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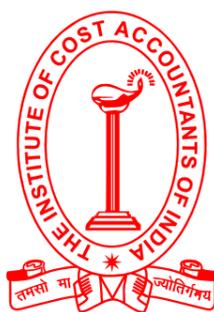
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# CMA Student E - Bulletin

# INTERMEDIATE

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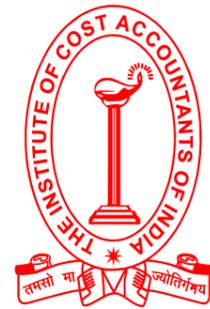
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# KNOWLEDGE Update



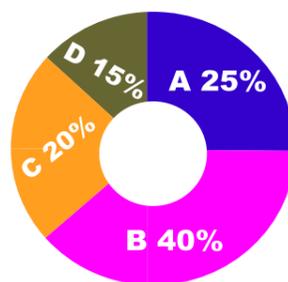
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

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# Your Preparation Quick Takes



**Syllabus Structure**

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

**Learning Objective:**

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

**FINANCIAL ACCOUNTING**

Here is again a story to start with- to give you the lesson of life : keep your focus of own thought. There will be plenty of advices to choose a course to study. Give importance to your own preference and fond. Do not get confused in making choice.

*There was an old man and boy who worked in a farmhouse. The owner of the farmhouse told them to go to the town and buy some food grain for the animals, with the help of a Donkey. They started going to the town. The boy rode on the Donkey, while the old man walked alongside. As they were going, a man who is known to both the boy and old man told them, "See, the old man was walking and the young boy was riding comfortably. It's a shame". After some time, they saw a group of people who were passing by, scolding them, "You both don't have any sympathy. You are putting so much load on the poor donkey". The man and the boy got down and started discussing. After some time they decided to carry the donkey. Both of them carried the donkey on the shoulder and started walking. They were struggling, as the donkey was heavy to carry. Then they came near a small bridge over a river. As they crossed, both of them lose their grip on the donkey and it fell into the river and drowned. Seeing the donkey drowned, people started abusing the old man and the boy.*

In life , you will come across many situations or people where you are forced to please them. If you do so, then you have to face the consequences. Remember, you cannot please everyone or every situation. Just give importance to the purpose and what is really required for that situation and stick to that. If you start pleasing, throughout your life you have to keep on pleasing someone. So, stop doing it.

Here are some exercises for you this time like earlier issues:

**State whether the following statement are True' or 'False':**

1. Branch account under debtors system is a real account.
2. Under debtors system branch account is debited with losses like bad debts, discounts allowed and depreciation.
3. When the branch manager is allowed petty cash on imprest system, the amount remitted by H.O. to reimburse the actual expenses will be debited to the branch account.
4. Under the stock and debtors system branch stock account is a real account.
5. Branch stock account is always prepared at cost price.
6. Under stock and debtors system branch adjustment account discloses the gross profit made by the branch.
7. In the case of independent branches the head office account in the books of the branch is analogous to capital account.
8. The items goods-in-transit and remittances-in-transit normally figure in the balance sheets of branch and head office respectively.
9. In the case of branch assets maintained in H.O. books, depreciation is to be debited to the profit and loss account of head office.
10. The balances shown by head office account and the branch account are always equal although the nature of balance differs.

**Answers: 1. False 2. False 3. True 4. True 5. False 6. True 7. True 8. False 9. False 10. False.**

**Fill in the blanks:**

1. Under stock and debtors system branch profit is ascertain by opening..  
...account.
2. Under debtors system branch account is a .....account.
3. When an assets account of the branch is maintained in the head office, the entry for deprecation is made by debiting branch account and crediting ..... account.
4. The balance in the 'goods sent to branches' account is transferred to the credit of .....account.

5. In the case of shortage under stock and Debtors system, the profit element is debited to .....and the cost of such shortage is debited to .....
6. When goods are sent by X branch to Y branch, Y branch debits ..... and credits .....

**Answer: 1. Branch adjustment 2. Nominal 3. Branch assets 4. Purchase or trading 5. Branch adjustment; branch profit and loss 6. Goods from H.O. A/c; Head office A/c.**

**State whether the following statements are 'true' or false'**

1. There is no difference between the legal character of partnership and joint venture types of business.
2. A joint venture is an example of 'profit-seeking terminable venture.'
3. A co-venturer has the implied authority similar to the one a partner has.
4. Accrual system of accounting is followed for preparing joint venture accounts.
5. Joint venture account is a nominal account.
6. The opening of a joint bank account is an indication that separate books are kept for the joint venture.

**Answers**

**1. False 2. True 3. False 4. False 5. True 6. True.**

**Fill in the blanks :**

1. In the case of joint ventures profit is ascertained for each of the...
2. Joint venture accounts are prepared under...system of accounting.
3. Under memorandum method, in the books of A, joint venture account with B' gets credit for all moneys received by...and any..suffered by A.
4. In the books of A, joint venture account with B' is an example of...account.
5. Purchases made and expenses paid from out of joint bank account are debited to...account.
6. When the entries are made in the books of each party (without memorandum joint venture account) A credits B's account with all expenses paid by B and his share of..and debits him for all.....him.

**Answers**

**1. Ventures 2. Cash 3. A, loss 4. Personal 5. Joint venture 6. Profit; moneys received by.**

**State whether the following statements are True' or 'False**

- (1) Departmental trading results are prepared because of statutory requirements.
- (2) The ratio of sale prices and the ratio of cost prices will be one and same if the gross profit margin is uniform for all the departemnts.
- (3) All expenses are to be apportioned between the departments on the basis of turnover.
- (4) When inter-departmental transfer is based on market price, provision must be made for the unrealised profit included in the stocks lying with the transferee department.
- (5) Provision for unrealised profit is to be charged to departmental profit and loss accounts.
- (6) Depreciation is to be apportioned on the basis of value of machinery in each department.

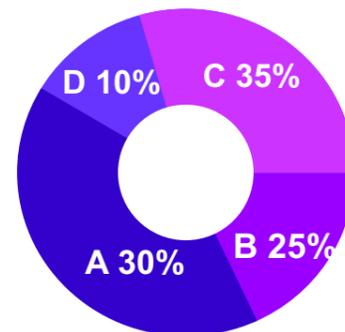
**Answers: (1) False (2) True (3) False (4) True (5) False (6) True.**



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

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## Your Preparation Quick Takes



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

**Learning Objectives:**

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

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

**LAWS & ETHICS**

Since the next examination is just a few weeks away, here are a few **Tip For All of you.**

Start with a few hours of SELF ANALYSIS every day

**1. PLEASE REMEMBER that you should NEVER BE OVERCONFIDENT**

There are many topics, read and study all of them properly because you should never take it for granted otherwise, while attempting questions related to those topics you would either go blank or get confused.

**REVISION IS THE KEY**, try to revise each and every topic as **FREQUENTLY** as possible.

**2. ALWAYS REMAIN 100% FOCUSED**

While glancing through a revisionary topic from a book, notebook or study material, never stray away by imagining things not related to that topic.

So, the best thing would be to Set Short Revision Targets which were quite difficult to achieve. For example, revise and repeat 5 topics of a SUBJECT within 30 minutes. This is only possible before exams.

That way you will be able to stay 100% focused towards studies.

**3. NEVER SKIP/LEAVE TOPICS BECAUSE THEY SEEM LESS IMPORTANT TO YOU IN THIS TERM**

This is one of the biggest mistakes that most of the students commit

**ALWAYS REMEMBER THAT YOU MUST COVER EACH AND EVERY TOPIC.**

Even if a topic seems less important, please have your concept clear so that you have a brief knowledge of that topic, so that you don't go blank if a question comes from that topic. **HAVE FAITH IN YOURSELF**

In this issue we shall continue to deal with Corporate Laws - Companies Act, 2013 - Charges .

**Registration of Charges**

**Section 77: Duty to Register Charges, etc. :**

**1. It is the duty of the Company to create and register the charge under Section 77**

**2. Every type of charges whether created within or outside India on property or assets of a company or any of its undertakings whether tangible or otherwise, and situated in or outside India must be registered.**

**2. Procedure to register the charge:**

Every Company creating charge is required to register :

- ❖ The particulars of such charge
- ❖ It should be signed by the company and the charge-holder together with the instruments, if any,

- ❖ Register with the Registrar within 30 days of its creation in the following mentioned e-forms:

**Form CHG-1** - for other than Debentures

**Form CHG-9** - for Debentures

**3. If there is delay in registering within 30 days, the Registrar may, on an application by the company, allow such registration to be made:**

a) In case a charge is created before the commencement of the Companies (Amendment) Ordinance, [2019] the charge should be registered within 300 days of its creation.

b) In case the charge is created on or after the commencement of the Companies (Amendment) Ordinance, [2019] it shall be registered within 60 days and by paying additional fees.

In case, if registration is not made within the period specified :

The proviso to clause (a) states that if the charge created is not registered within 300 days, it shall be registered within 6 months from the commencement of the Companies (Amendment) Ordinance, [2019] by paying additional fees.

The proviso to clause (b) states on payment of additional fees the registrar may further extend period of 60 days.

**4. Procedure for Issue of certificate of registration:**

Registrar shall issue, to the company or to the person in whose favor the charge is created, a —

- ✓ certificate of registration of charge in **Form CHG-2 (Refer Section 77 and 78)**
- ✓ certificate of modification of charge in **Form CHG-3 (Refer Section 79)**

Such Certificate shall be conclusive evidence that the requirements of Chapter VI of the Act and the rules made there under have been complied with.

**5. No charge created by a company shall be taken into account by the liquidator or any other creditor unless it is duly registered but shall not prejudice any contract or obligation for the repayment of the money secured by a charge.**

**Section 78: Application for registration of charge by the charge holder:**

**1. Option to register the charge by charge holder:**

What happens where a company fails to register the charge within 30 days? The answer is -

In that case, the person in whose favour the charge along with the instrument is created may apply to the

Registrar for registration of the charge in the Form CHG-1 or CHG-9 as the case may be within a period of 14 days after giving notice to the company.

2. However, it may be remembered that the company will still be liable in respect of any offence under this Chapter.
3. The charge holder shall be entitled to recover from the company the amount of any fees or additional fees paid by him to the Registrar for the purpose of registration of charge.

#### Section 79 : Section 77 to Apply in Certain Matters:

The provisions of section 77 relating to registration of charges shall, so far as may be, apply to—

1. A company acquiring any property subject to a charge within the meaning of that section; or
2. Any modification in the terms or conditions or the extent or operation of any charge registered under that section.

#### Section 80: Date of Notice of Charge:

Where any charge on any property or assets of a company or any of its undertakings is registered under section 77, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

#### Section 81: Register of Charges to be kept by Registrar:

1. The particulars of charges maintained on MCA shall be deemed to be the register of charges for the purposes of section 81 read with Rule 7 of the Companies (Registration of Charges) Rules 2014.
2. The register shall be open to inspection by any person on payment of fee.

#### Section 82: Company to Report Satisfaction of Charge:

1. Within 30 days from the date of payment or satisfaction in full of any registered charge, company shall give intimation to registrar in Form CHG-4. Provided the same can be filed within 300 (30+270) days with additional fees. **If company fails to file within 300 days then it shall file the form CHG-8 for condonation of delay.** (It shall be noted that CHG-8 can be filed for condonation for the purpose of creation/modification/ satisfaction as the case may be)
2. Once the Registrar enters a memorandum of satisfaction of charge in full, he shall issue **Certificate of Registration of Satisfaction of Charge in Form No. CHG-5.**

#### Section 83: Power of Registrar to Make Entries of Satisfaction and Release in Absence of Intimation from Company:

In the absence of intimation from company and on being satisfied, Registrar has power to enter Memorandum of satisfaction in Register of Charge.

#### Section 84: Intimation of Appointment of Receiver or Manager:

1. If any person obtains an order for the appointment and/or thereafter appoints a receiver or manager for managing the property as per the power given under instrument, , subject to a charge, of a company, then he shall give intimation of such appointment **to the company as well as to the Registrar in Form CHG-6** within a period of thirty days from the date of the passing of the order or of the making of the appointment.
2. It may be kept in mind that such intimation shall be given also at the time of cessation, as the case may be.
3. Registrar shall register the particulars of such

receiver/manager.

#### Section 85: Company's Register of Charges:

Every company shall keep the Register of Charges in form CHG-7 , at its registered office and the Register shall be open for inspection in business hours for **any member/s and creditor/s without payment** or **by any other person on payment of such fees** as may be prescribed.

#### Section 86: Punishment for Contravention:

1. If any company contravenes any provision of this Chapter: the company shall be punishable with fine of a minimum amount of Rs. 1 lakh and a maximum of Rs. 10 lakhs and every officer of the company who is in default shall be punishable with imprisonment — for a term which may extend to 6 months or with fine of a minimum amount of Rs. 25000 and a maximum amount of Rs. 1 lakh or with both
2. Section 86(2) states that if any person, wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required to be registered in accordance with the provisions of section 77, he shall be liable for action under section 447.

#### REGISTERS and Rules of Companies (Management and Administration) Rules, 2014

##### Register of Members - Section 88

(1) Every company shall keep and maintain the following registers in prescribed manner :

- (a) Register of members showing each class of equity and preference shares held by each member residing in or outside India;

Rule 3 of Companies (Management and Administration) Rules, 2014 requires maintenance of Register of members. and every company limited by shares shall, from the date of its registration, maintain a register of its members in Form No. MGT.1:

- (b) Register of debenture-holders; and
- (c) Register of any other security holders.

##### Register of Debenture holders / Other Security holders

As per Rule 4 -Companies (Management and Administration) Rules, 2014 ,every company which issues or allots debentures or any other security shall maintain a separate Register for each class of debenture holders/security holders, as the case may be, in Form No. MGT.2.

