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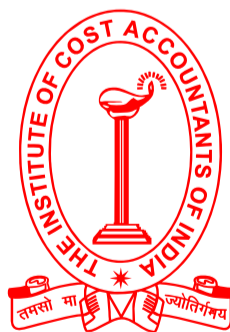
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# CMA Student E - Bulletin

# INTERMEDIATE

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Ph: 091-33-2252 1031/34/35/1602/1492

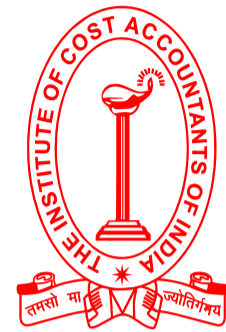
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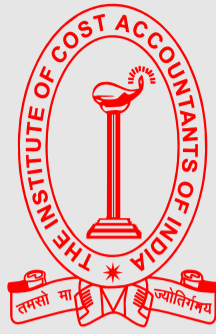
Behind every successful business decision, there is always a **CMA**



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# KNOWLEDGE Update



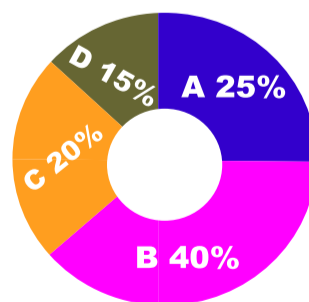
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

**CMA (Dr.) Nibir Goswami**  
Associate Professor in Commerce  
Vidyasagar Mahavidyalaya, W.B.  
He can be reached at:  
[drnibirgoswami@gmail.com](mailto:drnibirgoswami@gmail.com)

# 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**

Life is such - full of problems and uncertainties. In fact that makes life beautiful. Life indeed would have been dull unless there is no problem. Following are some of morale boosters to give up negative thoughts and accept the challenges with smile.

1. "When you have a dream, you've got to grab it and never let go."  
— **Carol Burnett**
2. "There is nothing impossible to they who will try."  
— **Alexander the Great**
3. "The bad news is time flies. The good news is you're the pilot."  
— **Michael Altshuler**
4. "Life has got all those twists and turns. You've got to hold on tight and off you go."  
— **Nicole Kidman**
5. "Keep your face always toward the sunshine, and shadows will fall behind you."  
— **Walt Whitman**

Now let us solve the following problems :

1. consider the following activities connected with the accounting information system
  - a. preparation of the table of accounting
  - b. communication of accounting information
  - c. preparation of accounting information report
  - d. collection of accounting data
 the correct sequence of these activities
  - a. 4 1 3 2
  - b. 1 4 3 2**
  - c. 4 3 1 2
  - d. 1 2 4 3
2. which one of the following is the ingredient of the entity convention of accounting
  - a. the owner of a unit and the unit itself is one and the Same**
  - b. the owner and the unit treated separately
  - c. no separate accounts for the unit is required
  - d. the unit is a private affair of the owner and no accounting is required
3. legal expenses incurred to defend a suit for breach of contract to supply goods will be treated as
  - a. Capital expenditure
  - b. Revenue expenditure**
  - c. Deferred Revenue expenditures
  - d. None of the above
4. choose the wrong statement
  - a. Any expenditure is unreasonably large is capital expenditure**
  - b. Any expenditure intended to benefit the current period is revenue expenditure
  - c. capital expenditure is any expenditure which is benefitting future period
  - d. amount paid for acquiring goodwill is capital expenditure
5. amount spent on advertisement campaign, the benefit of which is likely to last for three years is a
  - a. Capital expenditure
  - b. Revenue expenditure
  - c. Deferred Revenue expenditures**

- d. None of the above
6. valuation of inventory is dealt with in  
a. AS - 1  
**b. AS - 2**  
c. AS - 3  
d. AS - 4
7. Accounting Standard on inventory valuation is not applicable to  
a. Construction contract  
b. Inventories of livestock, agricultural and forest product  
c. Stocks of mineral oils ores and gases  
**d. All of the above**
8. Cost of inventories includes  
a. Direct material plus direct expenses  
b. Direct labour plus direct expenses  
**c. All costs of purchase cost of conversion and other costs incurred bringing the inventories to their present location and condition**  
d. Direct material only
9. According to AS - 6 "Depreciable Assets" are assets which  
a. Are expected to be used during more than one accounting period  
b. Have a limited useful life  
c. Are held by an enterprise for use in the production or supply of goods and services , for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business  
**d. All of the above**
10. Match list I and List II and select the correct answer using the codes given below:

List - I - Types of assets	List - II- Example of assets				
a. fixed assets	I Discount on issue of shares, preliminary expenses				
b. intangible assets	II. Timberlands, mineral deposits, oil reserves				
c. wasting assets	III. Goodwill, patents, trade marks etc.				
d. Fictitious assets	IV. Plant and machinery, building etc.				
Codes	A	b	c	d	
a	<b>IV</b>	<b>III</b>	<b>II</b>	<b>I</b>	
b	I	II	III	IV	
c	II	I	III	IV	
d	IV	III	I	II	

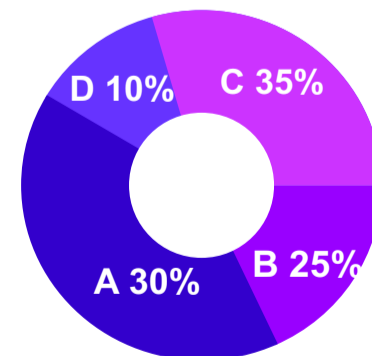
11. Choose the wrongly matched pair out of the following:  
a. Trading and profit and loss account : Income statement  
b. Balance sheet : Position statement  
c. Financial statements: Final accounts  
**d. Funds flow statement: Cash flow statement**
12. In a period of inflation which of the following inventory methods would be considered suitable by an accountant?  
**a. LIFO**  
b. FIFO  
c. Average cost  
d. Standard cost



**GROUP: I, PAPER: 6**  
**LAWS & ETHICS**  
**(LNE)**

CA Partha Ray  
He can be reached at:  
[prapray@rediffmail.com](mailto:prapray@rediffmail.com)

# 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**

**Managing Director**

Sec.2(54) of the Companies Act, 2013 provides that - Managing Director (MD) means a director who, by virtue of -

- the articles of a company or an agreement with the company or a resolution passed in its general meeting, or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company and
- includes a director occupying the position of managing director, by whatever name called.
- 

Managing Director is entrusted with substantial powers to manage the affairs of the company. The Managing Director- is the Chief Executive Officer (CEO) of the company and he/she continues to operate with the terms of reference set by the Board of Directors and the Board remains superior to the Managing Director. It may be noted that the Managing Director has a significant role in managing the affairs of the company and is recognized as Key Management Personnel (KMP) under **Section 2(51)**.

**Whole time director**

As per the Companies Act, 2013, a "Whole-time director" includes a director in the whole-time employment of the company. Depending on the nature of business and functions of the company, the company vests necessary power to whole-time director. It is relevant to note that **a whole-time employee, when appointed as a director of the company, will be occupying the position as the whole-time director.**

**First Directors are those** Directors specified in the articles at the time of incorporation. In case the it is not specified then, in that case, majority of memorandum subscribers as per Table F and if Table F is not applicable then all the subscribers are first directors. **They are appointed till the company appoints subsequent directors.**

**Appointment of Directors**

According to Section 2(34) of Companies Act, 2013 a director is a person who is appointed as director in the company.

**Minimum number of directors:** In case of public company it is

3(three), in case of Private company it is 2 (two) and in case of One person company it is 1(One). Though articles of the company might specify for a higher number.

**Maximum number of directors** - A company can have a maximum of 15 directors, but more directors can be appointed after passing a special resolution. Requirement of special resolution is not needed in government company and company licenced under **Section 8** subject to laid condition.

It may be noted that the Central Government may prescribe class/classes of a company to have a **minimum of one Women Director**. Every company is also required to have a minimum of one director who has stayed in India in the previous year for a period of 182 days or more.

A listed company is required to have one director who should be elected by small shareholders as per **Sec.151** of the Companies Act, 2013. Small shareholders in this context are referred to shareholders holding shares of maximum Rs. 20,000 in value.

**Rotation of Directors**

Retirement of the directors through Annual Rotation can be prescribed by the company in the Articles. In case the Articles does not so prescribe, only one-third of the directors can be given a permanent appointment. The tenure of the remaining 2/3<sup>rd</sup> must be determined by rotation.

At an Annual General Meeting (AGM), one-third of such directors will leave/retire. In this case, the directors who were appointed first and have remained in the office for the longest period shall retire in the first place.

In this context, it may be noted that, when two or more directors have been in the office for an equal period of time, their retirement will be determined by mutual agreement, or by a lot.

**Re-appointment of Director - Section 152**

The vacancies created to the post of Directors should be filled up at the same general meeting. The general meeting may adjourn the reappointment for a week. When the meeting resembles and no fresh appointment is made and where there is any resolution for the appointment, then the retiring directors are considered to be reappointed.

**The Retired Directors will not be considered to be reappointed when:**

- The appointment of that director was put to the vote but lost.
- If the director who is retiring has intimated to the



- Board in writing that he is unwilling to continue.
- iii. If he is disqualified.
  - iv. When an ordinary or special resolution is required for his appointment.
  - v. When a motion for appointment of two or more directors by a single resolution is void due to being passed without unanimous consent under section 162.

**Director Identification Number (DIN)** is a unique number allotted by the Central Government to any person intending to be a Director or an existing director of a company.

**DIN is an Eight (8) Digit Unique Number** that is allotted to a specific person and has Lifetime Validity. Details of such a person/director are maintained in a database. Even if a person is Director in 2(two) or more companies, he /she simply needs to have only one DIN. Therefore, if that director leaves a company and joins another company, the same DIN would work in the other company.

**Usage of DIN** - Whenever a return, an application or any information related to a company is to be submitted under any law, the director signing such return, application or information will have to mention his DIN underneath his signature.

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

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

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

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

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

**Vacation of office of a director**

Sec.167(1). Vacation of office of director, provides that -  
The office of a director shall become vacant in case -

- (a) he incurs any of the disqualifications specified in section 164;
- (b) he absents himself from all the meetings of the Board of

Directors held during a period of 12 (twelve) months with or without seeking leave of absence of the Board;

(c) he acts in contravention of the provisions of section 184 relating to entering into contracts or arrangements in which he is directly or indirectly interested;

(d) he fails to disclose his interest in any contract or arrangement in which he is directly or indirectly interested, in contravention of the provisions of section 184;

(e) he becomes disqualified by an order of a court or the Tribunal;

(f) he is convicted by a court of any offence, whether involving moral turpitude or otherwise and sentenced in respect thereof to imprisonment for not less than 6 (six) months;

Provided that the office shall be vacated by the director even if he has filed an appeal against the order of such court;

(g) he is removed in pursuance of the provisions of this Act;

(h) he, having been appointed a director by virtue of his holding any office or other employment in the holding, subsidiary or associate company, ceases to hold such office or other employment in that company.

**Resignation of a director**

As per sec 168(1) of Companies act 2013, a director may resign from his office by:

- a) giving a notice in writing to the company and
- b) the Board shall on receipt of such notice take note of the same ; and
- c) the company shall intimate the Registrar in such manner, within such time and in such form as may be prescribed and
- d) shall also place the fact of such resignation in the report of directors laid in the immediately following general meeting by the company.

