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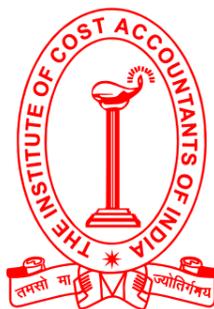
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CMA Student E - Bulletin

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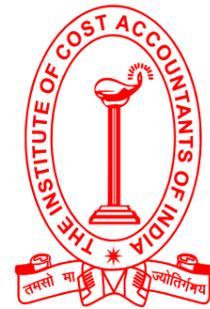
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Behind every successful business decision, there is always a **CMA**



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KNOWLEDGE Update



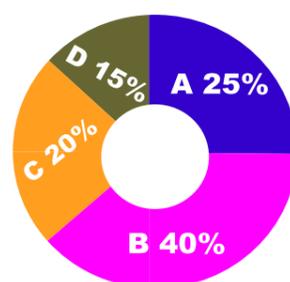
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



GROUP: I, 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.

FINANCIAL ACCOUNTING

"In ancient times, a king asked his men to place a boulder on a roadway. He then hid in the bushes, and watched to see if anyone would move the boulder out of the way. Some of the king's wealthiest merchants and courtiers passed by and simply walked around it.

Many people blamed the King for not keeping the roads clear, but none of them did anything about getting the stone removed.

One day, a peasant came along carrying vegetables. Upon approaching the boulder, the peasant laid down his burden and tried to push the stone out of the way. After much pushing and straining, he finally managed.

After the peasant went back to pick up his vegetables, he noticed a purse lying in the road where the boulder had been. The purse contained many gold coins and note from the King explain that the gold was for the person who removed the boulder from the road."

Never be escapist
Never be lazy
Never be a criticizer
Never avoid hurdles

The real success and real opportunity always lie under such boulder in your life. Just fight to move that and see what is waiting for you.

Wish you all a grand success.

Here in this issue I put a simple task for you:

1. Date of drawing of a bill is 12 December 2020 for three months after date. What will be the due date of that bill:
 - a. 15.03.2021
 - b. 12.03.2021
 - c. 16.03.2021
 - d. 18.03.2021
2. Average Clause is applicable when
 - a. Policy value < Value of stock
 - b. Policy value = value of stock
 - c. Policy value > value of stock
 - d. None of these
3. If closing provision doubtful debt is more than the opening provision the journal entry will be:
 - a. Profit and loss a/c .. dr To Provision for doubtful debt
 - b. Provision for doubtful debt...dr To Profit and loss a/c
 - c. Provision for doubtful debt...dr To Bad Debt
 - d. None of these
4. Sales equals to Rupees 1 80000 purchase Rupees 160000 opening stock Rupees 34000 and rate of gross profit is 20% on cost the value of closing stock will be
 - a. 50000
 - b. 44000
 - c. 46000
 - d. none of these
5. Contingent liability would appear
 - a. On the liability side
 - b. On the Asset side
 - c. As a footnote in the balance sheet

- d. None of the above
6. Bad debt recovered Rs 100 will be recorded to the
- Credit of bad debt account
 - Credit of debtors account
 - credit of creditors account
 - credited to bad debts recovered account
7. Suata and sutapa are partners sharing profits and losses in the ratio 5 : 3. They agreed to admit Babli as a new partner and new profit sharing ratio agreed is 2:2:1. What will be the sacrificing ratio?
- 6:2
 - 4:1
 - 5:2
 - 3:2
8. How will you treat cheques dishonoured in the debtors ledger adjustment account(in the General Ledger)
- Recorded in the debit of debtors ledger adjustment account(in the GL)
 - Recorded in the credit of debtors ledger adjustment account(in the GL)
 - Will not be recorded at all
 - None of these
9. Short working is equal to
- Actual Rent plus minimum rent
 - Actual rent minimum rent
 - Dead rent plus maximum rate
 - None of these
10. Sales day book was overcast by Rupees 1000. The rectification entry if detected after preparation of final accounts will be :
- Sales a/c .. dr To Suspense a/c
 - Sales a/c .. dr To Debtors a/c
 - Sales a/c .. dr To P/L adjustment a/c
 - None of these
11. The cost of a fixed asset offer business has to be written off over it's:
- Natural life
 - Accounting life
 - Physical life
 - Estimated economic life
12. Depreciation is
- Charge against profit
 - Diminution in service potential
 - Process of allocation
 - All of the above

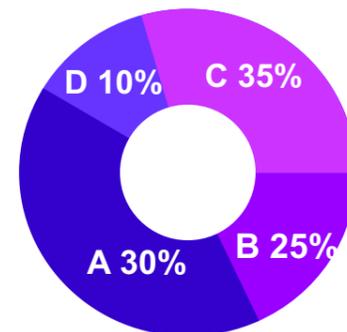
Answer key: 12d,11d,10c,9a,8a,7a,6d,5c,4b,3a,2a,1a



GROUP: I, 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 Laws 35%
D Ethics 10%

Learning Objectives:

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

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

LAWS & ETHICS

It is hoped that you - the students prepare a time-table with time allotted for each subject and read, write , revise and recapitulate all that you keep on reading. *The first TIP is that you must read the Bear Act and the Sections and start asking questions to yourself and find your own answers.*

In this issue we shall continue to deal with Corporate Laws - Companies Act,2013

Obligations of Company**Rule 17(10) of Companies (Share Capital and Debentures) Rules, 2014**

Rule 17(10) provides that the company shall ensure that—

- (a) the letter of offer shall contain true, factual and material information and shall not contain any misleading information and must state that the directors of the company accept the responsibility for the information contained in such document;
- (b) the company shall not issue any new shares including by way of bonus shares from the date of passing of special resolution authorizing the buy-back till the date of the closure of the offer under these rules, except those arising out of any outstanding convertible instruments;
- (c) the company shall confirm in its offer the opening of a separate bank account adequately funded for this purpose and to pay the consideration only by way of cash;
- (d) the company shall not withdraw the offer once it has announced the offer to the shareholders;
- (e) the company shall not utilize any money borrowed from banks or financial institutions for the purpose of buying back its shares; and
- (f) the company shall not utilize the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities for the buy-back.

Rule 17(12)(a) provides that the company, shall maintain a register of shares or other securities which have been bought-back in **Form No. SH.10**.

Rule 17(12)(b) provides that the register of shares or securities bought-back shall be maintained at the registered office of the company and shall be kept in the custody of the secretary of the company or any other person authorized by the board in this behalf.

Rule 17(12)(c) provides that the entries in the register shall be authenticated by the secretary of the company or by any other person authorized by the Board for the purpose.

Rule 17(13) provides that the company, after the completion of the buy-back under these rules, shall file with the Registrar, and in case of a listed company with the Registrar and the Securities and Exchange Board of India, a return in the **Form No. SH-11** along with the fee.

Form 17(14) provides that there shall be annexed to the return filed with the Registrar in **Form No. SH-11**, a certificate in **Form No. SH.15** signed by two directors of the company including the managing director, if any, certifying that the buy-back of securities has been made in compliance with the provisions of the Act and the rules made thereunder.

Prohibition of buyback in certain circumstances**Sec.70 of the Companies Act,2013**

Sec.70.(1)provides that no company shall directly or indirectly purchase its own shares or other specified securities—

- (a) through any subsidiary company including its own subsidiary companies;
- (b) through any investment company or group of investment companies; or

(c) if a default, is made by the company, in the repayment of deposits accepted either before or after the commencement of this Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company:

Provided that the buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

Prohibition on Purchase of own shares for non-compliance

Sec.70.(2) provides that no company shall, directly or indirectly, purchase its own shares or other specified securities in case such company has not complied with the provisions of **Sec.92(Annual Return)**, **Sec.123(Declaration and Payment of Dividend)**, **Sec.127 (Punishment for Failure to Distribute Dividends)** and **Sec.129(Financial Statement)**.

Debentures

Sec.2(30) of the Companies Act,2013 lays down that "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not;

Sec.71 of the Companies Act,2013

Option to convert such debentures into shares at the time of redemption

Sec.71(1) of the Companies Act,2013 provides that a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption:

Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, shall be approved by a special resolution passed at a general meeting.

Debentures cannot carry any voting rights

Sec.71(2) of the Companies Act,2013 provides that no company shall issue any debentures carrying any voting rights.

Secured Debentures

Sec.71(3) of the Companies Act,2013 provides that Secured debentures may be issued by a company subject to such terms and conditions as may be prescribed.

Rule 18(1) of Companies (Share Capital and Debentures) Rules, 2014

(1) The company shall not issue secured debentures, unless it complies with the following conditions, namely:-

(a) An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue.

Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but not exceeding thirty years,

- (i) Companies engaged in setting up of infrastructure projects;
- (ii) 'Infrastructure Finance Companies' as defined in clause (viiia) of sub-direction (1) of direction 2 of Non-Banking Financial (Non-deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;
- (iii) 'Infrastructure Debt Fund Non-Banking Financial companies' as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011.
- (iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.

(b) Such an issue of debentures shall be secured by the creation of a charge on the properties or assets of the company or its subsidiaries or its holding company or its associate companies, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon.

(c) the company shall appoint a debenture trustee before the issue of prospectus or letter of offer for subscription of its debentures and not later than sixty days after the allotment of the debentures, execute a debenture trust deed to protect the interest of the debenture holders; and

(d) the security for the debentures by way of a charge or mortgage shall be created in favour of the debenture trustee on-

(i) any specific movable property of the company or its holding company or subsidiaries or associate companies or otherwise.

(ii) any specific immovable property wherever situate, or any interest therein:

Provided that in case of a non-banking financial company, the charge or mortgage under sub-clause (i) may be created on any movable property.

Provided further, that in case of any issue of debentures by a Government company which is fully secured by the guarantee given by the Central Government or one or more State Government or by both, the requirement for creation of charge under this sub-rule shall not apply.

Provided also that in case of any loan taken by a subsidiary company from any bank or financial institution the charge or mortgage under this sub-rule may also be created on the properties or assets of the holding company

Debenture Trustee**Rule 18(2) of Companies (Share Capital and Debentures) Rules, 2014**

Rule 18(2) provides that the company shall appoint *debenture trustees* under sub-section (5) of section 71, after complying with the following conditions, namely:-

- (a) the names of the debenture trustees shall be stated in letter of offer inviting subscription for debentures and also in all the subsequent notices or other communications sent to the debenture holders;
- (b) before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures;
- (c) A person shall not be appointed as a debenture trustee, if he-
 - (i) beneficially holds shares in the company;
 - (ii) Is a promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;
 - (iii) Is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;
 - (iv) Is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;
 - (v) Has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;
 - (vi) Has any pecuniary relationship with the company amounting to 2% (two per cent), or more of its gross turnover or total income or Rs.50 lakhs (fifty lakhs) or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
 - (vii) is relative of any promoter or any person who is in the employment of the company as a director or key managerial personnel
- (d) the Board may fill any casual vacancy in the office of the trustee but while any such vacancy continues, the remaining trustee or trustees, if any, may act:

Provided that where such vacancy is caused by the resignation of the debenture trustee, the vacancy shall only be filled with the written consent of the majority of the debenture holders.

