way of Speed Post, express parcel post, life insurance, and agency services provided to a person other than Central Govt., State Govt., or Union Territory or Local Authority. - Services in relation to an aircraft or a vessel, inside or outside the precincts of an airport or a port - Transport of Goods or Passengers | Central Govt., State Go Union Territory or Loc Authority |
| 7. | Services provided or agreed to be provided by a Director of a Company or a Body Corporate to the said Company or the Body Corporate. | A Director of a Company a Body Corporate |
| 8. | Services provided or agreed to be provided by an Insurance Agent | An Insurance Agent |
| 9. | Services provided or agreed to be provided by a Recovery Agent | A Recovery Agent |

| | | |
|-----|---|---|
| 10. | Services supplied by a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to Customs station of clearance in India. | A person located in no taxable territory |
| 11. | Supply of services by an author, music Composes photographer, artist or the like by way of transfer or permitting the use of a copyright covered under Section 13(1)(a) of the Copyright Act 1957 | Author or Music Compos Photographer, Artistes |

Time of Supply for Reverse Charge under GST

For the levy of Reverse Charge under GST, it is very important to ascertain the time of supply as GST would be required to be deposited with the Govt within 20 days from the end of the month in which the services were provided.

Time of supply in case of supply of Goods

In case of Reverse Charge, the time of supply would be the earliest of the following

1. The date of receipt of goods, or
2. The date of payment, or
3. The date immediately after 30 days from the date of issue of invoice by the supplier.

If it is not possible to determine the time of supply under (a), (b) or (c) above, the time of supply shall be the date of entry in the books of accounts of the recipient.

Example 6 : Determine the Time of Supply in the bellow mentioned case of supply of goods: -

1. Date of Receipt of Goods: 14th Oct
2. Date of Payment: 19th Dec
3. Date of Invoice: 1st Nov
4. Date of entry in Books: 18th Oct

Solution: In the above mentioned case the time of supply would be 14th Oct. However, in case

Solution: In the above mentioned case the time of supply would be 14th Oct. However, in case.

Time of supply in case of supply of Services

In case of Reverse Charge, the time of supply would be the earliest of the following.

1. The date of payment, or
2. The date immediately after 60 days from the date of issue of invoice by the supplier

If it is not possible to determine the time of supply under (a) or (b) above, the time of supply shall be the date of entry in the books of accounts of the recipient

Example 7: Determine the Time of Supply in the below mentioned case of supply of goods:-

1. Date of Payment: 10th August
2. Date of Invoice: 21st July
3. Date of entry in Books: 1st August

Solution: In the above mentioned case the time of supply would be 10th August. However, in case (a), (b) are not available, the date of entry in the books i.e. 1st August would be considered

Date of Payment

For the purpose of computation of Date of Supply, the Date of Payment shall be earlier of the following:-

1. The date on which the payment is debited from his bank account or
2. The date on which the recipient entered the payment in his books

Other Relevant Points regarding levy of Reverse Charge Mechanism (RCM)

1. All persons procuring goods or services notified under Section 9(3) or Section 9(4) are mandatorily required to obtain GST Registration.
2. GST levied under the Reverse Charge mechanism should be deposited with the Govt by the 20th of the next month.
3. GST paid under the Reverse Charge mechanism would be available for Input Tax Credit if such goods and/or services are used in the furtherance of business. The service recipient (i.e. who pays reverse charge) can avail input tax credit.
4. The details of GST paid under Reverse Charge Mechanism (RCM) would not be auto-populated in the GSTR 2 and these details would be required to be manually furnished.
5. In cases where RCM is levied, the recipient shall raise an Invoice on self. Invoice shall be issued on a daily basis for all consolidated purchases made during the day on which GST is levied under Reverse Charge. [Section 31(3)(f)]
6. At the time of payment to the supplier, the recipient shall also issue a payment voucher for the payment made.
7. Input Tax Credit with the recipient cannot be used for payment of Reverse Charge to the Govt.
8. A registered person will not loose input tax credit of GST paid under Reverse Charge even if the payment is not made within 180 days.
9. Reverse Charge is also applicable to recipients registered under the Composition Scheme. No Credit of RCM is available in such cases.
10. RCM is levied on advance payments as well



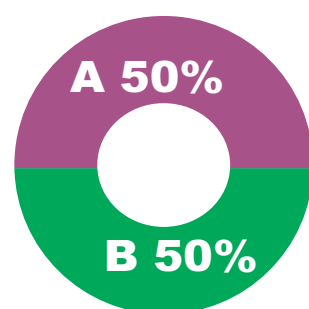
GROUP: 2, PAPER:12

COMPANY

ACCOUNTS & AUDIT (CAA)

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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

At the end of accounting year that is in March, every business house is busy for the finalisation of the accounts. The final output of accounting system is mainly balance sheet. Hence, let us discuss about form of balance sheet in lucid way.

