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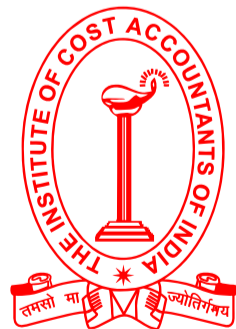
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# **CMA Student E - Bulletin**

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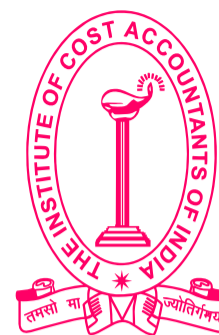
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**Behind every successful business decision, there is always a CMA**

# Message from The Chairman

*CMA Biswarup Basu*

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



## MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!!

The aim of education is to make a person intelligent enough to make decisions logically, knowledgeable enough to take up a right career path and skilled enough to be self-supportive.

According to the great legend, Mahatma Gandhi, "**literacy in itself is no education**". Only mugging up facts and developing an ability to read and write does not fulfil the real aim of education. Education is a never-ending process. It doesn't stop after earning a degree and starting a career. Through continuing education, career-minded individuals can constantly improve their skills and become more proficient at their jobs. Education gives you a competitive advantage that is very hard for competitors to duplicate, and lies at the very heart of success.

Getting a professional education is important for shaping your career to move towards a right direction. It is important to choose a right career as your every step in future depends on this decision. Professional education provides specialized training in professional areas through professional courses offered by institutions.

A genius, perhaps, can manage even without entering its portals. But, to a normally gifted student sympathetic and enlightened guidance is required in the early stages of his studies. This is a big responsibility on the part of the Institution. The Directorate of Studies is continuously trying to update your knowledge through various publications in soft versions like Mock Test Papers (MTPs), Work Books, monthly students E-bulletins etc. where eminent academicians and industrial personnel are contributing through their write up for your knowledge development. Being the Chairman of Training & Education Facilities and Placement Committee, I am really thankful to all of them.

Everything you do in your practice should be focused around education. "**A man is the product of his thoughts. What he thinks he becomes**"-M K Gandhi.

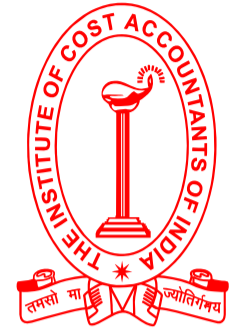
Keep up your spirit and march ahead!

Best wishes as always,

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

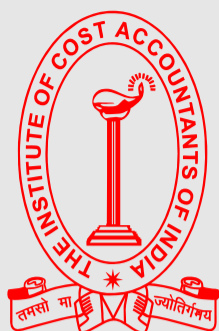


Be a CMA, be a Proud Indian



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# KNOWLEDGE Update



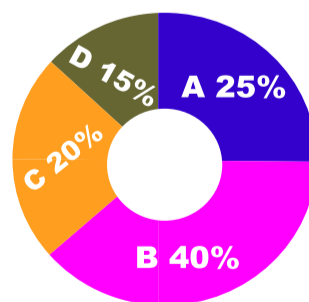
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



**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 Objectives:**

- 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.

## INSURANCE CLAIM - LOSS OF PROFIT

**Introduction:**

In the last issue we have discussed about the loss of stock policy. In this issue we will discuss another area of insurance claim i.e loss of profit.

The term loss of profit may sound uncanny because of two subsequent words 'loss' and 'profit'. Actually it is not loss. It is a case of earning less profit due to temporary dislocation. This may be compared with the sickness of a human being also. For such sickness the man becomes ill and weak and performs less as against the normal until he is keeping fit. During this period he incurs some additional expenses for recovery. At the same time he stops spending some regular expenses as well. For example you as a student if fall sick you will stop spending on conveyance to college but will spend for medicines. Cost of medicine is the additional expenses and conveyance expense is saving in standing charges.

The effect of outbreak of fire on a firm not only causes the destruction of properties but also disorganizes the business to a stage of dislocation. During the dislocation period, there is a loss of profit which the business would have earned during the period, had there been no accident of fire.

When the business is dislocated, the profit-earning capacity is also reduced. This reduced capacity continues till the destroyed portion is restored as before. During the period, i.e. from the date of fire to the date of restoration, there may be no profit or very low profit. Profit reduces because of the reduced production capacity and in turn sales is affected.

As long as the abnormal state continues, a businessman experiences reduction in sales, non-recovery of fixed expenses, sharp decline of earnings etc. Consequence of fire accident is thus a loss of profit which the firm would have otherwise earned. This loss of profit is not covered by ordinary fire policy insuring existing items.

The loss of profit can be insured against "Loss of Profit" or "Consequential Loss" policy. The insurer rarely admits a claim for consequential loss without admission of liability for loss of assets by fire. Therefore, Insurance Company generally insists on taking a policy for Loss of Profit on condition that the assets of the business concern are also insured.

The loss of profit policy normally covers the following items:

- (1) Loss of Net Profits
- (2) Standing Charges
- (3) Any increased cost of working

**SOME IMPORTANT TERMS USED IN THIS CHAPTER:****1. Indemnity Period:**

Indemnity period means the period which commences on the date of damage by fire and ends on the date when normality is restored. The indemnity period is generally stipulated in the insurance policy. This period is selected by the insured himself.

The policy is taken generally for a period of one year and can be renewed annually, whereas the indemnity period commences on the day on which the accident takes place and runs up to a period of twelve or more months. It is necessary that the policy must be in force at the time of fire accident.

**2. Standard Turnover:**

It is the turnover during the period in the twelve months immediately preceding the date of the hazard which corresponds with the indemnity period.

**3. Short Sales:**

The term "Short Sales" refers to the loss of sales due to the dislocation of business. That is, short sale is the difference between standard turnover and actual turnover during the period of fire.

**4. Standing Charges:**

Standing charges refer to those fixed expenses which are incurred irrespective of the reduction in turnover. Examples of standing charges are salaries to permanent staff, rent, rates, taxes, insurance premium, interest on bank overdraft, debentures etc. Only those standing charges, which are insured, can be claimed.

**5. Increased Cost of Working:**

The insured may have to incur some additional or special expenses in order to keep the business, during the post-fire period and to avoid reduction in sales. Expenses in excess of what is essentially required may be unreasonable expenditure.

**6. Rate of Gross Profit:**

The term "Gross Profit" has got a different meaning when it is calculated for loss of profit policy and is different from the normal rate of Gross Profit as described under "Loss of Stock". The rate of Gross Profit is calculated by adding Net Profit and standing charges.

**7. Average Clause:**

Average clause is applicable in respect of loss of profit insurance. If there is an increase in the turnover of business, the sum insured should also be proportionately increased. If not, it amounts to under-insurance. Under-insurance may also occur if all the standing charges are not covered by the policy.

**8. Annual Turnover:**

It is the value of sales and services during the twelve months immediately preceding the hazard, subject to adjustment for any change in the volume of sales.

As we have followed some steps in loss of profit policy the following steps may be followed here:

1. Ascertain the short sale (i.e. excess of standard turnover over actual turnover) during the period of dislocation.
2. Find out the rate of Gross Profit.
3. Calculate the Loss of Profit by applying the rate of Gross Profit on short sales.
4. Calculate the amount of admissible expenses as follows:

The least of the following will be taken as admissible additional expenses:

- a. Actual expenses incurred
  - b. Gross profit on additional sales
  - c.  $\text{Additional expenses} \times (\text{GP on additional turnover} / \text{GP on annual turnover} + \text{uninsured standing charges})$   
Or  $\text{Additional expenses} \times (\text{NP} + \text{insured standing charges} / \text{NP} + \text{all standing charges})$
5. Any savings in expenses are deducted (from step 3+Step 4).
  6. The result of Step 5 is the amount of gross claim.
  7. Finally, the amount calculated will be adjusted, by applying average clause, if necessary. The figure so calculated will be the amount of claim for loss of profit to be lodged with the insurance company.

**Illustration 1:**

Calculate from the following the amount of permissible increased working expenses:

Net profit	₹10,000
Short sales	₹ 8,000
Rate of GP	15%
Increased working expenses	₹ 500
Insured standing charges	₹ 4,000
Uninsured standing charges	₹ 2,000
Short sale avoided through increased cost of workings	₹ 3,000

**Solution :**

The amount of increased cost of workings will be the lower of the three limits:

1. Additional expenses  $\times$  (NP + insured standing charges / NP + all standing charges)  
 $(10,000 + 4,000) / (10,000 + 6,000) \times 500 = 437.5$
2. Short sales avoided due to additional expenses  $\times$  GP%  
 $3,000 \times 15 / 100 = 450$
3. Actual Additional expenses = ₹ 500.

Therefore the increased cost of working allowed will be ₹ 437.5/-

**Illustration 2:**

The following are the details relating to a Company for the year ended 2018:

	₹
Total variable expenses	3,50,000
Total fixed expenses	1,20,000
Non operating income	60,000
Net profit	90,000

The Company took a decision to arrange for a Loss of Profits Insurance for the year 2019. It is expected that the turnover might increase by 15% and all the fixed standing expenses will remain constant. Ascertain the extent to which the Company should finalize the amount to be insured under Loss of Profits Policy.

**Solution :**

Trading and Profit & Loss Account for the year ended 2018

To Variable Expenses	3,50,000	By Sales (bal fig)	5,00,000
To Fixed Expenses	1,20,000	By Non Operating Income	60,000
To Net Profit	90,000		
	5,60,000		5,60,000

GP for 2018 Sales - variable expenses = ₹ 5,00,000 - ₹ 3,50,000 = ₹ 1,50,000



Calculation of GP for 2019:

GP for 2018	1,50,000
Add increase expected @ 15%	22,500
Total	1,72,500

The Gross Profit expected in 2019, ₹ 1, 72,500, should be insured under Loss of Profit Policy.

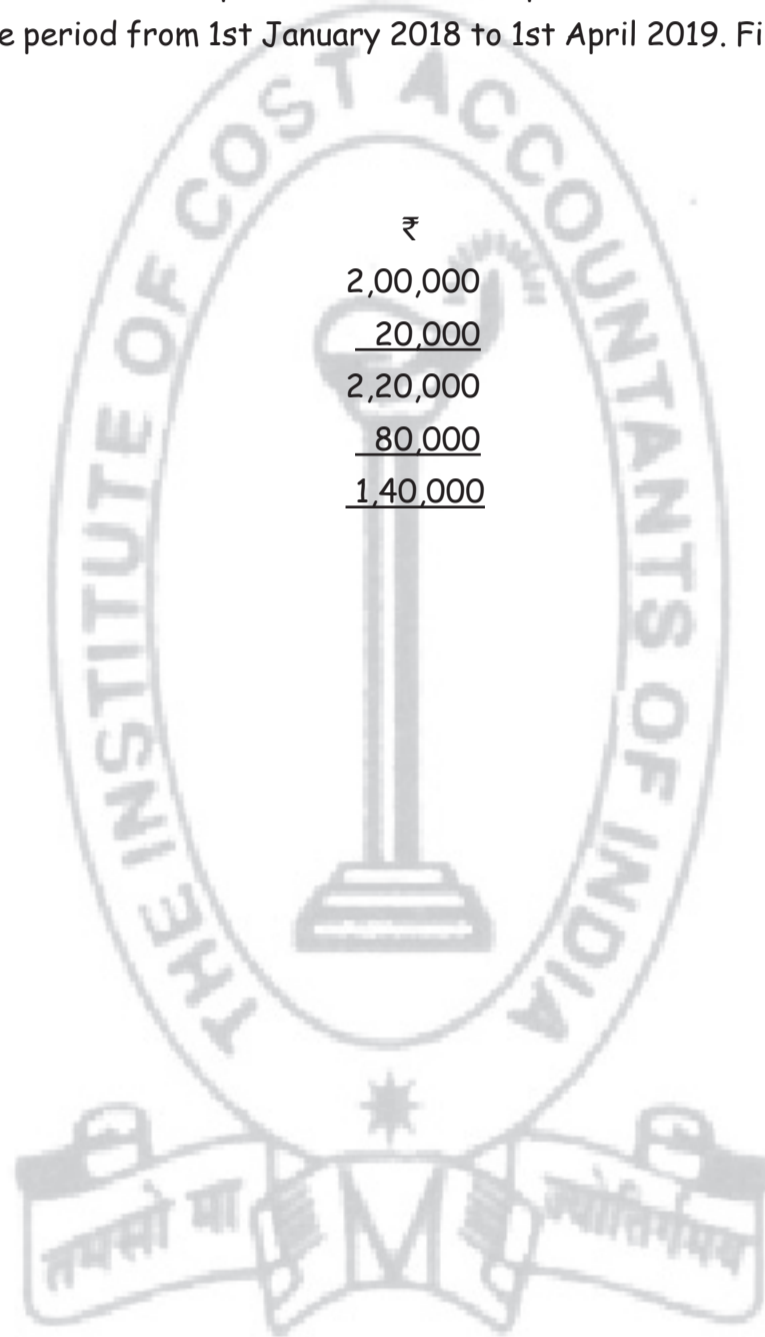
### Illustration 3:

A fire broke out in a Company on 1st April 2018 and short sales remained for a period of six months: total sales during this period amounted to ₹ 80,000, while in previous year from 1st April 2018 to 30th September 2018 were of ₹ 2,00,000.

