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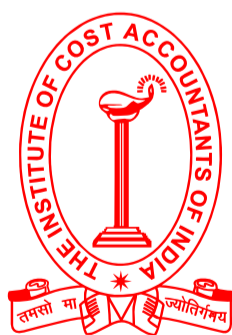
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CMA Student
E - Bulletin

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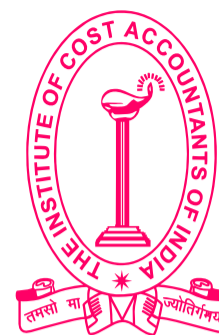
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Behind every successful business decision, there is always a **CMA**

Message from The Chairman

CMA Biswarup Basu

Vice President & Chairman,
Training & Education Facilities
and Placement Committee



MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

"Happiness is when what you think, what you say and what you do are in harmony"-M.K. Gandhi

'Rethinking' is the need of the hour. The world has given us the opportunity to rethink and restructure our basic lifestyle. Before the 'lockdown' we were in a world full of amenities and scopes. Mother earth had offered us with her plenty of treasures and we had used those in an unbridled manner. The world needs people with high values to make it a better place to live in. It requires a vigorous study to enrich the knowledgebase. Towards this end, we may prefer to see that our students are contributing to the development of the nation by the implementation of requisite knowledge towards the restructuring of the society. During this pandemic of COVID19 we request our students to 'Stay home, Stay safe' and meantime enhance the habit of self study and self teaching as well.

The Directorate of Studies is continuously trying to offer the best to the students to help them carry on their study. Live Webinars are getting conducted for the benefit of the students to study from home with the already recorded webinars are kept in the e-library, Answers to the Mock Test Papers (MTPs), updated Work Books and monthly E-bulletins are also being uploaded on our website. Eminent academicians and industrial personnel are contributing in their own way for the development of our students too. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them. You please try to grab the opportunities being offered by the Directorate of Studies.

My appeal to all of you is, try to be determined in your own way to enable the society to cope up with this pandemic.

Always keep in mind that, *"Where there is love there is life"*.

Best wishes as always,

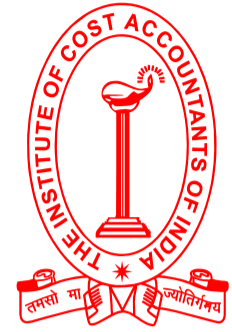
CMA Biswarup Basu
Chairman, Training & Education Facilities and Placement Committee



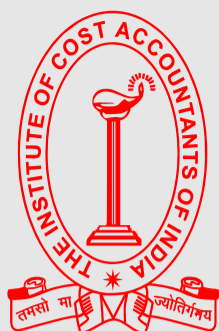
Be a CMA, be a Proud Indian



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KNOWLEDGE Update



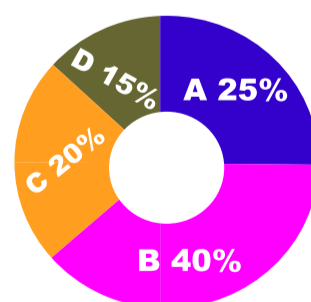
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

Hope you all are keeping well. Please stay at home and stay safe. You are staying home means you are saving the whole world. "Think locally but act globally." Under such distressed period of lockdown let us revise some issues today and solve some basic problems to nurture your brain cells. Consider this issue to be an assignment.

Problem 1**5 types of Adjustments**

This problem explores 5 common types of adjusting journal entries. All problems relate to ABC Company, which has a financial year-end of December 31.

a.) Prepaid expenses - Insurance

ABC Company purchases a one-year insurance policy on June 1, 2019 for 1,800 cash.

Required

Record the entry for the purchase of insurance and for the year-end adjustment.

b.) Depreciation

ABC Company purchases a vehicle on August 31, 2019 for 12,000 cash. The vehicle is expected to be useful for 10-years, after which time it will have no residual value. The company wishes to use straight-line depreciation.

Required

Record the journal entry for the purchase of the vehicle and for the year-end adjustment.

c.) Accrued expenses - Interest

On May 1, 2018, ABC Company borrows 10,000 from the bank and signs a note payable. The debt carries annual interest of 6% and is repaid in full (with interest) on July 1, 2019.

Required

Record the journal entry for the initial borrowing, the year-end adjustment and the repayment of the debt.

d.) Accrued revenues

As at December 31, 2019, ABC Company had provided 3 months of consulting service to a client at a rate of 1,000 per month, but had not yet billed the client or collected any money. On January 31, 2020 the client was billed for four months of service and paid one week later on February 8, 2020.

Required

Record the journal entry for the year-end adjustment, and any other entries required.

e.) Unearned revenues

A client pre-pays ABC Company on November 1, 2019 for five months of consulting service (from November through the end of March). The company pays 15,000. ABC Company earns the money evenly over the life of the project, and has fulfilled its obligations up to December 31.

Required

Record the journal entry November 1 and for the year-end adjustment.

Problem 2**5 types of Adjustments**

This problem explores 5 common types of adjusting journal entries. All problems relate to XYZ Company, which has a financial year-end of December 31.

a.) Prepaid expenses - Supplies

On December 15, XYZ Company was completely out of supplies, so the company purchased 1,500 of supplies on account. On December 31, a supply count revealed 200 of supplies were on hand.

Required

Record the entry for the purchase of supplies and for the year-end adjustment.

b.) Depreciation

XYZ Company purchases a new building for 720,000 on April 1, 2019. The building is fully financed by a mortgage. The building is expected to be useful for 20 years, after which time it will have no residual value. The company wishes to use straight-line depreciation.

Required

Record the journal entry for the purchase of the building and for the year-end adjustment.

c.) Accrued expenses - Salaries

XYZ Company pays salaries of 4,000 every Friday. The company has a 5-day workweek and is open from Monday to Friday. This year, the December 31 falls on a Thursday.

d.) Accrued revenues - interest

On October 1, 2019, XYZ Company loaned an employee (Fred Smith) 1,000. Fred signed a note promising to pay back the 1,000 in full plus interest at annual rate of 12%. On May 1, Fred pays back the note and accrued interest.

Required

Record the journal entry for the initial loan, the year-end adjustment and the repayment.

e.) Unearned revenues

On December 1, 2019, three customers each prepaid 500 for a 5-month consulting package.

XYZ Company fulfilled its obligations up to December 31.

Required

Record the year-end adjustment and the entry for when salaries are paid on Friday, January 1.

Bank Reconciliation

This is a good example of preparing bank reconciliation statement from the real life scenario where you will be provided with the cash book and a bank statement wherefrom you have to identify the causes of differences by the method of ticking.

In this example first find out the causes of differences and then proceed for reconciliation.

ZipFlyer Inc.'s Cash Book for May shows the following information:

Cash book					
Date	Particulars	Amount	Date	Particulars	Amount
May 1	Opening balance	13,846	May 1	Cheque #75	550
May 1	Deposit	1,550	May 3	Cheque #76	875
May 3	Deposit	2,700	May 4	Cheque #77	1,256
May 15	Deposit	4,950	May 7	Cheque #78	3,684
May 21	Deposit	2,600	May 10	Cheque #79	1,100
May 31	Deposit	3,000	May 13	Cheque #80	486
			May 17	Cheque #81	548
			May 21	Cheque #82	3,058
			May 25	Cheque #83	1,244
			May 28	Cheque #84	983
			May 29	Cheque #85	68
			May 31	Cheque #86	175
May 31	Ending Balance	14,619			

The following comes from the company's April 2019 Bank Statement:

Date	Description	Withdrawals	Deposits	Balance
April 30	Balance Forward			13,846
May 2	Deposit		1,550	15,396
May 3	Cheque #75	550		14,846
May 4	Deposit		2,700	17,546
May 6	Cheque #77	1,256		16,290
May 7	NSF Cheque - W. White	600		15,690
May 8	Cheque #76	875		14,815
May 10	Cheque #78	3,684		11,131
May 11	Bank Collection		4,300	15,431

May 13	Cheque #79	1,100		14,331
May 14	EFT - Utilities bill	300		14,031
May 15	Deposit		4,950	18,981
May 18	Cheque #80	468		18,513
May 21	Deposit		2,600	21,113
May 24	EFT - Telephone	100		21,013
May 25	Cheque #82	3,058		17,955
May 27	Cheque #83	1,244		16,711
May 31	Bank plan fee	5		16,706
May 31	Interest		1	16,707