What are the main constituents of equity and liabilities?

The main constituents of equity and liabilities are:

- 1) Shareholders fund
- 2) Share application money pending allotment
- 3) Non-current liabilities
- 4) Current liabilities

What are the main constituents of assets?

The main constituents of assets are:

- 1) Non-current assets
- 2) Current assets

What is shareholders fund?

Share capital, reserve & surplus and money received against share warrants constitutes shareholders fund.

What is share application money pending allotment?

Share application money not exceeding the issued capital and to the extent non-refundable is to be disclosed as a separate line item after shareholders fund. This will not include share application money to the extent refundable. It is to be shown under other current liabilities.

What do you understand by non-current liabilities?

Non-current liabilities include long term borrowings, deferred tax liabilities, other long term liabilities and long term borrowings.

What is current liability?

Current liabilities include short term borrowings, trade payables, other current liabilities and short term provisions.

What are the constituents of current assets?

- 1) Current investments- investment in equity instruments, investment in preference shares, investment in government or trust securities etc.
- 2) Inventories- classified as raw materials, work in progress, finished stock, stores and spares etc.
- 3) Trade receivables
- 4) Security wise details
- 5) Cash and cash equivalents- balances with banks, cash in hand etc.
- 6) Short term loans and advances -classified as loans and advances to related parties and others, otherwise classified as secured, unsecured and doubtful.
- 7) Other current assets - They do not fit into specified category.

What is capital reserve?

Capital reserve is a reserve of a corporate enterprise which is not available for distribution as dividend. Example, profit on reissue of forfeited shares.

What is capital redemption reserve?

Capital redemption reserve is the reserve for redemption of preference share capital and buy back of equity share capital.

What is the general meaning of fund?

A fund generally means a reserve specifically represented by earmarked investment.

What is the disclosure requirement of assets under lease?

Assets under lease shall be separately specified under each class as tangible assets- constituent of non-current assets.

The term under lease should mean assets given on operating lease in the case of lessor and assets held under finance lease in the case of lessee.

What are the usual classifications of intangible assets?

Intangible assets are usually classified as goodwill, brands,

trademarks, computer software, mining rights, copyrights, patents and intellectual property rights, licenses and others.

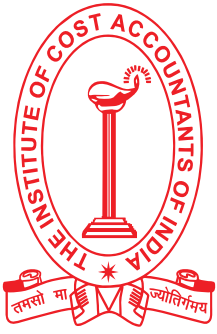
What do you mean by authorised capital?

It is the maximum number and face value of each class of shares that a corporate entity may issue in accordance with memorandum of association.

Above discussion has been made around presentation of balance sheet as per Companies Act, 2013. The discussion is indicative only but not exhaustive.

The next June examination is knocking. Students are to be awakened for the call. For CMA examination uninterrupted thrust is more important than mere intelligent understanding. Students are advised to sit on table for study at least six hours per day before appearing examination in coming June 2019. Enjoy the spring season with sincere study and merriment.





Willpower lays the ladder to Success



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Cost & Management Consultant,
Nagpur, Maharashtra,
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01.00 Where there is a WILL

Here goes an interesting Chinese story. Long, long ago, in China, there lived a big businessman whose business was to sell combs. Now that he was becoming old and about to retire, he wanted to place the business into wise and able hands. So, he called forth his three sons and instructed them, that their assignment was to sell combs in the Buddhist monastery.

Where there is a
WILL, there is a way

The sons were shocked and confused because the monks in the monastery were bald and they never grew any hair. Anyhow, the three sons went about the job that was assigned to them.

After two days, the first son reported he had sold two combs. When the father asked how, he replied, that he instructed the monks that the comb would be a valuable tool for scratching their backs in case of itching.

The second son appeared later and told that he had sold ten combs by advising the monks that the combs would help their visitors and pilgrims to comb their hair before entering the monastery, as their hair might have ruffled during the journey to the monastery.

Then the third son came out with a surprising sales figure of a thousand Combs. The father filled with happiness and anxiety asked him how he had achieved such a feat. The son replied that he gave the monks an idea.