Provided that a director may also forward a copy of his resignation along with detailed reasons for the resignation to the Registrar within thirty days of resignation in such manner as may be prescribed.

**Register of Directors and Key Management Personnel (KMP)**  
**170 (1) Register of directors and key managerial personnel and their shareholding**

Sec. 170(1) provides that :

Every company shall keep at its registered office a register containing such particulars of its directors and key managerial personnel as may be prescribed, which shall include the details of :

securities held by each of them in the company or its holding, subsidiary, subsidiary of company's holding company or associate companies.

**Sec.170(2)** provides that every company shall keep at its registered office :

A return containing such particulars and documents as may be prescribed, of the directors and the key managerial personnel;

The Return shall be filed with the Registrar within 30 (thirty) days from the appointment of every director and key managerial personnel, as the case may be, and within 30 (thirty) days of any change taking place.

**Return in Form No. DR - 12**

This Form DIR-12 has to be filed with the particulars of appointment of directors and key managerial personnel and the changes among them.

**The following details have to be entered in Form DIR-12:**

- ✓ Details of the company.
- ✓ Details regarding the number of directors, managers

etc.

- ✓ The date of cessation or the date of appointment, as the case may be.
- ✓ Respective DINs and DSCs to be affixed wherever necessary.

**The following Attachments** are need along with Form DIR-12 :

1. Declaration of the director to be appointed.
2. In case of removal / resignation -
  - a. Notice of resignation.
  - b. Evidence of cessation.
3. Any other optional attachments.



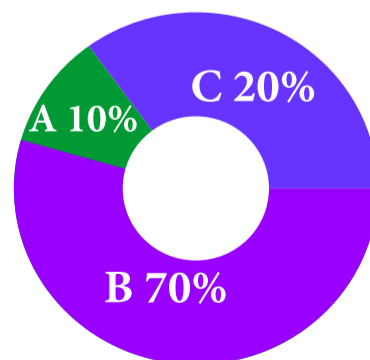


GROUP: I, PAPER: 7

# DIRECT TAXATION (DTX)

CA Vikash Mundhra  
He can be reached at:  
[vikash@taxpointindia.com](mailto:vikash@taxpointindia.com)

## 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.

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

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

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

**Tax Treatments of Gratuity are as under:**

Gratuity received	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(iii)]
2. At the time of retirement to the employee of:	
a. <b>Government</b>	Fully exempted [Sec. 10(10)(i)]
b. <b>Any other Employer</b>	
i. Covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(ii): 1. Actual Gratuity received; 2. ₹ 20,00,000; 3. 15 working days <sup>1</sup> salary <sup>2</sup> for every completed year of service <sup>3</sup> [ <sup>15</sup> / <sub>26</sub> * Completed year of service * Salary p.m.]
ii. Not covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(iii) 1. Actual Gratuity received; 2. ₹ 20,00,000; <sup>1</sup> / <sub>2</sub> * Completed year of service <sup>4</sup> * Average Salary p.m. <sup>5</sup>
1. Seven working days in case of employees of seasonal establishment 2. Salary means Basic + DA (forming part of retirement benefit), last drawn In case of piece-rated employees, salary shall be calculated by applying average of last three months wages immediately preceding his termination. 3. Completed year of service <u>includes</u> any fraction in excess of 6 months. 4. Completed year of service <u>ignores</u> any fraction of month. Average Salary here means, Basic + DA (forming part of retirement benefit) + Commission (as a fixed percentage on turnover) being last 10 months average salary, immediately <u>preceding the month of retirement</u> .	

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

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

**Tax Treatment of leave encashment is as under**

Case	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(va)]
2. At the time of retirement by employee of:	
a. <b>Government</b>	Exempted [Sec.10(10AA)(i) ]

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

**Pension [Sec. 10(10A)]**

Pension, normally means, a periodical payment received by an employee after his retirement. However, on certain occasion, employer allows to withdraw a lump sum amount as the present value of periodical pension. When pension is received periodically by employee, it is known as Uncommuted Pension. On the other hand, pension received in lump sum is known as Commuted pension.

**Tax Treatment of pension is as under**

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

**Illustration**

Mr. Narayan retired from service on 1/6/2021. As on that date, his monthly salary was Basic ₹ 5,000 p.m., Commission on turnover 5%. Total turnover achieved by him during last 10 months (occurred evenly) ₹ 5,00,000. On retirement, after 20 years 6 months of service, he received gratuity ₹ 5,00,000, leave salary ₹ 3,00,000. He is entitled to pension of ₹ 1,500 p.m. On 1/1/2022, he commuted 60% of his pension and received ₹ 90,000. Compute gross salary assuming he is covered by the Payment of Gratuity Act.

**Solution****Computation of Gross Salary of Mr. Narayan for the A.Y.2022-23**

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

- Actual Amount Received	3,00,000		
- Statutory Amount	3,00,000		
- 10 x ₹ 7,500	75,000		
- 1 x 20 x ₹ 7,500	1,50,000	75,000	2,25,000
<u>Pension</u>			
Uncommuted Pension	(1500 x 7) + (600 x 3)		12,300
Commuted Pension Received		90,000	
Less: Exempted u/s 10(10A)(ii)	$1/3^{\text{rd}} \times 1,50,000$	50,000	40,000
Gross Taxable Salary			7,34,608

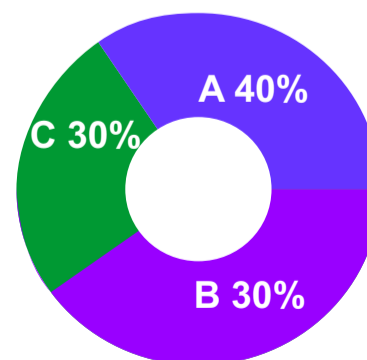




**GROUP: I, PAPER: 8**  
**COST ACCOUNTING**  
**(CAC)**

CMA (Dr.) Subir Kr. Datta  
Principal,  
Kshudiram Bose Central College,  
He can be reached at:  
[duttasubirkumar1958@gmail.com](mailto:duttasubirkumar1958@gmail.com)

# Your Preparation Quick Takes



**Syllabus Structure**

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

**Learning Objectives:**

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

**COST ACCOUNTING**

The world of Cost Accounting is vast and varied. The earth is now facing the problem of scarcity of resources. Optimum utilization of resources is the urgent need of the day. Cost Accountants play a vital role all over the world. The concept of Cost is so critical that truly speaking it covers every aspect of human life and business. Cost Accounting is a subject that provides knowledge to take effective and efficient decision for cost control, ascertainment of profitability and internal and external reporting. The main purpose of our study Paper - 8 (i.e. Cost Accounting) are -

- Understanding the concept of cost
- Determining the Cost of product or services.
- Understanding Standard Cost.
- Applying the concept of marginal Costing.
- Formulation of business strategy and operational planning.

As it's a professional examination the students should careful on following aspects -

- 1) A serious plane should be there for completing the whole syllabus as well as revision. Go through the theoretical part very carefully and try to relate the knowledge for solving different practical problems.
- 2) In every examination one or more theoretical or problem oriented questions have been set from each chapter. The students should remain too much carefully in solving the problems
- 3) Make sure that you understand each term clearly and try to explain with suitable illustrations.
- 4) There should be a problem containing number of short notes. Any student can secure more marks by answering this type of theoretical questions.
- 5) Ambiguity in application of different formulae should be avoided.
- 6) Reader should clear about the distinction between - material control and inventory control; normal loss and abnormal loss. They should also study different elements of cost and ascertainment of costs very carefully. Write down all the important terms in your own words and read them regularly in order to improve your speed in writings.
- 7) Controlling of labour cost is the most important function of administration. Regarding 'group bonus schemes' sometimes the students feel difficulty to find out the clue to solve the problem. In this situation lead should be given in the language of the problem.
- 8) Overhead comprise those costs which the cost accountant is either unable or unwilling to allocate to a particular product, job or process. Difference between primary distribution and secondary distribution should be properly understood. The meaning of Cost allocation, Cost Apportionment and Cost Absorption should be very clear. Material consists of major part of total cost of product, hence it is necessary to control this cost very effectively. The students should understand the clues given to them. At least one question either for overhead apportionment or for computation of M.H.R. is set.
- 9) The students should also note the difference between Job/Batch/ Contract Costing. Readers should very much careful in determining the profit of an incomplete contract. You should make sure that you are familiar with various methods / formulae for different stages of completion and share of profit. They should remember that for escalation clause both changed quantity and price is to be considered.
- 10) In order to bring uniformity and consistency in classification, measurement and assignment of costs C A S - 1 to 24 should read carefully. Questions are generally set from any one or two standards.
- 11) Students need to have a clear conception about the integrated and non-integrated system of accounts. CLC control A/Cs is prepared to make cost ledger self-balancing. In this system, different accounts are to be opened, but it is not necessary to give much efforts to complete its solution. Questions are sometimes set to journalize the transactions.
- 12) Budget is a financial statements of income and expenditure of a certain period. You should first learn how to prepare functional budget then Master Budget, Flexible budgets etc. The students can easily understand the problems, if theory remains clear. They are suggested also to go through the theoretical parts like, concept of Zero based Budgeting, behavior and classification of budget etc. very carefully. Almost every year a question is set from this chapter.



- 13) In operating / Service Costing calculation of composite unit is very much important for solving the problem. Here suitable cost unit to be used for cost ascertainment purpose. Generally it is used by transport companies, Hospitals, lodges etc.
- 14) Marginal Costing aims to find out cost- volume -profit relationship of a product. This is an important chapter from the students' perspective. In Marginal Costing the students should note that the BEP- Analysis is the most important area of study considering the effect on P/V Ratio is an important part of this chapter. As questions may set, you should know also in details about the Margin of safety and Angle of incidence. More than one problem is generally set from this chapter.
- 15) Standard Costing deals with creating responsibilities and identifying the activities or areas of exceptions. Here the variances are analyzed in details according to their originating causes. For solving any problem on Standard Costing, different variances, like material, labour, overhead, sales and sales margin should be worked out. Calculation of Mix-Variations is necessary only when there are more than one type of components that are needed for producing an article.

Marginal Costs are the additional cost of an additional unit. The difference between sales and variable cost is known as contribution and the BEP is a point where there is no profit no loss. P/V ratio helps in determining profit at various level of sales and it helps to find out sales at BEP as well as sales required to earn the desired profit.

The solving of the following problem will clearer the above terms.

### Problem

A company has three factories situated in North, East and South with its Head Office in Mumbai. The management has received the following report on the operations of each factory for a period :

	Actual Sales	Over (Under) Budgeted sales	Actual Profit	Rs. '000 Over/ (Under) Budgeted Profit
North	1100	(400)	135	(180)
East	1450	150	210	90
South	1200	(200)	330	(110)

Calculate for each factory and for the company as a whole for the period :

- (i) The fixed costs  
(ii) Break-even sales.