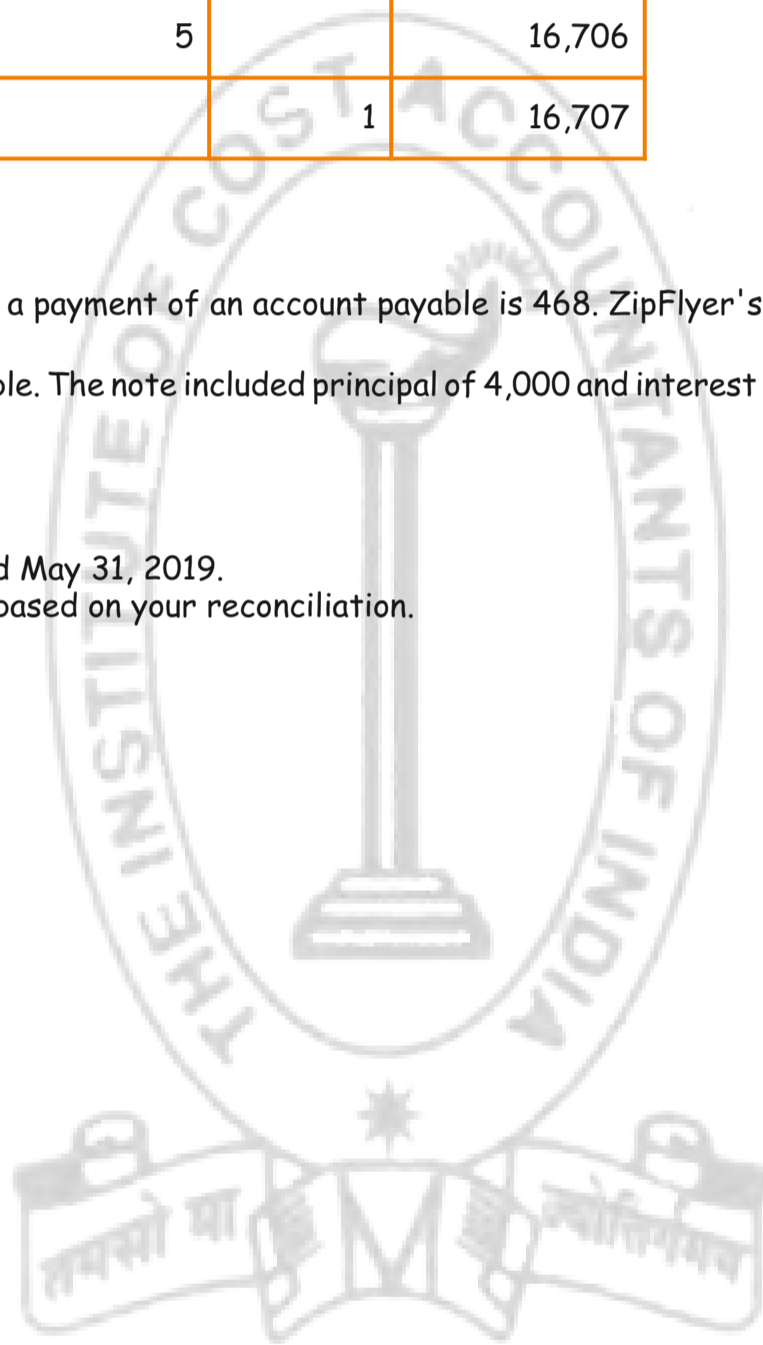
Additional Information:

A - The correct amount of cheque #80 - a payment of an account payable is 468. ZipFlyer's bookkeeper made an error.

B - The bank collection was a note receivable. The note included principal of 4,000 and interest of 300. No previous interest accruals had been made on the note.

Required

- Prepare a bank reconciliation dated May 31, 2019.
- Record any required adjustments based on your reconciliation.

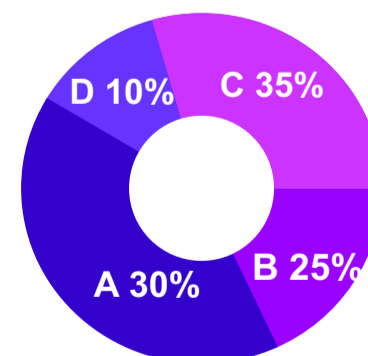




GROUP: I, PAPER: 6
LAWS & ETHICS
(LNE)

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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.

LAW & ETHICS

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

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

Rule 14(2)(a) of Companies (Prospectus and Allotment of Securities) Rules, 2014 provides that a company shall make a private placement after -

1. For the purposes of sub-section (2) and sub-section (3) of section 42, a company shall not make an offer or invitation to subscribe to securities through private placement unless:

The proposal has been previously approved by the shareholders of the company, by a special resolution for each of the offers or invitations:

Provided that in the explanatory statement annexed to the notice for shareholders' approval, the following disclosure shall be made:-

- (a) particulars of the offer including date of passing of Board resolution;
- (b) kinds of securities offered and the price at which security is being offered;
- (c) basis or justification for the price (including premium, if any) at which the offer or invitation is being made;
- (d) name and address of valuer who performed valuation;
- (e) amount which the company intends to raise by way of such securities;
- (f) material terms of raising such securities, proposed time schedule, purposes or objects of offer, contribution being made by the promoters or directors either as part of the offer or separately in furtherance of objects; principle terms of assets charged as securities:

Provided further that **this sub-rule shall not apply** in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation does not exceed the limit as specified in clause (c) of sub-section of section 180 and in such cases relevant Board resolution under clause (c) of sub-section (3) of section 179 would be adequate:

Provided also that in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation exceeds the limit as specified in

clause (c) of sub-section (1.) of section 180, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year.

(2) For the purpose of sub-section (2) of section 42, an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred in the aggregate in a financial year:

Provided that any offer or invitation made to qualified institutional buyers, or to employees of the company under a scheme of employees stock option as per provisions of clause (b) of sub-section (1) of section 62 shall not be considered while calculating the limit of two hundred persons.

Explanation.— For the purposes of this sub-rule, it is hereby clarified that the restrictions aforesaid would be reckoned individually for each kind of security that is equity share, preference share or debenture.

(3) A private placement offer cum application letter shall be in the form of an application in the Revised Form PAS-4 serially numbered and addressed specifically to the person to whom the offer is made and shall be sent to him, either in writing or in electronic mode, within thirty days of recording the name of such person pursuant to sub-section (3) of section 42:

Provided that no person other than the person so addressed in the private placement offer cum application letter shall be allowed to apply through such application form and any application not conforming to this condition shall be treated as invalid.

(4) The company shall maintain a complete record of private placement offers in Form PAS-5.

(5) The payment to be made for subscription to securities:

- shall be made from the bank account of the person subscribing to such securities and
- the company shall keep the record of the bank account from where such payment for subscription has been received:

Provided that monies payable on subscription to securities to be held by joint holders shall be paid from the bank account of the person whose name appears first in the application:

Provided further that the provisions of this sub-rule shall not apply in case of issue of shares for consideration other than cash.

(6) A return of allotment of securities under section 42 shall be filed with the Registrar within fifteen days of allotment in Form PAS-3 and with the fee as provided in the Companies (Registration Offices and Fees) Rules, 2014 along with a complete list of all the allottees containing-

- (i) the full name, address, Permanent Account Number and E-mail ID of such security holder;
- (ii) the class of security held;
- (iii) the date of allotment of security ;
- (iv) the number of securities held, nominal value and amount paid on such securities; and particulars of consideration received if the securities were issued for consideration other than cash.

(7) The provisions of sub-rule (2) shall not be applicable to -

- (a) non-banking financial companies which are registered with the Reserve Bank of India under the Reserve Bank of India Act, 1934 (2 of 1934); and
- (b) housing finance companies which are registered with the National Housing Bank under the National Housing Bank Act, 1987 (53 of 1987),

if they are complying with regulations made by the Reserve Bank of India (RBI) or the National Housing Bank (NHB) in respect of offer or invitation to be issued on private placement basis:

Provided that such companies shall comply with sub-rule (2) in case the RBI or the NHB have not specified similar regulations.

(8) A company shall issue private placement offer cum application letter only after the relevant special resolution or Board resolution has been filed in the Registry:

Provided that private companies shall file with the Registry copy of the Board resolution or special resolution with respect to approval under clause (c) of sub-section (3) of section 179.

Now let us discuss **Section 42** step by step.

Private Placement : Sec.42(1) Without prejudice to the provisions of section 26, a company may, subject to the provisions of this section, **make private placement through issue of a private placement offer letter.**

Number of persons offered : Sec.42(2) Subject to sub-section (1), the offer of securities or invitation to subscribe securities, shall be made to such number of persons not exceeding fifty or such higher number as may be prescribed, [excluding qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option as per provisions of clause (b) of sub-section (1) of section 62], in a financial year and on such conditions (including the form and manner of private placement) as may be prescribed.

