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CMA Student E - Bulletin



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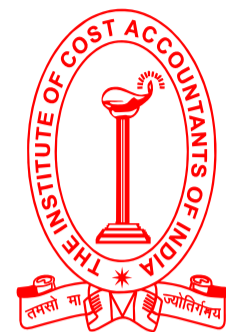
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Behind every successful business decision, there is always a CMA

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Message from the **CHAIRMAN**

Dear Students,

Warm greetings!

In the words of Mahatma Gandhi, "Happiness is when what you think, what you say, and what you do are in harmony."

As stewards of the future, it is our responsibility to nurture not only the young minds of our nation but also contribute to the global landscape, much like tending to the greenery and the environment for the prospective well-being of human civilizations. Our commitment is still evolving and we aspire to cultivate individuals equipped not only with knowledge but also with compassion and humanity, qualities that are increasingly rare in today's world.

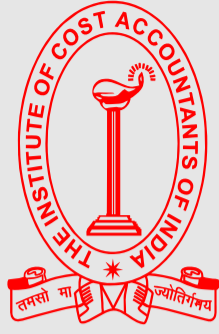
We are dedicated to fostering an environment where our students actively contribute to the development of a vibrant and positive ecosystem coupled with the attainment of essential knowledge. The Directorate of Studies takes pleasure in extending comprehensive support and guidance to our students. Live webinars are regularly organized for your benefit, and recorded sessions are archived in our e-library. Model Question Papers (MQPs) and monthly E-bulletins containing valuable insights are consistently updated on our website. Esteemed academicians and industry experts continually contribute to enriching the learning experience of our students.

As the Chairman of the Training & Educational Facilities Committee, I express sincere gratitude to all those who contribute to this noble cause. To those gearing up for the December 2023 term examinations, I encourage you to continue your revisions and make the most of the academic resources provided by the Directorate of Studies.

Always bear in mind, "Education is the most powerful weapon which you can use to change your future."

Best wishes,

**Chairman, Training & Educational Facilities Committee
The Institute of Cost Accountants of India**



KNOWLEDGE Update



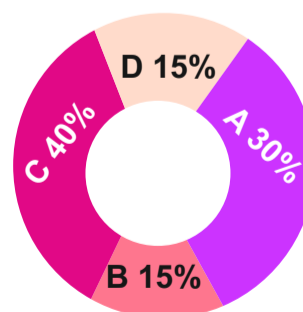
In this section of e-bulletin we shall have a series of discussion on each of these chapters to provide a meaningful assistance to the students in preparing themselves for the examination at the short end and equip them with sufficient knowledge to deal with real life complications at the long end.

GROUP: I, PAPER: 5

Business Laws and Ethics (BLE)

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Your Preparation Quick Takes



Syllabus Structure

Section A: Commercial Laws 30%

Section B: Industrial Laws 15%

Section C: Corporate Laws 40%

Section D: Business Ethics 15%

Laws & Ethics

It is expected 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 important point is that you must read the *Bare Act* and the *Sections* and start asking questions to yourself and find your own answers. In this issue we shall deal with Indian Contract Act, mainly two special type of contract as per Indian Contract Act, 1872.

Special Contract

Contract of Indemnity and Guarantee

Chapter VIII of the Act deals with the contract of indemnity and guarantee. Sections 124 and 125 of Indian Contract Act deal with the contract of indemnity. The other provisions deal with the contract of guarantee.

Contract of Indemnity

Section 124 of the Act defines the expression 'contract of indemnity' as a contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person.

Example: A contracts to indemnify B against the consequences of the proceedings which C may take against B in respect of a certain sum of Rs.5 lakhs. This is a contract of indemnity.

This contract includes indemnifier and indemnity holder. A person who promises to indemnify from losses is called as indemnifier and the person whose loss is made good is called as indemnity holder. To indemnify does not merely mean to reimburse in respect of money paid, but to save from loss in respect of the liability for which the indemnity has been given.

A contract of indemnity may be either expressed or implied. In '*Kuppan Chettiar vs. Ramaswami Chettiar*' -ILR (1947) Mad.58, it was held that there is implied by law a contract by the person making the request to keep indemnified the person having the duty against any liability which may result from such exercise of the supposed duty.

In '*The New India Assurance Co. Limited vs. State Trading Corporation of India*' -AIR 2007 (NOC) 517 (Guj), it was held that almost all insurance other than life and personal accident insurances are contracts of indemnity.

In '*National Overseas vs. Export Credit Guarantee Corporation of India Limited*' - AIR 2008 All 18, it was held that where export risk policy issued by Export Credit Guarantee Corporation and exporter had consigned shipments to buyer at his own risk without resorting to terms of policy; the corporation is not liable to indemnify loss caused to exporter.

Rights of indemnity holder when sued

Section 125 provides the rights of indemnity holder when sued. This section provides that the promise, in a contract of indemnity, acting within the scope of his authority, is entitled to recover from the promisor-

all damages which he may be compelled to pay in any suit in respect of any matter to which the promise to indemnify applies;

all costs which he may be compelled to pay in any such suit if, in bringing or defending it, he did not contravene the orders of the promisor, and acted as it would have been prudent for him to act in the absence of any contract of indemnity, or if the promisor authorized him to bring or defend the suit;

all the sums which he may have paid under the terms of any compromise of any such suit, if the compromise was not contrary to the orders of the promisor, and was one which it would have been prudent for the promise to make in the absence of any contract of indemnity, or if the promisor authorized him to compromise the suit.

This section is not exhaustive and does not set out all the reliefs which an indemnity holder who has been sued may get. It leaves untouched certain equitable reliefs which he may get. The rights of the indemnity holder are not confined to those mentioned in this section. Even before damage is incurred, it is open to him to sue for the specific performance of the contract of indemnity, provided that it shows, that an absolute liability has been incurred by him and that the contract of indemnity covers the said liability.

In '*Pepin vs. Chandra Seekur*' - ILR 5 Cal. 811, it was held that in the case of contract of indemnity, the liability of the party indemnified to a third person is not only contemplated at the time of indemnity, but is the very moving cause of that contract and in case of such a nature, the costs reasonably incurred in resisting or reducing or ascertaining the claim may be recovered.

Contract of Guarantee

Section 126 defines the expression 'the contract of guarantee' as a contract to perform the promise, or discharge the liability of a third person in case of his default. The components of this contract consist of:

surety-the person who gives the guarantee is called as the 'surety';

principal debtor-the person in respect of whose default the guarantee is given is called the principal debtor;

creditor-the person to whom the guarantee is given is called the 'creditor'.

A guarantee may be either oral or written. It is a tripartite agreement which contemplates the principal debtor, the creditor and the surety.

Consideration for Guarantee

Section 127 provides that anything done, or any promise made, for the advantage of the principal debtor, maybe a adequate consideration to the surety for giving guarantee.

Examples:

1. B requests A to sell and deliver to him goods on credit. A agrees to do so, provided C will guarantee the payment of the price of the goods. C promises to guarantee the payment in consideration of A's promise to deliver the goods. This is sufficient consideration for C's promise
2. A sells and delivers goods to B. C afterwards requests A to forbear to sue B for the debt for a year, and promises that, if he does so, C will pay for them in default of payment by B. A agrees to forbear as requested. This is a sufficient consideration for C's promise
3. A sells and delivers goods to B. C afterwards, without consideration, agrees to pay for them in default of B. The agreement is void.

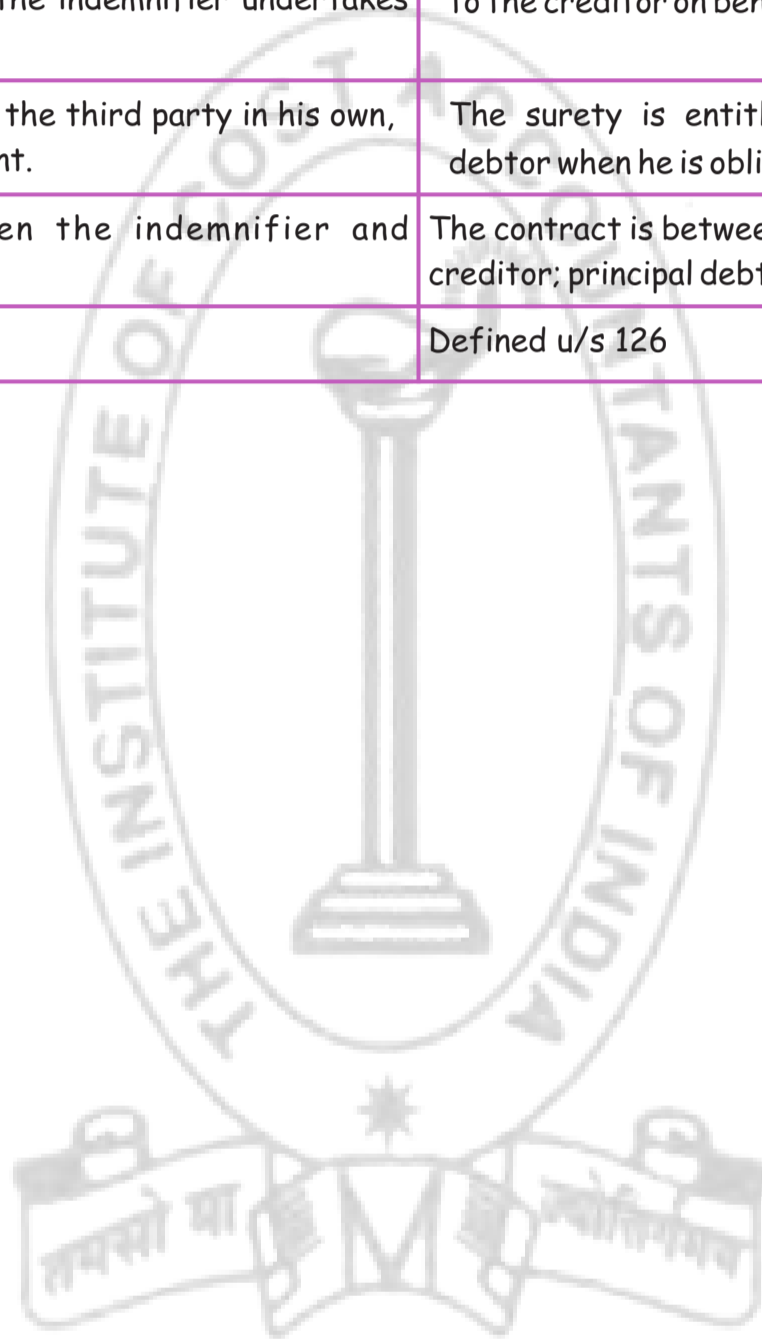
This section takes into its fold past consideration also. Like any other contract, a contract of guarantee must be supported by consideration. It is not necessary that the consideration should be received by the surety. Consideration between the principal debtor and the creditor is good consideration for the guarantee given by the surety. In '*Rajendra vs. Mahila Chandrabai*' -n2012 (1) MPLJ 164, the case is within the purview of example (3). Merely because the appellant made promise to the plaintiff that in this case first and second defendants who were required to pay the sale price to her, fail to pay the same, he would pay the sale price, that promise was without consideration and therefore the said agreement between the plaintiff and third defendant was void. Needless to say that a void agreement cannot be enforced by law and therefore, since the status of the appellant (third defendant) is that of a guarantor, this case is covered under the ambit of example (3) to Section 127 of the Act and he is not liable to pay the sale consideration or any other amount to the plaintiff on account of the failure in making the payment by first and second defendants.

In '*United Breweries (Holding) Limited vs. K.S.I.I.& D.C. Limited*' - AIR 2012 (NOC) 154 (Cal.) it was held that it is clear that the question as to whether the deed in question is a deed of guarantee or not depends upon the terms under which the guarantor binds himself. Under law, he cannot be made liable for more than what he has undertaken. There is no ambiguity that the appellant has not undertaken that he would repay the loans of Second respondent, in case if Second respondent fails to discharge its liability. As a result, the appellant cannot be made liable for more than what it has undertaken.

