



ICMAI
**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**
भारतीय लागत लेखाकार संस्थान
Statutory Body under an Act of Parliament
(Under the jurisdiction of Ministry of Corporate Affairs)
www.icmai.in



CMA STUDENT E-Bulletin

VOL 11 | NO. 03 | MARCH 2026

An Initiative of Directorate of Studies

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

About the Institute

The Institute of Cost Accountants of India (ICMAI) is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organizes professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants increasingly contributing towards the management of scarce resources like funds, land and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

The Institute is headquartered in New Delhi having four Regional Councils at Kolkata, Delhi, Mumbai and Chennai, 113 Chapters in India and 11 Overseas Centres. The Institute is the largest Cost & Management Accounting body in the world with about 1,00,000⁺ qualified professionals and over 6,00,000⁺ students pursuing the CMA Course. The Institute is a founder member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The Institute is also an Associate Member of ASEAN Federation of Accountants (AFA) and member in the Council of International Integrated Reporting Council (IIRC), UK.

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Institute Motto

असतोमा सदगमय
तमसोमा ज्योतिर् गमय
मृत्योर्मा मृतं गमय
ॐ शान्ति शान्ति शान्तिः

From ignorance, lead me to truth
From darkness, lead me to light
From death, lead me to immortality
Peace, Peace, Peace

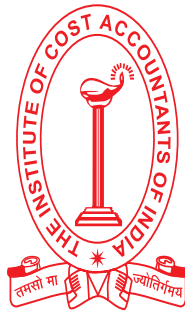
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CONTENTS

CMA STUDENT E-Bulletin

VOL 11 | NO. 03 | March 2026

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06 - Chairman's Communique

(Training & Educational Facilities Committee)

07 - 22 - CMA Foundation Course

Syllabus 2022

(Paper 1 - 4)

23 - 64 - CMA Intermediate Course

Syllabus 2022

Group I (Paper 5 - 8) & Group II (Paper 9 - 12)

65 - 108 - CMA Final Course

Syllabus 2022

Group III (Paper 13-16) & Group IV (Paper 17-19)

Electives (Paper 20A - 20C)



CHAIRMAN'S COMMUNIQUE

Dear CMA Students,

It gives me immense pleasure to connect with you through the March 2026 issue of the CMA Student E-Bulletin. As the Chairman of the Training & Educational Facilities Committee of ICAI, I am excited to share the latest developments and initiatives that aim to enhance your learning experience and professional growth.

At ICAI, our commitment to excellence in education and training remains unwavering. We continuously strive to provide you with the best resources, state-of-the-art facilities, and cutting-edge training programs that will prepare you to excel in the field of cost and management accounting. Your success is our primary motivation, and we are dedicated to supporting you every step of the way.

In today's digital age, leveraging technology to facilitate learning is paramount. We have introduced several innovative learning platforms to ensure that you have access to high-quality education regardless of your location. Our online classes, interactive webinars, and virtual workshops provide you with the flexibility to learn at your own pace while maintaining the highest standards of education.

In addition to theoretical knowledge, practical skills are crucial for your professional development. We have designed a variety of skill development programs that focus on real-world applications and industry-relevant practices. These programs include case studies, simulation exercises, and hands-on training sessions that bridge the gap between academic knowledge and practical implementation.

Our collaborations with leading organizations and industry experts provide you with invaluable insights and opportunities to apply your knowledge

in real-world scenarios. Through internships, live projects, and guest lectures, you can gain practical experience and understand the nuances of the industry. These collaborations also open doors to networking opportunities that can be instrumental in your career growth.

At ICAI, we believe in the holistic development of our students. Alongside academic excellence, we emphasize the importance of soft skills such as communication, leadership, and teamwork. Our comprehensive training programs include workshops and seminars focused on developing these essential skills, ensuring that you are well-rounded professionals ready to take on leadership roles.

I am confident that the initiatives and programs we have implemented will significantly enhance your learning experience and prepare you for a successful career. I encourage you to take full advantage of these opportunities and remain dedicated to your goals.

I extend my best wishes to all of you. Your hard work, determination, and passion are the driving forces behind our efforts. Let us continue to work together to achieve excellence and elevate the standards of the cost and management accounting profession.

Warm regards,

CMA Vinayranjan P.

**Chairman, Training & Educational Facilities
Committee, ICAI**

CMA FOUNDATION COURSE

Syllabus 2022

Topic

Fundamentals of
Business Laws -

Module 2:
Indian Contracts
Act, 1872

Business
Communication -

Module 5:
Business
Communication

FOUNDATION

Paper-1

Fundamentals of
Business Laws and
Business
Communication
(FBLC)

SECTION – A: FUNDAMENTALS OF BUSINESS LAWS

1. A promises to gift ₹50,000 to his friend B out of natural love and affection, but the agreement is not in writing or registered. What is the legal position?
 - a) The agreement is valid
 - b) The agreement is void
 - c) The agreement is voidable
 - d) The agreement is illegal
2. A offers to sell his laptop to B, but before B communicates acceptance, A sells it to C. What is the legal effect of this situation?
 - a) A is liable to B for breach
 - b) A cannot revoke the offer
 - c) No contract is formed between A and B
 - d) The contract becomes void
3. A minor enters into an agreement to purchase goods on credit and later refuses to pay. What is the legal position regarding the agreement?
 - a) The agreement is valid and enforceable
 - b) The agreement is void ab initio
 - c) The agreement is voidable at the option of the minor
 - d) he minor is partially liable
4. A compels B to enter into a contract by threatening him with physical harm. Later, B challenges the agreement. What is the nature of the contract?
 - a) The contract is valid
 - b) The contract is void
 - c) The contract is voidable at B's option
 - d) The contract is illegal
5. A and B enter into a contract under a mutual mistake regarding an essential fact of the agreement. What is the legal effect?
 - a) The contract is valid
 - b) The contract is voidable
 - c) The contract is void
 - d) The contract is enforceable
6. A agrees to perform an act that is impossible from the very beginning. What is the legal status of such an agreement?
 - a) It is valid
 - b) It is void
 - c) It is voidable
 - d) It is enforceable
7. contract becomes impossible to perform due to a subsequent change in law. How is such a contract discharged?
 - a) By breach
 - b) By performance
 - c) By frustration
 - d) By mutual agreement
8. A informs B before the due date that he will not perform his contractual obligations. What type of breach does this represent?
 - a) Actual breach
 - b) Anticipatory breach
 - c) Void agreement
 - d) Rescission
9. A performs part of his contractual obligation, and the other party accepts the benefit of such partial performance. What remedy is available to A?
 - a) He can claim specific performance
 - b) He can claim damages
 - c) He can claim payment under quantum meruit
 - d) He has no remedy
10. A agrees to pay B for services rendered, but no consideration is mentioned in the agreement. What is the legal position?
 - a) The agreement is valid
 - b) The agreement is void
 - c) The agreement is illegal
 - d) The agreement is enforceable only partially
11. A contract is entered into where consent is obtained through fraud. What is the nature of such a contract?
 - a) It is void
 - b) It is voidable at the option of the aggrieved party
 - c) It is illegal
 - d) It is automatically terminated

12. A enters into an agreement that restrains him from marrying any person. What is the legal validity of such an agreement?
- It is valid
 - It is void
 - It is voidable
 - It is enforceable with court approval
13. A promises to pay B ₹10,000 without any consideration. Which of the following is correct?
- The agreement is valid
 - The agreement is void
 - The agreement is illegal
 - The agreement is voidable
14. A contract requires that both parties perform their obligations simultaneously. What type of reciprocal promise is this?
- Independent reciprocal promise
 - Dependent reciprocal promise
 - Concurrent reciprocal promise
 - Conditional promise
15. A contract is breached, and the injured party suffers direct loss. What type of damages is generally awarded?
- Special damages
 - General damages
 - Exemplary damages
 - Nominal damages
16. A surety pays the debt of the principal debtor to the creditor. What right does the surety have?
- Right against creditor
 - Right to recover from principal debtor
 - No right
 - Right against court
17. A contract of indemnity typically involves how many parties?
- One
 - Two
 - Three
 - Four
18. A person finds lost goods and takes them into his custody. What is his legal position?
- He becomes the owner
 - He is treated as a bailee
 - He is an agent
 - He has no rights
19. A contract involves transfer of possession of goods for a specific purpose upon completion of which goods are to be returned. What is this contract called?
- Sale
 - Bailment
 - Agency
 - Guarantee
20. An agent acts beyond his authority, and the principal later approves the act. What is this process called?
- Revocation
 - Ratification
 - Rescission
 - Termination
21. A contract is enforceable at the option of one of the parties. What type of contract is this?
- Void
 - Voidable
 - Illegal
 - Unlawful
22. A contract is formed without free consent of one party. What is the legal status of such a contract?
- Void
 - Voidable
 - Valid
 - Illegal
23. A contract is discharged when both parties agree to substitute a new contract for the old one. What is this called?
- Rescission
 - Novation
 - Alteration
 - Remission

24. A party fails to perform his obligation on the due date. What type of breach is this?
- Anticipatory breach
 - Actual breach
 - Conditional breach
 - Void breach
25. Effective communication requires:
- Clarity
 - Conciseness
 - Completeness
 - All of the above
26. Grapevine communication is:
- Formal
 - Informal
 - Written
 - External
27. Encoding means:
- Receiving message
 - Sending message
 - Converting ideas into symbols
 - Feedback
28. A barrier caused by emotions is:
- Physical
 - Semantic
 - Psychological
 - Technical
29. Horizontal communication occurs:
- Between same level
 - Top to bottom
 - Bottom to top
 - External
30. The purpose of communication is:
- Confusion
 - Information sharing
 - Delay
 - Control

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b	c	b	c	c	b	c	b	c	a	b	b	b	c	b
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
b	b	b	b	b	b	b	b	b	d	b	c	c	a	b

Topic

Fundamentals
of Financial
Accounting -

Module 1:
Accounting
Fundamentals

Fundamentals of
Cost Accounting -

Module 4:
Fundamentals of
Cost Accounting

FOUNDATION

Paper-2

Fundamentals of
Financial and Cost
Accounting (FFCA)

FUNDAMENTALS OF FINANCIAL ACCOUNTING

1. Posting ₹5,400 as ₹4,500 in customer account is:
 - a) Error of principle
 - b) Error of omission
 - c) Error of commission
 - d) Compensating error
2. Assets = Liabilities + ?
 - a) Expenses
 - b) Revenue
 - c) Capital
 - d) Profit
3. Purchases of goods for cash
 - a) Increases cash
 - b) Decreases inventory
 - c) Exchanges one asset for another
 - d) Increases liability
4. Which financial statement shows assets and liabilities
 - a) Trading Account
 - b) Profit & Loss Account
 - c) Balance Sheet
 - d) Cash Book
5. Accounting period concept means
 - a) Business ends every year
 - b) Life divided into reporting periods
 - c) Cash basis only
 - d) Assets are valued yearly
6. The accounting equation always
 - a) Becomes zero
 - b) Remains balanced
 - c) Shows profit
 - d) Shows cash
7. Credit sales ₹20,000 (cost ₹15,000), capital increases by
 - a) ₹20,000
 - b) ₹15,000
 - c) ₹5,000
 - d) ₹35,000
8. Purchase of second hand machinery with installation cost is
 - a) Revenue
 - b) Capital
 - c) Deferred
 - d) Expense
9. Loan taken
 - a) Revenue receipt
 - b) Capital receipt
 - c) Expense
 - d) Income
10. Interest on Loan received
 - a) Capital receipt
 - b) Revenue receipt
 - c) Expense
 - d) Asset
11. Compensation received for loss of asset
 - a) Revenue receipt
 - b) Capital receipt
 - c) Expense
 - d) Liability
12. Preliminary expenses are
 - a) Capital expenditure
 - b) Revenue expenditure
 - c) Deferred revenue expenditure
 - d) Asset
13. High spent on advertisement for launching new product
 - a) Revenue
 - b) Capital
 - c) Deferred revenue
 - d) Asset
14. Discount column in Cash Book is:
 - a) Balanced
 - b) Totalled only
 - c) Both balanced and totalled
 - d) Ignored
15. Contra entry affects:
 - a) Only cash column
 - b) Only bank column
 - c) Both cash and bank columns
 - d) Discount column
16. Credit balance in Pass Book means:
 - a) Overdraft
 - b) Cash in hand
 - c) Favourable balance
 - d) Loss

17. What is the purpose of making a provision for depreciation in the accounts?
- To charge the cost of fixed assets against profits
 - To show the current market value of fixed asset
 - To make cash available to replace fixed assets
 - To make a provision for repairs
18. Depreciation is calculated under diminishing balance method, based on
- Original value
 - Book value
 - Scrap value
 - None of them
19. Depreciation is classified as:
- Revenue expenditure
 - Capital expenditure
 - Deferred revenue expenditure
 - None of these
20. Provision for depreciation account is:
- Asset
 - Expense
 - Liability
 - None of these
21. Overdraft balance as per Pass Book means
- Debit balance
 - Credit balance
 - Nil balance
 - Negative asset
22. Which costing method is used when products are manufactured as per customer order?
- Process costing
 - Job costing
 - Operating costing
 - Standard costing
23. Which costing method is used in industries like Construction, Shipbuilding?
- Batch costing
 - Contract costing
 - Operating costing
 - Marginal costing
24. Which costing method is applied in transport services?
- Job costing
 - Process costing
 - Operating costing
 - Contract costing
25. Standard costing is mainly used for
- Cost control
 - Cost accumulation
 - Profit distribution
 - Financial accounting
26. Multiple costing is used in
- Textile industry
 - Automobile industry
 - Transport industry
 - Banking sector
27. Uniform costing refers to
- Same costing method used by different firms
 - Same cost for all products
 - Fixed cost system
 - Government costing
28. Which costing is used when production is carried out in different stages?
- Job costing
 - Process costing
 - Contract costing
 - Operating costing
29. Which method is best suited for Hospitals and Hotels?
- Job costing
 - Process costing
 - Operating costing
 - Contract costing
30. Which costing method focuses on decision making and profit planning ?
- Standard costing
 - Marginal costing
 - Process costing
 - Contract costing

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	c	c	c	b	b	c	b	b	b	b	c	c	b	c
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
c	a	b	a	c	b	b	b	c	a	b	a	b	c	b

Topic

Fundamentals
of Business
Mathematics -

Module 2:
Algebra

Fundamentals of
Business Statistics -

Module 6:
Correlation and
Regression

FOUNDATION

Paper-3

Fundamentals
of Business
Mathematics and
Statistics (FBMS)

FUNDAMENTALS OF BUSINESS MATHEMATICS AND STATISTICS

In this issue we will carry out MCQs on Algebra and Correlation & Regression - Refer Module 2 and Module 6 of Study guide

1. The expression $\frac{(27)^{2/3} \times (16)^{3/4}}{(81)^{1/2}}$ is equal to
 - (a) 12
 - (b) 8
 - (c) 16
 - (d) 24
2. If $n C_r = n C_{r+2}$ then $r = ?$
 - (a) $\frac{n-2}{2}$
 - (b) $\frac{n-1}{2}$
 - (c) $\frac{n}{2}$
 - (d) $\frac{n+2}{2}$
3. The number of ways of selecting at least one item from 5 distinct items is:
 - (a) 30
 - (b) 32
 - (c) 25
 - (d) 31
4. How many ways can 6 men and 4 women form a committee of 5 with at least 2 women?
 - (a) 126
 - (b) 150
 - (c) 216
 - (d) 186
5. From a group of 10 people, how many committees of 4 can be formed such that a particular person is always included?
 - (a) 126
 - (b) 84
 - (c) 252
 - (d) 210
6. In how many ways can 4 letters be chosen and arranged from the word "COMPUTER"?
 - (a) 5040
 - (b) 4096
 - (c) 1680
 - (d) 1000
7. Number of permutations of the letters of the word "BANANA" taken all at a time:
 - (a) 60
 - (b) 120
 - (c) 180
 - (d) 720
8. In how many ways can 5 boys and 5 girls be arranged in a row such that no two girls sit together?
 - (a) 14400
 - (b) 28800
 - (c) 7200
 - (d) 86400
9. How many distinct permutations of the word "STATISTICS" are possible?
 - (a) 50400
 - (b) 12600
 - (c) 75600
 - (d) 151200
10. If $a^x = b^y = c^z = 1$ and $abc = 1$, then
 - (a) $x + y + z = 0$
 - (b) $\frac{1}{x} + \frac{1}{y} + \frac{1}{z} = 0$
 - (c) $\frac{1}{x} \times \frac{1}{y} \times \frac{1}{z} = 0$
 - (d) $xyz = 1$
11. The simplified value of $\left(\frac{a^{x+y}}{a^{x-y}}\right)^{\frac{1}{2y}}$
 - (a) a^{xy}
 - (b) 0
 - (c) a
 - (d) 1
12. From a group of 7 students, how many ways can a committee of 3 students be formed?
 - (a) 210
 - (b) 42
 - (c) 35
 - (d) 30
13. Correlation measures:
 - (a) Causation between two variables

