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# CMA Student E - Bulletin

# INTERMEDIATE

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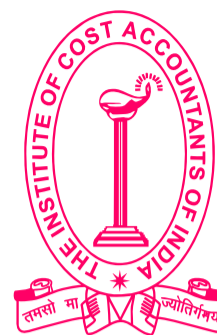
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**Behind every successful business decision, there is always a CMA**

# Message from The Chairman

*CMA Biswarup Basu*

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



## MESSAGE FROM THE CHAIRMAN

Dear Students,

Greetings!!

*"You must not lose faith in humanity. Humanity is an ocean; if a few drops of the ocean are dirty, the ocean does not become dirty" - M.K. Gandhi*

The unlock process has been started everywhere, although COVID-19 has almost gripped the whole world. There is a light of hope as the rate of cure in our country has increased. Now it is our duty to follow the safety measures and augment our immunity to inhibit COVID-19. Hope with the grace of the Almighty we would be able to shelter ourselves. Stay safe and ensure all persons around you are staying safe. Try to direct your time towards self-enrichment, utilize it for study, and armour yourselves for the forthcoming challenges.

The Directorate of Studies is working diligently to provide the students with all possible supports and guidance. Live Webinars are being conducted, recorded webinars are also there in the e-library. Answers to the Mock Test Papers (MTPs), updated Work Books, and monthly E-bulletins are uploaded on our website as per the pre-scheduled manner. Eminent academicians and professionals are contributing in their own way to the development of our students. Being the Chairman of the Training & Educational Facilities and Placement Committee, I am really thankful to all of them. So, don't give up hope, carry on with your exercises, and try to utilize the facilities and opportunities being offered by the Directorate of Studies.

Our 'Students' Connect' section is there for the convenience of all our students [<https://icmai.in/studentswebsite/Students-E-Services.php>]

Self-reliance and confidence is the need of the hour; keep faith for a bright and sparkling future to come. Always keep in mind that, *"The best way to find yourself is to lose yourself in the service of others"*.

Best wishes as always,

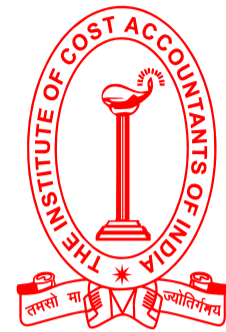
CMA Biswarup Basu  
Chairman, Training & Education Facilities and Placement Committee

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

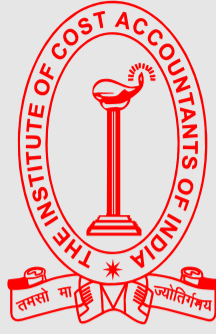
**Stay Home  
Stay Safe**



# CONTENTS



Message from the Chairman -	i
Knowledge Update -	1
Group : I Paper 5: Financial Accounting (FAC) -	2
Group: I Paper 6: Laws & Ethics (LNE) -	8
Group: I Paper 7: Direct Taxation (DTX) -	12
Group: I Paper 8: - Cost Accounting (CAC)-	16
Group: II Paper: 9, Part - i: Operations Management & Strategic Management Operations Management (OMSM)-	20
Group: II Paper: 9, Part - ii: Operations Management & Strategic Management Strategic Management (OMSM) -	27
Group: II Paper: 10: Cost & Management Accounting and Financial Management (CMFM) -	30
Group: II Paper 11: Indirect Taxation (ITX) -	34
Group: II Paper 12: Company Accounts & Audit (CAA) -	37
Practical Advice -	39
Submissions -	40
Message from the Directorate of Studies -	41
Few Snapshots -	42



# KNOWLEDGE Update



**STAY HOME  
STAY SAFE**

**#stayhome #staysafe**

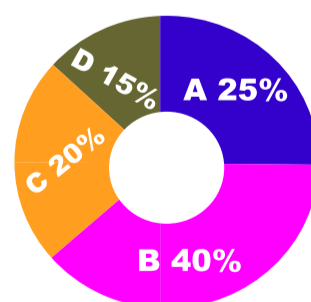
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.



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

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# Your Preparation Quick Takes



### Syllabus Structure

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

**Learning Objective:**

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

## PREPARATION OF FINANCIAL STATEMENTS : OF NOT FOR PROFIT ORGANISATIONS

SECTION: B      UNIT: 3(ii) STUDY NOTE - 4

### RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT

Common perception in society is that accounting for business is to find out profit or loss. But this is not true because there are many organizations which are formed to serve people without the motive of profit making and they need to maintain records of financial transactions. For example, a club, a charitable institute, an educational institute or a hospital is not profit making organization. The main features of such organizations are:

- Non profit motive
- Service motive
- Fund based accounting
- Incomes are mainly donations and subscriptions from members or government grants.

So far as the accounting is concerned they maintain regular books of accounts like journal, ledger, cash book, receipts and payments account, income and expenditure account and balance sheet.

#### RECEIPTS AND PAYMENTS ACCOUNT

It is as good as cash book showing the opening balance of cash plus the cash receipts in the debit side and all cash payments plus the closing balance of cash in the credit side. Very important to note that receipts and payments of cash do not discriminate between capital and revenue transactions. That means 'Purchase of asset' and 'Repairs to asset' both have the same importance in receipts and payments account while recording them as expenses. Same concept is applied for recording receipts. In short it is a Real Account.

#### INCOME AND EXPENDITURE ACCOUNT

It is as good as profit and loss account and is prepared under accrual basis to find out surplus or deficit. Unlike receipts and payments account it is a Nominal Account. Considering the above example (between purchase of asset and repair of asset) only 'repair to asset' will be considered to record as expenditure. Same concept is applied while recording the incomes.

#### ACCOUNTING PROCESS

If receipts and payments account is given and you are asked to prepare income and expenditure account the only thing that is to be kept in mind that income and expenditure account is a subset of receipts and payments account. You have to pick up the 'revenue' transactions from the receipts and payments account and put into income and expenditure account with necessary adjustments to convert such item from cash basis to accrual basis.

#### RECEIPTS AND PAYMENTS ACCOUNT

RECEIPTS	Rs	PAYMENTS	Rs
OPENING BALANCE		CAPITAL PAYMENTS	
CAPITAL RECEIPT		REVENUE PAYMENTS	
REVENUE RECEIPT		(Both will consider cash payments only)	
(Both will consider cash receipts only)			
		CLOSING BALANCE	

#### INCOME AND EXPENDITURE ACCOUNT

EXPENDITURE	Rs	INCOME	Rs
REVENUE PAYMENTS		REVENUE RECEIPT	
(will consider cash and accruals)		(will consider cash and accruals)	

e.g, salary paid plus due		e.g, rent received plus arrear	
SURPLUS		DEFICIT	

## EXAMPLE: 1

Receipts and payments account for the year ended 31.03.2017(extract)

Receipts	Rs	Payments	Rs
Subscriptions	150000	Purchase of furniture	100000
		Rent	26000
		Honourarium	11000

Additional information:

	31.03.2016	31.03.2017
Subscription due	30000	60000
Subscriptions received in advance	45000	30000
Rent paid in advance		2000
Honourarium due		1000

Income and expenditure account for the year ended 31.03.2017(extract)

Expenditure	Rs	Income	Rs
Rent	26000	Subscriptions	150000
Less : paid in advance	2000	Add: outstanding 2017	60000
Honourarium	11000	Add : advance 2016	45000
Add : due	1000	Less : outstanding 2016	30000
		Less : advance 2017	30000
Surplus	159000		195000
	195000		195000

## OBSERVATIONS:

From the above example you must have followed that we have not considered the purchase of furniture while preparing the income and expenditure account since this is a capital expenditure.

Again the items like rent, honourarium and subscriptions are taken on accrual basis considering the adjustments as provided.

## EXAMPLE: 2

Calcutta club prepared the following receipts and payments account for the year ended 31.12.2017:  
Receipts and payments account for the year ended 31.12.2017

Receipts	Rs	Payments	Rs
To balance b/d: cash in hand	3800	By Purchase of furniture	
		By expenses for exhibition	2100
To Subscriptions		By electricity	500
2016	2000	By Salaries	3400
2017	18500	By Sports equipments(purchased on 1.9.2017)	10000
2018	900	By Tournament expenses	4000

To interest on investment	1500	By Printing and Stationery	300
		By balance c/d : cash in hand	7200
To Entrance fees	800		
	<b>27500</b>		<b>27500</b>

**Additional information:**

1. Fixed Assets of the club on 1.1.2017 include the following : sports equipments Rs.15500, club ground Rs.62000, Furniture Rs. 2000
  2. Subscription for 2017 collected in 2016 Rs.500,
  3. Unpaid subscription for 2017 Rs.300
  4. Depreciation to be provided @ 20% p.a on sports equipments and @ 5% p.a on furniture.
- Prepare an income and expenditure account for the year ended 31.12.2017

**SOLUTION:**

## Income and expenditure account for the year ended 31.12.2017

Expenditure	Rs	Income	Rs
		By Subscriptions	18500
To Expenses for exhibition	2100	Add Received in 2016	500
To Electricity	500	Add Subscription in arrear	300
To Salaries	3400		
To Depreciation : Sports equipments	3767		
To Depreciation : Furniture	100		
To Tournament expenses	4000		
To Printing and Stationery	300	By Entrance fees capitalised	nil
		By Interest	1500
To Surplus	<b>6633</b>		
	<b>20800</b>		<b>20800</b>

**Working notes:**

Depreciation on sports equipment: 20% on Rs.15500 for one year = Rs.3100 plus 20 % on Rs.10000 for 4 months = Rs.667. Total Rs. 3767/-

**EXAMPLE: 3**

From the following Receipts and Payments account prepare an Income and Expenditure account for the year ended 31.12.2016  
Receipts and payments account for the year ended 31.12.2016

Receipts	Rs	Payments	Rs
To balance b/d: cash in hand	1200	By Purchase of furniture	10000
: cash at bank	3400	By Rent	3600
To Subscriptions	24500	By Honourarium	4000
To Entrance fees	3000	By Salaries	2100
		By Sports expenses	4700
		By Sundry expenses	1100
		By Printing and Stationery	800
		By balance c/d : cash in had	1700



		: cash at bank	4100
	32100		32100

Additional information:

	31.12.2015	31.12.2016
Subscription due	2100	3200
Subscriptions received in advance	1400	2700
Rent outstanding	600	300
Salaries paid in advance	1200	900
Furniture	18000	23000

60 % of the entrance fees are to be capitalized. Interest on savings bank account for Rs.280 has not been entered in the cash book. An old furniture (WDV Rs. 8000) was exchanged at an agreed price of Rs. 5000 for a new furniture costing Rs. 15000. Income and expenditure account for the year ended 31.12.2016

Expenditure	Rs	Income	Rs
To Rent	3300	By Subscriptions	24300
To Honourarium	4000	By Entrance fees (3000×40%)	1200
To Salaries	2400	By Interest	280
To Sports expenses	4700		
To sundry expenses	1100		
To Printing and stationery	800		
To loss on exchange of furniture	3000		
To Depreciation on furniture	2000		
To surplus	4480		
	25780		25780

Note :

## 1. Subscription

Subscription	24500
Add: due for 2016	3200
Add : advance for 2015	1400
Less : advance for 2016	2700
Less : due for 2015	2100
<b>Transfer to income and expenditure a/c</b>	<b>24300</b>

## 2. Salaries

Salaries	2100
Add : advance for 2015	1200
Less : advance for 2016	900
<b>Transfer to income and expenditure a/c</b>	<b>2400</b>

## 3. Rent

Rent	3600
Add: due for 2016	300
Less : due for 2015	600
<b>Transfer to income and expenditure a/c</b>	<b>3300</b>

## 4. Loss on exchange of furniture

WDV of furniture	8000
Less : agreed price of exchange	5000
<b>Loss transferred to I&amp;E A/C</b>	<b>3000</b>

## 5. Depreciation on furniture

	Rs		Rs
To balance b/d	18000	By creditors	5000
To creditors	15000	By loss on exchange	3000
		By balance c/d	23000
		By depreciation	2000
	<b>33000</b>		<b>33000</b>

Keep practicing from the past year question papers and refer the books as listed below for more illustrations.