##### Index

Sec.88(2) requires that every register maintained shall contain an index of the names

##### Depositories

Sec.88(3) provides that The Register and Index of Beneficial Owners maintained by a depository under section 11 of the Depositories Act, 1996, shall be deemed to be the corresponding register and index for the purposes of this Act.

##### Foreign Register

Sec.88(4) provides that a company may, if so authorised by its articles, keep in any country outside India, a part of the register, called "foreign register" containing the names and particulars of the members, debenture-holders, other security holders or beneficial owners residing outside India.

##### Punishment

Sec.88(5) says that if a company does not maintain a register of members or debenture-holders or other security holders or fails to maintain them in accordance with the provisions of section 88(1) or section 88(2), the company and every officer of the company who is in default shall be punishable with fine which shall not be

less than Rs.50,000 but which may extend to Rupees 3,00,000 and where the failure is a continuing one, with a further fine which may extend to Rs.1,000 for every day, after the first during which the failure continues.

**As per Rule 7(2) of Companies (Management and Administration) Rules, 2014** the company shall, within 30 days from the date of the opening of any foreign register, file with the Registrar, notice of the situation of the office in **Form No. MGT.3** along with the fee where such register is kept; and in the event of any change in the situation of such office or of its discontinuance, shall, within thirty days from the date of such change or discontinuance, as the case may be, file notice in **Form No. MGT.3** with the Registrar of such change or discontinuance.

**As per Rule 7(3) of Companies (Management and Administration) Rules, 2014** A foreign register shall be deemed to be part of the company's register (referred to as the "principal register") of members or of debenture holders or of any other security holders or beneficial owners, as the case may be.

**As per Rule 7(4) of Companies (Management and Administration) Rules, 2014** the foreign register shall be maintained in the same format as the principal register.

**As per Rule 7(5) of Companies (Management and Administration) Rules, 2014** a foreign register shall be open to inspection and may be closed, and extracts may be taken there from and copies thereof may be required, in the same manner, *mutatis mutandis*, as is applicable to the principal register, except that the advertisement before closing the register shall be inserted in at least two newspapers circulating in the place wherein the foreign register is kept.

**As per Rule 7(6) of Companies (Management and Administration) Rules, 2014**, if a foreign register is kept by a company in any country outside India, the decision of the appropriate competent authority in regard to the rectification of the register shall be binding.

**As per Rule 7(7) of Companies (Management and Administration) Rules, 2014**, entries in the foreign register maintained under section 88(4) shall be made simultaneously after the Board of Directors or its duly constituted committee approves the allotment or transfer of shares, debentures or any other securities, as the case may be.



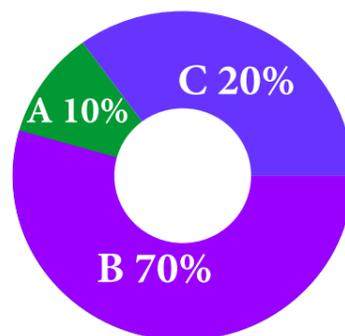


GROUP: I, PAPER: 7

# DIRECT TAXATION (DTX)

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## Your Preparation Quick Takes



### Syllabus Structure

- A** Income Tax Act Basics **10%**
- B** Heads of Income and Computation of Total Income and Tax Liability **70%**
- C** Tax Management, Administrative Procedures and ICDS **20%**

**Learning Objectives:**

- Identify the key concepts and functions of direct tax.
- Know how to calculate income tax provision's.
- Describe how uncertain tax positions are accounted for under the rules.
- Gradually you will come to know how to prepare and file tax returns.

**Clubbing of Income**

Generally, an assessee is taxed on income accruing to him only and he is not liable to tax for income of another person. However, there are certain exceptions to the above rule (mentioned u/s 60 to 64). Sec. 60 to 64 deals with the provisions of clubbing of income, under which an assessee may be taxed in respect of income accrued to other person, e.g. certain income of minor child shall be clubbed in the hands of his parents, income from asset transferred to spouse for inadequate consideration shall be clubbed in the hands of the transferor, etc. These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose off their income or income generating assets to escape tax liability. Various provisions relating to clubbing are enumerated here in below:

Section	Particulars				
60	Where an income is transferred without transferring the asset yielding such income, then income so transferred shall be clubbed in the hands of the transferor.				
61	If an assessee transfers an asset under a revocable transfer, then income generated from such asset, shall be clubbed in the hands of the transferor. <i>Revocable transfer means, there is any provision for the retransfer of any part or whole of the income/assets to the transferor or gives the transferor a right to re-assume power over any part or whole of the income/ assets.</i> <i>Exceptions:</i> a) A transfer by way of creation of a trust which is irrevocable during the lifetime of the beneficiary; b) Any transfer which is irrevocable during the lifetime of the transferee; or c) Any transfer made before 1.4.61, which is not revocable for a period of 6 years or more.				
64(1)(ii)	Salary, commission, fees or any other remuneration to the spouse from a concern in which assessee has substantial interest. An individual shall be deemed to have substantial interest in a concern if he shares 20% profits of that concern or holds 20% voting power of that company. <i>Exception:</i> If income to spouse generated due to his/her technical or professional qualification, skill etc. Where both, husband and wife, have substantial interest in a concern, remuneration will be included in hands of spouse, whose total income excluding such remuneration, is higher.				
64(1)(iv)	Subject to sec. 27(i), any income arising from assets transferred (directly or indirectly) to spouse otherwise than in connection with an agreement to live apart without adequate consideration, shall be included in the income of the transferor.				
64(1)(vii)	If asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of spouse, then income on asset so transferred shall be clubbed in the hands of the transferor.				
64(1)(vi)	Income arising (directly or indirectly) from assets transferred to son's wife, without adequate consideration, shall be included in income of transferor.				
64(1)(viii)	If an asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of son's wife, then income on asset so transferred shall be clubbed in the hands of the transferor.				
Note applicable on sec. 64(1)(iv), (vi), (vii), (viii)	If assets so transferred, is invested in business then tax treatment shall be as under:				
	<table border="1"> <thead> <tr> <th>Business</th> <th>Income to be clubbed</th> </tr> </thead> <tbody> <tr> <td>Proprietary</td> <td><math>\frac{\text{Income of such business} \times \text{Value of such assets as on the 1}^{\text{st}} \text{ day of the P.Y.}}{\text{Total investment in the business by the transferee as on the same day}}</math></td> </tr> </tbody> </table>	Business	Income to be clubbed	Proprietary	$\frac{\text{Income of such business} \times \text{Value of such assets as on the 1}^{\text{st}} \text{ day of the P.Y.}}{\text{Total investment in the business by the transferee as on the same day}}$
	Business	Income to be clubbed			
Proprietary	$\frac{\text{Income of such business} \times \text{Value of such assets as on the 1}^{\text{st}} \text{ day of the P.Y.}}{\text{Total investment in the business by the transferee as on the same day}}$				

	<b>Partnership</b>	$\frac{\text{Interest on capital} \times \text{Value of such assets as on the 1}^{\text{st}} \text{ day of the P.Y.}}{\text{Total investment in the firm by the transferee as on the same day}}$
<b>64(1A)</b>	Income of a minor child shall be clubbed with income of the parent whose total income (excluding this income) is higher. Once clubbing is made with either parent, then in any subsequent years clubbing shall be made with the same parent, unless the AO is satisfied. If marital relationship does not subsist, income shall be clubbed with that parent who maintains the minor child. <b>Exceptions:</b> a) Income arises or accrues to the minor child due to any manual work, his skill, talent; or b) The minor child is suffering from any disability of nature specified u/s 80U. Exemption u/s 10(32) lower of a) ₹ 1,500; or b) Income so clubbed	
<b>64(2)</b>	Where an individual has converted his property into property of HUF, for inadequate consideration, then income derived from such converted property shall be clubbed with individual as under:	
	Before partition	The entire income from such property
	After partition	Income from the assets attributable to the spouse of transferor.
<b>65</b>	After application of provisions of clubbing (on transfer of property without adequate consideration as discussed above in several sections), income is taxable and tax liability arises in the hands of the transferor. But sec. 65 empowers the tax authorities to serve demand notice (in respect of tax on clubbed income) upon transferee.	
<b>Notes</b>	<ul style="list-style-type: none"> <li>• Clubbing of income includes clubbing of negative income</li> <li>• The credit of TDS shall be given to the person in whose hands the income is taxable.</li> <li>• Income shall be clubbed even when form of the transferred asset is changed.</li> <li>• Income arising from the accretion of such property is not to be clubbed.</li> <li>• Income on income is not to be clubbed.</li> <li>• Income shall be, first, computed in hands of recipient &amp; then clubbing shall be made head wise.</li> </ul> If the clubbed income is eligible for deduction u/s 80C to 80U, then such deduction shall be allowed to the assessee in whose hands such income is clubbed.	

**Illustration**

Mr. A owned a residential house for his own residential purpose, details of which are as follows -

Particulars	Amount
Gross Annual value	5,00,000
Municipal tax (paid)	10,000
Interest on loan taken for construction of house	25,000

On 1/4/2019, Mr. A gifted ₹ 10,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. New house has gross municipal value of ₹ 50,000. She paid corporation tax of ₹ 2,000. Compute income from house property of Mr. & Mrs. A. (Assume that Mrs. A does not own any other property).

**Solution**

Computation of income from house property of Mr. A for the A.Y. 2022-23

Particulars	Amount
<u>Self-occupied house</u>	
Net Annual Value	Nil
Less: <u>Deduction u/s</u>	
24(b) Interest on loan	25,000
	(25,000)

Add: Income of Mrs. A clubbed u/s 64(1)(iv)	Nil
Income from house property	(25,000)

Computation of income from house property of Mrs. A for the A.Y. 2022-23

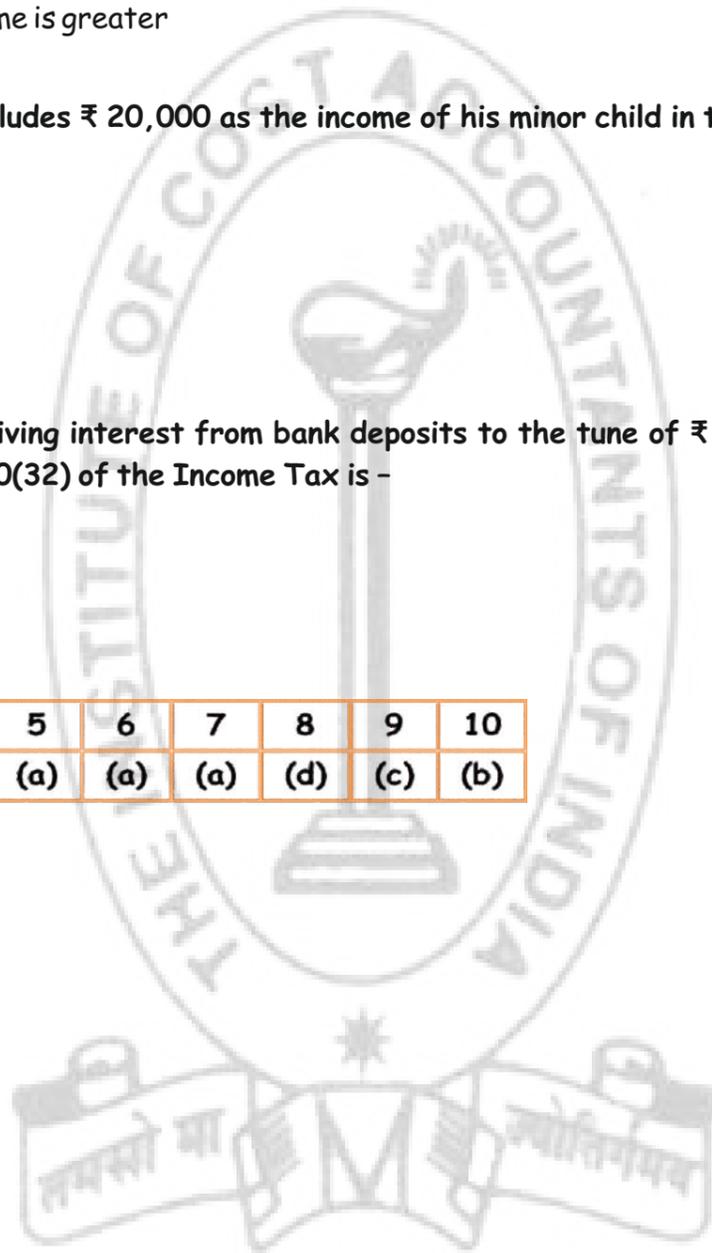
Particulars	Amount
<u>Self-occupied house</u>	
Net Annual Value	Nil
<u>Less: Deduction u/s</u>	
24(b) Interest on loan	Nil
	Nil
<u>Less: Income clubbed u/s 64(1)(iv) with the income of Mr. A</u>	Nil
Income from house property	Nil

