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# INTERMEDIATE

# e Bulletin

VOL: 3 , NO.: 10 ,OCTOBER , 2018 ISSUE

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**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

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Behind every successful business decision, there is always a CMA

# *Message from* The Chairman

CMA Manas Kumar Thakur
**Chairman,
Training & Education Facilities (T& EF) Committee**

CMA MANAS KUMAR THAKUR
Chairman, T & EF Committee
Directorate of Studies
President (2016-2017)

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## MESSAGE FROM THE CHAIRMAN

**Dear Students,**

***Greetings,***

***"Education is not just about going to school and getting a degree. It's about widening your knowledge and absorbing the truth about life".***

The aim of the education is the knowledge not of facts but of values. Both persistence and determination is needed to sail through any professional qualification. Education teaches one to think intensively with intelligence plus character is the main ingredients in it. *"It is the mark of an educated mind to be able to entertain a thought without accepting it".*

Thus, I believe in the saying that "**Knowledge is power. Information is liberating. Education is the premise of progress, in every society, in every family".** Learning without thought is a labour lost, thought without learning is dangerous. Learning is not just about looking and copying, it's about feeling too.

Strive for progress as our greatest weakness lies in giving up. In order to succeed you need to work hard and stay motivated. Starting your day feeling determined can help you work throughout the day and achieve your goal. Believe in yourself, be strong and never give up, no matter what the circumstances are.

The Directorate of Studies is assisting in your preparation by providing you various kinds materials in the forms of Revisionary Test Papers (RTPs), Mock Test Papers (MTPs), Work Book along with all the recent amendments in papers related to Direct and Indirect taxation, Laws, Accounting etc. and also arranging for live Webinar session through which you may directly interact with the faculties and clear your doubts. Prior preparation is required to make the Webinar more live and vibrant. Try to grab the opportunities and make yourself prepare to face the challenges, afterwards. ***"One must learn by doing the thing; for though you think you know it, you have no certainty, until you try."***

I wish you all a very happy Dussera & Durgapuja,

**CMA Manas Kumar Thakur**

**Be a CMA, be a Proud Indian**

"Behind every successful business decision there is always a CMA"

STUDENTS' E-bulletin Intermediate
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# CONTENTS

STUDENTS' E-bulletin Intermediate
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# KNOWLEDGE Update

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

GROUP: 1, PAPER: 5

# FINANCIAL ACCOUNTING (FAC)

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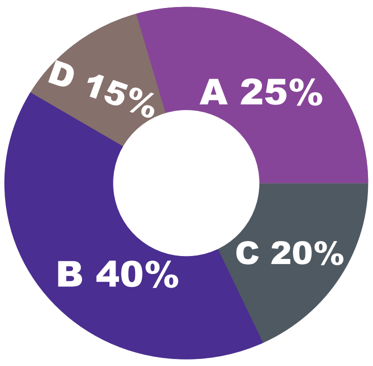
## *Your Preparation Quick Takes*




**Syllabus Structure**

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

*Learning Objective:*

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

# FINANCIAL ACCOUNTING

## A.BASICS OF ACCOUNTING

### INTRODUCTION

Accountancy is an art of recording. Definitely question arises – recording of what? The answer is transaction. The subject does not deal with anything which has got no connection with money. But just recording will not serve the purpose of the users of accounting. So it requires arrangement of such data in such a way so that it becomes user friendly. Technically this is termed as classifying. Again the classified data is condensed with specific heads. In this way the figures are reported to the end users. While doing so we have to keep in mind some conventions, rules and principles. In this issue we will discuss such principles and conventions. You have to keep in mind these are not law as enacted by statute.(for example company law 2013.) Let us make it clear with an example. Say as a student you are sitting in a classroom. Now the teacher enters and you stand up. This is nowhere written that you should stand up but as a convention you do that. On the other hand it is a rule of your college that unless you attend 75% class you will not be allowed for final examination. It is written and it is a rule. With this backdrop let us illustrate the idea in the following lines.

We will discuss the major issues in the following head.

1. GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLE)
2. CONCEPTS
   A.ENTITY CONCEPT B.GOING CONCERN CONCEPT C.MONEY MEASUREMENT CONCEPT D.DUAL ASPECT CONCEPT E.PERIODICITY CONCEPT F.MATCHING CONCEPT G.ACCRUAL CONCEPT H.REALISATION CONCEPT I.COST CONCEPT
3. CONVENTIONS
   A. CONSERVATISMB. CONSISTENCY C. MATERIALITY D. FULL DISCLOSURE

### GAAP

It is quite natural that accounting data of different countries will be prepared on the basis of distinctive standards as set by the apex accounting authority of respective countries. Even two or more different enterprises may also prepare accounting records differently, following their own policies and conventions. But in the present scenario of international business, it is very much necessary to make the accounting records of various countries and business houses readily comparable. To eradicate the difference in accounting records, an universal framework was set by **The Financial Accounting Standards Board of USA** in 1973. This universal guideline is a mandate which is to be followed all over the world and accounting authorities of every country should adopt this. This specific guideline is known as **Generally Accepted Accounting Principles** or **GAAP.** GAAP contributes massively to improve understandability, comparability and reliability of accounting records and also in betterment of international business relations.

### CONCEPTS:

#### 1. ENTITY CONCEPT

The basic idea of this concept is to identify the business and the businessman as separate. They have individual identity or entity in the eye of law. From the viewpoint of business the businessman is considered to be a third party who provided fund to the business and is liable to repay such fund with the accumulation of profit by using such money in a profitable way.
Example: If Sujata starts a business named Sujata enterprise and introduces capital of Rs. 200000/- the entry in the books of Sujata enterprise will be:

| | | |
|---|---|---|
| Bank A/C ...................... Dr | 2000000 | |
| To Capital A/c (Actually Sujata A/C) | | 2000000 |

This is so because Sujata is considered as a separate entity from the viewpoint of Sujata enterprise.

#### 2. GOING CONCERN CONCEPT

As per this concept the existence or life of the business is considered to be infinite or long lived. That is to say the concept implies the business organization is formed to run for a long time and will not be discontinued immediately. This is the reason why the ledger balance s are carried forward to the net period for such continuation.

#### 3. MONEY MEASUREMENT CONCEPT

As we have already discussed in the introduction that accountancy is concerned with writing transactions only, i.e anything that is expressed in terms of money. As per this concept figures that can be expressed and measurable in terms of money are recorded.

#### 4. DUAL ASPECT CONCEPT

Record of every transaction is complete only when it has two aspects- give and take. Anything received without consideration is a gift and not measurable in terms of money will not be recorded. For example good sold has two aspects : seller gives the final goods and receives money in exchange of such product. In this way every journal has two aspects.

**5. PERIODICITY CONCEPT**

Performance analysis is always necessary for any business. This appraisal is done after an interval of period. This is called periodicity concept. For example accounts are closed normally after one year to know the profit earned. This is actually called accounting period.(in this example – one year)

**6. MATCHING CONCEPT**

The basic business equation is revenue minus expense is profit. The matching concept makes such comparison of expenses incurred to earn revenue. If it can earn more by spending less matching will result a profit.

**7. ACCRUAL CONCEPT**

It is otherwise known as revenue recognition concept. It implies the recognition of revenue and expenses. The moment the expense is incurred (may be cash will be paid later) it is recognized as expense. On the other hand the moment the sales are made (may be cash will be received later) the revenue is recognized. To sum up it records both "received and receivables" and "paid and payables".

**8. COST CONCEPT**

According to this concept an asset is recorded on cost basis i.e the purchase price. This is called historical cost.

**CONVENTIONS:**

**1. CONSERVATISM**

Literally conservatism is a kind of pessimism. It always looks to the darker side of the things. In business if only the actual and possible expenses are recorded whereas only actual incomes only are recorded we are following this convention. That is here the anticipated incomes are not recorded. Therefore always the records show a darker picture and hence this convention is otherwise known as Doctrine of Prudence. To sum up it records only "Received" but records "Paid and Payables".

**2. CONSISTENCY**

As per the meaning of the term the principles that are once followed to record the transactions should not be changed. For example if straight line method of depreciation is followed should not be changed to WDV method in accounting period. Methods of accounting, methods of valuation once adopted should not be changed.

**3. MATERIALITY**

Things which are of less important we call those as immaterial and neglect because they may not have such weight to influence. Similarly in Accountancy we record only material facts. Facts which seem to be negligible and having no weight to influence will not be recorded. For example, while taking stock in a big warehouse (generally where stocks are kept valuing Rs. 5 crores) if a pack of pin is missing(valuing Rs.5/-) may be easily ignored and not to be noted.

**4. FULL DISCLOSURE**

As per this convention financial records should disclose all relevant and material informations. The end users of accounting should not have any chance of raising doubt over the financial statements. Full disclosure will convince the reliability of the data. This will help the management also to make decisions.

**B.CAPITAL AND REVENUE TRANSACTIONS**

**INTRODUCTION:**

The two major accounting reports are profit and loss account and balance sheet. The profit and loss account matches the revenue income and revenue expenditure whereas the balance sheet matches the capital transactions (assets and liabilities).

**CAPITAL AND REVENUE EXPENDITURES:**

Expense is an expired cost the benefit of which is exhausted within one accounting period. However there may be some expenditure the benefit of which may be enjoyed continuously for a long time over many accounting periods. These expenditures will be termed as capital expenditure. The benefit of which is exhausted within one accounting year is called revenue expenditure. This is a simple analysis of capital and revenue expenditures. The idea can be better understood if we follow the following characteristics of such expenditures and incomes.
Features of capital expenditure:

1. It provides benefit over the years.
2. These are nonrecurring.(not regular activity)
3. The amount of transaction (cash outlay) is heavy.
4. The transactions are meant for generating more revenue or reducing operating cost.(e.g replacement of old and outdated machine by a new and modern sophisticated automated costly machine)

Features of revenue expenditure:

1. It provides benefit only for one accounting year.
2. These are recurring transactions.( regular activity)
3. The amount of transaction (cash outlay) is low.
4. The transactions are generally operating in nature.(e.g repairs, electricity charges, rent, salary etc.)