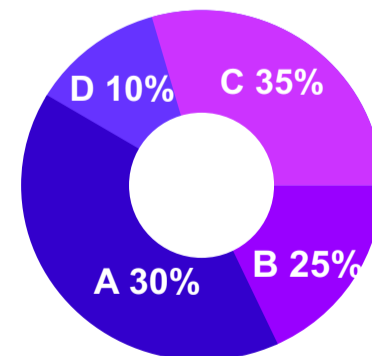




**GROUP: I, PAPER: 6**  
**LAWS & ETHICS**  
**(LNE)**

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## Your Preparation Quick Takes



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

**Learning Objectives:**

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

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

**LAW & ETHICS**

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

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

**Employees Stock Option Plan (ESOP) (Continued ) from the previous issue**

**Right to receive dividends**

The Employees **shall not have right** to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to them, till shares are issued on exercise of option.

**Forfeiture/ Refund of amount paid by employees at the time of grant of option under ESOP**

**If the option is not exercised by the employee within the Exercise Period**, the amount is forfeited by the company

**If the option is not vested due to non-fulfillment of conditions** as per Employees Stock Option Scheme (ESOS), the amount is refunded by the company.

**Options not transferable**

- ✓ The option granted to employees shall not be transferable to any other person.
- ✓ The option granted to the employees shall not be pledged, hypothecated, mortgaged or otherwise encumbered or alienated in any other manner.

**Who can exercise the option**

- ✓ **No person other than the employees to whom the option is granted** shall be entitled to exercise the option. However, in the event of the death of employee while in employment, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased employee.
- ✓ **In case the employee suffers a permanent incapacity** while in employment, **all the options** granted to him as **on the date of permanent incapacitation, shall vest in him on that day.**

✓ **In the event of resignation or termination of employment, all options not vested in the employee as on that day shall expire.**

✓ It may be noted that, the employee can exercise the options granted to him which are vested within the period specified in this behalf, subject to the terms and conditions under the scheme granting such options as approved by the Board.

**Rule 12(9) covers Disclosures in Board of Directors Report**

Rule 12(9) provides that the Board of directors, shall, inter alia, disclose in the Directors' Report for the year, the following details of the Employees Stock Option Scheme:

- Options granted/ vested/ exercised;
- The total number of shares arising as a result of exercise of option;
- Options lapsed;
- The exercise price;
- Variation of terms of options;
- Money realized by exercise of options;
- Total number of options in force;
- Employee wise details of options granted to:-
  - (i) key managerial personnel;
  - (ii) any other employee who receives a grant of options in any one year of option amounting to five percent or more of options granted during that year.
  - (iii) identified employees who were granted option, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;

**Rule 12(10) provides that the company shall maintain a Register of Employees Stock Options**

- The company shall **maintain a Register of Employee Stock Options in Form No. SH.6** and shall forthwith enter therein the particulars of option granted under clause (b) of sub-section (1) of section 62.
- The Register of Employee Stock Options **shall be maintained at the registered office** of the company or such other place as the Board may decide.

- The **entries in the register shall be authenticated by the company secretary** of the company or by any other person authorized by the Board for the purpose.

**Rule 12(11)** provides that where the equity shares of the company are listed on a recognized stock exchange, the ESOS shall be issued in accordance with the regulations made by SEBI.

#### Sec.47(1) Voting Rights of Equity Share Holders

(1) Subject to the provisions of section 43 and sub-section (2) of section 50,—

- (a) **every member of a company limited by shares and holding equity share capital therein, shall have a right to vote on every resolution** placed before the company;
- and
- (b) **his voting right on a poll shall be in proportion to his share in the paid-up equity share capital of the company.**

#### Sec.47(2) Voting Rights of Preference Share Holders

Sec 47(2) provides that **Every member of a company limited by shares and holding any preference share capital therein shall, in respect of such capital, have a right to vote only on resolutions placed before the company which directly affect the rights attached to his preference shares** and, any resolution for the winding up of the company or for the repayment or reduction of its equity or preference share capital and his voting right on a poll shall be in proportion to his share in the paid-up preference share capital of the company:

Provided that the proportion of the voting rights of equity shareholders to the voting rights of the preference shareholders shall be in the same proportion as the paid-up capital in respect of the equity shares bears to the paid-up capital in respect of the preference shares:

Provided further that where the dividend in respect of a class of preference shares has not been paid for a period of two years or more, such class of preference shareholders shall have a right to vote on all the resolutions placed before the company.

#### Section 48. Variation of shareholders' rights

**Sec.48(1)** provides that where a share capital of the company is divided into different classes of shares, **the rights attached to the shares of any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class** or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class,—

- (a) if provision with respect to such variation is contained in the memorandum or articles of the company; or

(b) in the absence of any such provision in the memorandum or articles, **if such variation is not prohibited by the terms of issue of the shares of that class:**

#### Sec.48 (2) deals with Dissent to Variation of Rights .

It provides that **where the holders of not less than ten per cent. of the issued shares of a class did not consent to such variation** or vote in favour of the special resolution for the variation, **they may apply to the Tribunal to have the variation cancelled**, and where any such application is made, the variation shall not have effect unless and until it is confirmed by the Tribunal:

Provided that an application under this section shall be made within twenty-one days after the date on which the consent was given or the resolution was passed, as the case may be, and may be made on behalf of the shareholders entitled to make the application by such one or more of their number as they may appoint in writing for the purpose.

**Sec.48 (3)** provides that the **decision of the Tribunal** on any application under sub-section (2) shall be binding on the shareholders.

**Sec.48 (4)** provides that the company shall, within thirty days of the date of the **order of the Tribunal**, file a copy thereof with the Registrar.

**Sec.48 (5) deal with Penalty.** It provides that **where any default is made in complying with the provisions of this section**, the company shall be **punishable with fine** which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both.

**Rule 11(1)** provides that an **Instrument of Transfer of Securities** , in physical form shall be filed in **Form No. SH-4** and every transfer mentioning the date of its execution, shall be delivered to the company within 60 days from the date of execution.

**Rule 11(3)** provides that a company shall not register a **transfer of paid shares** unless the company has given a **notice in Form No.-5 to the transferee**. The transferee is to give a No Objection to the transfer within 2 weeks from the date of receipt of the Notice.

#### Preferential Offer

A preferential issue is an issue of shares or convertible securities by a company ,whether listed or unlisted companies to a **select group of investors**, but **it is neither a rights issue nor a public issue**.

The unique thing about these shares is that a **person holding preferential shares has the right to be paid from company assets before common stockholders** if the company goes into bankruptcy.

A criteria is that in order to issue and allot shares on a preferential basis, *one needs to send a notice to convene a Board Meeting at least 7 days before the meeting in order to take a decision on the proposed preferential Issue.* A company also needs to complete other formalities like opening a separate bank account to receive money, convene an extraordinary general meeting, etc.

The biggest advantage of going for a Preferential Issue of shares is that this method of raising funds is the most convenient as it requires less paperwork and is the fastest way for a company to raise capital. For Listed companies, the issue must be done in accordance with the provisions of the Companies Act, 2013 and as per Regulations made by SEBI.



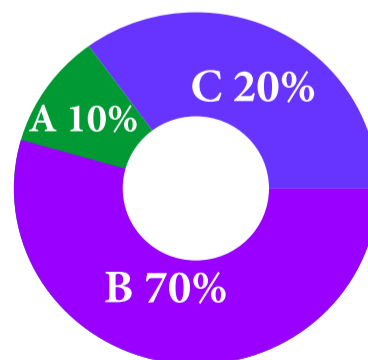


**GROUP: I, PAPER: 7**

# **DIRECT TAXATION (DTX)**

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## Your Preparation Quick Takes



### Syllabus Structure

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

**Learning Objectives:**

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

### Presumption Income in case of Business of Plying, Leasing or Hiring Goods Carriage [Sec. 44AE]

To give relief to small assesseees, the Income-tax Law has incorporated a simple scheme commonly known as Presumptive Taxation Scheme. There are three schemes provided under section 44AD, 44ADA and 44AE. An assessee adopting these provisions is not required to maintain the regular books of account and also exempt from getting the accounts audited. In this bulletin, I am covering the provisions of the presumptive taxation scheme provided in section 44AE which is designed to give relief to small assesseees engaged in the business of goods carriage. The detailed provisions in this regard are as follows:

<b>Applicable to</b>	All assessee engaged in the business of plying, hiring or leasing goods carriage.	
<b>Condition</b>	<b>Number of carriages:</b> Assessee must not own more than 10 goods carriages at any time during the previous year. <i>Owner of carriages</i> includes a buyer under hire purchase or installment system even if the whole amount is unpaid. <i>Goods carriage</i> means any motor vehicle constructed or adapted for use solely for the carriage of goods, or any motor vehicle not so constructed or adapted when used for the carriage of goods;	
<b>Estimated income</b>	Income from each goods carriage shall be:	
	<b>Type of Goods Carriage</b>	<b>Presumptive Income (Per month or part of a month)</b>
	Heavy	₹ 1,000 per ton of gross vehicle weight or unladen weight
	Other	₹ 7,500
	1. Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not. 2. An assessee can declare higher income.	