Deemed Offer to the public:

Explanation I. - If a company, listed or unlisted, makes an offer to allot or invites subscription, or allots, or enters into an agreement to allot, securities to more than the prescribed number of persons, whether the payment for the securities has been received or not or whether the company intends to list its securities or not on any recognized stock exchange in or outside India, the same shall be deemed to be an offer to the public.

Explanation II.- "**Private Placement**" means any offer of securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of a private placement offer letter and which satisfies the conditions specified in this section.

Condition : Sec.42(3) No fresh offer or invitation under this section shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company.

Sec.42(4) Any offer or invitation not in compliance with the provisions of this section shall be treated as a public offer and all provisions of this Act, and the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 shall be required to be complied with.

Payment : Sec.42(5) All monies payable towards subscription of securities under this section shall be paid through cheque or demand draft or other banking channels but not by cash.

Allotment : Sec.42(6) A company making an offer or invitation under this section shall allot its securities within sixty days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within fifteen days from the date of completion of sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent. per annum from the expiry of the sixtieth day:

Provided that monies received on application under this section shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than—

- (a) for adjustment against allotment of securities; or
- (b) for the repayment of monies where the company is unable to allot securities.

Condition : Sec.42(7) All offers covered under this section shall be made only to such persons whose names are recorded by the company prior to the invitation to subscribe, and that such persons shall receive the offer by name, and that a complete record of such offers shall be kept by the company in such manner as may be prescribed and complete information about such offer shall be filed with the Registrar within a period of thirty days of circulation of relevant private placement offer letter.

Sec.42(8) No company offering securities under this section shall release any public advertisements or utilise any media, marketing or distribution channels or agents to inform the public at large about such an offer.

Return of Allotment : Sec.42(9) Whenever a company makes any allotment of securities under this section, it shall file with the Registrar a return of allotment in such manner as may be prescribed, including the complete list of all security-holders, with their full names, addresses, number of securities allotted and such other relevant information as may be prescribed.

Penalty : Sec.42(10) If a company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount involved in the offer or invitation or two crore rupees, whichever is lower (as revised), and the company shall also refund all monies to subscribers within a period of thirty days of the order imposing the penalty.

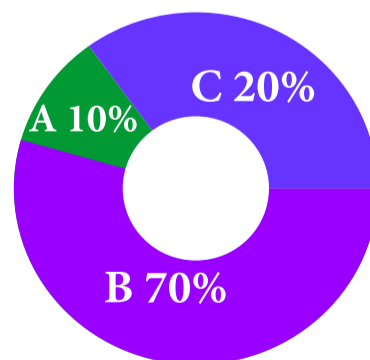


GROUP: I, PAPER: 7

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.

SET OFF AND CARRY FORWARD

For computation of Gross Total Income (GTI), income from various sources is computed under the five heads of income. If all the sources and heads are having positive income (i.e. profit) then the same can simply be added to compute GTI. However, if certain source(s) or certain head(s) have negative income (i.e. loss) then such loss needs to be adjusted with income of another source(s) or head(s). Set off means adjustment of loss from one source or one head against income from another source or another head.

If a negative income is not fully set off in the current year, then the unabsorbed loss shall be carried forward to subsequent years subject to certain restrictions and conditions [e.g. Income from other sources (other than losses from activity of owning and maintaining horse races) cannot be carried forward.]

Set off of Loss

Head or Source of Income	Intra Head Adjustment u/s 70	Inter Head Adjustment u/s 71	Carry Forward
Income from House Property	With any income under the same head	With any income under other head subject to cap of ₹ 2,00,000/-	Yes
Profit & Gains of Business or Profession (Speculative)	With Speculative income only	No Adjustment	Yes
Profit & Gains of Business or Profession (Non-Speculative)	Any income under the head	With any income under other head except salary	Yes
Unabsorbed Depreciation	Any income under the head	With any income under other head except salary	Yes
Unabsorbed expenditure u/s 35AD	Specified business	No Adjustment	Yes
Long Term Capital Loss	With Long Term Capital Gain	No Adjustment	Yes
Short Term Capital Loss	Any Capital Gain	No Adjustment	Yes
Owning and Maintaining Race Horse	Income from such activity	No Adjustment	Yes
Other loss under the head Income from Other Sources	With any income under the same head	With any income under other head	Yes

Taxpoint

- No loss can be set off against winning from lotteries, crossword puzzles, races, card games, gambling or betting, etc. [Sec. 58(4) & 115BB]
- Wherever reference is given for unabsorbed depreciation, it includes reference to unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on promotion of family planning among employees

Example 1: Computation of Income under the head "Capital gains" of Mr. X for the A.Y. 2020-21

Particulars	Case A	Case B
Short term capital gain	80,000	(90,000)
Long term capital gain	(40,000)	1,00,000
Income under the head "Capital gains"	80,000	10,000

Example 2: Computation of "Profits & gains of business or profession" of X for the A.Y. 2020-21.

Particulars	Case A	Case B
Speculation business	80,000	(90,000)
Non speculation business	(40,000)	1,00,000
Profits & gains of business or profession	40,000	1,00,000

Example 3: Computation of "Income from other sources" of Mr. X for the A.Y. 2020-21

Particulars	Case A	Case B
Activity of owning and maintaining race-horses	80,000	(90,000)
Rent from land	(20,000)	1,30,000
Income from other sources	60,000	1,30,000

Example 4: Computation of "Income from other sources" of Mr. X for the A.Y. 2020-21

Particulars	Case A	Case B
Activity of owning and maintaining race-horses	10,000	(90,000)
Lottery income	20,000	1,30,000
Losses on letting out furniture not related to business	(40,000)	(50,000)
Income from other sources	20,000	1,30,000

Carry Forward of Loss

In case where the income of an assessment year is insufficient to set off the losses of the year then such losses (which could not be set off) can be carried forward to subsequent assessment year(s) for set off against income of such subsequent year(s). However, all losses cannot be carried forward, e.g. losses under the head 'Income from other sources' (other than loss from 'Activity of owning and maintaining race-horses') cannot be carried forward. Following rules is applicable for carry forward and set off of loss in subsequent assessment years:

Sec.	Type of loss to be carried forward & set off	Income against which carried forward loss can be set off in next year(s)	For how many years loss can be carried forward	Is it necessary to submit return of loss in time
71B	House property loss	Income under the head "Income from house property"	8 years	No
72	Non-speculation business loss (other than depreciation etc.)	Any income under the head 'Profits & gains of business or profession' (whether from speculation or otherwise)	8 years	Yes
32(2)	Unabsorbed depreciation, capital expenditure on scientific research and family planning	Any income other than Income under the head Salaries and winning from lotteries, etc.	Indefinite years	No
73	Speculation business loss	Income from speculation transaction.	4 years	Yes
73A	Loss of specified business covered u/s 35AD	Income from any specified business.	Indefinite years	Yes
74	Short term Capital Loss	Income under the head "Capital gains"	8 years	Yes
74	Long term Capital Loss	Long term capital gain	8 years	Yes
74A	Loss from activity of owing and maintaining race horses	Income from the activity of owing and maintaining race horses	4 years	Yes

MULTIPLE CHOICE QUESTIONS

Choose the correct alternative

- Unabsorbed business losses cannot be carried for more than
 - 7 assessment years

- b. **8 assessment years**
 - c. 10 assessment years
 - d. 12 assessment years
2. Long term capital loss can be adjusted against
- a. Any income excluding winning from lottery
 - b. Any capital gains
 - c. **Any long term capital gain**
 - d. Any speculative business income
3. Loss from Derivative trading is
- a. Short-term Capital Loss
 - b. Speculative business loss
 - c. **Non-speculative business loss**
 - d. Loss u/h 'Income from Other Sources'
4. Loss from specified business covered u/s 35AD can be adjusted against
- a. Any other business income
 - b. Any income other than salary
 - c. **Income from other specified business**
 - d. Cannot be adjusted
5. Unabsorbed depreciation can be carried forward for
- a. **Any number of years**
 - b. 8 years
 - c. 4 years
 - d. 7 years

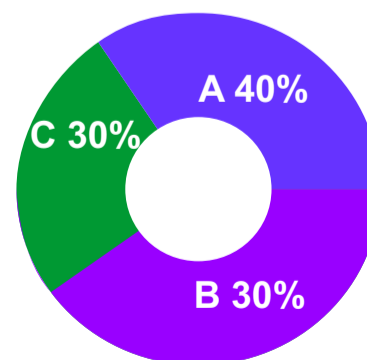




GROUP: I, PAPER: 8
COST ACCOUNTING
(CAC)

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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

The world of Cost Accounting is vast and varied. In order to facilitate ideal managerial decision and in-depth study of the Cost Accounting Principles and Techniques for identification, analysis and classification of cost components is very much urgently needed. The main purpose of studying the subjects are:

- to understand the conceptual framework.
- to determine the cost of product or services.
- to understand the Cost Accounting Standards(CAS).
- to apply the concept of Marginal Costing and Standard Costing for internal managerial decision making.
- to formulate business strategy for controlling operations.