Choose the correct answer

- Mr. X's minor daughter earned ₹ 50,000 from his special talent. This income will be clubbed with -
  - The income of Mr. X
  - The income of Mrs. X
  - Mr. X or Mrs. X, whoever's income is higher
  - It will not be clubbed
- Maximum exemption available in clubbing of income to mother or father is -
  - ₹ 1,500
  - ₹ 1,500 per child
  - ₹ 1,200 per child
  - ₹ 100 per month per child
- Mr. A gifted debenture of ₹ 1,00,000 to his wife. She received ₹ 10,000 interest which she reinvests and earns ₹ 1,000. This ₹ 1,000 will be taxable in the hands of -
  - Mr. A
  - Mrs. A
  - Not Taxable
  - Mr. A or Mrs. A, at the choice of the Assessing Officer
- Income arising to a minor married daughter shall be -
  - assessed in the hands of minor married daughter
  - clubbed with the income of that parent whose total income is higher
  - Exempt from tax
  - clubbed with the income of her spouse
- Income of a minor child suffering from any disability of the nature specified in section 80U shall be -
  - assessed in the hands of minor
  - clubbed with the income of that parent whose total income is higher
  - Exempt from tax
  - taxable in hands of provider of income like reverse charge
- Mr. X gives ₹ 2,00,000 to Mrs. X as gift. She invests in a proprietary concern and incurs a loss of ₹ 40,000.
  - This loss shall be clubbed in the hands of Mr. X
  - The loss shall be borne by Mrs. X

- (c) The loss shall not be clubbed  
(d) The loss shall be ignored while computing income of both Mr. and Mrs. X
7. In certain cases, income of other person is included in the income of assessee. It is called -  
(a) Clubbing of income  
(b) Addition to income  
(c) Increase in income  
(d) Set-off of income
8. In whose total income, the income of a minor child is included -  
(a) Father  
(b) Mother  
(c) Father & Mother both  
(d) Parent whose total income is greater
9. When the income of an individual includes ₹ 20,000 as the income of his minor child in terms of section 64(1A), taxable income in this respect will be -  
(a) Nil  
(b) ₹ 20,000  
(c) ₹ 18,500  
(d) ₹ 15,000
10. Mr. A has three minor children deriving interest from bank deposits to the tune of ₹ 2,000, ₹ 1,300, ₹ 1,600 respectively. Exemption available under section 10(32) of the Income Tax is -  
(a) ₹ 4,900  
(b) ₹ 4,300  
(c) ₹ 4,500  
(d) ₹ 5,000

Answer	1	2	3	4	5	6	7	8	9	10
Key	(d)	(b)	(b)	(b)	(a)	(a)	(a)	(d)	(c)	(b)





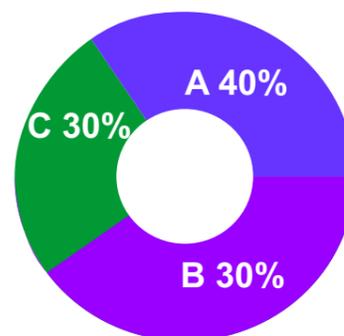
**GROUP: I, PAPER: 8**

# **COST ACCOUNTING**

**(CAC)**

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## Your Preparation Quick Takes



### Syllabus Structure

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

**Learning Objectives:**

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

**COST ACCOUNTING**

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

Cost Accounting is a quantitative method that accumulates, classifies, summarizes and interprets financial and non-financial information for three major purposes, viz. 1. Ascertainment of cost of a product or service, 2. Operational planning and control, 3. Decision-making. Optimum utilization of resource is the urgent need of the day. The role of Cost Accounting in this regard plays a vital role all over the world. Hence, theory as well as solving of practical problems is very much essential for successful preparation of the subject. It is observed from the past experience that 65% to 75% of the total questions are set from practical problems and the balance is theoretical part. Although only 25% questions are set from theoretical part, but a great emphasis should be given on theoretical part as most of the students are very much weak in theory. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. The conquest of these examinations mainly depends on student's perseverance, seriousness of study and continuous effort.

Here I have suggested some tips based on my personal experiences, which are suggested below :-

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

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

The next chapter Cost Book-keeping, including integrated Accounting system is very easy to understand and solving the problem. The students should have clear concept about the integrated and non-integrated system of accounts. In the Cost Books, only nominal accounts, e.g., income and expenses, losses and gains etc, and to some extent, real accounts are recorded. Here transactions are entered into the basis of double entry book-keeping principle - every debit must have a corresponding credit. It is generally the responsibility of the Cost Accountant to record the costing transactions. This chapter is very easy to understand but the process is lengthy. In practice different accounts are to be opened, but it is not necessary to give much effort to complete it. Here Cost Department maintains separate ledger quite distinct from financial accounting, maintaining their books of accounts.

The **Job or Batch Costing** is one of the methods of Costing which is used when the job orders are under taken in the factory or workshop, and when contracts are taken out to build houses, construct roads, bridges, dams etc. Many companies manufacture goods against orders. The main purpose of job costing is to ascertain profit or loss on each job / batch undertaken. The chapter Contract /Job/ Batch Costing is very important for this type of examination. There are some standard norms for computation and recognition of profit or loss of incomplete contract. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete

contract. Make sure that you are familiar with various methods/formulae for different stage of completion and share of profit. Students are also advised to be through on the topic "Profit on incomplete contracts based on SSAP - 9". Various problems on 'exaltation clause' used to be set at this level of examination.

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

The chapter '**Marginal Costing**' is very important from the students' perspective. Marginal Costing is not a particular method of cost ascertainment but a technique dealing with the nature and behavior of cost and there effects upon the profitability of an organization. Under this technique variable cost are charged to cost units and the fixed cost attributable to the relevant period is written-off in full against the contribution for that period. It aims to find out cost-volume-profit relationships of a product. Some times more than one problem may be set from this chapter. The main thrust should be to follow the working and determine the desired impact on profitability. Break-even Analysis and finding the B.E.P. is the basic part for solving problem. The students should also study the effect on profits due to various changes in Fixed Cost/ variable cost / selling price/sales- mix etc.

In Standard Costing the variance analysis are done by creating responsibilities and identifying the activities or areas of exceptions. It provides a valuable guidance to the management in several management functions, such as in formulating policies, in determining prices, etc. The chapter relates to 'Variance Analysis' which helps the management to fix responsibility for each department and to identify the activities or areas of exceptions. Standard Costing, an accounting technique, came to be developed as a systematic method of Comparing the actual cost with the predetermined standard of cost and performance. Any problem on standard cost for working out different variances can be worked out by using a standard format applicable to all variance analysis. The students are afraid of this important chapter only because of different formulae for different analysis. Only careful study and realization of the requirement in the problem can eliminate such difficulties. The main purpose of Variance analysis is to enable the management to improve the operations for effective utilization of resources so that Costs are reduced.

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

Overheads comprise those cost which the cost accountant is either unable or unwilling to allocate to a particular product, job or process. Apportionment is defined as the allotment of proportions of items of cost to cost centre or cost units the cost of service department should be borne by the production department. So the cost of service department are to be redistributed among production department on some equitable basis. Charging overheads to individual products or jobs is known as overhead absorption. Following problem can easily solved the problem relating to allocation, apportionment and absorption.

### Problem

The New Enterprises Ltd. Has three production departments A, B and C and two service departments D and E. The following figures are extracted from the records of the company :

Rent and Rates	Rs. 5000	Power	Rs. 1500
General Lighting	600	Depreciation of Machinery	10000
Indirect wages	1500	Sundries	10000

The following further details are available :

	Total	A	B	C	D	E
Floor space (sq. ft.)	10000	2000	2500	3000	2000	500
Light Points	60	10	15	20	10	5
Direct Wages (Rs.)	10000	3000	2000	3000	1500	500
H.P. of Machines	150	60	30	50	10	---
Value of Machinery (Rs.)	250000	60000	80000	100000	5000	5000
Working Hours	----	6226	4028	4066	----	----

The expenses of D and E are allocated as follows :

	A	B	C	D	E
D	20%	30%	40%	----	10%
E	40%	20%	30%	10%	----

What is the total cost of an article if its raw material cost is Rs. 50, labour cost Rs. 30 and it passes through departments A, B and C for 4, 5 and 3 hours, respectively ?

### Solution

New Enterprises Ltd.

Statement Showing Departmental Overhead Distribution Summary

Expenses	Basis of Apportionment	Total Rs.	Production Department			Service Department	
			A Rs.	B Rs.	C Rs.	D Rs.	E Rs.
Rent.	Floor space (4:5:6:4:1)	5000	1000	1250	1500	1000	250
Lighting	Light Point (2:3:4:2:1)	600	100	150	200	100	50
Indirect Wages	Direct Wages (6:4:6:3:1)	1500	450	300	450	225	75
Power	H.P. of Machines (6:3:5:1:--)	1500	600	300	500	100	----
Depreciation	Value of Machinery (12:16:20:1:1)	10000	2400	3200	4000		200
Sundries	Direct Wages (6:4:6:3:1)	10000	3000	2000	3000	200	500
Service Dept. D	(2:3:4:--:1)	28600	7550	7200	9650	1500	1075
Service Dept. E	(4:2:3:1:--)		625	938	1250		312
Service Dept. D	(2:3:4:--:1)		555	277	416		(-)1387
Service Dept. E	(4:2:3:1:-)		28	42	55	3125	14
Total			6	3	5	(-)	(-)14
Total working hours						3125	
Hourly Rate	Given		8764	8460	11376		
			6226	4028	4066	139	
			1.41	2.10	2.80	(-139)	--

**Statement of Cost of Production**

Items	Amount Rs.	AmountRs.
Material	50.00	80.00
Labour Cost	30.00	
Overheads :	5.64	
Production Dept. A = 4 hours @ Rs. 1.41	10.50	
Production Dept. B = 5 hours @ Rs. 2.10	8.40	
Production Dept. C = 3 hours @ Rs. 2.80		24.54
		104.54

Some suggested short questions :

- State which of the following statements are correct or incorrect :
  - The method of costing used in a refinery is "process costing".
  - In cost accounting, like financial accounting, absolute accuracy is aimed at.
  - To design a costing department is not difficult, study another similar organization and study a book on costing and you know what to do.
  - Conversion costs and overheads are interchangeable terms.
  - Notional Costs are not included while ascertaining cost.
  - Cost Accounting is not needed by a non-profit organization such as a hospital.
  - If the management is not interested in costing information, there should be no costing department.
  - Notional Costs and Imputed Costs mean the same thing.
  - Standard costing tells us what the cost should be.
  - Historical costs are useful solely for estimating cost that lie ahead.
  - Cost is a fact, price is a policy.
  - Basically there are two methods of costing viz. (I) Specific Order Costing; and (2) Operation Costing.
  - Cost Accounting is nothing more than a detailed analysis of expenditure.
  - Cost Accounting is nothing but a postmortem of post costs.
  - Cost Accounting provides cost information to all those who are external to the business.
  - Both financial and cost accounts are written up with the same basis documents.
  - Cost Accounting is not needed if price is beyond the control of the firm.
  - Cost Accounting assists financial accounting with regard to the valuation of inventory.
  - The scope of cost accounting includes cost ascertainment, cost presentation and cost control.
  - Cost Accounting helps in the ascertainment of cost beforehand.
  - Cost Accounting provides information for ascertaining the financial position as on a particular date.
  - Cost Accounting helps in controlling cost.
  - Since pricing is a matter of managerial policy, cost information is useless for price fixation.
  - A cost unit is the same as a cost centre.
  - The cost converting raw materials to finished products is known as conversion cost.

**Ans. True : - (I), (iii), (viii), (ix), (x), (xi), (xii), (xvi), (xviii), (xix), (xx), (xxii).****False :- (ii), (iii), (iv), (v), (vii), (xiii), (xiv), (xv), (xvii), (xxi), (xxiii), (xxiv), (xxv).**

2. Specify the method of costing applicable to the following industries :

- |                   |                      |
|-------------------|----------------------|
| (i) Ship-building | (xi) Aerated water   |
| (ii) Dairy        | (xii) Canteen        |
| (iii) Printing    | (xiii) Motor car     |
| (iv) Bicycles     | (xiv) Chemicals      |
| (v) Medicines     | (xv) oil             |
| (vi) Hospital     | (xvi) Road transport |
| (vii) Radio       | (xvii) Sugar         |
| (viii) Cement     | (xviii) Toy making   |
| (ix) Textiles     |                      |
| (x) Brewery       |                      |

- Ans.**
- |                 |                  |
|-----------------|------------------|
| (i) Contract    | (ii) Process     |
| (iii) Job       | (iv) Multiple    |
| (v) Batch       | (vi) Operating   |
| (vii) Multiple  | (viii) Unit      |
| (ix) Process    | (x) Unit/Process |
| (xi) Unit       | (xii) Operating  |
| (xiii) Multiple | (xiv) Process    |
| (xv) Process    | (xvi) Operating  |
| (xvii) Process  | (xviii) Batch    |

3. Match the following :

(i) The practice of charging all costs to Product	(i) Facilitates greater degree of control over cost
(ii) Standard costing	(ii) Absorption costing
(iii) A cost unit which consists of a group Of similar products	(iii) Historical costing, estimating costing and standard costing.
(iv) Cost classification	(iv) Batch
(v) Cost accounting involves	(v) Facilities computation of cost variances.
(vi) A group of identical items maintaining Identity through one or more stages Of production.	(vi) Analysis and synthesis of costs .
(vii) What the costs are, what they are Likely to be , and how they should be Distinguished , respectively.	(vii) Product Group

[ Ans . (i), (ii) : (ii), (v); (iii), (vii); (iv), (i); (v), (vi); (vi), (iv); (vii),(iii). ]

4. Point out the statements which are false - (F)/Correct(C) :

- Abnormal cost is controllable.
- Cost of production is equal to prime cost plus work cost.
- Variable cost increases as the fixed cost.
- Financial accounting provides information for cost control.
- Direct cost is one which can be conveniently identified with and charged to a particular unit of cost.
- Total variable cost does not increase in total proportion to output.
- Variable cost per unit remains constant.
- Sunk costs are relevant for decision-making.
- Costing and cost accounting are the same.
- Fixed cost does not change in the same proportion in which output change.
- Administration expenses are mostly fixed.
- Incremental cost means the cost of an added unit.
- Standard costs tell as what the cost is.
- Period costs are not assigned to product.
- Marginal cost is not at all helpful to management for decision making.
- Fixed cost per unit decreases with rise in output and increases with fall in output.
- Cost centre and cost unit are the same.