Sales have increased by 10% in 2019 in the period from 1st January 2018 to 1st April 2019. Find out the short sales during this period of six months of 2019

### Solution :

	₹
Sales during 6 months : 2018	2,00,000
Add increase expected @ 10 %	<u>20,000</u>
	2,20,000
Less : sales of this period of 2019	<u>80,000</u>
Short sales	<u>1,40,000</u>

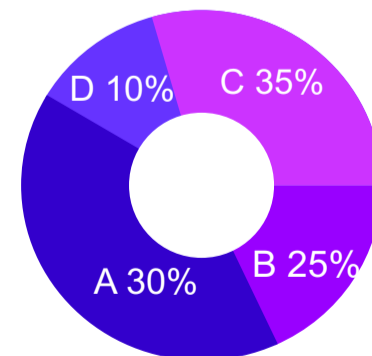




**GROUP: I, PAPER: 6**  
**LAWS & ETHICS**  
**(LNE)**

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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 which became law on 12th September, 2013 after the President of India gave his affirmation (to replace the Companies Act, 1956) on 29th August, 2013

**Let us start with Restrictions :**

The company shall not use any amount raised through the issue of prospectus for buying, trading or otherwise dealing in equity shares of any other listed company.

**Dissenting shareholders :**

In terms of the Companies Act, a dissenting shareholder is one who does not agree with a fundamental transaction being contemplated by the majority shareholders, and/or a proposal to vary the terms of contract or the objects. Such dissenting shareholder/s shall be given an exit offer by the promoters or the controlling shareholders at such price and in such manner on such conditions as may be specified by SEBI by making regulations in this behalf.

A fundamental transaction is a major transaction which changes the nature of the company's business or the control of the company. Dissenting shareholders can insist that the company buys their shares back for a "fair value". The fair value can be decided by the court if necessary.

**Offer of Sale of shares :**

Section 28 of the Act deals with Offer of Sale of Shares by certain members of the company where certain members of a company in consultation with the Board of Directors of the company, offer whole or part of their holding of shares in the company to the public as per prescribed procedure.

The members whether individual or bodies corporate or both, whose shares are proposed to be offered to the public, shall collectively authorize the company, to take all actions in respect of offer of sale for and on their behalf and they shall reimburse all expenses incurred by it on this matter.

**Rule 8. Offer of sale by Members, along with :**

1. Part 1 Chapter III of "Prospectus and Allotment of Securities" and Rules made there under shall be applicable to an Offer of Sale, referred to in Section 28 of the Act, except for the following, viz. :
  - ▶ The provisions relating to minimum Subscription
  - ▶ The provisions for minimum application value
  - ▶ The provisions requiring any statement to be made by the Board of Directors in respect of utilization of money ; and
  - ▶ Any other provision or information which cannot be compiled or gathered by the Offerer, with detailed justifications for not being able to comply with such provisions.
2. The prospectus issued under Section 28 of the Act shall disclose the name of the person or persons or Entity, bearing the cost of making the Offer of Sale, along with reasons.

**Dematerialized Shares :**

The promoter of every public company making a public offer of any convertible securities may hold such securities only in dematerialized form. Let us understand that Dematerialization of shares is a process of getting the share held in physical certificate converted into electronic format which is maintained in an account, known as the Demat Account with the depository participant (DP), who is basically an agent between the company and the depository.

**Advertisement for prospectus :**

Section 30 of the Act provides that where an advertisement of any prospectus of a company is published in any manner, it shall be necessary to specify therein:

- a) the contents of its memorandum as regards the objects ;
- b) the liability of members and the amount of share capital of the company;
- c) the names of the signatories to the memorandum;
- d) the number of shares subscribed for by them ;and
- e) Its capital structure.

**Shelf Prospectus :**

The Explanation to Section 31 of the Act defines the term "Shelf Prospectus" as a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus.

(1) Any class or classes of companies, as the Securities and Exchange Board may provide by regulations in this behalf, may file a shelf prospectus with the Registrar at the stage of the first offer of securities included therein which shall indicate a period not exceeding one year as the period of validity of such prospectus which shall commence from the date of opening of the first offer of securities under that prospectus, and in respect of a second or subsequent offer of such securities issued during the period of validity of that prospectus, no further prospectus is required.

(2) A company filing a shelf prospectus shall be required to file an information memorandum containing all material facts relating to new charges created, changes in the financial position of the company as have occurred between the first offer of securities or the previous offer of securities and the succeeding offer of securities and such other changes as may be prescribed, with the Registrar within the prescribed time, prior to the issue of a second or subsequent offer of securities under the shelf prospectus:

**Provided that** where a company or any other person has received applications for the allotment of securities along with advance payments of subscription before the making of any such change, the company or other person shall intimate the changes to such applicants and if they express a desire to withdraw their application, the company or other person shall refund all the monies received as subscription within fifteen days thereof.

(3) Where an information memorandum is filed, every time an offer of securities is made under sub-section (2), such memorandum together with the shelf prospectus shall be deemed to be a prospectus.

**Red Herring Prospectus :**

A **Red Herring prospectus** is defined in the Explanation to Section 32 of the Act as a prospectus which does not include complete particulars of the quantum or price of the securities included therein.

The same shall be filed with the Registrar at least 3 days prior to the opening of the subscription list and the offer.

It shall carry the same obligations as are applicable to a prospectus and variations between the red herring prospectus and a prospectus shall be highlighted as variations in the prospectus.

A question may come to mind as to why is the prospectus called Red Herring Prospectus. That is because, its purpose is to determine the extent of public interest in an issue. It is called a red herring because of the red ink around the border of the front page.

A **red herring prospectus**, is a first or preliminary prospectus, which is a document submitted by a company (issuer) as part of a public offering of securities (either stocks or bonds).

Potential investors may not place/buy orders for the security, based solely on the information contained within the preliminary **red herring prospectus**.

**Application Form**

Section 33 of the Companies Act, 2013 provides that :

(1) No form of application for the purchase of any of the securities of a company shall be issued unless such form is accompanied by an abridged prospectus:

**Provided** that nothing in this sub-section shall apply if it is shown that the form of application was issued—

(a) in connection with a bona fide invitation to a person to enter into an underwriting agreement with respect to such securities; or

(b) in relation to securities which were not offered to the public.

(2) A copy of the prospectus shall, on a request being made by any person before the closing of the subscription list and the offer, be furnished to him.

(3) If a company makes any default in complying with the provisions of this section, it shall be liable to a penalty of fifty thousand rupees for each default.

**Liability for mis-statement in the prospectus:**

**Section 34 provides for criminal liability and Section 35 provides for Civil liability.**

(1) Where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person who—

(a) is a director of the company at the time of the issue of the prospectus;

(b) is named in the prospectus as a director of the company

(c) is a promoter of the company;

(d) has authorised the issue of the prospectus; and

(e) is an expert referred to in sub-section (5) of section 26, shall, without prejudice to any punishment to which any person may be liable under section 36, be liable to pay compensation to every person who has sustained such loss or damage.

**The Exception is :**

(2) No person shall be liable under sub-section (1), if he proves—

(a) that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or

(b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

(3) Notwithstanding anything contained in this section, where it is proved that **a prospectus has been issued with intent to defraud the applicants** for the securities of a company or any other person or for any fraudulent purpose, every person referred to in subsection (1) shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

**Punishment for fraudulently inducing persons to invest money:**

Any person who, either knowingly or recklessly makes any statement, promise or forecast which is false, deceptive or

misleading, or deliberately conceals any material facts, to induce another person to enter into, or to offer to enter into,—

- (a) any agreement for, or with a view to, acquiring, disposing of, subscribing for, or underwriting securities; or
- (b) any agreement, the purpose or the pretended purpose of which is to secure a profit to any of the parties from the yield of securities or by reference to fluctuations in the value of securities; or
- (c) any agreement for, or with a view to obtaining credit facilities from any bank or financial institution, shall be liable for action under section 447 which shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud

**Action by affected persons.**

A suit may be filed or any other action may be taken under section 34 or section 35 or section 36 by any person, group of persons or any association of persons affected by any misleading statement or the inclusion or omission of any matter in the prospectus.



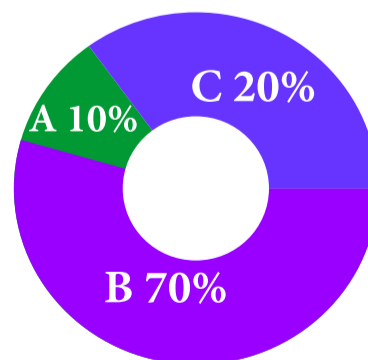


GROUP: I, PAPER: 7

# 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

### 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. 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. Exceptions: 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. Exception: 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:	
	Business	Income to be clubbed
	Proprietary	Income of such business x Value of such assets as on the 1st day of the P.Y. Total investment in the business by the transferee as on the same day
	Partnership	Interest on capital x Value of such assets as on the 1st day of the P.Y. 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. Exceptions: 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: <table border="1"> <tr> <td>Before partition</td> <td>The entire income from such property</td> </tr> <tr> <td>After partition</td> <td>Income from the assets attributable to the spouse of transferor.</td> </tr> </table>	Before partition	The entire income from such property	After partition	Income from the assets attributable to the spouse of transferor.
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> <li>• 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.</li> </ul>				

**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 1/4/2016, 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. 2020-21

Particulars	Amount
Self-occupied house	
Net Annual Value	Nil
Less: Deduction u/s	
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. 2020-21

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



**Choose the correct answer**

1. Mr. X's minor daughter earned ₹ 50,000 from his special talent. This income will be clubbed with -
  - (a) The income of Mr. X
  - (b) The income of Mrs. X
  - (c) Mr. X or Mrs. X, whoever's income is higher
  - (d) It will not be clubbed
2. Maximum exemption available in clubbing of income to mother or father is -
  - (a) ₹ 1,500
  - (b) ₹ 1,500 per child
  - (c) ₹ 1,200 per child
  - (d) ₹ 100 per month per child
3. 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 -
  - (a) Mr. A
  - (b) Mrs. A
  - (c) Not Taxable
  - (d) Mr. A or Mrs. A, at the choice of the Assessing Officer
4. Income arising to a minor married daughter shall be -
  - (a) assessed in the hands of minor married daughter
  - (b) clubbed with the income of that parent whose total income is higher
  - (c) Exempt from tax
  - (d) clubbed with the income of her spouse
5. Income of a minor child suffering from any disability of the nature specified in section 80U shall be -
  - (a) assessed in the hands of minor
  - (b) clubbed with the income of that parent whose total income is higher
  - (c) Exempt from tax
  - (d) taxable in hands of provider of income like reverse charge
6. Mr. X gives ₹ 2,00,000 to Mrs. X as gift. She invests in a proprietary concern and incurs a loss of ₹ 40,000.
  - (a) This loss shall be clubbed in the hands of Mr. X
  - (b) 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 -
- Father
  - Mother
  - Father & Mother both
  - 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 -
- Nil
  - ₹ 20,000
  - ₹ 18,500
  - ₹ 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 -
- ₹ 4,900
  - ₹ 4,300
  - ₹ 4,500
  - ₹ 5,000



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



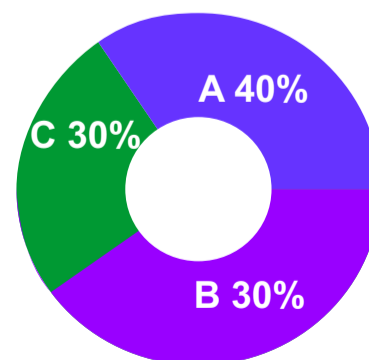
**GROUP: I, PAPER: 8**

# **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 (CAC)

Today the value and importance of Cost Accounting need hardly be over emphasized. So optimum utilization of resources is very much essential to meet need of the day. In this context Cost Accountant can play vital role. Hence, theory as well as solving the practical problems are very much essential for securing good marks in the exam. You please go through the theoretical part for easy understanding the topic and then try to solve the problems that are in exercise. Start from Chapter one and try to complete the other chapters serially as this will enable you to understand better the succeeding chapters. Always try to remember that in professional examinations, emphasis is given on testing comprehension, self expression, understanding and ability to apply knowledge in divergent situation. Success of these examinations considerably depends on style of preparation which should have perseverance, regularity of efforts, detailed practice, vision and objectivity.