- (b) Degree of relationship between two variables
 (c) Difference between two variables
 (d) Ratio between two variables
14. The value of Karl Pearson's coefficient of correlation (r) lies between:
 (a) 0 and 1
 (b) -1 and 1
 (c) $-\infty$ and $+\infty$
 (d) 0 and ∞
15. If $r = 0$, it indicates:
 (a) Perfect positive correlation
 (b) Perfect negative correlation
 (c) No linear correlation
 (d) Strong correlation
16. Regression analysis is primarily used for:
 (a) Measuring variability
 (b) Classifying data
 (c) Predicting one variable based on another
 (d) Finding median
17. In regression equations, the variable being predicted is called:
 (a) Independent variable
 (b) Random variable
 (c) Constant variable
 (d) Dependent variable
18. Which of the following is true regarding correlation and regression?
 (a) Correlation implies causation
 (b) Regression shows only direction, not magnitude
 (c) Correlation is symmetric, but regression is not
 (d) Both are identical concepts
19. If two variables are perfectly correlated, the scatter diagram will show points lying:
 (a) Randomly scattered
 (b) On a straight line
 (c) On a curve
 (d) In clusters
20. Which of the following statements is correct?
 (a) Correlation coefficient is affected by change of origin but not scale
 (b) Correlation coefficient is affected by scale but not origin
 (c) Correlation coefficient is independent of both origin and scale
 (d) Correlation coefficient depends on units of measurement
21. If the correlation coefficient between X and Y is negative, then the regression coefficients will be:
 (a) Both positive
 (b) Zero
 (c) One positive and one negative
 (d) Both negative
22. The coefficient of determination is:
 (a) r^2
 (c) r
 (c) \sqrt{r}
 (d) $1 - r$
23. If one regression coefficient is greater than 1, then the other regression coefficient:
 (a) Must be less than 1
 (b) Must also be greater than 1
 (c) Must be negative
 (d) Cannot be determined
24. The regression line of Y on X is used to:
 (a) Predict X from Y
 (b) Predict Y from X
 (c) Measure variability
 (d) Find median
25. If $r = \pm 1$, then the angle between the two regression lines is:
 (a) 90°
 (b) 45°
 (c) 0°
 (d) 180°
26. Which of the following is NOT a property of the correlation coefficient?
 (a) It is dimensionless
 (b) It lies between -1 and +1
 (c) It is affected by extreme values
 (d) It always implies causation

27. If the two regression lines are identical, then:
- $r = 0$
 - $r = 1$ or -1
 - $r = 0.5$
 - r cannot be determined
28. The sign of correlation coefficient indicates:
- Strength only
 - Both strength and direction
 - Direction only
 - Neither strength nor direction
29. In case of zero correlation, the regression lines will be:
- Perpendicular
 - Parallel
 - Coincident
 - Intersecting at origin
30. Which of the following statements is true?
- Regression coefficients are independent of change of origin but not scale
 - Regression coefficients are independent of both origin and scale
 - Regression coefficients depend on both origin and scale
 - Regression coefficients are independent of scale but not origin

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
b	a	d	d	b	c	a	d	c	b	c	c	b	b	c
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
c	d	c	b	c	d	a	a	b	c	d	b	c	a	a

Suggestions:

The study guide needs to be read thoroughly. Supplementary readings could be made from other resources. In this issue MCQs are based on basic concepts taught in the respective modules/sub modules of the study guide. Students should try to solve individual questions with expertise developed after studying guide book to understand the correct answer of each question. Formula used here are all covered in study guide.

Best Wishes.

Topic

Fundamentals of
Business Economics -

Module 1 :
Basic Concepts

Fundamentals of
Management -

Module 5:
Fundamentals of
Management

FOUNDATION

Paper-4

Fundamentals of
Business Economics
and Management
(FBEM)

FUNDAMENTALS OF BUSINESS ECONOMICS AND MANAGEMENT

Let us start our usual Mock Test now.

I. Choose the correct answer:

- Who was the proponent of the scarcity definition of economics?
 - Samuelson
 - Robbins
 - Pigou
 - Marshall
- Who invented "Multiplier theory"?
 - Schumpeter
 - Samuelson
 - Keynes
 - None of the above
- If the level of expenditure on a commodity remains the same, even if the price of it falls, the price elasticity of demand will be
 - Greater than unity
 - Less than unity
 - Equal to unity
 - None of the above
- A point to the left of the mid point of a linear demand curve will have price elasticity of demand which is
 - Relatively elastic
 - Relatively inelastic
 - Unit elastic
 - None of the above
- Demand for durable goods usually remains
 - Relatively elastic
 - Relatively inelastic
 - Unitary elastic
 - None of the above
- The price elasticity of demand for salt is
 - Elastic
 - Perfectly elastic
 - Inelastic
 - None of the above
- When price elasticity of demand is infinity, then MR will be
 - Greater than price
 - Equal to price
 - Less than price
 - None of the above
- Law of increasing returns to scale is a
 - Long run phenomenon
 - Medium run phenomenon
 - Short run phenomenon
 - None of the above
- As output rises, AFC
 - Also rises
 - First falls then rises
 - Falls but it cannot be zero
 - None of the above
- When AVC is rising then
 - $SMC > AVC$
 - $SMC < AVC$
 - $SMC = AVC$
 - None of the above
- When AVC curve is rising
 - SMC curve will also be rising
 - SMC curve will be falling
 - SMC curve will be parallel to x-axis
 - Nothing can be predicted
- Profit will be maximum when
 - $AR = MR$
 - MR curve cuts the AR curve from below
 - Both A and B
 - None of the above
- Internal economies of scale occurs when
 - LAC curve sloping downward
 - SAC curve sloping downward
 - LAC curve sloping upward
 - SAC curve sloping upward

14. External economies of scale occurs when
- A. LAC curve shifts downward
 - B. SAC curve shifts downward
 - C. LAC curve shifts upward
 - D. SAC curve shifts upward
15. The principal goal of a monopoly firm is assumed to be
- A. Sales maximization
 - B. Revenue maximization
 - C. Profit maximization
 - D. None of the above
16. Product differentiation is the other name of
- A. Monopoly
 - B. Discriminating monopoly
 - C. Monopolistic competition
 - D. None of the above
17. Kinked demand curve is related to
- A. Oligopoly
 - B. Monopoly
 - C. Monopolistic competition
 - D. None of the above
18. Under perfect competition, a firm faces a demand curve which is
- A. Downward sloping
 - B. Parallel to the x- axis
 - C. Upward rising
 - D. None of the above
19. What is the name of the central bank of England?
- A. Central bank of England
 - B. Bank of London
 - C. Bank of England
 - D. None of the above
20. Inflation can be controlled if
- A. Bank rate is increased
 - B. Govt. bond is sold in the open market
 - C. CRR is increased
 - D. All the three above
21. The narrow money in an economy is denoted by
- A. M4
 - B. M3
 - C. M1
 - D. None of the above
22. The final step in decision making process is
- A. Selection of an alternative
 - B. Developing alternative
 - C. Evaluation of alternative
 - D. Implementation and follow up of decision
23. Free-rein Leadership is also known as
- A. Laissez Faire leadership
 - B. Participative leadership
 - C. Authoritarian leadership
 - D. None of the above
24. Selection is a process of rejection hence it is a
- A. Positive process
 - B. Negative process
 - C. either A or B
 - D. none of the above
25. T-group training is also called
- A. Class room training
 - B. Apprenticeship training
 - C. Internship training
 - D. Sensitivity training
26. Introduction of a person to a job is called
- A. Induction
 - B. Placement
 - C. Orientation
 - D. None of the above
27. Vestibule training is considered as a part of
- A. Off-the-job training
 - B. On-the-job training
 - C. Both A and B
 - D. None of the above

28. Who takes the initiative in formulating major objectives, strategies, policies
- Middle management
 - Top management
 - Lower management
 - All of the above
29. Which of the following are called standing plans?
- Policies
 - Procedures
 - Rules
 - All of the above
30. Carrot and stick approach to motivation is adopted under which system?
- Exploitative Autocratic
 - Benevolent Autocratic
 - Consultative
 - Democratic

Answer:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
B	C	C	A	B	C	B	A	C	A	D	C	A	A	C
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
C	A	B	C	D	C	D	A	B	D	A	A	B	D	B

So friends,

Hope you have enjoyed the mock test throughout. I hope you are studying the SELF LEARNING MATERIAL thoroughly. If you do, this mock test will be a cake-walk for you. Please maintain a record of your performance in all the mock tests. That will indicate your progress in this paper. Of course you should not consult the KEY before you finish off solving the test paper.

Wish you all the best !!!

CMA INTERMEDIATE COURSE

Syllabus 2022

Topic

Module 3:
Sale of Goods Act,
1930

Module 4:
Negotiable
Instruments Act,
1881

INTERMEDIATE

Group I - Paper-5

Business Laws and Ethics (BLE)

Rights of an Unpaid Seller under the Sale of Goods Act, 1930

Introduction

The Sale of Goods Act, 1930 is one of the most important commercial laws governing contracts relating to the sale and purchase of goods in India. In every commercial transaction, the seller transfers ownership of goods to the buyer in exchange for consideration known as price. However, there are situations where the buyer fails to pay the agreed price despite receiving or contracting for the goods. To safeguard the interests of sellers against dishonest or insolvent buyers, the Act provides special rights and remedies to an “unpaid seller.”

The concept of an unpaid seller is particularly significant in modern trade and commerce where goods are often sold on credit, transported across long distances, or delivered through intermediaries. Sellers face financial risk when buyers default in payment or become insolvent after the goods are dispatched. The law therefore grants protective rights to unpaid sellers over the goods and against the buyer personally.

The provisions relating to unpaid sellers are contained in Sections 45 to 54 of the Sale of Goods Act, 1930. These sections recognize the seller’s right to retain possession of goods, stop goods in transit, resell the goods, and sue the buyer for price or damages. These remedies strike a balance between the rights of buyers and the protection of sellers in commercial transactions.

This article examines the meaning of an unpaid seller, the rights available against goods and buyers personally, important judicial interpretations, and the relevance of these rights in modern commerce.

Meaning of Unpaid Seller

According to Section 45(1) of the Sale of Goods Act, a seller is deemed to be an unpaid seller when:

1. The whole of the price has not been paid or tendered; or
2. A bill of exchange, cheque, or other negotiable instrument received as conditional payment has been dishonoured.

Thus, a seller may still be considered unpaid even if partial payment has been made, provided the entire amount remains unpaid. Similarly, if the seller accepts a cheque and the cheque bounces, the seller becomes an unpaid seller.

For example, if a furniture dealer sells office chairs worth ₹2 lakh and receives a cheque from the buyer which later gets dishonoured due to insufficient funds, the seller becomes an unpaid seller under the Act.

Section 45(2) further provides that the term “seller”

includes any person in the position of a seller, such as an agent or consignee who has himself paid or is directly responsible for the price.

Rights of an Unpaid Seller

The rights of an unpaid seller are broadly classified into:

1. Rights against the goods; and
2. Rights against the buyer personally.

This classification ensures that the seller has both proprietary remedies and personal remedies.

1. Rights Against the Goods

The unpaid seller has the following rights against the goods:

- i) Right of lien
- ii) Right of stoppage in transit
- iii) Right of resale

These rights are available irrespective of whether ownership of goods has passed to the buyer.

i) Right of Lien

Sections 47 to 49 deal with the unpaid seller’s right of lien.

A lien means the right to retain possession of goods until payment of the price. The unpaid seller who is in possession of goods may refuse to deliver them to the buyer until the price is paid.

Circumstances Where Lien Can Be Exercised

Under Section 47, the seller may exercise lien in the following situations:

- Where goods are sold without any credit period;
- Where goods are sold on credit but the credit period has expired;
- Where the buyer becomes insolvent.

For example, if a wholesaler sells electronic goods on 30 days’ credit and the buyer fails to pay after 30 days, the seller may retain possession of undelivered goods until payment is made.

Nature of the Right

The right of lien is purely a possessory right. It exists only so long as the seller retains possession of the goods. Once possession is voluntarily given up, the lien generally comes to an end.

The case of *Bloxam v. Sanders* established that lien depends on possession and is lost once possession is surrendered voluntarily.

Termination of Lien

Under Section 49, lien is lost:

- When the seller delivers goods to a carrier without reserving the right of disposal;
- When the buyer or his agent lawfully obtains possession;
- When the seller expressly or impliedly waives the lien.

However, merely obtaining a decree for the price does not destroy the lien.

ii) Right of Stoppage in Transit

Sections 50 to 52 provide the unpaid seller with the right of stoppage in transit.

This right arises when:

1. The seller has parted with possession of goods;
2. The buyer becomes insolvent; and
3. The goods are still in transit.

In such cases, the seller may stop the goods and regain possession before they reach the buyer.

Meaning of Transit

Goods are said to be in transit from the time they are delivered to a carrier for transmission until the buyer or his agent takes delivery.

For example, a textile manufacturer in Mumbai dispatches goods to a buyer in Delhi through a transport company. Before delivery, the seller learns that the buyer has become insolvent. The seller may instruct the carrier not to deliver the goods to the buyer.

Mode of Exercising the Right

Under Section 52, the seller may exercise stoppage in transit either:

- By taking actual possession of goods; or
- By giving notice to the carrier or bailee in possession of the goods.

Once notice is received, the carrier must redeliver the goods to the seller.

Important Case Law

In *Schotsmans v. Lancashire and Yorkshire Railway Co.*, the court held that transit continues until the buyer or his agent takes actual delivery of goods. Therefore, goods lying in a warehouse under the carrier's control may still be considered in transit.

Distinction Between Lien and Stoppage in Transit

Although both rights protect unpaid sellers, they differ in nature.

Basis	Right of Lien	Right of Stoppage in Transit
Possession of goods	Seller retains possession	Seller has parted with possession
Buyer's insolvency	Not always necessary	Essential
Stage of goods	Before dispatch	During transit
Objective	Retain goods	Regain possession

Thus, lien is exercised before delivery to the carrier, whereas stoppage in transit is exercised after dispatch but before delivery to the buyer.

iii) Right of Resale

Section 54 grants the unpaid seller the right to resell the goods under certain circumstances.

Circumstances for Resale

The unpaid seller may resell goods when:

- The goods are perishable;
- The seller expressly reserves the right of resale upon buyer's default;
- The buyer fails to pay within a reasonable time after notice.

For example, if a fruit merchant sells perishable fruits and the buyer fails to pay or take delivery, the seller may resell the fruits to prevent loss.

Effect of Resale

If proper notice is given and resale occurs lawfully:

- The seller may recover losses from the original buyer;
- The buyer loses any claim over the goods.

If resale is conducted without notice where notice is required, the seller may lose the right to recover damages.