[ Ans. (i) C (ii) F (iii) F (iv) F (v) C (vi) F  
(vii) C (viii) F (ix) F (x) F (xi) C (xii) F  
(xiii) F (xiv) C (xv) F (xvi) C (xvii) F ]

5. Which of the following is correct?

- A. Which cost system description applies to the manufacture of 20 engraved doors for the new clubhouse at a golf course?  
(i) Contract (ii) Process (iii) batch (iv) Service
- B. An important feature of a cost centre is that :  
(i) It uses only monetary information.  
(ii) It has clearly defined boundaries .  
(iii) It must be one specific location only.

(iv) It must be an area of the business through which products pass.

**C. Prime cost may be currently defined as :**

- (i) The sum of direct materials and direct labour cost with all other costs excluded.
- (ii) The total of all cost items which can be directly charged to product units.
- (iii) The total cost incurred in producing a finished unit.
- (iv) The sum of the large cost item in a product cost.

**D. Which of the following is a cost behavior-oriented approach to producing costing?**

- (i) Absorption Costing
- (ii) Marginal costing
- (iii) Process costing
- (iv) Job order costing

**E. In a process Cost system the unit cost is computed for a**

- (i) Job
- (ii) Department
- (iii) Batch of goods
- (iv) Category of goods

**F. The Cost of goods sold under a periodic cost accumulation system is equal to the**

- (i) Cost of goods available for sale less ending finished goods inventory.
- (ii) Cost of goods available for sale plus beginning finished goods inventory.
- (iii) Cost of goods manufactured plus beginning finished goods inventory.
- (iv) Cost of goods sold manufactured less beginning finished goods inventory.

**G. The Cost of goods manufactured, under a periodic cost accumulation system, is equal to the**

- (i) Beginning finished goods inventory plus purchase.
- (ii) Beginning work-in-process plus cost of goods in process during the year.
- (iii) Cost of goods put into production plus beginning work-in-process less ending work-in-process.
- (iv) Cost of goods sold less beginning work-in-process.

**H. For external financial statement purpose, inventories must be reported at**

- (i) Standard costs
- (ii) Actual costs
- (iii) Period costs
- (iv) Direct costs

**I. The term "conversion costs" refers to**

- (i) Manufacturing costs incurred produce units of output.
- (ii) All costs associated with manufacturing other than direct labour costs and raw material costs.
- (iii) Cost which are associated with marketing, shipping, warehousing and billing activities.
- (iv) The sum of direct labour cost and all factory overhead costs.
- (v) The sum of raw material costs and direct labour costs.

**J. The term "prime costs" refers to**

- (i) Manufacturing costs incurred to produce units of output.
- (ii) All costs associated with manufacturing other than direct labour costs and raw material costs.
- (iii) Costs which are predetermined and should be attained.
- (iv) The sum of direct labour costs and all factory overhead costs.
- (v) The sum of direct material cost and direct labour costs.

**K. The term "variable costs" refers to**

- (i) All costs which are likely to respond to the amount of attention devoted to them by a specified Manager.
- (ii) All costs which are associated with marketing, shipping, warehousing and billing activities.
- (iii) All costs which do not change in total for a given period of time and relevant range but become progressively smaller on a per unit basis as volume increases.
- (iv) All manufacturing costs incurred to produce units of output.
- (v) All costs which fluctuate in total in response to small change in the rate of utilization of capacity.

**L. The term "costs" refers to**

- (i) An asset that has given benefit and is now expired.
- (ii) The price of products sold or services rendered.
- (iii) The value of the sacrifice made to acquire goods or service.
- (iv) An asset that has not given benefit and is now expired.
- (v) The present value of future benefits.

**M. The term "sunk costs" refer to**

- (i) Past costs that are now irrevocable.
- (ii) Cost that are directly influenced by unit manager.
- (iii) Costs that should be incurred in a particular production process.
- (iv) Costs that may be eliminated if some economic activity is changed or deleted.
- (v) Benefits lost from rejecting the next best alternative.

**N. The process of charging factory overhead to work-in-process based on a predetermined applications rate multiplied by actual input is known as :**

- (I) Normal costing
- (ii) Standard costing
- (iii) Actual costing
- (iv) Product costing

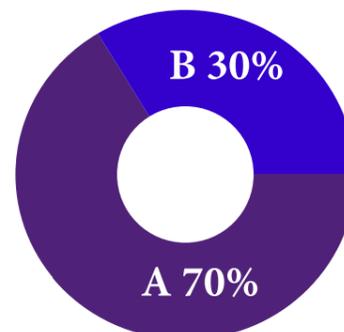
**Ans. A(iii), B(ii), C (I), D (ii), E (ii), F (I), G (iii), H (ii), I (iv), J (v), K (Iv), L (iii), M (I), N (ii).**



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

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# Your Preparation Quick Takes



### Syllabus Structure

A Operations Management 70%

B Strategic Management 30%

**Learning Objectives:**

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

**Operations Management**

In this issue let us discuss Conventional problems on Preventive Maintenance Policy (PMP) vs. Repair Policy (RP) and Replacement

**Q1.**  
Assume the following three breakdown probability distribution

Month following Maintenance	Probability of Breakdown		
	(1)	(2)	(3)
1	0.5	0.1	0.1
2	0.1	0.1	0.1
3	0.1	0.1	0.5
4	0.1	0.1	0.1
5	0.1	0.2	0.1
6	0.1	0.4	0.1

Which, if any, of these distributions lend themselves to a preventive maintenance program? Why?

**Answer:**  
Policy 1:

Month following Maintenance (i)	Probability of Breakdown (p)	Average free run time (I* p)
1	0.5	0.5
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.1	0.5
6	0.1	0.6
		□ 2.5months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:  
For 1 machine in 2.5 months 1 breakdown  
So for 1 machine in 1 month (1/2.5) breakdown  
So for 100 machines in 1 month (100/2.5) = 40 breakdowns

Policy 2:

Month following Maintenance ( <i>i</i> )	Probability of Breakdown ( <i>p</i> )	Average free run time ( <i>i * p</i> )
1	0.1	0.1
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.2	1.0
6	0.4	2.4
		<input type="checkbox"/> 4.4months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 4.4 months 1 breakdown

So for 1 machine in 1 month (1/4.4) breakdown

So for 100 machines in 1 month (100/4.4) = 22.73 breakdowns

Policy 3:

Month following Maintenance ( <i>i</i> )	Probability of Breakdown ( <i>p</i> )	Average free run time ( <i>i * p</i> )
1	0.1	0.1
2	0.1	0.2
3	0.5	1.5
4	0.1	0.4
5	0.1	0.5
6	0.1	0.6
		<input type="checkbox"/> 3.3months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 3.3 months 1 breakdown

So for 1 machine in 1 month (1/3.3) breakdown

So for 100 machines in 1 month (100/3.3) = 30.30 breakdowns

Preventive maintenance programs are generally applicable to breakdown distributions with low variability. Policy 2 has the lowest variability as no of breakdowns in a month for a pool of say 100 machines are 22.73---the lowest among three policies.

Therefore we may conclude that policy 2 could lead to a preventive maintenance program.

Q2.

Assume the following three breakdown probability distribution

Month following Maintenance	Probability of Breakdown
1	0
2	0.1
3	0.1
4	0.1

5	0.2
6	0.5

Let us take Average Repair Cost on breakdown  $C_R = R100$  & Cost of Preventive maintenance  $C_{PM} = R75$ , Cost of Individual Replacement  $CI = R80$ , Cost of Group Replacement =  $R50/\text{machine}$

For a pool of 100 machines, Could you recommend PM? When you will go for Replacement?

Answer:

Month following Maintenance (i)	Probability of Breakdown (p)	Average free run time (i * p)
1	0.0	0.0
2	0.1	0.2
3	0.1	0.3
4	0.1	0.4
5	0.2	1.0
6	0.5	3.0
		<input type="checkbox"/> 4.9months/breakdown/machine

Therefore the average number of breakdowns for the pool of say 100 machines per month will be:

For 1 machine in 4.9 months 1 breakdown

So for 1 machine in 1 month (1/4.9) breakdown

So for 100 machines in 1 month (100/4.9) = 20.40816 breakdowns

Repair Policy Cost = Average number of repairs per month X Average repair cost on breakdown =  $20.40816 \times 100 = R2040.816$

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles: Table-I

Preventive Maintenance Cycle (n), months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x `100)	Expected Monthly PM Cost ( $75 \times 100$ )/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	0	0	0	7500	7500
2	10	5	500	3750	4250
3	20	6.667	666.70	2500	3166.7
4	31	7.75	775	1875	2650
5	53	10.6	1060	1500	2560
6	106.1	17.683	1768.3	1250	3018.3

Computation of Col.2:

Month 1:  $100 \times 0.0 = 0$

Month 2:  $100 \times (0.0 + 0.1) + 0 \times 0.0 = 10$

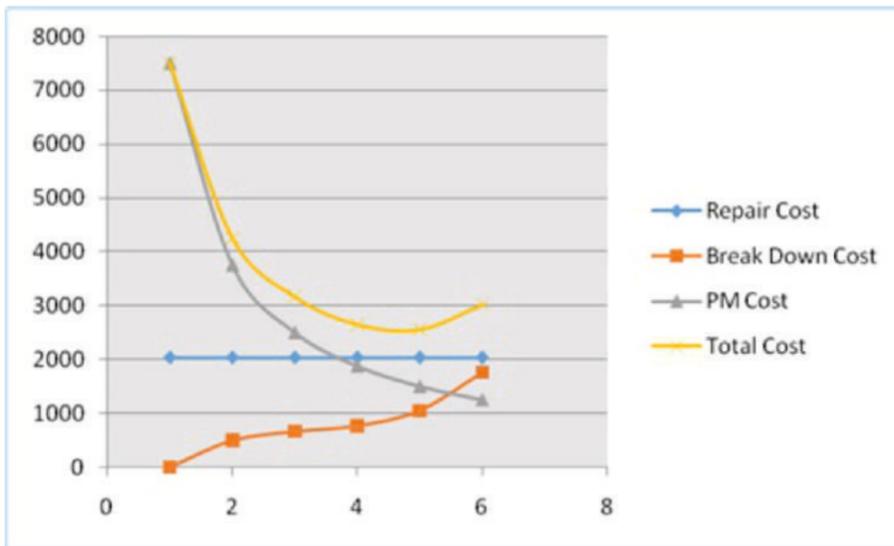
Month 3:  $100 \times (0.0 + 0.1 + 0.1) + 0 \times 0.1 + 10 \times 0.0 = 20$

Month 4:  $100 \times (0.0 + 0.1 + 0.1 + 0.1) + 0 \times 0.1 + 10 \times 0.1 + 20 \times 0.0 = 31$

Month 5:  $100 \times (0.0 + 0.1 + 0.1 + 0.1 + 0.2) + 0 \times 0.1 + 10 \times 0.1 + 20 \times 0.1 + 31 \times 0.0 = 53$

Month 6:  $100 \times (0.0 + 0.1 + 0.1 + 0.1 + 0.2 + 0.5) + 0 \times 0.2 + 10 \times 0.1 + 20 \times 0.1 + 31 \times 0.1 + 53 \times 0.0 = 106.1$

Graphical Representation Policy 1:



So from the above it is clearly observed that PM policy is inferior to Repair policy. But will repair policy sustainable? Answer is NO. After continuing for some time with repair policy cost effectiveness of the policy will be lost and at this stage we have to replace ---either individual machines or in blocks.

To do this analysis we will follow the steps below mentioned:

**Step-I: Determination of Number of failures in different weeks.** Table-II

Preventive Maintenance Cycle (n) , months	Probability of Breakdown (p)	Expected Breakdowns in PM Cycle
1	0.0	0
2	0.1	10
3	0.1	20
4	0.1	31
5	0.2	53
6	0.5	106.1

↓  
Column 2 of Table 1

**Step-2: Determination of Average Cost of Different Policies**

Table-III

Months	No of Individual Replacements	Cost of Replacements			
		Individual (Col2 x 80)	Group (100 X 50)	Total (Col3 +Col4)	Average Cost (Col5/Col1)
1	0	0	5000	5000	5000
2	10	800	5000	5800	2900
3	20	1600	5000	6600	2200
4	31	2480	5000	7480	1870
5	53	4240	5000	9240	1848
6	106.1	8488	5000	13488	2248

From the table it is observed that the minimum cost per month is obtained by replacing all the machines (whether failed or not) after every 5 months. Thus optimal replacement time interval = 5 months.

But we can go for a policy "Replace as and when a machine fail" and in that case there will not be any group replacement.

To check the feasibility of "Replace as and when a machine fails" the computation will be as following:

Life (months)	Mean value (Xi)	Probability (pi)	pi x Xi
0-1	0.5	0.0	0
1-2	1.5	0.1	0.15
2-3	2.5	0.1	0.25
3-4	3.5	0.1	0.35
4-5	4.5	0.2	0.9
5-6	5.5	0.5	2.75
			4.4

Mean life of a machine is = 4.4

Expected no of failures of a machine during a week = No of Machines/ Mean life of a machine

$$= 100/4.4$$

$$= 22.727$$

Weekly replacement cost = Expected no of replacements X cost of replacements  
 $= 22.727 \times 80$   
 $= 1818.16$

Since the cost of the policy of individual replacement i.e. "Replace as and when a machine fail" is less than that of the group replacement, it is advisable to go for individual replacement.

**Q3.**

Refer Q1. Let us take Average Repair Cost on breakdown  $C_r = R90$  & Cost of Preventive maintenance  $C_{PM} = R30$   
 Could you prove your conclusion given in A1 for a pool of 100 machines?

