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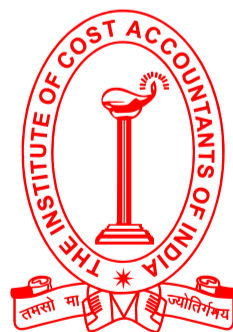


# CMA Student E - Bulletin

## INTERMEDIATE



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(Statutory Body under an Act of Parliament)

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Behind every successful business decision, there is always a CMA



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Members, Students, Employees & Well Wishers of the Institute  
Wishing you a Happy, Healthy & Prosperous

*New Year 2020*



JANUARY							FEBRUARY							MARCH							APRIL						
M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
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SEPTEMBER							OCTOBER							NOVEMBER							DECEMBER						
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### ONLY CENTRAL GOVT. GAZETTED HOLIDAYS\*

**JANUARY**  
26 Republic Day  
**MARCH**  
10 Holl

**APRIL**  
02 Ram Navami  
06 Mahavir Jayanti  
10 Good Friday  
**MAY**  
07 Buddha Purnima  
25 Id-ul-Fitr  
**AUGUST**  
01 Id-Uz-Zuha (Bakrid)

12 Janmashtami  
15 Independence Day  
30 Muharram  
**OCTOBER**  
02 Mahatma Gandhi's Birthday  
25 Dussehra  
30 Milad-un-Nabi or Id-e-Milad (Birthday of Prophet Mohammad)

**NOVEMBER**  
14 Diwali (Deepavali)  
30 Guru Nanak's Birthday  
**DECEMBER**  
25 Christmas Day

\* <https://dept.gov.in/Secy/for%20wh/How%20to%20Identify%20Gazetted%20.pdf>

**Mission**  
"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders. In the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

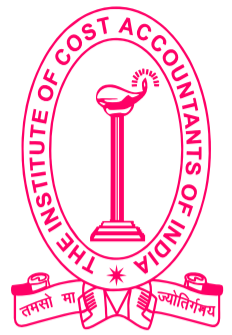
**Motto**  
असतोमा सद्गमय  
तमसोमा ज्योतिर्गमय  
मृत्योर्मांमृतं गमय  
ॐ शान्ति शान्ति शान्ति:

**Vision**  
"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."



Behind every successful business decision, there is always a CMA

*Message from*  
**The President**  
CMA Balwinder Singh  
The Institute of Cost Accountants of India



**MESSAGE FROM THE PRESIDENT**

Dear Students,

Greetings!!!

We all have stepped into a New Year, 2020 and I am sure that those who had appeared in the December, 2019 term of examination with utmost dedication and determination have done well in their examinations. Those who will be appearing in the forthcoming June, 2020 term of examination, must have already started their preparation.

Being a student of the Institute you must feel proud as the Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy. You must be aware that your Institute is the largest Cost & Management Accounting body in Asia and the 2<sup>nd</sup> largest Cost and Management Accounting body in the World.

The Institute prepares the course curriculum considering the perspective of the ongoing best practices which are in vogue both in domestic and Global arena. Professional expertise of both the academia and industry doyens is well blended in the syllabi. To achieve six important skill sets-Knowledge, Comprehension, Application, Analysis, Synthesis and Evaluation based on four knowledge pillars as Management, Strategy, Regulatory Function and Financial Reporting, the CMA course entails skills for employability Worldwide. Communication and soft skill sessions coupled with rigorous computer training help the students to enhance knowledge and to face the challenges.

Every stage in life has its own beauty. Each new day is a blank page in the diary of our life. The secret of success is in turning that diary into the best story you possibly can. Likewise, a New Year is like a blank book, and the pen is in your hands. It is your chance to write a beautiful story for yourself. On this New Year, may you change your professional direction and not mere dates, change your commitments and not the Calendar, change your attitude and not the actions, and bring about a change in your faith, your force and your focus and not the fruit. May you live up to the promises you have made. Keep your spirits and determination unshaken, and you shall always walk ahead. With courage, faith and great effort, you shall achieve everything you desire. May this New Year bring new happiness, new goals, new achievements and a lot of new inspirations in your life.

Wishing you a prosperous New Year ahead....

Happy New year!!!

CMA Balwinder Singh

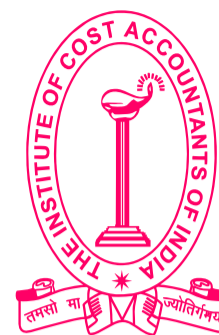
President  
The Institute of Cost Accountants of India



*Be a CMA, be a Proud Indian*

# Message from The Chairman

CMA Biswarup Basu  
Vice President & Chairman,  
Training & Education Facilities  
and Placement Committee



## MESSAGE FROM THE CHAIRMAN

Dear Students,

Happy NEW Year!!!

Wishing you a new year filled with new hope new joy and new beginnings! I pray for you and your family's happiness and well-being. May you all have an amazing year ahead!

**"Satisfaction lies in the effort, not in the attainment, full effort is full victory" -M. K. Gandhi.** The most important need for a professional course is that, when you take up a professional course, you are honed in a particular and specific subject rather than just as general studies. So, seriousness is utmost needed and you must be serious from the very beginning and you also must be dedicated and determined to fulfil your dream within a time frame set up by you.

You must be proud to note that your Institute have celebrate Global Summit 2020 on "Mission 5 Trillion CMA as a Cryogenic Force" from January 9-11, 2020 at The Ashok Hotel, New Delhi. It is a pleasure to note that the Summit had been addressed by eminent persons holding high positions in the Government and Industry leaders. Many professional Gurus cutting across continents had also joined across the Globe.

Education gives us knowledge of the world around us and changes it into something better. It develops in us a perspective of looking at life. It helps us build opinions and have points of view on things in life. People debate over the subject of whether education is the only thing that gives knowledge. Education makes us capable of interpreting things, among other things. It is not just about lessons in textbooks, it is about the lessons of life.

The Directorate of Studies are continuously trying to update your knowledge through various publications in electronic versions like Mock Test Papers (MTPs), Work Books, monthly students E-bulletins etc. where eminent academicians and industrial personnel are contributing through their write up for your knowledge development. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them.

**"Believing others is easy but believing in yourself that's the real challenge" Swami Vivekananda.** New beginnings are in order and you and you are bound to feel some level of excitement as new chances come your way!

Best wishes as always,

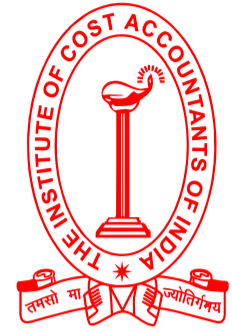
CMA Biswarup Basu  
Chairman, Training & Education Facilities and Placement Committee



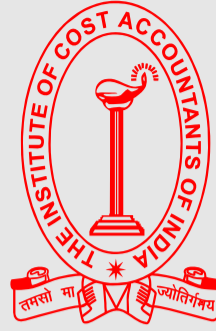
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# KNOWLEDGE Update



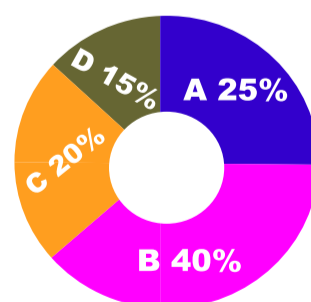
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

# Your Preparation Quick Takes



### Syllabus Structure

- A Accounting Basics 25%
- B Preparation of Financial Statements 40%
- C Self Balancing Ledger, Royalties, Hire Purchase & Installment System, Branch & Departmental Accounts 20%
- D Accounting in Computerised Environment and Accounting Standards 15%

## Learning Objective:

- Students will demonstrate their knowledge of the fundamental and technical concepts of accounting.
- Students will reveal critical-thinking and problem-solving skills.
- Students will exhibit the ability to recognize when change is appropriate, to adapt to change as it occurs, and to take the lead in creating change.
- Students will display a sense of responsibility and a capacity for the subject after learning.

## INSURANCE CLAIM - LOSS OF STOCK

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

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

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

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

Statement of claim	
Closing stock as calculated above	xx
Less : salvage value	xx
Gross claim	xx

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

- In case, where stock is not valued at the cost, first it will be valued at the cost in the last year trading account and then in the memorandum account of the current year. For example, if it is given that stock of Rs. 80,750 is valued at 85% of the cost in the last year, then first it should be valued as  $(80,750 \times 100) = 95,000$  in the last year and then in the current year memorandum Trading account.
- Cost of the sample given free of cost or withdrawal of stock by proprietor or partner of the firm for personal use, it should be adjusted in the Trading Account of the last year as well as in the current year's memorandum trading account.
- In case, where gross profits of the last several years are given, average gross profit should be taken to determine the gross profit of the current year. However, in case where clear upward trend of the gross profit or downward trend of the gross profit is identified, weighted average gross profit or reasonable trend of upward or downward trend should be applied to determine the gross profit of the current year.
- To find out the gross profit on normal sales, poor selling sale should be eliminated from the sale of the current year. Similarly, poor selling items should be eliminated from the opening and closing stock of the last years to prepare the trading account of the current year.

### AVERAGE CLAUSE

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

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

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



**Tips:**

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

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

Following illustration help you to understand it in a better way -

Suppose, value of insurance policy is Rs. 15,00,000 and at the date of fire, value of stock in hand is Rs18,00,000, out of which Rs.12,00,000 worth of stock is destroyed, then the value of the claim admitted will be -

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

Value of stock of Rs. 1,200,000 will not be admissible to the insured, rather admissible claim will be Rs. 1,000,000. In this way the firm is penalized by Rs 200000 due to under insurance.

**Illustration**

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

Particulars	Amount (Year 2017)	Amount (01 Jan to 31 <sup>st</sup> March 2018)
Sale	2,500,000	7,50,000
Purchases	1,800,000	3,50,000
Opening Stock (01-01-2017)	2,70,000	
Closing Stock (31-12-2017)	4,98,750	
Direct Expenses (Freight & wages)	1,50,000	30,000

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

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

Value of stock salvaged Rs. 45,000.

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

**Solution:**

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

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

Particulars	Amount	Particulars	Amount
To Opening Stock {270,000/90×100}	3,00,000	By Sales	25,00,000
To Purchases	1,800,000	By Stock=498750/105×100	4,75,000
To Direct Expenses	1,50,000		
To Gross Profit	7,25,000		
	29,75,000		29,75,000

- Calculate gross profit ratio. GP ratio =  $GP/sales \times 100 = x\%$  say  $725000/2500000 \times 100 = 29\%$
- Prepare the trading account of the current accounting year upto the date of fire:

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

Particulars	Amount	Particulars	Amount
To Opening Stock	4,75,000	By Sales	750,000
To Purchases	3,50,000	By Stock (Balancing Figure)	322,500
To Direct Expenses	30,000		
To Gross Profit (29% of 750,000)	2,17,500		
	10,72,500		10,72,500

7. Apply the GP % as calculated above on sales: (29% of 7,50,000) = 2,17,500

8. Closing stock will come out as a balancing figure.: Rs. 3,22,500

9. Prepare the statement of claim as follows:

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

10. Insurance Claim to be lodged will be -

Net claim	=	gross claim x policy value / value of stock
	=	2,77,500 x 3,00,000/3,22,500
	=	2,58,139.53
	=	2,58,140 (rounded off)

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

Problem :

A fire occurred in the warehouse of Dev and co on 15.05.2017 causing a destruction of a large part of stock. The firm had a fire policy of Rs. 547200 to cover the loss of stock. From the following particulars calculate the amount of claim.

	Rs.
Purchase for the year 2017	30,01,600
Sales for the year 2017	37,12,000
Purchase from 1.1.2017 to 15.05.2017	5,82,400
Sales from 1.1.2017 to 15.05.2017	7,68,000
Stock on 1.1.2017	4,60,800
Stock on 31.12.2017	7,74,400
Wages paid during 2017	3,20,000
Wages from 1.1.2017 to 15.05.2017	57,600
Stock salvaged	89,600

In 2017 some goods were destroyed by fire. The cost of such goods was Rs. 160000. These goods were not covered by insurance policy.

In valuing the stock of 31.12.2017 stock costing Rs. 34,000 were found to be of poor selling line and Rs. 6,000 in relation to such stock were written off. A portion of such goods (original cost Rs. 5000) were sold in April 2018 at a loss of Rs. 1000 on original cost. Remainder of the stock are now estimated to be worth the original cost. Subject to the above exception gross profit has remained at a uniform rate throughout.

Solution:

1. Find the date of fire 15.5.2018
2. Find the accounting year in which it relates (current accounting year): 1.1.18 to 31.12.2018
3. Find the previous accounting year: 1.1.2017 to 31.12.2017
4. Prepare trading account of the previous accounting year:

Trading Account of M/s Dev and co  
(For the year ending on 31st December, 2017)

	Total		Total
To opening stock	4,60,800	By sales	37,12,000
To purchase	30,01,600	By loss	1,60,000
To wages	3,20,000	By closing stock:	
To gross profit	8,70,000	• Normal item *	7,46,400
		• Abnormal item	34,000
	46,52,400		46,52,400

$$*774400-(34000-6000) = 774400-28000 = 746400$$

5. Calculate gross profit ratio. G P ratio = GP/sales x 100 = x% say

$$870000/3712000 \times 100 = 23.4375 \%$$

6. Prepare the Trading account of the current accounting year upto the date of fire:

Trading Account of M/s Dev and co  
(For the period 1.1.2018 to 15.05.2018)

	Normal	Abnormal	Total		Normal	Abnormal	Total
To opening stock	7,46,400	34,000	7,80,400	By sales	7,64,000	4,000	7,68,000
To purchase	5,82,400		5,82,400	By loss		1,000	1,000
	57,600		57,600	By closing stock	8,01,463	29,000	8,30,463
To gross profit	1,79,063		1,79,063				
23.4375% on 764000							
	15,65,463	34,000	15,99,463		15,65,463	34,000	15,99,463

7. Apply the GP % as calculated above on sales: (23.4375% of 7,64,000) = 1,79,063

8. Closing stock will come out as a balancing figure.: Rs. 8,30,463

9. Prepare the statement of claim as follows:

Value of Stock=	Rs. 8,30,463
Less: Stock Salvage=	Rs.89,600
Gross claim=	Rs.7,40,863

10. Insurance Claim to be lodged will be -

$$\begin{aligned} \text{Net claim} &= \text{gross claim} \times \text{policy value} / \text{value of stock} \\ &= 7,40,863 \times 5,47,200 / 8,30,463 \\ &= 4,88,162 \end{aligned}$$

Here an average clause will be applied because the value of insurance policy (Rs.5,47,200) is less than the value of stock (Rs. 8,30,463) on the date of fire.