- (e) any debenture trustee may be removed from office before the expiry of his term only if it is approved by the holders of not less than three fourth in value of the debentures outstanding, at their meeting.

Duties of Debenture Trustee**Rule 18(3) of Companies (Share Capital and Debentures) Rules, 2014**

Rule 18(3) provides that it shall be the duty of every debenture trustee to-

- (a) satisfy himself that the *letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures* or with the trust deed;
- (b) satisfy himself that the *covenants in the trust deed are not prejudicial to the interest of the debenture holders*;
- (c) call for periodical status or *performance reports from the company*;
- (d) communicate promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the trustee ;
- (e) **appoint a nominee director on the Board of the company in the event of -**
 - (i) *two consecutive defaults in payment of interest to the debenture holders*; or
 - (ii) *default in creation of security for debentures*; or
 - (iii) *default in redemption of debentures*.
- (f) ensure that the *company does not commit any breach of the terms of issue of debentures* or covenants of the trust deed and take such reasonable steps as may be necessary to remedy any such breach;
- (g) *inform the debenture holders immediately of any breach of the terms of issue of debentures* or covenants of the trust deed;
- (h) *ensure the implementation of the conditions regarding creation of security for the debentures, if any, and debenture redemption reserve*;
- (i) *ensure that the assets of the company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times* and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders;
- (j) do such acts as are necessary in the event the security becomes enforceable;
- (k) call for *reports on the utilization of funds* raised by the issue of debentures-
- (l) take steps to *convene a meeting of the holders of debentures* as and when such meeting is required to be held;
- (m) ensure that the debentures have been converted or redeemed in accordance with the terms of the issue of debentures;
- (n) perform such acts as are necessary for the *protection of the interest of the debenture holders* and do all other acts as are necessary in order to resolve the grievances of the debenture holders.

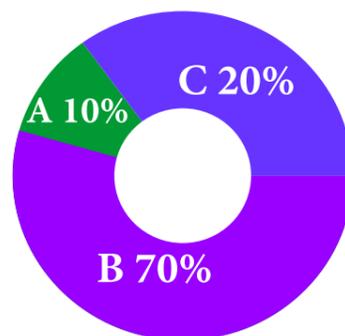


GROUP: I, PAPER: 7

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

Learning Objectives:

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

Case Study - MCQ

Choose the correct alternative

Study 1

Mr. Abhijeet provides the following details:

- Basic Salary ₹ 5,000 p.m., D.A. ₹ 2,000 p.m., HRA ₹ 4,000 p.m., Rent paid ₹ 4,000 p.m. in Pune.
- On 1/07/2019, there is an increment in Basic salary by ₹ 1,000.
- On 1/10/2019, employee hired a new flat in Kolkata at the same rent as he was posted to Kolkata.
- On 1/01/2020, employee purchased his own flat and resides there.

1. His taxable house rent allowance for quarter ending on 30 June 2019 is 2 Marks
 - a. ₹ 3,600
 - b. ₹ 8,400
 - c. ₹ 12,000
 - d. Nil
2. His taxable house rent allowance for quarter ending on 30 Sep 2019 is 2 Marks
 - a. ₹ 2,400
 - b. ₹ 9,600
 - c. ₹ 12,000
 - d. Nil
3. His exempted house rent allowance for quarter ending on 31 Dec 2019 is 2 Marks
 - a. ₹ 2,400
 - b. ₹ 9,600
 - c. ₹ 12,000
 - d. Nil
4. His exempted house rent allowance for quarter ending on 31 Mar 2020 is 2 Marks
 - a. ₹ 2,400
 - b. ₹ 9,600
 - c. ₹ 12,000
 - d. Nil

Study 2

Ms. Sarika furnished the following information for the previous year 2019-20:

	₹
(i) Income from business	8,50,000
(ii) Loss from self-occupied house property	75,000
(iii) Long-term Capital Gain	10,000
(iv) Interest on fixed deposit with SBI	20,000
(v) Dividend from an Indian company	8,000
(vi) Life Insurance Premium paid on own life (policy value: ₹ 2,00,000)	15,000
(vii) Purchased NSC	50,000
(viii) Paid medical insurance premium by cheque	10,000
(ix) Donation to Bharat Sevashram Sangha	4,000

On the basis of aforesaid information, you are requested to choose correct options for the following:

1. What will be her gross total income? 2 Marks
 a. ₹ 8,05,000
 b. ₹ 8,07,700
 c. ₹ 7,96,400
 d. None of the above
2. She is eligible for deduction under chapter VIA amounting to: 2 Marks
 a. ₹ 85,500
 b. ₹ 77,000
 c. ₹ 79,000
 d. None of the above
3. Quantum of Rebate u/s 87A available to her is: 2 Marks
 a. ₹ 2,430
 b. Nil
 c. ₹ 12,500
 d. None of the above
4. Her tax liability including cess after rebate u/s 87A is: 2 Marks
 a. ₹ 60,420
 b. ₹ 60,010
 c. ₹ 47,420
 d. None of the above

Study 3

Mrs. Ria (age 46 years), a professor in a college furnishes the following particulars of her income for the previous year 2019-20:

	₹
(a) Income from salary	3,51,000
(b) Income from House Property	
(i) Rent Received	24,000
(ii) Municipal Tax	2,000
© Income from other sources	
(i) Bank interest on fixed deposit	12,000
(ii) Dividend from Indian Company	10,000
(iii) Examiner's remuneration from C.U.	5,700
(d) Deposited in P.P.F.	40,000
(e) Own Contribution to R.P.F.	12,000
(f) Paid premium on insurance on own health	16,000
(g) Donated ₹ 10,000 to National Defence Fund and ₹ 15,000 to Ramakrishna Mission.	

On the basis of aforesaid information, you are requested to choose correct options for the following:

1. What will be her income under the head income from house property? 2 Marks
 a. ₹ 15,400
 b. ₹ 17,700
 c. ₹ 16,400
 d. None of the above
2. What will be her gross total income 2 Marks
 a. ₹ 3,96,200
 b. ₹ 3,84,100
 c. ₹ 3,76,400
 d. None of the above
3. She is eligible for deduction under chapter VIA amounting to: 2 Marks
 a. ₹ 93,000

- b. ₹ 85,500
- c. ₹ 1,02,000
- d. None of the above

4. Quantum of Rebate u/s 87A available to her is:

2 Marks

- a. ₹ 2,430
- b. Nil
- c. ₹ 2,527
- d. None of the above

Study 4

Sri Champak submits the following information for the previous year 2019-20:

(a) Salary income:

Basic salary ₹ 21,000 per month; Dearness allowance 50% of basic salary; Children Educational allowance for his only child ₹ 300 per month; Free use of employer's Motor car of 1.5 cc (including driver) both for personal and official works; Professional tax paid by him ₹ 150 per month. He is provided with a house for which his employer pays rent of ₹ 2,000 p.m.

(b) Income from Profession ₹ 1,20,000;

(c) Bank interest on fixed deposit ₹ 8,500;

(d) Dividend from Indian Company ₹ 11,000;

(e) Life Insurance Premium on his own life ₹ 16,000;

(f) Deposited in PPF ₹ 10,000;

(g) Payment of health insurance premium (on own health) ₹ 10,000.

On the basis of aforesaid information, you are requested to choose correct options for the following:

1. What will be the value of taxable perquisites

2 Marks

- a. ₹ 45,600
- b. ₹ 24,000
- c. ₹ 56,400
- d. None of the above

2. What will be his taxable salary

2 Marks

- a. ₹ 3,96,200
- b. ₹ 3,85,000
- c. ₹ 3,76,400
- d. None of the above

3. What will be his gross total income

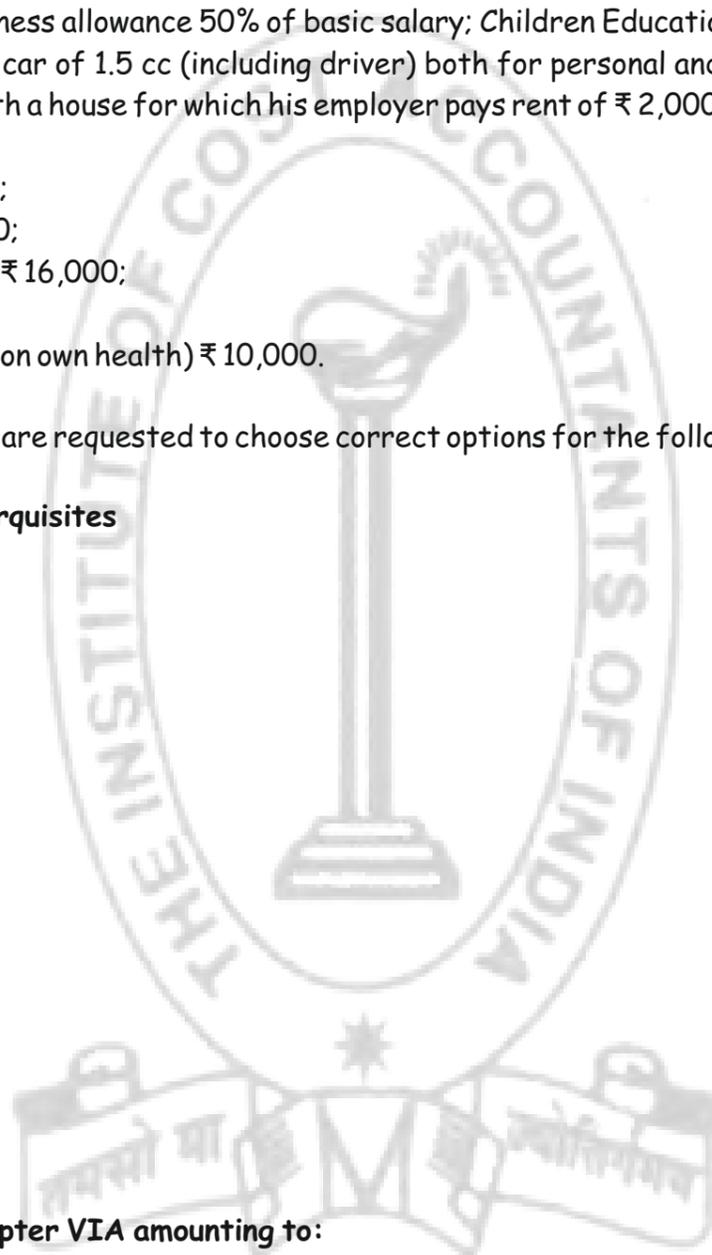
2 Marks

- a. ₹ 5,13,500
- b. ₹ 5,24,700
- c. ₹ 5,04,900
- d. None of the above

4. He is eligible for deduction under chapter VIA amounting to:

2 Marks

- a. ₹ 36,000
- b. ₹ 26,000
- c. ₹ 10,000
- d. None of the above





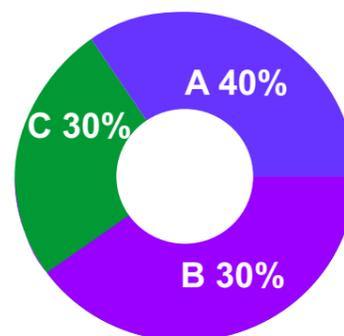
GROUP: I, PAPER: 8

COST ACCOUNTING

(CAC)

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Your Preparation Quick Takes



Syllabus Structure

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

Learning Objectives:

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

COST ACCOUNTING

In present situation for efficient running of an organization, an effective cost accounting system is an integral part of the management. Now a days 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.