**Taxpoint:**

1. **Heavy goods vehicle** means any goods carriage, the gross vehicle weight of which exceeds 12000 kilograms
2. **Deduction u/s 30 to 38:** The estimated income is comprehensive and no further deductions u/s 30 to 38 shall be allowed.
3. **Deduction u/s 40(b):** In the case of a firm, deduction in respect of remuneration and interest to partner u/s 40(b) shall be further deductible from income so computed.
4. **Depreciation:** Depreciation is deemed to have been already allowed. The written down value of asset will be calculated, as if depreciation has been allowed.
5. **Deductions:** The above estimated income is aggregated with other income of the assessee, from any other business or under any other heads of income. Further deduction under chapter VIA shall be available to the assessee as usual.
6. **Brought forward loss:** Brought forward loss (if any) shall be adjusted from such estimated income.
7. **Maintenance of books of account and audit:** An assessee, who estimates income from such business as per section 44AE, or a higher income, is not required to -
  - Maintain books of account u/s 44AA; and
  - Get his accounts audited u/s 44AB

- in respect of his income from such business.

However, he has to comply with the requirements of both sec. 44AA and 44AB in respect of his other businesses. Further to note that in computing the monetary limits u/s 44AA and 44AB, the gross receipts or income from the said business shall be excluded.



7. **Effect if assessee declares lower income:** An assessee can declare his income lower than the estimated income as per provision of this section. In such case he will have to

- Maintain books of account and other documents as required u/s 44AA; and
- Get his accounts audited and furnish a report of such audit as prescribed u/s 44AB irrespective of amount of turnover or gross receipts.

**Note:** Assessee can change his option from year to year.

### Example

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1<sup>st</sup> April, 2019, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton). On 2/5/2019, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6<sup>th</sup> May, 2019. This new vehicle could however be put to use only on 15-6-2019.

Compute the total income of Mr. Sukhvinder for the A.Y. 2020-21, taking note of the following data:

Particulars	Amount	Amount
Freight Charges collected		8,70,000
Less: Operational expenses	6,25,000	
Depreciation as per Sec. 32	1,85,000	
Other Office expenses	15,000	8,25,000
Net Profit		45,000
Other business and non-business income		70,000

### Solution

Alternative 1) Direct estimation of income u/s 44AE

Vehicle	No. of vehicle	Details	Amount
Light	4	₹ 7,500 × 4 vehicles × 12 months	3,60,000
Heavy	5	₹ 1,000 × 5 vehicles × 12 months × 20 ton	12,00,000
Heavy	1	₹ 1,000 × 1 vehicle × 2 <sup>#</sup> months × 20 ton	40,000
Light	1	₹ 7,500 × 1 vehicles × 11 <sup>#</sup> months	82,500
<b>Income from business of plying goods carriage</b>			<b>16,82,500</b>
<b>Add: Other business and non-business income</b>			<b>70,000</b>
<b>Total Income</b>			<b>17,52,500</b>

<sup>#</sup> Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not. For this purpose, any fraction of the month shall be considered as month.

Alternative 2) Computation of income as per the provision of sec. 28 to 38

Particulars	Amount	Amount
Freight charges collected		8,70,000
Less: Expenditure related to business		
Operational expenses	6,25,000	
Depreciation u/s 32	1,85,000	
Other office expenses	15,000	8,25,000
<b>Income from business of plying goods carriage</b>		<b>45,000</b>

Add: Other business and non-business income		70,000
Total Income		1,15,000

Since Mr. Sukhvinder has lower taxable income in alternative 2 hence his total income is ₹ 1,15,000. But to claim such lower income than the estimated income (computed in alternative 1) as per provision of section 44AE, he will have to –

- Maintain books of account as required u/s 44AA; and
- Get his accounts audited.

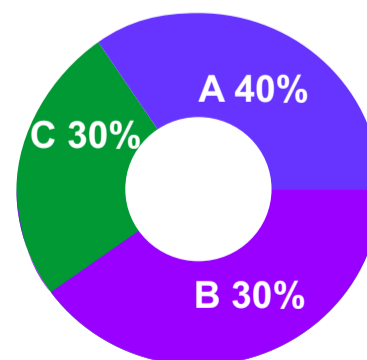




**GROUP: I, PAPER: 8**  
**COST ACCOUNTING**  
**(CAC)**

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# Your Preparation Quick Takes



**Syllabus Structure**

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

**Learning Objectives:**

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

**COST ACCOUNTING**

An effective cost accounting system is an integral part of the management for efficient running of the business. In the present era the value and importance of cost accounting need hardly be overemphasized. Cost accounting, by exercising control over the entire business operations, enables management to eliminate wastages, leakages, increase efficiency and productivity, achieve economies and helps decision making by suitably fixing prices in case of competition, trade depression, and idle capacity with a view to maximizing the gains or minimizing the losses. This paper is a scoring paper out of the eight papers in the intermediate course of the Institute of Cost Accountants of India. 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. Hence, go through the theory very carefully for easy understanding the topic and then try to solve the exercise problems. Start from Chapter one and try to understand the other chapters serially as this will enable you to understand the succeeding chapters in a better way.

Please try to remember this is a professional examination. So, emphasis should be given mainly on testing comprehension, self expression and managerial ability to apply knowledge in divergent situation. Chances of repetition of questions are normally avoided. The true success of this examination mainly depends on style of preparation which should have, perseverance, regularity of efforts, through practice, vision and objectivity.

Here I have suggested some tips based on my personal experiences: -

1. A well defined plan for completing the whole syllabus as well as revision.
2. Go through your Study Note and know the complete syllabus. Remember all chapters are interlinked.
3. Analyze the trends of setting questions by taking at least ten terms.
4. Time schedule with specified activities is very much essential for time-management.
5. Clarity or concepts is different from cramming which exerts avoidable strain on the students.
6. Write down all the important terms in your own words and read them regularly.
7. Improve your speed by regular practice and revision.
8. Finally, try to develop a habit of reading the questions well, underlining and understanding the specific requirements.
9. Always try to answer all objective type questions as practice, which carries 100% marks.
10. Try to develop a habit of reading the questions well, underlining and understanding the specific demands.

The purpose of our study Paper - 8 are:

- a) Understanding the concept of Cost
- b) Determining the Cost of product or service
- c) Understanding Standard Cost
- d) Applying the concept of Marginal Costing
- e) Formulating of business strategy and operational planning.

As per your study material, your entire syllabus is divided into six main chapters. In first chapter the basic concept of cost accounting are discussed, besides its other two branches viz, Financial accounting and Management accounting. The second chapter described the Elements of cost thoroughly. The three major elements of costs are - material, labour and Overheads. In this chapter cost concepts are discussed and analyzed element-wise. Material consists of the major part of total cost of a product, hence it is necessary to control this cost. You must read the scope and objectives of different Cost Accounting Standards. It will help to grasp the concept of cost accounting easily. Try to solve the problems on earnings of workers under different schemes. The meaning of Cost allocation, Cost apportionment and cost absorption should be very clear.

The next chapter, Cost Book-Keeping, including integrated accounting system is not at all difficult. Students need to have a clear conception about the integrated and non-integrated system of Accounts. Questions are sometimes set to journalize the transactions. In this system, different accounts are to be opened, but it is not necessary to give much effort to complete its solution. It's a lengthy process. Here, separate ledgers are maintained by the cost sections.

This chapter relates to Contract Costing. Only Job/Batch/Contract Costing is very important for the Intermediate Examinations. Students often face difficulty in recommending the amount of profit to be taken into account for incomplete contract. You should make sure that you are familiar with various methods/formulae for different stages of completion and share of profit. Students are also advised to go through the topic "Profit on incomplete contracts based on SSAP - 9". They should remember that for Escalation Clause both changed quantity and price is to be considered.

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

The next chapter 'Marginal Costing' aims to find out cost-volume-profit relationships of a product. This is an important chapter from the students' perspective. Students should understand the concepts, Uses, needs and importance of 'Marginal Costing' carefully. The main thrust should be to follow the wording and determine the desired impact on profitability. Break-even Analysis and finding out the Breakeven point is the basic part for solving the problem. For a product of different sales-mix, contribution per unit of key-factor should be found out and then different options should be marked on the same basis, i.e. contribution per unit of key factor. Here you should also study the effect on profits due to various changes, in Fixed Cost/ Variable Cost/ selling price/ sales-mix and again the effect of the above on BEP, Margin-of-safety. More than one problem is generally set from this chapter. Hence, various types of problems should be worked out for easy understanding.

The chapter 'Variance Analysis' deals with creating responsibilities and identifying the activities or areas of exceptions. 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 a serious study and realization of the requirement in the problem can eliminate such difficulties. The main objective of this analysis is to improve the operation by effective utilization of resources for reducing its product cost. Calculation of Mix-variances is essential only when there are more than one type of components.

The next chapter is related to 'Budget and budgetary control'. The term budget can be expressed as a pre-determined plan of action in details. Budgetary control requires preparation of 'Flexible Budget', 'Functional Budgets' and 'Cash Budget' for taking necessary actions. Both theoretical and practical problems 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.

In order to bring uniformity and consistency in classification, measurement and assignment of costs CAS - 1 to 24 should read carefully. Questions are generally set from any one or two standards.

Now, we like to give an example, how Cost Books are kept under Marginal Costing System.

### Problem

The variable cost structure of a product manufactured by a company during the year 2019 is as under :

Material	₹	120 per unit
Labour	₹	30 per unit
Overhead	₹	12 per unit

The selling price per unit is ₹ 270 and the fixed cost and sales during the year are ₹ 14 lakhs and ₹ 40.5 lakhs, respectively.

During the forthcoming year 2020, the direct workers will be entitled to a wage increase of 10% from the beginning of the year and the material cost, variable overhead and fixed overhead are expected to increase by 7.5%, 5% and 3% respectively.

You are required to compute :

- New sale price in the year 2020, if the current P/V ratio is to be maintained.
- Number of units that would require to be sold during the year 2020, so as to yield the same amount of profit in the current year, assuming that selling price per unit will not be increased.

The above problem can solved in the following way :

$$\text{No. of units sold} = \frac{\text{Total Sales}}{\text{Selling price per unit}}$$

$$\text{i.e. } \frac{₹ 4050000}{270} = 15000 \text{ units}$$

Contribution per unit = Sales - Variable Cost .

i.e. ₹. 270 - ( 120 + 30 + 12 ) = 108 per unit .

Total contribution = 15000 units × 108

= ₹ 1620000

Less : Fixed cost	<u>Rs. 1400000</u>
Total Profit	<u>Rs. 220000</u>

$$\text{P/V ratio} = \frac{\text{Contribution per unit}}{\text{Sales per unit}} \times 100$$

i.e.  $108/270 \times 100 = 40\%$

(a) Statement showing the new selling price for the forthcoming year by maintaining the current year's P/V ratio.