A similar kind of problem is also given below for your practice:

Mr. Bimal Bhandari suffered a loss of stock on 31.3.2010. From the following information, prepare a statement showing claim for the loss to be submitted:

	Rs.		Rs.
Stock on 1.1.2009	76,800	Closing stock on 31.3.2009	63,600
Purchase during the year 2009	3,20,000	Purchases from 1.1.2010 to 31.3.2010	1,08,000
Sales during the year 2009	4,05,200	Sales from 1.1.2010 to 31.3.2010	1,22,800

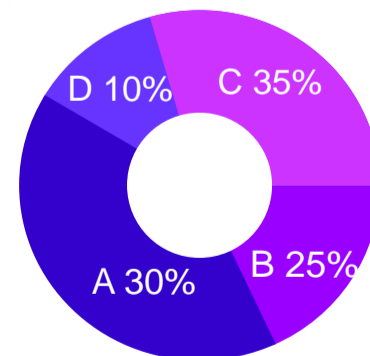
An item of goods purchased in 2008 at a cost of Rs. 20,000 were valued at Rs. 12,000 on 31.12.2008. Half of these goods were sold for Rs. 5,200 during 2009, and the remaining stock was valued at Rs. 4,800 on 31.03.2009. One fourth of the original stocks was sold for Rs. 2,800 in February 2010 and the remaining was valued at 60% of the original cost. With this exception of this item, the rate of gross profit remained uniform. There was an average clause in the insurance policy which was for Rs. 3,00,000. The stock salvaged was Rs. 24,000.



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

## Your Preparation Quick Takes



**Syllabus Structure**  
A Commercial Laws **30%**  
B Industrial Laws **25%**  
C Corporate Laws **35%**  
D Ethics **10%**

**Learning Objectives:**

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

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

**LAW & ETHICS**

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

In this issue we shall continue to deal with Corporate Laws – Companies Act, 2013 which became law on 12<sup>th</sup> September, 2013 after the President of India gave his affirmation (to replace the Companies Act, 1956) on 29<sup>th</sup> August, 2013

Let us start with Public Offer

Issue of securities by a Public Company

Section 23(1) provides that a public company may issue securities:

- ❖ To the public through issue of Prospectus
- ❖ Through private placement
- ❖ Through a rights issue ; or
- ❖ Through issue of Bonus shares in case of listed company

A Prospectus is a document drafted, signed and issued by a public company offering securities for sale. Section 2(70) of the Act defines prospectus. A Prospectus is required to be issued only after the incorporation of the company. The prospectus contains key facts and information about the company that could help investors make an informed decision. The prospectus contains key facts and information about the company that could help investors make an informed decision. Section 26 of the Act read with Rule 3,4,5, 6 of Companies (Prospectus and Securities ) Rules, 2014 provides the matters to be stated in a Prospectus.

Private placement is not a public offering. It is a case where shares are offered to mostly to a small number of chosen investors. It can be an offering to an individual person or corporate entity, institutional investors, such as banks and pension funds, or high-net-worth individuals or to a small group of investors.

Right shares are those shares that are issued by a company to its existing shareholders who have the right to subscribe to those shares. Right Shares are offered with certain conditions. For example – a 1:2 Rights issue means an existing investor can buy one extra share for every 2 shares already held by him/her. Generally the new Right shares are offered at a discount i.e. at a price less

than the prevailing market price of that stock.

Here we must remember that whereas Right shares are offered to the shareholders at a price less than the existing market price, it is actually issued in order to raise additional fund / capital, Bonus shares are issued to the shareholders free of cost.

Public offering is the offering by a company of its securities listed on a stock exchange to the public. A public offering requires the issuing company to publish a Prospectus laying down the terms and rights attached to such offering of securities, along with information on the company and its finances.

Initial public offering (IPO) is one type of public offering when a company offers its shares for the first time for public ownership and trading, thereby making it a public company.

Public offerings can also be made by already-listed companies in order to issue additional securities to the public, adding to those currently being traded.

Companies offer its securities in order to raise funds to run their operations. These shares, depending on the type of share, entitles the shareholder to a stake of ownership in the company and also gives certain rights to the shareholder to be able to share in the company's profitability.

Prospectus and information to be stated in the Prospectus

A Prospectus is a document drafted, signed and issued by a public company offering securities for sale. Section 2(70) of the Act defines prospectus. A Prospectus is required to be issued only after the incorporation of the company. The prospectus contains key facts and information about the company that could help investors make an informed decision. The prospectus contains key facts and information about the company that could help investors make an informed decision. Section 26 of the Act read with Rule 3,4,5, 6 of Companies (Prospectus and Securities ) Rules, 2014 provides the matters to be stated in a Prospectus.

Information to be stated in the Prospectus

- Every prospectus issued by or on behalf of a company must be dated
- It shall state reports on financial information and other information viz. details of officers, bankers, trustees, underwriters and such other persons as may be specified by the SEBI in consultation with the Central Government.

- A copy of the prospectus shall be signed by every director or proposed director or by his agent and delivered to the registrar on or before the date of publication.
- Every prospectus issued to the public should mention that a copy of the prospectus along with the specified documents has been filed with the registrar.
- If prospectus includes a statement made by an expert, the expert must not be engaged or interested in the formation or promotion or in the management of the company. A written consent of the expert should also be obtained before the issue of prospectus with the statement.
- A prospectus must not be issued more than 90 days after the date on which a copy thereof is delivered for registration. If a prospectus is issued it will be deemed to be a prospectus a copy of which has not been delivered to the registrar.
- A prospectus shall make a declaration about the compliance of the provisions of the act and nothing contained in the prospectus is in contravention of the provisions of the Companies Act, Securities Contracts (Regulation) Act, 1956 and Securities Exchange Board of India Act, 1992.

Rule 3 states that every prospectus issued shall contain the following information—

1. Names and addresses of the registered office of the company, company secretary, Chief Financial Officer, auditors, legal advisers, bankers, trustees, if any, underwriters and such other persons as may be prescribed;
2. The dates of opening and closing of the issue;
3. A declaration made by the Board or the Committee authorized by the Board in the prospectus that the allotment letters shall be issued or application money shall be refunded within fifteen days from the closure of the issue or such lesser time as may be specified by SEBI ;
4. A statement by the Board of Directors of separate bank account;
5. The details of all the utilized and unutilized monies out of the monies collected in the previous issue made by way of a public offer;
6. The details of the underwriters and the amount underwritten by them;
7. The consent of trustees, advocates, merchant bankers, registrar, lenders, and experts;
8. The authority for the issue and the details of the

resolution passed, therefore;

9. The capital structure of the company in the prescribed manner;
10. Procedure and time schedule for allotment and issue of securities;
11. Main objects of the issue, the purpose for requirements of funds, funding plan, the summary of the project appraisal report and such other particulars as may be prescribed;
12. Minimum subscription, amount payable by way of premium, issue of shares otherwise than on cash;
13. The details of any litigation or legal action pending or taken by any Ministry or Department of the Government or a statutory authority against any promoter of the issuer company during the last five years immediately preceding the year of the issue of the prospectus;
14. The details of pending litigation;
15. The details of default and non-payment of statutory dues;
16. The details of directors including their appointment and remuneration, and particulars of the nature and extent of their interest in the company;
17. The disclosure for sources of promoters' contribution;
18. Other relevant information which is necessary for the members to take an informed decision on the proposed resolution.

Reports and Other matters to be set out in the Prospectus

Rule 4, mentions the following reports that the company needs to set out in the prospectus :

1. Reports by the auditors with respect to profits and losses and assets and liabilities of the company.
2. Reports relating to profits and losses for each of the five financial years.
3. Reports about the business or transaction to which the proceeds of the securities are to be applied.

Other matters and reports which are to be stated in the prospectus, as given in Rule 5 are as :

1. Proceeds / part of the proceeds, of the issue of the shares/debentures, as applied directly or indirectly in the purchase of any business, profits or losses of the business, assets, and liabilities of the business, in purchase or acquisition of any immovable property.
2. Acquisition by the company of shares in any other body corporate.

3. Matters relating to terms and conditions of the term loans including re-scheduling, prepayment, penalty, default.
4. The aggregate number of securities of the issuer company and its subsidiary companies purchased or sold by the promoter group and by the directors of the company.
5. The Related Party Transactions (RPTs) entered during the last five financial years.
6. The details of acts of material frauds committed against the company.

Variation in the terms of contract or objects in the prospectus

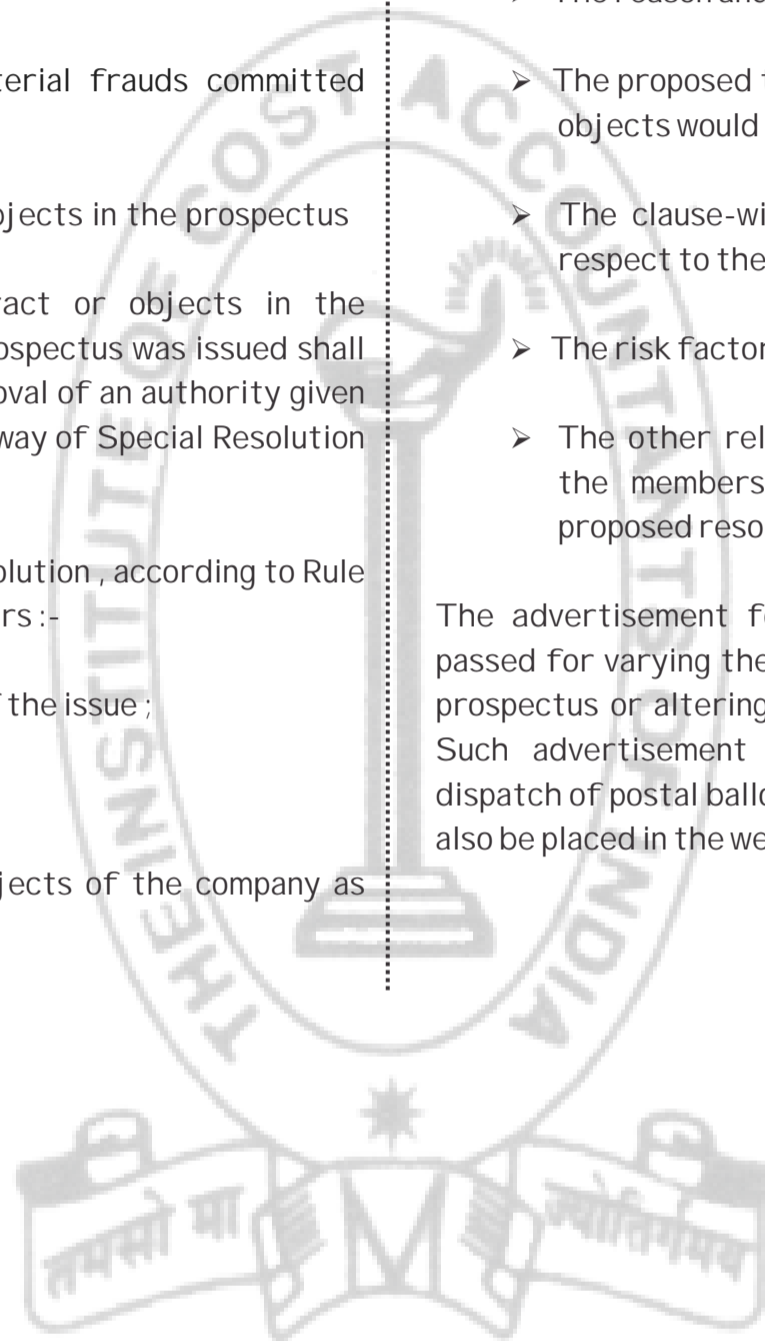
No variation in the terms of contract or objects in the prospectus or objects for which the prospectus was issued shall be allowed, except subject to the approval of an authority given by the company in a general meeting by way of Special Resolution through postal ballot.

The Notice of the Proposed Special Resolution, according to Rule 7(1), shall contain the following particulars :-

- The original purpose or object of the issue ;
- The total money raised
- The money utilized for the objects of the company as stated in the prospectus

- The extent of achievement of proposed objects
- The unutilized amount of the money so raised through prospectus
- The particulars of the proposed variation in the terms of contract referred to in the prospectus or objects for which the prospectus was issued
- The reason and justification for seeking variation
- The proposed time limit within which the proposed varied objects would be achieved
- The clause-wise details as specified in Rule 3(3) with respect to the originally proposed objects of the issue
- The risk factors pertaining to the new objects ; and
- The other relevant information which is necessary for the members to take an informed decision on the proposed resolution.

The advertisement for the notice for getting the resolution passed for varying the terms of any contract referred to in the prospectus or altering the objects shall be in Form No.PAS-1. Such advertisement shall be published simultaneously with dispatch of postal ballot notices to shareholders. The notice shall also be placed in the website, if any, of the company.



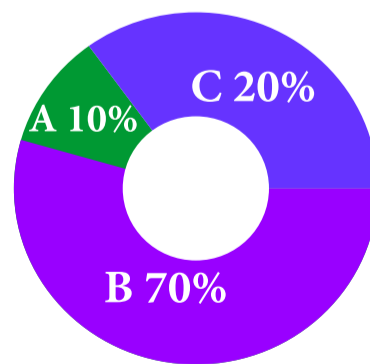


GROUP: I , PAPER: 7

# 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.

**Agricultural Income****Meaning**

Agricultural income means -

- Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes;
- Any income derived from such land by agricultural operations<sup>#</sup>;
- Any income derived from such land by the cultivator by processing the agricultural produce raised or by the receiver of rent in kind by processing the agricultural produce received; so as to render it fit for sale in market.
- Any income derived from such land on sale made by the cultivator of the agricultural produce raised; or by the receiver of rent in kind of the agricultural produce received; without carrying on any process, other than the process required to render it fit for the market.
- Any income derived from a building subject to fulfillment of the following conditions
  - The building should be occupied by the cultivator or receiver of rent in kind.
  - The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes.
  - The building should be used as dwelling house or store-house or other out building.
  - The land is either situated in rural area or assessed to land revenue.

<sup>#</sup>Agricultural operation means:

- Basic Operation: It means application of human skill & labour upon the land, prior to germination. E.g. Tilling of land, sowing of seeds, planting, irrigation, etc.
- Subsequent Operation: It means operations which fosters the growth and preserves the produce; for rendering the produce fit for sale in market; and which are performed after the produce sprouts from the land. E.g. pruning, cutting, harvesting, etc.