As it is a professional examination, hence 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 the following suggestions based on my personal experiences during this longer period.

1. A well defined plan should be there for completing the whole syllabus as well as revision.
2. Please 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.

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

As per your study material, your entire syllabus is divided into six main chapters. In first chapter the basic concepts of cost accounting are discussed, besides its other two branches viz, Financial accounting and Management accounting. The second chapter described the Elements of cost thoroughly. 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. Material consists of the major part of total cost of product, hence it is necessary to control this cost very effectively. You should read the scope and objectives of different Cost Accounting Standards in details. It will help to grasp the concept of Cost Accounting very easily.

The chapter, Cost Book-Keeping, which includes 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 emphasis to complete its solution. Here, separate ledgers are maintained by the cost sections. The chapter is very easy to understand but the process is lengthy.

The next 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 related 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 'Standard Costing' deals with creating responsibilities and identifying the activities or areas of exceptions. Here variances are analyzed in detail according to their originating causes. 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.

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

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

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

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

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

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

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

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

- (i) Muster roll is necessary for the preparation of the payroll.
- (ii) High wages need not necessarily mean high cost per unit.
- (iii) Non-financial incentive or labour based costs are also fringe benefits.
- (iv) Fringe benefits are labour - related costs.
- (v) Group bonus plans distinguish between efficient and inefficient workers.
- (vi) Under the Rowan Plan bonus is a fixed percentage.

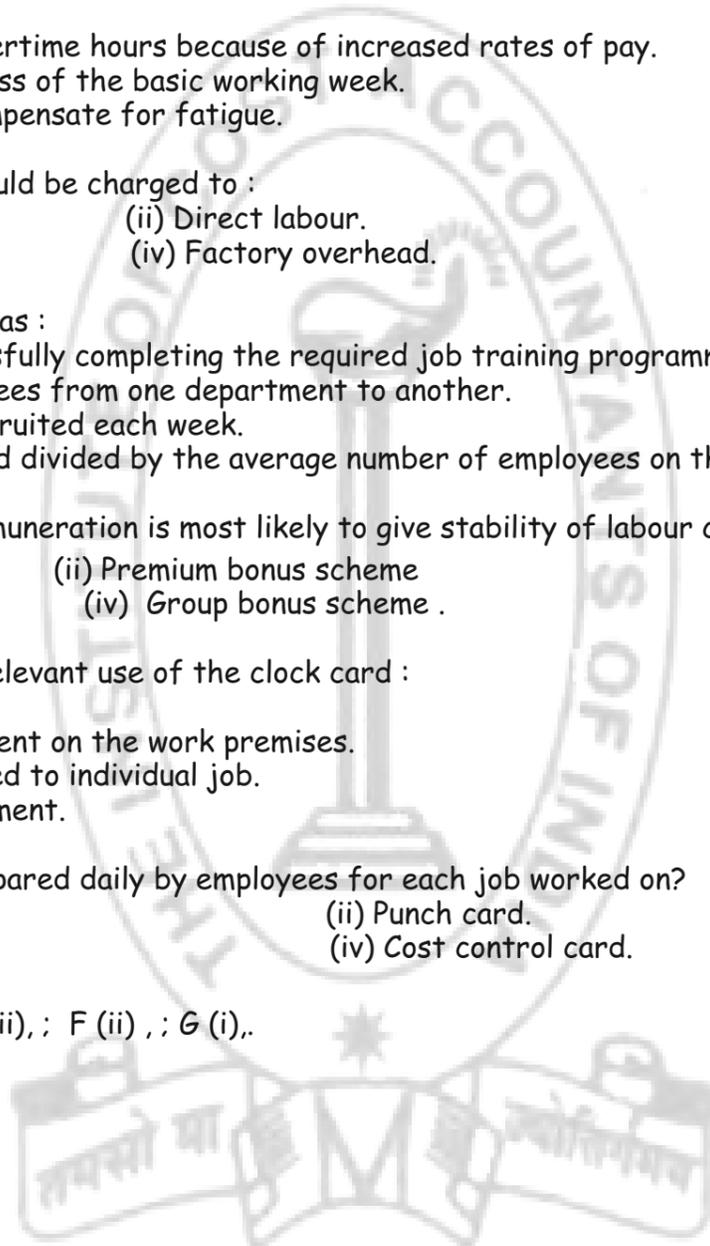
- (vii) The Halsey plan guarantees a minimum hourly wage.
- (viii) Incentive plans benefit only the employees.
- (ix) Premium Bonus plans induce workers to increased efficiency and greater output.
- (x) payment by result method lowers the cost of production through their impact on fixed on fixed costs.
- (xi) Time and Motion study, which is function of the Engineering department , is useless For the determination of Wages.

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

2. Which of the following statements is correct in each of the following questions :

- A. The wages paid to a joiner who constructs wooden mould for concrets laying on a building contract should be as :
- (i) Direct labour cost of the contract. (ii) Indirect labour cost of the contract.
 - (iii) Fixed labour cost of the contract. (iv) Non-controllable cost of the contract.
- B. Overtime premium pay may be correctly defined as :
- (i) The bonus paid to skilled workers.
 - (ii) The increased payment during overtime hours because of increased rates of pay.
 - (iii) The payment for all hours in excess of the basic working week.
 - (iv) A premium paid to workers to compensate for fatigue.
- C. Vacation pay for factory workers should be charged to :
- (i) Work-in-process inventory. (ii) Direct labour.
 - (iii) Administrative expenses . (iv) Factory overhead.
- D. labour turnover rate is best defined as :
- (i) The number of employees successfully completing the required job training programme.
 - (ii) The degree of mobility of employees from one department to another.
 - (iii) The number of the employees recruited each week.
 - (iv) The number of labourers replaced divided by the average number of employees on the payroll.
- E. Which of the following method of remuneration is most likely to give stability of labour cost of the employer.
- (i) Straight piecework. (ii) Premium bonus scheme
 - (iii) Measured day work. (iv) Group bonus scheme .
- F. Which of the following is the most relevant use of the clock card :
- (i) To measure employee efficiency.
 - (ii) To facilitate payment for time spent on the work premises.
 - (iii) To allow labour time to be charged to individual job.
 - (iv) To allow calculation of bonus payment.
- G. Which of the following is usually prepared daily by employees for each job worked on?
- (i) Labour Job ticket. (ii) Punch card.
 - (iii) Time card . (iv) Cost control card.

[Ans . A (i), ; B (ii), ; C (iv), ; D (iv), ; E (iii), ; F (ii) , ; G (i),.

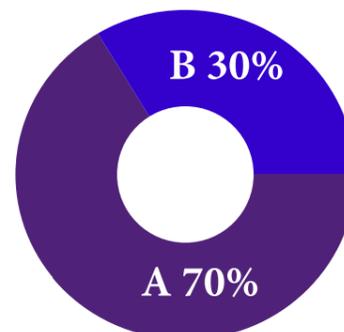




GROUP: II, PAPER: 9, Part- i
OPERATIONS
MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Operations Management

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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 we will do some numerical on "Systematic approach to long term capacity decisions" on Capacity Planning and Capacity Requirement under operations planning" on the basis of discussions done in November issue.

From our discussions in the last issue we learnt that:

When just one service or product is processed, then capacity requirement of a single capacity per year is:

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

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

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

Where

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

P = processing time (in hours per customer served or unit product)

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

C = desired capacity cushion (expressed as a percent)

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

After accounting for both processing and setup times equation (1) above for multiple products/services can be modified as

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

$$= \frac{\left[DP + \left(\frac{D}{Q} \right) S \right] \text{ product1} + \left[DP + \left(\frac{D}{Q} \right) S \right] \text{ product2} + \dots\dots\dots + \left[DP + \left(\frac{D}{Q} \right) S \right] \text{ productn}}{N \left[1 - \left(\frac{C}{100} \right) \right]} \dots\dots\dots (2)$$

Where

Q = number of units in each lot.

S = set up time (in hours) per lot

With this knowledge let us take more illustration as follows:

Illustration 1: For your company capacity measures is in number of machines. The company produces three product A, B and C. Processing and Set up times (Time standard), lot sizes and demand forecasts are given in the following table. The firm operates 3-8hour shifts, 5 days week, 50 weeks per year. A capacity cushion of 5% is sufficient.

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

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

Ans:

- (i) The number of hours of operation per year,

$$N = \frac{3 \text{ Shifts}}{\text{day}} \times \frac{8 \text{ hours}}{\text{shift}} \times \frac{5 \text{ day}}{\text{week}} \times 50 \text{ week} = 6000 \text{ hours}$$

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

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

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

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

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

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

Illustration 2: The base case for a cloud kitchen company whose details are given below is to do nothing. The capacity of the kitchen in the base case is 100,000 meals per year. A capacity alternative is a two stage expansion. This alternative expands the kitchen at the end of the year 0, raising its capacity from 80,000 meals per day to that of the dining area (105,000 meals per year). If sales in year 1 and 2 live up to expansions, the capacities of both the kitchen and dining room will be expanded at the end of the year 3 to 150,000 meals per year. This upgraded capacity level should suffice up through year 5. The initial investments would be R120, 000 at the end of year 0 and an additional investment of R200, 000 at the end of year 3. The pretax profit is R15/meal. The owner expects to sale 80000 meals in the current year. Forecasted Demand for the next 5 years is 90000 meals for the next year, followed by a 10000 units increase in each of the succeeding years. What are the pretax cash flows for the alternative through year 5, compared with the base case? Find NPV at 10%

Ans:

Year	0 (Current Year)					
Forecasted Sale (meals)	80000	90000	100000	110000	120000	130000
Incremental sale						
Compared to base						
i.e. current year (units)		10000	20000	30000	40000	50000
Average profit p.u		15	15	15	15	15
Incremental profit flow (Rs.)						