The idea was that if some of the teachings of Buddha were to be printed/embossed on the comb and given as a take away gift to the visitors and pilgrims; they will remember the teachings of Buddha on a daily basis while combing their hair. This creative idea struck the deal.

This simple story attests the age old saying that, "Where there is a WILL, there is a way". The story also demonstrates that will power ignites creativity. And, es, it is the 'Will' that can make or unmake the things for you.

02.00 Willpower is the key to Success

Will is always driven by 'Willpower'. Willpower refers to an energetic determination that ends up in synergetic outcome. In the words of Dan Millman "Willpower is the key to success. Successful people strive no matter what they feel by applying their will to overcome apathy, doubt or fear."

Daniel Jay Millman is an American author and lecturer in the personal development field. During his senior year in high school, Dan Millman won the United States Gymnastics Federation (USGF) national title on the trampoline, and while a freshman at University of California Berkeley, he won the 1964 Trampoline World Championship in London and earned All-American honors and won an NCAA Championship in vaulting. In 1966 he won the USGF championship in floor exercise and represented the United States in the 1966 Maccabiah Games, winning four Gold Medals in Gymnastics.

Willpower is the key to success.
Successful people strive no
matter what they feel by
applying their will to overcome
apathy, doubt or fear.

In September of 1966, just prior to his senior year at U.C. Berkeley, Millman's motorcycle collided with a car. He suffered a shattered right femur, requiring surgical repair and bone marrow transplant with a steel nail inserted in his femur (which was removed a year later after the leg was healed). Millman actively pursued rehabilitation and was able to return to gymnastics as co-captain of his team which won the 1968 NCAA Gymnastics Championships in Tucson, Arizona. He was the last man to perform for U.C. on the high bar, and had a best-ever routine and perfect landing that clinched the team title.

In 1968 he was voted Senior U.C. Berkeley Athlete of the Year, and graduated with a B.A. degree in Psychology. Later, Millman served as director of gymnastics at Stanford University, where he coached U.S. Olympian Steve Hug and brought the Stanford team to national prominence. Millman has authored a number of books which together have been published in 29 languages.



We do need a strong willpower to stand against the onslaught of many negative forces which are always waiting to destabilize us from our balanced mentality. The Political leaders, the freedom fighters, business tycoons, poets, scientists, religious leaders and many such people who have understood the human mind of the man have achieved their success in great degree of advancements because they had a strong willpower which took them to their level of success with unique places in the history of mankind.

Millman's life story is an emulative example that reflects the positive impact of the willpower in steering towards a laudable and focused goal.

03.00 Where the willingness is great,

A quote by Niccolo Machiavelli states, "Where the willingness is great, the difficulties cannot be great." Niccolo Machiavelli (1469 - 1527) was an Italian diplomat, politician, historian, philosopher, humanist, writer, playwright and poet of the Renaissance period. He has often been called the father of modern political science.

The first part of the quote is the essence of enthusiasm. If you are ready, willing and able, nothing will be able to withstand your efforts for very long. Your willingness becomes the core of the effort, allowing you to remain motivated and to push aside the little things that cause less willing people to give up.

Where the willingness is great, the difficulties cannot be great.

The second part of the quote is just as straight forward. Those things that seem to be too difficult for those who lack enthusiasm are not too difficult for you. Nothing is too big, nothing is overwhelming, you just keep at it until you get it done.

The following story is usually told as an example of optimism, but it is also about the enthusiasm, both to believe and to work hard to get the desired result.

A little girl, on her birthday, was hoping for a pony. Her cruel step-mother instead filled her room with horse manure. The step-mother expected the little girl to break into tears, but was astonished at both the size of the smile and enthusiasm with which she started checking around the room, calling for the pony. On seeing her astonished step-mother's face, she stated "With all this poop, there's got to be a pony around here somewhere. Thanks!" And with that, she returned to her search.

That is enthusiasm. Enthusiasm allows you to bear great burdens, suffer great indignities and do what others won't. This allows you to achieve what others can only dream of.

The world is full of tasks that are not among your favorites. Sometimes it can be hard to maintain, or even achieve, any significant level of enthusiasm. By knowing yourself, you can try to find little things to help you stay motivated and achieve great things with small bits of enthusiasm sprinkled throughout the project.

