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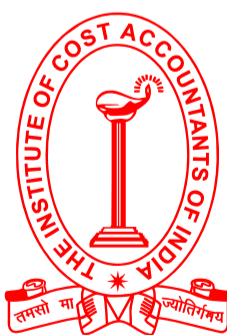
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CMA Student E - Bulletin

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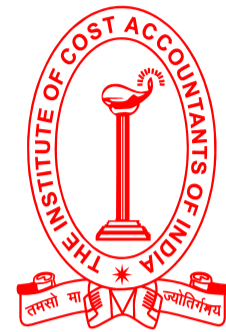
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Behind every successful business decision, there is always a **CMA**



CONTENTS



Knowledge Update -	1
Group : I Paper 5: Financial Accounting (FAC) -	2
Group: I Paper 6: Laws & Ethics (LNE) -	6
Group: I Paper 7: Direct Taxation (DTX) -	9
Group: I Paper 8: - Cost Accounting (CAC)-	12
Group: II Paper: 9, Part - i: Operations Management & Strategic Management Operations Management (OMSM)-	16
Group: II Paper: 9, Part - ii: Operations Management & Strategic Management Strategic Management (OMSM) -	22
Group: II Paper: 10: Cost & Management Accounting and Financial Management (CMFM) -	25
Group: II Paper 11: Indirect Taxation (ITX) -	33
Group: II Paper 12: Company	36
Practical Advice -	39
Submissions -	40
Message from the Directorate of Studies -	41
Few Snapshots -	42



KNOWLEDGE Update



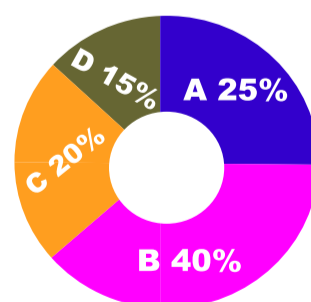
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

Once there was a great king, who was travelling alone in a forest. Soon, he lost his way and was looking around from a hilltop but could not see any people or villages nearby. It was becoming dark. After some time, he saw some kind of light at a long distance. He started walking in that direction and soon reached a hut.

Outside the hut, there was an old woman who was cleaning the place. After seeing the king, she welcomed him thinking that he was a soldier from King's army.

She gave the king some water to clean himself and some water to drink. She then spread a mat for him to relax. King started relaxing.

After some time, she bought a plate of hot rice and curry and placed it before him. The king was so hungry that he quickly put his fingers on the hot food. The hot food burnt his fingers and he spilled some rice on the floor during the process.

The old woman saw this and said, "Oh, you seem too impatient and hasty like your king, that's why you have burnt your fingers and lost some food".

Hearing the old woman's words, the king was surprised and asked her "why do you think our king is impatient and hasty?."

The old woman smiled and begins to explain to him. "My dear son, our king is having a big dream of capturing all his enemy forts. During the process, he is ignoring all the small forts of his enemy and trying to capture only the big forts."

The king interrupted the old woman and said "That's the good thing right. What's the problem with that?"

She smiled and replied, "Wait, my son. Like your impatience in eating the food, you burned your fingers and wasted some food, In the same way, the king's impatience to defeat the enemies quickly, causing him the loss of men in his army as well as a worry to him.

So, instead, if you would have eaten the food at the edge of the plate which was cooler, and then at the center, you would not have burnt your fingers as well as not wasted your food.

Similarly, the king should target the small forts and strengthen his position. This will help him to capture the bigger forts without loss of men from his army".

Hearing this, the king understood his mistake and realized that one should have patience and avoid making any haste in any situation.

Moral of the story:

When you want to achieve something in life, first understand the process of what it takes to achieve it and work on it. Instead, if you are looking for quick results you will become impatient and never achieve what you want in your life.

1. Outstanding wages appearing in the trial balance should be posted to
 - a. Profit and loss account
 - b. Balance sheet
 - c. Trading account
 - d. Profit and loss account and balance sheet
2. Apprenticeship Premium appears in the credit side of the trial balance should be posted to
 - a. Profit and loss account Dr side
 - b. Balance sheet
 - c. Trading account
 - d. Profit and loss account credit side and balance sheet
3. Opening capital Rs. 45000, interest on drawings trial balance shows Rs. 5000, interest on capital Rs. 2000, drawings Rs. 14000, profit for the year Rs.15000, closing capital will be
 - a. 67000
 - b. 43000

- c. 47000
d. 69000
4. Trial balance shows bad debt Rs. 4000, provision for doubtful debt Rs. 5000, Debtors Rs. 25000. It is desired to create a provision for doubtful debt @ 10 % on sundry debtors at the closing date. Sundry debtors will appear in the balance sheet as Rs.
- a. 22500
b. 21000
c. 18000
d. 15000
5. Trial balance shows 12 % bank loan Rs. 40000, interest paid Rs. 3800. Interest debited to profit and loss account should be
- a. 4800
b. 3800
c. 1000
d. None of these
6. Opening prize fund of a sports club was Rs. 6400, further donation towards the fund received during the accounting year Rs. 4300, during the year Rs. 3500 was spent on prizes and Rs. 400 was received on interest on investment of the prize fund. The closing balance of the prize fund will be
- a. 1900
b. 10200
c. 10600
d. 7600
7. Salaries paid for the current year Rs. 8500. Outstanding salary for the current year Rs. 300. Prepaid salary for the next year Rs. 250. Salary paid in last year as advance for the current year Rs. 500 . Amount will be debited to income and expenditure account as salary will be
- a. 9500
b. 9050
c. 9005
d. 9550
8. At the beginning of an accounting year assets were Rs. 19000, debit balance of income and expenditure account Rs. 1800 and liabilities Rs. 5000. The opening capital will be
- a. 15800
b. 12200
c. 11200
d. 25800
9. If the amount of any known liability can be determined with substantial accuracy
- a. A definite liability should be created
b. A reserve should be created
c. A provision should be created
d. All of these
10. Donation received for special purpose should be
- a. Credited to a separate account and shown in the balance sheet
b. Treated as revenue
c. Treated as revenue unless the amount is large
d. Not recorded at all

WRITE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

11. ACCOUNTING IS AS OLD AS MONEY
12. A TRANSACTION WHICH INCREASES THE CAPITAL IS INCOME
13. AMOUNT OWED TO CREDITORS IS CALLED CAPITAL
14. ACCOUNTING IS A SERVICE FUNCTION
15. RECEIPTS AND PAYMENTS ACCOUNT IS BASED ON ACCRUAL BASIS

WRITE WHICH OF THE FOLLOWING STATEMENTS ARE TRANSACTIONS:

16. AN EMPLOYEE IS DISMISSED FROM JOB
17. GOODS ARE ORDERED FOR DELIVERY NEXT MONTH
18. LAND IS PURCHAED FOR CASH
19. GOODS ARE PURCHASED ON CREDIT
20. INSURANCE CLAIM ADMITTED BY INSURANCE COMPANY AGAINST LOSS BY FIRE

Answer:

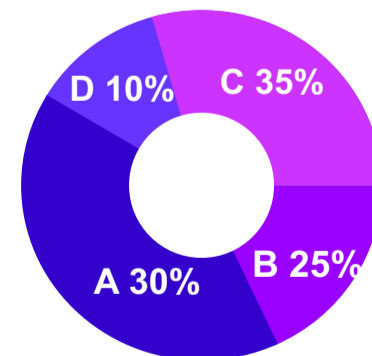
1. - b, 2. - d, 3. - b, 4. - a, 5. - a, 6. - d, 7. - b, 8. - a, 9. - a, 10. - a, 11.- T, 12. - T, 13. - F, 14. - T, 15.- F,
16. - NO, 17.- NO, 18. - YES, 19. - YES, 20. - YES.



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 and Rules

Report of Annual General Meeting (AGM)**Rule 31 Companies (Management & Administration) Rules, 2014**

Rule 31(1) The report in pursuance of the provisions of sub-section (1) of section 121 shall be prepared in the following manner, namely:-

(a) the report under this section shall be prepared in addition to the minutes of the general meeting;

(b) the report shall be signed and dated by the Chairman of the meeting or in case of his inability to sign, by any two directors of the company, one of whom shall be the Managing director, if there is one and company secretary of the company;

(c) the report shall contain the details in respect of the following, namely:-

- the day, date, hour and venue of the annual general meeting;
- confirmation with respect to appointment of Chairman of the meeting;
- number of members attending the meeting;
- confirmation of quorum;
- confirmation with respect to compliance of the Act and the Rules, secretarial standards made there under with respect to calling, convening and conducting the meeting;
- business transacted at the meeting and result thereof;
- particulars with respect to any adjournment, postponement of meeting, change in venue; and
- any other points relevant for inclusion in the report.

(d) the Report shall contain fair and correct summary of the proceedings of the meeting.

Rule 31(2) The copy of the report prepared in pursuance of Section 121(1), shall be filed with the Registrar in **Form No. MGT-15** within 30 (thirty) days of the conclusion of the annual general meeting along with the fee.

Sec.121 Report on annual general meeting

Sec.121(1) provides that every **listed Public Company** shall prepare

in the prescribed manner a report on each AGM including the confirmation to the effect that the meeting was convened, held and conducted as per the provisions of this Act and the rules made thereunder.

(2) The company shall file with the Registrar a copy of the report referred to in Section 121(1) *within 30 (thirty) days of the conclusion of the AGM with such fees or with such additional fees as may be prescribed, within the time as specified, under Section 403.*

(3) *If the company fails to file the report under Section 121(2) before the expiry of the period specified under section 403 with additional fee, the company shall be punishable with fine which shall not be less than Rs.1,00,000 (one lakh) but which may extend to Rs.5,000 (five lakh) and every officer of the company who is in default shall be punishable with fine which shall not be less than Rs.25,000 (twentyfive thousand) but which may extend to Rs.1,00,000 (one lakh).*

Punishment for default in holding a meeting Section 99 (Punishment for Default in Complying with Provisions of Sections 96, 97 and/or 98) provides that if any default is made in holding a meeting of the company in accordance with Section 96 (AGM) or Section 97 (**Power of Tribunal to Call Annual General Meeting**) or Section 98 (**Power of Tribunal to Call Meetings of Members etc**) or in complying with any directions of the Tribunal, the company and every officer of the company who is in default shall be punishable with fine which may extend to Rs.1,00,000 (one lakh) and in the case of a continuing default, with a further fine which may extend to Rs.5,000 (five thousand) for every day during which such default continues.

Calling of Extra Ordinary General Meeting (EGM)

Section 100(1) provides that the Board may, whenever it deems fit, call an extraordinary general meeting of the company on working days except National Holidays. [Please refer Rule 17]

Rule 17 of Companies (Management and Administration) Rules, 2014

Rule 17 (1) prescribes that the members may requisition convening of an extraordinary general meeting in accordance with Sec.100(4), by providing such requisition in writing or through electronic mode at least clear twenty-one days prior to the proposed date of such extraordinary general meeting.

Rule (17)(2) prescribes that the notice shall specify the place, date, day and hour of the meeting and shall contain the business to be transacted at the meeting.-

Explanation.- For the purposes of this sub-rule, it is here by clarified that requisitionists should convene meeting at Registered office or in the same city or town where Registered office is situated and such meeting should be convened **on any day except national holiday.**

Rule (17) (3) prescribes that if the resolution is to be proposed as a special resolution, the notice shall be given as required by Sec.114(2).

Rule (17) (4) prescribes that the notice shall be signed by all the

requisitionists or by a requisitionists duly authorized in writing by all other requisitionists on their behalf or by sending an electronic request attaching therewith a scanned copy of such duly signed requisition.