Distinction between Indemnity and Guarantee

The significant differences between indemnity and guarantee are enumerated in the table below.

Sl. No.	Contract of Indemnity	Contract of Guarantee
1	In this contract there are two parties - the indemnifies and the indemnified	In this contract three parties are involved-principal debtors, surety and creditor
2	The primary liability is on the indemnifier	The principal liability is on the principal debtors. Secondary liability is on the surety.
3	The indemnifier is not acting at the request of the debtor.	The surety gives contract at the request of the principal debtor.
4	The possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.	There is an existing debt for which the surety gives guarantee to the creditor on behalf of the principal debtor.
5	The indemnifier cannot sue the third party in his own, unless there is an assignment.	The surety is entitled to proceed against the principal debtor when he is obliged to perform the guarantee
6	The contract is between the indemnifier and indemnified.	The contract is between the principal debtor -creditor; surety-creditor; principal debtor-surety.
7	Defined u/s 124	Defined u/s 126

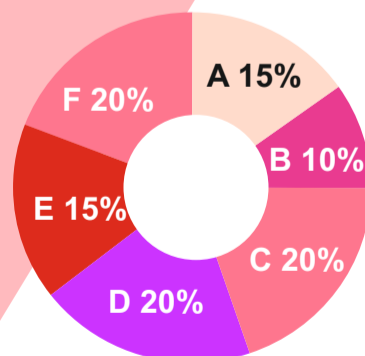


GROUP: I, PAPER: 6

Financial Accounting (FA)

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Your Preparation Quick Takes



Syllabus Structure

Section A: Accounting Fundamentals **15%**

Section B: Accounting for Special Transactions **10%**

Section C: Preparation of Financial Statements **20%**

Section D: Partnership Accounting **20%**

Section E: Lease, Branch and Departmental Accounts etc. **15%**

Section F: Accounting Standards **20%**

Accounting Cycle and Double Entry System of Accounting

Accounting Cycle

The accounting cycle is a multistep process used by businesses to create an accurate record of their financial position, as summarized on their financial statements. During the cycle's various stages, companies will record their financial transactions in a journal, transfer the details into a general ledger, analyze the entries and make sure the books are balanced and error-free before generating financial statements and closing the books for the period.

The amount of time it takes a company to advance through the accounting cycle depends on several factors, including the volume of transactions, whether it uses automated accounting software and the type of financial close. A hard close is a thorough approach to closing the books, ensuring that all information is accurate and marking the end of financial activity for an accounting period. A soft close is more like a solid estimate, typically used for internal management reporting, not for the public or investor purposes. Ideally, a business will engage in a "continuous close," spreading the workload across the course of the accounting period, rather than waiting until its end. This results in a faster close, regardless of whether the target is a weekly soft close or a hard close at the end of a quarter.

The Purpose of the Accounting Cycle

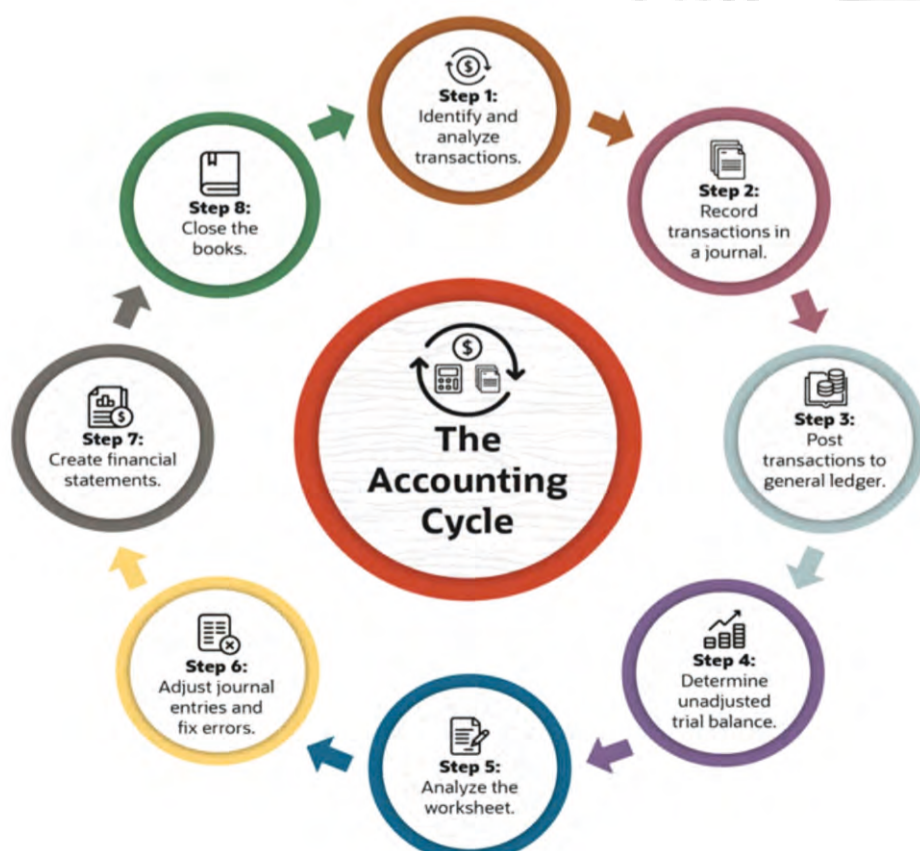
The main purpose of the accounting cycle is to keep track of all financial activities that occur during a specific accounting period, be it monthly, quarterly or annually. In short, the accounting cycle verifies that every dollar going into or out of the various general-ledger accounts is reported.

Some steps in the accounting cycle are more tedious than others, but each one is set up to enable bookkeepers or accountants to diligently check their work before proceeding. This is especially crucial for the final steps of the accounting cycle, when financial statements are created and the books are reset.

Steps in Accounting Cycle

The goal of the accounting cycle is to develop an accurate account of a company's financial position. Below are the eight steps of the accounting cycle.

1. Identify and analyze transactions.
2. Record transactions in a journal.
3. Post transactions to a general ledger.
4. Determine the unadjusted trial balance.
5. Analyze the worksheet.
6. Adjust journal entries and fix any errors.
7. Create financial statements.
8. Close the books.



1. Identify and analyze transactions

The first step in the accounting cycle is to identify and analyze all transactions made during the accounting period, including expenses, debt payments, sales revenue and cash received from customers. During this initial stage, companies go through every transaction that affects their financials, though this should be an ongoing step for companies that are continuously creating customer invoices, buying inventory, paying bills, making payroll and collecting cash.

2. Record transactions in a journal

The next step is to record the details of all financial transactions, in chronological order, as journal entries, whether in an actual book or in an accounting program. With double-entry accounting, each transaction is recorded as a debit and corresponding credit in two or more subledger accounts. Exactly when the transaction is recorded depends on whether the business prefers the accrual accounting method (as most do) or the cash accounting method.

3. Post transactions to general ledger

Once journal entries are recorded and approved, they are posted to the general ledger. The GL is the master record and summary of all financial transactions, broken down by account.

4. Determine unadjusted trial balance

Closing balances of all the accounts in the GL at the end of an accounting period are reflected in a trial balance. At this point, the trial balance doesn't reflect any adjustments that need to occur if errors — i.e., unbalanced debits and credits — are caught. That's why it's considered "unadjusted."

5. Analyze the worksheet

This step identifies errors and anomalies that may have occurred up until this point by lining up debits and credits from various accounts in a single spreadsheet. If the numbers don't balance, a bookkeeper or accountant will need to review the transaction data entered into the journal and adjust entries accordingly.

6. Adjust journal entries and fix errors

This step is a continuation of the two previous steps. If an error was made, it has to be corrected and recorded as an adjusting journal entry that reflects a change to a previously recorded journal entry. Additionally, manual adjustments are recorded in this step, such as accruals for expenses incurred that didn't make it into the AP system before that account was posted to the GL, or for reconciling items uncovered during the account reconciliation process.

7. Create financial statements

Once adjustments are made and account balances have been corrected, financial statements can be created. Financial statements are accounting reports that summarize a company's activities and performance for a defined period of time, such as monthly or quarterly. The three key financial statements that companies generate are the income statement, the balance sheet and the cash flow statement.

8. Close the books

This is the final stage of the accounting cycle, locking in the accounting period. Closing the books resets temporary accounts on the income statement, such as revenue and expenses, to zero balances, meaning that they don't carry into the next accounting period. Net income or loss from the income statement is transferred to the retained earnings account, which is a permanent account on the balance sheet that carries over to the next period. Of note, the resetting of accounts to zero doesn't apply to a soft close.

Accounting Equation

The accounting equation summarizes the essential nature of double-entry system of accounting. Under which, the debit always equal to credit, and assets always equal to the sum of equities and liabilities. Accounting equation can be simply defined as a relationship between assets, liabilities and owner's equity in the business.

It is pertinent to note that the term basic accounting equation is another name for the 'Balance Sheet Equation'. The reason balance sheet always balances is because of the following equation:

Assets = Liabilities + Owners Equities

The entire financial accounting depends on the accounting equation which is also known as the 'Balance Sheet Equation'. The following are the different types of basic accounting equation:

- Asset = Liability + Capital
- Liabilities = Assets - Capital
- Owners' Equity (Capital) = Assets - Liabilities

Assets = Liabilities + Owner's equity

This balance sheet equation tells you that all the assets owned by the business are either sponsored using the owners' equity or the amount which company should owe others like suppliers or borrowings like Loans

Liabilities = Assets - Owner's Equity

The difference of assets and owner's investment into business is your liabilities which you owe others in the form of payables to suppliers, banks etc.

Owners' Equity = Assets - Liabilities

This equation reveals the value of assets owned purely by owner equity.

While trying to do this correlation, we can note that incomes or gains will increase owner's equity and expenses, or losses will reduce it.

Double Entry System

Double-entry accounting is a system of bookkeeping where every financial transaction is recorded in at least two accounts. A double-entry system provides a check and balance for each transaction, which helps ensure accuracy and prevent fraud. This accounting system also allows you to track business finances more effectively, and make better decisions about where to allocate your resources.

Advantages of double-entry accounting

There are many advantages of double-entry accounting. Notable ones include:

- Gaining a clear picture of a company's financial position
- Detecting errors and fraud more easily
- Having useful knowledge for making decisions
- Knowing the financial health of a business

Double-entry accounting systems can be used to create financial statements (such as balance sheets and income statements), which can give insights into a company's overall performance and health.

Principles of Double-Entry System of Bookkeeping

The principles to be followed while recording the double-entry system of bookkeeping are as follows:

- Debit is written to the left, credit on the right
- Every debit must have a corresponding credit
- Debit receives the benefit, and credit gives the benefit

Rules of Debit and Credit under Double Entry System

There are rules to be kept in mind while posting the double-entry transactions in the bookkeeping process. The following are the rules for the different types of accounts:

- For Personal Account: Debit the receiver, credit the giver
- For Real Account: Debit what comes in, credit what goes out
- For Nominal Account: Debit all the expenses, credit all the incomes

Personal Accounts are general ledger accounts related to persons like individuals, associations and firms. The Real Accounts are general ledger accounts connected with assets and liabilities other than individuals and people. The Nominal Accounts are general ledger accounts relating to all expenses, incomes, gains and losses.