Only a careful study can reach the goal successfully. The Students should careful on following points:

1) The subject Cost Accounting (paper 8 Group 1) is divided into 6 main Chapters:

- A) Introduction to Cost Accounting
- B) Cost Ascertainment
- C) Cost Accounting Standards
- D) Cost Book keeping
- E) Methods of Costing and finally
- F) Cost Accounting techniques

2) Make sure that you understand each term included in this Chapters very carefully. Go through the theoretical parts with due attention and try to relate theoretical knowledge of different topics with reference to practical, commercial and industrial environment.

3) All most in every examination one or more Theoretical/Problem oriented questions have been set from each chapter. the Students should remain very much careful in solving the problems. Make sure that your answer includes illustration of the Cost terms.

4) However, questions are sometimes set requiring the students to outline how a Costing system can assist the management of an organization.

5) A question containing number of short notes are set in the examinations. A Student can secure more marks by answering this type of theoretical question.

6) Reader should clear about the distinction between-material control and inventory control, normal loss and abnormal loss.

7) Regarding group bonus schemes some time's the students feel difficulty to find out the clue to solve the problem . In this situation lead should be given in the language of the question. Ambiguity in application of different formulae should be avoided.

8) Students should be well versed with the methodology of disposal of under/over absorbed overheads. Difference between primary distribution and secondary distribution should be properly understood. Clues given should be properly used.

9) Distinction between Job/Batch/Contract is an important factor. Adjustment of Opening and closing stock of raw materials, WIP and finish goods is vital in case of Job/Batch costing. Readers should very careful in determining the profit of an incomplete contract. For escalation clause both changed quantity and price should be considered.

- 10) In Operating / Service costing calculation of composite unit is very much relevant for solving the problems. Here total cost is divided into two parts- running maintenance and standing charges.
- 11) CAS-(1-24) as issued by The Institute of Cost Accountants of India should read carefully in order to achieve uniformity and consistency in classification, measurement and assignment of Costs.
- 12) Students need to have a clear idea about the integrated system and non-integrated system of Accounts. Cost Ledger Control Accounts is prepared to make Cost Ledger self-balancing. Questions are sometimes set for journalisation of transactions.
- 13) Transactions exclusively relevant to Cost Accounts and Financial Accounts are to be identified and to be considered in the Reconciliation Statement.
- 14) In the chapter Budget and Budgetary Control, you should learn how to prepare Functional Budget, Master Budget and Flexible Budget to various levels of out- put in the same period.
- 15) The students should note that Break-even- Analysis is the most important area of Marginal Costing. Effect on Profit-volume-ratio is an important part of this chapters. you should also know in details about the Margin of safety and Angle of incidents.
- 16) For solving any problem on standard cost different variances, like Material, Labour, Overhead, Sales and Sales margin variances should be worked out. Calculations of mix variances is necessary only when there are more than one type of component for producing an article.

Finally,. A Great Effort Can Surely Make You Success. With Good Wishes..

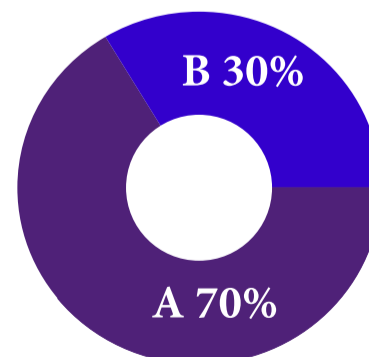




GROUP: II, PAPER: 9, Part- i
OPERATIONS
MANAGEMENT & STRATEGIC
MANAGEMENT (OMSM)
Operations Management

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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 me discuss on Capacity Planning and Capacity Requirement.

Q1. Capacity refers to

- An upper limit or ceiling on the load that an operating unit can handle
- A range from a lower limit to an upper limit of load through which an operating unit could operate
- A limit on the load that an operating unit could handle only with 5% deviation
- An upper limit of load which an operating unit could break during emergency

[The load might be in terms of the number of physical units produced or the number of services performed. The operating unit could be a manufacturing plant, a service unit, a machine, a store etc.]

Q2. The goal of capacity planning of an organisation is

- To achieve a match between its long term supply capabilities and the actual level of long term demand
- To achieve a level of operation so that supply failure could be maintained at $\leq 1\%$ of long term demand
- To achieve a level of operation so that periodic mean operation remain within 95% of long term demand
- To achieve a match between its long term supply capabilities and the predicted level of long term demand

Q3. Out of Balance Capacity occurs

- When there is a gap between supply and demand
- When there is a gap between long term supply and long term demand
- When there is a gap between current and desire capacity
- When there is a gap between actual supply and EOQ supply

Q4. Which one of the following questions are not answered by Capacity planning?

- What kind of capacity is needed?
- How much is needed to match demand?
- When is it needed?
- For whom it is needed?

Q5. Design Capacity is

- The effective output rate or service capacity an operation, process or facility is designed for
- The mean output rate or service capacity an operation, process or facility is designed for
- The maximum output rate or service capacity an operation, process or facility is designed for
- The optimum output rate or service capacity an operation, process or facility is designed for

Q6. In an auto manufacturing unit with 9,600,000 labour hour capacity in a year provides 600,000 labour hours for personal time and 200,000 labour hours for maintenance. The effective capacity of the unit is

- 9,600,000LH
- 9,000,000LH
- 9,400,000LH
- 8,800,000LH

Q7. Which one of the following is correct?

- Design capacity < Effective capacity
- Effective capacity > Actual output
- Effective capacity + Actual output = Design capacity
- Design capacity - Actual output = Effective capacity

Q8. Efficiency of an operation facility is measured by

- $\frac{\text{Effective Capacity}}{\text{Design Capacity}} \times 100$
- $\frac{\text{Actual Output}}{\text{Design Capacity}} \times 100$
- $\frac{\text{Actual output}}{\text{Effective Capacity}} \times 100$
- $\frac{\text{Design Capacity}}{\text{Effective Capacity}} \times 100$

Q9. Utilisation of an operation facility is measured by

- (a) $\frac{\text{Effective Capacity}}{\text{Design Capacity}} \times 100$
- (b) $\frac{\text{Actual Output}}{\text{Design Capacity}} \times 100$
- (c) $\frac{\text{Actual output}}{\text{Effective Capacity}} \times 100$
- (d) $\frac{\text{Design Capacity}}{\text{Effective Capacity}} \times 100$

Q10. Key to improving capacity utilisation is

- (a) To increase effective capacity
- (b) To increase design capacity
- (c) To decrease effective capacity
- (d) To increase maintenance frequency of the capacity

Q11. Benefits of high utilisation are realised only when

- (a) Effective capacity is fully achieved
- (b) There is high efficiency
- (c) Breakdown maintenances are minimum
- (d) There is demand for output

Q12. Which one of the following is correct?

- (a) Overcapacity causes strained resources
- (b) Under capacity causes possible losses of customers
- (c) Under capacity influences growth
- (d) Overcapacity creates new market

Q13. Which one of the following is not a factor impacting effective capacity?

- (a) The design of facilities
- (b) Transportation costs
- (c) Layout of the work space
- (d) Actual output

Q14. Which one of the following is correct?

- (a) When successive items differ more, the system can produce these items at a faster rate than the rate with less different items
- (b) When successive items differ more, the system can produce these items at the same rate as with the rate with less different items
- (c) When successive items differ more, the system can produce these items at a lesser rate than the rate with less different items
- (d) When successive items differ more, the system can produce these items at a lesser rate than the rate with less different items provided environment permits

Q15. Which one of the following is not correct?

- (a) If quality of output does not meet standards, the need of inspection slows the rate of output
- (b) Process improvements that increase quality and productivity can result in increased capacity
- (c) With multiple products time to change over equipment settings influences design capacity
- (d) Absenteeism and labour turnover have a basic relationship on effective capacity

Q16. Which one of the following is an operational factor that determines effective capacity?