Rule (17) (5) prescribes that no Explanatory Statement as required under Sec.102 need be annexed to the notice of an extraordinary general meeting convened by the requisitionists and the requisitionists may disclose the reasons for the resolution/s which they propose to move at the meeting.

Rule (17) (6) prescribes that the notice of the meeting shall be given to those members whose names appear in the Register of Members of the company within 3(three) days on which the requisitionists deposit with the Company a valid requisition for calling an extraordinary general meeting(EGM).

Rule (17) (7) prescribes that where the meeting is not convened, the requisitionists shall have a right to receive **List of Members** together with their **registered address** and **number of shares held** and the company concerned is bound to give a list of members together with their registered address made as on 21st (twenty first) day from the date of receipt of valid requisition together with such changes, if any, before the expiry of the 45 (forty-five) days from the date of receipt of a valid requisition.

Rule (17) (8) prescribes that the notice of the meeting shall be given by Speed Post or Registered Post or through electronic mode. Any accidental omission to give notice to any member, or the non-receipt of such notice by, any member shall not invalidate the proceedings of the meeting.

Sec.100 (2) provides that the notice shall specify the place, date, day and hour of the meeting at Registered office or in the same city or town where Registered office is situated and shall contain the business to be transacted at the meeting.

Sec.100(3) provides that if the resolution is to be proposed as a special resolution, the notice shall be given as required by Sec.114(2) (**Ordinary and Special Resolutions**).

Section 100(4) provides that if the Board does not, within 21 (twenty-one) days from the date of receipt of a valid requisition in regard to any matter, proceed to call a meeting for the consideration of that matter on a day not later than 45 (forty-five) days from the date of receipt of such requisition, the meeting may be called and held by the requisitionists themselves within a period of 3 (three months) from the date of the requisition.

Sec.100 (6) provides that any reasonable expenses incurred by the requisitionists in calling a meeting under Sec.100(4) shall be reimbursed to the requisitionists by the company and the sums so paid shall be deducted from any fee or other remuneration under Se.197 (**Overall Maximum Managerial Remuneration and Managerial Remuneration in Case of Absence or Inadequacy of Profits**) payable to such of the directors who were in default in calling the meeting.

Directors

Sec.2(10) lays down that "**Board of Directors**" or "Board", in relation to a company, means the collective body of the directors of the company; and

Section 2(34) provides that "**director**" means a director appointed to the Board of a company;

Board of Directors and Number of Directors

Section 149(1) provides that every company shall have a Board of Directors consisting of individuals as directors and shall have -

- (a) a minimum number of 3 (three) directors in the case of a public company,
- (b) a minimum of 2 (two) directors in the case of a private company, and
- (c) One director in the case of a One Person Company; and

Can have a maximum of fifteen directors , provided that a company may appoint more than fifteen directors after passing a special resolution

It is further provided that such class or classes of companies shall have at **least one woman director**. (Please read the mandatory provisions, specified below regarding appointment of Woman Director).

It may be noted that Sec.149(1) shall not apply in case of Sec. 8 Company , Government Company and Specified IFSC Public Company.

Types of Directors

Residential Directors
Independent Directors
Small shareholder Directors
Women Director
Additional Director
Alternate Director
Nominee Director

Residential Directors - Sec.149(3) provides that every company shall have at least one director who stays in India for a total period of not less than 182 days (one hundred and eighty-two) during the financial year:

Provided that in case of a newly incorporated company the requirement under this Section 149(3) shall apply proportionately at the end of the financial year in which it is incorporated.

Independent director

Sec 149(4) provides that every listed public company shall have at least $1/3^{\text{rd}}$ of the total number of directors as independent directors and the Central Government may prescribe the minimum number of independent director in case of any class or classes of public companies.

Explanation - For the purpose of this sub-section , any fraction contained in such one-third number shall be rounded-off as one.

Sec.149(5) provides that every company existing on or before the date of commencement of this Act shall, within one year from such commencement or from the date of notification of the Rules in this regard, as may be applicable, comply with the requirements of the provisions Sec.149(4).

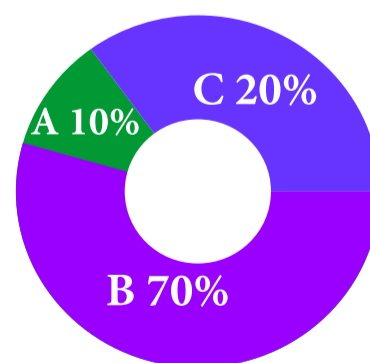


GROUP: I, PAPER: 7

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.

Tax on Capital Gains**Tax on Short Term Capital Gain**

Case	Tax Rate
On shares or units of equity-oriented fund or unit of business trust on which Security transaction tax has been paid	15% No deduction under chapter VIA can be claimed from such short-term capital gain.
In any other case	As per usual rates, as applicable to any other income.

Tax on Long Term Capital Gain**1. Tax on long term capital gain in certain cases [Sec. 112A]****Applicable to:** All assessee**Conditions:**

- The total income of the assessee includes income chargeable under the head "Capital gains";
- The capital gains arise from the transfer of a long-term capital asset being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust;
- Securities Transaction Tax (STT) has been levied:

Capital Asset	STT has been paid
Equity share in a company	STT has been paid on acquisition and transfer of such capital asset. Exception: In the following cases, condition of levying STT on acquisition is not applicable: a) Equity share acquired before 01-10-2004 The nature of acquisition which is notified (like IPO, ESOP, etc.) [Notification No. 60/2018 dated 01-10-2018]
Unit of an equity-oriented fund or a unit of a business trust	STT has been paid on transfer of such capital asset

Taxpoint: The condition of payment of STT in either case is not applicable in case where transfer has been undertaken on a recognised stock exchange located in any International Financial Services Centre provided the consideration for such transfer is received or receivable in foreign currency.

Treatment

Such long-term capital gain shall be taxable as under:

Case	Rate of Taxation
Where such long term capital gain does not exceed ₹ 1,00,000	Nil
Where such long term capital gain exceeds ₹ 1,00,000	10% on income exceeding ₹ 1,00,000

Taxpoint:

- Rabate u/s 87A is not available from tax on aforesaid long term capital gain.
- In the case of resident individual or resident Hindu undivided family, where the total income as reduced by such long-term capital

gains is below the maximum amount which is not chargeable to income-tax, then, the long-term capital gains, shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax

Computation of cost of acquisition of such capital assets in certain cases

The cost of acquisition for the long-term capital asset acquired on or before 31st of January, 2018 will be higher of the following:

- a. the actual cost of acquisition of such asset;
- b. the lower of -
 - A. the fair market value of such asset;
 - B. the full value of consideration received or accruing as a result of the transfer of the capital asset

Taxpoint:

- No Index benefit is available
- The holding period will be counted from the date of acquisition
- The cost of acquisition of bonus shares acquired before 31st January, 2018 will be determined as per aforesaid rule. Therefore, the fair market value of the bonus shares as on 31st January, 2018 will be taken as cost of acquisition (except in some situations).

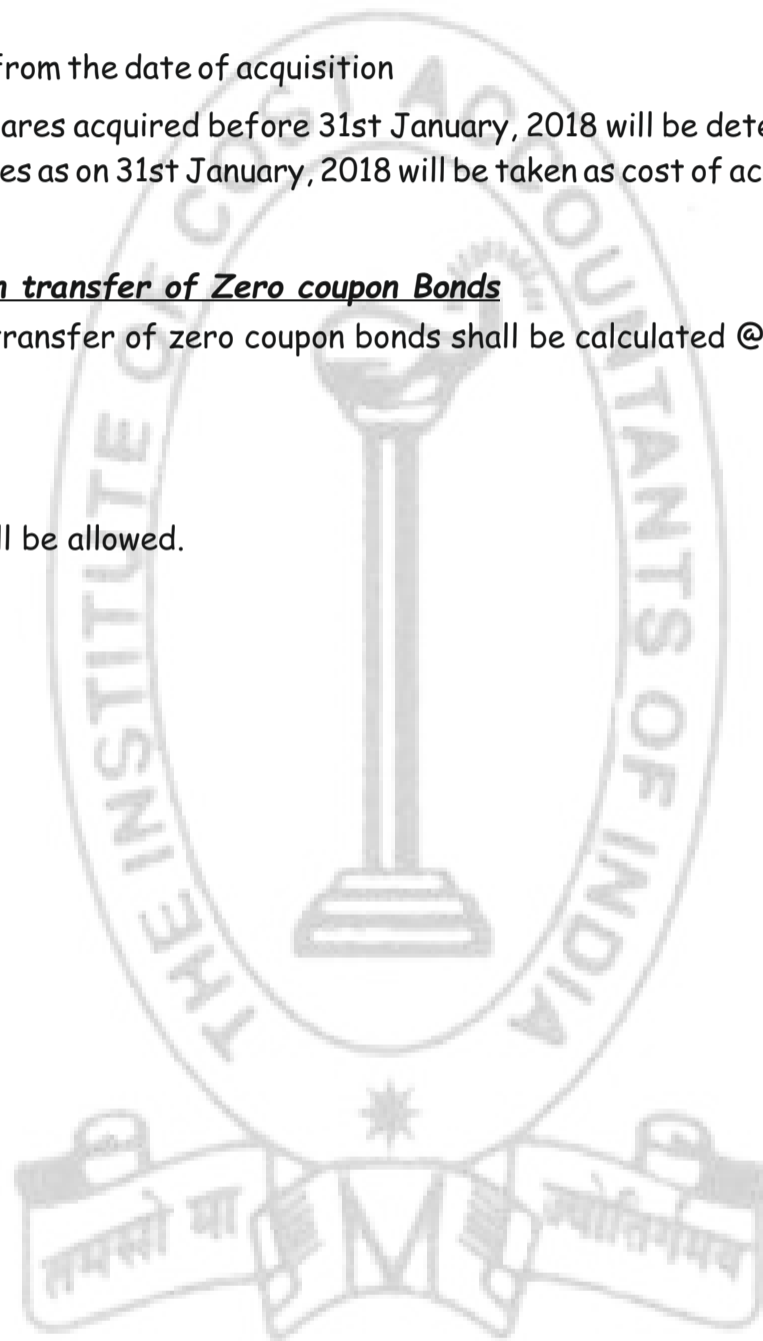
1. Tax on Long term capital gain on transfer of Zero coupon Bonds

Tax on long term capital gain arising on transfer of zero coupon bonds shall be calculated @ 10% + applicable Surcharge + Health & Education cess without indexation.

2. In any other case [Sec. 112(1)]

Long term capital gain is taxed @ 20%

- No deduction under chapter VIA shall be allowed.





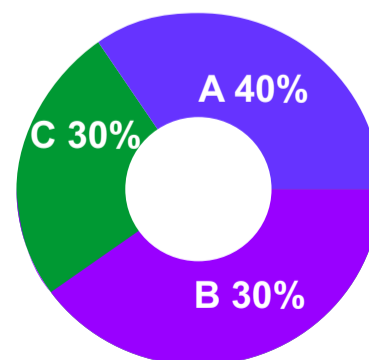
GROUP: I, PAPER: 8

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

The cost accounting, as a separate branch of accounting, has some added advantages than financial accounting. The value and importance of costing need hardly be overemphasized. Although there is growing awareness about the need for cost accounting among the businessmen, there is also lack of appreciation as to how it can help them - this is due to imperfect competition and imperfect knowledge about costs vs benefits. It is hoped that with increased competition and growing realization about its need, cost accounting will increasingly find its place in the industries and its field will get considerably widened.