**I have suggested the following suggestion based on my long time teaching experiences.**

1. Students are suggested to develop a plan for completing the syllabus within specified time.
2. You should go through your Study Note and know the syllabus properly.
3. Analyze the trends of setting questions.
4. This paper is based on mainly solving the practical problems.
5. For successful result clarity of concepts and self expression is essential.
6. Try to improve your speed by practice and revision for able to attempt all questions in limited time.
7. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.

Here the entire syllabus is divided into six main chapters. In first chapter the basic concept of cost accounting are discussed, beside its other two branches viz, financial accounting and management accounting. The second chapter described the Elements of cost in details. The three major elements of costs are - Material, Labour and Overheads. The major elements of costs are discussed elaborately and analyzed element-wise with suitable number of examples. It is known that Material is the major part of total cost of a product, hence it is very much urgent to control cost of material. You should read the scope and objectives of different Cost Accounting Standards in details. It will help to understand the scope and grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. Cost allocation, Cost apportionment and cost absorption should be understood very clearly.

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

The chapter Contract Costing is important for this type of examination. Students often experience difficulty in recommending the amount of profit to be taken into account during a period for long-term contract. There are some standard norms for completion and recognition of profit/ Loss of incomplete contract. Make sure that you are familiar with various methods/formulas for different stage of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP-9". Various Problems on escalation clause are also very important for this paper.

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

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

The chapter 'Variance Analysis' is an analysis which relates to creating responsibilities and identifying the activities or areas of exceptions. The main purpose of variance analysis is to enable the management to improve the operation for effective utilization of resources and to increase the efficiency by reducing costs. Some students are afraid of this important chapter only because of different formulae for different analysis. Only careful study and realization of the requirement in the problem can eliminate such difficulties. The main objective of this analysis is to improve the operation by effective utilization of resources for reducing its product cost.

The next chapter is related to 'Budget and Budgetary Control'. The term budget can be expressed as a predetermined plane of action in details. Budgetary control requires preparation of 'Flexible Budget', Functional Budget, and 'Cash Budget' for taking necessary actions. Both theoretical and problem oriented questions may be set from this chapter. The students can easily understand the problems, if theory remains clear. The students are also suggested to go through the theoretical parts-like, concept of Zero-based Budgeting, behavior and classification of Budgets etc very carefully. All functional budgets are summarized into master budget consisting of a Budgeted Profit and Loss Account, a Balance Sheet and Cash Flow Statement.

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

#### Problem:

The monthly budgets for manufacturing overhead of a concern for two levels of activity were as follows :

Capacity	60%	100%
Budget production (Units)	600	1,000
	₹	₹
Wages	1,200	2,000
Consumable stores	900	1,500
Maintenance	1,100	1,500
Power & Fuel	1,600	2,000
Depreciation	4,000	4,000
Insurance	1,000	1,000
	9,800	12,000

You are required to :

- Indicate which of the items are fixed, variable and semi-variable.
- Prepare a budget for 80% capacity; and
- Find the total cost, both fixed and variable, per units of output at 60%, 80% and 100% capacity.

#### Solution:

(i) Fixed Costs : Depreciation ₹ 4,000  
Insurance ₹ 1,000

Variable Costs : Wages = ₹ 1,200 ÷ 600 units or ₹ 2,000 ÷ 1000 units = ₹ 2.00 per units .

Consumable Stores = ₹ 900 ÷ 600 units or ₹ 1,500 ÷ 1000 units = ₹ 1.50 per unit.

Semi - variable Cost:

Maintenance = 1000 units ₹ 1,500

600 units ₹ 1,100

Difference 400 units ₹ 400

Variable = ₹ 400 ÷ 400 units = ₹ 1.00 per unit.

Fixed = Total amount (-) variable

= 1500 - (1000 × 1.00) = ₹ 500 Fixed

Power & Fuel : 1000 units	₹ 2,000
<u>600 units</u>	<u>₹ 1,600</u>
Difference	<u>₹ 400</u>

Variable = ₹ 400 ÷ 400 units = ₹ 1.00 per unit.

Fixed = Total amount (-) variable .

= 1600 - (600 × 1) = ₹ 1,000 fixed .

(ii) Budget for 80% capacity . Output 800 units .

Wages : 800 × 2.00	₹ 1,600
Consumable stores 800 × 1.50	₹ 1,200
Maintenance = 500 + ( 800 × 1)	₹ 1,300
Power & Fuel = 1000 + (800 × 1)	₹ 1,800
Depreciation : Fixed	₹ 4,000
Insurance : Fixed	<u>₹ 1,000</u>
Total Cost	<u>₹ 10,900</u>

(iii) Statement of Total Cost

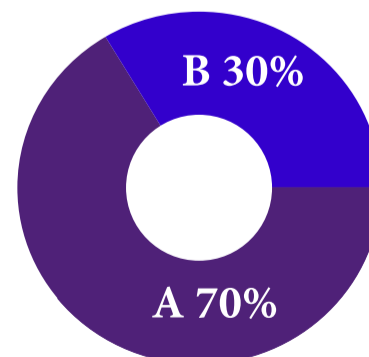
Capacity	60%	80%	100%
Units	600	800	1000
A. Fixed cost	₹	₹	₹
Depreciation	4,000	4,000	4,000
Insurance	1,000	1,000	1,000
Maintenance	500	500	500
Power & Fuel	1,000	1,000	1,000
Total "A"	6,500	6,500	6,500
B. Variable Cost			
Wages at ₹ 2.00 per unit	1,200	1,600	2,000
Consumable stores at ₹ 1.50 per unit	900	1,200	1,500
Maintenance at ₹ 1.00 per unit	600	800	1,000
Power & Fuel at ₹ 1.00 per unit	600	800	1,000
Total "B"	3,300	4,400	5,500
C. Total Cost (A + B)	9,800	10,900	12,000
Fixed Cost per unit	10.833	8.125	6.50
Variable cost per unit	5.50	5.50	5.50
Total cost per unit	16.333	13.625	12.00



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 continuation to our discussion in January issue, in this issue also we will study on important definitions which may be required to answer various short type questions.

**Pareto Phenomenon:** In every situation in a system managers discover that certain issues or items are more important than others. Typically a relatively few issues or items are very important so that dealing with those factors will generally have a disproportionately large impact on the results achieved. This is known as Pareto Phenomenon

**Partial Productivity:** Productivity measures can be based on a single input (partial productivity), on more than one input (multifactor productivity) or on all inputs (total productivity). Partial measures are often of greatest use in operations management. Some measures of partial measures are:

$$\frac{\text{Output}}{\text{Labour}} \text{ or } \frac{\text{Output}}{\text{Machine}} \text{ or } \frac{\text{Output}}{\text{Capital}} \text{ or } \frac{\text{Output}}{\text{Energy}}$$

**Payoff table:** The information for a decision is often summarised in a payoff table which shows the expected payoffs for each alternative under the various possible states of nature. These tables are helpful in choosing among the alternatives because they facilitate comparison of alternatives.

**Pegging:** The process of identifying the parent items that have generated a given set of material requirements for an item.

**Performance Control Reports:** Evaluates system operation. It aid managers by measuring deviations from plans, including missed deliveries and stock-outs and by providing information that can be used to assess cost performance.

**Periodic systems:** It is an inventory counting systems in which a physical count of items in inventory is made at periodic fixed intervals (e.g. weekly, monthly) in order to decide how much to order of each item.

**Perpetual Inventory Systems:** Also known as continuous review system. It keeps track of removals from inventory on a continuous basis so the system can provide information on the current level of inventory for each item. When the amount on hand reaches a predetermined minimum a fixed quantity is ordered.

**Planned Order Releases:** Indicate a planned amount to order in each time period. When an order is executed it is removed from planned order releases and entered under scheduled receipts.

**Planning Fence:** Company uses series of time intervals during which order changes are allowed or restricted. These are called time fences and companies use two fences. One is a near term demand fence and the other is a long term planning fence. Between the demand fence and the planning fence management must make tradeoffs when changes are introduced unless excess capacity is expected to be available.

**Pont of Sale Systems:** Point of sale systems electronically record actual sales.

**Poka Yoke:** Safeguards built into a process to reduce the possibility of errors.

**Precedence diagram:** A diagram that shows elemental tasks and their precedence requirements.

**Predictive Maintenance:** it determines when to perform preventive maintenance activities. It is based on historical records and analysis of technical data to predict when a piece of equipment or part is about to fail. The better the prediction of failures are, the more effective preventive maintenance will be.

**Predictor Variables:** Are variables that can be used to predict values of the variable of interest.

**Process Batch:** The economical quantity to produce upon the activation of a given operation.

**Process Layout:** Or functional layouts are designed to process items or provide services that involve a variety of processing requirements. A manufacturing example of a process layout is the machine shop, which has separate departments for milling, grinding drilling etc.



<b>Product Bundle:</b> The combination of goods and services provided to a customer.
<b>Product Layout:</b> Layout that uses standardised processing operations to achieve smooth rapid high volume flow
<b>Product liability:</b> The responsibility of a manufacturer for any injuries or damage caused by a faulty product
<b>Product or Service Profiling:</b> Product or service profiling can be used to avoid any inconsistencies by identifying key product or service requirements and linking them to process capabilities
<b>Product Structure Tree:</b> A visual depiction of the requirements in a bill of materials when all components are listed by levels
<b>Project Buffer:</b> A project buffer at the end of the project is used to reduce the risk that time variations on the critical chain will interfere with timely project completion
<b>Project Champion:</b> A person who promotes and supports a project
<b>Project Management Triangle:</b> The project management triangle defines the basic constraints that a project operates within, namely: Cost, Time, Scope. The triangle model demonstrates how one element cannot be altered without affecting the other constraints. For example, a broadening of the scope of a project will most likely lead to increases in time and cost, similarly, a tightening of the proposed deadline will necessitate a narrowing of the scope or an increase in costs.
<b>Projected on hand:</b> Expected amount of inventory that will be on hand at the beginning of each time period.
<b>Pull Systems:</b> It is a system for moving work through a production process. Under this a workstation pulls output from the preceding station as it is needed.
<b>Purchasing Cycle:</b> Comprises series of steps that begin with a request for purchase and end with notification of shipment received in satisfactory condition
<b>Push System:</b> It is a system for moving work through a production process. Under this work is pushed to the next station as it is completed.
<b>Quality at the Source:</b> The philosophy of making each worker responsible for the quality of his or her work
<b>Quality based Strategy:</b> Strategy that focuses on quality in all phases of an organisation
<b>Quality Circles:</b> Groups of workers who meet to discuss ways of improving products or processes
<b>Quality Controls:</b> A process that evaluates output relative to a standard and takes corrective action when output does not meet standard
<b>Quality Function Deployment:</b> An approach that integrates the "voice of the customer" into both product and service development
<b>Quality of Conformance:</b> The degree to which goods or services conform to the intent of the designers
<b>Quality of Design:</b> Intention of designers to include or exclude features in a product or service
<b>Queue Discipline:</b> The order in which customers are processed
<b>Range Control Chart:</b> These are used to monitor process dispersion. They are sensitive to changes in process dispersion. Control limits for range charts are found using the average sample range.
<b>Recycling:</b> Recycling means recovering materials for future use. This applies not only to manufactured parts but also to materials used during production. Companies recycle for a variety of reasons including Cost savings, Environment concerns, Regulations etc.
<b>Redundant Constraints:</b> A constraint that does not form a unique boundary of the feasible solution space. A constraint is redundant when its removal would not alter the feasible solution space.
<b>Regenerative System:</b> An approach that updates Material Requirement Planning records periodically
<b>Remanufacturing:</b> It refers to refurbishing used products by replacing worn out or defective components and reselling the products. This can be done by the original manufacturer or another company. Among the products that have remanufactured components are automobiles, printers, copiers etc.
<b>Repetitive Processing:</b> When higher volumes of more standardised goods or services are needed repetitive processing is used. The standardised output means only slight flexibility of equipment is needed. Under this processing skill of workers is generally low. Examples are assembly lines
<b>Replacement Maintenance:</b> Replacement problems involve items that degenerate with use or with the passage of time and those that fail after a certain amount of use or time. Items that deteriorate are likely to be large and costly (e.g., machine tools, trucks, ships, and home appliances). Non-deteriorating items tend to be small and relatively inexpensive (e.g., light bulbs, vacuum tubes, ink cartridges). The longer a deteriorating item is operated the more maintenance it requires to maintain efficiency. Furthermore, the longer such an item is kept the less is its resale value and the more likely it is to be made obsolete by new equipment. If the item is replaced frequently, however, investment costs increase. Thus the problem is to determine when to replace such items and how much maintenance (particularly preventive) to perform so that the sum of the operating, maintenance, and investment costs is minimized.
<b>Resiliency:</b> The ability of a business to recover from an event that negatively impacts the supply chain
<b>Return on Quality:</b> An approach that evaluate the financial return of investment in quality. In this approach quality improvement projects are viewed as investments and as such they are evaluated like any other investment using metrics related to return on investment
<b>Reverse Engineering:</b> Process of dismantling and inspecting a competitor's product to discover product improvements
<b>Reverse Logistics:</b> The process of transporting returned items
<b>Robust Design:</b> Design that results in products or services that can function over a broad range of conditions
<b>Rough Cut Capacity Planning:</b> It involves testing the feasibility of a proposed master schedule relative to available capacities to assure that no obvious capacity constraints exist
<b>Run Chart:</b> A tool for tracking results over a period of time

