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150 YEARS OF CELEBRATING THE MAHATMA

CMA Student E - Bulletin

INTERMEDIATE

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in
Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016
Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003
Ph: 091-11-24666100

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

150 YEARS OF CELEBRATING THE MAHATMA

KNOWLEDGE Update

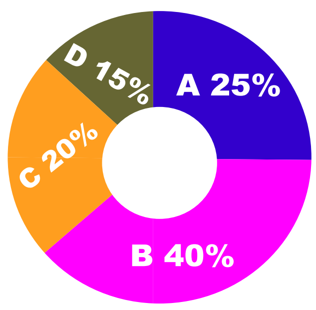
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

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

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.

FINANCIAL ACCOUNTING

Dear friends hope you are keeping well and almost ready for the examination. Here is a bunch of questions for your practice.

Like other issues here is a very small story to refresh you. Its true we are irritated and upset with the same story listening everyday titled " covid-19". Just want to tell you that don't cry for the same issue. You come up with your new thoughts and enjoy your life:

"People visit a wise man complaining about the same problems over and over again. One day, he decided to tell them a joke and they all roared with laughter.

After a few minutes, he told them the same joke and only a few of them smiled.

Then he told the same joke for a third time, but no one laughed or smiled anymore.

The wise man smiled and said: 'You can't laugh at the same joke over and over. So why are you always crying about the same problem?'"

1. Classify the following into Personal Real and Nominal Accounts
   a. Patent Right
   b. Drawings
   c. Purchase Return
   d. South end sports club
   e. Prepaid Insurance
   f. Bank Overdraft
   g. Free Samples

2. Match column I with Column II

COLUMN I		COLUMN II	
1	MINIMUM RENT	A	AS-6
2	INDEMNITY PERIOD	B	HIRE PURCHASE
3	ACCOUNTING FOR DEPRECIATION	C	COMPUTERISED ACCOUNTING
4	PARTIAL REPOSSSESSION	D	ROYALTY
5	WORK CERTIFIED	E	CASH BOOK
6	AUTOMATIC BALANCE SHET	F	INSURANCE CLAIM
7	JOURNALISED LEDGER	G	SUBSIDIARY LEDGER
8	PURCHASE DAY BOOK	H	CONTRACT ACCOUNT

3. Accounting standards in India are issued by
   a. Comptroller and auditor general of India
   b. Reserve bank of India
   c. Institute of chartered accountants of India
   d. Institute of cost accountants of India

4. The goods are transferred from department X to Department Y at selling price which includes a profit of 25 % on cost. Stock valued at Rs.65000 in department Y is Rs. 18000, then the amount of stock reserve on closing stock will be:

a. 16250
b. 13000
c. 21667
d. None of the above

5. A Ltd purchased a machine on HP basis for a csh price of Rs. 500000 to be paid as Rs.78700 cash down and the balance by three equal annual instalments of Rs.200000 each. If interest is charged @20% per annum then the amount of interest payable in second installmebnt will be :
   a. 100000
   b. 61112
   c. 33328
   d. 84260

6. In HP system cash price plus interest is known as :
   a. Capital value of asset
   b. Book value of asset
   c. HP Price of asset
   d. HP Charges

7. Court can make an order to dissolve the firm when :
   a. Some partner has become fully mad
   b. Partnership deed is fully followed
   c. Continued future profits are expected
   d. Firm is running legal business

8. In which condition a partnership firm is deemed to be dissolved?
   a. On a partner's admission
   b. On retirement of a partner
   c. On expiry of the period of partnership
   d. On loss in partnership

9. On dissolution of a firm, realisation account is debited with
   a. All assets to be realised
   b. All outside liabilities of the firm
   c. Cash received on sale of assets
   d. Any asset taken over by one of the partners

10. On dissolution of a firm, out of the proceeds received from the sale of assets will be paid first of all
    a. Partner's Capital
    b. Partner's Loan to Firm
    c. Partner's additional capital
    d. Outside Creditors

11. At the time of dissolution of firm, "Loan of partners" (Loans given by partners to the firm) is paid out of the amount realised on sale of assets :
    a. After making the payment of loans given by third party
    b. After making the payment of balance of Capital Accounts of partners
    c. After making the payment of above (A) and (B)
    d. Before the payment of loans given by third party

12. In the event of dissolution of a partnership firm, the provision for doubtful debts is transferred to :
    a. Realisation Account
    b. Partners Capital Accounts
    c. Sundry Debtors Account
    d. None of the above

13. Gaining Ratio :
    a. New Ratio – Sacrificing Ratio
    b. Old Ratio – Sacrificing Ratio

c. New Ratio – Old Ratio
d. Old Ratio – New Ratio

14. A and B were partners in a firm sharing profit or loss equally. With effect from 1st April 2019 they agreed to share profits in the ratio of 4 : 3. Due to change in profit sharing ratio, A's gain or sacrifice will be :
    a. Gain 1/14
    b. Sacrifice 1/14
    c. Gain 4/7
    d. Sacrifice 3/7

15. A and B were partners in a firm sharing profit or loss in the ratio of 3 : 5. With effect from 1st April, 2019, they agreed to share profits or losses equally. Due to change in profit sharing ratio, A's gain or sacrifice will be :
    a. Gain 3/8
    b. Gain 1/8
    c. Sacrifice 3/8
    d. Sacrifice 1/8

Answer:

Q1.
a - Real
b - Personal
c - Nominal
d - Personal
e - Real
f - Personal
g - Nominal

Q2.
1 - D
2 - F
3 - A
4 - B
5 - H
6 - C
7 - E
8 - G

Q3 - c
Q4 - b
Q5 - b
Q6 - c
Q7 - a
Q8 - c
Q9 - a
Q10 - d
Q11 - a
Q12 - a
Q13 - c
Q14 - c
Q15 - d

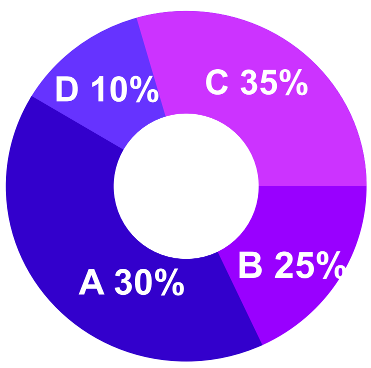
150 YEARS OF CELEBRATING THE MAHATMA

CA Partha Ray
He can be reached at:
prapray@rediffmail.com

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.

LAWS & ETHICS

Under the MCQ Pattern Examinations being introduced keeping the Essay type system in abeyance. ***you may have to initiate a Special Method of Preparation totally different from the essay type examination pattern. MCQ exams contain many more questions than essay exams. You can no longer resort to selective study based on past questions. You are expected to be studying in greater depth and gather more range of knowledge with no more chance to bluff the examiner.***

Under the MCQ pattern, you will be given several questions first and then **asked to answer among a set of options where there may be one or more wrong answers**. *You must try to lay* ***emphasis on details*** and therefore **keep studying regularly every day** and **make short notes** and **keep revising repeatedly until your brain can retain it for a long term. You must pay particular emphasis on getting your concept clear with sound fundamentals.** You must learn to think logically in normal sequence and develop the knack to distinguish between similarities and differences which might be confusing , yet be the basis used to distinguish correct choices from among the choices given with each question. ***Always remember that MCQ tests are designed to test your knowledge and ability.***

Now, you will realize the importance of reading the Sections and definitions so that you understand what the Sections lays and/or what the definition means. ***You will notice that the question-setter will actually be rephrasing the words in the Section and/or definition and placing them before you as MCQs. Therefore, please study carefully because under the MCQ pattern you can fall prey to misleading options that will distract you as the options will look similar to the correct answer.***

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

Buy Back by Private and Unlisted Companies
Rule 17 of Companies (Share Capital and Debentures) Rules, 2014

The following norms shall be complied with by the private companies and unlisted public companies for buy-back of their securities ,unless stated otherwise -
Rule 17(1) provides that the explanatory statement to be annexed to the notice of the general meeting pursuant to Section 102 shall contain the following disclosures, namely:-

(a) *the date of the board meeting* at which the proposal for buy-back was approved by the board of directors of the company;
(b) *the objective* of the buy-back;
(c) *the class of shares or other securities* intended to be purchased under the buy-back;
(d) *the number of securities* that the company proposes to buy-back;
(e) *the method to be adopted* for the buy-back;
(f) *the price* at which the buy-back of shares or other securities shall be made;
(g) the basis of arriving at the buy-back price;
(h) *the maximum amount to be paid* for the buy-back and the sources of funds from which the buy-back would be financed;
(i) *the time-limit for the completion* of buy-back;
(j) (i) *the aggregate shareholding of the promoters and of the directors* of the promoter, where the promoter is a company and of the directors and key managerial personnel as on the date of the notice convening the general meeting;
(ii) *the aggregate number of equity shares purchased or sold by persons mentioned in sub-clause (i)* during a period of twelve months preceding the date of the board meeting at which the buy-back was approved and from that date till the date of notice convening the general meeting;
(iii) *the maximum and minimum price at which purchases and sales* referred to in sub-clause (*ii*) *were made along with the relevant date;*
(k) if the persons mentioned in sub-clause (i) of clause (j) intend to tender their shares for buy-back –
(1) the quantum of shares proposed to be tendered;
(2) the details of their transactions and their holdings for the last twelve months prior to the date of the board meeting at which the buy-

back was approved including information of number of shares acquired, the price and the date of acquisition;

(*l*) *a confirmation that there are no defaults subsisting in repayment of deposits, interest payment thereon*, redemption of debentures or payment of interest thereon or redemption of preference shares or payment of dividend due to any shareholder, or repayment of any term loans or interest payable thereon to any financial institution or banking company;

(*m*) *a confirmation that the Board of directors have made a full enquiry into the affairs and prospects of the company* and that they have formed the opinion -

(*i*) that immediately following the date on which the general meeting is convened there shall be no grounds on which the company could be found unable to pay its debts;

(*ii*) as regards its prospects for the year immediately following that date, that, having regard to their intentions with respect to the management of the company's business during that year and to the amount and character of the financial resources which will in their view be available to the company during that year, the company shall be able to meet its liabilities as and when they fall due and shall not be rendered insolvent within a period of one year from that date; and

(*iii*) the directors have taken into account the liabilities(including prospective and contingent liabilities),as if the company were being wound up under the provisions of the Companies Act, 2013

(*n*) a *report addressed to the Board of directors by the company's auditors* stating that-

(i) they have inquired into the company's state of affairs;

(ii) the amount of the permissible capital payment for the securities in question is in their view properly determined;

(iii) that the audited accounts on the basis of which calculation with reference to buy back is done is not more than six months old from the date of offer document; and

Provided that where the audited accounts are more than six months old, the calculations with reference to buy back shall be on the basis of un-audited accounts not older than six months from the date of offer document which are subjected to limited review by the auditors of the company.