The important inputs in managerial decision-making is cost data. There is however no single concept of cost, which can cater to all management needs. Cost Accounting is that branch of accounting information system which records, measures and reports information about costs. A cost is a sacrifice of resources. The costs are reflected in accounting system by outlays of cash, promises to pay cash at a future date and the expiration of the value of an asset. The primary purpose of cost accounting is cost ascertainment and its use in decision making and performance evaluation.

Cost Accounting plays a vital role all over the world. Hence, theory as well as solving of practical problems is very much essential for successful preparation of the subject. 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. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. The conquest of these examinations mainly depends on student's perseverance, seriousness of study and continuous effort. I have suggested the following areas based on my long time teaching experience for improving yourselves.

1. Try to go through your Study Note and know the complete syllabus. Remember all chapters are interlinked.
2. There should be a plane developed for completing the whole syllabus within the scheduled time.
3. This paper is based on mainly practical problems.
4. Analyze the trends of setting questions by taking at least ten terms.
5. Prepare yourself based on previous paper setting.
6. Clarity of concepts and self expression is essential for success in life.
7. Time schedule with specified activities is very much essential for time-management.
8. Write down all the important terms in your own words and read them regularly.
9. Try to improve your speed by regular practice and revision.
10. Always try to answer all objective type questions, which carry 100% marks.
11. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

The study material of **Paper 8** includes Six main chapters. The first one is related to the basic concept of cost accounting. The second one described the Elements of cost in details. We know that the three major elements of costs are - Material, Labour and Overheads. Here, the major elements of cost are discussed elaborately with sufficient number of examples. You should read the scope and objectives of different Cost Accounting standards in details. This will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Here Cost allocation, Cost apportionment and Cost absorption should be understood very clearly.

This chapter is related to **Cost Book-Keeping**, which includes integrated accounting system also. In the Cost Books, only nominal accounts, e.g., income and expenses, losses and gains etc, and to some extent, real accounts are recorded. The transactions are entered into the basis of double entry book-keeping principle - every debit must have a corresponding credit. It is generally the responsibility of the Cost Accountant to record the costing transactions. This chapter is very easy to understand but the process is lengthy. In practice different accounts are to be opened, but it is not necessary to give much effort to complete it. Here Cost Department maintains separate ledger quite distinct from financial accounting, maintaining their books of accounts.

The **Job or Batch Costing** is a method of Costing which is used when the job orders are under taken in the factory or workshop, and when contracts are taken out to build houses, construct roads, bridges, dams etc. Many companies manufacture goods against orders. The main purpose of job costing is to ascertain profit or loss on each job / batch undertaken. The chapter Contract /Job/ Batch Costing

is very important for this type of examination. There are some standard norms for computation and recognition of profit or loss of incomplete contract. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. Make sure that you are familiar with various methods/formulae for different stage of completion and share of profit. Students are also advised to be through on the topic "Profit on incomplete contracts based on SSAP - 9". Various problems on 'exaltation clause' used to be set at this level of examination. Generally full credit is expected by solving the problem.

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

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

The chapter 'Standard Costing' deals with creating responsibilities and identifying the areas of exceptions. The main purpose of variance analysis is to enable the management to improve the operation for effective utilization of resources and to increase the efficiency by reducing costs. Some students are afraid of this important chapter only because of different formulas for different analysis. Only careful study and realization of the requirement in the problem can eliminate such difficulties. Finally the step should be taken based on the causes of variance.

The next chapter deals with **Budget and Budgetary Control**. Planning and control are the important function of management. For assisting management in these two functions, the technique of Budgetary Control and Standard Costing are applied. Budget is defined as a financial and /or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. 'Budget and Budgetary control', which requires preparation of 'Flexible Budget', 'Functional Budgets' and 'Cash Budget' for taking necessary actions. Both theoretical and problem oriented questions 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. All functional budget are summarized into master budget consisting of a budgeted Profit and Loss account, a Balance Sheet and Cash Flow Statement. A common mistake is to incorrectly deduct closing stocks and opening stocks when preparing production and material purchase budget. For Preparing Material Purchase Budget and Production Budget there is some common mistake of incorrectly deduction of opening and closing stocks.

Charging the over head to Cost Centers and cost units is the most important consideration in the operation of cost accounting system. Even though the cost cannot be identified directly with specific product/job, they are essentially part of cost of manufacturing products and must be included with prime cost for product pricing, performance evaluation and decision - making. The Composite or Comprehensive Machine Hour Rate is a method that take into account not only expenses directly allocated to machine but also expenses which cannot be directly allocated to machine, such as supervisory charges, heating, lighting, rent etc. These indirect expenses are known as Standing Charges or Fixed Charges. The fixed or standing charges are then appointed among the various departments. Expenses apportioned to each department are then apportioned among the machines in that department on some equitable bases. The share of overhead of each machine is then divided by the estimated normal working hours of the machine to calculate the cost of standing charges for each machine pre hour. When this rate is added to the ordinary machine hour rate, the Composite machine Hour rate is obtained.

The following is a problem relating to Composite Machine Hour rate.

Problem :

A machine shop has 8 identical drilling machines manned by 6 persons. The machine can not be worked without an operator wholly engaged on it. The original cost of all these 8 machines works out to Rs. 8 lakhs. These particulars are furnished for a 6 month period :

Normal available hours per month	208
Leave (with pay) hours	20
Absenteeism (without pay) hours	18
Normal idle time (unavoidable) hours	10
Average rate of wages per day of 8 hours	Rs. 20
Production bonus estimated	15% on wages
Value of power consumed	Rs. 8050
Supervision and Indirect Labour	Rs. 3300
Lighting & Electricity	Rs. 1200

These particulars are for a year :

Repairs and maintenance including consumables 3 % on value of machines.

Insurance Rs. 40000

Depreciation 10% on original cost
Other Sundry works expenses Rs. 12000
General management expenses allocated Rs. 54530

You are required to work out a comprehensive machine hour rate for the machine shop.

Computation of Comprehensive Machine Hour Rate

Particulars	Basis of Apportionment	Per Half Year Rs.	Per hour Rs.
Wages for 6 operators	[208 - 18] 190 × 6 × 6 Rs.20/8	17100	
Bonus	15% of Rs. 17100	2565	
Power	Actual	8050	
Supervision & Indirect Labour	Actual	3300	
Lighting & Electricity	Actual	1200	
Repairs & Maintenance	Rs. 800000 × 3/100 × 6/12	12000	
Insurance	Rs. 40000 × 6/12	20000	
Depreciation	Rs. 800000 × 10/100 × 6/12	40000	
Other Sundry works exp.	Rs. 12000 × 6/12	6000	
General Management Exp.	Rs. 54530 × 6/12	27265	
For 5760 hours *	Rs. 137480/5760	137480	2387
Machine Hour Rate			

Working Notes :

* Normal working hours of the machine per month

Less: Idle time:

Leave hours	20
Absenteeism	18
Normal idle time	10

Hours
208

48

160

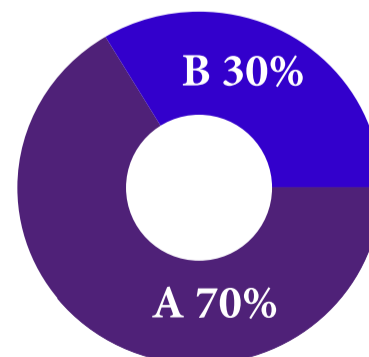
Effective working hours = 160 hours × 6 operations × 6 months
= 5760 hours.



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%

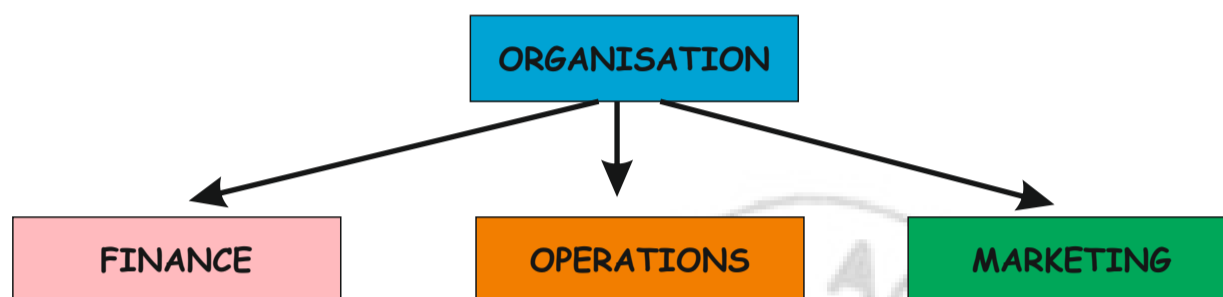
Learning Objectives:

- 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 discuss some preliminary concepts on Operations Management. Operations is that part of a business organisation that is responsible for producing goods and/or services. The collective success or failure of companies' operations functions has an impact on the ability of a nation to compete with other nations and on the nation's economy.

The three basic functions of a business organisation are



The ideal situation for a business organisation is to achieve an economic match of supply and demand. Having excess supply or excess capacity is wasteful and costly; having too little means lost opportunity and possible customer dissatisfaction.

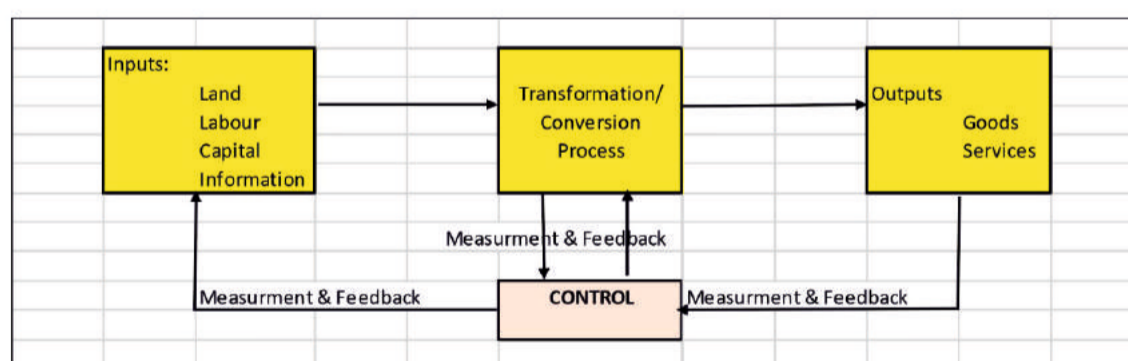
The key function on the supply side are *Operations & Supply chains*;
The key function on the demand side are *Sales & Marketing*;

The driving fuel to all these is *Finance*;

If the business organisation is a Car, Operations would be its engine. And just as the engine is the core of what a car does, in a business organisation operations is the core of what the organisation does.

Operations Management is responsible for managing that core. Operations management is the management of systems or processes that create goods and/or provide services.

The creation of goods or services involve transforming or converting inputs from outputs. Various inputs such as land, labour, capital, enterprise, information are used to create goods or services using one or more transformation process. To ensure that the desired output are obtained an organisation takes measurements at various points in the transformation process (feedback) and then with previously established standards to determine whether corrective action is needed (control). Refer following fig:



From inputs Goods and services often occur jointly. Like painting of a house is a service but pain which is used is a good. The essence of the operation function is to *add value* during the transformation process. *Value added* is the term used to describe:

$$\text{Value or Price of output} - \text{Cost of Input}$$

In Non-Profit organisation:

- Output example -Highways, Police, Education, Fire service etc
- Value of such output - Value to Society
- The greater the value added the greater the effectiveness of these services to society

In for Profit organisation

- Output example - Tangible goods such as Car, FMCG products, Banking services etc
- Value of such output - Prices the consumers are willing to pay for those goods & services

Firms use the money generated by value added for

- Research & Development
- Investment in new facilities & equipment
- Workers' salaries

- Profits
 - So greater the value added, the greater the amount of funds available for the above purposes.