<b>Slack per Operation Rule:</b> Jobs are processed according to average slack time (time until due date minus remaining time to process) and is obtained by dividing slack time by number of remaining operations including the current one.
<b>Schedule Chart:</b> A Gantt chart that shows the orders or jobs in progress and whether they are on schedule
<b>Scheduled Receipts:</b> Open orders i.e. orders that have been placed and are scheduled to arrive from vendors or elsewhere in the pipeline by the beginning of a period.
<b>Seasonal Relative:</b> The seasonal percentages in the multiplicative model are referred to as seasonal relative or seasonal index. Suppose that the seasonal relative for the quantity of a product sold in January at a store is 1.3. This indicates that the product sales for that month are 30percent above the monthly average
<b>Seasonal variations:</b> Seasonal variations in time series data are regularly repeating upward or downward movements in series values that can be tied to recurring events.
<b>Self-directed teams:</b> Groups empowered to make certain changes in their work processes
<b>Sequencing:</b> An approach which determine the order in which jobs at a work center will be processed
<b>Service Blueprint:</b> A method used in service design to describe and analyse a proposed service
<b>Service delivery Systems:</b> The facilities, processes and skills needed to provide a service
<b>Service level:</b> Order cycle service level can be defined as the probability that demand will not exceed supply during lead time i.e. the amount of stock on hand will be sufficient to meet demand
<b>Service Package:</b> The physical resources needed to perform the service, the accompanying goods that are purchased or consumed by the customer or provided with the service and the explicit and implicit services needed
<b>Service Profiling:</b> It can be used to avoid any inconsistencies by identifying key service dimensions and then selecting appropriate processes
<b>Serviceability:</b> The capability of an organisation to provide a service at an acceptable cost or profit
<b>Setup Costs:</b> The costs involved in preparing equipment for a job
<b>Shadow Price:</b> An amount by which the value of the objective function would change with a one unit change in the right hand side value of a constraint in a linear programming
<b>Shortage Costs:</b> Costs resulting when demand exceeds the supply of inventory on hand. These costs can include the opportunity cost of not making a sale, loss of customer goodwill etc
<b>Six Sigma:</b> A process for reducing costs, improving quality and increasing customer satisfaction
<b>Slack:</b> It is the allowable slippage for a path. Slack is the difference between the length of a path and the length of the critical path
<b>Standard elemental times:</b> This is the time standards derived from a firm's historical time data
<b>Strategic partnering:</b> Two or more business organisations that have complementary products or services join so that each may realise a strategic benefit
<b>Strategic Sourcing:</b> It is a systematic process for analysing the procurement process to lower costs by reducing waste and non-value added activities, increase profits, reduce risks and improve supplier performance
<b>Suboptimisation:</b> This is a result of different departments' attempts to reach a solution on an issue that is optimum for each department
<b>Supply chain visibility:</b> A major trading partner can connect to its supply chain to access data in real time
<b>Takt time:</b> It is the cycle time needed in a production system to match the pace of production to the demand rate
<b>Therbligs:</b> These are basic elemental motions. The approach is to break jobs down into basic elements and base improvements on an analysis of these basic elements by eliminating, combining or rearranging them.
<b>Third Party logistics:</b> The outsourcing of logistics management
<b>Time based strategy:</b> A strategy that focuses on reduction of time needed to accomplish tasks
<b>Time based system:</b> A system of giving compensation based on time an employee has worked during a pay period
<b>Time fence:</b> Points in time that separate phases of a master schedule planning horizon
<b>Total Productive Maintenance:</b> A just in time approach where workers perform preventive maintenance on the machinery they operate
<b>Tracking Signal:</b> It relates the cumulative forecast error to the average absolute error
<b>Transfer batch:</b> The quantity to be transported from one operation to another, assumed to be smaller than the first operation's process batch. It denotes a portion of the basic lot that could be used during production to facilitate utilisation of bottleneck operations
<b>Two bin system:</b> A very elementary system uses two containers for inventory. Items are withdrawn from the first bin until its contents are exhausted. It is then time to reorder
<b>Value analysis:</b> It is an examination of the function of parts and materials in an effort to reduce cost and or improve product performance
<b>Value Stream Mapping:</b> It is a visual tool to systematically examine the flow of materials and information
<b>Vendor analysis:</b> An analysis for evaluating sources of supply in terms of prices, quality, reputation and service
<b>Vendor Managed Inventory:</b> Under this vendors track goods shipped to distributors and retail outlets and monitor retail supplies, enabling the vendors to replenish inventories when supplies are low

<b>Work breakdown structure:</b> It is a hierarchical listing of what must be done during a project
<b>Work Measurement:</b> It is a process to determine how long it should take to do a job
<b>Work Sampling:</b> It is a technique for estimating the proportion of time that a worker or machine spends on various activities and the idle time
<b>Worker Machine chart:</b> A chart used to determine portions of a work cycle during which an operator and equipment are busy or idle
<b>Yield management:</b> It is the application of pricing strategies to allocate capacity among various categories of demand

**Suggestions:**

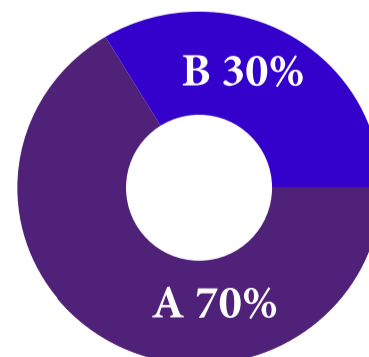
These definitions are taken purely in connection to teachings imparted by the study material issued by Institute and some reference books covering the syllabus. The study material on Operations Management issued by Institute is to be studied thoroughly and many of these sort of definitions are to be noted carefully to answer matching type questions. In this month discussions are held in alphabetical order beginning from alphabet P to Z. Up to alphabet O discussions were made in the previous month. Attempts are made here to explain all the definitions in some detail but these lists as covered in this and various previous issues are however not exhaustive. Attempts will be made regularly to update the lists. 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

### Strategy Implementation

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as to maximize efficiency, quality, and customer satisfaction—the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

Following are the **main steps in implementing a strategy**:

- Developing an organization having potential of carrying out strategy successfully.
- Disbursement of abundant resources to strategy-essential activities.
- Creating strategy-encouraging policies.
- Employing best policies and programs for constant improvement.
- Linking reward structure to accomplishment of results.
- Making use of strategic leadership.

**Strategy implementation poses a threat** to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (both formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

**While fixing the organizational objectives**, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

There are many **benefits of strategic management** and they include:

- ◇ identification,
- ◇ prioritization, and
- ◇ exploration of opportunities.

For instance, newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic

planning. Next, strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.

The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

**Basically two types of benefits**, apparently used in the organizations are discussed below:

#### ► Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.

#### ► Non-Financial Benefits

Apart from the tangible benefits discussed above, firms that engage in strategic management are more aware of the external threats, an improved understanding of competitor strengths and weaknesses and increased employee productivity. They also have lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to:

- rationalize change and
- actualize change and
- communicate the need to change better to its employees.

Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

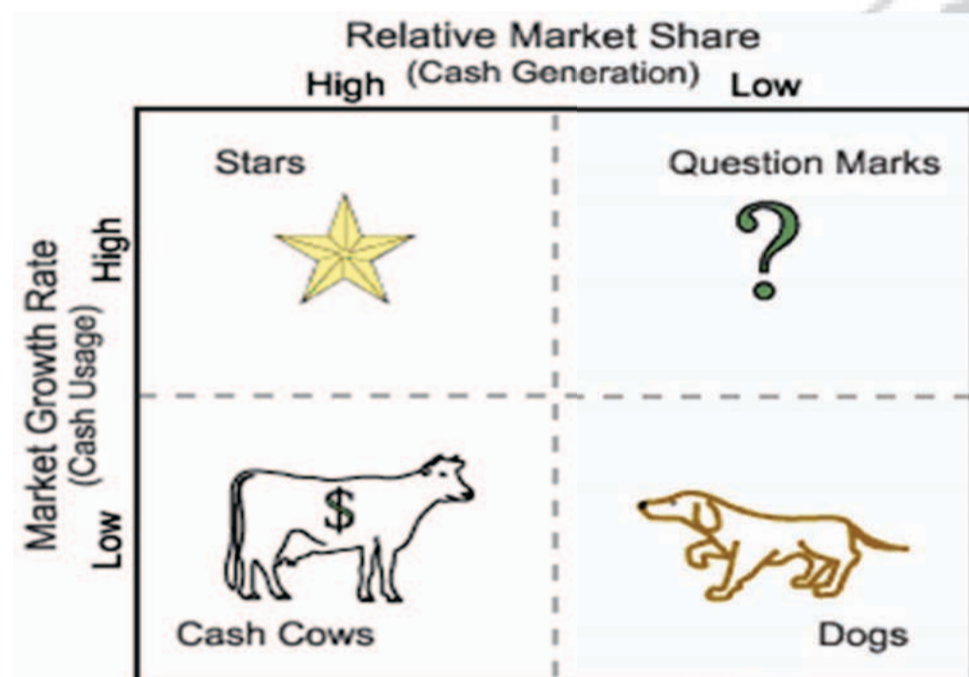
**Boston Consulting Group (BCG) Matrix** is a four celled matrix (a 2 \* 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share:

- **Relative Market Share** = SBU Sales this year leading competitor's sales this year.
- **Market Growth Rate** = Industry sales this year - Industry Sales last year.

**BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate.** The mid-point of relative market share is set at 1.0. If all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.



**Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. If successful, a star will become a cash cow when the industry matures.

**Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These businesses usually follow stability strategies. When cash cows lose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

**Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

**Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally, retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there are fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

#### Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

- ▶ BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
- ▶ Market is not clearly defined in this model.
- ▶ High market share does not always lead to high profits. There are high costs also involved with high market share.
- ▶ Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
- ▶ At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
- ▶ This four-celled approach is considered as to be too simplistic.

**"Strategy is about making choices, trade-offs; it's about deliberately choosing to be different".**



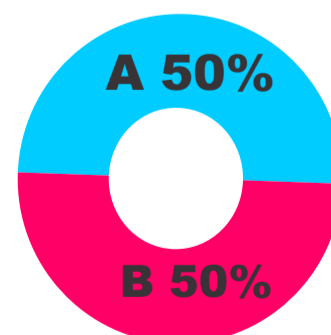
GROUP: II, PAPER:10

# 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.

### OVERHEADS COST VARIANCE ANALYSIS THROUGH DIAGRAMS

The diagrammatic solution of problems in respect of Material Cost Variance analysis that appeared in e-bulletin of January 2020, is likely to have leveraged the spur for learning a new technique by the earnest students. A crystal-clear conception infused through the innovative diagram followed by its practice a bit, is expected to lead one to proceed on with the solution, step by step, with full confidence.

