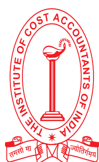
CMA STUDENT E-Bulletin

VOL 09 | NO. 08 | AUGUST 2024

An Initiative of Directorate of Studies



ICMAI

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

www.icmai.in

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in Kolkata having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 117 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000 qualified CMAs and over 5,00,000 students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

Vision Statement

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

Mission Statement

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

Institute Motto

असतोमा सद्गमय	From ignorance, lead me to truth
तमसोमा ज्योतिर् गमय	From darkness, lead me to light
मृत्योर्मामृतं गमय	From death, lead me to immortality
ॐ शान्ति शान्ति शान्तिः	Peace, Peace, Peace

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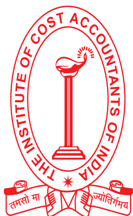

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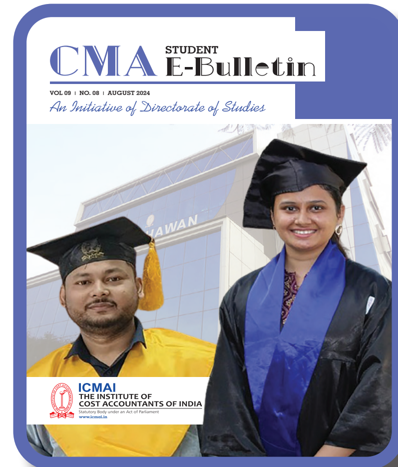
Editorial Office
The Institute of Cost Accountants of India
CMA Bhawan
12, Sudder Street, KolKata - 700016
studies.ebulletin@icmai.in



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CHAIRMAN'S COMMUNIQUE

Dear Students,

It gives me immense pleasure to connect with you through the August 2024 issue of the CMA Student E-Bulletin. As the Chairman of the Training & Educational Facilities Committee of ICMAI, I am excited to share the latest developments and initiatives that aim to enhance your learning experience and professional growth.

At ICMAI, our commitment to excellence in education and training remains unwavering. We continuously strive to provide you with the best resources, state-of-the-art facilities, and cutting-edge training programs that will prepare you to excel in the field of cost and management accounting. Your success is our primary motivation, and we are dedicated to supporting you every step of the way.

In today's digital age, leveraging technology to facilitate learning is paramount. We have introduced several innovative learning platforms to ensure that you have access to high-quality education regardless of your location. Our online classes, interactive webinars, and virtual workshops provide you with the flexibility to learn at your own pace while maintaining the highest standards of education.

In addition to theoretical knowledge, practical skills are crucial for your professional development. We have designed a variety of skill development programs that focus on real-world applications and industry-relevant practices. These programs include case studies, simulation exercises, and hands-on training sessions that bridge the gap between academic knowledge and practical implementation.

Our collaborations with leading organizations and industry experts provide you with invaluable insights and opportunities to apply your knowledge in real-world scenarios. Through internships, live projects, and guest lectures, you can gain practical experience and understand the nuances of the industry. These collaborations also open doors to networking opportunities that can be instrumental in your career growth.

At ICMAI, we believe in the holistic development of our students. Alongside academic excellence, we emphasize the importance of soft skills such as communication, leadership, and teamwork. Our comprehensive training programs include workshops and seminars focused on developing these essential skills, ensuring that you are well-rounded professionals ready to take on leadership roles.

I am confident that the initiatives and programs we have implemented will significantly enhance your learning experience and prepare you for a successful career. I encourage you to take full advantage of these opportunities and remain dedicated to your goals.

I extend my best wishes to all of you. Your hard work, determination, and passion are the driving forces behind our efforts. Let us continue to work together to achieve excellence and elevate the standards of the cost and management accounting profession.

Warm regards,

CMA Vinayranjan P.

Chairman, Training & Educational Facilities Committee, ICMAI

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of Business Laws -

Module 2: Indian Contracts Act, 1872

Business Communication -

Module 5: Business Communication

FOUNDATION

Paper-1

Fundamentals of Business Laws and Business Communication (FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

MULTIPLE CHOICE QUESTIONS (MCQ)

1. Voidable contract is one which is
   (a) lawful
   (b) invalid
   (c) valid
   (d) valid so long it is not avoided by the party entitled to do so

2. The distinction between an advertisement for sale and a proposal is
   (a) Every case will be viewed according to the circumstances
   (b) That a proposal becomes a promise as soon as the party to whom it is made accepts it but an advertisement does not
   (c) No difference at all
   (d) None of these

3. In a Book Store a catalogue of books enlisting the price of each book and mentioning the place where the particular book is available is
   (a) An invitation to visit the Book Store
   (b) An offer
   (c) An invitation to offer
   (d) None of these

4. A catalogue of the goods of a company for sale ….. a series of offers but only an invitation for offers.
   (a) Is
   (b) Is not
   (c) In normal cases is
   (d) In normal cases is not

5. An offer does not lapse if the
   (a) Offeror dies before acceptance
   (b) The Offeree dies before acceptance
   (c) Acceptance is made by the Offeree in ignorance of the death of the Offeror
   (d) Acceptance is made by the Offeree with knowledge of the death of the Offeror

6. A telephonic acceptance is complete when the offer is
   (a) spoken into the telephone
   (b) heard and understood by the Offeror
   (c) heard but not understood by the Offeror
   (d) received, heard and understood by relative of the Offeror

7. With regard to the contractual capacity of a person of unsound mind, which Statement is most appropriate?
   (a) A person of unsound mind can never enter into a contract
   (b) A person of unsound mind can enter into a contract
   (c) A person who is usually of unsound mind can contract when he is, at the time of entering into a contract, of sound mind
   (d) A person who is occasionally of unsound mind can contract although at the time of making the contract, he is of unsound mind

8. While obtaining the consent of the promisee, keeping silence by the promisor when he has a duty to speak about the material facts, amounts to consent obtained by:
   (a) Coercion
   (b) Misrepresentation
   (c) Mistake
   (d) Fraud

9. 'A' threatened to commit suicide if his wife did not execute a sale deed in favour of this brother. The wife executed the sale deed. This transaction is voidable due to
   (a) under influence
   (b) coercion
   (c) immoral
   (d) a and c both

10. A contract which is vitiated by undue influence is declared as ……….

    (a) Invalid

    (b) Void

    (c) Illegal

    (d) Voidable

11. Consider the following:

    1. Active concealment of fact.
    2. Promise made without any intention of performing it.
    3. Breach of duty which gains an advantage to the person committing it.
    4. Inducing mistakes as to subject matter.

    Which of the above amount to fraud?

    (a) 1and 2

    (b) 2and 3

    (c) 3and 4

    (d) 1and 4

12. Factors vitiating consent are:

    (a) Undue influence

    (b) Misrepresentation

    (c) Fraud

    (d) All of these

13. Misrepresentation Defined in section…… of Indian contract act.

    (a) 15

    (b) 16

    (c) 17

    (d) 18

14. If a party stands in a fiduciary relation to the other:

    (a) He cannot dominate

    (b) He can dominate the will of another

    (c)The trust should be maintained

    (d) None of these

15. A person is deemed to be in a position to dominate the will of another if he:

    (a) Holds real or apparent authority

    (b) Stands in a fiduciary relationship

    (c) Both (a) and (b)

    (d) Either (a) or (b)

16. If both the parties to a contract believe in the existence of a subject, which in fact does not exist, the agreement would be

    (a) Unenforceable

    (b) Void

    (c) Voidable

    (d) None of these

17. Void agreement defined in section ….. of Indian contract act.

    (a) 2(a)

    (b) 2(c)

    (c) 2(k)

    (d) 2(b)

18. When both the parties to an agreement are under a mistake, which is essential to an agreement, then the agreement is:

    (a) Void

    (b) Valid

    (c) Voidable

    (d) Illegal

19. As per Indian Contract Act, the term consensus ad idem means, Parties

    (a) under a mistake

    (b) under the free consent

    (c) agreeing upon the same thing in same sense

    (d) under crisis

20. To prove undue influence, the applicant has to prove that:

    (a) The relations, subsisting between the parties are such that the defendant was in a position to dominate the will of the applicant

    (b) The defendant used that position to obtain an unfair advantage from the applicant

    (c) Both (a) and (b)

    (d) either (a) or (b)

21. The validity of contract is not affected by
    (a) Mistake of fact
    (b) Mistake of Indian law
    (c) Misrepresentation
    (d) Fraud

22. Void agreements comprise
    (a) Illegal agreements
    (b) agreements without consideration
    (c) uncertain agreements
    (d) All

23. The exceptions to the rule that an agreement in restraint of trade is void, are given in section …. of Contract Act .
    (a) 27
    (b) 11
    (c) 28
    (d) 23

24. A contract to trade with an enemy is an
    (a) immoral agreement
    (b) unique agreement
    (c) agreement opposed to public policy
    (d) enforceable agreement

SECTION – B: BUSINESS COMMUNICATION

25. If a message is short and to the point, the message is said to be?
    (a) Correct
    (b) Concise
    (c) Coherent
    (d) Complete

26. The way the information is described or translated into a message and put in verbal or non-verbal medium is called .
    (a) Feedback
    (b) Decoding
    (c) Encoding
    (d) None of the above

27. Affirming comments with regard to future behaviour is called ....
    (a) Positive Feedback
    (b) Negative Feed forward
    (c) Positive Feed forward
    (d) Decoding

28. Corrective comments with regard to past behaviour-
    (a) Encoding
    (b) Positive Feedback
    (c) Negative Feed forward
    (d) Negative Feedback

29. Writing is …….. in nature?
    (a) Personal
    (b) Impersonal
    (c) Neutral
    (d) all

30. What is the final step of communication process?
    (a) Encoding
    (b) Transmitting
    (c) Decoding
    (d) Feedback

ANSWER:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
d	b	a	b	c	b	c	d	b	d	a	d	d	b	c
16	17	18	19	20	21	22	23	24						
b	c	a	c	c	b	d	a	c						

25	26	27	28	29	30
b	c	c	c	a	d

Topic

Fundamentals of Financial Accounting -

Module 1: Accounting Fundamentals

Fundamentals of Cost Accounting -

Module 4: Fundamentals of Cost Accounting

FOUNDATION

Paper-2

Fundamentals of Financial and Cost Accounting (FFCA)

Module 1: Accounting Fundamentals

1. What is accounting?
   a) Recording financial transactions
   b) Analysing financial data
   c) Preparing financial statements
   d) All of the above

2. What is the accounting equation?
   a) Assets = Liabilities - Equity
   b) Assets = Liabilities + Equity
   c) Assets - Liabilities = Equity
   d) Assets + Liabilities = Equity

3. What is a ledger?
   a) A book of original entries
   b) A book of secondary entries
   c) A book of financial statements
   d) A book of accounts

4. What is the purpose of accounting?
   a) To record financial transactions
   b) To analyse financial data
   c) To prepare financial statements
   d) All of the above

5. What is a chart of accounts?
   a) A list of financial statements
   b) A list of ledger accounts
   c) A list of journal entries
   d) A list of financial transactions

6. What is an asset?
   a) Something owned by the business
   b) Something owed by the business
   c) Something earned by the business
   d) Something spent by the business

7. What is a liability?
   a) Something owned by the business
   b) Something owed by the business
   c) Something earned by the business
   d) Something spent by the business

8. What is equity?
   a) Ownership interest in the business
   b) Liability of the business
   c) Asset of the business
   d) Expense of the business

9. What is revenue?
   a) Income earned by the business
   b) Expenses incurred by the business
   c) Assets owned by the business
   d) Liabilities owed by the business

10. What is an expense?
    a) Cost incurred to generate revenue
    b) Asset owned by the business
    c) Liability owed by the business
    d) Equity of the business

11. What is the accounting cycle?
    a) Identify, record, report
    b) Record, report, analyse
    c) Identify, analyse, report
    d) Record, identify, report

12. What is the purpose of financial statements?
    a) To record financial transactions
    b) To analyse financial data
    c) To report financial performance
    d) All of the above

13. What is the balance sheet?
    a) Statement of financial position
    b) Statement of financial performance
    c) Statement of cash flows
    d) Statement of changes in equity

14. What is the income statement?
    a) Statement of financial position
    b) Statement of financial performance
    c) Statement of cash flows
    d) Statement of changes in equity

15. What is cash flow?
    a) Movement of cash and cash equivalents
    b) Movement of assets and liabilities
    c) Movement of equity and expenses
    d) Movement of revenue and gains

16. What is the purpose of the trial balance?
    a) To prepare financial statements
    b) To check accuracy of ledger accounts
    c) To record financial transactions
    d) To analyse financial data

17. What is materiality concept?
    a) Importance of financial information
    b) Reliability of financial information
    c) Relevance of financial information
    d) Consistency of financial information

18. What is consistency concept?
    a) Similarity in accounting methods
    b) Difference in accounting methods
    c) Change in accounting methods
    d) Selection of accounting methods

19. What is comparability concept?
    a) Ability to compare financial information
    b) Ability to analyse financial information
    c) Ability to interpret financial information
    d) Ability to record financial information

20. What is accounting standards?
    a) Rules for financial reporting
    b) Guidelines for financial reporting
    c) Principles for financial reporting
    d) Regulations for financial reporting

21. What is financial reporting?
    a) Preparation of financial statements
    b) Analysis of financial statements
    c) Interpretation of financial statements
    d) Communication of financial information

Module 4: Fundamentals of Cost Accounting

22. What is cost accounting?
    a) Accounting for costs of production
    b) Accounting for costs of sales
    c) Accounting for costs of services
    d) All of the above

23. What is direct material cost?
    a) Cost of labour
    b) Cost of raw materials
    c) Cost of overheads
    d) Cost of marketing

24. What is overhead cost?
    a) Direct labour cost
    b) Direct material cost
    c) Indirect cost
    d) Direct expense

25. What is absorption costing?
    a) Allocating fixed costs to products
    b) Ignoring fixed costs in product costing
    c) Allocating variable costs to products
    d) Ignoring variable costs in product costing

26. What is a cost center?
    a) A department that incurs costs
    b) A department that generates revenue
    c) A department that allocates costs
    d) A department that analyses costs

27. What is the purpose of cost accounting?
    a) To determine profitability of products
    b) To prepare financial statements
    c) To analyse financial data
    d) To record financial transactions

28. What is the difference between fixed and variable costs?
    a) Fixed costs vary with production, while variable costs remain constant
    b) Fixed costs remain constant, while variable costs vary with production
    c) Fixed costs are incurred during production, while variable costs are incurred after production
    d) Fixed costs are incurred before production, while variable costs are incurred during production

29. Which costing method assumes that the cost of production remains constant per unit?
    a) Marginal costing
    b) Absorption costing
    c)Standard costing
    d) Average costing

30. What is the primary objective of costing?
    a) To determine the selling price of a product
    b) To identify areas for cost reduction
    c) To ascertain the cost of production
    d) To evaluate employee performance

ANSWER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
d	b	d	d	b	a	b	a	a	a	a	c	a	b	a
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	a	a	a	a	d	d	b	c	a	a	a	b	c	c

Topic

Fundamentals of Business Mathematics -

Module 1: Arithmetic

Fundamentals of Business Statistics

Module 5: Measures of Central Tendency and Dispersion

FOUNDATION

Paper-3

Fundamentals of Business Mathematics and Statistics (FBMS)

In this issue we will carry out MCQs on Arithmetic & Central Tendency/Dispersion – refer Module 1 and Module 5 of Study material.

1. If the present value of perpetuity of a Ry, 2.25 % per quarter, compound interest is ₹18000. Find the value of Ry.

(a) 1,580

(b) 1,520

(c) 1,480

(d) 1,620

2. Annuity is--

(a) Increasing stream of cash flows.

(b) Decreasing stream of perpetual cash flows.

(c) Level stream of perpetual cash flows.

(d) Level stream of cash flows occurring for a fixed period of time.

3. If the present value of an annuity is ₹12,390 received at the beginning of each year for 4 years at a discount factor of 5%. Calculate the amount of annuity.

(a) 3,298

(b) 3,248

(c) 3,428

(d) 3,328

4. A wants to create an endowment fund to provide for a prize of ₹485 every year. If the fund can be invested at 13% p.a. compound interest, find the amount of endowment.

(a) 7,331

(b) 3,731

(c) 3,331

(d) 7,371

5. A & M Co. is expecting to receive ₹50,000 five years from now. Compute the present value of this sum if the current market interest rate is 7% and the interest is compounded half-yearly.

(a) 35,446

(b) 34,556

(c) 35,651

(d) 36,551

6. Assuming the rate of interest is 4% p.a., Mr. Singh invests a certain amount of money at the beginning of each year for 4 years, which accumulates to ₹8,840 at the end of 4th year. What is the amount invested by Mr. Singh at the beginning of each year?

(a) 1,750

(b) 2,150

(c) 2,000

(d) 1,500

7. Find the value of the first term for: …... 111, 119, 127, 135, and 143 for the series having 41 terms.

(a) -175

(b) -177

(c) -179

(d) -185

8. Find the value of 77th term for: 217, 224, 231, 238, 245, 252, and 259

(a) 748

(b) 742

(c) 741

(d) 749

9. Find the next 6 terms for the series: 117, 130, 143, 156, 169, and 182.

(a) 195, 205, 215, 225, 235, 245

(b) 195, 208, 222, 235, 253, 270

(c) 195, 208, 221, 234, 247, 260

(d) 195, 210, 225, 240, 255, 270

10. Find the value of 198th term for: 1005, -1005, 1005, -1005, and 1005

(a) -1005

(b) -1004

(c) 1005

(d) 1004

11. Find the next 5 terms for the series: -1, -4, -16, -64

(a) 256, 1024, 4096,-16384,-65536

(b) -256,-1024, 4096, 16384,-65536

(c) 256,-1024, 4096,-16384, 65536

(d) -256,-1024,-4096,-16384,-65536

12. If the Last term is 240, First Term is 15, value between two consecutive terms is 15 added, find the number of terms in the series.

(a) 17

(b) 14

(c) 15

(d) 16

13. If mean of a series is 10 and median is 7 then mode of the series is

(a) 3

(b) 9

(c) 1/3

(d) 1

14. Which one of the following is correct?

(a) For a set of observation AM is 10, GM is 12 and HM 14

(b) For a set of observation AM is 3/16, GM is 1/8 and HM 1/16

(c) For a set of observation AM is 1/3, GM & HM 2/3

(d) For a set of observation AM 2/5 GM is 3/5 and HM 8/5

15. The values of mode and median for a moderately skewed distribution are 64.2 and 68.6 respectively. Mean of the distribution is

(a) 36.5

(b) 29.9

(c) 70.8

(d) 62

16. To ascertain the size of shoes sold out in largest number from a shop the average employed will be

(a) Median

(b) Mode

(c) Average Mean

(d) Harmonic Mean

17. The estimation of intelligence of students in a class is to be measured by

(a) Mode

(b) Mean

(c) Harmonic mean

(d) Median

18. Comparison of the state of health of a local population with a standard population is to be done with

(a) Mode

(b) Median

(c) Weighted A. M

(d) Moving average

19. Average change in the cost of living of workers is measured by

(a) Harmonic Mean

(b) Geometric Mean

(c) Arithmetic Mean

(d) Mode

20. Average rate of growth of population per decade can be measured by

(a) Geometric Mean

(b) Arithmetic Mean

(c) Median

(d) Mode

21. Which average will be appropriate for a distribution which has open end classes?

(a) Arithmetic Mean or Median

(b) Harmonic Mean or Geometric Mean

(c) Mode or Harmonic Mean

(d) Median or Mode

22. Inference about population mean can be drawn by

(a) Median

(b) Arithmetic Mean

(c) Mode

(d) All the above

23. Which of the following central tendency measure is most appropriate for a distribution which has wide range of variations

(a) Mode

(b) Median

(c) Arithmetic Mean

(d) Harmonic Mean

24. Which of the following central tendency is most appropriate when total time taken is fixed but the speeds to be averaged is varying

(a) Harmonic Mean

(b) Arithmetic Mean

(c) Geometric Mean

(d) Weighted Mean

25. When it is desired that sampling variability should be the least, which of the following central tendency measure is appropriate

(a) Mean

(b) Mode

(c) Median

(d) Weighted Average

26. When it is desired that the sum of deviations from the mean should be least, which of the following central tendency measure is appropriate

(a) Mean

(b) Mode

(c) Median

(d) Weighted Average

27. In a set of data, spread of individual item around arithmetic mean is measured by

(a) Median

(b) Arithmetic Mean

(c) Mode

(d) Dispersion

28. The arithmetic mean hourly output in two manufacturing plant A and B is 50. Then which one of the following statement is correct?

(a) Based on the two equal means we could conclude that the distributions of the hourly outputs are identical in two plants

(b) Based on the two equal means only we cannot conclude on pattern of distributions of hourly outputs unless computing respective medians

(c) Based on the two equal means only we cannot conclude on pattern of distributions of hourly outputs unless computing respective variances

(d) Based on the two equal means only we could conclude that the distributions of hourly outputs have two equal mode

29. For a data set difference between Range and Variance is

(a) Range considers all values whereas Variance considers Mean only

(b) Variance considers all the values whereas Range considers only two

(c) Variance considers all the values whereas Range considers average of all values

(d) Range considers half of the values whereas Variance considers most of the values

30. In a sample containing 10 data the arithmetic mean of the squared deviations of individual items from mean is called

(a) Variance

(b) Standard deviation

(c) Mean deviation

(d) Kurtosis

Answer Keys:

1	d	V = 18000, r = 2.25% per quarter = 0.0225*4 = 0.09 = 9 % p.a. $18000 = \frac{P}{0.09}$ P = 18000 * 0.09 = 1620
2	d	Annuity is level stream of cash flows occurring for a fixed period of time.
3	d	V = ₹ 12,390 , $r = \frac{5}{100} = 0.05$, n = 4 $V = \frac{P^* (1+0.05)}{r} * [1 - \frac{1}{(1+r)^n}]$ $12390 = \frac{P^* (1+r)}{0.05} * [1 - \frac{1}{(1+0.05)^4}]$ $12390 = P * 21 * [1 - \frac{1}{1.2155}]$ 590 = P * [1 - 0.8227] 590 = P * 0.1773 $P = \frac{590}{0.1773} = 3,327.69$ or 3,328 (Approx.)
4	b	P = 485, $r = \frac{13}{100}$ or 0.13 $V = \frac{P}{r}$ $V = \frac{485}{0.13} = 3730.77$ or 3,731 (Approx.)
5	a	A = ₹ 50,000 , $r = \frac{7}{100} = 0.07$, n = 5 $P = \frac{A}{(1 + \frac{r}{2})^{2*n}}$ $P = \frac{50,000}{(1 + \frac{0.07}{2})^{2*5}}$ $P = \frac{50,000}{(1 + 0.035)^{10}}$ $P = \frac{50,000}{1.4106}$ P = 35,445.91 or 35,446 (Approx.)
6	c	A = 8840, $r = \frac{4}{100}$ or 0.04, n = 4 $A = \frac{P * (1 + r)}{r} [(1 + r)^n - 1]$ $8840 = \frac{P * (1 + 0.04)}{0.04} [(1 + 0.04)^4 - 1]$ 8840 = P * 26 * [1.1698 - 1] 340 = P * 0.1698 $P = \frac{340}{0.1698} = 2002.35$ or 2000 (Approx.)
7	b	Value of the 1st Term for : ….., 111, 119, 127, 135, 143 Having 41 terms in the series 'd' = n term – (n-1) term = 143 – 135 = 8 An = a+(n-1)*d 143 = a+ (41-1)*8 or, 143 = a + 40*8 or, 143 = a+320 or, a = 143-320 = -177
8	d	Value of 77th term for : 217, 224, 231, 238, 245, 252, 259 Type of Series- A.P. 'd' = 2nd term – 1st term = 224-217 = 7 An = a+ (n-1)*d or, 217 + (77-1)*7 or, 217 + 76*7 or, 217+532 = 749
9	c	Next 6 terms for the series : 117, 130, 143, 156, 169, 182 Since, type of Series – A.P. 'd' = 2nd term - 1st term = 130-117 = 13 Next 6 terms would be (182+13) , (182+13+13), (182+13+13+13), (182+13+13+13+13), (182+13+13+13+13+13), (182+13+13+13+13+13+13) 195, 208, 221, 234, 247, 260
10	a	Value of 198th term for : 1005, -1005, 1005, -1005, 1005 Type of Series – G.P. 'r' = 2nd term / 1st term = -1005 / 1005 = -1 An = a*r(n-1) or, 1005 * (-1)(198-1) or, 1005 * (-1)197 or, 1005 * -1 or, -1005

11	d	Next 5 terms for the series : -1, -4, -16, -64 Since, type of Series – G.P. ‘r’ = 2nd term / 1st term = -4/-1 = 4 Next 5 terms would be (-64*41) , (-64*42), (-64*43), (-64*44), (-64*45) -256, -1024, -4096, -16384, -65536
12	d	If the Last term is 240, First Term is 15, value between two consecutive terms is 15 added, find the number of terms in the series An = a + (n-1)*d or, 240 = 15 + (n-1) * 15 or, 240-15 = (n-1)*15 or, 225 = (n-1)*15 or, 225/15 = n-1 or, n-1 = 15 or, n = 15+1 = 16
13	d	Mean-Mode = 3(Mean –Median)
14	b	AM > GM >HM
15	c	Mean - Mode = 3(Mean – Median)
16	b	
17	d	
18	c	
19	b	
20	a	
21	d	
22	b	
23	b	
24	a	
25	c	
26	c	
27	d	
28	c	
29	b	
30	a	

Suggestions:

The study material needs to be read thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts developed in the respective modules/sub modules of the study material. Students should try to solve individual questions with concepts developed from study material to understand the correct answer of each question. Formula used here are all covered in study material. Brief solutions are given as keys in selected problems.

Best Wishes.

Topic

Fundamentals of Business Economics -

Module 1: Basic Concepts and Module 2: Forms of Market

Fundamentals of Management -

Module 5: Fundamentals of Management

FOUNDATION

Paper-4

Fundamentals of Business Economics and Management (FBEM)

TIPS FOR AUGUST 2024 ON BUSINESS ECONOMICS AND MANAGEMENT

By the mid-1600s, the East India Company had established trading posts and factories in major Indian cities, including Bombay, Calcutta and Madras. In 1670, King Charles II granted the company incredibly broad powers to acquire territory, raise an army, mint its own money, and exercise legal jurisdiction over areas under its control. Unfortunately for India, the British gave very little attention to the nobler aspects of colonization during the first 150 years of their rule. Instead, they focused on profits and power. At the turn of the 19th century, Governor General Lord Wellesley took the "profits and power" mantra to a new level and began expanding British dominance in India on a large scale. He defeated Tipu Sultan, annexed Mysore and removed all French influence from the subcontinent. In the mid 19th century Governor General Lord Dalhousie annexed Punjab by defeating the Sikhs. British also took over small princely states like Jhansi, Nagpur under the 'lapse' doctrine, which permitted the British to annex any Princely state whose ruler had died without a male heir. (to be continued)

Let us start our mock test.

I. Choose the correct answer:

1. Who was the proponent of the scarcity definition of economics?

   A. Samuelson

   B. Robbins

   C. Pigou

   D. Marshall

2. Who invented "Multiplier theory"?

   A. Schumpeter

   B. Samuelson

   C. Keynes

   D. None of the above

3. If the level of expenditure on a commodity remains the same, even if the price of it falls, the price elasticity of demand will be

   A. Greater than unity

   B. Less than unity

   C. Equal to unity

   D. None of the above

4. A point to the left of the mid point of a linear demand curve will have price elasticity of demand which is

   A. Relatively elastic

   B. Relatively inelastic

   C. Unit elastic

   D. None of the above

5. Demand for durable goods usually remains

   A. Relatively elastic

   B. Relatively inelastic

   C. Unitary elastic

   D. None of the above

6. The price elasticity of demand for salt is

   A. Elastic

   B. Perfectly elastic

   C. Inelastic

   D. None of the above

7. When price elasticity of demand is infinity, then MR will be

   A. Greater than price

   B. Equal to price

   C. Less than price

   D. None of the above

8. Law of increasing returns to scale is a
   A. Long run phenomenon
   B. Medium run phenomenon
   C. Short run phenomenon
   D. None of the above
9. As output rises, AFC
   A. Also rises
   B. First falls then rises
   C. Falls but it cannot be zero
   D. None of the above
10. When AVC is rising then
    A. SMC>AVC
    B. SMC<AVC
    C. SMC=AVC
    D. None of the above
11. When AVC curve is rising
    A. SMC curve will also be rising
    B. SMC curve will be falling
    C. SMC curve will be parallel to x-axis
    D. Nothing can be predicted
12. Profit will be maximum when
    A. AR=MR
    B. MR curve cuts the AR curve from below
    C. Both A and B
    D. None of the above
13. Internal economies of scale occurs when
    A. LAC curve sloping downward
    B. SAC curve sloping downward
    C. LAC curve sloping upward
    D. SAC curve sloping upward
14. External economies of scale occurs when
    A. LAC curve shifts downward
    B. SAC curve shifts downward
    C. LAC curve shifts upward
    D. SAC curve shifts upward
15. The principal goal of a monopoly firm is assumed to be
    A. Sales maximization
    B. Revenue maximization
    C. Profit maximization
    D. None of the above
16. Product differentiation is the other name of
    A. Monopoly
    B. Discriminating monopoly
    C. Monopolistic competition
    D. None of the above
17. Kinked demand curve is related to
    A. Oligopoly
    B. Monopoly
    C. Monopolistic competition
    D. None of the above
18. Under perfect competition, a firm faces a demand curve which is
    A. Downward sloping
    B. Parallel to the x- axis
    C. Upward rising
    D. None of the above
19. What is the name of the central bank of England?
    A. Central bank of England
    B. Bank of London
    C. Bank of England
    D. None of the above
20. Inflation can be controlled if
    A. Bank rate is increased
    B. Govt. bond is sold in the open market
    C. CRR is increased
    D. All the three above
21. The narrow money in an economy is denoted by
    A. M4
    B. M3
    C. M1
    D. None of the above

22. The final step in decision making process is
    - A. Selection of an alternative
    - B. Developing alternative
    - C. Evaluation of alternative
    - D. Implementation and follow up of decision
23. Free-rein Leadership is also known as
    - A. Laissez Faire leadership
    - B. Participative leadership
    - C. Authoritarian leadership
    - D. None of the above
24. Selection is a process of rejection hence it is a
    - A. Positive process
    - B. Negative process
    - C. either A or B
    - D. none of the above
25. T-group training is also called
    - A. Class room training
    - B. Apprenticeship training
    - C. Internship training
    - D. Sensitivity training
26. Introduction of a person to a job is called
    - A. Induction
    - B. Placement
    - C. Orientation
    - D. None of the above
27. Vestibule training is considered as a part of
    - A. Off-the-job training
    - B. On-the-job training
    - C. Both A and B
    - D. None of the above
28. Who takes the initiative in formulating major objectives, strategies, policies
    - A. Middle management
    - B. Top management
    - C. Lower management
    - D. All of the above
29. Which of the following are called standing plans?
    - A. Policies
    - B. Procedures
    - C. Rules
    - D. All of the above
30. Carrot and stick approach to motivation is adopted under which system?
    - A. Exploitative Autocratic
    - B. Benevolent Autocratic
    - C. Consultative
    - D. Democratic

ANSWER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
B	C	C	A	B	C	B	A	C	A	D	C	A	A	C
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
C	A	B	C	D	C	D	A	B	D	A	A	B	D	B

So friends!!

Please maintain a record of your performance in all the mock tests. That will indicate your progress in this paper. Of course you should not consult the KEY before you finish off solving the test paper.

Wish you all the best !!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 6:

Limited Liability Partnership Act, 2008

INTERMEDIATE

Group I - Paper-5

Business Laws and Ethics (BLE)

BUSINESS LAWS AND ETHICS

It is expected that you - the students prepare a time-table with the time allotted for each subject and read, write, revise and recapitulate all that you keep on reading. The first important point is that you must read the *Bear Act* and the *Sections* and start asking questions to yourself and find your own answers. Read the Act carefully and try to know the sense of the contents in it.

In this issue we shall deal with Limited Liability Partnership [LLP] with reference to *Limited Liability Partnership Act, 2008*.