In a football match

Mission: To be champion

Strategy: To play attacking football

Tactics: To play in 3-2-5 combination

To an employee of an organisation

Mission: To be a good employee to earn a timely promotion

Strategy: To be punctual in office, to be diligent

Tactics: Avail Metro, Do today's work today

In Organisation

Mission: The reason for the existence of the organisation

Strategy: Plans for achieving the purpose of existence

Tactics: The methods and actions taken to accomplish strategies

In Operations

Mission: To make business unit competitive

Strategy: To provide right goods/services in right time in right quality in right quantity in right cost

Tactics: To run the transformation process with efficiency

The organisation strategy provides the overall direction for the organisation. Say for TATA Nano at Singur:

Mission: To make all Indians affordable Car owner

Strategy: To establish Small Car manufacturing unit in every corner of the Country

Tactics: To establish car manufacturing plant at Bengal for exploring Bengal's talent

Operations strategy is narrower in scope, dealing primarily with the operations aspect of the organisation.

Operations strategy relates to

- Products,
- Processes,
- Methods,
- Operating resources,
- Quality,
- Costs,
- Lead times
- Scheduling etc.

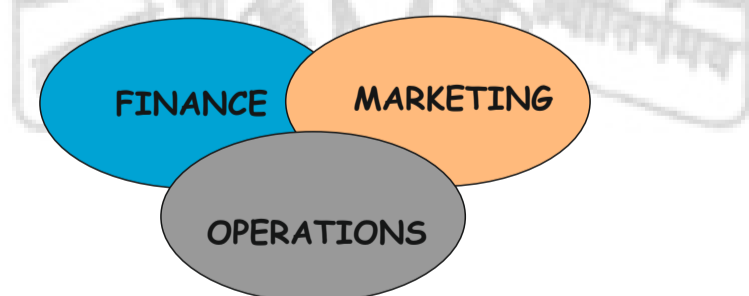
While formulating strategy Operations management professional make a number of key decisions like:

- What to produce and in what quantity and in what time?
- What resources will be needed and in what amounts?
- When will each resource be needed?
- When should the work be scheduled?
- When should material and other supplies be ordered?
- When corrective action is needed
- Where will the work be done?
- How will the product or service be designed?
- How will the work be done - organisation, methods, equipment
- How will resources be allocated?
- Who will do the work

In Operations management we will get acquainted with the broad range of such decisions that operations manager must make and we will be introduced to the tools necessary to handle those decisions.

Study of operations management is required for finance/MBA professionals as three functional area of an organisation -Finance, Marketing & Operations all have interacting roll to play to bring success to organisation.

Therefore three major functions of an organisation overlap



Finance and operations management personnel cooperate like:

- Budgeting: Budget is periodically prepared by finance personnel to plan financial requirements and operations management personnel could provide requisite information on fund requirements for developing, maintaining of operational logistics;
- Economic analysis of investment proposals: Evaluation of alternative investments in plant and equipment requires inputs from both operations and finance people
- Provision of funds: The necessary funding of operations and the amount and timing of funding can be important and even critical when funds are tight. Mutual interaction between finance and operation people could help organisation in avoiding Cash flow

problem.

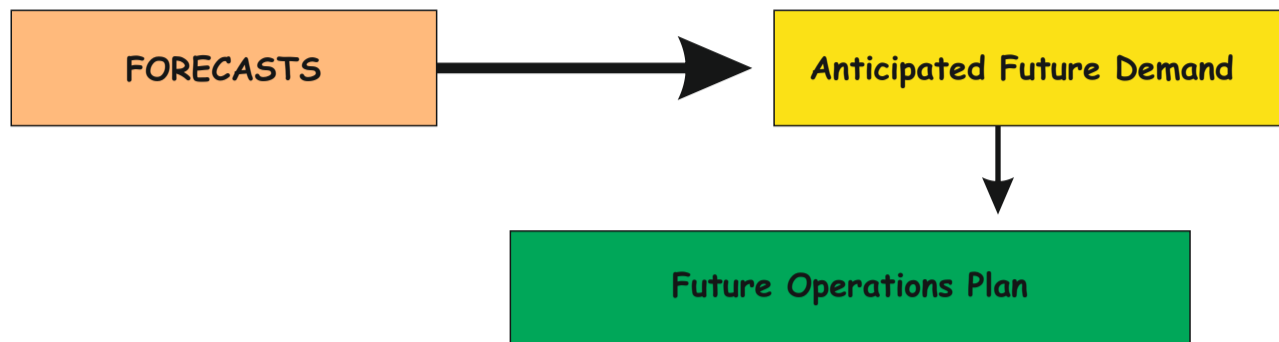
By now we understood that Operations is a transformation process which transforms Input like - Land, Labour, Capital, Information etc. to outputs like Product/Services.

Forecasts are a basic input in the decision making processes of Operations Management

The primary goal of operations management is to match supply to demand. Therefore a forecast of demand is essential for determining how much capacity or supply will be needed to meet demand

A forecast is an estimate about the future value of a variable such as demand.

Forecasts helps determining anticipated future demand which in turn facilitates in preparing future operations plan



There are two general approaches for forecasting: Qualitative and Quantitative.

Qualitative forecasts include - Consumer Surveys, Salesforce opinions, Executive opinions etc.

Time series forecasts is of quantitative type.

Time series forecasts simply predict the future based on past experience. These techniques use historical data with the assumption that the future will be like the past.

A time series is a time-ordered sequence of observations taken at regular intervals e.g. hourly, daily, weekly, monthly, quarterly, annually.

Through time series forecasting analyst often identifies following patterns around an average:

- Trend: It refers to a long term upward or downward movement in the data. Population shows trend;
- Seasonality: It refers to short term, fairly regular variations generally related to factors such as calendar or time of day. Restaurants experience seasonal variations;
- Cycles: These are wave like variations of more than one year's duration. Inclination of a country behave in this way;
- Irregular variations: These are due to unusual circumstances such as severe weather conditions;
- Random variations: These are residual variations that remain after all other behaviour have been accounted for;

Historical data have variations - minor variations and larger variations. The randomness arises from the combined influence of relatively unimportant factors and it cannot be reliably predicted. Averaging techniques smooth mainly variations in the data. A forecast based on an average thus tends to exhibit less variability than the original data. Since it is desirable to avoid reacting to minor variations mainly caused by random variables, averaging techniques are used in forecasting to smooth the randomness although larger variations reflecting real changes are also smoothed to certain degree.

Three techniques of averaging are:

- i) Moving Average;
- ii) Weighted Moving Average;
- iii) Exponential Smoothing.

Analysis of trend involves developing an equation that will suitably describe trend shown by the data (as observed after plotting the data). There are two important techniques that can be used to develop forecasts when trend is present. One involves use of a trend equation. The other is an extension of exponential smoothing.

In time series data trend presence in both linear and non-linear form. But since linear form is most common emphasis is on linear trend.

Exponential Smoothing:

- It is a sophisticated weighted averaging method
- In this method each new forecast is based on the previous forecast plus a percentage of the difference between that forecast and the actual value at that time
- i.e. Next Forecast = Previous Forecast + α (Actual - Previous Forecast)
- Where (Actual - Previous Forecast) is called forecast error &
- α is a percentage of the error.
- i.e. $F_t = F_{t-1} + \alpha (A_{t-1} - F_{t-1})$

Forecast Accuracy:

- Forecasting is a process of predicting future
- Complex nature of most real world variables makes it almost impossible to correctly predict
- So it is important to include an indication of the extent to which the forecast must deviate from the value of the variable that actually occurs
- Forecast error is the difference between the value that occurs and the value that was predicted for a given time period
- Forecast errors influence decisions in two different ways:
 - Help in deciding choice between various forecasting alternatives
 - Help in evaluating the success or failure of a technique in use
- By *Summarising Forecast Error* we compare forecasting alternatives

Three measures for summarising forecast error are:

- Mean Absolute Deviation (MAD)
- Mean Squared Error (MSE)
- Mean Absolute Percentage Error (MAPE)

$$MAD = \frac{\sum |Actual_t - Forecast_t|}{n}$$

$$MSE = \frac{\sum (Actual_t - Forecast_t)^2}{n - 1}$$

$$MAPE = \frac{\sum \frac{|Actual_t - Forecast_t| * 100}{Actual_t}}{n}$$

- MAD weights all errors evenly
- MSE weights errors according to their squared values
- MAPE weights according to relative error
- MAD is the easiest to compute but weights errors linearly
- MSE squares errors thereby giving more weights to larger errors
- MAPE should be used when there is a need to put errors in perspective.

Illustration: Compute MAD, MSE and MAPE for the following data:

Period	Actual	Forecast
1	217	215
2	213	216
3	216	215
4	210	214
5	213	211
6	219	214
7	216	217
8	212	216

Ans: Computation details are:

Period	Actual	Forecast	Error	Error	Error ²	Relative E
1	217	215	2	2	4	0.92
2	213	216	-3	3	9	1.41
3	216	215	1	1	1	0.46
4	210	214	-4	4	16	1.90
5	213	211	2	2	4	0.94
6	219	214	5	5	25	2.28
7	216	217	-1	1	1	0.46
8	212	216	-4	4	16	1.89
TOTAL				22	76	10.27

So

$$MAD = \frac{\Sigma |Actual_t - Forecast_t|}{n} = \frac{22}{8} = 2.75$$

$$MSE = \frac{\Sigma (Actual_t - Forecast_t)^2}{n - 1} = \frac{76}{7} = 10.86$$

$$MAPE = \frac{\Sigma \frac{|Actual_t - Forecast_t| * 100}{Actual_t}}{n} = \frac{10.27}{8} = 1.28\%$$

Suggestions:

These introductory concepts on Operations Management are taken purely from teachings imparted by the Guide book issued by Institute and some reference books covering the syllabus. The study guide on Operations Management issued by Institute is to be studied thoroughly. In this month discussions are also held on MAD, MSE and MAPE on forecast techniques. Attempts are made here to explain all in some detail. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson.