In this issue, solution of a comprehensive problem on OVERHEADS COST VARIANCE ANALYSIS is being demonstrated through diagrams with logically arranged constituents harmonized with appropriate formulas.

The features of a diagram are repeated below.

- \*\* A diagram consists of 3 (Three) or more arrows.
- \*\* Each arrow contains a bottom side and a spear-head side.
- \*\* The data placed at spear-head side is to be deducted from that of bottom side. The resulting balance, if positive would signify a Favorable Variance, while a negative balance would signify an Adverse or Unfavorable Variance.
- \*\* Such data may be Std. F.OH for AP, Actual OH, Sc of AH, Sc of PH, Budgeted OH, etc computed as shown in the illustrated solutions following:

Abbreviation used with the diagrams:

V	: Variance
V. OH	: Variable Overheads
F.OH	: Fixed Overheads
Hr	: Hours
Std	: Standard
SH	: Standard Hours for Production of Actual Quantity
SR	: Standard Rate
SQ	: Standard Quantity of Actual Production
SC	: Standard Cost
AH	: Actual Hour
AR	: Actual Rate
AQ	: Actual Quantity of Production
AC	: Actual Cost
BH	: Budgeted Hours
BQ	: Budgeted Quantity
RBH	: Revised Budgeted Hours
RBQ	: Revised Budgeted Quantity
PH	: Productive Hours



**Basics of Overhead Cost Variance Analysis****HOUR BASIS**

1. Reg. VARIABLE OVERHEADS,  
SR per Hour X SH for AQ

$$\left[ \frac{\text{Budgeted VOH}}{\text{Budgeted Hrs}} \right] \times [\text{SH per unit} \times \text{AQ}]$$

= Std V.O.H. for AQ of production

2. Reg. FIXED OVERHEADS.  
SR per Hour X SH for A

$$\left[ \frac{\text{Budgeted F.O.H}}{\text{Budgeted Hrs}} \right] \times [\text{SH per unit} \times \text{AQ}]$$

= Std F.O.H. for AQ of production

**OUTPUT OR PRODUCTION QUANTITY BASIS**

SR per Unit X AQ

$$\left[ \frac{\text{Budgeted VOH}}{\text{Budgeted Production}} \right] \times \text{AQ}$$

= Std V.O.H. for AQ of production

SR per unit X AQ

$$\left[ \frac{\text{Budgeted F.O.H}}{\text{Budgeted Production}} \right] \times \text{AQ}$$

= Std F.O.H. for AQ of production

A Comprehensive problem on Overhead Cost Variance and its solution through diagram.

Given that, In a month	Budgeted	Actual
Production (units)	5000	6000
Fixed Overheads	₹ 36,000	₹ 35,000
Variable Overheads	₹ 2.50 per unit	₹ 15,750
Hours	16,000	17,600
Working Days	20	19
Idle Hours		240

**REQUIREMENT :**

Reg. Variable Overheads

Work out : Cost Variance, Expenditure Variance and Efficiency Variance

(i) When there is no Idle time

(ii) When there is Idle time.

**Solution :**

Basic computations :-

\* Std V. OH Rate per unit = ₹ 2.50 (given)

$$\begin{aligned} * \text{ Std V. OH Rate per Hour} &= \frac{\text{Budgeted V.OH}}{\text{Budgeted Hours}} \\ &= \frac{\text{Budgeted V.OH Rate per unit} \times \text{Budgeted Production}}{\text{Budgeted Hours}} \\ &= \frac{₹ 2.50 \times 5000 \text{ units}}{16000 \text{ Hours}} \\ &= \frac{₹ 12500}{16000} \\ &= ₹ 0.78125 \end{aligned}$$

\* Std V. OH Rate per Hour = ₹ 0.78125

i) Where there is no Idle time

$$\left[ \begin{array}{l} \text{Std V.OH Rate per unit} \times \text{AQ} \\ ₹ 2.50 \times 6000 \text{ units} \end{array} \right] \text{Out put basis}$$

or  $\left[ \begin{array}{l} \text{Std V.OH Rate per Hour} \times \text{SH for AQ} \\ ₹ 0.78125 \times 19200^* \end{array} \right] \text{Hour basis}$

= Std V. OH for AQ  
₹ 15000 (1)

Cost v = (1) -- (2)  
= ₹ 750 A

Efficiency V  
= (1) -- (3)  
= ₹ 1250 F

Actual V. OH  
₹ 15750 (2)

Expenditure V = (3) -- (2)  
= ₹ 2000 A

₹ 13750 (3)

SC of AH paid for SR X AH

[₹ 0.78125 x 17600 Hrs]

\*SH for AQ (i.e. ₹ 19200) shown under F. OH is same for V. OH and Labour Cost Variance as well.

Note : Cost V = Expenditure V + Efficiency V

Reg. Fixed Overheads :

Work out both in Hour Method and Output or Production Quantity Method

- 1) Cost Variance, Expenditure Variance and Volume Variance.
- 2) Volume V, Efficiency V, and Capacity Variance.
- 3) Volume V, Efficiency V, and Calender Variance.
- 4) Volume V, Efficiency V, Capacity V and Calender Variance.
- 5) Volume V, Efficiency V, Capacity V and Idle time Variance.
- 6) Volume V, Efficiency V, Capacity V, Calender V and Idle time Variance.

**Solution :**

Basic computations for Variance based on --

**HOURLY METHOD**

\* F. OH Rate per Hour =  $\frac{₹ 36000}{16000 \text{ Hrs}} = ₹ 2.25$

\* Standard Hour for Actual Quantity of Production (SH for AQ)

	Quantity	Hours
Standard	5000	16000
	1	3.20
	6000	19200

\* Revised Budgeted Hours in Actual Days (RBH in AD)

	Days	Hours
Standard	20	16000
	1	800
	19	15200

\* Productive Hours (PH)

= Total Actual Hours paid for (--) Idle Hours  
= 17600 -- 240 = 17360

ii) Where there is Idle time

$$\left[ \begin{array}{l} ₹ 2.50 \times 6000 \text{ units} \\ \text{or } ₹ 0.78125 \times 19200^* \end{array} \right]$$

= Std V. OH for AQ  
₹ 15000 (1)

Cost v = (1) -- (2)  
= ₹ 750 A

Efficiency v  
= (1) -- (3)  
= ₹ 1437 F

Actual V. OH  
₹ 15750 (2)

Expenditure V  
= (3) -- (2)  
= ₹ 2187 A

₹ 13563 (3)

SC of PH SR x PH  
[₹ 0.78125 x 17360\*]

\*Production Hour (PH)

= Actual Hours paid for -- Idle time

= 17600 -- 240 = 17360

Note : Cost V = Expenditure V + Efficiency V

**OUTPUT OR PRODUCTION QUANTITY METHOD**

\* F. OH Rate per Unit =  $\frac{₹ 36000}{5000 \text{ units}} = ₹ 7.20$

\* Standard Quantity of Production in Actual Hours (SQ in AH)

	Hours	Quantity
Standard	16000	5000
	1	0.3125
	17600	5500

\* Revised Budgeted Quantities of Production in Actual Days (RBQ in AD)

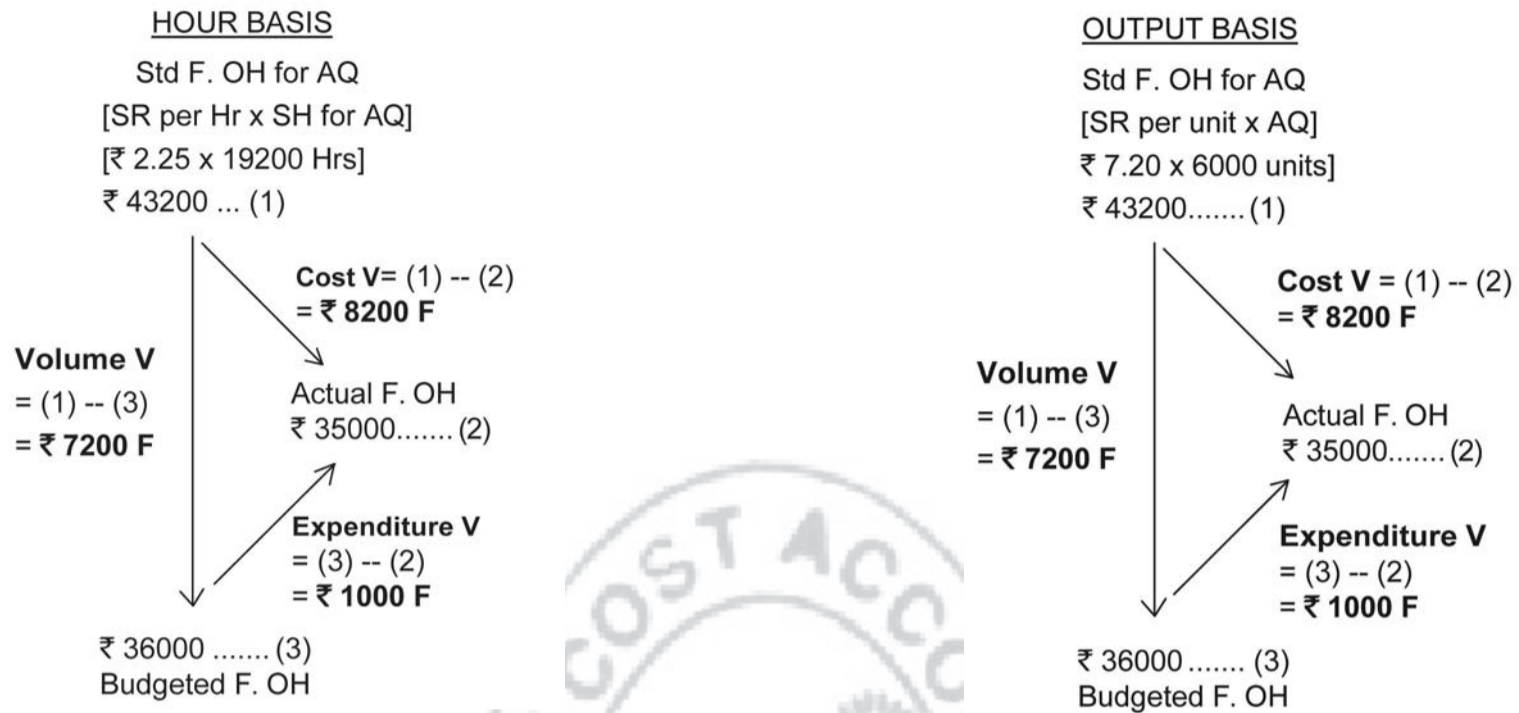
	Days	Quantity
Standard	20	5000
	1	250
	19	4750

\* Standard Quantity of Production in Productive Hours (SQ in PH)

	Hours	Quantity
Standard	16000	5000
	1	0.3125
	17360	5425

1) Calculate : F. OH Cost Variance, Expenditure Variances and Volume Variance.