Revised variable cost/unit	
Material = $120 \times 107.5/100$	129.00
Labour = $30 \times 110/100$	33.00
Variable O/H = $12 \times 105/100$	<u>12.60</u>
	<u>₹ 174.60</u>

$$\text{P/V ratio} = (S - V) / S$$

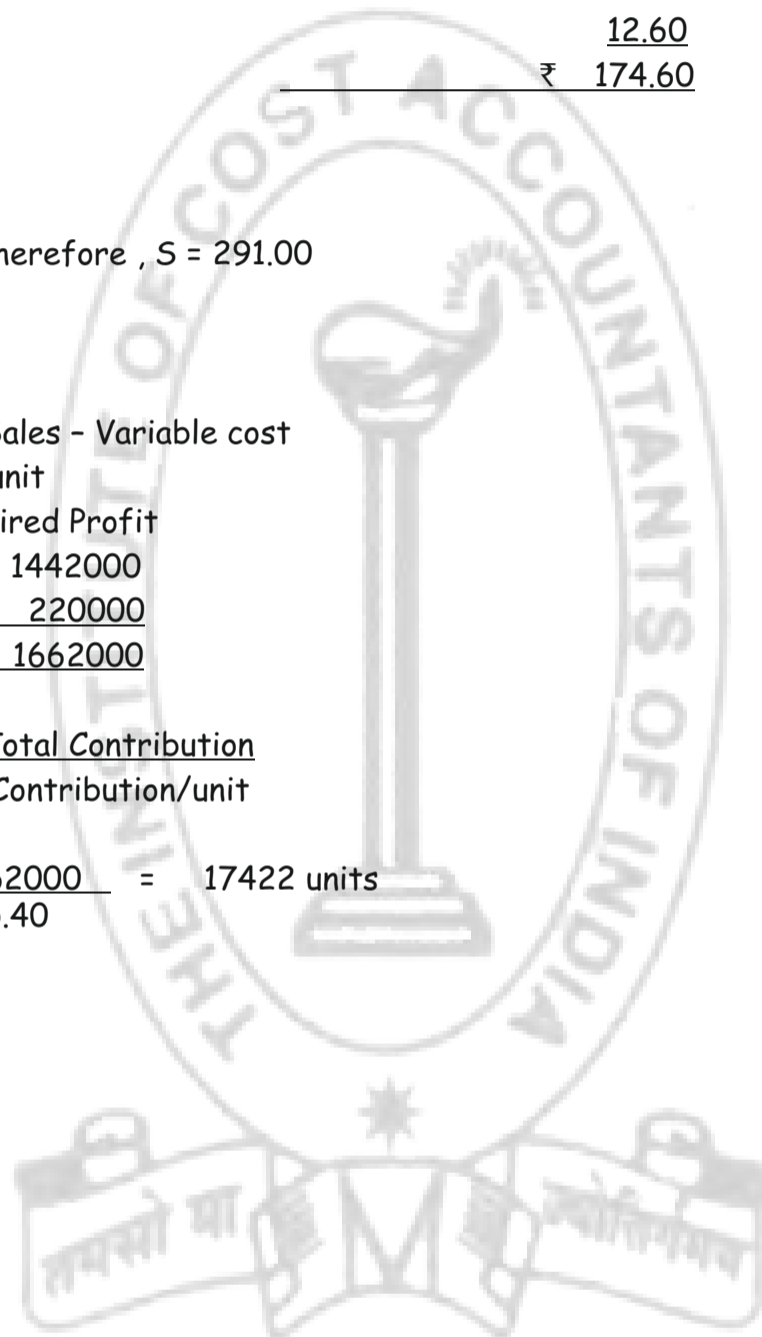
$$40\% = (S - 174.60)/S, \quad \text{Therefore, } S = 291.00$$

$$\text{Revised selling price} = 291.00$$

(b) Revised contribution per unit = Sales - Variable cost  
= ₹ 270 - ₹ 174.60 = 95.40p. per unit

Desired contribution = Fixed cost + Desired Profit	
Fixed cost = $1400000 \times 103/100 =$	1442000
Add : Desired profit	<u>220000</u>
Total contribution	<u>1662000</u>

$$\begin{aligned} \text{Total number of units to be sold} &= \frac{\text{Total Contribution}}{\text{Contribution/unit}} \\ &= \frac{1662000}{95.40} = 17422 \text{ units} \end{aligned}$$





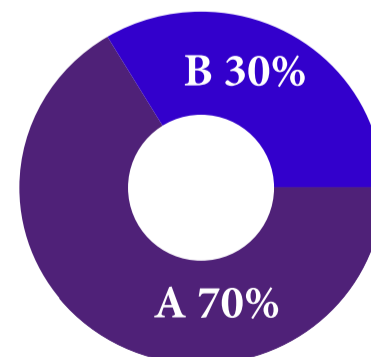
GROUP: II, PAPER: 9, Part- i

# OPERATIONS

MANAGEMENT & STRATEGIC  
MANAGEMENT (OMSM)  
Operations Management

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## Your Preparation Quick Takes



### Syllabus Structure

A Operations Management 70%

B Strategic Management 30%

**Learning Objectives:**

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

**Operations Management**

In this issue we will discuss on Network analysis with some problems

Network analysis plays an important role in Project Management. By analysis a network, which is a graphic description of "activities" and "events", the planning, scheduling and control of a project becomes much easier.

The initial step for any network problem is to draw the network diagram.

Then we have to compute for each event:

EOT = Earliest Occurrence Time;

LOT = Latest Occurrence Time;

Then we have to compute for each activity:

EST, EFT= Earliest Starting Time/ Earliest Finishing Time;

LST, LFT= Latest Starting Time/Latest Finishing time;

EOT of an event I =  $EOT(i) = \text{Max}[EOT(k) + d(k,i)]$

Where EOT(k) = earliest occurrence time of event k, where k precedes i and there may be several k's;

d(k,i) = duration of activity (k,i);

LOT of an event I =  $LOT(i) = \text{Min}[LOT(k) - d(k,i)]$

Where LOT(k) = latest occurrence time of event k, where k follows i and there may be several k's;

d(k,i) = duration of activity (k,i);

Slack of an event =  $LOT - EOT$ ;

Events with 0 slack falls on the critical path.

Critical path starts with the beginning event, terminates with the end event and is marked by events which have a zero slack.

Now we could determine different floats of respective activities. To compute floats we require to calculate EST/EFT and LST/LFT.

$EST(i,j) = EOT(i)$ ;

$EFT(i,j) = EOT(i) + d(i,j)$ ;

$LFT(i,j) = LOT(j)$ ;

$LST(i,j) = LOT(j) - d(i,j)$ ;

Total float of activity (i-j) =  $LOT(j) - EOT(i) - d(i,j)$ ;

Free float of activity (i-j) =  $EOT(j) - EOT(i) - d(i,j)$ ;

Independent float of activity (i-j) =  $EOT(j) - LOT(i) - d(i,j)$ ;

With these formulas in hand the details of different activities we could take few examples given as follows:

**Q1.**

The following table shows different activities related to a project.

From the below details you have to draw the network and compute

(i) For each event EOT, LOT, Slack

(ii) For each activity EST, EFT, LST and LFT

(iii) Show the critical path

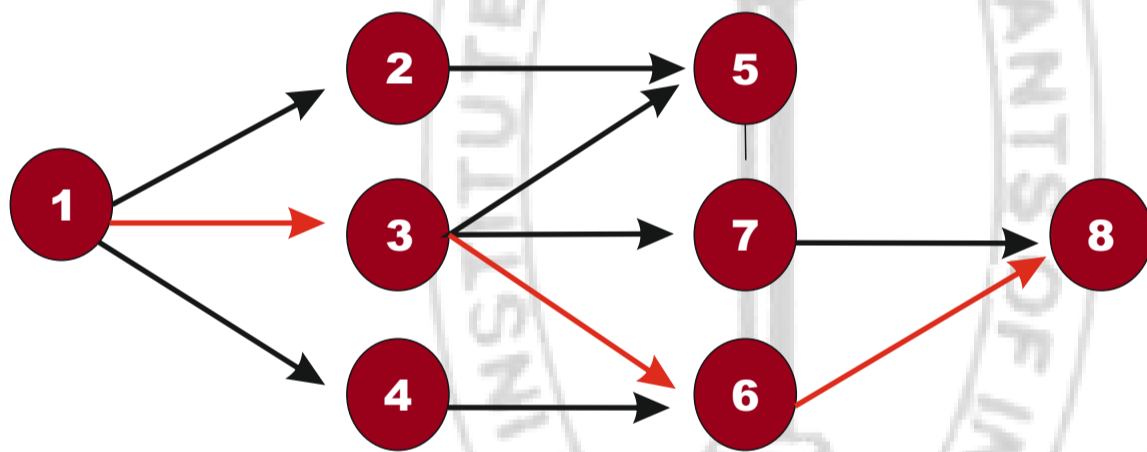
Ans:

Active	Duration
1-2	2
1-3	7
1-4	8
2-5	3
3-5	6
3-6	10
3-7	4
4-6	6



5-7	2
6-8	5
7-8	6

Activity	Duration	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	TF	FF	IF
1-2	2	1	0	0	0	0	2	9	11	9	0	0
1-3	7	2	2	11	9	0	7	0	7	0	0	0
1-4	8	3	7	7	0	0	8	3	11	3	0	0
2-5	3	4	8	11	3	2	5	11	14	9	8	-1
3-5	6	5	13	14	1	7	13	8	14	1	0	0
3-6	10	6	17	17	0	7	17	7	17	0	0	0
4-6	6	8	22	22	0	8	14	11	17	3	3	0
5-7	2					13	15	14	16	1	0	-1
6-8	5					17	22	17	22	0	0	0
7-8	6					15	21	16	22	1	1	0



Critical path is 1-3-6-8

**Q2.**

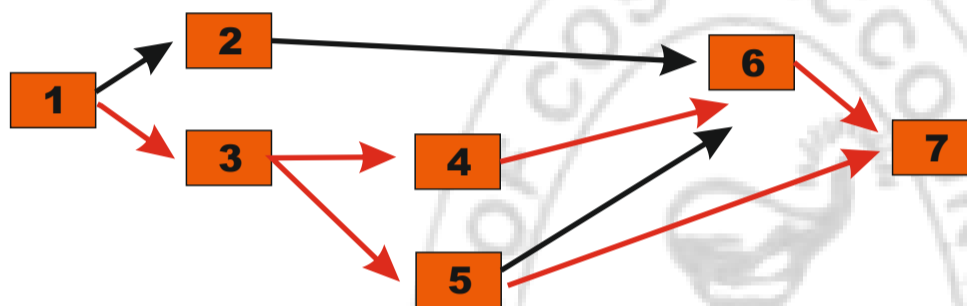
The following table shows different activities related to a project. From the below details you have to draw the network and compute