**Answer:**

Repair Policy Cost of Policy 1 = Average number of repairs per month X Average repair cost on breakdown =  $40 \times 90 = R3600$   
 Data taken from Answer 1.

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles: Table-I

Preventive Maintenance Cycle (n), months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x `90)	Expected Monthly PM Cost ( $\text{`}30 \times 100$ )/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	50	50	4500	3000	7500
2	85	42.5	3825	1500	5325
3	117.5	39.17	3525.3	1000	4525.3
4	152.25	38.06	3425.4	750	4175.4
5	191.38	38.28	3445.2	600	4045.2
6	236.16	39.36	3542.4	500	4042.4

Computation of Col.2:

Month 1:  $100 \times 0.5 = 50$

Month 2:  $100 \times (0.5 + 0.1) + 50 \times 0.5 = 85$

Month 3:  $100 \times (0.5 + 0.1 + 0.1) + 50 \times 0.1 + 85 \times 0.5 = 117.5$

Month 4:  $100 \times (0.5 + 0.1 + 0.1 + 0.1) + 50 \times 0.1 + 85 \times 0.1 + 117.5 \times 0.5 = 152.25$

Month 5:  $100 \times (0.5 + 0.1 + 0.1 + 0.1 + 0.1) + 50 \times 0.1 + 85 \times 0.1 + 117.5 \times 0.1 + 152.25 \times 0.5 = 191.38$

Month 6:  $100 \times (0.5 + 0.1 + 0.1 + 0.1 + 0.1 + 0.1) + 50 \times 0.1 + 85 \times 0.1 + 117.5 \times 0.1 + 152.25 \times 0.1 + 191.38 \times 0.5 = 236.16$

Graphical Representation Policy 1:

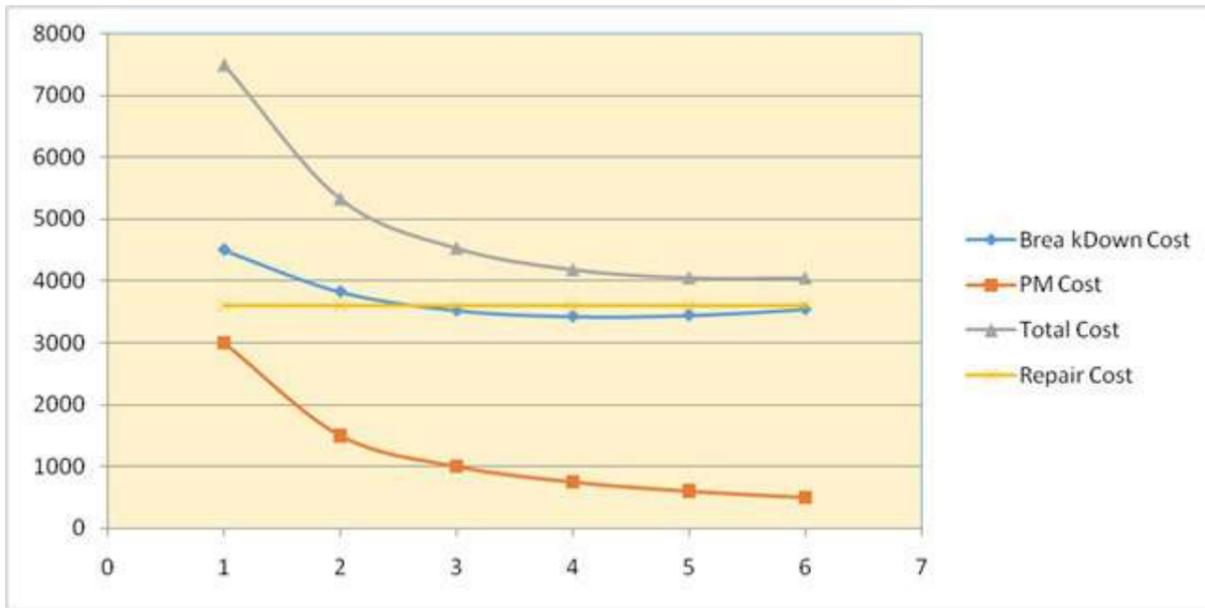


Fig -I

Repair Policy Cost of Policy 2 = Average number of repairs per month X Average repair cost on breakdown = 22.73 X 90 = R2045.7 (Data taken from Ans 1).

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles

Preventive Maintenance Cycle (n) , months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x `90)	Expected Monthly PM Cost (`30 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	10	10	900	3000	3900
2	21	10.5	945	1500	2445
3	33.1	11.03	992.7	1000	1992.7
4	46.41	11.60	1044	750	1794
5	71.05	14.21	1278.9	600	1878.9
6	119.16	19.86	1787.4	500	2287.4

Computation of Col.2:

Month 1:  $100 \times 0.1 = 10$

Month 2:  $100 \times (0.1 + 0.1) + 10 \times 0.1 = 21$

Month 3:  $100 \times (0.1 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.1 = 33.1$

Month 4:  $100 \times (0.1 + 0.1 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.1 + 33.1 \times 0.1 = 46.41$

Month 5:  $100 \times (0.2 + 0.1 + 0.1 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.1 + 33.1 \times 0.1 + 46.41 \times 0.1 = 71.05$

Month 6:  $100 \times (0.4 + 0.2 + 0.1 + 0.1 + 0.1 + 0.1) + 10 \times 0.2 + 21 \times 0.1 + 33.1 \times 0.1 + 46.41 \times 0.1 + 71.05 \times 0.1 = 119.16$

Graphical Representation Policy 2:

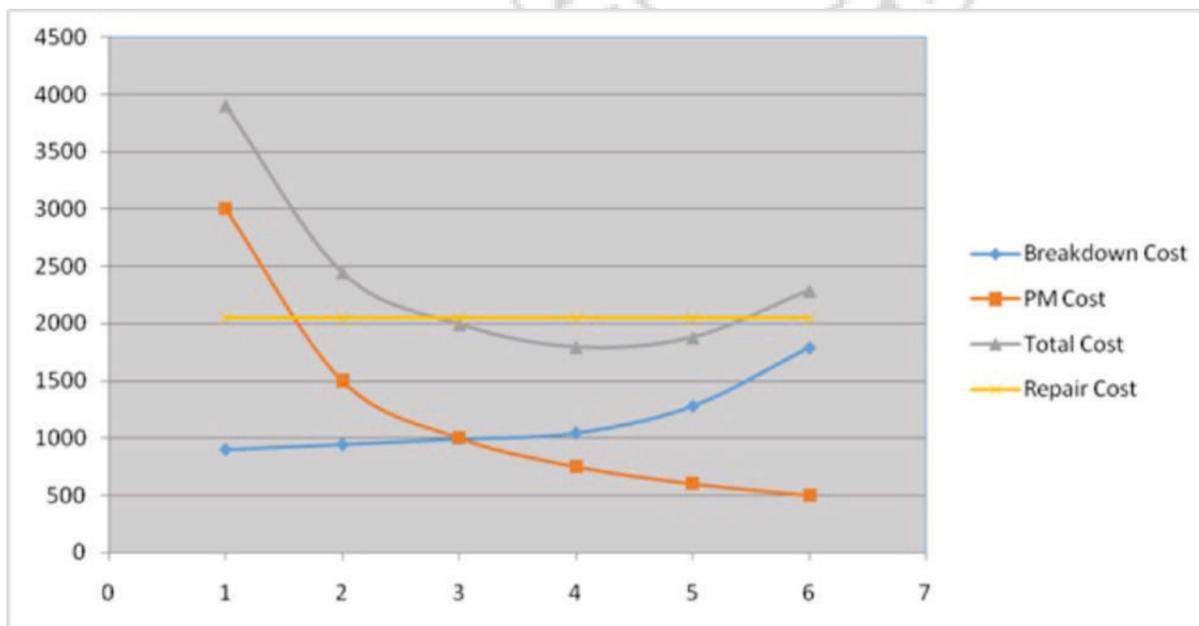


Fig -II

Repair Policy Cost of Policy 3 = Average number of repairs per month X Average repair cost on breakdown = 30.30 X 90 = R2727 (Data taken from Ans 1)

Preventive Maintenance Costs for the Six Preventive Maintenance Cycles

Preventive Maintenance Cycle (n) , months	Expected Breakdowns in PM Cycle	Average No of Breakdowns per month (Col.2/Col.1)	Expected Monthly Breakdown Cost (Col.3 x ` 90)	Expected Monthly PM Cost (` 30 x 100)/ Col.1	Expected Monthly Cost of each PM cycle (Col.4 + Col.5)
1	10	10	900	3000	3900
2	21	10.5	945	1500	2445
3	73.1	24.37	2193.3	1000	3193.3
4	94.41	23.60	2124	750	2874
5	118.25	23.65	2128.5	600	2728.5
6	160.92	26.82	2413.8	500	2913.8

Computation of Col.2:

Month 1:  $100 \times 0.1 = 10$

Month 2:  $100 \times (0.1 + 0.1) + 10 \times 0.1 = 21$

Month 3:  $100 \times (0.5 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.1 = 73.1$

Month 4:  $100 \times (0.1 + 0.5 + 0.1 + 0.1) + 10 \times 0.5 + 21 \times 0.1 + 73.1 \times 0.1 = 94.41$

Month 5:  $100 \times (0.1 + 0.1 + 0.5 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.5 + 73.1 \times 0.1 + 94.41 \times 0.1 = 118.25$

Month 6:  $100 \times (0.1 + 0.1 + 0.1 + 0.5 + 0.1 + 0.1) + 10 \times 0.1 + 21 \times 0.1 + 73.1 \times 0.5 + 94.41 \times 0.1 + 118.25 \times 0.1 = 160.92$

Graphical Representation Policy 3:

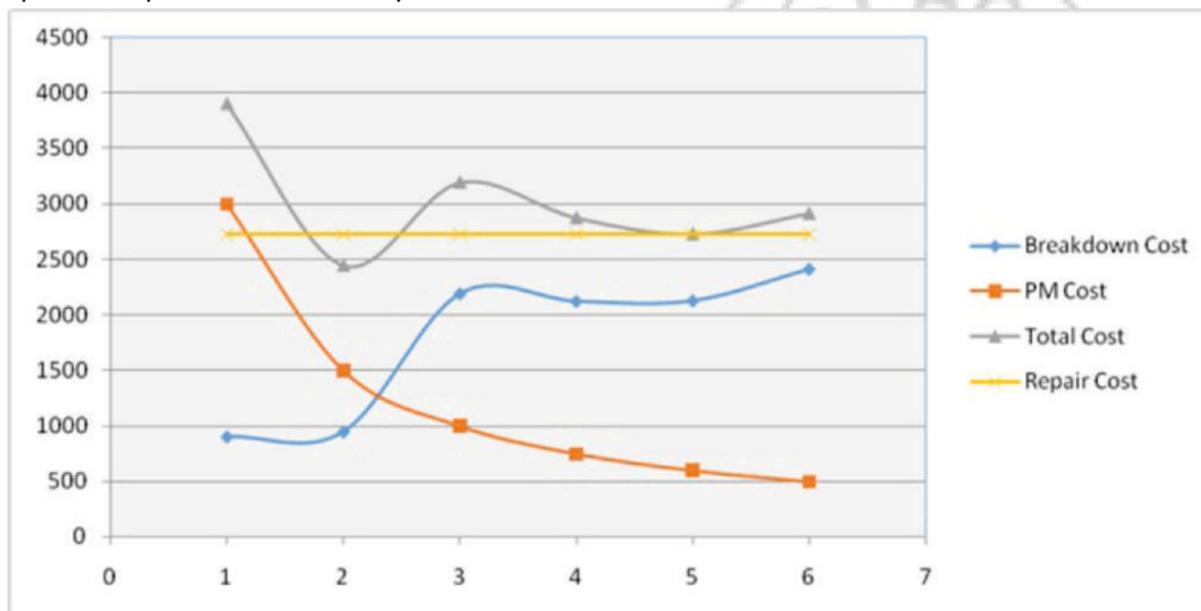


Fig-III

If we refer three graphs it is clear that -

Under Policy 1 (Fig -I) Repair cost R3600 is always less than cost of all PM cycles -Refer Col.6 of Table-I. Therefore if breakdown probability distribution is like under Policy 1, management will opt for policy of repairing machine when it breaks down.

Under Policy 2 (Fig -II) PM cycle of 4 months with the cost of R1794 - Refer Col.6, Row 4 of Table-II, is less than Repair cost R2045.7. Therefore if breakdown probability distribution is like under Policy 2, management will opt for PM policy of 4 months instead of going for policy of repairing machine when it breaks down. This way management can save R251.7

On similar logic under policy 3 PM is preferable to Repair as and when required policy. But in comparison to policy 2, policy 3 is inferior as

Repair cost under policy 2- R2045.7 < Repair cost under policy 3-R2727  
PM policy Cost under policy 2- R1794 < PM policy Cost under policy 3- R2445

The decision concerning preventive maintenance versus Repair depends on i) factor costs  $C_r$  and  $C_{PM}$  ii) the breakdown probability distribution; besides other sensitivities.