	Year	0 (Current Year)	1	2	3	4	5
1	Initial Investmen	-120000					
2	Incremental profit flow on investment		150000	300000	450000	600000	750000
3	Additional Investment				-200000		
4	Net cash flow (Inflows / Outflows)	-120000	150000	300000	250000	600000	750000
5	PV factor (1/1.10) ⁿ (Since cost of fund 10%, n = no of years)	1	0.909	0.826	0.751	0.683	0.621
6	PV(4 × 5)	-120000	136363.6	247933.9	187828.7	409808.1	465691
7	NPV (Sum of Row 4)	1327625.286					

Illustration 3: Up, Up and Away is a producer of kites and wind socks. Relevant data on a bottleneck operation in the shop for the upcoming fiscal year are given in the following table:

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

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

Ans:

The number of hours of operation per year,

$$N = \frac{2 \text{ Shifts}}{\text{day}} \times \frac{8 \text{ hours}}{\text{shift}} \times 200 \text{ days} = 3200 \text{ hours}$$

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

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

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

$$= \frac{\left[30000 \times 2 + \left(\frac{30000}{20} \right) 3 \right] + \left[12000 \times 1 + \left(\frac{12000}{70} \right) 4 \right]}{3200 \left[1 - \frac{5}{100} \right]}$$

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

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

Illustration 4: Turf-Rider Inc. manufactures touring bikes and mountain bikes in a variety of frame sizes, colors and component combinations. Identical bicycles are produced in lots of 100. The projected demand, lot size and time standards are shown in the following table:

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

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

Ans:

The number of hours of operation per year,

$$N = \frac{3 \text{ Shifts}}{\text{day}} \times \frac{8 \text{ hours}}{\text{shift}} \times 5 \frac{\text{days}}{\text{week}} \times 50 \text{ week} = 6000 \text{ hours}$$

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

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

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

$$= \frac{\left[50000 \times 25 + \left(\frac{5000}{100} \right) 2 \right] + \left[10000 \times 50 + \left(\frac{10000}{100} \right) 3 \right]}{6000 \left[1 - \frac{5}{100} \right]}$$

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

Illustration 5: Amrita is considering expanding the floor area of her high-fashion import clothing store, The Frantic, by increasing her leased space in the upscale Acropolis mall from 2000 square feet to 3000 square feet. The Acropolis mall boasts one of the country's highest ratios of sales value per square ft. Rents (including utilities, security and similar costs) are R110 per Sq.ft per year. Salary increases related to Frantic's expansion are shown in the following table, along with projection of sales per square ft. The purchase cost of goods sold average 70% of the sales price. Sales are seasonal, with an important peak during the year-end holiday season.

Year	Quarter	Sales (per Sq.ft)	Salaries
1	1	R90	R120,000
	2	60	80,000
	3	110	130,000
	4	240	240,000
2	1	99	120,000
	2	66	80,000
	3	121	140,000
	4	264	240,000

- (i) If Amrita expands Frantic at the end of year 0, what will her quarterly pretax cash flows be through year 2?
- (ii) Will the expansion be accepted?

Ans:

POST EXPANSION RESULT									
		1 st Year				2 nd Year			
	0	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPANSION									
1. Sq feet		3000	3000	3000	3000	3000	3000	3000	3000
2. Sales per Sq ft (Rs./Sq ft)		90	60	110	240	99	66	121	264
3. Sales (Rs.)		270000	180000	330000	720000	297000	198000	363000	792000
4. Cost of goods sold at 70% of sales		189000	126000	231000	504000	207900	138600	254100	554400
5. Rent of the space @ Rs. 110/sq ft		330000	330000	330000	330000	330000	330000	330000	330000
6. Salaries		120000	80000	130000	240000	120000	80000	140000	240000

7. Pretax cash flows (3-4-5-6)		-369000	-356000	-361000	-354000	-360900	-350600	-361100	-332400
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The project will not be accepted as negative pretax cash flows in all periods will generate a negative NPV

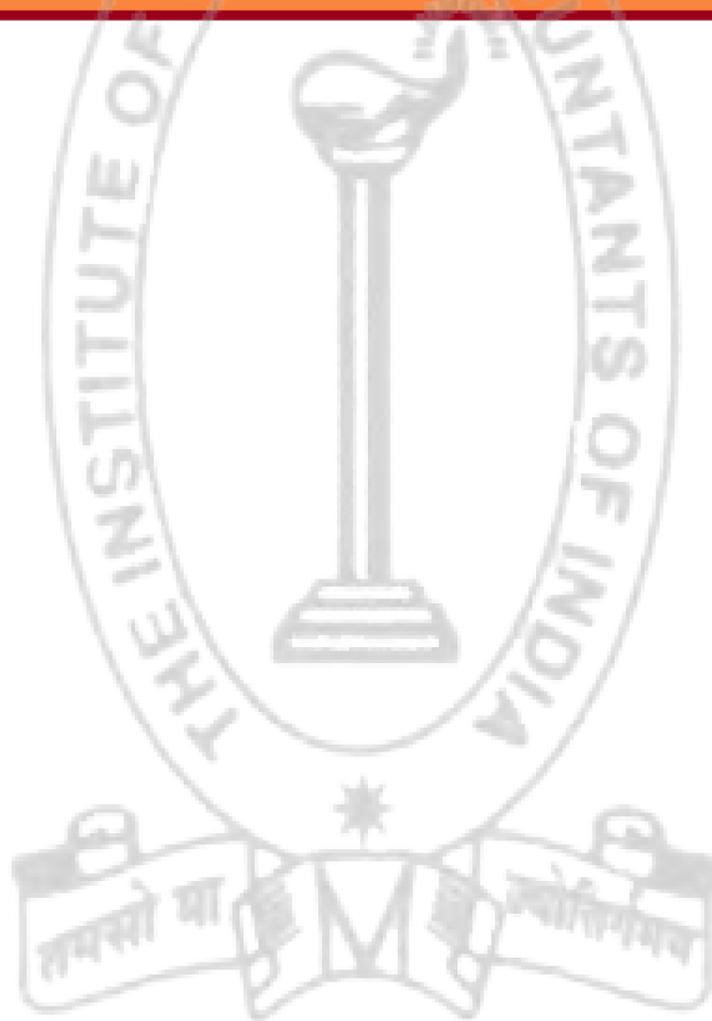
When demand is uncertain and sequential decisions are involved then a decision tree can be particularly valuable for evaluating different capacity expansion alternatives.

Suppose on the basis of forecast demand position at time $t = 0$ a business unit decided to expand. During further studies during course of operation with expanded establishment if it is found that future demand will be more compared to demand forecast available at $t = 0$, then additional expansion will be required to cater the changed demand.

Expanding twice is likely to be much more expensive than building a larger facility from the outset. However, making a large expansion now, when demand growth is low, means poor facility utilisation. Under this type of situation decision tree model will be used.

Suggestions:

This lesson is an extension of idea developed from teachings imparted by the Guide book issued by Institute. The study guide on Operations Management issued by Institute is to be studied thoroughly. In this month's numerical discussion on concepts on long term capacity requirement are deliberated upon following the same in Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson. In the next issue we will do few numerical on capacity requirement using the decision tree model.

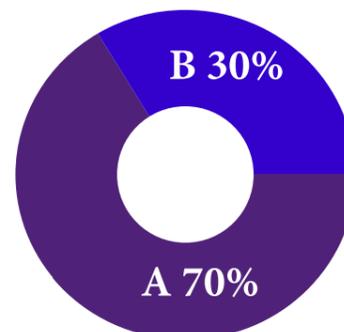




GROUP: II, PAPER: 9, Part- ii
OPERATIONS
MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Strategic Management

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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

- 1. A design view of strategy refers to:**
 - A. the pulling together of ideas that develop from different parts of the organisation.
 - B. the pulling together of the different decisions made throughout an organisation, so as to develop a coherent overall strategy.
 - C. the systematic, rational way in which strategy is always developed in an organisation.
 - D. the deliberate positioning of the organisation through a rational, analytic, structured and directive process.**
- 2. What is the key outcome from PESTEL analysis?**
 - A. Five Forces
 - B. Identification of the drivers for change**
 - C. Critical success factors
 - D. Possible scenarios.
- 3. The five forces that affect the level of competition in an industry are:**
 - A. the threat of entry; the power of buyers; the power of suppliers; the threat of substitutes; and government action.
 - B. the threat of buyers; the power of entry; the power of substitutes; the threat of suppliers; and the threat of recession.
 - C. the threat of recession; the power of buyers; the power of suppliers; the threat of management failure; and competitive rivalry.
 - D. the threat of entrants; the power of buyers; the power of suppliers; the threat of substitutes; and competitive rivalry.**
- 4. Core competences are the skills and abilities by which resources are deployed through an organization's activities and processes such as to:**
 - A. survive using approaches and techniques that others cannot imitate or obtain.
 - B. survive.
 - C. achieve competitive advantage in ways that others cannot imitate or obtain.**
 - D. achieve competitive advantage
- 5. When analysing your business and its environment, it is useful to carefully inspect**
 - A. Threats
 - B. Opportunities
 - C. Strengths and weaknesses
 - D. All of the above**
- 6. Diversification is to a new business area that has no obvious connection with any of the company's existing areas refer to**
 - (A) Forward integration
 - (B) Backward integration
 - (C) Concentric diversification**
 - (D) Conglomerate diversification
- 7. Company seeking ethical standard must purport to**
 - (A) Good Employee Relation
 - (B) Better Production Portfolio
 - (C) Economy of Scale
 - (D) Public Disclosure and Publishing**
- 8. Which of the following is not the act of Corporate Governance?**
 - (A) Protecting the interest of shareholders
 - (B) Protecting the interest of employees
 - (C) Fudging of Accounts**
 - (D) Paying Taxes to the Government
- 9. What describes the market, product and technological areas of business?**
 - (A) BCG Matrix
 - (B) GE Nine Cell Matrix
 - (C) 7's framework
 - (D) Company's Mission**
- 10. Which statement is true**
 - A. Effective goals are related to the important features of job
 - B. Feedback arrangement with revaluation is also an effective goal

- C. The goal improves organisational and personal execution, clearly tells about reason for increment in control
D. All of the above

11. The strategic management process is the way in which strategists determine objectives and

- A. Make recording
B. Make coordinating
C. Make strategic decisions
D. Make planning

12. Which statement is true?

- A. The strategic management involve the determination of the organisation's mission, strategic policies, and strategic objectives
B. Strategic management is a stream of decisions and action which leads to the development of an effective strategy or strategies to help achieve corporate objectives
C. The strategic management process is the way in which strategists determine objectives and make strategic decisions.
D. All of the above.

13. Which is the functional area of Strategic Management?

- A. Production or Operations
B. Finance
C. Marketing
D. All of the above

14. Producing a _____ reduces the quantity of defects product

- A. Cost of Sales
B. Cost of Production
C. Advantage of Profit
D. Quality of Product

15. Which is the functions of GATT?

- A. Seeking to resolve trade disputes
B. Acting as a forum for multilateral trade negotiations
C. Administrating and implementing the multilateral and plurilateral trade agreements which together make up the WTO.
D. All of the above.





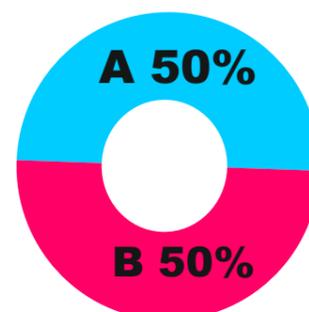
GROUP: II, PAPER:10

COST & MANAGEMENT

ACCOUNTING AND FINANCIAL
MANAGEMENT(CMFM)

CMA Bimalendu Banerjee
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bbanerjee2050@gmail.com

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.