(*iv*) the Board of directors have formed the opinion as specified in clause (*m*) on reasonable grounds and that the company, having regard to its state of affairs, shall not be rendered insolvent within a period of one year from that date.

Letter of Offer and Special Resolution before Buy-back of shares

Rule 17(2) of Companies (Share Capital and Debentures) Rules, 2014 provides that the company which has been authorized by a special resolution shall, before the buy-back of shares, file with the Registrar of Companies a letter of offer in **Form No.SH-8**, along with the fee:

Provided that such *letter of offer shall be dated and signed on behalf of the Board of directors of the company by not less than two directors of the company, one of whom shall be the managing director where there is one.*

File with the Registrar Form No.SH-9-Declaration of Solvency

Rule 17(3) provides that the company shall file with the Registrar, along with the letter of offer, and in case of a listed company with the Registrar and the Securities and Exchange Board, a declaration of solvency in **Form No.SH-9** *along with the fee and signed by at least two directors of the company, one of whom shall be the managing director, if any, and verified by an affidavit as specified in the said Form.*

Letter of offer shall be dispatched to the shareholders

Rule 17(4) provides that the letter of offer shall be dispatched to the shareholders or security holders immediately after filing the same with the Registrar of Companies but *not later than twenty days from its filing with the Registrar of Companies.*

Period the Buy-back offer remains open

Rule 17(5) provides that the offer for buy-back shall remain open for a period of not less than fifteen days and not exceeding thirty days from the date of dispatch of the letter of offer.

Rule 17(6) of Companies (Share Capital and Debentures) Rules, 2014

Rule 17(6) provides that in case the *number of shares* or other specified securities *offered by the shareholders* or security holders *is more than the total number of shares or securities to be bought back by the company, the acceptance per shareholder shall be on proportionate basis out of the total shares offered for being bought back.*

Verification of Offer

Rule 17(7) of Companies (Share Capital and Debentures) Rules, 2014

Rule 17(7) provides that the company shall complete the verifications of the offers received within fifteen days from the date of closure of the offer and the shares or other securities lodged shall be deemed to be accepted unless a communication of rejection is made within twenty one days from the date of closure of the offer.

Separate Bank Account

Rule 17(8) of Companies (Share Capital and Debentures) Rules, 2014

Rule 17(8)provides that the company shall immediately after the date of closure of the offer, open a separate bank account and deposit therein, such sum, as would make up the entire sum due and payable as consideration for the shares tendered for buy-back in terms of these rules.

Rule 17(9) of Companies (Share Capital and Debentures) Rules, 2014

Rule 17(9) provides that the company shall within seven days of the time specified in sub-rule (7) -

(a) make payment of consideration in cash to those shareholders or security holders whose securities have been accepted; or

(b) return the share certificates to the shareholders or security holders whose securities have not been accepted at all or the balance of securities in case of part acceptance .

Time Limit

Sec.68(4) of the Companies Act,2013 provides that every buy-back shall be completed *within a period of one year from the date of passing of the special resolution,* or as the case may be, the resolution passed by the Board under clause (*b*) of sub-section (*2*).

Source of Buyback

Sec.68(5) of the Companies Act,2013 provides that the buy-back under sub-section (*1*) may be—

(*a*) from the existing shareholders or security holders on a proportionate basis;

(*b*) from the open market;

(*c*) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

Solvency Certificate

Sec.68(6) of the Companies Act,2013 provides that where a company proposes to buy-back its own shares or other specified securities under this section in pursuance of a special resolution under clause (*b*) of sub-section (*2*) or a resolution under item (*ii*) of the proviso thereto, it shall, before making such buy-back, *file with the Registrar and the Securities and Exchange Board, a declaration of solvency* signed by at least two directors of the company, one of whom shall be the managing director, if any, -

i. in such form as may be prescribed and
ii. verified by an affidavit to the effect that the Board of Directors of the company has made a full inquiry into the affairs of the company as a result of which they have formed an opinion that it is capable of meeting its liabilities and will not be rendered insolvent within a period of one year from the date of declaration adopted by the Board :

Provided that no declaration of solvency shall be filed with the Securities and Exchange Board by a company whose shares are not listed on any recognised stock exchange.

Destroying Physical Certificates

Sec.68(7) of the Companies Act,2013 provides that where a company buys back its own shares or other specified securities, it *shall extinguish and physically destroy the shares or securities so bought back* within seven days of the last date of completion of buy-back.

Prohibition

Sec.68(8) of the Companies Act,2013 provides that where a company completes a buy-back of its shares or other specified securities under this section, it *shall not make a further issue of the same kind of shares or other securities including allotment of new shares* under clause (*a*) of sub-section (*1*) of section 62 or other specified securities within a period of six months except by way of a bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

Register of the Shares or Securities bought

Sec.68(9) of the Companies Act,2013 provides that where a company buys back its shares or other specified securities under this section, it shall *maintain a register of the shares or securities so bought*, the consideration paid for the shares or securities bought back, the date of cancellation of shares or securities, the date of extinguishing and physically destroying the shares or securities and such other particulars as may be prescribed.

Return in Form SH-11 to be filed with the Registrar

Sec.68(10) of the Companies Act,2013 provides that a company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board **a return in Form SH -11** containing such particulars relating to the buy-back within thirty days of such completion, as may be prescribed :

Provided that no return shall be filed with the Securities and Exchange Board by a company whose shares are not listed on any recognised stock exchange.

Punishment

Sec.68(11) of the Companies Act,2013 provides that if a company makes any default in complying with the provisions of this section or any regulation made by the Securities and Exchange Board, for the purposes of clause (*f*) of sub-section (*2*), the company *shall be punishable* with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees, or with both.

Explanation I.—For the purposes of this section and section 70, "specified securities" includes employees' stock option or other securities as may be notified by the Central Government from time to time.

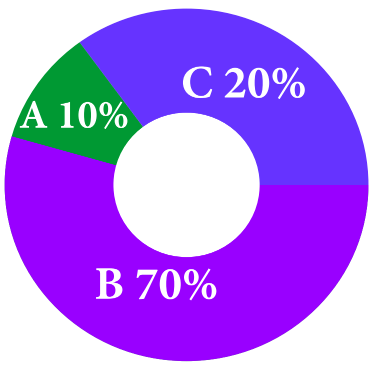
Explanation II.—For the purposes of this section, "free reserves" includes securities premium account.

CA Vikash Mundhra
He can be reached at:
vikash@taxpointindia.com

GROUP: I, PAPER: 7

DIRECT TAXATION (DTX)

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.

SALARIES

1. **Salary** means any payment by the employer to employee.
2. **Basis of charge:** Salary is chargeable to tax either on '*due*' basis or on '*receipt*' basis, whichever is earlier.
3. **Basic Salary:** Fully taxable in all cases.
4. **Dearness Allowance (DA) or Dearness Pay (DP):** Fully taxable in all cases.
5. **Fees:** Fully taxable in all cases.
6. **Commission:** Fully Taxable.
7. **Bonus:** Contractual bonus is taxable as bonus whereas voluntary bonus is taxable as perquisite.
8. **Gratuity**

a. Gratuity received during continuation of service is fully taxable in the hands of all employees.
b. Gratuity received at the time of termination of service by Government employee is fully exempted.

- Gratuity received at the time of termination of service by non-government employee, covered by the Payment of Gratuity Act shall be exempted to the minimum of the following
  (a) Actual Gratuity received
  (b) ₹ 20,00,000; and
  (c) $^{15}/_{26}$ × Completed year of service × Salary p.m.
  Completed year of service consider any fraction in excess of 6 months.
- Gratuity received at the time of termination of service by non-government employee not covered under the Payment of Gratuity Act shall be exempted to the minimum of the following:
  (a) Actual Gratuity received;
  (b) ₹ 20,00,000; and
  (c) $^{1}/_{2}$× Completed year of service × Average Salary p.m.
  Completed year of service ignores any fraction of the year.

c. Gratuity received after death of employee is exempted.

9. **Leave Salary Encashment**

a. Leave salary during continuation of service is fully taxable in hands of all employees.
b. Leave salary received by Government employee is fully exempted.