Activity	Whether treated as agricultural activity or not
Mere Basic Operation	Agricultural activity
Mere Subsequent Operation	Not an agricultural activity
Subsequent operation together with basic operation	Agricultural activity

**Treatment of Partly Agricultural & Partly Non-Agricultural Income**

- Growing & manufacturing tea: 60% is agricultural income and 40% is non-agricultural income.
- Growing & manufacturing rubber: 65% is agricultural income and 35% is non-agricultural income.
- Growing & manufacturing coffee:
  - If coffee grown and cured by the seller: 75% is agricultural income and 25% is non-agricultural income.
  - If coffee grown, cured, roasted and grounded by the seller: 60% is agricultural income and 40% is non-agricultural income.
- Any Other Case: In such case, assessee will prepare two statements of income, i.e., one for agro-business and another for non agro-business and for computing agricultural income, the market value of any agricultural produce, which is utilised as raw material in such business, is to be treated as revenue for agro-business and deductible expenditure for non agro-business.

**Impact of Agricultural Income on Tax Computation**

Conditions:

1. The assessee is an individual, HUF, a BOI, an AOP, or an artificial juridical person.
2. The assessee has non-agricultural income exceeding exempted limit of income.
3. The agricultural income of assessee exceeds Rs. 5,000.

Treatment

Step 1: Compute income tax on total income of assessee including Agro-income.

Step 2: Compute income tax on (Agricultural income + Maximum exempted limit)

Step 3: Tax liability before cess = (Tax as per step 1) - (Tax as per step 2)

Choose the correct option

1. Which of the following is an agriculture income?
  - (a) Dividend paid by a company to its shareholders out of agricultural income
  - (b) **Share of Profit of a Partner from a firm engaged in an agriculture operation**
  - (c) Income from supply of water by a assessee from a tank in agriculture land
  - (d) Interest received by a money lender in the form of agricultural produce
2. Which of the following incomes received by an assessee are exempt under section 10 of the Income-tax Act, 1961?
  - (a) **Agriculture Income**
  - (b) Salary of a partner from a firm
  - (c) Salary received by a member of a ship's crew
  - (d) Cash gift of Rs. 5,00,000 received from a friend
3. In case of an individual or HUF, agricultural income is -
  - (a) Exempted
  - (b) **Exempted but included in the total income for the rate purpose**
  - (c) Fully taxable provided it is earned from India
  - (d) Taxable at a flat rate of 10%
4. In case of an assessee engaged in the business of manufacturing of tea, his agricultural income is -
  - (a) 60% of total receipt of the business
  - (b) **60% of income of the business**
  - (c) Nil
  - (d) 40% of income of the business
5. Remuneration to partner of a firm engaged in the business of growing and manufacturing of rubber in India is -
  - (a) **Partly agricultural income and partly non-agricultural income**
  - (b) Agricultural income
  - (c) Non-Agricultural income
  - (d) Exempted income
6. Out of the following, which activity shall be considered as agricultural activity?
  - (a) Subsequent operation on the agricultural land
  - (b) **Basic operation on the agricultural land**
  - (c) Marketing operation of the agricultural produce
  - (d) None of the above
7. Agricultural income is exempt u/s \_\_\_\_\_ of the Indian Income-tax Act, 1961.
  - (a) **10(1)**
  - (b) 2(1A)
  - (c) 10(2A)
  - (d) 10A
8. Income from saplings shall be considered as \_\_\_\_\_.
  - (a) **Agricultural Income**
  - (b) Business Income
  - (c) Partly agricultural income and partly business income
  - (d) Income from other sources

9. Which of the following is not an agriculture income?
- (a) Rent received from a land situated in India for agriculture purpose
  - (b) Income derived from agriculture produce
  - (c) **Income derived from land being let out for marriage of a farmer**
  - (d) Income from producing of tea leaves
10. Mr. X is engaged in growing and manufacturing tea in India. His income from this activity is Rs. 1,40,000. His agriculture income will be -
- (a) Rs. 70,000
  - (b) **Rs. 84,000**
  - (c) Rs. 1,40,000
  - (d) Rs. 56,000

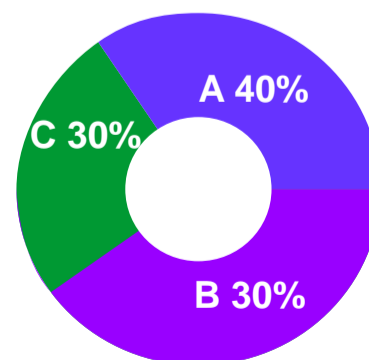




GROUP: I , PAPER: 8  
**COST ACCOUNTING**  
(CAC)

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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**

Today we are living in a competitive world. There is also scarcity of natural resources. The urgent need of the day is to utilize the resources efficiently. The role of Cost Accountants in this regard plays an important role all over the world. Starting as a branch of Financial Accounting, Cost Accountancy has made a remarkable progress during the last few decades.

An effective cost accounting system is an integral part of the management for efficient running of the business. A critical study of theory as well as solving the practical problems is very much essential for securing good marks in the exam. The students are requested to go through the theoretical part first for easy understanding the topic and then try to solve the problems that are in exercise. Start from Chapter one and try to complete the other chapters serially as this will enable you to understand better the succeeding chapters. 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. Success of these examinations mainly depends on student's perseverance, seriousness of study, regularity and through practice.

Based on my prolonged experience in this field, following tips may be suggested for the running students:

1. Try to go through your Study Note and know the syllabus properly.
2. A plan should be developed for completing the syllabus within stipulated time.
3. Try to analyze the trends of setting questions.
4. Time schedule with specified activities, which will help you to avoid procrastination.
5. Clarity of concepts and self expression is essential for successful result.
6. Improve your speed by practice and revision to be able to attempt all questions in limited time.
7. Try to write down all the important terms in your own words and practice it regularly.

8. The student should remember that all objective type questions should be answered as it will carry 100% marks.
9. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

Here the entire syllabus is divided into Six Chapters. The first chapter deals with the basic concept of cost accounting, beside its other two branches viz, Financial Accounting and Management Accounting. The second chapter relates to the Elements of cost in details. We know the three major elements of costs are – Material, Labour and Overheads. Here the major elements of costs are discussed elaborately and analyzed element-wise with sufficient number of examples. Material consists of the major part of total cost of a product, hence it is necessary to control this cost very carefully. You should read the scope and objectives of different Cost Accounting Standards in details. It will help to grasp the concept of cost accounting easily.

The third chapter is associated with Cost book-keeping, which includes integrated accounting system also. This chapter is very easy to understand but the process is lengthy. In practice, different accounts are to be opened, but it is not necessary to give much effort to complete its solution.

The chapter Contract Costing is very important for this type of examination. There are some standard norms for computation and recognition of profit /loss of incomplete contract. Students sometimes experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. Make sure that you are familiar with various methods/formulas for different stage of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP-9.". Problems on escalation clause are also very important for this chapter.

The next chapter is Operating Costing. Here we have to find out operating cost per unit of output. 'Transport Costing', 'Hospital Costing', 'Power House Costing', 'Hotel/ Hostel Costing' etc are also part of Operating Costing. Here it is very important to find out the "Composite Unit" in order to solve the problems. Operating costing has derived its name from Cost ascertainment by each operation.

The chapter Marginal Costing is not a particular method of Cost ascertainment but a technique dealing with the nature and behavior of Cost and their effects on profitability of an

organization. This chapter relates to find out Cost-volume-profit relationships of products. The main thrust should be to follow the wording and determine the desired impact of cost on profitability. The basic part of the problem is to solve Break-even-point. Sometimes a question gives details of costs but not the split into fixed and variable elements. Students are advised to segregate total costs into fixed and variable elements using high-low method. For a product of different sales mix, contribution per unit of key factor should be found out and then different options should be marked on the same basis, i.e. contribution per unit of key factor. For easy understanding you have to solve various types of problems.

The next chapter relates to 'Variance Analysis' which 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 formulae 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.

'Budget and budgetary Control' which requires preparation of 'Flexible Budget', Functional Budget, and 'Cash Budget' for taking necessary actions. 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 budgets 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 Purchased Budget. The students should also go through the theory - like, concepts of Zero-Based Budgeting, Behavior and Classifications of Budgets etc.

Marginal Costing has been used mainly for internal reporting with a view to enabling the management to effectively plan and control the operations. It is a management technique of ascertaining of Marginal Cost and of the effect of profit for change in volume or type of output by differentiating the total cost into fixed and variable and find out the break-even point for maximizing profit.

A company producing a single product sells it at Rs. 50 per unit. Unit variable cost is Rs. 35 and fixed cost amounts to Rs. 12 lakhs per annum. With this data you are required to calculate the following, treating each independent of the other :

- P/V ratio and break-even Point.
- New Break-even sales if variable cost increases by Rs. 3 per unit, without increase in selling price.
- Increase in sales required if profits are to be increased by Rs. 2.4 lakhs.
- Percentage increase/decrease in sales volume units to off-set :

- An increase of Rs. 3 in the variable cost per unit.
- A 10% increase in selling price without affecting existing profits quantum.
- Quantum of advertisement expenditure permissible to increase sales by Rs. 1.2 lakhs, without affecting existing profits.

#### Solution

$$(a) \text{ P/V Ratio} = \frac{\text{Sales - variable cost}}{\text{Sales}} \times 100$$

$$\text{i.e., } \frac{\text{Rs. } 50 - 35}{\text{Rs. } 50} \times 100 = 30\%$$

$$\text{Break-even sales} \times \text{P.V. ratio} = \text{Fixed cost.}$$

$$\text{B.E. sales} \times 30\% = 12 \text{ lakhs.}$$

$$\text{B.E. Sales} = \frac{12 \text{ lakhs}}{30} \times 100 = 40 \text{ lakhs}$$

- Sales price = Rs. 50 ; new variable cost = Rs. 35 + 3 = Rs. 38  
Contribution per unit = Rs. 50 - Rs. 38 = Rs. 12  
B.E.S.  $\times$  P/V ratio = 12 lakhs (Fixed cost)  
Or B.E.S.  $\times$  12 / 50 = 12 lakhs

$$\text{Revised B.E.S.} = 12 \text{ lakhs} \times 50/12 = 50 \text{ lakhs.}$$

- Additional sales required = X  
Additional profit = Additional contribution  
Additional contribution required = 2.4 lakhs

$$X \times 30\% = 2.4 \text{ lakhs.}$$

$$X = 2.4 \text{ lakhs} \times 100/30 = 8 \text{ lakhs.}$$

- (i) New variable cost = Rs. 38 per unit

$$\text{New contribution} = 12 \text{ per unit}$$

$$\text{Reduction in contribution} = 15 - 12 = \text{Rs. } 3$$

Sales required to earn a contribution of Rs. 3 = Rs. 3  $\times$  50/12 = Rs. 12.5 or 12.5/50  $\times$  100 = 25% ; i.e. 25% increase in sales volume will offset increase of Rs. 3 in variable cost per unit .

- (ii) New selling price = Rs. 55

$$\text{New contribution} = \text{Rs. } 55 - \text{Rs. } 35 = \text{Rs. } 20.$$

$$\text{Increase in contribution} = \text{Rs. } 20 - \text{Rs. } 15 = \text{Rs. } 5$$

$$\text{Sales required to earn a contribution of Rs. } 5$$

$$= \text{Sales required} \times \text{P/V ratio} = \text{Rs. } 5$$

$$\text{Or Sales required} \times \text{Rs. } 20 / \text{Rs. } 55 = 5$$

$$\text{Or Sales required} = \text{Rs. } 5 \times 55 / 20 = 13.75$$

$$\text{Or } 13.75/55 \times 100 = 25\% \text{ decreased in sales volume.}$$

- Contribution increase by additional sales by Rs. 1.2 lakhs = 120000  $\times$  30/100 = 36000

Rs. 36000 should be the maximum permissible advertisement expenditure to set-off an increase of Rs. 1.2 lakhs without affecting existing profit.



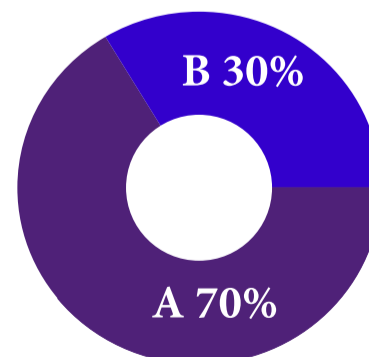
GROUP: II, PAPER: 9, Part- i

# 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 continuation to our discussion in December issue, in this and in succeeding few issue we will study on important definitions which may be required to answer various short type questions.

**Early Manufacturing Involvement:** In many cases design engineers do not have a good understanding of the capabilities or limitations of their company's manufacturing facilities. Increased contact with manufacturing can sensitize them to the realities of making a product. Simply consulting manufacturing personnel early in the design process about critical factors or constraints can improve the quality of product design. This is called early manufacturing involvement.

**Effective Capacity:** Design capacity minus allowances such as personal time and maintenance. Design capacity is the maximum rate of output achieved under ideal condition. Effective capacity is always less than the design capacity owing to realities of changing product mix, the need for periodic maintenance of equipment, lunch breaks, tea breaks, problems in scheduling, balancing operations and similar circumstances.

**Energy Productivity:** Units of output or monetary value of output per kilowatt-hour

**Engineering Change Orders:** Given the lengthy duration of a project, changes in customer preferences, technology and costs cause frequent adjustments in product and process design. These are engineering change orders.

**Engineering Concurrent:** or Concurrent engineering in its narrowest sense means bringing design and manufacturing engineering people together early in the design phase to simultaneously develop the product and the processes for creating the product. More recently this concept has been enlarged to include manufacturing personnel, marketing and purchasing personnel in loosely integrated cross functional teams.

**Enterprise project management:** It refers to the management and control of a company-wide portfolio of projects. It is also called project management.

**Enterprise Resource Planning:** Enterprise resource planning (ERP) is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources.

**Enumeration Approach:** It is a used in linear programming. Under this approach, while drawing graphs of the constraints, the coordinates of each corner point are determined and then each set of coordinates is substituted into the objective function to determine its value at that corner point. After all corner points have been evaluated, the one with the maximum or minimum value is identified as the optimal solution.

**Environmental Scanning:** It is the monitoring of events and trends that present either threats or opportunities for the organisation. Generally these include competitors' activities, changing consumer needs, legal, economic, political and environmental issues etc.

**Equivalent Current Value:** In financial analysis the present value method summarises the initial cost of an investment, its estimated annual cash flows and any expected salvage value in a single value called the equivalent current value, taken into account the time value of money.

**Ergonomics:** Under work design and measurement ergonomics or human factors is the scientific discipline concerned with the understanding of interactions among humans and other elements of a system, and the profession that applies theory, principles, data and methods to design in order to optimise human well being and overall system performance.

**Ethical Framework:** Now a days many organisations have developed codes of ethics to guide employees' or members' conduct. In this respect an ethical framework is a sequence of steps intended to guide thinking and subsequent decisions or actions.