GR - II CMA & FM**Question No. - 1 (Overheads)**

ABC Ltd providing the information for November, 2020

	Budget	Actual
Number of working days	20	21
Man hours	40,000	43,000
Output per man-hour (units)	3.2	3.0
Overhead - Fixed (Rs)	32,000	31,500
Overhead - variable (Rs)	1,02,400	1,14,400

What shall be the -

- i) Budgeted Production (BP) : (a) 1,25,000 (b) 1,26,000 (c) 1,27,800 (d) 1,28,000 Units
- ii) Actual Production (AP) : (a) 1,28,000 (b) 1,29,000 (c) 1,30,000 (d) 1,31,000 Units
- iii) Standard Hour (SH) for Actual Production (AP) : (a) 38,315.50 (b) 39,500 (c) 40,000 (d) 40,312.50 Hrs.
- iv) Standard Quantity (SQ) produced in Actual Hour (AH) : (a) 1,37,600 (b) 1,38,000 (c) 1,39,000 (d) 1,40,000 Units
- v) Revised Budgeted Production in Actual Days : (a) 1,32,000 (b) 1,33,500 (c) 1,34,400 (d) 1,35,600 Units
- vi) Standard Variable Overhead (VOH) per Man Hour : (a) Rs.2.56 (b) Rs.3.00 (c) Rs.3.50 (d) Rs.3.75
- vii) Standard VOH for Actual Hour (AH) : (a) Rs.1,07,080 (b) Rs.1,08,040 (c) Rs.1,09,020 (d) Rs.1,10,080
- viii) Standard VOH per Unit : (a) Rs.0.70 (b) Rs.0.80 (c) Rs.0.90 (d) Rs.1.00
- ix) Standard VOH for Actual Production (AP) : (a) Rs.1,03,200 (b) Rs.1,04,000 (c) Rs.1,04,600 (d) Rs.1,08,000
- x) Standard Fixed Overhead (FOH) per unit : (a) Rs.0.25 (b) Rs.0.50 (c) Rs.0.80 (d) Rs.1.00
- xi) Standard FOH for Actual Production (AP) : (a) Rs.31,750 (b) Rs.32,000 (c) Rs.32,250 (d) Rs.32,500
- xii) VOH Efficiency V : (a) Rs.6,580 F (b) Rs.6,800 F (c) Rs.6,880 A (d) Rs.7,000 A
- xiii) VOH Expenditure V : (a) Rs.4,020 F (b) Rs.4,320 A (c) Rs.4,400 A (d) Rs.4,500 F
- xiv) FOH Efficiency V : (a) Rs.2,000 F (b) Rs.2,100 A (c) Rs.2,100 F (d) Rs.2,150 A
- xv) FOH Capacity V : (a) Rs.800 F (b) Rs.800 A (c) Rs.900 F (d) Rs.900 A
- xvi) FOH Calendar V : (a) Rs.1550 F (b) Rs.1600 F (c) Rs.1650 A (d) Rs.1700 A
- xvii) FOH Volume V : (a) Rs.200 A (b) Rs.200 F (c) Rs.250 A (d) Rs.250 F
- xviii) FOH Expenditure V : (a) Rs.480 F (b) Rs.500 A (c) Rs.500 F (d) Rs.550 A

Answer :

i)	(d) 1,28,000 Units	ii)	(b) 1,29,000 Units	iii)	(d) 40,312.50 Hours
iv)	(a) 1,37,600 Units	v)	⊙ 1,34,400 Units	vi)	(a) Rs.2.56
vii)	(d) Rs.1,10,080	viii)	(b) Re0.80	ix)	(a) Rs.1,03,200
x)	(a) Re0.25	xi)	⊙ Rs.32,250	xii)	⊙ Rs.6,880 A
xiii)	(b) Rs.4,320 A	xiv)	(d) Rs.2,150 A	xv)	(a) Rs.800 F
xvi)	(b) Rs.1,600 F	xvii)	(d) Rs.250 F	xviii)	⊙ Rs.500 F

Solution :

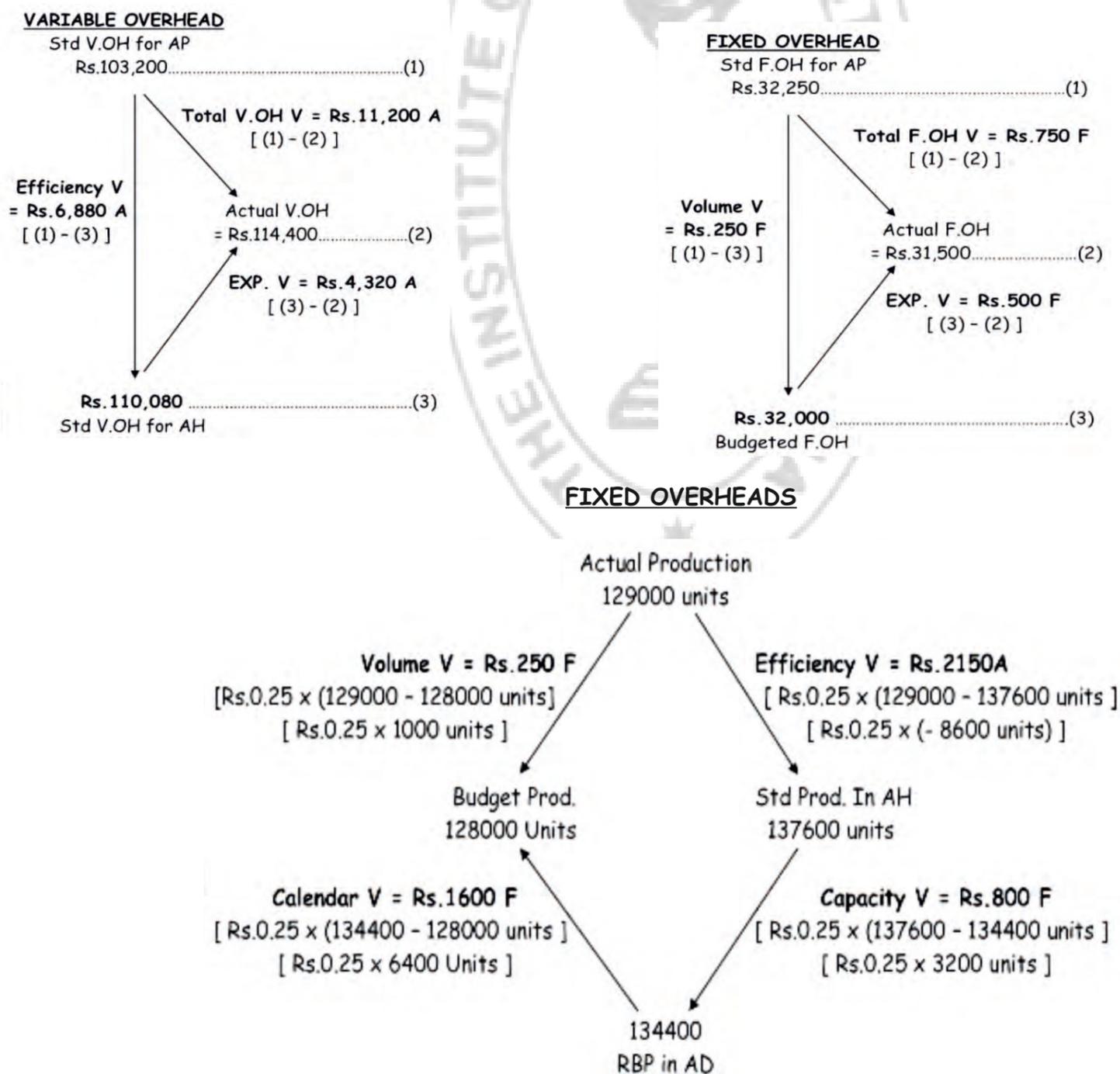
- i) Budgeted Production = 128000 Units [40000 MH x 3.2]
- ii) Actual Production = 129000 units [43000 MH x 3]
- iii) Std Hour for Actual Production = 40312.50 Hrs. [129000 units / 3.2]
- iv) Std Prod. in AH = 137600 units [43000 MH x 3.2]
- v) Revised budgeted production in Actual Days = 134400 unit

[RBP in AD]

}	Std	No. of days	Production
		20	128000
		21	134400

- vi) Std VOH per MH = Rs.2.56 [Rs.102400/40000 man-hours]
- vii) Std VOH for AH = Rs.110080 [Rs.2.56 x 43000 units]
- viii) Std VOH per units = Rs.0.80 [Rs.102400 / 128000 units]
- ix) Std VOH for AP = Rs.103200 [Rs.0.80 x 129000 units]
- x) Std FOH per unit = Rs.0.25 [Rs.32000 / 128000 units]
- xi) Std FOH for AP = Rs.32250 [Rs.0.25 x 129.000 units]

Putting the available as well as derived data in the appropriate places of the specified diagram we get the requisite Variances automatically. In case of any difficulty, please have a look to the Solution through diagrams at the end of this e-bulletin.

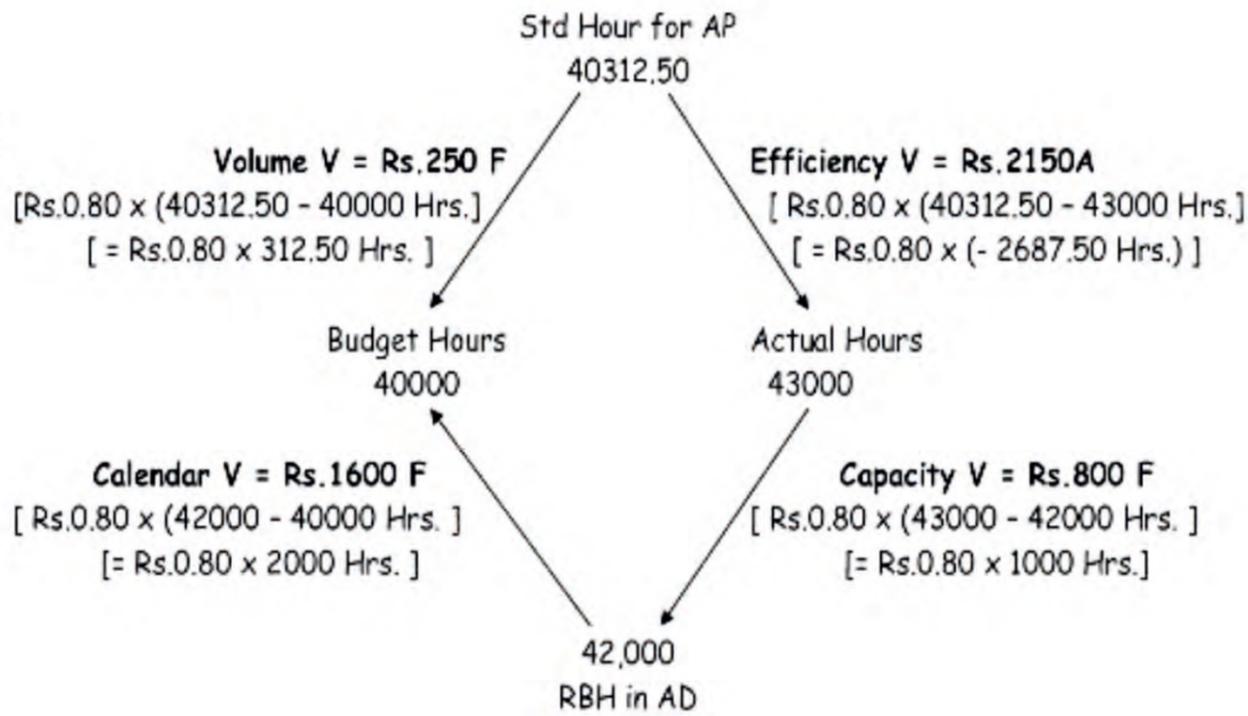


ALTERNATIVE SOLUTION OF FIXED OVERHEADS

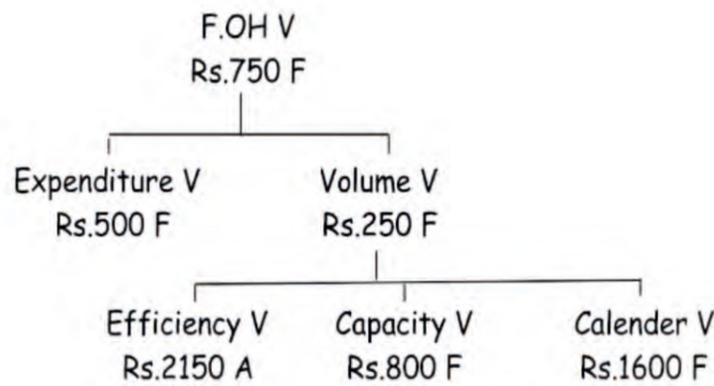
PRODUCTION HOUR BASIS
Std Hour for AP = 40312.50

$$\left\{ \begin{array}{l} \text{Std} \quad \text{Prod.(unit)} \quad \text{Hours} \\ \quad \quad 3.20 \quad \quad 1 \\ 43000 \times 3 = 129000 \quad 40312.50 \end{array} \right\}$$

Revised Budgeted Hours in Actual Days = 42000 Hours

$$\left\{ \begin{array}{l} \text{Std} \quad \text{No. of days} \quad \text{Production Hours} \\ \quad \quad 20 \quad \quad 40000 \\ \quad \quad 21 \quad \quad 42000 \end{array} \right\}$$


Reconciliation of F.OH Variance



Question No. 2 (MATERIAL)

The following information are available from the cost records of M/s Indus Co. who produced two products A & B during November, 2020.