- (i) For each event EOT, LOT, Slack
- (ii) For each activity EST, EFT, LST and LFT
- (iii) Show the critical path

Activity	Duration
1-2	4
1-3	6
2-6	8
3-4	7
3-5	4
4-6	6
5-6	5
5-7	19
6-7	10

Ans:

Activity	Duration	Event	EOT	LOT	Slack	EST	EFT	LST	LFT	TF	FF	IF
1-2	4	1	0	0	0	0	4	7	11	7	0	0
1-3	6	2	4	11	7	0	6	0	6	0	0	0
2-6	8	3	6	6	0	4	12	11	19	7	7	0
3-4	7	4	13	13	0	6	13	6	13	0	0	0
3-5	4	5	10	10	0	6	10	6	10	0	0	0
4-6	6	6	19	19	0	13	19	13	19	0	0	0
5-6	5	7	29	29	0	10	15	14	19	4	4	4
5-7	19					10	29	10	29	0	0	0
6-7	10					19	29	19	29	0	0	0



Critical path is 1-3-4-6-7 & 1-3-5-7

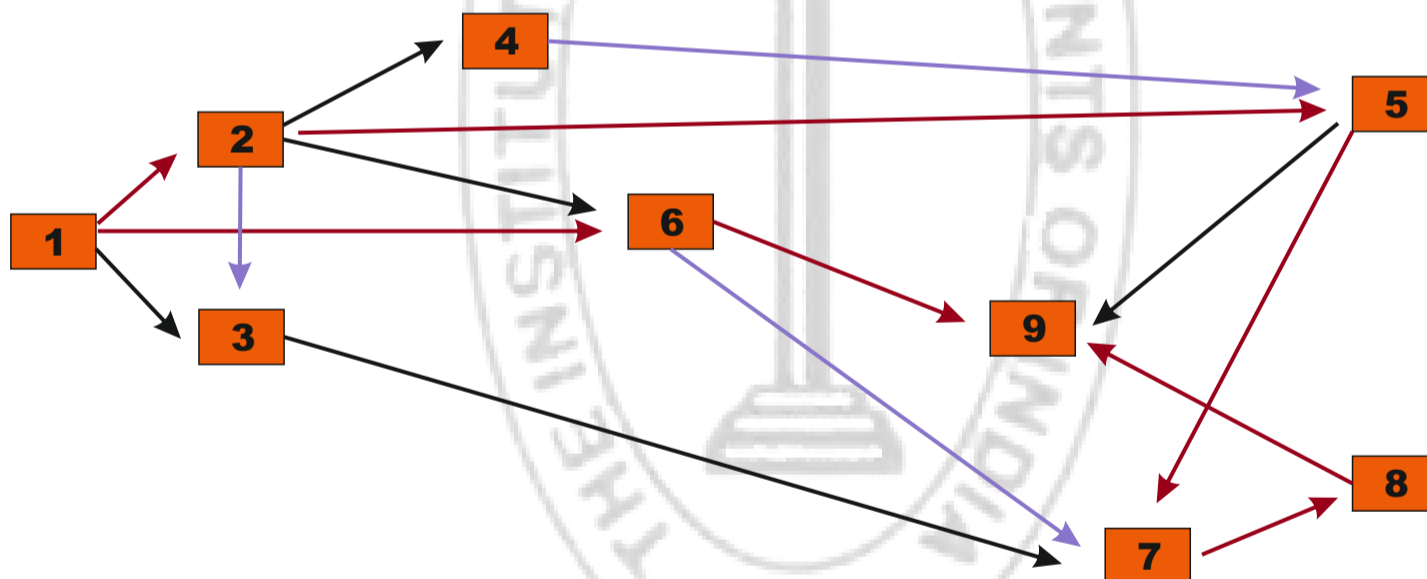
**Q3.**  
The following table shows different activities related to a project.  
From the below details you have to draw the network and compute

- (i) For each event EOT, LOT, Slack
- (ii) For each activity EST, EFT, LST and LFT
- (iii) Show the critical path

Activity	Immediate Predecessors
A	
B	
C	
D	A,B
E	B
F	B
G	C,F
H	B
I	E,H
J	E,H
K	C,D,F,J
L	K

Ans:  
Critical path is  
1-6-9 & 1-2-5-7-8-9

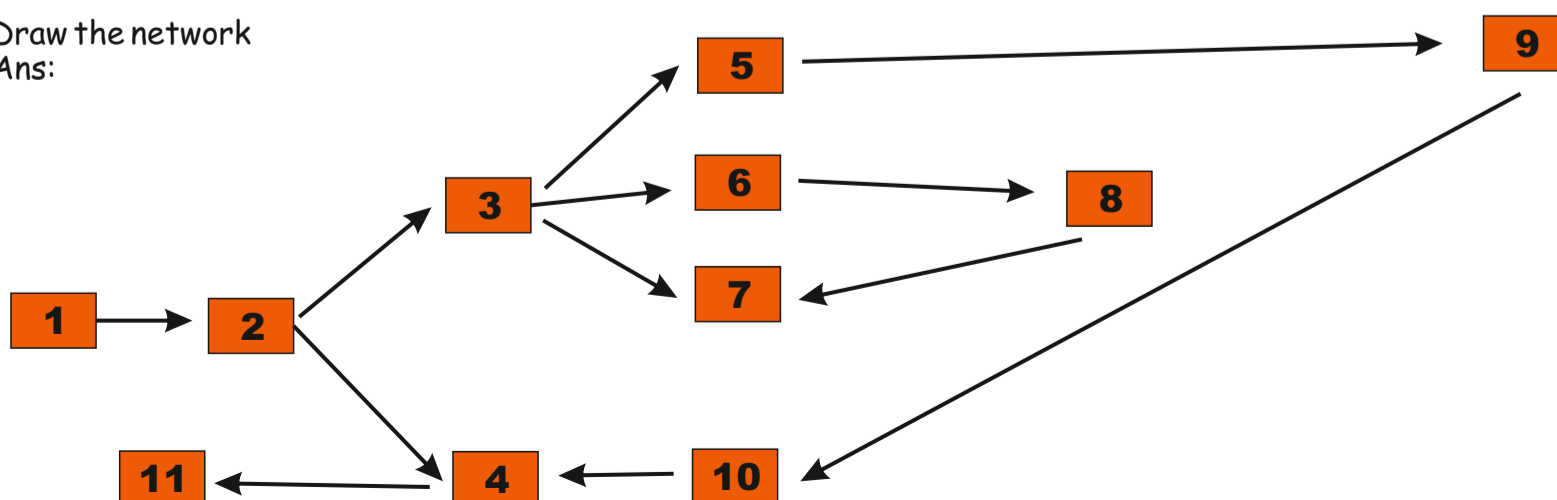
Activity	Immediate Predecessors	Durati on	Activity in terms of Events	EVENT	EOT	LOT	Stock	EST	EFT	LST	LFT	TF	FF	IF
A		6	1-3	1	0	0	0	0	6	5	11	5	0	0
B		4	1-2	2	4	4	0	0	4	0	4	0	0	0
C		10	1-6	3	6	11	5	0	10	0	10	0	0	0
D	A,B	1	3-7	4	5	10	5	6	1	11	12	5	5	0
E	B	1	2-4	5	10	10	0	4	1	9	10	5	0	0
F	B	3	2-6	6	10	10	0	4	3	7	10	3	3	3
G	C,F	14	6-9	7	12	12	0	10	14	10	24	0	0	0
H	B	6	2-5	8	19	19	0	4	6	4	10	0	0	0
I	E,H	9	5-9	9	24	24	0	10	9	15	24	5	5	5
J	E,H	2	5-7					10	2	10	12	0	0	0
K	C,D,F,J	7	7-8					12	7	12	19	0	0	0
L	K	5	8-9					19	5	19	24	0	0	0



Q4.

A project has 14 activities A through M. The relationship which obtain among these activities are given here: A is the first operation. B & C can be performed in parallel and are immediate successors to A. D,E & F follow B. G follows E. H follows D but it cannot start until E is complete. I & J succeed G. F & J precede K. H & I precede L. M succeeds L & K. The last operation N succeeds M & C

Draw the network  
Ans:



Q5.

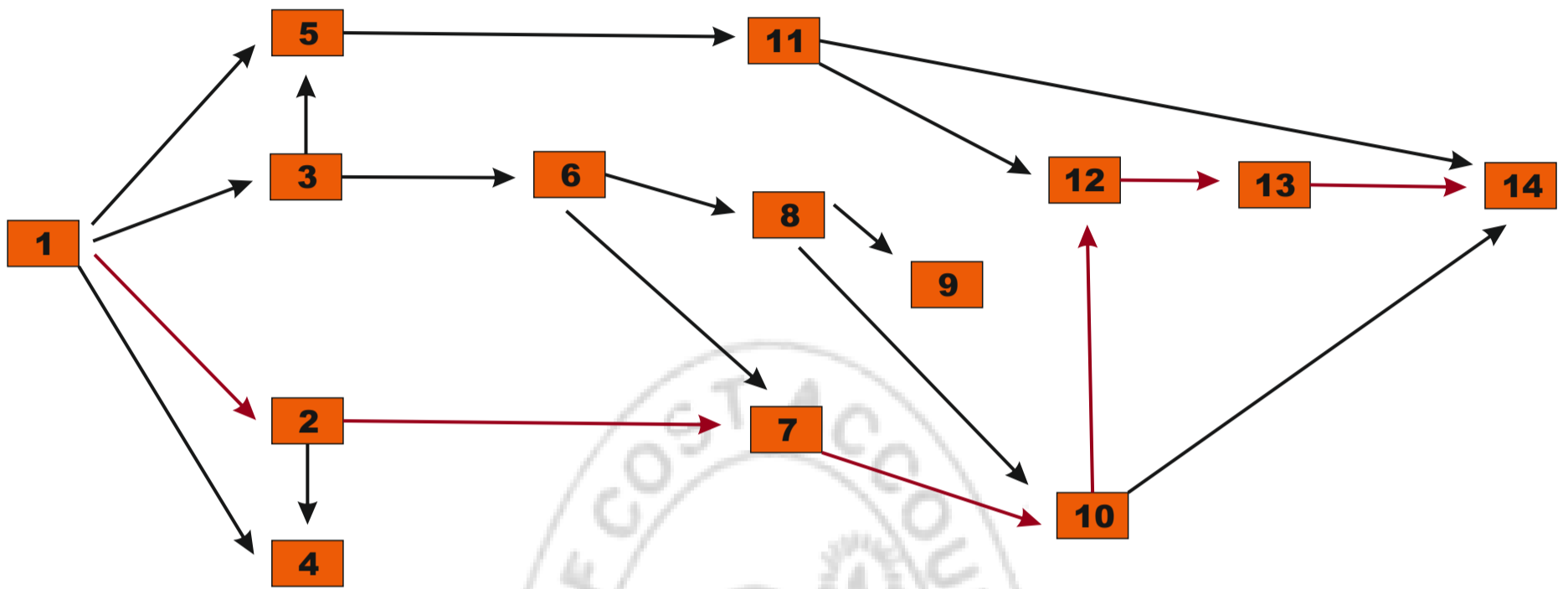
The following table shows different activities related to a project. The project has 14 events related to 22 activities. From the below details you have to draw the network and compute