**Event Response Capability:** Under supply chain management event response capability is the ability to detect and respond to unplanned events such as delayed shipment or a warehouse running low on a certain item.

**Exception Reports:** Under MRP exception reports call attention to major discrepancies such as late and overdue orders, excessive scrap rates, reporting errors and requirements for nonexistent parts.

**Excess Costs:** Pertains to items left over at the end of the product. In effect excess cost is the difference between purchase cost and salvage value.



**Expand Early Strategy:** Expand early strategy is taken under capacity expansion programme for determining the timing and degree of capacity expansion. Under this strategy capacity expansion is taken before demand materializes. The intent might be to achieve economies of scale, to expand market share or to preempt competitors from expanding. The risks of this strategy include an oversupply that would drive price down, an underutilized equipment that would result in higher unit costs.

**Explicit Services:** The essential or core features of a service

**Exponential Service time:** In management of waiting line the simplest model involves a system that has one server. The queue discipline is first come first served and it is assumed that the customer arrival rate can be approximated by a Poisson distribution and service time by a negative exponential distribution which is called exponential service time.

**Exponential Smoothing:** It is a sophisticated weighted averaging method that is still relatively easy to use and understand. Each new forecast is based on the previous forecast plus percentage of the difference between that forecast and the actual value of the series at that point.

**Extended producer responsibility(EPR):** Extended Producer Responsibility (EPR) is a policy approach under which producers are given a significant responsibility – financial and/or physical – for the treatment or disposal of post-consumer products

**External failures:** These are failures discovered after delivery to the customer. External failures are defective products or poor service that go undetected by the producer. Resulting costs include warranty work, handling of complaints, replacements etc.

**Facility Layout:** Facility layout is an arrangement of different aspects of manufacturing in an appropriate manner as to achieve desired production results. Facility layout considers available space, final product, safety of users and facility and convenience of operations.

**Factor Rating:** Factor rating is a technique that can be applied to a wide range of decisions ranging from personal (buying a car, what to eat etc) to professional (choosing a career, choosing among job offers). Besides other things in operations management it could be used in location planning and analysis.

**Fail Safing:** A design feature through which elements are incorporated in product or service design that make it virtually impossible for an employee to do something incorrectly. Fail Safe system's design prevents or mitigates unsafe consequences of the system's failure.

**Failure Costs:** Costs caused by defective parts or products or by faulty services. e.g. Lost production time, scarp etc.

**Feasible solution space:** The set of all feasible combinations of decision variables as defined by the constraints.

**Fill Rate:** The percentage of demand filled by the stock on hand.

**Finite Loading:** Finite loading projects actual job starting and stopping times at each work center, taking into account the capacities of each work center and processing time of jobs so that capacity is not exceeded.

**Fixed automation:** This type of automation is also referred as hard automation. It refers to an automated production facility in which the sequence of processing operations is fixed by the equipment configuration.

**Fixed Position layout:** Layout in which the product or project remains stationary and workers, materials and equipment are moved as needed.

**Flexible Manufacturing System:** A group of machines designed to handle intermittent processing requirements and produce a variety of similar products. Group of machines include supervisory computer control, automatic material handling & contain some of benefits of automation and some of the flexibility of individual or standalone machines. It offer reduced labour cost and more consistent quality when compared with more traditional manufacturing methods.

**Flow Process Chart:** This chart is used to examine the overall sequence of an operation by focusing on movements of the operator or flow of materials

**Flow Shop Scheduling:** It is a special case of job shop scheduling where there is strict order of all operations to be performed on all jobs. High volume systems are characterized by standardised equipment and activities that provide identical or highly similar operations on customers or products as they pass through the system. The goal is to obtain a smooth rate of flow of goods or customers through the system in order to get a high utilisation of labour and equipment. High volume systems where jobs follow the same sequence are often referred to as flow systems. Scheduling in these systems is referred to as flow shop scheduling. High volume products include autos, personal computers etc.

**Focus Forecasting:** Some companies use forecasts based on a "best recent performance" basis. This approach is called focus forecasting. Focus forecasting uses a computer simulation program that evaluates the forecast performance of a number of rules on past data. The program keeps track of the rules and evaluates how well they perform.

For example :We will sell over the next three months what we sold over the last three months or What we sold in a three-month period last year, we will sell in the same three month period this year.

**Forward Scheduling:** It means scheduling ahead from a point in time. Forward scheduling is planning the tasks from the date resources become available to determine the shipping date or the due date. It enables the scheduler to determine the earliest possible completion time for each job and thus the amount of lateness or the amount of slack can be determined.

**Gantt Charts:** A Gantt chart, a form of visual aid, is a type of bar chart that illustrates a project schedule. This chart lists the tasks to be performed on the vertical axis, and time intervals on the horizontal axis. The purpose of the chart is to organise and visually display the actual or intended use of resources in a time framework.

**Gatekeeping:** It oversees the acceptance of returned goods with the intent of reducing the cost of returns by screening returns at the point of entry into the system and refusing to accept goods that should not be returned or goods that are returned to the wrong destination.

**Gross Requirements:** The total expected demand for an item or raw material during each time period without regard to the amount on hand.

**Group Technology:** It involves identifying items with similarities in either design characteristics like size, shape or manufacturing characteristics like type, sequence of operations and grouping them into part families.

**Heijunka:** Heijunka (pronounced hi-JUNE-kuh) is a Japanese word that means "leveling." When implemented correctly, heijunka elegantly – and without haste – helps organizations meet demand while reducing wastes in production and interpersonal processes. Variations in production volume lead to waste. The workload must be leveled and volume and variety must be averaged to achieve a steady flow of work

**Hierarchical Organisation:** A hierarchical organization is an organizational structure where every entity in the organization, except one, is subordinate to a single other entity. This arrangement is a form of a hierarchy.

**Holding Costs:** Holding or carrying costs relate to physically having items in storage. Costs include interest, insurance, taxes, depreciation, obsolescence, deterioration, spoilage, pilferage, breakage, tracking, picking and warehousing costs. It also include opportunity costs associated with having funds that could be used elsewhere tied up in inventory.

**Independent Events:** Events whose occurrence or nonoccurrence does not influence each other

**Infinite Loading:** When jobs are assigned to work centers without regard to the capacity of the work center

**Infinite Source Situation:** In queuing problem under infinite source situation the potential number of customers greatly exceeds system capacity i.e. customers arrivals are unrestricted.

**Information Velocity:** The speed at which information is communicated in a supply chain. The faster information flows the better.

**Interchangeable Parts:** Parts of a product made to such precision that that they do not have to be custom fitted. Key concept that launched mass production was interchangeable parts. The basis for interchangeable parts was to standardise parts so that any part in a batch of parts would fit for any product of that type.

**Intermittent Processing:** Process layout are designed to process items or provide services that involve a variety of processing requirements. The variety of jobs that are processed requires frequent adjustments to equipment. This causes a discontinuous work flow, which is referred to as intermittent processing.

**Inventory Turnover:** It is a ratio of annual cost of goods sold to average inventory investments. The turnover ratio indicates how many times a year the inventory is sold.

**Inventory Velocity:** The rate at which material moves through a supply chain is referred to as inventory velocity. The greater the velocity the lower the inventory holding costs and the faster orders are filled and goods are turned into cash.

**Irregular Variation:** In time series data irregular variations are due to unusual circumstances such as severe weather conditions, strikes, or major change in a product or service. They do not reflect typical behavior and their inclusion in the series can distort the overall picture.

**Jidoka:** In conjunction with lean operations Jidoka indicates quality at the source. A machine automatically stops when it detects a bad part.

**Job Design:** It involves specifying the content and methods of jobs. It focuses on what will be done in a job, who will do the job how the job will be done and where the job will be done. Its objective is to included productivity, safety and quality of work life.

**Job Enlargement:** It means giving a worker a larger portion of the total task. This constitutes horizontal loading – the additional work is on the same level of skill and responsibility as the original job. The goal is to make the job more interesting by increasing the variety of skills required and by providing the worker with a more recognizable contribution to the overall output.

**Job Enrichment:** It involves an increase in the level of responsibility for planning and coordination tasks. It is also called vertical loading. The job enrichment approach focuses on the motivating potential of worker satisfaction. Stack clerks in supermarkets if handles reordering of goods also, that increase their responsibilities.

**Job Flow Time:** The amount of time from when a job arrives until it is finished

**Job Lateness:** The difference between the actual completion date and the due date.

**Job Rotation:** When workers periodically exchange jobs

**Johnson's Rule:** In operations research, Johnson's rule is a method of scheduling jobs in two work centers. Its primary objective is to find an optimal sequence of jobs to reduce makespan (the total amount of time it takes to complete all jobs). It also reduces the amount of idle time between the two work centers.

**Judgment Forecasts:** Qualitative forecasting techniques are subjective, based on the opinion and judgment of consumers and experts; they are appropriate when past data are not available. They are usually applied to intermediate- or long-range decisions.

**Just in Time (JIT):** Just-in-time (JIT) manufacturing, also known as just-in-time production or the Toyota Production System (TPS), is a methodology aimed primarily at reducing times within the production system as well as response times from suppliers and to customers. A highly coordinated processing system in which goods move through the system and services are performed just as they are needed.

**Kaizen:** A Japanese term for continuous improvement. The philosophy that seeks to improve all factors related to the process of converting inputs into outputs on an ongoing basis is called continuous improvement.

**Kanban:** In conjunction to lean operation kanban means a manual system used for controlling the movement of parts and materials that responds to signal of the need (i.e. demand) for delivery of parts or materials. This applies both to delivery to the factory and delivery to each workstation.

**Kano Model:** The Kano Model is an insightful way of understanding and categorizing Customer Requirements (or potential features) for new products and services. It was created in the early 80's by Japan's professor Noriaki Kano. This model offered a perspective on customer perceptions of quality different from the traditional view that "more is better". Instead Kano model proposed different categories of quality and posited that understanding them would better position designers to assess and address quality needs. The model employs three definitions of quality: Basis, Performance and Excitement.

**Knowledge Based Pay:** A pay system used by organisation to reward workers who undergo training that increases their skills

**Lead Time:** Lead time is the amount of time that passes from the start of a process until its conclusion. Companies review lead time in manufacturing, supply chain management, and project management during pre-processing, processing, and post-processing stages. By comparing results against established benchmarks, they can determine where inefficiencies exist.

**Leading Capacity Strategy:** Leading Capacity strategy builds capacity in anticipation of future demand increases. If capacity increases involve a long lead time this strategy maybe the best option.

**Lean Operations:** Lean operations is a means of running an organization by focusing on providing greater customer satisfaction while using as few resources as possible. The objective of lean operations is twofold: Creating value for customers and eliminating waste. Companies that use lean operations are highly concerned with efficiency.

**Lean Systems:** A Lean system describes a business or business unit that holistically applies Lean principles to the way it plans, prioritizes, manages, and measures work. The goal for any Lean system is to maximize customer value.

**Level Capacity Strategy:** One of the strategy under aggregate planning. Under this strategy variations in demand are met by using some combination of inventories, overtime, part-time workers, subcontracting and back orders while maintain a steady rate of output.

**Line Balancing:** The process of assigning tasks to workstations in such a way that the workstations have approximately equal time requirement

**Line Balancing:** The process of assigning tasks to workstations in such a way that the workstations have approximately equal time requirement

**Load Charts:** A Gantt chart that shows the loading and idle times for a group of machines or list of departments.

**Load Reports:** Department or work center reports that compare known and expected future capacity requirements with projected capacity availability.

**Loading:** The assignment of jobs to processing centers.

**Local Priority Rules:** It focus on information pertaining to a single workstation when establishing a job sequence.

**Low level Coding:** In an MRP system Low level coding restructure the bill of materials so that multiple occurrences of a component all coincide with the lowest level at which the component occur.

**Lumpy Demand:** Demand that is uneven in terms of timing and quantity variations, and may require more investment in inventory or a longer response time than predictable, even demand. For a variety of reasons organisations tend to periodically order batches of an item from their suppliers. This create lumpy demand for suppliers.

**Makespan:** It means total time needed to complete a group of jobs from the beginning of the first job to the completion of the last job.

**Manufacturability:** The capability of an organisation to produce an item at an acceptable profit

**Mass Customization:** A strategy of producing basically standardised goods, but incorporating some degree of customisation

**Master Scheduling:** It is the detailed planning process that tracks manufacturing output and matches this against customer orders that have been placed. The master schedule is the next step in planning after the sales and operations planning (S&OP).

**Mean Control charts:** Control chart used to monitor the central tendency of a process

**Methods analysis:** One of the techniques used by self-directed teams and work analysts is method analysis which focuses on how a job is done.

**Microfactory:** Small factory with a narrow product focus located near major markets.

**Micromotion Study:** The technique in time and motion study of making a pictorial elapsed-time study of the elements or subdivisions of an operation by means of a high-speed motion-picture camera and a specialized timing device.

**Minimax Regret:** In decision making under uncertainty determination of the worst regret for each alternative and choice of the alternative with the "best worst" is required. This approach seeks to minimise the difference between the payoff that is realised and the best payoff for each state of nature.

**Modular Design:** A form of standardization in which component parts are grouped into modules that are easily replaced or interchanged.

**Motion Study:** It is a systematic study of the human motions used to perform an operation. The purpose is to eliminate unnecessary motions and to identify the best sequence of motions for maximum efficiency.

**Muda:** In conjunction to lean operation Muda means waste and inefficiency

**Multiple Priority Model:** Under management of waiting line through multiple priority model customers are processed according to some measure of importance

**Naïve Forecasts:** A forecast for any period that equals the previous period's actual value.

**Net Change system:** It is an approach that updates MRP records continuously

**Normal Operating Conditions:** The set of conditions under which an item's reliability is specified.

**Optimistic Time:** In project management the length of time required under optimal condition

**Order Fulfilment:** Order fulfilment refers to the process involved in responding to customer orders. Fulfilment time can be an important criterion for customers. It is often a function of the degree of customisation required.

**Order Qualifiers:** Order qualifiers are those characteristics that potential customers perceive a minimum standards of acceptability for a product to be considered for purchase.

**Order Releases:** It is an authorization for the execution of planned orders.

**Order Winners:** Order winners are those characteristics of an organisation's goods or services that cause them to be perceived as better than competition.

**Pareto Analysis:** is a technique for focusing attention on the most important problem areas. Pareto Analysis is a statistical technique in decision-making used for the selection of a limited number of tasks that produce significant overall effect. It uses the Pareto Principle (also known as the 80/20 rule) the idea that by doing 20% of the work one can generate 80% of the benefit of doing the entire job.