Particulars	A	B
Standard Rate (SR)/Unit	Rs.12	Rs.15
Actual Rate (AR)/Unit	Rs.15.50	Rs.20
Standard Input Quantity (Kg)		
Actual Input Quantity (Kg)		70Rs.300
Material Usage Variance		(Adverse)

Material Mix Variance for both products together Rs.45 Adverse.

What Shall be the -

- i) Actual Input Quantity(AQ) of A : (a) 25 Kgs (b) 30 Kgs. (c) 35 Kgs. (d) 40 Kgs.
- ii) Standard Input Quantity (SQ) of B : (a) 50 Kgs (b) 60 Kgs. (c) 65 Kgs. (d) 70 Kgs.
- iii) Price Variance of A : (a) Rs.110 A (b) Rs.110 F (c) Rs.120 A (d) Rs.120 F
- iv) Usage Variance of A : (a) Rs.115 F (b) Rs.120 F (c) Rs.120 A (d) Rs.115 A
- v) Price Variance of B : (a) Rs.350 A (b) Rs.350 F (c) Rs.360 A (d) Rs.360 F

Answer :

- i) AQ of A : (d) 40 Kgs.

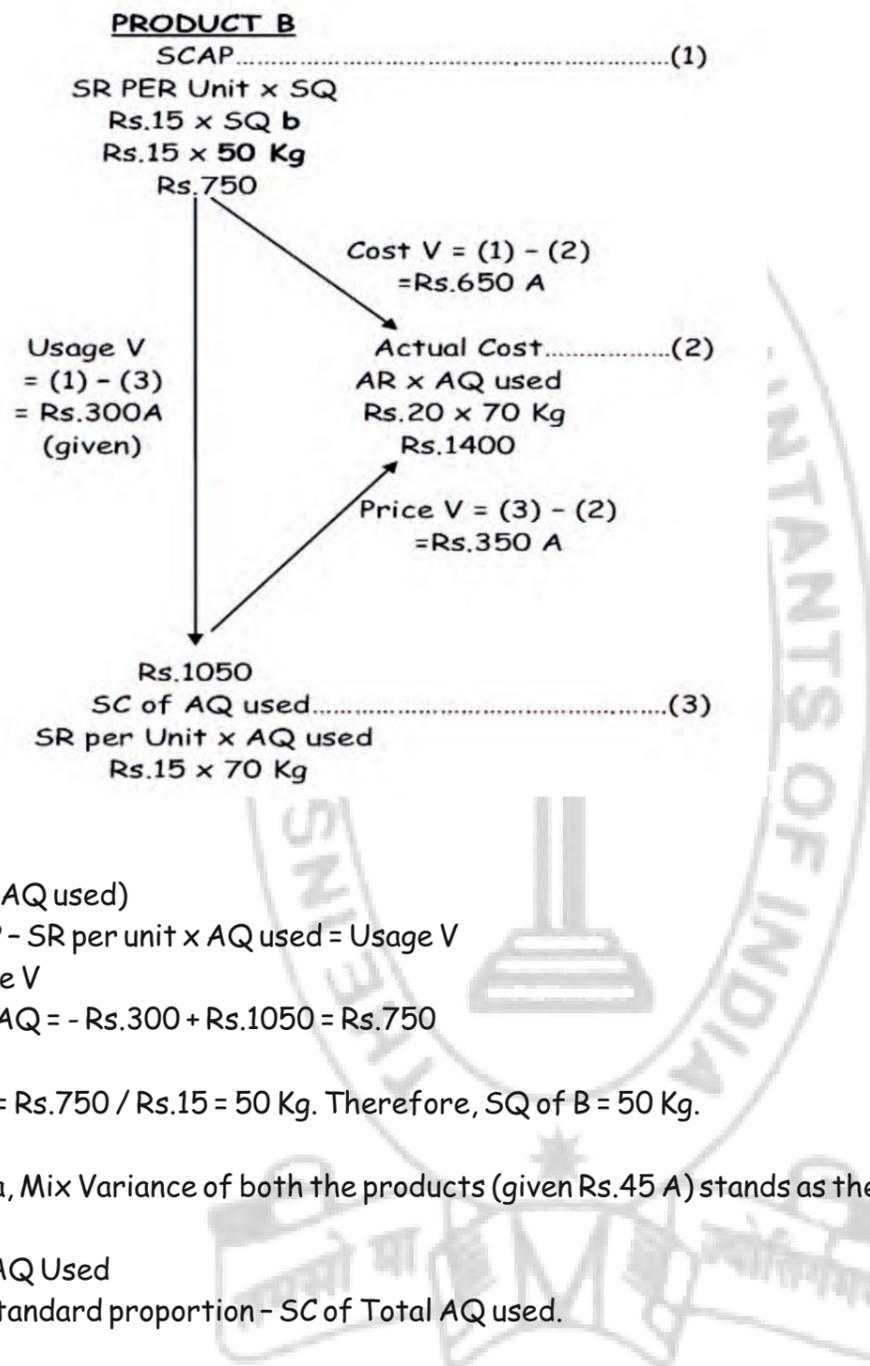
- ii) SQ of B : (a) 50 Kgs.
- iii) Price Variance of A : (c) Rs.120 A
- iv) Usage Variance of A : (b) Rs.120 F
- v) Price Variance of B : (a) Rs.350 A

Solution

The Problem essentially requires determination of Actual Quantity (AQ) of material for product A and Standard Quantity (SQ) of material for product B. Let them be represented by AQ a and SQ b.

It is evident that the product B is more informative and as such try it at the first instance.

Put the data give for B in the appropriate places of the specified diagram. The requisite answers would be visible almost instantly.



We know,

- * SR per unit (SQ for AP - AQ used)
- Or SR per Unit x SQ for AP - SR per unit x AQ used = Usage V
- Or SCAP - SC of AQ = Usage V
- Or SCAP = Usage V + SC of AQ = - Rs.300 + Rs.1050 = Rs.750

$SQ\ b = SCAP / SR\ per\ Unit = Rs.750 / Rs.15 = 50\ Kg.$ Therefore, SQ of B = 50 Kg.

In order to determine AQ a, Mix Variance of both the products (given Rs.45 A) stands as the key element.

Mix V = SC of RSQ - SC of AQ Used
 = SC of Total AQ in Standard proportion - SC of Total AQ used.

Let us find SC of RSQ

	Total AQ	Std proportion	RSQ	X SR (Rs.)	Amount (Rs)
Product A :	AQ a + 70	0.50	0.50 AQ A+ 35	12	6 AQ a + 420
Product B :	AQ a + 70	0.50	0.50 AQ A+ 35	15	7.5 AQ a + 525
				Total :	13.5 AQ a + 945

Standard proportion of Mix = 50 : 50
 [given SQ of A = 50 Kg and derived SQ of B = 50 Kg]

Let us now find SC of AQ used

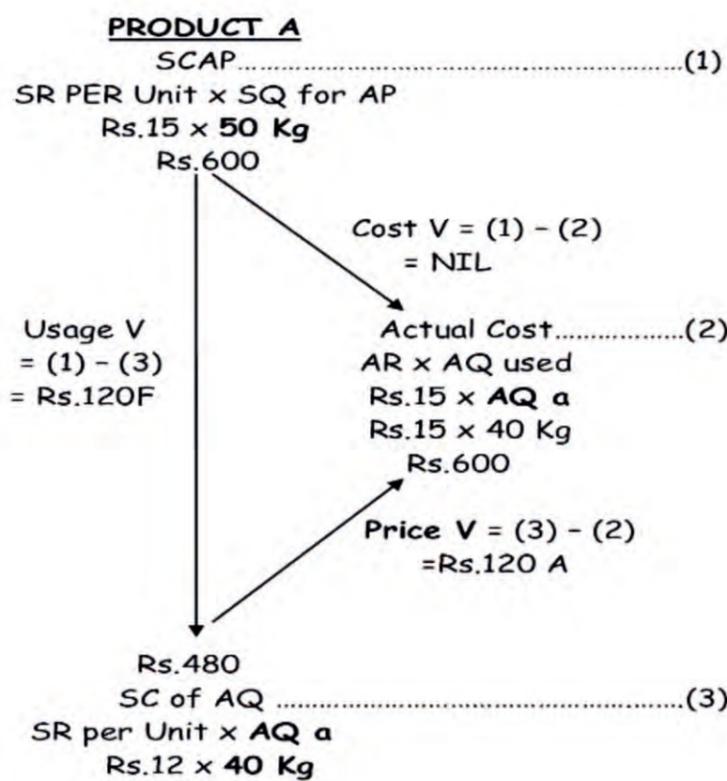
- Product A : 12 AQ a
- Product B : 15 x 70 = 1050
- Total : 12 AQ a + 1050

As per the given condition

Mix V = 45 A = 13.5 AQ_a + 945 - (12 AQ_a + 1050)
 Or - 45 = 13.5 AQ_a + 945 - 12 AQ_a - 1050
 Or 1.5 AQ_a = 1050 - 945 - 45 = 60
 Or AQ_a = 60 / 1.5 = 40
 So AQ of A = 40 Kg.