- (a) Product standards
- (b) Quality capabilities
- (c) Learning rates
- (d) Quality assurance

Q17. Which one of the following does not reduce effective capacity?

- (a) Paperwork required by Government regulatory agencies
- (b) Pollution standard on products
- (c) Efficient distributors
- (d) Higher labour turnover

Q18. Leading capacity strategy

- (a) Builds capacity in anticipation of increasing future demand
- (b) Faces increasing demand with the undeutilised current capacity
- (c) Builds capacity in anticipation of increasing product varieties
- (d) Faces increasing consumption with unsold stock

Q19. It builds capacity when demand exceeds current capacity. This strategy is called

- (a) Leading Capacity Strategy
- (b) Following Capacity Strategy

- (c) Tracking Capacity Strategy
- (d) Just in Time Capacity Strategy

Q20. It adds capacity in relatively small increments to keep pace with increasing demand. This strategy is called

- (a) Leading Capacity Strategy
- (b) Following Capacity Strategy
- (c) Tracking Capacity Strategy
- (d) Just in Time Capacity Strategy

Q21. It is extra capacity used to offset demand uncertainty. This is

- (a) Capacity Cushion = Actual output - Demand
- (b) Capacity Cushion = Capacity - Expected demand
- (c) Capacity Tolerance = Effective capacity - Actual output
- (d) Capacity Cushion = Capacity - Effective Capacity

Q22. Write down the factors on the basis of which Capacity Strategy of an organisation depends?

- (a) The growth rate and variability of demand
- (b) The costs of building and operating facilities of various sizes
- (c) The rate and direction of technological innovation
- (d) The likely behaviour of competitors
- (e) Availability of capital and other inputs

Q23. Write down the steps in the Capacity planning Process.

- (a) Estimate future capacity requirements
- (b) Evaluate existing capacity and facilities and identify gaps
- (c) Identify alternatives for meeting requirements
- (d) Conduct financial analyses of each alternative
- (e) Assess key qualities issues for each alternatives
- (f) Select the alternative to pursue that will be best in the long run
- (g) Implement the selected alternative
- (h) Monitor results

Q24. Which one of the following is a concern of short term capacity needs?

- (a) Trend
- (b) Cycle
- (c) Seasonal
- (d) Amplitude of trend

Q25. Which one of the following is not necessary to ascertain capacity requirements of products that will be processed?

- (a) A reasonably accurate demand forecasts for each product
- (b) Standard processing time per unit for each product
- (c) The number of work days per year
- (d) The number of manpower engaged in each shift

Q26. Which one of the following is not a key reason on misjudgments on capacity requirements?

- (a) Optimistic projections of demand
- (b) Optimistic projections of growth
- (c) Indifference to target profit
- (d) Indifference to product mix

Q27. What will be the approach to determining capacity requirements?

- (a) Obtain a forecast of futures demand
- (b) Translate demand into quantity
- (c) Translate demand into timing of capacity requirements
- (d) Decide what capacity changes (increased, decreased or no changes) are needed

Q28. Which one of the following is not a factor in planning service capacity?

- (a) Period of production
- (b) Need to be near customers
- (c) Inability to store services
- (d) Degree of volatility of demand

Q29. Which one of the following is not a tactics of a service planner to cope with peak demand periods?

- (a) Hiring extra workers
- (b) Resorting to Service before complain
- (c) Outsourcing some or all of a service
- (d) Using pricing and promotion

Q30. How do long-term and short-term capacity considerations differ?

Long-term considerations are related to the overall *level* of capacity, while short-term considerations are related to *variations* in capacity requirements caused by seasonality, randomness, and other short term fluctuations etc.

Q1	a	Q11	d	Q21	b
Q2	d	Q12	b	Q24	d
Q3	c	Q13	d	Q25	d
Q4	d	Q14	c	Q26	c
Q5	c	Q15	c	Q28	a
Q6	d	Q16	d	Q29	b
Q7	b	Q17	c		
Q8	c	Q18	a		
Q9	b	Q19	b		
Q10	a	Q20	c		

Explanation:

Q6. Effective capacity is the design capacity minus allowances such as personal time and maintenance. So $9600000 - 600000 - 200000 = 8880000$

Q10. To improve capacity utilisation under a given design capacity we have to increase the Actual output. Actual output could be increase if we could correct quality problems, maintain equipment in good operating conditions, train employees etc which in turn increase the effective capacity

Q11. Benefits of high utilisation are realised only in instances where there is demand for the output. When demand is not there focusing exclusively on utilisation can be counterproductive, because the excess output not only results in additional variable costs but also generates the costs of having to carry the output as inventory.

Q14. Whenever items have greater varieties production requires more time irrespective of environment. Thus a restaurant that offers a limited menu can usually prepare and serve meals at a faster rate than a restaurant with an extensive menu.

Q16. Factors that determine effective capacity:

A. Facilities 1. Design 2. Location 3. Layout 4. Environment	B. Human factors 1. Job content 2. Job design 3. Training and experience 4. Motivation 5. Compensation 6. Learning rates 7. Absenteeism & Labour turnover	C. Operational 1. Scheduling 2. Material Management 3. Quality assurance 4. Maintenance Policies 5. Equipment breakdown	D. External factors 1. Product Standards 2. Safety regulations 3. Unions 4. Pollution control standards
E. Product/Service 1. Design 2. Product /Service mix	E. Policy	G. Process 1. Quantity capabilities 2. Quality capabilities	H. Supply chain

Q24. Long term Capacity needs require forecasting demand over a time horizon and then converting those forecasts into capacity requirements. When trends are identified in demand pattern the fundamental issues are (1) how long the trend might persist, because few things last forever and (2) the slope of the tren. If Cycles are identified in demand pattern the fundamental issues are (1) approximate length of the cycle and (2) amplitude of the cycle

Short term capacity needs are less concerend with cycles or trends than with seasonal variations and other variations from average

Suggestions:

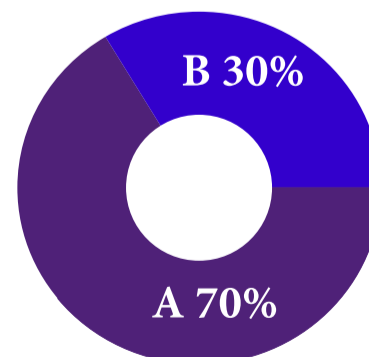
This lesson is prepared purely from teachings imparted by the Guide book issued by Institute. The study guide on Operations Management issued by Institute is to be studied thoroughly. In this month's discussion emphasis is given on MCQs and few short answer type questions. In the next issue further discussions will be held on the same topic. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson.



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

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives.

For the better part of a decade, strategy has been a business buzzword. Top executives ponder strategic objectives and missions. Managers down the line rough out product/market strategies. Functional chiefs lay out "strategies" for everything from R&D to raw-materials sourcing and distributor relations. Mere planning has lost its glamor; the planners have all turned into strategists.

All this may have blurred the concept of strategy, but it has also helped to shift the attention of managers from the technicalities of the planning process to substantive issues affecting the long-term well-being of their enterprises. Signs that a real change has been taking place in business's planning focus have been visible for some time in the performance of some large, complex multinational corporations—General Electric, Northern Telecom, Mitsubishi Heavy Industries, and Siemens A.G., to name four.

What is the source of these giant companies' remarkable entrepreneurial vigor? Is it the result of their substantial investments in strategic planning, which appear to have produced something like a quantum jump in the sophistication of their strategic planning processes? If so, what lessons can be drawn from the steps they have taken and the experience they have gained?

The management of an organization's resources in order to achieve its goals and objectives. Strategic management involves setting objectives, analysing the competitive environment, analysing the internal organization, evaluating strategies, and making sure that the strategies are rolled out across the organization.

Traditionally things have worked just the way I describe above. Top management sets the strategic direction and path for the organization - not too rarely on a three-year basis. This overall organizational business strategy is then communicated to the rest of the organization to conform to, and to form their own sub-strategies, supporting the business strategy in achieving its goals. After three years the business strategy is revisited and renewed, possibly with minor adjustments. Then the sub-strategies are adjusted accordingly.

As project management has become more and more agile, strategic management needs to become more and more adaptive. Because face it, what is a strategy really, if not a long-term overarching "project plan". And by the same logic as with agile project management, where the purpose is to adjust when new situations arise, strategic management is now facing the same reality. But possibly with more severe consequences if managed poorly. If a project fails, it can cost dearly. If a strategy fails, it can be devastating. So as with project agility, strategic adaptivity needs to become the new standard for corporate planning. The strategy process needs to perpetually scan, connect, absorb and adapt, for the business to survive. Systematic strategic intelligence has never been as important as it is today. And it will never have been as negligible as it is today.