Questions

1. _____ is the first phase of the accounting cycle.
 - a. Making a decision about the business
 - b. Posting entries to ledger accounts
 - c. Preparing journal
 - d. Identifying an economic event or transaction

2. In the accounting cycle _____.
 - a. Journal entries get posted to the appropriate ledger accounts
 - b. Transactions are posted before they are journalised
 - c. A trial balance is prepared after journal entries get posted
 - d. Both a and c are correct

3. The _____ is a statement that shows the financial status of a company at any given time.
 - a. Balance sheet
 - b. Trading account
 - c. Profit and loss statement
 - d. Trial Balance

4. Bookkeeping mainly consists of _____ part of the accounting process.
 - a. Auditing the books of accounts
 - b. Recording financial information
 - c. Preparing financial statements
 - d. Analysing

5. Which of the following is the correct formula for the Accounting Equation?
 - a. $\text{Assets} = \text{Liabilities} - \text{Shareholder's Equity}$
 - b. $\text{Assets} = \text{Liabilities} + \text{Shareholder's Equity}$
 - c. $\text{Liabilities} = \text{Assets} + \text{Shareholder's Equity}$
 - d. $\text{Shareholder's Equity} = \text{Assets} + \text{Liabilities}$

6. Which of the following statements is true about the accounting equation?
 - a. The accounting equation represents that the sources in a business are not equal to the resources of that business
 - b. The accounting equation represents that the sources in a business are equal to the resources of that business
 - c. The accounting equation represents that the resources are allocated to the business at cost price
 - d. The accounting equation represents that the sources are allocated to the business at cost price

7. Double Entry System is a -
 - a. Reporting system
 - b. Financial Statement preparation system
 - c. Recording system
 - d. Debit and Credit determining system

8. Double-entry involves _____ entries.
 - a. One
 - b. Three
 - c. Two
 - d. Four

9. Which among the below actually defines double entry bookkeeping?
 - a. Recording financial transactions twice
 - b. Recording financial transactions in two separate accounts
 - c. Recording financial transactions in two different currencies
 - d. Recording financial transactions in two different time periods

10. The rules of debit and credit for a balance sheet says that _____.
- A decrease in asset and liability accounts is recorded as a credit transaction
 - An increase in asset and owner's equity accounts is recorded as a debit transaction
 - A decrease in liability and owners' equity accounts is recorded as a credit transaction
 - An increase in asset, liability and owners' equity accounts is recorded as a debit transaction

Question No	Answer
1	d
2	d
3	a
4	b
5	b
6	b
7	d
8	c
9	b
10	c

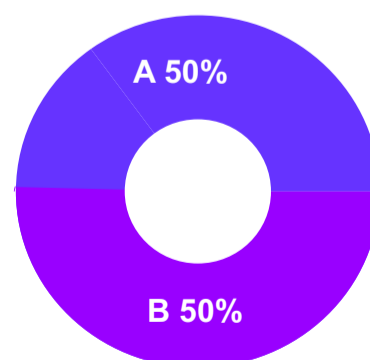


GROUP: I, PAPER: 7

Direct and Indirect Taxation (DITX)

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Your Preparation Quick Takes



Syllabus Structure

Section A: Direct Taxation 50%

Section B: Indirect Taxation 50%

TAX DEDUCTED AT SOURCE (TDS)

Overview of Provision relating to Tax Deducted at Source (TDS):

Sec.	Nature of payment	Person responsible to deduct tax	Recipient	Time of deduction	Rate of TDS	Maximum payment up to which tax shall not be deducted
192	Salary	Employer	Employee	At the time of payment	Average rate of tax	Basic Exemption Limit
192A	Accumulated balance of PF	Trustees or other authorized person	Employee	At the time of payment	10%	₹ 50,000
193	Interest on securities	Payer of interest on securities	Resident person	At the time of payment or crediting the payee, whichever is earlier	10%	₹ 5,000 (Subject to certain conditions)
194	Dividend	Domestic Company	Resident person	At the time of payment	10%	₹ 5,000 (Subject to certain conditions)
194A	Interest other than interest on securities	All person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person	At the time of payment or crediting the payee, whichever is earlier	10%	₹ 5,000 (Subject to certain conditions) (₹ 40,000 in case of Bank Interest) [₹ 50,000 in case of senior citizen]
194B	Winning from lotteries, etc.	Any person paying such income	Any person	At the time of payment	30%	₹ 10,000
194BB	Winning from horse races	Any person paying such income	Any person	At the time of payment	30%	₹ 10,000
194C	Contract	Any specified person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person	At the time of payment or crediting the payee, whichever is earlier	Payee is Individual or HUF: 1% Other payee: 2%	a. ₹30,000 (provided aggregate amount paid during the financial year does not exceed ₹ 1,00,000) Payment to transport operator (owning 10 or less goods carriage) if they provide PAN
194D	Insurance Commission	Any person	Resident person	At the time of payment or crediting the payee, whichever is earlier	Payee is domestic co.: 10% Other resident Payee: 5%	₹ 15,000
194DA	Payment of Life Insurance policy (including bonus)	Any person	Resident	At the time of payment	1%	Less than ₹ 1,00,000

194E	Sports person Or entertainer	Any person paying specified income	Non-resident foreign citizen sportsman or sports association or entertainer	At the time of payment or crediting the payee, whichever is earlier	20%	Nil
194EE	Deposit in NSS	Post office	Any person	At the time of payment	10%	₹ 2,500
194F	Units of Mutual fund/UTI	Mutual fund or UTI	Unit holder u/s 80CCB	At the time of payment	20%	Nil
194G	Commission on sale of lottery tickets	Any person paying commission on sale of lottery tickets	Any person	At the time of payment or crediting the payee, whichever is earlier	5%	₹ 15,000
194H	Other commission	All person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person	At the time of payment or crediting the payee, whichever is earlier	5%	₹ 15,000
194-I	Rent	All person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person	At the time of payment or crediting the payee, whichever is earlier	Plant & Mach: 2% Other Asset: 10%	₹ 2,40,000
194-IA	Acquisition of immovable property other than rural agro land	Any person who is acquiring such property	Resident	At the time of payment or crediting the payee, whichever is earlier	1%	₹ 50,00,000
194-IB	Rent	Individual or HUF not covered u/s 194-I	Resident person	At the time of credit of rent for the last month of the previous year (or last month of tenancy) or payment thereof, whichever is earlier	5%	₹ 50,000 p.m.

194-IC	Joint Development Agreement	Any person	Resident	At the time of payment or crediting the payee, whichever is earlier	10%	-
194J	Professional or technical service or director fees (not covered u/s 192)	All person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person	At the time of payment or crediting the payee, whichever is earlier	10% (2% in case payee is engaged only in the business of operation of call centre)	₹ 30,000 No threshold limit for director fees
194K	Units of mutual fund and other unit	Any person	Resident person	At the time of payment or crediting the payee, whichever is earlier	10%	₹ 5,000
194LA	Compensation for compulsory acquisition of immovable property (other than agro land)	Any person responsible for such payment	Resident	At the time of payment in cash or by cheque or draft or by other mode, whichever is earlier.	10%	₹ 2,50,000 No TDS, if such award or agreement is exempted from levy of income-tax u/s 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
194LB	Interest on infrastructure debt fund	Any person responsible for such payment	Non-resident	At the time of payment or crediting the payee, whichever is earlier	5%	Nil
194LBA	Distribution of income referred to in sec. 115UA [of the nature covered u/s 10(23FC) or (23FCA)]	Business Trust	Any person	At the time of payment or crediting the payee, whichever is earlier	<u>Income u/s 10(23FC)</u> If payee is resident: 10% Otherwise: 5% <u>Income u/s 10(23FCA)</u> If payee is resident: 10% Otherwise: applicable rate	Nil
194LBB	Distribution of income referred to in cl. a of exp. 1 to sec. 115UB [of the nature covered u/s 10(23FBB)]	Any person responsible for such payment	Any person		Payee is Resident: 10% Foreign Co: 40%* Other: 30%* *subject to DTAA	Nil Where the payee is a non-resident or a foreign company, no deduction shall be made for any income which is not chargeable to tax

194LBC	Income on investment in securitisation trust referred to in sec. 115TCA	Any person responsible for such payment	Any person	At the time of payment or crediting the payee, whichever is earlier	Resident Individual & HUF: 25% Other Resident: 30% Foreign Co. Or non-resident: Rates in force	Nil
194LC	Interest on approved loan	Indian Company or a business trust	Non-resident		5% (in some cases: 4%)	Nil
194LD	Interest on Rupee denominated bond or Govt Securities	Any person responsible for such payment	FII or Qualified Foreign Investor		5%	Nil
194M	Works Contract or commission or professional fee	Individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident person		5%	₹ 50,00,000
195	Any sum	Any person paying sum chargeable under this Act	Non-resident		Normal rate	Nil
194N	Withdrawal of cash	Bank and post office	Any	At the time of payment	<u>Defaulter</u> Upto ₹ 1 crore: 2% Above: 5% <u>Other</u> 2%	<u>Defaulter</u> ₹ 20 lakhs <u>Other</u> ₹ 1 crore
194-O	Certain sum	e-Commerce operator	e-Commerce participant	At the time of payment or crediting the payee, whichever is earlier	1%	<u>For individual and HUF payee:</u> ₹ 5,00,000 subject to certain conditions
194-Q	Buyer	Purchase of goods	Seller		0.1%	₹ 50,00,000
194-R	Benefits or perquisites pertaining to business or profession	All person excluding individual or HUF whose turnover / receipt from business / profession does not exceed ₹ 1 crore / ₹ 50 lakhs in the preceding year	Resident	Before releasing such benefits	10%	₹ 20,000
194-S	Virtual Digital Assets	Any person	Resident	At the time of payment or crediting the payee, whichever is earlier	1%	Specified person: ₹ 50,000 Other: ₹ 10,000
196A	Units of mutual fund or other units	Any person	Foreign company or non resident non corporate person		20%	Nil

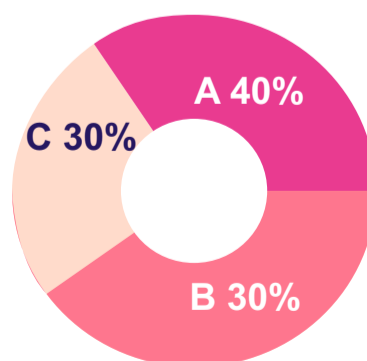
196B	Units income	Any person responsible for payment referred in sec.115AB	An Offshore fund		10%	Nil
196C	Foreign currency bonds or GDR	Any person responsible for payment referred in sec.115AC	Non-resident		10%	Nil
196D	Any income	Any person responsible for payment referred in sec. 115AD(1)(a) (excluding interest referred to u/s 194LD)	Foreign Institutional Investor or specified fund		20% (10% in case of specified fund)	Nil



GROUP: I, PAPER: 8
Cost Accounting
(CA)

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Your Preparation Quick Takes



Syllabus Structure

Section A Introduction To Cost Accounting **40%**

Section B Methods of Costing **30%**

Section C Cost Accounting Techniques **30%**

COST ACCOUNTING

The art of cost accounting extends beyond the mere revelation of expenses; it enables businesses to delve into the realms of anticipation and optimization. The application of cost accounting not only identifies what various operations have cost but also paves the path to what these costs should be. It functions as a vigilant sentinel, capable of detecting losses and waste while the work is still in progress, offering an opportunity for timely intervention and mitigation.

In a landscape where business policies often necessitate the exploration of alternative methods and procedures, cost accounting emerges as a crucial ally. It lays the foundation for informed decision-making by providing a wellspring of cost-related information, suitably tailored to the competitive environment, trade fluctuations, and the efficient utilization of capacity. In this context, it is paramount to appreciate the value and significance of cost accounting.

While Paper Eight may seem like a challenging subject, it often proves to be a scoring one in practice. Typically, around 70% to 80% of the total questions are drawn from practical problems, with the remaining dedicated to theoretical concepts. Despite the relatively lower emphasis on the theoretical component, it's important to remember that many students face challenges in this aspect. To master the subject, a comprehensive approach is essential.

Here are some valuable guidelines based on extensive experience:

1. **Time-Bound Planning:** Create a well-structured plan that ensures the completion of the entire syllabus, including revision, within defined timeframes.
2. **Study Material Exploration:** Familiarize yourself with the study notes and gain a comprehensive understanding of the syllabus. Recognize the interrelated nature of all chapters.
3. **Trends Analysis:** Analyse question trends by reviewing the questions from at least ten to fifteen terms.
4. **Theoretical Grasp:** Write down important terms in your own words and revisit them regularly.
5. **Speed Enhancement:** Regular practice and revision will enhance your speed and proficiency.
6. **Objective Questions:** Focus on answering all objective-type questions for practice, as they carry 100% of the marks.
7. **Question Analysis:** Develop the habit of reading questions carefully, underlining key elements, and discerning specific requirements.

