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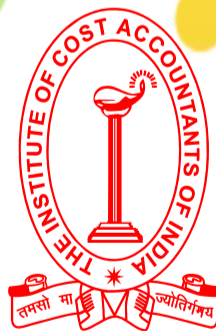


Happy New Year

# CMA Bhawan CMA BHAWAN CMA's Student E - Bulletin

**INTERMEDIATE**

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**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA**

(Statutory body under an Act of Parliament)

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Behind every successful business decision, there is always a CMA

# Message from The Chairman

CMA Manas Kumar Thakur

Chairman,

Training & Education Facilities (T& EF) Committee



**CMA MANAS KUMAR THAKUR**

Chairman, T & EF Committee  
Directorate of Studies  
President (2016-2017)



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## MESSAGE FROM THE CHAIRMAN

Dear Students,

Season's Greetings,

Wishing you all a **Very Happy and Cheerful Professional Year-2019** & I do expect that most of your dreams will come true and you must be more enthusiastic in the very new year we have stepped in.

"Glory lies in the attempt to reach one's goal and not in reaching it"-as told by Mahatma Gandhi, father of the nation.

What an inspiring, authentic way to live! **Gandhi's philosophy** was not purely based on theory; instead he lived by rules of pragmatism. He practiced what he preached every day of his life. I hope you can take some time to display up the invaluable wisdom from the quote, and decide for yourself that how you will exhibit your own gentle, strength today. So, try to focus on making yourself better and not on thinking that you are better. Please remember that success doesn't come to you, you go to it.

Being a member of the CMA fraternity, you must be delighted to know that **59<sup>th</sup> National Cost Convention will be held on 20<sup>th</sup> and 21<sup>st</sup> January, 2019 at J.W. Marriot Hotel, Pune on the Theme-Cost and Management Accountants - "Power of the Past- Force of the Future"**. I hope, all of you must take an active role for the event of your own Institute and watch out the event.

**The ICAI Students' Convention is scheduled to be held in February 2019 on 6<sup>th</sup> Wednesday and 7<sup>th</sup> Thursday at Thrissur, Kerala State, India.** Please keep on watching your Institute's site for the updated information.

The Directorate of Studies is coming out soon with **revised work book**, for your practising purpose. As you are aware that study materials are continuously updated for incorporation of necessary amendments in paper's where those are extremely needed and also the updation is carried out in all the papers with the view of providing you the needed and relevant information. D.O.S. is **restructuring the live webinar session** and the calendar for the same will also be updated shortly. I am really thankful to all those academicians who are regularly updating your knowledge bank by extending their suggestions and input towards your all-round development.

Day's are flowing in their own rhythm as water flows in the river and mind it; it will never be repeated. Likewise, try to grab the opportunities knocking at your door and convert in to reality within the 365 day's of this year and which will prove your worth of existence. Have faith on yourself and start believing that "In a gentle way, you can shake the world".

My good wishes are as always for all of you,

**CMA Manas Kumar Thakur**

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

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



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# KNOWLEDGE Update



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

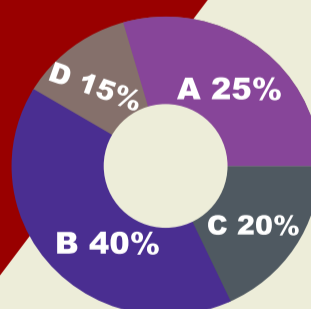


**GROUP: 1, PAPER: 5**

# FINANCIAL ACCOUNTING (FAC)

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## Your Preparation Quick Takes



### Syllabus Structure

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



By the amount of down payment.

2. For down payment:

Mr. Y (Hire vendor) a/c....dr	10000	
To Bank		10000
By the amount of down payment		

3. For installment due:

Machinery a/c....dr (cash price)	10000	
Interest a/c .....dr(interest due)	3000	
To Hire Vendor		13000

4. Payment of installment:

Hire vendor a/c....dr	13000	
To Bank		13000

5. For depreciation of asset :

Depreciation account..... dr	6000	
To Fixed asset		6000

6. Transfer entry

Profit and loss account .....dr	9000	
To Interest account		3000
To Depreciation account		6000

7. For installment due:

Machinery a/c....dr (cash price)	10000	
Interest a/c .....dr(interest due)	2000	
To Hire Vendor		12000

8. Payment of installment:

Hire vendor a/c....dr	12000	
To Bank		12000

9. For depreciation of asset :

Depreciation account..... dr	6000	
To Fixed asset		6000

10. Transfer entry

Profit and loss account .....dr	8000	
To Interest account		2000
To Depreciation account		6000

11. For installment due:

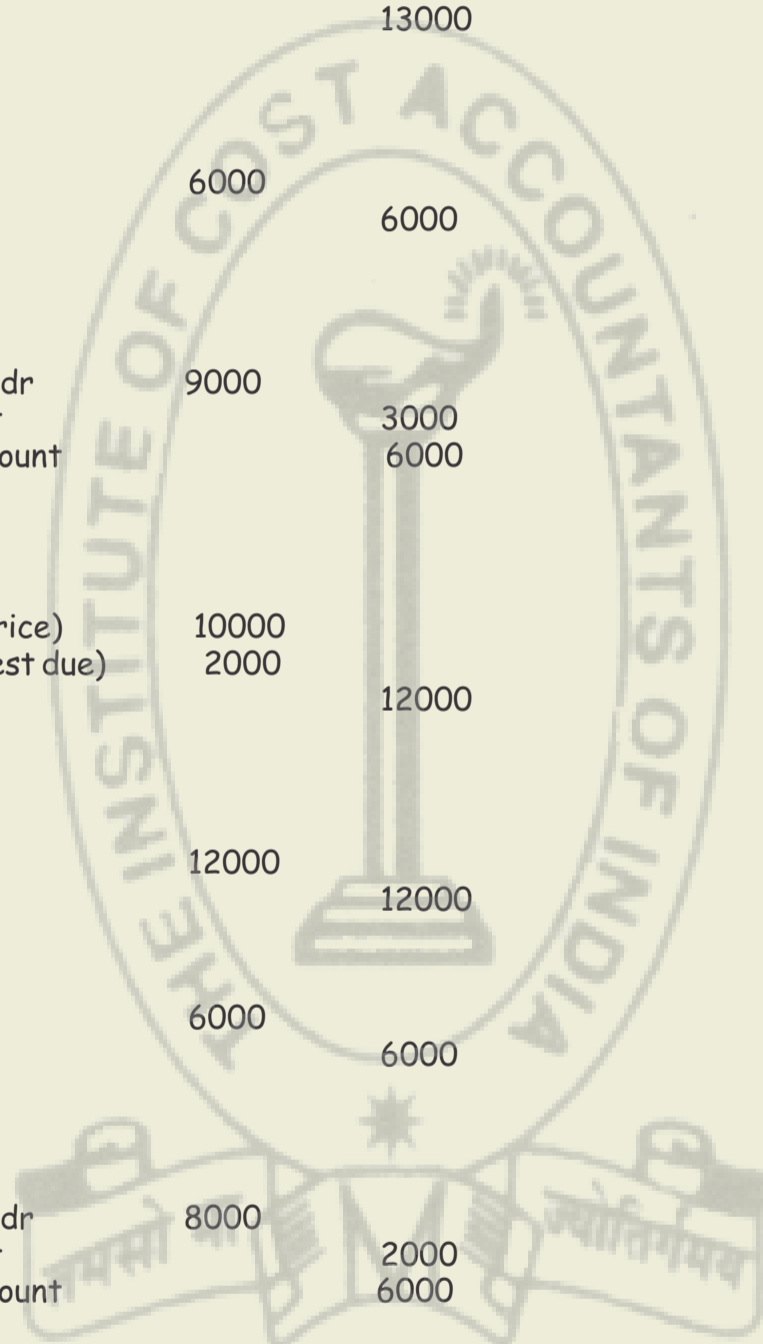
Machinery a/c....dr (cash price)	10000	
Interest a/c .....dr(interest due)	1000	
To Hire Vendor		11000

12. Payment of installment:

Hire vendor a/c....dr	11000	
To Bank		11000

13. For depreciation of asset :

Depreciation account..... dr	6000	
To Fixed asset		6000



## 14. Transfer entry

Profit and loss account .....dr	7000	
To Interest account		1000
To Depreciation account		6000

## Working notes:

Particulars	Amount (Rs)
Cash price	40000
Less down payment	10000
Balance to be paid in 3 installments i.e Rs.10000 each.	30000
Add interest @ 10% for one year on 30000	3000
	33000
Less payment (10000+3000)	13000
	20000
Add interest(@10% on 20000)	2000
	22000
Less payment (10000+2000)	12000
	10000
Add interest (@10% on 10000)	1000
	11000
Less payment of last installment	11000
Depreciation @15% on Rs.40000 under SLM	6000

## Illustration 2:

Now in this illustration we will show how transactions are recorded in the books of hire vendor under Credit Purchase Method: Mr X purchased on 01.04.2015 a machinery from credit ltd. On hire purchase basis. It was agreed to pay the amount as below:  
On signing the agreement Rs. 50000  
First installment on 31.03.2016 Rs.29000  
Second installment on 31.03.2017 Rs. 14500  
Third installment on 31.03.2018 Rs. 13500.  
The above installments include interests @ 8 % pa. X ltd paid all the installments within the due date.  
Pass the necessary journal entries in the books of credit ltd (Hire Vendor).

## Solution:

## Working notes:

Particulars	Amount (Rs)
Third installment	13500
Less interest (13500x8/108)	1000
	12500
Add second installment	14500
Less interest (27000x8/108)	2000
	25000



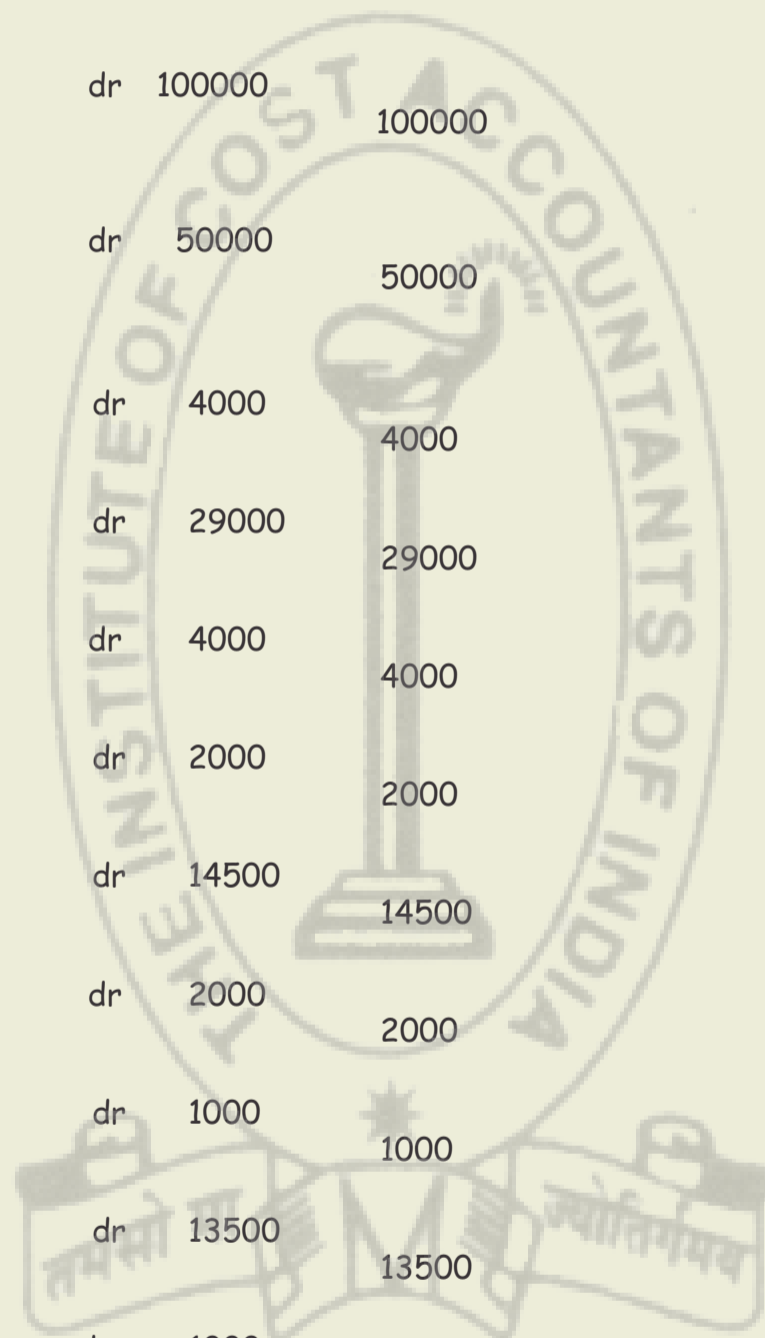
Add first instalment	29000
	54000
Less interest (54000x8/108)	4000
	50000
Add down payment	50000
Cash price	100000
Total interest(1000+2000+4000)	7000