**CAPITAL AND REVENUE RECEIPTS:**

Receipts are the sources of income of a business. The cash inflow of a business are its receipts. This may also be of accidental nature and regular nature. If it is a day to day activity of a business it becomes a revenue receipt. However if the transaction is very non recurring and happens very rarely it will be termed as capital receipt. For example in domestic consumption an individual buys vegetable and spices and milk almost everyday for his livelihood but to keep this protected he buys a refrigerator(may be once in an interval of 10 years or so.). similarly a businessman sells vegetables and spice and milk everyday and earn money which is his revenue receipt. Whereas if he sales his racks and furniture of his shop to replace with a new one is a capital receipt.

Features of capital receipt:

1. It is non recurring in nature
2. It is not a day to day operation of the business
3. It is not considered as a regular income since it does not appear from business operation.

Features of revenue receipt:

1. It is recurring in nature
2. It is a day to day operation of the business
3. It is considered as a regular income since it appears from business and is matched with the revenue expenses to find out profit or loss.

Examples:

Categorise the the following transactions with reason:

1. Legal expense incurred for abuse of trademark
2. Repairs for a second hand motor truck purchased before putting it into use
3. Customs authority confiscated imported parts and components of plant and machinery worth Rs. 50000/- for non disclosure of material facts.
4. Freight and cartage Rs.150/- and erection charges Rs. 200 for a new machine
5. A sum of Rs. 1100/- was spent for painting a factory wall.
6. Advertisement expenses of Rs.100000/- spent for launching a new product
7. Legal expense of Rs.4500/- spent to recover balance amount from a debtor.
8. Overhauling expenses of a machine for getting better productivity Rs. 20000/-

SOLUTION:

| ITEM | CATEGORY | EXPLANATION |
|---|---|---|
| 1 | REVENUE EXPENDITURE | IT IS INCURRED TO MAINTAIN AN EXISTING FIXED ASSET. |
| 2 | CAPITAL EXPENDITURE | THIS REPAIR EXPENSE IS NOT A REGULAR ACTIVITY. IT IS OF NON RECURRING NATURE AS WELL AS IT IS SPENT FOR INCREASING THE PRODUCTIVE CAPACITY OF THE TRUCK. |
| 3 | REVENUE LOSS | THIS DOES NOT PROVIDE ANY BENEFIT TO THE BUSINESS. THE MONEY IS SPENT AND EXPIRED WITHOUT GIVING ANY BENEFIT AND HENE IT IS A LOSS. |
| 4 | CAPITAL EXPENDITURE | THESE ARE ONE TIME EXPENDITURE. MACHINE WILL NOT BE ERECTED EVERYDAY. AT THE SAME TIME THIS WILL GIVE A BENEFIT OVER THE LIFE OF THE MACHINE. |
| 5 | REVENUE EXPENDITURE | IT IS INCURRED TO MAINTAIN AN EXISTING FIXED ASSET |
| 6 | REVENUE EXPENDITURE | APPARENTLY IT LOOKS TO BE A CAPITAL EXPENDITURE. HOWEVER AS PER AS-26 THIS IS A REVENUE EXPENDITURE |
| 7 | REVENUE EXPENDITURE | IT IS INCURRED TO REALISE THE SQLE PROCEEDS AND AS A COLLECTION CHARGE IT IS AN OPERTING EXPENSE. |
| 8 | CAPITAL EXPENDITURE | SINCE PRODUCTIVITY WILL INCREASE IT WILL BE A CAPITAL EXPENDITURE. |

GROUP: 1, PAPER: 6

# LAWS & ETHICS (LNE)

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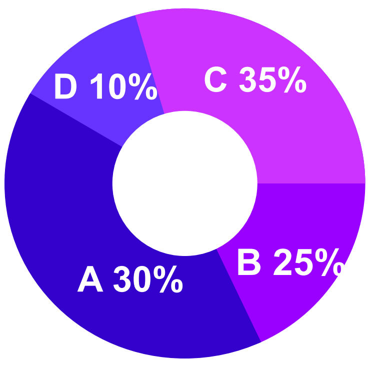
## *Your Preparation Quick Takes*




**Syllabus Structure**

**A** Commercial Laws **30%**
**B** Industrial Laws **25%**
**C** Corporate Law **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 ( LNE )

It is hoped that the students keep on reading and recapitulating all that they have read in the earlier issues . They must prepare a time-table with time allotted for each subject – to read, write and revise.

With Mission CMA in mind, the students are advised to study this paper with a practical approach, as if the points concern them and they are given to deal with it as a professional. As a CMA in the making whether you decide to get employed or be self-employed and employ people, you will have to deal with different statutes legally and establish Legal relationship for lawful consideration and perform your professional duties. Keeping that in mind, you have to study this subject seriously.

***The first TIP is that you must start thinking like A Teacher. You must read the Bear Act and the Sections and start asking questions to yourself and find your own answers.***

**In the September,2018 issue we dealt with the Law relating to Limited Liability Partnership Act, 2008 . In this issue, let us deal little more on the Law relating to Limited Liability Partnership Act, 2008**

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***In respect of such papers , the students are reminded that since they are taking an exam, they must first focus on securing marks. For that, they must study the relevant Sections of the Act , write what the question wants and then attempt to elaborate by analyzing and commenting on the interpretations of the Act.***

**Functioning of Limited Liability of Partnership -**

It may be appreciated that the concept of LLP originated only after it was realized that something had to be done in order to eliminate the demerits of the Partnership Act and the Companies Act while availing the benefits ,advantages and good features of those two Acts which posed hindrances and bottlenecks for the smooth functioning of the organizations.

The LLP Act now takes care of the rights and interests of the stakeholders and the concerned public. It also helps in creating a favorable environment for businesses and professions. Various erstwhile hindrances are now addressed and that in turn, is paving the ground for businessmen and professionals to concentrate and focus purely on their business and professional activities in the field of – industry, legal, medical, technical services, software development, educational services , to name a few.

During formation of an LLP , Section 32(1) of the Act, lays down that a partner can contribute towards the LLP in any manner – in Cash or in kind or value either received or to be received , performed or to be performed. The partner's contribution can be in cash, promissory notes or through an agreement to contribute money or property and contract of services.

Sec.32(2) requires that the monetary value of the contribution in kind must be ascertained , so that the same can be accounted for and disclosed in the books of the LLP.

**Functioning of Limited Liability of Partnership – Financial Disclosures**

The LLP Act has laid down specific provisions for maintenance of books of account and filiing of Financial Information with the Registrar of Companies (ROC) within specified time frame.
Section 34(1) requires books of account to disclose transactions for each year. The accounts may be maintained on cash basis or accrual basis under the Double Entry System of Accounting. Such books must be maintained and kept at the Register Office of the LLP for a minimum period of 8 years.

The books of account must contain the following –

a) Particulars of all monetary transactions – receipts and disbursements ;
b) Record of all Assets and Liabilities of the LLP ;
c) Statement showing Cost of Purchases, Inventories – Finish, Work-in-progress and Cost of goods sold.

The Statement of Accounts must be prepared within 6 months after the end of the financial year, and filed duly digitally signed by the designated partners of the LLP.

The Statement of Account and Solvency – in Part - A and Part – B must be filed with the ROC in **Form No.8** along with filing fees within 60 days from the end of the year/period. Part-A is the Statement of Solvency – which gives an honest declaration by the designated partners confirming its ability to pay-off its debts ; Part- B is the Statement of Account which is actually the Summary of the Financial Position of the LLP , giving its Assets and Liabilities and the Statement of Income and Expenditure for the current year and the figures of the corresponding figures of the previous year side by side.

**Functioning of Limited Liability of Partnership – Filing of Important Documents and Annual Return :**

1. Section 35(1) requires every LLP to file its Annual Return with the Registrar of Companies (ROC) after getting it verified and digitally signed by the designated partners with 60 days from the end of the financial year, along with prescribed filing fees in the prescribed Form No.11.
2. It must be remembered that the particulars given in the Annual Return must be Certified by a Company Secretary in Practice – stating that the particulars stated are correct and has been verified from the books and records of the LLP. Such a Certificate must be attached with the Annual Return.
3. Sec.36 of the LLP Act, states that the Annual Return and other documents viz. Document of Incorporation , Statement of Account and Solvency filed by the LLP with the ROC, can be inspected by any person by paying the required fees.

**The question that now arises is - What information**

**should the Annual Return contain ?**

The Annual Return should contain the following :

I. Name and address of the LLP's Registered Office ;
II. The LLP's main business activity ;
III. The particulars of partners and the designated partners and their DPIN (Designated Partners Identification Number).;
IV. The Number of individuals as partners and number of Body Corporate as partners ;
V. The obligation of each partner to contribution and the contribution received ;
VI. The particulars of penalties imposed, iif any ;
VII. The particulars of any compounding of the offences.(Compounding means to come to a settlement or agreement , to have the charges dropped against the accused).

The next question arising is – **What is the penalty if an LLP fails to file the Annual Return ?** The following may be noted :

a) A Fine not less than Rs.25,000 but up to an amount of Rs.5,00,000 may be imposed if an LLP fails to fill Annual Return in the prescribed form on or before the due date ;
b) Every designated partner shall also be liable to a fine which shall not be less than Rs.10,000 but which may extend to Rs,1,00,000

Please refer Section 35(2) and Section 35(3) of the Act.
Such a penalty clause is intended to ensure the enforcement and prevention of fraud in business.

**The next question is –What are the Powers of the Registrar of Company Affairs ?**

The Limited Liability Partnership Act,2008 confers certain powers to the Registrar of Company Affairs. Please study Sections 38 , 38(1), 38(2), 38(3), 40, 41(1)(b) and Sec.75 in this regard.

Now let us study about **Audit of LLP :**
Under Sec.34(4), the accounts of LLP needs to be audited as per prescribed rules.