Judicial Interpretation

In *R.V. Ward Ltd. v. Bignall*, the court observed that resale must be conducted fairly and reasonably to minimize losses.

The right of resale protects sellers from suffering heavy losses due to market fluctuations or deterioration of goods.

2. Rights Against the Buyer Personally

Apart from rights against goods, the unpaid seller also has personal remedies against the buyer.

These include:

- i) Suit for price
- ii) Suit for damages for non-acceptance
- iii) Suit for interest

i) Suit for Price

Section 55 provides that where ownership of goods has passed to the buyer and the buyer wrongfully neglects or refuses to pay, the seller may sue for the price.

For example, if machinery is delivered and ownership has passed to the buyer, but the buyer refuses to pay, the seller may file a suit to recover the contract price.

Even where ownership has not passed, the seller may sue if payment was due on a specified date irrespective of delivery.

ii) Suit for Damages for Non-Acceptance

Under Section 56, if the buyer wrongfully refuses to accept goods, the seller may sue for damages arising from non-acceptance.

Damages are generally measured by:

- The difference between contract price and market price; and
- Any consequential losses directly resulting from the breach.

For example, if goods contracted at ₹1 lakh can only be resold for ₹80,000 after the buyer refuses delivery, the seller may claim ₹20,000 as damages.

iii) Suit for Interest

Section 61 allows the seller to recover interest or special damages where permitted by law or contract.

Commercial contracts often specify interest rates payable on delayed payments. Courts may also award reasonable interest depending on trade usage and circumstances.

This provision discourages delay in payment and compensates the seller for financial loss caused by withholding money.

Importance of Rights of Unpaid Seller in Modern Commerce

The rights of unpaid sellers remain highly relevant in today's commercial environment characterized by credit sales, online transactions, and international trade.

Protection Against Insolvency

Businesses frequently sell goods on credit. If buyers become insolvent, sellers may suffer severe losses. Rights like lien and stoppage in transit provide financial protection.

Stability in Commercial Transactions

These rights ensure confidence among traders and encourage smooth functioning of commerce by reducing risks associated with non-payment.

Relevance in E-Commerce

Modern e-commerce platforms involve shipment of goods through logistics companies. Sellers often rely on stoppage in transit and resale rights where buyers refuse delivery or payment.

Prevention of Fraud

The law discourages fraudulent conduct by buyers who attempt to obtain goods without making payment.

Conclusion

The provisions relating to unpaid sellers under the Sale of Goods Act, 1930 form a vital part of commercial law. They protect sellers against the financial consequences of buyer default and insolvency while ensuring fairness in trade practices. Through rights such as lien, stoppage in transit, resale, and suits for price or damages, the Act provides effective remedies balancing the interests of buyers and sellers.

Judicial interpretations have further strengthened these protections by adapting traditional principles to changing commercial realities. In an era of online transactions, global supply chains, and digital payments, the rights of unpaid sellers continue to play a crucial role in maintaining commercial confidence and economic stability.

Dishonour of Cheques under the Negotiable Instruments Act, 1881

Introduction

The Negotiable Instruments Act, 1881 (hereinafter referred to as the NI Act) was enacted to regulate and standardize the use of negotiable instruments in India, such as promissory notes, bills of exchange, and cheques. Among these instruments, cheques are the most commonly used mode of payment in commercial and personal transactions. They serve as a convenient substitute for cash and promote trust in financial dealings.

However, the effectiveness of cheques depends upon their credibility and acceptance in the market. When a cheque issued by a person is dishonoured by the bank, it not only causes financial loss to the payee but also undermines confidence in commercial transactions. To address this issue, the legislature introduced stringent provisions under Chapter XVII of the NI Act, particularly Sections 138 to 147, dealing with dishonour of cheques.

The law relating to cheque dishonour combines both civil and criminal liability. While the payee can recover the amount through civil proceedings, the NI Act also imposes criminal sanctions to deter dishonest issuance of cheques. These provisions aim to ensure the reliability of cheques as a mode of payment and maintain discipline in commercial activities.

Meaning of Dishonour of Cheque

Dishonour of cheque refers to the refusal by the bank to honour or pay the amount mentioned in the cheque. This occurs when the bank returns the cheque unpaid to the holder or payee. A cheque may be dishonoured for several reasons, such as insufficient funds, mismatch of signatures, overwriting, closure of account, or stop-payment instructions.

Under the NI Act, dishonour due to insufficiency of funds or because the amount exceeds the arrangement with the bank constitutes a criminal offence under Section 138.

Essentials of Section 138

Section 138 of the NI Act provides the legal framework for criminal liability arising from cheque dishonour. For an offence under Section 138 to be established, the following essential conditions must be fulfilled:

1. Cheque Must Be Drawn for Discharge of Debt or Liability

The cheque must have been issued for the discharge, wholly or partly, of a legally enforceable debt or liability. If the cheque was issued as a gift, donation, or for an unlawful consideration, Section 138 will not apply.

2. Presentation of Cheque within Validity Period

The cheque must be presented to the bank within its validity period. As per banking rules in India, a cheque is generally valid for three months from the date mentioned on it.

3. Dishonour of Cheque

The cheque must be returned unpaid by the bank due to:

- Insufficient funds in the account, or
- Amount exceeding the arrangement made with the bank.

4. Notice of Demand

The payee or holder must issue a written notice to the drawer within 30 days from the receipt of information regarding dishonour from the bank. The notice must demand payment of the cheque amount.

5. Failure to Make Payment

The drawer must fail to make payment within 15 days from the receipt of the notice. Only after this period expires does the offence under Section 138 arise.

6. Filing of Complaint

The complaint must be filed before the competent Magistrate within one month from the date on which the cause of action arises.

These conditions are mandatory, and failure to comply with any of them may defeat the complaint under Section 138.

Reasons for Dishonour of Cheques

Cheques may be dishonoured for various reasons. Some common grounds include:

1. Insufficient funds in the drawer's account
2. Signature mismatch
3. Overwriting or alteration in cheque
4. Account closed
5. Payment stopped by drawer
6. Post-dated cheque presented before due date
7. Difference in amount written in words and figures
8. Expiry of cheque validity period

Not all grounds attract criminal liability. Criminal prosecution mainly arises where dishonour relates to insufficiency of funds or similar financial default.

Nature of Liability under Section 138

The liability under Section 138 is quasi-criminal in nature. It has both civil and criminal aspects:

- **Civil Liability:** Recovery of the cheque amount along with damages or interest.
- **Criminal Liability:** Punishment in the form of imprisonment or fine.

The object of criminalizing cheque dishonour is not merely punitive but also compensatory, ensuring prompt payment and financial discipline.

Punishment under Section 138

A person convicted under Section 138 may face:

- Imprisonment up to two years, or
- Fine up to twice the amount of the cheque, or
- Both imprisonment and fine.

Courts generally encourage settlement and compensation to the complainant rather than prolonged imprisonment, especially in commercial disputes.

Presumptions under the NI Act

The NI Act provides certain presumptions in favour of the holder of the cheque.

1. Presumption as to Consideration (Section 118)

It is presumed that every negotiable instrument was made or drawn for consideration unless the contrary is proved.

2. Presumption in Favour of Holder (Section 139)

The court presumes that the holder of the cheque received it for discharge of debt or liability.

The burden of proof initially lies on the accused to rebut these presumptions. However, the accused need not prove beyond reasonable doubt; proof on the balance of probabilities is sufficient.

Liability of Companies under Section 141

When an offence under Section 138 is committed by a company, Section 141 extends liability to:

- The company itself, and
- Every person who was in charge of and responsible for the conduct of business at the time of offence.

Thus, directors, managers, and officers may be held vicariously liable if they were actively responsible for company operations.

However, a director can avoid liability by proving that:

- The offence occurred without his knowledge, or
- He exercised due diligence to prevent the offence.

Defences Available to the Drawer

The accused may raise several legal defences in cheque dishonour cases. Some common defences include:

1. Absence of Legally Enforceable Debt

If no valid debt or liability existed, Section 138 cannot apply.

2. Cheque Issued as Security

If the cheque was issued merely as security and not for immediate discharge of debt, liability may not arise depending on circumstances.

3. Material Alteration

If the cheque contains unauthorized alterations, it may become invalid.

4. Lack of Proper Notice

Failure to issue notice within the prescribed period can invalidate proceedings.

5. Forged Signature

If the signature is forged or unauthorized, criminal liability cannot be imposed.

Compounding of Offence

Under Section 147 of the NI Act, offences under the Act are compoundable. This means parties may settle the matter amicably even after institution of criminal proceedings.

The courts encourage compromise because cheque dishonour cases mainly involve financial disputes rather than serious crimes. Compounding reduces burden on courts and promotes speedy resolution.

Jurisdiction of Courts

Initially, there was confusion regarding territorial jurisdiction in cheque dishonour cases. The issue was clarified through amendments and judicial interpretation.

The case can generally be filed where:

- The cheque is presented for collection, or
- The drawee bank dishonours the cheque.

The law now provides greater convenience to the payee by allowing filing at the place where the cheque is deposited.

Important Judicial Decisions

1. *K. Bhaskaran v. Sankaran Vaidhyan Balan* (1999)

The Supreme Court held that different components of the offence under Section 138 may occur at different places, thereby expanding territorial jurisdiction.

2. *Modi Cements Ltd. v. Kuchil Kumar Nandi* (1998)

The Court ruled that issuing stop-payment instructions does not automatically absolve the drawer from liability under Section 138.

3. *ICDS Ltd. v. Beena Shabeer (2002)*

The Supreme Court held that even guarantors issuing cheques can be prosecuted under Section 138.

4. *Dashrath Rupsingh Rathod v. State of Maharashtra (2014)*

The Court initially restricted jurisdiction to the place of drawee bank, but subsequent legislative amendments modified this position to benefit the payee.

These judgments have significantly shaped the interpretation and implementation of cheque dishonour provisions.

Developments & Amendments

To strengthen the effectiveness of cheque dishonour laws and reduce delays in disposal of cases, the Government introduced important amendments to the Negotiable Instruments Act from time to time.

1. Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988

The most significant amendment was made in 1988, when Chapter XVII containing Sections 138 to 142 was inserted into the NI Act. This amendment criminalised dishonour of cheques due to insufficiency of funds.

The amendment came into force on 1 April 1989 and aimed to:

- Enhance credibility of cheques,
- Promote banking transactions, and
- Prevent misuse of cheque facilities.

2. Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002

A major amendment was introduced in 2002 to make the law more effective and practical. Important changes included:

- Increase in punishment from one year to two years imprisonment,
- Increase in time period for sending notice from 15 days to 30 days,
- Introduction of summary trial procedures for speedy disposal,
- Empowering courts to award compensation more effectively.

This amendment came into effect on 6 February 2003.

3. Negotiable Instruments (Amendment) Act, 2015

The 2015 Amendment clarified the issue of territorial jurisdiction in cheque dishonour cases after confusion created by judicial decisions.

The amendment provided that:

- Cases can be filed where the cheque is presented for collection through the payee's bank.
- This made filing easier and more convenient for complainants.

4. Negotiable Instruments (Amendment) Act, 2018

The 2018 Amendment introduced Sections 143A and 148 to strengthen the position of complainants.

Section 143A – Interim Compensation

Courts may direct the drawer to pay interim compensation up to 20% of the cheque amount during the pendency of trial.

Section 148 – Deposit During Appeal

Appellate courts may order the convicted drawer to deposit a minimum of 20% of the fine or compensation amount while filing an appeal.

The objective of the 2018 amendment was:

- To reduce delay tactics by accused persons,
- To ensure quicker relief to complainants,
- To improve confidence in cheque transactions.

These amendments collectively demonstrate the legislature's intention to maintain the credibility of cheques and ensure efficiency in commercial dealings under the Negotiable Instruments Act, 1881.

Conclusion

The law relating to dishonour of cheques under the Negotiable Instruments Act, 1881 is one of the most significant mechanisms for maintaining integrity in financial and commercial transactions. Section 138 and related provisions provide both deterrent and remedial measures against dishonest issuance of cheques.

The Act balances the interests of both parties by granting statutory presumptions and remedies to the payee while also allowing reasonable defences to the drawer. Judicial decisions and legislative amendments have further strengthened the effectiveness of the law by simplifying procedures and expanding protections for holders.

In modern commerce, where cheques continue to play an important role despite the rise of digital payments, the provisions relating to cheque dishonour remain essential for ensuring confidence, credibility, and discipline in economic transactions. Thus, the NI Act continues to serve as a vital pillar of commercial law in India.

Topic

Module 5:
Lease Accounting

Module 8:
Hire Purchase and
Installment Sale
Transactions

INTERMEDIATE

Group I - Paper-6

Financial Accounting
(FA)

Lease Accounts / Hire Purchase and Instalment Sale Transactions

Lease Accounts

Lease accounting is the process by which companies account for leases (agreements to use an asset for a period in exchange for payment). Lease transactions can have significant effects on a company's financial statements, including its balance sheet, income statement, and cash flow.

A lease is a contractual agreement where one party (the lessor) provides an asset for use by another party (the lessee) in exchange for periodic payments. Leases are an essential financial tool for companies, as they allow access to expensive equipment or property without the immediate need for full ownership.

Leases can be categorized into several types based on factors like the ownership rights, the nature of the contract, the accounting treatment, and the type of asset. Understanding these different types of leases is crucial for both lessors and lessees.

Types of Leases

There are two primary types of leases under modern accounting standards:

1. Finance Lease (Capital Lease)

A finance lease, also known as a capital lease, is a type of lease in which the lessee assumes all the risks and rewards associated with ownership of the leased asset. Although the lessor retains legal ownership, the lessee records the asset on their balance sheet as if they own it. This type of lease is typically long-term, and the asset is generally used for most or all of its useful life.

- The lease transfers ownership of the asset to the lessee at the end of the lease term (in some cases).
- The lessee has the option to purchase the asset at a bargain price at the end of the lease.
- The lease term is usually for a significant portion of the asset's useful life.
- The present value of lease payments is equal to or exceeds the asset's fair value.
- The lessee capitalizes the lease by recognizing both a **right-of-use asset** and a corresponding **lease liability**.

2. Operating Lease

An operating lease is more like a rental agreement where the lessee uses the asset but does not take on the risks and rewards of ownership. The asset is returned to the lessor at the end of the lease term. This lease is typically short-term and is used for assets that are not intended to be purchased.

Key Features:

- The lessee does not assume ownership of the asset at the end of the lease.
- The lease term is usually shorter than the asset's economic life.
- Lease payments are considered operational expenses.
- No asset or liability is recorded on the balance sheet by the lessee (under older standards; under IFRS 16 and ASC 842, most leases must now be capitalized).

Journal Entries for Lease Accounting

Example 1: Initial Recognition (Finance Lease)

Lessor's Books:

- Debit: Lease Receivable (Present value of lease payments)
- Credit: Asset (Carrying value of the asset)

Lessee's Books:

- Debit: Right-of-Use Asset (Present value of lease payments)
- Credit: Lease Liability (Present value of lease payments)

Example 2: Lease Payment (Finance Lease)

Lessor's Books:

- Debit: Cash (Amount of payment received)
- Credit: Lease Receivable (Reduction in lease receivable)

Lessee's Books:

- Debit: Lease Liability (Reduction in lease liability)
- Debit: Interest Expense (Interest on lease liability)
- Credit: Cash (Amount of lease payment)

Hire Purchase and Instalment Sale Transactions

Hire Purchase and Instalment Sale Transactions are methods of purchasing goods or assets where the payment is made in installments over time rather than a lump sum. These methods allow buyers to acquire assets without immediate full payment.

Hire Purchase System

In a Hire Purchase agreement, the buyer (hirer) takes possession of the asset immediately but does not own it until the final installment is paid. The ownership (title) of the asset transfers to the buyer only after the payment of all installments. It is typically used for purchasing goods such as vehicles, machinery, and equipment.