Without interest suspense:

1. X Ltd. a/c..... To HP sales For sale of goods	dr 100000	100000
2. Bank a/c..... To X Ltd For down payment	dr 50000	50000
3. X Ltd To Interest	dr 4000	4000
4. Bank a/c To X Ltd	dr 29000	29000
5. Interest a/c To P/L	dr 4000	4000
6. X Ltd To Interest	dr 2000	2000
7. Bank a/c To X Ltd	dr 14500	14500
8. Interest a/c To P/L	dr 2000	2000
9. X Ltd To Interest	dr 1000	1000
10. Bank a/c To X Ltd	dr 13500	13500
11. Interest a/c To P/L	dr 1000	1000

With interest suspense:

1. X Ltd To HP Sales To interest suspense	dr 107000	100000 7000
2. Bank a/c..... To X Ltd For down payment	dr 50000	50000
3. Interest suspense To Interest	dr 4000	4000



4. Bank a/c To X ltd	dr	29000	29000
5. Interest a/c To P/L	dr	4000	4000
6. Interest suspense To Interest	dr	2000	2000
7. Bank a/c To X ltd	dr	14500	14500
8. Interest a/c To P/L	dr	2000	2000
9. Interest suspense To Interest	dr	1000	1000
10. Bank a/c To X ltd	dr	13500	13500
11. Interest a/c To P/L	dr	1000	1000

In the next issue we will see the cases of repossession.





**GROUP: 1, PAPER: 6**

# LAWS & ETHICS

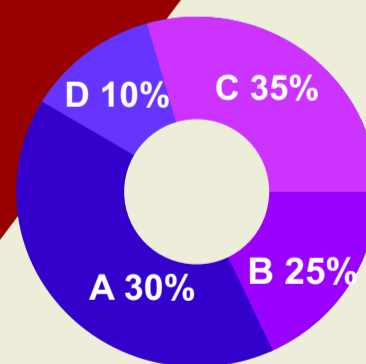
(LNE)

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Your Preparation Quick Takes



### Syllabus Structure

A Commercial Laws 30%

B Industrial Laws 25%

C Corporate Law 35%

D Ethics 10%

**Learning Objectives:**

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

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

**LAW & ETHICS**

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

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

**In this issue let us start with Payment of Gratuity Act, 1972**

Let us remember one thing. When an employee joins a service his/her service is bound to come to an end. That can be due to retirement or on superannuation or on resignation or on termination of service.

The next question that comes to mind is - **What is Gratuity ?** Gratuity is simply a payment made to the employee on retirement or discharge from service. Such gratuity payment is in addition to the other retiral benefits payable to such employees - engaged in factories , mines, oilfields, plantations, ports, railway companies, shops and other establishments or other organisations connected to or incidental thereto. The gratuity payment is actually a social security benefit in the form of a lump sum payment in consideration of the past services rendered by the employee which comes as a relief to the retired employee or to the family members of the employee who dies in harness (during his service).

The above ,now raises many questions in our mind - such as -

**When Grauity is payable .** Section 4(1) of the Payment of Gratuity Act,1972 provides that gratuity is payable to an employee on the termination of his employment , after he has rendered continuous service for not less than 5 years on his Superannuation , on his Retirement or on his resignation or on the death or disablement due to accident or disease.

It must be remember that completion of continuous service is not necessary where the termination of the employment of the employee is due to death or disablement . In case of death the gratuity payable, shall be paid to the nominee or otherwise to the heirs where no nomination was made.

Section 4(2) of the Payment of Gratuity Act,1972 provides that for every completed year of service or part thereof in excess of 6 months, the employer shall pay gratuity to an employee at the rate of 15 days wages based on the rate of wages last drawn by the concerned employee.

In the case of piece-rated employee , daily wages shall be computed on th average of total wages received by theconcerned employee for a period of 3 months immediately preceding the termination of his employment ( the wages paid for any overtime work, shall not be taken into account.

For employees employed in seasonal establishment, the employer shall pay gratuity at therate of 7 days wages for each season.

Section 4(3) of the Payment of Gratuity Act,1972 provides that the amount of gratuity payable to an employee shall not exceed 20 months wages.

Section 4(4) of the Payment of Gratuity Act,1972 provides that for the purpose of computing the gratuity payable to an employee who is employed - after his disablement, on reduced wages, his wages for the period preceding his disablement shall be taken to be the wages received by him during that period and his wages for the period subsequent to his disablement shall be thewages so reduced.

Section 4(5) of the Payment of Gratuity Act,1972 provides that nothing in this section shall affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with employer.

Please remember that an **employer has the right to forfeit payment of gratuity** under the following circumstances as laid in Section 4(6) of the Payment of Gratuity Act,1972 :

1. Where the services have been terminated for any act, wilful omission or negligence resulting in damage or loss, or destruction of property belonging to the employer. The amount forfeited shall be to the extent of the damage or loss so caused.
2. The gratuity payable to an employee may be wholly or partially forfeited if :
  - a) the services of such employee have been terminated for his riotous or disorderly conduct or for any other act of violence on his part ; or
  - b) if the services of such employee have been terminated for any act which constitutes an offence involving moral turpitude , provided that, such offence is committed by him in the course of his employment.

We therefore see that the right of receiving gratuity by the employee is his statutory right and therefore once it is eligible to receive the gratuity , the employee is entitled to receive the same unless otherwise restricted by the provisions of law.

So, we must now know about the **Calculation of the Amount**



**of Gratuity Payable :**

Gratuity is payable on the basis of the continuous service rendered by the employee, for every completed year of service or part thereof in excess of 6 months, at the rate of 15 days wages last drawn.

The maximum amount of gratuity allowed under the Act is Rs.10 lakhs with effect from 08-04-2010.

**The formula for Calculation of Gratuity is = Last Wage Drawn x 15 divided by Completed Years of Service. ( In calculation of Gratuity, One Month is taken as 26 days. )**

Section 7 of the Payment of Gratuity Act, 1972 prescribes the **procedure for determination of the amount of gratuity**. The section lays that as soon as the gratuity becomes payable, the employer shall, whether the employee has made an application or not, determine the amount of gratuity.

Thereafter, the employer has to give notice (specifying the amount of gratuity so determined in Form L), to the person to whom the gratuity is payable and also to the Controlling Authority.

The employer shall arrange to pay the amount of gratuity within 30 days from the date of its becoming payable to the person to whom it is payable. ( If it is not paid within the stipulated period, the employer is liable to pay interest at the rate of 10 per cent per annum. However, if the payment is delayed because of the fault of the employee and the employer has obtained permission in writing from the Controlling Authority for the delayed payment, for such reason, no interest is payable.

When the **claim for gratuity is not found admissible**, a **Notice in Form 'M'** is to be issued to the Applicant Employee /Nominee or legal heir, as the case may be. The reason why the claim for gratuity is not considered admissible has to be specified and this copy of notice shall have to be endorsed by the Controlling Authority.

Rule 7(1) provides that an employee who is eligible for payment of gratuity or any authorized person, under the Act shall apply in writing in Form 'I' to the employer, ordinarily within 30 days from the date the gratuity became payable. In those cases where the date of superannuation or retirement is known by the employee, such employee may apply to the employer before 30 days of the date of superannuation or retirement.

Now, within 15 days of the receipt of application under Rule 7 for payment of gratuity, the employer shall :-

A) Issue a **Notice in Form 'L'** to the applicant employee, by personal service duly signed and received / acknowledged or served through Registered Post with Acknowledgement Due, after the claim is verified and found admissible, to the applicant employee or the nominee or the legal heir/s as the case may be. The amount of gratuity payable must be specified and even the date of payment of gratuity must be stated. (Such date of payment has to be not later than the 30<sup>th</sup> day after the date of receipt of the application from the employee.

B) Notice in Form 'M' is issued to the applicant employee, nominee or legal heir/s as applicable, by personal service duly signed and received / acknowledged or served through Registered Post with

Acknowledgement Due, if the claim for gratuity is not found admissible. Here too the reason why the claim for gratuity is not considered admissible must be specified and such notice has to be endorsed by the controlling authority.

In such cases where the payee expresses in writing to the employer, his inability to be present in person on the specified date of payment, the employer shall issue notice in Form 'L' re-fix the date of payment of gratuity.

In case of payment of gratuity to the nominee or legal heir/s, the employer shall ask for necessary evidence or witness for establishing the identity or maintainability of the said claim. In such cases, the time limit specified for issuance of notices shall be operative with effect from the date such witness or evidence appear before the employer.

**Mode of Payment :**

1. Rule 9 provides that the gratuity payable under the Act shall be paid to the eligible employee or nominee or legal heir, as the case may be, in Cash or Bankers' Cheque or Demand Draft, if so desired by the payee.
2. For payment of gratuity of an amount less than Rs.1,000, payment may be made by Postal Money Order after deducting the Postal Money Order Commission paid for such Postal Money Order.
3. Details of payment of gratuity must be intimated by the employer to the Controlling Authority of the area.
4. In case of payment of gratuity to Nominee/s, legal heir/s who are minors, the Controlling Authority shall invest the gratuity amount in Term Deposit with State Bank of India or any of its subsidiaries or any Nationalized Bank for the benefit of such minors.

**Section 8** of the Payment of Gratuity Act, 1972 provides that if the amount of gratuity payable under the Act is not paid by the employer, within the prescribed time to the person entitled to collect the payment, the Controlling Authority shall, upon receipt of an application made to him, by the aggrieved person, issue a certificate for that amount to the Controller and ask him to recover the amount payable together with compound interest thereon at the rate of 9 per cent per annum, from the date of expiry of the prescribed time, as arrears of land revenue and pay the same to the person entitled thereto.

**Section 13** provides that no gratuity payable under this Act shall be liable to attachment in execution of any decree or order of any civil, revenue or criminal court.

**Now let us know about some Important Definitions :**

**Employee :** Section 2(e) of the Act defines the term 'Employee' as any person, other than an apprentice, who is employed for wages, whether the terms of employment are express or implied, in any kind of work, manual or otherwise, in or in connection with the work of a factory, mine, oilfield, plantation, port, railway company, shop or other establishment to which this Act applies, but does not include any such person who holds a post under the Central Government or a State Government and is governed by any other Act or by any rules providing for payment of gratuity. It may be

noted that Teachers in educational institutions are now covered under the provision of the Act.

**Employer :** Section 2 (f) defines the term "Employer" , in relation to any establishment , factory, mine , oilfield, port, Railway Company or shop as -

Any person or authority appointed for the supervision or control of employees :

- ❖ If Belonging to or under the control of the Central Government or a State Government or any one appointed so appointed or the Head of the Ministry or department concerned ;
- ❖ If Belonging to or under the control of any Local Authority or any one appointed so appointed ,the Chief Executive Officer of the Local Authority concerned ;
- ❖ If Belonging to or under the control of the affairs of the establishment, factory, mine, oil field, plantation, port, railway company or shop , any one so appointed whether called a manager, managing director or by any other name

**Family :** Section 2(h) of the Act defines 'Family' in relation to an employee as consisting of :

- ❖ **In case of male employee** - the employee himself, his wife, his children - whether married or unmarried, his dependent parents and the dependent parents of his wife and the widow and children of his predeceased son, if any ;
- ❖ **In case of female employee** - the employee herself, her wife, her children - whether married or unmarried, her dependent parents and the dependent parents of her wife and the widow and children of her predeceased son, if any ;
- ❖ It may be noted that the lawfully adopted child of the employee shall be deemed to be included in the definition of family.

**Retirement :** Section 2 (q) of the Act defines the term 'retirement' as termination of the service of an employee otherwise than on superannuation.

**Superannuation :** Section 2 (r) of the Act defines the term 'Superannuation' as in relation to an employee, the attainment by the employee of such age as is fixed in the contract/conditions of service as the age on the attainment of which the employee shall vacate the employment.