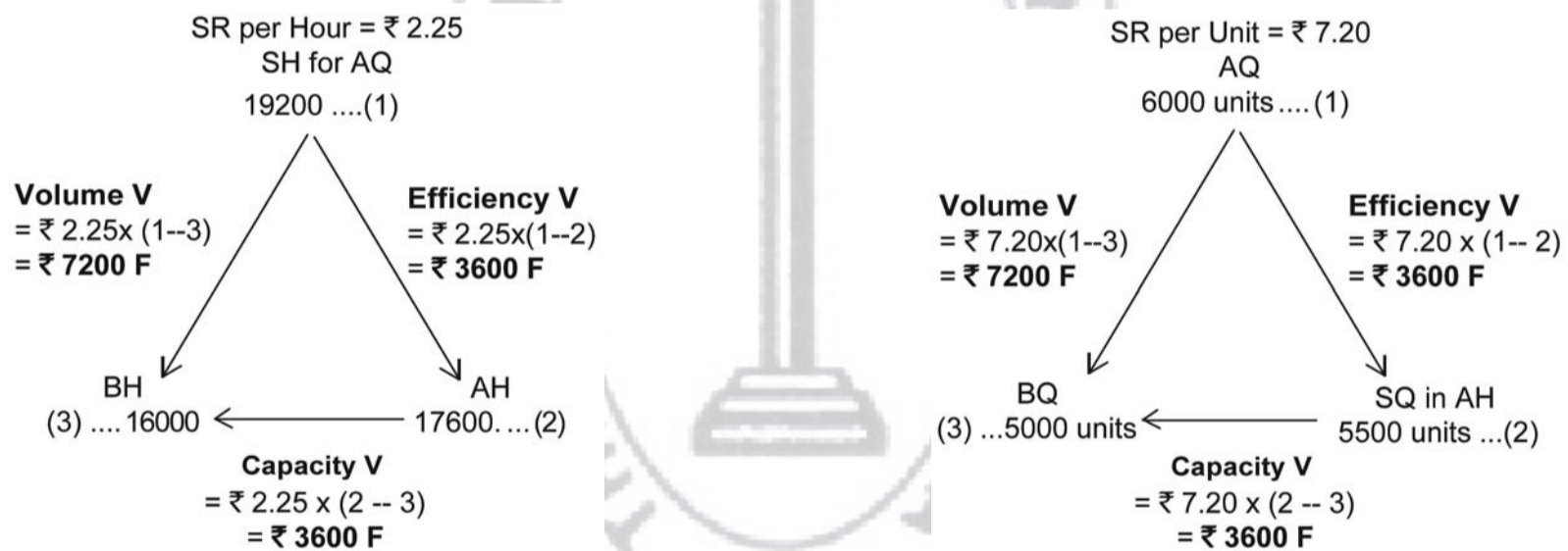
Solution :



Note : Cost Variance = Expenditure V+ Volume V

2) Calculate : Volume V, Efficiency V and Capacity Variances

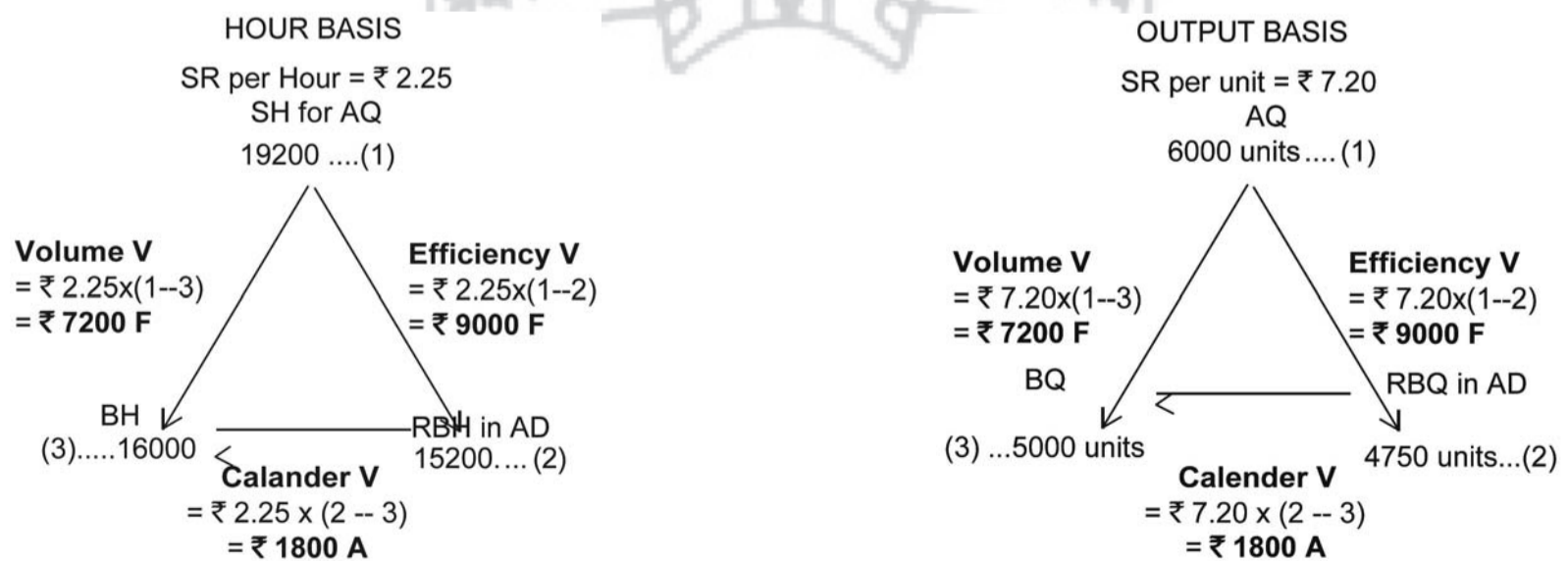
Solution :



Note : Volume V = Efficiency V + Capacity Variance

3) Calculate : Volume V, Efficiency V and Calender Variance

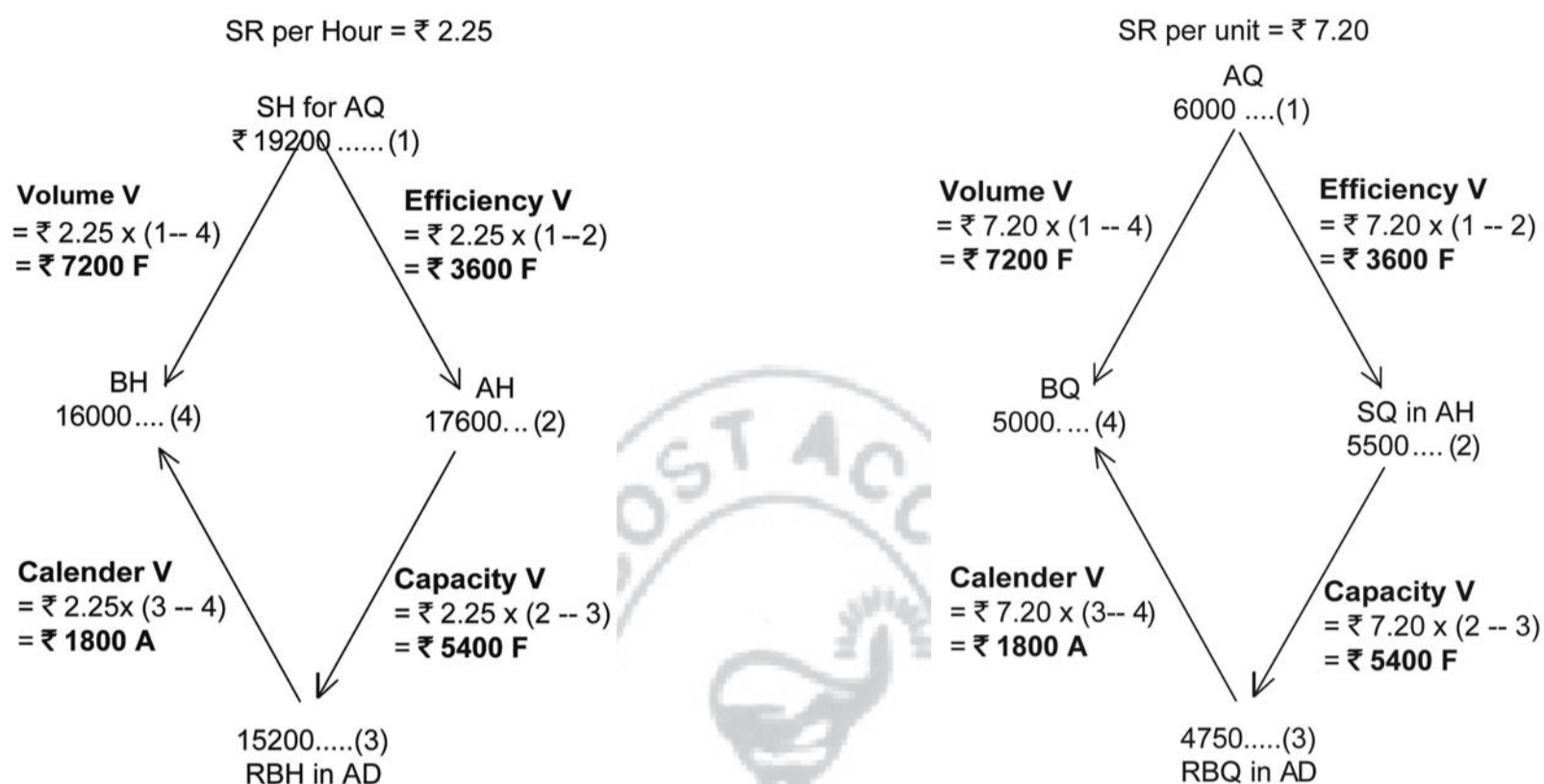
Solution:



Note : Volume V= Efficiency V + Calender Variance

4) Calculate : Volume V, Efficiency V, Capacity V and Calender Variance

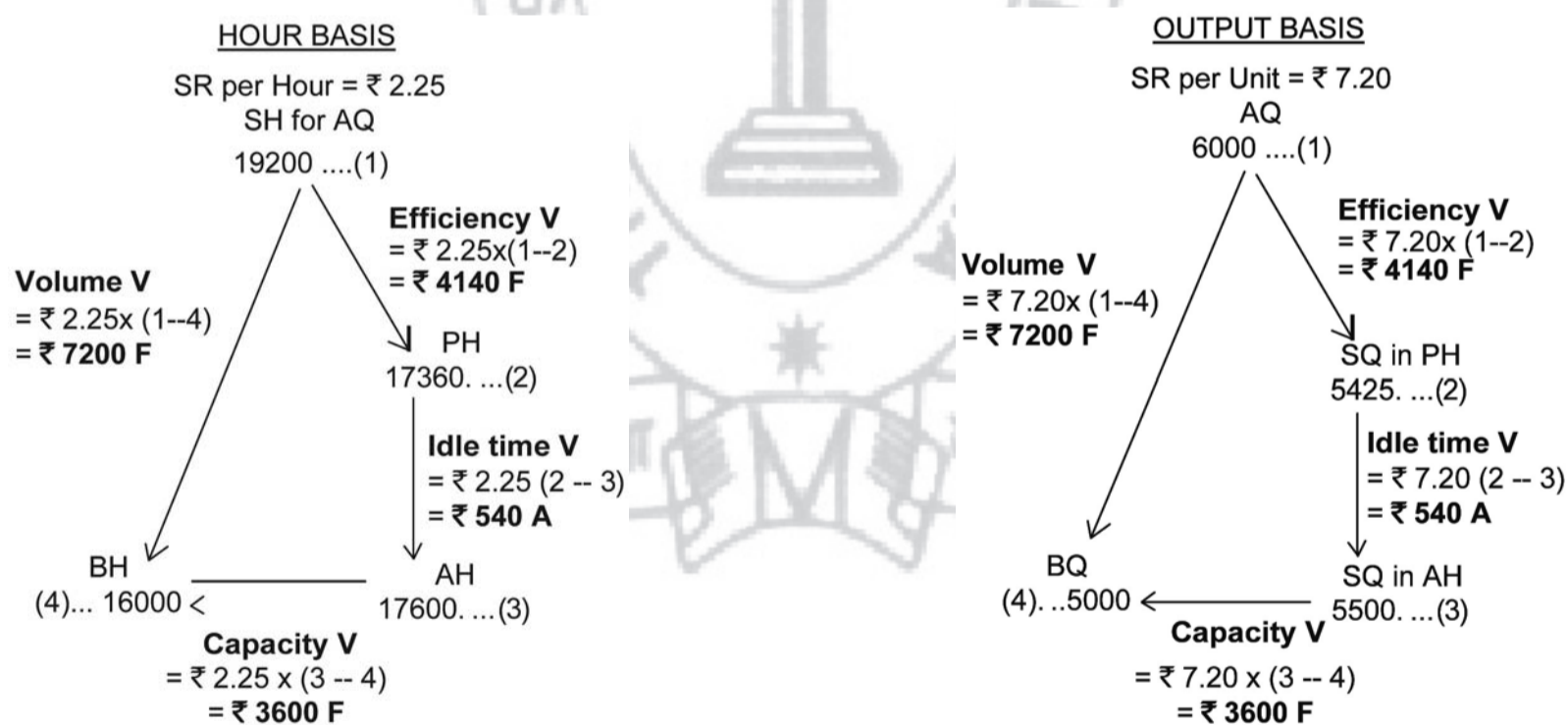
Solution :