Key Features of Hire Purchase:

- **Possession:** The buyer gets possession of the asset immediately.
- **Ownership:** Ownership remains with the seller (financier) until the last installment is paid.
- **Default:** If the buyer defaults, the seller can reclaim the asset.
- **Interest:** Interest is charged on the outstanding balance.
- **Rights:** The buyer has the right to use the asset but not to sell or transfer it until ownership passes.

Accounting Treatment in Hire Purchase:

- The asset is shown in the buyer's books even though ownership hasn't transferred.
- The interest is treated as a finance cost and spread over the period of the agreement.
- Each installment payment is split into two parts: principal repayment and interest.

Journal Entries:**1. On Purchase of Asset (initial recognition):**

- o Debit: Asset Account
- o Credit: Hire Vendor Account (for the cost of the asset)

2. For Interest Payment:

- o Debit: Interest Expense Account
- o Credit: Hire Vendor Account

3. For Installment Payment:

- o Debit: Hire Vendor Account
- o Credit: Cash/Bank Account

Instalment Sale System

In an Instalment Sale transaction, ownership of the asset is transferred to the buyer immediately upon signing the agreement. However, the payment is made over several installments. If the buyer defaults, the seller cannot reclaim the asset as ownership has already transferred.

Key Features of Instalment Sale:

- **Possession and Ownership:** Both possession and ownership are transferred to the buyer at the time of sale.
- **Default:** If the buyer defaults, the seller cannot take back the asset but may seek legal remedies.
- **Interest:** Interest is usually charged on the outstanding balance.
- **Security:** Sometimes, the asset serves as security for the unpaid installments.

Accounting Treatment in Instalment Sale:

- The buyer records the asset at its full cost in the books.
- Interest is recognized as an expense over time.
- Each installment payment is split between principal and interest.

Journal Entries:**1. On Purchase of Asset:**

- o Debit: Asset Account
- o Credit: Instalment Vendor Account

2. For Interest Payment:

- o Debit: Interest Expense Account
- o Credit: Instalment Vendor Account

3. For Installment Payment:

- o Debit: Instalment Vendor Account
- o Credit: Cash/Bank Account

Key Differences Between Hire Purchase and Instalment Sale

Aspect	Hire Purchase	Instalment Sale
Ownership Transfer	After the last installment is paid.	Immediately upon signing the agreement.
Seller's Rights in Default	Can repossess the asset.	Cannot repossess; may sue for damages.
Interest Treatment	Interest on the outstanding balance.	Interest on the outstanding balance.
Legal Rights	Buyer has possession but not ownership.	Buyer has both possession and ownership.
Accounting Treatment	Asset recorded at cost with ownership conditional.	Asset recorded with immediate ownership.

Questions:

1. Which of the following is recognized on the lessee's balance sheet under a finance lease?
 - a) Lease payments only
 - b) Right-of-use asset and lease liability
 - c) Only lease expense
 - d) Depreciation only
2. What is the right-of-use asset in lease accounting?
 - a) The physical asset being leased
 - b) The lease payments made over the lease term
 - c) The lessee's right to use the leased asset
 - d) The present value of the lease payments
3. What is the main difference between a finance lease and an operating lease for the lessee?
 - a) A finance lease requires asset ownership at the end of the lease term
 - b) A finance lease recognizes both the asset and liability on the balance sheet, whereas an operating lease only recognizes expenses
 - c) Operating leases are always shorter in duration
 - d) A finance lease does not involve lease payments
4. In a finance lease, what is the journal entry for lease payments made by the lessee?
 - a) Debit: Lease Liability, Credit: Cash
 - b) Debit: Lease Expense, Credit: Lease Liability
 - c) Debit: Lease Liability, Credit: Lease Receivable
 - d) Debit: Cash, Credit: Lease Receivable
5. In an operating lease, how are lease payments recognized in the lessee's books?
 - a) As a liability
 - b) As an asset
 - c) As an expense
 - d) As a revenue
6. Which of the following is true about an instalment sale?
 - a) Ownership is transferred immediately.
 - b) Ownership is retained by the seller until the last installment is paid.
 - c) The buyer has no legal right to use the asset until full payment.
 - d) Interest is not charged in an instalment sale.
7. In a hire purchase agreement, what happens if the buyer defaults on payments?
 - a) The seller sues for damages.
 - b) The seller repossesses the asset.
 - c) The buyer continues to own the asset.
 - d) The agreement is renegotiated.
8. Which accounting entry is common to both hire purchase and instalment sale transactions?
 - a) Debit Asset Account
 - b) Credit Interest Expense Account
 - c) Debit Hire Vendor Account
 - d) Debit Bank Account
9. In an instalment sale, what does the first installment include?
 - a) Only principal repayment
 - b) Only interest payment
 - c) Both principal and interest
 - d) Neither principal nor interest
10. In an instalment sale, the seller's recourse in case of default is:
 - a) Repossessing the asset
 - b) Retaining ownership
 - c) Suing for unpaid installments
 - d) Re-negotiating the contract

Answer:

1	2	3	4	5	6	7	8	9	10
b	c	b	a	c	a	b	a	c	c

Topic

Module 3:
Total Income and
Tax Liability of
Individuals & HUF

INTERMEDIATE

Group I - Paper-7A

Direct Taxation (DT)

Clubbing of Income

Clubbing of income refers to the inclusion of another person's income into the taxpayer's total income for tax purposes. This can occur in various situations under tax laws, primarily to prevent tax evasion through income splitting or transfers. Generally, an assessee is taxed on income accruing to him only and he is not liable to tax for income of another person. However, there are certain exceptions to the above rule (mentioned u/s 60 to 64). Sec. 60 to 64 deals with the provisions of clubbing of income, under which an assessee may be taxed in respect of income accrued to other person, e.g. certain income of minor child shall be clubbed in the hands of his parents, income from asset transferred to spouse for inadequate consideration shall be clubbed in the hands of the transferor, etc. These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose of their income or income generating assets to escape tax liability. Various provisions relating to clubbing are enumerated here in below:

Section	Particulars	
60	Where an income is transferred without transferring the asset yielding such income, then income so transferred shall be clubbed in the hands of the transferor.	
61	If an assessee transfers an asset under a revocable transfer, then income generated from such asset, shall be clubbed in the hands of the transferor. <i>Revocable transfer means, there is any provision for the retransfer of any part or whole of the income/ assets to the transferor or gives the transferor a right to re-assume power over any part or whole of the income/ assets.</i> <i>Exceptions:</i> a) A transfer by way of creation of a trust which is irrevocable during the lifetime of the beneficiary; b) Any transfer which is irrevocable during the lifetime of the transferee; or c) Any transfer made before 1.4.61, which is not revocable for a period of 6 years or more.	
64(1)(ii)	Salary, commission, fees or any other remuneration to the spouse from a concern in which assessee has substantial interest. An individual shall be deemed to have substantial interest in a concern if he shares 20% profits of that concern or holds 20% voting power of that company. <i>Exception:</i> If income to spouse generated due to his/her technical or professional qualification, skill etc. Where both, husband and wife, have substantial interest in a concern, remuneration will be included in hands of spouse, whose total income excluding such remuneration, is higher.	
64(1)(iv)	Subject to sec. 27(i), any income arising from assets transferred (directly or indirectly) to spouse otherwise than in connection with an agreement to live apart without adequate consideration, shall be included in the income of the transferor.	
64(1)(vii)	If asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of spouse, then income on asset so transferred shall be clubbed in the hands of the transferor.	
64(1)(vi)	Income arising (directly or indirectly) from assets transferred to son's wife, without adequate consideration, shall be included in income of transferor.	
64(1)(viii)	If an asset is transferred to other person or an AOP, for inadequate consideration, for immediate or deferred benefit of son's wife, then income on asset so transferred shall be clubbed in the hands of the transferor.	
Note applicable on sec. 64(1)(iv), (vi), (vii), (viii)	If assets so transferred, is invested in business then tax treatment shall be as under:	
	Business	Income to be clubbed
	Proprietary	Income of such business x Value of such assets as on the 1st day of the P.Y.
		Total investment in the business by the transferee as on the same day
	Partnership	Interest on capital x Value of such assets as on the 1st day of the P.Y.
Total investment in the firm by the transferee as on the same day		
64(1A)	Income of a minor child shall be clubbed with income of the parent whose total income (excluding this income) is higher. Once clubbing is made with either parent, then in any subsequent years clubbing shall be made with the same parent, unless the AO is satisfied. If marital relationship does not subsist, income shall be clubbed with that parent who maintains the minor child. <i>Exceptions:</i> a) Income arises or accrues to the minor child due to any manual work or any activity involving application of his skill, talent, or specialized knowledge and experience; or b) The minor child is suffering from any disability of nature specified u/s 80U.	

Section	Particulars	
	Exemption u/s 10(32) lower of a) ₹ 1,500; or b) Income so clubbed Such exemption is available only if assessee has opted for old tax regime.	
64(2)	Where an individual has converted his property into property of HUF, for inadequate consideration, then income derived from such converted property shall be clubbed with individual as under:	
	Before partition	The entire income from such property
	After partition	Income from the assets attributable to the spouse of transferor.
65	After application of provisions of clubbing (on transfer of property without adequate consideration as discussed above in several sections), income is taxable and tax liability arises in the hands of the transferor. But sec. 65 empowers the tax authorities to serve demand notice (in respect of tax on clubbed income) upon transferee.	
Notes	<ul style="list-style-type: none"> • Clubbing of income includes clubbing of negative income • The credit of TDS shall be given to the person in whose hands the income is taxable. • Income shall be clubbed even when form of the transferred asset is changed. • Income arising from the accretion of such property is not to be clubbed. • Income on income is not to be clubbed. • Income shall be, first, computed in hands of recipient & then clubbing shall be made head wise. • If the clubbed income is eligible for deduction u/s 80C to 80U, then such deduction shall be allowed to the assessee in whose hands such income is clubbed. 	

Illustration

Mr. A owned a residential house for his own residential purpose, details of which are as follows –

Particulars	Amount
Gross Annual value	5,00,000
Municipal tax (paid)	10,000
Interest on loan taken for construction of house	25,000

On 1/4/2025, Mr. A gifted ₹ 10,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. New house has gross municipal value of ₹ 50,000. She paid corporation tax of ₹ 2,000. Compute income from house property of Mr. & Mrs. A under both tax regimes. (Assume that Mrs. A does not own any other property).

Solution

Computation of income from house property of Mr. A for the A.Y. 2026-27

Particulars	Old Regime (₹)	Default Regime (₹)
Self-occupied house		
Net Annual Value	Nil	Nil
Less: Deduction u/s		
24(b) Interest on loan	25,000	NA
	(25,000)	Nil
Add: Income of Mrs. A clubbed u/s 64(1)(iv)	Nil	Nil
Income from house property	(25,000)	Nil

Computation of income from house property of Mrs. A for the A.Y. 2026-27

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

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

Since the Gross Annual Value of a self-occupied property is Nil, and no income is actually generated from the transferred asset, there is no income to club in the hands of Mr. A.

Choose the correct answer:

- Mr. X's minor daughter earned ₹50,000 from his special talent. This income will be clubbed with –
 - The income of Mr. X
 - The income of Mrs. X
 - Mr. X or Mrs. X, whoever's income is higher
 - It will not be clubbed
- Maximum exemption available, under old tax regime, where income of minor child is clubbed with income of mother or father is –
 - ₹ 1,500
 - ₹ 1,500 per child
 - ₹ 1,200 per child
 - ₹ 100 per month per child
- Mr. A gifted debenture of ₹1,00,000 to his wife. She received ₹10,000 interest which she reinvests and earns ₹1,000. This ₹1,000 will be taxable in the hands of –
 - Mr. A
 - Mrs. A
 - Not Taxable
 - Mr. A or Mrs. A, at the choice of the Assessing Officer
- Income arising to a minor married daughter shall be –
 - assessed in the hands of minor married daughter
 - clubbed with the income of that parent whose total income is higher
 - Exempt from tax
 - clubbed with the income of her spouse
- Income of a minor child suffering from any disability of the nature specified in section 80U shall be –
 - assessed in the hands of minor
 - clubbed with the income of that parent whose total income is higher
 - Exempt from tax
 - taxable in hands of provider of income like reverse charge
- Mr. X gives ₹ 2,00,000 to Mrs. X as gift. She invests in a proprietary concern and incurs a loss of ₹ 40,000.
 - This loss shall be clubbed in the hands of Mr. X
 - The loss shall be borne by Mrs. X
 - The loss shall not be clubbed
 - The loss shall be ignored while computing income of both Mr. and Mrs. X
- In certain cases, income of other person is included in the income of assessee. It is called –
 - Clubbing of income
 - Addition to income
 - Increase in income
 - Set-off of income
- In whose total income, the income of a minor child is included –
 - Father
 - Mother
 - Father & Mother both
 - Parent whose total income is greater
- When the income of an individual includes ₹ 20,000 as the income of his minor child in terms of section 64(1A), taxable income in this respect will be, if he has opted for the old tax regime –
 - Nil
 - ₹ 20,000
 - ₹ 18,500
 - ₹ 15,000
- Mr. A has three minor children deriving interest from bank deposits to the tune of ₹ 2,000, ₹ 1,300, ₹ 1,600 respectively. Exemption available u/s 10(32) of the Income Tax is under the old tax regime:
 - ₹ 4,900
 - ₹ 4,300
 - ₹ 4,500
 - ₹ 5,000

Answer:

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

Topic

Module 5:
Goods and Services
Tax (GST) Laws

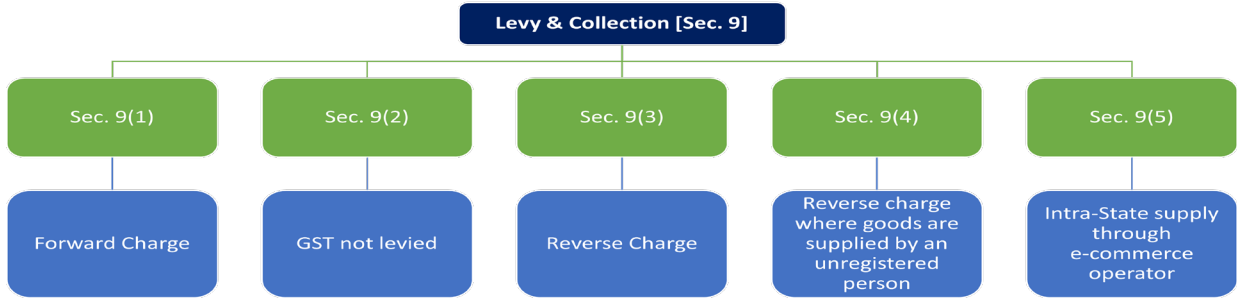
INTERMEDIATE

Group I - Paper-7B

Indirect Taxation
(IDT)





Levy and Collection

Article 265 of the Constitution of India mandates that no tax shall be levied or collected except by the authority of law. The charging section is a must in any tax law for levy and collection of tax. Before imposing any tax, it must be shown that the transaction falls within the ambit of the taxable event and that the person on whom the tax is so imposed also gets covered within the scope and ambit of the charging section. The scope of the taxable event being ‘supply’ has been discussed in the earlier Chapter. This chapter will provide an insight into the chargeability of tax on a supply. Sec. 9¹ is the charging provision of the CGST Act. It provides the maximum rate of tax that can be levied on supplies leviable to tax under this law, the manner of collection of tax and the person responsible for paying such tax. There are four aspects of levy viz taxable event, tax rate, collection or levy, and the person liable to pay. Sec. 9 of the CGST Act covers all these aspects.



The levy of CGST is governed by the Central Goods and Services Tax Act, 2017. The key provisions related to the levy of CGST are as follows:

- 1. Charging Section:** Section 9 of the CGST Act is the charging section that empowers the Central Government to levy CGST on all intra-state supplies of goods and services, except for the supply of alcoholic liquor for human consumption or un-denatured extra neutral alcohol or rectified spirit used for the manufacture of alcoholic liquor, for human consumption. The tax is levied on the value of the supply as determined under Section 15 of the CGST Act.