**Wages :** Section 2 (s) of the Act defines 'wages' as all emoluments which are earned by an employee while on duty or on leave in accordance with the terms and conditions of his employment and which are paid or payable to him in cash and includes dearness allowance **but does not include** any bonus, commission, house rent allowance, overtime and any other allowance.

**Continuous Service :** Section 2A of the Act covers continuous service.

- Continuous service means un-interrupted including

service which may be interrupted due to sickness, accident leave, absence from duty without leave, lay-off, strike or lock-out or cessation of work .

- Absence from duty without leave against an order treating the absence as break-in-service , shall not be treated as continuous service.
- Cessation of work due to any fault of the employee shall not be treated as continuous service.
- For employees working in Non-seasonal establishments who **have not** worked for more than 1 year or 6 months, they shall be deemed to be in continuous service under the employer , if :
  - a) During the period of 12 months preceding the date with reference to which calculation is to be made , has actually worked under the employer for not less than -
    - 190 days , in the case of an employee **employed below the ground** in mine or in an establishment which works for less than 6 days a week ; and
    - 240 days in any other case.
  - b) During the period of 6 months preceding the date with reference to which calculation is to be made , has actually worked under the employer for not less than -
    - 95 days , in the case of an employee **employed below the ground** in mine or in an establishment which works for less than 6 days a week ; and
    - 120 days in any other case.

It may be remembered that the number of days on which the employee has actually worked under the employer shall include the days on which -

- He has been laid-off under an agreement or under any applicable law ; or
- He has been on leave with full wages earned in the previous year ; or
- He has been absent due to temporary disablement caused by an accident arising out of and in the course of his employment ; and
- In the case of female employee**, she has been on maternity leave , where the total period of the maternity leave does not exceed 12 weeks.

**For employees working in Seasonal establishments who have not** worked for more than 1 year or 6 months, they shall be deemed to be in continuous service under the employer , for such period if he has actually worked for not less than 75% of the number of days on which the establishment was in operation during such period.

**Disablement :** Disablement means such disablement that incapacitates an employee for the work which he was capable of performing before the accident or disease , resulting in such disablement.

**Nomination :** Section 6 of the Act provides for filing nomination for receiving the gratuity after the death of the employee. Nomination has to be made by an employee who has completed one year of service and such nomination has to be made in Form - F.





GROUP: 1, PAPER: 7

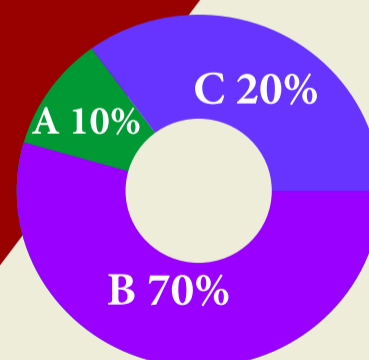
# DIRECT TAXATION (DTX)

CA Vikash Mundhra

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Your Preparation Quick Takes



#### Syllabus Structure

A Income Tax Act Basics 10%

B Heads of Income and Computation of Total Income and Tax Liability 70%

C Administrative Procedures and ICDS 20%

**Learning Objectives:**

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

**Retirement Benefits****Gratuity [Sec. 10(10)]**

Gratuity is a lump sum payment made by an employer to its employee in consideration of his past services when the employment is terminated. Gratuity scheme serves as an instrument of social security to the salaried assessee.

An employee may be covered by Payment of Gratuity Act, 1972 (hereinafter referred as Gratuity Act) or may not be covered by that Act depending on the circumstances given under the said Act.

**Tax Treatments of Gratuity are as under:**

Gratuity received	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(iii)]
2. At the time of retirement to the employee of:	
a) Government	Fully exempted [Sec. 10(10)(i)]
b) Any other Employer	
I Covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(ii): 1. Actual Gratuity received; 2. ₹ 20,00,000; 3. 15 working days <sup>1</sup> salary <sup>2</sup> for every completed year of service <sup>3</sup> [ $\frac{15}{26} * \text{Completed year of service} * \text{Salary p.m.}$ ]
ii) Not covered by Payment of Gratuity Act	Minimum of the following shall be exempted from tax u/s 10(10)(iii) 1. Actual Gratuity received; 2. ₹ 10,00,000; 3. $\frac{1}{2} * \text{Completed year of service}^4 * \text{Average Salary p.m.}^5$

- Seven working days in case of employees of seasonal establishment
- Salary means Basic + DA (forming part of retirement benefit), last drawn  
In case of piece-rated employees, salary shall be calculated by applying average of last three months wages immediately preceding his termination.
- Completed year of service includes any fraction in excess of 6 months.
- Completed year of service ignores any fraction of month.
- Average Salary here means, Basic + DA (forming part of retirement benefit) + Commission (as a fixed percentage on turnover) being last 10 months average salary, immediately preceding the month of retirement.

**Leave Encashment Salary [Sec. 10(10AA)]**

As per service contract and discipline, normally, every employee is allowed certain period of leave (with pay), every year. Such leave may be availed during the year or accumulated by the employee. The accumulated leave lying to the credit of an employee may be availed subsequently or encashed. When an employee receives an amount for waiving leave lying to his credit, such amount is known as leave salary encashment.

**Tax Treatment of leave encashment is as under**



Case	Treatment
1. During service tenure	Fully taxable [Sec. 17(1)(va)]
2. At the time of retirement by employee of:	
a) Government	Exempted [Sec.10(10AA)(i) ]
b) Other Employer	Minimum of the following shall be exempted from tax u/s 10(10AA)(ii): a) Actual amount received; b) ₹ 3,00,000; c) 10 months average salary <sup>1</sup> d) Cash equivalent of 30 days average salary for every completed year of service <sup>2</sup> as reduced by actual leave availed or encashed during the tenure of service. The period of 30 days is the maximum ceiling. If employer allows leave for less than 30 days p.a. then such lesser days shall be considered.
1. Average salary means Basic + DA (forming part of retirement benefit) + Commission (as a fixed percentage on turnover) being last 10 months average salary <b>from the date of retirement</b> . 2. While calculating completed year of service, <u>ignore</u> any fraction of the year.	

**Pension [Sec. 10(10A)]**

Pension, normally means, a periodical payment received by an employee after his retirement. However, on certain occasion, employer allows to withdraw a lump sum amount as the present value of periodical pension. When pension is received periodically by employee, it is known as Uncommuted Pension. On the other hand, pension received in lump sum is known as Commuted pension.

**Tax Treatment of pension is as under**

Cases	Treatment
1. Uncommuted Pension received by any employee	Fully Taxable [Sec. 17(1)(ii)]
2. Commuted Pension (i.e lump sum payment) received by a	
a) Government employee	Fully exempted[Sec.10(10A)(i)]
b) Other employee	
i) If employee receives gratuity	1/3 <sup>rd</sup> of total value of commuted pension, which he is normally entitled, is exempted. [Sec. 10(10A)(iia)]
ii) If employee does not receive gratuity	½ of total value of commuted pension, which he is normally entitled, is exempted. [Sec. 10(10A)(iib)]

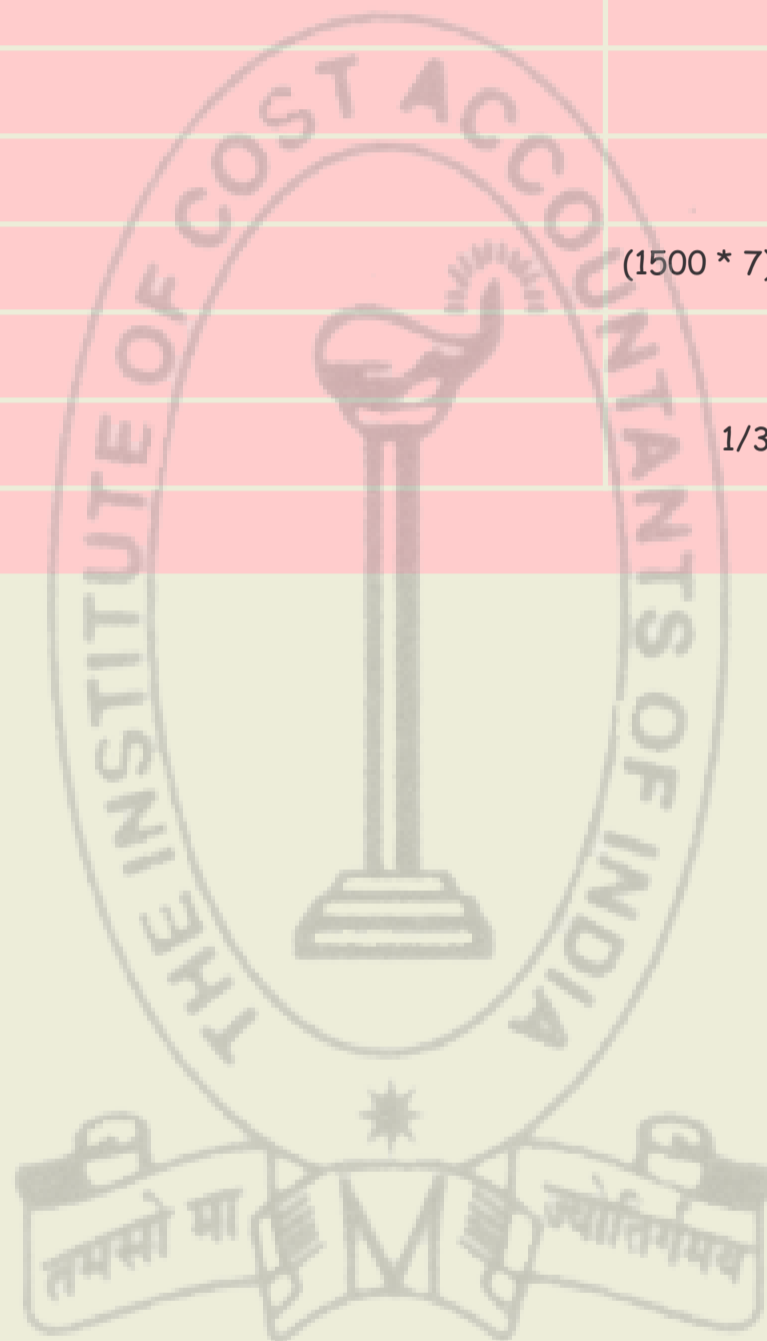
**Illustration**

Mr. Narayan retired from service on 1/6/2018. As on that date, his monthly salary was Basic ₹ 5,000 p.m., Commission on turnover 5%. Total turnover achieved by him during last 10 months (occurred evenly) ₹ 5,00,000. On retirement, after 20 years 6 months of service, he received gratuity ₹ 5,00,000, leave salary ₹ 3,00,000. He is entitled to pension of ₹ 1,500 p.m. On 1/1/2019, he commuted 60% of his pension and received ₹ 90,000. Compute gross salary assuming he is covered by the Payment of Gratuity Act.

**Solution****Computation of Gross Salary of Mr. Narayan for the A.Y.2019-20**

Particulars	Details	Amount	Amount
Basic Salary	5,000 * 2		10,000
Commission on turnover	(5,00,000/10*2)* 5%		5,000
<u>Gratuity</u>		5,00,000	

Less: Minimum shall be exempted u/s 10(10)(ii)			
a) Actual Amount Received	5,00,000		
b) Statutory Amount	20,00,000		
c) $\frac{15}{26} * 20 * ₹ 5,000$	57,692	57,692	4,42,308
<u>Leave Encashment</u>		3,00,000	
Less: Minimum shall be exempted u/s 10(10AA)(ii)			
- Actual Amount Received	3,00,000		
- Statutory Amount	3,00,000		
- $10 * ₹ 7,500$	75,000		
- $1 * 20 * ₹ 7,500$	1,50,000	75,000	2,25,000
<u>Pension</u>			
Uncommuted Pension	$(1500 * 7) + (600 * 3)$		12,300
Commutated Pension Received		90,000	
Less: Exempted u/s 10(10A)(ii)	$\frac{1}{3}^{rd} * 1,50,000$	50,000	40,000
Gross Taxable Salary			7,34,608





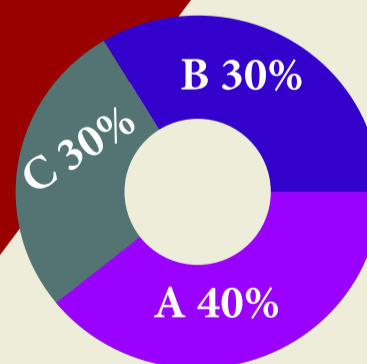
**GROUP: 1, PAPER: 8**

# **COST ACCOUNTING**

**(CAC)**

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**Your Preparation Quick Takes**



### **Syllabus Structure**

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

**Learning Objectives:**

Before taking the examination, it is necessary to read thoroughly the study material first.