#### Suggestions:

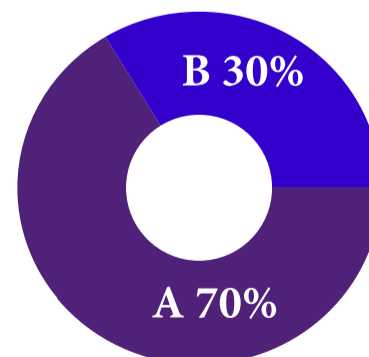
These definitions are taken purely in connection to teachings imparted by the Guide book issued by Institute and some reference books covering the syllabus. The study guide on Operations Management issued by Institute is to be studied thoroughly and many of these sort of definitions are to be noted carefully to answer the columnar matching type questions. In this month discussions are held in alphabetical order beginning from alphabet E. Up to alphabet D discussions were made in the previous month. Attempts are made here to explain all the definitions in some detail. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson.



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

## Your Preparation Quick Takes



### Syllabus Structure

A Operations Management 70%

B Strategic Management 30%

**Learning Objectives:**

- The course will follow in general terms the strategy development process from audit to formulation of strategic plans, their implementation and evaluation.
- Students will be introduced to strategic management in a way so that their understanding can be better.
- The ultimate aim of the course is to develop students as future managers who will add value by 'strategically managing' the organisation's resources and capabilities.

**MANAGEMENT**

Strategic Management refers to how organizations define the business outcomes that they want to achieve, and then how they will utilize their resources to achieve those outcomes.

**Strategic Management Process:**

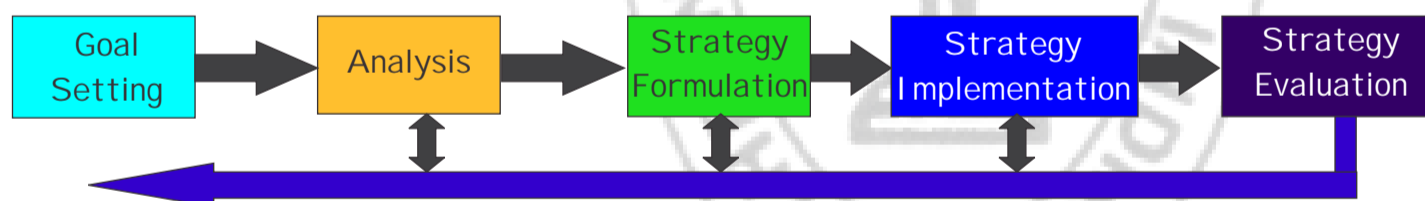
The strategic management process is more than just a set of rules to follow. It is a philosophical approach to business. Upper management must think strategically first, then apply that thought to a process. The strategic management process is best implemented when everyone within the business understands the strategy.

The five stages of the process are:

- Goal-setting,
- Analysis,
- Strategy formation,
- Strategy implementation and
- Strategy monitoring.

Thus, Strategic Management Process is an ongoing process of five steps which defines the way an organization makes its strategy to achieve its goals. Using Strategic Management Process, an organization decides to implement a selected few strategies along with stakeholders, details the implementation plan and keeps on appraising the progress & success of implementation through regular assessment.

The five stages of strategic management process are shown in the figure below:



The process is not a one-time implementation but we can think strategic management process as a loop which keeps on going to achieve the objectives as per the need.

**Goal Setting:**

The vision and goals of the organization are clearly stated. The short-term and long-term goals are defined, processes to achieve the objectives are identified and current staff is evaluated to choose capable people to work on the processes. This can be done through proper environmental scanning.

**2. Analysis:**

Data relevant to achieve the goals of the organization is gathered, potential internal and external factors that can affect the sustainable growth of the organization are examined and SWOT analysis is also performed.

**3. Strategy Formulation:**

- ❖ Data relevant to achieve the goals of the organization is gathered,
- ❖ Potential internal and external factors that can affect the sustainable growth of the organization are examined and
- ❖ SWOT analysis is also performed.

**4. Implementation:**

After formulation of the strategy, the employees of the organization are clearly made aware of their roles and responsibilities. It is ensured that funds would be available all the time. Then the implementation begins.

### 5. Strategy Evaluation:

In this process, the strategies being implemented are evaluated regularly to check whether they are on track and are providing the desired results. In case of deviations, the corrective actions are taken.

As shown in the figure, the five stages are not stand-alone and constantly interact with each other in order to ensure better management of the business.

To make strategic management tangible, it's helpful to apply a structured strategic management process. This process describes the steps, in order, that an organization should perform to figure out:

- where they want to get to,
- how they're going to get there and
- whether or not they're succeeding.

### Why is Strategic Management Important?

1. Increases the speed of decision making at a tactical level-  
Having strategic direction means that you can make tactical decisions much more quickly. Understanding the ultimate outcomes of your organization helps you to prioritize your tactics based on their effect upon those outcomes.
2. Improves employee engagement  
Having a commonly understood and well respected set of goals, as well a clear plan of how to get there, is far more motivating for employees than simply showing up and working for the sake of it.
3. Makes hiring decisions easier  
When you know what you want, it's much easier to figure out what capability gaps you have. That makes the hiring process far easier and reduces the number of poor hires.
4. Creates interest in the organization  
Having a strategic plan makes it easier for outside parties (eg: potential investors) to understand and get interested in what you're doing.

### SWOT Analysis:

One of the most famous ways of doing both internal and external strategic analyses, is through a SWOT Analysis. This technique consider factors like:

#### Strengths:

- What are you good at?
- What skills do you have as an organization?
- You should be looking to strengthen these skills throughout your strategic management process.

#### Weaknesses:

- What aren't you good at?
- Why have you failed in the past?
- You should be looking either to solve for these weaknesses or worst-case, avoid situations where they could hurt you.

#### Opportunities:

- What are the unique opportunities that you can exploit in the market?
- Which of the strengths that you've outlined give you an edge and how will you utilize them?
- You should be looking to rapidly capitalize on these types of opportunities.

#### Threats:

- What aspects are there in your environment that could hurt your ability to exploit opportunities?
- Are there any macro or micro economic issues that you need to be aware of?
- You should be looking to mitigate for these threats wherever possible.

Generally speaking - understanding the strengths and weaknesses are internal strategic analysis exercises. Understanding the opportunities and threats involves looking outside the organization - like the economic and political climate, competitors, market dynamics, etc.

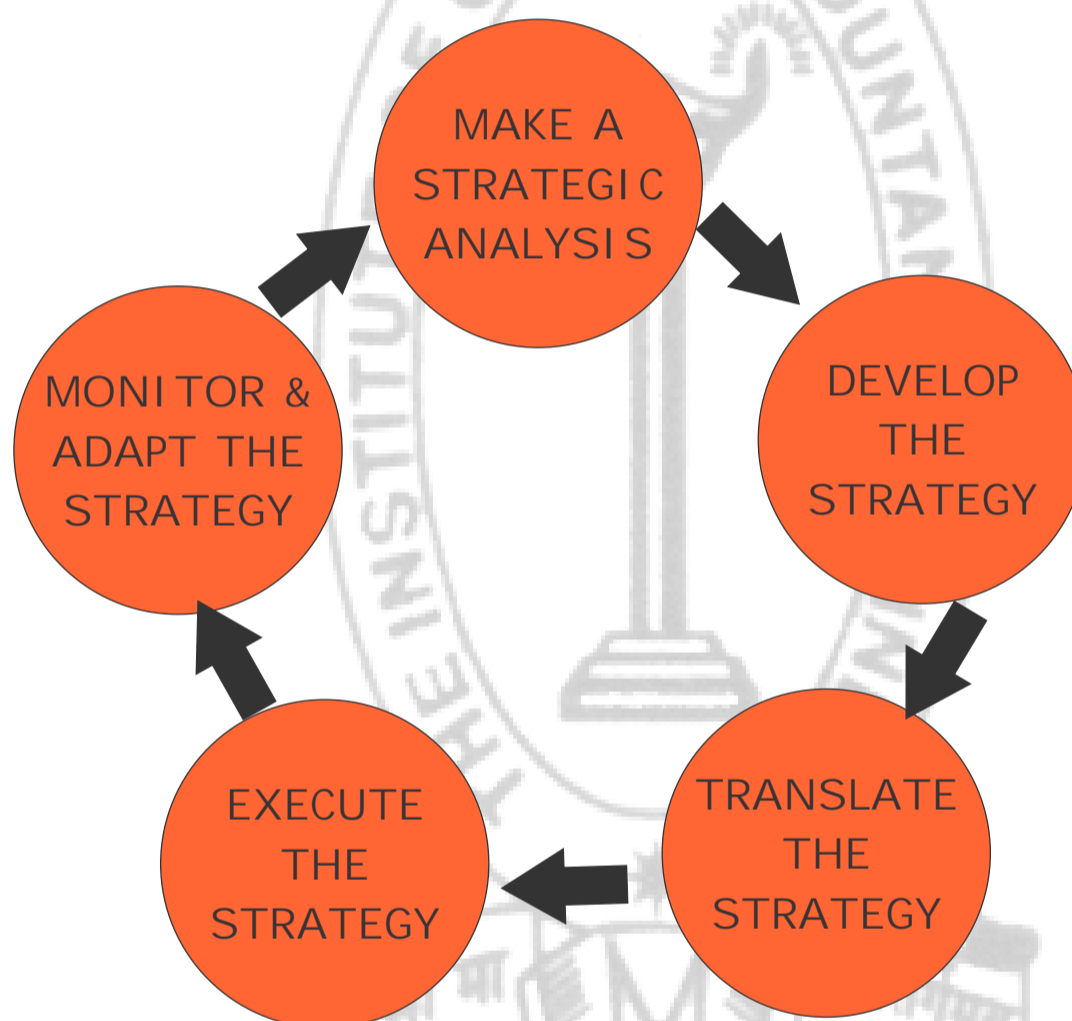
Understanding the environment (internally and externally) is another critical prerequisite to strategy formulation. It might even cause one, to revisit the vision to ensure that it's realistically achievable. Either way, understanding the environment is a critical component of the strategic management process.

#### Importance of Strategic Management Process

The strategic management process enables the organization of plan ahead through proper approach in order to gain competitive advantage wrt competitors. The process equips the organization to deal various internal and external factors. The process can differ for various organization depending on their size, domain, focus and core competency but the importance of strategic management process remains the same.

The strategic management framework takes the level of intelligence from know-how to understanding why strategic management should be approached in a particular manner , understanding the application of the key constructs, concepts, and themes. Enquiry is the process to understand and design a business organization.

The application of the Strategic Management process may follow the way mentioned below:



"Sound strategy starts with having the right goal." Michael Porter





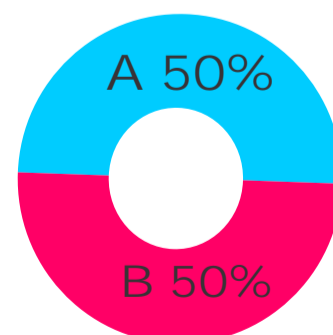
GROUP: II , PAPER: 10

## 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.

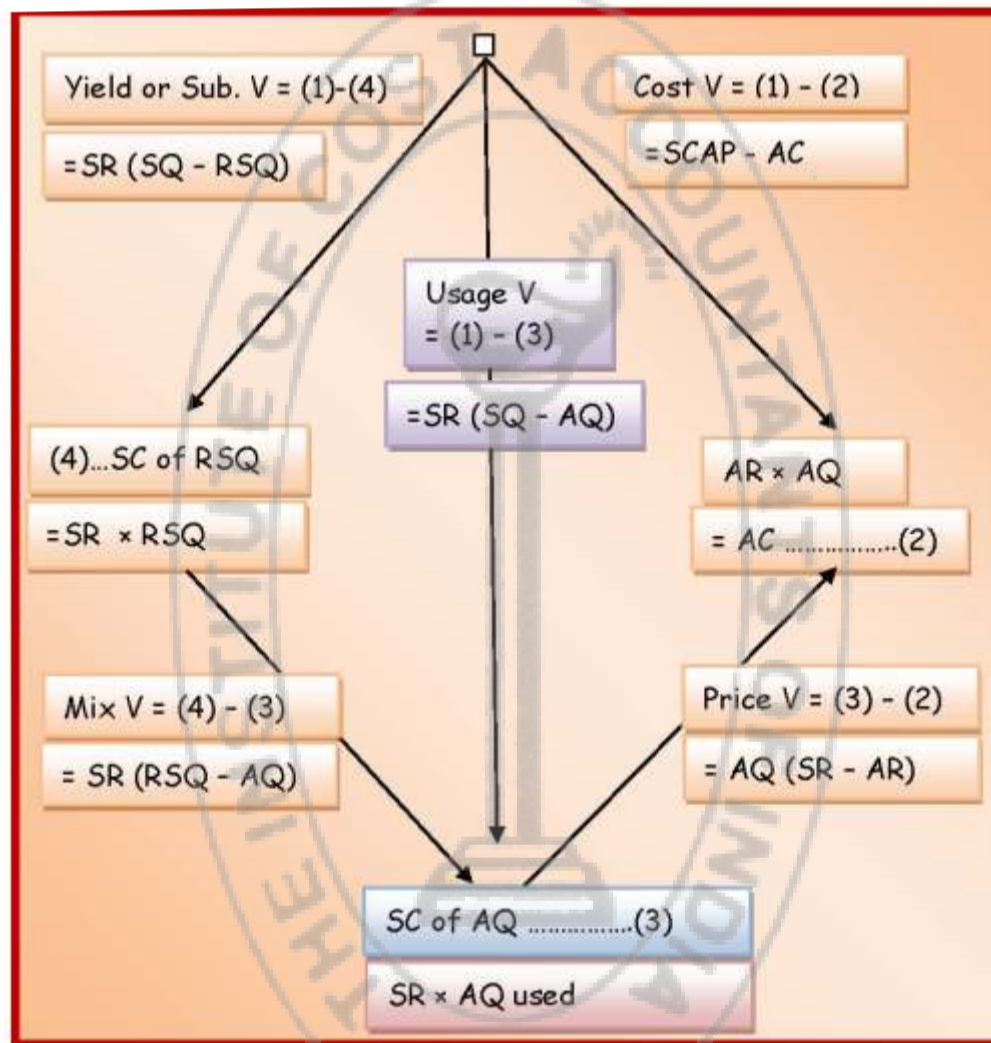
**VARIANCE ANALYSIS IN STANDARD COSTING**

You are cordially welcome to an innovative method of solution through diagram which is specially designed for variance analysis, being an integral part of standard costing.

A specimen diagram reflecting the MATERIAL COST VARIANCE ANALYSIS is drawn below, which shows how the appropriate formulae are interlaced with the diagram. This would certainly help clear your concept and further exercise in order to develop the requisite skill for solving a variance analysis problem easily and within the shortest possible time.