- Leave salary received by non-Government employee shall be exempted to the minimum of the following:
  (a) Actual amount received as leave salary
  (b) ₹ 3,00,000/-
  (c) 10 × Average salary p.m.
  (d) [{(1 × completed year of service) – leave actually taken in terms of month} × average salary p.m.]
  Completed year of service ignores any fraction of the year.

c. Leave salary paid to the legal heir of deceased employee is not taxable as salary.

10. **Pension [Sec. 17(1)(ii)]**

- Uncommuted pension is fully taxable in the hands of all employees
- Commuted pension received by a Government employee is fully exempt from tax.
- Commuted pension received by an employee who also received gratuity: $^{1}/_{3}$of *total* pension commuted shall be exempted.
- Commuted pension received by an employee who does not receive gratuity: $\frac{1}{2}$ of *total* pension commuted shall be exempted.

11. **Voluntary Retirement Compensation:** Compensation received at the time of voluntary retirement shall be exempted to the minimum of the following

(a) Actual amount received as per guidelines; or
(b) ₹ 5,00,000 provided following conditions are satisfied –
  (i) Compensation is not received from Individual, HUF or Firm.

(ii) Voluntary Retirement Scheme (VRS) framed in accordance with prescribed guidelines i.e.
  (a) Scheme must be applicable to all employees who have either completed age of 40 years or has completed 10 years of service
  (b) Scheme must be framed to reduce the number of employees
  (c) Vacancy caused is not to be filled up
  (d) Retiring employee is not employed in another company or concern belonging to the same management
  (e) Compensation does not exceed - 3 months salary for each completed year of service; or salary for balance month of service left. Benefit under 10(10C) can be claimed once in the life of assessee.

12. **Annuity [Sec. 17(1)(ii)]:** Fully taxable

13. **Salary received in lieu of notice period:** Fully taxable

14. **Profits in lieu of salary [Sec. 17(3)]:** Fully taxable

ALLOWANCES

15. **House rent allowance (HRA):** Minimum of the following is exempted from tax:
  (a) Actual HRA received
  (b) 50%/40% of salary
  (c) Rent Paid – 10% of Salary

16. **City Compensatory Allowance/Tiffin Allowance/Medical Allowance/Servant Allowance:** Fully taxable.

17. **Entertainment Allowance:** Fully taxable, irrespective of actual expenditure incurred. Government employee can claim deduction u/s 16(ii)

18. **Children Education Allowance:** Minimum of the following is exempted –
  (a) ₹ 100 per month per child (to the maximum of two children)
  (b) Actual amount received.

19. **Children Hostel Allowance:** Minimum of the following is exempted –
  (a) ₹ 300 per month per child (to the maximum of two children)
  (b) Actual amount received

20. **Truck Driver's Allowance:** Minimum of the following shall be exempted:
  (a) 70% of allowance
  (b) ₹ 10,000 p.m.

21. **Allowance to Government employees outside India:** As per sec. 10(7), any allowance or perquisite allowed outside India by the Government to an Indian citizen for rendering services outside India is wholly exempt from tax.

22. Any other allowance for which there is no specific provision shall be fully taxable.

23. **In case of following allowances deduction is allowed to the extent of actual expenditure:** Travel or transfer Allowance, Daily Allowance, Conveyance Allowance, Helper / Assistant Allowance, Professional Development Allowance/ Research Allowance, Uniform Allowance

PERQUISITES

24. Rent-free accommodation in hands of Government employee is taxable to the extent of licence fee.

25. Rent-free accommodation in hands of other employees is taxable as under -
  - Where accommodation is hired by the employer: 15% of salary or hire charges, whichever is lower.
  - Where accommodation is owned by the employer: 15%/10%/7.5% of salary, depending on population of city in which accommodation is provided.

26. Valuation of rent-free furnished accommodation = [Value of accommodation + Value of furniture being {10% of original cost (if owned by employer) or Hire charge paid by employer}].

27. Valuation of accommodation provided at concessional rent: Value of Rent free accommodation as usual - Rent payable by employee to employer for the above facility.

28. Insurance premium payable by employer shall be fully taxable

29. The difference between fair market value of the specified securities or sweat equity shares and amount paid by the employee shall be considered as taxable perquisite.

30. Any contribution to superannuation fund by employer in excess of ₹ 1,50,000 shall be taxable as perquisite in hands of employee.

31. **Motor-car Facility:**

Owned	Maintain	Used for	Taxable value
Employer		**Personal purpose**	**Maintenance + Depreciation**
		Both purpose	₹ 1,800 or ₹ 2,400 p.m.
Employer	Employee	Personal purpose	Depreciation
		Both purpose	₹ 600/₹ 900 p.m.
Employee	Employer	Personal purpose	Maintenance
		Both purpose	Actual expenditure by employer - ₹ 1,800/2,400 p.m.
Driver: Add salary of driver (used for personal purpose) or ₹ 900 p.m. (partly used for personal purpose)			

32. **Free Transport –**
   a) If employer is engaged in transportation business: Amount charged from public for such facility.
   b) In any other case: Actual cost of employer for such facility.
33. Notional cost of Traveling/Touring/Holiday Home facility shall be taxable.
34. Expenditure incurred by employer in respect of credit card facility to employee shall be taxable unless the card is wholly used for office purpose.

35. Gift, voucher or token given by employer: Cash gift is fully taxable. However, non-cash gift in excess of ₹ 5,000 fully taxable.
36. Club Expenditure:
   - Expenditure incurred by employer in respect of club facility to employee shall be taxable.
   - Where such expenses are incurred wholly and exclusively for office purpose and specified conditions are satisfied then nothing shall be taxable.
   - Health club, sports and similar facilities are not taxable.
   - Entrance fee of corporate membership is not taxable
37. Manufacturing cost or hire charge of gas, electricity or water facility shall be taxable.
38. Free education to family of employee

Case	Taxable Value
Institution owned by the employer	**Child:** Notional cost subject to an exemption of ₹ 1,000 p.m. per child. **Other family member:** Notional cost of such facility
Institution not owned by the employer by reason of his being in employment.	
Reimbursement	Actual reimbursement shall be taxable.

39. Valuation of perquisite in respect of free domestic servants shall be actual cost to the employer.
40. Perquisite in respect of interest free loan or concessional rate of interest shall be taxable in the hands of all employees as per the SBI rate of interest (on first day of the previous year), if aggregate amount of loan exceeds ₹ 20,000. However, any interest paid by the employee to the employer shall be reduced from the above computed value.
41. Valuation of perquisite in respect of use of movable assets shall be 10% of the original cost of such asset (If asset is owned by the employer) or charges paid or payable by the employer (If asset is hired).
42. Valuation of the perquisite in respect of movable assets sold by an employer to its employee shall be "the written down value – sale price". The written down value shall be calculated considering the rate of depreciation for Electronic items 50%(WDV), Motor-car 20%(WDV) and for other items 10% (SLM).
43. Medical facility in India -
   - Medical facility in a Government hospital or hospital maintained by the employer is exempted.
   - Reimbursement of medical expenses in a hospital, which is approved by the CCIT, for the prescribed diseases is fully exempted.
   - Group medical insurance obtained by the employer for his employees is fully exempted.
   - Reimbursement of any insurance premium paid by the employee is fully exempted.
44. Medical facility provided outside India: Medical expenditure, cost of stay abroad (for patient + one caretaker) is exempted to the extent permitted by the RBI. Cost of travel (for patient + One care taker) is exempted only when GTI of the employee does not exceed ₹ 2,00,000 p.a.
45. If an employee goes on travel in India (on leave) with his family and traveling cost is reimbursed by the employer, then such reimbursement is fully exempted for 2 journeys in a block of 4 years.

46. Provident Fund

Particulars	SPF	RPF	URPF	PPF
Employer's Contribution	Not taxable	Exempted upto 12% of Salary	Not taxable	NA
Employee's Contribution	Eligible for deduction u/s 80C	Eligible for deduction u/s 80C	Not eligible for deduction u/s 80C	Eligible for deduction u/s 80C
Interest	Not Taxable	Exempted @ 9.5% p.a.	Not Taxable	Not taxable
Lump sum	Not Taxable	Not Taxable if employee retires after 5 years of service or due to inability to work. Otherwise it shall be taxable as URPF	Employer's contribution or interest thereon is taxable as salary. Interest on employee's contribution taxable as income from other sources	Not Taxable

47. **Transferred balance:** On conversion of URPF to RPF, taxable amount is all sums comprised in the transferred balance that would have been liable to income tax if the recognition of the fund had been in force from the date of institution of the fund.

48. Standard deduction: Lower of (i) salary; (ii) ₹ 50,000

49. Entertainment allowance is allowed as deduction u/s 16(ii) in hands of Government employee to the minimum of following –

(a) Actual entertainment allowance

(b) ₹ 5,000

(c) 20% of Basic Salary.

50. Tax on employment or professional tax shall be allowed as deduction u/s 16(iii) on cash basis, whether paid by employee or by employer (on behalf of employee) from gross taxable salary.

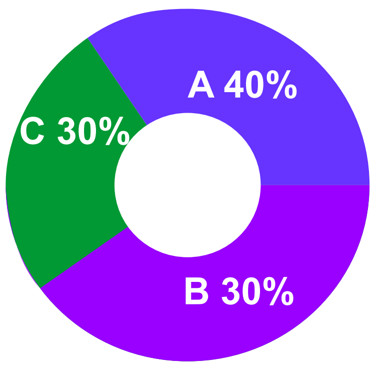
CMA (Dr.) Subir Kr. Datta
Principal,
Kshudiram Bose Central College,
He can be reached at:
duttasubirkumar1958@gmail.com

GROUP: I, PAPER: 8

COST ACCOUNTING

(CAC)

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

Nowadays the value and importance of Cost Accounting need hardly the over emphasized. For that the optimum utilization of resources is very much essential to meet need of the day. In this context Cost Accountant can play vital role. Hence, theory as well as solving the practical problems are very much essential for securing good marks in the exam. You please go through the theoretical part 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 considerably depends on style of preparation which should have perseverance, regularity of efforts, detailed practice, vision and objectivity.