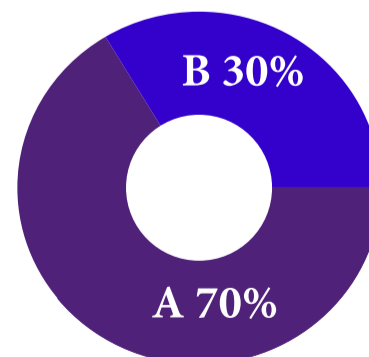




GROUP: II, PAPER: 9, Part- ii
OPERATIONS
MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Strategic Management

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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. **What is likely to be the effect of a logical corporate strategy but poor strategy implementation.**
 - A. Strategic weaknesses and underachievement
 - B. Fragmented performance through strategic and structural flaws
 - C. Structural and stylistic flaws
 - D. Effectiveness but little efficiency

Answer: C
2. **The competencies or skills that a firm employ to transform inputs into outputs are:**
 - A. Tangible resources
 - B. Intangible resources
 - C. Organizational capabilities
 - D. Reputational resources

Answer: C
3. **A company's ability to meet its short-term financial obligations is measured by which of the following categories?**
 - A. Liquidity ratios
 - B. Profitability ratios
 - C. Activity ratios
 - D. Leverage ratios

Answer: A
4. **_____ is the collection of managerial decisions and actions that determine the long-run performance of an organization**
 - A. Planning
 - B. Goal-oriented management
 - C. Strategic management
 - D. Leadership

Answer: C
5. **Why is strategic management important?**
 - A. It has little impact on organizational performance
 - B. It is involved in many of the decisions that managers make
 - C. Most organizations do not change
 - D. Organizations are composed of similar divisions and functions

Answer: B
6. **_____ and _____ are outcomes from a study of the external environment**
 - A. Threats and Weaknesses
 - B. Strengths and Weaknesses
 - C. Weights and Measures
 - D. Opportunities and Threats

Answer: D
7. **In the strategic marketing process, once you get results you go into the:**
 - A. Control phase
 - B. Marketing plan
 - C. Planning phase
 - D. Marketing program

Answer: A
8. **Aggregating prospective buyers into groups is called:**
 - A. Market categorization
 - B. Market segmentation
 - C. Modeling
 - D. BCG matrix analysis

Answer: B

9. One key to effective implementation is setting:

- A. Schedule of events
- B. Deadlines
- C. Milestones
- D. Good managers in motion

Answer: D

10. Which of these is not a reason for why employees resist the implementation of strategic changes?

- A. Anxiety regarding jobs
- B. Lack of necessary strategic resources
- C. Lack of knowledge
- D. Poor strategic leadership

Answer: B

11. Which of these are characteristic of matrix structures?

- A. Decentralization and co-ordination
- B. Centralization and co-ordination
- C. Decentralization and control
- D. Centralization and control

Answer: A

12. What is an emergent strategy?

- A. One with clear objectives leading to a clear strategy
- B. One with no specific objectives, that is fully flexible, using opportunism to seize the main chance at the right moment
- C. One with a formal approach to adaptive strategy creation, so that in a turbulent environment objectives and strategies can be adjusted
- D. One that has a clear mission and directional objectives but that also recognizes the need for flexibility

Answer: B

13. Explosive growth cannot be maintained indefinitely. Sooner or later, the rate of growth slows and the industry enters the:

- A. Embryonic stage
- B. Growth stage
- C. Shakeout stage
- D. Maturity stage

Answer: C

14. What is an incremental strategy?

- A. One that is formalized from the beginning and adhered to along the way exactly
- B. One that evolves according to past experiences and changing circumstances
- C. One that is formalized, but is slightly flexible if necessary
- D. One that has the potential to open up new opportunities along the way which can be incorporated into the long term strategy

Answer: B

15. What must the strategic visionary leader avoid in order to ensure the prolonged success of a strategy?

- A. Becoming blinkered by the success of one strategy to the detriment of others
- B. Depending too heavily on colleagues
- C. Becoming too ambitious
- D. Being adaptable

Answer: A



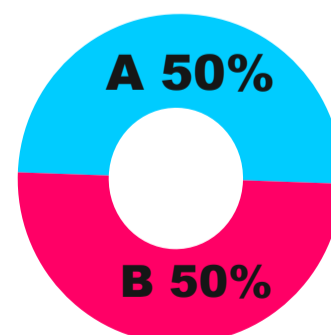
GROUP: II, PAPER:10

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.

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

The following standards have been set to manufacture a product :

Direct Material	Rs.
2 units of A @ Rs.4 per unit	8.00
3 units of B @ Rs.3 per unit	9.00
15 units of C @ Rs.1 per unit	15.00
	32.00
Direct Labour : 3 hrs @ Rs.8 per hour	24.00
Total standard prime cost	56.00

The company manufactured and sold 6,000 units of the product during the year. Direct material costs were as follows :

12,500 units of A at Rs.4.40 per unit
18,000 units of B at Rs.2.80 per unit
88,500 units of C at Rs.1.20 per unit

The company worked 17,500 direct labour hours during the year. For 2,500 of these hours, the company paid at Rs.12 per hour while for the remaining, the wages were paid at standard rate.

What shall be the :-

Reg. MATERIAL

- 1) Total Actual Cost of Material : (a) Rs.2,11,500 (b) Rs.2,11,600 (c) Rs.2,11,700 (d) Rs.2,11,800
- 2) Standard Cost of Actual Production (SCAP) : (a) Rs.1,89,000 (b) Rs.1,90,000 (c) Rs.1,91,000 (d) Rs.1,92,000
- 3) Standard Cost of Actual Quantity used : (a) Rs.1,92,500 (b) Rs.1,92,600 (c) Rs.1,92,700 (d) Rs.1,92,800
- 4) Price variance in respect of material 'C' : (a) Rs.17,400 A (b) Rs.17,500 F (c) Rs.17,600 F (d) Rs.17,700 A
- 5) Usage variance in respect of material 'B' : (a) Rs.2,000 A (b) Rs.NIL (c) Rs.2,000 F (d) Rs.1,500 F
- 6) Cost Variance : (a) Rs.19,300 (b) Rs.19,400 (c) Rs.19,500 (d) Rs.19,600 A

Reg. LABOUR

- 7) Total Actual Cost of Labour : (a) Rs.1,50,000 (b) Rs.1,55,000 (c) Rs.1,60,000 (d) Rs.1,65,000
- 8) Standard Cost of Actual Hour : (a) Rs.1,37,000 (b) Rs.1,38,000 (c) Rs.1,39,000 (d)

- Rs.1,40,000
- 9) Standard Cost of Actual Production (SCAP) : (a) Rs.1,44,000 (b) Rs.1,45,000 (c) Rs.1,46,000 (d) Rs.1,47,000
- 10) Standard Hour (SH) of Actual Production : (a) 16,500 Hrs. (b) 17,000 Hrs. (c) 17,500 Hrs. (d) 18,000 Hrs.
- 11) Standard Cost per unit : (a) Rs.23 (b) Rs.24 (c) Rs.25 (d) Rs.26
- 12) Wage Rate Variance : (a) Rs.10,000 A (b) Rs.10,000 F (c) Rs.10,200 A (d) Rs.10,200 F
- 13) Efficiency Variance : (a) Rs.3,800 F (b) Rs.3,800 A (c) 4,000 F (d) 4,000 A
- 14) Labour Cost Variance : (a) Rs.5,500 F (b) Rs.5,500 A (c) Rs.6,000 F (d) Rs.6,000 A

Answer :

- 1) (b) Rs.2,11,600 2) (d) Rs.1,92,000 3) (a) Rs.1,92,500
 4) (d) Rs.17,700 A 5) (b) NIL 6) (d) Rs.19,600 A
 7) (a) Rs.1,50,000 8) (d) Rs.1,40,000 9) (a) Rs.1,44,000
 10) (d) 18,000 Hrs. 11) (b) Rs.24 (Rs.8x3 Hrs.) 12) (a) Rs.10,000 A
 13) (c) Rs.4,000 F 14) (d) Rs.6,000 A

Steps for Solution for both Question 1 and 2 :

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

Working Notes :**(1) Actual Cost**

	Qty (units)	Rate(Rs.)	Amount(Rs.)
A	12,500	4.40	55,000
B	18,000	2.80	50,400
C	88,500	1.20	1,06,200
			Rs.2,11,600

(2) Std Cost of Actual Production (SCAP)

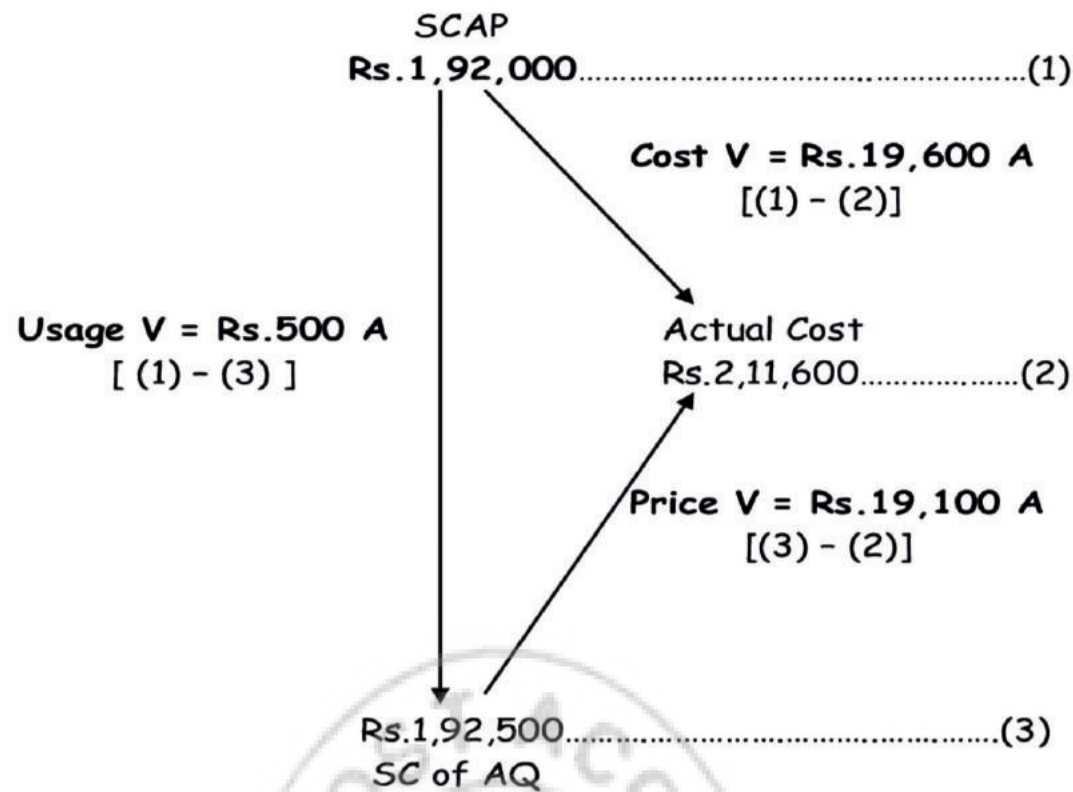
Material	Qty (units)	Rate(Rs.)	Amount(Rs.)
A	2x6,000 i.e. 12,000	4	48,000
B	3x6,000 i.e. 18,000	3	54,000
C	15x6,000 i.e. 90,000	1	90,000
			Rs.1,92,000

(3) SC of Actual Quantity Used (SC of AQ)

Material	Actual	SR(Rs.)	Amount(Rs.)
A	12,500	4	50,000
B	18,000	3	54,000
C	88,500	1	88,500
			Rs.1,92,500

Solution :

Basic data : Actual Production (AP) = 6,000 units



Note : Cost V = Price V + Usage V

Details :

(Amount in Rupees)