### Solution

(i) We are to solve this problem by applying following formula :  $P/V \text{ ratio} = \frac{\text{Change in Profit}}{\text{Change in Sales}}$

	North	East	South
Actual Sales	1100	1450	1200
Less : Change in Sale (a)	(400)	150	(200)
Budgeted sales	1500	1300	1400
Actual profit	135	210	330
Less : Change in profit (b)	(180)	90	110
Budgeted Profit	315	120	440

P/V ratio (b/a × 100)

We know that Sales × P/V ratio = Contribution and Contribution - Profit = Fixed cost

	Actual Sales	P/V ratio	A Contribution	B Profit	Fixed Cost (A - B)
North	1100	45%	495.00	135	360
East	1450	60%	870.00	210	660
South	1200	55%	660.00	330	330
Total	3750			675	1350

(ii) Break-even sales

We know :  $BES \times P.V. \text{ ratio} = \text{Fixed cost}$

$$BES = \frac{\text{Fixed cost}}{\text{P/V ratio}}$$

$$\text{North} = 360/45 \times 100 = 800$$

$$\text{East} = 660/60 \times 100 = 1100$$

$$\text{South} = 330/55 \times 100 = 600$$

Now we are to work out Break-even sales for company :

We know sales × P/V ratio = Fixed cost + Profit

$$3750 \times P/V \text{ ratio} = 1350 + 675$$

$$\therefore \text{P/V ratio} = \frac{2025}{3750} \times 100 = 54\%$$

$$\text{B.E. Sales (company)} = \frac{\text{Fixed cost}}{\text{P/V ratio}} \text{ - i.e. } \frac{1350}{54} \times 100 = \text{Rs. 2500}$$

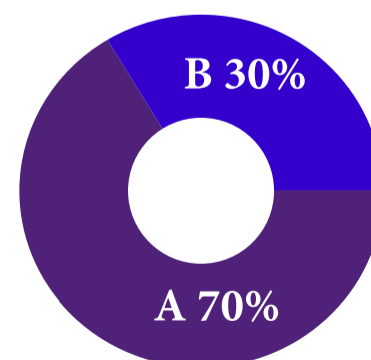




GROUP: II, PAPER: 9, Part- i  
**OPERATIONS**  
MANAGEMENT & STRATEGIC  
MANAGEMENT (OMSM)  
Operations Management

CMA Ankan K Bandyopadhyaya  
He can be reached at:  
abanerjee8533@gmail.com

# Your Preparation Quick Takes



### Syllabus Structure

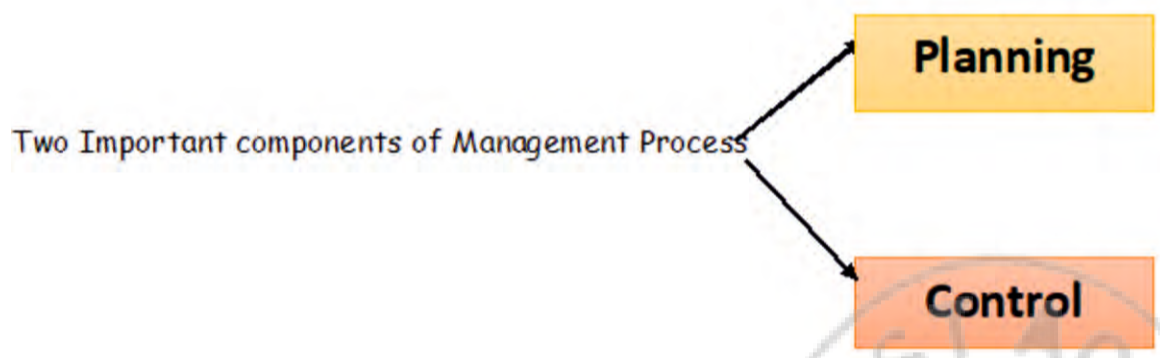
A Operations Management 70%  
B Strategic Management 30%

**Learning Objectives:**

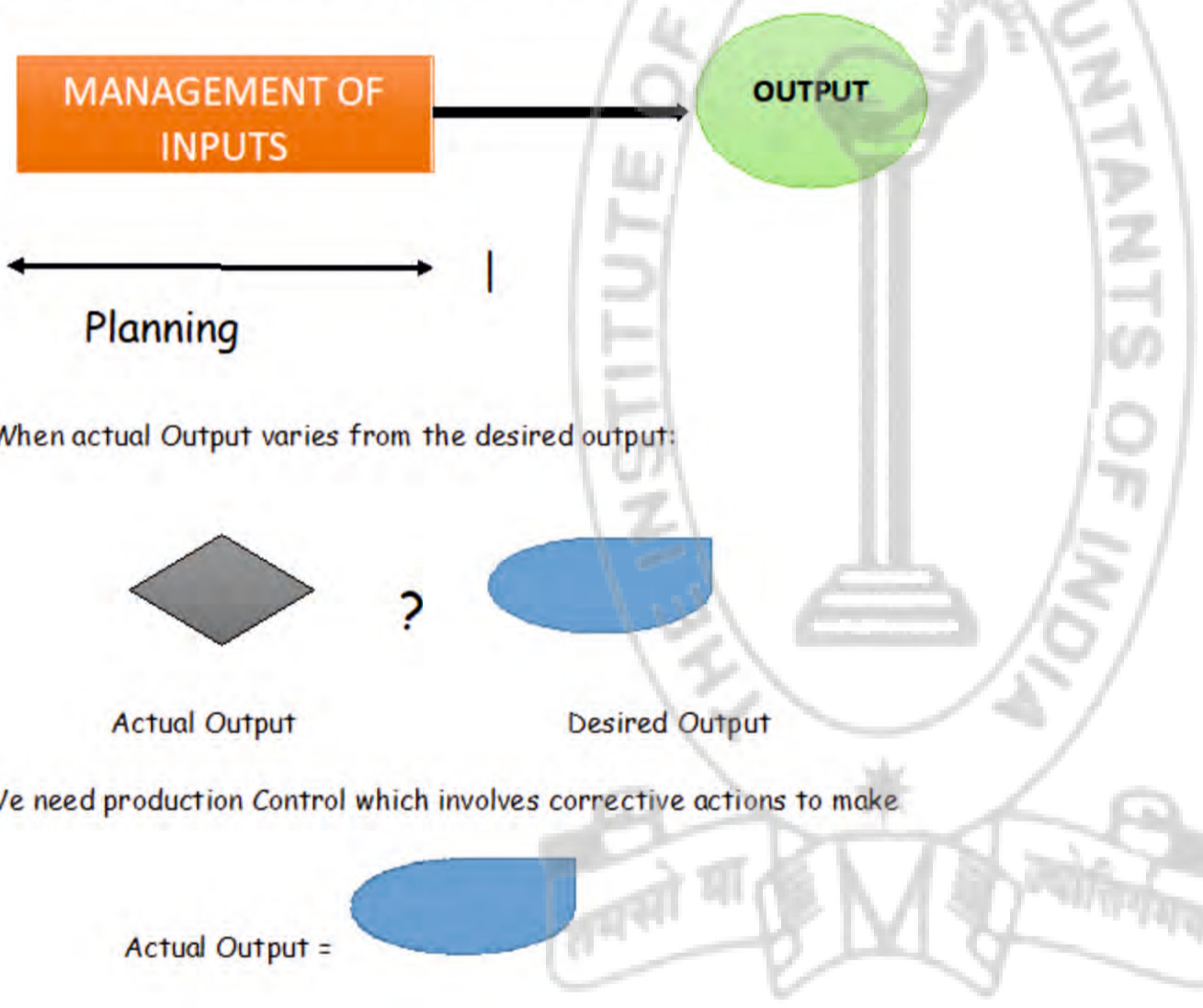
- Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments.
- Eventually, student's ability for leadership positions in the production and service industries gets increased.
- To solve business processes, it 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 and in subsequent issues let us discuss production planning with network analysis

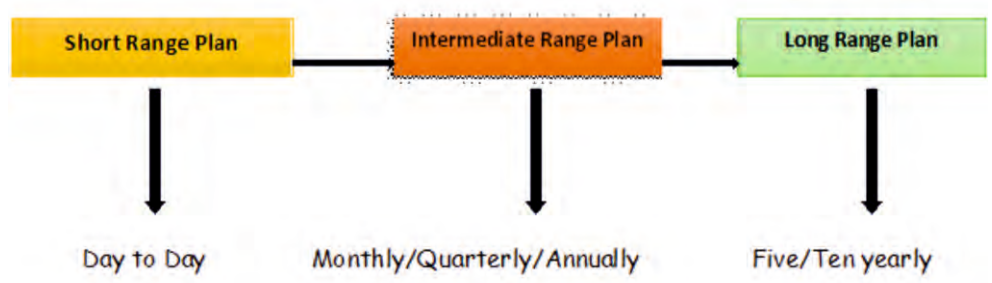


Planning is management of all Input variables to achieve a defined Output Goal.



Production planning would therefore consists mainly of the evaluation and determination of production inputs such as Labour (Manpower), Machinery & Equipment, Materials and Utilities to achieve the desired goals.

Like all plans Production plans also have a time dimension.

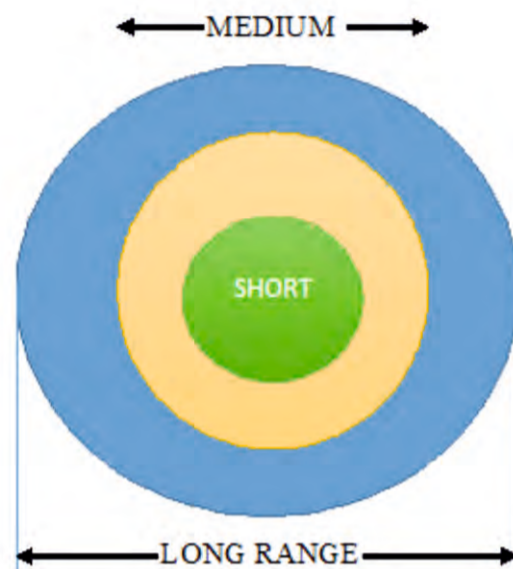


Time dimensions increases  $\longrightarrow$  production planners get more flexibility to change the input variables and get more time to carry out desired modifications in the production process to achieve the desired goal.

The five year range plan allows a company the flexibility of increasing the production capacity by purchasing new equipment, locating new plants, acquiring new technology or recruiting adequate technical manpower. These are not possible in day to day plan even if these are demands of the situation.

Under weekly or daily short range plans hardly any flexibility is left except to assign different jobs to the available machines and manpower.

The planning problems for different time horizons are therefore different and the solutions are also different.



The above figure indicates Short, Medium and Long range plans have to dovetail into one another. The long range production planning are more integrative & organization wide. So Long range production planning is nothing but lost its own identity to overall corporate plan. Therefore production planning as it is usually meant, is really the intermediate range and short range plan. That's the reason behind commencement of production planning follows from the marketing plan. In other words we can depict:



Production planning is such that Market Demand = Production order

At the beginning of production planning Market demand are either known or are forecasted. Similarly Production Capacities are also known. Production capacities cannot be changed in the short or medium range time horizon. Under this constraint production are to be made to meet the market demand. Different alternatives are possible to make this match (market demand = production order) but all at different cost and utility structure (100 units can be produced in 1 labour hour @ Rs100 or alternatively can be produced in  $\frac{1}{2}$  hour @ Rs.200). Out of these alternatives Production planning guides us selection of the best alternative with optimization of the cost or other utilities.

Under Production Planning first planning is made for Gross level then it is detailed for individual products.