After that select the suitable text book or reference books available in the market for your further study and follow them.

Next, follow the question papers of previous years and you will be able to get a general idea about the trend or pattern of questions generally set for this type of examination.

So, if you want to score high marks then along with practical problems you have to answer properly the theoretical part.

Due to lack of theoretical concepts they cannot score good marks not only in the theoretical part but also in tricky problems.

Prepare notes on the theoretical part to improve your performance in the examination.

**Cost Accounting ( CAC)**

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

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

**Some tips based on Experiences -**

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

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

The third chapter is associated with **Cost Book-Keeping**, which includes integrated accounting system also. In the Cost Books, only nominal accounts, e.g., income and expenses, losses and gains etc, and to some extent, real accounts are recorded. Costing Department is concerned with income and expenditure relating to business carried on. Here transactions are entered into the basis of double entry book-keeping principle - every debit must have a corresponding credit. It is generally the responsibility of the Cost Accountant to record the costing transactions. This chapter is very easy to understand but the process is lengthy. In practice different accounts are to be opened, but it is not necessary to give much effort to complete it. Here Cost Department maintains separate ledger quite distinct from financial accounting, maintaining their books of accounts.

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



of incomplete contract. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. Make sure that you are familiar with various methods/formulae for different stage of completion and share of profit. Students are also advised to be thorough on the topic "Profit on incomplete contracts based on SSAP - 9". Various problems on 'exaltation clause' used to be set at this level of examination. Generally full credit is expected by solving the problem.

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

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

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

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

Now here we like to solve a problem relating to **Integrated Costing** to fulfill two different objectives of financial as well as costing system within the same accounting practices.

**Problem:**

Dutta Enterprises operates an integral system of accounting. You are required to pass the journal entries for the following transactions that took place for the year ended 30.06.2018:

(Narrations are not required)

Raw material purchased ( 50 % on credit)	600000
Materials issued to production	400000
Wages paid ( 15 % direct )	200000
Wages charged to production	100000
Factory overhead incurred	80000
Factory overhead charged to production	100000
Selling & distribution overheads incurred	40000
Finished goods at cost	500000
Sales ( 50% credit)	750000
Closing stock	----

Received from debtors	200000
Payment to creditors	200000

The problem can be solved in the following manner:-

Journal Entries under Integral System :

	Rs.	Rs.
Stores Ledger Control A/C. ....Dr. To Sundry Creditors A/C. To Cash or Bank A/C.	600000	300000 300000
Work-in-Progress Control A/C. ....Dr. To Store Ledger Control A/C.	400000	400000
Wages Control A/C. ....Dr. To Cash	200000	200000
Work-in-Progress Control A/C. ....Dr. Factory Overhead Control A/C. ....Dr. To Wages Control A/C.	100000 100000	200000
Factory Overhead Control A/C. ....Dr. To Cash or Bank A/C.	80000	80000
Work-in-Progress Control A/C. ....Dr. To Factory Overhead Control A/C.	100000	100000
Selling & Distribution Overhead Control A/C. ....Dr. To Cash or Bank A/C.	40000	40000
Finished Goods Ledger Control A/C. ....Dr. To Work-in-Progress Control A/C.	500000	500000
Cost of Sales A/C. ....Dr. To Finished Goods Ledger Control A/C. To Selling & Distribution Overhead Control A/C.	540000	500000 40000
Sundry Debtors A/C. ....Dr. Cash or Bank A/C. ....Dr. To Sales A/C.	375000 375000	750000
Cash or Bank A/C. ....Dr. To Sundry Debtors A/C.	200000	200000
Sundry Creditors A/C. ....Dr. To Cash or Bank A/C.	200000	200000



GROUP: 2, PAPER: 9, Part- i

# OPERATIONS

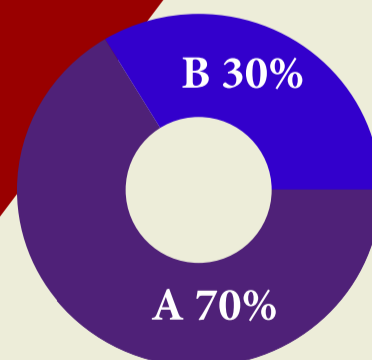
MANAGEMENT & STRATEGIC

MANAGEMENT (OMSM)

Operation Management

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## Your Preparation Quick Takes



### Syllabus Structure

A Operations Management 70%

B Strategic Management 30%

**Learning Objectives:**

Operations Management develops skills in problem solving, project management, communication, and managing effectively in team-based work environments. Eventually, student's ability for leadership positions in the production and service industries gets increased.

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

**Operations Management**

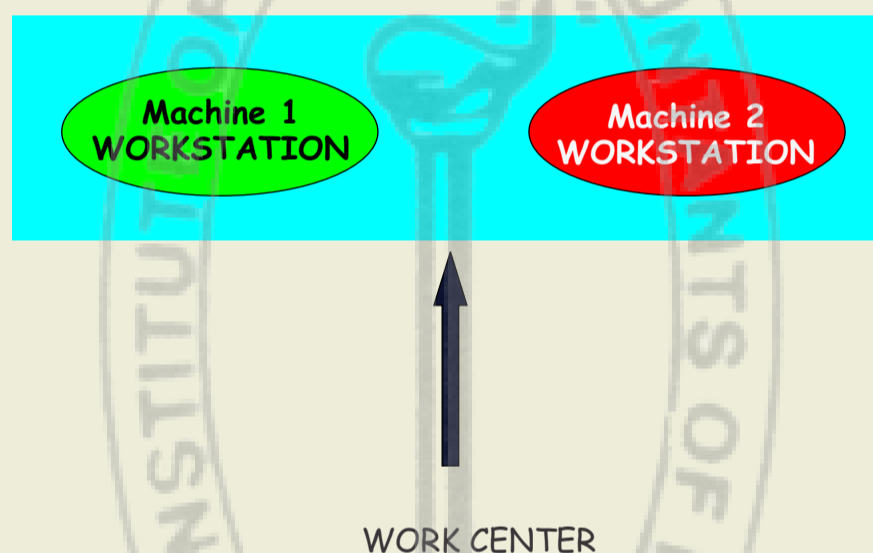
In this issue let me extend our discussions on Production Planning and Control with Sequencing.

When more than one job is assigned to a machine or activity, the operator needs to know the order in which to process the jobs. The process of prioritizing jobs is called Sequencing.

Although Loading decisions determine the machines or work centers that will be used to process specific jobs, they do not indicate the order in which the jobs waiting at a given work center are to be processed. For this Sequencing is required.

Sequencing decisions determine

- i) Order in which jobs are processed at various work centers;
- ii) Order in which jobs are processed at individual workstations within the work centers;



Workstation is an area where one or a few workers and/or machines perform similar work.

If work centers are highly loaded and if all jobs require the same amount of processing time, sequencing presents no particular difficulties. However for heavily loaded work centers the order of processing can be very important in terms of costs associated with jobs waiting for processing and in terms of idle time at the work centers.

After the work center has been loaded (i.e. after identifying specific jobs which are to be processed in a work center) dispatching of jobs is carried out according to Priority Rules.

Priority rules are simple heuristics used to select the order in which the jobs will be processed. Priority rules can be classified as either local or global. Local priority rules take into account information pertaining only to a single workstation. Global priority rules take into account information pertaining to multiple workstation.

Some of the most common priority rules are:

**First Come First Served (FCFS):** Jobs are run in the order in which they are received;

**Shortest Operations Time (SOT):** Run the job with the shortest completion time first, next shortest second and so on. This is also referred to as Shortest Processing Time (SPT);

**Due Date (DDATE):** Run the jobs in the order of their due dates starting with the job with the earliest due date first;

**Slack Time Remaining (STR):** It is the difference between the time remaining to due date and the remaining processing time. Jobs are scheduled in the order of the slack time remaining with the one having the least slack time remaining scheduled first.

$STR = (\text{Due Date} - \text{Today's date}) - \text{Remaining processing time};$

**Critical Ratio (CR):** It is the ratio between the time remaining and the work remaining. The job with the least critical ratio is scheduled first.



$$CR = \frac{\text{DueDate} - \text{Today sdate}}{\text{RemainingProcessingTime}}$$

If  $CR > 1$ , then the job is ahead of schedule;  
 If  $CR < 1$ , then the job is behind the schedule;  
 If  $CR = 1$ , then the job is exactly on schedule;

Last Come First Served (LCFS): This generally occurs by default. As jobs arrive they are put on top of the stack. The operator usually picks up the job on top to run first;

Longest Processing Time (LPT): Jobs are run as per their processing time, the one with the longest processing time being run first.

FCFS, SOT, DDATE are local priority rules whereas STR, CR are global priority rules.

A number of assumptions apply when using the priority rules:

- The set of jobs is known. No new jobs arrive after processing begins and no jobs are cancelled;
- Set up time is considered negligible;
- Processing time and due dates are fixed;
- There will be no interruption in processing such as machine breakdowns, accidents or worker illness;

Let us apply these rules with the help of an illustration applicable to sequencing of a number (n) of jobs on one machine.

In the following illustration we will see that the completion time (also called Flow Time) of each job will differ depending on its place in the sequence but the overall completion time for the set of jobs (called the makespan) will not change.

Flow time is the time it takes a job to flow through the system.

Makespan is the time it takes for a group of jobs to be completed.

Tardiness (delay) measures the difference between a job's due date and its completion time for jobs completed after their due date.

Illustration: The following table contains information regarding jobs that are to be scheduled through one machine.

Job	Processing time (days)	Due date (days hence)
A	11	16
B	10	15
C	2	12
D	4	20
E	12	30
F	6	10
G	3	5

Draw up the schedule using different priority rules and compare the results.

Ans:

I Scheduling the jobs on First Come First Served (FCFS) basis will result in the following schedule:

Job Sequence	Processing Time (Days)	Due Date (days hence)	Start Date	Finish Date	Delay
A	11	16	0	11	0
B	10	15	11	21	6

C	2	12	21	23	11
D	4	20	23	27	7
E	12	30	27	39	9
F	6	10	39	45	35
G	3	5	45	48	43

Start date of Job A = 0, Finish Date of Job A = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

From the above table it is clear that Job A is completed in time. Jobs B, C, D, E, F, G are delayed and average delay time is

$$\frac{0 \ 6 \ 11 \ 7 \ 9 \ 35 \ 43}{7} \quad 15.86 \text{days}$$

ii) Shortest Operation Time (SOT) method schedules jobs according to their operations time running the one with the shortest operations time first. The result is shown below:

Job Sequence	Processing time (Days)	Due Date (days hence)	Jobs Scheduled First	Start Date	Finish Date	Delay
A	11	16	C	0	2	0
B	10	15	G	2	5	0
C	2	12	D	5	9	0
D	4	20	F	9	15	5
E	12	30	B	15	25	10
F	6	10	A	25	36	20
G	3	5	E	36	48	18

Job C is having the least processing time (2) followed by G(3), D(4), F(6), B(10), A(11) and E(12)

Start date of Job C = 0, Finish Date of Job C = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

From the above table it is clear that Jobs C, G and D are completed in time. Jobs F, B, A, E are delayed and average delay time is

$$\frac{0 \ 0 \ 0 \ 5 \ 10 \ 20 \ 18}{7} \quad 7.57 \text{days}$$

iii) Due Date (DDATE) method schedules jobs with the earliest due date first. Under this method the result is shown below:

Job Sequence	Processing Time (Days)	Due Date (days hence)	Jobs scheduled First	Start Date	Finish Date	Delay
A	11	16	G	0	3	0
B	10	15	F	3	9	0
C	2	12	C	9	11	0
D	4	20	B	11	21	6

E	12	30	A	21	32	16
F	6	10	D	32	36	16
G	3	5	E	36	48	18

Job G is having the earliest due date (5) followed by F(10),C(12),B(15),A(16),D(20) and E(30)

Start date of Job G = 0, Finish Date of Job G = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

From the above table it is clear that Jobs G, F and C are completed in time. Jobs B, A, D, E are delayed and average delay time is

$$\frac{0 + 0 + 6 + 16 + 16 + 18}{7} = 8 \text{ days}$$

iv) Slack Time Remaining (STR) method schedules job on slack time basis with job with least slack time scheduled first.