Cost accounting is designed to help you understand the fundamental concepts of cost and costing within the framework of cost accounting standards. It enables you to determine the cost of products or services, utilize various costing techniques, and make informed decisions. This subject also involves cost record-keeping and its integration with financial accounting, incorporating methods like Job Costing, Batch Costing, Contract Costing, and Process Costing. Your success in this examination hinges on your preparation style, characterized by persistence, consistent effort, rigorous practice, vision, and objectivity.

Paper-8 is divided into six main modules:

Module 1 - Basic Concepts of Cost Accounting: This module explores fundamental concepts, including cost, cost accounting, and costing, along with their relationship to financial accounting and management accounting.

Module 2 - Elements of Cost: It delves into the classification and ascertainment of the three major cost elements: materials, labour, and overheads. Inventory management, cost concepts, and the reporting of over and under absorption are significant components.

Module 3 - Cost Accounting Standards: Here, you'll gain an understanding of Cost Accounting Standards (CAS) and Generally Accepted Accounting Principles (GAAP). This knowledge is vital for comprehending the framework recommended by CAS for cost determination, accounting, and reporting.

Module 4 - Cost Book-Keeping: This module introduces integrated accounting systems, where separate ledgers are maintained for cost sections, and transactions are recorded based on double-entry principles. It also covers the reconciliation of cost accounting and financial accounting. The Chapter is very easy to understand but the process is lengthy.

Module 5 - Contract Costing, Operating Costing, and Process Costing: These sections deal with contract costing, operating costing, and process costing, with a focus on recognizing revenue, profit, and loss for incomplete contracts and addressing work-in-progress. The Job, Batch or Contract Costing is very much relevant for this type of examinations. Most of the students often face difficulty in recommending the amount of profit to be taken into account for an incomplete contract. You should know various methods that are used for different stages of completion. All the 4 students are advised to go through the topic Profit on incomplete contract based on SSAP-9. Problem on Escalation Clause are to be memorised for the purpose of examination.

Next part is related to Operating Costing. Here we have to find out Operating cost per unit of output. This chapter also includes Transport Costing, Hospital Costing, Power Housing Costing, Hotel and Hospital Costing etc. Finding out Composite Unit is very important for finding the solution of this type of problems. For ascertaining costs of a job, a suitable cost unit to be selected very carefully.

In Process Costing we have discussed how cost are accumulated in an industry where goods and services result from a sequence of continuous and repetitive operations or processes. Here we have to give special attention to the accounting of normal and abnormal losses /gains and valuing output when there is opening and closing work-in-progress. there are some organisations where they add profits to the absorption cost to calculate transfer price. In case of Equivalent Production, the method requires conversion incomplete units into equivalent complete units.

Module 6 - Marginal Costing, Standard Costing, and Budget and Budgetary Control: This module explores marginal costing, standard costing, and budget and budgetary control. Marginal costing includes cost-volume-profit analysis of a product. It is not a system of costing, but is a special technique which classifies cost into two parts, Fixed and Variable and the fixed overheads are distributed among the products. From student's point of view this chapter is very much relevant. Students should understand the concept, uses, needs and importance of Marginal costing carefully. Finding out the Break-even point is the basic part of solving problem. For any product key-factor should be find out based on sales-mix, contribution per unit of key factor etc. We 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 question may be expected from this Chapter. Hence, for practice various types of problems should be solved for easy understanding.

This part deals with Standard Costing which relates to creating responsibilities and identifies the activities or areas of exceptions. Under the system variances are analysed in details according to their organising causes. The students are afraid of this important chapter only because of different formulae for different analysis. Only a serious study and realisation of the requirement in the problem can eliminate such difficulties. The main object of this analysis is to improve the operation by effective utilization of resources for reducing its product cost.

Budget is a financial and quantities statement, prepared prior to 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 Budget and Cash Budget for taking necessary action. Both theoretical and practical questions may be set from the chapter. If theory remains clear, students can easily understand the problem clearly. Students should easily understand theory of Zero Based Budgeting, Behaviour and Classification of Budget etc. very carefully. All functional budget is summarised into Master Budget consisting of a budgeting of Profit and Loss account, a Balance Sheet and Cash Flow Statement. A common mistake is to incorrectly deduct Closing Stock and Opening Stock when preparing Production and Material Purchase Budget.

By following these guidelines and immersing yourself in the study material, you'll be well-prepared for Paper-8. Approach each module with dedication, solve practical problems meticulously, and have a sound understanding of theoretical concepts. Remember that success in this examination is determined by your preparation style, which should encompass perseverance, regularity, thorough practice, vision, and objectivity. Good luck with your studies!

Budgetary control is a tool used widely for assisting management in planning and control. In practice budget is used in various fields viz. in our privet life, in business and also in the Government departments. A problem relating to Production Budget and Purchase Budget is suggested here. Please try to solve by your own.

Problem: -

Viveka Elementary School has a total of 150 students consisting of 5 sections with 30 students per section. The school plans for a picnic around the city during the weekend to places such as the Zoo, the amusement park, the planetarium etc. A privet transport operator has come forward to lease out the buses for taking the students. Each bus will have a maximum capacity of 50 (excluding 2 seats reserved for the teachers accompanying the students). The school will employ two teachers for each bus, paying them an allowance of Rs. 50 per teacher. It will also lease out the required number of buses. The following are the other cost estimates:

Breakfast	Cost per student
Lunch	5
Tea	10
Entrance fee at Zoo	3
	2

Rent Rs. 650 per bus

Special permit fee Rs. 50 per bus.

Block Entrance fee at the planetarium Rs. 250.

Prizes to students for games Rs. 250.

No Costs are incurred in respect of the accompanying teachers (except the allowance of Rs. 50 per teacher).

You are required to prepare:

- A flexible budget estimating the total cost for the levels of 30,60,90,120 and 150 students. Each item of cost is to be indicated separately.
- Compare the average cost per student at these levels.
- What will be your conclusions regarding the break-even level of students if the school proposes to collect Rs. 45 per student?

Solution

(a) Flexible Budget:

Level of Students.	30	60	90	120	150
Variable Cost (Rs.)					
Breakfast at Rs. 5	150	300	450	600	750
Lunch at Rs. 10	300	600	900	1200	1500
Tea at Rs. 3	90	180	270	360	450
Entrance fee at Zoo at Rs.2	60	120	180	240	300
	-----	-----	-----	-----	-----
Variable cost at Rs. 20	600	1200	1800	2400	3000
	-----	-----	-----	-----	-----
Semi-variable Costs:					
Rent of Bus	650	1300	1300	1950	1950
Special permit fee	50	100	100	150	150
Allowance to teachers	100	200	200	300	300
	-----	-----	-----	-----	-----
	800	1600	1600	2400	2400
	-----	-----	-----	-----	-----

Fixed Costs:

Block entrance fee	250	250	250	250	250
Prizes to students for games	250	250	250	250	250
	-----	-----	-----	-----	-----
	500	500	500	500	500
	-----	-----	-----	-----	-----
Total Cost	1900	3300	3900	5300	5900
	-----	-----	-----	-----	-----

(b) Average cost per student	$1900 \div 30$ 63.33	$3300 \div 60$ 55	$3900 \div 90$ 43.33	$5300 \div 120$ 44.17	$5900 \div 150$ 39.33
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(c) Break-even level

First let us work out semi-fixed cost for levels of 50, 100 and 150 students.

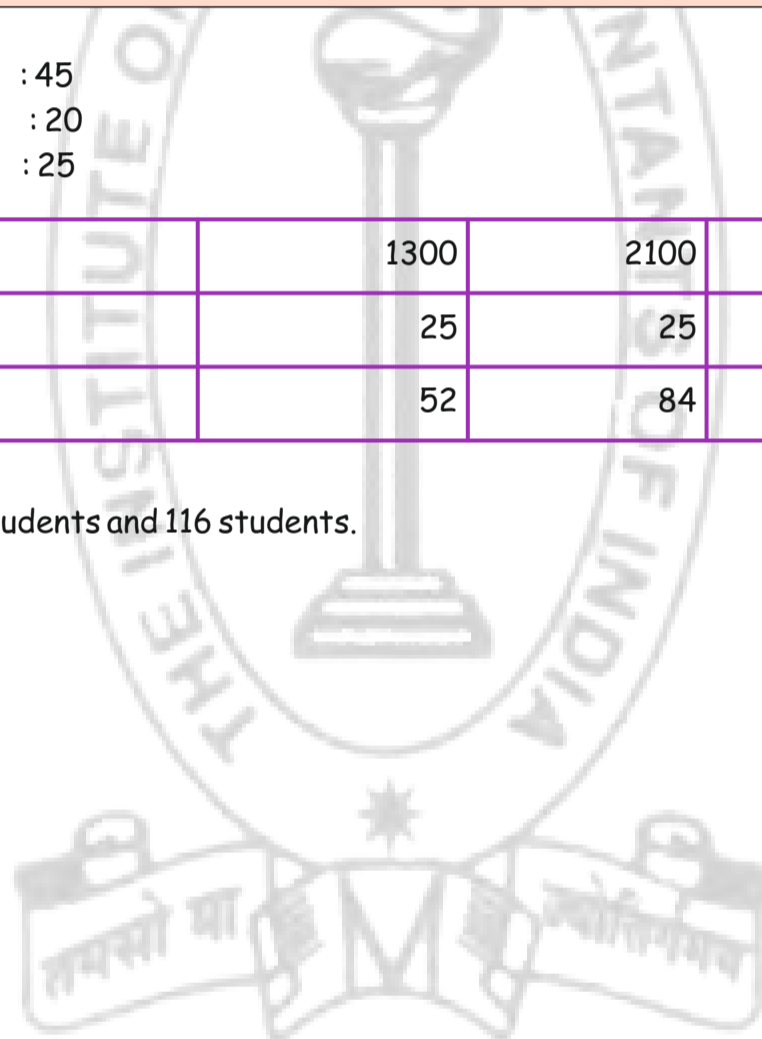
Level of students	50	100	150
	-----	-----	-----
Semi-fixed costs	800	1600	2400
Fixed cost	500	500	500
	-----	-----	-----
	1300	2100	2900

Collection per student	: 45
Variable cost per student	: 20
Contribution per student	: 25

Fixed Cost	1300	2100	2900
Contribution per student	25	25	25
Break-even Point	52	84	116

There are two break-even levels i.e. 84 students and 116 students.

Note : 52 is outside the level of 50.



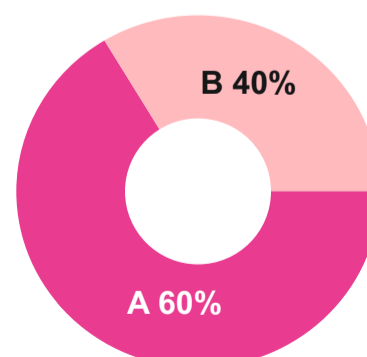
GROUP: II, PAPER: 9

Operations

Management & Strategic
Management (OMSM)

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Your Preparation Quick Takes



Syllabus Structure

Section A: Operations Management 60%

Section B: Strategic Management 40%

Operations Management

In this issue let us discuss few numerical on Production Planning.

Illustration 1:

A company that makes Cars wants to prepare a master production schedule for April and May. Inputs are:

Beginning Inventory: 94 Cars;

Forecast: Marketing has forecasted demand of 180 Cars for April and 200 Cars for May, evenly distributed over the four weeks in each month;

Customer Orders: There are customer orders that have been committed and must be filled:

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Customer orders	48	35	25	19	12			

Production lot size of the company is 70 cars.

Initiate scheduling.