- (i) For each event EOT, LOT, Slack  
 (ii) For each activity EST, EFT, LST and LFT  
 (iii) Show the critical path

Activity	Duration	Activity	Duration
1-2	8	7-10	12
1-3	2	8-9	3
1-4	6	8-10	6
1-5	12	9-12	8
2-4	5	10-12	18
2-7	9	10-14	9
3-5	3	11-12	7
3-6	7	11-14	4
4-10	4	12-13	11
5-11	10	13-14	4
6-7	2		
6-8	10		

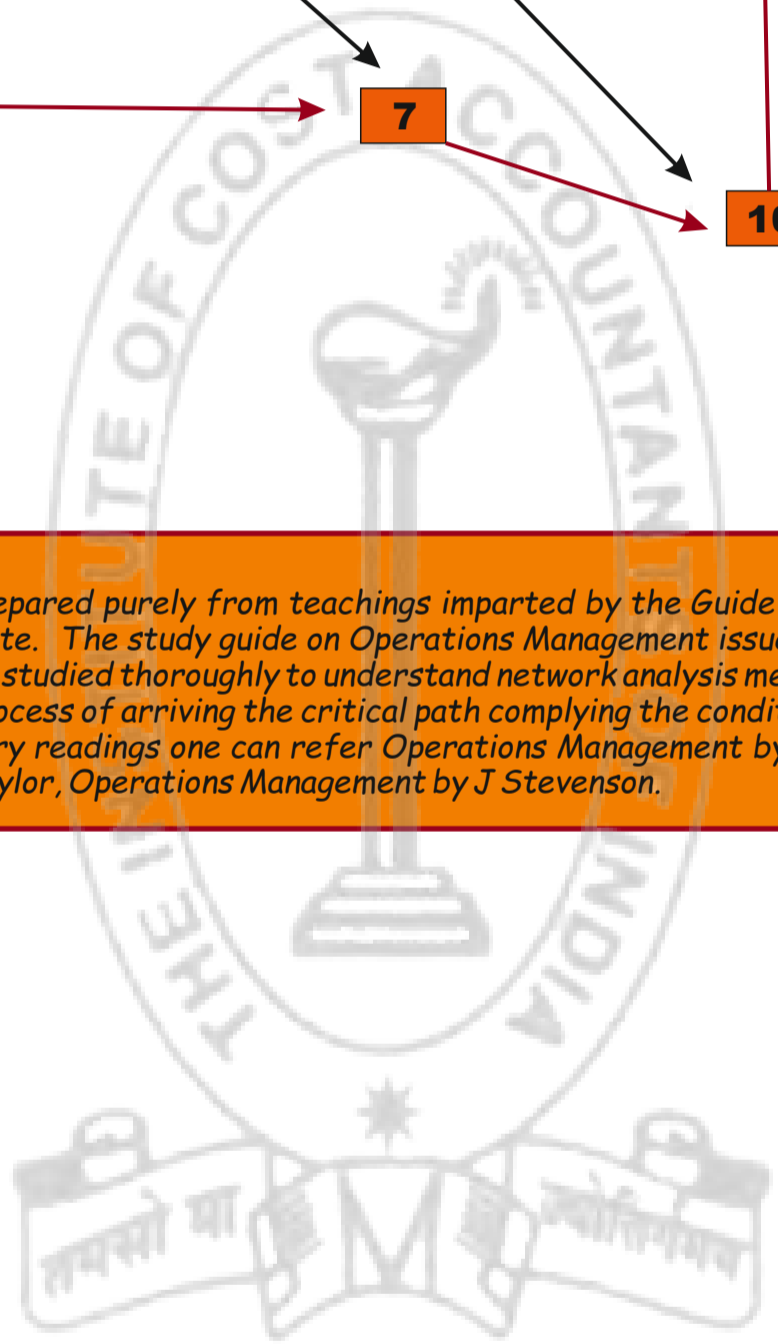
Activity	Duration	EVENT	EOT	LOT	Stock	EST	EFT	LST	LFT	LFT-EST	TF	FF	IF
1-2	8	1	0	0	0	0	8	0	8	8	0	0	0
1-3	2	2	8	8	0	0	2	4	6		4	0	0
1-4	6	3	2	6	4	0	6	19	25		19	7	7
1-5	12	4	13	25	12	0	12	18	30		18	0	0
2-4	5	5	12	30	18	8	13	20	25		12	0	0
2-7	9	6	9	13	4	8	17	8	17	9	0	0	0
3-5	3	7	17	17	0	2	5	27	30		25	7	3
3-6	7	8	19	23	4	2	9	6	13		4	0	-4
4-10	4	9	22	39	17	13	17	25	29		12	12	0
5-11	10	10	29	29	0	12	22	30	40		18	0	-18
6-7	2	11	22	40	18	9	11	15	17		6	6	2
6-8	10	12	47	47	0	9	19	13	23		4	0	-4
7-10	12	13	58	58	0	17	29	17	29	12	0	0	0
8-9	3	14	62	62	0	19	22	36	39		17	0	-4
8-10	6					19	25	23	29		4	4	0
9-12	8					22	30	39	47		17	17	0
10-12	18					29	47	29	47	18	0	0	0

10-14	9					29	38	53	62		24	24	24
11-12	7					22	29	40	47		18	18	0
11-14	4					22	26	58	62		36	36	18
12-13	11					47	58	47	58	11	0	0	0
13-14	4					58	62	58	62	4	0	0	0



Critical path is 1-2-7-10-12-13

**Suggestions:**  
 This lesson is prepared purely from teachings imparted by the Guide book issued by Institute. The study guide on Operations Management issued by Institute is to be studied thoroughly to understand network analysis method along with the process of arriving the critical path complying the conditions. For supplementary readings one can refer Operations Management by R.S. Russell & B.W. Taylor, Operations Management by J Stevenson.

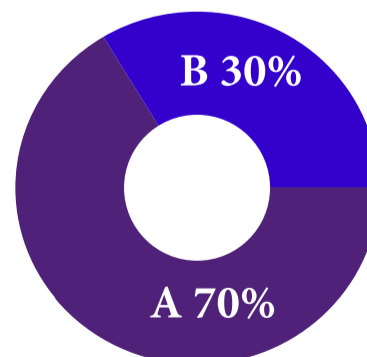




GROUP: II, PAPER: 9, Part- ii  
**OPERATIONS**  
MANAGEMENT & STRATEGIC  
MANAGEMENT (OMSM)  
Strategic Management

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# Your Preparation Quick Takes

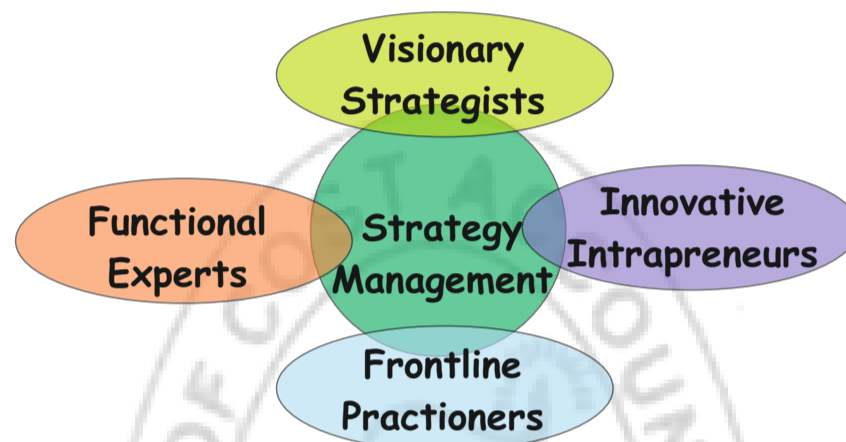


### Syllabus Structure

A Operations Management 70%  
B Strategic Management 30%

**Learning Objectives:**

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

**STRATEGIC MANAGEMENT****Strategic Business Success****4 Perspectives to be synergized**

The word strategy has so many meanings itself and all these meanings are useful, important and relevant to the people who are setting strategy for their organizations and corporations. Various authors have drawn their attention on the concept of strategy. Author entailed the past definitions of various scholars and proposed a new definition on the term strategy. The word strategy derives from the Greek word "strategos", the meaning comes from the roots of "army".

The meaning of 'stratego' is planning of destroying enemies by effectively using the resources. Therefore the concepts of strategy have been formerly used in the context of military and it is remaining as the benchmark of all the definitions of strategy. After World War II due to the reason of moving the business from a relatively stable environment to a dynamic and competitive environment the need became greater for a concept of business strategy which is the strategy related to business.

**Strategy** is a very useful concept for an organization, since it has many variations. In this paper it has entailed some definitions of strategy used by different scholars and author has proposed a new definition for the strategy as "A strategy is a plan of actions that one uses to formulate goals, objectives and means of achieving those goals and objectives". **Strategic planning** is a road map for an organization which helps to manage the enterprise, especially if strategic plan can successfully deploy throughout the organization. **Strategic thinking** and strategic management are more important aspects of senior management's responsibilities. Strategic planning process is a very comprehensive process which requires a great deal of strategic thinking. Strategic management helps an organization to determine its' mission and objectives through creating & sustaining competitive advantage. Today the organization has realized the benefits of strategic management does to an enterprise. The article has briefly explained the financial and non-financial benefits of strategic management towards the organization.

**Strategic planning** is a road map which gives directions to an organization from now, where to go or where should be in five or ten years. Strategic planning involves multi-year projections which is not very specific like operational planning. It is well organized set of activities which helps an organization to organize the present based on the projections of the target future. Strategic plan is very important for an organization to develop the comprehensive plan which includes both long-range and strategic elements. The strategic plan should be based on actual current situation and be simple, clear and written. And also it should have given enough time to be settled otherwise it will cause problems

The development of strategic plan requires more discussion and timing and need to examine the ideas and options of the leaders. It should be an integrated document which incorporates the organizations objectives, purpose, mission and regulations with the feelings, thoughts and opinions of the developers. However, most of the time the development is less complicated than the implementation of it.