As per the Rules, :

i. An LLP must appoint an auditor every year.
ii. The Auditor/s must be a Chartered Accountant or an LLP Audit firm duly registered as such by The Institute of Chartered Accountant of India.
iii. The remuneration of the auditor/s is fixed by the designated partners.
iv. The First Auditor shall be appointed before the first financial year expires.
v. The subsequent autor/s need to be appointed at least 30 days before the end of the financial year. However, if no auditor is appointed by the designated partners, the retiring partners shall be deemed to be reappointed, subject to provisions laid in the LLP Agreement or disapproval of the majority of the partners of the LLP.
vi. An auditor can be removed any time by the partners of the LLP as provided in the LLP Agreement.
vii. An LLP auditor can resign by giving notice of - Intention to Resign along with a statement giving reasons for the resignation.
viii. Non-compliance with these provisions shall attract a Fine not less than Rs.25,000 but up to an amount of Rs.5,00,000 depending upon the circumstances.
ix. Every designated partner shall also be liable to a fine which shall not be less than Rs.10,000 but which may extend to Rs,1,00,000

The following may be kept in mind :
Rule 24(8) of the LLP Rules,2009 provides that if the turnover in any financial year doesnot exceed Rs.1 Crore or if the Capital Coontribution does not exceed Rs.25,00,000 , then the LLP is exempted from getting its accounts audited. However, the partners may always decide otherwise and get the accounts of the LLP audited as per the LLP Rules,2009.
*In all other cases, the audit of the LLP is compulsory as per the Act.*

Now, let us know about the **Powers of the Auditors , which are :**
i. Get access to the books of account of the LLP during business hours ;
ii. To seek necessary information and explanations from the designated partners while carry out their duties as auditors.

**Duties of the auditors are :**

i. To perform and discharge their duties honestly and with reasonable care, skill and caution ;
ii. To bring to the notice of the partners irregularities, if any , detected in the course of audit ;
iii. To personally verify, if possible, necessary matters related to the audit ;
iv. To submit report to the partners of the LLP ;
v. To expressly state in the Auditors' Report, whether the accounts of the LLP gives a true picture of the State of Affairs of the LLP.

**Taxation of LLP :**

The definition of Firm, Partner and Partnership now includes LLP firm, LLP Partners and Limited Liability Partnership, since Finance Act,2009, subject to the following eligibility criteria :

i. There must be an LLP Agreement in writing ;
ii. The LLP Agreement must clearly specify the individual share of each partner ;
iii. Since Income Tax Returns are paperless, a Certified Copy of the LLP Agreement must be kept ready for submission, if demanded by the Assessing Officer ;
iv. Wherever there is a change in the constitution of the LLP or change in the Profit Sharing Ratio of the LLP partner/s , a certified copy of the revised LLP Agreement must be kept ready for submission, if demanded by the Assessing Officer ;
v. The LLP should not have failed to comply with notices issued by the Income Tax Officer related to assessment ;
vi. The income of the LLP shall be charged at rates applicable to partnership firms plus Education Cess, as applicable, but no surcharge can be levied on LLP.
vii. LLP income shall not be taxed in the hands of its partners again as tax is already paid by the LLP.
viii. The Income Tax Return has to be signed by the designated partner.
ix. The LLP is not liable to pay Dividend Distribution Tax.
x. An LLP cannot take benefit under Presumptive Taxation Scheme of the Income Tax Act.
xi. An Interest Earning and the partner's remuneration of an LLP's partner shall be taxed under the head Income from Business and Profession while computing the taxable income of that partner.
xii. No Capital Gains shall arise on conversion of partnership firms, private companies and unlisted public companies into LLP.

xiii. In conversion, the successor LLP shall be allowed to carry forward and set-off the accumulated losses, unabsorbed depreciation and voluntary retirement expenditures.

xiv. Every partner in an LLP shall remain jointly and severally liable for the unpaid taxes of the LLP in liquidation for the period during which he/she was the partner.

GROUP: 1, PAPER: 7

# DIRECT TAXATION (DTX)

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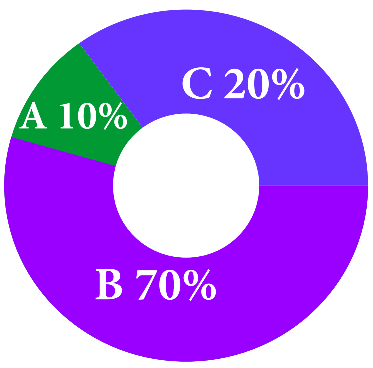
## *Your Preparation Quick Takes*




**Syllabus Structure**

**A** Income Tax Act Basics **10%**
**B** Heads of Income and Computation of Total Income and Tax Liability **70%**
**C** 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.*

## Alternate Minimum Tax (AMT) [Sec. 115JC]

The Finance Act, 2011 had introduced the concept of AMT in relation to LLPs and accordingly the LLPs were subject to AMT @ 18.5% of adjusted total income. Total income shall be increased by deductions claimed under Part C of Chapter VI-A and deductions claimed u/s 10AA to arrive at adjusted total income. The Finance Act, 2012 extended the levy of AMT to certain persons other than companies.

Subsequently, the investment linked deductions have been provided in place of profit linked deductions. With a view to include the investment linked deduction claimed u/s 35AD in computing adjusted total income for the purpose of calculating alternate minimum tax, it was amended so as to include deduction claimed u/s 35AD for the purpose of computation of adjusted total income.

At present the Act provides that where the regular income-tax payable by a person, other than a company, for a previous year computed as per the provisions of the Income-tax Act, 1961 (other than Chapter XII-BA) is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @ 18.5%.

***Applicable to***

All assessee (other than company) who has claimed any deduction under:

Sec. 80H to Sec. 80RRB (other than sec. 80P); or
Sec.10AA
Sec.35AD

***Exception***

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

***Taxpoint:*** *The exception is not applicable in case of Firm and Limited Liability Partnership. That means, AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.*

***Scheme of Alternate Minimum Tax (AMT)***

| | | | | |
|---|---|---|---|---|
| **Step 1** | Compute regular income tax liability (before surcharge and cess) of the assessee covered under these provisions | | **A** | **** |
| **Step 2** | Compute Adjusted Total income of the assessee i.e. | | | ***** |
| | Total income of the assessee | **** | **B** | |
| | *Add*: | | | |
| | • Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P) | *** | **C** | |
| | • Deduction claimed u/s 35AD *less* Depreciation u/s 32 | *** | **D** | |
| | • Deduction u/s 10AA | *** | **E** | |
| | **Adjusted Total Income** | **** | **F** | |
| | Note:<br>**(i)** If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee.<br>(ii) if 'F' does not exceed ₹ 20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm. | | | |
| **Step 3** | Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income] | | **G = F * 18.5%** | **** |
| **Step 4** | Income Tax liability | | **Higher of A & G** | **** |

| | | | |
|---|---|---|---|
| **Step 4** | *Add*: Surcharge, if applicable | | ** |
| | **Tax and surcharge payable** | | **** |
| | *Add*: Education Cess & SHEC | | ** |
| | **Tax liability after Cess** | | **** |

***Impact where AMT is applicable i.e., case where value of Step 3 is higher than value of Step 1***

- **a.** Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.
- **b.** Tax liability of the assessee shall be 18.5% (+ surcharge + cess) of adjusted total income of the assessee.
- **c.** A report in Form 29C from a chartered accountant is required to be obtained on or before the due date of furnishing of return of income u/s 139(1).
- **d.** All other provisions of the Act, like advance tax, interest, etc. is applicable to such assessee.

**Provision Illustrated**

Compute tax of the following assessee:

| Particulars | Mr. W | Mr. X | Mr. Y | A LLP | B LLP |
|---|---|---|---|---|---|
| Gross Total Income being Business Income | 15,00,000 | 25,00,000 | 27,00,000 | 32,00,000 | 8,00,000 |
| Deduction u/s 80C | 1,00,000 | 1,00,000 | 1,00,000 | Nil | Nil |
| Deduction u/s G | 25,000 | 1,00,000 | Nil | 1,00,000 | 1,00,000 |
| Deduction u/s 80IE | 7,75,000 | Nil | 8,00,000 | Nil | 2,00,000 |
| **Total Income** | **6,00,000** | **23,00,000** | **18,00,000** | **31,00,000** | **5,00,000** |
| Regular Tax | 45,000 | 5,15,000 | 3,65,000 | 9,30,000 | 1,50,000 |
| Adjusted Total Income | 13,75,000 | 23,00,000 | 26,00,000 | 31,00,000 | 7,00,000 |
| Whether sec. 115JC is applicable or not<br>1. As adjusted total income does not exceed Rs.20 lakh<br>2. As no deduction is claimed u/s 80H to 80RRB (other than sec. 80P) or u/s 10AA | No[1] | No[2] | Yes | No[2] | Yes |
| Alternate Minimum Tax (AMT) u/s 115JC [18.5% of adjusted total income] | NA | NA | 4,81,000 | NA | 1,29,500 |
| **Tax (Higher of Regular Tax and AMT)** | **45,000** | **5,15,000** | **4,81,000** | **9,30,000** | **1,50,000** |
| *Add*: Education Cess & SHEC | 1,350 | 15,450 | 14,430 | 27,900 | 4,500 |
| **Tax and Cess Liability (Rounded off)** | **46,350** | **5,30,450** | **4,95,430** | **9,57,900** | **1,54,500** |

***Tax credit for alternate minimum tax [Sec. 115JD]***

- The excess of alternate minimum tax paid over the regular income-tax payable of that year shall be allowed as tax credit. *Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable*
- However, no interest shall be payable on the tax credit allowed.
- The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 10th assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.

- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.