"A vision without a Strategy remains an illusion"



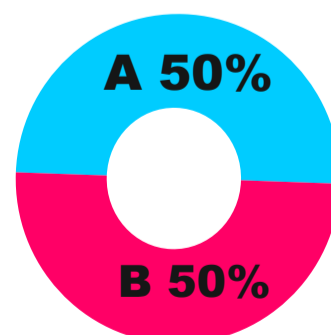
GROUP: II, PAPER:10

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.

A BRIEF NOTE ON STANDARD COSTING AND VARIANCE ANALYSIS

Meaning of Standard, Standard Cost and Standard Costing:-

The Dictionary meaning of 'Standard' is an accepted or approved example of something against which others are judged or measured.

In cost accounting parlance, standard may be defined as measured quantities which should be attained in connection with some particular operation or activity.

Accordingly, standard cost is a predetermined cost that should be attained under a given set of operating condition.

Standard costing may be defined as the preparation and use of standard costs, their comparison with the actual costs and analysis of variances to their causes and points of incidence.

➤ The techniques of standard costing involve predetermination of the following important matters:-

- Standard costs in full details under each element of cost i.e. material, labour and overheads.
- Standard selling price.
- Standard profit margin.
- Relevant technical data in respect of manufacturing operations / processes / products along with their efficiencies, wastages, losses etc.

➤ The technique of standard costing incorporate the following actions:-

- Comparison of actual performance and cost with standards.
- Analysis of variances in respect of costs, sales and profit along with reasons for deviation of actual from standard set. Such analysis can be done through a set of appropriate formulae or a set of diagrams specially designed for the same.
- Reporting of variances to management for taking appropriate action and remedial measures.
- Revision of standard, as and when necessary.

➤ Application of standard costing:-

Standard costing is not a distinct system of accounting,

but is only a technique that can be applied to all types of costing, such as job costing or process costing.

Standard costing is extremely popular in certain industries where standardized products, which are repetitive in nature, are produced in bulk, say for example, in textiles, electrical & other engineering, biscuit making and chemical industries.

The principle of standard costing is also applied by some concerns doing non-repetitive works of jobbing type viz. manufacture of automobiles, ships, engines, boiler etc.

There may be common operations for many of jobs of a concern where labour time or operational standards can be determined for activities involved, say for example, milling, grinding, drilling, trimming, shaping etc. Technique of standard costing may even be applied in these concerns also.

Computation and analysis of variances:-

➤ Comparison

In the standard costing system, it is imperative to ascertain the actual cost under each element and compare the same with the standard set. The difference between the standard cost and the comparable actual cost incurred during a given period is known as cost variance.

➤ Favourable and Unfavourable or Adverse Variance.

While making the comparison, if it is found that the actual cost is less than the standard cost, the difference is known as favourable variance. Conversely, if the actual cost is higher than standard cost, the difference is known as adverse or unfavourable variance. In case of revenue (sales/contribution), where the actual exceeds standard/budgeted amount, the difference is called a favourable variance. On the other hand, if actual is less than the standard/budgeted amount the difference shows an unfavourable or adverse variance.

➤ Controllable and Uncontrollable Variance:-

An in-depth analysis may reveal that some of the variances are controllable while others are not as such. For example, if materials are consumed in excess of the standard quantity or the time taken by the workers exceeds the standard time set or an expenditure (overheads) incurred exceeds the standard/budgeted amount, the responsibility for the unfavourable variance may be fixed on the executive concerned. Such variances are therefore controllable variance.

On the other hand, if variances arise due to extraneous causes, such as variance in customers' demand, devaluation of currency, labour disputes, general

increase in wage rates in a particular trade etc, no responsibility can be assigned to an individual. Such variances would therefore be termed as uncontrollable.

- Management control through exception:-
The purpose of classification as stated above is mainly to segregate the two, so that proper emphasis is placed on controllable variances. This follows the principles of management control through exception, and the entire procedure of variance reporting is based on this principle. Accordingly, the actual costs which are not in conformity with the standard are also to be looked into.
- Importance of total variance
It needs to be emphasized here that one should not stop knowing that variance have occurred in different degrees from period to period. The origin and causes must be probed into, in order to take steps to reduce/eliminate them. This necessitates the analysis of the total variance. This involves resolving the total variance into their component parts in order to determine and isolate the causes giving rise to each variance. Such a probe is necessary to ultimate reporting to the management, focusing on those situations which need to be corrected or controlled.

The fruit of detailed analysis of variance may be shared with a befitting example. In a manufacturing company it is found that there is no variance in material cost, the actual cost being the same as standard cost. It apparently suggests that no action is needed thereafter. However, after a detailed analysis, it comes to light that there is an unfavourable price variance due to the inefficiency of purchase department, which is compensated by a favourable variance of the same amount due to an unexpected economy in material usage.

The above example signifies that the cause of one variance may be wholly or partially explained by the cause of other variances

- Possible reasons for variances between standard and actual:-
 - i) Inappropriate/erroneous setting of standards.
 - ii) Human or mechanical failure in achieving standards.
 - iii) Deviation from laid down procedure.
 - iv) Inefficiency in operation/processing due to inefficient operator, faulty machines, inadequate machine usage.

- v) Frequent changes in market prices of various inputs in an unstable conditions.
- vi) Fluctuations in exchange rates.
- vii) Errors in measuring actual outcomes.

- Reporting of variances:-

This is one of the most important steps which take a standard costing system towards its final stage.

Variance reports highlighting variance from standards in respect of each element of cost of each department and operation should be prepared and forwarded to management, at the earliest opportunity, for proper investigation and appropriate action.

- Reporting of variances through Ratio Analysis:-

Variances are usually expressed in absolute monetary terms which do not convey the true picture effectively. Absolute figures of variances are not very useful when comparison of two different periods are to be made. Hence variance ratios are used to study the relationship of one with other and trend of variances from period to period.

For example, the variance ratios in respect of material cost is given below.

Material Price Variance ratio = $\frac{\text{Actual Price}}{\text{Standard Price}}$

Material Usage Variance ratio = $\frac{\text{Actual Quantity}}{\text{Standard Quantity}}$

Material Cost Variance ratio = Material Price ratio \times Material Usage ratio.

A number of ratios are also used for reporting to management for effective use of capacity, material, labour and other resources of a concern. Some of these are illustrated below.

- i) Efficiency ratio = $\frac{\text{Standard Hours}}{\text{Actual Hours}} \times 100$
- ii) Activity ratio = $\frac{\text{Standard Hours}}{\text{Budgeted Hours}} \times 100$
- iii) Capacity Utilisation ratio = $\frac{\text{Actual Hours}}{\text{Budgeted Hours}} \times 100$
- iv) Capacity ratio = $\frac{\text{Available working days}}{\text{Budgeted working days}} \times 100$

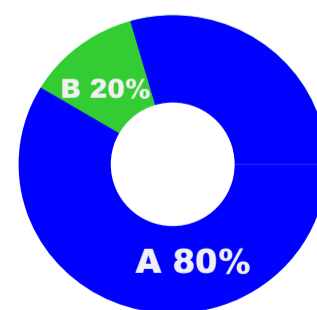


GROUP: II, PAPER:11

INDIRECT TAXATION (ITX)

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Your Preparation Quick Takes



Syllabus Structure

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

Learning objectives:

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

Understanding Concept of Input Service Distributor under GST

In a large business entity, there are many expenditures which are incurred by internal control or to take advantage of scale etc. Sometimes, it is due to sheer convenience that expenses are incurred by one branch for another branch. But, section 16 (1) of the CGST Act (for ready reference text of provision is reproduced as Appendix A) authorises a registered person to avail input credit on any supply of goods or services or both only in case where the Goods or Service or both are either used or are intended to be used in the course or furtherance of his business. In this provision the words used "registered person" and "his business" are very important. A person as defined u/s. 2(84) is required to register himself in each of the State of India if he has business in more than one State and may also voluntarily obtain more than one registration in the same State for his different branches. In such a case every branch having distinct registration number becomes a "registered person" known as "distinct person" as per Schedule I of CGST Act. In view of the above "his business" shall mean the business of such "distinct person" and not the business of the person or business entity as a whole. It can be appreciated that in view of the above, to allow the trade a facility of seamless ITC, it was necessary to provide for a mechanism for distribution of ITC belonging to different branches of the person.