Note : Volume V= Efficiency V + Capacity V + Calender Variance

5) Calculate : Volume V, Efficiency V, Capacity V and Idle time Variance

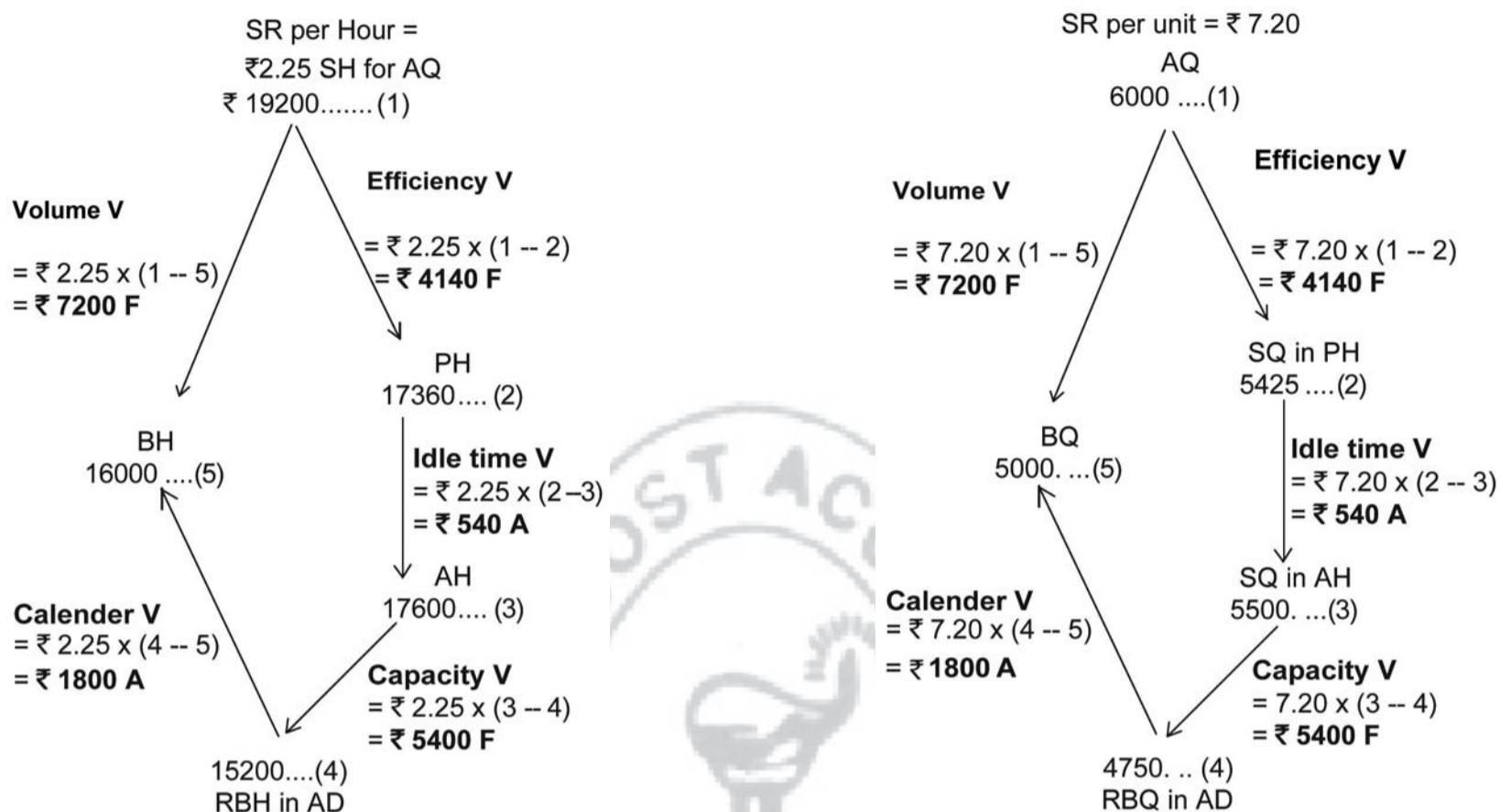
Solution :



Note : Volume V = Efficiency V + Idle time V + Capacity Variance.

6) Calculate : Volume V, Efficiency V, Capacity V and Calender V and Idle time Variance

Solution:



Verification of Idle time : 240 Idle Hours @ ₹ 2.25 = ₹ 540 A

Note : Volume V = Efficiency V + Idle time V + Capacity V + Calender Variance.

The above illustration reveals that a diagrammatic solution is somewhat dynamical in nature since the diagrams along with their peripheral components vary in accordance with the changing requirement of the problems. It focusses on all the required variances automatically displaying their nature (i.e. Favourable or Adverse) in the parenthesis of the diagrams. Moreover, the Variances together with their inter-relationship are quite visible all at a glance. These unique facilities are certainly not available in a formula-based solution. The philosophy of using diagrams for Variance Analysis may conjure up those who desire to enjoy multiple advantages associated with it, while solving problems within the shortest possible time.

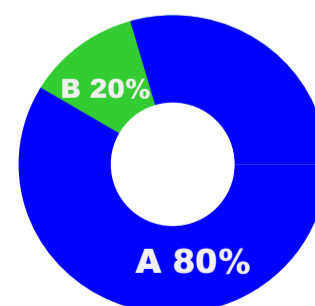


GROUP: II, PAPER:11

# 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

**Major Proposals on GST in Union Budget 2020 - 21**

So far as GST is concerned, the focus of budget is on simplification and curbing tax evasion. A new return regime will happen from April 2020 including SMS based filing of Nil returns, return pre-filing and improved input tax credit. Electronic invoices will check tax evasion while refunds would be easier with so manual interface. The Budget also proposes to impose penalty on fake GST invoices.

The Union Budget for 2020-21 was presented in the Parliament on 1st February, 2020. This year's budget has been knitted around three crucial themes.

Economic development for all, indicated in the Prime Minister's exhortation of "Sabka Saath, Sabka Vikas, Sabka Vishwas". This would entail reforms across swathes of the economy. Simultaneously, it would mean yielding more space for the private sector. Together, they would ensure higher productivity and greater efficiency.

On GST, the FM stated that true to the vision for the historic structural reform, the Goods and Services Tax has been gradually maturing into a tax that has integrated the country economically. It has consolidated numerous taxes and cesses to one tax and facilitated formalization of economy. It has resulted in the efficiency gains in logistic and transport sectors. The turnaround time for trucks has witnessed a substantial reduction to the tune of 20% due to abolition of check posts in GST. The dreaded Inspector-Raj has also vanished.

With GST, the effective tax incidence on almost every commodity has come down substantially. Through several rate reductions, an annual benefit of ` one lakh crore has been extended to consumers. It amounts to 10% reduction in overall tax incidence. An average household now saves about 4% on its monthly spends on account of reduced GST rates.

However, during this phase of maturing, GST did face certain challenges. This was natural as transition was daunting. GST Council has been proactive in resolving issues during transition.

The Budget at least gives a direction as to where we are headed for. While there is a U-turn in many cases, phasing out of exemptions, shifting tax an dividend etc will suddenly impact many. The moving away from exemption may also be tried in GST. It also indicates that Government does not want to be in business and want to invite private investment and expenditure.

So far as GST is concerned, the focus of budget is on simplification and curbing tax evasion. A new return regime will happen from April 2020 including SMS based filing of Nil returns, return pre-filing and improved input tax credit. Electronic invoices will check tax evasion while refunds would be easier with so manual interface. The Budget also proposes to impose penalty on fake GST invoices.

There are certain changes proposed in GST to facilitate trade and consumers, improving compliances and other legislative changes including few retrospective changes to give effect to GST Council's decisions.

**Major proposals on GST in Union Budget 2020-21**

Following are the highlights the Union Budget 2020-21 in relation to goods and services tax (GST):

- Simplified GST return shall be implemented from 1st April, 2020 to make return filing simple with features like SMS based filing for nil return, return pre-filing, improved input tax credit flow and overall simplification.
- Refund process to be fully automated.
- Electronic invoice is another innovation wherein critical information shall be captured electronically in a centralized system; to be implemented in a phased manner starting from this month itself on optional basis.

- Aadhaar based verification of taxpayers to be introduced to help in weeding out dummy or non-existent units.
- Dynamic QR-code is proposed for consumer invoices; GST parameters to be captured when payment for purchases is made through the QR-code.
- A system of cash reward is envisaged to incentivise customers to seek invoice. Deep data analytics and AI tools are being used for crackdown on GST input tax credit, refund, and other frauds and to identify all those who are trying to game the system.
- Invoice and input tax credit matching is being done wherein returns having mismatch more than 10 percent or above a threshold are identified and pursued.
- GST rate structure to be deliberated so as to address issues like inverted duty structure
- The last date of taking the input tax credit to be the due date of the September return of the subsequent financial year to which the debit note pertains.
- The provisions of cancellation of registration to be modified to allow those cases wherein a person had obtained their registration voluntarily.
- Extension of the application period for 'revocation of cancellation of registration' upon 'sufficient cause being shown' and 'for reasons recorded in writing', the time period can be extended as follows:
  - a) Upto 30 days - by Additional Commissioner or Joint Commissioner
  - b) Further period of 30 days after (a) above - by Commissioner
- The Government to be empowered to specify certain categories of services or supplies in respect of which a tax invoice is to be issued within the prescribed time and manner.
- TDS certificate to be furnished in prescribed form and manner. The specific provisions for the certificate have been removed from the law. The power has been delegated to the Government to specify form and manner in which such certificate is to be issued.
- The provisions for Appellate Tribunal and its benches thereof to be made applicable in the Union Territories of Jammu and Kashmir and Ladakh.
- The Government to be given the power to penalize the beneficiary (if established) in such fraudulent transactions to the extent of the tax evaded or input tax credit availed.
- The offence of fraudulent availment of input tax credit without invoice or bill cognizable and non-bailable. Further, the prosecution to be extended to the person who retains the benefit of the transactions and at whose instance such transactions are conducted.
- To counter the litigation wherein this aspect had been challenged, a retrospective amendment to be carried out in the transitional provisions to provide for the time limit. This means that the statute after the amendment allows the Government to specify the time and manner of availment of input tax credit.
- Retrospective exemption from central tax to be provided on supply of fishmeal, during the period from the 1st day of July, 2017 up to 30th day of September, 2019 (both days inclusive). It further propose to retrospectively levy central tax at the reduced rate of six per cent on supply of pulley, wheels and other parts (falling under heading 8483) and used as parts of agricultural machinery of headings 8432, 8433 and 8436, during the period from the 1st day of July, 2017 up to 31st day of December, 2018 (both days inclusive). It also propose to provide that no refund shall be made of the tax which has already been collected.
- The non applicability of refund under inverted duty structure for tobacco and manufactured tobacco substitutes had been introduced from 30th September, 2017. This is proposed to be given a retrospective effect from 1st July, 2017.

GST remains the single largest source of tax revenue in this year's Budget, with revenue collections estimated at ₹ 6.91 trillion. However, the budgeted CGST revenue is slightly less than estimates for the previous year (2018-19), where it stood at ₹ 7.44 trillion. The Budget proposes a CGST collection of ₹ 58 lakhs crores and IGST of ₹ 11.05 crores in 2020-21 with 13% growth target.

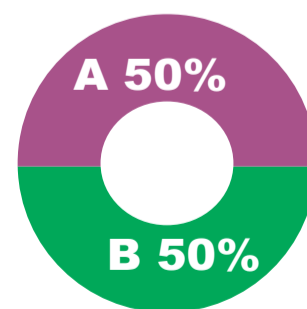




**GROUP: II, PAPER:12**  
**COMPANY**  
**ACCOUNTS & AUDIT (CAA)**

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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**

Today let us discuss about **INTERNAL CHECK**.

Definition: It is an arrangement of accounting routine that errors and frauds are automatically prevented or discovered by the very operation of the book-keeping itself. It is an arrangement of staff duties whereby no one person is allowed to carry through and to record every aspect of a transaction.