***Examples***

| | | | |
|---|---|---|---|
| **(a)** | Tax liability u/s 115JC (AMT) | 500 | |
| | Regular Tax liability | 1,000 | |
| | Difference | **500** | |
| | ₹ 500 cannot be treated as credit as liability u/s 115JC (AMT) is not greater than regular tax liability. | | |
| **(b)** | ***Year 1*** | | |
| | Liability u/s 115JC (AMT) | 2,000 | |
| | Regular Tax Liability | 1,000 | |
| | | **1,000** | It shall be carried forward |
| | ***Year 2*** | | |
| | Liability u/s 115JC (AMT) | 2,500 | |
| | Regular Tax Liability | 5,000 | |
| | Difference | **2,500** | |
| | Now regular liability is more than liability u/s 115JC (AMT), the credit carried forward can be set off to the extent of the difference *i.e.,* ₹ 2,500 | | |
| | In year 2, tax payable shall be as under: | | |
| | Regular Tax Liability | 5,000 | |
| | *Less :* Set off of AMT credit | 1,000 | |
| | Tax payable (before surcharge and cess) | **4,000** | |
| | *In the above example*, if the credit carried forward was ₹ 3,500, then tax payable in year 2 would be calculated as under: | | |
| | Regular Tax Liability | 5,000 | |
| | *Less :* Set off of AMT credit | 2,500 | |
| | Tax payable (Credit available ₹ 3,500 but restricted to ₹ 2,500) | | |
| | Here ₹ 1,000 (being balance credit left i.e., ₹ 3,500 – ₹ 2,500) is carried forward to the next year. In other words, the excess of regular tax over AMT u/s 115JC is the amount of maximum set off permissible. | | |

## GROUP: 1, PAPER: 8

# COST ACCOUNTING (CAC)

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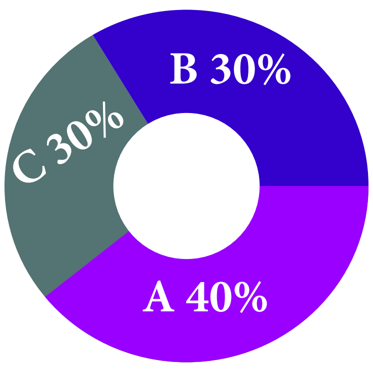
# *Your Preparation Quick Takes*




**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 ( CAC)

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

The optimum utilization of resource is the urgent need of the day. The role of Cost Accounting in this regard plays a vital role all over the world. Hence, theory as well as solving of practical problems is very much essential for successful preparation of the subject. It is observed from the past experience that 65% to 75% of the total questions are set from practical problems and the balance is theoretical part. Although only 25% questions are set from theoretical part, but a great emphasis should be given on theoretical part as most of the students are very much weak in theory. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. Success of these examinations mainly depends on student's perseverance, seriousness of study, regularity and through practice.

**I have suggested some tips based on Experiences** –

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

Here the Study Material of paper 8 divides the whole syllabus into 6 chapters. The first chapter is related to the basic concept of cost accounting. The second chapter described the Elements of cost in details. We know that the three major elements of costs are – Material, Labour and Overheads. Here, the major elements of cost are discussed elaborately with sufficient number of examples. You should read the scope and objectives of different Cost Accounting standards in details. This will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Here Cost allocation, Cost apportionment and Cost absorption should be understood very clearly.

This chapter is 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 it. Here Cost Department maintains separate ledger quite distinct form financial accounting, maintaining their books of accounts.

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

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

The chapter 'Marginal Costing' is very important from the students' perspective. Marginal Costing is not a particular method of cost ascertainment but a technique dealing with the nature and behavior of cost and there effects upon the profitability of an organization. It aims to find out cost-volume-profit relationships of a product. Some times more than one problem may be set from this chapter. The main thrust should be to follow the working and determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basic 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.

'Variance Analysis' helps the management to fix responsibility for each department and to identify the activities or areas of exceptions. Standard Costing, an accounting technique, came to be developed as a systematic method of comparing the actual cost with the predetermined standard of cost and performance. Any problem on standard cost for working out different variances can be worked out by using a standard format applicable to all variance analysis. The students are afraid of this important chapter only because of different formulae for different analysis. Only careful study and realization of the requirement in the problem can eliminate such difficulties. The main purpose of Variance analysis is to enable the management to improve the operations for effectives utilization of resources need to increase the efficiency by reducing cost.

The Budget is defined as a financial and /or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. 'Budget and Budgetary control', which requires preparation of 'Flexible Budget', 'Functional Budgets' and 'Cash Budget' for taking necessary actions. Both theoretical and problem oriented questions may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students are also suggested to go through the theoretical parts-like, concept of Zero based Budgeting, behavior and classification of budgets etc. very carefully. All functional budget are summarized into master budget consisting of a budgeted Profit and Loss account, a Balance Sheet and Cash Flow Statement . A common mistake is to incorrectly deduct closing stocks and opening stocks when preparing production and material purchase budget.

Some times products are manufactured in a batch. Finding out the cost and profit for a batch is important in today's environment . This type of problem may be solve in the following way :

Leo Limited undertakes to supply 1000 units of a component per month for the month of January. February and March 2017. Every month a batch order is opened against which materials and labour cost are calculated actual. Overheads are levied at a rate per labour hour. The selling price is contracted at Rs. 15 per unit.

From the following data , present the cost and profit per unit of each batch order and the overall position of the order for the 3000 units.

| Month | Batch Output ( Number ) | Material Cost | Labour Cost | Overheads | Total labour Hours. |
|---|---|---|---|---|---|
| January 2017 | 1250 | Rs. 6250 | Rs. 2500 | Rs. 12000 | 4000 |
| February 2017 | 1500 | Rs. 9000 | Rs. 3000 | Rs. 9000 | 4500 |
| March 2017 | 1000 | Rs. 5000 | Rs. 2000 | Rs. 5000 | 5000 |

Labour is paid at the rate of Rs. 2 per hour.

Solution :-

**Statement showing the Cost and Profit per unit for each batch .**

| | January | February | March | Total |
|---|---|---|---|---|
| (i) Batch output ( numbers) | 1250 | 1500 | 1000 | 3750 |
| (ii) Total sales realization from (i) above @ Rs. 15 | Rs. 18750 | Rs. 22500 | Rs. 15000 | Rs. 56250 |
| Costs | | | | |
| (III) Material | 6250 | 9000 | 5000 | 20250 |
| Labour | 2500 | 3000 | 2000 | 7500 |
| Overheads ( see working note) | 3750 | 3000 | 3000 | 9750 |
| Total Cost | 12500 | 15000 | 10000 | 37500 |
| (iv) Profit (ii) – (iii) | 6250 | 7500 | 5000 | 18750 |
| (v) Profit per unit (iv ÷ i) | 5 | 5 | 5 | |
| ( vi) Cost per unit ( iii ÷ i) | 10 | 10 | 10 | |

**Profitability for 3000 units**

| | | |
|---|---|---|
| Sales value | ( 3000 x Rs. 15 ) | Rs. 45000 |
| Less Costs | ( 3000 x Rs. 10 ) | Rs. 30000 |
| Profit | | Rs. 15000 |

**Working Notes** . The batch labour cost for the month is given . The labour is paid @ Rs. 2 per hour . Thus by dividing the batch labour cost with hourly rate, batch labour hours can be found out :

| | | January | February | March |
|---|---|---|---|---|
| (a) | Batch labour hours | Rs. 2500 ÷ 2 = 1250 hrs. | 3000 ÷ 2 = 1500 hrs | 2000 ÷ 2 = 1000 hrs. |
| (b) | Overhead per hour ( Total overheads ÷ Total labour hours ) | 12000 ÷ 4000 Rs. 3 | 9000 ÷ 4500 Rs. 2 | 15000 ÷ 5000 Rs. 3 |
| | Overhead for the batch ( a x b) | or Rs. 3750 | Rs. 3000 | Rs. 3000 |

GROUP: 2, PAPER: 9, Part- i

# OPERATIONS

## MANAGEMENT & STRATEGIC MANAGEMENT (OMSM)

## Operation Management

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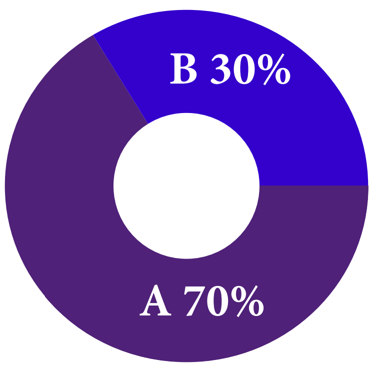
# *Your Preparation Quick Takes*




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

***Learning Objectives:***

*Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments.*

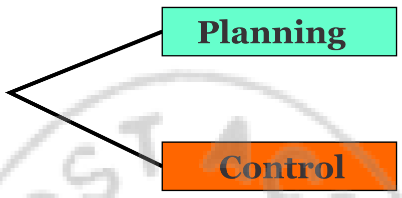
*Eventually, student's ability for leadership positions in the production and service industries gets increased.*

*To solve business processes, it helps to apply knowledge of fundamental concepts of operations management and helps to apply knowledge of approaches to operational performance improvement.*

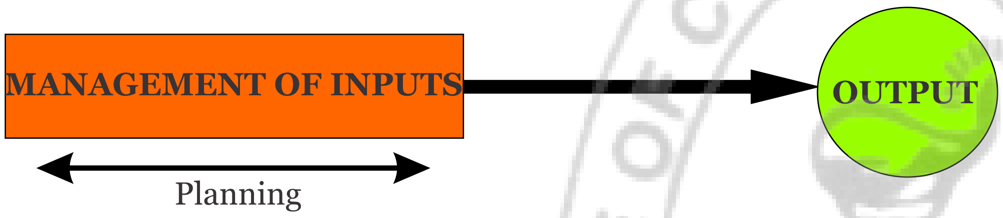
## Operations Management

In this issue and in subsequent issues let me discuss Production Planning and Control

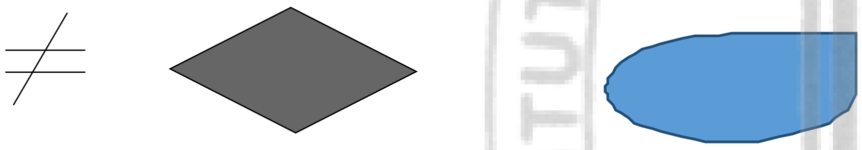
Two Important components of Management Process




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



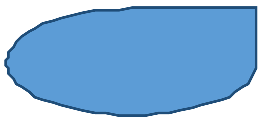

When actual Output varies from the desired output:



Actual Output Desired Output

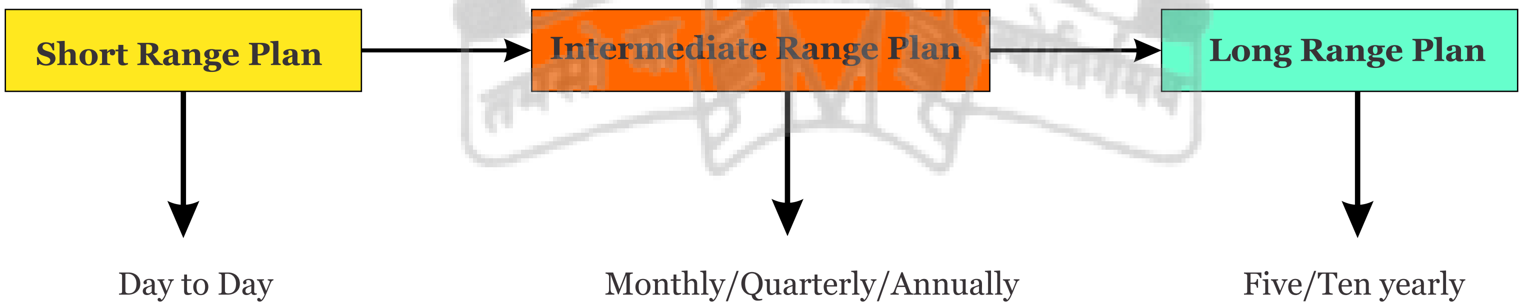
We need production Control which involves corrective actions to make

Actual Output =



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

Like all plans Production plans also have a time dimension.