Illustration:

A business unit produces 5 products:

The products are A, B, C, D, and E;

Market Demand forecasted for all these products together are 6000 units in a year;

**Production is to be planned for 6000 units---1<sup>st</sup> Gross level planning;**

Market forecast indicates that during the year demands for A, B, C, D and E are respectively 600, 840, 1560, 2400, 600 units;

**Production is to be planned for 600 units of A, 840 units of B, 1560 units of C, 2400 units of D & 600 units of E, ---Breaking of 1<sup>st</sup> Gross level planning;**

Production is carried out evenly throughout the year;

**Production is to be planned for 50 units of A, 70 units of B, 130 units of C, 200 units of D & 50 units of E on monthly basis--- Breaking of 2<sup>nd</sup> Gross level planning;**

There are three types of Machines M1, M2 and M3 which are used for producing all these products;

**Production is to be planned in such a way that all the machines are optimally utilized for meeting the monthly market demand of respective demand----Short term production planning;**

Under this short term production planning one needs to balance the requirements of individual products with the availability of individual

machines/equipment and labour of different skill categories. For such production planning the operation research techniques such as Linear Programming, Assignment problem PERT/CPM Queuing theory etc. are useful.

Network analysis plays an important role in resource allocation & Critical path method (CPM) is one of the important network analysis techniques used to assist managers involved in resource planning. CPM is most appropriately used when the activity duration are known with certainty. Not only the amount of time needed to complete the various factors but also the amounts of resources required for performing each of the activities are assumed to be known. This technique is basically concerned with obtaining the tradeoffs between the production duration and cost.

Basically network analysis plays an important role in Project Management. By analysis a network, which is a graphic description of "activities" and "events", the planning, scheduling and control of a project becomes much easier. Initial step in Network analysis is to draw a preceding activity diagram and computation of different important items like EOT, LOT, EST, EFT, LFT, LST, FLOAT, SLACK and identifying CRITICAL PATH etc. Let us take a simple example.

Activity	Time
1-2	13
1-3	12
2-4	2
3-4	8
2-5	15
4-5	2

The initial step for the above problem is to draw the network diagram.

Then we have to compute for each event:

EOT = Earliest Occurrence Time;

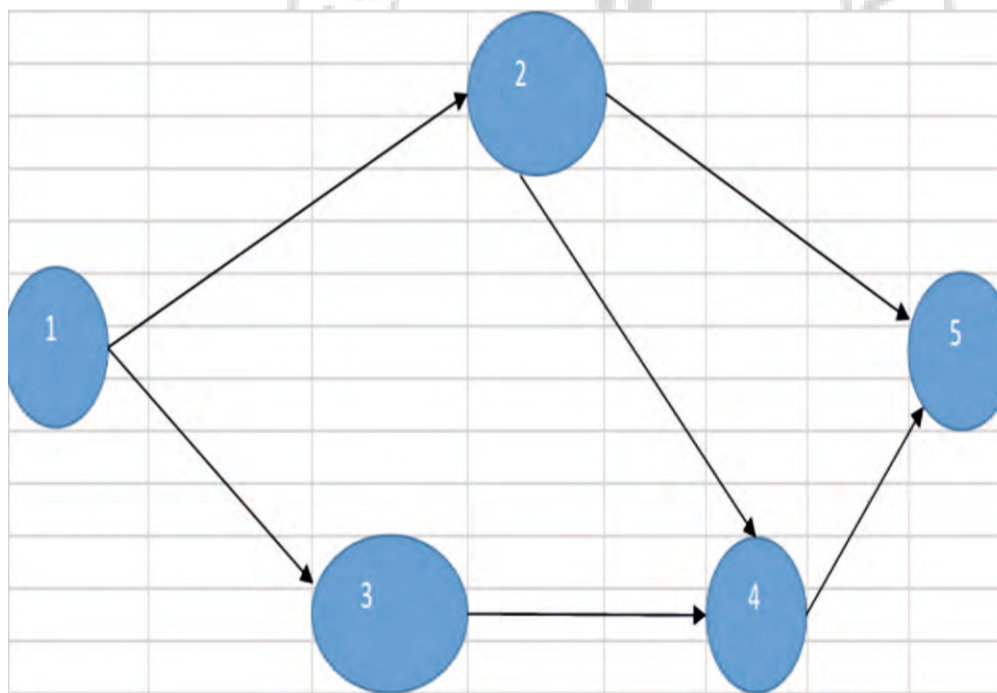
LOT = Latest Occurrence Time;

Then we have to compute for each activity:

EST, EFT= Earliest Starting Time/ Earliest Finishing Time;

LST, LFT= Latest Starting Time/Latest Finishing time;

The details now as follows:



Activity	Time	Event	EOT	LOT	Slack
1-2	13	1	0	0	0
1-3	12	2	13	13	0
2-4	2	3	12	18	6
3-4	8	4	20	26	6
2-5	15	5	28	28	0
4-5	2				

$EOT \text{ of an event } i = EOT(i) = \text{Max} [EOT(k) + d(k, i)]$

Where  $EOT(k)$  = earliest occurrence time of event  $k$ , where  $k$  precedes  $i$  and there may be several  $k$ 's;

$d(k, i)$  = duration of activity  $(k, i)$ ;

$LOT \text{ of an event } i = LOT(i) = \text{Min} [LOT(k) - d(k, i)]$

Where  $LOT(k)$  = latest occurrence time of event  $k$ , where  $k$  follows  $i$  and there may be several  $k$ 's;

$d(k, i)$  = duration of activity  $(k, i)$ ;

Slack of an event =  $LOT - EOT$ ;

Events with 0 slack falls on the critical path.

Critical path starts with the beginning event, terminates with the end event and is marked by events which have a zero slack. So in the above diagram there are following paths starting from first event 1 and ends up with last event 5:

- A) Path 1-2-5;
- B) Path 1-3-4-5;
- C) Path 1-2-4-5;

Out of these three paths only path (A) has all the events with 0 slack. In path B event (4) has not zero slack. Similarly in path (C) also event (4) has nonzero slack.

So path (A) is the critical path.

Now we could determine different floats of respective activities. To compute floats we require to calculate EST/EFT and LST/LFT.

$$EST(i, j) = EOT(i);$$

$$EFT(i, j) = EOT(i) + d(i, j);$$

$$LFT(i, j) = LOT(j);$$

$$LST(i, j) = LOT(j) - d(i, j);$$

With these formulas in hand the details of different activities for our sample problem are as follows:

Activity	EST	EFT	LST	LFT
1-2	0	13	0	13
1-3	0	12	6	18
2-4	13	15	24	26
3-4	12	20	18	26
2-5	13	28	13	28
4-5	20	22	26	28

From here we could calculate floats of different activities. Different floats are

$$\text{Total float of activity } (i, j) = LOT \text{ of } (j) - EOT \text{ of } (i) - d(i, j);$$

$$\text{Free float of activity } (i, j) = EOT \text{ of } (j) - EOT \text{ of } (i) - d(i, j);$$

$$\text{Independent float of activity } (i, j) = EOT \text{ of } (j) - LOT \text{ of } (i) - d(i, j);$$

Details of float for our sample example:

Activity	Total Float	Free Float	Independent Float
1-2	0	0	0
1-3	6	0	0
2-4	11	5	5
3-4	6	0	-6
2-5	0	0	0
4-5	6	6	0

Total float of an activity is the extra time available to complete the activity if it is started as early as possible and finished as late as possible. Activities which do not have a float under these conditions, the most favourable one, are critical to the project and hence lie on the critical path.

The free float of an activity is the extra time available to complete the activity if all activities commence as early as possible.

The independent float of an activity is the extra time available to complete the activity when the activity is started at the LOT of its preceding event and completed by the EOT of the succeeding event. This is the most adverse condition and when an activity has a positive independent float it means that the activity has cushion irrespective of what happens elsewhere.

Independent float of an activity may be negative but the total float and free float can never be negative.

With the help of all these we will do critical path analysis.

#### Suggestions:

*These concepts on production planning under 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 to develop preliminary concepts on network analysis and determination of values of important items. Application of these will be discussed in next issues. 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.*

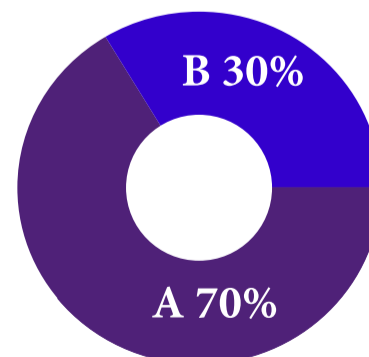
*Best Wishes*



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

CMA (Dr.) Sumita Chakraborty  
Additional Director,  
Studies & RC & CC Committee  
She can be reached at:  
[studies.addldir1@icmai.in](mailto:studies.addldir1@icmai.in)

# 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. **When a firm seeks the benefits of global integration and local adaptation, it is best described as which type of strategy?**
  - A. Transnational
  - B. Global
  - C. Multi-national
  - D. Global-local

**Answer: A**
2. **Reputation' in the context of an organization's resources can provide competitive advantage because:**
  - A. It is difficult to copy
  - B. It is based on word of mouth
  - C. It is a threshold resource
  - D. It is explicit

**Answer: A**
3. **Logical incrementalism' can be described as:**
  - A. Careful design and planning
  - B. Emergent
  - C. Cautious resource allocation
  - D. Top management rational analysis

**Answer: B**
4. **The authors believe there are three tests that can be applied to judge whether a strategy is 'good' . These are:**
  - A. Fit, distinctiveness, sustainability
  - B. Fit, internal resources, external environment
  - C. Distinctiveness, internal resources, fit
  - D. Sustainability, distinctiveness, external environment

**Answer: A**
5. **Vertical integration is concerned with:**
  - A. Supply chain
  - B. Production
  - C. Quality
  - D. Planning

**Answer: A**
6. **\_\_\_\_\_ cost accounting measures the cost of producing and ignores the cost of non-producing:**
  - A. Lean
  - B. Traditional
  - C. Environmental
  - D. Throughput

**Answer: B**
7. **Financial environment is concerned with:**
  - A. Demand and supply of money
  - B. Capital markets
  - C. Both A & B
  - D. None of the above

**Answer: C**
8. **It is designed to monitor a broad range of events inside and outside the company that are likely to threaten a firm's strategy:**
  - A. Strategic surveillance
  - B. Strategic planning
  - C. Both 'A' and 'B'

D. None of the above

**Answer: A**

9. Micro environment is the ..... environment of a company.

- A. Working
- B. Human
- C. External
- D. Internal

**Answer: D**

10. Like roots of a tree, \_\_\_\_\_ of organization is hidden from direct view:

- A. Performance
- B. Strategy
- C. Core competence
- D. All of the above

**Answer: C**

11. Changes in company ----- also necessitates changes in the systems in various degrees:

- A. Structure
- B. System
- C. Strategy
- D. Turnover

**Answer: B**

12. The actual performance deviates positively over the budgeted performance. This is an indication of ..... Performance:

- A. Superior
- B. Inferior
- C. Constant
- D. Any of the above

**Answer: A**

13. ETOP stands for \_\_\_\_\_:

- A. Environmental threat & opportunity project
- B. Environmental threat & opportunity profile
- C. Environmental treaty & opportunity profile
- D. Environmental threat & optimum profile

**Answer: B**

14. According to Porter, dealing with the paradox of premature commitment versus not enough commitment involves some kind of:

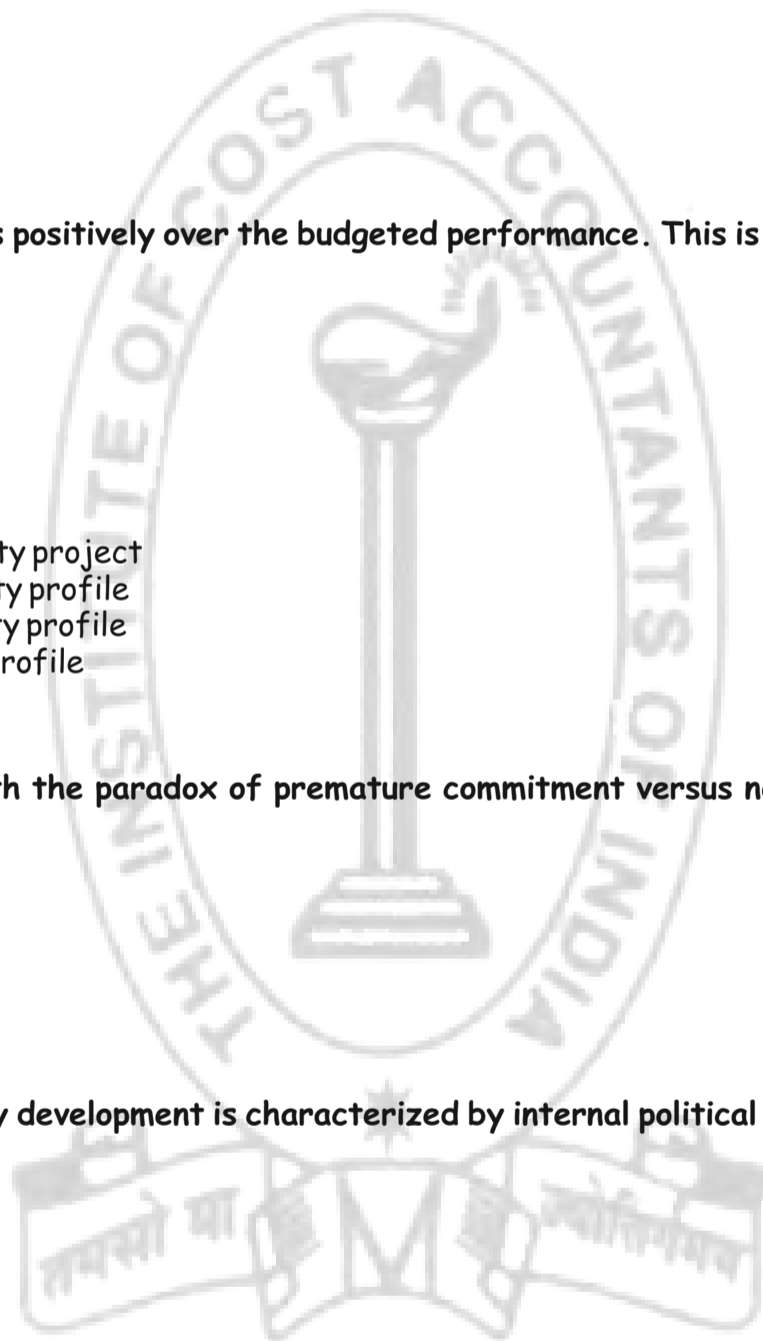
- A. Trade-off
- B. Lock-in
- C. Lock-out
- D. Diversification

**Answer: A**

15. An organization in which strategy development is characterized by internal political negotiation and self-interest is operating in which strategy-making mode?

- A. The transactive mode
- B. The muddling through mode
- C. The command mode
- D. The emotional mode

**Answer: B**





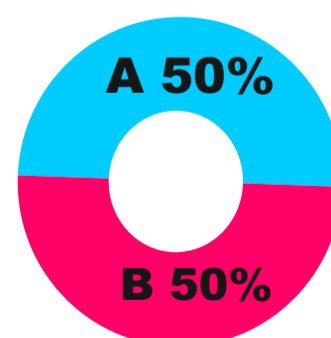
GROUP: II, PAPER:10

# COST & MANAGEMENT

ACCOUNTING AND FINANCIAL  
MANAGEMENT(CMFM)

CMA Bimalendu Banerjee  
He can be reached at:  
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 (Material & Labour)**

The following details are related to the product 'A' for the month of January, 2022. Actual Production 100 units :

**Standard Cost per unit.**

Materials 50 Kg. @ Rs.40 per kg.  
Labour 400 hours @ Re.1 per hour.

**Actual cost for the month :**

Materials 4,900 kg. @ Rs.42 per kg.  
Labour 39,600 hours @ Rs.1.10 per hour.

What shall be the :-

**[ In respect of Material ]**

- 1) Std Cost of Actual Production (SCAP) : (a) Rs.2,00,000 (b) Rs.2,10,000 (c) Rs.2,20,000 (d) Rs.2,30,000
- 2) Actual Cost of Production : (a) Rs.2,05,600 (b) Rs.2,05,700 (c) Rs.2,05,800 (d) Rs.2,05,900
- 3) Std. Cost of Actual Quantity used : (a) Rs.1,95,000 (b) Rs.1,96,000 (c) Rs.1,97,000 (d) Rs.1,98,000
- 4) Std Quantity for Actual Production : (a) 5000 Kg (b) 5500 Kg (c) 5600 Kg (d) 5700 Kg
- 5) Price Variance : (a) Rs.9700 F (b) Rs.9700 A (c) Rs.9800 F (d) Rs.9800 A
- 6) Usage Variance : (a) Rs.4000 F (b) Rs.4000 A (c) Rs.4500 F (d) Rs.4500 A
- 7) Total Cost Variance : (a) Rs.5700 A (b) Rs.5700 F (c) Rs.5800 A (d) Rs.5800 F

**[ In respect of Labour ]**

- 8) Standard Cost of Actual Production (SCAP) : (a) Rs.38500 (b) Rs.39000 (c) Rs.39500 (d) Rs.40000
- 9) Actual Cost of Labour Hours worked : (a) Rs.43550 (b) Rs.43560 (c) Rs.43570 (d) Rs.43580
- 10) Std Cost of Actual Hours worked : (a) Rs.39600 (b) Rs.39650 (c) Rs.39670 (d) Rs.39680
- 11) Std Hour for Actual Production : (a) 37000 Hr. (b) 38000 Hr (c) 39000 Hr (d) 40000 Hr
- 12) Wage Rate Variance : (a) Rs.3950 F (b) Rs.3950 A (c) Rs.3960 A (d) Rs.3960 F
- 13) Labour efficiency Variance : (a) Rs.390 A (b) Rs.390 F (c) Rs.400 A (d) Rs.400 F
- 14) Total Cost Variance : (a) Rs.3560 F (b) Rs.3560 A (c) 3570 A (d) 3570 F

**Answer :**

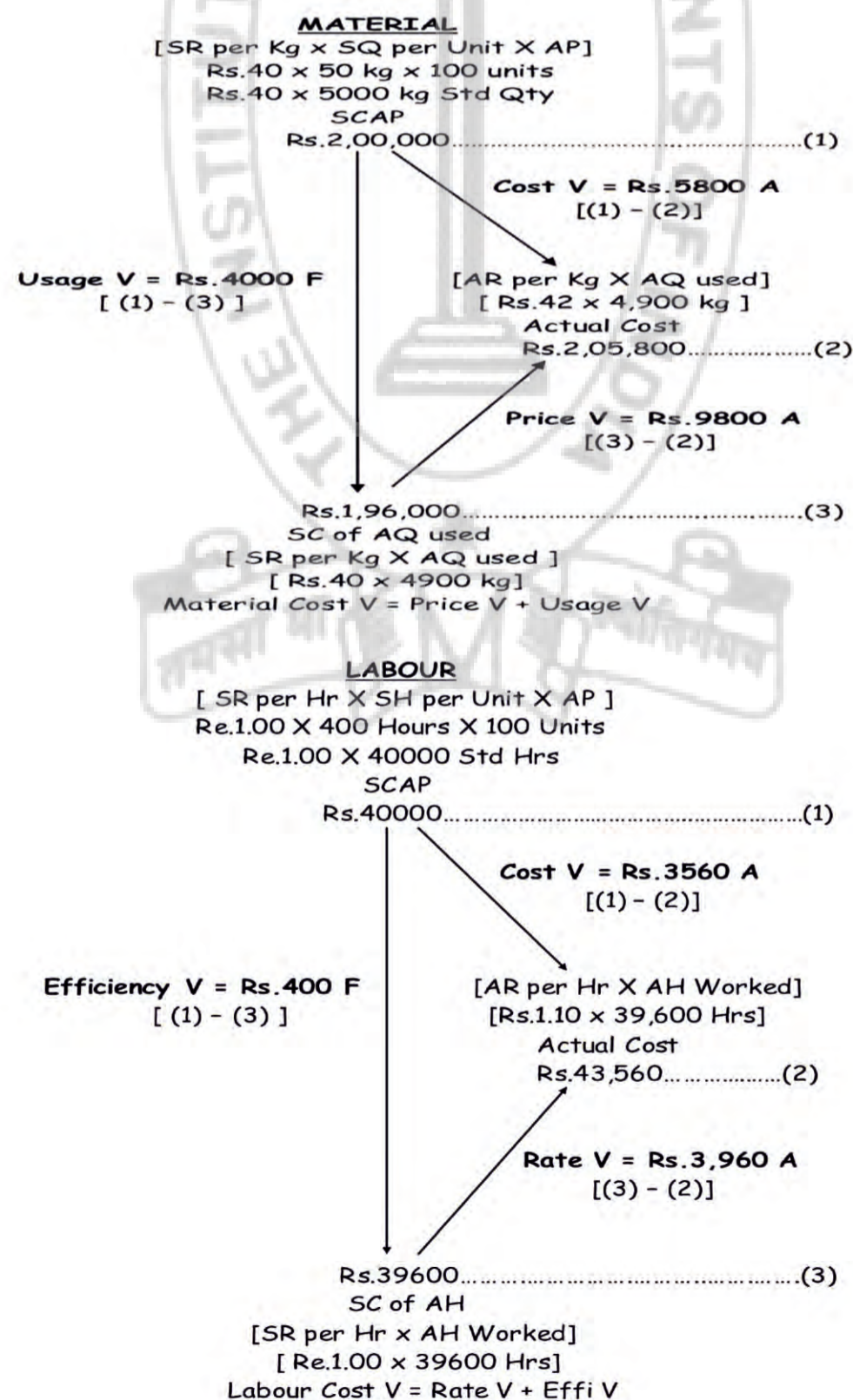
- |                    |                    |                    |
|--------------------|--------------------|--------------------|
| 1) (a) Rs.2,00,000 | 2) (c) Rs.2,05,800 | 3) (b) Rs.1,96,000 |
| 4) (d) 5000 Kg     | 5) (a) Rs.9800 A   | 6) (a) Rs.4000 F   |
| 7) (c) Rs.5800 A   | 8) (d) Rs.40000    | 9) (b) Rs.43560    |
| 10) (a) Rs.39600   | 11) (d) 40000 Hr.  | 12) (c) Rs.3960 A  |
| 13) (d) Rs.400 F   | 14) (b) Rs.3560 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.

**Solution with Working Notes :**

**Solution :** Basic data : Actual Production (AP) = 100 Units.



**Question No. - 2 (Sales)**

Trident Toys Ltd. had drawn up the following sales Budget for January, 2022 :

'Bravo' Toys	5000 units at Rs.100 each
'Champion' Toys	4000 units at Rs.200 each
'Super' Toys	6000 units at Rs.180 each

The actual sales for January, 2022 were :

'Bravo' Toys	5750 units at Rs.120 each
'Champion' Toys	4850 units at Rs.180 each
'Super' Toys	5000 units at Rs.165 each

The cost per unit of Bravo, Champion and Super Toys were Rs.90, Rs.170 and Rs.130 respectively.