**MATERIAL COST VARIANCE ANALYSIS**

$$\begin{aligned} &SR \times SQ \text{ for AP} \\ &= SR \times SQ \times AP \\ &SCAP \dots\dots(1) \end{aligned}$$



Abbreviations used in the diagram:

SR = Standard Rate or Price	AR = Actual Rate or Price
SQ = Standard Quantity for Actual Production	AQ = Actual Quantity
SC = Standard Cost	AP = Actual production
RSQ = Revised Standard Quantity	AC = Actual Cost
V = Variance	SCAP = Standard Cost of Actual production
	Std = Standard

The features of a diagram are detailed below:

- A diagram consists of three or more arrows.

- Each arrow contains a bottom side and a spearhead side.
- The data placed at spearhead side is to be deducted from that of bottom side. Such data may be SCAP, AC, SC of AQ and SC of RSQ computed as shown in the illustrative problems following.
- The resulting balance, if positive, would signify a Favourable Variance while a negative balance would signify an Unfavourable or Adverse Variance, automatically.

Let the diagrammatic solution be introduced with the following illustrative problem.

### MATERIAL COST VARIANCE

#### Problem 1.

The standard cost and actual usage of a certain chemical mixture are given below:

Standard	Actual
Material A 40% Rs. 200 per ton	90 ton @ Rs. 180 per ton
Material B 60% Rs. 300 per ton	110 ton @ Rs. 340 per ton
Standard loss of 10% is expected in production	Actual Production is 182 ton
Calculate all variances.	

Solution:

The basic data is Actual Production (AP) = 182 tons and standard loss is 10%.

Keeping in mind the basic data, the first step is to find out the Standard Quantity (SQ) of input which would have produced AP i.e., 182 Tons. If you arrange the data in the following manner (Simple Unitary Method), SQ would come out.

Output	Input	SQ
90	100	
182	202.22	A : 40% = 80.888 Tons B: 60% = 121.332 Tons

Now, we can proceed on to compute Standard Cost of Actual Production (SCAP) as shown in the Table (1) below

Table (1) SCAP

Material	SQ (Ton)	SR (Rs.)	Amount (Rs.)	SR of
A	80.888	200	16178	
B	121.332	300	36400	
	202.22		52578	*SIM= Rs. 260 (Standard Input Mix) [RS. 52578/202.22]
Std Loss 10%	20.22			
Output (or Production)	182.00			Yield = Rs. 288.89 [Rs. 52578/182 Ton]

We shall now work out the following:

Table (2) : Actual Cost (AC) to find out the Cost Variance

Table (3) : Standard Cost of Actual Quantity used (SC of AQ) to find out The Price Variance and Usage Variance

Table (4) : Standard Cost of Revised Standard Quantity (SC of RSQ) to find out Mix Variance and Yield Variance.

Table (2) Actual Cost (AC)

Material	Qty (Ton)	Actual Rate (Rs.)	Amount (Rs.)
A	90	180	16,200
B	110	340	37,400
	200		53,600

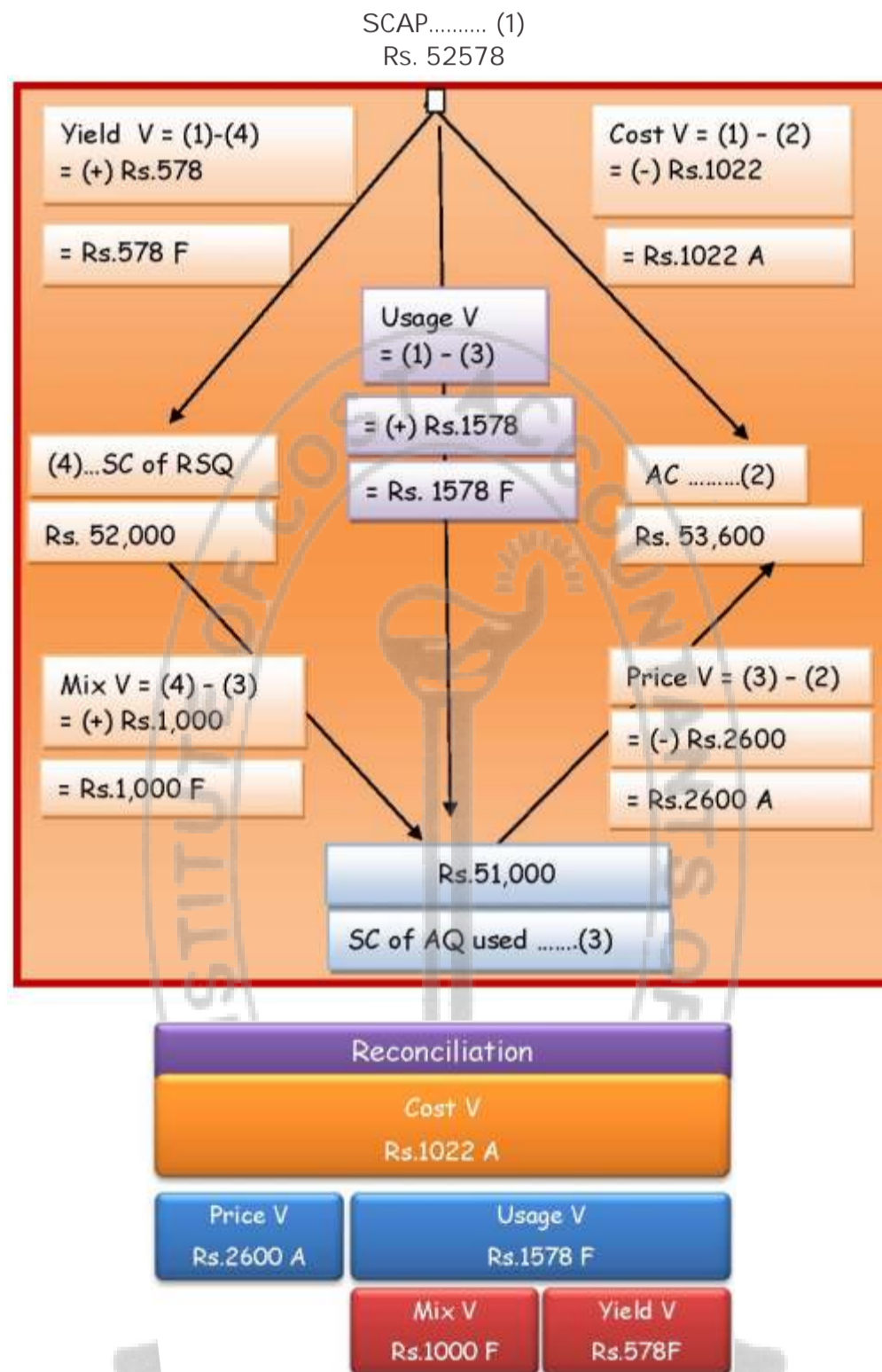
Table (3) : Std. Cost of AQ used (SC of AQ)

Material	Qty (Ton)	Actual Rate (Rs.)	Amount (Rs.)
A	90	200	18,000
B	110	300	33,000
	200		51,600

Table (4) : Std. Cost of Revised Std. Qty (SC of RSQ)

Material	AQ in Std Production	RSQ	SR (Rs.)	Amount (Rs.)
A	200 × 40%	80	200	16000
B	200 × 60%	120	300	36000
		200		52000

Now, put the amounts appearing in the Four tables in the diagram as drawn below, which would reflect in the parenthesis favourable or adverse variance automatically.



Check : SC of RSQ = SR of Std Input Mix × RSQ = Rs. 260 × 200 = Rs. 52000

Yield V = SR of yield (Actual yield – Std Yield from Actual Input Mix)  
= Rs. 288.89 (182 – 180) = Rs. 578 F

Std. yield from AI M

	Input	Output
Std	100	90
	200	180

A) Probable reasons for Price Variance: -

- ❖ Change in the price of materials.
- ❖ Cash and trade discounts not availed of.
- ❖ Change in bulk purchase.

- ❖ Payment of excess or less freight.
- ❖ Inefficient purchase organization.
- ❖ Change in tax structure.
- ❖ Use of substitute materials at different prices.
- ❖ Failure to take advantage of off- season price.
- ❖ EOQ not followed up.
- ❖ Transit losses and discrepancies not claimed.

B) Probable reasons for Usage Variance: -

- ❖ Use of substitute materials.
- ❖ Inefficiency in production resulting in wastages, or excessive scrap.
- ❖ Uneconomic use of materials.
- ❖ Inefficient and inadequate inspection of materials.
- ❖ Faulty materials processing.
- ❖ More rejections.
- ❖ Purchase of different materials.
- ❖ Change in materials mix.

C) Probable reasons for Mix Variance: -

- ❖ Using expensive substitutes or cheaper ones.
- ❖ Non- purchase of certain materials at the right time due to faulty purchase policy.
- ❖ Change in market conditions.
- ❖ Delay in supply.
- ❖ General shortage of certain materials.
- ❖ Inefficiency of stores management.
- ❖ Inefficiency of production department in proper mixing of materials.

D) Probable reasons for yield variance: -

- ❖ Sub-standard quality of materials due to fault of purchase departmental.
  - ❖ Lack of proper supervision.
  - ❖ Defective method of operation.
  - ❖ Improper equipment, tools etc.
  - ❖ Lack of due care in handling.
- Last four factors are attributable to the fault of production department.

Problem: 2

SV Ltd. Manufactures BXE by mixing 3 raw materials. For every batch of 100 kg of BXE, 125 kg of raw materials are used. In a certain month 60 batches were prepared to produce an output of 5600 kg of BXE. The standard and actual particulars are as under.

Rate Material	Standard Mix %	Price per Kg (Rs.)	Actual Mix %	Price per Kg (Rs.)	Quantity of raw materials purchased (Units)
A	50	20	60	21	5000
B	30	10	20	8	2000
C	20	5	20	6	1000

Calculate all variances

Solution:

The basic data is Actual Production (AP) = 5600 Kg and standard loss is 20%

	Input	Loss
Std.	125	25
\	100	20

The first step is to find out the Standard Quantity (SQ) of input which would have produced (AP) i. e. 5600kg. It is found that SQ of input is 7000kg

	Output	Input
Std.	100	125
\	5600	7000

We can now proceed on to compute SCAP as shown in Table (1) below

Table (1) Std. Cost of Actual Production (SCAP)

Material	%	Std. Qty. (Kg)	SR (Rs.)	Amount (Rs.)	SR for
A	50	3500	20	70,000	
B	30	2100	10	21,000	
C	20	1400	5	7,000	
	100	7000			SIM = Rs.14 (Std Input Mix) (Rs. 98,000/7,000)
Std Loss	20	1400			
Output (Production)	80	5600			Yield =Rs.17.5 [Rs. 98,000/5,600]

We shall now work out the following: -

Table (2) Actual cost (AC) to work out cost variance ,

Table (3) Std. Cost of Actual Quantity (SC of AQ) to work out price variance and usage variance

Table (4) Std. cost of revised Std. Quantity (SC of RSQ) to work out Mix variance and yield variance

Table (2) Actual Cost (AC)

Actual Input of 125 kg × 60 batches = 7,500 kg

Material	%	Actual Quantity (Kg)	Actual Rate (Rs.)	Amount (Rs.)
A	60	4500	21	94,500
B	20	1500	8	12,000
C	20	1500	6	9,000
	100	7500		1,15,500
Loss	25.333%	1900		
	74.6667	5600		
	Say 75			

It shows that actual loss is much greater than standard loss of 20%, leading to adverse yield V.

Table (3) Std. cost of Actual Quantity used (SC of AQ)

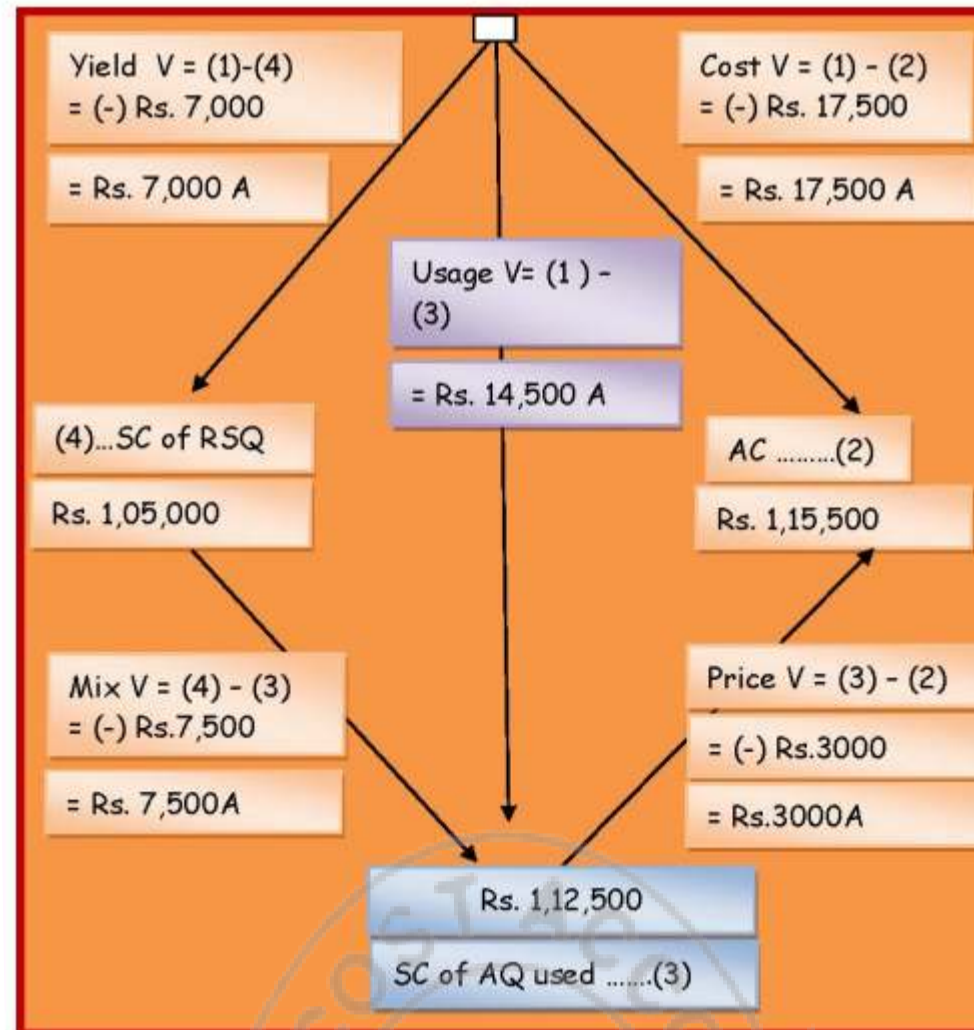
Material	AQ (Kg)	Std. Rate (Rs.)	Amount (Rs.)
A	4500	20	90,000
B	1500	10	15,000
C	1500	5	7,500
	7500		1,12,500

Table (4) Std. Cost of Revised Std. Quantity (SC of RSQ)

Material	AQ in std proportion =	RSQ (Kg)	SR (Rs)	Amount (Rs.)
A	7500 × 50%	3750	20	75,000
B	7500 × 30%	2250	10	22,500
C	7500 × 20%	1500	5	7,500
		7500		1,05,000

Now, put the amounts appearing in the four tables in the diagram as shown below, which would reflect in the parenthesis Favorable or Adverse Variances automatically.