Slack Time Remaining of a job = (Due date - Today's Date) - Processing time

The result under this method is shown below:

Job Sequence	Processing Time (Days)	Due Date (Days Hence)	Slack Time Remaining	Jobs Scheduled First	Start Date	Finish Date	Delay
A	11	16	5	G	0	3	0
B	10	15	5	F	3	9	0
C	2	12	10	B	9	19	3
D	4	20	16	A	19	30	15
E	12	30	18	C	30	32	20
F	6	10	4	D	32	36	16
G	3	5	2	E	36	48	18

Job G is having the least slack time remaining (2) followed by F(4),B(5),A(5),C(10),D(16) and E(18)

Start date of Job G = 0, Finish Date of Job G = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

Slack time remaining for Job A and B are equal. We have chosen B first than A, as A has less processing time than that required by A. If A is chosen first then Average delay time will come around 10.72 days

From the above table it is clear that Jobs G, F are completed in time. Jobs B, A, C, D, E are delayed and average delay time is

$$\frac{0 + 0 + 3 + 15 + 20 + 16 + 18}{7} = 10.29 \text{ days}$$

v) Critical Ratio (CR) schedules job with least critical ratio first.

$$\text{Critical Ratio of a job} = \frac{\text{Due Date} - \text{Today's Date}}{\text{Remaining Processing Time}}$$

Under this method the result is given below:

Job Sequence	Processing Time (days)	Due Date (days hence)	Critical Ratio	Jobs Scheduled First	Start Date	Finish Date	Delay
A	11	16	1.45	A	0	11	0
B	10	15	1.50	B	11	21	6
C	2	12	6.00	G	21	24	19
D	4	20	5.00	F	24	30	20
E	12	30	2.50	E	30	42	12
F	6	10	1.67	D	42	46	26
G	3	5	1.67	C	46	48	36

Job A is having the least CR (1.45) followed by B(1.50),G(1.67),F(1.67),E(2.5),D(5) and C(6)

Start date of Job A = 0, Finish Date of Job A = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

CR for Job F and G are equal. We have chosen G first than F, as G has less processing time than that required by F. If F is chosen first then Average delay time will come around 17.43 days

From the above table it is clear that Job A is completed in time. Jobs B, G, F, E, D and C are delayed and average delay time is

$$\frac{0 + 6 + 19 + 20 + 12 + 26 + 36}{7} = 17 \text{ days}$$

vi) Last Come First Served (LCFS) schedules jobs on last come first served basis assuming jobs arrive in alphabetic order i.e. A came first and G came last. The result is given below:

Job Sequence	Processing Time (Days)	Due Date (days hence)	Jobs Scheduled First	Start Date	Finish Date	Delay
A	11	16	G	0	3	0
B	10	15	F	3	9	0
C	2	12	E	9	21	0
D	4	20	D	21	25	5
E	12	30	C	25	27	15
F	6	10	B	27	37	22
G	3	5	A	37	48	32

Start date of Job G = 0, Finish Date of Job G = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

From the above table it is clear that Jobs G, F & E are completed in time. Jobs D, C, B, A are delayed and average delay time is

$$\frac{0 + 0 + 0 + 5 + 15 + 22 + 32}{7} = 10.57 \text{ days}$$

vii) Longest Process Time (LPT) schedules jobs with job having longest processing time scheduled first. The result is as follows:



Job Sequence	Processing Time (Days)	Due Date (days hence)	Jobs Scheduled First	Start Daye	Finish Date	Delay
A	11	16	E	0	12	0
B	10	15	A	12	23	7
C	2	12	B	23	33	18
D	4	20	F	33	39	29
E	12	30	D	39	43	23
F	6	10	G	43	46	41
G	3	5	C	46	48	36

Start date of Job E = 0, Finish Date of Job E = 0 + processing time

Start date of subsequent job = Finish date of preceding job.

Finish date of subsequent job = Start date + Processing time.

Delay of a job = Finish date - Due date.

From the above table it is clear that Job E is completed in time. Jobs A, B, F, D, G and C are delayed and average delay time is

$$\frac{0 + 7 + 18 + 29 + 23 + 41 + 36}{7} = 22 \text{ days}$$

The following table is a comparison of different methods:

Scheduling method	Average Delay or Tardiness (days)
FCFS	15.86
SOT	7.57
DDATE	8
STR	10.29
CR	14
LCFS	10.57
LPT	22

In the given case if we schedule jobs under Shortest Operations Time (SOT) method we could achieve least average delay time. Mainspan in all the above cases is 48 days.

#### Suggestions:

This lesson could be used as an aid to teaching in study notes on Scheduling (4.4)—Sequencing rules for single facility. Proper understanding of priority rules is prerequisite to challenge different numerical problems. Attempts are made here to indicate detail computation. Study note are required to be read thoroughly to have a proper understanding on priority problems. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson, Productions and Operations management by R.B. Khanna.



GROUP: 2, PAPER: 9, Part- ii

# OPERATIONS

MANAGEMENT & STRATEGIC

MANAGEMENT (OMSM)

Strategic Management

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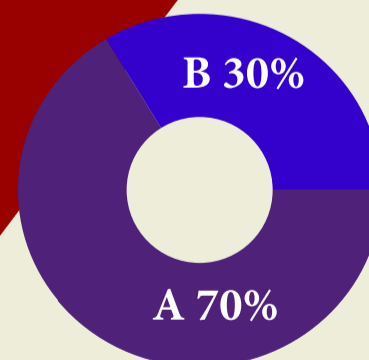
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## Your Preparation Quick Takes



**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** may be defined as the direction and scope of a organisation over the long term, which achieves advantage for the organisation through the configuration of resources within a changing environment and to fulfil stakeholder expectations.

**Relationship between strategy and competitive advantage:**

A company achieves competitive advantage when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm.

The advantage is sustainable if it persists despite the best efforts of competitors to match or surpass this advantage. A company's strategy is its action plan for outperforming its competitors and achieving superior profitability. In effect, it represents a managerial commitment to an integrated array of considered choices about how to compete.

**These include choices about:**

- (i) How to attract and please customers?
- (ii) How to compete against rivals?
- (iii) How to position the company in the market place?
- (iv) How best to respond to changing economic and market conditions?
- (v) How to capitalize on attractive opportunities to grow the business?
- (vi) How to achieve the company's performance targets?

**Strategic Management** is considered as either decision making and planning or a set of activities related to the formulation and implementation of strategies to achieve organisational objectives.

Strategic Management include understanding the strategic position of an organisation, strategic choices for the future and turning strategy into action.

The strategic position is concerned with:

the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders.

**Difference between Strategic Management and Operational Management:**

Strategic Management is ambiguous/uncertain, complex, organisation wide, fundamental and has long term implications. On the other hand, operational management is routine-wise, operationally specific and has short term implications.

**Strategic Management Framework:**

The basic framework of strategic management involves five stages:

**Stage 1:** In this stage, organisation analyse about their present situation in terms of their Strengths, Weaknesses, Opportunities and Threats.

**Stage 2:** In this stage, organisations setup their missions, goals and objectives by analysing where they want to go in future.

Stage 3: In this stage organisation analyses various strategic alternatives to achieve their goals and objectives. The alternatives are analysed in terms of what business portfolio/product mix to adopt, expansion, merger, acquisition and divestment options etc are analysed to achieve the goals.

Stage 4: In this organisations select the best suitable alternatives in line with their SWOT analysis.

Stage 5: This is implementation stage in which organisation implement and execute the selected alternatives to achieve their strategic goals and objectives.

### Strategic Management Framework

Stage 1: Where are we now? Analysis of present situation

Stage 2: Where we want to go? Setting goals and objectives for future

Stage 3: Analyses of various alternatives to achieve the goals and objectives

Stage 4: Selecting best alternatives in line with strengths of organisation

Stage 5: Implementing and executing the selected alternatives and monitoring of the same overtimes

### Importance of Strategic Management:

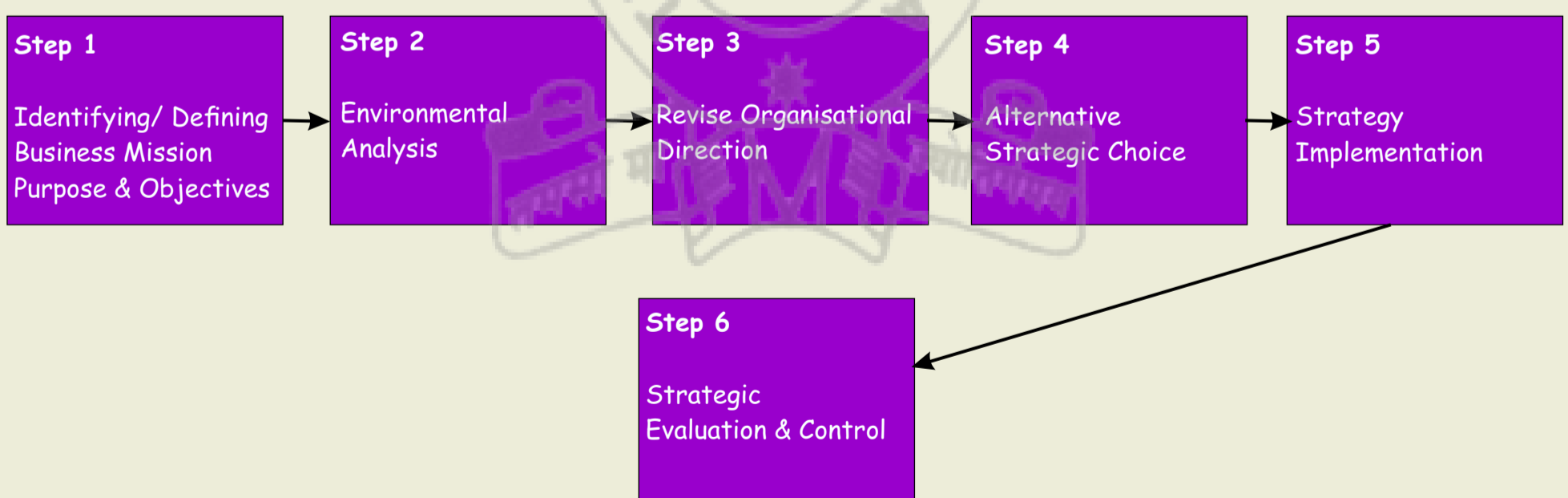
- (i) Discover organisation strengths and weaknesses
- (ii) Identify the available opportunities and possible threats
- (iii) Discover the objectives and goals in line with organisations strengths and available opportunities
- (iv) Implement changes to overcome weaknesses and manage the threats.
- (v) Provide vision/mission or direction to future of organisations
- (vi) Build a dynamic and strong organisation
- (v) Help to achieve growing and stable organisation.

### Strategic management is a process or series of steps:

The basic steps of the strategic management process are (presented in figure)

- (a) Identifying or defining business mission, purpose and objectives,
- (b) Environmental (including global) analysis to identity present and future opportunities and threats,
- (c) Organisational analysis to assess the strengths and weaknesses of the firm,
- (d) Developing alternative strategies and choosing the best strategy,
- (e) Strategy implementation, and
- (f) Strategic evaluation and control.

### Major Steps in Strategic Management Process







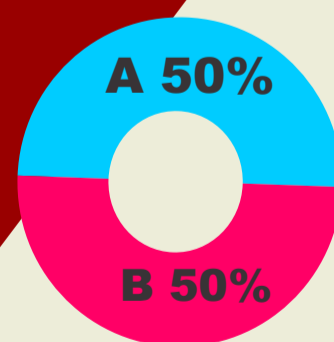
GROUP: 2, PAPER: 10

# COST & MANAGEMENT

## ACCOUNTING AND FINANCIAL MANAGEMENT (CMFM)

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### Your Preparation Quick Takes



#### Syllabus Structure

A Cost & Management Accounting 50%  
B Financial Management 50%

**Learning Objectives:**

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

**Cost & Management Accounting and Financial Management**  
**Section B**

**Chapter 10: Cost of Capital:**

**(c) Cost of Convertible Debt:** These are debt instruments which are convertible into shares at the end of the maturity period at the option of the holder. Thus in this case the redemption value of the instrument is taken to be the higher of the redemption price receivable in cash (including premium) or the value of the shares receivable on conversion. However, all other factors remain the same as mentioned in case of redeemable debt.

Consider the following example:

**Illustration 4:**

PQR Ltd. issued 5,000, 12% Convertible debentures of Rs.100 each maturing in 5 years. At maturity the debenture holders will have the option to convert the debentures into equity shares of the company in the ratio of 1:20 (20 Shares for each debenture). The current market price of the equity shares is Rs. 7 each and expected growth rate in the price of the shares is 5% per annum. Compute the cost of debentures assuming 35% tax rate.