As per the FAQ on the subject issued by CBIC, the concept of ISD is a facility made available to business having a large share of common expenditure and billing/payment is done from a centralized location. The mechanism is meant to simplify the credit taking process for entities and the facility is meant to strengthen the seamless flow of credit under GST. The meaning of Input Service Distribution or ISD in short As defined u/s. 2 (61) of CGST Act (for ready reference text of provision is reproduced as Appendix B) an ISD means an office of the Supplier which receives tax invoice for input service and issues a document for the purpose of distributing ITC. Some experts have the opinion that to obtain ISD registration, the person must have an office that is not a registered location from where taxable supplies are effected and further cautions not to have overlapping registration as both taxable person and ISD. In their opinion deliberate use of words 'office of supplier' indicates that there is no 'taxable supply' from that office. This opinion does not seem to be correct as there is no bar to have dual registration from the same location the person can have a registration as supplier and also as ISD for the same location. The person can have Corporate Office and the sales and distribution office at the same location, and this is very common.

It is also far from practical, e.g. the Corporate office receives the tax invoice and distribute the ITC, at the same time such Corporate office also provides services of policy making, SOPs, direction, finance, accounting etc. to its branches which are commonly known as Cross services and are required to be billed and GST is required to be paid by such Corporate office in view of Schedule I of CGST ACT. This requires it to register as a supplier. It is obvious that there can not be any supply of Goods or Services under the registration as ISD. It is also relevant to note that it is not necessary for an ISD to be a Head Office, the requirement is

of an office which receives invoice for input service (not even necessarily to be for common services) and issues documents for the distribution of ITC. The definition of ISD does not anywhere use the words "common service/s".

Which Tax can be distributed by ISD?

As per Section 20 (1) of CGST Act (for ready reference text of provision is reproduced as Appendix C) and as per the similar provision in respective SGST/UTGST Acts, the ISD can distribute SGST, CGST and IGST. As per FAQs issued by the CBIC CGST can be distributed as IGST for the recipient located in different State and the FAQ further answers that SGST/UGST can also be distributed as IGST for the recipient located in different State. To clarify, the FAQ also mentions the following illustration: The Corporate office of ABC Ltd. is at Bangalore, with its business locations of selling and servicing of goods at Bangalore, Chennai, Mumbai and Kolkata. Software license and maintenance is used at all the locations, but invoice for these services (indicating CGST and SGST) are received at Corporate Office. Since the software is used at all the four locations, the input tax credit of entire services cannot be claimed at Bangalore. The same has to be distributed to all the four locations. For that reason, the Bangalore Corporate office has to act as ISD to distribute the credit. If the corporate office of ABC Ltd, an ISD situated in Bangalore receives invoices indicating Rs. 4 lakh of Central tax, Rs.4 lakhs of State tax and Rs. 7 lakh of integrated tax, it can distribute central tax, State tax as well as integrated tax of Rs. 15 lakh as credit of integrated tax amongst its locations at Bangalore, Chennai, Mumbai and Kolkata through an ISD invoice containing the amount of credit distributed. Conditions specified for distribution of ITC by ISD As provided by section 20 (2) of CGST Act a. the credit can be distributed to the recipients of credit against a document containing such details as prescribed under rule 36 of CGST Rules (the rule is not reiterated for paucity of space)

b. the amount of the credit distributed should not exceed the amount of credit available for distribution

The proportion in which ITC can be distributed of ITC by ISD As per provision of section 20 (2) of the CGST Act a. the credit of tax paid on input services is attributable to a single branch, the credit shall be distributed only to that branch.

If the credit of tax paid on input service is attributable to more than one branch whether registered or not or even engaged in supply only of exempted goods/services but not the all branches, the credit shall be distributed pro rata on the basis of their turnover in the relevant period.

b. If the credit of the tax paid on input service is attributable to all the branch whether registered or not or even engaged in supply only of exempted goods/services, the credit shall be distributed pro rata on the basis of the turnover of the all such branches for the relevant period The relevant period as per explanation to the section 20 of CGST shall be:

a. the financial year preceding the year during which credit is to

be distributed in case all the recipients of credit have turnover during the preceding Financial year, or

b. last quarter preceding to the month for which credit is to be distributed in case turnover of one or more recipient of credit for the preceding financial year is not available Interestingly, suppose Company XYZ having branches at Chennai, Jaipur, Ahmedabad and Bangalore and HO as Bangalore incorporated in month of April 2020 registers all the branches as distinct persons in May 2020 and HO also as ISD in month of May 2020. What shall be the relevant period for distribution of input credit received in the month of May 2020?

For detailed Procedure for distribution of Input Credit by ISD please refer to rule 39 of the CGST Rules. I shall only mention that the provision of rule 39 (a) directs the ISD to distribute ITC in the same month. This clause is a restrictive clause and in my opinion in excess of power to make rules a granted by section 20 read with section 164 of the CGST Act. Caution The Services which are attributable to respective branches should not be misunderstood with the Service which are required to be billed to various branches for services rendered to them e.g. accounting and administrative service.

Some example of attributable services:

1. AMC of ERP software,
2. Insurance Expenses for stock insurance, health insurance of employees, transit insurance etc.
3. Statutory Audit Expenses
4. ISO audit fee

Some examples of services which are not attributable:

1. Insurance of HO Building
2. Bank Charges for Corporate credit limits
3. Security Agency expenses for Corporate office Security I shall be obliged for your comments and suggestions. Appendix A 16.

(1) Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

Appendix B (61) "Input Service Distributor" means an office of the supplier of goods or services or both which receives tax invoices issued under section 31 towards the receipt of input services and issues a prescribed document for the purposes of distributing the credit of central tax, State tax, integrated tax or Union territory tax paid on the said services to a supplier of taxable goods or services or both having the same Permanent Account Number as that of the said office; Appendix C 20.

(1) The Input Service Distributor shall distribute the credit of central tax as central tax or integrated tax and integrated tax as integrated tax or central tax, by way of issue of a document containing the amount of input tax credit being distributed in such manner as may be prescribed.

(2) The Input Service Distributor may distribute the credit subject to the following conditions, namely: - -

- (a) the credit can be distributed to the recipients of credit against a document containing such details as may be prescribed;
- (b) the amount of the credit distributed shall not exceed the amount of credit available for distribution;
- (c) the credit of tax paid on input services attributable to a recipient of credit shall be distributed only to that recipient;
- (d) the credit of tax paid on input services attributable to more than one recipient of credit shall be distributed amongst such recipients to whom the input service is attributable and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all such recipients to whom such input service is attributable and which are operational in the current year, during the said relevant period;
- (e) the credit of tax paid on input services attributable to all recipients of credit shall be distributed amongst such recipients and such distribution shall be pro rata on the basis of the turnover in a State or turnover in a Union territory of such recipient, during the relevant period, to the aggregate of the turnover of all recipients and which are operational in the current year, during the said relevant period.

Explanation. - - For the purposes of this section, - -

(a) the "relevant period" shall be - -

- (i) if the recipients of credit have turnover in their States or Union territories in the financial year preceding the year during which credit is to be distributed, the said financial year; or
- (ii) if some or all recipients of the credit do not have any turnover in their States or Union territories in the financial year preceding the year during which the credit is to be distributed, the last quarter for which details of such turnover of all the recipients are available, previous to the month during which credit is to be distributed;

(b) the expression "recipient of credit" means the supplier of goods or services or both having the same Permanent Account Number as that of the Input Service Distributor;

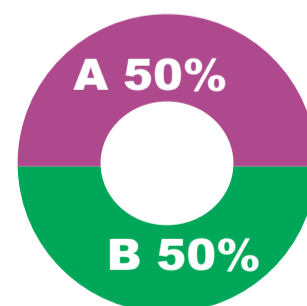
(c) the term "turnover", in relation to any registered person engaged in the supply of taxable goods as well as goods not taxable under this Act, means the value of turnover, reduced by the amount of any duty or tax levied under entry 84, entries 84 and 92A of List I of the Seventh Schedule to the Constitution and entries 51 and 54 of List II of the said Schedule.



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

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

Redeemable Preference Shares

A bad patch clouded over the whole world. For that we were out of touch for several days. But, we are to bring the better world tomorrow. Let us engulf ourselves in study; hoping that good day will surely come. We will get rid of every agony.

Let us discuss about some issues of redeemable preference shares. When the capital is raised by issuing redeemable preference shares it is to be paid back by the company to such shareholders after the expiry of the stipulated period.