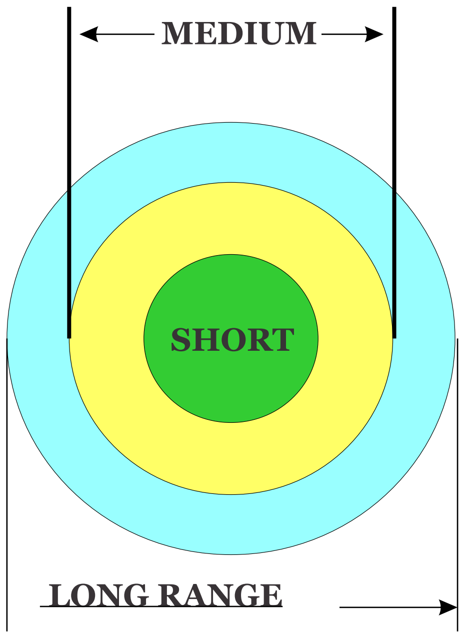



Time dimensions increases ⟶ production planners get more flexibility to change the input variables and get more time to carry out desired modifications in the production process to achieve the desired goal.

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

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

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




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


Production planning is such that Market Demand = Production order

At the beginning of production planning Market demand are either known or are forecasted. Similarly Production Capacities are also known. Production capacities cannot be changed in the short or medium range time horizon. Under thisconstraint production are to be made to meet the market demand. Different alternatives are possible to make this match (market demand = production order) but all at different cost and utility structure (100 units can be produced in 1 labour hour @ Rs100 or alternatively can be produced in ½ hour @ Rs.200). Out of these alternatives Production planning guides us selection of the best alternative with optimization of the cost or other utilities.

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

Illustration:

A business unit produces 5 products;

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

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

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

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

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

Production is carried out evenly throughout the year;

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

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

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

Under this short term production planning one needs to balance the requirements of individual products with the availability of individual machines/equipment and labour of different skill categories. For such production planning the operation research techniques such as Linear Programming, Queuing theory, PERT/CPM, assignment problem etc. are useful.

*Illustration:*Five employees of a company are to be assigned to five jobs which can be done by any one of them. Because of different number of years with the firm, the workers get different wages per hour. These are Rs5/hour for A, B and C each and Rs.3/hour for D and

E each. The amount of time taken by each employee to do a given job is in the following table. Determine the assignment pattern that i) minimize the total time taken and ii) minimize the total cost, of getting five units of work done.

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 7 | 9 | 3 | 3 | 2 |
| 2 | 6 | 1 | 6 | 6 | 5 |
| 3 | 3 | 4 | 9 | 10 | 7 |
| 4 | 1 | 5 | 2 | 2 | 4 |
| 5 | 6 | 6 | 9 | 4 | 2 |

Ans (i):

1st Iteration, Subtracting smallest element of each row from each element of the same row

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 5 | 7 | 1 | 1 | 0 |
| 2 | 5 | 0 | 5 | 5 | 4 |
| 3 | 0 | 1 | 6 | 7 | 4 |
| 4 | 0 | 4 | 1 | 1 | 3 |
| 5 | 4 | 4 | 7 | 2 | 0 |

2nd Iteration, Subtracting smallest element of each column from each element of the same row

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 5 | 7 | 0 | 0 | 0 |
| 2 | 5 | 0 | 4 | 4 | 4 |
| 3 | 0 | 1 | 5 | 6 | 4 |
| 4 | 0 | 4 | 0 | 0 | 3 |
| 5 | 4 | 4 | 6 | 1 | 0 |

3rd Iteration, Draw the minimum no of lines covering all zeros

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 5 | 7 | 0 | 0 | 0 |
| 2 | 5 | 0 | 4 | 4 | 4 |
| 3 | 0 | 1 | 5 | 6 | 4 |
| 4 | 0 | 4 | 0 | 0 | 3 |
| 5 | 4 | 4 | 6 | 1 | 0 |

4th Iteration, since the number of lines drawn is equal to 5 = n, the optimal solution is reached. Assignments are made after scanning the rows and columns for unit zeros.

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 5 | 7 | 0 | ~~0~~ | ~~0~~ |
| 2 | 5 | 0 | 4 | 4 | 4 |
| 3 | 0 | 1 | 5 | 6 | 4 |
| 4 | ~~0~~ | 4 | ~~0~~ | 0 | 3 |
| 5 | 4 | 4 | 6 | 1 | 0 |

Assignments are made in the following order. Rows 2, 3, and 5 contain only one zero each. So assign Job2 –Employee B, Job3 – Employee A, Job5 – Employee E.
After assigning Job3 – Employee A, we cross the zero in column A. Similarly we cross the zero in column E after assigning Job5 – Employee E.
After these assignments no row(s)/column(s) are left with single zero. We are now having Row 1 & 4/Column C & D with 2 zeros each. We now therefore assign arbitrarily. Assign Job 1 – Employee C and Cross balance zero in column C. Assign Job 4 – Employee D and cross out the balance zero in column D.
Therefore our final assignments are (Marked in Red):

| Job | Employee | Time | Total |
|---|---|---|---|
| 1 | C | 3 | |
| 2 | B | 1 | |
| 3 | A | 3 | |
| 4 | D | 2 | |
| 5 | E | 2 | 11 |

The same result is obtained in Excel Solver (available in DATA tool bar) as given below:

| Job | A | B | C | D | E | Available | Assigned |
|---|---|---|---|---|---|---|---|
| 1 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| 2 | 0 | 1 | 0 | 0 | 0 | 1 | 1 |
| 3 | 1 | 0 | 0 | 0 | 0 | 1 | 1 |
| 4 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| 5 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| Demand | 1 | 1 | 1 | 1 | 1 | | |
| Assigned | 1 | 1 | 1 | 1 | 1 | | |
| Total | 11 | | | | | | |

1 indicates assigned position, 0 indicates non-assigned position
ii) Cost minimization
Cost matrix is given below:

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 35 | 45 | 15 | 9 | 6 |
| 2 | 30 | 5 | 30 | 18 | 15 |
| 3 | 15 | 20 | 45 | 30 | 21 |
| 4 | 5 | 25 | 10 | 6 | 12 |
| 5 | 30 | 30 | 45 | 12 | 6 |

1st Iteration, Subtracting smallest element of each row from each element of the same row

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 29 | 39 | 9 | 3 | 0 |
| 2 | 25 | 0 | 25 | 13 | 10 |
| 3 | 0 | 5 | 30 | 15 | 6 |
| 4 | 0 | 20 | 5 | 1 | 7 |
| 5 | 24 | 24 | 39 | 6 | 0 |

2nd Iteration, Subtracting smallest element of each column from each element of the same row

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 29 | 39 | 4 | 2 | 0 |
| 2 | 25 | 0 | 20 | 12 | 10 |
| 3 | 0 | 5 | 25 | 14 | 6 |
| 4 | 0 | 20 | 0 | 0 | 7 |
| 5 | 24 | 24 | 34 | 5 | 0 |

3rd Iteration, Draw the minimum no of lines covering all zeros

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 29 | 39 | 4 | 2 | 0 |
| 2 | 25 | 0 | 20 | 12 | 10 |
| 3 | 0 | 5 | 25 | 14 | 6 |
| 4 | 0 | 20 | 0 | 0 | 7 |
| 5 | 24 | 24 | 34 | 5 | 0 |

4thIteration, as the number of lines drawn above is smaller than n = 5 select the smallest uncovered cost element, subtract this element from all uncovered elements including itself and add this element to each value located at the intersection of any two lines. The resultant figure is:

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 27 | 37 | 4 | 0 | 0 |
| 2 | 25 | 0 | 20 | 12 | 12 |
| 3 | 0 | 5 | 25 | 14 | 8 |
| 4 | 0 | 20 | 0 | 0 | 9 |
| 5 | 22 | 22 | 32 | 3 | 0 |

5th Iteration, Repeat Iteration 3 and the result is

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 27 | 37 | 4 | 0 | 0 |
| 2 | 25 | 0 | 20 | 12 | 12 |
| 3 | 0 | 5 | 25 | 14 | 8 |
| 4 | 0 | 20 | 0 | 0 | 9 |
| 5 | 22 | 22 | 32 | 3 | 0 |

6th Iteration, since the number of lines drawn is equal to 5 = n, the optimal solution is reached. Assignments are made after scanning the rows and columns for unit zeros.

| Job | Employee | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | E |
| 1 | 27 | 37 | 4 | 0 | ~~0~~ |
| 2 | 25 | 0 | 20 | 12 | 12 |
| 3 | 0 | 5 | 25 | 14 | 8 |
| 4 | ~~0~~ | 20 | 0 | ~~0~~ | 9 |
| 5 | 22 | 22 | 32 | 3 | 0 |

Assignments are made in the following order. Rows 2, 3, and 5 contain only one zero each. So assign Job2 –Employee B, Job3 – Employee A, Job5 – Employee E.
After assigning Job3 – Employee A, we cross the zero in column A. Similarly we cross the zero in column E after assigning Job5 – Employee E.
After these assignments Row Dis left with single zero. We assign Job 1 – Employee D and cross out the balance 0 in column D. We are now Column C with 1 zeros and assign Job 4 – Employee C.
Therefore our final assignments are (Marked in Red):

| Job | Employee | COST | Total |
|---|---|---|---|
| 1 | D | 9 | |
| 2 | B | 5 | |
| 3 | A | 15 | |
| 4 | C | 10 | |
| 5 | E | 6 | 45 |