**Solution:**

Determination of Redemption value:

Redemption value is the higher of

(i) Cash price receivable = Rs.100

(ii) Value of equity shares receivable = 20 shares x Rs.  $7(1+0.05)^5$  = 20 shares x Rs. 7 1.27628 = Rs.178.68

So, cost of debenture ( $K_d$ ) =  $\frac{I + \frac{1}{n} \frac{RP - IP}{IP}}{\frac{1}{2} \frac{RP - IP}{IP}} (1-t)$ ; where

I = Interest on debenture = 12% of Rs. 100 = Rs.12

IP = Issue Price = Rs. 110

RP = Redemption Price = Rs. 178.68

n = Period of debenture = 5 Years

t = Tax Rate = 35 % or 0.35

So,  $K_d = \frac{12 + \frac{178.68 - 110}{5}}{\frac{178.68 - 110}{2}} (1 - 0.35)$

Or,  $K_d = 12.93\%$

Note: In practice, a company may procure debt in different form and from different sources, each of which may have separate cost of capital. A weighted average of all such specific sources of debt capital, in that case, should be used as the 'cost of debt' for decision making purpose.

**2. Cost of Preference Share Capital:**

These are shares which enjoy certain preferential right over the equity shareholders as against the payment of dividend and

repayment of capital in the event of liquidation of the company. The cost of preference shares basically includes the preference dividend which is generally paid as a fixed percentage of face value of preference shares.

Preference shares may be of two types - Redeemable and Irredeemable. Accordingly, the cost of each of the above two types of preference shares can be discussed below:

**(a) Cost of Irredeemable Preference Shares:** These are preference shares that are not redeemable after a fixed period of time but rather remained issued till the company goes into liquidation. Cost of irredeemable preference shares is calculated as follows:

Cost of Preference Shares ( $K_p$ ) =  $\frac{D}{NP}$  [when dividend tax is not considered]

$K_p = \frac{D \ 1 \ T}{NP}$  [when dividend tax is considered]

Where-

$K_p$  = Cost of Preference Share Capital;

D = Annual Preference dividend;

T = Dividend tax

NP = Net Proceeds of the share;

Note: Corporate dividend tax or dividend distribution tax is the tax payable by the Indian companies declaring and paying dividend. It is payable u/s 115-O of the Income Tax Act 1961.

Consider the following example:

#### Illustration 5:

M Ltd. issues 10% irredeemable preference share of Rs. 100 each for Rs. 500000. What will be the cost of preference share capital ( $K_p$ ), if preference shares are issued: (i) at par, (ii) at 10% discount and (iii) at 10% premium. Assume (a) there is no dividend distribution tax (b) there is dividend distribution tax @15%.

#### Solution:

Cost of Preference Shares ( $K_p$ )

$K_p = \frac{D}{NP}$  [when dividend tax is not considered]

$K_p = \frac{D \ 1 \ T}{NP}$  [when dividend tax is considered]

Where-

$K_p$  = Cost of Preference Share Capital

D = Annual Preference dividend

T = Dividend tax

NP = Net Proceeds of the share.

#### Calculation for cost of preference share capital

(a) Without Dividend Distribution Tax	(b) With Dividend Distribution Tax
i) Shares issued at par $K_p = \frac{10}{100} = 10$ per cent	(i) Shares issued at par $K_p = \frac{10 \ 1 \ 0.15}{100} = 11.5$ per cent
ii) Shares issued at discount $K_p = \frac{10}{90} = 11.11$ per cent	(ii) Shares issued at discount $K_p = \frac{10 \ 1 \ 0.15}{90} = 12.77$ per cent
iii) Shares issued at premium $K_p = \frac{10}{110} = 9.09$ per cent	(iii) Shares issued at premium $K_p = \frac{10 \ 1 \ 0.15}{110} = 10.45$ per cent

**(b) Cost of Redeemable Preference Shares:** These are preference shares that are redeemable after a fixed period of time. Cost of redeemable preference shares is calculated as follows:

Cost of Preference Shares ( $K_p$ )

$$K_p = \frac{D \frac{1}{n} RP IP}{\frac{1}{2} RP IP} \quad \text{[when dividend tax is not considered]}$$

$$K_p = \frac{D \frac{1}{n} RP IP}{\frac{1}{2} RP IP} \quad \text{[when dividend tax is considered]}$$

Where-

$K_p$  = Cost of Preference Share Capital

D = Annual Preference dividend

T = Dividend tax

RP = Redemption Price

IP = Issue Price

**Illustration 6:**

X Ltd issued 30,000 12% Redeemable Preference Share of Rs.100 each at a premium of Rs. 7 each, redeemable after 10 years at a premium of Rs. 10 each. The floatation cost of each share is Rs. 2.

You are required to calculate cost of preference share capital ignoring dividend tax.

**Solution:**

Given,

D = Annual Preference dividend = Rs. 12

RP = Redemption Price = Rs. 110

IP = Issue Price = Rs. 107 - Rs. 2 = Rs. 105

So, Cost of Redeemable Debt is

$$K_p = \frac{D \frac{1}{n} RP IP}{\frac{1}{2} RP IP} = \frac{12 \frac{1}{10} 110 105}{\frac{1}{2} 110 105} = 11.63\%$$

**Illustration 7:**

In the above problem if dividend distribution tax is given as 15%, calculate the cost of preference share capital.

**Solution:**

Given,

D = Annual Preference dividend = Rs. 12

RP = Redemption Price = Rs. 110

IP = Issue Price = Rs. 107 - Rs. 2 = Rs. 105

T = Dividend distribution tax = 15%

So, Cost of Redeemable Debt is

$$K_p = \frac{D \frac{1}{n} RP IP}{\frac{1}{2} RP IP} = \frac{12 \frac{1}{10} 110 105}{\frac{1}{2} 110 105} = 13.3\%$$

Note: For the A.Y 2019-20, the DDT payable (after grossing up) considering surcharge @12% and Cess @4% is 20.56% approximately.

Note: As per Section 55, no company limited by shares shall, after the commencement of Companies Act 2013, issue any preference shares which are irredeemable.



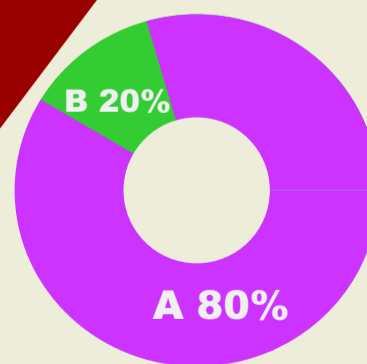


GROUP: 2, PAPER: 11

# INDIRECT TAXATION (ITX)

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Your Preparation Quick Takes



Syllabus Structure  
A GST 80%  
B Customs Laws 20%

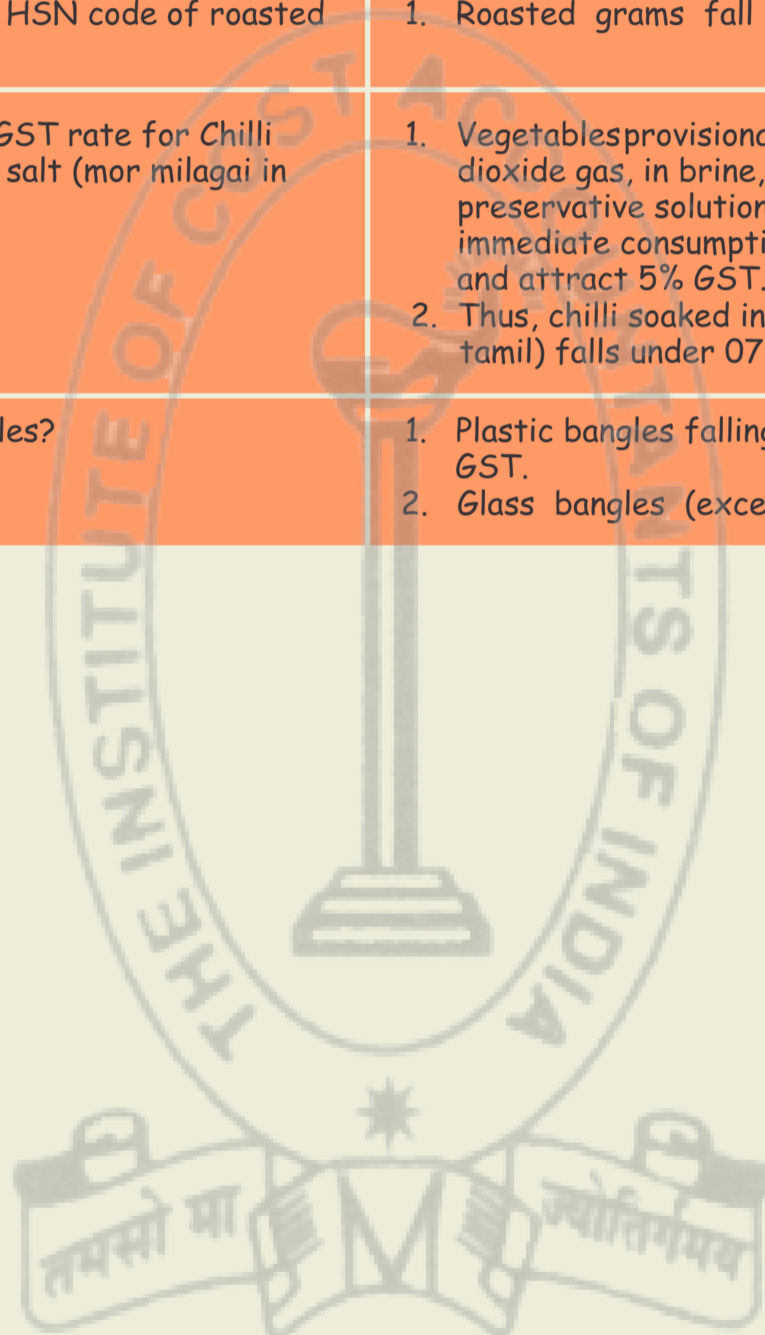
**Learning objectives:**

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

**PROPOSED GST RATE FAQs**

S.No	Question	Answer
1.	What is the HS code for Mahua Flower and its GST rate?	1. Mohua flowers fall under heading 1212 and attract 5% GST.
2.	What is the HS code for Sal Leaves which is used for making plates and its GST rate?	1. Sal leaves are classifiable under heading 0604 and attract Nil GST
3.	What is the HS code for Sabai Grass (a kind of grass used for making of rope, baskets, etc.) and its GST rate?	1. Sabai grass is used as plaiting material and is classifiable under heading 1401 and attracts 5% GST.
4.	What is the GST rate on Hand Made Branded Biri?	1. All biris attract 28% GST. 2. In addition, handmade biris attract NCCD of Re.1 per thousand. Machine made biris attract NCCD of Rs.2 per thousand.
5.	What is the GST rate on sugarcane procured by the sugar mills which is generally fresh and procured directly from the farm?	1. Fresh or chilled sugar cane, falling under heading 1212, attracts Nil GST.
6.	Will 5% GST on raw cotton be paid directly by factories on reverse charge basis and who will pay it?	1. Where the supply of raw cotton is by an agriculturist [as defined under section 2 (7) of the Central Goods and Services Tax Act, 2017] to a registered person, GST will have to be paid by such registered person on reverse charge basis.
7.	What is the GST rate on Electric accumulators?	1. Electric accumulators, including separators therefor, whether or not rectangular (including square) fall under heading 8507 and attract 28% GST.
8.	Can sterilization pouches be treated as aseptic packaging paper? What is the GST rate on sterilization pouches?	1. Sterilisation pouches are different than aseptic packaging paper. 2. Sterilisation pouches fall under 3005 and attract 12% GST.
9.	What is the GST rate on Jute yarn and jute twine? What is GST rate on jute bags and jute cloth?	1. As per the HSN Explanatory Notes, goods of jute fibres measuring 20,000 decitex or less are classifiable under heading 5307 as yarn and attract 5% GST. 2. Goods of jute fibres measuring more than 20,000 decitex are classifiable under heading 5607 as twine and attract 12% GST. 3. Sacks and bags, of a kind used for the packing of goods are classifiable under heading 6305 and attract 5% / 12% GST, depending on their sale value not exceeding or exceeding Rs. 1000 per piece. 4. Woven fabrics of jute are classifiable under heading 5310 and attract 5% GST, with no refund of unutilised ITC.
10.	What is the GST rate on used Rail Wagons?	1. Railway wagons are classifiable under heading 8606 and attract 5% GST, with no refund of unutilised ITC. 2. Therefore, used railway wagons also attract 5% GST.