SCAP ..... (1)  
Rs. 98,000



Variance in respect of individual material can also be ascertained in the following manner.

Price V = Std. Cost of Actual Quality - Actual Cost

= SC of AQ - AC = Table (3) - Table (2)

A	: Rs. 90,000 - Rs. 94,500	= Rs. 4,500 A
B	: Rs. 15,000 - Rs. 12,000	= Rs. 3,000 F
C	: Rs. 7,500 - Rs. 9,000	= Rs. 1,500 A
		<u>Rs. 3,000 A</u>

Mix V = SC of RSQ - SC of AQ = Table (4) - Table (3)

A	: Rs. 75,000 - Rs. 90,000	= Rs. 15,000 A
B	: Rs. 22,500 - Rs. 15,000	= Rs. 7,500 F
C	: Rs. 7,500 - Rs. 7,500	= Nil
		<u>= Rs. 7,500 A</u>

Check: SC of RSQ = SR of Std. Input Mix x RSQ  
= Rs. 14 x 7500Kg = Rs. 1,05,000

Yield variance = Std. Rate of yield (Actual yield- Std yield from Actual input Mix)  
= Rs. 17.5 (5,600 - 6,000) Kg  
= Rs. 17.5 x (-) 400 kg = Rs. 7,000 A

Std. yield from Actual input Mix  
= 80% of 7500 Kg = 6,000 Kg

Problem: 3

Determine Material Mix and yield variances.

Unit produced: - product Z 8,000 kg

MATERIALS

	X	Y
Standard usage per kg of Z	0.75kg	0.50 kg
Actual Usage	6100 kg	4400 kg
Standard price per Kg	Rs. 4	Rs. 10

Solution:

The basic date is Actual Production (AP) = 8000 kg.

Table (1) Std. Cost of Actual Production (SCAP)

Material	% given	AP (kg)	AQ (Kg)	SR (Rs.)	Amount(Rs.)	SR for
X	0.75 kg	8000	6000	4	24,000	
Y	0.50kg	8000	4000	10	40,000	
	Input		10,000		64,000	Std. Input Mix = Rs. 6.4 (6400/10,000)
	Loss	20%	2,000			
	Output		8,000			Std yield = Rs. 8 (64,000/8,000)

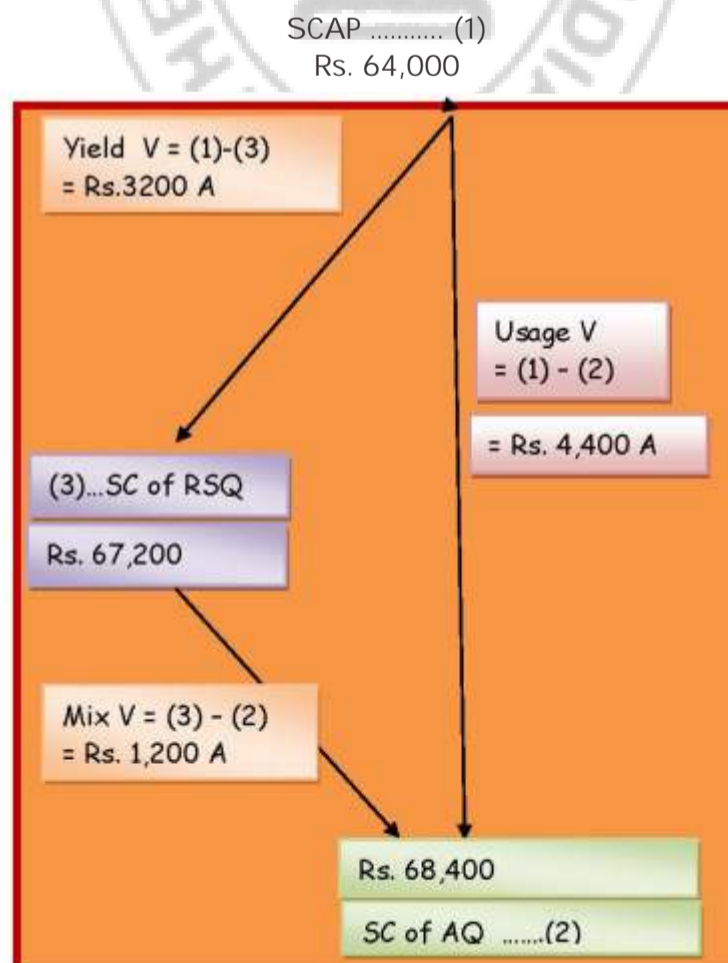
Table (2) Std. Cost of Actual Quantity used (SC of AQ)

Material	AQ (kg)	SR (Rs.)	Amount (Rs.)
X	6100	4	24,400
Y	4400	10	44,000
	10500		68,400
Loss	2500		
Output	8000		

Table (3) Std. Cost of Revised Std Quantity (SC of RSQ)

Material	AQ in Std. proportion	RSQ (kg)	SR (Rs.)	Amount (Rs.)
X	10500 × 0.60	6300	4	25,200
Y	10500 × 0.40	4200	10	42,000
		10,500		67,200

Now, put the amounts found in Table (1), (2) & (3) in the diagram as shown below and note down in the parenthesis indicating Favorable or adverse variances.





## Reconciliation



Check: (i) SC of RSQ = SR of Std input Mix × RSQ = Rs. 6.40 × 10,500 kg = Rs. 67,200

(ii) Yield V = SR of yield (Actually yield – Std. yield from Actual input Mix)  
= Rs.8(8,000 – 8,400) = Rs.8 × (-400) = Rs. 3,200A

SR of yield from Actual input Mix = 80% of 10500 kg = Rs. 8400

Note: In this problem

Table (1) shows the standard usage i. e. 0.75 kg : 0.50 kg

Table (3) shows the Standard Proportion 60% : 40%. Actual cost is not relevant.

Problem: 4

A company manufacturing a special type of fencing tile 12'' × 8'' × ½'' used a system of standard costing. The standard mix of the compound used for making the tiles is –

Material

A - 1200kg @ Rs. 0.30 per kg  
B - 500 kg @ Rs. 0.60 per kg  
C - 800 kg @ Rs. 0.70 per kg

The company should produce 12000 sq. feet of tiles of ½'' thickness.

During a period in which 100,000 tiles of the standard size were produced, the material usage was: –

Material A	7000 kg @ Rs. 0.32 per kg	Rs. 2,240
B	3000 kg @ Rs. 0.65 per kg	Rs. 1,950
C	5000 kg @ Rs. 0.75 per kg	Rs. 3,750
	15000 kg	Rs. 7,940

Present the cost figures for the period showing price, mixture, sub-usage variance.

Solution:

The basic data is Actual production (AP) = 1,00,000 tiles

The first step is to determine the standard quantity (SQ) of Actual Productions (AP).

Std. size of a Tile = 12'' × 8'' = 96'' = 96/144 sq. feet = 0.6667 sq. feet.

No. of tiles that can be manufactured from 12000 Sq. feet

= 12000/0.6667 = 18,000 tiles.

For AP of 1,00,000 tiles, the SQ is worked out below.

Material	Std. proportion for AP	SQ
A	$\frac{1200\text{kg} \times 100000}{18000}$	= 6666.67
B	$\frac{500\text{kg} \times 100000}{18000}$	= 2777.78
C	$\frac{800\text{kg} \times 100000}{18000}$	= 4444.44
		13,888.89

Table (1) Std. Cost of Actual Production (SCAP)

Material	SQ (kg)	SR (Rs.)	Amount (Rs.)	SR for
A	6666.67	0.30	2000	
B	2777.78	0.60	1666.67	
C	4444.44	0.70	3111.11	
	13888.89		6777.78	Std. Input Mix = Rs.0.488 (6778/13889 kg)
			Say 6778	Yield = Rs.6,778/1,00,000 tiles = Rs 0.06778

Table (2) Actual Cost (AC)

Material	AQ (kg)	AR (Rs.)	Amount (Rs.)
A	7000	0.32	2,240
B	3000	0.65	1,950
C	5000	0.75	3,750
	15000		7,940

Table (3) Std. Cost of AQ used (SC of AQ)

Material	AQ (kg)	SR (Rs.)	Amount (Rs.)
A	7000	0.30	2,100
B	3000	0.60	1,800
C	5000	0.70	3,500
			7,400

Table (4) Std. Cost of revised Std. Quantity (SC of RSQ)

Material	AQ in Std. proportion	RSQ (kg)	SR (Rs.)	Amount (Rs.)
A	15000 × 12/25 [1200/2500]	7200	0.30	2,160
B	15000 × 5/25 [500/2500]	3000	0.60	1,800
C	15000 × 8/25 [800/2500]	4800	0.70	3,360
		15000		7,320

Check: SC of RSQ = SR per Kg of Std. Input Mix RSQ = Rs. 0.488 × 15000 = Rs. 7320

Check: Sub. Usage v or

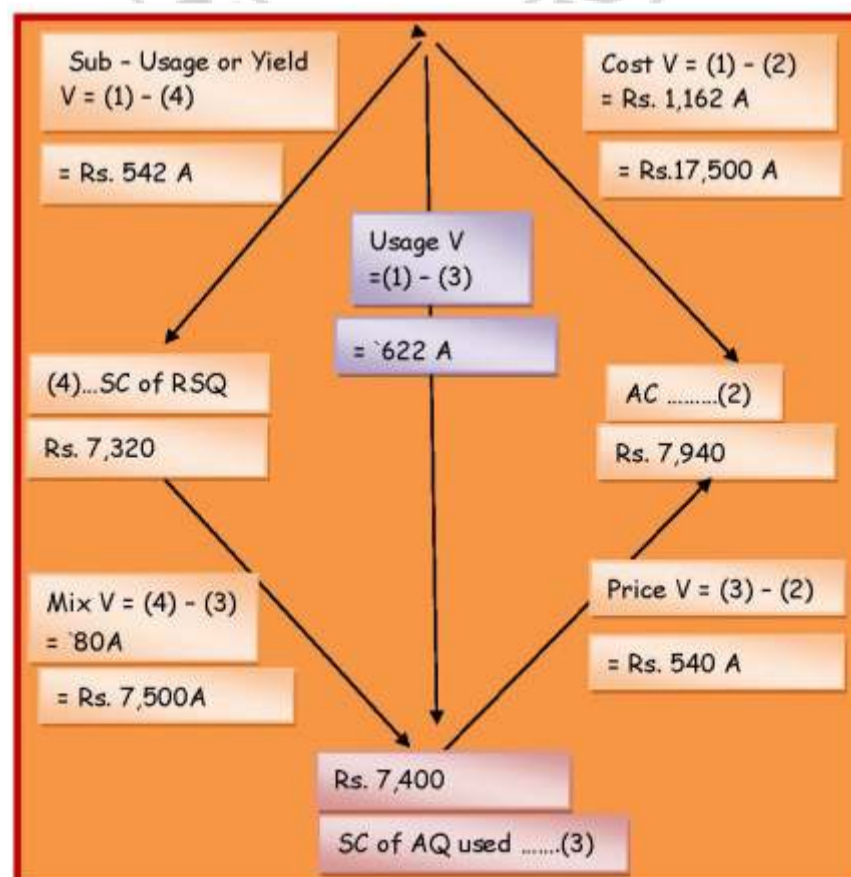
Yield variance = Std. rate of yield (Actual yield - Std. yield from Actual Input Mix)

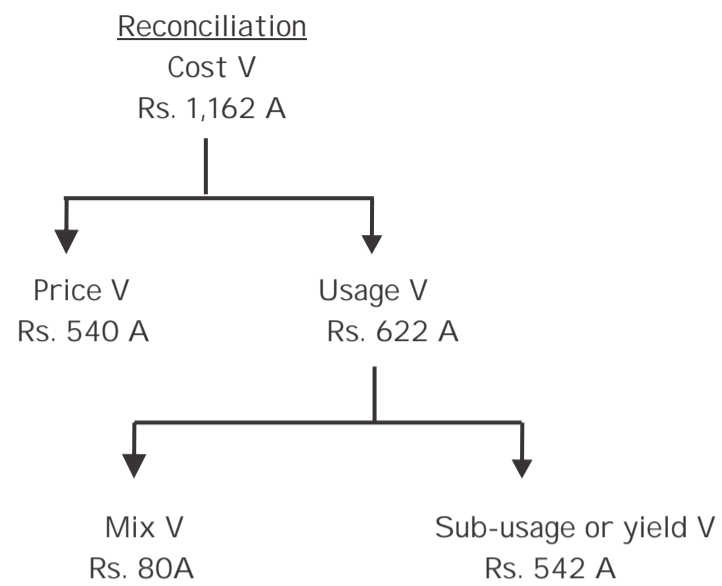
= Rs. 0.06778 (100000 - 108000) = Rs. 0.06778 × (-) 8000 = Rs. 542 A

Std. yield from Actual input Mix

	Input (kg)	output (Tiles)
Std.	13,899	1,00,000
	15,000	1,08,000

SCAP ..... (1)  
Rs. 6,778





The diagrammatic method can be used for solving a variety of problems encompassing Material, Labour, Fixed/Variable Overheads, Sales (Turnover/Marginal method), total Profit variance, Variance ratios, Working back/Missing date etc. and extending to advanced complex problems. After practicing a few varieties over a month, you would be surprised to know that it is difficult to memorize all the formulae you have learnt, but it is yet more difficult to forget the diagrams flanked by relevant formulae you have skillfully exercised with success.



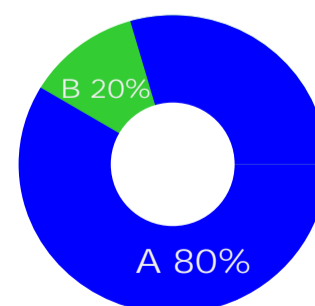


GROUP: II, PAPER: 11

# 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** Conns 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

## 20 things to keep in mind in 2020 by taxpayers

Arjuna (Fictional Character): Krishna, the eve of new year was celebrated with enthusiasm. What are the 20 major things to be kept in mind in this year 2020 by the taxpayer?