	Alcohol for human consumption	Power to tax remains with the State
	Five petroleum products – crude oil , diesel, petrol, natural gas and ATF	GST Council to decide the date from which GST will be applicable
	Tobacco	Part of GST but power to levy additional excise duty with Central Government
	Entertainment tax levied by local bodies	Power to tax remains with the State
- 2. Taxable Event:** The taxable event under CGST is the supply of goods or services or both. The term “supply” is defined broadly to include all forms of supply such as sale, transfer, barter, exchange, license, rental, lease, or disposal made for consideration in the course or furtherance of business. Additionally, certain activities specified in Schedule I of the CGST Act are treated as supplies even if made without consideration.
- 3. Rate of Tax:** The rate of CGST is notified by the Central Government and cannot exceed 20%. The rates are determined based on the recommendations of the GST Council, which is a constitutional body comprising representatives from the Central and State Governments. The rates vary depending on the type of goods or services supplied.
- 4. Reverse Charge Mechanism (RCM):** In certain cases, the recipient of goods or services is liable to pay CGST instead of the supplier. This is known as the reverse charge mechanism. The government notifies the specific categories of supplies and recipients to whom RCM applies. Further, reverse charge u/s 9(4) is applicable in case of *specified categories of goods/services received by specified registered persons (e.g., promoters/builders in the real estate sector)*
- 5. Composition Scheme:** To simplify compliance for small taxpayers, the CGST Act provides for a composition scheme. Under this scheme, eligible taxpayers can pay tax at a reduced rate based on their turnover. However, composition taxpayers are not allowed to claim input tax credit and cannot collect tax from their customers.

¹ Sec. 5 in case of IGST Act

- 6. Exemptions:** The Central Government has the power to exempt certain supplies from the levy of CGST through notifications. These exemptions are provided to reduce the tax burden on essential goods and services and to promote social welfare. Examples of exempt supplies include healthcare services, educational services, and certain agricultural products.

Collection of CGST

The collection of CGST involves several steps, including registration, issuance of tax invoices, payment of tax, and filing of returns. The key provisions related to the collection of CGST are as follows:

- 1. Registration:** Every supplier who makes a taxable supply of goods or services and whose aggregate turnover exceeds the threshold limit is required to register under the GST regime. The threshold limit varies based on the type of supply and the state in which the supplier operates. For example, the threshold limit for registration is ₹ 20 lakhs (₹ 40 lakhs if supplying goods) for most states, but it is ₹ 10 lakhs for certain special category states. Registration under GST is mandatory for certain categories of persons, such as inter-state suppliers and casual taxable persons, irrespective of their turnover.
- 2. Tax Invoice:** A registered supplier must issue a tax invoice for every taxable supply made. The tax invoice must contain details such as the description of goods or services, quantity, value, rate of tax, and amount of tax charged. The invoice must be issued within the prescribed time frame, which varies depending on the type of supply. For example, in the case of the supply of goods, the invoice must be issued before or at the time of removal of goods for supply. In the case of the supply of services, the invoice must be issued within 30 days from the date of supply.
- 3. Payment of Tax:** The supplier is required to pay the CGST collected from the recipient to the Central Government. The payment is made through electronic cash ledger or electronic credit ledger maintained on the GST portal. The due date for payment of tax in case of monthly filer is the 20th of the following month.
- 4. Filing of Returns:** Registered suppliers must file periodic returns with the GST authorities. These returns provide details of outward supplies, inward supplies, input tax credit availed, and tax paid. The returns are filed monthly, quarterly, or annually, depending on the type of taxpayer. For example, regular taxpayers are required to file monthly returns

in Form GSTR-1 (details of outward supplies) and Form GSTR-3B (summary return). Composition taxpayers are required to file annual returns in Form GSTR-4. Additionally, an annual return must be filed in Form GSTR-9.

- 5. Input Tax Credit (ITC):** One of the key features of the GST regime is the seamless flow of input tax credit across the supply chain. Input tax credit refers to the credit that a taxpayer can claim for the tax paid on inputs (goods or services) used in the course of business. The CGST Act allows taxpayers to claim input tax credit for CGST paid on inward supplies, subject to certain conditions. For example, the recipient must possess a valid tax invoice, and the supplier must have paid the tax to the government. Input tax credit can be utilized to pay output tax liability under CGST and IGST.
- 6. Compliance and Audit:** To ensure compliance with the provisions of the CGST Act, the GST authorities have the power to conduct audits, inspections, and assessments. The authorities can also issue notices for non-compliance and impose penalties for violations. For example, if a taxpayer fails to pay tax within the prescribed time, interest is payable on the outstanding amount. In case of wilful suppression of facts or fraud, a penalty equal to the tax amount is leviable.

Conclusion

The levy and collection provisions under CGST form the foundation of India's GST regime. With Section 9 as the charging section, these provisions establish the basis of taxation, compliance, and revenue flow. By replacing multiple indirect taxes, CGST has unified the tax structure across India. However, its effectiveness relies on robust compliance, clarity in law, and continuous reforms by the GST Council to address taxpayer concerns and evolving business practices.

Do You Know

In a landmark move during its 56th meeting held on 3rd September 2025, the GST Council unveiled a next-generation reform aimed at **rationalising GST rates** and enhancing ease of compliance. The reform proposed a simplified three-rate structure—**5% (merit), 18% (standard), and 40% (demerit)**—replacing the earlier multi-slab system. Several essential goods were exempted or shifted to lower slabs, including food items, household articles, and life-saving medicines. The changes, effective **22nd September 2025**, are expected to curb classification disputes, improve input tax credit flow, and make India's indirect tax regime more efficient and business-friendly.

Topic

Module 5: Methods of Costing

INTERMEDIATE

Group I - Paper-8

Cost Accounting (CA)

Cost Accounting

There are two principle methods of accumulating and applying costs to products viz., specific order costing and process costing. Terminology defines specific–order–costing as, “the basic costing method applicable where work consists of separate contracts, job or batches, each of which is authorized by a special order or contract”. Hence, this method is generally used by the business concerns which carry on production against customer’s specification or special requirements. Under this method costs are collected and accumulated separately in respect of each Job, or Work Order.

The JOB COSTING is a particular form of Specific – order – Costing which applies where work is undertaken to customer’s specific requirements and each order is of comparatively shorter duration than Contract Costing. Under the method cost are collected in respect of each job separately. The method is used in such industries as printing, foundry, repair shop, engineering, readymade garments, shoes etc.

Further, in BATCH COSTING, a batch of similar products is treated as a job. This type of costing applies where similar articles are manufactured in batches either for sale or for use within the undertaking. Under the method, costs are collected and analyzed according to batch numbers allotted. The method is suitable for making component parts, pharmaceutical industries, spare parts, watches, radio sets, cycles etc.

The Job or Batch Costing has some special features that are explained below:-

- 1) A separate Job/Batch cost-sheet is to be prepared for calculating cost in respect of each job.
- 2) A separate WIP Ledger is to be maintained for each job.
- 3) Here production is always against customer’s orders.
- 4) Each job is of shorter duration
- 5) Each job has its own characteristics and needs separate treatment.
- 6) The distinction between direct and indirect cost is more urgent.
- 7) There is no uniformity in the flow of production from one department to another in respect of jobs.
- 8) Generally the method is labor intensive.

The method also has some specific advantages that are listed below:-

- 1) Profitability can be analyzed job-wise.
- 2) It helps the management in preparing estimates for like jobs for the purpose of submitting quotations.

- 3) It helps in producing detailed analysis of materials, labor and overheads, as the distinction between direct and indirect costs is more important here.
- 4) Spoilage and defective work is easily identified with each job or product and hence responsibility can be fixed on departments or persons.
- 5) The management can fix selling price more easily for each job.
- 6) Job costing is particularly helpful for cost-plus contracts where contract price is determined directly on the basis of costs.
- 7) It helps in the introduction of budgetary control of overheads, since the overheads are applied on the basis of predetermined overhead rates.
- 8) It helps management to know the cost trends in respect of jobs and the efficiency of operation.

There are two types of cost generally found in Batch costing viz.—Set-up or preparation Cost and Caring Cost.

Set-up cost means the cost involved in setting up of the machines or tools for production which is fixed in nature and it should be computed after taking into consideration the time lost due to change-over from one batch to another, loss of speed due to change-over, material wastage etc.

Carrying cost means the cost which is related with the cost of manufacture, storage, interest on capital invested, depreciation etc.

The general formula that are used for Batch Costing –

$$\text{Economic Batch Quantity (EBQ)} = \text{Square Root}$$

Service costing is usually applied to transport services, utility services and distribution services. It is generally adopted by such types of industries as render services instead of producing goods. Service may be classified into two parts internal and external. The services which can be performed on an inter-departmental basis in factory itself, i.e., supplying electricity from own power house to other departments. Services are termed as external when they have to be rendered to outside parties, Such as, service rendered by State Transport Corporation,, Hospitals, Gas Companies etc. In both cases service costing are required. It is just a variant of unit of output costing.

The term Operating Costing has now been replaced by Service or Function costing as per latest CIMA terminology. It is defined as the cost of providing a service or function. The cost of rendering the services for a particular period is related to quantum of services rendered during the period to arrive at cost per unit of service rendered.

Transport costing

Costing in transport undertaking consists of determining the operating cost of each vehicle and applying this cost to find out the cost per unit of service rendered by a vehicle. The cost unit is selected by taking into account factors like weight, bulk of goods carried and distance covered etc. In most cases composite units are chosen. The example of composite units are per ton kilometre, passengers kilometre etc.

Selection of units

In transport costing a composite unit is generally used. The composite unit is nothing but the two types of units considered simultaneously, Such as, when tonne and kilometre are both considered simultaneously, then the composite unit would be tonne- km. The following are some examples of composite units:-

SN	Service	Cost Units
1	Passenger Transport	Per-passenger k.m.
2	Goods Transport	Per-tonne km
3	Hospital/ Nursing Home	Per bed per day
4	Lodge	Per border per day
5	Electricity Companies	Per kilowatt-per hour
6	Cinema	Per seat per show
7	School / College	Per student- hour

In case of service of non-specific nature, like service of accountants or auditors or managers, it is very difficult to measure per unit cost.

Proforma for calculation of composite unit :-

Composite units = (No of trips*distance*days*capacity

Sometimes service costs are used for decisional purpose. In such a case, the decision has to be taken on the basis of unit service cost, when the total units remain constant under different alternatives, But if units are subject to fluctuations from alternative to alternative, decision will be on the basis of total service cost i.e. total cost under each of the alternatives should be considered and the alternative having lowest cost should be the profitable one.

But there are certain circumstances, where comparative costs may not be the only decisive factor, in such case, other non cost factors like necessity, public service, customers satisfaction etc. may influence a particular decision irrespective of its costs.

Boiler house costing:-

The main purpose of boiler house costing is to ascertain the cost per unit of steam production in the boiler house. The fundamental principles remain the same.

Canteen house costing:-

Now a days many organizations provide the facilities of canteen to its employees. The principle of service costing may also be extended to this field.

Hospital costing:-

Now a days many organisations maintain hospitals to provide effective and timely medical facilities to their workers. Thus arises the need of hospital costing. The hospitals are generally Departmentalised into the following activities

- Out-patient department
- Wards
- Medical service departments
- General service departments
- Other service departments

A problem based on Job Costing is given below for your easy understanding.

Problem:

Supratim Industries, a manufacturing unit has pre-determined the overhead rates as 400% on direct wages, 20% on works cost and 25% on cost of production for works expenses, management expenses and commercial expenses, respectively.

At the end of the year, it has been found that the works overhead stand under-absorbed to the extent of 30% of the total productive wages. Management overhead shows under recovery of 1/8th of the absorbed amount, and the recovery of the commercial expenses result in an over-absorption of 1/3rd of the total amount absorbed.

If the Prime cost of three Jobs are as under, find the profit/loss on the respective selling prices (both on the basis of standard cost and on the basis of full absorption of overheads.)

	Job-A (₹)	Job-B (₹)	Job-C (₹)
Direct Materials	45.50	32.60	26.80
Direct Wages	<u>15.20</u>	<u>8.60</u>	<u>7.20</u>
	60.70	41.20	34.00
Selling Price	200.00	130.00	90.00

Solution:

Under-absorption in works overhead is 30% on wages. Under-absorption in management overheads is 1/8th of the absorbed amount and over-absorption in commercial expenses 1/3rd of the total amount absorbed.

	Job – A (₹)	Job -B (₹)	Job – C (₹)
Direct materials	45.50	32.60	26.80
Direct wages	15.20	8.60	7.20
Works overhead.	60.80	34.40	28.80
<hr/>			
Works cost	121.50	75.60	62.80
Management expenses (20% on W. cost)	24.30	15.12	12.56
<hr/>			
Cost of Production	145.80	90.72	75.36
Commercial Expenses – 25%	36.45	22.68	18.84
<hr/>			
Cost of sales (at standard recovery)	182.25	113.40	94.20
Add : Under-recovery of works O.H (30%on Prd. Wage)	4.56	2.58	2.16
Add : Under recovery of Mangt Exp. (1/8th Absorbed Amt)	3.04	1.89	1.57
<hr/>			
	189.85	117.87	97.93
Less : Overhead absorption Comm.Exp.(1/3rd Absorbed)	12.15	7.56	6.28
<hr/>			
Cost of sales (on full absorption of O.H.)	177.70	110.31	91.65
<hr/>			
Statement of Profit/loss			
Selling Price	200.00	130.00	90.00
Cost of Sales	182.25	113.40	94.20
<hr/>			
Profit / Loss at Standard Cost.	17.75	16.60	4.20
<hr/>			

Topic

Module 2:
Operations
Planning

INTERMEDIATE

Group II - Paper-9

Operations
Management
and Strategic
Management
(OMSM)

Operations Management

In this issue let us do recapitulation on Capacity Planning. Capacity planning is the process of determining the production capability an organization needs to meet changing demand for its products or services. It is a crucial aspect of operations management because it directly affects cost efficiency, customer satisfaction, and overall competitiveness.

Capacity planning is a long term strategic decision that establishes a firm's overall level of resources.

It is a long term process over a time horizon long enough to obtain the requisite resources.

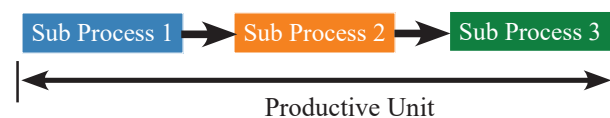
Long term capacity planning is central to the success of an organization.

Capacity is the maximum amount of output a productive unit could produce within a stated time. It is normally expressed in terms of output units per unit of time.

Meaning and Importance

- Helps in meeting customer demand on time
- Reduces operational costs
- Supports strategic growth decisions
- Improves resource utilization

While producing output if the production process consists of many sub processes, then the capacity of the productive unit is governed by the capacity of the weakest link.



If sub process 2 is the weakest link then capacity of the productive unit is governed by the capacity of weakest link –sub process 2

The key question in capacity planning are the following:

- What kind of capacity is needed?
- How much is needed to match demand?
- When & Where is it needed?

Capacity can be:

1. **Installed Capacity**-- It represents capacity in terms of machines actually installed. Productive machines procured for installation have some defined capacity, as provided in their printed literatures. Summation of such capacity gives a total installed capacity.
2. **Rated Capacity**-- This denotes the highest output established by the actual trial runs of the productive machines installed.

However, deciding the capacity rate based on the single one-time highest achievement may not be always correct. It is necessary to assume the average of performance rate of machines over a time period for more effective rating decision.

3. **Licensed Capacity**-- This denotes the actual capacity licensed by the concerned government authorities.

Dimension	Effect on Capacity Management
Quality	What kind of capacity is needed?
Quantity	How much capacity is needed?
Timing	When should capacity be available?
Location	Where capacity should be installed?

The question of what kind of capacity is needed depends on the products and services that management intends to produce or provide.