S.No.	Question	Answer
11.	What is the GST rate and HSN code of Raw and processed wood of Malaysia saal and marandi wood?	1. Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared, is classifiable under heading 4403 and attracts 18% GST.
12.	What is the GST rate on 'Khakhara' (traditional food)?	1. Khakhra falls under "Namkeens, bhujia, mixture, chabena and similar edible preparations in ready for consumption form" which is classifiable under 2106 90 and attracts 12% GST.
13.	Is NCCD leviable on tobacco products from 1 <sup>st</sup> July, 2017? What will be the method of valuation for levy of NCCD?	1. NCCD shall continue to be levied on tobacco and tobacco products at the rates as applicable prior 1 <sup>st</sup> July, 2017. 2. Since NCCD is a duty of excise, the valuation for the purposes of charging NCCD shall be as per the Central Excise Law read with the Valuation Rules under Central Excise Law.
14.	What is the GST rate and HSN code of roasted grams?	1. Roasted grams fall under 2106 90 and attract 12% GST.
15.	What is the HS code and GST rate for Chilli soaked in butter milk with salt (mor milagai in tamil)?	1. Vegetables provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption are classifiable under heading 0711 and attract 5% GST. 2. Thus, chilli soaked in butter milk with salt (mor milagai in tamil) falls under 0711 and attracts 5% GST.
16.	What is GST rate for bangles?	1. Plastic bangles falling under heading 3926 are exempt from GST. 2. Glass bangles (except those made from





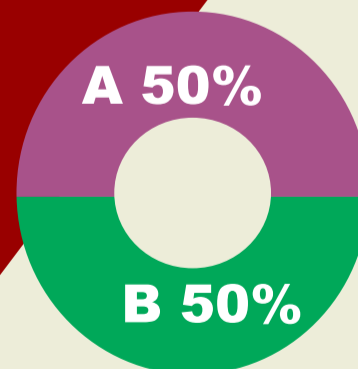
**GROUP: 2, PAPER: 12**

# COMPANY

**ACCOUNTS & AUDIT (CAA)**

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Your Preparation Quick Takes



**Syllabus Structure**

A Accounts of Joint Stock Companies 50%

B Auditing 50%



**Learning Objectives:**

Apply appropriate judgment derived from knowledge of accounting theory, to financial analysis and decision making

Effectively define the needs of the various users of accounting data and demonstrate the ability to communicate such data effectively, as well as the ability to provide knowledgeable recommendations.

Prepare financial statements in accordance with Generally Accepted Accounting Principles.

Demonstrate an understanding of current auditing standards and acceptable practices, as well as the impact of audit risk on the engagement.

**Legal Decisions Pivotal to Auditing**

Important legal decisions to be kept in mind by the examinees. The references are advisable to provide answers of questions whenever necessity arises. Citation of legal decisions carries value of answers.

Let us discuss some important cases and legal decisions thereof

**1. Leeds Estate Building & Investment Co. V. Shepherd (1887)**

- The company went into voluntary liquidation and an action was brought by the company against the directors, the manager and the auditors to hold them liable in respect of certain sums paid out of capital for dividend and for the fees and bonuses of the directors and the managers respectively.

Decision - It was held that the auditor was liable for negligence and was called upon to pay the damages to the company. His plea for the ignorance of the provisions of the Articles of Association of the company was also turned out.

**2. Lubbock V. The British Bank of South America (1892)** - The case was instituted by the plaintiff on behalf of himself and the shareholders with a view to restrain them from distribution of this surplus in the form of dividend. They took the plea that it would amount to payment of dividend out of capital.

Decision - If the Articles so permit, a profit made on the sale of a part of the undertaking of a company is available for payment as dividend.

**3. Verner V. General & Commercial Investment Trust Ltd. (1894)** - A suit was brought against the company and its directors restraining them from the distribution of \$23,000 to the shareholders without providing for the depreciation of securities.

Decision - It was held that, although this course might sometimes be imprudent, there was no law which prevented it in all cases and under all circumstances

**4. London & General Bank Ltd. (1895)** - The interest on loans was duly brought into credit in the books but as a matter of fact the interests were never paid. This resulted into heavy losses to the Bank and its consequent failure. The auditor of the Bank was

fully aware of the insufficiency of proper security and that adequate provisions were not made in respect of doubtful debts. The auditor, however, had brought this fact to the notice of directors who refused to alter accounts.

Decision - It was held that the auditor was liable for misfeasance and was liable to refund, by way of damages, the amount of the dividend. One more point was laid down in this case that the auditor is an officer of the company.

**5. Kingston Cotton Mill Co. Ltd. (1896)** - The manager of the company had inflated its profits by deliberate manipulation of the quantities and values of the stock in trade. This fictitious increase in the profit of the company resulted into the payment of dividends out of capital.

The company went into liquidation and its auditor was sued for negligence in having relied upon the stock sheets prepared by the officer of the company and accepting the certificate of the manager as to the correctness of the stock in trade without checking the stock in details. It is to be mentioned that the item of stock in trade was shown in the balance sheet with the note, "As per the Manager's certificate".

Decision - It was held that it was no part of the auditor's duty to take stock of the company unless there is some suspicion. He could not be regarded guilty for negligence by having accepted the certificate with regard to the stock in trade of a responsible officer of the company.

**6. Irish Woolen Co. Ltd. V. Tyson and Others (1990)** - In this case the employees of the company committed frauds. It was done through overvaluation of the stock and book debts and by an understatement of liabilities. The invoices had been suppressed at the date of balance sheet which reduced the amount of purchases and the amount of creditors.

The auditor had done little work of audit for himself and most of the work was performed by his assistants.

Decision - It was held that the auditor would have discovered the understatement of the liabilities had he taken care to call for the statement from the creditors and checked it accordingly with the ledged accounts. Hence he was held liable for the damages on account of this. With regard to taking of stock of the company, it was held that it was not part of the duty of the auditor to take

stock as was held in Kingston Cotton Mills case. With due regard to the facts of the case he was not held liable for the insufficiency of provision for bad debts and the omission of provision for cash discounts and hence not liable for damages on account of this.

**7. Foster V. The New Trinidad Lake Asphalt Company Ltd. (1901)** - The directors took the plea that since it was not recorded in the books and no value was placed on the asset in the books of the company and subsequent income in respect of the same may be taken as a capital profit and it could be distributed as dividend to the shareholders.

Decision- An appreciation in the value of a book debt, taken over by a company at the time of its formation, when realized, cannot be treated as a profit available for dividend, unless such surplus remains after a revaluation of the asset.

**8. The Ammonia Soda Company Ltd. V. Arthur Chamberlain and Other (1918)** - The company brought action against the directors, Mr. Chamberlain and Mr. Cocking, holding them liable for the improper payment of dividends. It was argued that the appreciation in the value of the land as done was not genuine at all. The directors did it simply to write off the previous losses incurred by the company. The loss in the past ought to have been wiped off out of the subsequent profits of the company which has been distributed by way of dividend to the preference shareholders. It demanded the refund of the dividends paid by the directors.

Decision - It is not necessarily illegal for the company to pay dividends out of the profits of the company during a current year without making good existing deficiencies in paid up capital or without making good debit balance of profit and loss account occasioned by losses in previous years.

It was also held that an increase in the value of fixed assets

arising out of bonafide revaluation may be utilized by the company to wipe off the debit balance of profit and loss account.

**9. Arthur E. Green and Company V. The Central Advance & Discount Corporation Ltd. (1920)** - The company was engaged in the business of money lending. The plaintiff, the auditor of the company, had audited the books for many years. He brought an action against the company for the payment of fees due to him. But the defendants, the company brought forth the counteraction against the auditor for negligence and were ultimately awarded damages caused because of the negligence of the auditor.

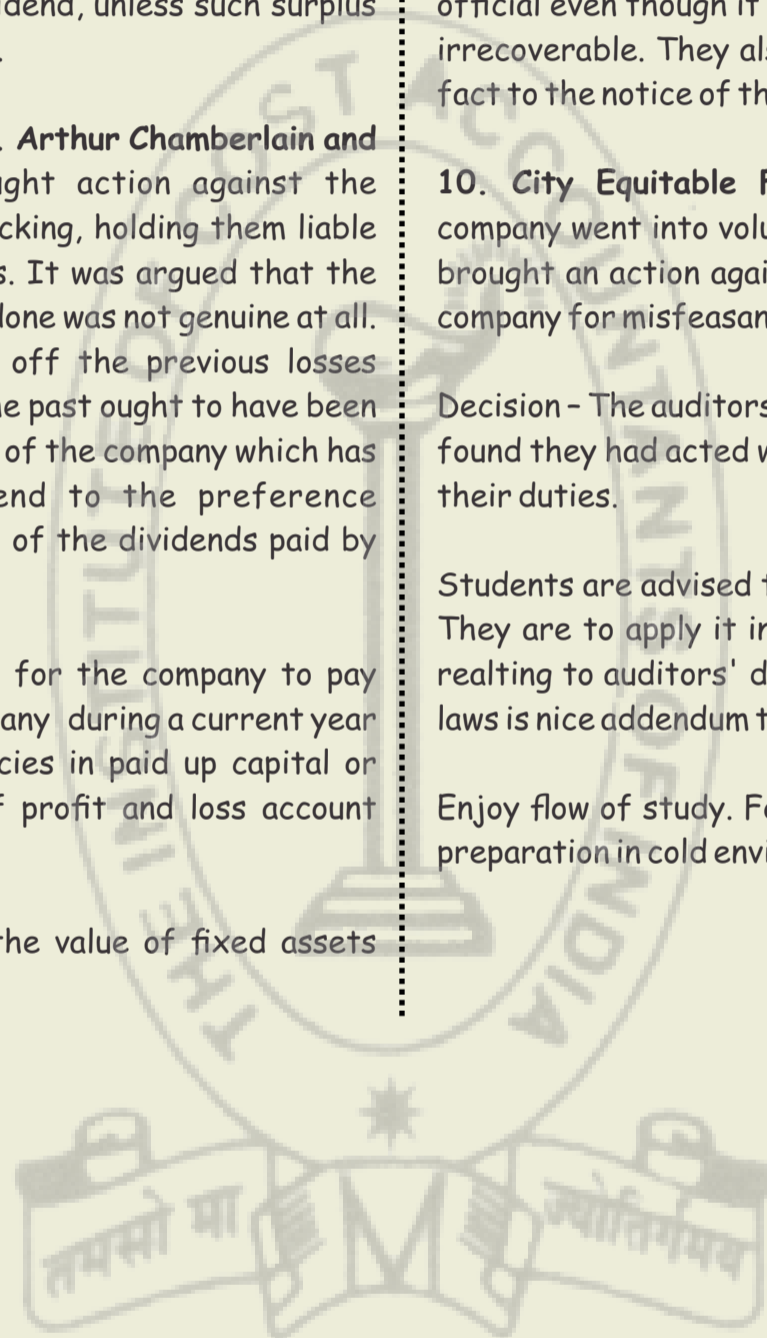
Decision - It was held that the auditor was negligent as they accepted a schedule of bad debts furnished by a responsible official even though it was apparent that some of the debts were irrecoverable. They also failed in their duty by not bringing this fact to the notice of the shareholders of the company.

**10. City Equitable Fire Insurance Co. Ltd. (1924)** - The company went into voluntary liquidation and its official liquidator brought an action against the directors and the auditors of the company for misfeasance.

Decision - The auditors were not held liable of any charge as it was found they had acted with great care and skill in the discharge of their duties.

Students are advised to memorise these case laws and decisions. They are to apply it in examination hall for answering questions relating to auditors' duties and responsibilities. Citation of case laws is nice addendum to answers.

Enjoy flow of study. For June session, you should get warmth of preparation in cold environment. Get blessed.







# The Magnanimity of Decision Making



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## 01.00 The Kid in a Candy Store

Here is a story that I have come across. A kid walked into a candy store with his dad and was bedazzled by the array of treats on offer. "What should I choose? What should I choose? What should I choose?" He asked himself. "Come on son, we don't have all day," his dad said.

**The kid wanted them all, but ended up with nothing because he couldn't choose just one**

"These are my favourites. No wait, these are my favourites." He walked along the aisles, picking up bags and putting them back. He just couldn't make up his mind. "Quick son, make up your mind, we have to go," His impatient dad said.