The following tips based on my long experience are suggested below :

1. Students are suggested to develop a plan for completing the syllabus within specified time.
2. You should go through your Study Note and know the syllabus properly.
3. Analyze the trends of setting questions.
4. This paper is based on mainly solving the practical problems.
5. For successful result clarity of concepts and self expression is essential.
6. Try to improve your speed by practice and revision for able to attempt all questions in limited time.
7. Try to write down all the important terms in your words for practicing it frequently.
8. 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 main chapters**. In first chapter the basic concept of cost accounting are discussed in details, beside its other two branches viz, Financial Accounting and Management Accounting. The second chapter described the Elements of cost in details. The three major elements of costs are – Material, Labour and Overheads. The major elements of costs are discussed elaborately and analyzed element-wise with suitable number of examples. It is known that Material is the major part of total cost of a product, hence it is very much urgent to control cost of material. You should read the scope and objectives of different Cost Accounting Standards in details. It will help to understand the scope and grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Cost allocation, Cost apportionment and cost absorption should be understood very clearly.

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

The chapter Contract Costing is important for this type of examination. Students often experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. There are some standard norms for completion and recognition of profit/ Loss of incomplete 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".Various Problems on escalation clause are also very important for this paper.

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

The chapter Marginal Costing aims to find out cost-volume-profit relationships. And it is very important from the students' perspective. It aims to find out Cost-volume-profit relationships. Some times more than one problem may be expected from this chapter. The main objective should be to understand the wordings of the problem and to determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basis part for solving problem. You should also study the effect on profits due to various changes in Fixed Cost/ Variable Cost/ Selling Price / Sales Mix and the effect of the above on Brake-Even-Point as well as Margin of Safety.

The chapter 'Variance Analysis' is an analysis which relates to creating responsibilities and identifying the activities or 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. The main objective of this analysis is to improve the operation by effective utilization of resources for reducing its product cost.

The next chapter is concerned with 'Budget and Budgetary Control'. Budget can be defined as financial and / or quantitative statement, prepared prior to a defined period of time, of the policy should be pursued during that period for the purpose of attaining a given objective. Again the term budget can be expressed as a predetermined plane of action in details. Budgetary control requires preparation of 'Flexible Budget', Functional Budget, and 'Cash Budget' for taking necessary actions. Both theoretical and problem oriented questions may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students are also suggested to go through the theoretical parts-like, concept of Zero-based Budgeting, behavior and classification of Budgets etc very carefully. All functional budgets are summarized into master budget consisting of a Budgeted Profit and Loss Account, a Balance Sheet and Cash Flow Statement.

Budget is designed to assist management in carrying out its functions by allocating responsibility and authority to aid in making plans and estimates for the future. A flexible budget has been defined as a budget which is designed to change in accordance with the activities attained. Practically it is a series of fixed budgets for different levels of activities. The solution of following problem will clear this.

For a batter practice and securing good marks I have suggested some M.C.Q. pattern questions based on Job, Contract and Batch Costing. Practice the following problems for better understanding and conceptions.

1.State which of the following statements are correct or incorrect:

(i) In contract costing credit is taken only for a part of the profit on incomplete contracts.
(ii) Escalation clause in a contract provides that the contract price is fixed.
(iii) Final contract price is to be paid is certain in cost plus contract.
(iv) In contract plus costing, the contract runs a risk of incurring loss.
(v) Most of the items of cost are direct in contract costing than in job costing.
(vi) Contract costing is a basic method of specific order costing.

Ans. Correct : *(i), (v), (vi)*
Incorrect :*(ii), (iii), (iv).*

2. Which of the following is correct ?

A. An essential of long-term costing is that :

(i) It has a duration in excess of twelve calendar months.
(ii) It is a progress at a financial year-end and has a significant effect on the activity of the Contractor for the period under review.
(iii) Its completion will require a number of stages, each of which must be certified and valued for Profit calculation purpose.
(iv) It has a duration in excess of six calendar months.

B. A debit balance on the contractee account should be incorporated in the balance sheet as :

(i) A current liability as 'contract balance outstanding'.
(ii) Set- off against contract stock valuation.
(iii) Excess payments on account not set off against contract stock value.
(iv) In debtors as 'amount recoverable on contract'.

C. Retention monies are best defined as :
(i) Cash withheld by the contractee in order to improve the cash flow of the contractor.
(ii) Payment to the contractor. Where it is desired to secure his services for a future contract.
(iii) Cash return to the contractee if actual profits on a contract are 10% higher than agreed figure.
(iv) Cash withheld by the contractee under the terms of the contract when payment of the value Certified are being made.

D. A zero value of attributable profit should be assumed where :

(I) Any foreseeable loss is estimated for a later stage in the contract.
(II) The interim estimated profit is less than 10% of value certified.
(III) The profit outcome of the contract cannot be estimated with reasonable certainty
(IV) The contract is less than 60% completed.

E. Which of the following is the most appropriate definition of turnover at intermediate stage in a contract?

(I) The value of work done which leaves the agreed attributable profit when the cost of work certified is subtracted from it.
(ii) Cost of work certified to date plus estimated profit to the end of the contract.
(iii) The value of work certified less any foreseeable losses.
(iv) Cost of work to date minus the cost of work not certified plus estimated profit to date.

F. Foreseeable losses estimated for a contract should be treated in which of the following ways?

(I) Ignore until they are known to be accurate with reasonable certainty.
(ii) Write off immediately that they are estimated.
(iii) Write off in the same proportion as any estimated profits are recognized.
(iv) Write up only if the work to which they relate is 50% completed.

Ans. A. (I), B. (iv), C. (iv), D.(iii), E. (I), F(ii).

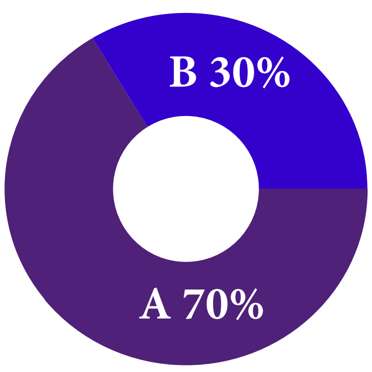
CMA Ankan K Bandyopadhyaya
He can be reached at:
abanerjee8533@gmail.com

GROUP: II, PAPER: 9, Part- i

OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM)

Operations Management

Your Preparation Quick Takes



Syllabus Structure
A Operations Management **70%**
B Strategic Management **30%**

Learning Objectives:

- Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments.
- Eventually, student's ability for leadership positions in the production and service industries gets increased.
- To solve business processes, it helps to apply knowledge of fundamental concepts of operations management and helps to apply knowledge of approaches to operational performance improvement.

Operations Management

In this issue we will discuss "A systematic approach to long term capacity decisions" on Capacity Planning and Capacity Requirement under *operations planning.*
Long term decisions for capacity would typically include:
(a) Whether to add a new plant
(b) Whether to add a new workstations
(c) Whether to reduce the number of existing workstations/warehouses etc.

Some of these can take years to become operational and so a systematic approach is required to plan for long term capacity decisions.
The four step systematic approach involves:
(1) Estimate future capacity requirements
(2) Identify gaps by comparing requirements with available capacity
(3) Develop alternative plans for reducing the gaps
(4) Evaluate each alternative, both qualitatively and quantitatively, and making a final choice

Step 1: Estimate Capacity Requirements

A process's capacity requirement is what
(a) Its capacity should be for some future time period
(b) To meet the demand of the firm's customers
(c) Under the firm's desired capacity cushion

Capacity Requirements are expressed
(a) Either with an output measure
(b) Or with an input measure

Output and Input both measures are dependent on the forecasts of
(a) Demand
(b) Productivity
(c) Competition
(d) Technological Change

OUTPUT MEASURE

↓

Determines the capacity Requirements as an Output

e.g. Current capacity of a process is to serve 50 customers/day. Depending upon forecast of demand, productivity, competition and technological change the future capacity requirement with output terms can be 125 customers/day under a desired capacity cushion. Similarly Capacity in terms of Output/period (no of units of production/period)

[Capacity Cushion: is an amount of capacity in excess of expected demand when there is some uncertainty about demand]

But output measures are not effective in the following situation:
(a) High product variety and high process divergence
(b) Productivity (output/input) rates are expected to change [so it is not perfect to fix capacity in terms of output otherwise improvement in resource utilisation could not be captured authentically]
(c) Significant learning effects [knowledge increases productivity by increasing output at a given resource] are expected

In all the above cases it is appropriate to measure the capacity requirements in terms of input---like
(a) No of employees required

(b) No of machines required etc.

To find out capacity requirement in input terms the prelim information required are:
(a) Future demand forecasts
(b) Estimated process time
(c) Desired capacity cushion etc.