**Suggestions:**

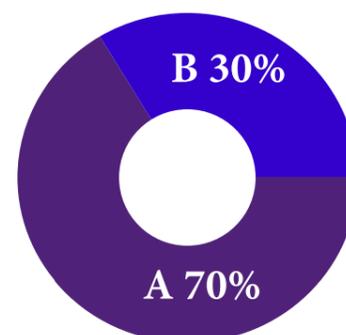
This lesson could be used as an aid to teaching on Maintenance in study notes. Concept of Preventive maintenance, Breakdown maintenance & replacement is vital in studying Operations Management. These discussions are in addition to knowledge imparted by study guide. For Proper understanding read supplementary readings by referring Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson, Productions and Operations management by R.B. Khanna & Quantitative Techniques in Management by N. D. Vora  
Best Wishes



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

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# Your Preparation Quick Takes



### Syllabus Structure

A Operations Management 70%  
B Strategic Management 30%

**Learning Objectives:**

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

**STRATEGIC MANAGEMENT****1. What is the starting point of Strategic Intent?**

- (a) Goal
- (b) Objective
- (c) Vision
- (d) Mission

**Answer (c)****2. Competitive advantage can be best described as:**

- (a) Increased efficiency
- (b) What sets an organization apart
- (c) A strength and the organizations
- (d) Intangible resources

**Answer (a)****3. The corporate level is where top management directs:**

- (a) All employees for orientation
- (b) Its efforts to stabilize recruitment needs
- (c) Overall strategy for the entire organization
- (d) Overall sales projections

**Answer (c)****4. The word tactics is most likely to be associated with:**

- (a) Business strategy
- (b) Corporate strategy
- (c) Operational strategy
- (d) All of the above

**Answer (c)****5. When does horizontal integration occur?**

- (a) When a firm acquires or merges with a major competitor
- (b) When a firm acquires or merges with an unrelated business
- (c) When a firm acquires or merges with a distributor
- (d) When a firm acquires or merges with a supplier firm

**Answer (a)****6. The three organizational levels are:**

- (a) Corporate level, business level, functional level
- (b) Corporate level, business unit level, functional level
- (c) Corporate strategy level, business unit level, functional level
- (d) None

**Answer (a)****7. Retrenchment is:**

- (a) When a company experiences declining profits and makes cutbacks to improve efficiency.
- (b) When a company adopts a new strategic position for a product or service
- (c) The sale of the complete business, either as a single going concern or piecemeal to different buyers or sometimes by auctioning the assets
- (d) Implement the marketing function's strategic planning and management decisions

**Answer (a)****8. Strategic Business Units:**

- (a) Are found in one-business organizations
- (b) Carry out strategies assigned by the CEO
- (c) Implement the marketing function's strategic planning and management decisions
- (d) Develop their own unique way of competing

**Answer (c)**

9. How many cells are there in a SWOT matrix?

- (a) 6
- (b) 9
- (c) 5
- (d) 2

**Answer (b)**

10. The word tactics is most likely to be associated with:

- (a) Business strategy
- (b) Corporate strategy
- (c) Operational strategy
- (d) All of the above

**Answer (c)**

11. Low cost, Differentiation and Focus are examples of:

- (a) Corporate strategies
- (b) Operational strategies
- (c) Business strategies
- (d) Functional strategies

**Answer (c)**

12. The corporate level is where top management directs:

- (a) All employees for orientation
- (b) Its efforts to stabilise recruitment needs
- (c) Overall strategy for the entire organization
- (d) Overall sales projections

**Answer (c)**

13. An organization strategy \_\_\_\_

- (a) Remains set in place longer than the mission and objectives
- (b) Generally, forms over a period of time as events unfold
- (c) Trends to be formed at the same time the mission is developed
- (d) None

**Answer (b)**

14. Hierarchy of Strategic Intent:

- i. Vision > Mission > Goals > Objectives > Plans
- ii. Mission > Vision > Goals > Objectives > Plans
- iii. Plans > Vision > Mission > Goals > Objectives
- iv. Goals > Vision > Mission > Objectives > Plans

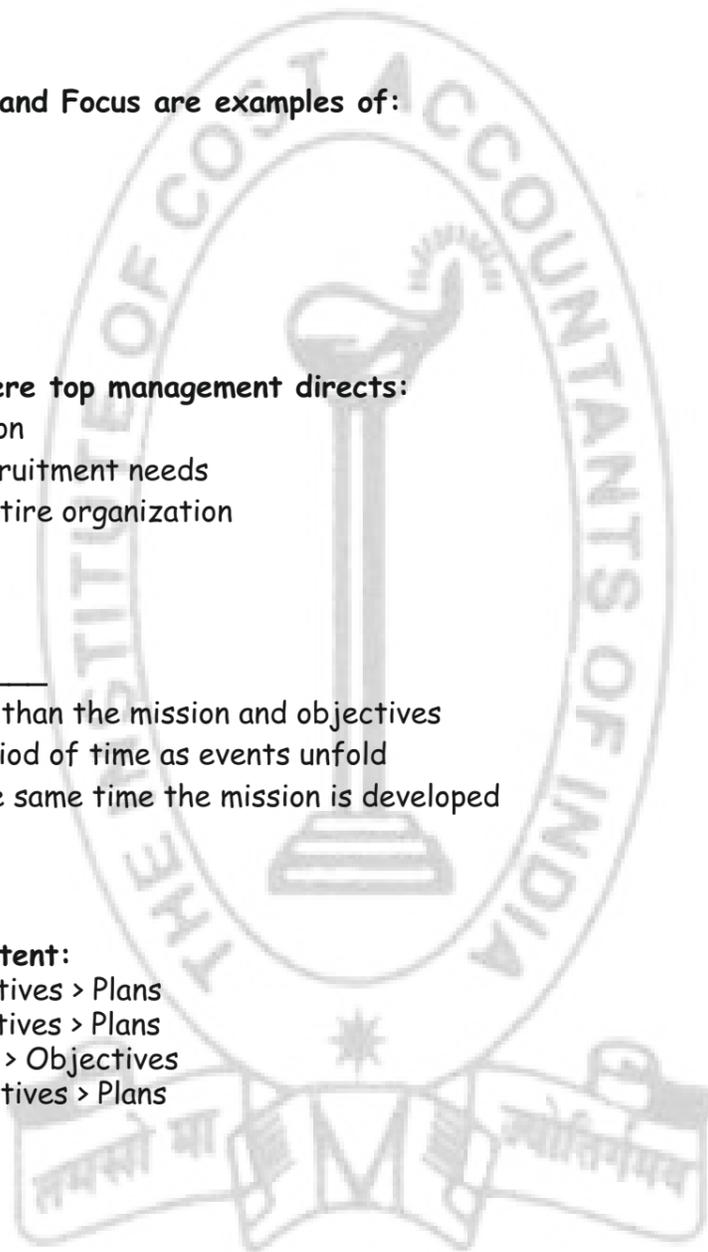
- (a) (i)
- (b) (ii)
- (c) (iii)
- (d) (iv)

**Answer (a)**

15. What are the guides to decision making?

- (a) Rules
- (b) Procedures
- (c) Goals
- (d) Policies

**Answer (d)**





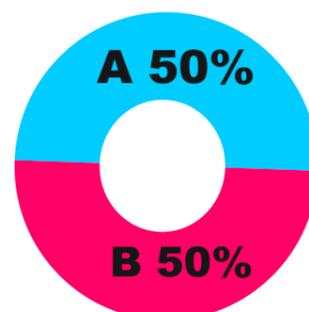
GROUP: II, PAPER:10

# COST & MANAGEMENT

ACCOUNTING AND FINANCIAL  
MANAGEMENT(CMFM)

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## Your Preparation Quick Takes



### Syllabus Structure

A Cost & Management Accounting 50%

B Financial Management 50%

**Learning Objectives:**

The paper Cost & Management Accounting and Financial Management (Group II; Paper 10) is a unique blend of theoretical elaborations and practical illustrations. The aim of this paper is to equip the students with a working level knowledge regarding the two disciplines and prepare a ground for a few advanced level papers like Strategic Financial Management (Final Group 3: Paper 14), Strategic Cost Management decision Making (Final Group 3: Paper 15) and Strategic Performance Management and Business Valuation (Final Group 4: Paper 20) in the CMA Final Course. The entire syllabus of the paper is segregated into two segments namely Cost & Management Accounting (Section A: Full Marks 50) and Financial Management (Section B: Full Marks 50). Each of the individual sections has further been divided into five chapters each highlighting a specific aspect of the subject concerned. In this section of e- bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

**GR - II CMA & FM****Question No. - 1 (Material & Labour)**

Trishul Industries turns out only one article the prime cost standards for which have been established as follows :

	Per Completed Price
Material : 5 Kg @ Rs.4.20	Rs.21
Labour : 3 hours @ Rs.3	Rs.9

The production schedule for the month of April, 2022 required completion of 5,000 prices. However, 5,120 pieces were actually completed.

Purchases for the month April, 2022 amounted to 30,000 lbs. of material at the total invoice price of Rs.1,35,000.

Production records for the month of April, 2022 showed the following actual results.

Materials requisitioned and used	25,700 Kg.
Direct Labour ----- 15,150 hours	Rs.48,480

What shall be the :-

**[ REG. MATERIAL ]**

- Standard Cost per unit of Production : (a) Rs.20 (b) Rs.21 (c) Rs.22 (d) Rs.23
- Standard Quantity (SQ) of Production : (a) 25300 kg (b) 25400 kg (c) 25500 kg (d) 25600 kg.
- Price Variance : (a) Rs.7700 F (b) Rs.7700 A (c) Rs.7710 F (d) Rs.7710 A
- Usage Variance : (a) Rs.420 A (b) Rs.420 F (c) Rs.430 A (d) Rs.430 F
- Cost Variance : (a) Rs.8120 A (b) Rs.8120 F (c) Rs.8130 A (d) Rs.8130 F

**[ REG. LABOUR ]**

- Standard Cost per unit of production : (a) Rs.9 (b) Rs.10 (c) Rs.11 (d) Rs.12
- Std Hour for Production : (a) 15330 Hr (b) 15340 Hr (c) 15350 Hr (d) 15360 Hr
- Wage Rate Variance : (a) Rs.3030 F (b) Rs.3030 A (c) Rs.3040 F (d) Rs.3040 A
- Efficiency Variance : (a) Rs.630 F (b) Rs.630 A (c) Rs.640 F (d) 640 A
- Cost Variance : (a) Rs.2300 A (b) Rs.2300 F (c) Rs.2400 A (d) Rs.2400 F

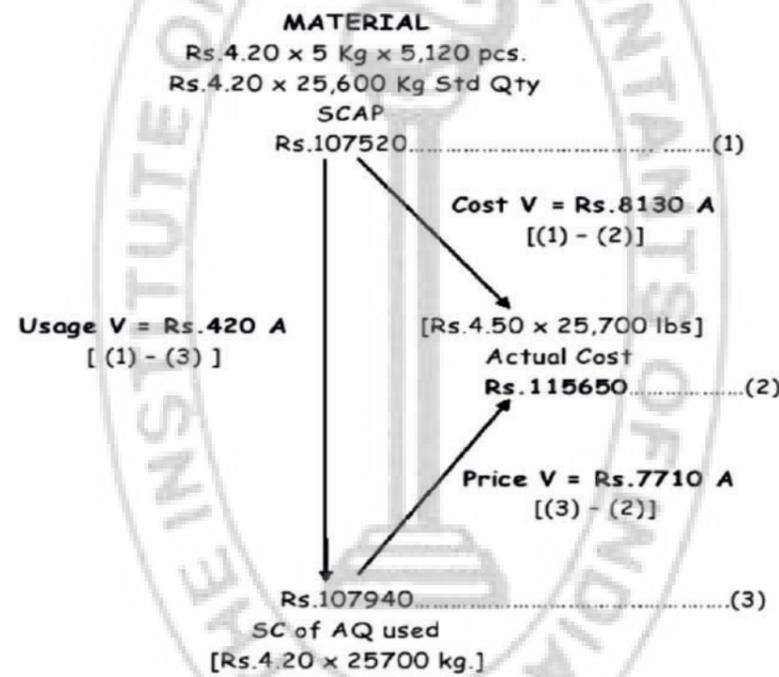
**Answer :**

- |                   |                  |                  |
|-------------------|------------------|------------------|
| 1) (b) Rs.21      | 2) (d) 25600 Kg  | 3) (d) Rs.7710 A |
| 4) (a) Rs.420 A   | 5) (c) Rs.8130 A | 6) (a) Rs.9      |
| 7) (d) 15360 Hr.  | 8) (b) Rs.3030 A | 9) (a) Rs.630 F  |
| 10) (c) Rs.2400 A |                  |                  |

**Steps for Solution for both Question 1 and 2 :**

- 1) Draw diagrams as shown in respect of each Question.
- 2) Put the given data as well as data derived from the Working Notes in the appropriate places of the diagrams as specified.
- 3) Start connecting the same by the arrows having spearheads in the way embodied therein.
- 4) The requisite Variances / data will emerge automatically.
- 5) In case of any difficulty, please have a look to the **Solutions through diagrams** at the end of this e-bulletin.