Answer:

The following table contains the three primary inputs to the master scheduling process:

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Beginning Inventory	94							
Forecast	45	45	45	45	50	50	50	50
Customer Orders	48	35	25	19	12			

Now let us determine projected on hand inventory till master scheduling initiates master production schedule and it is as follows:

Projected on hand inventory = Opening inventory - forecast or customer order whichever is maximum

In the first week of April Forecast is for 45 units and Customer orders are for 48. Since 48 is maximum so in 1st week of April projected on hand inventory = 94 - 48 = 46 and details are:

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Beginning Inventory	94	46	1					
Forecast	45	45	45	45	50	50	50	50
Customer Orders	48	35	25	19	12			
Projected on hand inventory	46	1	-44					

Projected on hand inventory in the 1st week of April acts as Opening inventory of 2nd week. In 2nd week Forecast 45 > Customer orders 35. So projected on hand inventory of 2nd week of April = 46 - 45 = 1. If we proceed in this way projected on hand inventory in the 3rd week of April will become negative (-44) as shown above and output—Master production Schedule is initiated.

It means that a signal that production is needed to replenish the inventory.

As per question production lot size is 70 units it means that whenever production is called for 70 cars will be produced.

Hence the negative projected on hand inventory in the 3rd week of April will require production of 70 cars which will meet the projected shortfall of 44 cars and leave 26 (70-44) cars for future demand. Then again we compute projected on hand inventory for subsequent week and continue our schedule as follows:

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Beginning Inventory	94	46	1	26	51	1	21	41
Forecast	45	45	45	45	50	50	50	50
Customer Orders	48	35	25	19	12			
Projected on hand inventory	46	1	-44	-19	1	-49	-29	-9
Master Production Schedule			70	70		70	70	70
Projected on hand inventory after MPS			26	51		21	41	61

So the resultant master schedule is given below:

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Beginning Inventory	94	46	1	26	51	1	21	41
Forecast	45	45	45	45	50	50	50	50
Customer Orders	48	35	25	19	12			
Projected on hand inventory	46	1	26	51	1	21	41	61
Master Production Schedule			70	70		70	70	70

It is said earlier that master scheduling has three outputs: i) Projected inventory of finished goods; ii) Master production schedule & iii) Uncommitted inventory

The first two outputs are shown in the above table. Now let us now determine the uncommitted inventory.

Uncommitted inventory is the inventory not yet committed and still available for promise. This is also called *Available to Promise (ATP)* inventory. ATP quantity is only calculated for the first week and for other weeks in which there is an MPS quantity. For our illustration it is calculated for 1st week of April, 3rd week of April, 4th week of April, 2nd, 3rd and 4th week of May.

In the first week ATP is = Opening inventory + MPS - (Sum of Customer orders in week 1 & 2)

In other weeks opening inventory is not considered in calculation and ATP is = MPS - (Sum of Customer orders in current and next week)
This procedure is called "Look ahead" method of computation of uncommitted inventory. But under this computation never consider customer orders of a week if MPS is there for the week.

In the first week

Opening Inventory = 94

Customers orders in 1st and 2nd week of April = 48 + 35 = 83

MPS = 0

ATP = 94 + 0 - 83 = 11

In the 3rd week of April

Opening inventory not to be considered

Customers orders in 3rd and 4th week of April = 25 + 19 = 44

MPS = 70

ATP = 70 - 44 = 26

So the detail ATP computation for our illustration is

	April				May			
	1st Week	2nd Week	3rd Week	4th Week	1st Week	2nd Week	3rd Week	4th Week
Beginning Inventory	94	46	1	26	51	1	21	41
Fore cast	45	45	45	45	50	50	50	50
Customer Orders	48	35	25	19	12			
Projected on hand inventory	46	1	26	51	1	21	41	61
Master Production Schedule			70	70		70	70	70
ATP	11		45	39		70	70	70

Illustration 2:

Using the data in the following table compare the total incremental costs involved in a level production plan. Normal plant capacity is 400 units per working day.

Months	Production Days	Production quirements	Required Buffer stocks
Jan	22	3000	600
Feb	18	2500	500
Mar	22	4000	800

April	21	6000	1200
May	22	8000	1600
June	21	12000	2400
July	21	15000	3000
Aug	13	12000	2400
Sept	20	10000	2000
Oct	23	8000	1600
Nov	21	4000	800
Dec	20	3000	600
Total	244	87500	17500

Inventory carrying cost is R30 per unit per year & Shortages cost R15 per unit short. Beginning inventory is 600 units or must be determined for some plans.

Answer:

This is a problem with fluctuating demand requirements.

Refer the following Table: 1

It shows

- forecast of production requirements and buffer inventories;
- cumulative requirements;
- average buffer inventories;
- cumulative maximum production requirements;

The table shows the ratio of peak to valley in the requirement schedule is 15000 in July and 2500 in February or $\frac{15000}{2500} = 6$

The no of working days per month, shown in column 2, varies considerably from 23 working days in October to only 13 days in August.

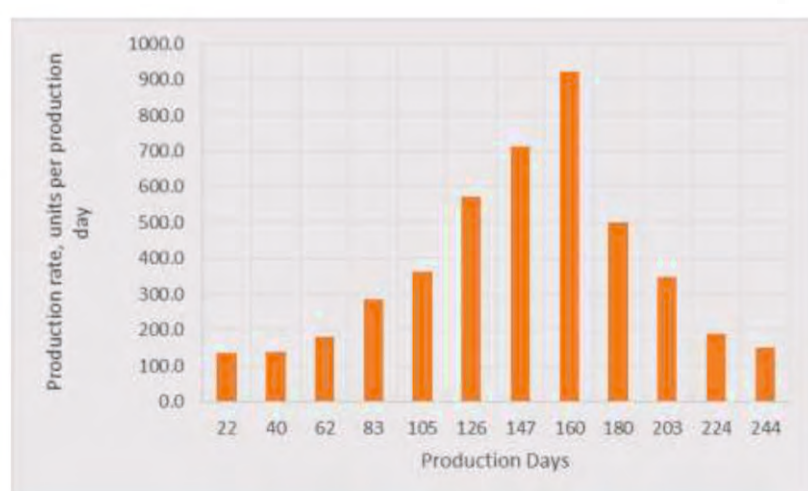
Therefore the swing in production requirement per production day (seen in Col. 9) varies from 923.1 in August to 136.4 in January,

a ratio of $\frac{923.1}{136.4} = 6.77$

Month	Production Days	Cumulative Production Days	Expected Production Requirements	Cumulative Production Requirements	Required Buffer Inventories	Cumulative Maximum Production Requirements	Col 2 x Col 6	Production Requirements per Production Day
Jan	22	22	3000	3000	600	3600	13200	136.4
February	18	40	2500	5500	500	6000	9000	138.9
March	22	62	4000	9500	800	10300	17600	181.8
April	21	83	6000	15500	1200	16700	25200	285.7
May	22	105	8000	23500	1600	25100	35200	363.6
June	21	126	12000	35500	2400	37900	50400	571.4
July	21	147	15000	50500	3000	53500	63000	714.3
Aug	13	160	12000	62500	2400	64900	31200	923.1
Sept	20	180	10000	72500	2000	74500	40000	500.0
Oct	23	203	8000	80500	1600	82100	36800	347.8
Nov	21	224	4000	84500	800	85300	16800	190.5
December	20	244	3000	87500	600	88100	12000	150.0
Total						Col 5 + Col 6	350400	Col 4/Col 2

Table: 1

This substantial variance in daily production requirements is shown on the following graph:



Average buffer inventory $\frac{350400}{244} = 1436.07$

Normal plant capacity is 400 units per working day.

Column 6 of Table 1 shows buffer inventories, which are the minimum stocks required. Their purpose is to provide for the possibility that market requirements could be greater than expected. When we add the buffer inventories for each month to the cumulative production requirements in column 5, we have the cumulative maximum requirements shown in column 7.

Level production is the simplest production plan which establishes an average output level that meets annual requirements.

The total annual requirements = 87500 units (last figure in column 5).

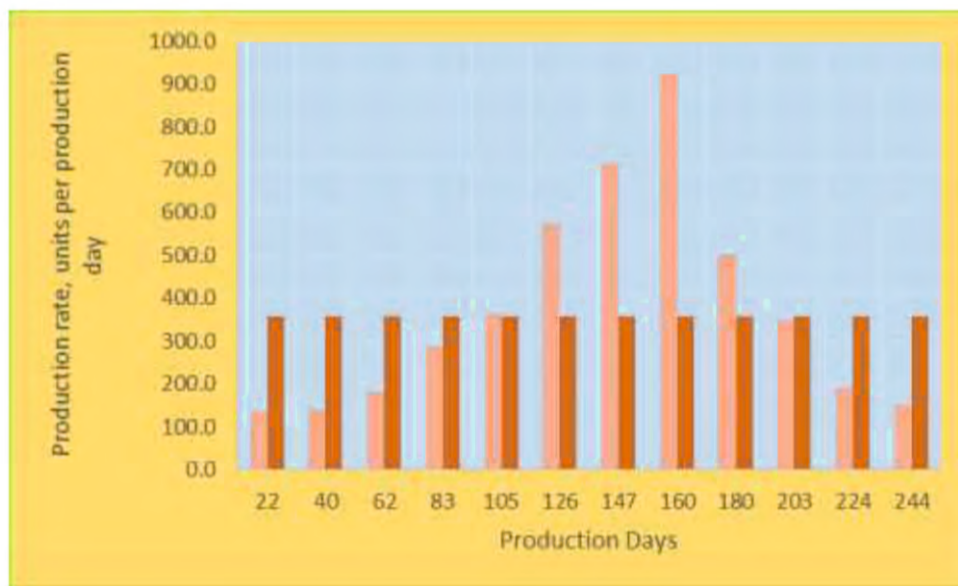
Total working days = 244 days.

Average daily output = $\frac{87500}{244} = 358$ units.

The strategy is:

Accumulate seasonal inventory during the slack production requirement months for use during peak requirement months.

The level production plan is shown in relation to the production requirement per day in the following fig:



The inventory requirements for this plan are calculated in Table 2 below.

From the table 2 it is observed that the seasonal inventories for this plan in column 6 vary from a maximum of 13614 units in April to a minimum of -9460 in September.

The significance of the negative seasonal inventories is that the plan calls for dipping into buffer stocks.

In July we propose to use 274 units out of the planned buffer of 3000 units but in August we actually exceed the planned buffer by 7020 units and in September by 9460 units. In other words the negative figures indicate expected loss of sale. Total shortages for the year is 30236 units (274+7020+9460+8826+4508+148).

Production Days	Production Rate Units/Day	Production in Month, Units Col.1 x Col.2	Cumulative units available Cumulative Production + Beginning Inventory (600)	Cumulative Maximum Requirements Col.7 of Table 1	Seasonal Inventory Col.4 - Col.5	Col.1 x Col.6
22	358	7876	8476	3600	4876	107272
18	358	6444	14920	6000	8920	160560
22	358	7876	22796	10300	12496	274912
21	358	7518	30314	16700	13614	285894
22	358	7876	38190	25100	13090	287980
21	358	7518	45708	37900	7808	163968
21	358	7518	53226	53500	-274	-5754
13	358	4654	57880	64900	-7020	-91260
20	358	7160	65040	74500	-9460	-189200
23	358	8234	73274	82100	-8826	-202998
21	358	7518	80792	85300	-4508	-94668
20	358	7160	87952	88100	-148	-2960
						1280586

Table: 2

We can adjust the plan to take the negative seasonal inventories into account. This can be done by increasing the inventory by the most

negative seasonal inventory balance of (-) 9460 units in September. As a result the Table 2 becomes Table 3 below with increase of column 4 figures by 9460. Then average seasonal inventories will also be increased 9460 units.