What shall be the :-

**[ THE FOLLOWING BEING THE EFFECT ON TURNOVER ]**

- Actual Sales : (a) Rs.23,87,000 (b) Rs.23,88,000 (c) Rs.23,89,000  
(d) Rs.23,90,000
- Budgeted Sales : (a) Rs.23,80,000 (b) Rs.23,81,000 (c) Rs.23,82,000  
(d) Rs.23,83,000
- Standard Sales (On AQ) : (a) Rs.24,42,000 (b) Rs.24,43,000 (c) Rs.24,44,000  
(d) Rs.24,45,000
- Std Sales on Revised Std Quantity : (a) Rs.24,75,200 (b) Rs.24,75,300 (c) Rs.24,75,400  
(d) Rs.24,75,500

**[ PERTINENT VARIANCES ]**

- Sales Price Variance in respect of 'Bravo' : (a) Rs.1,15,000 A (b) Rs.1,15,000 F (c) Rs.1,16,000 A  
(d) 1,16,000 F
- Sales Mix Variance in respect of 'Champ' : (a) Rs.1,37,000 A (b) Rs.1,37,000 F (c) Rs.1,38,000 A  
(d) Rs.1,38,000 F
- Sales Quantity Variance in respect of 'Super' : (a) Rs.43,100 A (b) Rs.43,100 F (c) Rs.43,200 F (d)  
Rs.43,200 A
- Total Sales Value Variances : (a) Rs.8000 F (b) Rs.8000 A (c) Rs.9000 F (d)  
Rs.9000 A

**[ THE FOLLOWING BEING THE EFFECT ON PROFIT ]**

- Actual Sales Margin : (a) Rs.3,93,000 (b) Rs.3,94,000 (c) Rs.3,95,000 (d)  
Rs.3,96,000
- Budgeted Sales Margin : (a) Rs.4,69,000 (b) Rs.4,70,000 (c) Rs.4,71,000 (d)  
Rs.4,72,000
- Standard Sales Margin (on AQ) : (a) Rs.4,53,000 (b) Rs.4,54,000 (c) Rs.4,55,000 (d)  
Rs.4,56,000
- Standard Sales Margin on Revised Std Quantity : (a) Rs.4,88,500 (b) Rs.4,88,600 (c) Rs.4,88,700 (d)  
Rs.4,88,800

**[ PERTINENT VARIANCES ]**

- Sales Margin Price Variance in respect of 'Super' : (a) Rs.75,000 F (b) Rs.75,000 A (c) Rs.76000 F (d)  
Rs.74,000 A
- Sales Margin Mix Variance in : (a) Rs.20,600 A (b) Rs.20,600 F (c) Rs.20,700 A (d)

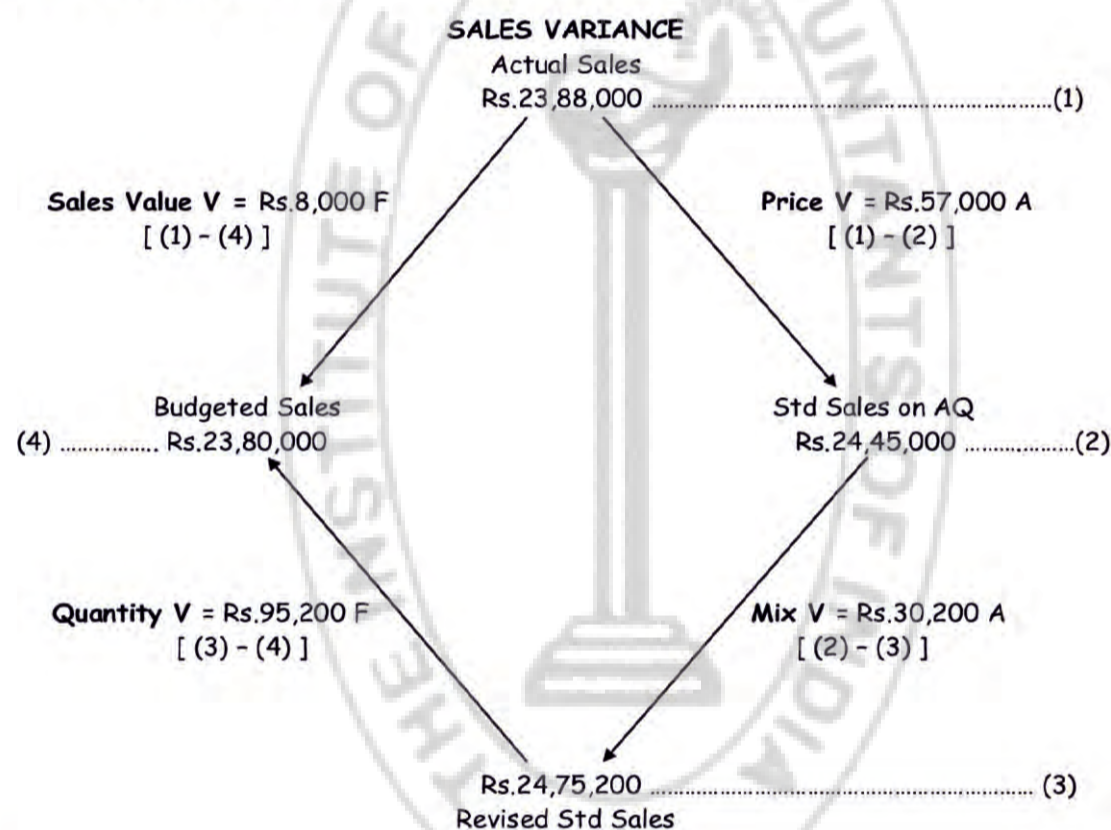
- respect of 'Champ' Rs.20,700 F
- 15) Sales Margin Quantity Variance : (a) Rs.2,000 A (b) Rs.2,000 F (c) Rs.3,000 F (d) Rs.3,000 A
- 16) Total Sales Margin Value : (a) Rs.74,000 A (b) Rs.74,000 F (c) Rs.75,000 F (d) Rs.75,000 A

**Answer :**

- |                     |                      |                      |
|---------------------|----------------------|----------------------|
| 1) (b) Rs.23,88,000 | 2) (a) Rs.23,80,000  | 3) (d) Rs.24,45,000  |
| 4) (a) Rs.24,75,200 | 5) (b) Rs.1,15,000 F | 6) (d) Rs.1,38,000 F |
| 7) (c) Rs.43,200 F  | 8) (a) Rs.8,000 F    | 9) (d) Rs.3,96,000   |
| 10) (b) Rs.4,70,000 | 11) (a) Rs.4,53,000  | 12) (d) Rs.4,88,800  |
| 13) (b) Rs.75,000 A | 14) (d) Rs.20,700 F  | 15) (b) Rs.2,000 F   |
| 16) (a) Rs.74,000 A |                      |                      |

**Solution with Working Notes :**

**Solution : (a) Effect on turnover**



**Working Notes :**

(I)

Actual Sales			
Product	Qty (unit)	Price (Rs.)	Amount (Rs.)
Bravo	5750	120	690000
Champ	4850	180	873000
Super	5000	165	825000
	15600		2388000

(II)

Budgeted Sales				
Product	Qty (unit)	Price (Rs.)	Amount (Rs.)	Av. Std Price (Rs.)
Bravo	5000	100	500000	
Champ	4000	200	800000	
Super	6000	180	1080000	
	15000		2380000	158.66666
				Per Unit

(III)

Standard Sales on AQ			
Product	Qty (unit)	Price (Rs.)	Amount (Rs.)
Bravo	5750	100	575000
Champ	4850	200	970000
Super	5000	180	900000
	15600		<b>2445000</b>

(IV)

Std Sales on Revised Std Quantity				
Product	AQ in Std Proportion	RSQ	Std Price (Rs.)	Amount (Rs.)
Bravo	15,600 × 5/15 i.e.	5200	100	520000
Champ	15,600 × 4/15 i.e.	4160	200	832000
Super	15,600 × 6/15 i.e.	6240	180	1123200
	600	15600		<b>2475200</b>

**Check :**

Av. Std Price × RSQ  
= Rs.158.66666 × 15,600 = Rs.24,75,200

(V) (Amount in Rupees)

Sales Price Variance = Actual Sales - Standard Sales

<b>Bravo</b>	<b>6,90,000</b>	-	<b>5,75,000</b>	=	<b>1,15,000 F</b>
Champ	8,73,000	-	9,70,000	=	97,000 A
Super	8,25,000	-	9,00,000	=	75,000 A
					<b>Rs.57,000 A</b>

(VI) Sales Mix Variance = Std Sales - Revised Std Sales

Bravo	5,75,000	-	5,20,000	=	55,000 F
<b>Champ</b>	<b>9,70,000</b>	-	<b>8,32,000</b>	=	<b>1,38,000 F</b>
Super	9,00,000	-	11,23,200	=	2,23,200 A
					<b>Rs.30,200 A</b>

(VII) Sales Quantity Variance = Revised Std Sales - Budgeted Sales

Bravo	5,20,000	-	5,00,000	=	20,000 F
Champ	8,32,000	-	8,00,000	=	32,000 F
<b>Super</b>	<b>11,23,200</b>	-	<b>10,80,000</b>	=	<b>43,200 F</b>
					<b>Rs.95,200 F</b>

(VIII)

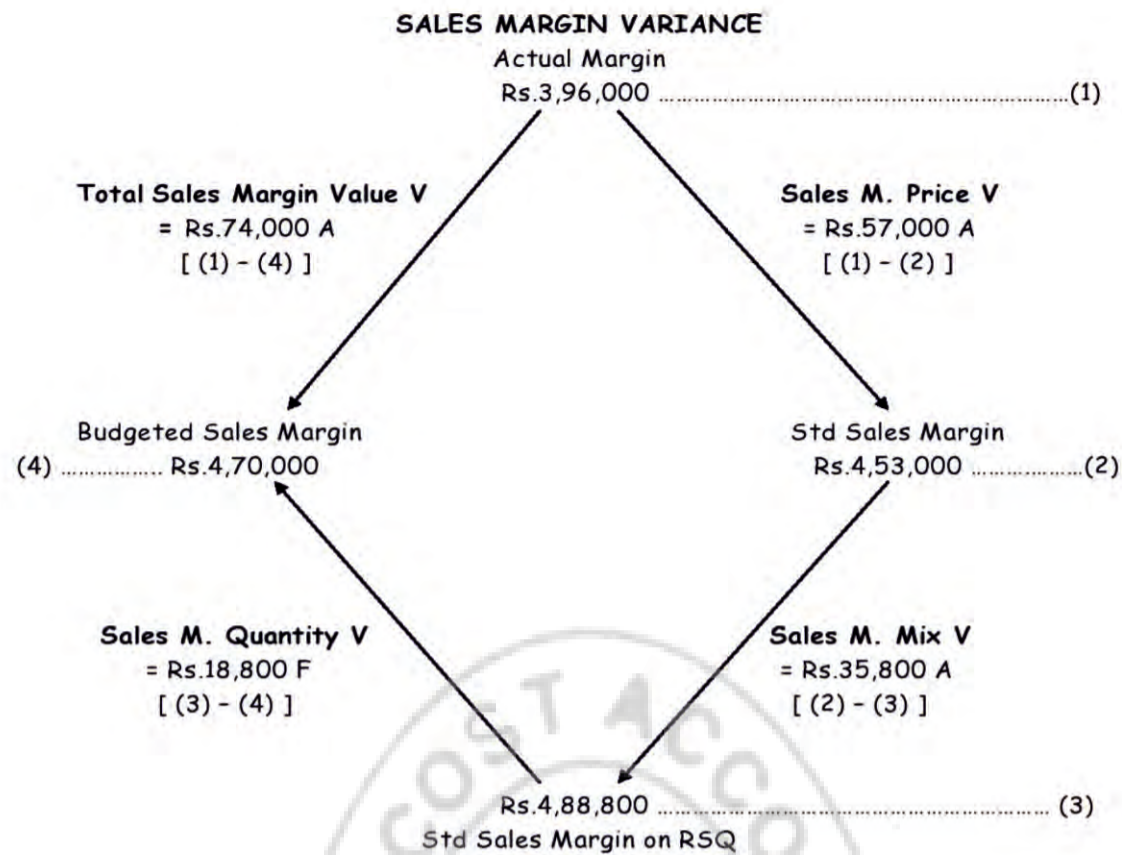
Total Sales Value Variance = Actual Sales - Budgeted Sales