Concept of Limited Liability Partnership

A limited liability partnership is another form of doing business in India under the *Limited Liability Partnership Act, 2008*. The concept of LLP is explained as below:

1. It is an alternative corporate business form that gives the benefit of limited liability of a company and the flexibility of the partnership.
2. It can continue its existence irrespective of changes in partners.
3. It is capable of entering into contracts and holding property in its own name.
4. It is a separate Legal entity and is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.
5. No partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.
6. Mutual rights and duties of the partners within a LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be.

Advantages and Features of Limited Liability Partnership

The benefit of this business form is that it has the feature of limited liability as can be seen in companies. Despite being a partnership, there are many features that an LLP has which are like that of a company. This business form can continue its existence irrespective of changes in partners, much like a company where membership changes hands. LLPs are capable of entering into contracts and holding property in its own name. The Limited Liability Partnership is a separate legal entity, as any incorporated association is and has unlimited liability, but the liability of the partners is limited to their pre-determined contribution in the LLP. Similarly, as in a company, individual partners when acting ultravires or in an independent manner, would not make other members liable for their acts, despite their being the concept of mutual agency. Unlike a company, where articles of association govern, a limited liability partnership is governed by an agreement between the partners or between the partners and the LLP. A Limited Liability Partnership has the characteristics of both the partnership firm and company. It is the most preferred form of organization among entrepreneurs as it incorporates the benefits of both partnership firm and company into a single form. LLPs in India are regulated by the *Limited liability Partnership Act, 2008.*

Among many features, the advantages of incorporating a Limited Liability partnership are the low amount of cost and less compliance involved in registering the same. Moreover, the statutory obligations of a company to rotate directors within the board, there is no such provision relating to rotation of partners. The Limited Liability Partnership structure is available in countries like United Kingdom; United States of America various Gulf countries, Australia and Singapore. In India on the advice of experts who have studied LLP legislations in various countries, the LLP Act is broadly based on *UK Limited Liability Partnership Act ,2000* and Singapore *Limited Liability Partnership Act,2005*. Both these Acts allow creation of LLPs in a body corporate form i.e., as a separate legal entity, separate from its partners/ members

Limited Liability Partnership Act

The Government introduced the 'Limited Liability Partnership Bill, 2006' in the Rajya Sabha on 15.12.2006. The bill was referred to the Department Related Parliamentary Standing Committee on Finance for examination and report. The Committee presented its report on 27.11.2007. The Committee made several recommendations which were examined and considered

by the Government. The bill was made an Act in the year 2009. The Act contains 14 chapters with 81 sections and four schedules. Brief details of the four schedules are -

First Schedule – Provisions regarding matters relating to mutual rights and duties of partners and limited liability partnership and its partners applicable in the absence of any agreement of such matters;

Second Schedule – Conversion from firm into limited liability partnership;

Third Schedule – Conversion from private company into limited liability partnership;

Fourth Schedule – Conversion from unlisted company into limited liability partnership.

To implement the provisions of this Act, the Central Government made 'Limited Liability Partnership Rules, 2009 which came into 01.04.2009 except Rules 32 and 33, Rules 38 to 40 which came into effect from 22.05.2009. For the purpose of winding up of a Limited Liability Partnership, the Central Government made 'The Limited Liability Partnership (Winding up and Dissolution) Rules, 2012.

Meaning of Limited liability partnership

Section 2(1) (n) defines the expression 'limited liability partnership' as a partnership formed and registered under Limited Liability Partnership Act, 2008.

Who may be a partner in LLP?

Section 5 of Liability Partnership Act, 2008 provides that any individual or body corporate may be a partner in a LLP. The expression 'body corporate' is defined under Section 2(1) (d) of the Act as a company as defined in the Companies Act, 2013 and includes-

i. A limited liability partnership registered under this Act;
ii. A limited liability partnership incorporated outside India; and
iii. A company incorporated outside India; but does not include-
    1. A corporation sole;
    2. A co-operative society registered under any law for the time being in force; and
    3. Any other body corporate, not being a company, or a LLP, which the Central Government may, by notification in the Official Gazette, specify in this behalf.

An individual shall not be capable of becoming a partner of LLP, if he or she-

i. has been found to be of unsound mind by a Court of competent jurisdiction and the findings is
ii. in force.
iii. is undischarged insolvent; or
iv. has applied to be adjudicated as an insolvent and his application is pending.

Topic

Module 1: Accounting Fundamentals

INTERMEDIATE

Group I - Paper-6

Financial Accounting (FA)

Capital and Revenue Transactions / Adjustment Entries and Rectification of Errors

Capital and Revenue Transactions

Capital and Revenue Transactions are two fundamental concepts in accounting that distinguish between different types of expenditures and receipts. They help in understanding how different financial activities impact a company's financial statements.

Capital Transactions

Capital Expenditure: These are expenses incurred to acquire or improve fixed assets (e.g., purchasing machinery, buildings, vehicles). Such expenses provide benefits over a long period and are capitalized, i.e., added to the cost of the asset on the balance sheet.

Examples:

- Purchase of land, building, or machinery.
- Installation costs for new equipment.
- Legal fees for purchasing property.

Capital Receipts: These are funds received that either reduce liabilities or increase the owner's equity without impacting the company's profit or loss. They are not generated from the day-to-day business activities.

Examples:

- Sale of fixed assets.
- Issue of shares or debentures.
- Loans received from banks or financial institutions.

Revenue Transactions

Revenue Expenditure: These are the costs incurred in the ordinary course of business to maintain daily operations. These expenses provide benefits for a short term, typically within a single financial year, and are charged to the profit and loss account.

Examples:

- Wages and salaries.
- Rent, utilities, and insurance.
- Repairs and maintenance.

Revenue Receipts: These are incomes generated from the core business activities, typically recurring in nature. They contribute directly to the profit of the business.

Examples:

- Sales revenue from goods and services.
- Interest received on investments.
- Commission received.

Differences between capital expenditure and revenue expenditure

Criteria	Capital Expenditure	Revenue Expenditure
Nature	Incurred to acquire or improve long-term assets.	Incurred for day-to-day operations.
Purpose	Aimed at increasing earning capacity or extending asset life.	Aimed at maintaining earning capacity and daily functions.
Treatment in Financial Statements	Capitalized and shown as an asset on the balance sheet.	Expensed in the income statement (profit and loss account).
Recurrence	Typically non-recurring, involves large sums.	Recurring, involves regular and smaller amounts.
Impact on Financial Statements	Affects both the balance sheet and income statement through depreciation.	Directly impacts the income statement by reducing profit.
Examples	Purchase of machinery, construction of a building.	Payment of wages, rent, repairs, utilities.
Long-Term vs. Short-Term Impact	Provides long-term benefits, often over several years.	Provides short-term benefits within the current year.
Depreciation	Subject to depreciation over the useful life of the asset.	Not subject to depreciation; fully expensed in the current year.

Impact on Profitability	Initially reduces cash flow but spreads cost over time.	Directly reduces profits in the year incurred.
Example Scenarios	Buying a new factory, installing new equipment.	Routine maintenance, office supplies, utility bills.

Differences between capital receipts and revenue receipts

Criteria	Capital Receipts	Revenue Receipts
Nature	Non-recurring receipts that affect liabilities or equity.	Recurring receipts from normal business operations.
Source	Derived from non-operational activities like financing.	Generated from operational activities like sales.
Impact on Financial Statements	Recorded on the balance sheet.	Recorded on the income statement (profit and loss account).
Recurrence	Typically non-recurring.	Regular and recurring.
Impact on Capital Structure	Affects capital structure (increases equity or liabilities).	No impact on capital structure.
Examples	Sale of fixed assets, issue of shares, loans received.	Sales revenue, interest earned, commission received.
Long-Term vs. Short-Term Impact	Long-term impact, linked to investment/financing activities.	Short-term impact, related to current period's earnings.
Repayment or Obligation	May involve future obligations (e.g., loan repayment).	No repayment obligation.
Tax Treatment	May not be taxable, subject to specific rules.	Fully taxable as business income.
Example Scenarios	Selling land, borrowing from a bank, issuing shares.	Income from sales, interest on deposits, rent received.

Adjustment Entries

Adjustment entries are made at the end of an accounting period to update the accounts before financial statements are prepared. They ensure that revenues and expenses are recorded in the period they occur, regardless of when the cash is received or paid.

Key Types of Adjustment Entries:

1. **Accrued Revenues**: Revenue earned but not yet received or recorded.
   - Example: Interest receivable.
2. **Accrued Expenses**: Expenses incurred but not yet paid or recorded.
   - Example: Salaries payable.
3. **Prepaid Expenses**: Payments made in advance for expenses that have not yet been incurred.
   - Example: Prepaid rent.
4. **Unearned Revenues**: Cash received before revenue is earned.
   - Example: Advance payments from customers.
5. **Depreciation**: Allocation of the cost of a tangible fixed asset over its useful life.
   - Example: Depreciation on machinery.

Rectification of Errors

Rectification of errors involves correcting mistakes in financial records. Errors can occur due to omission, incorrect recording, or misclassification of transactions.

Types of Errors:

1. **Errors of Omission**: A transaction is completely omitted from the books.
   - **Example**: Forgetting to record a purchase.
   - **Rectification**: Record the omitted entry in the relevant accounts.
2. **Errors of Commission**: A transaction is recorded but with the wrong amount or in the wrong account.
   - **Example**: Recording ₹500 as ₹50.
   - **Rectification**: Correct the amount or the account in which the entry was made.
3. **Errors of Principle**: A transaction is recorded in violation of accounting principles.
   - **Example**: Treating revenue expenditure as capital expenditure.
   - **Rectification**: Reverse the incorrect entry and record it correctly.
4. **Compensating Errors**: Two or more errors that cancel each other out.
   - **Example**: Understating income by ₹200 and overstating expenses by ₹200.
   - **Rectification**: Identify and correct each error separately.
5. **Errors of Duplication**: Recording the same transaction more than once.
   - **Example**: Entering a purchase invoice twice.
   - **Rectification**: Reverse the duplicated entry.

Methods of Rectification:

1. **Before Preparation of Trial Balance**: Correct the error directly in the ledger accounts.
2. **After Preparation of Trial Balance**: Use a Suspense Account to temporarily hold discrepancies until they are resolved.

Questions:

1. Which of the following is a capital expenditure?

   A) Payment of salaries

   B) Purchase of machinery

   C) Repair of machinery

   D) Rent for the office building

2. Which of the following is considered a revenue receipt?

   A) Loan from a bank

   B) Sale of old furniture

   C) Revenue from sales

   D) Issue of shares

3. Which of the following would be recorded as a capital receipt?

   A) Cash sales

   B) Loan from a bank

   C) Rent received

   D) Interest received on investments

4. Revenue expenditure is typically incurred for which of the following?

   A) Acquiring new machinery

   B) Day-to-day operations

   C) Purchasing land

   D) Constructing a new building

5. Which of the following is NOT a characteristic of capital expenditure?

   A) Long-term benefit

   B) Non-recurring in nature

   C) Expensed in the profit and loss account

   D) Increases the earning capacity of the business

6. Which of the following is an example of an accrued expense?

   A) Prepaid Rent

   B) Unearned Revenue

   C) Salaries Payable

   D) Depreciation Expense

7. If a transaction is completely omitted from the books, it is an error of:

   A) Commission

   B) Principle

   C) Omission

   D) Compensating

8. Which of the following errors will not affect the Trial Balance?

   A) Posting to the wrong account

   B) Omitting an entry in the ledger

   C) Entering a debit as a credit

   D) Adding up the ledger incorrectly

9. The process of distributing the cost of a tangible asset over its useful life is known as:

   A) Amortization

   B) Depreciation

   C) Accrual

   D) Prepayment

10. A customer paid in advance for services, but the services have not yet been provided. This should be recorded as:

    A) Revenue

    B) Expense

    C) Asset

    D) Liability

ANSWER

1	2	3	4	5	6	7	8	9	10
b	c	b	b	c	c	c	a	b	d

Topic

Module 2:
Heads of Income

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DT)

INCOME FROM HOUSE PROPERTY

1. Annual value of a property shall be taxable under the head "Income from house property" subject to fulfilment of the following conditions:
   - There must be a property consisting of any building or land appurtenant thereto.
   - Assessee is the owner (including deemed owner).
   - Such property is not used in any assessable business or profession carried on by the assessee.
2. Annual value of a property is assessed to tax only in the hands of the owner. Income from sub-letting is taxable as business income or as income from other sources. Owner includes legal owner, beneficial owner and deemed owner.

   Deemed Owner [Sec. 27]
   - Transfer of property to spouse or minor child (not being a married daughter) without adequate consideration;
   - The holder of an impartible estate;
   - Property held by a member of a housing co-operative society, company, etc.;
   - A person who acquired a property u/s 53A of the Transfer of Property Act against part performance of a contract;
   - Lessee of a building for more than 12 years u/s 269UA(f).
3. Co-owners are not taxable as an AOP provided their respective share is definite and ascertainable. Share of each co-owner shall be taxable in his hands.
4. **Exempted Properties:** Anyone palace or part thereof of an ex-ruler (provided the same is not let out) a farmhouse; house property of a local authority, of an approved scientific research association, of an educational institution, of a hospital, of a person being resident of Ladakh, of a political party, of a trade union; house property held for a charitable purpose.
5. **Composite Rent:** Composite Rent = Rent for building + Rent for assets / Charges for various services

<table>
<tr><th rowspan="2">Case</th><th colspan="2">When rent is separable</th><th colspan="2">When rent is not separable</th></tr>
<tr><th>Property is acceptable by the tenant without amenities</th><th>Property is not acceptable by tenants without amenities</th><th>Property is acceptable by the tenant without amenities</th><th>Property is not acceptable by tenants without amenities</th></tr>
<tr><td>Income shall be taxable under the head</td><td>Rent for Property: 'Income from house property'
Rent for Amenities: 'Profits & gains of business or profession' or 'Income from other sources'.</td><td colspan="3">'Profits & gains of business or profession' or 'Income from other sources'.</td></tr>
</table>

6. **Property held as stock-in-trade**

   Where house property is held as stock-in-trade & not let out during any part of the previous year, then annual value of such property shall be computed as under:

Period	Annual Value
Up to 2 years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority	Annual value of such property shall be taken to be nil.
After the completion of aforesaid period	Annual value of such property shall be computed as per other provisions.

7. Let-Out House Property

Gross Annual Value (GAV)

Step 1: Calculate reasonable expected rent (RER) of the property, being higher of a) GMV or b) Fair rent.

Note: RER cannot exceed Standard Rent.

Step 2: Calculate Actual Rent Receivable (ARR) for the year less current year unrealised rent (UR).

Step 3: Compare the values calculated in step 1 and step 2 and take the higher one.

Step 4: Where there is vacancy and owing to such vacancy the 'ARR – UR' is less than the RER, then 'ARR - UR' computed in step 2 will be treated as GAV.

Municipal Tax including service taxes, water taxes and other taxes levied by local authority: Such taxes shall be computed as a % of Net Municipal Value and allowed as deduction if such taxes are actually paid during the previous year by the assessee.

Standard deduction: 30% of net annual value is allowed irrespective of the actual expenditure incurred.

Interest on borrowed capital: Interest payable on amount borrowed for the purpose of purchase, construction, renovation, repairing, extension, renewal or reconstruction of house property can be claimed as deduction on accrual basis. For this purpose, interest on loan is divided into 2 parts:

Interest for pre-construction period	Interest for post-construction period
The period starts from the day of commencement of construction or the day of borrowing whichever is later and ending on March 31 immediately prior to the year of completion of construction. Interest for pre-construction period will be accumulated and claimed as deduction over a period of 5 equal installments commencing from the year of completion of construction.	The period starts from the beginning of the year in which construction is completed and continues until the loan is repaid. Interest for such period is allowed in the respective year(s).

Note: Any interest chargeable under this Act which is payable outside India, is not allowed as deduction if on such interest, tax has not been deducted at source.

8. Self-occupied Property: The annual value of such house or part of the house shall be nil. If an assessee occupies more than two house properties as self-occupied, he is allowed to treat only two houses as self-occupied at his option. The remaining self-occupied properties shall be treated as 'Deemed to be let out'. Interest on loan u/s 24(b) shall be allowed under the old tax regime (No deduction under the default tax regime) as under:

Conditions	Maximum Interest Allowed in aggregate
Where loan is taken on or after 1/4/1999 for construction or acquisition and such construction or acquisition is completed within 5 years from the end of the financial year in which the capital was borrowed & certificate received from lender.	₹ 2,00,000
In any other case	₹ 30,000

9. **Property not Occupied by the Owner / Unoccupied Property:** Where an assessee has a residential house (kept for self-occupation) and it cannot actually be occupied by him owing to his employment, business or profession and he has to reside at a place not belonging to him, then such house shall be termed as unoccupied property. It shall be treated at par with self-occupied property.

10. **Deemed to be let-out House Property:** Where the assessee occupies more than two house properties as self-occupied, then for any two of them, benefit u/s 23(2) can be claimed (at the choice of the assessee) and remaining property or properties shall be treated as 'deemed to be let out' and shall be treated same as let out house property.

11. **Partly Self-occupied and Partly Let-out**

    Case 1) Area wise Division: In this case, a house property consists of two or more independent units and one or more of which are self-occupied and remaining units are let out.

    Treatment: Self-occupied portion & let out portion shall be treated as two separate house (i.e., Unit A & Unit B); Income of both units shall be computed accordingly.

    Case 2) Time wise Division: In such case, the house property is self occupied by the assessee for a part of the year and let out for remaining part of the year.

    Treatment: In such case assessee will not get deduction for the self-occupied period and income will be computed as if the property is let out throughout the year. Reasonable expected rent (RER) shall be taken for the full year but the actual rent receivable (ARR) shall be taken only for the let-out period.

    Case 3) Area as well as Time wise Division: Merger of Case 1 and Case 2

12. **Taxation of arrears of rent or recovery of unrealsied rent in the year of receipt [Sec. 25A]**

    Taxable Amount = 70% * [Recovery of Arrear Rent + Recovery of Unrealised Rent]

Topic

Module 5:
Goods and Services Tax (GST) Laws

INTERMEDIATE

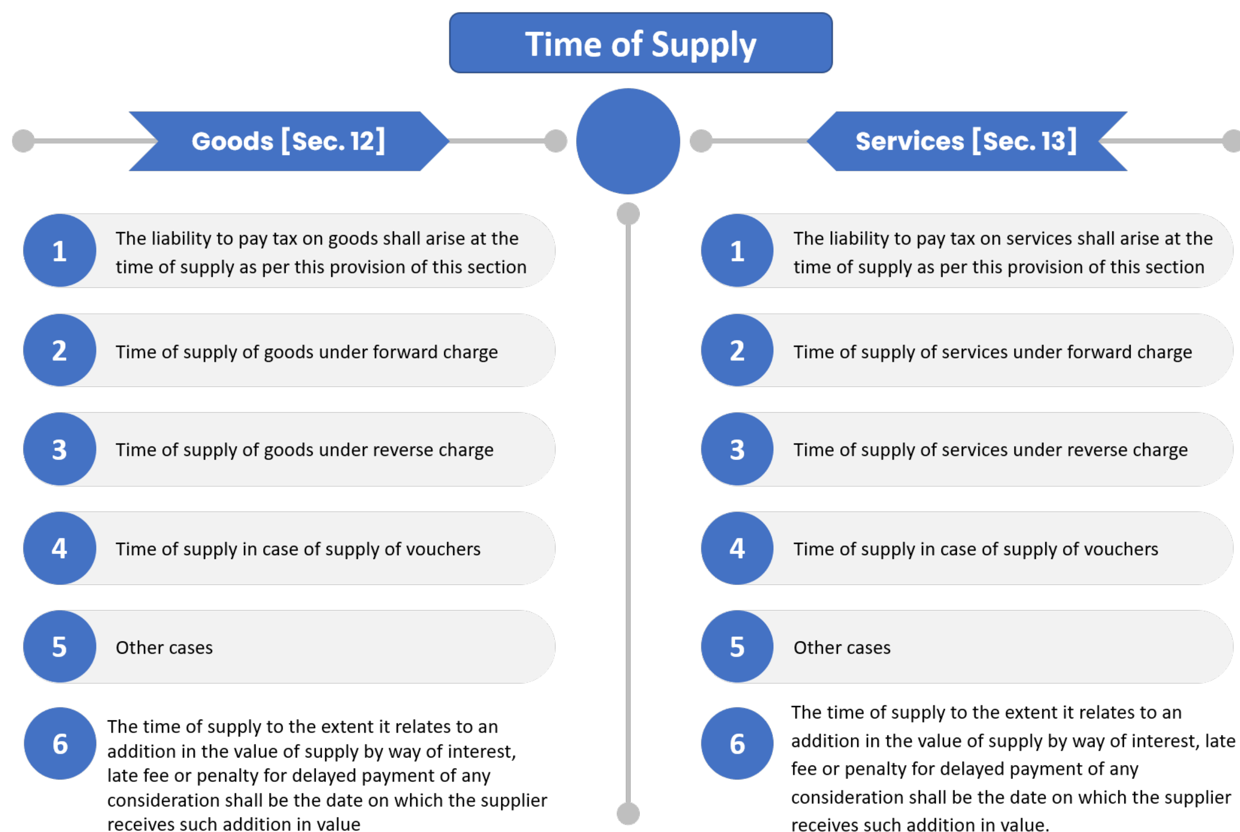
Group I - Paper-7B

Indirect Taxation (IDT)

Time of Supply

In order to calculate and discharge tax liability it is important to know the date when the tax liability arises i.e. the date on which the charging event has occurred. In GST law, it is known as Time of Supply. Time of supply means the point of time when goods/services are considered as supplied. If the seller knows the time of supply, then it will help him to recognize the due date for the payment of taxes.

GST law has provided separate provisions to determine the time of supply of goods and time of supply of services. The schema of the provisions is enumerated here in below:



Time of Supply of Goods – Forward Charge [Sec. 12(2)]

The time of supply of goods shall be the **earlier** of the following dates:

a. the date of issue of invoice by the supplier; or

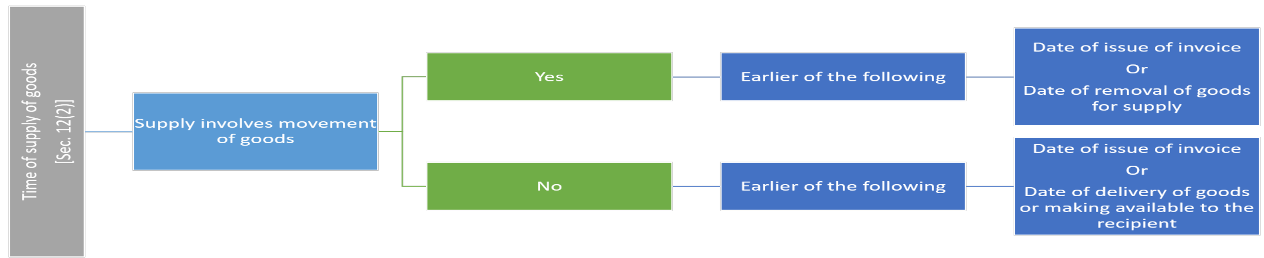
b. the last date on which he is required to issue the invoice with respect to the supply u/s 31; or

Taxpoint

A registered person supplying taxable goods shall issue a tax invoice, **before or at the time of**:

Where the supply involves movement of goods	Removal of goods for supply to the recipient
Where the supply does not involve movement of goods	Delivery of goods or making available thereof to the recipient

In nutshell, in case of supply of goods, time of supply is as under:



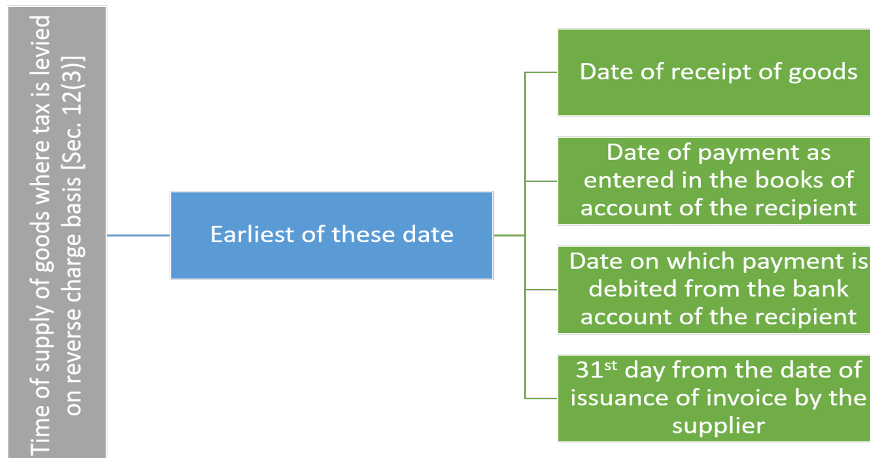
Time of Supply of Goods in case of reverse charge [Sec. 12(3)]

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earliest of the following dates:

a. date of the receipt of goods; or

b. date of payment as entered in the books of account of the recipient; or

c. the date on which the payment is debited in his bank account; or the date immediately following 30 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier.



Taxpoint:

➢ Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.

➢ In case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.

Time of Supply in case of Voucher [Sec. 12(4)]

In case of supply of vouchers by a supplier, the time of supply shall be:

If the supply is identifiable at the point at which voucher is issued	The date of issue of voucher
In all other cases	The date of redemption of voucher

Taxpoint:

- As per sec. 2(118), "voucher" means an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services or both and where the goods or services or both to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.*As per sec. 2(118), "voucher" means an instrument*

Time of Supply of goods in residual cases [Sec. 12(5)]

Where it is not possible to determine the time of supply under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 12(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Time of Supply of Services – Forward Charge [Sec. 13(2)]

The time of supply of services shall be the earliest of the following dates, namely:

Situation	Time of Supply
If the invoice is issued within the period prescribed u/s 31	a. The date of issue of invoice by the supplier; b. The date of receipt of payment - whichever is earlier
If the invoice is not issued within the period prescribed u/s 31	a. The date of provision of service; b. The date of receipt of payment - whichever is earlier
In any other case	The date on which the recipient shows the receipt of services in his books of account

Taxpoint

- "The date of receipt of payment" shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.
- The supply shall be deemed to have been made to the extent it is covered by the invoice or, as the case may be, the payment.
- Where the supplier of taxable service receives an amount up to ₹ 1,000 in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the option of the said supplier, be the date of issue of invoice relating to such excess amount.
- *Time limit for issuance of invoice u/s 31 r.w. r. 47 is general scenario:* Within 30 days from the date of the supply of service (45 days in case of insurance/banking company or a financial institution, including NBFC)

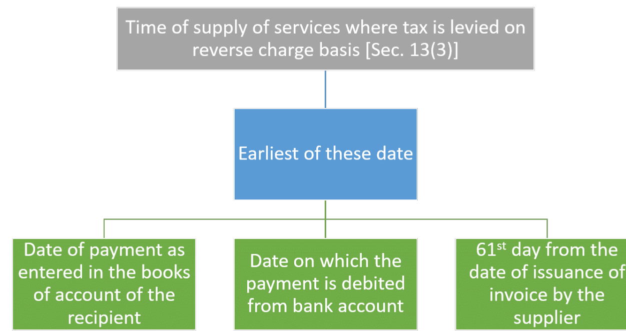
Time of Supply of Services – Reverse Charge [Sec. 13(3)]

In case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earlier of the following:

a. the date of payment as entered in the books of account of the recipient; or

b. the date on which the payment is debited in his bank account; or

c. the date immediately following 60 days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier.



Taxpoint:

- Where it is not possible to determine the time of supply as per aforesaid rule, the time of supply shall be the date of entry in the books of account of the recipient of supply.
- In case of supply by associated enterprises, where the supplier of service is located outside India, the time of supply shall be the date of entry in the books of account of the recipient of supply or the date of payment, whichever is earlier.

Time of Supply of Services – Voucher [Sec. 13(4)]

In case of supply of vouchers by a supplier, the time of supply shall be:

If the supply is identifiable at the point at which voucher is issued	The date of issue of voucher
In all other cases	The date of redemption of voucher

Time of Supply of Services – Residual Cases [Sec. 13(5)]

Where it is not possible to determine the time of supply of service under any of the aforesaid provisions, the time of supply shall be:

Where a periodical return has to be filed	The date on which such return is to be filed
In any other case	The date on which the tax is paid.

Time of Supply in case of enhancement in value on account of interest, late fee, etc. [Sec. 13(6)]

The time of supply to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration shall be the date on which the supplier receives such addition in value.

Change in rate of tax in respect of supply of goods or services [Sec. 14]

The time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner

Invoice issued	Payment received	Time of Supply	Applicable Rate
A. Where the goods or services or both have been supplied before the change in rate of tax			
After	After	a. Date of receipt of payment; or b. Date of issue of invoice - whichever is earlier	New Rate
Before	After	Date of issue of invoice	Old Rate
After	Before	Date of receipt of payment	Old Rate

B. Where the goods or services or both have been supplied after the change in rate of tax			
Before	After	Date of receipt of payment	New Rate
Before	Before	a. Date of receipt of payment; or b. Date of issue of invoice - whichever is earlier	Old Rate
After	Before	Date of issue of invoice	New Rate

Taxpoint:

Rate applicability rule: There are three events viz. (a) supply; (b) issuance of invoice; (c) receipt of payment. Out of these 3 events, atleast two events are occurred after change of rate of tax, new rate is applicable. On the other hand, any of the 2 events are occurred before change of rate of tax, old rate is applicable.

Topic

Module 4:
Cost Book Keeping

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

COST ACCOUNTING

Cost Accounting follows the fundamental principles of double entry book-keeping. Students need to have a clear idea about the integrated system and non-integrated system of accounts. in the Cost Ledger Accounting System, Cost Ledger Control Accounts – which is often referred to as General Ledger Adjustment Account – is kept to record all financial transactions. Here, Cost Ledger account is prepared to make the Cost Ledger self-balancing. Financial transactions relating to payments , such as those on account of material purchases, miscellaneous expenses, wages and salaries, are credited to Cost Ledger Control Account by contra debit to various Control Accounts. Inter – branch transfer will not affect Control Accounts. Questions are generally set for journalizing the transactions for direct recording in the Ledger Accounts. This chapter is very important for Intermediate Examination .

Interlocking System

It is a system in which cost accounts are distinct from the financial accounts and are kept separately . it may be termed non-integral system also.

Integral Accounts

It is a single set of accounts, which provides both financial and cost Accounting information required for management information system.

The Integrated Accounting System is necessary due to following reasons:

1) Maintenance of two separate sets of books cause duplication of records of certain items – once in financial books and again in cost books.
2) Two sets of books cause different profits due to existence of non-identical items under non integrated accounting system . Reconciliation of cost and financial accounts become necessary.
3) Maintenance of two sets of books enhance cost.
4) When transactions are large maintenance of two sets of accounts separately is an unnecessary voluminous task.

The Cost Accounting department generally maintain the following principal ledgers:--

1) Cost Ledger – This is the main ledger which records the impersonal accounts i.e. accounts related to income and expenditure. It is maintained under self-balancing system.
2) Stores Ledger – This ledger contains store accounts only.
3) Work-in-progress Ledger – This ledger records the details of each job undertaken and cost incurred therein .
4) Finished Goods /Stock Ledger – This ledger records the details of completely finished goods or jobs.

A model worked out Problem is given below for easy understanding of the students.

PROBLEM:

Dutt Enterprise operates an integral system of accounting. You are requested to pass the Journal entries for the following transactions that took place for the year ended 30/06/24.: (Narrations not required)

Raw materials purchased (50% on credit)	600000
Materials issued to production	400000
Wages paid (50% direct)	200000
Wages charged to production	100000
Factory Overhead incurred	80000
Factory Overhead charged to Production	100000
Selling and Distribution Overhead incurred	40000
Finished goods at cost	500000
Sales (50 % credit)	750000
Closing stock	-------
Received from debtors	200000
Payment to creditors	200000

Solution:

JOURNAL ENTRIES

Sales Ledger Control A/c	Dr	600000
To Sundry Creditors A/c		300000
To Cash or Bank		300000
Work-in-Progress Control A/c	Dr.	400000
To Store Ledger Control A/c		400000
Wages Control A/c	Dr.	200000
To Cash		200000
Work- in- Progress Control A/c	Dr.	100000
Factory Overhead Control A/c	Dr.	100000
To Wages Control		200000

Particulars		Amount
Factory Overhead Control A/c	Dr.	80000
To Cash or Bank		80000
Work-in-Progress Control A/c	Dr.	100000
To Factory Overhead Control A/c		100000
Selling and Distribution Overhead Control A/c	Dr.	40000
To Cash or Bank		40000
Finished Goods Ledger Control A/c	Dr.	500000
To Work-in-Progress Control A/c		500000
Cost of Sales A/c	Dr.	540000
To Finished Goods Ledger Control A/c		500000
To Selling and Distribution Overhead Control A/c		40000
Sundry Debtors A/c	Dr	375000
Cash or Bank A/c	Dr.	375000
To Sales A/c.		750000
Cash or Bank A/c	Dr .	200000
To Sundry Debtors.		200000
Sundry Creditors A\c	Dr	200000
To Cash or Bank A\c		200000

RECONCILIATION OF FINANTIAL ACCOUNTS AND COST ACCOUNTS

In an enterprise which maintains two sets of accounts, viz. Financial Accounts and Cost Accounts, they will not generally agree with each other‘s profit figure. because of that reason reconciliation is necessary in order to match these two profits. Besides management is interested to know the causes of differences in order to check the arithmetical accuracy of both sets of accounts. Thus this will facilitate internal control by highlighting the variations causing increase or decrease in profits, such reconciliation is to be made at regular intervals. The figures of profits either as per Cost Ledger or as per Financial is taken as the starting points for reconciliation.