Production Days	Production Rate Units/Day	Production in Month, Units Col.1 x Col.2	Cumulative units available Cumulative Production + Beginning Inventory(600+9460)	Cumulative Maximum Requirements Col.7 of Table 1	Seasonal Inventory Col.4 - Col.5
22	358	7876	17936	3600	14336
18	358	6444	24380	6000	18380
22	358	7876	32256	10300	21956
21	358	7518	39774	16700	23074
22	358	7876	47650	25100	22550
21	358	7518	55168	37900	17268
21	358	7518	62686	53500	9186
13	358	4654	67340	64900	2440
20	358	7160	74500	74500	0
23	358	8234	82734	82100	634
21	358	7518	90252	85300	4952
20	358	7160	97412	88100	9312

Average seasonal inventories under Table 2 is = $\frac{1280586}{244}$

= 5248.3 units, weighted by production days, assuming that we use buffer stocks and record shortages as indicated in column 6 of Table 2.

If we revise the plan so that the buffer inventories are not used, the average seasonal inventory would be $5248.3 + 9460 = 14708.3$ Inventory holding costs R30 per unit per year and that shortage costs are R15per unit short.

If beginning inventories are only 600 units, the annual inventory costs are = $30 * 5248.3 = \text{Rs. } 157449$ and the shortage costs are = $15 * 30236 = \text{Rs. } 453540$. The total incremental costs are then Rs. 610989

By comparison if we decide not to use buffer inventory, the incremental costs are = $30 * 14708.3 = \text{Rs. } 441249$.

It is obviously more economical to plan on large inventories. Different situations may arise if holding and shortage costs vary.

Level production strategy has several advantages:

- It does not require the hiring or layout of personnel;
- It provides stable employment for workforce;
- It is favoured by labour unions in organized sectors;
- Under this scheduling is simple—358 units per day;

It fails to consider, however, the effects of variation in labour force through overtime/under time for meeting seasonal demand. These factors will be discussed in next issue.

Illustration 3:

Prepare a schedule from the following.

The forecast is 80 units for each of the first two periods and 60 units for each of the next three periods. The starting inventory is 20 units. The company uses a chase strategy for determining the production lot size except there is an upper limit on the lot size of 70 units. Also the desired safety stock is 10 units. ATP quantities are based on maximum allowable production. A negative projected on hand can occur. Committed orders are as

Period	Customer orders
1	82
2	80
3	60
4	40
5	20

Answer:

Inputs are given in the following table:

	Period				
	1	2	3	4	5
Beginning Inventory	20				
Forecast	80	80	60	60	60
Customer Orders	82	80	60	40	20

Since on first period Customer orders $82 > \text{Forecast}$, projected on hand inventory is
Beginning inventory - Customer orders = $20 - 82 = -62$

	Period				
	1	2	3	4	5
Beginning Inventory	20	-62			
Forecast	80	80	60	60	60
Customer Orders	82	80	60	40	20
Projected on hand Inventory	-62				

This will initiate MPS. Since Safety stock is 10 we have to produce $10+62=72$ units so that we could cover the negative stock in hand (-62) and 10 units of safety stock. But maximum production limit is 70 units. So MPS signal is taken at 70. Accordingly subsequent periods are also computed and presented below:

	Period				
	1	2	3	4	5
Beginning Inventory	20	8	-2	8	10
Forecast	80	80	60	60	60
Customer Orders	82	80	60	40	20
Projected on hand Inventory	-62	-72	-62	-52	-50
MPS	70	70	70	62	60
Projected on hand Inventory after MPS	8	-2	8	10	10

Result... is shown below.

ATP for the first period = Beginning Inventory + MPS - Customer order for 1st period.

Look ahead method must consider customer orders of all the next periods until the period is falling in a MPS month. In this illustration since second week is under MPS ATP computation 1st period is not considering the customers demand for 2nd week which is considered for ATP computation of 2nd period.

	Period				
	1	2	3	4	5
Beginning Inventory	20				
Forecast	80	80	60	60	60
Customer Orders	82	80	60	40	20
Projected on hand Inventory	8	-2	8	10	10
MPS	70	70	70	62	60

	Period				
	1	2	3	4	5
Beginning Inventory	20				
Forecast	80	80	60	60	60
Customer Orders	82	80	60	40	20
Projected on hand Inventory	8	-2	8	10	10
MPS	70	70	70	62	60
ATP	8	-10	10	22	40

Suggestions:

The study notes need to be read thoroughly. Supplementary readings could be made from other resources. This issue is based on *Modern Production/Operations Management* by Buffa and Sarin. The problem is just indicative type from which maximum benefits could be reached once Guide book on the paper 9- Operations Management & Strategic Management written and issued by Institute on New Syllabus along with reference books are thoroughly consulted.

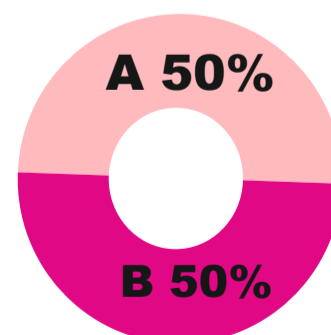


GROUP: II, PAPER:10

Corporate Accounting And Auditing (CAA)

Dr. Swapan Sarkar
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Your Preparation Quick Takes



Syllabus Structure

Section A: Corporate Accounting 50%

Section B: Auditing 50%

Corporate Accounting and Auditing

Module 1: Accounting of Shares and Debentures

• Accounting for Rights Issue

After raising capital through the Initial Public Offer (IPO), a company in future may require further funds to continue and expand its operation. In such a situation, the company may decide to raise capital again by issuing shares. While issuing this new shares, the existing shareholders are to be offered first. This is called Right of pre-emption and the share issue is called Right Issue of Shares.

Unfortunately, the term 'rights issue' is not defined in the Companies Act, 2013. As per Regulation 2(1) (zg) of SEBI (Issue of Capital and Disclosure Requirements), 2009, "rights issue" means an offer of specified securities by a listed issuer to the shareholders of the issuer as on the record date fixed for the said purpose. The provisions relating to issue of rights shares are, however, covered in Section 62(1)(a) of the Companies Act, 2013.

Accordingly, where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer.

Such issue of shares shall be done subject to the following conditions:

- a. the offer shall be made by notice specifying the number of shares offered;
- b. The time limit shall be not less than 15 days and shall be not exceeding thirty days from the date of the offer within which the offer;
- c. unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person;
- d. after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not dis-advantageous to the shareholders and the company.

• Some Important Notes:

- (i) Right issue provides a 'right' i.e., an option but not the obligation to the existing shareholders of the company to buy additional shares directly from the company, generally at a discounted price.
- (ii) An existing shareholder may or may not accept the right. Moreover, he can renounce the 'rights' offered to him to someone and trade it for a price in the secondary market.
- (iii) Right shares can be either equity shares or preference shares.
- (iv) Right shares may be issued at par at premium.

• Valuation of Rights

Existing shareholders who have been offered right shares and do not want to purchase these offered shares may renounce their right shares in favour of some other persons within the specified time period as mentioned in the offer letter. In such a case, the existing shareholders can make a profit by selling his right to such other person. This requires the valuation of rights. 'Rights' can be valued under following two methods:

Method I

Under this methods, Value of Rights = Market price per share (before rights issue) - Average market price per share (after rights issue). Accordingly, the steps are:

Step I: Calculation of Average Market Price per share (after rights issue): It is calculated as follows:

Average Market price per share (after rights issue) = $\frac{\text{Market value of shares outstanding (after rights issue)}}{\text{Total Number of shares outstanding}}$
 $= \frac{(\text{Market value of existing shares} + \text{Issue proceeds from right shares})}{(\text{No. of existing shares} + \text{No. of right shares})}$
 $= \frac{(\text{No. of existing shares} \times \text{Market price per share}) + (\text{No. of right shares} \times \text{Issue price per right share})}{\text{No. of existing shares} + \text{No. of right shares}}$

Step II: Calculation of Value of Rights:

Value of Rights = Market Price per share (before rights issue) Less Average Market price per share (after rights issue)

Note: The average market price (after rights issue) is also known as ex-right value of share.

Method II

The value of rights is calculated under this method as under:

$$\text{Value of Rights} = [\text{Market Price per share} - \text{Issue Price per right share}] \times \frac{\text{No. of rights shares}}{\text{Total no. of shares (after rights issue)}}$$

$$= [\text{Market Price per share} - \text{Issue Price per rights share}] \times \frac{\text{No. of rights shares}}{\text{Original no. of shares} + \text{No. of rights shares}}$$

Illustration:

X Ltd. offers new shares of Rs.100 each at 20% premium to its existing shareholders in the ratio of 3 shares for every 5 shares held. The market price of share is Rs.150. Calculate the value of each right.

Solution:

The value of rights can be calculated under any one of the following two methods:

Method I: (Follow the formula stated above)

The value of rights is calculated under this method under the following two steps:

Step I: Calculation of Average Market Price per share (after rights issue): It is calculated as follows:

$$= \frac{5 \times 150 + 3 \times 120}{5 + 3} = \text{Rs.138.75}$$

Step II: Calculation of Value of Rights:

$$\text{Value of Rights} = \text{Market Price per share} - \text{Average Price per share (after rights issue)}$$

$$= \text{Rs.} (150 - 138.75) = \text{Rs.} 11.25 \text{ per right}$$

Method II: (Follow the formula stated above)

$$\text{Value of Rights} = (150 - 120) \times \frac{3}{5 + 3} = \text{Rs.} 11.25 \text{ per right}$$

• **Accounting for Rights Issue**

The accounting entries for issue of rights shares will be as follows:

(i). **On receipt of application money**

Bank A/cDr.

To Share Application A/c

(ii). **On allotment of shares**

Share Application A/cDr.

To Share Capital A/c (Face Value x no. of shares allotted)

To Securities Premium A/c (Premium x no. of shares allotted)

Note 1: If rights share proceeds are collected in instalments involving call money, the journal entries for those instalments are also to be made.

Note 2 - Effect on Balance Sheet:

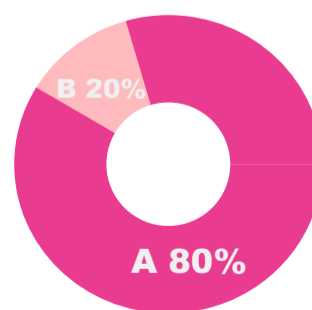
The issue proceeds of rights shares should be reflected in Cash and Cash Equivalent. Increase in Equity Share Capital and Securities Premium should be reflected in Share Capital and Reserves and Surplus.

GROUP: II, PAPER:11

Financial Management And Business Data Analytics (FMDA)

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cu.ashis@gmail.com

Your Preparation Quick Takes



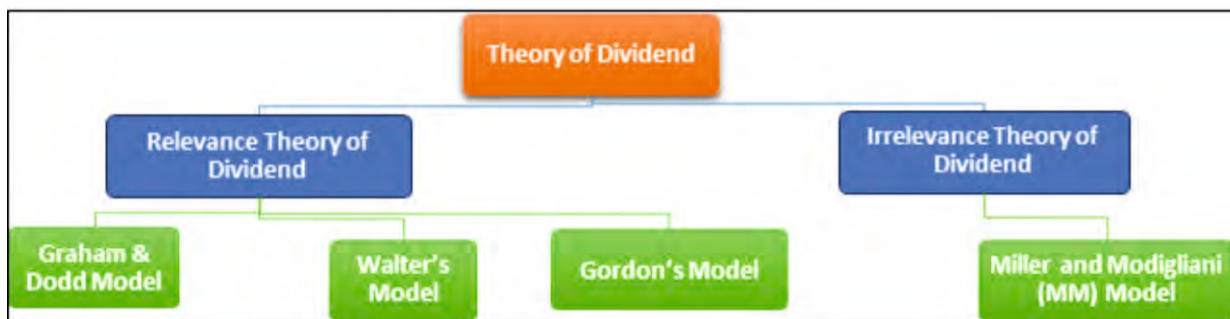
Syllabus Structure

Section A: Financial Management 80%

Section B: Business Data Analytics 20%

Financial Management

Dividend Theory



1. Graham & Dodd Model (Traditional Model)

According to this model, the market price of the shares will increase when a company declares a dividend rather than when it does not. In this model weight attached to dividends is four times of weight attached to retained earnings.