Bravo	6,90,000	-	5,00,000	=	1,90,000 F
Champ	8,73,000	-	8,00,000	=	73,000 F
Super	8,25,000	-	10,80,000	=	2,55,000 A
					<b>Rs.8,000 F</b>

(IX) Sales Value V Rs.8,000 F = Price V + Mix V + Quantity V

Rs.57,000 A + Rs.30,200 A + Rs.95,200 F





(I)

Actual Margin					
Toys	Sales Price	Cost	Margin	Qty (Units)	Amount (Rs.)
Bravo	120	90	30	5,750	1,72,500
Champ	180	170	10	4,850	48,500
Super	165	130	35	5,000	1,75,000
				15,600	Rs.3,96,000

(II)

Budgeted Sales Margin						
Toys	Sales Price	Cost	Margin	Qty (Units)	Amount (Rs.)	Av. Std Margin
Bravo	100	90	10	5,000	50,000	
Champ	200	170	30	4,000	1,20,000	
Super	180	130	50	6,000	3,00,000	
				15,000	Rs.4,70,000	Rs.31.3333 per unit

(III)

Standard Margin on AQ			
Toys	Std. Margin	Actual Qty (Unit)	Amount (Rs.)
Bravo	10	5,750	57,500
Champ	30	4,850	1,45,500
Super	50	5,000	2,50,000
		15,600	Rs.4,53,000

(IV)

Std Sales Margin on Revised Std Quantity				
Toys	AQ in Std Proportion	RSQ	Std Margin	Amount (Rs.)
Bravo	15,600 × 5/15 i.e.	5200	10	52,000
Champ	15,600 × 4/15 i.e.	4160	30	1,24,800
Super	15,600 × 6/15 i.e.	6,240	50	3,12,000
		15600		Rs.4,88,800

Check : Av. Std Margin per unit  $\times$  RSQ = Rs.31.3333  $\times$  15,600 units = Rs.4,88,800

(V) Sales Margin Price Variance = Actual Margin - Standard Margin

Bravo	1,72,500	-	57,500	=	1,15,000 F
Champ	48,500	-	1,45,500	=	97,000 A
Super	1,75,000	-	2,50,000	=	75,000 A
					<u>Rs.57,000 A</u>

(VI) Sales Margin Mix Variance = Std Margin - Std Margin on RSQ

Bravo	57,500	-	52,000	=	5,500 F
Champ	1,45,500	-	1,24,800	=	20,700 F
Super	2,50,000	-	3,12,000	=	62,000 A
					<u>Rs.35,800 A</u>

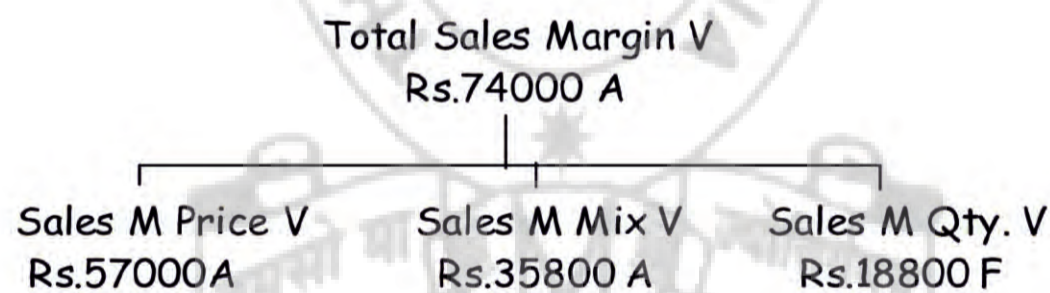
(VII) Sales M Quantity Variance = Std Margin on RSQ - Budgeted Margin

Bravo	52,000	-	50,000	=	2,000 F
Champ	1,24,800	-	1,20,000	=	4,800 F
Super	3,12,000	-	3,00,000	=	12,000 F
					<u>Rs.18,800 F</u>

(VIII) Total Sales Margin Variance = Actual Margin - Budgeted Margin

Bravo	1,72,500	-	50,000	=	1,22,500 F
Champ	48,500	-	1,20,000	=	71,500 A
Super	1,75,000	-	3,00,000	=	1,25,000 A
					<u>Rs.74,000 A</u>

(IX)



### Solution through diagrams

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

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

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

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

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



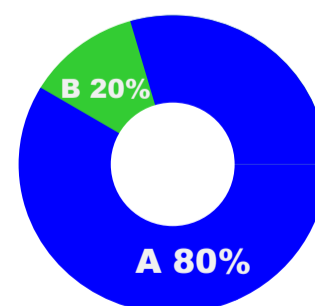


GROUP: II, PAPER:11

# INDIRECT TAXATION (ITX)

Ms. Poushali Das  
Asstt. Professor,  
Scottish Church College  
She can be reached at:  
[das.poushali16@gmail.com](mailto: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

**GST.**

1. **IGST is payable when the supply is .....**

- Interstate
- Intra- UT
- Intra-state
- All of the above

2 . **Maximum rate of CGST prescribed by law for intrastate supply made is.....**

- 18%
- 40%
- 20%
- 28%+cess

3 . **Which of the following taxes have been subsumed in GST?**

- Central sales tax
- Central excise duty
- VAT
- All of the above

4 . **GST is levied on supply of all goods and service except.....**

- Alcoholic liquor for human consumption
- Tobacco
- Health care service
- All of the above

5 . **The functions of the goods and services network (GSTN) include....**

- Facilitating registration
- Forwarding the return to central and state authorities
- Computation and settlement of GST
- All of the above

6 . **Aggregate turnover does not include-**

- Inward supplies on which tax is payable on reverse charge basis
- Exempt supplies
- Export of goods or services or both
- Inter-State supplies of persons having the same PAN number

7 . **Which of the following are benefits of GST?**

- Creation of unified national market
- Boost to 'Make in India' initiative
- Reduction of compliance burden on taxpayers
- Buoyancy to the Government Revenue
- Elimination of multiple taxes and double taxation

Select the correct answer from the options given below

- 1, 3, 4 & 5
- 2, 3, 4 & 5
- 1, 2, 4 and 5
- 1, 2, 3, 4 and 5

8 . **Which of the following is/are included in definition of "Goods" as defined under section 2(52) of the CGST Act, 2017-**

- Money
- Actionable claim
- Security
- Growing crops

Select the correct answer from the options given below

- IV only
- II & III

- c. II & IV
- d. I & II

- 9 . A \_\_\_\_\_ supply consisting of two or more supplies shall be treated as the supply of that particular supply that attracts the highest rate of tax.
- a) Composite
  - b) Mixed
  - c) Both (a) and (b)
  - d) None of the above
- 10 . GST is a comprehensive tax regime covering \_\_\_\_\_
- a) Goods
  - b) Services
  - c) Both goods and services
  - d) Goods, services and imports
- 11 . What are the taxes levied on an intra-State supply?
- (a) CGST
  - (b) SGST
  - (c) CGST and SGST
  - (d) IGST
- 12 . Who will notify the rate of tax to be levied under CGST Act?
- (a) Central Government
  - (b) State Government
  - (c) GST Council
  - (d) Central Government as per the recommendations of the GST Council
- 13 . Which of the following taxes will be levied on imports?
- (a) CGST
  - (b) SGST
  - (c) IGST
  - (d) CGST and SGST
- 14 . Which of the following is not included in aggregate turnover?
- a) Exempt supplies of goods or services or both
  - b) Export of goods or services or both
  - c) Inter-State supply of goods or services or both
  - d) Value of inward supplies on which tax is paid under reverse charge
- 15 . The IGST Act, 2017 extends to the
- a. Whole of India except the state of Jammu & Kashmir
  - b. Whole of India
  - c. Whole of India except the state of Jammu & Kashmir & Pondicherry
  - d. None of the above
- 16 . What is the time of supply of goods, in case of forward charge?
- (a) Date of issue of invoice
  - (b) Due date of issue of invoice
  - (c) Date of receipt of consideration by the supplier
  - (d) Earlier of (a) & (b)
- 17 . What is the time of supply of goods, in case of a supplier opting for composition levy under Section 10 of the CGST Act, 2017?
- (a) Date of issue of invoice
  - (b) Date of receipt of consideration by the supplier
  - (c) Latter of (a) & (b)
  - (d) Earlier of (a) & (b)
- 18 . What is the time of supply of vouchers when the supply with respect to the voucher is identifiable?
- (a) Date of issue of voucher
  - (b) Date of redemption of voucher
  - (c) Earlier of (a) & (b)
  - (d) (a) & (b) whichever is later
- 19 . What is the time of supply of vouchers when the supply with respect to the voucher is not identifiable?
- (a) Date of issue of voucher
  - (b) Date of redemption of voucher
  - (c) Earlier of (a) & (b)
  - (d) (a) & (b) whichever is later

- 20 . What is the time of supply of service if the invoice is issued within 30 days from the date of provision of service?
- a) Date of issue of invoice
  - b) Date on which the supplier receives payment
  - c) Date of provision of service
  - d) Earlier of (a) & (b)

Answer:-

1.= a, 2.= b, 3.= d, 4.= a, 5.= d, 6.= a, 7.= c, 8.= c, 9.= b, 10.= c, 11.= c, 12.= d, 13.= c, 14.= d, 15.= b, 16.= d, 17.= d, 18.= a, 19.= b, 20. d.

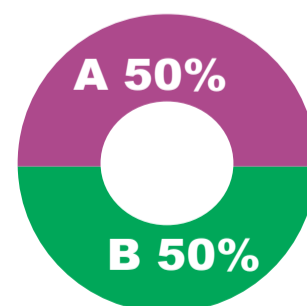




**GROUP: II, PAPER:12**  
**COMPANY**  
**ACCOUNTS & AUDIT (CAA)**

Dr. Malay Kr. Nayak  
Associate Professor,  
Dept. Of Commerce,  
M.B.B.College, Tripura  
He can be reached at:  
[malay\\_nayak@ymail.com](mailto: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****1. What do you mean by Valuation of Assets?**

**Ans-** Valuation of assets in auditing implies the critical examination and testing of determined value of assets by the auditor on basis the generally accepted convention and accounting principles, not only determination the value of assets appearing in balance sheet.