Price V = Std Cost of AQ - Actual Cost

A	50,000 - 55,000	=	5,000 A
B	54,000 - 50,400	=	3,600 F
C	88,500 - 1,06,200	=	17,700 A
			Rs.19,100 A

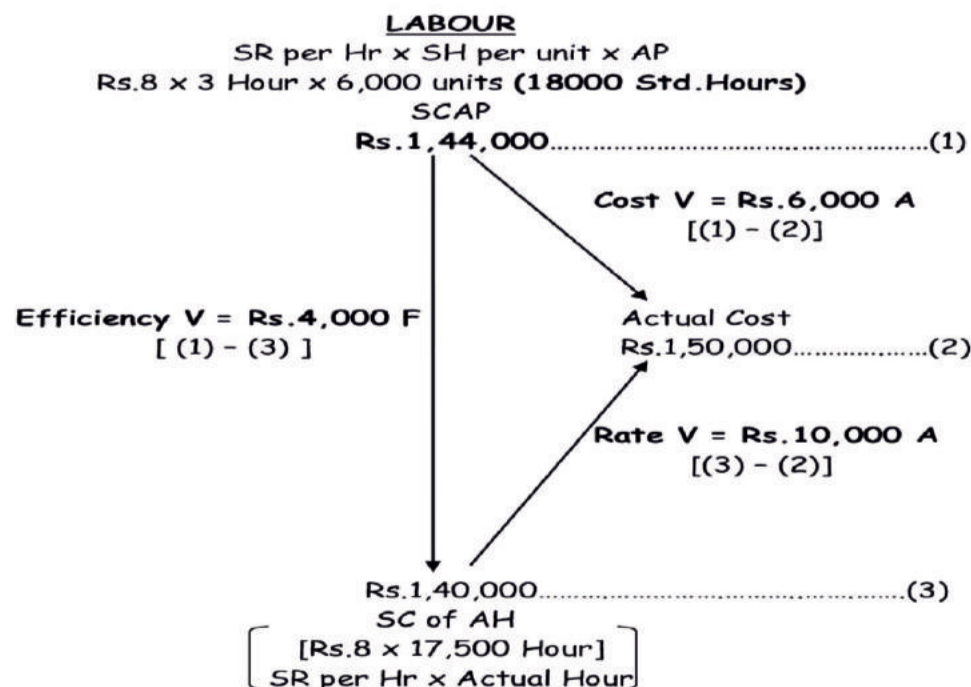
Usage V = Std Cost of AP - Std Cost of AQ

A	48,000 - 50,000	=	2,000 A
B	54,000 - 54,000	=	NIL
C	90,000 - 88,500	=	1,500 F
			Rs.500 A

LABOUR :

Solution with Working Notes :

Actual Cost		
Rate (Rs.)	Hours	Amount(Rs.)
12	2,500	30,000
8	15,000	1,20,000
	17,500	Rs. 1,50,000



Note : Cost V = Rate V + Efficiency V

Question No. - 1 (Comprehensive Fixed overhead Variance)

The following data is available from the Cost Books of a manufacturing Co. producing a single product.

	Standard	Actual
Production	5000 units	4800 units
Standard Rate (SR) per Hr	Rs.5	
Standard Hour (SH) per unit	8 Hrs.	
Actual Hours (AH) paid for		51000 Hrs.
Idle time		4000 Hrs.
No. of days	20 days	21 days
Actual Fixed Overheads (Actual F.OH)		Rs.2,38,000

What shall be the :-

BASIC COMPUTATIONS

- 1) Budgeted Hour : (a) 39,000 Hrs. (b) 40,000 Hrs. (c) 41,000 Hrs. (d) 42,000 Hrs.
- 2) Budgeted Fixed Overheads : (a) Rs.1,70,000 (b) Rs.1,80,000 (c) Rs.1,90,000 (d) Rs.2,00,000
- 3) Productive Hour (PH) : (a) 45,000 Hr. (b) 46,000 Hr. (c) 47,000 Hr. (d) 48,000 Hr.
- 4) Standard Fixed Overheads for Actual Production (Std F.OH for AP) : (a) Rs.1,92,000 (b) Rs.1,93,000 (c) Rs.1,94,000 (d) Rs.1,95,000

THE FOLLOWING INFORMATION ARE RELEVANT FOR COMPUTATION OF VARIANCES ON 'UNIT' / 'QUANTITY' BASIS

- 5) Standard Rate (SR) per Unit of production : (a) Rs.40 (b) Rs.42 (c) Rs.44 (d) Rs.46
- 6) Standard Quantity (SQ) in Productive Hour (PH) : (a) 5845 units (b) 5855 units (c) 5865 units (d) 5875 units
- 7) Standard Quantity (SQ) in Actual Hours (AH) : (a) 6365 units (b) 6375 units (c) 6385 units (d) 6395 units
- 8) Revised Budgeted Quantity : (a) 5250 units (b) 5260 units (c) 5270 units (d) 5280 units

THE FOLLOWING INFORMATION ARE RELEVANT FOR COMPUTATION OF VARIANCES ON 'HOUR' BASIS.

- 9) Standard Hour (SH) for Actual Production (AP) : (a) 38,300 Hrs. (b) 38,400 Hrs. (c) 38,500 Hrs. (d) 38,600 Hrs.
- 10) Revised Budgeted Hour (RBH) in Actual Days (AD) : (a) 42,000 Hrs. (b) 43,000 Hrs. (c) 44,000 Hrs. (d) 45,000 Hrs.

COMPUTATION OF VARIANCES

- 11) F.OH Cost Variance : (a) Rs.45,000 F (b) Rs.45,000 A (c) Rs.46,000 F (d) Rs.46,000 A
- 12) Expenditure Variance : (a) Rs.38,000 F (b) Rs.38,000 A (c) Rs.40,000 F (d)

- Rs.40,000 A
- 13) Volume Variance : (a) Rs.8,000 A (b) Rs.8,000 F (c) Rs.9,000 F (d) Rs.9,000 A
- 14) Efficiency Variance : (a) Rs.42,000 A (b) Rs.42,000 F (c) Rs.43,000 A (d) Rs.43,000 F
- 15) Idle time Variance : (a) Rs.18,000 A (b) Rs.20,000 A (c) Rs.22,000 A (d) Rs.24,000 A
- 16) Capacity Variance : (a) Rs.44,000 F (b) Rs.44,000 A (c) Rs.45,000 A (d) Rs.45,000 F
- 17) Calender Variance : (a) Rs.10,000 F (b) Rs.10,000 A (c) Rs.11,000 F (d) Rs.11,000 A

Answer :

- 1) (b) 40,000 Hrs. [8 Hr x 5000 units] 2) (d) Rs.2,00,000 [Rs.5 x 8 Hr x 5000 units]
- 3) (c) 47,000 Hrs. [51000 Hrs. - 4000 Hrs.] 4) (a) Rs.1,92,000 [Rs.5 x 8 Hrs. x 4800 units]
- 5) (a) Rs.40 [Rs.5 x 8 Hrs.] 6) (d) 5875 Units
- 7) (b) 6375 Units 8) (a) 5250 Units
- 9) (b) 38400 Hrs. [8 Hrs. x 4800 Units] 10) (a) 42,000 Hrs.
- 11) (d) Rs.46,000 A 12) (b) Rs.38,000 A
- 13) (a) Rs.8,000 A 14) (c) Rs.43,000 A
- 15) (b) Rs.20,000 A 16) (d) Rs.45,000 F
- 17) (a) Rs.10,000 F

Solution with Working Notes :

A) Standard Rate (SR) per Unit of production : Rs.40

$$\left[\frac{\text{Budgeted F.OH}}{\text{Budgeted Production}} \right]$$

$$\left[\frac{\text{Rs.2,00,000}}{5,000 \text{ Units}} \right]$$

B) Standard Quantity in Productive Hrs. (SQ in PH) : 5875 Units

$$\left[\begin{array}{ccc} & \text{Hour} & \text{Qty} \\ \text{Std} & 8 & 1 \\ & 4700 & 5875 \end{array} \right]$$

C) Standard Quantity in Actual Hours paid for (SQ in AH) : 6375 Units

$$\left[\begin{array}{ccc} & \text{Hour} & \text{Qty} \\ \text{Std} & 8 & 1 \\ & 51000 & 6375 \end{array} \right]$$

D) Revised Budgeted Quantity in Actual Days (RBH in AD) : 5250 Units

$$\left[\begin{array}{ccc} & \text{Days} & \text{Qty} \\ \text{Std} & 20 & 5000 \\ & 1 & 250 \\ & 21 & 5200 \end{array} \right]$$

E) Standard Hour for Actual Production (SH for AP) : 38400 Hrs.

$$\left[\begin{array}{ccc} & \text{Qty} & \text{Hour} \\ \text{Std} & 1 & 8 \\ & 4800 & 38400 \end{array} \right]$$

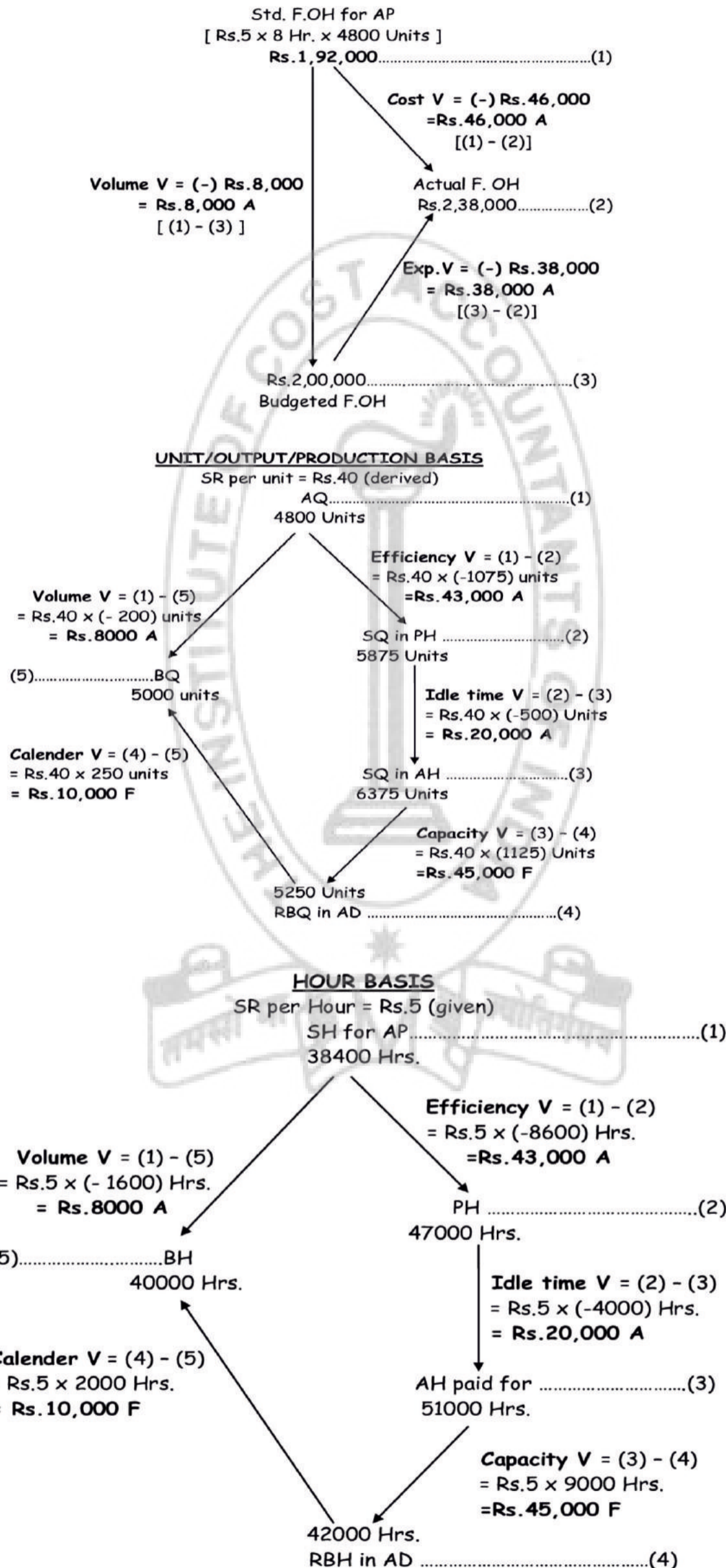
F) Revised Budgeted Hours in Actual Days (RBH in AD) : 42,000 Hrs.