Quantitatively,

$$P = m(D + \frac{A}{Q})$$

Where:

P is the market price per share

M is a multiplier

D is the dividend per share

E is the earnings per share

Critics argue that Graham and Dodd provided weight subjectively and did not derive them from any empirical analysis.

2. Walter's Model

According to this model, the dividend policy of a company has an impact on the share valuation, i.e., dividends are relevant. The key argument in support of the relevance proposition of Walter's model is the relationship between the return on a firm's investment (its internal rate of return) 'r' and its cost of capital (i.e., the required rate of return) 'k'. If the return on investments exceeds the cost of capital, the firm should retain the earnings, whereas it should distribute the earnings to the shareholders in cash the required rate of return exceeds the expected return on the firm's investments.

Quantitatively,

$$P = \frac{(D + \frac{r}{k} (E - D))}{k}$$

Where:

P = The prevailing market price of a share

D = Dividend per share

E = Earnings per share

r = The internal rate of return on the investments and

k = Cost of capital.

3. Gordon's Model

According to this model, the dividend policy of the company has an impact on share valuation i.e., dividends are relevant.

Quantitatively,

$$P = \left(\frac{Y(1-b)}{(k-br)} \right)$$

Where:

P is the price per share

Y is the earnings per share

b is the retention ratio

1-b is the payout ratio

br is the growth rate

r is the return on investment

k is the rate of return required by shareholders (also called capitalization rate)

1. Miller and Modigliani (MM) Model / Dividend Irrelevancy Model

This theory argued that the value of the firm is determined by the basic earnings power, the firm's risk and not by the distribution of earnings.

According to the MM Model, the market price of a share after dividend declared is calculated by applying the following formula:

$$P_o = \frac{(P_1 + D_1)}{1 + K}$$

Where,

P_o is the prevailing market price

k is the cost of equity capital

D_1 is the dividend to be received at the end of period one

P_1 is the market price at the end of period one

Illustration 1

From the following data of XYZ Ltd., calculate the market price of share under

- (i) Walter's Model
- (ii) Dividend Growth Model.

Earnings per share	:Rs.5
Dividend per share	:Rs.3
Cost of Capital	:16%
Internal rate of return on investment	:20%
Retention Ratio	:50%

Answer

- (i) Market price as per Walter's Model

$$P = \frac{(D + \frac{r}{k} (E - D))}{k}$$

Where:

P = The prevailing market price of a share

D = Dividend per share

E = Earnings per share

r = The internal rate of return on the investments and

k = Cost of capital.

$$= \frac{3 + \frac{0.20}{0.16} (5 - 3)}{0.16}$$

$$= \text{Rs. } 37.375$$

- (ii) Market price as per Dividend Growth Model

$$P = \frac{D_1}{(k_e - g)}$$

Where,

P = Intrinsic value

D_1 = Expected dividend

k_e = Appropriate discount factor for the investment

g = Constant dividend growth rate

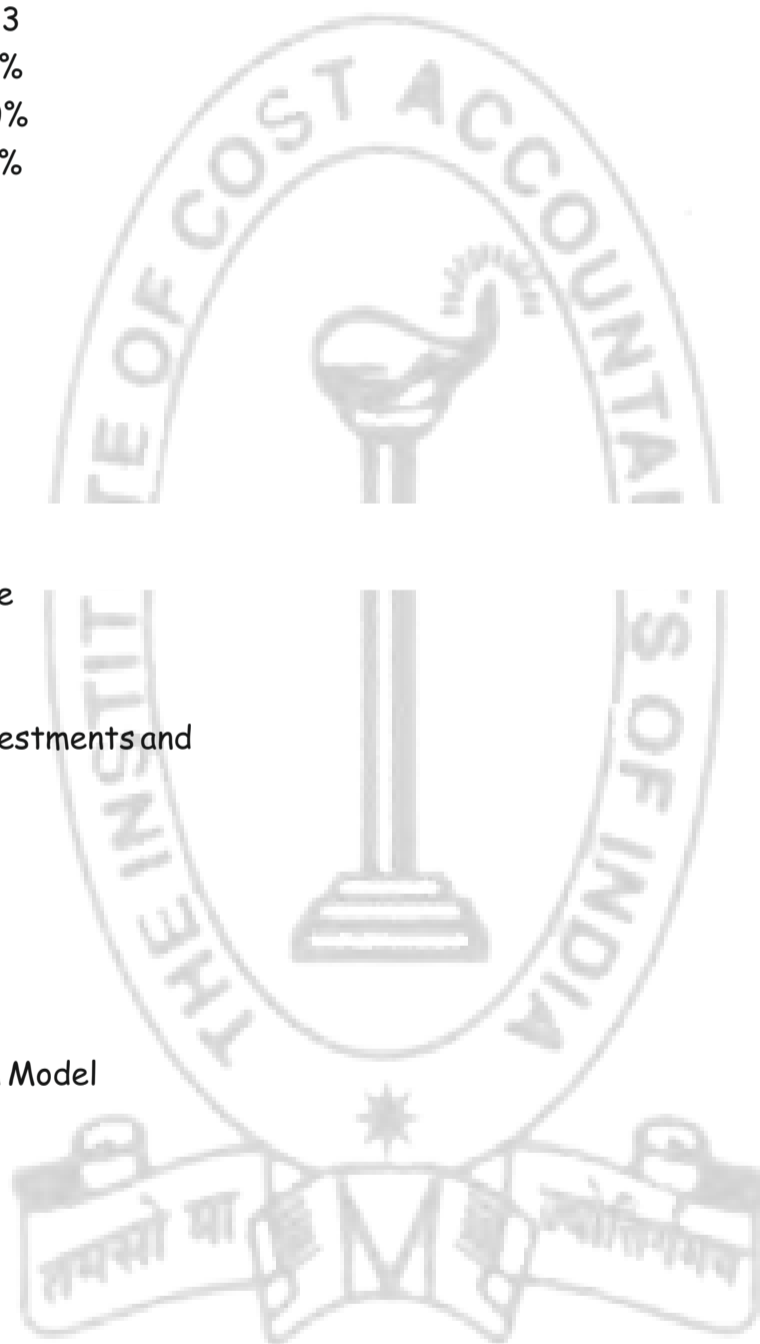
Constant Growth Rate

$$g = (k_e + r) = (0.20 \times 0.50) = 0.10 \text{ i.e. } 10\%$$

D_1 = Retention ratio of 50% that means payout ratio is 50%

$$\text{Hence } D_1 = \text{Rs. } 5 \times 50\% = \text{Rs. } 2.5$$

$$\text{Market price (P)} = \frac{2.5}{(0.16 - 0.10)} = \text{Rs. } 41.67$$



Multiple Choice Questions (MCQs)

1. The concept of Maximum Permissible Bank Finance was introduced by:

- (a) Kannan Committee
- (b) Chore Committee
- (c) Nayak Committee
- (d) Tandon Committee

Answer: (D)

2. Current ratio is 4:1. Net working capital is Rs. 3,00,000. Find the amount of liquid assets if the value of stock is Rs. 80,000.

- (a) Rs. 1,00,000
- (b) Rs. 2,00,000
- (c) Rs. 3,20,000
- (d) Rs. 4,00,000

Answer: (c)

3. As per Walter's model, in case of growth firm:

- (a) Dividend policies re relevant
- (b) Optimum payout ratio is 100%
- (c) Payout ratio is irrelevant
- (d) Optimum payout ratio is nil.

Answer: (d)

4. Which of the following is correct formula to calculate payback period reciprocal?

- (a) $(1/\text{payback period}) \times 100$
- (b) $(100/\text{payback period}) \times 10$
- (c) $(100/\text{payback period}) \times \beta$
- (d) $(1/\text{payback period} \times \beta) \div 100$

Answer: (a)

Data Presentation Architecture

Data Presentation Architecture (DPA) refers to a set of design principles, patterns, and techniques used to represent and visualize [data](#) in a meaningful, understandable, and accessible way. The primary objective of DPA is to facilitate decision-making, analysis, and communication by presenting data in a clear, concise, and visually appealing manner.

Key Components of Data Presentation Architecture

1. **Data Sources:** DPA relies on data sources, such as databases, data warehouses, or APIs, to retrieve the necessary raw data for visualization.
2. **Data Transformation:** Data transformation involves processing and manipulating raw data to prepare it for presentation. This may include data cleaning, aggregation, filtering, or normalization.
3. **Visualization Techniques:** DPA employs various visualization techniques, such as bar charts, line charts, pie charts, scatter plots, and heatmaps, to represent data in a visually understandable format.
4. **User Interface (UI):** The UI is the visual layer that enables users to interact with and explore the presented data. A well-designed UI should be intuitive, responsive, and aesthetically pleasing.
5. **User Experience (UX):** UX encompasses the overall experience a user has when interacting with the data presentation, including factors such as ease of use, accessibility, and satisfaction.

(Source: https://cio-wiki.org/wiki/Data_Presentation_Architecture accessed on 14.11.2023)

Scope of DPA

The scope of DPA are as follows:

- (i) Defining significant meaning (relevant information) required by each audience member in every scenario.
- (ii) Obtaining the proper data (focus area, historic reach, extensiveness, level of detail, etc.)
- (iii) Determining the needed frequency of data refreshes (the currency of the data)
- (iv) Determining the optimal presentation moment (the frequency of the user needs to view the data)
- (v) Using suitable analysis, categorization, visualisation, and other display styles
- (vi) Developing appropriate delivery techniques for each audience member based on their job, duties, locations, and technological access

MCQ

1. Which of the following is true about Data Visualization?
- (a) Data Visualization is used to communicate information clearly and efficiently to users.
 - (b) Data Visualization helps users in analyzing a large amount of data in a simpler way.
 - (c) Data Visualization makes complex data more accessible, understandable, and usable.
 - (d) All of the above

Answer: (d)

2. Which of the intricate techniques is not used for data visualization?
- (a) Bubble Clouds
 - (b) Fever Maps
 - (c) Heat Maps
 - (d) Bullet Graphs

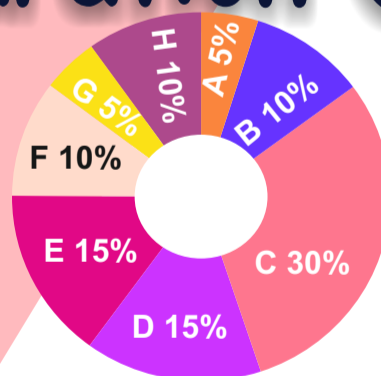
Answer: (b)



GROUP: II, PAPER:12
Management
Accounting (MA)

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Your Preparation Quick Takes



Syllabus Structure

- Section A:** Introduction to Management Accounting **5%**
- Section B:** Activity Based Costing **10%**
- Section C:** Decision Making Tools **30%**
- Section D:** Standard Costing and Variance Analysis **15%**
- Section E:** Forecasting, Budgeting and Budgetary Control **15%**
- Section F:** Divisional Performance Measurement **10%**
- Section G:** Responsibility Accounting **5%**
- Section H:** Decision Theory **10%**

Forecasting, Budgeting and Budgetary Control

State True or False:

1. Zero base budgeting will be appropriate in areas where output is not related to production.
2. Flexible budget does not change with the level of production or output.
3. Functional Budgets are temporary budgets used only for short-term planning.
4. A Sales Budget provides an estimate of quantity and Selling Price for each product for each zone or region.
5. A flexible budget is suitable for industries with constant production levels.