The same result is obtained in Excel Solver (available in DATA tool bar) as given below:

| JOB | A | B | C | D | E | Available | Assigned |
|---|---|---|---|---|---|---|---|
| 1 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| 2 | 0 | 1 | 0 | 0 | 0 | 1 | 1 |
| 3 | 1 | 0 | 0 | 0 | 0 | 1 | 1 |
| 4 | 0 | 0 | 1 | 0 | 0 | 1 | 1 |
| 5 | 0 | 0 | 0 | 0 | 1 | 1 | 1 |
| Demand | 1 | 1 | 1 | 1 | 1 | | |
| Assigned | 1 | 1 | 1 | 1 | 1 | | |
| Total | 45 | | | | | | |

1 indicates assigned position, 0 indicates non-assigned position

## Suggestions:

*The study notes, again I am reiterating, need to be read thoroughly. Proper understanding of what exactly production planning means is prerequisite to challenge different cases on determination of production order, In this issue objectives of assignment problems along with solving this with Hungarian methods are studied. Study note are required to be practiced thoroughlyto have a proper understanding the methods of solvingassignment cases being faced by production manager on day to day operation.For supplementary readings one can refer Productions and Operations Management by S. N. Chary & Quantitative Techniques in Management by ND Vohra. Attempts here are made to clearly explain preliminaries before taking assignment. From guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on Syllabus -16 idea on production planning on short time horizon could be developed. Students should also attempt to solve assignment cases through Excel.*

STUDENTS' E-bulletin Intermediate
Vol: 3, No.: 10. October 2018, Issue

GROUP: 2, PAPER: 9, Part- ii

# OPERATIONS MANAGEMENT & STRATEGIC MANAGEMENT (OMSM)

## Strategic Management

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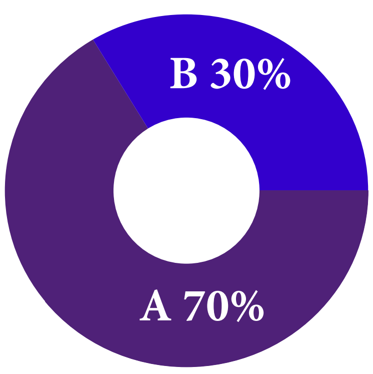
## *Your Preparation Quick Takes*




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

*Learning Objectives:*

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

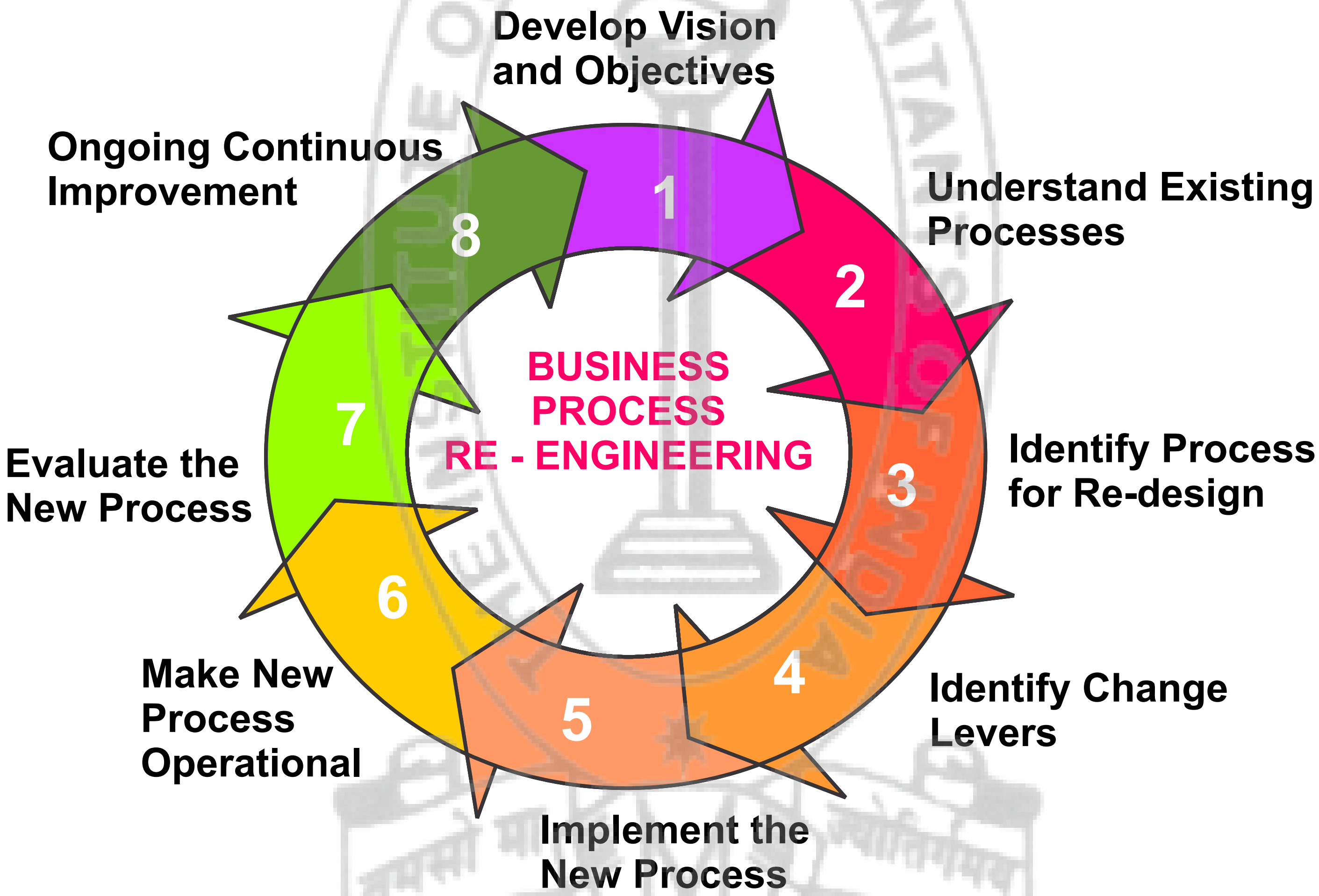
# STRATEGIC MANAGEMENT

**Business process re-engineering** (BPR) is a business management strategy, originally pioneered in the early 1990s, focusing on the analysis and design of workflows and processes within an organization.

BPR aimed to help organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors.

According to Davenport (1990) a business process is a set of logically related tasks performed to achieve a defined business outcome.
Re-engineering emphasized a holistic focus on business objectives and how processes related to them, encouraging full-scale recreation of processes rather than iterative optimization of sub-processes. Business process re-engineering is also known as business process redesign, business transformation, or business process change management.

Diagramm:




**Reengineering** -is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed.

**Process-** is a structured, measured set of activities designed to produce a specified output for a particular customer or market. It implies a strong emphasis on how work is done within an organization. Each process is composed of related steps or activities that use people, information, and other resources to create value for customers as it is illustrated in the following example.
BPR is achieving dramatic performance improvements through radical change in organizational processes, re-architecting of business and management processes. it involves the redrawing of organizational boundaries, the reconsideration of jobs, tasks, and skills. This occurs with the creation and the use of models. Whether those is physical models, mathematical, computer or structural models, engineers build and analyze models to predict the performance of designs or to understand the behaviour of devices.

Redesign, retooling and re-orchestrating form the key components of BPR that are essential for an organization to focus on the outcome that it needs to achieve.
These types of visionary goals require rethinking the way most organizations do business, careful redesign. They will additionally need very sophisticated supporting information systems and a transformation from a traditional organizational structure to a network type organization. In resuming, the whole process of BPR in order to achieve the above mentioned expected results is based on key steps-principles which include redesign, retool, and re-orchestrate.

Each step-principle embodies the actions and resources as presented in the table below.

| REDESIGN | RETOOL | RE-ORCHESTRATE |
|---|---|---|
| • Simplify | • Networks | • Synchronize |
| • Standardise | • Intranets | • Process |
| • Empowering | • Extranets | • IT |
| • Groupware | • Work Flow | • Human Resources |
| • Measurements | | |

Creating the new enterprise involves considerable change in virtually everything to do with people's working lives. Rather than fixing the old, we set out to create the new. There is a fundamental transformation occurring in business - in terms of its structure, processes, people, and technology.

Thus, BPR seeks to help companies radically restructure their organizations by focusing on the ground-up design of their business processes.

GROUP: 2, PAPER: 10

# COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT(CMFM)

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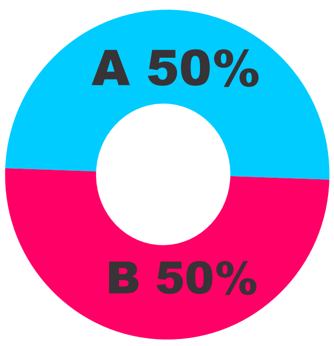
## *Your Preparation Quick Takes*




**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.*

# Cost & Management Accounting and Financial Management
# Section B

**Chapter 10: Leverage Analysis:**

### Indifference Point

In the context of EBIT-EPS analysis, 'Indifference Point' refers to the level of EBIT at which EPS is same for two alternative financial plans. According to James C. Van Horne, 'Indifference point refers to that EBIT level at which EPS remains the same irrespective of debt equity mix'. Thus, at this level of EBIT, the management will be indifferent in choosing any of the alternative financial plans because all the financial plans, having equal EPS, are equally attractive.

This level of EBIT is called Indifference Point because below this level the plan with lower debt yields higher EPS and above this level the plan with higher debt yields better EPS.

- **Calculation of Indifference Point**

Indifference Point is calculated by setting the EPS equations of the proposed plan equal with EBIT as the missing figure.
Suppose the EPS equation is denoted as follows:

$$EPS(E)\ \frac{EBIT\ \ I\ \ 1\ \ t\ \ \ PD}{N}\ where$$

EBIT = Earnings before Interest and Tax
I = Interest
t = corporate tax rate
PD = Preference Dividend
N = No. of equity shares
Then EBIT at Point of Indifference will be the level of EBIT where
$\{(EBIT – I_1)(1\text{-}t) – PD_1\}/N_1 = \{(EBIT – I_2)(1\text{-}t) – PD_2\}/N_2$
Where 1 and 2 denotes the proposed plan number.