04.00 Inspiring Quotes

It is aptly said that willpower is the ability to control oneself and determine one's actions, displaying self-control within and without. Here are a few inspiring quotes:

1. "Willpower is like a muscle: The more you train it. The stronger it gets."
2. "People don't just find the strength and the willpower they need, they create it."
3. "The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack of will."
4. "Willpower is not genetic. It requires the will to resist, and the power of a resolved mind."
5. "Strength does not come from physical capacity. It comes from an indomitable will." Mahatma Gandhi

05.00 Quick Take

Unwind your willpower; and climb the ladder of success.



Examination TIME TABLE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

| Day & Date | Intermediate Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m. |
|--------------------------------|---|
| 11th June, 2019 (Tuesday) | Financial Accounting (Paper 05) (Group - I) |
| 12th June, 2019 (Wednesday) | Operations Management & Strategic Management (Paper 09) (Group - II) |
| 13th June, 2019 (Thursday) | Laws & Ethics (Paper 06) (Group - I) |
| 14th June, 2019 (Friday) | Cost & Management Accounting and Financial Management (Paper 10) (Group - II) |
| 15th June, 2019 (Saturday) | Direct Taxation (Paper 07) (Group - I) |
| 16th June, 2019 (Sunday) | Indirect Taxation (Paper 11) (Group - II) |
| 17th June, 2019 (Monday) | Cost Accounting (Paper 08) (Group - I) |
| 18th June, 2019 (Tuesday) | Company Accounts & Audit (Paper 12) (Group - II) |



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
Live Webinar

Solve Exercises
given in Study Note

02

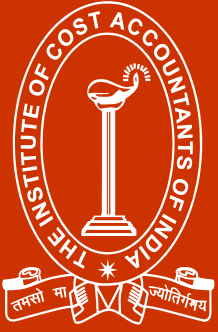
03

Assess Yourself

Appear For Examination

04

FINISHED



SUBMISSION



Update of E-Mail Address/Mobile:

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

Dear Students,

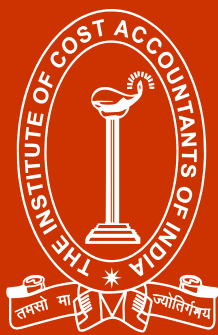
We are very much delighted to receive responses from all of you; for whom our effort is!

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

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

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



Message from Directorate of Studies

Dear Students,

Greetings from the D.O.S.,

Congratulation to all the successful examiners who have pass in December, 2018 terms of examination Those, could not clear in please remind that, failure is a key of success so try hard. We from the Directorate of Studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through New Mock Test Papers (MTPs), New Work book, and we are conducting New Webinar sessions (live) and where your active participation is amazing. Before stepping in to the examination hall, please go through the PPTs on 'Achieve your GOAL'; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Dont's in the examination.

You know that the nation is celebrating 150th birth anniversary of the father of the nation M.K.Gandhi. One of his inspirational message towards the students were:

" Continue to grow and evolve",

Let us observe his memory by following his message.

Certain general guidelines are listed below and which will help you in preparing yourselves:

- Conceptual understanding & Overall understanding of the subject should be clear.
- Candidates are advised to go through the study material provided by the Institute in an analytical manner.
- Students should improve basic understanding of the subject with focus on core concepts.
- The Candidates are expected to give to the point answer, which is a basic pre-requisite for any professional examination.
- To strengthen the answers candidates are advised to give answer precisely and in a structured manner.
- In-depth knowledge about specific terms is required.
- Write question numbers correctly and prominently.
- Proper time management is also important while answering.

Please refer the links mentioned below :

For Mock Test Papers (MTP) : http://icmai.in/studentswebsite/mtp2016_j18_fnd.php

For Revision Test Papers (RTP) : https://icmai.in/studentswebsite/rtp2016_d18.php

For PPT on "Achieve your GOAL" : <http://icmai.in/studentswebsite>

For Work Book Link : <https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php>

Live Webinar Link : <http://icmai.in/icmai/news/889.php>

Ebulletin Link : <https://icmai.in/studentswebsite/E-Bulletin.php>

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper. Many of our students' were placed in reputed companies, which may encourage you to accomplish the course quickly and to be placed in good companies.

GOOD LUCK & Best wishes as always.

Be Prepared and Get Success;

Disclaimer:

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



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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December Exam
31st July
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Councils

98
Chapters

9
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The Institute of Cost Accountants of India is a premier professional Institute and a statutory body constituted under an Act of Parliament under the administrative control of **Ministry of Corporate Affairs (MCA), Govt. of India** to regulate and develop the profession of Cost and Management Accountancy (CMA) in the country. The Institute established in **1944** is now celebrating the **Platinum Jubilee year** of its glorious presence.