Answer

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

Multiple Choice Questions:

1. When does the budgeting process take place in relation to forecasting?
 - A. After forecasting
 - B. Simultaneously with forecasting
 - C. Before forecasting
 - D. Independent of forecasting
2. What is the budget period?
 - A. The time it takes to prepare a budget
 - B. The time covered by a budget
 - C. The time it takes to implement a budget
 - D. The time between budget reviews
3. What does the term "goal congruence" refer to in the context of budgeting system?
 - A. Alignment of personal goals with organizational goals
 - B. Contradiction between personal and organizational goals
 - C. Setting unrealistic goals
 - D. Ignoring organizational goals
4. What is a requirement of a good budgeting system according to the content?
 - A. Vague organizational goals
 - B. Lack of support from the chief executive
 - C. The budget should be unrealistic
 - D. The budgeting system should be based on information, communication, and participation.
5. The following information is available:

Wages for January: ₹ 20,000
Wages for February: ₹ 22,000
Delay in payment of wages: 1/2 month.

The amount of wages paid during the month of February is

 - A. ₹ 11,000
 - B. ₹ 22,000
 - C. ₹ 20,000
 - D. ₹ 21,000
6. Under which of the following method of budgeting, all activities are re-evaluated each time a budget is prepared
 - A. Materials budget
 - B. Zero base budgeting
 - C. Sales budget
 - D. Overheads budget

7. A document that sets out the responsibility of the persons engaged in the routine of and the procedures, forms and records required for budgetary control is called
- Budget centre
 - Budget report
 - Budget controller
 - Budget manual
8. Which is NOT a commonly used Functional Budget?
- Capital Expenditure Budget
 - Production Overheads Budget
 - Research & Development Expenditure Budget
 - Variance Analysis Budget
9. What is the primary disadvantage of a fixed budget?
- Time-consuming preparation
 - Inability to adapt to changing conditions
 - Suitable for long-term planning
 - Provides accurate estimates
10. Which of the following would be included in a cash budget:
- Patent Amortisation
 - Goodwill
 - Dividends
 - Depreciation Charges
11. Master Budget is also known as
- Functional budget
 - Performance budget
 - Summary budget
 - Sales budget
12. From the following, which one is a functional budget
- Master budget
 - Fixed budget
 - Sales budget
 - Current budget
13. Production at 80% activity is 800 units, if flexible budget needs to be calculated at 60% activity what will be units produced?
- 600
 - 900
 - 800
 - 650
14. Which of the following is not a financial budget:
- Cash Budget
 - Capital Budget
 - Budgeted Fund Flow Statement
 - Sales Budget
15. Production budget is dependent on
- Purchase budget
 - Sales budget
 - Cash budget
 - Overhead budget

Answer

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
C	B	A	D	D	B	D	D	B	C	C	C	A	D	B

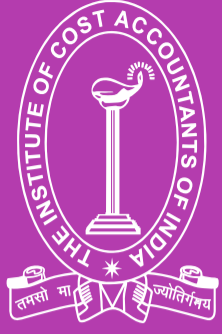
Fill in the blanks:

1. _____ leads to budgeting and budgeting leads to budgetary control.
2. Capacity determination helps in preparation of _____ budgeting.
3. The _____ is usually a senior member of the accounting staff who facilitates and coordinates the budgeting activity, ensuring that decisions are communicated to the appropriate people."
4. "The _____ is a schedule or booklet that shows the budgeting organization and procedure in a written form, serving as a guide for each department head for guidance."
5. A _____ Budget is prepared for estimating the required level of output for a given period.

Answer

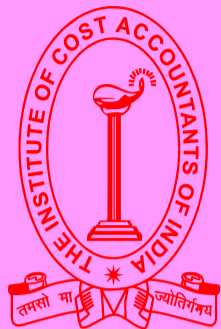
1. Forecasting
2. Flexible
3. Budget Officer
4. Budget Manual
5. Production





Examination TIME TABLE

Day & Date	Intermediate Examination Syllabus-2016 & 2022 Time 02.00 p.m. to 5.00 p.m.
10 th December, 2023 (Sunday)	(Group - I) (Paper 05) Financial Accounting (Syllabus 2016) Business Laws and Ethics (Syllabus 2022)
11 th December, 2023 (Monday)	(Group - II) (Paper 09) Operations Management & Strategic Management (Syllabus 2016) Operations Management and Strategic Management (Syllabus 2022)
12 th December, 2023 (Tuesday)	(Group - I) (Paper 06) Laws & Ethics (Syllabus 2016) Financial Accounting (Syllabus 2022)
13 th December, 2023 (Wednesday)	(Group - II) (Paper 10) Cost & Management Accounting and Financial Management (Syllabus 2016) Corporate Accounting and Auditing (Syllabus 2022)
14 th December, 2023 (Thursday)	(Group - I) (Paper 07) Direct Taxation (Syllabus 2016) Direct and Indirect Taxation (Syllabus 2022)
15 th December, 2023 (Friday)	(Group -II) (Paper 11) Indirect Taxation (Syllabus 2016) Financial Management and Business Data Analytics (Syllabus 2022)
16 th December, 2023 (Saturday)	(Group - I) (Paper 08) Cost Accounting (Syllabus 2016) Cost Accounting (Syllabus 2022)
17 th December, 2023 (Sunday)	(Group - II) (Paper 12) Company Accounts & Audit (Syllabus 2016) Management Accounting (Syllabus 2022)



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,
MQPs, E-Bulletin
Attend Online sessions**

**Solve Exercises
given in Study Note**

02

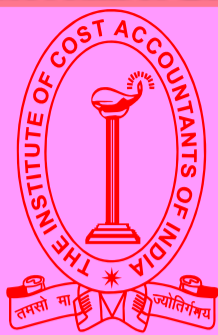
03

Assess Yourself

Appear For Examination

04

FINISHED



Message from Directorate of Studies

Dear Students,

Greetings from the D.O.S.!!!

We from the Directorate of Studies understand your expectations from us and accordingly we are trying to deliver some meaningful tips through various publications in soft versions like-E-bulletins, Mock Test Papers (MTPs), Model Question Papers (MQPs). Supplementary and Amendments are also uploaded from time to time to keep the students updated about the recent changes made in the papers; wherever applicable.

- Certain general guidelines are listed below and which will help you in preparing for the examinations:
- Conceptual understanding and overall understanding of the subjects should be clear,
- Students are advised to go through the study material provided by the Institute meticulously,
- Students should know and learn the basic understandings of the subjects with focus on core concepts,
- Students are expected to give to the point answer which is a pre-requisite for any professional examination,
- To strengthen the answers, students are advised to answer precisely and in the structured manner,
- Proper time management is also important while answering.

GOOD LUCK
Be prepared and be successful

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



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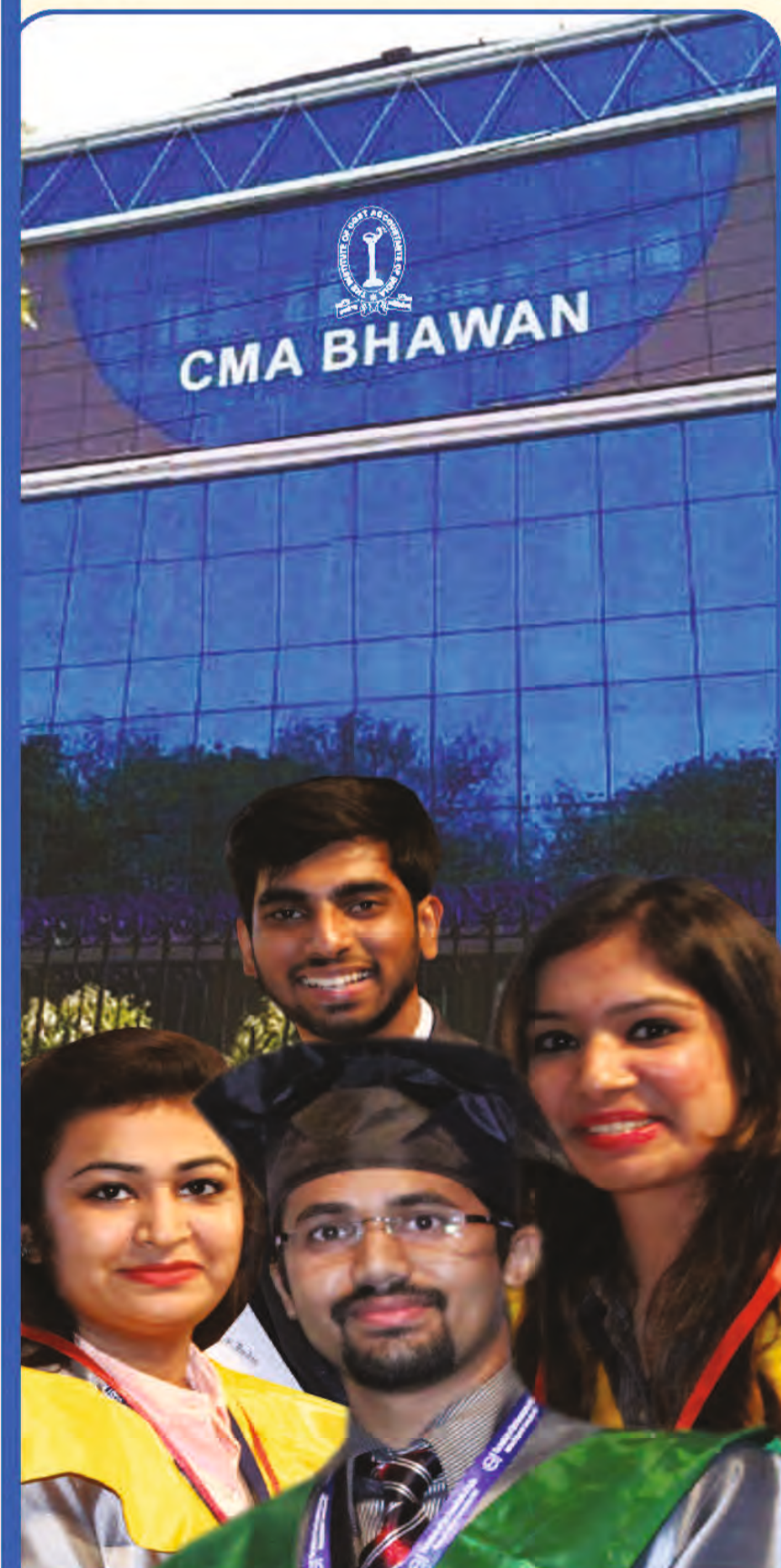
Few of Our Proud Recruiters



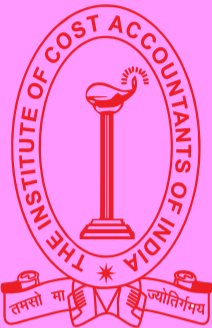
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Behind every successful business decision, there is always a **CMA**



Few Snapshots



CMA Navneet Kumar Jain CCM and NIRC RCMs CMA Manish Kandpal and CMA Jeewan Chandra, held a fruitful discussion with CBIC Board Member Ms. V. Rama Mathew to delve into the potential utility of cost records data



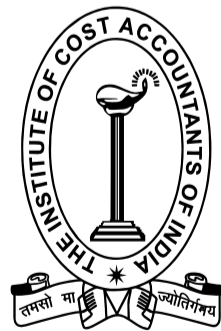
CMA Manoj Kumar Anand, Council Member, ICAI had a meeting Ms. Helen Brand OBE, Chief Executive, ACCA UK along with Md. Sajid Khan, Director - India, ACCA, and Mr. Sundeep Jakhar, Head of Public Affairs - India, ACCA at CMA Bhawan, New Delhi on 30th October 2023.



CMA Navneet Jain CCM, CMA Jeewan Chandra, RCM-NIRC & CMA Varun Sukhija, Chairman Faridabad Chapter alongwith other members visited PCIT Faridabad and Gurgaon, Mr. Anand Kedia Ji and discussed about empanelment of CMAs for Inventory Valuation u/s 142 (2A) of Income Tax Act, 1961.



CMA Chittaranjan Chattopadhyay, Chairman, BFSIB, ICAI felicitating Smt. Rajeshwari Singh Muni, CMD of National Insurance Company Limited.



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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