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

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

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

$$= \frac{Dp}{N\left[1 - \left(\frac{C}{100}\right)\right]} \quad \text{.......................... (1)}$$

Where
D = demand forecast for the year (number of customers serviced or units of product)
P = processing time (in hours per customer served or unit product)
N = total number of hours per year during which the process operates
C = desired capacity cushion (expressed as a percent)

Mis the number of input units (Say no of machines) required and should be calculated for each year in the time horizon. Say a business house has the following demand forecast for the next five years for their single product X

Year	1	2	3	4	5
Demand (units)	2000	2500	3000	4000	6000

Let one unit requires 2 hours to complete (ignoring the learning effect) and in a year there will be 250 working days with 8hours per day working hours. If 20% is the desired cushion then in 1st year
Total demand = 2000 units
Total Hours required to meet the demand = 2000* 2 = 4000 hours
Total working hours available in the year = 250* 8 = 2000 hours
Without any cushion No of machines required in 1st year = 4000/2000 = 2
With cushion no of machines required = 2/(1-0.2) ≈ 3 machines. Similarly calculations for each year are done and the result is

D	2000	2500	3000	4000	6000
P	2	2	2	2	2
N	2000	2000	2000	2000	2000
(250 × 8)					
D_p	4000	5000	6000	8000	12000
C / 100	0.2	0.2	0.2	0.2	0.2
M (by formula)	2.5	3.125	3.75	5	7.5
M (rounding off)	3	4	4	5	8

It is impossible to buy a fractional machine. In case of fraction round up the fractional part, unless it is cost efficient to use short term options such as overtime or stock-outs to cover any shortfalls. If instead the capacity unit is the number of employees at a process, a value of 19.8 may be achieved by employing 19 employees and a modest use of overtime equivalent to 0.8 i.e. 80% of another full time person.

The above illustration is done with a single product. When multiple products are being manufactured SETUPs may be involved and equation (1) above will be accordingly adjusted.

Setup time is the time required to change a process or an operation from one service or product to making another.
Say Durgapur Steel Plant has a rolling mill which rolls raw steel to produce ribbed rods (X) and to produce railway wheels (Y). X and Y requires different varieties of rolls in rolling mill operation. The rolling mill operates alternatively to roll steel for producing--- one

batch of ribbed roods followed by one batch of railway wheels. So machines of rolling mill requires adjustment after completion of every roll. This adjustment is called setup and time required for this adjustment is called setups time.
So after accounting for both processing and setup times equation (1) above for multiple products/services can be modified as

Capacity Requirments (M)

$$= \frac{\text{Processing \& SetUp hours required to meet year' sdemand summed over all services / products}}{\text{Hours available form a single capacity unit per year after deducting desired cushion}}$$

$$= \frac{\left[Dp + \left(\frac{D}{Q}\right)S\right]\text{Product1} + \left[Dp + \left(\frac{D}{Q}\right)s\right]\text{product 2} + \dots\dots\dots\dots + \left[Dp + \left(\frac{D}{Q}\right)S\right]\text{productn}}{N\left[1 - \left(\frac{C}{100}\right)\right]}$$

Where
Q = number of units in each lot. Say in our rolling mill example steel will be rolled to produce 500 tons of ribbed rod and 1000 tons of railway wheel in each rolling operation
S = set up time (in hours) per lot

Let our rolling mill in Durgapur steel plant has provided the following data related to year 2021:

Particulars	Ribbed Rods (X)	Railways wheel (Y)
Annual demand forecast	12000 T	18000 T
Standard processing time (hours of rolling/lot)	2 hours	3 hours
Average lot size (Ton/rolling)	500	1000
Standard set up time (hours)	20 minutes = 1/3 hours	25 minutes = 5/12 hours
The plant operates for 300 day in 3shift operation of 8 hours each. Cushion 20%		

With the above data computation details for finding out No of rolling bed in Rolling Mill are:

		Ribbed Road	Railway Wheels	Total
	Particulars	X	Y	
1	Annual demand (T)	12000	18000	
2	Processing time (hrs)	2	3	
3	Dp (1 × 2)	24000	54000	
4	Average Lot size (Q)	500	1000	
5	No of lots (1/4) (D/Q)	24	18	
6	Set up time (hours / lot) (s)	1/3	5/12	
7	Set up time (hours) (D/Q) × s) (5 × 6)	8	7.5	
8	Dp + (D/Q) × s	24008	54007.5	78015.5
9	N × (1 – C / 100) = 300 × 24 × (1 – 0.2)			5760
10	M (as per formula)			13.54436
11	M (rounding off)			14
	(M no of rolling bed in rolling mill)			

Once M is computed we require to find the Capacity Gap, if any. Capacity gap is the difference between projected capacity requirements (M) and current Capacity. Once this is done the next step is to develop alternative plans to meet the projected capacity gaps. While developing this evaluation method both qualitative factors and quantitative factors. Qualitative factors include
(a) Capacity strategy of the organisation
(b) Uncertainties about demand
(c) Competitive reaction

(d) Technological change
(e) Implementation Cost estimates etc.

Quantitatively the decision maker estimates the change in cash flows for each alternative over the forecast time horizon compared to the base case. Out of so many alternative plans for meeting the capacity gaps, one will be called Base case. It is a case for do nothing and simply lose orders from any demand that exceeds current capacity or incur costs because capacity is too large.

Cash flow is the difference between the flows of funds into and out of an organisation over a period of time after considering revenues, costs and changes in assets/liabilities w.r.t the choice of an alternative to meet the capacity gap.

Illustration: A business house is experiencing a boom in business. The owner expects to sale 80000 units of its product in the current year. The production division has a capacity to produce 105000 units per year. Forecasted Demand for the next 5 years is 90000 units for the next year, followed by a 10000 units increase in each of the succeeding years. One alternative is to expand the production capacity now-bringing the production capacity up to 130000 units per year. The initial investment would be R200000, made at the end of this year. The average market price of the product is set at R10 and before tax profit margin is 20%. The 20% figure was arrived at by considering production cost as R8 per unit.
What are the pretax cash flows from this project for the next 5 years compared to those of the base case of doing nothing?

Ans: In the base case of doing nothing every year the production will be 80000 units irrespective of increasing demand. So there will be revenue loss.
Say in first year end i.e. end of one year from current year forecasted demand is 90000 units. If we do nothing to increase the capacity then there will be a revenue loss and the resultant pretax profit loss will be (90000-80000)*2 = R20000. If we increase capacity as per the given alternative, this loss of profit we could prevent and that will appear as incremental cash flow to the business house. Similarly for other years the incremental cash flows in comparison to base case are:

Year	0 (Current Year)	1	2	3	4	5
Forecasted sale (Units)	80000	90000	100000	110000	120000	130000
Incremental Sale						
Compared to base						
i.e current year (units)		10000	20000	30000	40000	50000
Average profit p.u		2	2	2	2	2
Incremental cash flow (Rs.)		20000	40000	60000	80000	100000

Now suppose that our business house decided to increase the production capacity by investing R200000 today i.e. at the end of current year i.e. at the beginning of next year and this fund is arranged at a cost of 10% p.a. With this information we could find that the decision of increasing the capacity by investing R200000, could increase the value of the business. This we could find by finding out the Net present Value (NPV) with the application of Time Value of Money concept as follows:

	Year	0 (Current year)	1	2	3	4	5
1	Initial Investment	-200000					
2	Incremental Cash flow on investment		20000	40000	60000	80000	100000
3	PV factor $(1/1.10)^n$ (Since cost of fund 10%, n = no	1	0.909	0.826	0.751	0.683	0.621
4	PV(2×3) (except under current year it is (1×3))	-200000	18181.82	33057.85	45078.89	54641.08	62092.13
5	NPV(Sum of Row 4)	13051.76621					

Usually when an alternative shows positive NPV, businesses prefer that alternative compared to "do nothing" alternative. But before taking final decision several other factors are also considered.

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

YEARS OF CELEBRATING THE MAHATMA

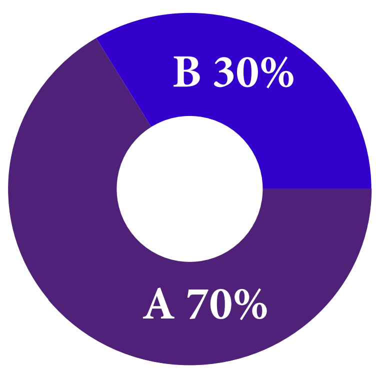
CMA (Dr.) Sumita Chakraborty
Additional Director,
Research & Studies
She can be reached at:
research.hod@icmai.in
studies.addldir1@icmai.in

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.