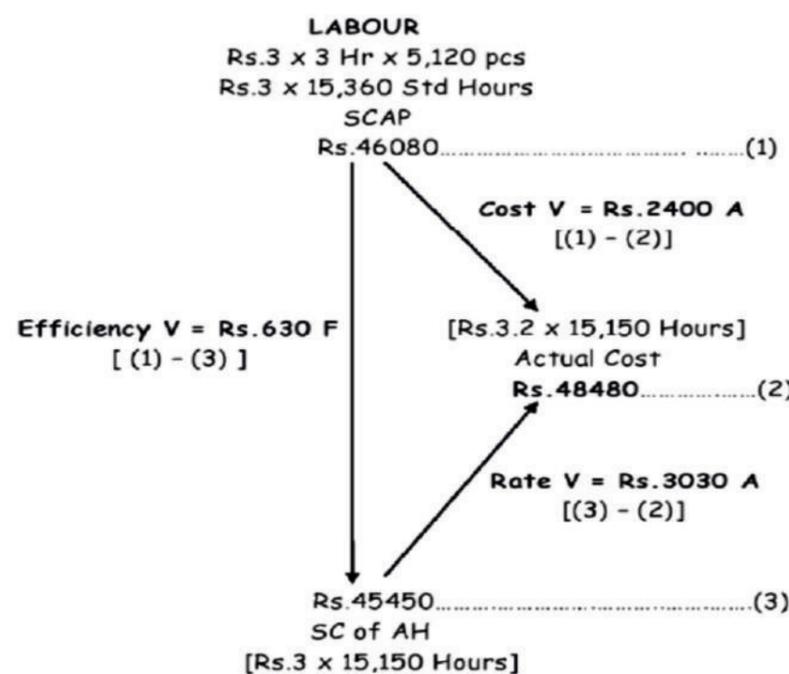
**Solution with Working Notes :**



\*Material Cost V = Price V - Usage V

**Working Notes :**

Actual Price = Rs.4.5 per Kg  
 [Rs.1,35,000 / 30,000 Kg]



\*Labour Cost V = Rate V + Efficiency V

**Working Notes :**

Actual Rate per Hour = Rs.3.2  
[Rs.48,480 / 15,150 Hours]

**Question No. - 2 (Profit V-Factors contributing to change in profit)**

The working results of a company for two corresponding years are shown below:

	Year 1 Rs. in lakhs	Year 2 Rs. in lakhs
Sales	1200	1540
Direct Material	600	648
Direct Wages	360	412
Fixed Overheads	160	300
	1120	1360
Profit	80	180

In year 2, there has been an increase in the selling price by 10%. Following are the details of material consumption and utilization of direct labour hours during the two years.

	Year 1	Year 2
Direct Material Consumption in m/t	500000	540000
Direct Labour Hours	7500000	8000000

**What shall be the :-**

- 1) Percentage change in the price of material : (a) 1% increase (b) 1% decrease (c) 2% increase (d) No change
- 2) Percentage change in the rate of wages : (a) 6.292% (b) 7.292% (c) 8.292% (d) 9.292%
- 3) Sales Price Variance : (a) Rs.140 A (b) Rs.140 F (c) Rs.130 A (d) Rs.130 F
- 4) Sales Volume Variance : (a) Rs.190 F (b) Rs.190 A (c) Rs.200 F (d) Rs.200 A
- 5) Material Price Variance : (a) NIL (b) Rs.100 A (c) Rs.100 F (d) Rs.150 A
- 6) Material Usage Variance : (a) Rs.50 A (b) Rs.50 F (c) Rs.52 A (d) Rs.52 F
- 7) Contribution Variance : (a) Rs.38 F (b) Rs.38 A (c) Rs.40 F (d) Rs.40 A
- 8) Fixed Overhead Expenditure Variance : (a) Rs.10 A (b) Rs.10 F (c) NIL (d) Rs.15 A
- 9) Fixed Overhead Efficiency Variance : (a) Rs.140 A (b) Rs.140 F (c) Rs.150 F (d) Rs.150 A

**Answer :**

- |                  |               |                 |
|------------------|---------------|-----------------|
| 1) (d) No Change | 2) (b) 7.292% | 3) (b) Rs.140 F |
| 4) (c) Rs.200 F  | 5) (a) NIL    | 6) (d) Rs.52 F  |
| 7) (c) Rs.40 F   | 8) (c) NIL    | 9) (a) Rs.140 A |

**Working Notes: I**

Computation of change in price level.

Material	Year 1	Year 2
Value/Qty	Rs.6,00,00,000/5,00,000 MT = Rs.120 per M/T	Rs.6,48,00,000/5,40,000 M/T = Rs.120 per MT

## No Change in the price of Material

Labour	Year 1	Year 2
Wages cost / Labour Hr.	Rs.360,00,000/75,00,000 Hr = Rs.4.80 per L. Hour	Rs.4,12,00,000/80,00,000 Hr. = Rs.5.15 per L. Hour

$$\begin{aligned} \text{\% age of increase in the rate of wage} &= [(Rs.5.15 - Rs.4.80) / Rs.4.80] \times 100 \\ &= Re.(0.35 / Rs.4.80) \times 100 = 7.292\% \end{aligned}$$

Solution with Working Notes :

## Comprehensive table showing Profit Variance Analysis

Column	A		B		C		D	E
Particulars	Year I		Change in Volume		Before price Increase		Year II	Price Increase
		Volume/ Contribution V		Usage/ Efficiency V		Price/Rate/ Exp. V		
Sales	1200	200 F ←	1400	N/A ←	1400	140 F ←	1540	10%
Materials	600	100 A →	700	52 F →	648	NIL →	648	No change
Wages	360	60 A →	420	36 F →	384	28 A →	412	7.292%
Total Variable Cost	960		1120				1060	
Contribution V	240	40 F ←	280				480	
Fixed OH	160	NIL →	160	140 A →	300	NIL →	300	NIL
Profit	80						180	

Methodology of WorkingColumn A, D & E

To be filled up with relevant data provided in the problem as well as in W.N. - I

Column C

Data to be derived from Col D & E. Such data represent amount before increase in price level as shown below.

Sales	: 1540 × 100/110 = 1400 [ so that 1400 + 10% = 1540 ]
Materials	: 648 [ No change ]
Wages	: 412 × 100 / 107.292 = 384 [ so that 384 + 7.292% = 412 ]
Fixed OH	: 300 [ No Change ]

Column B

Put the sales amount 1400 as it is in col C, since there can be no usage V or Efficiency V in respect of Sales. Ascertain the % age increase or decrease in Volume of sales from col A (1200) to col B (1400). The % age increase is 16.67% [(1400 - 1200) / 1200 × 100]

The volume of direct and Variable expenses as in Col A are also to be increased by 16.67% as shown below

Material :  $600 + 16.67\% = 700$   
Wages :  $360 + 16.67\% = 420$

Fixed OH does not change with volume of Sales in the short run. Hence put 160 as it is in Col A to Col B.

#### Amount of difference between columns

1. Column A & B :

Get contribution amount by deducting total variable cost from Sales in both columns. The difference between the Contribution so derived is the Contribution Variance as shown in the diagram. Variance [40 F].

2. Column B & C : (Effect of Change in Efficiency)

The difference indicates material usage / labour efficiency variance.

3. Column C & D : (Effect of change in Price)

The difference indicates material price / labour rate variance / Overhead Exp. Variance.

[It seems to be a better method of presentation, if Contribution Variance is calculated and shown, in stead of showing volume variances individually in respect of sales and other direct / variable expenses.]

In case of "comprehensive table for Profit Variance Analysis", it is important to note the direction of arrows. While the arrows in respect of Sales and Contribution move from right to left, in case of expense items it is just the reverse, i.e. the arrows run from left to right for obvious reason.

Deduct the figures placed at spear head from figures at the bottom of the arrow in each case. While the positive balance always signifies a Favourable Variance, a negative balance invariably indicates Adverse Variance. This principle holds good both in respect of cost and sales variance as well.

Additionally, presenting the reconciliation of Year I profit (i.e. Budgeted Profit) and the Year II profit (Actual Profit) for understanding of the students.

Factors contributing to change in profit			(Rs. in Lakh)
	Profit for the year I		80
Add :	Sales Price V	140 F	
Add :	Contribution V	40 F	
			180 F
	<b>Cost Variances</b>		
	<b>Material</b>		52 F
	[ Price V NIL ]		
	[ Usage V 52 F ]		
	<b>Labour</b>		8 F
	[ Rate V 28 A ]		
	[ Efficiency V 36 F ]		

<b>Fixed Overhead</b>	140 A	
$\left[ \begin{array}{ll} \text{Expenditure V} & \text{NIL} \\ \text{Efficiency V} & 140 \text{ A} \end{array} \right]$		
		100 F
<b>Profit for the year II</b>		<b>180</b>

**Solution through diagrams**

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

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

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

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

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



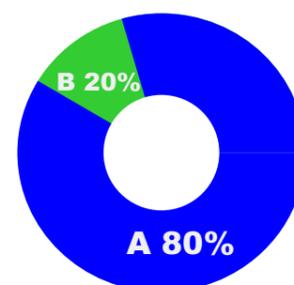


GROUP: II, PAPER:11

# INDIRECT TAXATION (ITX)

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

## Your Preparation Quick Takes



### Syllabus Structure

A Canons of Taxations -  
Indirect Tax GST **80%**  
B Customs Laws **20%**

**Learning objectives:**

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

## Levy and Collection of Tax Scope of Supply (Section 7)

Section 7 of the Central Goods and Services Tax Act, 2017 ("the CGST Act, 2017" or "the CGST Act") made applicable to IGST vide Section 20 of the Integrated Goods and Services Tax Act, 2017 ("the IGST Act, 2017" or "the IGST Act") and UTGST vide Section 21 of the Union Territory Goods and Services Tax Act, 2017 ("the UTGST Act, 2017" or "the UGST Act")

**Q1. What is the scope of the term 'supply' as defined in the CGST Act, 2017?**

Ans. As per Section 7(1) of the CGST Act, 2017, supply includes:

- all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;
- import of services for a consideration whether or not in the course or furtherance of business [and]
- the activities specified in Schedule I, made or agreed to be made without a consideration,
- Deleted

Clause (d) being part of the section 7(1) defining the term 'supply' leads to a situation where an activity listed in Schedule II would be deemed to be a supply even if it does not constitute a supply as per clauses (a), (b) and (c) of section 7(1). Classification of certain specified activities or transactions (which qualify as a supply under the CGST Act) either as supply of goods or supply of services is supposed to be done in Schedule II. Hence, clause (d) of section 7(1) has been deleted and a new sub-section (1A) in section 7 has been inserted]

Further, it may be noted that, subject to the provisions of section 7 (1), (1A)4 and (2),

the Government may, on the recommendations of the Council, specify, by notification, the transactions that are to be treated as:

- a supply of goods and not as a supply of services; or
- a supply of services and not as a supply of goods.

**Q2. Is it required to distinguish whether a particular supply involves supply of goods or services or both?**

Ans. Yes, the CGST Act, 2017 specifies certain provisions separately for supply of goods and supply of services viz., Section 12 and Section 13 thereof provides for ascertaining time of supply of goods and time of supply of services respectively. Similarly, separate provisions have been specified for ascertaining place of supply of goods and place of supply of services under the IGST Act, 2017. Further, the rate of tax applicable to supply of goods and supply of services are different. Accordingly, it is important to distinguish whether a particular transaction involves supply of goods or supply of services.

**Q3. How to distinguish whether a particular supply involves supply of goods or services or both?**

Ans. The Schedule II appended to the CGST Act, 2017 enlists the activities or transactions which are to be treated as supply of goods or supply of services. One may refer to Schedule II with reference to Section 7 of the CGST Act to classify whether the transaction involves supply of goods or supply of services. In other words, where certain activities or transactions constitute a supply as per section 7(1) of the CGST Act, 2017, they shall be treated either as supply of goods or supply of services as referred to in Schedule II.

**Q4. Whether supply of goods or services without consideration is liable to tax?**

Ans. The activities enumerated in Schedule I will qualify as supply even if made without consideration. Accordingly, such supplies in the absence of consideration are liable to tax. To illustrate, following are the activities which will qualify as supply in the absence of consideration and eventually would be liable to tax:

1. Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.

2. Supply of goods or services or both between related persons or between distinct persons as specified in Section 25, when made in the course or furtherance of business:

Provided that gifts not exceeding ` 50,000/-in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.

Supply of goods—

- by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
- by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.

Further the Board vide Circular No. 57/31/2018-GST dated 4.09.2018 has clarified the Scope of Principal-agent relationship in the context of Schedule I.

Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Hence, import of services by entities which are not registered under GST (say, they are only making exempted supplies) but are otherwise engaged in business activities is taxed when received from a related person or from any of their establishments outside India.

4. Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Hence, import of services by entities which are not registered under GST (say, they are only making exempted supplies) but are otherwise engaged in business activities is taxed when received from a related person or from any of their establishments outside India.

Q5. Whether transfer of goods to another branch located outside the State is taxable?

Ans. In terms of Section 25(4) of the CGST Act, 2017, every person who is required to obtain separate registration for every branch located in different State or Union territory shall be treated as distinct persons. Accordingly, the supply of goods (stock transfers) to a branch located outside the State would qualify as supply, liable to tax in terms of clause 2 to Schedule I of the CGST Act, 2017. Further, it is important to note that, supply of goods to a branch/ unit located within the same State having separate registration would also be liable to tax since both such units (supplying unit and recipient unit) would qualify as distinct person in terms of Section 25(4).

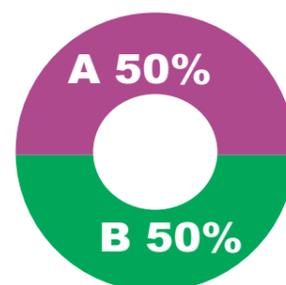




**GROUP: II, PAPER:12**  
**COMPANY**  
**ACCOUNTS & AUDIT (CAA)**

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# Your Preparation Quick Takes



## Syllabus Structure

- A Accounts of Joint Stock Companies 50%
- B Auditing 50%

**Learning Objectives:**

- Apply appropriate judgment derived from knowledge of accounting theory, to financial analysis and decision making
- Effectively define the needs of the various users of accounting data and demonstrate the ability to communicate such data effectively, as well as the ability to provide knowledgeable recommendations.
- Prepare financial statements in accordance with Generally Accepted Accounting Principles.
- Demonstrate an understanding of current auditing standards and acceptable practices, as well as the impact of audit risk on the engagement.