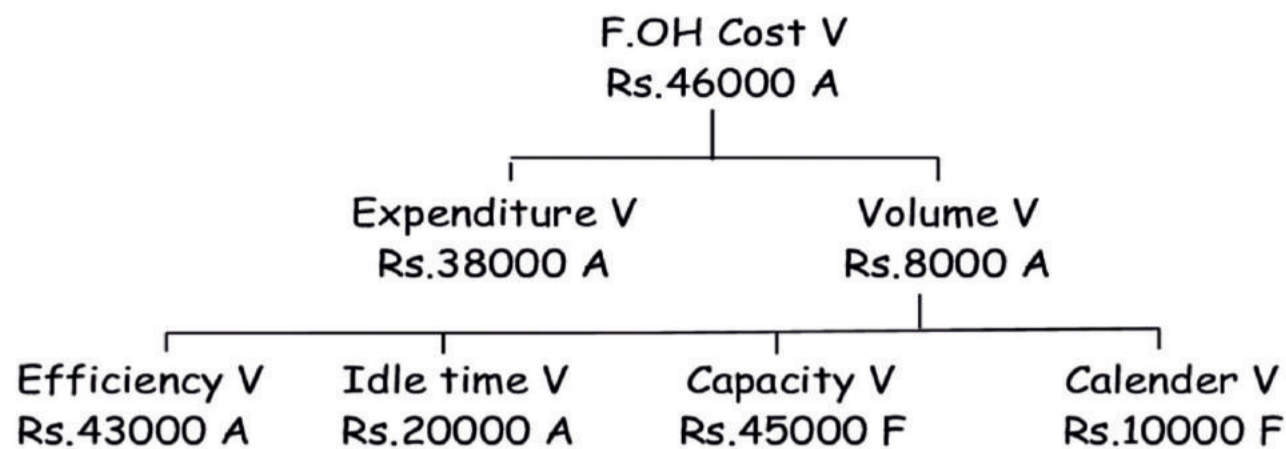
$$\left[\begin{array}{ccc} & \text{Days} & \text{Hour} \\ \text{Std} & 20 & 40000 \\ & 1 & 2000 \end{array} \right]$$

21 42000

SOLUTION

Basic data : Actual Production = 4800 Units.



RECONCILIATIONSolution through diagrams

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

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

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

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

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

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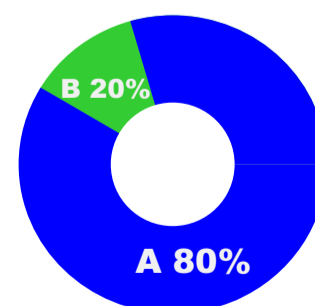


GROUP: II, PAPER:11

INDIRECT TAXATION (ITX)

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Asstt. Professor,
Scottish Church College
She can be reached at:
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

CREDIT NOTE IN GST.**What is a reverse charge mechanism?**

Usually, the supplier of goods or services pays the tax on supply. In a reverse charge, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed.

When is a reverse charge applicable?

Section 9(3), 9(4) and 9(5) of Central GST and State GST Acts govern the reverse charge scenarios for intrastate transactions. Also, sections 5(3), 5(4) and 5(5) of the Integrated GST Act govern the reverse charge scenarios for inter-state transactions. Let's have a detailed discussion regarding these scenarios:

A. Supply of certain goods and services specified by the CBIC- As per the powers conferred in section 9(3) of CGST Acts, CBIC has issued a list of goods and services on which reverse charge is applicable.

B. Supply from an unregistered dealer to a registered dealer- Section 9(4) of the CGST Act states that if a vendor is not registered under GST supplies goods to a person registered under GST, then reverse charge would apply. This means that the GST will have to be paid directly by the receiver instead of the supplier. The registered buyer who has to pay GST under reverse charge has to do self-invoicing for the purchases made.

In intra-state purchases, CGST and SGST have to be paid under reverse charge mechanism (RCM) by the purchaser. Also, in the case of inter-state purchases, the buyer has to pay the IGST. The government notifies the list of goods or services on which this provision gets attracted from time to time.

The RCM in case of supplies made by unregistered persons to registered persons deferred to 30th September 2019. Previously, this provision was applicable from 1st October 2018. In the real estate sector, the government notified that the promoter should buy inward supplies to the extent of 80% from registered suppliers only. Suppose the purchases from registered dealers shortfall 80%; then the promoter should GST at 18% on the reverse charge to the extent short of 80% of inward supplies. However, if the promoter purchases cement from an unregistered supplier, he must pay tax at 28%. This calculation is to be done irrespective of the 80% calculation. The promoter is liable to pay GST on reverse charge basis on TDR or floor space index supplied on or after 1st April 2019. Even if a landowner is not engaged in a regular business of land-related activities, transfer of development rights by such an individual to the promoter is liable to GST as it is considered as supply of service under section 7 of CGST Act. Also, in case of outward supply of TDR by one developer to another, GST is applicable at 18% on reverse charge.

C. Supply of services through an e-commerce operator- All types of businesses can use e-commerce operators as an aggregator to sell products or provide services. Section 9(5) of the CGST Act states that if a service provider uses an e-commerce operator to provide specified services, the reverse charge will apply to the e-commerce operator and he will be liable to pay GST. This section covers the services such as:

Transportation services to passengers by a radio-taxi, motor cab, maxi cab and motorcycle. For example -Ola and Uber. Providing accommodation services in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes, except where the person supplying such service through electronic commerce operator is liable for registration due to turnover exceeding the threshold limit. For example - Oyo and MakeMyTrip.

Housekeeping services, such as plumbing and carpentering, except where the person supplying such services through electronic commerce operators are liable for registration due to turnover beyond the threshold limit. For example, UrbanClap provides the services of plumbers, electricians, teachers, beauticians etc. In this case, UrbanClap is liable to pay GST and collect it from the customers instead of the registered service providers. Also, suppose the e-commerce operator does not have a physical presence in the taxable territory. In that case, a person representing such an electronic commerce operator will be liable to pay tax for any purpose. If there is no representative, the operator will appoint a representative who will be held liable to pay GST.

Time of supply under RCM

A. Time of supply in case of goods- In case of reverse charge, the time of supply for goods shall be the earliest of the following dates:

- the date of receipt of goods
- the date of payment*
- the date immediately after 30 days from the date of issue of an invoice by the supplier

If it is not possible to determine the time of supply, the time of supply shall be the date of entry in the books of account of the recipient.

*This point is no more applicable based this Notification No. 66/2017 - Central Tax issued on 15th November 2017

Illustration:

Date of receipt of goods 15th May 2021, Date of invoice 1st June 2021, Date of entry in books of receiver 18th May 2021. The time of supply of service, in this case, will be 15th May 2021.

B. Time of supply in case of services- In case of reverse charge, the time of supply shall be the earliest of the following dates:

- The date of payment
- 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, the time of supply shall be the date of entry in the books of account of the recipient.

Illustration:

Date of payment 15th July 2021, Date immediately after 60 days from the date of issue of the invoice (Suppose the date of the invoice is 15th May 2021, then 60 days from this date will be 14th July 2021)

Date of entry in books of receiver 18th July 2021, The time of supply of service, in this case, will be 14th July 2021

who should pay GST under the RCM?

As per provisions of GST law, the person supplying the goods must mention in the tax- invoice whether tax is payable under the RCM.

The following points should be kept in mind while making GST payments under RCM:

- The recipient of goods or services can avail of the ITC on the tax amount paid under RCM only if such goods or services are used for business or furtherance of business.
- A composition dealer should pay tax at the normal rates and not the composition rates while discharging liability under RCM. Also, they are ineligible to claim any input tax credit of tax paid.
- GST compensation cess can apply to the tax payable or paid under the RCM.

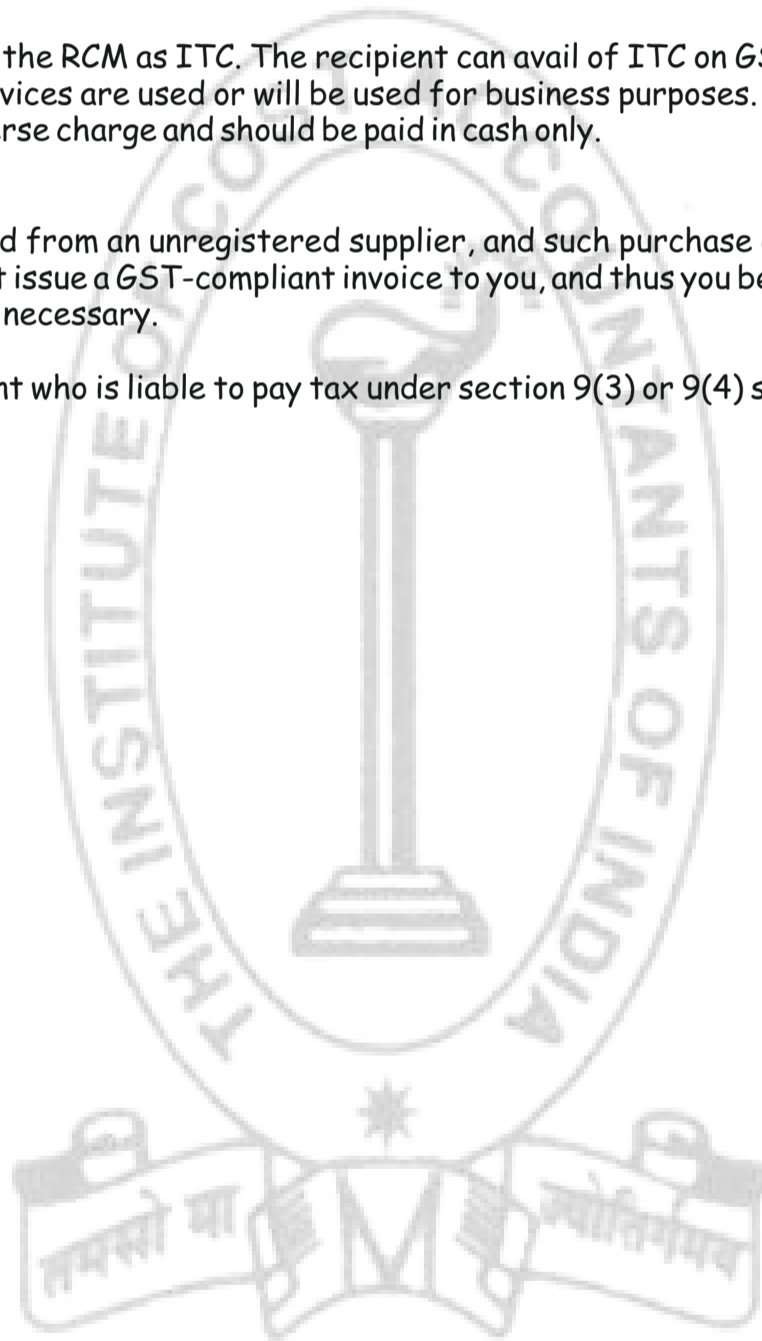
Input Tax Credit (ITC) under RCM

A supplier cannot take the GST paid under the RCM as ITC. The recipient can avail of ITC on GST amount paid under RCM on receipt of goods or services, only if such goods or services are used or will be used for business purposes. The recipient cannot use the ITC to pay output GST on goods or services under reverse charge and should be paid in cash only.

What is self invoicing?

Self-invoicing is to be done when purchased from an unregistered supplier, and such purchase of goods or services falls under reverse charge. This is because your supplier cannot issue a GST-compliant invoice to you, and thus you become liable to pay taxes on their behalf. Hence, self-invoicing, in this case, becomes necessary.