STRATEGIC MANAGEMENT

1. **Who enjoys more freedom in strategic decision making?**
   a) Government Strategists
   b) Non-Government Strategists
   c) Both (a) & (b)
   d) None of these

2. **Which of these is something that has to do with war & ways to win over enemy?**
   a) Strategy
   b) Management
   c) Execution
   d) Monitoring

3. **Which is not the limitation of strategic management?**
   a) Time Consuming Process
   b) Difficult Estimation of competitive responses
   c) Costly Process
   d) Understandable complex environment

4. **Which of these serves as a corporate defence mechanism against mistakes & pitfalls?**
   a) Strategic Management
   b) Marketing Techniques
   c) Strategic Awareness
   d) Competitive Analysis

5. **Which is a self-contained division?**
   a) Strategic business unit
   b) Divisional structure
   c) Corporate division
   d) Managerial division

6. **Business policy tends to emphasize on which aspect of strategic management?**
   a) System Analytical
   b) Portfolio Analytical
   c) Credit Analytical
   d) Rational Analytical

7. **What is required by companies to meet changing condition in their industries?**
   a) Far-sighted
   b) Visionary
   c) Develop long term strategies
   d) All the above

8. **What is a unified, comprehensive & integrated plan designed to assure that basic objectives of enterprise are achieved?**
   a) Strategy
   b) Execution
   c) Monitoring
   d) Management

9. **Which strategy is used by companies to cope up with uncertain business environment?**
   a) Proactive
   b) Reactive
   c) Both
   d) None of these

10. **Functional level managers are concerned with __________.**
    a) Strategies responsible for Specific business operations
    b) Strategies that span individual business
    c) Strategies that are specific to particular business
    d) None of these

11. In competitive environment it is difficult to clearly estimate _______ about firm's strategies.
   a) Competitive Responses
   b) Operating Process
   c) Control System
   d) Reasonable Outcomes

12. Which of these seeks to relate the goals of organization to the means of achieving them?
   a) Strategy
   b) Execution
   c) Monitoring
   d) Management

13. Which is not the limitation of strategic management?
   a) Time Consuming Process
   b) Difficult Estimation of competitive responses
   c) Costly Process
   d) Understandable complex environment

14. Which is not an advantage of strategic management?
   a) Helps organizations to be proactive
   b) Control their own destiny in better manner
   c) Identify available opportunity
   d) None of these

15. Which is a planned strategy?
   a) Proactive
   b) Reactive
   c) Adaptive
   d) None of these

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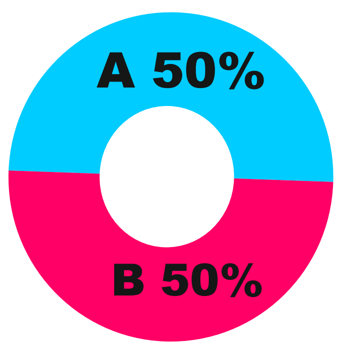
CMA Bimalendu Banerjee
He can be reached at:
bbanerjee2050@gmail.com

GROUP: II, PAPER:10

COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT(CMFM)

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:Paper15) 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.

STANDARD COSTING

Question – 1 (Labour)

The cost records of M/s. Orient Manufacturing Co. show the following information :

- Standard Labour Cost per unit of production is Rs.15.
- Time allowed per unit is 30 hours
- During the month of October 2020, 3000 units are produced in 75,000 hours.
- Actual payment of Wages for the month is Rs.45000.

What will be the :

i) Standard Rate (SR) per Hour
(a) Re.0.30 (b) Re.0.40 (c) Re.0.50 (d) Re.0.60

ii) Standard Hour (SH) for Actual Production
(a) 80000 Hours (b) 90000 Hours (c) 100000 Hours (d) 120000 Hours

iii) Actual Rate (AR) of Wages
(a) Re0.30 (b) Re.0.40 (c) Re.0.50 (d) Re.0.60

iv) Efficiency Variance
(a) Rs.7500 F (b) Rs.7500 A (c) Rs.8000 F (d) Rs.8000 A

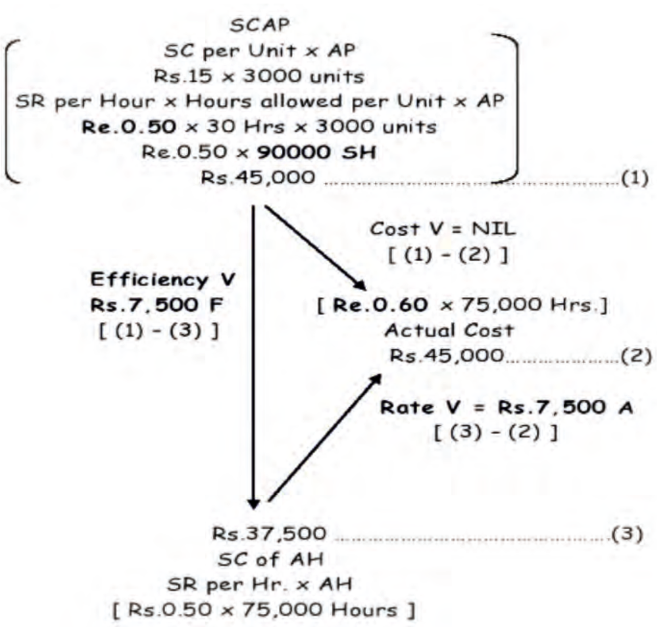
v) Wage Rate Variance
(a) Rs.7600 A (b) Rs.7500 A (c) Rs.8500 F (d) Rs.8500 A

Answer :

i) SR per Hour : (c) Re.0.50
ii) SH for AP : (b) 90000 Hours
iii) AR of Wages : (d) Re.0.60
iv) Efficiency V : (a) Rs.7500 F
v) W. Rate V : (b) Rs.7500 A

Solution :

Put the given data as well as those derived from the Working Notes in the appropriate places of the specified diagram below, and start connecting the same in the ways embodied therein. The requisite answers will emerge automatically.



- Labour Cost V = Rate V + Effi. V

Working Note :

* Std Rate per Hour = **Re.0.50**

[Std Cost per unit / Std time per unit
= Rs.15 / 30 Hrs.]

* Actual Rate (AR) of Wages = **Re.0.60**

[Rs.45000 / 75000 Hrs.
Actual Cost / Actual Hour]

In case of any difficulty please have a look to the **<u>Solution through diagrams</u>** at the end of this e-bulletin.

<u>Question – 2 (VARIABLE OVERHEADS)</u>

The following information has been extracted from the books of M/s Govind Enterprises which is using Standard Costing System :

- Actual Production : 9000 Units
- Hours worked : 1,10,000 hours of which 5000 hours, being idle time, were not recorded in production.
- Standard Hours : 10 hours per Unit
- Standard Variable Overheads : Rs.150 per Unit
- Actual Variable Overheads : Rs.16,00,000

What will be the :

i) The Standard Variable Overheads for Actual Production.
(a) Rs.12,50,000 (b) Rs.13,00,000 (c) Rs.13,50,000 (d) Rs.14,00,000
ii) Efficiency Variance
(a) Rs.3,00,000 A (b) Rs.2,50,000 A (c) Rs.2,30,000 F (d) Rs.2,25,000 A
iii) Expenditure Variance
(a) Rs.25,000 A (b) Rs.25,000 F (c) Rs.50,000 A (d) Rs.50,000 F
iv) The Standard Cost of Productive Hours (PH)
(a) Rs.15,75,000 (b) Rs.16,50,000 (c) Rs.16,75,000 (d) Rs.17,00,000

Answer :

i) (c) Rs.13,50,000
ii) (d) 2,25,000 A
iii) (a) Rs.25,000 A
iv) (a) Rs.15,75,000

<u>Solution</u> : Basic data : Actual Production (AP) = 9,000 units

<u>VARIABLE OVERHEAD</u>
SR per Unit x AP
[Rs.150 x 9,000 units]
Std V.OH for AP
Rs.13,50,000..............(1)

Total V = Rs.2,50,000 A
[(1) - (2)]

Efficiency V
=Rs.2,25,000 A
[(1) - (3)]

Actual Cost
= Rs.16,00,000..............(2)

EXP. V = Rs.25,000 A
[(3) - (2)]

Rs.15,75,000 ....(3)
SC of Productive Hours
SR per Hour x PH
[Rs.15 x 105000 Hours]

Working Note :

* Std Rate of V.OH per Hour = Rs.15
[SR per unit / SH per unit
Rs.150 / 10 Hrs.]

* Productive Hour (PH)

= Actual Hours paid for – Idle time
= 110,000 Hrs. – 5000 Hrs.
= 105,000 Hrs.

Tutorial Notes regarding (3) above.

In absence of idle time, SC of Actual Hours paid for is to be computed. In this case it shall be Rs.15 x 110,000 Hours = Rs.16,50,000 affecting Efficiency V and Expenditure V accordingly.

Question – 3 (Material)

In the following case one out of four answers is correct. You are required to indicate the correct answer and give brief workings.
A factory operates a standard cost system, where 2000 Kgs of raw materials @ Rs.12 per Kg were used for a product resulting in price variation of 6000 (F) and usage variance of 3000 A. Then standard material cost of actual production was :

A : Rs.20000 C : Rs.25000
B : Rs.30000 D : Rs.27000

Answer :

Standard Material Cost of Actual Production (SCAP) = Rs.27,000

Solution :

Price Variance = SR x AQ – AR x AQ
= SC of AQ – Actual Cost
So, Rs.6000 F = SC of AQ – (Rs.12 x 2000 Kg.)
Or SC of AQ = (+) Rs.6000 + Rs.24000 = Rs.30,000
Again, Usage V= SCAP – SC of AQ
Or Rs.3000 A = SCAP – Rs.30,000
Or SCAP = (-) Rs.3,000 + Rs.30,000 = Rs.27,000

SCAP……………………………………(1)
Rs.27,000

Cost V = (1) – (2)
= Rs.3,000 F

Usage V
= [(1) – (3)]
= Rs.3,000 A
(given)

Actual Cost……………(2)
Actual Rate x Actual Quantity Used
[Rs.12 x 2000 Kg]
= Rs.24,000

Price V = (3) – (2)
= Rs.6,000 F (given)

Rs.30,000 ……………………………………(3)
SC of AQ
(SR x AQ)

Note : Cost V = Price V + Usage V

Question – 4 (Material)

The following details are available in the Cost records of a manufacturing Company.