Frantically, the boy ran around the store, his eyes moving from one shelf to another, but all of the options looked so good and he couldn't make a decision. Eventually, the dad had enough, grabbed his son by the hand and they walked out of the store empty-handed. The young boy had tears in his eyes. He wanted them all, but ended up with nothing because he couldn't choose just one.

We're all that kid. The world is that candy store. We have a myriad of options available to us, but if we don't make a decision about our career, education, relationships, investments, religion or other important issues, we end up empty-handed. Sometimes we worry about making the wrong choice. What if we regret the direction that we take and it's too late to go back?

The bigger danger is that we make no decision at all and end up going nowhere and doing nothing.

## 02.00 Concept

People often say that they find it hard to make decisions. It is a fact that we all have to make decisions all the time, ranging from trivial issues like what to have for lunch, right up to life-changing decisions like where and what to study, and who to marry.

**In its simplest sense, decision-making is the act of choosing between two or more courses of action.**

According to the Oxford Advanced Learner's Dictionary the term decision making means - the process of deciding about

something important, especially in a group of people or in an organization. In its simplest sense, decision-making is the act of choosing between two or more courses of action. In the wider process of problem solving, decision-making involves choosing between possible solutions to a problem. Decisions can be made through either an intuitive or reasoned process, or a combination of the two.

Intuition is using your 'gut feeling' about possible courses of action. Although people talk about it as if it was a magical 'sense', intuition is actually a combination of past experience and your personal values. It is worth taking your intuition into account, because it reflects your learning about life. It is, however, not always based on reality, only your perceptions, many of which may have started in childhood and may not be very mature as a result. It is therefore worth examining your gut feeling closely, especially if you have a very strong feeling against a particular course of action, to see if you can work out why, and whether the feeling is justified.

Reasoning is using the facts and figures in front of you to make decisions. Reasoning has its roots in the here-and-now, and in facts. It can, however, ignore emotional aspects to the decision, and in particular, issues from the past that may affect the way that the decision is implemented.

Intuition is a perfectly acceptable means of making a decision, although it is generally more appropriate when the decision is of a simple nature or needs to be made quickly. More complicated decisions do require a more formal, structured approach, usually involving both intuition and reasoning. It is important to be wary of impulsive reactions to a situation.

## 03.00 Individual Context

Individual decision making has certain pros and cons in comparison to a group. Few of the pros and cons are mentioned below:

### Pros

An individual generally makes prompt decisions. Individuals do not escape responsibilities. They are accountable for their acts and performance. While in a group it is not easy to hold any one person accountable for a wrong decision. Individual decision making saves time, money and energy as individuals make prompt and logical decisions.

### Cons

A group has potential of collecting more and detailed



information as compared to an individual while making decisions.

An individual uses his own intuition and views while making any decision. A group has many members, and hence the decisions are based on collective views and broader perspective. Hence a group tends to make better decisions. A group can discover hidden talent and core competency of employees of an organization.

An individual may not take into consideration every members interest. While a group will take into account interest of all members of an organization.

#### 04.00 Organizational Context

In an organizational context, decision making needs the right kind of information, the complete information and the ability to synthesize and make sense of the information. While the first two attributes depend on external sources, the ability to make informed decisions is a personality trait. Hence, successful CEO's are those who can take into account the different viewpoints and divergent perspectives and arrive at the right decision.

**Successful CEO's are those who can take into account the different viewpoints and divergent perspectives and arrive at the right decision.**

The business landscape is littered with examples of companies that have made strategic errors and these are mostly to do with lack of proper decisions taken by the CEO's and managers in these firms. For instance, the failure of Chrysler and Ford (the automobile majors in the United States) to meet the challenge of competition from Japanese auto majors like Toyota was mostly due to the lack of imaginative decisions that would have responded to the threat in a coherent manner. Of course, it is another matter that these companies (Chrysler in particular) under the stewardship of Lee Iacocca were able to successfully meet the competition by the Japanese because of firm decisions taken by him.

The other aspect that relates to decision making in an organizational context is that there must be complete and accurate information made available to the decision maker. Incomplete and insufficient information leads to poor decisions and wrong choices. Partial information or faulty information often leads to "analysis paralysis" which is another term for poor decision making abilities.

Finally, even with reliable and accurate information, the decision maker ought to have good problem solving skills and astute decision making abilities to arrive at sound judgments regarding the everyday problems and issues. The overriding rule in decision making is that the decision maker ought to have legitimacy and authority over the people who he or she is deciding upon.

It is interesting to note that some people put off making decisions by endlessly searching for more information or getting other people to offer their recommendations. Others resort to decision-making by taking a vote, sticking a pin in a list or tossing a coin.

Decision makers succeed only when their decisions are honoured

and followed by the people or groups that the decision impacts. In many cases, the fragmented nature of the organizations with different interests represented by factions often undermines the decision making capabilities of the decision maker. Hence, it is worth remembering that due authority must be vested with the decision maker.

Any decisions taken at any level have to take into account the conflicting needs of the individuals who are affected by the decisions and hence conflict resolution is a part of the decision making process. How well the conflicts are resolved depends on the skill and leadership traits of the decision maker.

After all, any decision that is taken is to balance competing interests and is essentially an allocation of shared resources among the different groups. The point, here, is that in any organization there are scarce resources that need to be allocated among competing groups and hence the decision maker has to ensure that all the needs and concerns of the different groups are taken into consideration when making the decision.

#### 05.00 The Process

Decision making process can be regarded as check and balance system that keeps the organization growing both in vertical and linear directions. It means that decision making process seeks a goal.

The goals are pre-set business objectives, company missions and its vision. To achieve these goals, the company may face lot of obstacles in administrative, operational, marketing wings and operational domains. Such problems are sorted out through comprehensive decision making process.

**Problems are sorted out through comprehensive decision making process.**

Decision making process is continuous and dynamic. No decision comes as end in itself. There could always be the emergence of a new set of problems staring for solution. When one problem is solved another emerges and so on, such that the cycle keeps on recurring.

In a management setting, decision making should adopt the following simple steps:

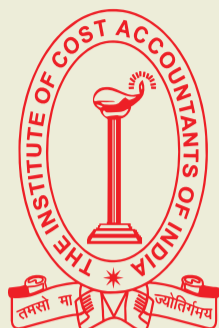
- Defining the problem
- Gathering information and collecting data
- Developing and weighing the options
- Choosing best possible option
- Planning and execution
- Follow up action

The result of decision making process in a professional organization is always magnanimous and productive.

#### 06.00 Quick Take

A manager ought to be decisive and magnanimous.





# PRACTICAL Advice

## ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

01

**Read Study Notes  
MTPs  
E-Bulletin  
Live Webinar**

**Solve Exercises  
given in Study Note**

02

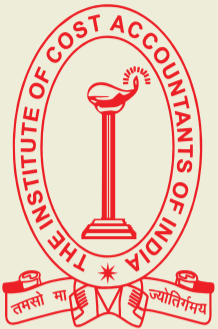
03

**Assess Yourself**

**Appear For Examination**

04

FINISHED



# SUBMISSION



## Updation of E-Mail Address/Mobile:

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

Wishing you all, a very Happy and Prosperous New Year 2019.

We from the Directorate of Studies know your expectations from us and accordingly we are trying to deliver some meaningful tips through the publications of monthly E-bulletins. Other than this we are trying to help you through Revisionary Test Papers (RTPs), Mock Test Papers (MTPs), Work book, and we are conducting Webinar sessions (live) and where your active participation is amazing. Before stepping in to the examination hall, please go through the PPTs on 'Achieve your GOAL'; uploaded by the Directorate of Studies and which will help you to know about certain Do's and Dont's in the examination.

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

**" The future depends on what you do today" ..**

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) : [http://icmai.in/studentswebsite/mtp2016\\_j18\\_fnd.php](http://icmai.in/studentswebsite/mtp2016_j18_fnd.php)

For Revision Test Papers (RTP) : [https://icmai.in/studentswebsite/rtp2016\\_d18.php](https://icmai.in/studentswebsite/rtp2016_d18.php)

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

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

Live Webinar Link : <http://icmai.in/icmai/news/889.php>

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

We are sure that you will be motivated after looking into the placement news of our students' appeared in the Times of India, newspaper. Many of our students' were placed in reputed companies, which may encourage you to accomplish the course quickly and to be placed in good companies.

**GOOD LUCK & Best wishes as always.**

**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

STUDENTS' E-bulletin Intermediate  
Vol: 3, No.: 12, December 2018, Issue



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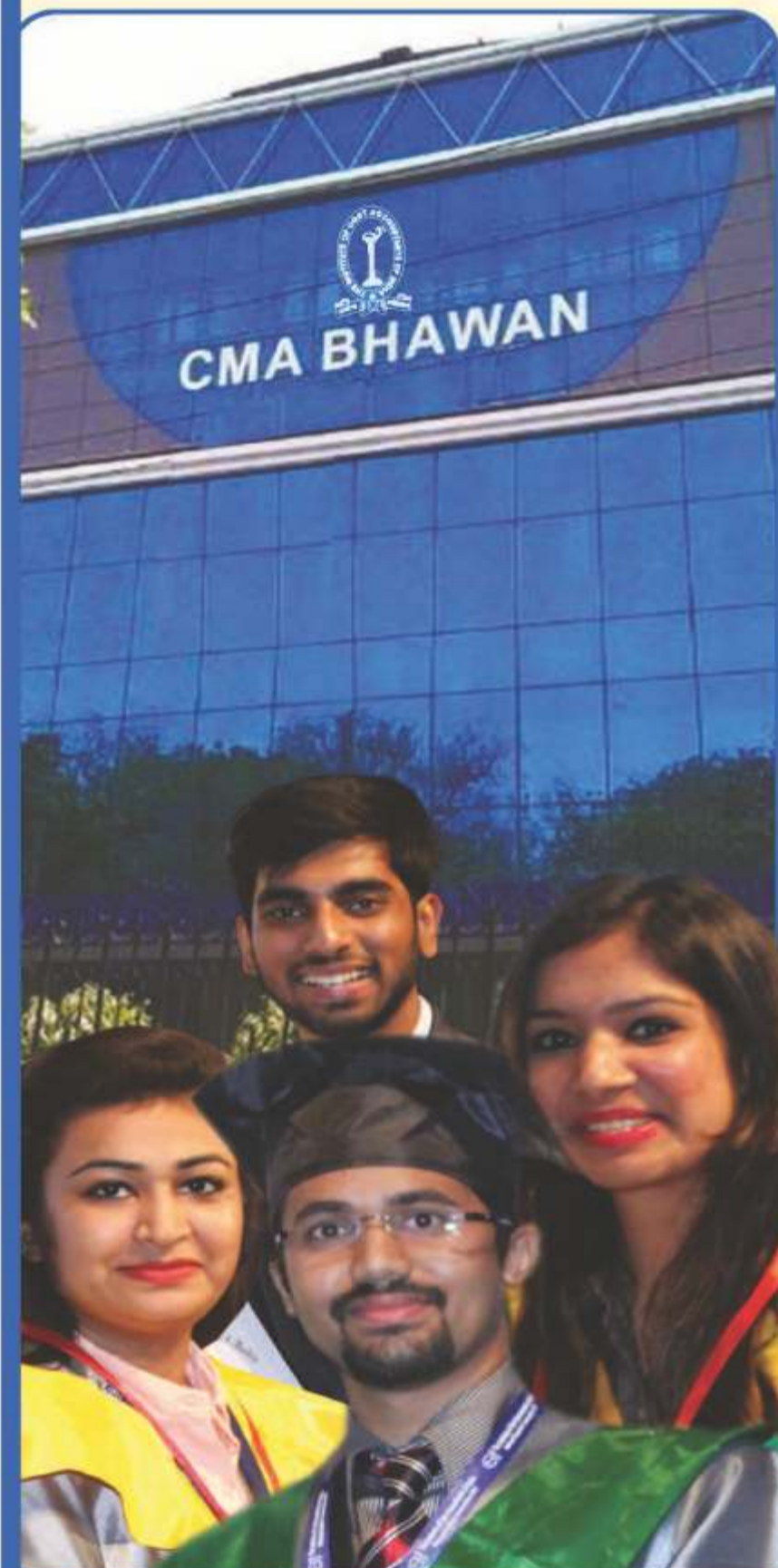
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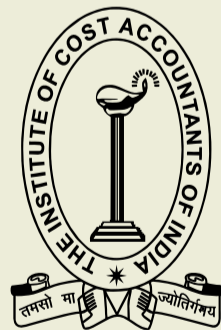
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