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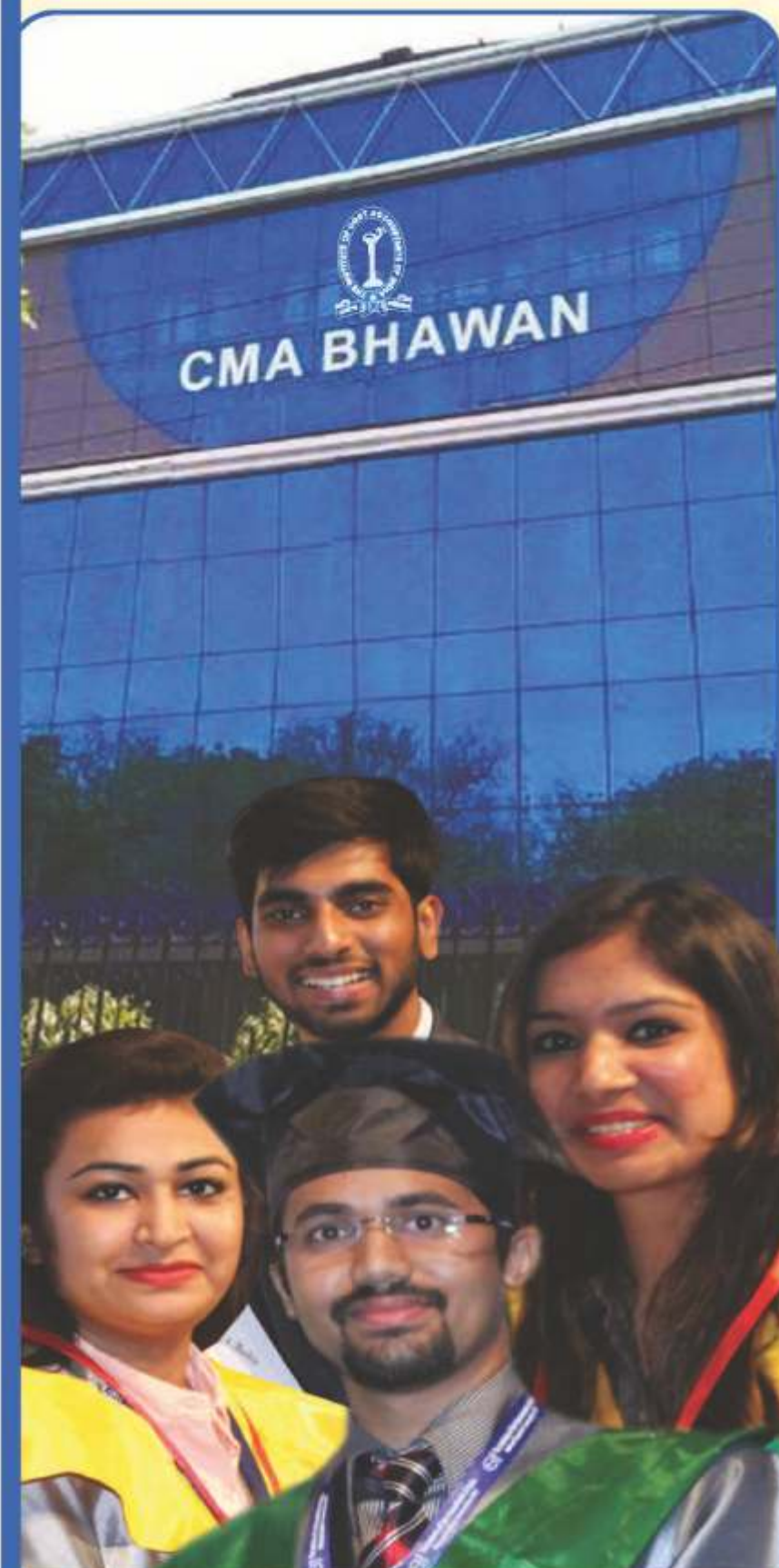
Few of Our Proud Recruiters

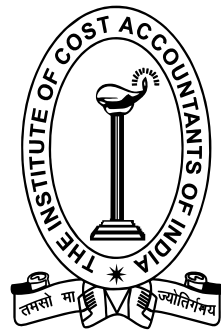


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