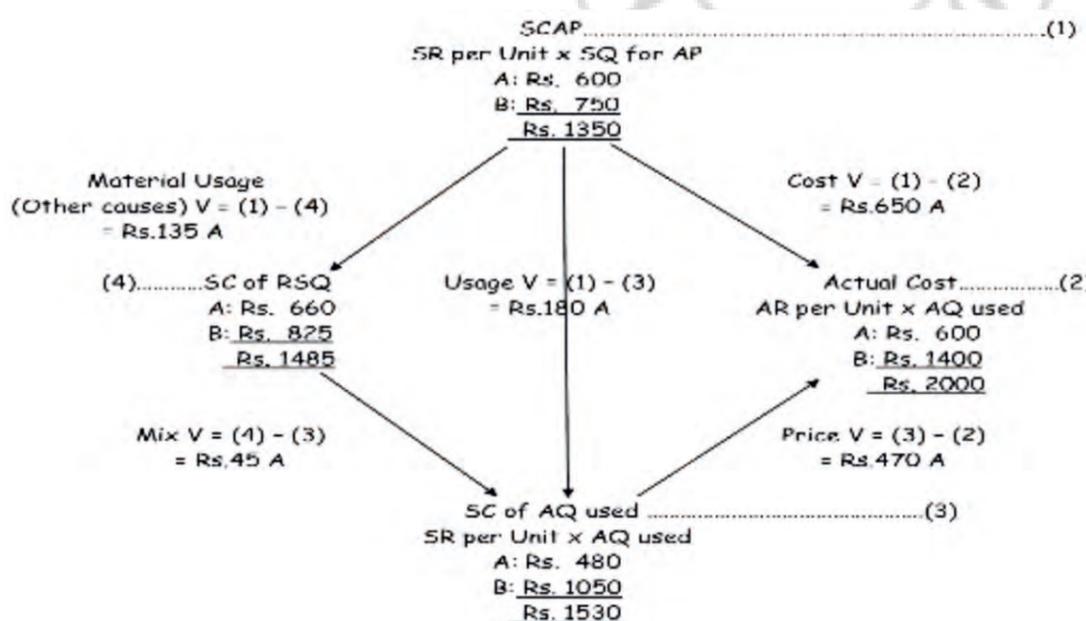
Putting the given as well as derived data in respect of A in the appropriate places of the diagram we get the requisite answers as follows :

Value of SC of RSQ
 A : 6 x 40 + 420 = 660
 B : 7.5 x 40 + 525 = 825
1485

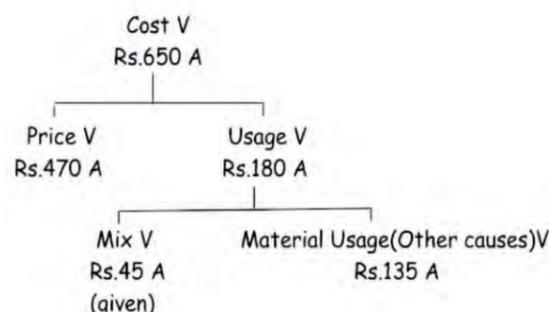


Tutorial Notes :

All the variances and their inter relationship is depicted below just for understanding.



Reconciliation



In absence of output specification, it may be assumed that the difference between (1) and (4) is attributable to Material Usage (other causes) Variance. Otherwise it would have been marked as "Yield Variance".

Solution through diagrams

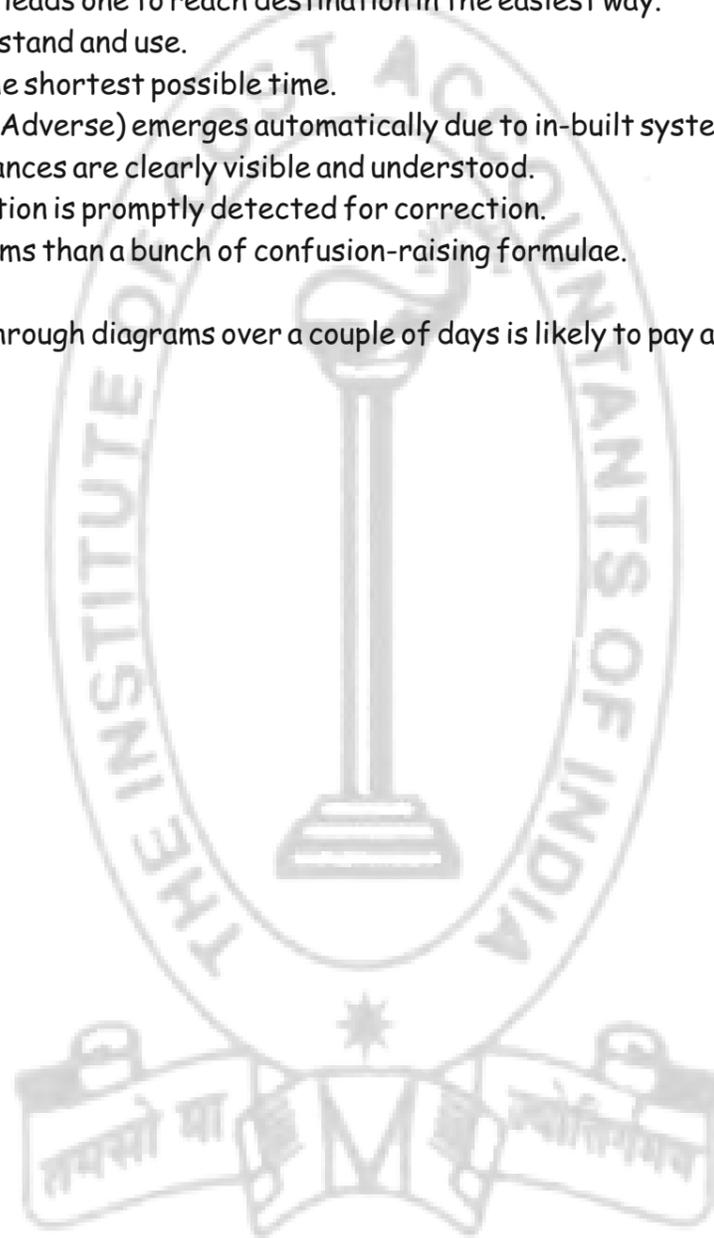
A diagrammatic solution is characterized by arrows having spearhead in one side. The basic principle is that the amount standing at the spearhead side should always be deducted from that of the bottom side of the same. The resulting balance, if positive, signifies a Favourable Variance whereas a negative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

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

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

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

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



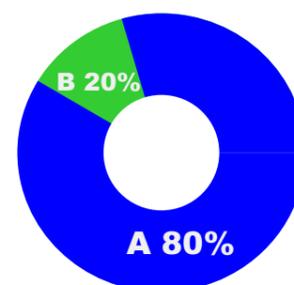


GROUP: II, PAPER:11

INDIRECT TAXATION (ITX)

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das.poushali16@gmail.com

Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

Important MCQ of GST

- When did the President of India gave assent to the Central GST Law?**
 - 18th April 2017
 - 5th April 2017
 - 22nd April 2017
 - 12th April 2017
- Money means:**
 - Indian legal tender
 - Foreign currency
 - Cheque/ Promissory note
 - all of the above
- Where is GST applicable?**
 - All over India except the state of Jammu and Kashmir
 - All over India except the state of Sikkim
 - All over India except the state of Meghalaya
 - All over India
- What is the meaning of non-taxable territory?**
 - Outside taxable territory
 - Interstate taxable territory
 - Inside taxable territory
 - None of the above
- What does the term "person" includes?**
 - HUF
 - LLP
 - Individual
 - All of the above
- GST Council is referred under which Article of the Constitution?**
 - 279
 - 277
 - 279A
 - 276
- What is the weight of vote that the Centre has in the GST Council?**
 - 1/4th of total votes cast
 - 1/2th of total votes cast
 - 1/3rd of total votes cast
 - none of the above.
- What is the weight of vote that the all the States together have in the GST Council?**
 - 1/4th of total votes cast
 - 1/2th of total votes cast
 - 2/3rd of total votes cast
 - 3/4th of total votes cast
- Who is the Chairperson of the GST Council**
 - Finance Secretary
 - State's Finance Minister by rotation
 - Union Finance Minister
 - Prime Minister
- Taxable turnover below 1.5 crore is under the control of**
 - State
 - Centre.
 - Both Centre and State
 - None.

ANSWERS.

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

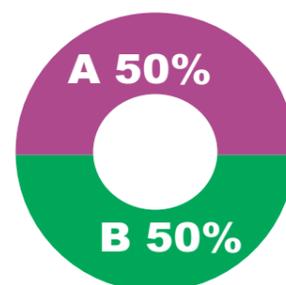




GROUP: II, PAPER:12
COMPANY
ACCOUNTS & AUDIT (CAA)

Dr. Malay Kr. Nayak
Associate Professor,
Dept. Of Commerce,
M.B.B.College, Tripura
He can be reached at:
malay_nayak@ymail.com

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**FINACIAL REPORTING UNDER COMPANIIES ACT 2013 :**

- Companies are to follow uniform accounting period i.e. from 1st April to 31st March of next year.
- Financial Statement is to include Cash Flow Statement and Statement of Changes in Equity which has made the components of Financial Statements at par.

According to sec 2(40) of Companies Act 2013 Financial Statement includes:

- a BALANCE SHEET as at the end of financial year
- a PROFIT & LOSS ACCOUNT
- a CASH FLOW STATEMENT
- a STATEMENT OF CHANGES IN EQUITY
- any EXTRAORINARY NOTE ANNEXED to

At every annual general meeting of a company the Board of Directors shall lay before such meeting FINANCIAL STATEMENTS for the Financial Year.

As stated earlier that CFS and STATEMENT OF CHANGES IN EQUITY are part of the definition of FINANCIAL STATEMENT as mandated under sec 2(40) of the Companies Act 2013 but no formats of the said statements are provided in schedule 111. The perception of CFS would continue to be governed by AS 3. However format of STATEMENT OF CHANGES IN EQUITY is not available in schedule 111.

Part 1 of schedule 111:

BALANCE SHEET**-- EQUITY AND LIABILITY classification-****--Shareholders Fund-**

- Share Capital
- Reserve and Surplus
- Money received against share warrants

--Share Application money pending allotment**--Non current liability**

- long term borrowings
- deferred tax liability
- other long term liability
- long term provisions

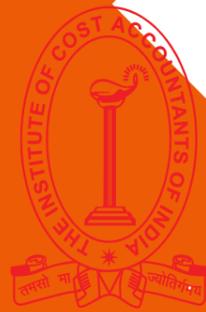
-current liability

- short term borrowings
- trade payables
- other current liability

-short term provisions**ASSETS CLASSIFICATION****NON CURRENT ASSETS****-FIXED ASSETS**