This chapter is very important for Intermediate Examination. The amount of difference of difference in items of costs or incomes appearing in both sets are to be identified and to be considered while preparing reconciliation statement. In the method of absorption of overheads at pre-determined rates, there arises difference between the actual expenses and the predetermined amount charged to the Cost Accounts.

Reasons For Variation Of Profits –

a) Under or Over absorption of Overhead.

b) Adoption of different methods of valuation of stock

c) Items of purely of financial nature .

d) Items purely of cost accounts .

e) Appropriation of profits not dealt with in the Cost accounts.

f) Others.

Although in a interlocking system both cost and financial accounts are to be maintained separately , it is preferred to integrated system, because of the following advantages:--

1) As the two profits are ascertained independently, arithmetical inaccuracies, if any, are detected quickly.

2) From the magnitude of variations validity of cost account can be judged. As for example, a high under-absorption of overhead indicates that products are under cost .

3) Further variation may also indicate inefficiency which required controlling measures.

4) Frauds may also be detected if there is any wide difference in value of physical stock and the stock as per books of accounts.

5) Independency of cost book is preferred as these are not relevant to preparing profit and loss account and so not subject to statutory audit.

By solving the following Problem we can easily realize meaning of Reconciliation of two Accounts –

Problem :

From the following figures prepare a Statement reconciling profit as per Cost Accounts and the profit as per Financial Accounts.:

Net profit as per financial accounts	1,28,755
Net profit as per Cost accounts	1,72,400
Works overhead under-recovered	3,120
Admn. Overhead over-recovered	1,700
Depreciation charged in the Financial Accounts	11,200
Depreciation charged in the Cost Accounts	12,500
Interest received but not included in the Cost Accounts	8,000
Loss due to obsolescence charged in Financial Accounts	5,700
Income Tax provided in Financial Accounts	40,300
Stores adjustments credited in the Financial Accounts	475
Depreciation of stock charged in the Financial Accounts	6,750
Bank interest credited in the Financial Accounts	750

The problem can be solved in the following manner –

Solution :

RECONCILIATION STATEMENT

Net profit as per Cost Accounts		1,72,400
Less: Works Overhead Under-recovered	3,120	
Loss due to Obsolescence charged in the financial accounts	5,700	
Income Tax provided in financial accounts	40,300	
Depreciation of stock charged in the financial accounts	6,750	55,870
		1,16,530
Add: Administration Over-recovered	1,700	
Excess depreciation charged in the Cost Accounts	1,300	
Interest received but not included in the Cost Accounts	8,000	
Stores adjustment credited in the financial accounts	475	
Bank Interest credited in the financial accounts	750	12,225
Net profit as per Financial Accounts		**1,28,755**

Topic

Module 6: Project Management, Monitoring and Control

INTERMEDIATE

Group II - Paper-9

Operations Management and Strategic Management (OMSM)

Operations Management

In this issue let us discuss CRASHING. Refer sub Module 6.4 of the study material

While crashing please remember the following few things:

- Crashing is done only on Activities on Critical path
- The activity on critical path which has least crash cost/crash time is to be crashed first
- Crashing of an activity is done for one unit period of time in each crashing i.e. say one activity can be crashed by 3days. Then first crash it by 1 day. Check if there is any change in critical path. If no change then crash the activity again by one day. Check again the critical path and then proceed
- If there are more than one critical path then in each critical path crash one activity as per least crash cost/crash time basis

Now two problems are given here. Crash the activities applying the above criteria.

Question 1.

The details of activities of a project are given below. Find the minimum cost project schedule.

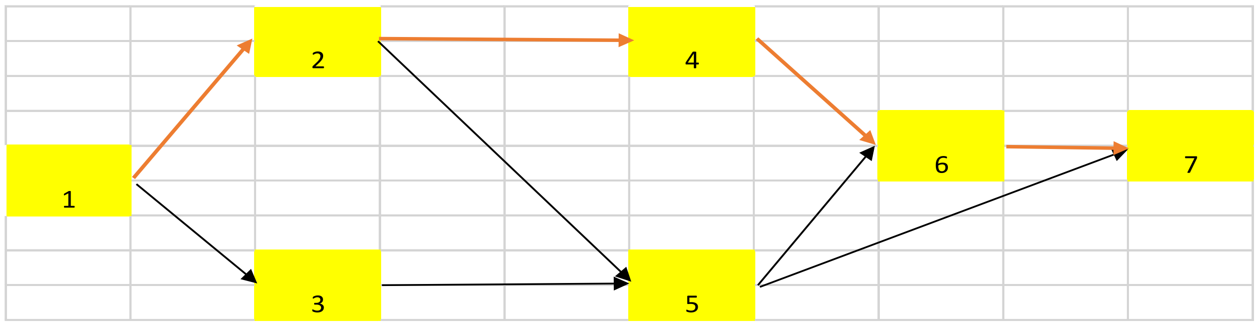
Activity	Duration	Crash Time	Normal Cost	Crash Cost
1-2	8	4	4000	7000
1-3	5	3	8000	12000
2-4	9	6	5500	7000
3-5	7	5	3000	4200
2-5	5	1	9000	13000
4-6	3	2.5	10000	11200
5-6	6	2	6000	8800
6-7	10	7	5000	7700
5-7	9	5	10000	14800
Total			60500	85700
Plus Rs.3000/Week as indirect cost				

Answer:

Prelim computations are given below:

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1-2	8	4	4000	7000	1	0	0	0	0	8	0	8	8
1-3	5	3	8000	12000	2	8	8	0	0	5	2	7	7
2-4	9	6	5500	7000	3	5	7	2	8	17	8	17	9
3-5	7	5	3000	4200	4	17	17	0	5	12	7	14	9
2-5	5	1	9000	13000	5	13	14	1	8	13	9	14	6
4-6	3	2.5	10000	11200	6	20	20	0	17	20	17	20	3
5-6	6	2	6000	8800	7	30	30	0	13	19	14	20	7
6-7	10	7	5000	7700					20	30	20	30	10
5-7	9	5	10000	14800					13	22	21	30	17

From the above table it is clear that Critical path will be 1-2-4-6-7 and accordingly the network diagram is (Critical path is drawn in red color)



Total cost of completion of the project = 60500 + 30 * 3000 = 150500

Crash cost/Crash time for different activities are:

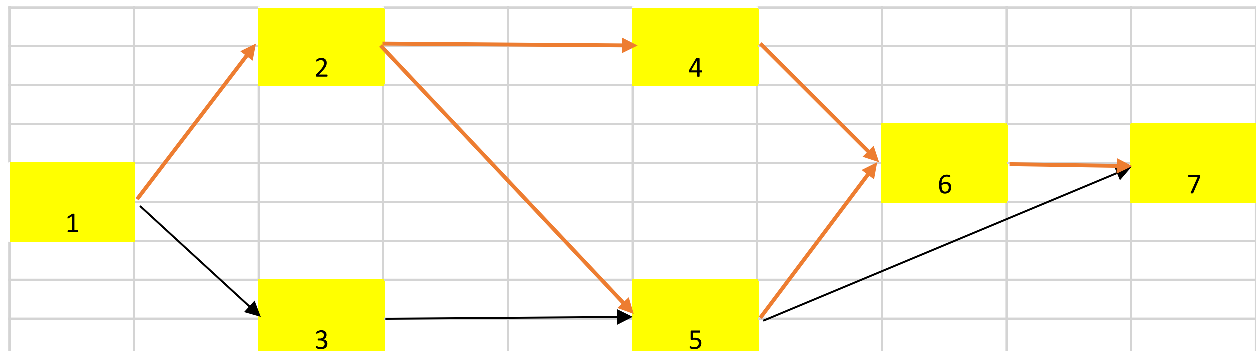
Activity	Crash Cost/ Crash time
1-2	750
1-3	2000
2-4	500
3-5	600
2-5	1000
4-6	2400
5-6	700
6-7	900
5-7	1200

On the critical path activity 2-4 has the minimum crash cost/crash time. So this activity is to be crashed first by one day and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	8	4	4000	7000	1	0	0	0	0	8	0	8	8	
1-3	5	3	8000	12000	2	8	8	0	0	5	1	6	6	
2-4	8	6	5500	7000	3	5	6	1	8	16	8	16	8	
3-5	7	5	3000	4200	4	16	16	0	5	12	6	13	8	
2-5	5	1	9000	13000	5	13	13	0	8	13	8	13	5	
4-6	3	2.5	10000	11200	6	19	19	0	16	19	16	19	3	
5-6	6	2	6000	8800	7	29	29	0	13	19	13	19	6	
6-7	10	7	5000	7700					19	29	19	29	10	
5-7	9	5	10000	14800					13	22	20	29	16	
Total			60500	85700										
Plus Rs.3000/Week														148000

Total cost of completion = 60500 + 29 * 3000 + (9 - 8) * (500) =1 48000

From the above table it is clear that after 1st crashing there will be two critical paths and those are 1-2-4-6-7 & 1-2-5-6-7



On these critical path activities 2-4 & 5-6 have the minimum crash cost/crash time respectively and so these activities are to be crashed by one day now and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	8	4	4000	7000	1	0	0	0	0	8	0	8	8	
1-3	5	3	8000	12000	2	8	8	0	0	5	1	6	6	
2-4	7	6	5500	7000	3	5	6	1	8	15	8	15	7	
3-5	7	5	3000	4200	4	15	15	0	5	12	6	13	8	
2-5	5	1	9000	13000	5	13	13	0	8	13	8	13	5	
4-6	3	2.5	10000	11200	6	18	18	0	15	18	15	18	3	
5-6	5	2	6000	8800	7	28	28	0	13	18	13	18	5	
6-7	10	7	5000	7700					18	28	18	28	10	
5-7	9	5	10000	14800					13	22	19	28	15	
Total			60500	85700										
Plus Rs.3000/Week														146200

Total cost of completion = 60500 + 28 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 = 146200

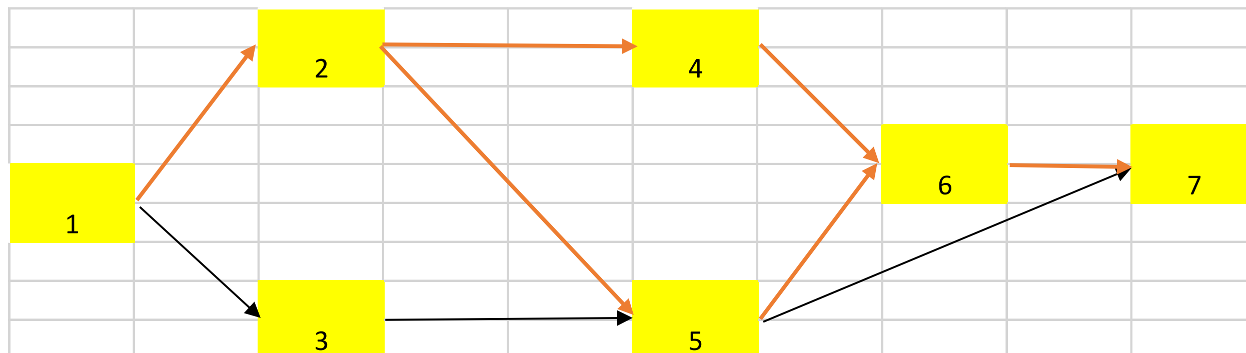
From the above table it is clear that after this crashing critical paths remained the same

So again activities 2-4 & 5-6 on respective critical paths are to be crashed by further one day and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	8	4	4000	7000	1	0	0	0	0	8	0	8	8	
1-3	5	3	8000	12000	2	8	8	0	0	5	1	6	6	
2-4	6	6	5500	7000	3	5	6	1	8	14	8	14	6	
3-5	7	5	3000	4200	4	14	14	0	5	12	6	13	8	
2-5	5	1	9000	13000	5	13	13	0	8	13	8	13	5	
4-6	3	2.5	10000	11200	6	17	17	0	14	17	14	17	3	
5-6	4	2	6000	8800	7	27	27	0	13	17	13	17	4	
6-7	10	7	5000	7700					17	27	17	27	10	
5-7	9	5	10000	14800					13	22	18	27	14	
Total			60500	85700										
Plus Rs.3000/Week														144400

Total cost of completion = 60500 + 27 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 = 144400

From the above table it is clear that after this crashing critical path remained same

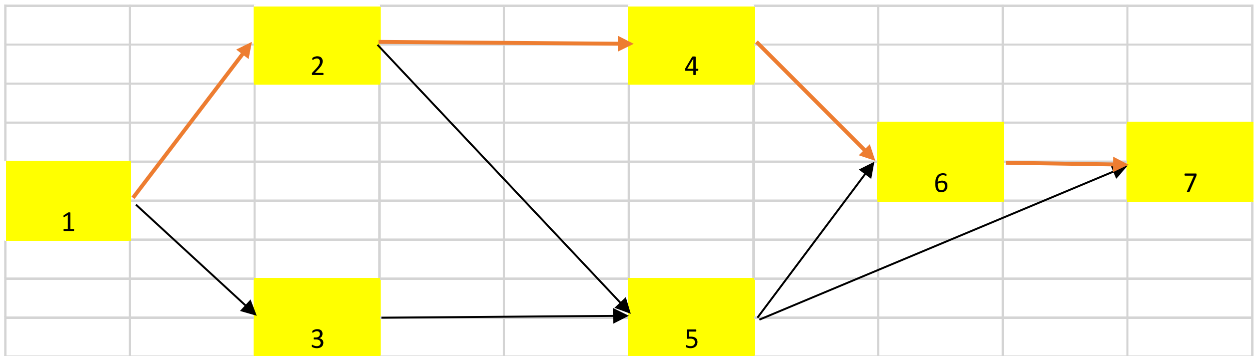


So activities i.e.1-2 & 5-6 on respective critical paths are to be crashed by one day and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	7	4	4000	7000	1	0	0	0	0	7	0	7	7	
1-3	5	3	8000	12000	2	7	7	0	0	5	1	6	6	
2-4	6	6	5500	7000	3	5	6	1	7	13	7	13	6	
3-5	7	5	3000	4200	4	13	13	0	5	12	6	13	8	
2-5	5	1	9000	13000	5	12	13	1	7	12	8	13	6	
4-6	3	2.5	10000	11200	6	16	16	0	13	16	13	16	3	
5-6	3	2	6000	8800	7	26	26	0	12	15	13	16	4	
6-7	10	7	5000	7700					16	26	16	26	10	
5-7	9	5	10000	14800					12	21	17	26	14	
Total			60500	85700										
Plus Rs.3000/Week														142850

Total cost of completion = 60500 + 26 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 = 142850

From the above table it is clear that after this crashing critical path changed and it is now 1-2-4-6-7

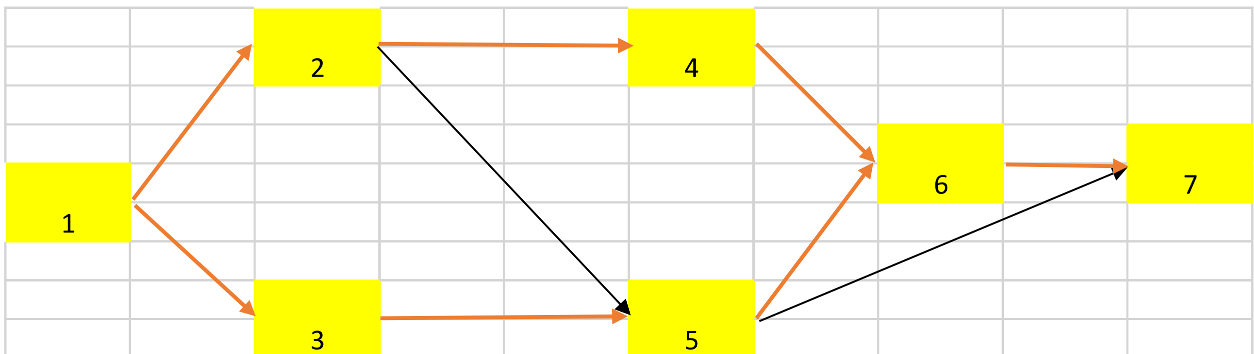


On the new critical path activity 1-2 is to be crashed by further one day and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	6	4	4000	7000	1	0	0	0	0	6	0	6	6	
1-3	5	3	8000	12000	2	6	6	0	0	5	0	5	5	
2-4	6	6	5500	7000	3	5	5	0	6	12	6	12	6	
3-5	7	5	3000	4200	4	12	12	0	5	12	5	12	7	
2-5	5	1	9000	13000	5	12	12	0	6	11	7	12	6	
4-6	3	2.5	10000	11200	6	15	15	0	12	15	12	15	3	
5-6	3	2	6000	8800	7	25	25	0	12	15	12	15	3	
6-7	10	7	5000	7700					15	25	15	25	10	
5-7	9	5	10000	14800					12	21	16	25	13	
Total			60500	85700										
Plus Rs.3000/Week														140600

Total cost of completion = 60500 + 25 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 = 140600

From the above table it is clear that after this crashing critical path will be 1-2-4-6-7 & 1-3-5-6-7

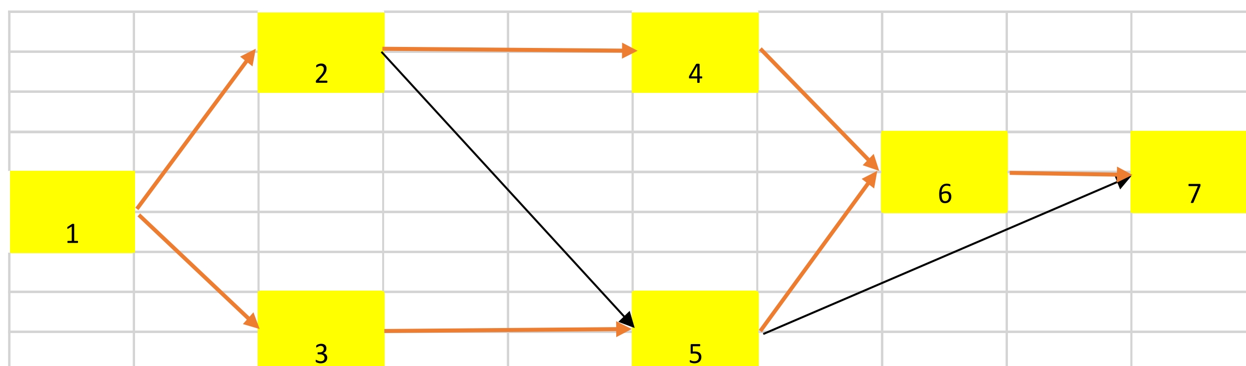


On these critical path activity 1-2 & 3-5 respectively are to be crashed and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	5	4	4000	7000	1	0	0	0	0	5	0	5	5	
1-3	5	3	8000	12000	2	5	5	0	0	5	0	5	5	
2-4	6	6	5500	7000	3	5	5	0	5	11	5	11	6	
3-5	6	5	3000	4200	4	11	11	0	5	11	5	11	6	
2-5	5	1	9000	13000	5	11	11	0	5	10	6	11	6	
4-6	3	2.5	10000	11200	6	14	14	0	11	14	11	14	3	
5-6	3	2	6000	8800	7	24	24	0	11	14	11	14	3	
6-7	10	7	5000	7700					14	24	14	24	10	
5-7	9	5	10000	14800					11	20	15	24	13	
Total			60500	85700										
Plus Rs.3000/Week														138950

Total cost of completion = 60500 + 24 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 + 1 * 750 + 1 * 600 = 138950

From the above table it is clear that after this crashing critical paths remained same

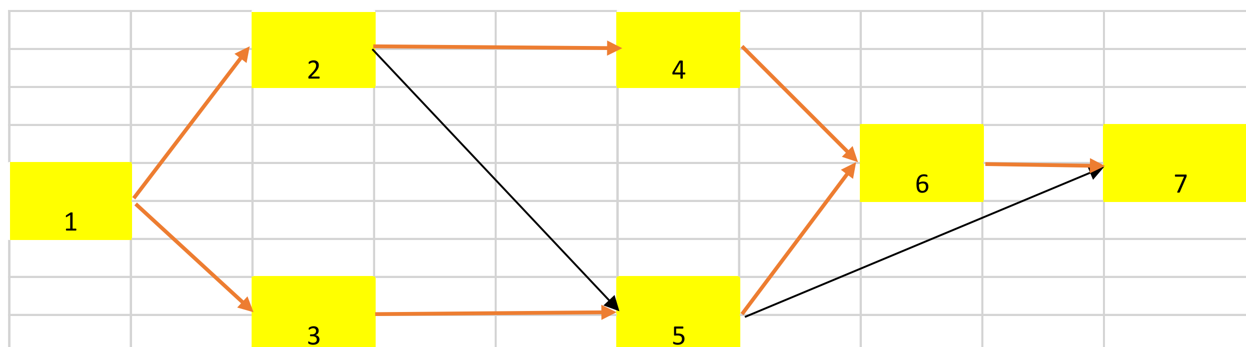


So same two activities 1-2 and 3-5 respectively are to be crashed by further one unit and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	4	4	4000	7000	1	0	0	0	0	4	0	4	4	
1-3	5	3	8000	12000	2	4	4	0	0	5	0	5	5	
2-4	6	6	5500	7000	3	5	5	0	4	10	4	10	6	
3-5	5	5	3000	4200	4	10	10	0	5	10	5	10	5	
2-5	5	1	9000	13000	5	10	10	0	4	9	5	10	6	
4-6	3	2.5	10000	11200	6	13	13	0	10	13	10	13	3	
5-6	3	2	6000	8800	7	23	23	0	10	13	10	13	3	
6-7	10	7	5000	7700					13	23	13	23	10	
5-7	9	5	10000	14800					10	19	14	23	13	
Total			60500	85700										
Plus Rs.3000/Week														137300

Total cost of completion = 60500 + 23 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700+ 1 * 750 + 1 * 750 + 1 * 600 + 1 * 750 + 1 * 600 = 137300

After this crashing critical paths remain same

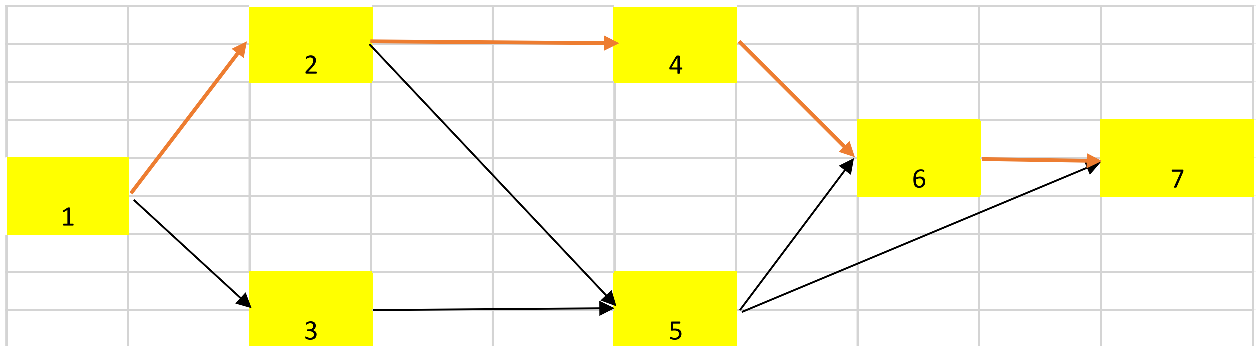


So now activities 6-7 and 5-6 respectively are to be crashed and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	4	4	4000	7000	1	0	0	0	0	4	0	4	4	
1-3	5	3	8000	12000	2	4	4	0	0	5	1	6	6	
2-4	6	6	5500	7000	3	5	6	1	4	10	4	10	6	
3-5	5	5	3000	4200	4	10	10	0	5	10	6	11	6	
2-5	5	1	9000	13000	5	10	11	1	4	9	6	11	7	
4-6	3	2.5	10000	11200	6	13	13	0	10	13	10	13	3	
5-6	2	2	6000	8800	7	22	22	0	10	12	11	13	3	
6-7	9	7	5000	7700					13	22	13	22	9	
5-7	9	5	10000	14800					10	19	13	22	12	
Total			60500	85700										
Plus Rs.3000/Week														135900

Total cost of completion = 60500 + 22 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 + 1 * 750 + 1 * 600 + 1 * 750 + 1 * 600 + 1 * 700 + 1 * 900 = 135900

After this crashing the critical path will be 1-2-4-6-7

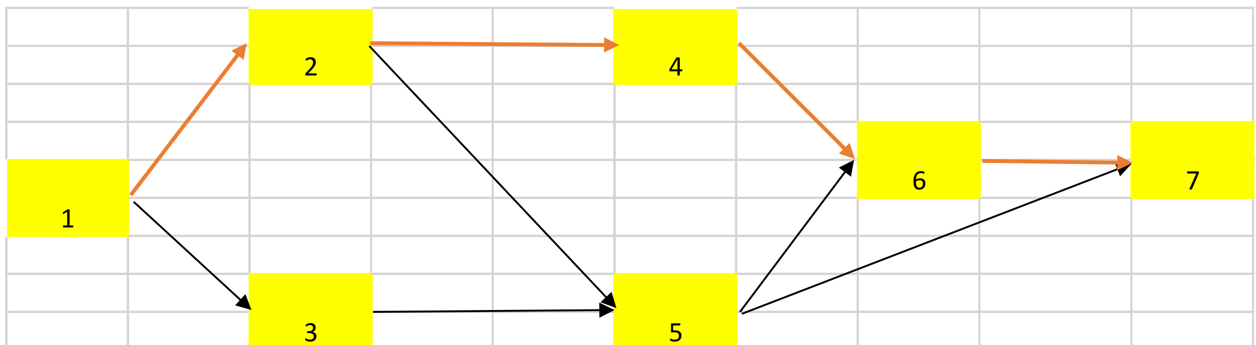


Activity 6-7 is to be crashed by further one unit and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	4	4	4000	7000	1	0	0	0	0	4	0	4	4	
1-3	5	3	8000	12000	2	4	4	0	0	5	1	6	6	
2-4	6	6	5500	7000	3	5	6	1	4	10	4	10	6	
3-5	5	5	3000	4200	4	10	10	0	5	10	6	11	6	
2-5	5	1	9000	13000	5	10	11	1	4	9	6	11	7	
4-6	3	2.5	10000	11200	6	13	13	0	10	13	10	13	3	
5-6	2	2	6000	8800	7	21	21	0	10	12	11	13	3	
6-7	8	7	5000	7700					13	21	13	21	8	
5-7	9	5	10000	14800					10	19	12	21	11	
Total			60500	85700										
Plus Rs.3000/Week														133800

Total cost of completion = 60500 + 21 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 + 1 * 750 + 1 * 600 + 1 * 750 + 1 * 600 + 1 * 700 + 1 * 900 + 1 * 900 = 133800

After this crashing the critical path remain same

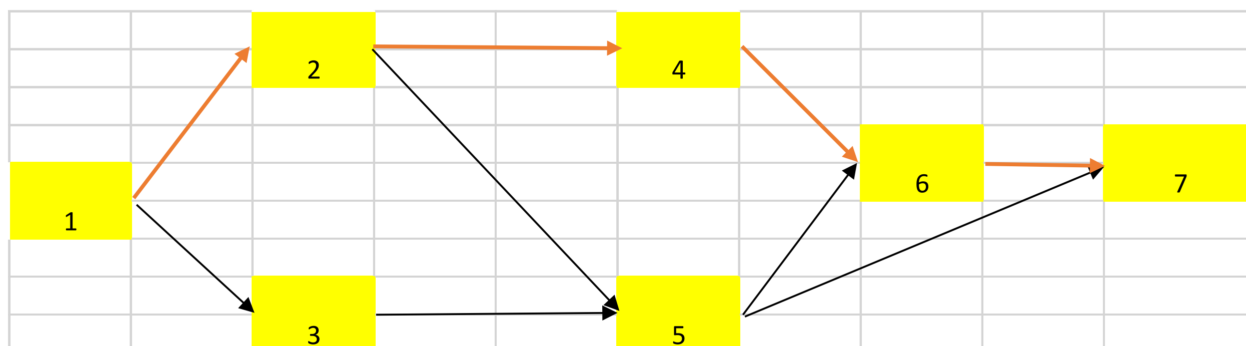


Therefore activity 6-7 is to crashed further by one unit and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	4	4	4000	7000	1	0	0	0	0	4	0	4	4	
1-3	5	3	8000	12000	2	4	4	0	0	5	1	6	6	
2-4	6	6	5500	7000	3	5	6	1	4	10	4	10	6	
3-5	5	5	3000	4200	4	10	10	0	5	10	6	11	6	
2-5	5	1	9000	13000	5	10	11	1	4	9	6	11	7	
4-6	3	2.5	10000	11200	6	13	13	0	10	13	10	13	3	
5-6	2	2	6000	8800	7	20	20	0	10	12	11	13	3	
6-7	7	7	5000	7700					13	20	13	20	7	
5-7	9	5	10000	14800					10	19	11	20	10	
Total			60500	85700										
Plus Rs.3000/Week														131700

Total cost of completion = 60500 + 20 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 + 1 * 750 + 1 * 600 + 1 * 750 + 1 * 600 + 1 * 700 + 1 * 900 + 1 * 900 + 1 * 900 = 131700

After this crashing the critical path remains 1-2-4-6-7



Now in this critical path activities 1-2, 2-4, 6-7 are already crashed to fullest. So only remaining activity 4-6 is to be crashed by 0.5 day and the result is

Activity	Duration	Crash Time	Normal Cost	Crash Cost	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration	Total Cost
1-2	4	4	4000	7000	1	0	0	0	0	4	0	4	4	
1-3	5	3	8000	12000	2	4	4	0	0	5	0.5	5.5	5.5	
2-4	6	6	5500	7000	3	5	5.5	0.5	4	10	4	10	6	
3-5	5	5	3000	4200	4	10	10	0	5	10	5.5	10.5	5.5	
2-5	5	1	9000	13000	5	10	10.5	0.5	4	9	5.5	10.5	6.5	
4-6	2.5	2.5	10000	11200	6	12.5	12.5	0	10	12.5	10	12.5	2.5	
5-6	2	2	6000	8800	7	19.5	19.5	0	10	12	10.5	12.5	2.5	
6-7	7	7	5000	7700					12.5	19.5	12.5	19.5	7	
5-7	9	5	10000	14800					10	19	10.5	19.5	9.5	
Total			60500	85700										
Plus Rs.3000/Week														131400

Total cost of completion = 60500 + 19.5 * 3000 + 1 * 500 + 1 * 500 + 1 * 700 + 1 * 500 + 1 * 700 + 1 * 750 + 1 * 700 + 1 * 750 + 1 * 750 + 1 * 600 + 1 * 750 + 1 * 600 + 1 * 700 + 1 * 900 + 1 * 900 + 1 * 900 + 0.5 * 2400 = 131400

After this crashing the critical path remain 1-2-4-6-7 where each activities are already crashed to the maximum permissible limit and so further crashing is not possible.

So project can be completed earliest by 19.5 days with a cost of ₹1,31,400.

Question 2.

The details of activities of a project are given in the diagram given below:

(a) Draw the network diagram;

(b) Determine all normal critical path;

(c) Find the minimum cost project schedule.