Forecasts are key inputs used to answer the questions of how much capacity is needed and when it is needed

Probable questions are:

- How much will it cost, how will it be funded and what is the expected return
- What are the potential benefits and risks
- Should capacity be changed all at once or through several changes

Capacity decisions affect—

- Product lead times (Duration between receipt of order for the product and readiness of the product);
- Customer Responsiveness;
- Operating Costs;
- Firm's ability to compete;

Inadequate capacity –

- Loss of customers;
- Restricts growth;

Excess capacity –

- Drain company's resources;
- Prevent investments in more lucrative ventures;

Capacity Planning procedure –

- Assess company situation and environment to predict future demand;
- Determine the available capacity;
- Translate predictions into physical capacity requirements;
- Develop alternative capacity plans;
- Determine economic effects of alternative plans;
- Determine the risks of alternative plans;
- Recommend a course of action;
- Implement the course of action;

Capacity planning is mainly of two types:

- (i) **Long-term capacity plans** which are concerned with investments in new facilities and equipment. These plans cover a time horizon of more than two years.

(ii) **Short-term capacity plans** which takes into account work-force size, overtime budgets, and inventories.

Capacity Planning Strategies: Organizations generally follow three main strategies:

- **Lead Strategy:** Capacity is increased in advance of expected demand
 - Advantage: Meets demand quickly
 - Risk: Higher idle capacity
- **Lag Strategy:** Capacity is increased only after demand increases
 - Advantage: Lower risk of over-investment
 - Risk: Loss of customers due to delays
- **Match Strategy:** Capacity is adjusted gradually in line with demand
 - Advantage: Balanced approach
 - Risk: Requires accurate forecasting

Capacity decisions are strategic because

- Capacity decisions have a real impact on the ability of the organisation to meet future demands for products and services
- Capacity decisions affect operating costs
- Capacity is usually a major determinant of initial cost – greater the capacity of a productive unit, the greater its cost
- Capacity decisions often involve long term irrevocable commitment of resources
- Capacity decisions can affect competitiveness—adequate capacity or easily add on capacity help to capture the market quickly or to bar other players
- Capacity at appropriate level facilitates easier management of organisation than when capacity mismatched

Factors Affecting Capacity Planning

- **Demand Forecasting:** Accuracy of future demand estimates
- **Technology:** Level of automation and production efficiency
- **Labor:** Availability and skill level of workforce
- **Supply Chain:** Availability of raw materials and components
- **Capital Investment:** Financial resources available for expansion
- **Government Policies:** Regulations, taxes, and incentives

Preparations managers must examine three dimensions of capacity strategy before making capacity decisions:

- Sizing capacity cushions;
- Timing and sizing expansion;
- Linking Capacity decisions with other operating decisions;

If the demand goes on increasing over time, then long term capacity must be increased accordingly to provide some buffer against uncertainties. When average utilization rates approach 100 percent, it is usually a signal to increase capacity. The capacity cushion is the amount of reserve capacity a process uses to handle sudden increase in demand. It measures the amount by which the average utilization in terms of total capacity falls below 100% i.e.

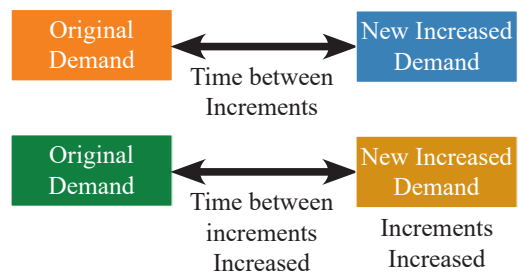
Capacity Cushion = $100\% - \text{Average utilisation rate}(\%)$
 Average capacity utilization differs by industry. An industry with an 80% average utilization would have a 20% capacity cushion for unexpected surges in demand.

Large capacity cushions are common in industries in which demand is –

- Highly variable;
- Resource flexibility is low;
- Customer service is important;

Highly variable demand – In certain service industries (e.g. Grocery) demand on some days of the week is predictably higher than on other days. Long customer waiting times are not acceptable because customer goes impatient if they have to wait in a supermarket checkout line for more than a few minutes. Prompt customer service requires supermarkets to maintain a capacity cushion large enough to handle peak demand.

The timing and sizing of expansion are related. If demand is increasing and the time between increment increases, the size of the increments must also increase.



Two extreme strategies are followed for expanding capacity:

- **Expansionist Strategy** – which involves large infrequent jumps in capacity. It stays ahead of demand, minimizes the chance of sales lost to insufficient capacity. Suitable for second situation above;
- **Wait and see strategy** – which involves smaller more frequent jumps. It lags behind demand. Suitable for first condition above;

Factors favouring expansionist strategy:

- It results economies of scale;
- It results reducing cost of operation;
- It facilitates a firm to compete on price;
- It might increase the firm's market share;

Factors favouring wait and see strategy:

- It reduces the risks of overexpansion;
- It facilitates firms to avoid obsolete technology;
- It guards against inaccurate assumptions regarding competition;

Economies of scale – occur when it costs less per unit to produce or operate at high levels of output. This is true when:

- Fixed costs can be spread over a larger number of units;
- Production or operating costs do not increase linearly with output levels;
- Quantity discounts are available for material purchases;
- Operating efficiency increases as workers gain experience;

A higher capacity plant offers some economies of scale:

- Automation is possible in a high capacity plant;
- Labour economies – lower variable cost/unit – increase of skill of worker;
- Managerial economies, technical competence;
- Marketing economies – Purchase in bulk;
- Financial economies – better security, attract investment at lower cost;

Economies of scale do not continue indefinitely. Above a certain level of output diseconomies of scale can occur like:

- Overtaxed machines and material handling equipment break down;
- Slowing of service time;
- Quality suffers requiring more rework;
- Labour costs increase with more overtime;
- Increase in difficulties in coordination and management activities;

Capacity planning –what it actually means is explained as follows:

The productive stages which are considered to bottlenecks are to be analysed first.

Let us consider a manufacturing firm and let it faces an average annual increase in demand in product = 200 units.

Its present maximum capacity is equal to 2000 units/year.

Let the trend line for the annual demand has been formed by analyzing the past data as $y = 700 + 200t$, with $t = 0$ in year 2020.

Our objective is to add enough capacity to cover expected

demand for the next 20 years assuming that the linear upward trend will continue in future.

At $t = 2040$ i.e. 20 years from now (2020) the value of in trend line equation will be 20 and therefore the annual expected demand will be in year 2040 = $700 + 200 \times 20 = 4700$.

Thus if the present trend continue we must provide enough capacity to produce an annual output rate in 2040 = 4700 units.

Given current capacity of 2000 units the projected increase in capacity requirements will be = $4700 - 2000 = 2700$ units.

Whether the required capacity will be added all at once or in smaller increments are the purview of capacity planning against the given lead time needed to add new capacity i.e., for activities like engineering, design, construction, equipment installation etc.

The choice depends on balancing the lower variable costs for large capacity increments against high fixed costs that cannot be absorbed due to underutilization in near future.

This forecasting techniques are used for output for each products (if the firm is a multiproduct manufacturer) and when added it provide the capacity required.

Outputs which are in the maturity phases of their product life cycles exhibit less volatility in the demands. With a long life cycle demand growth remain steady and demand can be predicted more precisely. Products like Steel, Cement etc. behave like this.

Long term forecasts of the demand of an output are made by using causal forecasting methods like regression analysis, econometric model or by using methods like market survey, historical analogy, life cycle analysis etc.

Once long term forecast is found out as above additions of increments can be done:

- Add capacity increments but more often (less new capacity at a time);
- Add capacity increments but less often (high new capacity at a time);
- Add capacity before the requirements exceed the capacity available;
- Add capacity after the requirements has overtaken the available capacity;

Alternative sources of capacity:

A manager can access to a higher capacity by increasing the intensiveness of use of existing capacity without building additional capacity and it includes overtime, holiday work, additional shift working, subcontracting.

At start of this discussion it was stated that Capacity is normally expressed in terms of output units per unit of time. But no single capacity measure is best for all

situations.

- A retailer measures capacity as annual sales rupees generated per square ft;
- An airline measures capacity as available seat miles per month;
- A theater measures capacity as number of seats;
- A car manufacturer measures capacity as number of cars produced per day;

In general capacity can be expressed in one of two ways:

Output measures of capacity –

- Are best utilized when applied to individual processes within the firm or when the firm provides a relatively small number of standardized services and products;
- High volume processes such as car manufacturers are a good example;
- Capacity is expressed as number of cars produced per day;
- This method is less applicable when the amount of customization and variety in the product mix increases;

Input measures of capacity –

- Are generally used for low volume, flexible processes such as furniture maker;
- Capacity is usually expressed as number of workstations or number of workers;
- Main problem area here is demand is invariably expressed as an output rate;
- If the furniture maker wants to keep up with demand, he or she must convert the business’s annual demand for furniture into labour hours and number of employees required to fulfill those hours;

Few examples are:

Business	Inputs definition of capacity	Outputs definition of capacity
Auto Manufacturing	Labour hours, Machine hours	Number of Cars per shift
Steel plant	Furnace Size	Tons of Steel per day
Oil Refinery	Refinery Size	Gallons of fuel per day

Usually two useful definitions of capacity are:

Design Capacity: The maximum output rate or service capacity an operation, process or facility is designed for

Effective Capacity: Design capacity minus allowances such as personal time and maintenance

Design capacity is the maximum rate of output achieved under ideal conditions. Effective capacity is always less than design capacity owing to realities of -

- Changing product mix
- Need for periodic maintenance of equipment
- Lunch/tiffin break
- Problems of scheduling & balancing operations

Actual Output: Cannot exceed effective capacity and is often less because of

- Machine breakdown
- Absenteeism
- Shortages of materials
- Rejection due to quality problems
- Factors beyond control of operations manager

These different measures of capacity are useful in defining two measures of system effectiveness

Efficiency: is the ratio of actual output to effective capacity

Capacity Utilisation: is the ratio of actual output to designed (maximum) capacity

It is the degree to which a resource such as equipment, space or the workforce is currently being used and is measured as the ratio of average output rate to maximum capacity (expressed as a percent).

The average output rate and the maximum capacity needs to be measured in the same terms – that is time, customers, units or rupees.

$$\text{Utilisation} = \left(\frac{\text{Average output rate}}{\text{Maximum Capacity}} \right) \times 100\%$$

The utilization rate indicates the need for adding extra capacity or eliminating unneeded capacity.

Suggestions:

The study notes need to be read thoroughly. Proper understanding of what exactly capacity planning means is prerequisite to challenge different cases on determination of capacity requirement. It helps in answering MCQs. For supplementary readings one can refer Modern Production/Operations Management by Buffa and Sarin, Operations Management by R.S Russell & BW Taylor, Operations Management by Lee J Krajewski, Comprehensive productions and Operations management by Dr KC Arora.

Best Wishes.

Topic

Module 3:
Cash Flow
Statement

Module 7:
Provisions Relating
to Audit under
Companies Act,
2013

INTERMEDIATE

Group II - Paper-10

Corporate
Accounting and
Auditing (CAA)

Section A: Corporate Accounting

Topic: Cash Flow Statement

• **Multiple Choice Questions:**

1. Which of the following is the primary objective of a Cash Flow Statement?
 - a) To ascertain net profit
 - b) To show changes in working capital
 - c) To provide information about cash inflows and outflows
 - d) To determine cost of capital

Answer: c) To provide information about cash inflows and outflows
2. Under the Direct Method, cash received from customers is calculated by adjusting:
 - a) Sales with changes in debtors
 - b) Purchases with changes in creditors
 - c) Net profit with depreciation
 - d) Closing stock with opening stock

Answer: a) Sales with changes in debtors
3. Which of the following would result in an increase in cash from operating activities under the indirect method?
 - a) Increase in inventory
 - b) Decrease in trade receivables
 - c) Decrease in trade payables
 - d) Purchase of fixed assets

Answer: b) Decrease in trade receivables
4. Bad debts written off should be treated in Cash Flow Statement as:
 - a) Financing activity
 - b) Investing activity
 - c) Non-cash adjustment in operating activities
 - d) Extraordinary item

Answer: c) Non-cash adjustment in operating activities
5. Conversion of debentures into equity shares is:
 - a) Cash inflow from financing activity
 - b) Cash outflow from financing activity
 - c) Non-cash financing transaction
 - d) Operating activity

Answer: c) Non-cash financing transaction
6. Which of the following decreases cash flow from operating activities under the indirect method?
 - a) Amortisation of goodwill
 - b) Increase in prepaid expenses
 - c) Depreciation
 - d) Loss on sale of machinery

Answer: b) Increase in prepaid expenses
7. Redemption of preference shares is classified as:
 - a) Operating activity
 - b) Investing activity
 - c) Financing activity
 - d) Non-operating activity

Answer: c) Financing activity
8. Cash flow arising from purchase and sale of securities held for dealing purposes by a finance company is generally classified as:
 - a) Financing activity
 - b) Investing activity
 - c) Operating activity
 - d) Extraordinary activity

Answer: c) Operating activity
9. Which of the following items is added back to net profit while preparing operating cash flow under the indirect method?
 - a) Profit on sale of investments
 - b) Dividend received
 - c) Depreciation on fixed assets
 - d) Increase in debtors

Answer: c) Depreciation on fixed assets
10. A decrease in bills payable would:
 - a) Increase operating cash flow
 - b) Decrease operating cash flow
 - c) Increase financing cash flow
 - d) Have no effect on cash flow

Answer: b) Decrease operating cash flow

11. Which of the following is treated as cash equivalent?

- Equity shares held as investment
- 2-year fixed deposit
- 90-day Treasury Bill
- Long-term government bonds

Answer: c) 90-day Treasury Bill

12. Under AS 3, bank overdraft repayable on demand is generally treated as:

- Financing activity
- Cash equivalent
- Investing activity
- Non-current liability only

Answer: b) Cash equivalent

13. Which of the following transactions affects only investing activities?

- Issue of shares for cash
- Sale of machinery for cash
- Payment of dividend
- Repayment of debentures

Answer: b) Sale of machinery for cash

14. In the indirect method, a gain on sale of fixed assets is:

- Added to net profit
- Ignored completely
- Deducted from net profit
- Shown as financing activity

Answer: c) Deducted from net profit

15. Which of the following is an example of cash inflow from financing activities?

- Cash collected from customers
- Interest received on investments
- Proceeds from issue of debentures
- Sale of old machinery

Answer: c) Proceeds from issue of debentures

• **Comprehensive Problem:**

From the following Balance Sheet of XYZ Finance Ltd., prepare a **Cash Flow Statement (Indirect Method)** for the year ended **31st March, 2025**.

Balance Sheet (₹)

Particulars	31-03-2024	31-03-2025
Cash & Bank	50,000	40,000
Loans & Advances	2,00,000	2,50,000
Non-current Assets	1,00,000	1,20,000
Total	3,50,000	4,10,000
Share Capital	2,00,000	2,20,000
Reserves	40,000	60,000
Bank Borrowings	1,00,000	1,20,000
Creditors	10,000	10,000
Total	3,50,000	4,10,000

Additional Information:

- Net Profit for the year = ₹40,000 (after charging depreciation of ₹10,000).
- Dividend paid during the year = ₹20,000.
- Fixed assets purchased during the year = ₹30,000 (no sale).

Solution:

XYZ Finance Ltd.	
Cash Flow Statement (Indirect Method)	
for the year ended 31st March, 2025	
A. Cash Flow from Operating Activities	₹
Net Profit before tax (given)	40,000
Add: Depreciation (non-cash)	10,000
Operating Profit before Working Capital changes	50,000
Increase in Loans & Advances (250,000 – 200,000)	(50,000)
Net Cash from Operating Activities (A)	Nil
B. Cash Flow from Investing Activities	
Purchase of Non-current Assets	(30,000)
Net Cash used in Investing Activities (B)	(30,000)
C. Cash Flow from Financing Activities	
Proceeds from issue of Share Capital	20,000
Increase in Bank Borrowings	20,000
Dividend paid	(20,000)
Net Cash from Financing Activities (C)	20,000
Net Change in Cash (A + B + C)	(10,000)
Opening Cash Balance (2024)	50,000
Closing Cash Balance (2025)	40,000

Section B: Auditing

Topic: Provisions Relating to Audit under Companies Act, 2013

• **Multiple Choice Questions:**

1. Under the Companies Act, 2013, which of the following persons is disqualified from being appointed as an auditor of a company?