On one hand **strategic thinking** can be viewed as a part of strategic planning process, since a great deal of strategic thinking is required to develop a successful strategic plan. On the other hand strategic planning and strategic thinking can be viewed as the two sides of the same coin and each one on its own is necessary.

**Strategic Management** is a broader term than strategy. And also it is a process which includes environmental analysis of the organization by the top managers for the purpose of strategy formulation and the plan of strategy implementation and controlling. Strategic management is a collection of ongoing activities of strategic analysis, strategy creation, implementation and monitoring. It systematically organizes the resources in align with vision, mission and strategy throughout the organization. Strategic management doesn't predict the future, but prepares the organization for it by knowing the exact steps to implement strategic plan. Initially strategic management was a part of strategic planning which is now a main instrument

of it. Strategic planning is incorporated with strategic management which unites both planning and management in the same process. Now strategic management has become one of the most prominent areas of management. It consists a comprehensive collection of management actions which supports company managers to keep the organization consistent with the environment and shows the correct path of development. Strategic management in an organization focuses on the issues of creating and sustaining competitive advantage. It is a process and a path guiding actions all over the organization. It is a collection of actions consists of organizational analysis, decisions and actions to create and sustain competitive advantages. These competitive advantages support an organization to explore opportunities and minimize threats from the environment. Therefore more generally strategic management is a comprehensive ongoing process which involves determining the mission and the objectives of the organization within the internal and external environment.

More Precisely the benefits of strategic management are in two ways; financial benefits and non-financial benefits. All the improvements in the sales, profitability and productivity include in financial benefits. A sound strategic management can lead an organization to realize its mission and objectives of the company.

***"A satisfied customer is the best business strategy of all."***







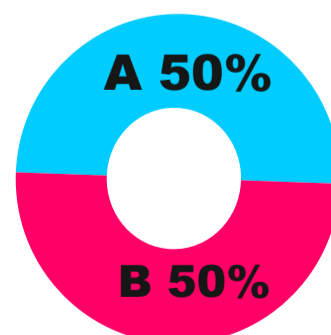
GROUP: II, PAPER:10

## COST & MANAGEMENT

ACCOUNTING AND FINANCIAL  
MANAGEMENT(CMFM)

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# Your Preparation Quick Takes



### Syllabus Structure

A Cost & Management Accounting 50%

B Financial Management 50%

**Learning Objectives:**

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

## VARIANCE ANALYSIS DUE TO CHANGE IN PROFIT (PROFIT VARIANCE)

**ILLUSTRATION**

From the following particulars for a period reconcile the actual profit with the budgeted profit.

	Budgeted (₹ Lac)	Actual (₹ Lac)
Direct Material	50.00	66.00
Direct Wages	30.00	33.00
Variable Overheads	6.00	7.00
Fixed Overheads	10.00	12.00
Net Profit	4.00	8.50
	<b>100.00</b>	<b>126.50</b>

Actual Material price, Wage rate and Overheads were higher by 10%.  
Actual Sales price are also higher by 10%

SOLUTION THROUGH DIAGRAM:

### Statement of Profit Variance (₹ Lac)

Particular	I Budget	Volume difference leading to Contribution on Variance	II Changed Volume Due to Sales	Usage / Efficiency Variance	III Before Price increas	Price Rate / Exp Variance	IV Actual	V % age Increase in Prices
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sales	100	15.00 (F)	115	NIL	115	(a) 11.50(F)	126.50	10%
Direct Material	50	7.50 (A)	57.50	(d) 2.50 (A)	60	(c) 6.00 (A)	66	10%
Direct Wages	30	4.50 (A)	34.50	(f) 4.50 (F)	30	(e) 3.00 (A)	33	10%
Variable Overheads	6	0.90 (A)	6.90	(h) 0.54 (F)	6.36	(g) 0.64 (A)	7	10%
Contribution Variance		2.10 (F) (b)						

Fixed Overheads	10		10	(j) 0.91 (A)	10.91	(i) 1.09 (A)	12	10%
Profit (Total)	4	2.10 (F) Contribution		1.63 (F)		0.77 (F)	8.50	

## STATEMENT SHOWING RECONCILIATION OF BUDGETED PROFIT WITH ACTUAL PROFIT

(₹ in Lac)

a)	<b>Budgeted Profit</b>					11.50 (F)		4.00
b)	Sales Price V					2.10 (F)		13.60 (F)
	Contribution V							17.60
c)	<b>Direct Material</b> : Price V			6.00 (A)				
d)	Usage V			2.50 (A)				
						8.50 (A)		
e)	<b>Direct Wages</b> :			3.00 (A)				
f)	Rate V			4.50 (F)				
	Efficiency V					1.50 (F)		
g)	<b>Variable Overheads</b> :			0.64 (A)				
h)	Expenditure V			0.54 (F)				
	Efficiency V					0.10 (A)		
i)	<b>Fixed Overheads</b> :			1.09 (A)				
j)	Expenditure V			0.91 (A)				
	Efficiency V					2.10 (F)		9.10 (A)
	<b>Actual Profit</b>							8.50

## Working Notes

Steps for solution through diagram.

- 1) Draw a Table having 9 (Nine) Columns as shown.
- 2) Fill up Col. I, IV & V with given particulars / data.
- 3) Fill up Col. III on the basis of Col IV & V as shown below.

## Working Notes

Steps for solution through diagram.

- 1) Draw a Table having 9 (Nine) Columns as shown.
- 2) Fill up Col. I, IV & V with given particulars / data.
- 3) Fill up Col. III on the basis of Col. IV & V as shown below.

Sales :  $126.50 \times 100 / 110 = 115$  (So that  $115 + 10\% = 126.50$ )  
 Direct :  $66 \times 100 / 110 = 60$  (So that  $60 + 10\% = 66$ )  
 Direct Wages :  $33 \times 100 / 110 = 30$  (So that  $30 + 10\% = 33$ )  
 V. OH :  $7 \times 100 / 110 = 6.36$  (So that  $6.36 + 10\% = 7$ )  
 F. OH :  $12 \times 100 / 110 = 10.91$  (So that  $10.91 + 10\% = 12$ )

- 4) Fill up Col. II in view of change in Volume of Sales as shown below, taking

Col. I as the basis. 100 in Col. I is increased to 115 (Vide Col. III) i.e.

15% increase. Note that there cannot be usage V or efficiency V in respect of Sales. Hence Variance between Col. III and II becomes NIL.

Other items of Col. I is increased by 15% viz.

Direct Material	: 50 + 15% = 57.50
Direct Wages	: 30 + 15% = 34.50
Variable Ohs	: 6 + 15% = 6.90
Fixed Ohs	: Do not change in the short run, hence remains same (Rs.10) in the Col. II, as well.

5) Variance Analysis between the items of Col. I and II is noteworthy.

Though the subject columns deal with Volume Variance, yet, unlike Sales and Fixed Overheads, Volume Variance in respect of Materials, Labour and Variable overheads is not popular in the standard costing parlance. Hence, summing them up, Contribution Variance [15.00(F) - 12.90(A) = 2.10] has been shown. It seems to be a better presentation so far Profit Variance is concerned.

#### Solution through diagrams

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

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

In the Profit Variance Problems, arrows in respect of Revenue items (i.e. Sales, Contribution) are directed from right to left (i.e. ←), whereas arrows in respect of Cost items (i.e. Material, Labour, V.OH, F.OH) are directed from left to right (i.e. →). This contradicting direction of arrows have been devised to accommodate both the items (i.e. Revenue and Costs) in the same frame.

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

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

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



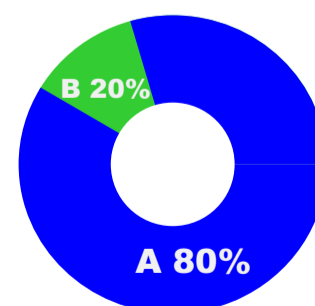


GROUP: II, PAPER:11

# INDIRECT TAXATION (ITX)

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## Your Preparation Quick Takes



### Syllabus Structure

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

**Learning objectives:**

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

### Goods purchased and supplied outside India

A company dealing in the software does the development of software and got the order from Thailand for the development of software and Hardware. The company did development of software and exported it to Thailand. But the hardware was brought from Hongkong and it has not crossed the territory of India and directly supplied to Thailand on bill to ship to basis. It was bill to India and Ship to Thailand directly. The company applied for advance ruling and raised question regarding the question :

- i) Whether GST is payable on goods procured from Hongkong located outside India in a context where the goods so purchased are not brought into India?
- ii) Whether GST is payable on goods sold to customers located outside India, where goods are shipped directly from Hongkong's premises (located outside India) to the Customer's premises in Thailand?

The facts of the case:

1. As per Section 2(10) of the Integrated Goods and Services Tax Act, 2017, "import of goods" with its grammatical variations and cognate expressions, means bringing goods into India from a place outside India.
2. Accordingly, to section 2 (7) of integrating Goods and service tax act,2017, supply of goods imported to be the territory of India, till it reaches the custom frontier of India, shall be supply of goods in the course of interstate trade or commerce.
3. Provided that the integrated tax on goods imported into India shall be levied and collected in accordance with the provisions of Section 3 of the Customs Tariff Act, 1975, on the value determined under the said Act at the point when duties of customs are levied on the said goods under Section 12 of the Customs Act, 1962
4. Upon the conjoint reading of the provision of IGST Act, Customs Tariff Act, it is found that integrated tax on goods will be charged when duties of customs are levied on goods as per section 12 of Customs Act,1962.
5. Vide circular no 33/2017 dated 1.8.2017 it has been clarified in subsection 12 of section 3 of the customs tariff act,1975 that all the duties, taxes, and cesses will be imposed at the time of importation i.e when the import declaration is filed before the customs authorities for customs clearance.
6. We find that an integrated tax could not be levied where the bill of entry has not been filed.
7. The same way for levying of GST on outward supply from place of the vendor to customer, it is to mention that the thumb-rule for determining the taxability of any transaction is to ascertain whether the transaction tantamount to 'supply' in terms of the provisions of law. The term 'supply' has been defined at Sec. 7 of the CGST Act, 2017 which reads as under:
  1. For the purposes of this Act, the expression "supply" includes :
    - i. all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;
    - ii. import of services for a consideration whether or not in the course or furtherance of business; [and]
    - iii. the activities specified in Schedule I, made or agreed to be made without a consideration;
8. In the instant case, the supplier is located in India, and the place of supply is outside India. Such supply shall be treated as inter-state supplies. The place of supply in the instant case would be governed by the provisions of Sec. 10 of the IGST Act, 2017 of which the relevant text reads as under
9. In the instant case, it is an undisputed fact that the supply involves the movement of goods and therefore the place of supply would be the termination for delivery to the recipient. The goods under consideration are supplied to overseas buyers as declared by the applicant and as such, the place of supply will be a place outside India. Further, the supplier is the applicant who has declared the principal place of business within India and issues the invoices for the sale of such goods.
10. Export of goods has been defined in section 2[5] of IGST Act,2017 which reads as under ; Export of goods would mean— 'With its

grammatical variations and cognate expressions, means taking goods out of India to a place outside India.