Krishna (Fictional Character): Arjuna, every new year comes with new hopes, new aspirations, new responsibilities and new challenges. 2020 is a leap year, to leap forward taxpayer needs to abide tax laws in business. Let's discuss few trend-setting tax reforms forthcoming which will change the dynamics of business in India.

Arjuna: Krishna, What are the major things of GST that taxpayers should keep in mind in this upcoming year?

Krishna: Arjuna, Taxpayers should keep the following things in mind of GST in this upcoming year:

E-invoice: New E-invoicing system is going to be implemented in GST which is mandatory from 1st April 2020 for taxpayers having an annual turnover exceeding Rs. 100 crore and then gradually to all B2B suppliers in the future. A mechanism for the continuous upload of revenue invoices on a real-time basis. This is the most remarkable change coming in Indian Book Keeping.

New I RP in GST: Invoice Registration Portal would be introduced this new year. I RP shall make an e-invoice of the invoices uploaded by the supplier. I RP shall send the e-invoice to the supplier and recipient. I RP shall send e-invoices data to GSTN portal

New Return: New simplified auto-mated GST returns would be implemented from 1st April 2020 for all taxpayers. This new returns system will increase compliance and reduce tax evasion to a larger extent.

Annexure 1 and Annexure 2: Anx-1 of Outward Supplies and Anx-2 of Inward Supplies will be the future base for filing of all GST Returns, thus these 2 reports will be the key for future reports of GST which will replace GSTR 1 and GSTR-2A.

Restriction on claim of ITC: With effect from 01/01/2020, ITC in respect of invoices or debit notes that are not reflected in taxpayer's FORM GSTR-2A shall be restricted to 10 percent of the eligible ITC reflected in his FORM GSTR-2A. Earlier the restriction was 20%. A major change in ITC availability.

E-way Bill and GSTR-1: From 11th January, 2020 non-filing of GSTR-1 for two consecutive periods would block generation of E-way Bill. Thus, regular filing of GSTR-1 and GSTR-3B in year 2020 should go hand in hand.

Waiver of late fees for Non-filing of GSTR-1: If the taxpayer has failed to file GSTR-1 from July 2017 to November 2019, then the taxpayers can file such returns till 10 January, 2020 and the

late fees for the same has been waived of. This will also affect GSTR-2A of the recipient to claim ITC.

GST Audit and Annual Return: The due date for filing GST Annual Return and Audit Report for F.Y. 2017-18 has been further extended to 31st January, 2020. The due date for filing GST Annual Return and Audit Report for F.Y 2018-19 has been extended to 31st March, 2020. For F.Y 2019-20 new format may be brought in because of inherent limitations in current forms.

DIN notices and E-scrutiny: Due to decline in collection of revenue from GST, large scale e-scrutiny and e-assessment notices with DIN for the returns from July 2017 may be taken up. It would be done in order to check significant deviations in returns.

GSTN Network is proposed to be reengineered for more taxpayer-centric services like reminder of return filing, status of refund, ITC matches and mismatches, etc.

Arjuna: Krishna, what are the things of Income Tax to be kept in mind in this year 2020?

Krishna: Arjuna, following are the major things to be kept in mind in this year under Income Tax:

Online Assessment: The most significant change in 2020 under Income Tax will be the new online assessment which is a technology-driven and faceless assessment system across India. The proposed due date for e-assessment for F.Y. 2017-18 is 30th September, 2020. It affects to the tax authorities and taxpayers at large.

Last chance to file delayed returns of Income Tax for F.Y. 2018-19 upto 31st March 2020 with late fees of Rs. 10,000 from 01/01/2020.

The new domestic manufacturing companies can pay Income tax at the rate of 15% w.e.f. 1st April 2020. This is significant tax rate change having effect on Indian manufacturing sector in year 2020.

The old corporate taxpayers have been provided the option to pay tax at the rate of 22% but no benefit of deduction can be taken w.e.f. 1st April 2020.

The rates of personal Income Tax in case of individuals and HUF may be rationalized by reducing tax rates.

The deadline for linking PAN Card with Aadhar Card is extended till 31st March 2020.

The new ITR with self-filled details of Salary, TDS, etc are proposed for salaried employee which aims at simplified returns for assessee.

Person withdrawing a lumpsum corpus from NPS trust on closure

or opting out of pension scheme was exempt from tax, if the person withdrew up to 40% of the amount. It is proposed to be extended to 60%.

Arjuna: Krishna, what are the things to be kept in mind in case of other tax laws in this year 2020?

Krishna: Arjuna, following are the things to be kept in mind in this year:

Under MVAT, dealers (Petrol pump, Liquor, PSI holder) having turnover exceeding Rs. 1 Crore needs to file MVAT Audit Report of F.Y 2018-19 till 28th February, 2020. For F.Y. 2019-20, the condition of tax liability exceeding Rs. 25,000 along with turnover

exceeding Rs. 1 Crore has been inserted for applicability of MVAT Audit.

The last date for Sabka Sath Sabka Vishwas Legal Dispute Settlement Scheme, 2019 a scheme for settling pending disputes of service tax and central excise has been extended till January 15, 2020.

Arjuna: Krishna, what lesson one should learn from this?

Krishna: Arjuna, taxpayers have celebrated new year. But there are many hardships in form of compliance awaiting in this upcoming year. Let us hope taxpayers overcome all the hardships and have an amazing year ahead.

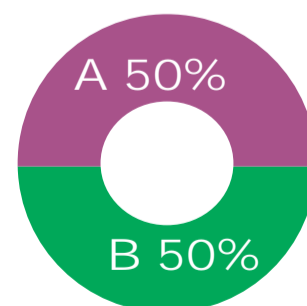




GROUP: II, PAPER: 12  
**COMPANY**  
ACCOUNTS & AUDIT (CAA)

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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**

Today we are to discuss about DEBENTURE. A Debenture is an instrument to acknowledge the creditors of the company. It is a creditorship security. Company has to pay interest to debenture holders at agreed rate.

Distinction between shares and debentures:

- 1) Debenture is creditorship security whereas share is an ownership security.
- 2) A debenture holder is certain of return on investment but a shareholder cannot get dividends if the company does not earn profit.
- 3) In case of winding up of company, the amount of debenture will be repaid before payment to shareholder.
- 4) There can be mortgage debenture but there can be no mortgage shares.
- 5) Debentures can be converted into shares but shares cannot be converted into shares
- 6) Debentures can be issued at discount but shares cannot be easily issued at discount.

RECORDING:

1) WHEN DEBENTURES ARE ISSUED AT PAR:

Bank a/c	Dr
To Debentures	

2) WHEN DEBENTURES ARE ISSUED AT DISCOUNT:

Bank a/c	Dr
Discount a/c	Dr
To Debentures	

3) WHEN DEBENTURES ARE ISSUED AT PREMIUM:

Bank a/c	Dr
To Debentures	(at face value)
To Premium on issue of debentures	(at premium charged)

4) WHEN ISSUED AT PAR BUT REDEEMABLE AT PREMIUM:

Bank a/c	Dr
Loss on issue of debenture a/c	Dr (premium payable on redemption)
To Debenture	
To premium on redemption on debentures	

5) WHEN ISSUED AT DISCOUNT BUT REDEEMABLE AT PREMIUM:



Bank a/c Dr  
 Loss on issue of debenture a/c Dr  
     To Debenture  
     To premium on redemption on debenture

Debentures are to show in balance sheet as LONG TERM BORROWINGS

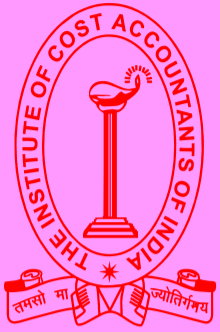
As per SEBI GUIDELINES in case of issue of debentures with more than 18 months, Debenture redemption reserve has to be created.

Company should create DRR equivalent to 50 % of the amount of debenture issue before debenture redemption commences.

The entry would be  
 Profit & loss a/c Dr  
     To Debenture Redemption Reserve (with the amount of instalment)

This DEBENTURE REDEMPTION RESERVE should be shown in BALANCE SHEET under RESERVE & SURPLUS.





# 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  
Webinar seasons

Solve Exercises  
given in Study Note

02

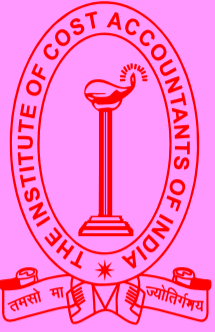
03

Assess Yourself

Appear For Examination

04

FINISHED



# SUBMISSIONS



## Update of E-Mail Address/Mobile:

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

Dear Students,

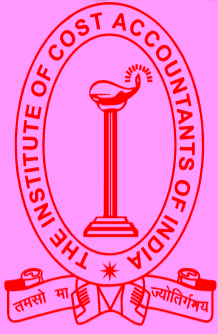
We are very much delighted to receive responses from all of you; for whom our effort is!

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

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

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



## Message from Directorate of Studies

Dear Students,

May the New Year be full of Success - Happy New Year!

We from the Directorate of studies know your expectations from us and accordingly we are trying to delivery 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 Book, and we have conducted Webinar sessions. Before stepping in to the examination hall, please go through the PPTs on "Achieve your GOAL"; Uploaded by the Directorate of Studies and which will help you to know about certain Do's and Don'ts in the examination.

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

**"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 links mentioned below :

For Mock Test Papers (MTP) : [https://icmai.in/studentswebsite/mtp2016\\_j19\\_Final.php](https://icmai.in/studentswebsite/mtp2016_j19_Final.php)

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

For Work Book Link : <https://icmai.in/studentswebsite/Workbook-Syl-2016-Final-March2019.php>

Live/Recorded Webinar Link : [https://eicmai.in/Webinar\\_Portal/Students/StudentLogin.aspx](https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx)

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

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

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



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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

4 Regional  
Councils

98  
Chapters

9  
Overseas  
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- Industry oriented practical training programme
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- Four Knowledge Pillars - Management, Strategy, Regulatory Function and Financial Reporting
- Our Motto - Student friendly Syllabus and Industry friendly Students

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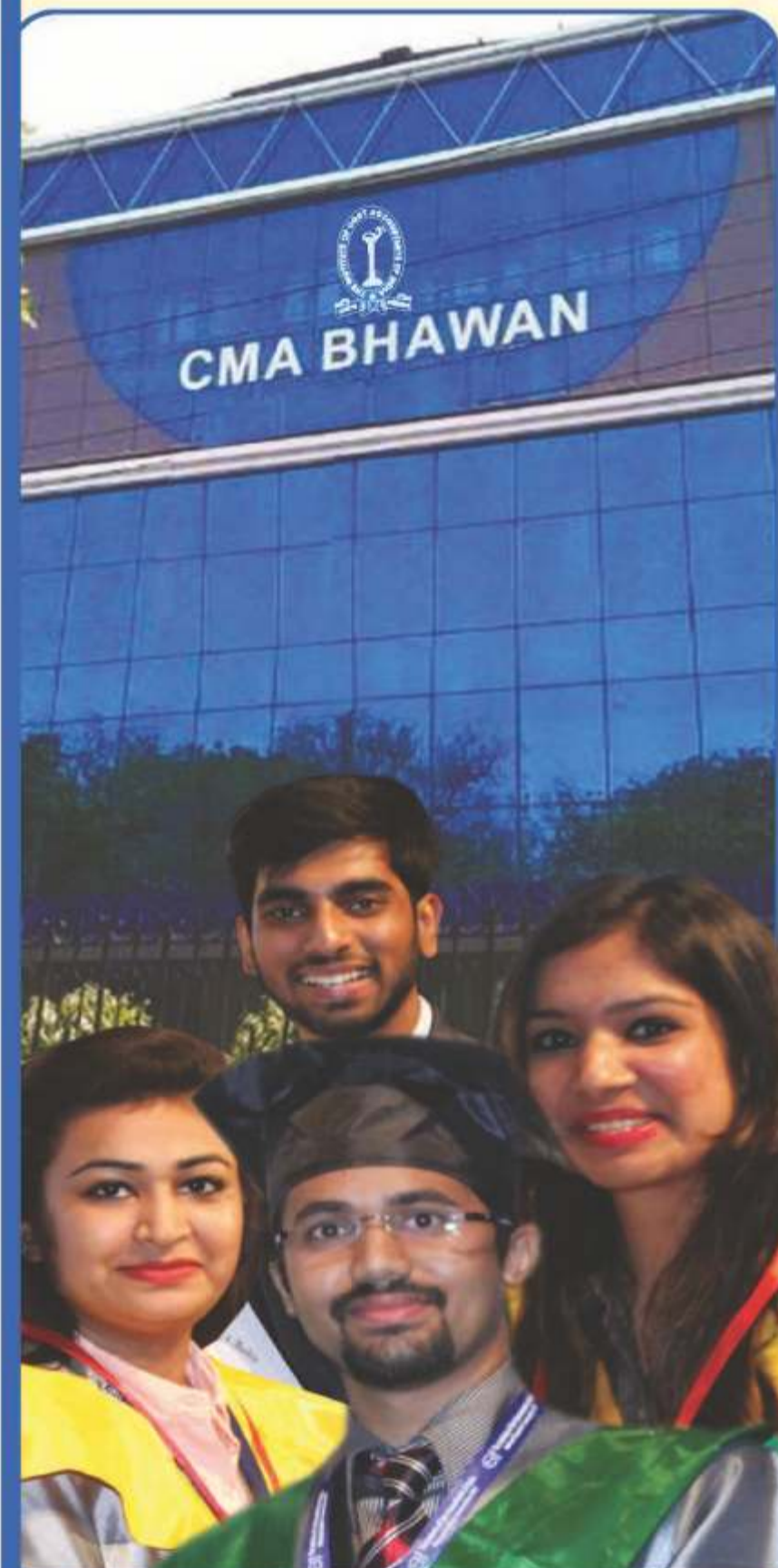
*Few of Our Proud Recruiters*



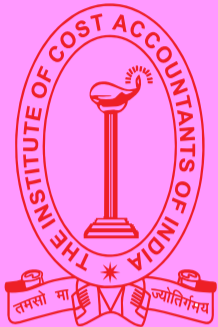
✉ [placement@icmai.in](mailto:placement@icmai.in) / [cpt@icmai.in](mailto:cpt@icmai.in)

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# Few Snapshots



Global Summit (GS-2020) on 11th January, 2020 at New Delhi, Valedictory Session



Global Summit (GS-2020) on 11th January, 2020 at New Delhi, Valedictory Session



Global Summit (GS-2020) on 11th January, 2020 at New Delhi, Valedictory Session



Global Summit (GS-2020) on 10th January, 2020 at New Delhi, Technical Session III



Global Summit (GS-2020) on 10th January, 2020 at New Delhi, Technical Session V



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