**Company Accounts & Audit**

For any type of Questions, students are advised to mention case laws suitable to answers. It will carry good impression over the mind of examiner. So, today we will discuss some case laws in brief. Later on students are advised to go through case laws and legal decisions from any authentic text book/books

**Case: Leeds Estate Building & Investment Company v. Shephard**

**Case brief:** The company was formed with a view to deal in loans and lending money of mortgage. The articles of association of the company provided that the directors were to be paid remuneration in proportion to dividend paid and no dividend was being payable except out of profit.

The company did not earn any profit for the whole period in which it carried business except in one year. The balance sheet was misleading and was prepared to show profit and declared dividend.

The company went into voluntary liquidation. The auditor were charged for the certain sums paid out of capital for dividend and for fees and bonus to directors.

**Decision:** It was held that the auditor was liable for negligence and was called upon to pay the damages to the company. His plea for the ignorance of provision of article was turned out.

It is the duty of the auditor not to confine himself merely to the task of ascertaining the arithmetical accuracy of the balance sheet but to see that it is true and accurate as a representation of the company's affairs.

**Case: Lublock v. the British Bank of South America.**

**Case brief:** The company was carrying on banking business had sold another bank his goodwill and property and made a profit of pound 205000/- .it was credited to the profit & loss account to pay dividend to the shareholders.

It was pleaded that it would amount to payment of dividend out of capital.

**Decision:** It the articles so permit a profit made on the sale of a part of the under taking of a company is available for payment as dividend.

Although this course might some times be imprudent, there is no law which prevented it all cases and under all circumstances

**Case : in reg Landon and General bank Ltd**

**Case brief :** The Landon and general bank had advanced large sums to the customers by way of loans and overdraft on current accounts, but the security lodged for them was quite insufficient. The interest on loans was duly brought in to the credit of books but as matter of facts the interest was never paid. This resulted into heavy losses to the bank and its consequent failure. The auditor was fully aware of the insufficiency of proper security and adequate provisions were not made.

**Decision:** it was held that the auditor was liable for misfeasance and was liable to refund by way of damages the amount of dividend.

One more point was laid down in the case that the auditor is an officer of the company.

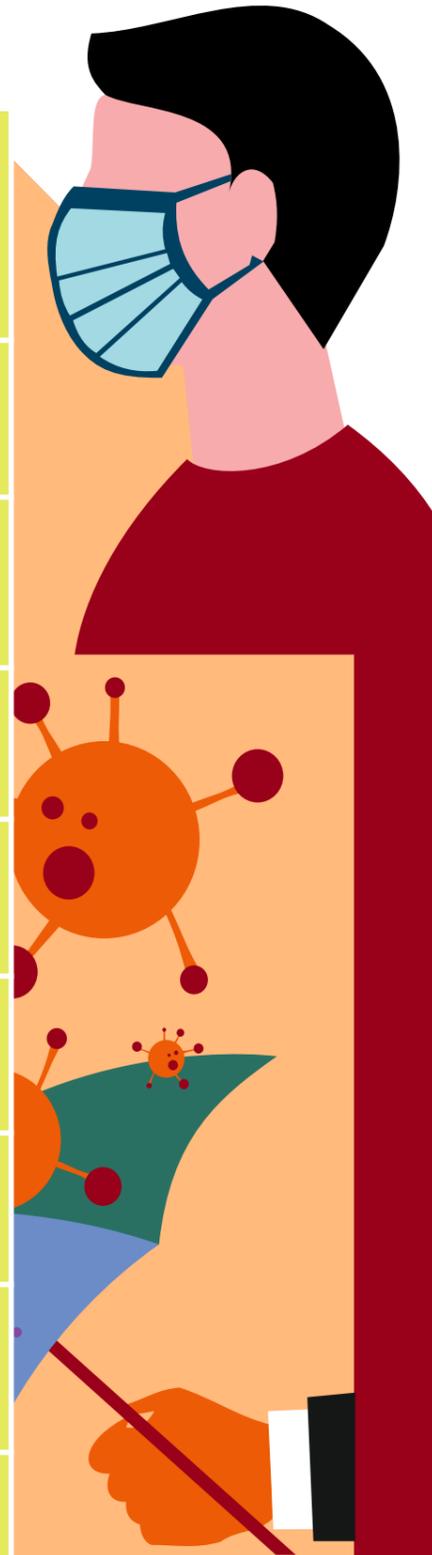
Students and Examinees are to go through the case brief and decisions. They are to understand the philosophy behind fixation of liability of auditor.

*Enjoy Reading and understanding.*

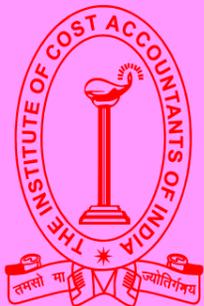


# Examination TIME TABLE

Day & Date	Intermediate Examination Syllabus-2016 Time 10.00 a.m. to 1.00 p.m. / 2.30 p.m. to 5.30 p.m
27th June,2022 (Monday)	Financial Accounting (Paper 05) (Group - I)
28th June,2022 (Tuesday)	Operations Management & Strategic Management (Paper 09) (Group - II)
29th June,2022 (Wednesday)	Laws & Ethics (Paper 06) (Group - I)
30th June,2022 (Thursday)	Cost & Management Accounting and Financial Management (Paper 10) (Group - II)
1st July,2022 (Friday)	Direct Taxation (Paper 07) (Group - I)
2nd July, 2022 (Saturday)	Indirect Taxation (Paper 11) (Group -II)
3rd July, 2022 (Sunday)	Cost Accounting (Paper 08) (Group - I)
4th July, 2022 (Monday)	Company Accounts & Audit (Paper 12) (Group - II)



**STAY HOME STAY SAFE**



# PRACTICAL Advice

## ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

01

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

**Solve Exercises  
given in Study Note**

02

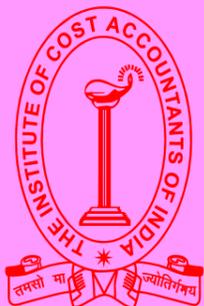
03

**Assess Yourself**

**Appear For Examination**

04

FINISHED



# SUBMISSIONS



## Updation of E-Mail Address/Mobile:

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

Dear Students,

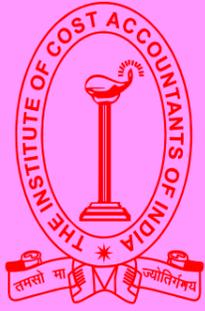
We are very much delighted to receive responses from all of you; for whom our effort is!

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

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

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



## Message from Directorate of Studies

Dear Students,

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

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

We from the Directorate of studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. If you sincerely follow those tips, we hope, you will be successful in your endeavor.

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

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

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

Please refer the link mentioned below :

<https://icmai.in/studentswebsite>

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

**The Institute is pleased to inform that the University Grants Commission (UGC) Ministry of Education, Govt. of India has announced that CMA qualification be Considered equivalent to PG Degree.**

**GOOD LUCK**

**Be Prepared and Get Success;**

**Disclaimer:**

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

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# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

STUDENTS' E-bulletin Intermediate  
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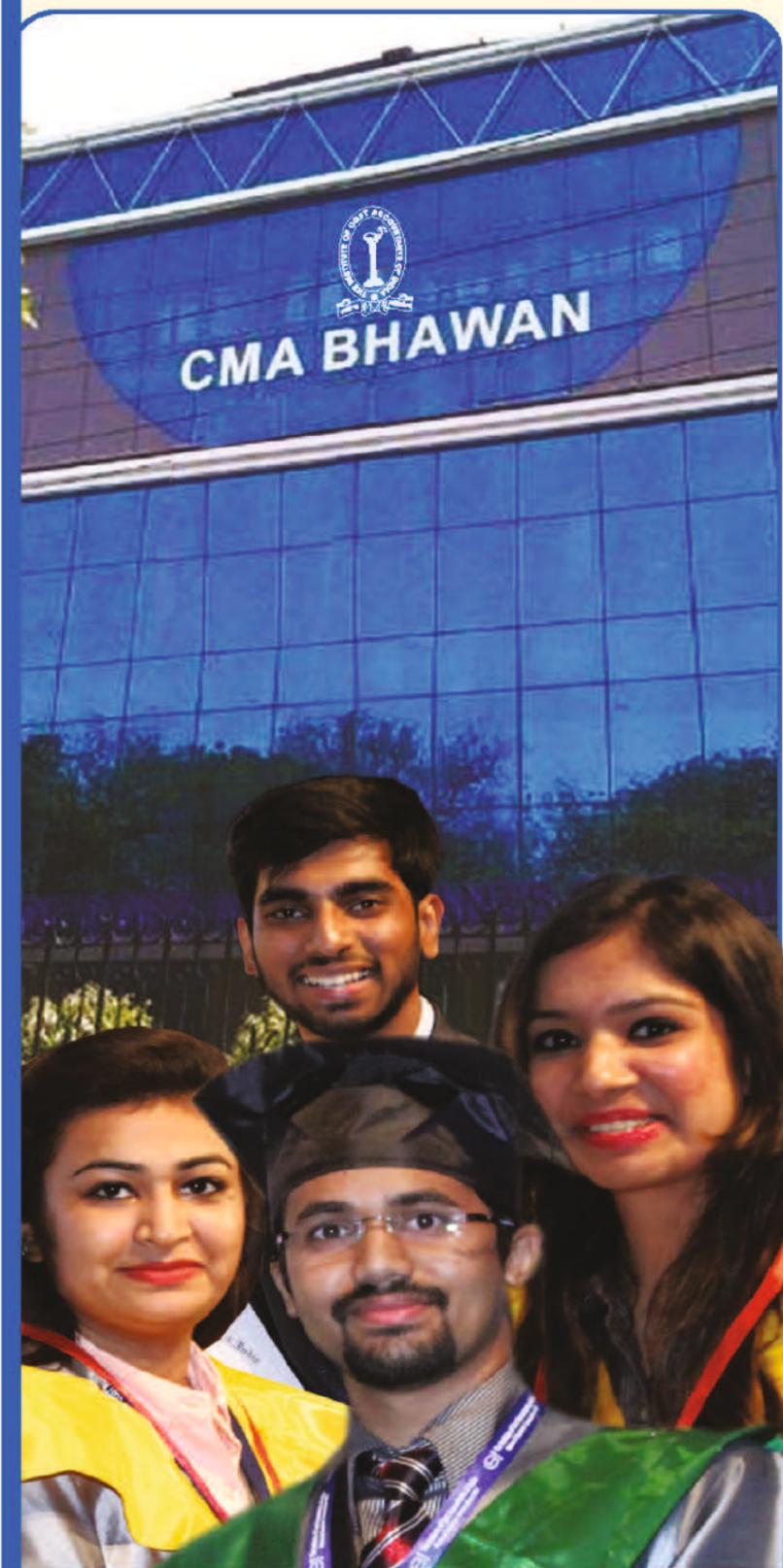
### Few of Our Proud Recruiters



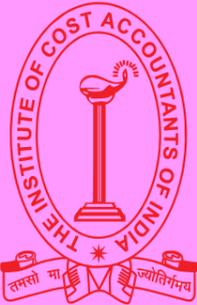
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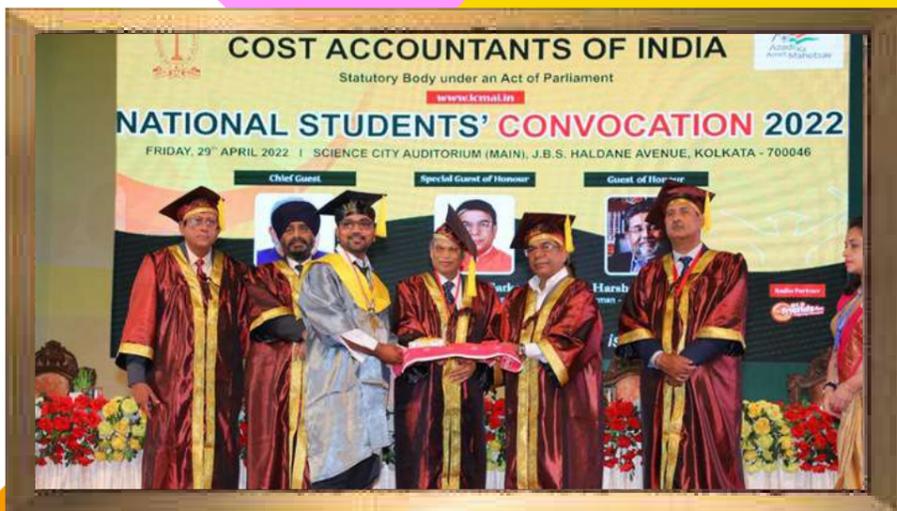
Behind every successful business decision, there is always a **CMA**



# Few Snapshots



60th National Cost Convention - 2022



Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata



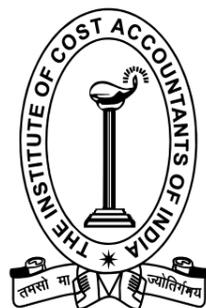
Glimpses of National Students Convocation 2022 on 29 April 2022 at Kolkata



CMA P Raju Iyer, President of the Institute with Swami Shukadevananda, Secretary, RKM Vivekananda College [Autonomous], Chennai & Other Officials of the College during the Board of Studies meeting held on 19th March 2022 at College Campus in Chennai.



Inauguration of CMA Classes & Mentoring of Students for CMA Curriculum, Value Added Courses such as GST, Forensic Audit, Internal Audit Members Present - CMA P Raju Iyer, President Along with [L to R] CMA Rakesh Shankar, Dr. S. Padmavathi, Principal of Shri Shankarlal Shasun Jain College for Women, Dr. S Rukmani, Vice Principal, Dr. C. Vimaladevi, Ms. Deepa Shridhar, Co-ordinator - CMA Support Centre



# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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