The important provisions regarding the redemption of preference shares are listed below in brief way:

- 1) Such shares cannot be redeemed unless they are fully paid. In other words partly paid up shares cannot be redeemed.
- 2) Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of fresh issue of shares made with the object of redemption
- 3) When the shares are redeemed out of profits available for distribution for dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called 'capital redemption reserve account'.
- 4) Capital redemption reserve account can be used for issuing fully paid bonus shares to the shareholders.

Journal entries:

For the total amount due to preference shareholders including the face value of preference shares and the premium to be paid on redemption of preference shares:

Redeemable Preference Shares Capital A/C	Dr. (Face value)
Premium on Redemption A/C	Dr. (Premium to be paid on redemption)
	To Preference shareholders A/C (Total amount to be paid on redemption)

For issue of equity shares with premium or without premium in order to provide amount for the purpose of redemption of preference shares by fresh issue:

Bank A/C	Dr. (Amount actually received)
Discount on Issue of Shares A/C	Dr. (Discount amount, if shares issued on discount)
	To Equity share capital A/C (Face Value of shares)
	To Share Premium A/C (Premium amount, if issued at premium)

For providing premium to be paid on redemption of preference shares out of share premium account or profit and loss account or general reserve. The entry would be:

Share Premium A/C	Dr.
Or	
Profit and Loss A/C	Dr.
Or	
General Reserve A/C	Dr.
	To Premium on Redemption A/C

For appropriate amount from Profit and Loss account or General Reserve account or any other reserve account to meet the deficiency of the amount required for redemption of if redemption is made out of profits, the entry would be:

Profit and Loss A/C	Dr.
Or	
General Reserve A/C	Dr.

To Capital Redemption Reserve A/C

For payment made to the preference shareholders, the entry would be:

Preference Shareholders A/C Dr.

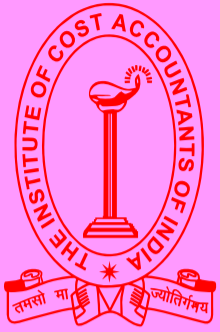
Or

Preference shares redemption A/C Dr.

To Bank A/C

Let us be attentive to lean our face to study as far as possible. We hope we will be safe and secure and indulge ourselves in normal activities by the grace of almighty. We strongly believe it.





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

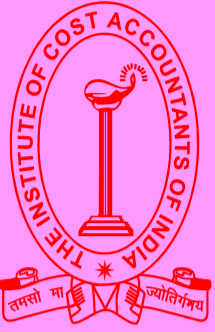
03

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 at request option.

Dear Students,

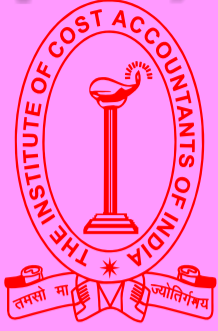
We are very much delighted to receive responses from all of you; for whom our effort is!

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
website: <http://www.icmai.in>



Message from Directorate of Studies

Dear Students,

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

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

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

Let us observe his memory by following his message.

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

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

Please refer the links mentioned below :

For Mock Test Papers (MTP) : https://icmai.in/studentswebsite/mtp2016_j19_Final.php

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

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

Live/Recorded Webinar Link : https://eicmai.in/Webinar_Portal/Students/StudentLogin.aspx

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

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

GOOD LUCK

Be Prepared and Get Success;

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.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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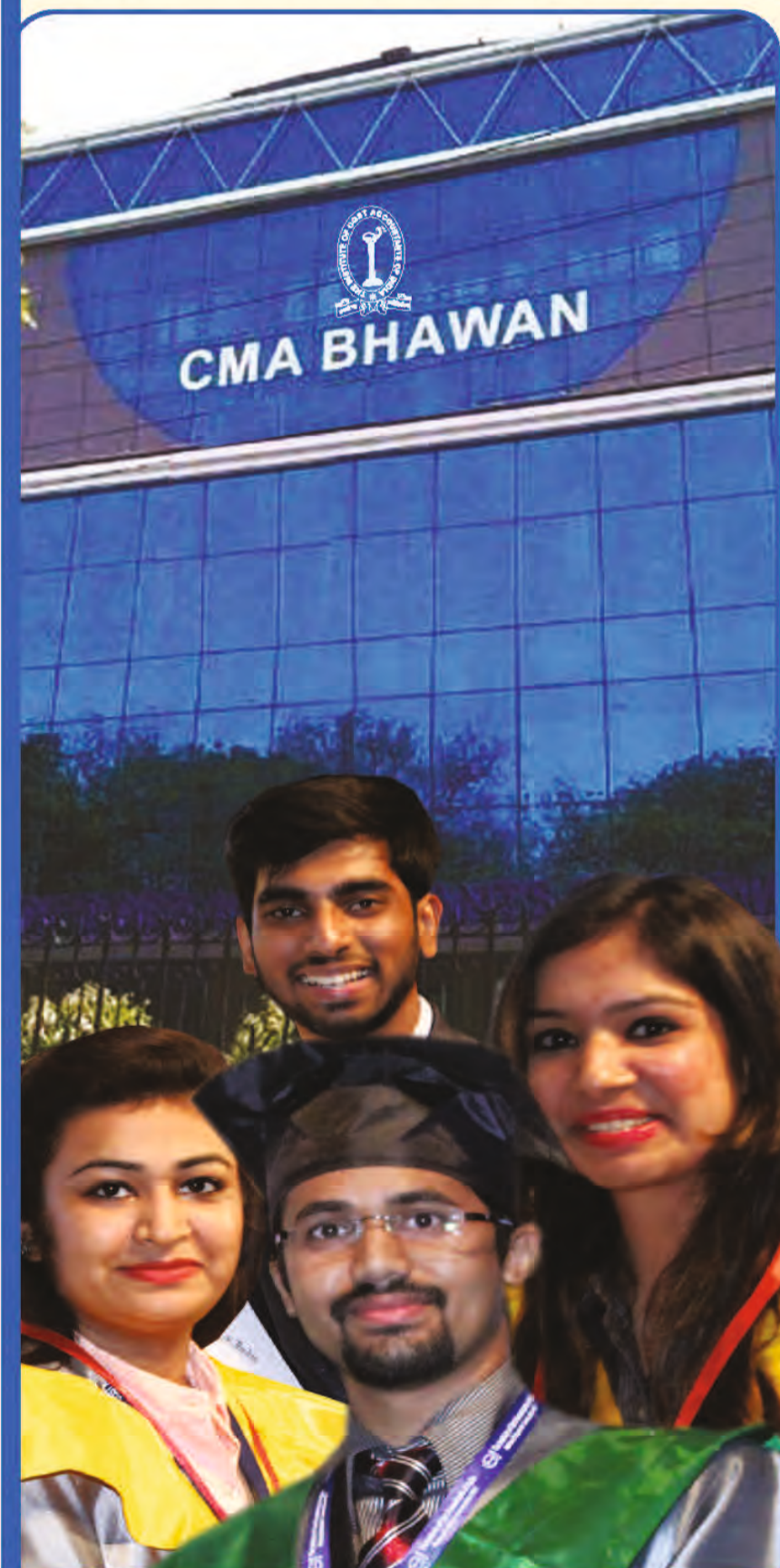
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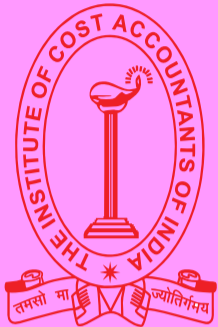
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Behind every successful business decision, there is always a **CMA**



Few Snapshots



CMA Balwinder Singh, President along with CMA Ashwin G Dalwadi, Council Member of the Institute during Pre-Placement Orientation Training Programme held on 14th March 2020 at Ahmedabad.



Glimpses of the 41st Cost Conference on the theme "Sustainable Development through Inclusive Growth - Rising from the East" organised by the EIRC of the Institute on 28th & 29th February 2020 at Kolkata



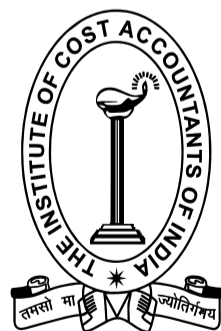
Glimpses of the 41st Cost Conference on the theme "Sustainable Development through Inclusive Growth - Rising from the East" organised by the EIRC of the Institute on 28th & 29th February 2020 at Kolkata



Glimpses of the Golden Jubilee Conference 2020 of Kalyan Ambarnath Chapter of the Institute organised on the theme 'Infrastructure - A Propeller' at Kalyan on 22nd February 2020.



Glimpses of the Golden Jubilee Conference 2020 of Kalyan Ambarnath Chapter of the Institute organised on the theme 'Infrastructure - A Propeller' at Kalyan on 22nd February 2020.



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