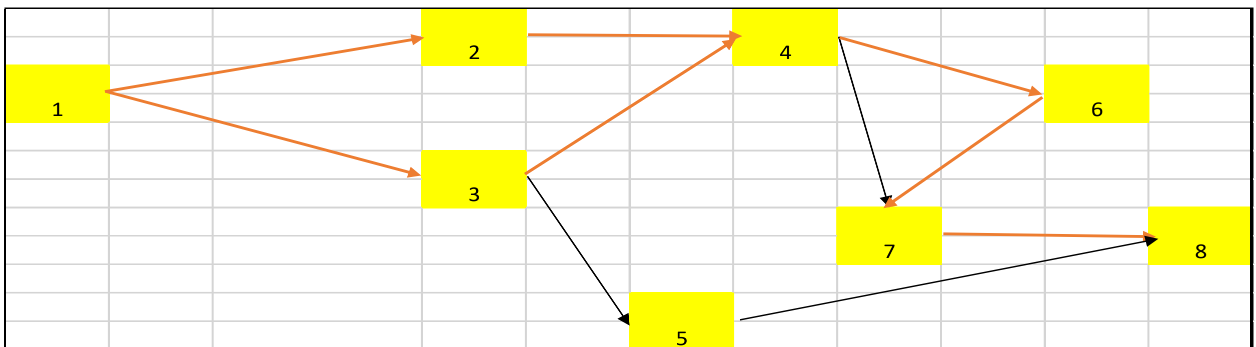
	Time (Week)		Cost (Rs)	
Activity	Normal	Crash	Normal	Crash
1-2	5	2	6000	9000
2-4	6	3	7000	10000
1-3	4	2	1000	2000
3-4	7	4	4000	5800
4-7	9	5	6000	9200
3-5	12	3	16000	19600
4-6	10	6	15000	18000
6-7	7	4	4000	4900
7-8	6	4	3000	4200
5-8	12	7	4000	8500
Total			66000	

Indirect cost related to project is ₹1,000 per week

Answer:

Details of computations are as follows:

Crash Cost/week	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1000	1	0	0	0	0	5	0	5	5
1000	2	5	5	0	5	11	5	11	6
500	3	4	4	0	0	4	0	4	4
600	4	11	11	0	4	11	4	11	7
800	5	16	22	6	11	20	19	28	17
400	6	21	21	0	4	16	10	22	18
750	7	28	28	0	11	21	11	21	10
300	8	34	34	0	21	28	21	28	7
600					28	34	28	34	6
900					16	28	22	34	18
					Cost to complete				100000



Activity crashed	Period crashed	Crash cost	New Target	Direct Cost	Indirect Cost	Total Cost	
Nil	Nil	0	34	66000	34000	100000	
6-7	3	300	31	66000	34900	100900	
1-3							No improvement
3-4							No improvement
6-7	2	600	29	66000	36100	102100	
4-6	1	750	28	66000	36850	102850	No improvement in crashing by maximum 4 weeks. So crashed only by 1 week
1-2							No Improvement
2-4							No improvement

	Time (Week)		Cost (Rs)											
Activity	Normal	Crash	Normal	Crash	Crash Cost/week	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1-2	5	2	6000	9000	1000	1	0	0	0	0	5	0	5	5
2-4	6	3	7000	10000	1000	2	5	5	0	5	11	5	11	6
1-3	4	2	1000	2000	500	3	4	4	0	0	4	0	4	4
3-4	7	4	4000	5800	600	4	11	11	0	4	11	4	11	7
4-7	9	5	6000	9200	800	5	16	19	3	11	20	16	25	14
3-5	12	3	16000	19600	400	6	21	21	0	4	16	7	19	15
4-6	10	6	15000	18000	750	7	25	25	0	11	21	11	21	10
6-7	4	4	4000	4900	NA	8	31	31	0	21	25	21	25	4
7-8	6	4	3000	4200	600					25	31	25	31	6
5-8	12	7	4000	8500	900					16	28	19	31	15
										Cost to complete				97900
Total			66000											

	Time (Week)		Cost (Rs)											
Activity	Normal	Crash	Normal	Crash	Crash Cost/week	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1-2	5	2	6000	9000	1000	1	0	0	0	0	5	0	5	5
2-4	6	3	7000	10000	1000	2	5	5	0	5	11	5	11	6
1-3	2	2	1000	2000	NA	3	2	4	2	0	2	2	4	4
3-4	7	4	4000	5800	600	4	11	11	0	2	9	4	11	9
4-7	9	5	6000	9200	800	5	14	17	3	11	20	16	25	14
3-5	12	3	16000	19600	400	6	21	21	0	2	14	5	17	15
4-6	10	6	15000	18000	750	7	25	25	0	11	21	11	21	10
6-7	4	4	4000	4900	NA	8	29	29	0	21	25	21	25	4
7-8	4	4	3000	4200	NA					25	29	25	29	4
5-8	12	7	4000	8500	900					14	26	17	29	15
										Cost to complete				98100
Total			66000											

	Time (Week)		Cost (Rs)											
Activity	Normal	Crash	Normal	Crash	Crash Cost/week	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1-2	5	2	6000	9000	1000	1	0	0	0	0	5	1	6	6
2-4	6	3	7000	10000	1000	2	5	6	1	5	11	6	12	7
1-3	2	2	1000	2000	NA	3	2	2	0	0	2	0	2	2
3-4	7	4	4000	5800	600	4	11	12	1	2	9	5	12	10
4-7	9	5	6000	9200	800	5	14	14	0	11	20	13	22	11
3-5	12	3	16000	19600	400	6	17	18	1	2	14	2	14	12
4-6	6	6	15000	18000	NA	7	21	22	1	11	17	12	18	7
6-7	4	4	4000	4900	NA	8	26	26	0	17	21	18	22	5
7-8	4	4	3000	4200	NA					21	25	22	26	5
5-8	12	7	4000	8500	900					14	26	14	26	12
										Cost to complete				98100
Total			66000											

	Time (Week)		Cost (Rs)											
Activity	Normal	Crash	Normal	Crash	Crash Cost/week	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	Duration
1-2	5	2	6000	9000	1000	1	0	0	0	0	5	0	5	5
2-4	6	3	7000	10000	1000	2	5	5	0	5	11	5	11	6
1-3	2	2	1000	2000	NA	3	2	2	0	0	2	0	2	2
3-4	7	4	4000	5800	600	4	11	11	0	2	9	4	11	9
4-7	9	5	6000	9200	800	5	13	13	0	11	20	12	21	10
3-5	11	3	16000	19600	450	6	17	17	0	2	13	2	13	11
4-6	6	6	15000	18000	NA	7	21	21	0	11	17	11	17	6
6-7	4	4	4000	4900	NA	8	25	25	0	17	21	17	21	4
7-8	4	4	3000	4200	NA					21	25	21	25	4
5-8	12	7	4000	8500	900					13	25	13	25	12
										Cost to complete				97500
Total			66000											

So completion time is 25 weeks to have minimum cost.

Suggestions:

This issue is based on basic understanding on crashing with an objective to make foundation for further study on project management. The problems are just indicative type from which maximum benefits could be reached and applied while studying operations & production management in the curriculum. Study material on paper 9- Operations Management & Strategic Management along with reference books needs to be thoroughly consulted.

Best Wishes.

Topic

Module 2:
Preparation of the Statement of Profit and Loss and Balance Sheet (As per Schedule III of Companies Act, 2013)

Module 6:
Basic Concepts of Auditing

INTERMEDIATE

Group II - Paper-10

Corporate Accounting and Auditing (CAA)

Section A: Corporate Accounting

Topic: Preparation of the Statement of Profit and Loss and Balance Sheet (As per Schedule III of Companies Act, 2013)

- **Multiple Choice Questions**

1. Under Schedule III, Division I of the Companies Act, 2013, money received against share warrant is shown under ___________________.

   A. Shareholders' fund

   B. Non-current Assets

   C. Current Liabilities

   D. Non-current Liabilities

2. Under Schedule III, Division I of the Companies Act, 2013, Capital WIP is shown under ____________.

   A. Current Assets

   B. Non-current Assets

   C. Current Liabilities

   D. Non-current Liabilities

3. Under Schedule III, Division I of the Companies Act, 2013, Discount Received is shown under ________________.

   A. Current Assets

   B. Non-current Assets

   C. Revenue from operations

   D. Other income

4. Under Schedule III, Division I of the Companies Act, 2013, interest on convertible debentures is shown under _______________.

   A. Revenue from operations

   B. Other income

   C. Finance cost

   D. Non-current Liabilities

Answer Keys:

1- A; 2-B; 3-C; 4-C

- **Comprehensive Problem**

Question

The following information is available from ASW Steel Ltd. for the financial year 2023-24.

Trial Balance as at 31.03.2024

Particulars	Dr. (₹)	Cr. (₹)
Stock on 1st April, 2023	1,60,000	-
Purchases & Sales	5,00,000	8,00,000
Purchase returns	-	10,000
Carriage inward	2,100	-
Wages	50,000	-
Salaries	20,000	-
Discount Received	-	8,000
Furniture & Fittings	40,000	-
Rent	10,000	-
Sundry expenses	16,500	-
Balance of Profit & Loss (1.4.2023)	-	50,000
Share Capital (Subscribed & Paid-up; Rs. 10 each)	-	2,00,000
Interim Dividend	16,000	-
Debtors & Creditors	52,400	31,000
Plant & Machinery	2,46,000	-
General Reserve	-	20,000
Cash at bank	8,000	-
Bills Receivable & Bills Payable	6,000	8,000
Total	11,27,000	11,27,000

Additional information:

(i) Stock on March 31, 2024 was valued at ₹ 98,000

(ii) Depreciate: Plant & Machinery @ 15%, Furniture & Fitting @ 10%.

(iii) On 31st March, 2024 outstanding rent amounted to ₹ 800 while outstanding salaries totalled ₹ 1,200.

(iv) Make a provision for doubtful debts @ 5%.

(v) Provision for tax is to be made @ 30%.

(vi) The directors proposed a dividend @ 10% for the year ended March 31, 2024 excluding interim dividend and decided to transfer ₹10,000 to General Reserve.

You are required to prepare the Statement of Profit and Loss for the year ended on 31.03.2024 and a Balance Sheet as on that date (with supporting notes to accounts) as per Division I of Schedule III of the Companies Act, 2013.

Solution:

ASW Steel Ltd.

Profit and Loss Statement for the year ended 31st March, 2024

Particulars	Note No.	Amount (₹)
I. Revenue from operations		800000
II. Other income (Discount received)		8000
III. Total Revenue [I + II]		808000
IV. Expenses:		
Cost of purchase		492100
Changes in inventories [160000-98000]		62000
Employee Benefits Expense	1	71200
Finance Costs		Nil
Depreciation and Amortization Expenses	2	40900
Other Expenses	3	29920
Total Expenses		696120
V. Profit before Tax (III-IV)		111880
VI. Tax Expenses @ 30%		33564
VII. Profit for the period		78316

ASW Steel Ltd.

Balance Sheet as on 31.03.2024

I EQUITY AND LIABILITIES	Note No.	Amount (₹)
(1) Shareholders' Funds		
Share Capital	4	200000
Reserves and Surplus	7	132316
(2) Non-Current Liabilities		
(3) Current Liabilities		
Trade Payable	5	39000
Other Current Liabilities	6	2000
Short term provisions (Provision for tax)		33564
Total		406880
II ASSETS		
(1) Non-Current Assets		
(a) PPE and Intangible Assets		
PPE	8	245100
(b) Non-current Investments		
(2) Current Assets		
Inventories		98000
Trade Receivables	9	55780
Cash and Cash Equivalent (Bank balance)		8000
Total		406880

Foot Note:

Contingent Liabilities for Proposed Dividend = 200000 × 10% = ₹ 20,000

Notes to Accounts (Selective)

(1) Employee benefit expenses

Wages		50000
Salaries	20000	
Add: Outstanding	1200	
		21200
		71200

(2) Depreciation and Amortization

On Plant and Machinery (246000 x 15%)	36900
On Furniture and Fittings (40000 x 10%)	4000
	40900

(3) Other expenses

Rent	10000	
Add: Outstanding	800	
		10800
Sundry expenses		16500
Provision for doubtful debt (52400 x 5%)		2620
		29920

4.	Share Capital		₹
	Subscribed and Paid-up Capital		
	20000 Equity Shares of ₹ 10 each		200000
5.	Trade payables		
	Creditors		31000
	Bills payables		8000
			39000
6.	Other Current Liabilities		
	Outstanding Salaries Outstanding rent		1200 800
			2000
7.	Reserve and Surplus		
	General Reserve (20000+10000)		30000
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50000	
	Add: Profit for the period	78316	
		128316	
	Appropriations		
	Interim dividend Transfer to General Reserve	(16000) (10000)	
	Closing balance		102316
			132316
8.	PPE		
	Plant and Machinery	246000	
	Less: Depreciation	36900	
			209100
	Furniture and Fittings	40000	
	Less: Depreciation	4000	
			36000
			245100
9.	Trade Receivables		
	Bills receivable		6000
	Sundry Debtors	52400	
	Less: Provision for Doubtful Debts	2620	
			49780
			55780

Section B: Auditing

Topic: Basic Concepts of Auditing

- **Multiple Choice Questions**

1. Which of the following is not an objective of audit planning?
   A. Allocation of work
   B. manage time
   C. ensure that no important matter is left
   D. increase in audit fees
2. ___________is conducted with a particular object in view, viz. to know financial position, earning capacity, prove fraud, invest capital, etc.
   A. Auditing
   B. Accounting
   C. Investigation
   D. Sampling
3. Audit working papers are the property of
   A. the client
   B. the auditor
   C. the government
   D. the audit clerks
4. Quotations, confirmation from debtors and creditors, etc are examples of _____ audit evidence.
   A. External
   B. Internal
   C. Both External and Internal
   D. Neither External nor Internal
5. Approvals, authorizations and verifications are examples of ____________ Control.
   A. Statistical
   B. Inventory
   C. Preventive
   D. Internal

Answer Keys:

1 – D; 2 – C; 3 – B; 4 – A; 5 - C

- **Comprehensive Question**

Question:

What do you mean by audit evidence? Discuss various methods of obtaining audit evidence.

Solution:

Audit evidence is all information and documentation collected and used by an auditor on which the auditor's opinion is based in arriving at the conclusions of his or her review of the financial accounts, internal controls, and other matters needed to certify the company's financial statements. Examples of auditing evidence include bank accounts, management accounts, payrolls, bank statements, invoices, and receipts.

Following are the most common methods auditors use to get audit evidence:

1. Inspection

This method involves examining all records, documents, whether internal or external, in paper form, electronic form, or other media, and physical assets. The source of records and documents provided as audit evidence considers its reliability.

2. Observation

Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the company's personnel, or of the performance of control activities.

3. Inquiry and Confirmation

Inquiry is the research of information from knowledgeable resources within the entity or outside the entity. Inquiries may vary from formal written inquiries to informal oral inquiries. Confirmation consists of responses to inquiries. After true confirmation, the auditor can trust and audit evidence.

4. Computation

Computation is the calculation of the correctness of accounting data. To prove the arithmetical accuracy of an entity's records, the auditor creates computations independently as another form of audit evidence. Computations verify the mathematical processes and are used to prove the calculation of the entity.

5. Analytical Review

Analytical review can indicate possible problems with the financial records of a company with the medium of ratio analysis. Analytical procedures involve comparisons of different sets of financial and operational information, to see if historical relationships are continuing forward into the period under review.

Topic

Module 3:
Tools for Financial Analyses

Module 9:
Data Processing, Organisation, Cleaning and Validation

INTERMEDIATE

Group II - Paper-11

Financial Management and Business Data Analytics (FMDA)

Financial Management

Ratio Analysis and Preparation Cash Flow Statement

Example 1

The following information obtained for the year 2023-24 from PQR Ltd.

Opening stock:	₹ 2,50,000
Closing stock:	₹ 3,75,000
Sales during the year:	₹ 13,00,000
Gross profit ratio	25% on sales
Average accounts payable	₹ 80,000.

Calculate Creditors Turnover Ratio.

Answer:

Cost of Goods Sold = Opening Stock+ Purchases - Closing Stock

Purchases = Cost of Goods Sold + Closing Stock - Opening Stock

Purchases = ₹ 9,75,000 + ₹3,75,000 - ₹ 2,50,000

Purchases = ₹ 11,00,000

Average Accounts Payable = ₹ 80,000

Creditors Turnover Ratio = Purchases/Average Accounts Payable

Creditors Turnover Ratio = ₹11,00,000 / ₹ 80,000

Creditors Turnover Ratio = 13.75

Example 2

The capital of TRADE Ltd. is as follows:

9% Preference shares, ₹ 10 each	₹3,00,000
Equity shares of ₹ 10 each	₹8,00,000
	₹11,00,000

Additional information:

(a) Profit (after tax at 35%), ₹ 2,70,000;

(b) Depreciation, ₹ 60,000;

(c) Equity dividend paid, 20 per cent;

(d) Market price of equity shares, ₹ 40.

You are required to compute the following, showing the necessary workings:

(a) Dividend yield on the equity shares,

(b) Cover for the preference and equity dividends,

(c) Earnings per shares,

(d) Price-earnings ratio.

Answer:

(a) Dividend yield on the equity shares: $= \frac{\text{Dividend per share}}{\text{Market price per share}} \times 100 = \frac{₹2\ (0.20 \times ₹\ 20)}{₹40} \times 100 = 5\%$

(b) Dividend coverage ratio:

(i) Preference $= \frac{\text{Profit after taxes}}{\text{Dividend payable to preference shareholders}} = \frac{₹2,70,000}{₹27,000\ (0.09 \times ₹3,00,000)} = 10 \text{ times}$

(ii) Equity $= \frac{\text{Profit after taxes Preference share dividend}}{\text{Dividend payable to equity shareholders at current rate of ₹ 2 per share}}$

$= \frac{₹2,70,000 - ₹27,000}{₹1,60,000\ (80,000 \text{ shares} \times ₹2)} = 1.52 \text{ Times}$

(c) Earnings per equity share $= \frac{\text{Earnings available to equity shareholders}}{\text{DNumber of equity shares outstanding}} = \frac{₹2,43,000}{80,000 \text{ shares}} = ₹\ 3.04 \text{ per share}$

(d) Price-earning (P/E) ratio $= \frac{\text{Market price per share}}{\text{Earnings per equity share}} = \frac{₹40}{₹3.04} = 13.2 \text{ times}$

Example 3

The Balance Sheets of ABC Ltd. as on 31st March 2024 and 2023 are given below:

Particulars	Note No.	31.03.2024 ₹	31.03.2023 ₹
I. **EQUITY AND LIABILITIES**			
1. **Shareholders Fund**			
(a) Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus	1	3,21,000	2,60,000
2. **Non-Current Liabilities**			
(a) Long-term Borrowing			
(i) Debentures		1,40,000	2,00,000
3. **Current Liabilities**			
(a) Trade Payables		1,30,000	1,20,000
(b) Other Current Liabilties			
(i) Unpaid Dividend		4,000	-
(c) Short-term Provision			
(i) Provision for Tax		85,000	90,000
Total		10,80,000	9,70,000
II. ASSETS			
1. **Non-Current Assets**			
(a) Property, Plant and Equipment		6,60,000	5,70,000
(b) Non-Current Investment		80,000	1,00,000
2. **Current Assets**			
(a) Inventories		75,000	54,000
(b) Trade Receivables		2,10,000	1,25,000
(c) Cash and Cash Equivalents		45,000	1,01,000
(d) Other Current Assets			
(i) Debenture Discount		10,000	20,000
Total		10,80,000	9,70,000

Notes to the Financial Statements		
Particulars	**31.03.24 (₹)**	**31.03.23 (₹)**
1. Reserves & Surplus		
(a) Capital Reserve	10,000	–
(b) General Reserve	2,00,000	1,70,000
(c) Statement of Profit and Loss	1,11,000	90,000
	3,21,000	2,60,000

Other information during the year 2023-24 are as follows:

1. Sold one machine for ₹ 25,000 the cost of which was ₹50,000 and the depreciation provided on it was ₹ 21,000.
2. Tax paid in 2023-24 ₹ 88,000.
3. Provided ₹ 95,000 as depreciation.
4. Redeem 30% of the Debenture @ ₹103.
5. Sold some Investment at a profit which was credited to Capital Reserve.
6. Decided to value stock at cost where as previously the practice was to value stock at cost less 10%. The stock according to books on 31.03.2023 was ₹ 54,000. The stock on 31.03.2024 was correctly values at cost ₹75,000.
7. Decided to write off Property, Plant & Equipment costing ₹14,000(fully depreciated).
8. Depreciation Fund as on 01.04.23 and 31.03.24 was ₹2,30,000 and ₹2,90,000 respectively.
9. Proposed dividend for 2022-23 was ₹ 30,000 and that for 2023-24 was ₹36,000 and
10. Debenture interest paid for 2023-24 was ₹16,000

Required:

Prepare cash flow statement as per Ind AS-7 for the year ended 31st March 2024 showing all calculations.

Solution:

ABC Ltd.

Cash Flow Statement for the year ended 31st March 2024

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
1. Cash Flows from Operating Activities			
Closing balance in Statement of Profit and Loss		1,11,000	
Less: Opening Balance in Statement of Profit and Loss after adjustment for writing up Opening Stock [90,000+54,000×$^{10}/_{90}$]		96,000	
		15,000	
Add: Provision for Taxation	83,000		
Transfer to General Reserve	30,000		
Dividend for 2022-23	30,000	1,43,000	
Net Profit before Tax		1,58,000	
Add: Non-Cash and Non-Operating Expenses			
Depreciation	95,000		
Premium on Redemption of Debenture	1,800		
Amortization of Debenture Discount	10,000		
Debenture Interest	16,000		
Loss on Sale of Property, Plant and Equipment	4,000	1,26,800	
Operating Profit before Working Capital Changes		2,84,800	
Add: Increase in Trade Payable		10,000	
		2,94,800	
Less: Increase in Inventories after adjusting Value of Opening Inventories [75,000- (54,000+6,000)]	15,000		
Increase in Trade Receivables	85,000	1,00,000	
Cash Generated from Operations		1,94,800	
Less: Payment of Income Tax (2023-24)		88,000	
Net Cash from Operating Activities			1,06,800
2. Cash Flows from investing Activities			
Sale of Investments		30,000	
Sale of Property, Plant and Equipment		25,000	
		55,000	
Less: Purchase of Property, Plant and Equipment		2,14,000	
Net Cash used In Investing Activities			(1,59,000)
3. Cash Flows from Financing Activities			
Issue of Share		1,00,000	
Less: Redemption of Debentures	61,800		
Payment of Debenture Interest	16,000		
Payment of Dividend [see Note 1]	26,000	1,03,800	
Net Cash from Financing Activities			(3,800)
Net Decrease in Cash over the year			(56,000)
Add: Cash and Cash Equivalent at the beginning of the year			1,01,000
Cash and Cash Equivalent at the end of the year			45,000

Working Notes

1. Dr. Provision for Taxation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank	88,000	By Balance b/d	90,000
To Balance c/d	85,000	By Statement of Profit & Loss	83,000
	1,73,000		1,73,000

2. Dr Property, Plant & Equipment A/c Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	8,00,000	By Bank (Sale)	25,000
,, Bank (Addition)	2,14,000	,, Provision for Depreciation (on asset Sold)	21,000
		,, Statement of P/L (Loss on Sale)	4,000
		,, Provision for Deprn. (on discarded assets)	14,000
		,, Balance c/d	9,50,000
	10,14,000		10,14,000

3. Dr Provision for Depreciation A/c Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Property, Plant & Equipment A/c (Accumulated Depreciation on Asset Sold)	21,000	By Balance c/d	2,30,000
,, Property, Plant & Equipment A/c (Accumulated Depreciation on Asset Discarded)	14,000	,, Statement of P/L	95,000
,, Balance c/d	2,90,000		
	3,25,000		3,25,000

4. Dr Investment A/c Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance	1,00,000	By, Bank – Sale (Balance Figure)	30,000
,, Capital Reserve – Profit on Sale	10,000	,, Balance c/d	80,000
	1,10,000		1,10,000

Note 1:

Out of proposed dividend of ₹ 30,000 for 2022-23, ₹ 4000 remains unpaid as on 31.03.2024. So, net amount of dividend disbursed during 2023-24 was (₹ 30,000- ₹ 4,000) = ₹ 26,000

Data Analytics

Data Processing, Organization, Cleaning and Validation, Data Distribution

Data distribution is a way to organize trends and patterns observed in sets of data so that they are easier to understand. Any population with dispersed data is categorised as a distribution. It is a function that identifies and quantifies all potential values for a variable, as well as their relative frequency (probability of how often they occur). Statistical data distributions describe how data points are spread out across different values in a dataset. It is necessary to establish the population's distribution type in order to analyse it using the appropriate statistical procedures.

Types of distribution

Statistical data distributions can be broadly classified into two categories:

(a) **Discrete distributions**:

Distributions where the variable can take on only a finite or countable number of values. In addition, discrete distributions may be displayed in tables, and the values of the random variable can be counted. Example: rolling dice, selecting a specific number of heads, etc.

(i) Binomial distributions: The binomial distribution quantifies the chance of obtaining a specific number of successes or failures each experiment. Binomial distribution applies to attributes that are categorised into two mutually exclusive and exhaustive classes, such as number of successes/failures and number of acceptances/rejections.

Example: When tossing a coin: The likelihood of a coin falling on its head is one-half and the probability of a coin landing on its tail is one-half.

(ii) Poisson distribution: The Poisson distribution is the discrete probability distribution that quantifies the chance of a certain number of events occurring in a given time period, where the events occur in a well-defined order. Poisson distribution applies to attributes that can potentially take on huge values, but in practise take on tiny ones.

Example: Number of flaws, mistakes, accidents, absentees etc.

(iii) Hypergeometric distribution: The hypergeometric distribution is a discrete distribution that assesses the chance of a certain number of successes in (n) trials, without replacement, from a sufficiently large population (N). Specifically, sampling without replacement.

(iv) Geometric distribution: The geometric distribution is a discrete distribution that assesses the probability of the occurrence of the first success. A possible extension is the negative binomial distribution.

Example: A marketing representative from an advertising firm chooses hockey players from several institutions at random till he discovers an Olympic participant.

(b) **Continuous distribution**s:

A distribution with an unlimited number of (variable) data points that may be represented on a continuous measuring scale. A continuous random variable is a random variable with an unlimited and uncountable set of potential values. It is more than a simple count and is often described using **probability density functions** (pdf). The probability density function describes the characteristics of a random variable. Normally clustered frequency distribution is seen. Therefore, the probability density function views it as the distribution's "shape."

(i) Normal distribution: Normal distribution, also known as the Gaussian distribution, is a probability distribution that is symmetric about the mean,

showing that data near the mean are more frequent in occurrence than data far from the mean. In a normal distribution, the mean is zero and the standard deviation is 1. It has zero skew and a kurtosis of 3.

(ii) Lognormal distribution: A continuous random variable x follows a lognormal distribution if the distribution of its natural logarithm, ln(x), is normal. As the sample size rises, the distribution of the sum of random variables approaches a normal distribution, independent of the distribution of the individuals.

(iii) F distribution: The F distribution is often employed to examine the equality of variances between two normal populations. The F distribution is an asymmetric distribution with no maximum value and a minimum value of 0. The curve approaches 0 but never reaches the horizontal axis. F test is a statistical test that is used in hypothesis testing to check whether the variances of two populations or two samples are equal or not.

(iv) Chi square distribution: Chi-square (X2) distributions are a family of continuous probability distributions. It is widely used in hypothesis tests, including the chi-square goodness of fit test and the chi-square test of independence.

(v) Exponential distribution: The exponential distribution is a probability distribution and one of the most often employed continuous distributions. Used frequently to represent products with a consistent failure rate. The exponential distribution and the Poisson distribution are closely connected. Has a constant failure rate since its form characteristics remain constant.

(vi) T student distribution: The t distribution or student's t distribution is a probability distribution with a bell shape that is symmetrical about its mean. Used frequently for testing hypotheses and building confidence intervals for means. The t-distribution, like the normal distribution, is bell-shaped and symmetric, but it has heavier tails, which means that it tends to produce values that fall far from its mean.

Topic

Module 3: Marginal Costing

Module 4: Applications of Marginal Costing in Short Term Decision Making

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Module 3.2: Cost-Volume-Profit Analysis

Cost-Volume-Profit (CVP) analysis, commonly known as break-even analysis, explores the relationship between costs, sales volume, and profit. It assists management in understanding potential profit levels when production and sales goals are met. CVP analysis is crucial for determining the break-even point and identifying the margin of safety. By evaluating fixed costs, variable costs, sales volume, and profit, this analysis aids decision-making on pricing, production levels, and profit targets.

CVP analysis operates on the assumption that variable costs change in proportion to sales volume, while fixed costs remain constant within a defined range. Using break-even equations, management can evaluate the impact of changes in variable or fixed costs on profitability. The break-even point represents the minimum sales volume required to cover all costs, leading to zero profit.

Several formulas and ratios, such as contribution per unit, contribution/sales ratio, and margin of safety, are integral to CVP analysis. This method examines how costs, sales revenue, activity levels, and profits are interrelated. For businesses, understanding their break-even point is crucial for making informed decisions and optimizing profitability. CVP analysis primarily focuses on how sales volume variations influence costs and profits, distinguishing between variable and fixed expenses. It helps businesses determine the sales level needed for profitability and supports short-term planning and decision-making.

Key CVP Formulas:

- Contribution per unit = Selling price per unit – Variable cost per unit
- Profit = (Sales volume × Contribution per unit) – Fixed costs
- Break-even point = Fixed costs ÷ Contribution per unit
- Contribution/sales ratio = (Contribution ÷ Sales) × 100%
- Sales revenue at break-even point = Fixed costs ÷ Contribution/Sales ratio
- Margin of safety (units) = Budgeted sales units – Break-even sales units
- Margin of safety (%) = [(Budgeted sales – Break-even sales) ÷ Budgeted sales] × 100%
- Sales volume to achieve target profit = (Fixed cost + Target profit) ÷ Contribution per unit

Assumptions of CVP Analysis:

1. All variables except volume remain constant: The analysis assumes that factors other than volume do not change, but variations in efficiency or sales mix can affect costs and revenues, potentially skewing CVP results.
2. Single product or constant sales mix: CVP assumes either a single product or a constant sales mix, so deviations from this assumption require careful analysis.
3. Total costs and revenue are linear: Unit variable costs and selling prices are assumed to remain constant, valid only within a certain production range.
4. Profits based on variable costing: Fixed costs are treated as period expenses, assuming that profit calculations are made on a variable-costing basis. Absorption-costing profit calculations require production to equal sales for accuracy.
5. Costs are divided into fixed and variable components: CVP analysis assumes accurate categorization of costs into fixed and variable elements, which can be challenging with semi-variable costs.
6. Analysis is applicable only within a relevant range: CVP analysis is valid only within a specific production range and may not accurately predict outcomes beyond this range.
7. Short-term focus: CVP analysis is limited to short-term decision-making, generally within a year, as significant changes to prices and costs are unlikely in this timeframe. It does not apply to long-term planning.

Limitations of CVP Analysis:

1. Fixed and variable cost assumptions: CVP assumes that fixed costs remain constant and variable costs remain steady per unit at all output levels. However,

in practice, fixed costs may vary significantly with large changes in output, and variable costs may change due to economies or diseconomies of scale. These assumptions hold true only within a normal output range.

2. Constant sales price assumption: CVP assumes that sales prices remain the same regardless of activity level. However, sales prices often vary, particularly at higher output levels where discounts may be necessary to boost sales.

3. Production and sales alignment: CVP assumes that production equals sales, ignoring inventory changes. It does not account for changes in stock levels or other discrepancies.

4. Neglect of cost estimate uncertainties: CVP does not consider uncertainties in estimating fixed and variable costs, potentially leading to inaccurate predictions.

Break-even Analysis for Multi-Product Organizations:

In multi-product companies, break-even analysis assumes a constant product sales mix, meaning that for every unit of one product sold, specific proportions of other products are sold. For instance, if 100 units of Product A are sold, a corresponding number of Products B and C are also sold in a predetermined ratio.

This assumption enables the calculation of a weighted average contribution per mix, based on the quantities of each product sold. For example, if Product A constitutes 40% of the mix, Product B 30%, and Product C 30%, the weighted average contribution per mix is calculated accordingly.

In a multi-product company, the product that constitutes the largest portion of the sales mix has the most significant impact on overall profitability. A change in the sales volume of this product will have a larger effect on the average contribution per mix, thus influencing the company's overall profit.