Unit produced : Z	8,000 kg.	
	X	Y
Standard Usage per kg. of Z	0.75 kg	0.50 kg
Actual Usage	6,100 kg	4,400 kg
Standard Price per kg	Rs.4	Rs.10

i) What will be the mix variance
(a) Rs.1200 F (b) Rs.1200 A (c) Rs.1350 F (d) Rs.1350 A
ii) What will be the yield variance
(a) Rs.3100 A (b) Rs.3100 F (c) Rs.3200 F (d) Rs.3200 A

Answer :

Mix V : (b) Rs.1200 A
Yield V : (d) Rs.3200 A

Working Notes :

Basic data : Actual Production (AP) = 8,000 kg

*** Std Cost of Actual Prod (SCAP)**

Mat.	Standard Quantity (SQ) for AP (Kg.)	Rate (Rs.)	Amt (Rs.)	SR per Kg
X	0.75 kg X 8,000 i.e. 6000	4	24000	
Y	0.50 kg X 8,000 i.e. 4000	10	40000	
	Input 10000 Loss 20% 2000		64000	Rs.6.4
	Output 8000			Rs.8

*** Std Cost of Actual Qty Used**

Material	Qty(Kg.)	SR (Rs.)	Amount (Rs.)
X	6100	4	24400
Y	4400	10	44000
	10500		68400

*** Std Cost of RSQ**

Mat.	Std Proportion of Actual Qty	RSQ (Kg)	SR (Rs.)	Amt (Rs.)
X	0.60 x 10,500 i.e.	6300	4	25200
Y	0.40 x 10,500 i.e.	4200	10	42000
		10500		67200

RSQ means Revised Standard Quantity.

<u>**Short-cut method**</u> :

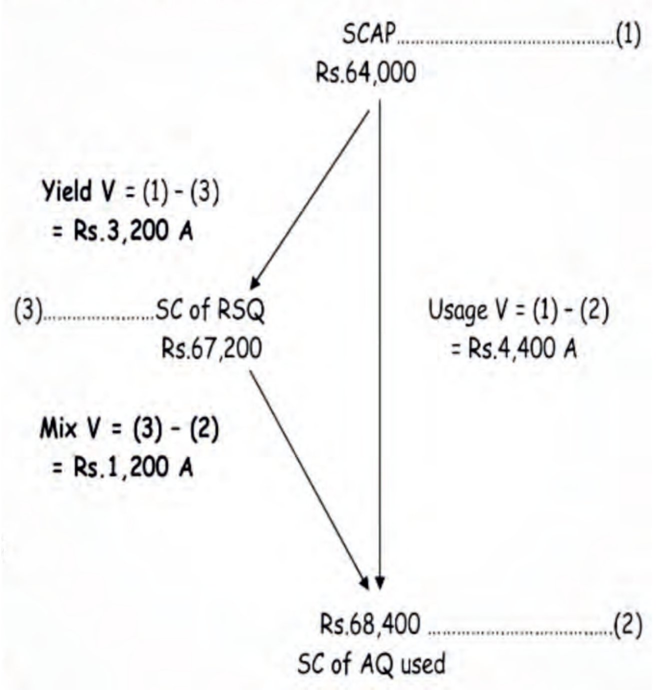
Std Cost of RSQ = SR per kg of Input x Actual Input Quantity
= Rs.6.40 x 10500 kg = Rs.67,200

Check : Yield V = SR per kg of Prod. X (Actual prod - Std prod from Actual Mix)
= Rs.8 x (8,000 - 8,400) kg = Rs.8 x (-400) kg
= Rs.3,200 A

Std Prod from Actual Mix

	Input (in Kg.)	Output
Std	10000	8000
	10500	8400

<u>**Solution**</u> :



Note : Mix V + Yield V = Usage V

<u>Question – 5 (Ratio)</u>

The following data have been obtained from the records of a machine shop for the month of October 2020.

- Budgeted Hours : 15500
- Actual Hours : 17600
- Standard Hours produced : 19200

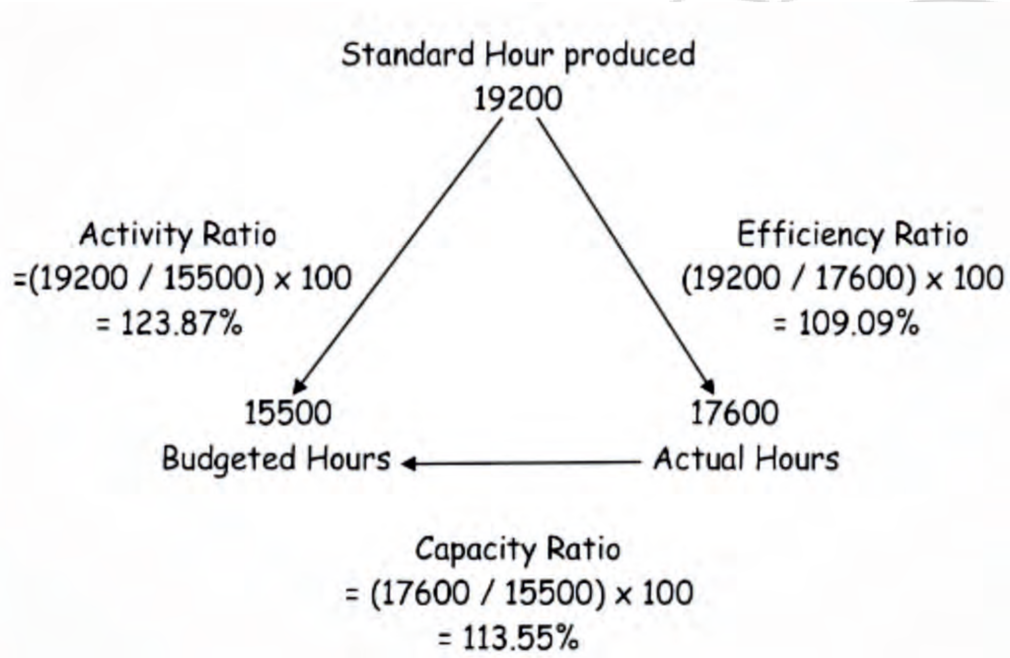
What shall be the :

i) Activity Ratio
(a) 109.09% (b) 113.55% (c) 123.87% (d) None of these
ii) Efficiency Ratio
(a) 113.55% (b) 109.09% (c) 123.87% (d) None of these
iii) Capacity Ratio
(a) 123.87% (b) 113.55% (c) 109.09% (d) None of these

<u>Answer</u> :

i) : (c) 123.87%
ii) : (b) 109.09%
iii) : (b) 113.55%

Solution : Diagrammatic solution takes the following pattern as distinct from other varieties.



Relationship : (Efficiency Ratio x Capacity Ratio) / 100
= Activity Ratio or Production Volume Ratio

[(109.09 x 113.55) / 100 = 123.87]

<u>Solution through diagrams</u>

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

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

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

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

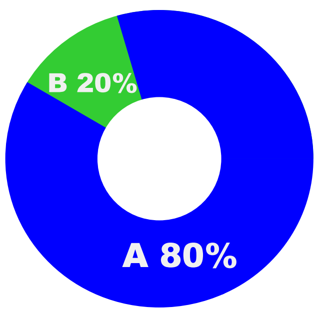
A sincere practice of Variance Analysis through diagrams over a couple of days is likely to pay a rich dividend.

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

GROUP: II, PAPER:11

INDIRECT TAXATION (ITX)

Your Preparation Quick Takes



Syllabus Structure

A Canons of Taxations - Indirect Tax GST **80%**

B Customs Laws **20%**

Learning objectives:

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

Important MCQ of GST

1. One of the following states does not fall under special category given under Art. 279A of the Constitution
a) Himachal Pradesh c) Uttarakhand
b) Chhattisgarh d) Jammu & Kashmir

2. Exemption from registration is available to:
a) Central & State Govt. Departments c) Agriculturists
b) a) & b) of the above d) None of the above

3. Agriculturist-
a) Individual or HUF. c) Individual and HUF
b) Partnership d) All the above

4. A person is having multiple business requires registration:
a) Single c) Each business separately
b) Either A or B d) None of the above

5. Article _____ of constitution of India empowers parliament to impose IGST in India.
a) 69A c) 265A
b) 279A d) none of the above

6. Full-fledged GST was recommended by-
a) Raja Chellaiah Committee. c) Vijay Kelkar Task Force
b) GST Council d) Man Mohan Singh Commission

7. One of the following taxes is already subsumed under GST:
a) Tax on motor spirit c) Luxury Tax
b) Tax on production of alcohol d) Tax on electricity

8. One of the following taxes is not subsumed under GST
a) Octroi by local authorities c) Entertainment tax by local authorities
b) Entry tax by State Governments. d) Tax on lottery by State Governments

9. GST is ______________
a) a value added tax c) tax on goods and services
b) tax on consumer goods and services d) none of the above

10. Dual model of GST as adopted in India has been drawn majorly from
a) Australia c) France
b) USA. d) Canada

11. GST is ____________
a) applicable to the state of J&K
b) not applicable to the state of J&K
c) going to be applicable to the state of J&K from later date
d) both (b) and (c) above

12. The rate of GST as applicable on goods and services are:
a) 0% 5% 12% 16% 28%. c) 0% 6% 12% 18% 28%
b) 0% 5% 12% 18% 28% d) 0% 5% 12% 18% 26%

13. Under which Constitutional Amendment Act, 2016, constitution was amended to introduce GST in India
a) 122 c) 121
b) 101. d) none of the above

14. Under the provisions of GST law, tax is levied
a) simultaneously by Union and State laws
b) only by the State laws

c) only by the Union laws
d) exclusively by Union and State laws

15. GST Laws are implemented on the recommendation of
a) Central Government
b) GST Council.
c) GST Network (GSTN)
d) President of India.