**2. What are the steps required to undergo valuation of assets by the auditor?**

**Ans:-** For the valuation of assets by the auditor has to take the following steps

- Obtain all the information available in this respect.
- Examine and analyse all the figure critically
- Test the values of various assets which have been already determined by the management or concern
- Ascertain that the values have been determined on the basis of accounting principles
- If there any change of valuation of assets in any accounting year, it should be proper examination.
- Seek assistance from the technical side for ascertaining the proper valuation of assets

**3. List the differencing points between verification and valuation of assets.**

**Ans- .:-** Difference points of verification and valuation of asserts

- Verification has a broader implication and its included valuation, valuation is a part of verification.
- Verification object of proving the existence, ownership, possession, freedom from charge and proper valuation but valuation ensure that the Balance Sheet shows a true and fair view of the financial position of the organization.
- Verification is objective but valuation is subjective
- Verification is done by the auditor or his staff but in case of valuation is done by the clients staff but it is tested by the auditor or his staff

Verification and valuation are interlinked and interdependent. It is a combined process by which the position of different assets appearing in the Balance Sheet is examined.

**4. Why balance sheet is not regarded as true valuation statement?**

**Ans:-** Balance is a statement presenting the financial position of a business concern but balance sheet is not a valuation statement for the following reasons :-

- It does not show that the capital would be worth if assets were realized and liabilities paid off. Instead, it show how to stands invested. The assets are not shown in the balance sheet at their realizable value.
- The determination of the realizable value of all the assets is neither practically possible nor desirable. Realizable or market value of assets can not ascertain unless sale the assets.

**5. Briefly discuss the method of valuation for fixed assets**

**Ans:-** Fixed assets of a business concern are those assets which are acquired not for resale but for the purpose of enabling the business to be carried on. They are held permanently for earning income.

Fixed assets which are gradually exhausted in the process of earning income ate know as wasting assets. Fixed assets are valued in balance sheet as cost less depreciation. The provision of depreciation of fixed assets is necessary and legal in economical point. The market or realizable value are not taken in balance sheet

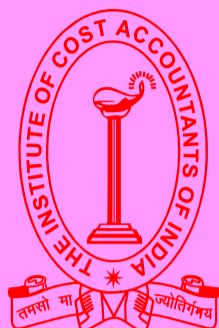
**6. Briefly state the method of valuation of statement of current assets.**

**Ans:-** Valuation of current assets states that the Balance Sheet shows true and fair view of the financial position of business enterprise. The auditor must satisfy himself that various current assets disclosed in the Balance sheet have been valued according to the Generally Accepted Principles of Accounting.

The auditor has to be very careful while verifying cash-in hand, defalcation or embezzlement of cash has become a very common technique of committing fraud.

In case of cash at bank, bank reconciliation statement is very helpful in detecting various types of fraud value of stock-in-trade has to be properly determined, (raw material, WIP and finished goods).

Now you are to be serious in study. In every aspect we are to combat vivid episode by involving in normal work.



# 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

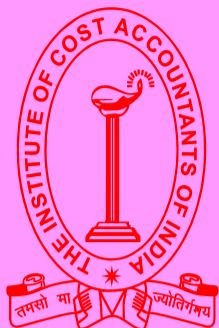
03

**Assess Yourself**

**Appear For Examination**

04

FINISHED



# SUBMISSIONS



## Update of E-Mail Address/Mobile:

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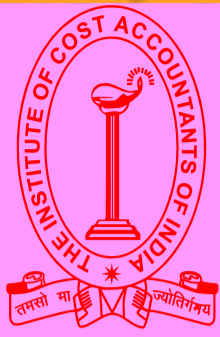
We are very much delighted to receive responses from all of you; for whom our effort is!

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,

Heartfelt wishes to you for passing the exam!! All who passed out have been sincere and diligent since day one and never failed to amaze us with your dedication. You've proved that dedication and learning end at resulting in excellent outcomes. Best wishes for achieving the best place. So proud to call you our student! Congratulations and best wishes for your life. May your future be filled with many great achievements like this.

Those who could not pass out please be steady and we believe, everyone has intellect and presence of mind. But only a few students who can deliver the right thing at right time and with right courage become the winner in the examination. So, please try to deliver your best in your next examination.

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. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

To celebrate **75 years of independence and commemorate it as India is celebrating, 'Azadi Ka Amrut Mahotsav'**, across the country and amid the coronavirus pandemic and also organizing various events. India's freedom fighters fought a long and hard struggle for the country's independence from the British and, for years, their words have inspired us. We hope that our students will also participate and pay their homage to the freedom fighters.

**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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# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

STUDENTS' E-bulletin Intermediate  
Vol. 3, No.: 12, December 2018, Issue



### Headquarters:

CMA Bhawan, 12 Sudder Street, Kolkata - 700016

### Delhi Office:

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

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# CMA LEADS

**Last Date for Admission**  
June Exam  
31<sup>st</sup> January  
of the same Calendar Year

December Exam  
31<sup>st</sup> July  
of the same Calendar Year

5,00,000<sup>+</sup>  
Students

75,000<sup>+</sup>  
Members

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Councils

98  
Chapters

9  
Overseas  
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.

## ADMISSIONS OPEN

✉ [studies@icmai.in](mailto:studies@icmai.in)

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### Cultivating and Enhancing Skills of Success

- CMA Course Curriculum is designed to meet Industry requirements and challenges in Global Economic Scenario
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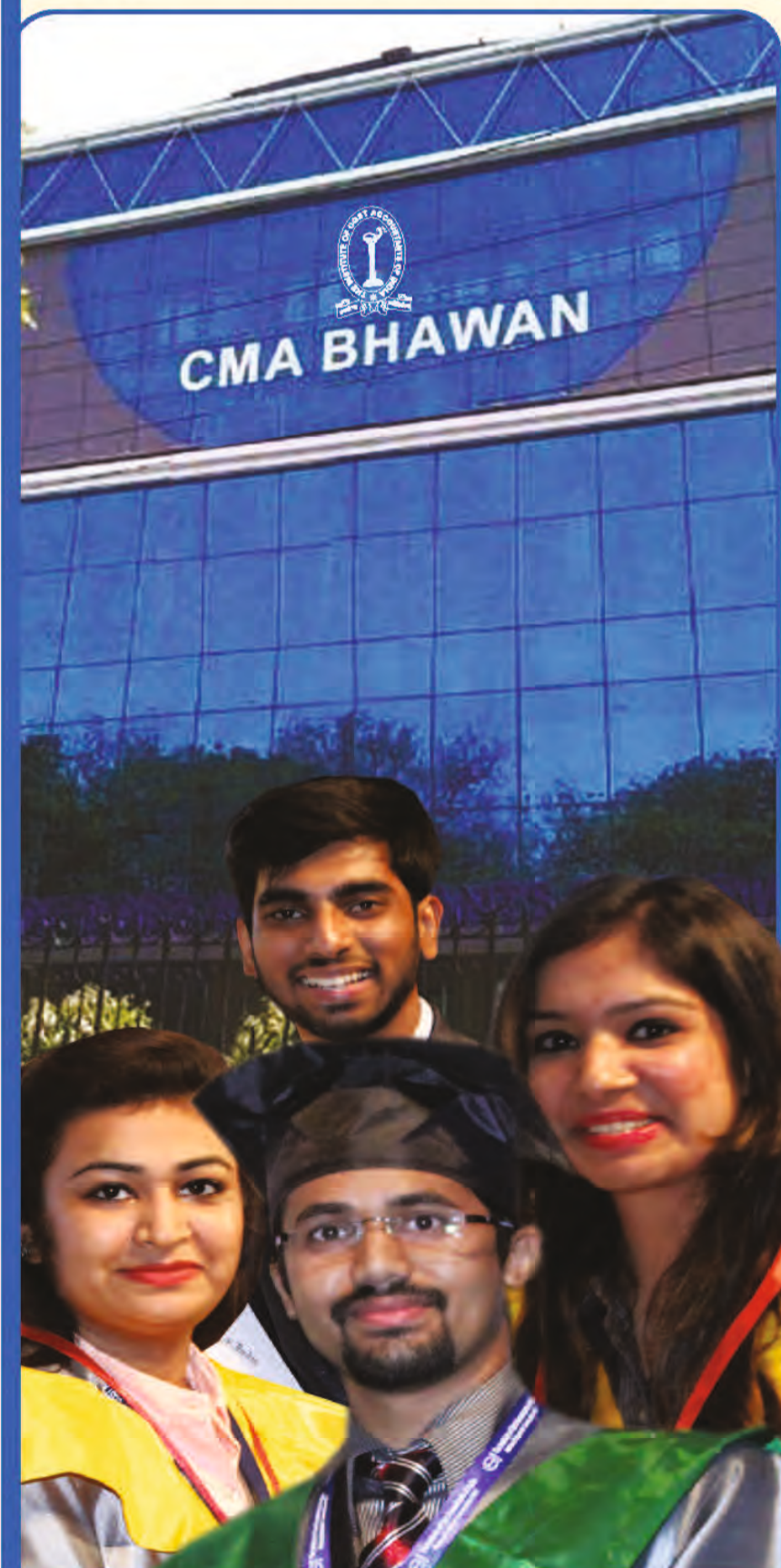
### Few of Our Proud Recruiters



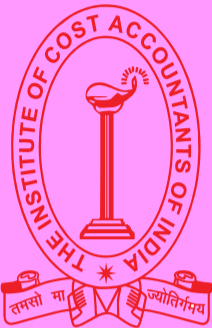
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Behind every successful business decision, there is always a **CMA**



# Few Snapshots



CMA P. Raju Iyer, President along with CMA Vijender Sharma, Vice President and CMA (Dr.) K Ch A V S N Murthy, Council Member of the Institute extending greetings to Shri Parmod Kumar Arora, Member (Actuary), Insurance Regulatory and Development Authority of India on 16th December, 2021.



CMA P. Raju Iyer, President along with CMA (Dr.) K Ch A V S N Murthy, Council Member of the Institute, CMA K Rajagopal, Chairman of SIRC, CMA S. Ramesh, Former Chairman of SIRC and CMA B.R. Prabhakar, Former Chairman of SIRC of the Institute extending greetings to Shri C.B. Ananthakrishnan, Director (Finance) & CFO of Hindustan Aeronautics Limited on 17th December, 2021.



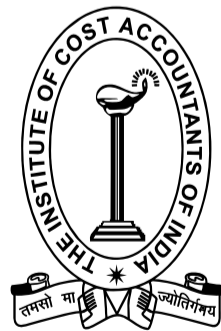
CMA P. Raju Iyer, President of the Institute extending greetings to Shri Arjun Ram Meghwal, Hon'ble Union Minister of State for Culture and Parliamentary Affairs on 27th December, 2021 during a courtesy meeting and to extend an invitation of the Hon'ble MoS for the Skill Development Program to be organised by the Institute in the month of January 2022.



CMA Neeraj Joshi, Chairman, MAC, CMA Dr. D.P.Nandy, Sr Director, CMACHittaranjan Chattopadhyay, Chairman, BFSIB, Dr.Partha Ray, Director and Member Secretary, NIBM, Dr.Kaushik Mukherjee, Associate Professor, NIBM and Dr.Arindam Bandyopadhyay, Associate Professor (Finance)



CMA Chittaranjan Chattopadhyay, Chairman, BFSIB and CMA Debasish Mitra, Chairman, Board of Advanced Studies & Research of the Institute felicitating Dr. CKG Nair, Director, NISM alongwith other officials of the Institute and NISM.



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Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143

Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003

Phone: +91-11-2462-2156/2157/2158

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