Multiple Choice Questions:

1. What does the "Break-even Point" refer to in cost-volume-profit (CVP) analysis?

   a) The point where total costs exceed total revenues

   b) The point where fixed costs are covered by sales revenue

   c) The point where total revenues equal total costs

   d) The point where variable costs are higher than fixed costs

2. Which of the following is considered a fixed cost in CVP analysis?

   a) Raw materials

   b) Direct labor

   c) Rent

   d) Sales commission

3. In CVP analysis, what is the contribution margin?

   a) Total revenue minus fixed costs

   b) Total revenue minus variable and fixed costs

   c) Sales price per unit minus variable cost per unit

   d) Fixed cost divided by total revenue

4. Which of the following is NOT an assumption of CVP analysis?

   a) All units produced are sold

   b) Fixed costs vary with production levels

   c) Selling price per unit remains constant

   d) Costs can be accurately classified as either fixed or variable

5. The formula for the break-even point in units is:

   a) Fixed costs / (Selling price per unit - Variable cost per unit)

   b) Variable costs / (Fixed costs - Selling price per unit)

   c) Total costs / (Selling price per unit - Variable costs per unit)

   d) Total revenue / Fixed costs

6. What is the primary goal of CVP analysis?

   a) To determine the level of sales required to cover fixed and variable costs

   b) To maximize production levels

   c) To determine the product's price elasticity

   d) To reduce variable costs

7. In a break-even analysis, if the selling price per unit increases, the break-even point will:

   a) Increase

   b) Decrease

   c) Remain the same

   d) Fluctuate unpredictably

8. What effect does an increase in fixed costs have on the break-even point?

   a) No effect

   b) Decreases it

   c) Increases it

   d) none of the above

9. What is the margin of safety in CVP analysis?

   a) The difference between sales and break-even sales

   b) The amount of fixed costs over variable costs

   c) The total profit generated from sales

   d) All of the above

10. CVP analysis is most useful in:

    a) Short-term decision making

    b) Long-term capital budgeting

    c) Pricing decisions for the next five years

    d) Calculating inflation rates

11. If the contribution margin is ₹ 5 per unit and fixed costs are ₹10,000, what is the break-even point in units?

    a) 2,000 units

    b) 500 units

    c) 1,000 units

    d) 4,000 units

12. The sales mix in CVP analysis refers to

    a) The proportion of variable and fixed costs in total costs.

    b) The combination of products that a company sells.

    c) The ratio between contribution margin and total sales.

    d) The difference between total costs and total sales.

13. In a multi-product CVP analysis, what must be determined in order to calculate the break-even point?

    a) The overall sales mix.

    b) The variable costs for each product.

    c) The contribution margin for the product with the highest sales.

    d) The total fixed costs across all products.

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13
c	c	c	b	a	a	b	c	a	a	a	b	a

True and False

1. In CVP analysis, fixed costs do not change with the level of production.
2. The break-even point decreases when fixed costs increase.
3. Contribution margin is the amount of sales revenue remaining after covering all variable costs.
4. In a multi-product company, the sales mix does not affect the break-even point.
5. Sensitivity analysis in CVP helps to understand how changes in costs, sales price, or volume impact profit.

Answer:

1	2	3	4	5
T	F	T	F	T

Fill in the blanks

1. In CVP analysis, the contribution margin is calculated as the selling price per unit minus _____.
2. ______ costs remain constant regardless of the level of production.
3. The margin of safety is the difference between actual sales and ______.
4. The ______ ratio is calculated by dividing the contribution margin by the sales price per unit.
5. A ______ cost changes in direct proportion to changes in the level of production.

Answer:

1	variable cost per unit	3	break-even sales	5	variable
2	Fixed	4	contribution margin		

Module 4: Applications of Marginal Costing in Short Term Decision Making

Introduction

Marginal costing, also known as variable costing, is a crucial technique in managerial accounting that helps businesses make informed short-term decisions. By focusing on the incremental costs and revenues associated with different options, it allows businesses to evaluate the impact of variable costs on profitability. This approach is particularly valuable when comparing alternatives, such as different production techniques, pricing strategies, or make-or-buy decisions.

In essence, marginal costing enables businesses to identify the most profitable output level by analyzing the contribution margin, which is the difference between sales revenue and variable costs. By isolating these variable costs, businesses can determine how changes in production levels or pricing affect overall profitability. This technique is especially useful in decision-making scenarios where fixed costs remain constant, allowing managers to focus on the additional costs and revenues directly tied to their decisions.

Applications of Marginal Costing in Short Term Decision Making

Marginal costing is a valuable tool in short-term decision-making because it focuses on the relationship between cost, volume, and profit. Here are some key applications of marginal costing in short-term decision-making:

1. **Pricing Decisions:** Marginal costing helps determine the minimum price at which a product can be sold without incurring a loss. This is particularly useful in competitive markets where businesses need to set prices that cover variable costs and contribute to fixed costs. When a company receives a one-time order at a lower price, marginal costing can determine whether accepting the order will be profitable by analyzing whether the order price covers the variable costs and contributes to fixed costs.
2. **Make-or-Buy Decisions:** Marginal costing helps businesses decide whether to produce a component in-house or outsource it by comparing the variable costs of production with the purchase price from an external supplier.
3. **Product Mix Decisions:** When resources are limited, marginal costing helps determine the most profitable combination of products by focusing on those with the highest contribution margin per unit of the constrained resource.
4. **Cost-Volume-Profit (CVP) Analysis:** Marginal costing is used to perform CVP analysis to determine the break-even point, which is the level of sales at which total revenue equals total costs. This helps businesses understand the volume of sales required to cover all costs and start generating profits. By understanding the contribution margin, businesses can plan their sales targets to achieve desired profit levels.
5. **Shutdown Decisions:** Marginal costing helps businesses decide whether to temporarily shut down operations during periods of low demand. The analysis focuses on whether the revenue from continuing operations covers the variable costs.
6. **Optimal Use of Limited Resources:** When resources such as labor or materials are limited, marginal costing assists in allocating these resources to the products or services that generate the highest contribution margin.
7. **Sales Mix Decisions**: Marginal costing helps determine the ideal sales mix of products by analyzing which combination maximizes overall profitability, considering the contribution margins of each product.
8. **Accepting or Rejecting Orders**: When a business receives an additional order, marginal costing helps assess whether the order will be profitable by analyzing if the incremental revenue exceeds the incremental costs.
9. **Discontinuation of Products or Departments**: Marginal costing helps in deciding whether to

discontinue a product line or department by evaluating whether the contribution margin from the segment covers its avoidable fixed costs.

10. **Determining the Effect of Changes in Sales Volume**: Marginal costing helps assess how changes in sales volume will impact profitability, enabling businesses to make informed decisions about scaling production up or down.

In all these applications, marginal costing provides a clear, focused view of how different decisions will affect profitability, making it an essential tool for short-term planning and decision-making.

Multiple Choice Questions:

1. Marginal costing is particularly useful in shutdown decisions because it:
   a) Focuses on the total cost of production.
   b) Analyzes whether the revenue from continuing operations covers the variable costs during periods of low demand.
   c) Considers the long-term financial impact of shutting down.
   d) Allocates fixed costs more effectively.
2. Which costing method is particularly useful in competitive markets for setting prices?
   a) Absorption costing
   b) Activity-based costing
   c) Marginal costing
   d) Standard costing
3. Given, the cost of production of 100 units is ₹ 5000 and 101 units is ₹ 5030. The additional cost of ₹ 30 incurred can be termed as _______
   a) Marginal cost
   b) Absorption cost
   c) Prime cost
   d) Works cost
4. In a make-or-buy decision, marginal costing helps a business by:
   a) Calculating the total fixed costs
   b) Comparing the variable costs of production with the purchase price
   c) Determining the break-even point
   d) Allocating overhead costs
5. When break-even point is 1000 units, selling price per unit is ₹ 12 and variable cost is ₹ 7, find out fixed cost?
   a) ₹12,000
   b) ₹7,000
   c) ₹5,000
   d) ₹ 3,500
6. Which of the following decisions is NOT typically made using marginal costing?
   a) Pricing decisions
   b) Long-term capital investment decisions
   c) Make-or-buy decisions
   d) Product mix decisions
7. What does the contribution margin represent?
   a) The difference between fixed costs and variable costs
   b) The difference between sales revenue and fixed costs
   c) The difference between sales revenue and variable costs
   d) The difference between total costs and total revenue
8. Which When making an accept/reject decision for a special order, which of the following factors is most important to consider using marginal costing?
   a) Whether the incremental revenue from the order exceeds the incremental variable costs
   b) The total fixed costs of the business
   c) The long-term impact on the company's market share
   d) The overall profitability of the company over the last year

9. Marginal costing helps in sales mix decisions by focusing on:
    a) The total cost of all products
    b) The contribution margin per product
    c) The fixed costs of each product
    d) The average selling price of all products
10. In marginal costing, when a limiting factor such as machine hours or labor hours is present, which decision criterion should a company use to maximize profitability?
    a) The product with the highest contribution margin per unit of the limiting factor
    b) The product with the highest selling price
    c) The product with the lowest variable cost per unit
    d) The product with the highest total contribution margin
11. Sunny Ltd. makes product-A which sells at ₹ 80 per unit. Total fixed costs are ₹28,000 and marginal cost ₹ 42 per unit. The sales level (in units) that will provide a profit of ₹ 10,000 is
    a) 1,200 Units
    b) 1,500 Units
    c) 1,000 Units
    d) 1,250 Units
12. Margin of safety will increase when
    a) Fixed cost increases
    b) Variable cost increases
    c) Fixed cost decreases
    d) Selling price increases
13. Which of the following is true of break-even point?
    a) Total sales revenue = variable cost
    b) Profit = fixed cost
    c) Sales revenue = Total cost – Variable cost
    d) Contribution = Fixed cost
14. For a given product, the sales of a company @ ₹ 200 per unit is ₹ 20,00,000. Variable cost is ₹ 12,00,000 and fixed cost is ₹ 6,00,000. The capacity of the factory is 15,000 units. Capacity utilization at break-even point level
    a) 40%
    b) 50%
    c) 60%
    d) 100%
15. A company sells its product at ₹ 15 per unit. In a period, if it produces and sells 8,000 units, it incurs a loss of ₹ 5 per unit. If the volume is raised to 20,000 units, it earns a profit of ₹ 4 per unit. The break-even point of the company in rupee terms will be
    a) ₹ 1,60,000
    b) ₹ 2,00,000
    c) ₹ 1,80,000
    d) ₹ 2,20,000

Answer

1. b
2. c
3. a
4. b
5. c
6. b
7. c
8. a
9. b
10. a
11. c
12. d
13. d
14. b
15. c

True and False

1. Where incremental costs of manufacture are less than those of buying in, the firm should make the product.
2. The appraisal of the various courses of action available is possible through the analysis of fixed cost.
3. If selling price is above the marginal cost, it is preferable to shut down the production because the losses are maximized.
4. It is assumed in limiting factor analysis that management would make a product mix decision or service mix decision based on the option that would maximize profit.
5. If the sales demand is limited, the profit-maximizing decision will be to produce the top ranked product(s) up to the sales demand limit.

Answer

1. True
2. False
3. False
4. True
5. True

Fill in the blanks

1. The decision about whether to produce parts and components in-house, or to sub-contract work to external supplies, is referred to as the _________________.
2. _____________ system provides a useful means for appraising the economic benefits of accept or reject special orders.
3. Contribution will be maximized by earning the biggest possible contribution per unit of _____________.
4. _______________ occurs exactly when the marginal profit of the business reaches a negative scale.
5. In a situation where a company must sub-contract work to make up a shortfall in its own in-house capabilities, its total costs will be_________________.

Answer

1. ‘make-or-buy decision’
2. Differential cost
3. limiting factor
4. Shutdown point
5. minimized

CMA FINAL COURSE

Syllabus 2022

Topic

Module 5: The Competition Act, 2002

FINAL

Group III - Paper-13

Corporate and Economic Laws (CEL)

Competition Act- an overview

1.0 Competition Act, 2002

The Monopolies & Restrictive Trade Practices Act, 1969 is the first enactment to deal with competition issues and came into effect on 1st June 1970. Based on a committee recommendation the Competition Act, 2002, was enacted on 13th January 2003. It was last amended in April, 2023. It provides for different notifications for making different provisions of the Act effective including repeal of MRTP Act and dissolution of the MRTP Commission and constitution of, Competition Commission of India and the Competition Appellate Tribunal which have been established in October 2003.

1.1. Objectives of the Act

The objectives of the Competition Act are to:

- prevent anti-competitive practices,
- promote and sustain competition,
- protect the interests of the consumers and
- ensure freedom of trade.
- competition advocacy by creating awareness among various levels at Government, industry and consumers.

The objectives of the Act are sought to be achieved through the instrumentality of the Competition Commission of India.

1.2. Competition Commission of India (CCI)

CCI is a body corporate and shall have a full time chairman with minimum 2 and maximum 6 to 7 members. Commission may appoint Secretary and other officers as may be required.

i) CCI shall prohibit anti-competitive agreements, which determine prices, limit or control markets, bid rigging etc.

ii) Abuse of dominance, through unfair or discriminatory prices or conditions, limiting or restricting production or development, denying market access etc. and regulate combinations (merger or amalgamation or acquisition) which cause or likely cause an appreciable adverse effect or competition through a process of enquiry.

iii) It shall give opinion on competition issues on a reference received from an authority established under any law (statutory authority)/ Central Government.

iv) CCI is also mandated to undertake competition advocacy, create public awareness, promote competition, protect interest of consumers and ensure freedom of trade and impart training on competition issues.

v) Inquiry into certain agreements and dominant position by giving notices to the parties.

1.3. Prohibition of certain agreement

An agreement includes any arrangement, understanding or concerted action entered into between parties, oral or in writing or intended to be enforceable in law.

A. Anti-competitive agreement shall be presumed to have appreciable adverse effect on competition and thereby deemed to be restrictive.

- An anti-competitive agreement is an agreement having appreciable adverse effect on competition. Anti-competitive agreements include:-

  - agreement to limit production & supply, storage, distribution
  - agreement to allocate markets
  - agreement to fix price
  - bid rigging (manipulating the bids) or collusive bidding (bidding with understanding among the bidders)
  - conditional purchase/sale (tie-in arrangement)
  - exclusive supply/distribution arrangement-limit/ restrict/ withhold/allocation of an area
  - resale price maintenance
  - refusal to deal

The whole agreement shall be construed as "void" if it contains anticompetitive clauses. However, agreement for restriction for protection of intellectual property shall not fall under this category.

1.4. Abuse of dominance

Dominance refers the strength which enables the firm to operate independently in India of competitive forces or to affect its competitors or consumers or the market in its favour.

- ➢ impedes fair competition between firms,
- ➢ exploits consumers and makes it difficult for the other players to compete with the dominant undertaking on merit.
- ➢ imposing unfair conditions or price, predatory pricing, limiting production/market, creating barriers to entry and applying dissimilar conditions to similar transactions.

Specific instances of dominance under Competition Act

(a) directly or indirectly, imposes unfair or discriminatory conditions in purchase or sale of goods or services, including predatory price;

(b) limits, restricts production of goods/ provision of services/ technical development

(c) denial of market access

(d) uses dominant positioning one market to enter into other relevant market.

2.0 Who can make a complaint?

- Any person, consumer, consumer association or trade association can make a complaint against anti-competitive agreements and abuse of dominant position.
- A **person** includes an individual, Hindu Undivided Family (HUF), company, firm, association of persons (AOP), body of individuals (BOI), statutory corporation, statutory authority, artificial juridical person, local authority and body incorporated outside India.

3.0. Orders the Commission

- To grant interim relief restraining a party from continuing with anti competitive agreement or abuse of dominant position
- To impose a penalty of not more than 10% of turnover and in case of cartel - 3 times of the amount of profit made out of cartel or 10% of turnover of all the enterprises whichever is higher
- To discontinue and not to re-enter anti-competitive agreement or abuse the dominant position
- To award compensation
- To modify agreement
- To recommend to the Central Govt. for division of enterprise in case it enjoys dominant position.

* Declare an agreement to be void.

* Violation of orders may result to imprisonment.

4.0 "Combination" under the Act and regulation thereof

Combination includes acquisition of shares, acquisition of control, shares, voting rights or assets of an enterprise over another merger and amalgamation between or amongst enterprises.

Combination, that exceeds the threshold limits, which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India, can be scrutinized by the Commission

4.1 In case of combination the threshold limits are-

 For acquisition –

- **Individual:** Combined assets of the firms (acquirer and the enterprise) is more than ₹2,000 Cr. or turnover is more than ₹ 6,000 Cr. (these limits are US$ 1 billion including at least ₹1,000 Cr. in India and 3 billions including at least 3,000 cr. in India in case one of the firms is situated outside India).
- **Group:** The limits are more than ₹ 8,000 Cr or ₹24,000 Cr and US$ 4 billion including at least ₹1,000 Cr. in India and 12 billions including at least ₹3,000 Cr. in India in case acquirer is a group in India or outside India respectively.

CG has exempted enterprise whose control, shares, voting rights or assets are being acquired has assets of value of not more than ₹350 Cr. and turnover of not more than ₹1,000 Cr.

Turnover means amount on sale of product or rendering of services of similar or substitutable goods or services.

However, intra group sales, indirect taxes, trade discounts or amount generated from assets outside India shall be excluded while calculating turnover. Value of assets shall be the book value of assets as recorded in the accounts of preceding financial year. Group means two or more enterprises which directly or indirectly exercise 26% or more of voting right in other enterprise or appoint more than 50%of the directors or control affairs of the other enterprise.

4.2 For merger/amalgamation –

- the above limit will be valid for mergers also.

A firm proposing to enter into a combination, may, at its option, notify the Commission the details of the proposed combination within 30 days approval of the board of directors or execution of the agreement or other document for acquisition. No combination shall come into effect until 210 days have passed from the day on which the notice has been given to the Commission or Commission has given no objection, whichever is earlier.

5.0 Procedure for investigation of combinations

If the Commission is of the opinion that a combination is likely to cause or has caused adverse effect on competition,

- It shall issue a notice to show cause the parties.
- On receipt of the response, if Commission is of the opinion that the combination has or is likely to have appreciable adverse, it may direct publication of details inviting objections of public and hear them.
- It may invite any person, likely to be affected by the combination, to file his objections. It may also enquire whether the disclosure made in the notice is correct and combination is likely to have an adverse effect on competition.

5.1 Orders the Commission can pass in case of combinations

- It shall approve the combination if no appreciable adverse effect on competition is found
- It shall disapprove of combination in case it forms an opinion of appreciable adverse effect on competition
- May propose suitable modification in the agreement/ arrangement.

5.2 Prohibition of abuse of dominance

i) an enterprise shall be considered to be dominant in the referent market in India, if -

   (a) operate independently of competitive forces;

   (b) affects the consumer, competitor or the relevant market in its favour.

ii) using of unfair or discriminatory condition in purchase or sale or price of goods and services or restricting quality of production, services or scientific development to prejudice customers, denial of market access, supplementary obligations or predatory pricing.

5.3 Regulation of combinations

i) no person shall enter into combination which causes or likely to cause appreciable adverse effect on competition in the relevant market in India;

ii) persons propose to enter into combination shall give notice to the Commission with 30 days of approval of the Board or execution of any agreement;

iii) no combination shall be effective before lapse of 210 days of giving notice or getting approval of the Commission, whichever is earlier;

iv) do not apply to bank, FI, FII or venture capital fund. 7 days notice needs to be given to Commission.

Topic

Module 3: Leasing Decisions

Module 12: Risks in Financial Market

FINAL

Group III - Paper-14

Strategic Financial Management (SFM)

Topic: Leasing Decisions

- **Multiple Choice Questions**

1. Who of the following is not a party associated with a lease agreement?

   A. Lessor

   B. Lessee

   C. Sub-lessee

   D. Payee

2. A _____________ lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

   A. Operating

   B. Finance

   C. Capital

   D. Equity

3. Which of the following types of leases is basically a disguised purchase?

   A. Operating

   B. Finance

   C. Capital

   D. Equity

4. _____________ lease refers to a lease agreement wherein the lessor acquires an asset partially financed by the financial institutions and lease out the same to the lessee for the agreed lease payments.

   A. Leveraged

   B. Finance

   C. Operating

   D. Capital

Answer Keys:

1 – D; 2 – B; 3 – B; 4 - A

- **Comprehensive Problem**

Question

R Ltd., a profitable company is considering the purchase of a new machine for ₹75,00,000. The machine's useful life is 5 years, with annual maintenance, insurance and administration costs of ₹ 12 lacs. Depreciation is over its life on straight line basis, considering zero scrap value. The tax rate is 30%. R Ltd. has a capital structure of 60% debt and 40% equity. Cost of debt before tax is 8% and the cost of equity is 12%. R Ltd. is interested in leasing out this machine to a lessee 'L' on year-end annual lease rents and R will have to maintain the equipment at the costs stated above.

What should be the lease rents to be billed to 'L' for the lease proposal to break-even if:

(i) R Ltd. acquires the machine from its total finance pool.

(ii) R Ltd. uses a bank borrowing specifically for this purpose at 10% interest rate on outstanding principal at the beginning of each year, with year-end instalments comprising ₹15 lacs towards principal and balance towards interest for the year?

Present calculations to the nearest rupee.

Solution

Depreciation per annum = ₹75/5 = ₹15 lacs; tax shield = 0.3 × 15 = ₹4.5 lacs

Capital: 60% debt at 8% before tax = 5.6% after tax; 40% equity = 12%

Weighted average cost of capital after tax = 0.6 × 5.6 + 0.4 × 12 = 3.36 + 4.8 = 8.16%

After tax cost of bank loan = 10% (1 – 0.3) = 7%.

Annual Cash cost = ₹12 lacs before tax = ₹8.4 lacs after tax.

Annual cash cost after tax and depreciation shield = ₹(8,40,000 – 4,50,000) = ₹3,90,000

(i) If the funding is out of the general finance pool, discount rate to be used = WACC = 8.16%.

End of year	Factor	Cash (₹) Inflows/(outflows)	PV of cash flows
0	PV1	(75,00,000)	(75,00,000)
1-5	Annuity factor 8.16%, 5 years = 3.976	(3,90,000)	(15,50,640)
			90,50,640

P.V. of After-tax lease rents to break even = ₹ 90,50,640

After tax annual lease rentals = 90,50,640/3.976 = ₹ 22,76,318

Annual billable lease rents = 22,76,318/70% = ₹ 32,51,883

(ii) This is a lease v/s borrow decision applicable to the lessor. The break-even lease rents should cover the after-tax cost of specific borrowing. The applicable discount rate = 7%.

End of year	Outstanding principal	Interest	After tax interest	Principal payments	Cash outflow	PV factor	PV of outflows
	₹	₹	₹	₹	₹	₹	₹
0	75,00,000						
1	60,00,000	7,50,000	5,25,000	15,00,000	20,25,000	0.935	18,93,375
2	45,00,000	6,00,000	4,20,000	15,00,000	19,20,000	0.873	16,76,160
3	30,00,000	4,50,000	3,15,000	15,00,000	18,15,000	0.816	14,81,040
4	15,00,000	3,00,000	2,10,000	15,00,000	17,10,000	0.763	13,04,730
5	0	1,50,000	1,05,000	15,00,000	16,05,000	0.713	11,44,365
							74,99,670

Total outflows including maintenance, etc

= 3,90,000 x annuity factor 7%, 5 years + 74,99,670

= 390000 × 4.10 + 7499670 =15,99,000 + 74,99,670

= ₹90,98,670

After tax annual lease rentals to break even = 90,98,670/4.10 = ₹22,19,188

Billable lease rentals = 22,19,188/0.7 = ₹ 31,70,269

Topic: Risks in Financial Market

1. Risk management is responsibility of the __________.
   A. Customer
   B. Investor
   C. Developer
   D. Project team
2. What is the primary goal of risk management in business?
   A. Eliminate all risks
   B. Minimize the impact of risks
   C. Ignore potential risks
   D. Maximize profits regardless of risks
3. What is the term for the process of identifying and assessing potential risks that could affect an organization's objectives?
   A. Risk mitigation
   B. Risk avoidance
   C. Risk analysis
   D. Risk identification
4. In risk management, what does the acronym SWOT stand for?
   A. Strengths, Weaknesses, Opportunities, Threats
   B. Systematic Work Output Tool
   C. Strategic Workflow Optimization Technique
   D. Structured Workplace Observation Training
5. What does the term "mitigation" mean in the context of risk management?
   A. Transferring risk to another party
   B. Reducing the likelihood or impact of a risk
   C. Accepting all identified risks
   D. Ignoring potential risks

Answer Keys:

1 – D; 2 – B; 3 – D; 4 - A; 5 – B

- **Discussion**
- **Systematic Risk and Unsystematic Risk**

1. **Systematic Risk**

Systematic risks are inherent risks that exist in the any financial market. These are also known as "non-diversifiable risks".

Non-diversifiable means that an organization cannot control or reduce systematic risks. These risks emanate from external factors like ongoing geopolitical unrest, changes in monetary policies, and natural calamities. For example, the COVID-19 pandemic was a systematic risk.

Types of systematic risks

Systematic risks are of the following types:

- **Interest rate risk:** Interest rate risk results from change in the market interest rate. It affects prices of fixed-income securities like bond prices. The yield on these securities is inversely related to the interest rate.
- **Market risk:** Market risk results from the general tendency of investors to behave as per the market. For example, investors avoid investing in even blue-chip companies during a financial crisis.
- **Purchasing power risk**. This is also called inflation risk. Purchasing power risk results from the decline in the purchasing power of money due to inflation.

2. **Unsystematic risks**

Unsystematic risks, also called "non-systematic risks," "diversifiable risks" are unique to a specific company or industry. These risks arise due to various internal and external factors that affect only the particular firm.

Some examples of unsystematic risk include labor unrest at a factory, fiscal changes, and shortages of raw materials.

Unlike systematic risks, an organization can control, minimize and possibly even avoid unsystematic risks.

Types of unsystematic risks

Unsystematic risks occur as two types:

- **Business risk:** Business risk includes the internal factors that affect a company's revenue and profitability. Business risks can also result from company-specific external factors, such as the government banning a raw material that a company uses. One example of business risk is a major product recall by Abbott. In 2022, Abbott Laboratories faced a significant business risk when it had to recall several batches of its infant formula due to contamination concerns.
- **Financial risk:** Financial risk relates to a company's debt and equity. If a company takes on too much debt, its debt-to-equity ratio may suffer. An adverse debt-to-equity ratio indicates that a company might be on the verge of bankruptcy.

Differences between Systematic Risk and Unsystematic Risk

Following are the key differences between Systematic Risk and Unsystematic Risk:

Points	Systematic Risk	Unsystematic Risk
Impact	Impacts all organisations	Impact specific organisation (s)
Nature	Not Controllable	Controllable
Factors	External/macroeconomic	Mostly Internal
Technique to Protect	Allocation of assets	Diversification through portfolio formation
Types	Interest rate risk, market risk, purchasing power risk	Business risk and financial risk

Topic

Module 5:

Business Restructuring

Module 6:

Different Aspects of Tax Planning

FINAL

Group III - Paper-15

Direct Tax Laws and International Taxation (DIT)

Tax Planning, Tax Evasion and Tax Avoidance

Tax law reflects the complexity of modern life and the multitude of choices and options available to all taxpayers when legitimately seeking to structure their affairs. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer and means that determining the right amount of tax (but no more) that they seek to pay does necessarily requires the exercise of judgement on occasion. So long as the exercise of that judgement seeks to ensure that the taxpayer makes choices that exercise options clearly allowed by law and that they do not exploit unintended loopholes created between laws then that process of a taxpayer choosing how to structure their affairs is the process of tax planning, which is a legitimate, proper and socially acceptable act.

Thus, tax planning is a systematic evaluation of finances and investments, to reduce the tax burden in a legitimate way. It involves understanding the tax implications of various cash inflows and outflows such as salary composition, property income, home loan, investments, sale or purchase of assets, gifts and interest-bearing deposits, to draw up an appropriate investment strategy that allows realization of financial goals while at the same time reducing tax liability to minimum.

It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. The two basic approaches of tax planning are:

1. ***Reducing taxable income*:** As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions. Such adjustments bases itself on the nature of income and expenditure. Opting for the income or expenditure heads that allows maximum set-offs from the gross income reduces taxable income, and by extension tax liability.

2. ***Deferring payment of taxes to the extent possible*:** An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time. While this does not reduce the amount of tax payable, it delays tax outgo, thereby effectively providing interest-free cash on hand. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

The goal of tax planning is to arrange your financial affairs so as to minimize your taxes. It is the planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act

Objectives of Tax Planning

Tax planning is an exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. The objectives of tax planning cannot be regarded as offending any concept of the taxation laws and subjected to reprehension of reducing the inflow of revenue to the Government's coffer, so long as the measures are in conformity with the statue laws and the judicial expositions thereof. The basic objectives of tax planning are:

a. *Reduction of Tax liability*

Tax law provides multiple choices and options to taxpayers. This necessary offer of options within tax legislation creates the opportunity for choice on the part of the tax payer. However, due to lack of awareness of legal requirements, in many a cases, a taxpayer may suffer heavy taxation. Through proper tax planning and awareness, a tax payer may reduce such heavy tax burden.

b. *Minimisation of litigation*

In the matter of taxation, the tax payers will try to pay the least tax and on the other hand, the tax administrator

will attempt to extract the maximum. This conflict behaviour may results into litigations. However, where proper tax planning is adopted by the tax payer in conformity with the provisions of the taxation laws, the incidence of litigation can be minimised. This saves him from the hardships and inconveniences caused by the unnecessary litigations.

c. *Productive investment*

A tax payer may reduce heavy tax burden through proper tax planning. Such reduction results into reduction in cash-outflow. In the days of credit squeeze and dear money conditions, even a rupee of tax decently saved may be taken as an interest-free loan from the Government, which perhaps, an assessee need not repay. Such retained cash can be utilised in other productive venture which also provide additional earning to the taxpayer. That means, proper tax planning is a measure of proper utilisation of available resources which in turn maximise the cash-inflow and minimise the tax burden.

d. *Healthy growth of economy*

The growth of a nation's economy is synonymous with the growth and prosperity of its citizens. In this context, a saving of earnings by legally sanctioned devices fosters the growth of both, because savings by dubious means lead to generation of black money, the evils of which are obvious. Conversely, tax-planning measures are aimed at generating white money having a free flow and generation without reservations for the overall progress of the nation. Tax planning assumes a great significance in this context.

e. *Economic stability*

Tax planning results in economic stability by way of:

(i) productive investments by the tax payers; and

(ii) harnessing of resources for national projects aimed at general prosperity of the national economy and reaping of benefits even by those not liable to pay tax on their incomes.

Essentials of Tax Planning

Following are the essentials of tax planning:

- Uptodate Knowledge of tax laws alongwith circulars, notifications, clarifications and Administrative instructions issued by the CBDT.
- Disclosure of full and true material information
- Avoid sham transactions or make-believe transactions or colourable devices
- Foresight of future development or changes and enterprise's goal.

Types of Tax Planning

The tax planning exercise ranges from devising a model for specific transaction as well as for systematic corporate planning. These are:

(a) *Short-range and long-range tax planning:* Short-range planning refers to planning to achieve some specific or limited objective of particular fiscal year. E.g., an individual assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/ NSC's within the prescribed limits in order to enjoy substantive tax relief. By investing in such a way, he is not making permanent commitment but is substantially saving in the tax. Long-range planning on the other hand, involves entering into activities, which may not pay-off immediately. E.g., when an assessee transfers his equity shares to his minor son he knows that the Income from the shares will be clubbed with his own income. But clubbing would also cease after his son attains majority.

(b) *Permissive tax planning*: Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

(c) *Purposive tax planning*: Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry

such sanction. E.g., If an assessee manages his affairs in such a way that his income is taxable in hands of other person without attracting clubbing provision, such a plan would work in favour of the tax payer because it would increase his disposable resources.

Ethical way of reducing tax

Tax planning is an art of logically planning one's financial affairs, in such a manner that benefit of all eligible provisions of the taxation law can be availed effectively so as to reduce or defer tax liability. As tax planning follows an honest approach, by conforming to those provisions which fall within the framework of the taxation law. However, many time in the name of planning, assessee misleads the law, with / without making an offence. And to do so, the tax payer uses any scheme or arrangement, which reduces, defers and even completely prevents the payment of tax. This may also be done by shifting of tax liability to another person, so as to minimise the incidence of tax.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, submitting misleading information, falsification of accounts and willful violation of the provisions of the Income-tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases. It is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation. It is a grave problem in a developing country like ours as it leads to a creation of a 'resource crunch' for developmental activities of the State.