SOLUTION

1. B.	7. C.	13. B
2. B.	8. C.	14. A
3. C.	9. C	15. B
4. A	10. D.	
5. C.	11. A	
6. D.	12. B	

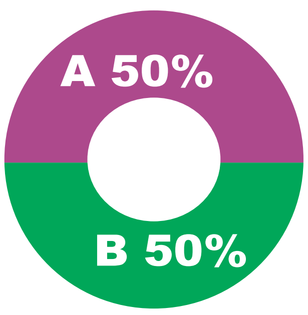
150 YEARS OF CELEBRATING THE MAHATMA

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

GROUP: II, PAPER:12

COMPANY ACCOUNTS & AUDIT (CAA)

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

Let us discuss today the salient points of company audit.

What is audit of statutory report?
The auditor of a company has to certify the statutory report as correct in certain specified respect after it has been certified by the directors, but prior to holding of statutory meeting by the company.
State the items of certificate on statutory report.

The items of such certificate include:

1) Shares allotted by company
2) Cash received in respect of such shares
3) Receipts and payments of the company

What are the brief duties of company auditor in respect of truth and fairness of accounts relates to annual accounts of a company?

The auditor is

1) To ascertain the assets and liabilities of the company in accordance of the provisions of the companies act 2013
2) To verify the existence of the assets of the company at the date of the BALANCE SHEET
3) To check up the values of assets and liabilities of the company
4) To see that there is no omission of liabilities from the accounts of the company.

State the main provisions of the COMPANIES ACT 2013 regarding divisible profit.

Main provisions of the COMPANIES ACT 2013 regarding divisible profits are as follows:

1) A company must charge depreciation ,if it wants to pay dividends
2) Dividends can be paid out of three sources a) from current profits after providing for depreciation b)from past profits or reserves c)out of moneys provided by the central government or state government for payment of dividends
3) A company is required to transfer a prescribed percentage of its profit to its Reserve before declaring dividends.

Dividends cannot be paid out of capital—Discuss in brief
One basic principle is that dividends can never be paid out of capital. The provisions of companies act also prescribes that. It is accepted that the original capital contributed by the shareholders must be kept intact. If the dividends are paid out of capital, it would result into depletions on assets of the company purchased with the paid up capital. It also results into the reduction of capital of the company.
Briefly discuss the duties of auditor in connection of the dividends payment of the company.

Main duties:

1) Refer to the provisions of memorandum of provisions of the company
2) See the various provisions of the companies act
3) Check the Directors and Shareholders minute books
4) Check the dividend list with the Register of Members
5) Vouch the payment of dividends
6) Check the bank pass book etc

Students must go through the various provisions of companies act 2013 and other provisions as the questions from this chapter are highly probable.
Enjoy puja days with safety norms and go on studies. Odd days will go but you are to remain in study otherwise you will face difficulty.

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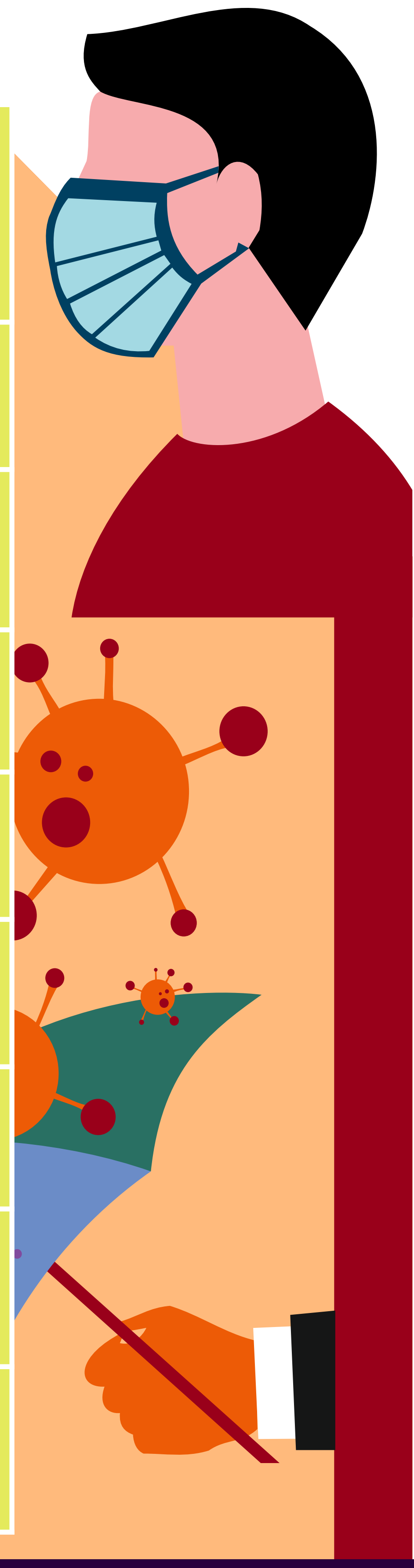
November 2020, Issue

150 YEARS OF CELEBRATING THE MAHATMA

Examination TIME TABLE

Day & Date	Intermediate Examination Syllabus-2016 Time 10.00 a.m. to 1.00 p.m.
10 th December, 2020 (Thursday)	Financial Accounting (Paper 05) (Group - I)
11th December, 2020 (Friday)	Operations Management & Strategic Management (Paper 09) (Group - II)
12th December, 2020 (Saturday)	Laws & Ethics (Paper 06) (Group - I)
13th December, 2020 (Sunday)	Cost & Management Accounting and Financial Management (Paper 10) (Group - II)
14th December, 2020 (Monday)	Direct Taxation (Paper 07) (Group - I)
15th December, 2020 (Tuesday)	Indirect Taxation (Paper 11) (Group -II)
16th December, 2020 (Wednesday)	Cost Accounting (Paper 08) (Group - I)
17th December, 2020 (Thursday)	Company Accounts & Audit (Paper 12) (Group - II)



STAY HOME STAY SAFE

PRACTICAL Advice

ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

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

02 Solve Excercises given in Study Note

03 Assess Yourself

04 Appear For Examination

FINISHED

SUBMISSIONS

Updation of E-Mail Address/Mobile:

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

Dear Students,

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

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

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

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

Message from

Directorate of Studies

Dear Students,

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

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

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

Let us observe his memory by following his message.

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

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

Please refer the link mentioned below :

https://icmai.in/studentswebsite/

- Don't give up
- Don't give in
- Don't give out

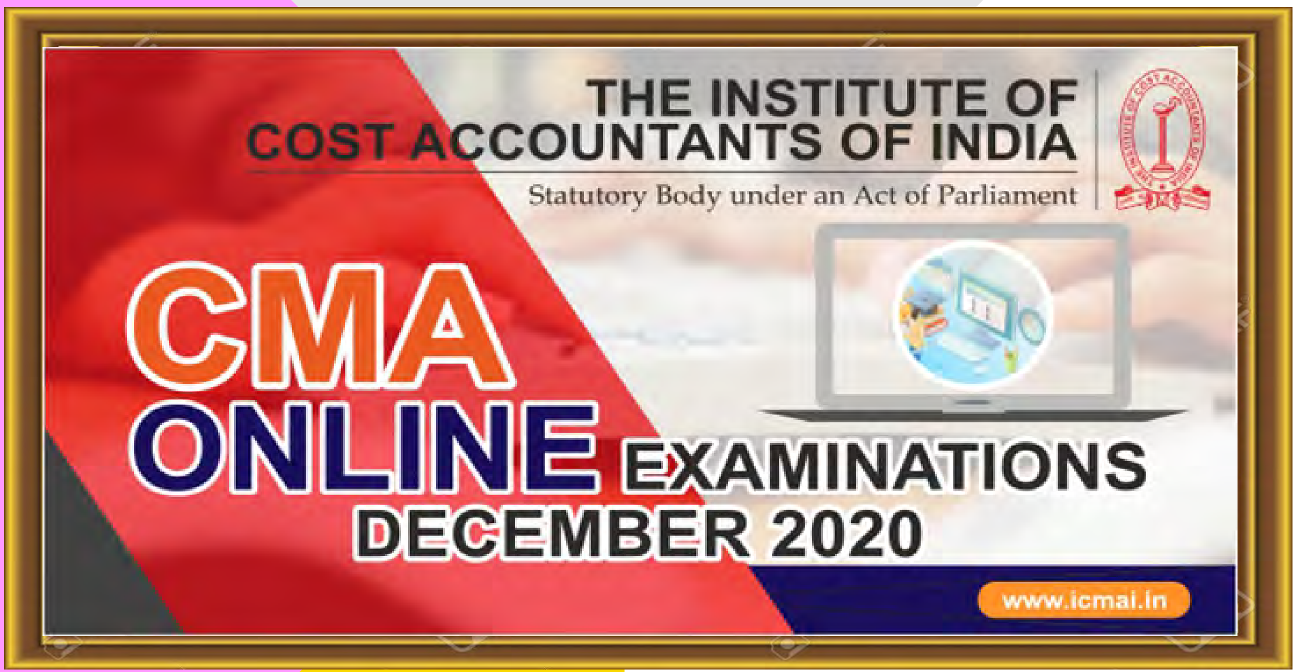
You can win!

GOOD LUCK

Be Prepared and Get Success;

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

Few Snapshots



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

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

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

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

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
Headquarters: CMA Bhawan, 12, Sudder Street, Kolkata - 700 016
Phone: +91-33-2252-1031/34/35/1602/1492/1619/7373/7143
Delhi office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110 003
Phone: +91-11-2462-2156/2157/2158

Behind every successful business decision, there is always a CMA