**Illustration 1:**

Consider the following information regading two financial plans and calculate the point of indifference.

| Particulars | Plan 1 | Plan 2 |
|---|---|---|
| Equity Share Capital (Rs. 10) | 500000 | 400000 |
| 8% Debentures (Rs.100) | 500000 | Nil |
| 9% Debentures (Rs. 100) | Nil | 300000 |
| 10% Preference Shares (Rs. 100) | Nil | 200000 |
| | 1000000 | 1000000 |

Assuming tax rate to be 40%, Calculate the level of EBIT where financing by any one of the plans will be equally preferable.

Solution:

The level of EBIT where financing by any one of the plans will be equally preferable is known as Point of Indifference. It can be calculated by setting the EPS equation of the proposed plans equal with EBIT as the missing figure as follows:
At POI,
$\{(EBIT – I_1)(1\text{-}t) – PD_1\}/N_1 = \{(EBIT – I_2)(1\text{-}t) – PD_2\}/N_2$
Where $I_1$ = Interest under proposed plan 1 = 500000*8% = 40000
$I_1$ = Interest under proposed plan 2 = 300000*9% = 27000
$PD_1$ = Preference dividend under plan 1 = Nil

$PD_1$ = Preference dividend under plan 2 = 200000*10% = 20000
t = 0.40
$N_1$ = No. of equity shares under plan 1 = 50000
$N_1$ = No. of equity shares under plan 2 = 40000
Thus, {(EBIT – 40000)(1-0.40) – Nil}/50000 = {(EBIT – 27000)(1-0.40) – 20000}/40000
Or, EBIT = 141667
Thus at Rs. 141667 of EBIT, both the plans will have equal EPS.
This can be verified as follows:

| Particulars | Plan 1 (Rs.) | Plan 2 (Rs.) |
|---|---|---|
| EBIT | 141667 | 141667 |
| (-) Interest | 40000 | 27000 |
| EBT | 101667 | 114667 |
| (-) Tax | 40667 | 45867 |
| EAT | 61000 | 68800 |
| (-) Preference Dividend | 0 | 20000 |
| EAES | 61000 | 48800 |
| No. of Equity shares | 50000 | 40000 |
| EPS = EAES/ No. of equity shares | 1.22 | 1.22 |

**Illustration 2:**

A new project is under consideration by a company which involves a capital investment of Rs.1,50,00,000. Fixed interest on debt capital is 12% and tax rate is 50%. If the debt-equity ratio insisted by the financing agencies is 2:1, calculate the point of indifference. The new equity shares can be issued for Rs.100 par value. There are no preference shares.

**Solution:**

The 2 alternatives available are:
Alternative 1: Raising the entire amount by equity shares and
Alternative 2: Raising Rs.1,00,00,000 by equity and Rs.50,00,000 by debt to maintain a debt-equity ratio of 2:1.
Alternative 1:
Interest = Rs.0 (as no debt)
Number of equity shares = Rs.1,50,00,000 / Rs.100 par = 1,50,000 shares.
Alternative 2:
Interest = Rs.50,00,000 x 12% = Rs. 600,000
Number of equity shares = Rs.1,00,00,000 / Rs.100 par = 1,00,000 shares.
Preference dividend in both alternatives is zero.
Calculation of Indifference point:
E (1 – t) / N = [(E-I) (1-t)] / N
Or, E (1 -0.5) / 1,50,000 = [(E-6,00,000) (1-0.5)] / 1,00,000
E (.50)/150,000 = (.5E - 300,000)/100,000
Solving for the above equation, we get E = Rs.18,00,000.
E = Indifference EBIT level = Rs.18,00,000.
If the EBIT crosses the above indifference level EBIT, the use of fixed-cost source of funds would be beneficial from the EPS viewpoint and the financial leverage would be favourable.

**Financial Break-even Point**

Financial breakeven point (FBEP) is that level of EBIT at which after paying interest, tax and preference dividend, nothing remains for the equity shareholders. In other words, financial breakeven point refers to that level of EBIT at which the firm can only satisfy all fixed financial charges resulting into a zero EPS. Thus, EBIT less than this level will result in negative EPS. Financial Break Even Point (FBEP) is expressed with the following equation:

$$FBEP = [(E-I)(1-t) - P_d] / N = 0$$
$$\text{Or, } [(E-I)(1-t) - P_d] = 0$$
$$\text{Or, } (E-I)(1-t) = P_d$$
$$\text{Or, } (E-I) = P_d / (1-t)$$
$$\text{Or, } E = I + P_d / (1-t)$$

Now, (a) if the plan involves only Equity Shares i.e. I = 0 and $P_d$ = 0, FBEP = 0.
(b) If the plan involves Equity Shares and Debt Capital i.e. $P_d$ = 0, FBEP = 0
(c) If the plan involves Equity Shares and Preference shares i.e. I = 0, FBEP = $P_d$/ (1-t).
(d) If the plan involves Equity Shares, Debt Capital and Preference shares, then
FBEP = I + $P_d$/ (1-t).
It is worthwhile to mention in this context that beyond the FBEP increase in EBIT will result in a proportional increase in EPS.

**Illustration 3:** Compute Financial breakeven point (FBEP) from the following particulars and Comment on the results.

| | Plan A | Plan B | Plan C | Plan D |
|---|---|---|---|---|
| Interest on borrowed capital | 0 | 40,000 | 0 | 25000 |
| Preference dividend | 0 | 0 | 50,000 | 25000 |
| Tax rate | 50% | 50% | 50% | 50% |

**Solution:**

| Particulars | Plan A | Plan B | Plan C | Plan D |
|---|---|---|---|---|
| FBEP is that EBIT (E) level where $E = I + P_d / (1-t)$ | 0<br>[0 + 0 / (1 -0.5)] | 40,000<br>[40,000 + 0 / (1 -0.5)] | 1,00,000<br>[0 + 50,000 / (1 -0.5)] | 75000<br>[25000 + 25000/(1 - 0.5)] |

Observation: EBIT of the FBEP of Plan B is lower than the EBIT of the FBEP of Plan C and D. As such, plan B has dominance over Plan C and D.

GROUP: 2, PAPER: 11

# INDIRECT TAXATION (ITX)

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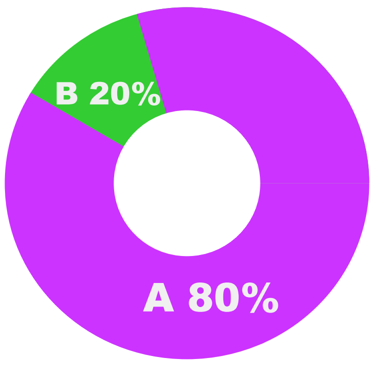
## *Your Preparation Quick Takes*




**Syllabus Structure**
A 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*

## Difference between IGST&CGST

CGST and IGST are part of GST, Goods and Service Tax.

CGST expands as Central Goods and Service Tax and IGST is the short form of Integrated Goods and Service Tax.

Different indirect taxes of Central Excise Duty, Central Sales Tax CST, Service Tax, Additional excise duties, excise duty levied under the medical and toiletries preparation Act, CVD (Additional Customs duty – Countervailing Duty), SAD (Special Additional Duty of customs) surcharges and cesses are merged with CGST. Under IGST, the taxes for movement of goods and services from one state to another are collected.

Major share of tax revenue under CGST is meant for central government where as IGST tax revenue is shared between State government and Central government as per the rate fixed by the authorities.

What is CENVAT and SGST? How does SGST differ from CENVAT?

SGST means State Goods and Service Tax. CENVAT means Central Value Added Tax.

SGST is one of the three components of Goods and Service Tax (GST). i.e., CGST, SGST and IGST. SGST is charged at end user level where as CENVAT is levied at the very beginning of movement of manufacture of goods. CENVAT abolishes and merges with Goods and Service Tax, once GST Act come in to force

### How to differentiate Central Excise Tax with CGST

What is CGST and Central Excise Tax? How does Central Excise Tax differ from CGST?

The full form of CGST is Central Goods and Service Tax, one of the three types of Goods and Service Tax, GST. (CGST, SGST and IGST).

Central Excise Tax is levied up on manufacture of excisable goods in India and is levied immediately up on removal of manufactured products whereas CGST, a part of GST is imposed at the final stage of movement of goods at end user level. Central Excise tax is being merged with GST, Goods and Service Tax by 2015.

What is VAT? How does GST work? How to distinguish between GST and VAT?

The full form of GST is Goods and Service Tax. The elaborate form of VAT is Value Added Tax.

VAT is charged on sale of goods immediately up on preparation of Sale Invoice or immediately when goods are moved for sale. GST is charged on goods and services at the end stage of distribution of goods. Many indirect taxes including VAT are being eliminated and merging with GST

### How to distinguish between CST and GST

What is CST? How does GST work? How to distinguish between GST and CST?

The short form of Goods and Service Tax is called GST. CST means Central Sales Tax. CST/VAT is charged on sale of goods immediately up on preparation of Sale Invoice or immediately when goods are moved for sale. GST is charged on goods and services at the end stage of distribution of goods. Many indirect taxes including CST are being eliminated and merged with GST.

## GROUP: 2, PAPER: 12

# COMPANY
## ACCOUNTS & AUDIT (CAA)

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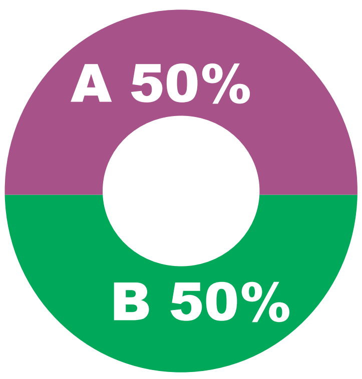
# *Your Preparation Quick Takes*




**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.

## Audit of companies:

**Audit under companies Act 2013:**

1. U/S 143 of the companies Act 2013 the audit of accounts of companies in India has made compulsory, on which the auditor is to report that to the best of his information and knowledge, the said Accounts, Financial Statements give a true and fair view of the state of Companies Affairs as at end of its Financial year and Profit and Loss and Cash Flow for the year and such other matters as may be prescribed.

2. **Branch Audit:**
U/S 143(8) where a company has a branch office, the Accounts of that office shall be Audited either by the Auditor of the company or by any person qualified for appointment.

3. **Cost Audit:**
U/S 148 of the said Act Notwithstanding anything contained in this chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or the labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.

4. **Secretarial Audit:**
U/S 204 Every listed company and a company belonging to other class of companies as any be prescribed shall annex with its board's report made in terms of sub-section (3) section 134, as secretarial audit report, given by a company secretary in practice, in such form as may be prescribed.