- A. A Chartered Accountant holding Certificate of Practice
- B. An officer or employee of the company
- C. A partner of a Chartered Accountant firm
- D. A retired director of the company

Answer: B. An officer or employee of the company

2. A person whose relative is a director of the company is:

- A. Always qualified to act as auditor
- B. Disqualified only if the relative holds securities beyond the prescribed limit
- C. Automatically disqualified in all cases
- D. Qualified only with approval of shareholders

Answer: B. Disqualified only if the relative holds securities beyond the prescribed limit

3. Which of the following entities can be appointed as auditor of a company?

- A. A body corporate other than LLP
- B. A registered co-operative society
- C. A firm where majority partners are Chartered Accountants in practice
- D. An association of persons

Answer: C. A firm where majority partners are Chartered Accountants in practice

4. Which of the following persons is NOT disqualified from appointment as auditor?

- A. A person holding security in the company beyond prescribed limit
- B. A person who is partner of an employee of the company
- C. A person whose relative is employed as director
- D. A person holding security within prescribed limit

Answer: D. A person holding security within prescribed limit

5. A person who has given guarantee in connection with indebtedness of a third person to the company exceeding prescribed limit is:

- A. Qualified to act as auditor
- B. Disqualified from appointment as auditor

C. Eligible only after Board approval

D. Eligible only for private companies

Answer: B. Disqualified from appointment as auditor

6. Which of the following is correct regarding audit firms under the Companies Act, 2013?

- A. All partners must be Chartered Accountants
- B. Majority of partners practicing in India should be Chartered Accountants
- C. At least one partner should be a cost accountant
- D. Foreign audit firms cannot be appointed

Answer: B. Majority of partners practicing in India should be Chartered Accountants

7. A person is disqualified from appointment as auditor if he or his relative or partner:

- A. Holds any security in the holding company
- B. Holds security in the company beyond prescribed limit
- C. Holds debentures of any amount
- D. Holds bank deposits with the company

Answer: B. Holds security in the company beyond prescribed limit

8. Which of the following persons is disqualified from being appointed as auditor under Section 141?

- A. A person rendering services prohibited under Section 144
- B. A person providing taxable services to the company
- C. A person who is a shareholder within prescribed limit
- D. A person who is a former employee of the company

Answer: A. A person rendering services prohibited under Section 144

9. If an auditor becomes disqualified after appointment, he shall:

- A. Continue till next AGM
- B. Resign immediately and vacancy is treated as casual vacancy
- C. Continue with approval of Central Government
- D. Continue for 30 days only

Answer: B. Resign immediately and vacancy is treated as casual vacancy

Topic

Module 3:
Tools for Financial
Analyses

Module 10:
Data Presentation:
Visualisation
and Graphical
Presentation

INTERMEDIATE

Group II - Paper-11

Financial
Management and
Business Data
Analytics (FMDA)

Financial Management

Trend Analysis or Trend Ratio Analysis

Trend analysis is a financial statement analysis technique that examines historical financial data over multiple consecutive periods to identify patterns, directions, and rates of change in a business's performance. Unlike a static snapshot, it acts like a financial "time-lapse," helping accountants, managers, and investors spot long-term growth vectors or potential structural risks. Trend analysis is often used to evaluate each line item on the income statement and balance sheet.

Why Trend Analysis?

1. **Predicting Future Performance:** By looking at past trajectories (e.g., a steady 5% annual increase in operating expenses), companies can forecast future budgets and financial targets.
2. **Spotting Red Flags early:** It isolates anomalies, such as a sharp divergence where revenue increases but net cash flow steadily drops.
3. **Benchmarking Growth:** It measures whether a company is expanding efficiently relative to its historical performance or its industry competitors.

How to Compute?

The method of calculating trend percentages involves the calculation of percentage relation of necessary items with the same items of base year. i.e., trend percentages are not calculated for all items of financial statements. They are calculated only for major items since the purpose is to highlight important changes. On the other hand, any year may be taken as base year – generally the earliest year is taken as base. Any intervening year may also be taken as the base year.

Thus, trend percentage or trend ratio = (Value of each item in financial statement of any period / Value of same item in financial statement of base period) × 100

Example 1

From the condensed Balance Sheets as on 31st December and Income Statements for the years 2017 to 2022 of Sun Ltd., analyze trend of the business activities and financial position of the company.

Sun Ltd.,

Condensed Comparative Balance Sheets as on 31st December, 2017 to 2022

(₹ in lakhs)

Items	2017	2018	2019	2020	2021	2022
Assets						
<i>Current assets</i>						
Cash	36	50	66	38	34	38
Receivables	130	134	144	270	320	340
Inventories	<u>122</u>	<u>146</u>	<u>170</u>	<u>242</u>	<u>308</u>	<u>366</u>
Total Current Assets	288	330	380	550	662	744
Plant, Property and Equipment (Net)	<u>304</u>	<u>310</u>	<u>312</u>	<u>620</u>	<u>650</u>	<u>600</u>
Total Assets	<u>592</u>	<u>640</u>	<u>692</u>	<u>1170</u>	<u>1312</u>	<u>1344</u>
Liabilities and Owner's Equity						
Current Liabilities	82	86	104	306	390	440
Long-term Debt	<u>60</u>	<u>60</u>	<u>60</u>	<u>260</u>	<u>260</u>	<u>320</u>
Total Liabilities	<u>142</u>	<u>146</u>	<u>164</u>	<u>566</u>	<u>650</u>	<u>760</u>
Capital	220	220	220	420	500	500
Retained Earnings	<u>230</u>	<u>274</u>	<u>308</u>	<u>184</u>	<u>162</u>	<u>84</u>
Total Owner's Equity	450	494	528	604	662	584

Condensed Comparative Income Statements
for the year ended 31st December, 2017 to 2022

(₹ in lakhs)

Items	2017	2018	2019	2020	2021	2022
Net Sales	500	574	680	760	850	870
Cost of Goods Sold	326	378	456	538	616	628
Gross Margin on Sales	174	196	224	222	234	242
Administrative Expenses	110	120	150	180	212	228
Operating Income	64	76	74	42	22	14
Other Expenses and Revenue items	8	10	4	12	10	12
Net Income after Tax	56	66	70	30	12	2

Answer:

In the Books of Sun Ltd.,

Balance Sheets and Income Statements Trends (in per cent terms)

Items	2017	2018	2019	2020	2021	2022
Balance Sheet Items						
Cash	100	139	183	106	94	106
Receivables	100	103	111	208	246	262
Inventories	100	120	139	198	252	300
Total Current Assets	100	115	132	191	230	258
Plant, Property and Equipment (Net)	100	102	103	204	214	197
Total Assets	100	108	117	198	222	227
Current Liabilities	100	105	127	373	476	537
Long-term Debt	100	100	100	433	433	533
Total Liabilities	100	103	115	399	458	535
Capital	100	100	100	191	227	227
Retained Earnings	100	119	134	80	70	37
Total Owner's Equity	100	110	117	134	147	130
Income Statements Items						
Net Sales	100	115	136	152	170	174
Cost of Goods Sold	100	116	140	165	189	192
Gross Margin on Sales	100	113	129	128	134	139
Administrative Expenses	100	109	136	164	193	207
Operating Income	100	119	116	66	34	22
Net Income after Tax	100	118	125	54	21	1

Interpretation of Results

Trend in Income Statements: It appears from the income statement that during six years sales have increased by 74%, but cost of goods sold have increased by 92%. Rates of increase in cost of goods sold have surpassed the rate of increase in sales every year. In consequence, Gross margin increased only by 39%, Administrative expenses increased by 107% resulting in decrease in operating income by (100% - 22%) 78%. Net result is that a net profit after tax decreased to 1%. Thus, it is evident that though cells have increased by 74%, almost nothing has been earned to be left for the owners.

Trend in Assets, Liabilities and Equities: Balance sheet analysis may shed some light on the reasons behind the deteriorating earning position. Current and long-term liabilities have increased by 437% and 433% respectively. It

means, debt has increased by nearly 4 times, but owners' equity has increased by 30% only. This excessive debt has developed due to increase in current and fixed assets by 158% and 97% respectively. Trend analysis of current and fixed assets and current & long-term liabilities reveals that suddenly during 2020, current and fixed assets increased by 91% and 104% respectively. It means, in this year, some new assets were acquired. It might be that some expansion programme had been executed in that year. But during the year share capital increased by 91%. It indicates during the year new shares were issued. But profit did not increase accordingly. During the year 2021, owners' equity has increased by 47% but during the year 2022 it declined by 17%. It may be concluded that the overall situation company is that the earning capacity is deteriorating and the company has a downward trend. It needs to take immediate managerial decisions.

BUSINESS DATA ANALYTICS (DATA PRESENTATION)

Tools and Techniques of Data Visualization and Graphical Presentation

What is Data Visualization?

Data visualization is the graphical representation of information and data. By using visual elements like charts, graphs, and maps, data visualization tools provide an accessible way to see and understand trends, outliers, and patterns in data. Data visualization is one of the steps of the data science process, which states that after data has been collected, processed and modelled, it must be visualized for conclusions to be made. Data visualization is also an element of the broader data presentation architecture (DPA) discipline, which aims to identify, locate, manipulate, format and deliver data in the most efficient way possible.

Benefits of data visualization:

- (i) the ability to absorb information quickly, improve insights and make faster decisions;
- (ii) an increased understanding of the next steps that must be taken to improve the organization;
- (iii) an improved ability to maintain the audience's interest with information they can understand;
- (iv) an easy distribution of information that increases the opportunity to share insights with everyone involved;
- (v) eliminate the need for data scientists since data is more accessible and understandable; and
- (vi) an increased ability to act on findings quickly and, therefore, achieve success with greater speed and less mistakes.

Data Visualization Tools

1. Microsoft Power BI: Microsoft Power BI is a Business Intelligence and Data Visualization tool which helps you to convert data from various data sources into interactive dashboards and reports.

It provides multiple software connectors and services such as:

- (i) Power BI is a business analytics tool by Microsoft that provides interactive visualizations and business intelligence capabilities.

- (ii) With the help of Power BI, we can structure data and make business decisions out of those insights.
- (iii) It allows users to connect to a wide range of data sources, create interactive reports and dashboards, and share them with others.

2. Tableau

Tableau is a premier business intelligence and data visualization platform. It allows users to connect, clean, and explore raw data, transforming it into interactive, easily digestible dashboards and reports without requiring complex coding. It is capable of learning the store's business patterns and running queries against the data to help visualize the flaws and resolve them quickly. It allows users to create interactive and shareable dashboards, reports, and charts. Tableau supports various data sources and offers a user-friendly interface for creating visualizations.

3. Microsoft Excel

Microsoft Excel is a built-in data visualization tool included natively within the Microsoft 365 software suite. It is one of the most powerful and widely used tools for data analysis, providing an end-to-end ecosystem to clean, manipulate, calculate, and visualize datasets. It functions as a self-contained analytics workspace that allows you to transform raw data rows into interactive dashboards, statistical charts, and localized reports.

4. Qlik View

QlikView is a classic Business Intelligence (BI) and data visualization tool developed by Qlik. It enables users to consolidate, explore, and analyze complex datasets from multiple sources to make data-driven decisions through interactive dashboards and guided analytics. It creates guided analytics apps, where clicking on charts allows users to instantly visualize relationships and trends across massive datasets. It connects to diverse data sources—spreadsheets, SQL databases, and web files—to create a single, unified view.

Topic

Module 6:
Standard Costing
and Variance
analysis

INTERMEDIATE

Group II - Paper-12

Management Accounting (MA)

Standard Costing and Variance Analysis

Introduction

Standard Costing is a useful way to plan and control costs in a company. It is used to figure out how much things should cost, like materials, labour and overhead before we even start making anything. We set these costs called costs as a kind of target to compare to when we are actually making things. Then we can see how we are doing by comparing the cost to the actual cost. If there is a difference between the two that is called a variance. Looking at these variances helps the people in charge find out where things are going wrong who is responsible and what we need to do to fix it.

Meaning of Standard Cost and Standard Costing

Standard cost is defined by CIMA as “a standard expressed in money.” It is constructed from an evaluation of the cost components’ worth. Its primary applications are stock valuation, selling price determination, control through exception reporting, and performance measuring bases.

“Standard” refers to a “Yardstick” or “Bench Mark.” Pre-established costs are referred to as “standard costs.” Brown and Howard define standard cost as a pre-determined cost that establishes the appropriate price for any good or service under specific conditions. According to this definition, standard costs are a product’s anticipated cost.

Standard cost is defined as a fixed cost of a good or service based on technical specifications and effective operating circumstances in paragraph 4.32 of CAS 1 (Classification of Cost).

For example let us say we need 5 kilograms of material to make one unit of a product and the price of this material is ₹20 per kilogram. Then the standard cost of the material for one unit will be ₹100. If the actual cost is different from this we will try to find out why this is happening.

We make costs, for all the big parts of the cost and these are:

- Direct Material Cost. This is the standard quantity and standard price of the materials we use.
- Direct Labour Cost. This is the number of hours our workers work and the standard wage rates we pay them.

The primary purpose of standard costing is to facilitate cost control, improve efficiency, and assist management in planning and decision-making.

Standard Costing is a technique of cost accounting in which standard costs are predetermined and then compared with actual costs to ascertain variances. The

differences between standard costs and actual costs are known as variances, and the process of analysing these differences is called variance analysis. Through this analysis, management can identify the causes of inefficiencies, fix responsibility, and take corrective action.

For example, suppose the standard labour cost for producing 100 units is ₹5,000, but the actual labour cost incurred is ₹5,500. The difference of ₹500 represents an adverse labour cost variance. Management then investigates the reasons, which may include overtime wages, low worker efficiency, machine breakdowns, or poor supervision.

Objectives of Standard Costing

1. To control costs and reduce wastage
2. To evaluate operating efficiency
3. To assist in planning and budgeting
4. To fix responsibility for inefficiencies
5. To provide a basis for performance measurement

Variance Analysis

“Variances” are the differences between the actual and the standard. A favourable (F) variance occurs when actual results are better than anticipated, while an adverse (A) variance occurs when they fall short of expectations.

Comparing the established standards with the actual outcomes of a reporting period (week, month, quarter, year) comes next. It is quite likely that an organization’s actual results during a reporting period would differ from the anticipated results (costs and revenues). These discrepancies might arise between the entire expected contribution and the total actual contribution as well as between specific items, such as the cost of labour, the cost of materials, the number of sales, etc.

Therefore, variances are either:

1. **Favourable:** When actual performance exceeds anticipated outcomes, a favourable variance is attained.
2. **Unfavourable:** When the actual performance falls short of the anticipated outcomes, an unfavourable variance occurs.

When the actual cost is lower than the standard cost, it is considered a positive variance because it benefits the management. Conversely, an adverse variance occurs when actual costs exceed standard costs, which is detrimental to management.