Tax avoidance is an exercise by which the assessee legally takes advantages, with malafide motive, of loopholes in the Act. Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is a practice of dodging or bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. E.g. if A gives gift to his wife, the income from the asset gifted will be clubbed in the hand of A. But to avoid this clubbing provision "A" decides to give gift to B's wife and B reciprocates it by giving gift to A's wife. This is not tax planning but tax avoidance. Most of the amendments are aimed to curb such loopholes.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has tried to draw a distinction between the two items in the following words.

"The distinction between 'evasion' and 'avoidance', therefore, is largely dependent on the difference in methods of escape resorted to. Some are instances of merely availing, strictly in accordance with law, the tax exemptions or tax privileges offered by the government. Others are maneuvers involving an element of deceit, misrepresentation of facts, falsification of accounting calculations or downright fraud. The first represents what is truly tax planning, the latter tax evasion. However, between these two extremes, there lies a vast domain for selecting a variety of methods which, though technically satisfying the requirements of law, in fact circumvent it with a view to eliminate or reduce tax burden. It is these methods which constitute "tax avoidance".

The Royal Commission on Taxation for Canada has explained the concept of tax avoidance as under:

"Tax Avoidance" will be used to describe every attempt by legal means to prevent or reduce tax liability which would otherwise be incurred, by taking advantage of some provisions or lack of provisions of law. It excludes fraud, concealment or other illegal measures.

Distinguish between Tax Planning, Tax Evasion, Tax Avoidance and Tax Management

Difference between tax planning, tax avoidance, tax evasion & tax management

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee.	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it.	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organisation.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law.
Practice	It is tax saving.	It is tax hedging.	It is tax concealment.	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential.
Morality	It is moral in nature.	It is immoral in nature	It is illegal.	It is duty.

Exercise

State whether the following acts can be considered as tax evasion or tax management or tax planning:

(a) Amit paid life insurance premium of ₹ 10,000 on the life of himself and claim entire amount as deduction u/s 80C.

(b) Bikash received remuneration of ₹ 54,000 for acting as a visiting faculty which he did not furnish in his return.

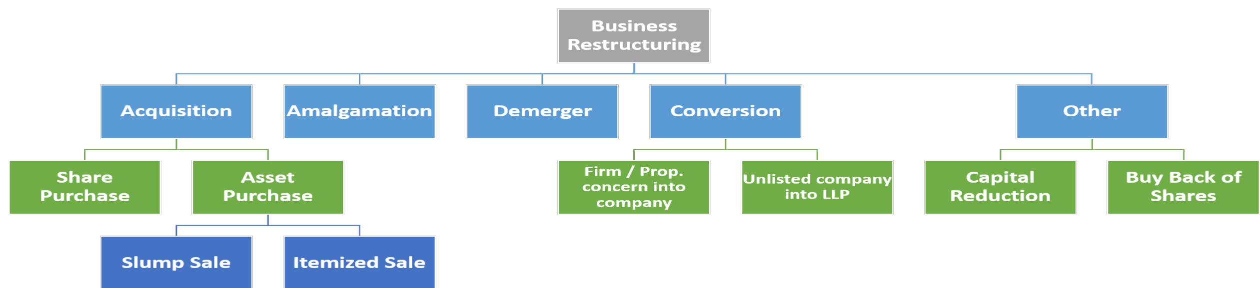
(c) Chandrani submitted her return within the time specified u/s 139(1).

(d) Dulal donated ₹ 10,000 to PM's National Relief Fund and enjoyed deduction in full u/s 80G.

(e) Era deposited ₹ 1,00,000 in SBI in the name of her daughter (age 4 years) and interest on such deposit has not clubbed in her hand.

Amalgamation

Restructuring is term used for the act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Companies are resorting to acquisitions as a means to consolidate and grow rapidly in an ever changing business environment. As a result, there is an increase in the level of restructuring activity in various sectors. Change in ownership or operational structure transaction have tax implication. The purpose of a suitable business strategy for restructuring must increase efficiency, consolidate operations, increase market share, assist in turn around, increase market capitalization and create entry barrier for competitors. Proper tax planning in this regard shall reduce the cost of restructuring in this front. The chapter highlights the various tax aspect in hands of all concerned person.

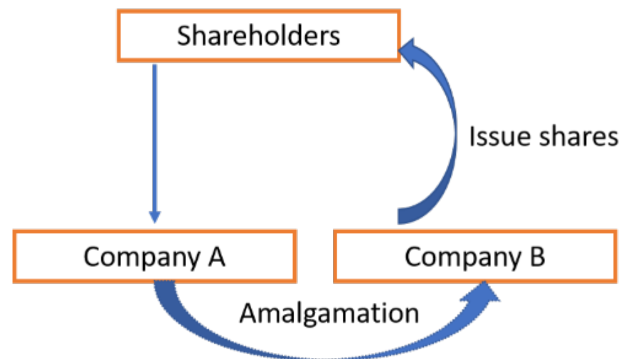


Definition [Sec. 2(1B)]

Amalgamation (in relation to companies) means:

- the merger of one or more companies with another company; or
- the merger of two or more companies to form one company;

in such a manner that—



(a) all assets and liabilities of the amalgamating company or companies immediately before the amalgamation becomes the assets and liabilities of the amalgamated company;

(b) shareholders (both equity or preference) holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders (equity or preference) of the amalgamated company.

- Number of shares allotted to the shareholders of the amalgamating company by the amalgamated company is not relevant.

- Where C Ltd. merges with Z Ltd., in a scheme of amalgamation, and immediately before the amalgamation, Z Ltd. holds 20% of the share in C Ltd., the aforesaid mentioned condition will be satisfied if shareholders holding not less than ¾th (in value) of the remaining 80% of the shares in C Ltd., i.e., 60% thereof (3/4 x 80), become shareholders of Z Ltd., by virtue of the amalgamation. Where, however, the whole of the share capital of a company is held by another company, the merger of the two companies will qualify as an amalgamation within sec. 2(1B), if the other two conditions are satisfied [Circular 5P, dated 9-10-67]

Exceptions:

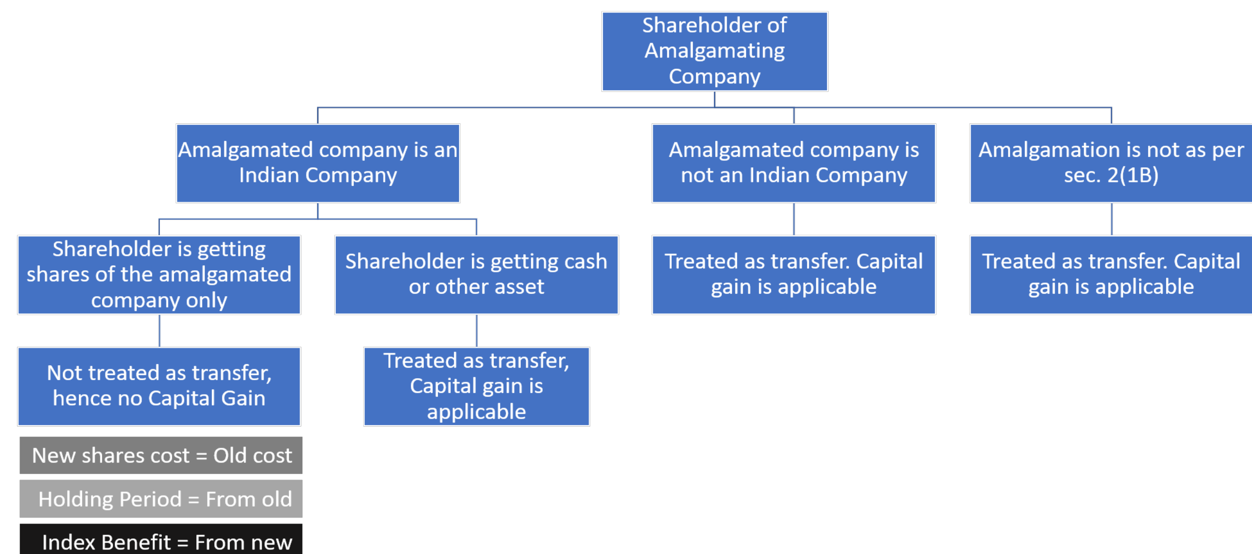
Following mergers shall not be treated as amalgamation -

- Merger as a result of acquisition of the property of one company by another company pursuant to the purchase of such property by the other company; or
- Merger as a result of distribution of such property to the other company after the winding up of the first-mentioned company.

Amalgamation & Shareholder of the amalgamating company

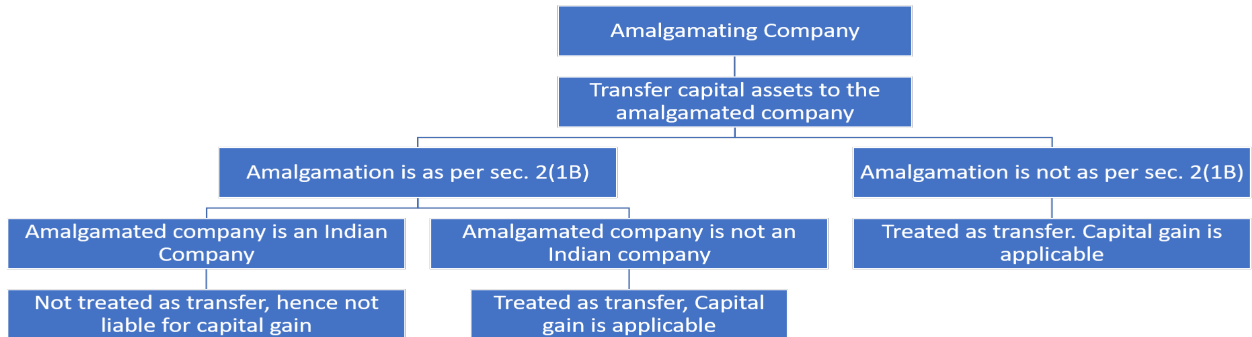
Effect of amalgamation on a shareholder are as under:

Transfer of shares of amalgamating company	As per sec. 47(vii), any transfer by a shareholder, in a scheme of amalgamation, of share(s) held by him in the amalgamating company is not treated as transfer and hence not liable to capital gain tax, if following conditions are satisfied: i. The transfer is made in consideration of the allotment to him of any share or shares in the amalgamated company; and ii. The amalgamated company is an *Indian* company.
Cost of shares in amalgamated company	The cost of shares in amalgamating company shall be deemed to be the cost of shares in amalgamated company. [Sec. 49(2)]
Determination of nature of assets	To find whether shares in amalgamated company are long-term or short-term capital asset, the period of holding shall be calculated from the date when shares in the amalgamating company were acquired. [Sec. 2(42A)]
Indexation benefit	Indexation benefit shall be available from the year in which shares of amalgamated company were acquired by the assessee.



Amalgamation & amalgamating company

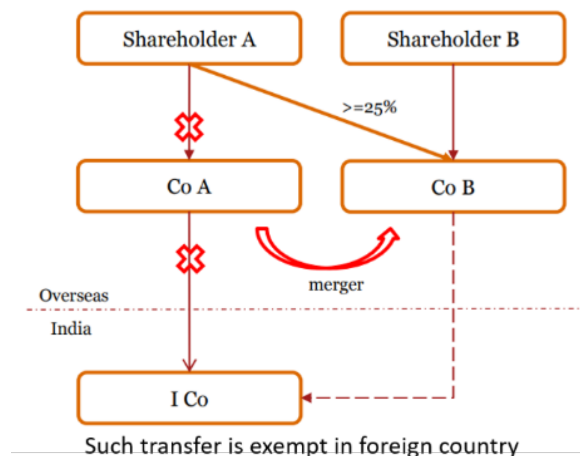
- As per sec. 47(vi), any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company is not treated as transfer (hence not liable to capital gain) provided the amalgamated company is an *Indian* company.
- If amalgamation does not satisfy condition of sec. 2(1B) **and** of sec. 47(vi), then exemption is not available.



- As per sec. 47(viab), any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company, (referred to in the Explanation 5 of sec.9(1)(i)), which derives, directly or indirectly, its value substantially from the share or shares of an Indian company, held by the amalgamating foreign company to the amalgamated foreign company, if:

  a. at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and

  b. such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.



Such transfer is exempt in foreign country

- As per sec. 47(via), any transfer, in a scheme of amalgamation, of a capital asset being a share or shares held in an Indian company, by the amalgamating foreign company to the amalgamated foreign company is not treated as transfer (hence not liable to capital gain) provided:

  a) at least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company; and

  b) such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated.

Taxpoint

- *Such transfer is in a scheme of amalgamation by the amalgamating foreign company to the amalgamated foreign company.*
- *Transferred asset must be a capital asset being a share or shares held in an Indian company.*
- *At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.*
- *Such transfer does not attract tax on capital gain in the country, in which the amalgamating company is incorporated.*

Amalgamation & amalgamated company

❁ **Value of non-depreciable capital assets for the purpose of capital gain**

- As per sec. 49(1), where a capital asset became the property of amalgamated (Indian) company in a scheme of amalgamation, the cost of acquisition of the asset to the amalgamated company shall be deemed to be the cost for which the previous owner (i.e., amalgamating company) of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner or the assessee, as the case may be.
- It is to be noted that where non-depreciable asset was acquired before 1-4-2001, the cost of acquisition can be taken as cost of acquisition or fair market value of the asset as on 1-4-2001, at the option of the assessee.
- In determining the period of holding of such asset, period of holding of previous owner shall also be considered, however, indexation benefit is available from the year of amalgamation.

❁ **Value of depreciable asset for the purpose of business income**

- Where in any previous year, any block of assets is transferred by the amalgamating company to the amalgamated (Indian) company in a scheme of amalgamation, then, the actual cost of the block of assets in the case of the amalgamated company shall be the written down value of the block of assets as in the case of the amalgamating company for the immediately preceding previous year as reduced by the amount of depreciation actually allowed in relation to the said preceding previous year [Exp. 2 to sec. 43(6)]
- *Allocation of depreciation in the year of amalgamation*: The aggregate deduction, in respect of depreciation allowable to the amalgamating company and the amalgamated company in the case of amalgamation shall not exceed in any previous year the deduction calculated at the prescribed rates as if the amalgamation had not taken place and such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

❁ **Value of asset transferred as stock in trade**

- Where an asset [not being an asset referred to in sec. 45(2)] which becomes the property of an amalgamated company under a scheme of amalgamation, is sold by the amalgamated company as stock-in-trade of the business carried on by it, the cost of acquisition of the said asset to the amalgamated company in computing the profits and gains from the sale of such asset shall be the cost of acquisition of the said asset to the amalgamating company, as increased by the cost, if any, of any improvement made thereto, and the expenditure, if any, incurred, wholly and exclusively in connection with such transfer by the amalgamating company [Sec. 43C(1)]

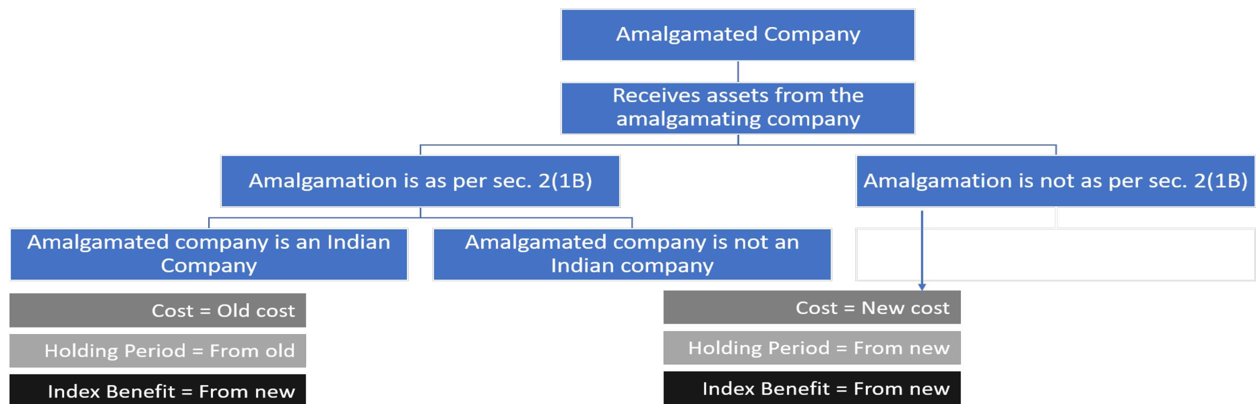
Taxpoint: The provision is applicable where following asset of the amalgamating company is taken over by the amalgamated company as stock-in-trade at revalued price:

a) Stock-in-trade

b) Capital asset converted to stock-in-trade

c) Capital asset

- Sec. 43C is also applicable where an asset becomes the property of the assessee on the total or partial partition of HUF or under a gift or will or irrevocable trust.



☸ Set-off and carry forward of business loss and unabsorbed depreciation [Sec. 72A]

Applicable

1. There has been an amalgamation of a company owning -

- an industrial undertaking; or
- a ship; or
- a hotel,

with another company; or

Taxpoint: Industrial undertaking means an undertaking engaged in—

- manufacture or processing of goods; or
- manufacture of computer software; or
- business of generation or distribution of electricity or any other form of power; or
- business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services; or
- mining; or
- the construction of ships, aircrafts or rail systems.

2. There has been amalgamation of a banking company with a specified bank.

3. There has been amalgamation of one or more public sector company or companies with one or more public sector company or companies; or

4. There has been amalgamation of an erstwhile public sector company with one or more company or companies, if the share purchase agreement entered into under strategic disinvestment restricted immediate amalgamation of the said public sector company and the amalgamation is carried out within 5 years from the end of the previous year in which the restriction on amalgamation in the share purchase agreement ends

   - *"Erstwhile public sector company" means a company which was a public sector company in earlier previous years and ceases to be a public sector company by way of strategic disinvestment by the Government;*
   - *"Strategic disinvestment" means sale of shareholding by the Central Government or any State Government in a public sector company which results in reduction of its shareholding to below 51% along with transfer of control to the buyer.*

Conditions to be satisfied

The accumulated loss shall not be set off or carried forward and the unabsorbed depreciation shall not be allowed in the assessment of the amalgamated company unless:

(a) The amalgamating company—

(i) has been engaged in the business, in which the accumulated loss occurred or depreciation remains unabsorbed, for three or more years;

(ii) has held continuously as on the date of the amalgamation at least ¾th of the book value of fixed assets held by it two years prior to the date of amalgamation.

(b) The amalgamated company—

(i) holds continuously for a minimum period of 5 years from the date of amalgamation at least ¾th of the book value of fixed assets of the amalgamating company acquired in a scheme of amalgamation;

(ii) continues the business of the amalgamating company for a minimum period of 5 years from the date of amalgamation;

(iii) fulfils such other conditions* as may be prescribed to ensure the revival of the business of the amalgamating company or to ensure that the amalgamation is for genuine business purpose.

* Conditions for carrying forward or set-off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation [Rule 9C]

(*a*) The amalgamated company, owning an *industrial undertaking* of the amalgamating company by way of amalgamation, shall achieve the level of production of at least 50% of the installed capacity (i.e., the capacity of production existing on the date of amalgamation) of the said undertaking before the end of 4 years from the date of amalgamation and continue to maintain the said minimum level of production till the end of 5 years from the date of amalgamation.

Provided that the Central Government, on an application made by the amalgamated company, may relax the condition of achieving the level of production or the period during which the same is to be achieved or both in suitable cases having regard to the genuine efforts made by the amalgamated company to attain the prescribed level of production and the circumstances preventing such efforts from achieving the same.

(*b*) The amalgamated company shall furnish to the Assessing Officer a certificate in Form No. 62, duly verified by an accountant, with reference to the books of accounts and other documents showing particulars of production, along with the return of income for the assessment year relevant to the previous year during which the prescribed level of production is achieved and for subsequent assessment years relevant to the previous years falling within five years from the date of amalgamation.

Treatment

- The accumulated business (non-speculative) loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or, as the case may be, allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected, and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.
- In a case where any of the conditions are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the amalgamated company shall be deemed to be the income of the amalgamated company chargeable to tax for the year in which such conditions are not complied with.

Deduction of expenses incurred in case of amalgamation or demerger [Sec. 35DD]

Applicable to: An Indian company

Conditions

a) Assessee has incurred certain expenditures wholly & exclusively for the purpose of amalgamation or demerger.

b) No deduction has been claimed for such expenses under any other section.

Quantum of deduction: 1/5th of expenses so incurred for a period of 5 years commencing from the year in which amalgamation or demerger takes places.

Other Provisions

Capital Expenditure on Scientific Research [Sec. 35(5)]: Provisions of sec. 35 shall apply to the amalgamated company, as it would have been applied to the amalgamating company, if the latter had not transferred such asset.

Telecom or spectrum licence: The amalgamated company or resulting company (being Indian company) as the case may be shall be entitled to claim deduction u/s 35ABB (or sec. 35ABA) for the residual period as if the amalgamating or demerged company had not transferred the licence.

Amortisation of Preliminary Expenses: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) shall be entitled to claim deduction u/s 35D for the residual period as if the amalgamation or demerger had not taken place.

Amortisation of expenditure incurred under VRS: In case of transfer of undertaking under the scheme of amalgamation or demerger, the amalgamated company or resulting company (being Indian company) as the case may be, shall be entitled to claim deduction u/s 35DDA for the residual period as if the amalgamation or demerger had not taken place.

In nutshell, we can say that where an amalgamated company is an Indian company, subject to other conditions, amalgamation is tax-neutral.

Topic

Module 2:

Quality Cost Management

FINAL

Group III - Paper-16

Strategic Cost Management (SCM)

Tools and Techniques of TQM

01.00 Total Quality Management

Total Quality Management (TQM) is a vision based, customer focused, prevention oriented, continuous improvement strategy founded on scientific approach adopted by cost conscious people committed to satisfy the customers first time every time. TQM aims to do things right the first time, rather than need to fix problems after they emerge. The underlying fundamental is that an enterprise should avoid defects rather than correct them.

- TQM is an ongoing process of detecting and reducing or eliminating errors.
- TQM is used to streamline supply chain management, improve customer service, and ensure that employees are properly trained.
- TQM focuses on improving the quality of an organization's outputs, including goods and services, through the continual improvement of internal practices.
- TQM aims to hold all parties involved in the production process accountable for the overall quality of the final product or service.

Apart from customer satisfaction, TQM leads to cost reduction. TQM results in a company making a product for less when it is implemented correctly. Companies that engage in TQM provide more consistent products that yield stronger customer loyalty when they emphasize quality and minimize waste. As TQM touches every department across an organization, a company may reap substantial savings from materials sourcing, production, distribution, or back-office functions. Companies that successfully implement TQM can usually react more quickly to change and proactively plan ahead to avoid obsolescence.

02.00 The 6C's

The most important aspect of TQM is to get the assigned task completed at the right time and with quality improvement. The essential requirements for successful implementation are formulated as six C's as detailed below.

Commitment: In order to ensure that quality improvement is a normal part of everyone's job, a clear commitment, from the top must be exhibited. It is not sufficient to delegate 'quality' issues to a single junior, since this will not provide an environment for changing attitudes and breaking down the barriers to quality improvement. The expectations of TQM must be made clear, together with the support and training necessary to their achievement.

Culture: Training lies at the centre of effecting a change in culture and attitudes. As such, training shall be imparted on a regular and continuous basis. In addition, negative perceptions must be changed to encourage individual contributions that make 'quality' a normal part of everyone's job.

Continuous Improvement: TQM should be recognised as a 'continuous process', and not as a 'one-time programme'. It necessitates to prove that the business is committed in the long term to the never-ending search for ways to do the job better. There will always be room for improvement, however small it may be. The key question that shall be imbibed in everyone's mind is 'Can we do it better?'.

Co-operation: TQM visualises Total Employee Involvement (TEI). The on-the-job experience of all employees must be fully utilised and their involvement and co-operation sought in the development of improvement strategies and associated performance measures.

Customer Focus: The needs of the customer are the major driving thrust; not just the external customers (who are in receipt of the final product or service) but also the internal customers (i.e., colleagues who receive and supply goods, services or information). Perfect service with zero defects is all that is acceptable at either internal or external levels.

Control: The need for control mechanisms is frequently overlooked, in practice, in the euphoria of customer service and employee empowerment. Unless procedures are in place improvements cannot be monitored and measured nor deficiencies corrected. Difficulties will undoubtedly be experienced in the implementation of quality improvement and it is worthwhile expounding procedure that might be adopted to minimise them in detail. Therefore, documentation, procedures and awareness of current best practice are essential if TQM implementation are to function appropriately.

03.00 The 4P's

It is possible that the organisation is led to Total Quality Paralysis, instead of improvement, by improper implementation of TQM. To avoid such disruption and paralysis the following principles (called the four P's) of TQM should be followed:

People	To avoid misdirection, TQM teams should consist of team spirited individuals who have a flair for accepting and meeting challenges. Individuals who are not ideally suited to the participatory process of TQM, should not be involved at all, e.g., lack of enthusiasm, non-attendance at TQM meetings, failure to complete delegated work, remaining a "Mute Spectator" at TQM meetings, etc.
Process	It is essential to approach problem-solving practically and to regard the formal process as a system designed to prevent participants from jumping to conclusions. As such, it will provide a means to facilitate the generation of alternatives while ensuring that important discussion stages are not omitted.
Problem	Problems need to be approached in a systematic manner, with teams tackling solvable problems with a direct economic impact, allowing for immediate feedback together with recognition of the contribution made by individual participants.
Preparation	Additional training on creative thinking and statistical processes are needed in order to give participants a greater appreciation of the diversity of the process. This training must quickly be extended beyond the immediate accounting circle to include employees at supervisory levels and also who are involved at the data input strtegey

04.00 PRAISE

Identification of improvement opportunities and implementation of quality improvement process, of the TQM Process is through a six-step activity sequence, identified by the acronym 'PRAISE'.

Step	Activity	Elements
1	**Problem Identification**	• Areas of customer dissatisfaction. • Absence of competitive advantage.
2	**Ranking**	• Prioritise problems and opportunities by – 1. Perceived importance, and 2. Ease of measurement and solution.
3	**Analysis**	• Ask "Why?" to identify possible causes. Keep asking 'Why?' beyond to the move symptoms and to avoid jumping to premature conclusion. • Ask 'What?' to consider potential implications. • Ask 'How much?' to quantify cause and effect.
4	**Innovation**	• Use creative thinking to generate potential solutions. • Operationalise these solutions by identifying: 1. Barriers to implementation, 2. Available enablers, and 3. People whose co-operation must be sought.

5	**Solution**	• Implement the preferred solution. • Take appropriate action to bring about the required changes. • Reinforce with training and documentation back-up.
6	**Evaluation**	• Monitor the effectiveness of actions. • Establish and interpret performance indicators to track progress towards objectives • Identify the potential for further improvements and return to Step 1.

Central to the PRAISE system are - (a) Quality Control - the search for continuous improvements in quality -and (b) Total Employee Involvement - the co-operation and commitment of employees. This dual approach provides a single focus - the customer - whose increased satisfaction remains the primary goal of the procedure.

05.00 Pareto Analysis

Pareto Analysis is a rule that recommends focus on the most important aspects of the decision making in order to simplify the process of decision making. It is based on the 80:20 rule that was a phenomenon first observed by Vilfredo Pareto, a nineteenth century Italian economist. He noticed that 80% of the wealth of Milan was owned by 20% of its citizens. This phenomenon, or some kind of approximation of it say, (70: 30 etc.) can be observed in many different business situations. The management can use it in a number of different circumstances (including TQM) to direct management attention to the key control mechanism or planning aspects. It helps to clearly establish top priorities and to identify both profitable and unprofitable targets.

Pareto analysis seeks to discover from an analysis of defect report or customer complaints which "vital few" causes are responsible for most of the reported problems. Often, 80% of reported problems can usually be traced to 20% of the various underlying causes. By concentrating once efforts on rectifying the vital 20%, one can have the greatest immediate impact on product quality. The Pareto Analysis indicates how frequently each type of failure (defect) occurs. The purpose of the analysis is to direct management attention to the area where the best returns can be achieved by solving most of quality problems, perhaps just with a single action.

06.00 Six Sigma

06.01 Concept

Six Sigma is a set of practices originally developed by Motorola to systematically improve processes by eliminating defects. A defect is defined as non-conformity of a product or service to its specifications. While the particulars of the methodology were originally formulated by Bill Smith at Motorola in 1986, Six Sigma was heavily inspired by six preceding decades of quality improvement methodologies such as quality control, TQM, and Zero Defects. Like its predecessors, Six Sigma asserts the following:

a. Continuous efforts to reduce variation in process outputs is key to business success

b. Manufacturing and business processes can be measured, analyzed, improved and controlled

c. Succeeding at achieving sustained quality improvement requires commitment from the entire organization, particularly from top-level management.

The term "Six Sigma" refers to the ability of highly capable processes to produce output within specification. Reportedly, processes that operate with six-sigma-quality can produce at defect levels ranging below 3.4 defects per (one) million opportunities (DPMO).

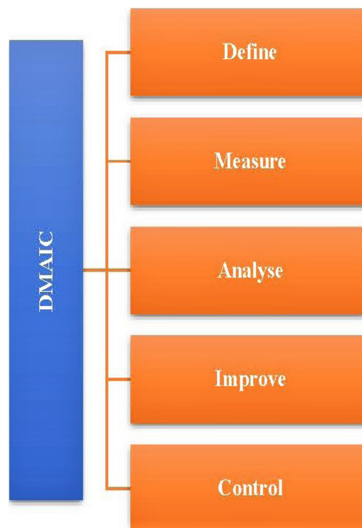
A six-sigma process is a disciplined, data-driven approach and methodology for eliminating defects (driving toward six standard deviations between the mean and the nearest specification limit) in any process – from manufacturing to transactional and from product to service.

Six Sigma has two key methodologies: DMAIC and DMADV, both inspired by W. Edwards Deming's Plan-Do-Check- Act Cycle: DMAIC is used to improve an existing business process, and DMADV is used to create new product or process designs for predictable, defect-free performance.

06.02 DMAIC

Basic methodology consists of the following five steps:

- *Define* the process improvement goals that are consistent with customer demands and enterprise strategy.

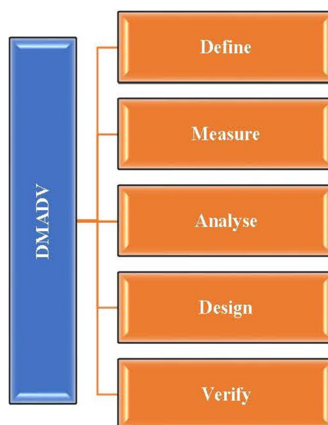


- *Measure* the current process and collect relevant data for future comparison.
- *Analyze* to verify relationship and causality of factors. Determine what the relationship is, and attempt to ensure that all factors have been considered.
- *Improve* or optimize the process based upon the analysis using techniques like Design of Experiments.
- *Control* to ensure that any variances are corrected before they result in defects. Set up pilot runs to establish process capability, transition to production and thereafter continuously measure the process and institute control mechanisms.

06.03 DMADV

Basic methodology consists of the following five steps:

- *Define* the goals of the design activity that are consistent with customer demands and enterprise strategy.



- *Measure* and identify CTQs (critical to qualities), product capabilities, production process capability, and risk assessments.
- *Analyze* to develop and design alternatives, create high-level design and evaluate design capability to select the best design.
- *Design* details, optimize the design, and plan for design verification. This phase may require simulations.
- *Verify* the design, set up pilot runs, implement production process and handover to process owners.

07.00 Caselet (The Quality Management System at Coca Cola)

Coca Cola's history can be traced back to a man called. 'Asa Candler', who bought a specific formula from a pharmacist named Smith Pemberton. Two years later, Asa founded his business and started production of soft drinks based on the formula he had bought. From then, the company grew to become the biggest producers of soft drinks with more than five hundred brands sold and consumed in more than two hundred nations worldwide.

Although the company is said to be the biggest bottler of soft drinks, they do not bottle much. Instead, Coca Cola Company manufactures a syrup concentrate, which is bought by bottlers all over the world. This distribution system ensures the soft drink is bottled by these smaller firms according to the company's standards and guidelines. Although this franchised method of distribution is the primary method of distribution, the mother company has a key bottler in America, Coca Cola Refreshments.