The above definition indicates that the act of taking goods out of India to a place outside India qualifies as export. In the instant case, the goods have not crossed the Indian customs frontier and as such, it is clear that the goods are not physically available in the Indian territory. When the goods are not available in the Indian territory, the question of taking goods out of India does not arise. Thus, the subject transaction does not qualify as the export of goods.

Similar AAR being decided in Sterlite Technologies Ltd in Gujarat.

Conclusion:

1. GST is not payable on goods procured from vendors outside India, where the goods so purchased are not brought down into India.
2. Applicable GST is payable on goods sold to customers located outside India, where goods are shipped directly from the vendor's premises[ located outside India] to the customer's premises.

**Disclaimer:** The contents of this article are solely for information and knowledge and does not constitute any professional advice or recommendation. Author does not accept any liability for any loss or damage of any kind arising out of this information set out in the article and any action taken based thereon.

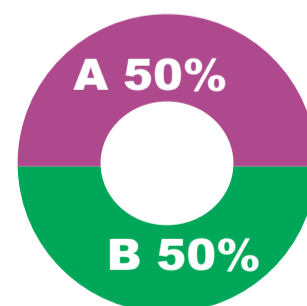




GROUP: II, PAPER:12  
**COMPANY**  
ACCOUNTS & AUDIT (CAA)

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# Your Preparation Quick Takes



## Syllabus Structure

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



**Learning Objectives:**

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

**VOUCHING ETC**

Today let us proceed towards vouching and encircling points

**What is vouching?**

Vouching is the examination of the transactions with sufficient underlying evidences to satisfy an auditor about the validity, accuracy, authority and authenticity of the record entered in the books of account.

**What do you understand by routine checking?**

Routine checking means checking of original entry and ledgers with a view to detect clerical errors or frauds of a very simple nature.

**What is test checking?**

It involves a more intensive checking of a limited number of transactions selected on random basis from the total accounting data as against a detailed checking of all the transactions.

**What is vouching in depth?**

It implies examination of accounting records in depth. It involves selection of a sample of transactions from one area of accounting and tracing them the beginning to the end or vice-versa.

**What is voucher?**

A voucher may be defined as written documentary evidence in support of a claim or other statement of facts or transaction in the books of accounts.

It may be a receipt, a contract, minutes, invoices, correspondence, bought notes, sold notes, wage book etc

**How you judge reliability of voucher?**

Special attention is to pay to the following points

1. It is in the name of the client
2. Its date relates to the period under audit
3. The amount entered therein is the correct one
4. The particulars should be correspond to records of transactions
5. It is properly stamped
6. It has been passed by a responsible officer

**What is cut off?**

The term cut off refers to the procedure adopted by the management to ensure the separation of transactions as at the end of one accounting year from those at the commencement of following year.

**On which aspects degrees of reliability of vouchers depend?**

1. Vouchers prepared by third party and sent directly to the auditor are ordinarily the most reliable
2. Vouchers prepared by third party but are in the possession of the client have a lower degree of reliability.
3. Vouchers which originate within the client's organization are the least reliable.

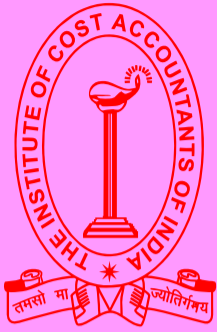
Vouching is the backbone of auditing—discuss in brief.

Unless the auditor goes behind the books of account trace the source of entries, he cannot ascertain the truth.

An auditor does not merely see the arithmetical accuracy but also be to see its substantial accuracy which is only possible through examination of vouchers.

In such pandemic situation students are not in free movement to gather knowledge and for enjoying life. It is really painful. But you are to be proactive and you are to translate this pandemic situation as pan academic.

The task is in your hand, thus carry on.



# PRACTICAL Advice

## ABOUT YOUR STUDIES - INTERMEDIATE COURSE

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

START

01

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

**Solve Exercises  
given in Study Note**

02

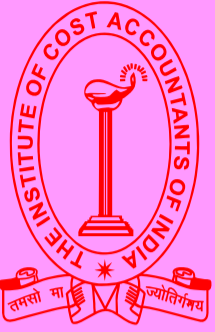
03

**Assess Yourself**

**Appear For Examination**

04

FINISHED



# SUBMISSIONS



## Update 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,

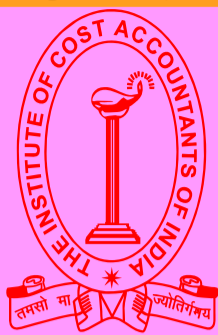
We are very much delighted to receive responses from all of you; for whom our effort is!

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,

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, Mock Test Papers (MTPs), Work Books, MCQs and we have conducted Webinar sessions.

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

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

Let us observe his memory by following his message.

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

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

**Please refer the link mentioned below :**

<https://icmai.in/studentswebsite/>

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

**GOOD LUCK**

**Be Prepared and Get Success;**

**Disclaimer:**

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



# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Statutory Body under an Act of Parliament

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



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# CMA LEADS

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

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

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

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

4 Regional  
Councils

98  
Chapters

9  
Overseas  
Centres

Largest  
CMA body  
in Asia

2nd  
Largest  
CMA body  
in the  
Globe

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

## ADMISSIONS OPEN 2020-2021

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

☎ **1800 345 0092/1800 110 910**

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

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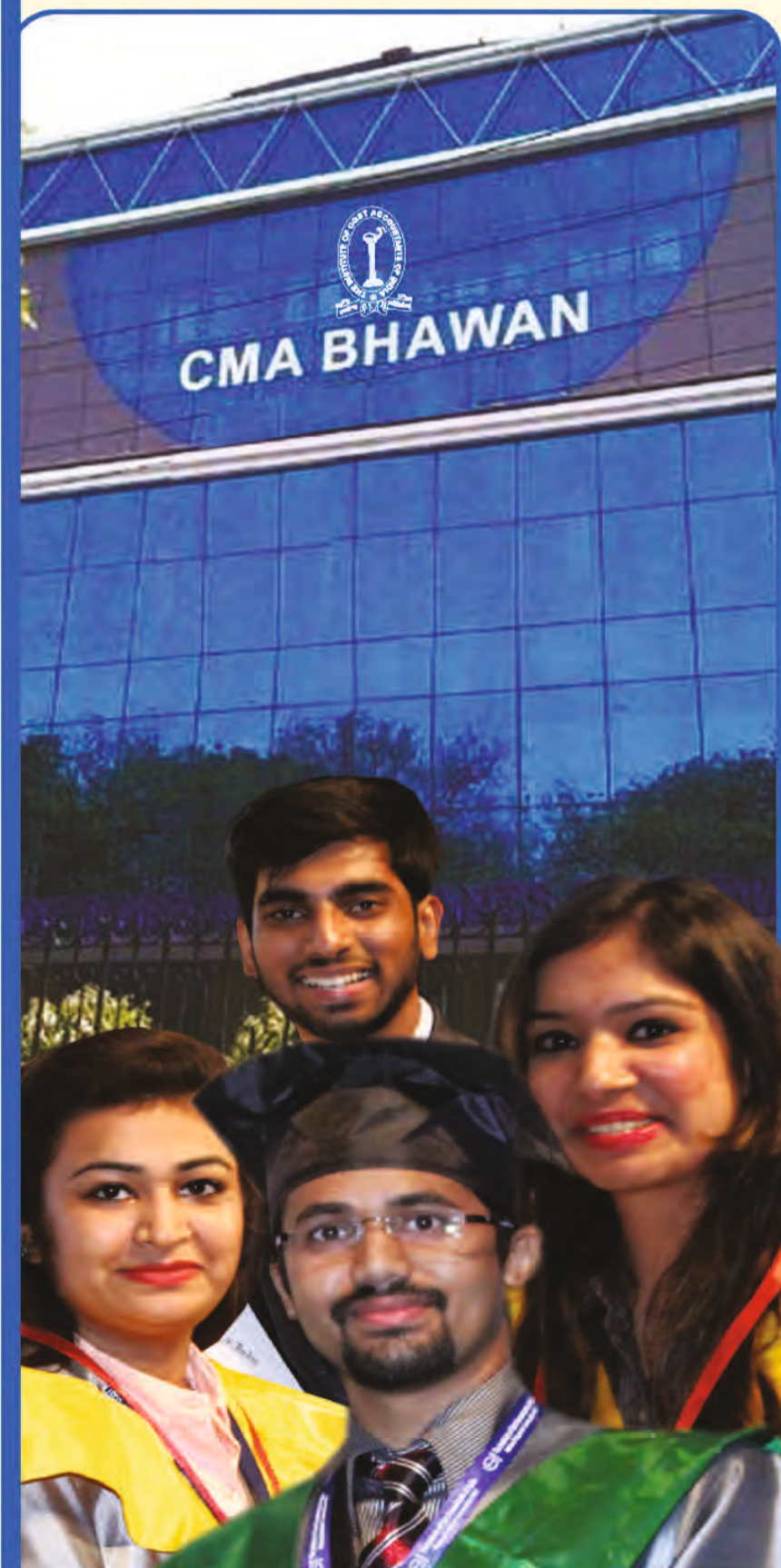
*Few of Our Proud Recruiters*



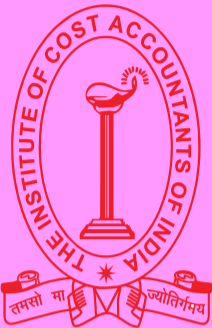
✉ [placement@icmai.in](mailto:placement@icmai.in) / [cpt@icmai.in](mailto:cpt@icmai.in)

☎ **+ 91 33 40364770**

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



# Few Snapshots



The Institute of Cost Accountants of India - Streamline Academy - ROCC - S-187 - Thrissur

Message on COVID-19 from Students of ROCC Streamline Academy Thrissur



Nagpur Chapter initiative on COVID-19



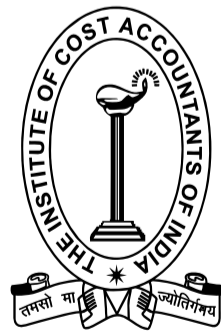
Message on COVID-19 from Eastern India Region Student Fraternity.



Message on COVID-19 from Patiala Chapter of the Institute



Message on COVID-19 from Students, Staff, Members of Nellore Chapter.



# 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****