Also, section 31(3)(g) states that a recipient who is liable to pay tax under section 9(3) or 9(4) shall issue a payment voucher at the time of making payment to the supplier.

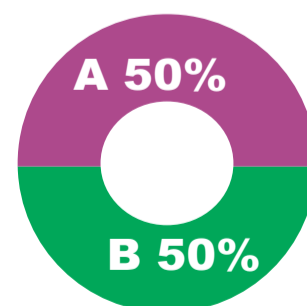




GROUP: II, PAPER:12
COMPANY
ACCOUNTS & AUDIT (CAA)

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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**1. What are the differencing points in between internal audit and statutory audit?**

Ans:-

Particulars	Internal Audit	Statutory Audit
1.Objectives	Internal audit is to fulfill the need of managements	Whereas Statutory audit is to fulfill the need of proprietors .
2.Auditor	Carried out by a firm or own staff	But, Statutory auditors should be CA/CMA
3.Approach	Ensure that accounting system is efficient or not	Statutory audit approach is present to true and fair view to the shareholders.
4.Remuneration	In case of internal audit, remuneration fixed by Internal audit.	In case of statutory audit remuneration fixed by shareholders.
5.Dependent	Dependent on the management	But statutory audit is independent of the management
6. Power on Management	The duties of internal audit may be reduces by management ,	But management don't have power to reduce to statutory auditors duties
7.period	Internal audit is carried by continuously	Statutory audit is carried on periodically
8.Working system	Examination work is quite detailed	But, in statutory audit using testing technique on the basis of random sampling.
9.Reporting	Should be report to the management	But, statutory auditors submit to the report to shareholders.

2.How far Internal audit may rely on statutory audit?

Ans:- The internal audit doing a huge support to the statutory auditors but it is not substitute for the final audit. The extent to which the statutory auditors should depend upon would differ from case to case. Statutory audit reliance on internal audit but statutory auditors having some responsibilities to shareholder and must be exercise carefully and details and cannot depend on internal auditor

In case of statutory auditors curtails the extent of his checking , putting reliance on the work of internal auditor responsibilities for any deficiency in the financial statement , that may remain undetected.

Before statutory auditors at any conclusion regarding the degree of reliance to be placed upon the internal audit , he should be probe the following facts

- He should ascertain the efficiency of the internal auditor , examine the audit programme and report etc.
 - He should find out the experience and qualification to the internal audit and his staff.
 - He should find out the authority to appointed to internal auditor.
- Thus the examination of internal auditors is usefulness but statutory auditors can not depend on his report , should be apply his own process for auditing . however there is need for a co-operation between internal and statutory auditors.

3.What are the recent trends of internal audit?

Ans:-Internal audit is in the process of evolution ,through at a faster rate. Several trends are visible in this area

- There is an increasing emphasis that the internal audit should serve the organization as a whole and not merely to the management.

- ii. It is not simply concerned with audit of compliance with internal or external procedures and regulations but , in fact it is more concerned with the appraisal of efficiency and effectiveness.
- iii. Internal audit is giving due emphasis to the risk management and more audit efforts is being extended at the pre-event stage
- iv. This audit is now more concerned to reviewing the corporate attitudes
- v. Internal auditors are now required to undertake participative auditing and have to adopt the team-work approach for this purpose.
- vi. The tread towards professionalization of internal auditing is very strong and efforts are being made to develop a full-fledged professional body.

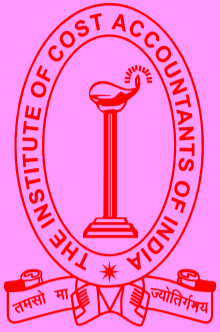
4.State the fundamental operation of internal audit.

Ans:-An independent appraisal activity within an organization for the review of management . It is managerial control , which functions by measuring and evaluating the effectiveness of other control.

There are twelve fundamental operations of internal audit , which are as follows :

- a) A service to management
- b) Provides assurance of an effective system of internal control that is not excessive
- c) Ensure a reliable basis for production of accounts and statement of trading
- d) Policies the operation of establish procedures and policies and see that they are adequate not wasteful and are observed
- e) Draws attention to deficiencies
- f) In the system, control, practice etc
- g) Funds inefficiencies
- h) Suggest remedies and improvement
- i) Needs status and independence
- j) Staff need training , objective judgment and experience
- k) Looks beyond mere accounting functions.





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

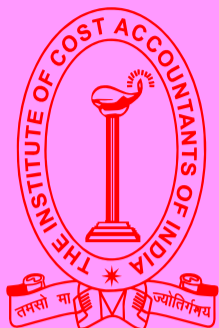
03

Assess Yourself

Appear For Examination

04

FINISHED



SUBMISSIONS



Update of E-Mail Address/Mobile:

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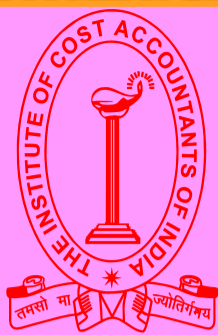
We are very much delighted to receive responses from all of you; for whom our effort is!

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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Message from Directorate of Studies

Dear Students,

Passing the exam is a happy event. Congratulations on all that you have accomplished! There is no secret of success. It is the result of preparation, hard work and learning from failure. Well done! It is clear that the future holds great opportunities for you.

Those who could not pass, failing in an exam does not mean failing in life. All of us face failure at one time or another. Try to focus your attention on the importance of perseverance and mind it that dedication and determination plays the lead role in shaping a person's life.

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!

The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.

GOOD LUCK

Be Prepared and Get Success;

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Excellent Campus Placement Record
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Highest Salary Offered **Rs.18 Lakh p.a.** | Average Salary **Rs.7.5 Lakh p.a.**

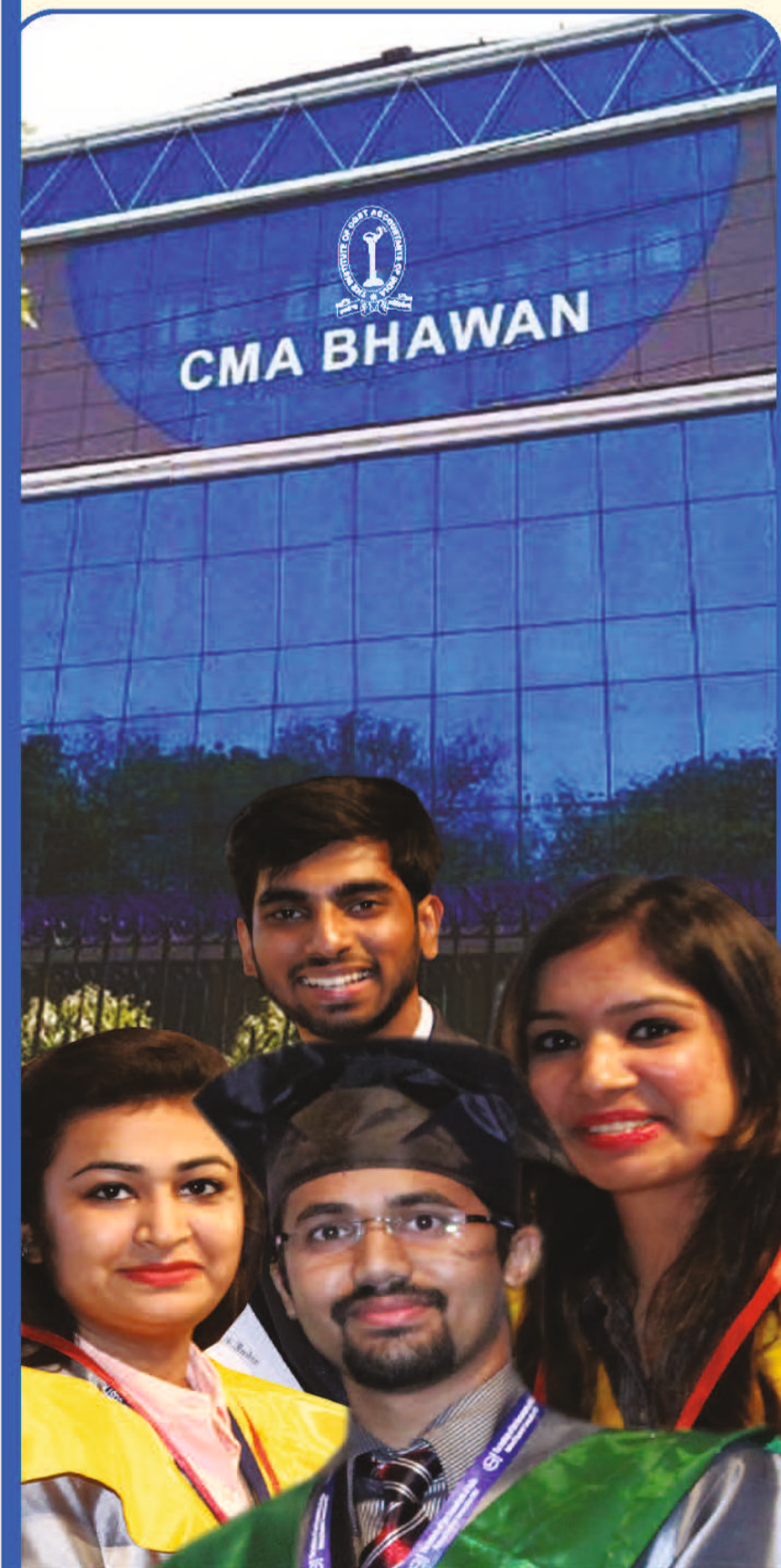
Few of Our Proud Recruiters



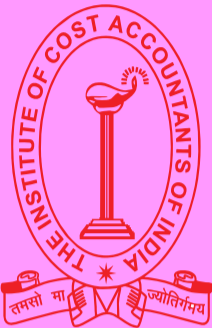
✉ placement@icmai.in / cpt@icmai.in

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



Few Snapshots



Glimpses of the Child Literacy Program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 24.09.2021 at CMA Bhawan, New Delhi.



Glimpses of Swachhta Abhiyan program organised by the Institute to commemorate Azadi Ka Amrit Mahotsav on 01.10.2021 at CMA Bhawan, New Delhi.



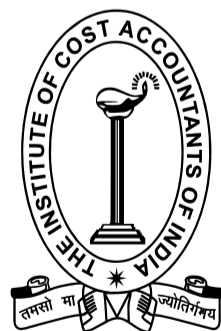
CMA P. Raju Iyer, Vice-President along with CMA Neeraj Joshi, Council Member of the Institute and CMA B.B. Goyal, Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI, extending greetings to Shri Arun Goel, IAS, Secretary to the Government of India, Ministry for Heavy Industries during a meeting on 1st October, 2021 to submit a detailed representation relating to Cost Audit in the notified PLI Scheme for Automotives and Auto Components.



CMA (Dr.) Ashish P. Thatte, Chairman, Corporate Laws Committee along with CMA Neeraj D. Joshi, Chairman, Management Accounting Committee extending greetings to Shri Narayan Tatu Rane, Hon'ble Union Minister for Micro, Small and Medium Enterprises on 2nd August, 2021



CMA P. Raju Iyer, Vice President along with CMA Chittaranjan Chattopadhyay, Chairman BFSI Board & Indirect Taxation Committee of the Institute and CMA B.B. Goyal, Advisor, ICWAI MARF & Former Addl. Chief Adviser (Cost), Ministry of Finance, GoI extending greetings to CMA (Dr.) Manoj Anand, Whole Time Member (Finance), Pension Fund Regulatory and Development Authority (PFRDA) on 25.08.2021.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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