The standardized bottle of Coca Cola has elements that need to be checked whilst on the production line to make sure that a high quality is being met. The most common checks include ingredients, packaging and distribution. Much of the testing being taken place is during the production process, as machines and a small team of employees monitor progress. It is the responsibility of all of Coca Colas staff to check quality from hygiene operators to product and packaging quality. This shows that these constant checks require staff to be on the lookout for problems and take responsibility for this, to ensure maintained quality.

08.00 Quick Take

TQM assures quality, and enables cost reduction.

09.00 Terms to Master

- **Quality:** Quality is that characteristic or a combination of characteristics that distinguishes one article from the other or goods of one manufacturer from that of competitors or one grade of product from another when both are the outcome of the same factory.
- **Quality Management:** Quality Management is defined as "coordinated activities to direct and control an organization with regard to quality".
- **Total Quality Management:** Total Quality Management is a philosophy of continuously improving the quality of all the products and processes in response to continuous feedback for meeting the customers' requirements.
- **PRAISE:** PRAISE is the acronym reflecting a six-step activity sequence of TQM
- **Pareto Analysis:** Pareto Analysis is a rule that recommends focus on the most important aspects of the decision making in order to simplify the process of decision making.
- **Six Sigma:** Six Sigma is a set of practices intended to systematically improve processes by eliminating defects. It is a set of techniques and tools for process improvement.

Topic

Module 10: Management Reporting Issues and Analysis

FINAL

Group IV - Paper-17

Cost and Management Audit (CMAD)

COST AND MANAGEMENT AUDIT

A. **Management Reporting**

What are the common management reporting issues?

Common Management Reporting issues include:

- Inaccurate or incomplete data
- Delays in reporting
- Lack of transparency and clarity
- Insufficient analysis and insights
- Non-compliance with regulatory requirements
- Verbose
- Unclear language

What is the importance of timely management reporting?

Timely reporting enables:

- Informed decision-making
- Quick response to market dynamism
- Identification of areas for improvement
- Enhanced stakeholder trust
- Drawing management attention for necessary action

How can management reporting be improved?

Improvement strategies include:

- Implementing automated reporting tools
- Enhancing data quality and accuracy
- Providing clear and concise reports
- Incorporating data analytics and visualizations
- Regularly reviewing and updating reporting processes
- Requisite skill set in team

B. **Operational Audit**

Definition:

Systematic examination of an organization's operational processes and systems

Objectives:

- Evaluate operational efficiency and effectiveness
- Identify areas for improvement
- Ensure compliance with laws and regulations

Scope:

- Review of internal controls and risk management systems
- Assessment of operational processes and procedures
- Evaluation of performance metrics and benchmarks

Benefits:

- Improved operational efficiency
- Enhanced internal controls
- Better decision-making
- Noticing deviation from SOP (Standard Operating Procedure)

C. **Internal Audit under Companies Act,2013**

The Companies Act 2013 mandates internal audit for certain companies to ensure effective internal controls, risk management, and governance. Here are the key aspects of internal audit under the Act:

Applicability:

- Listed companies
- Unlisted public companies with:
- Paid-up share capital ≥ ₹50 crores
- Turnover ≥ ₹200 crores
- Outstanding loans/debts/deposits ≥ ₹200 crores
- Private companies with:
- Turnover ≥ ₹200 crores
- Outstanding loans/debts/deposits ≥ ₹200 crores

Key Requirements:

- Appointment of internal auditor(s) by the Board of Directors
- Internal auditor(s) to be chartered accountants, cost accountants, or such other professionals as prescribed

Scope of internal audit to include:

- Evaluation of internal controls
- Risk assessment and management
- Compliance with laws and regulations
- Operational efficiency and effectiveness
- Financial reporting and disclosures

Internal audit report to be submitted to the Audit Committee

- Audit Committee to review and recommend actions to the Board

Roles and Responsibilities:

- Internal Auditor:
- Conduct internal audit in accordance with prescribed standards
- Identify and report material weaknesses and risks
- Evaluate internal controls and governance processes
- Audit Committee:
- Oversee internal audit function
- Review internal audit reports and recommendations
- Ensure implementation of audit recommendations
- Board of Directors:
- Appoint internal auditor(s)
- Review and act on internal audit reports and recommendations

Penalties for Non-Compliance:

- Fine: ₹25,000 to ₹5,00,000
- Imprisonment: up to 1 year
- Both fine and imprisonment

Best Practices:

- Regular internal audits
- Independent internal audit function
- Risk-based internal audit approach
- Continuous monitoring and review
- Training and development of internal audit team

By adhering to these requirements and best practices, companies can ensure effective internal audit mechanisms, robust governance, and compliance with the Companies Act 2013.

D. **You are one of the member of Audit Committee of a listed entity. A professional firm was appointed earlier to conduct a dip-stick review of entire gamut of activities carried out by the company. Post review, the auditors finalized their observations and presented before audit committee. You are requested by the audit committee to analyse the observations and provide feedback to Management on future course of action post analysis.**

These examples illustrate the types of analysis that can be conducted in response to issues reported by an internal auditor, focusing on identifying root causes, evaluating internal controls, and recommending improvements.

1. **Financial Mismanagement**

- Issue: Unauthorized expenses exceeding ₹10 lakh without proper approvals.
- Analysis: Review of financial policies, assessment of internal controls, and evaluation of accounting procedures to prevent similar occurrences.

2. **Operational Inefficiencies**

- Issue: Delays in project delivery due to inadequate resource allocation.
- Analysis: Examination of project management processes, resource utilization, and identification of areas for process improvements.

3. **Compliance Violations**

- Issue: Non-adherence to regulatory requirements resulting in penalties.
- Analysis: Review of compliance procedures, assessment of training programs, and evaluation of internal controls to ensure adherence.

4. **Information Security Risks**

- Issue: Unauthorized access to sensitive data due to weak passwords.
- Analysis: Evaluation of IT security policies, assessment of access controls, and recommendation of measures to strengthen data protection.

5. **Procurement Irregularities**

- Issue: Non-compliance with procurement procedures resulting in overpayments.
- Analysis: Review of procurement policies, assessment of vendor selection processes, and evaluation of internal controls.

6. **Human Resources Issues**

- Issue: High employee turnover due to inadequate training and development.
- Analysis: Examination of HR policies, assessment of training programs, and evaluation of employee engagement initiatives.

7. **Asset Mismanagement**

- Issue: Unaccounted assets and equipment.
- Analysis: Review of asset management policies, assessment of inventory controls, and evaluation of procedures for asset disposal.

8. **Fraud Detection**

- Issue: Suspicious transactions indicating potential fraud.
- Analysis: Forensic analysis of transactions, review of internal controls, and recommendation of measures to prevent fraud.

E. **As a duly appointed Cost Auditor, other than compliance aspects what sort of analysis and analytical skills are required for the benefit of the entity.**

Cost auditors require strong analytical skills to evaluate and interpret financial and operational data. Here are some examples of analytical skill requirements for a cost auditor:

1. Cost-benefit analysis: Evaluate the costs and benefits of different business decisions, such as investments, projects, or process improvements.
2. Variance analysis: Identify and analyze deviations from budgeted or standard costs, determining root causes and recommending corrective actions.
3. Trend analysis: Examine historical data to identify patterns, anomalies, and trends in costs, revenues, or productivity.
4. Ratio analysis: Calculate and interpret financial ratios (e.g., material cost to sales, labor cost to production) to assess efficiency and performance.
5. Regression analysis: Use statistical models to analyze relationships between variables, such as cost drivers and their impact on overall costs.
6. Cost modelling: Develop and apply cost models to estimate future costs, predict cost behavior, and evaluate different scenarios.
7. Benchmarking: Compare organizational costs and performance metrics to industry averages, best practices, or internal benchmarks.
8. Root cause analysis: Identify underlying causes of cost variances, inefficiencies, or process issues.
9. Process mapping: Analyse and document business processes to identify inefficiencies, bottlenecks, and areas for improvement.
10. Data mining: Extract insights from large datasets to identify trends, patterns, and correlations.
11. Sensitivity analysis: Evaluate how changes in assumptions or variables impact costs, revenues, or outcomes.
12. Cost attribution: Assign costs to specific products, services, or activities to determine profitability and optimize resource allocation.
13. Cost reduction analysis: Identify opportunities for cost savings and evaluate the feasibility of cost reduction initiatives.
14. Supply chain analysis: Examine the total cost of ownership, including procurement, logistics, and inventory management.
15. Performance metrics analysis: Develop and analyze key performance indicators (KPIs) to measure organizational efficiency and effectiveness.

F. **Cost Accountants can also be appointed as 'Management Auditor'. In performing such assignment/s, analytical skill is of paramount importance. How, when and where in course of performing Management Audit, one can utilize the same , given hereunder.**

Analytical skills can be used to report at least the following 10 management audit issues:

1. **Strategic Planning Issues**

- Analyzing goal-setting processes and identifying gaps
- Evaluating risk assessment methodologies and recommending improvements
- Developing key performance indicators (KPIs) to measure progress

  Example: "The company's strategic plan lacks clear objectives, resulting in misaligned resources. Recommendation: Establish SMART goals and KPIs."

2. **Leadership and Governance Issues**

- Assessing board composition and recommending diversity improvements
- Evaluating management accountability and suggesting enhancements
- Analyzing decision-making processes and identifying biases

Example: "The CEO dominates decision-making, neglecting input from other executives.

Recommendation: Implement a more collaborative leadership approach."

3. **Organizational Structure Issues**

- Mapping organizational charts and identifying inefficiencies
- Analyzing span of control and recommending adjustments
- Evaluating communication channels and suggesting improvements

Example: "The company has excessive management layers, slowing decision-making Process.

Recommendation: Flatten the organizational structure."

4. **Human Resources Issues**

- Analyzing training programs and identifying skill gaps
- Evaluating performance management processes and recommending enhancements
- Assessing recruitment strategies and suggesting improvements

Example: "Employees lack necessary skills, leading to errors.

Recommendation: Develop targeted training programs."

5. **Financial Management Issues**

- Analyzing budgeting processes and identifying variances
- Evaluating financial reporting and recommending enhancements
- Assessing internal controls and suggesting improvements

Example: "Inadequate budgeting resulted in material errors.

Recommendation: Implement zero-based budgeting."

6. **Operational Efficiency Issues**

- Mapping processes and identifying inefficiencies
- Analyzing quality control measures and recommending enhancements
- Evaluating supply chain management and suggesting improvements

Example: "Inefficient workflows cause production delays.

Recommendation: Implement lean manufacturing techniques."

7. **Technology and Information Systems Issues**

- Evaluating system architecture and recommending upgrades
- Assessing data security measures and suggesting enhancements
- Analyzing IT governance and recommending improvements

Example: "Legacy systems hinder integration.

Recommendation: Migrate to cloud-based solutions."

8. **Risk Management Issues**

- Identifying and assessing potential risks
- Evaluating risk mitigation strategies and recommending enhancements
- Analyzing compliance with regulations and suggesting improvements

Example: "Cybersecurity risks are inadequately addressed.

Recommendation: Implement robust security measures."

9. **Communication and Stakeholder Issues**

- Analyzing internal communication channels and recommending enhancements
- Evaluating stakeholder engagement strategies and suggesting improvements
- Assessing transparency and recommending enhancements

Example: "Employees are unaware of company goals.

Recommendation: Establish regular town hall meetings."

10. **Monitoring and Evaluation Issues**

- Developing and tracking key performance indicators (KPIs)
- Analyzing progress and identifying areas for improvement
- Evaluating corrective actions and recommending enhancements

Example: "KPIs are inadequate, hindering progress assessment.

Recommendation: Establish comprehensive KPIs."

Topic

Module 3:

Accounting of Financial Instruments

FINAL

Group IV - Paper-18

Corporate Financial Reporting (CFR)

In this issue I shall discuss on accounting of financial assets in compliance with Ind AS.

Accounting includes recognition, measurement (initial and subsequent), recording, presentation and disclosure.

Ind AS 32 Para 11 (32.11): A ***financial instrument*** is any contract that gives rise to

(i) a financial asset of one entity and

(ii) a financial liability of another entity or

(iii) equity instrument of another entity.

A ***financial asset*** includes:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right to receive cash or another financial asset from another entity.

Recognition

109. 3.1.1 An entity shall recognise a financial asset in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.

Measurement

Ind AS109 Para 5.1 (109.5.1) All financial assets are initially measured at fair value.

Ind AS109 Para 5.2.1 (109.5.2.1) After initial recognition, an entity shall measure a financial asset subsequently at:

(a) amortised cost;

(b) fair value through other comprehensive income; or

(c) fair value through profit or loss.

Ind AS109 Para 4.1 (109.4.1)

Accordingly, a financial asset is thus categorised in the above three classes of subsequent measurement on the basis of both (a) the entity's business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial asset.

4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A.

However, an entity may make an irrevocable election at initial recognition for particular investments in *equity instruments* that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Recording

Problem 1.

X Ltd. a non-financial company had given a Loan of ₹ 2,00,000 to Y Ltd. on 01/01/2021. The terms of the Loan include receiving 5% interest pa and getting back ₹ 2,20,000 at the end of 3 years.[assume accounts closing on 31/12]

Solution:

This Loan is recognised as a financial asset and accounting will be made as follows:

The business model is to achieve contractual cash flows at specified dates and cash flows are solely interest and principal amount. The financial asset is accounted at amortised cost in the books of X Ltd., and interest will be recorded for the amount outstanding at the effective rate of interest.

Here, financial income arises in two ways: annual interest amount at 5% of the principal and ₹ 20,000 over the principal amount at the end of 3 years. Effective interest rate is calculated taking both the financial incomes in consideration = 8.078% (Internal Rate of Return).

Working note

	At the beginning	Interest at 8.078%	Amount received	At the end
Year 1	200000	16156	10000	206156
Year 2	206156	16653	10000	212809
Year 3	212809	17191	230000	0

Journal entries

Date	Particulars		Amount (₹)	Amount (₹)
01-01-21	Loan Receivable	Dr.	2,00,000	
	To Bank			2,00,000
31-12-2021	Loan Receivable A/C	Dr.	16,156	
	To Interest Income			16,156
	Bank A/C	Dr.	10,000	
	To Loan Receivable			10,000
31-12-2022	Loan Receivable A/C	Dr.	16,653	
	To Interest Income			16,653
	Bank A/C	Dr.	10,000	
	To Loan Receivable			10,000
31-12-2023	Loan Receivable A/C	Dr.	17,191	
	To Interest Income			17,191
	Bank A/C	Dr.	2,30,000	
	To Loan Receivable			2,30,000

Interest income to be credited to Statement of Profit and Loss ₹ 16,156 in 2021, ₹ 16,653 in 2022 and ₹ 17,191 in 2023.

Balance sheet shows Loans Receivable as non-current asset at ₹ 2,06,156 as at 31-12-2021, at ₹ 2,12,809 as at 31-12-2022 and at ₹ 0 as at 31-12-2023.

Topic

Module 1:
Supply under GST - A Refresh

Module 3:
Place of Supply

Module 10:
GST Returns

FINAL

Group IV - Paper-19

Indirect Tax Laws and Practice (ITLP)

GST on OIDAR Services

As the digital economy proliferates, the taxation of services provided through the internet has caught the attention of regulators. These internet-based services are known as Online Information Database Access and Retrieval (OIDAR). Online Information Database Access and Retrieval services (OIDAR) is a category of services provided through the medium of the internet, and received by the recipient online without having any physical interface with the supplier of such services

Meaning of OIDAR

As per sec. 2(17) of the Integrated Goods & Services Tax, 2017, "online information and database access or retrieval services" means services whose delivery is mediated by information technology over the internet or an electronic network and the nature of which renders their supply impossible to ensure in the absence of information technology and includes electronic services such as:

i. advertising on the internet;

ii. providing cloud services;

iii. provision of e-books, movie, music, software and other intangibles through telecommunication networks or internet;

iv. providing data or information, retrievable or otherwise, to any person in electronic form through a computer network;

v. online supplies of digital content (movies, television shows, music and the like);

vi. digital data storage; and

vii. online gaming, excluding online money gaming

Example

- Supply of distance teaching: Automated distance teaching dependent on the Internet or similar electronic network to function and the supply of which requires limited or no human intervention, including virtual classrooms; and workbooks completed by pupils online and marked automatically, without human intervention.
- Supply of images, text and information, and making available of databases: It includes accessing or downloading desktop themes; accessing or downloading photographic or pictorial images or screensavers; the digitized content of books and other electronic publications; subscription to online newspapers and journals; the provision of advertising space including banner ads on a website/web page; and use of search engines and Internet directories.
- Website supply, webhosting, distance maintenance of programs and equipment: It includes website hosting and webpage hosting; automated, online, and distance maintenance of programs; remote systems administration; online data warehousing where specific data is stored and retrieved electronically; and online supply of on-demand disc space.
- Supply of software and updating thereof: It includes accessing or downloading software (including procurement/accountancy programs and antivirus software) plus updates; software to block banner adverts showing, otherwise known as Banner blockers; download drivers, such as software that interfaces computers with peripheral equipment (such as printers); online automated installation of filters on websites; and online automated installation of firewalls.
- Supply of music and films: It includes accessing or downloading of films and music onto computers and mobile phones.

Place of supply

The GST applicability on OIDAR services depends on the location of the recipient of the service. Under Section 13(12) of the IGST Act 2017, where the location of the supplier or location of the recipient is outside India – the place of supply of OIDAR services shall be the location of the recipient of services.

Thus, person receiving such services shall be deemed to be located in the taxable territory, if any two of the following non-contradictory conditions are satisfied

a. the location of address presented by the recipient of services through internet is in the taxable territory;

b. the credit card or debit card or store value card

1. as amended

or charge card or smart card or any other card by which the recipient of services settles payment has been issued in the taxable territory;

c. the billing address of the recipient of services is in the taxable territory;

d. the internet protocol (IP) address of the device used by the recipient of services is in the taxable territory;

e. the bank of the recipient of services in which the account used for payment is maintained is in the taxable territory;

f. the country code of the subscriber identity module card used by the recipient of services is of taxable territory;

g. the location of the fixed land line through which the service is received by the recipient is in the taxable territory.

Taxability of OIDAR services

The taxability of OIDAR services is dependent on the location of the recipient and GST liability is determined accordingly:

Situation	Applicability of GST	Charge Mechanism
If both the supplier, as well as the recipient, are in India	Applicable	Forward Charge
If the supplier is outside the taxable territory, and the recipient located in India is registered under GST	Applicable	Reverse Charge
If the recipient is residing in India, but is not registered under GST, and the supplier is outside the boundaries of India	Applicable	Forward Charge
When an unregistered, non-taxable person in India imports the OIDAR services	Applicable	The supplier located outside India will make the payment for such tax on the forward charge
If both the suppliers, as well as recipients, are not located in India	Not applicable	-
If the supplier is residing in India, but the recipient is located outside the taxable territory in India	Not applicable as the same is the export service	-
OIDAR products are not owned or belong to the portal or app where it is available for sale but such intermediaries are facilitating entire transactions on purchase of such software/ music or other OIDAR products	Applicable, if other conditions are satisfied	Such Intermediary

GST returns and due dates

- OIDAR service providers located in India: They must file GSTR-1and GSTR-3B and annual GST return like other regular taxpayer.
- OIDAR service providers located outside India: They are required to file Form GSTR-5A on or before the 20th of each month. They must appoint a representative in India for filing of GST returns and ensuring compliance under GST.

OIDAR services are unique as they transcend physical borders. The internet allows seamless global transactions, making it essential to have clear rules for taxation. The GST framework ensures that these services are taxed appropriately based on the recipient's location. Remember, using the internet to communicate or facilitate services doesn't always mean a business is providing OIDAR services. For instance, regular email communication or physical repair services aren't considered OIDAR. So, whether you're streaming movies, hosting websites, or providing cloud services, understanding the place of supply is crucial for compliance.

ELECTIVES

Paper-20A

Strategic Performance Management and Business Valuation (SPMBV)

Topic

Module 2: Performance Measurement, Evaluation and improvement Tools

Module 6: Laws and Compliance in Business Valuation

Essay on Performance Improvement Tools

Performance improvement tools are essential in modern organizations for enhancing productivity, efficiency, and overall performance. These tools span various domains, from individual development to team dynamics and organizational strategies. This write-up delves into some of the most effective performance improvement tools and methodologies, exploring their application, benefits, and limitations.

1. Performance Management Systems (PMS)

Performance Management Systems are comprehensive frameworks designed to monitor, measure, and enhance employee performance. These systems typically integrate various components such as goal setting, continuous feedback, performance appraisals, and development plans.

Application: Performance Management Systems are used to align individual performance with organizational goals. They facilitate regular check-ins between managers and employees, setting clear expectations, and providing a structured approach to performance reviews.

Benefits:

- **Alignment with Goals:** Ensures that individual objectives are aligned with the company's strategic goals.
- **Continuous Feedback:** Provides a platform for ongoing feedback, helping employees adjust their performance in real-time.
- **Development Opportunities:** Identifies strengths and areas for improvement, guiding personalized development plans.

Limitations:

- **Complexity:** Can be complex to implement, requiring significant time and resources.
- **Biases:** Performance appraisals can be subjective, leading to potential biases.

2. 360-Degree Feedback

360-Degree Feedback is a tool where feedback is gathered from multiple sources, including peers, subordinates, supervisors, and sometimes, clients. This method provides a comprehensive view of an individual's performance and behavior.

Application: Typically used for personal development and performance evaluation, 360-Degree Feedback helps individuals understand how their behavior and performance are perceived from different perspectives.

Benefits:

- **Holistic View:** Offers a well-rounded perspective on performance, beyond just the supervisor's viewpoint.
- **Personal Development:** Encourages self-awareness and targeted personal development.
- **Enhanced Communication:** Promotes open communication and trust within teams.

Limitations:

- **Anonymity Issues:** May lead to less honest feedback if anonymity is not assured.
- **Overwhelming Information:** Can be overwhelming to process large amounts of feedback.

3. Key Performance Indicators (KPIs)

Key Performance Indicators are measurable values that indicate how effectively an individual or organization is achieving key business objectives. KPIs are used to track progress, measure performance, and drive strategic decision-making.

Application: KPIs are set at various levels—organizational, departmental, and individual. They provide benchmarks for success and are used to monitor progress towards strategic goals.

Benefits:

- **Focus:** Helps focus efforts on what matters most for achieving goals.
- **Measurement:** Provides quantifiable metrics for performance assessment.
- **Motivation:** Acts as a motivator by setting clear targets and expectations.

Limitations:

- **Misalignment:** KPIs that are not well-aligned with organizational goals can lead to misguided efforts.
- **Overemphasis on Metrics:** Over-reliance on KPIs can sometimes overshadow qualitative aspects of performance.

4. Benchmarking

Benchmarking involves comparing an organization's processes, performance, and practices against those of industry leaders or competitors. This comparison helps identify areas of improvement and best practices.

Application: Organizations use benchmarking to evaluate their performance relative to industry standards or competitors. It involves collecting data, analyzing performance gaps, and implementing improvements based on best practices.

Benefits:

- **Best Practices:** Helps identify industry best practices and standards.
- **Performance Gaps:** Highlights areas where improvements are needed.
- **Competitive Advantage:** Provides insights into how to gain a competitive edge.

Limitations:

- **Data Availability:** Requires access to relevant data from competitors, which may not always be available.
- **Implementation Challenges:** Adapting best practices from others may not always align with the organization's specific context.

5. Lean Six Sigma

Lean Six Sigma is a methodology that combines lean manufacturing principles with Six Sigma practices to improve process efficiency and quality. Lean focuses on reducing waste, while Six Sigma aims at reducing variability and defects.

Application: Used in manufacturing, service industries, and various other sectors, Lean Six Sigma involves defining, measuring, analyzing, improving, and controlling processes (DMAIC) to achieve process excellence.

Benefits:

- **Efficiency:** Reduces waste and improves process efficiency.
- **Quality:** Enhances quality by reducing defects and variability.
- **Customer Satisfaction:** Improves customer satisfaction through better process outcomes.

Limitations:

- **Complexity:** Implementation can be complex and requires significant training.
- **Resource Intensive:** May demand substantial resources and time for effective deployment.

6. Balanced Scorecard

Balanced Scorecard is a strategic planning and management tool that provides a comprehensive view of organizational performance. It balances financial measures with non-financial ones, such as customer satisfaction, internal processes, and learning and growth.

Application: The Balanced Scorecard helps organizations translate their strategic objectives into a set of performance metrics across four perspectives: financial, customer, internal business processes, and learning and growth.

Benefits:

- **Comprehensive View:** Provides a balanced view of performance beyond financial metrics.
- **Strategic Alignment:** Aligns business activities with the vision and strategy of the organization.
- **Improved Communication:** Enhances communication and understanding of business strategy.

Limitations:

- **Implementation:** Requires a clear strategy and commitment to implement effectively.
- **Overemphasis:** Risk of overemphasis on metrics rather than strategic outcomes.

7. Root Cause Analysis (RCA)

Root Cause Analysis is a problem-solving method used to identify the underlying causes of issues or failures. By addressing root causes, organizations can prevent recurrence and improve processes.

Application: RCA is used in various contexts, such as quality management, operational issues, and project management. It involves techniques like the 5 Whys, Fishbone Diagram (Ishikawa), and Failure Mode and Effects Analysis (FMEA).

Benefits:

- **Problem Solving:** Helps identify and address the underlying causes of problems.
- **Prevention:** Prevents recurrence of issues by tackling root causes.
- **Process Improvement:** Enhances overall process quality and reliability.

Limitations:

- **Time-Consuming:** Can be time-consuming to thoroughly investigate and analyze root causes.
- **Complex Problems:** May struggle with complex problems that have multiple contributing factors.

8. Employee Training and Development Programs

Employee Training and Development Programs focus on enhancing employees' skills, knowledge, and competencies. These programs can be formal (e.g., workshops, seminars) or informal (e.g., on-the-job training).

Application: Organizations implement training and development programs to address skill gaps, foster professional growth, and improve performance. These programs can be tailored to individual or organizational needs.

Benefits:

- **Skill Enhancement:** Improves employee skills and competencies.
- **Career Growth:** Provides opportunities for career advancement and personal development.
- **Increased Productivity:** Leads to higher productivity and job satisfaction.

Limitations:

- **Cost:** Training programs can be costly to design and implement.
- **Effectiveness:** The effectiveness of training depends on its relevance and application.

9. Change Management Tools

Change Management Tools help organizations navigate and manage change effectively. These tools address the human, organizational, and procedural aspects of change to ensure successful implementation.

Application: Change management tools are used in projects involving organizational transformation, process changes, or new technology adoption. Tools such as ADKAR, Kotter's 8-Step Process, and Lewin's Change Model guide the change process.

Benefits:

- **Smooth Transition:** Facilitates a smooth transition during changes.
- **Employee Engagement:** Involves employees in the change process, reducing resistance.
- **Success Rates:** Increases the likelihood of successful change implementation.

Limitations:

- **Resistance:** Change can be met with resistance, making effective management crucial.
- **Resource Intensive:** Requires resources and commitment from leadership.

Essay on Business Valuation

Essay on Business Valuation

Business valuation is a complex field governed by a blend of legal frameworks, standards, and practices designed to ensure fairness, accuracy, and transparency. Understanding the laws that underpin business valuation is crucial for stakeholders, including business owners, investors, and appraisers. These laws encompass a range of regulations and standards that influence how businesses are valued, including statutory regulations, financial reporting standards, tax laws, and contractual obligations. Each of these areas contributes to the overarching principles that guide business valuation practices.

Statutory Regulations

In many jurisdictions, statutory regulations provide the legal framework for business valuation. These

regulations often stem from corporate law and dictate how valuations should be conducted in specific contexts, such as mergers, acquisitions, and shareholder disputes. For instance, in the United States, the Securities and Exchange Commission (SEC) oversees the valuation of public companies through its regulations and guidelines. Companies must adhere to SEC rules when preparing financial statements, which indirectly impacts business valuation by ensuring that financial reporting is accurate and transparent.

Moreover, in countries like the UK, the Companies Act 2006 sets out provisions for company valuations, especially in scenarios involving statutory buyouts or company restructuring. The Act requires that valuations be conducted fairly and transparently, ensuring that minority shareholders receive fair value during buyouts. Similarly, the Canadian Business Corporations Act (CBCA) provides guidelines on valuations in cases of dissenting shareholder rights and corporate reorganizations. These statutory regulations aim to protect stakeholders' interests and maintain market integrity by enforcing fair valuation practices.

Financial Reporting Standards

Financial reporting standards play a significant role in business valuation by defining how financial information should be reported and interpreted. International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) are two primary frameworks influencing valuation practices.

Under IFRS, particularly IFRS 13, which deals with fair value measurement, there are detailed guidelines on how to measure and report the fair value of assets and liabilities. IFRS 13 emphasizes the use of market-based inputs and considers the highest and best use of an asset in its valuation. This standard ensures consistency and comparability in financial reporting, which is crucial for accurate business valuation.

In the United States, GAAP also influences valuation through standards like ASC 820, which aligns closely with IFRS 13 in its approach to fair value measurement. GAAP requires that fair value be determined using observable market data when available and emphasizes a three-level hierarchy of inputs to guide valuation. This ensures that valuations are based on relevant and reliable data, promoting transparency and reducing subjectivity.

Tax Laws

Tax laws have a significant impact on business valuation, especially concerning tax implications and planning. In many jurisdictions, tax authorities have specific regulations regarding the valuation of assets and businesses for tax purposes. For example, in the United States, the Internal Revenue Service (IRS) has established guidelines for valuing businesses in the context of estate taxes, gift taxes, and income taxes.

The IRS provides detailed instructions in Revenue Ruling 59-60, which outlines the methods and considerations for business valuation, including the income approach, market approach, and asset-based approach. This ruling is crucial for appraisers and tax professionals as it guides the valuation process and ensures that valuations used for tax reporting are compliant with IRS standards.

Similarly, in the UK, Her Majesty's Revenue and Customs (HMRC) provides guidance on business valuations for tax purposes, including capital gains tax and inheritance tax. HMRC's guidelines ensure that business valuations are performed accurately and in accordance with tax regulations, helping to avoid disputes and ensuring fair taxation.

Contractual Obligations

Contractual obligations also influence business valuation, particularly in the context of mergers and acquisitions, partnership agreements, and shareholder disputes. Contracts often specify how valuations should be conducted and which methods should be used, impacting the valuation process.

For instance, in a merger or acquisition, the terms of the deal may include clauses that dictate the valuation method to be used, such as discounted cash flow (DCF) or precedent transactions. These contractual terms ensure that both parties agree on the valuation approach and reduce the potential for disputes.

In partnership agreements, valuation clauses may be included to determine the value of a partner's interest in the business. These clauses often specify the method of valuation and the procedures for resolving disagreements. Clear contractual provisions help

manage expectations and ensure that valuations are conducted fairly and in accordance with the agreed-upon terms.

Professional Standards and Ethics

In addition to legal and regulatory frameworks, professional standards and ethical considerations play a crucial role in business valuation. Organizations like the American Society of Appraisers (ASA), the Chartered Business Valuators (CBV) Institute, and the International Valuation Standards Council (IVSC) establish standards and guidelines that govern valuation practices.

The ASA's Business Valuation Standards and the IVSC's International Valuation Standards (IVS) provide detailed guidelines on how valuations should be conducted, including the principles of fairness, objectivity, and transparency. These standards help ensure that valuations are performed consistently and adhere to high ethical standards.

Ethical considerations are also integral to valuation practices. Valuators must maintain independence, avoid conflicts of interest, and provide honest and unbiased assessments. Adherence to ethical standards helps maintain the credibility and reliability of valuation results.

Judicial Precedents and Case Law

Judicial precedents and case law also influence business valuation by shaping legal interpretations and practices. Courts often provide rulings on valuation disputes, which can set precedents for future cases. For example, in the United States, cases involving shareholder disputes or divorce settlements may lead to judicial interpretations of valuation methods and principles.

One notable example is the case of *Delaware Open MRI Radiology Associates, P.A. v. Kessler* (2008), where the Delaware Court of Chancery provided insights into the valuation of minority interests and the application of the fair value standard. Such cases help clarify how valuation principles should be applied in specific legal contexts, providing guidance for future valuations.