**Objectives:**

- 1) To enhance the efficiency of the employees
- 2) To avoid any omission of any transaction from being recorded
- 3) To pin down to definite person responsibility of particular default
- 4) To reduce possibility of fraud & error

But now the objective is broadened to accomplish more objectives as:

- 1) To ensure that accounting system produces reliable information
- 2) To provide protection to the resources
- 3) To facilitate control of business

**Guidelines:**

- 1) There should be proper division of responsibilities among staff
- 2) The duties of each should be well defined
- 3) There should be internal transfer at regular intervals
- 4) Receipts and payments of cash should be controlled very carefully
- 5) The self balancing ledger should be used
- 6) Proper reporting network should be activated

**Advantages:**

- 1) The chances of frauds are remote
- 2) Any dishonesty by any member of staff can be easily detected and rectified
- 3) A particular staff can be held responsible for irregularity
- 4) The chances of error are reduced
- 5) It puts moral check
- 6) It ensures greater efficiency
- 7) It facilitates the work of auditor

**Limitations:**

- 1) It can be applied to a relatively large concern
- 2) The auditor may not carry detailed check relying on internal check, may lead to undisclosed fraud/error
- 3) If the employees join hands the fraud cannot be detected

**Auditor's duty:**

Operation of efficient internal check may help auditor to a great extent, but it will not reduce his/her responsibility. He/she must make sure the effectiveness of internal check and not rely blindly.

She/he must carry on test checking as usual.

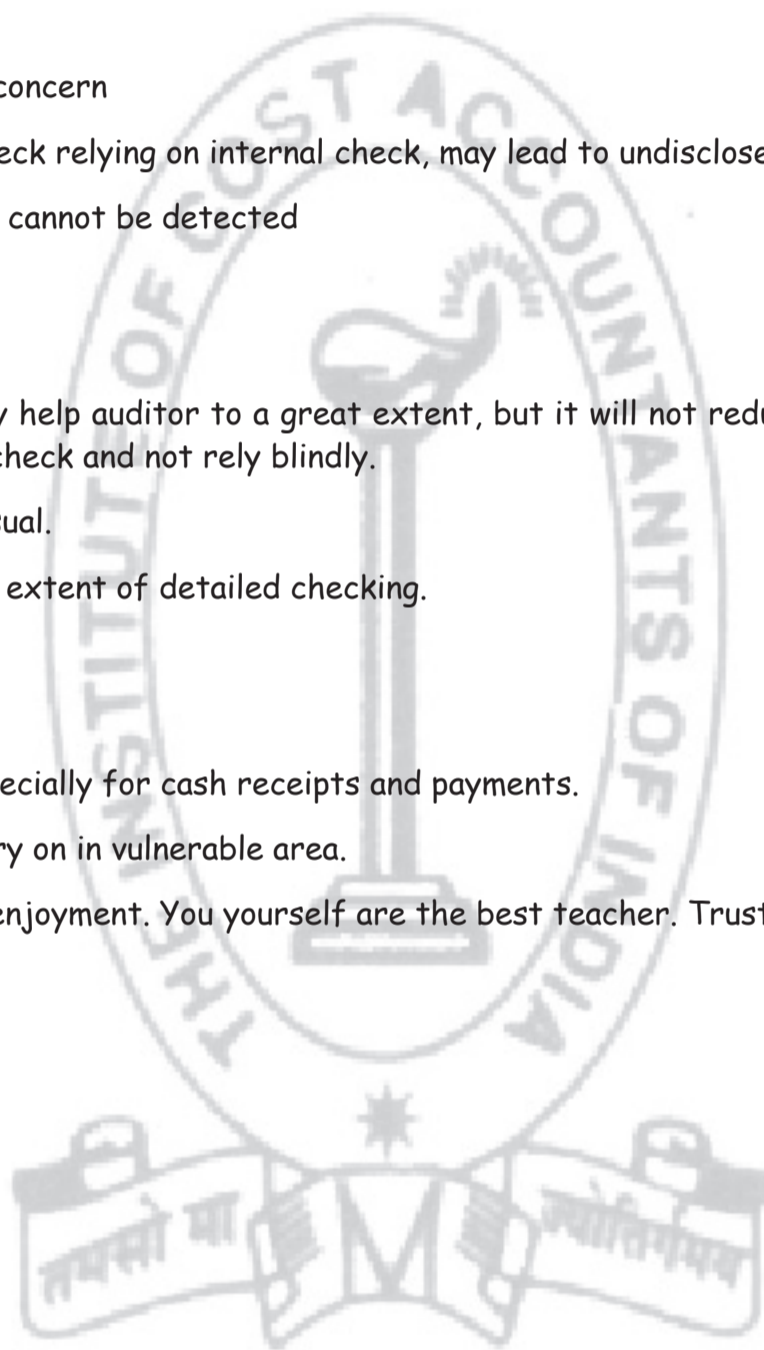
She/he is to use own discretion as to the extent of detailed checking.

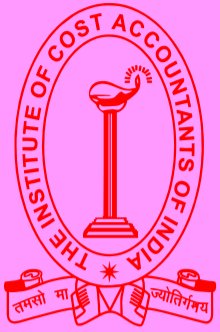
**General rules:**

The internal check should be enforced specially for cash receipts and payments.

Constant change of placement should carry on in vulnerable area.

Students please undertake the study as enjoyment. You yourself are the best teacher. Trust on you.





# 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  
Webinar seasons**

**Solve Exercises  
given in Study Note**

02

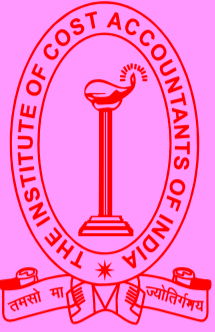
03

**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,

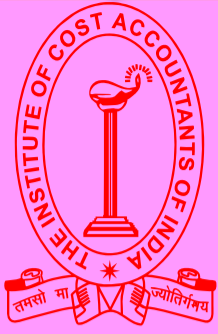
We are very much delighted to receive responses from all of you; for whom our effort is!

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,

Greetings !!!

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](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](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

## Headquarters:

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## Delhi Office:

CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

[www.icmai.in](http://www.icmai.in)



# CMA LEADS

**Last Date for Admission**  
June Exam  
31<sup>st</sup> January  
of the same Calendar Year

December Exam  
31<sup>st</sup> July  
of the same Calendar Year

5,00,000<sup>+</sup>  
Students

75,000<sup>+</sup>  
Members

4 Regional  
Councils

98  
Chapters

9  
Overseas  
Centres

Largest  
CMA body  
in Asia

2nd  
Largest  
CMA body  
in the  
Globe

The Institute of Cost Accountants of India is a premier professional Institute and a statutory body constituted under an Act of Parliament under the administrative control of **Ministry of Corporate Affairs (MCA), Govt. of India** to regulate and develop the profession of Cost and Management Accountancy (CMA) in the country. The Institute established in **1944** is now celebrating the **Platinum Jubilee year** of its glorious presence.

## ADMISSIONS OPEN 2018-2019

✉ [studies@icmai.in](mailto:studies@icmai.in)

☎ **1800 345 0092/1800 110 910**

**For Online Admission**

<http://cmaicmai.in/students/Home.aspx>

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- Four Knowledge Pillars - Management, Strategy, Regulatory Function and Financial Reporting
- Our Motto - Student friendly Syllabus and Industry friendly Students

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Highest Salary Offered **Rs.18 Lakh p.a.** | Average Salary **Rs.7.5 Lakh p.a.**

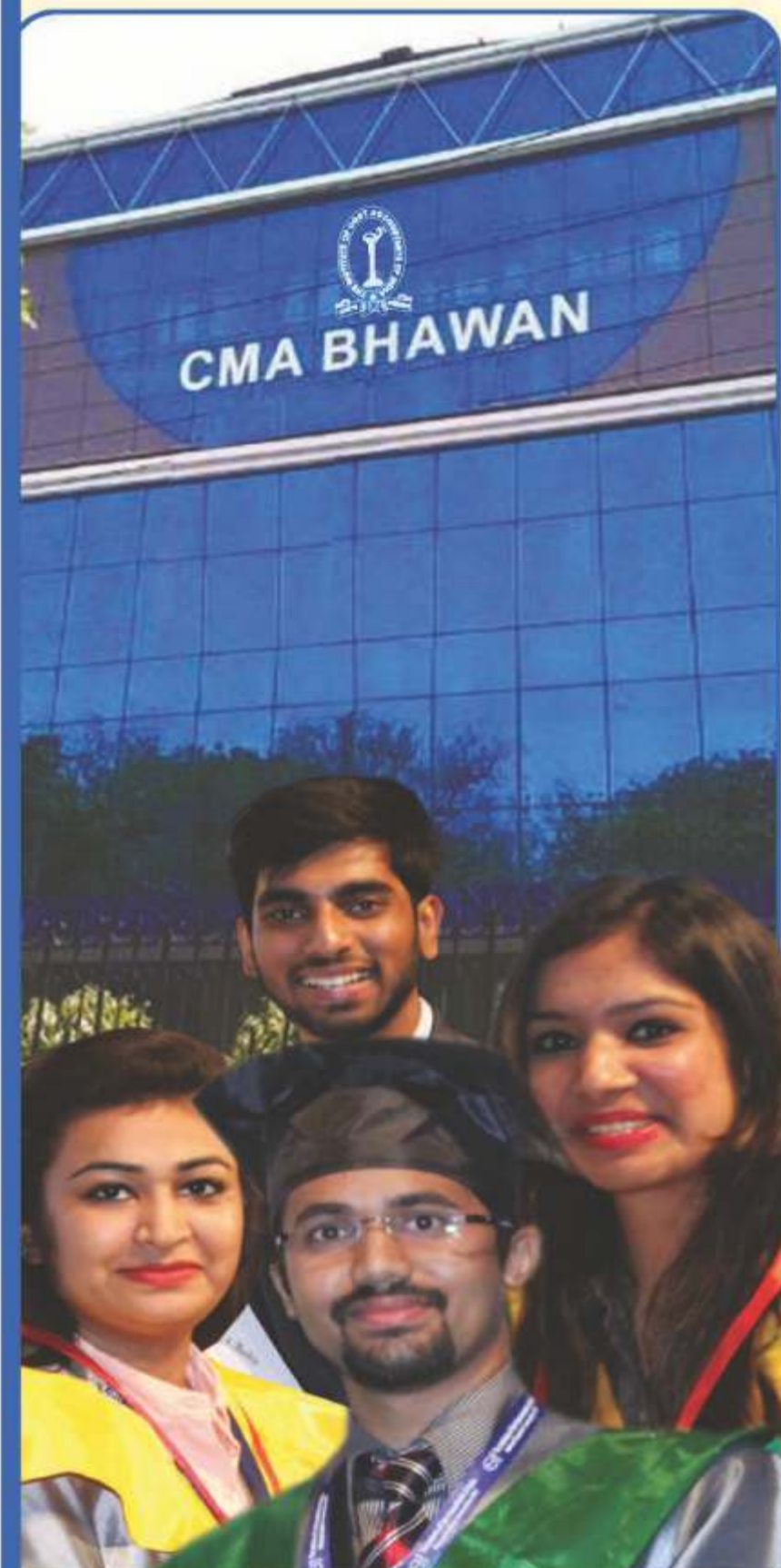
### Few of Our Proud Recruiters



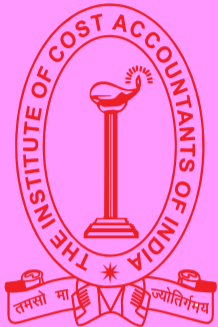
✉ [placement@icmai.in](mailto:placement@icmai.in) / [cpt@icmai.in](mailto:cpt@icmai.in)

☎ **+ 91 33 40364770**

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



# Few Snapshots



Glimpses of Symposium on Global Summit organised by the Institute of Cost Accountants of India, New Delhi on 9th to 11th January 2020, CMA Balwinder Singh, President with Piyush Goyal, Hon'ble Member of Parliament and the Minister of Railways & Commerce and CMA Biswarup Basu, Vice President along with other dignitaries of the Institute



CMA Balwinder Singh, Hon'ble President of the Institute with Shri Anurag Singh Thakur, Hon'ble Member of Parliament and Minister of State for Finance and Corporate Affairs along with CMA P. Raju Iyer and other dignitaries of the Institute



Global Summit (GS-2020) on 11th January, 2020 at New Delhi, Valedictory Session



CMA Balwinder Singh, President of the Institute, CMA Biswarup Basu, Vice President of the Institute and other dignitary publish a Research Bulletin of the Institute



Global Summit (GS-2020) on 10th January, 2020 at New Delhi, Technical Session V





# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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