Eligibility of Auditor for different Audit:

1. For statutory Audit U/S 143: A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant. Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

2. For Branch Audit, Audit may be conducted by the companies Auditor or by an Accountant or by any other person duly qualified to act as an Auditor in Accordance with the loss of country.

3. Cost Audit shall be conducted by cost accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members on such manner as may be prescribed.

4. Secretarial Audit is to conduct by a company secretary in practice.

As per Rule 8 of the companies (meetings of Board and its powers) Rules, 2014, Secretarial Auditor is required to be appointed by means of resolution passed at a duly convened Board meeting. It is advisable for the Secretarial Auditor to get a letter of engagement from the company. Secretarial Auditor should accept the letter of engagement. However, it is advisable that any changes in the Secretarial Auditor during the financial year are to be reported to the members in the Board's Report.

Audit Report under different Audit:

1. U/S 143 the auditor shall make a report to the members of the company on the accounts examined by him and on every Financial Statement which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which re required to be included in the audit report under the provisions of this Act.

2. The Branch Auditor shall submit his report to the companies Auditor.

3. Cost Audit Report :
As per sub-rule (4) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to Board of Directors of the company within a period of one hundred and eighty days form the closure of the financial year to which the report relates.

4. The secretarial Audit Report is to submit to the Board of directors which shall be included in the Boards Reports u/s 134.

# Introduction to Business Correspondence

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## 01.00 Concept

Correspondence refers to any written or digital communication exchanged by two or more parties. Correspondence may take the form of letters, emails, text messages, voice mails, notes, post cards, or any such other means. Correspondence, in principle, serves the trail of events for eventual utilisation for multiple purposes.

***Business Correspondence = Communication of Business Information***

Business correspondence is a form of written communication used for business purposes. As such, business correspondence may simply be defined as 'Communication of Business Information'. The correspondence could be of several modes such as letters, notifications, memoranda, circulars, reports, orders, and so on.

Business correspondence is usually made between organizations, within the organization, or between clients and the organization. It could be a small request for a day's leave of absence or an elaborate application to a financial institution for grant of a loan of a thousand crores; It is all 'Business Correspondence'.

## 02.00 Broad Categories

Business Correspondence may broadly be categorised into:
(i) Internal Correspondence
(ii) External Correspondence

### Internal Correspondence:

Internal Correspondence is a written communication between the employees, units, departments, and branches of the same organization. Internal correspondence can either be formal or less formal. Routine internal correspondence is usually less formal, such as quick instructions between a supervisor and a staff, and these are normally in the form of email.There are other more formal types of internal correspondence such as flow of information from one department to the other,memorandums, circulars, formal requests for approval, etc. which ought to be in writing.

### External Correspondence:

External correspondence is a form of written communication made by a company with those who do not belong to their organization. It takes place between different organizations, or between an organization and their individual clients. External correspondence is commonly made with vendors, creditors, suppliers, prospective clients, financial institutions, government offices, law and accounting firms, business affiliates, sponsors or donors, and other offices that have either direct or indirect business relationship with the company.

Examples of external correspondence include credit recovery letters to debtors, follow up reminders to suppliers, negotiation correspondence with venders, information brochures to distributors, communications to shareholders about corporate events, etc. A specimen credit recovery letter is enclosed hereto as an appendix.

## 03.00 Personalized Correspondence

Personalized Correspondence involves personal and emotional factors. Despite being labelled as "personalized", this type of correspondence can also be used for business purposes. Examples of personalized correspondence include letters of gratitude, letters of favours or requests, appreciation notes, letters of congratulations of commendation, and such.

This particular type of correspondence doesn't need to have a very formal tone. Though this can be done via email, writing an actual, physical letter is more preferable because it has a sense of personal touch. One may use a regular office paper for this, or perhaps a personalized note pad, or a greeting card for a certain purpose (e.g. Thank You card, Congratulations card, etc).

## 04.00 Advantages

Business correspondence is an essential tool for the day-to-day operations of a company. It helps people within the organization to communicate with each other efficiently. It also helps an organization to transact and maintain a good professional relationship with its business associates, customers, other organizations and stakeholders.

The advantages of business correspondence include:
(i) Writing is considered as more valid and reliable than spoken words.

(ii) Written communication makes maters more precise, explicit and clear from ambiguity. It, thus, puts sender and receiver on the same wavelength which is very vital for any business transaction.

(iii) It is a permanent means of communication. Written communication is useful where record maintenance is required.

(iv) Delicate matters which cannot be expressed in person, can be communicated through discreet language by means of correspondence.

(v) Business Correspondence overcomes the barriers of distance and serves as a convenient means for transaction of business information with any nook and corner of the world.

## 05.00 Good Writing

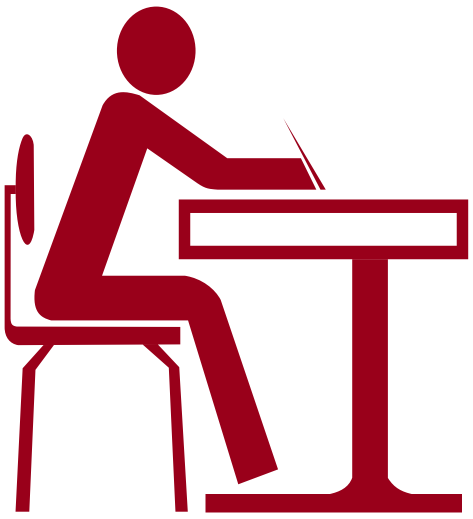
A good writing is a prerequisite for the business correspondence to be fair and objective. A good writing must engage a reader. Whether it is a proposal, report, resume or a letter, the reader must feel involved in the write-up. Effective writing involves careful choice of words, their organization in correct order in sentences formation as well as cohesive composition of sentences.

Social networking tools -say Face Book,Twitter, etc. - have become the order of the day, at times, even for business purposes. The word of caution is that language and written gestures also can have certain negative implications while communicating certain sensitive business information. Therefore, one must exercise due care and caution while using social networking tools and sending messages through business communication.

People read business memoranda in order to receive instructions or information upon which to base decisions or take action. Therefore, A straightforward, courteous tone is usually the best choice but one that may not come naturally without practice.

## 06.00 Quick Take

The tone, tune and texture of communication in a business translates into 'Business Correspondence'.



# Examination TIME TABLE

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

| Day & Date | Intermediate Examination<br>Syllabus-2016<br>Time 2.00 p.m. to 5.00 p.m. |
|---|---|
| 10th December, 2018 (Monday) | Financial Accounting (Paper 05) (Group - I) |
| 11th December, 2018 (Tuesday) | Operations Management & Strategic Management (Paper 09) (Group - II) |
| 12th December, 2018 (Wednesday) | Laws & Ethics (Paper 06) (Group - I) |
| 13th December, 2018 (Thursday) | Cost & Management Accounting and Financial Management (Paper 10) (Group - II) |
| 14th December, 2018 (Friday) | Direct Taxation (Paper 07) (Group - I) |
| 15th December, 2018 (Saturday) | Indirect Taxation (Paper 11) (Group -II) |
| 16th December, 2018 (Sunday) | Cost Accounting (Paper 08) (Group - I) |
| 17th December, 2018 (Monday) | Company Accounts & Audit (Paper 12) (Group - II) |

# 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
Live Webinar

**02** Solve Excercises given in Study Note

**03** Assess Yourself

**04** Appear For Examination

FINISHED

# SUBMISSION


**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,

***"The roots of education are bitter but the fruit is sweet".***

We, from the Directorate of Studies, **congratulate to all successful students** who have passed out their examination in June, 2018 term of examination.

Those; who could not make it, please prepare sincerely for the forthcoming December, 2018 term of examination and apply for filling up examination application form through on-line mode only, within the specified time schedule.
Those who cleared Foundation examination successfully, please opt for the next stage i.e. makes Registration for the Intermediate examination.

Those who cleared Intermediate examination, please enrol for Final stage.
Final pass students, hopefully your orientation is going on or got over. Please try to participate in a positive way in the Nation building and try to put a positive mark on the society and also for the CMA fraternity.

For the smooth and flawless preparation, Directorate of Studies are providing meaningful and requisite inputs which will help you in gaining sufficient knowledge if you take those seriously from the very beginning. Through E-bulletin experts are providing tips on all subjects for your smooth preparation. We are sure that all students will definitely be benefitted by those tips and that will help them to gain requisite knowledge and also to become successful in their examination.

Please try to follow the general guidelines, mentioned below; which may help you in your preparation:

**Essentials for Preparation:**

- 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) : **http://icmai.in/studentswebsite/mtp2016_j18_fnd.php**
For Revision Test Papers (RTP) : **https://icmai.in/studentswebsite/rtp2016_d18.php**
For PPT on "Achieve your GOAL : **http://icmai.in/studentswebsite**
For Work Book Link : **https://icmai.in/studentswebsite/Workbook-Syl-2016-Inter.php**
Live Webinar Link : **http://icmai.in/icmai/news/889.php**

***Be Prepared and Get Success;***

# Few Snapshots


Glimpses of Northern Region Students Convention-2018 on the theme: "Prism of Possibilities" organised by NIRC of the Institute on 17th September, 2018 at New Delhi.

CMA Amit A. Apte, President and CMA Sanjay Gupta, Immediate Past President of the Institute congratulating CMA Anil Kumar Chaudhary on being appointed as Chairman of Steel Authority of India Limited (SAIL)

Shri M.P. Singh, IAS, Addl Chief Secy (Revenue and Rehabilitation) cum Financial Commissioner, Taxation Govt. of Punjab inaugurating the National Seminar on Cost Governance at Chandigarh on 7th October 2018 in presence of CMA Amit A Apte, President, CMA Balwinder Singh, Vice-President, CMA Sanjay Gupta, Immediate Past President and CMA P Raju Iyer, Chairman, PD&CPD Committee.

CMA Amit A Apte, President of the Institute addressing the press on 6th October 2018 at Chandigarh. CMA Balwinder Singh, VP and Chairman, CASB, and CMA P Raju Iyer, Chairman, PD&CPD Committee also addressed along with CMA Mrityunjay Acharjee and CMA Shivani Inder, Members CASB.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FOLLOW US ON


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