Similarly, in the UK, cases like *Re Smith & Fawcett Ltd* (1942) have influenced valuation practices by establishing principles related to fair value and the treatment of minority interests. Judicial precedents play a crucial role in shaping valuation practices and ensuring that valuations are conducted in accordance with legal principles.

Global Considerations

In a globalized economy, international considerations also impact business valuation. Cross-border transactions and international investments require adherence to both local and international valuation standards. For example, multinational companies must navigate different regulatory environments and standards when conducting valuations.

The International Valuation Standards Council (IVSC) plays a key role in promoting consistency and comparability in global valuations. The IVSC's International Valuation Standards (IVS) provide a framework for valuation practices that can be applied across different jurisdictions. Adherence to international standards helps ensure that valuations are recognized and accepted globally.

Integration and Implementation

Integrating and implementing these laws and standards in business valuation requires a comprehensive understanding of the regulatory landscape and careful consideration of various factors. Valuers must stay informed about changes in regulations, standards, and case law to ensure that their valuations are compliant and accurate.

Organizations often work with legal and financial experts to navigate the complexities of business valuation. Collaboration between valuers, legal professionals, and financial advisors helps ensure that valuations are conducted in accordance with applicable laws and standards, reducing the risk of disputes and ensuring fair outcomes.

In summary, the laws governing business valuation encompass a wide range of statutory regulations, financial reporting standards, tax laws, contractual obligations, professional standards, and judicial precedents. Each of these areas contributes to the principles and practices that guide business valuation, ensuring fairness, accuracy, and transparency. By understanding and adhering to these laws, stakeholders can navigate the complexities of business valuation and achieve reliable and equitable outcomes.

Topic

Module 2:
Interest Rate Risk and Market Risk

Module 6:
Introduction to Insurance Business

ELECTIVES

Paper-20B

Risk Management In Banking and Insurance (RMBI)

Interest Rate Risk (IRR) in Banks

Interest rate risk (IRR) for a financial institution is similar to changing raw material costs for a manufacturing organization. If a financial institution like bank, non-banking finance company (NBFC) or housing finance company (HFC) is not able to manage interest rate risk properly, then it runs the risk of running into losses just like any manufacturing organization will do if it does not manage raw material costs properly.

Financial institutions (FIs) represent businesses where they borrow money from one counterparty and lend it to another counterparty. A financial institution may borrow money from depositors (current and savings account or fixed deposits) or investors in commercial papers (CPs) or debentures or corporate bonds etc. Thereafter, the financial institution lends this money to entities like individuals (home loans, consumer loans etc.) or corporates (working capital loans, project loans etc.)

Therefore, a financial institution pays a rate of interest to the depositors and receives a rate of interest from borrowers. If it receives a higher interest rate from its borrowers than what it pays to its depositors, then the financial institution makes a profit. Otherwise, it makes a loss.

If an investor compares it with a manufacturing organization, then the interest paid to the depositors is the cost of goods sold (COGS) or raw material cost for a financial institution. The interest rate received from the borrowers is the sales price of goods. If a manufacturing organization receives a sales price of goods, which is less than the cost of the raw material, then it will make a loss. Similarly, if a financial institution receives a lower interest rate from borrowers than what it has to pay to its depositors, then the financial institution will make a loss.

Many times, financial institutions raise money from depositors/investors for a short duration (a few months like CP or Current Account and Savings Account - CASA) and then use this money to give long-term loans (many years like home loans). In such cases, the financial institution has to keep renewing its short-term borrowings from depositors/investors so that it can keep its long-term loans intact. This creates a situation of asset liability mismatch (ALM).

ALM is an important risk for any financial institution because the counterparties, which have given it short-term funds, may demand it back whereas the FI would not have money to pay them back because all its money would be stuck in long-term loans given by it. Investors may read more about the asset liability mismatch in the following article:

Apart from the asset liability mismatch, the habit of raising money from short term depositors/investors and lending it for long-term loans raises another risk for financial institutions, which is called Interest Rate Risk (IRR).

Interest Rate Risk arises when the rate at which the loans are given by the financial institution is fixed whereas the rate at which it has raised money from depositors/ investors is variable. If the depositors ask for a higher rate from the financial institution and it is not able to pass on this increased cost of funds to its borrowers, then the financial institution faces the risk of losses. This is called Interest Rate Risk (IRR). Interest rate risk further increases in cases where the loans given by the financial institution with fixed interest rate are long-term loans and the deposits raised at variable interest rate are short-term deposits like Commercial Papers (CPs).

Strategies to mitigate Interest Rate Risk:

1. Lend at floating/variable interest rates so that they can pass on the impact of increasing borrowing rates to customers and thereby avoid losses.
2. Whenever financial institutions lend at fixed interest rates, then they keep the interest rate differential/ premium high for such customers so that the FI can bear a higher increase in its borrowing costs before it starts to make losses. E.g. if the borrowing cost of the FI is 10% and let us assume that it usually keeps an interest margin of 2% for the floating rate customers i.e. gives out floating rate loans at 12%. Then whenever any customer asks it for a fixed-rate loan, then it keeps a higher interest margin, assume 4%, and quotes a fixed-rate loan at 14%. In this manner, the FI builds an additional cushion to bear the impact of its rising borrowing costs in case of fixed interest rate loans.

3. Even when financial institutions give loans at fixed interest rate loans, in the terms and conditions, they incorporate provisions that if the interest rates rise beyond a limit, then the FIs keep the right to increase the interest rates even on these fixed interest rate loans.

4. If in a rare scenario, borrowing costs of the FIs increase drastically e.g. from the original assumed rate of 10% in point (2) above, the borrowing cost rises to 20%, then as rightly suggested by you, many good customers will also start to default. Moreover, in such a situation, the increase in defaults will be across the entire industry. In such cases, the entire financial industry will approach the Reserve Bank of India (RBI) for a bailout to allow them to restructure the loans of their customers who are now facing difficulties in making payments.

Three main sub-types of IRR are defined for the purposes of principles:

a) Gap risk arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).

b) Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.

c) Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows. Option risk can be further characterised into automatic option risk and behavioural option risk.

All three sub-types of IRR potentially change the price/value or earnings/costs of interest rate sensitive assets, liabilities and/or off-balance sheet items in a way, or at a time, that can adversely affect a bank's financial condition.

Sources Of Interest Rate Risk-Gap or Mismatch Risk:

A gap or mismatch risk arises from holding assets and liabilities with different principal amounts, maturity dates or repricing dates, thereby creating exposure to changes in the level of interest rate. The gap is the difference between the amount of assets and liabilities on which the interest rates are reset during a given period. In other words, when assets and liabilities fall due to repricing in different periods, they can create a mismatch. Such a mismatch or gap may lead to gain or loss depending upon how interest rates in the market tend to move.

Example:

A bank holds ₹ 100 crore liabilities at 9% of one year maturity to fund assets of ₹ 100 crore at 10% with two-year maturity. Over the first year, bank is getting a profit spread of 1% amounting to ₹ 1 crore. However, its profits for second year are not certain. If interest rate remains unchanged, the profits will continue to be the same. However, since the liabilities are for one year and need to be rolled over for second year, bank is exposed to interest rate risk.

If the interest rate on liabilities increase to 11% in second year, bank would be incurring a loss of 1%, i.e., ₹ 1 crore in the second year. Conversely bank is again exposed to interest rate risk if it holds shorter term assets relative to liabilities, i.e., liabilities maturing in two years against assets maturing in one year. It then faces the uncertainty of interest rate at which it can reinvest funds after the first year for further one year matching the liabilities maturity.

Introduction to Insurance Business in India

India's Insurance industry is one of the premium sectors experiencing upward growth. This upward growth of the insurance industry can be attributed to growing incomes and increasing awareness in the industry. India is the **fifth largest life insurance market** in the world's emerging insurance markets, growing at a rate of 32-34% each year. In recent years, the industry has been experiencing fierce competition among its peers which has led to new and innovative products within the industry.

Over the **past nine years**, the insurance sector has attracted substantial foreign direct investment amounting to nearly ₹ 54,000 crore (US$ 6.5 billion), driven by the Government's Progressive relaxation of overseas capital flow regulations.

The Insurance Industry of India has **57 insurance companies - 24 are in the life insurance business, while 34 are non-life insurers**. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC Re).

Other stakeholders in the Indian Insurance market include agents (**individual and corporate**), brokers, surveyors and third-party administrators servicing health insurance claims.

The insurance industry has undergone **numerous transformations in terms of new developments, modified regulations, proposals for amendments and growth in 2022**. These developments have opened new avenues of growth for the industry while ensuring that insurers stay relevant with changing times and the latest digital disruptions.

The Insurance Regulatory and Development Authority India (IRDA) is vigilant and progressive and is determined to achieve its mission of '**Insurance for all by 2047**', with aggressive plans to address the industry's challenges.

The growth of the insurance market is being **supported by important government initiatives**, strong democratic factors, conducive regulatory environment, increased partnerships, product innovations, and vibrant distribution channels.

Insurance Industry was **largely dominated by offline channels** like corporate agents, offline brokers or banks. Today, rapid digitization, product innovation and progressive regulation policies have made it possible for consumers to buy insurance through multiple distribution channels with the click of a button. The instability of the covid-19 pandemic highlighted the necessity for consumers to invest in products that would increase financial security, one of them being life insurance.

The insurance industry in India has witnessed an impressive growth rate over the last two decades driven by the greater private sector participation and an improvement in distribution capabilities, along with substantial improvements in operational efficiencies.

In FY24, non-life players' saw a premium income increase by **19.5% year-over-year to ₹ 1,14,972 crore (US$ 13.8 billion)** due to strong demand for health and motor policies. The business growth for FY24 was driven by health (especially the group segment), **motor, and crop Insurance**.

The business growth for FY24 was driven by health (especially the group segment), motor, and crop insurance.

In the first-year premium share of life insurance in India, **LIC dominates with 58.87%, while the private sector holds 41.13%**.

Among the private players, SBI Life, HDFC Life and ICICI Prudential Life led the industry in premium collection. SBI Life collected ₹ 38,238 crore (US$ 4.60 billion) premium, while HDFC Life and ICICI Prudential Life received ₹ 29,988 crore (US$ 3.60 billion) and ₹ 18,081 crore (US$ 2.17 billion), respectively.

Mr. Debashish Panda, Chairman, IRDAI informed that the insurance industry of India has become a ₹ 59 crore (US$ 7.1 million) industry as of February 2023.

Driven by a pick-up in Health and Motor Insurance segments, the Non-life insurance industry has grown by 16.4% in FY23 compared to 11.1% in the previous year.

In India, gross premiums written off by non-life insurers reached US$ 10.95 billion in FY24 and US$ 31 billion in FY23.

In the financial year 2023, India's insurance premium penetration accounted for 4% of the GDP, with life insurance making up 3% and non-life insurance comprising 1%.

The penetration of Indian insurance industry was less than 5% of the GDP. IRDAI data shows that India's insurance penetration was 4% of the GDP in 2022-23.

Premiums from India's life insurance industry is expected to reach ₹ 24 lakh crore (US$ 317.98 billion)

The market share of private sector companies in the general and health insurance market increased from 48.03% in FY20 to 49.31% in FY21 to 62.5% in FY23.

According to S&P Global Market Intelligence data, India is the second-largest insurance technology market in Asia-Pacific, accounting for 35% of the US$ 3.66 billion Insurtech-focused venture investments made in the country.

Government Initiatives:

The Government of India has taken number of initiatives to boost the insurance industry. Some of them are as follows:

- ✓ **The Interim Budget for 2024-25** aims to enhance value addition in agriculture and boost farmers' income. It plans to increase investment in post-harvest activities, provide financial aid to 11.8 crore farmers also offered crop insurance to 4 crore farmers, and promote self-reliance in oilseeds.
- ✓ The **Union Budget 2023-24** has proposed to limit the income tax exemption on the proceeds of high value life insurance policies. Mooted as part of an emphasis on better targeting of tax concessions and exemptions, the proposal means that income from life insurance policies with an **aggregate premium up to ₹ 5 lakh (US$ 6,075)** will be exempt from taxation.
- ✓ The government's flagship initiative for crop insurance, **Pradhan Mantri Fasal Bima Yojana (PMFBY)**, has led to significant growth in the premium income for crop insurance.
- ✓ **Ayushman Bharat (Pradhan Mantri Jan Arogya Yojana) (AB PMJAY)** aims at providing a health cover of ₹ 5 lakh (US$ 6,075) per family per year for secondary and tertiary care hospitalization.
- ✓ Insurance cover for 44.6 crore persons under **PM Suraksha Bima and PM Jeevan Jyoti Yojana** was provided during FY23.
- ✓ In 2022, the Indian government plans to sell a 7% stake in LIC for ₹ 50,000 crore (US$ 6.62 billion). This is the largest initial public offering (IPO) in India.
- ✓ In November 2021, the Indian government signed an agreement with the World Bank for a US$ 40 million project to advance the qualities of health services in Meghalaya, including the state's health insurance program.
- ✓ In September 2021, the Union Cabinet approved an investment of ₹ 6,000 crore (US$ 804.71 million) into entities, offering export insurance cover to facilitate additional exports worth ₹ 5.6 lakh crore (US$ 75.11 billion) over the next five years.
- ✓ In August 2021, the Parliament passed the General Insurance Business (Nationalization) Amendment Bill. The bill aims to allow privatization of state-run general insurance companies.
- ✓ Union Budget 2021 increased **FDI limit in insurance from 49% to 74%**. India's Insurance Regulatory and Development Authority (IRDAI) has announced the issuance, through Digi locker, of digital insurance policies by insurance firms.
- ✓ Under the Union Budget 2021, Finance Minister Ms. Nirmala Sitharaman announced that the initial public offering (IPO) of LIC will be implemented in FY22, as part of the consolidation in the banking and insurance sector. Though no formal market valuation has been undertaken, LIC's IPO has the potential to raise ₹ 1 lakh crore (US$ 13.62 billion).
- ✓ In June 2021, the government extended a ₹ 50 lakh (US$ 66.85 thousand) insurance coverage scheme for healthcare workers across India until the next one year.
- ✓ In February 2021, the Finance Ministry announced to infuse ₹ 3,000 crore (US$ 413.13 million) into state-owned general insurance companies to improve the overall financial health of companies.
- ✓ Under Union Budget 2021, fund of ₹ 16,000 crore (US$ 2.20 billion) has been allocated for crop insurance scheme.

Topic

Module 2: The Enterpreneurial Ecosystem

Module 3: Idea to Action

ELECTIVES

Paper-20C

Entrepreneurship and Start Up (ENTS)

Procurement to Pay or Purchase to Pay (P2P) or Purchase to Pay Cycle

Procurement to Pay or Purchase to Pay (P2P) is a term used in the software industry. it is the end-to-end process organizations use to acquire goods and services. It encompasses requisition, sourcing, purchase orders, receiving, invoicing and payment, and helps ensure efficient procurement operations and policy compliance.

Objectives of P2P to an Organisation

(i) It denotes a specific division of the procurement process.

(ii) It integrates the purchasing department with the Accounts department.

(iii) It provides the organization visibility as well as control over the entire life cycle of a transaction.

(iv) It gives a full view of cash flow and financial commitments.

Importance of P2P to an Organisation

Procure to pay is crucial because it provides a structured and integrated approach to managing procurement and financial processes. Importance of P2P are as follows:

(i) This process allows organizations to efficiently acquire necessary goods and services while maintaining strict control over expenditures.

(ii) This structured approach helps prevent unauthorized spending, reduces the risk of financial discrepancies and helps ensure that all purchases are necessary and align with the organization's budget and policies.

(iii) By centralizing procurement data, companies can analyze spending patterns, negotiate better terms with suppliers and identify cost-saving opportunities.

(iv) It also eliminates operational inefficiencies by automating and standardizing various steps, such as creating purchase orders, matching invoices and processing payments.

(v) This automation speeds up the procurement cycle and minimizes human errors, leading to more accurate and reliable transactions.

(vi) Timely and accurate payments facilitated by a well-managed P2P process improve supplier relationships, ensuring better service levels and effective supply chain management.

(vii)Throughout these processes, key performance indicators (KPIs) measure efficiency, accuracy and performance.

(viii)Overall, P2P supports better financial management and reporting, offering real-time visibility into financial commitments and aiding in more informed decision-making.

Steps involved in P2P

However, purchase to payable cycle cover the following steps:

Step 1: Need Identification: The cycle commences when a buyer identifies a requirement for specific goods or services. This could be based on inventory levels, project demands, or other organizational needs.

Step 2: Purchase Requisition: A purchase requisition is a request from an employee or department to buy goods or services. The contents of a purchase requisition form include name and department of requestor, the date of request, products or services required, item description, quantity, price, reason for purchase, legal name of the supplier.

Step 3: Approval of Requisition: Submitted purchase requisitions are then reviewed by department heads or procurement officers. The head of the department can either approve or reject a purchase requisition after evaluating the need, verifying the available budget, and validating the purchase requisition form. Incomplete purchase requisitions are rejected back to the initiator for correction and resubmission.

Step 4: Purchase Order: If the purchase requisition form receives all of its need approvals, a purchase order is generated after analyzing the quotations. Generally, accounting softwares or ERP system can compare quotations with the different predefined parameters such as: price, discount, other charges, required date, financial charges.

Step 5: Approval of Purchase Order: In order to become a legally binding contract, the purchase order must be approved by the supplier. Upon receiving the purchase order, vendors will perform their due diligence by either: Checking for previous purchases and any existing outstanding balances (for current customers). Once the vendor provides final approval, it becomes a legally binding agreement. If there is an issue with either delivery or payment, either side can refer to the purchase order to settle the dispute.

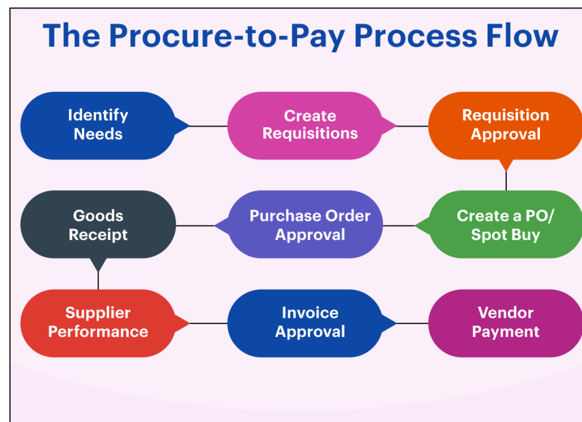
Step 6: Receiving goods: This includes receiving goods from the supplier, checking them against the details outlined in the purchase order, identifying any damage that may have occurred during shipment, preparing a receipt, and entering details into the relevant systems.

Step 7: Supplier performance: In the procure-to-pay (P2P) process, supplier performance is evaluated after a transaction is completed. This evaluation helps to maintain healthy supplier relationships and improve future procurement processes.

Step 8: Invoice approval: Invoice approval process includes verifying the information and getting the necessary approvals, like knowing whether or not invoices need to be signed, before finally submitting the payment.

Step 9: Accounts payable: The accounts payable process includes paying supplier invoices within the agreed payment terms and accounting for transactions. As part of this process, the purchasing company will need to check that vendor payment details are up to date, as well as take steps to avoid the risk of accounts payable fraud.

Some vendors offer end-to-end procure-to-pay solutions which aim to automate the full P2P process. Technology can also play a role in streamlining specific elements of the procure-to-pay cycle, from vendor management platforms to systems that automate the creation of requisitions and the issuance of purchase orders.



Source: https://kissflow.com/procurement/procure-to-pay-process-guide/

Case Scenario

Zomato is an Indian group founded by two IIT graduates, Deepinder Goyal, and Pankaj Chaddah, in Delhi NCR in 2008. Zomato is an app whose business model works around food supply online, providing knowledge, user reviews and menus of partner restaurants. Zomato's target audience comprises people between 18 and 35 with smartphones and well-versed in using different apps. It focuses on attracting two customers, one who prefers to eat out and another who wants to order food from outside and deliver it to their home. These groups frequently coincide.

Zomato has become successful because of factors such as affordability, easy accessibility, and assortment, which have built trust among people from the years of service. Zomato continues to work on finding innovative ways to serve its customers.

Zomato has a multifaceted business model. It creates a comprehensive ecosystem in the food and restaurant industry by incorporating various revenue streams and services. The company faces stiff competition in the food delivery and restaurant aggregation spaces, both domestically and internationally. However, its ability to adapt, diversify its services, and leverage technology gives it a strong position in the market.

Choose the correct option from the given alternatives based on the above scenario:

1. Which of the following statement is not correct?

   (a) Startup ecosystem is a network of resources — people, investors, institutions, and companies.

   (b) The elements of startup ecosystem are ideas and inventions.

   (c) Startup ecosystems are controlled by internal factors only.

   (d) Startup ecosystems experience changes in their people, organizations and environments.

   Answer (c)

2. Value proposition means:

   (a) information about the company

   (b) A glowing description of company's unique products or services

   (c) A glowing description of company's passion for excellence or leading-edge technology

   (d) A belief from the customers about how value will be delivered, experienced & acquired

   Answer (d)

3. The concept of "unicorn" in the startup world refers to:

   (a) Startups offering unique and innovative products or services

   (b) Startups achieving a valuation of $1 billion or more

   (c) Startups supported by government grants and angel investors

   (d) Startups disrupting established industries with rapid growth

   Answer: (b)

4. Which of the following is the revenue streams of Zomato?

   (a) Restaurant advertising

   (b) Online food ordering

   (c) Subscription

   (d) All of the above

   Answer: (d)

5. Which year marked the official launch of Startup India, a government initiative to boost the startup ecosystem?

   (a) 2013

   (b) 2015

   (c) 2016

   (d) 2018

   Answer: (c)

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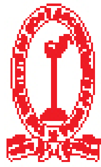
Best Regards,

Team DoS
The Institute of Cost Accountants of India

E-mail – studies.ebulletin@icmai.in



THE INSTITUTE OF
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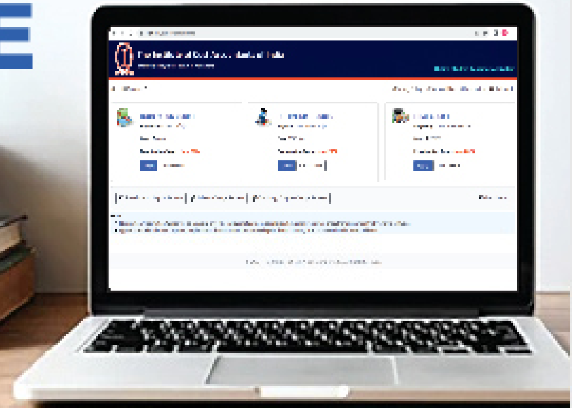
NEW IT INITIATIVE TO PROVIDE ENHANCED FACILITIES TO CMA STUDENTS



A login feature has been integrated into the **ONLINE REGISTRATION APPLICATION SYSTEM** enabling students to access various services through their accounts.

To utilize this feature, students need to create a login account by verifying their email address through an OTP sent to their registered email ID. Once the email ID is verified, it becomes the user ID and students can set their password during the account creation process.

The introduced system enables students to:

- Register online for Foundation, Intermediate & Final Courses
- Check the status of their online applications
- Request Conversion from Old Syllabus to New Syllabus
- Request changes in Oral / Postal Coaching and opt for Chapter-to-Chapter Conversion
- Convert from Provisional to Regular status

Additional services for students will be seamlessly incorporated in the near future.

Behind every successful business decision, there is always a CMA

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Since 1944

CMA Leads

- 4 Regional Councils
- 11 Overseas Centers
- 117 Chapters across India
- 61 CMA SC & 401 ROCC
- 1,00,000+ Alumni
- 5,00,000+ Students

Value Added Services for the CMA Students

- Study Materials
- Students E-Bulletin
- Knowledge Web Series
- E-Library
- Webinars
- Model Question Papers
- MCQ Portal
- Tutorial Workshops
- Coaching - Oral/Postal (E-learning)
- Skills Training
- Practical Training
- Industry Oriented Training Programme

Admission Deadlines

- For June Exam - 31st January of same Calendar Year
- For December Exam - 31st July of same Calendar Year

LARGEST CMA BODY IN THE WORLD

Under the administrative control of **Ministry of Corporate Affairs (MCA), Government of India**

CMA COURSE GOING GLOBAL

Mentoring Future-Ready Professionals

Eligibility

Admission in Foundation Course

- Passed Class 10 (Require to pass 10+2 before appearing in CMA Examination)
- 10+2 Pass or its equivalent (Students appearing for 10+2 also apply on provisional basis)

Registration to Intermediate Course

- Passed CMA Foundation Examination
- Graduates of any discipline (Students awaiting final result also apply on provisional basis)
- Qualified CAT Level - I of The Institute of Cost Accountants of India
- Qualified CA Intermediate
- Qualified Engineers

Course Fees

Foundation - ₹6,000/-	Intermediate - ₹23,100/-*	Final - ₹25,000/-*

*Installment facility available

To know more, Scan the QR Code

JUNE 2025 TERM

Online Admission
https://eicmai.in/studentportal/Home

Prominent Recruiters in CMA Campus Placement Drives

And many more...

Headquarters
CMA Bhawan, 12, Sudder Street, Kolkata - 700016
033-40364777/40364722/40364726

Delhi Office
CMA Bhawan, 3, Institutional Area, Lodhi Road
New Delhi - 110003
011-24622156/24622157/24622158

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SKILLS TRAINING PROGRAMME

Skills Training Modules	Hours/Days	Delivery Mode	Level
Tally ERP/Zoho/ERP Next/ERP etc.	40 hrs.	Online	Intermediate
Communication & Soft Skills	20 hrs.	Online	Intermediate
MS-Office/Google Docs, Sheets, Slides/Open Office	40 hrs.	Hybrid	Intermediate
E-Filing	20 hrs.	Hybrid	Intermediate
Intermediate Skills Training	**120 hrs.**		
SAP/ORACLE/MS Dynamics/Any ERP	60 hrs.	Online/Hybrid	Final
Business Analytics/Data Analytics	20 hrs.	Online	Final
Final Skills Training	**80 hrs**		

Note:

1. Students who have applied for both/remaining group(s) shall only receive SAP/ERP login in their registered mail id; while students who have paid total course fees/2nd instalment (irrespective of exam application) are eligible to attend other Skills Training Programs/IOTP for a particular term
2. Oral students shall be served by the respective Regions/ Chapters/ CMASCs in Physical Mode and Postal students shall be served by the DOS through Online Mode

INDUSTRY ORIENTED TRAINING PROGRAMME (IOTP)

Module – I: Practical Skills **7 Days**

1. Practical Knowledge on Accounts and Cost & Other Audits

1A. Process of Finalization of Accounts

- Process of finalization of Accounts w.r.t. AS, IAS & other Regulations

1B. Practical Knowledge on Cost & Other Audits

- How to maintain Cost Records
- Preparation of Cost Audit Report
- Compliances of Cost Audit
- Different types of Audit Compliances

2. Practical Knowledge on Direct and Indirect Taxation

- Tax Planning – Head Wise/ Transaction Wise/ Organization Wise
- Filing of Income Tax Return
- TDS Management
- GST Compliances
- GST Assessment & Procedure
- GST Return
- Inventory Valuation

3. Practical Knowledge on Formation of a Company and Contract Management

3A. Formation of a Company and allied works

- Formation of a Company
- Compliance to ROC
- Preparation of Notice/Agenda/Minutes of the Meeting
- MOU/Joint Venture

3B. Contract Management

- Preparation of Tender Documents
- Tendering Process
- Preparation of Work Order

4. Practical Approach on Working Capital Management

- Cash Management
- Inventory Management
  - How to design Bin Cards, Stores Ledger and Bill of Materials
  - How to develop Works Register and Fixed Asset Register
- Receivable Management
- Payable Management
- Debtors Management
- Creditors Management etc.

5. Practical Knowledge on Project Management & Project Financing and Digital Financial Services

5A. Project Management & Project Financing

5B. Digital Financial Services

- Application oriented knowledge on AI, BI & FinTech

6. Risk Management

6A. Investment & Portfolio Management
6B. Risk Management in BFSI Sector

7. MIS Report

- Manufacturing Sector
- Power Sector
- Steel Sector
- Education Sector
- Healthcare Sector

Module – II: Soft Skills **3 Days**

1. **Communication Skill**
2. **Interview Skill**
3. **Presentation Skill**
4. **Group Discussion**
5. **Panel Discussion with Industry Professionals**

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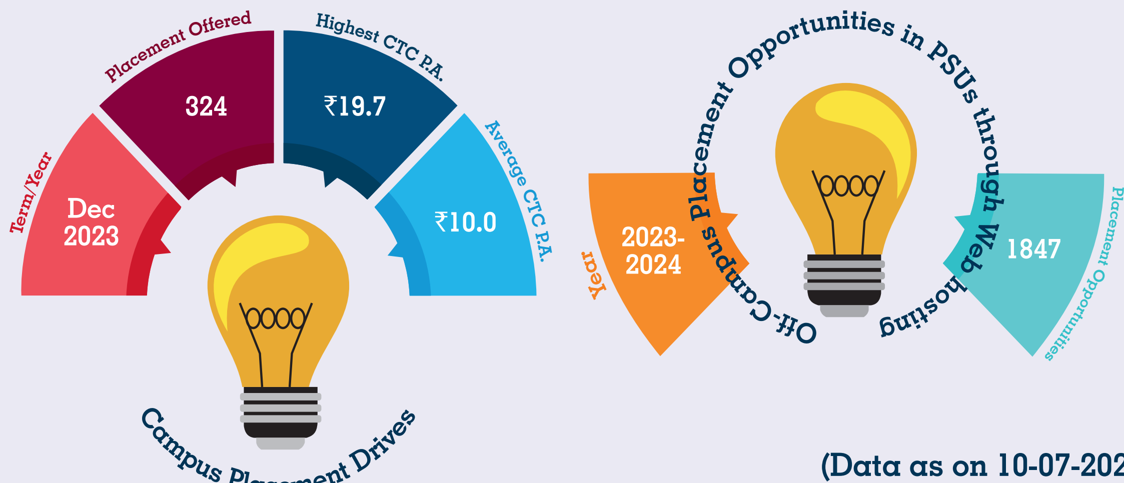
CMA Campus Placement Initiatives 2024

Campus Placement Statistics



(Data as on 10-07-2024)

Career Counselling & Placement Committee
The Institute of Cost Accountants of India

placement@icmai.in / cpt@icmai.in / career-counselling@icmai.in

+91 94323 82747 / 98308 86751 / 98748 57118

Headquarters:
CMA Bhawan, 12, Sudder Street, Kolkata - 700016

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

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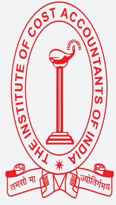

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NPTEL
Knowledge Partner

DIRECTORATE OF STUDIES

in association with

CAREER COUNSELLING & PLACEMENT COMMITTEE AND CAT DIRECTORATE

CMA NYCO 2024 NATIONAL YOUTH COMMERCE OLYMPIAD

Unveil Your Innate Management Accounting Skills

CATEGORY

- A — Class VIII - X
- B — Class XI - XII / Pursuing CMA Foundation / CAT
- C — Pursuing Graduation / CMA Inter / CMA Final

REGISTRATION STARTS

16th August 2024

NYCO 2024 ONLINE EXAM

Sunday, 17th November 2024

REGISTRATION FEE: ₹50

1st Rank - ₹1,00,000
2nd Rank - ₹50,000
3rd Rank - ₹20,000
(Under each category)
Consolation Prize of ₹500 for Next 100 Participants from each category
Digital Certificate of Participation for All

Registration Closes: 15th October, 2024

ICMAI invites students from all over India to register for the **CMA National Youth Commerce Olympiad (NYCO 2024).** The aim of organizing **NYCO 2024** is to unearth hidden Management Accounting talents and ignite a deep appreciation for the subject among young minds.

CMA Bibhuti Bhusan Nayak
President, ICMAI

CMA TCA Srinivasa Prasad
Vice President, ICMAI

CMA Vinayranjan P.
Chairman - TEF and CC & Placement Committee, ICMAI

CMA Rajendra Singh Bhati
Chairman - Committee for Accounting Technicians & PR, ICMAI

https://eicmai.in/nyco/

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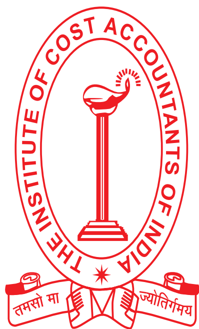

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