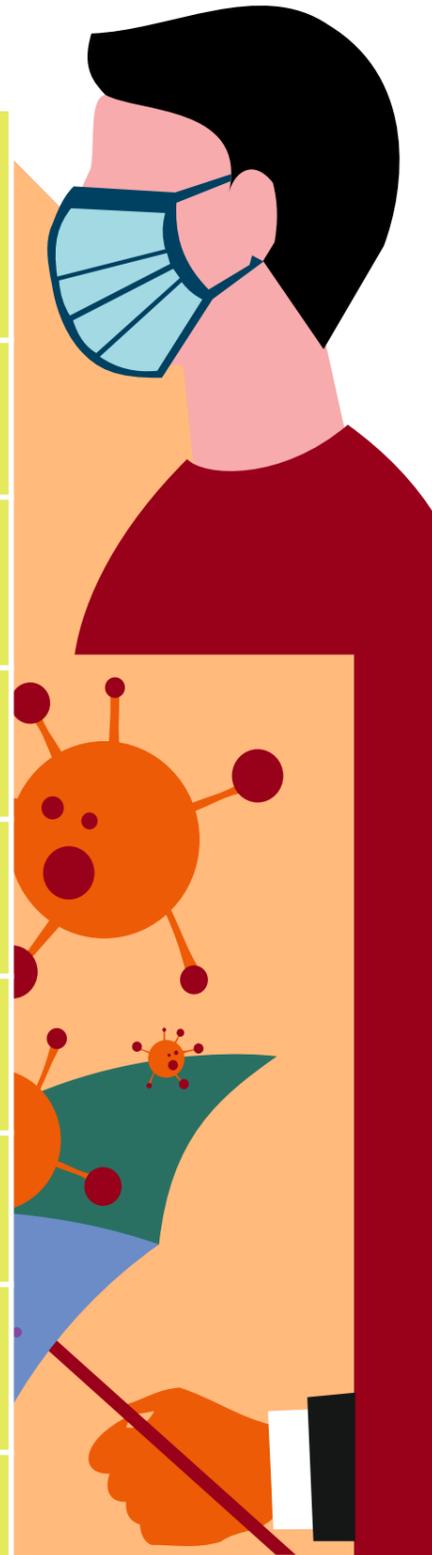
- tangibles
- Intangibles
- capital work in progress
- intangible assets under development

-NON CURRENT INVESTMENTS**-DEFERRED TAX LIABILITY****-LONG TERM LOANS AND ADVANCES****-OTHER NON CURRENT ASSETS****CURRENT ASSETS****-CURRENT INVESTMENTS****-INVENTORIES****-TRADE RECEIVABLES****-CASH AND CASH EQUIVALENTS****-SHORT TERM LOANS AND ADVANCES****-OTHER CURRENT ASSETS**

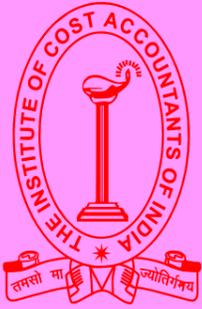


Examination RESCHEDULED TIME TABLE

Day & Date	Intermediate Examination Syllabus-2016 Time 10.00 a.m. to 1.00 p.m.
3rd January, 2021 (Sunday)	Financial Accounting (Paper 05) (Group - I)
4th January, 2021 (Monday)	Operations Management & Strategic Management (Paper 09) (Group - II)
5th January, 2021 (Tuesday)	Laws & Ethics (Paper 06) (Group - I)
6th January, 2021 (Wednesday)	Cost & Management Accounting and Financial Management (Paper 10) (Group - II)
7th January, 2021 (Thursday)	Direct Taxation (Paper 07) (Group - I)
8th January, 2021 (Friday)	Indirect Taxation (Paper 11) (Group -II)
9th January, 2021 (Saturday)	Cost Accounting (Paper 08) (Group - I)
10th January, 2021 (Sunday)	Company Accounts & Audit (Paper 12) (Group - II)



STAY HOME STAY SAFE



PRACTICAL Advice

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

01

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

**Solve Exercises
given in Study Note**

02

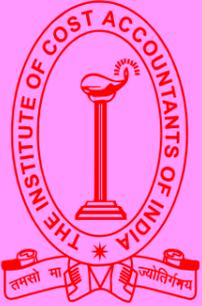
03

Assess Yourself

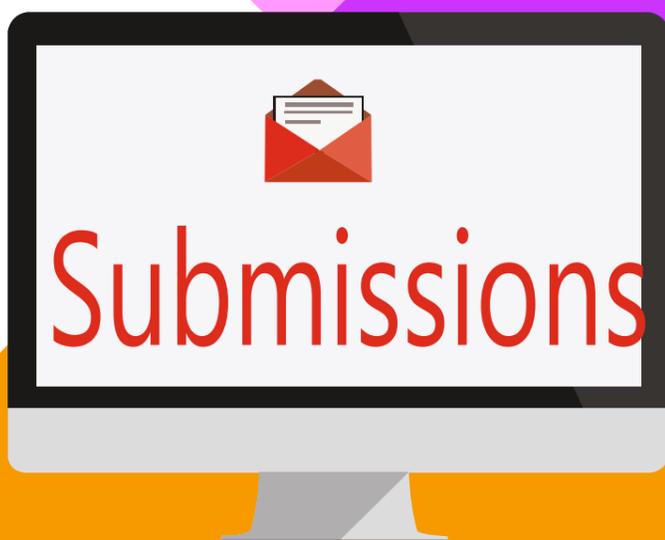
Appear For Examination

04

FINISHED



SUBMISSIONS



Updation of E-Mail Address/Mobile:

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

Dear Students,

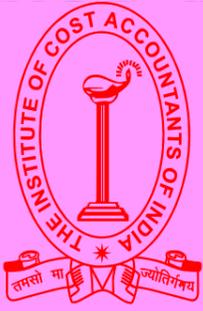
We are very much delighted to receive responses from all of you; for whom our effort is!

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

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

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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,

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, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

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:

"Whatever you do will be insignificant. But it is very important that you do it",

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 link mentioned below :

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

- Don't give up
- Don't give in
- Don't give out
- You can win!

GOOD LUCK

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

STUDENTS' E-bulletin Intermediate
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Delhi Office:

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

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June Exam
31st January
of the same Calendar Year

December Exam
31st July
of the same Calendar Year

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Councils

98
Chapters

9
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Centres

Largest
CMA body
in Asia

2nd
Largest
CMA body
in the
Globe

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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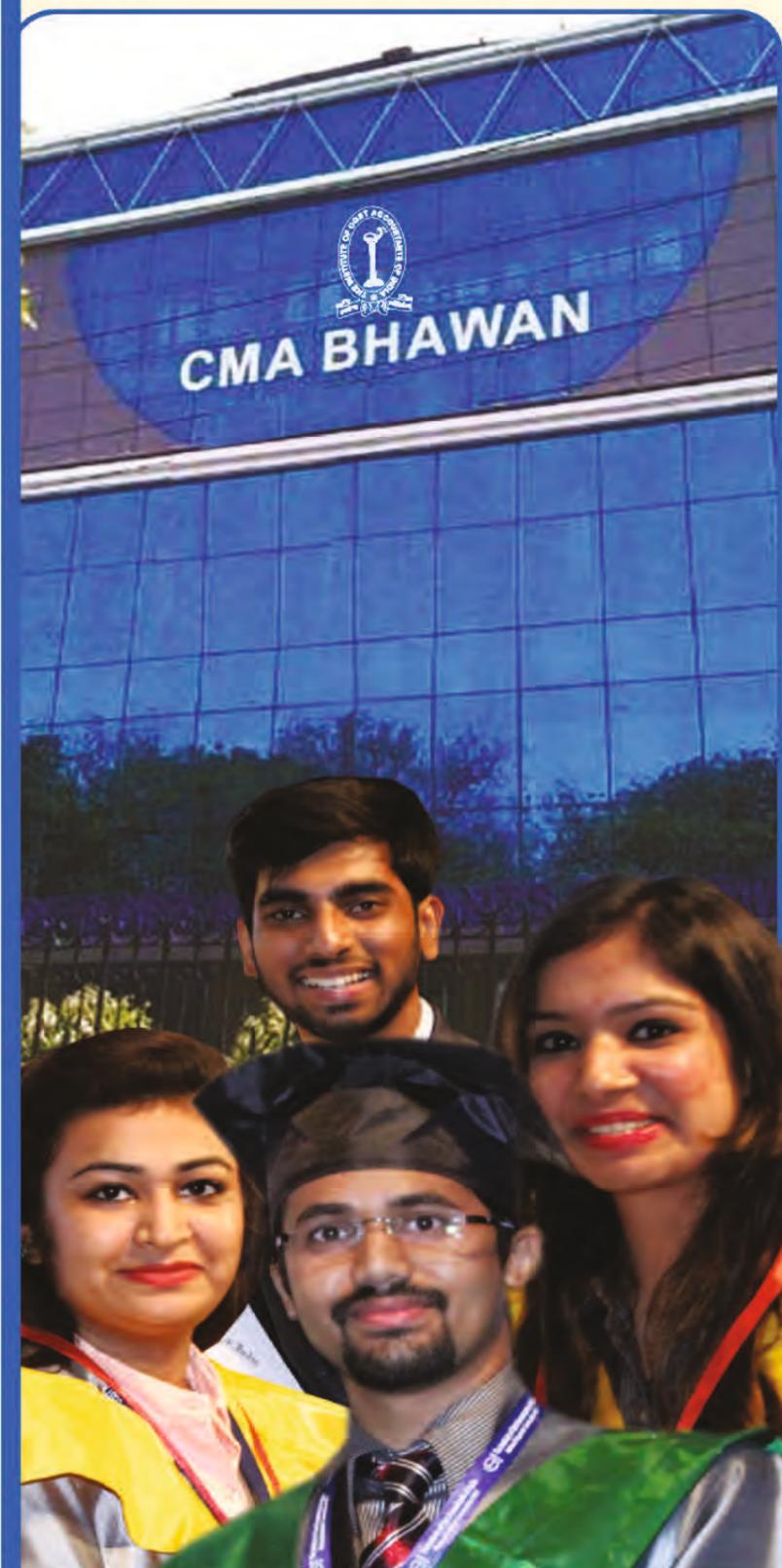
Few of Our Proud Recruiters



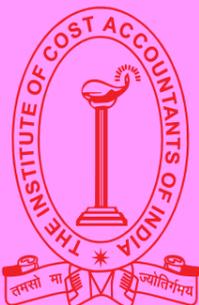
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Behind every successful business decision, there is always a **CMA**



Few Snapshots



CMA Vijender Sharma, Chairman, International Affairs Committee and PD & CPD Committee along with CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI and CMA S. M. Gomes, Director Studies of the Institute met with H.E. Dr. Roger Gopaul, High Commissioner for the Republic of Trinidad and Tobago on 1st December 2020 to discuss the proposal submitted by the Institute to impart Cost & Management Accounting Course in Trinidad and Tobago.



CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President, CMA Balwinder Singh, Immediate Past President of the Institute extending greetings to Shri Rajesh Verma, Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.



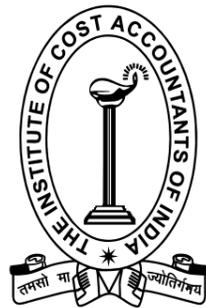
CMA Biswarup Basu, President along with CMA P. Raju Iyer, Vice-President, CMA Chandra Wadhwa, Past President and CMA B.B. Goyal, Former Addl. Chief Adviser, Ministry of Finance, GoI extending greetings to Shri Naresh Salecha, Member Finance, Railway Board on 14th October 2020.



CMA Biswarup Basu, President, CMA P.Raju Iyer, Vice-President of the Institute extending greetings to Shri Manoj Pandey, Joint Secretary to the Government of India, Ministry of Corporate Affairs on 21st September 2020.



CS Ashish Garg, President, ICSI along with CS Manish Gupta, Council Member, ICSI and CS Asish Mohan, Secretary, ICSI visited Delhi office of the Institute to meet CMA Biswarup Basu, President, CMA P Raju Iyer, Vice President and CMA Balwinder Singh, Immediate Past President of the Institute.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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