Classification of Variances [At a Glance]

Type	Name of Variance	Formula	Reasons	Person Responsible
1. Material	Material Usage Variance (MUV)	$MUV = (\text{Standard Quantity} - \text{Actual Quantity}) \times \text{Standard Price}$	Difference between Standard and Actual consumption of material	Production Manager
	Material Price Variance (MPV)	$MPV = (\text{Standard Price} - \text{Actual Price}) \times \text{Actual Quantity}$	Difference between standard and actual price per kg of raw material	Purchase Manager
	Material Cost Variance (MCV)	$MCV = (\text{Standard Quantity} \times \text{Standard Price}) - (\text{Actual Quantity} \times \text{Actual Price})$	Combined effect of Usage and Price Variance	Purchase Manager
	Material Yield Variance (MYV)	$MYV = \text{Material Yield Variance} = (\text{Actual Yield} - \text{Standard Yield}) \times \text{Standard Cost per Unit of Output}$	Difference between Standard and Actual output	Production Manager
	Material Mix Variance (MMV)	$MMV = (\text{Revised Standard Quantity (RSQ)} - \text{Actual Quantity}) \times \text{Standard Price}$ $RSQ = \frac{\text{SQ of Specific Material}}{\text{Total SQ of all Materials}} \times \text{Total AQ of all Materials}$	Increase or decrease due to change in ratio of materials used	Production Manager
2. Direct Labour	Labour Rate Variance (LRV)	$LRV = (\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hours}$	Difference between Standard labour rate and Actual labour rate	Personnel Manager
	Labour Efficiency Variance (LEV)	$LEV = (\text{Standard Hours} - \text{Actual Hours}) \times \text{Standard Rate}$	Difference between Standard labour hours and Actual hours taken	Personnel Manager
	Labour Idle Time Variance (ITV)	$ITV = \text{Idle Time} \times \text{Standard Rate}$	Idle hours for which payment is made	Production Manager
	Labour Calendar Variance (LCV)	$LCV = (\text{Revised} - \text{Budgeted Hours}) \times \text{Standard Rate}$	Standard wage cost of paid hours not worked due to holidays	Uncontrollable
	Labour Mix Variance (LMV)	$LMV = (\text{Revised Standard Hours (RSH)} - \text{Actual Hours}) \times \text{Standard Rate}$ $RSH = \frac{\text{Total Actual Hours}}{\text{Total Standard Hours}} \times \text{Standard Hours}$	Changes in mix of labour employed compared with standard	Production Manager

Type	Name of Variance	Formula	Reasons	Person Responsible
3. Variable Overhead	Expenditure Variance (VOEV)	$VOEV = (\text{Standard Rate} - \text{Actual Rate}) \times \text{Actual Hours}$	Difference between Standard and Actual variable overhead rate	Chief Accountant cum Controller (Cost)
	Efficiency Variance (VOEfV)	$VOEfV = (\text{Standard Hours} - \text{Actual Hours}) \times \text{Standard Rate}$	Difference between Standard and Actual hours	Production Manager
	Cost Variance (VOCV)	$VOCV = (\text{Standard Hours} \times \text{Standard Rate}) - \text{Actual Variable Overhead}$	Combined effect of Expenditure and Efficiency Variance	Production Manager
4. Fixed Overhead	Expenditure Variance (FOEV)	$FOEV = \text{Budgeted Fixed Overhead} - \text{Actual Fixed Overhead}$	Increase or decrease in fixed overhead expenditure	Chief Accountant cum Controller (Cost)
	Efficiency Variance (FOEfV)	$FOEfV = (\text{Standard Hours} - \text{Actual Hours}) \times \text{Standard Rate}$	Increase or decrease in budgeted rate of output for hours worked	Chief Accountant cum Controller (Cost)
	Capacity Variance (FOCV)	$FOCV = (\text{Actual Hours} - \text{Budgeted Hours}) \times \text{Standard Rate}$	Increase or decrease in output	Chief Accountant cum Controller (Cost)
	Idle Time Variance (ITV)	$ITV = \text{Idle Time} \times \text{Standard Rate}$	Standard fixed overhead remaining unabsorbed	Production Manager
	Calendar Variance (CV)	$CV = (\text{Revised Budgeted Hours} - \text{Budgeted Hours}) \times \text{Standard Rate}$	Difference between Budgeted and Actual number of working days	Uncontrollable
5. Sales Variances	Sales Value Variance (SVV)	$SVV = \text{Actual Sales} - \text{Budgeted Sales}$	Difference between value of Budgeted sales and Actual sales	Sales Manager
	Sales Price Variance (SPV)	$SPV = (\text{Actual Price} - \text{Standard Price}) \times \text{Actual Quantity}$	Difference between Actual sales price and Standard sales price	Sales Manager
	Sales Volume Variance (VV)	$VV = (\text{Actual Quantity} - \text{Budgeted Quantity}) \times \text{Standard Price}$	Difference between Budgeted sales quantity and Standard sales quantity	Sales Manager
	Sales Mix Variance (SMV)	$SMV = ((\text{Revised Standard Quantity} - \text{Actual Quantity}) \times \text{Standard Price})$	Difference between Revised Standard Sales and Standard Sales	Sales Manager

Multiple Choice Questions (MCQs):

1. Standard Costing is primarily used for:
 - a) Auditing
 - b) Cost control and performance evaluation
 - c) Tax assessment
 - d) Financial reporting
2. A standard cost is:
 - a) Historical cost
 - b) Estimated selling price
 - c) Predetermined cost fixed in advance
 - d) Actual production cost
3. The difference between standard cost and actual cost is called:
 - a) Budget
 - b) Profit
 - c) Variance
 - d) Overhead
4. Variance analysis helps management to:
 - a) Increase taxation
 - b) Identify inefficiencies
 - c) Prepare cash book
 - d) Record journal entries
5. Standard costing is most suitable for:
 - a) Customized production
 - b) Repetitive production processes
 - c) Agricultural activities
 - d) Small retail shops
6. The standard material required for producing 200 units is 1,000 kg at a standard price of ₹25 per kg. Actual material consumed was 1,100 kg at an actual price of ₹27 per kg. Material Cost Variance (MCV) will be:
 - a) ₹ 4,700 (A)
 - b) ₹ 4,700 (F)
 - c) ₹ 4,700 (F)
 - d) ₹ 29,700 (F)
7. Material Price Variance measures:
 - a) Labour efficiency
 - b) Material wastage
 - c) Effect of price changes
 - d) Idle time
8. A company's standard labour hours for producing 500 units are 800 hours at a standard wage rate of ₹60 per hour. However, the actual labour hours worked were 850 hours and the actual wage rate paid was ₹65 per hour. Labour Cost Variance (LCV) will be:
 - a) ₹7,250 (A)
 - b) ₹ 7,250 (F)
 - c) ₹ 55,250 (A)
 - d) ₹ 55,250 (F)
9. Labour Efficiency Variance arises because of: The standard material required for producing 100 units is 500 kg at ₹ 20 per kg. Actual material used was 520 kg at ₹ 22 per kg. Material Cost Variance is:
 - a) ₹ 1,440 (A)
 - b) ₹ 1,440 (F)
 - c) ₹ 11,440 (A)
 - d) ₹ 11,440 (F)
10. The standard labor rate is ₹15 per hour. During June, 2,000 units were produced using 4,200 hours at a total cost of ₹67,200. The standard labor time allowed per unit is 2 hours. What is the Labor Efficiency Variance?
 - a) ₹ 3,000 Adverse
 - b) ₹ 2,800 Adverse
 - c) ₹ 3,000 Favourable
 - d) ₹ 4,200 Adverse
11. Overhead variances are classified into:
 - a) Material and labour variances
 - b) Fixed and variable overhead variances
 - c) Sales and production variances
 - d) Price and usage variances
12. A department has a fixed budget of ₹60,000 for 10,000 hours of work. The variable overhead rate is ₹2 per hour. If actual hours worked are 12,000 and actual total overhead is ₹85,000, what is the total overhead expenditure variance?
 - a) ₹ 3,000 Adverse
 - b) ₹ 1,000 Adverse
 - c) ₹ 5,000 Favourable
 - d) ₹ 1,000 Favourable

Answer Key

- 1 – (b)
- 2 – (c)
- 3 – (c)
- 4 – (b)
- 5 – (b)
- 6 – (a)
- 7 – (c)
- 8 – (a)
- 9 – (a)
- 10 – (a)
- 11 – (b)
- 12 – (b)

Fill in the Blanks

1. The difference between standard cost and actual cost is known as _____.
2. Standard costing is widely used in industries having _____ production processes.
3. Material Usage Variance measures efficiency in material _____.
4. Labour Cost Variance compares standard labour cost with _____ labour cost.
5. Management by exception focuses on _____ deviations from standards.

Answer Key

1. Variance
2. Repetitive
3. Consumption
4. Actual
5. Significant

State True or False

1. Standard costs are fixed after production is completed.
2. Material Price Variance measures the effect of price changes.
3. Labour Efficiency Variance is related to labour hours worked.
4. Standard costing assists management in cost control and performance evaluation.
5. Sales variances analyze differences between actual and budgeted sales.

Answer Key

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

CMA FINAL COURSE

Syllabus 2022

Topic

Module 1 :
The Companies Act,
2013

FINAL

Group III - Paper-13

Corporate and
Economic Laws
(CEL)

ACCOUNTS, AUDITS AND DIVIDEND

1.0 ACCOUNTS:

Accounts are record of financial transaction of a company and needs to be finalised every year for a particular period commonly known as “accounting period”. As per Companies Act, all companies shall follow an accounting year commencing from 1st April to 31st March.

1.1 The proper books of account.

Every company shall maintain proper books of accounts which must satisfy the following:

- (i) True and fair view should be recorded.
- (ii) Accrual basis accounting: the income and expenditure should relate to particular period year even when they are received paid in the same year.
- (iii) Shall exhibit and explain the financial position.
- (iv) These shall disclosure relating to goods, i.e. goods sold, purchased etc.
- (v) Shall be prepared in ink and not in pencil.
- (vi) Shall be as per the accounting standard prescribed by the Central Government
- (vii) Shall be kept in electronic form also.

1.2 Keeping of books of account :

Books of accounts may be kept at the registered office of the company or any other place(s) in India as decided by the Board of Directors. The company shall within 7 days file with the Registrar a notice in writing giving the full address of the place. If the company has any branch office within or outside India proper returns of such branch offices shall be sent periodically to head office.

1.3 Contents of books of account.

As per section 128 of the Companies Act, 2013, every company shall keep proper books of account in respect of the following:

- (i) All receipts and expenditures made by the company.
- (ii) The sale and purchase of the goods by the company.
- (iii) The assets and liabilities of the company.
- (iv) If the company is engaged in manufacturing, processing, production or mining activities the cost accounting records as prescribed by the Central Govt.

1.4 Consolidation of Accounts:

Every company having more than one subsidiary shall prepare a consolidated financial statement of the

company with all its subsidiaries in the same form and manner as that of its own which shall also be laid in the before the annual general meeting of the company along with the standalone financial statement of the company. The consolidated financial statement should contain the financial information relating to its subsidiaries, its associates companies and its joint ventures.

Annual accounts and legal requirements (Section 129 and 130)

- (1) **Laying of annual accounts in the AGM:** A balance sheet as at the end of the financial year and a profit and loss account along with the cash flow statement and statement of the company for the financial year shall be laid before the AGM for the adoption of the shareholders. Along with financial Statements consolidated financial statements of all the subsidiaries including Associate Companies and joint ventures of the company shall be laid before the Annual General Meeting.
- (2) The Forms and contents of the financial statements will be as per Schedule III.

1.5 Authentication of Balance sheet and Profit & loss account (section 134)

Shall be required to be signed by the following persons:

- (i) By the Chairperson of the Company, where he is authorised by the Board.
- (ii) By two Directors out of which one shall be Managing Director, if any.
- (iii) Chief Financial Officer and Company Secretary of the Company, if required.

1.6 Circulation of Annual accounts (section 136)

The company shall send the copies of the financial statements including consolidated financial statements to the members and every trustee for the debenture holder. To be uploaded on the website of the company.

To be kept at the registered office of the company for inspection by any member and debenture trustee during business hours.

1.7 Filling of Financial Statements (including consolidated financial statements) with Registrar of Companies (section 137)

- (a) within 30 days of Annual General Meeting.
- (b) If AGM is not held within 30 days of the day on which

the AGM is ought have been held. The Registrar shall take on record the un-adopted financial statements as provisional statements till the accounts are adopted in the Annual General Meeting.

- (c) If the AGM held but the annual accounts are not prepared on that date the AGM shall be adjourned till the accounts shall prepared but such adjournment shall not be beyond the statutory period of AGM i.e. 18 months.
- (d) If the AGM is held but did not approve the annual accounts the accounts shall be filed within 30 days of the AGM specifying the reason of disapproval.
- (e) One person company shall file its financial statements along with all its necessary documents required to be attached with its financial statements to the registrar within 180 days of the closure of financial Year.
- (f) As per the new Act every company from now on shall attach financial statements of each of its subsidiary which are established outside India and do not have any place of business in India.

2.0 AUDIT (Section 139-148)

2.1 Meaning of Audit.

An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

2.2 Qualification of an auditor

- (a) A chartered Accountant in practice
- (b) A firm where all the partners practicing in India as Chartered Accountants.

2.3 Disqualification of an Auditor [section 141(3)]

The following persons shall be disqualified from being appointed as Auditors of a company:

- (i) A person who by himself, or his relative or partner –
- (c) Is holding any security of the company or its subsidiary, or of its Holding or Associate Company or a subsidiary of such Holding Company.
- (d) is indebted to the company or its Subsidiary, or its Holding or Associate Company or a Subsidiary of such Holding company in excess of such amount as may be prescribed.
- (e) has given a guarantee or provided any security in connection with the indebtedness of any third person

to the Company, or its Subsidiary, or its Holding or Associate Company or a Subsidiary of such holding company for such amount as may be prescribed;

- (i) a person or a firm who whether directly or indirectly has business relationship with the Company, or its Subsidiary, or its Holding or Associate Company or Subsidiary of such holding company or associate company of such nature as may be prescribed;
- (ii) a person whose relative is a director or is in employment of the company as a director or Key Managerial Personnel.
- (iii) A person who has been convicted by a Court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.

1.4 Number of audits [section 141(g)]

The specified number of audit which one auditor can undertake is 20 companies out of which not more than 10 companies shall have the paid up capital of rupees twenty five lakhs or more. The aforesaid restriction is not applicable to One Person Company, Private Companies and small companies. However, the following audits of such auditor shall not be taken into account for computing the aforesaid limit:

- (a) Audit of an private company.
- (b) Audit of a guarantee company having no share capital.
- (c) Audit of a foreign company.
- (d) Internal audit undertake by him.
- (e) Audit of a co-operative society, trust and corporations that do not fall within the ambit of the Companies Act, 1956.
- (f) Tax audits.
- (g) Special audits and investigations.
- (h) A branch audit.

1.4.1 Appointment of First auditors [section 139(1) & 140(1)]

- (1) by the Board of Directors within one month of the registration, else within 90 days by share holders.
- (2) Shall hold office until the conclusion of the 1st AGM.

1.4.2 Appointment of subsequent auditors [section 139 & 140]

- (1) Appointment to be made in the AGM by the shareholders.

- (2) Shall hold the office from the conclusion of the first Annual General Meeting till the conclusion of its 6th Annual General meeting and thereafter till the conclusion of every 6th meeting.

No listed company and any prescribed company, shall appoint or re-appoint

- (i) an individual for more than one term of 5 consecutive years.
- (j) An audit firm for more than two 5 year terms.

1.4.3 Appointment of auditors in casual vacancy [section 139(8)].

- (1) Shall be filled up by the Board of Directors except in the case where the casual vacancy is due to

resignation of the auditor from the office. In such a case the it shall be filled up by the shareholders in the general meeting held within 3 months of the recommendation of the Board.

- (2) During the vacancy co-auditors to continue audit.
- (3) Shall hold office until the conclusion of the next AGM.

1.5 Remuneration to auditors

- (1) Shall be fixed by the shareholders in its general meeting.
- (2) The Board of Directors may fix by the remuneration of the first auditor appointed by it.

Topic

Module 13:
Financial
Derivatives –
Instruments for
Risk Management

FINAL

Group III - Paper-14

Strategic Financial
Management (SFM)

Topic: Financial Derivatives – Instruments for Risk Management

• Multiple Choice Questions

1. A forward contract is primarily traded in:

- a) Stock Exchange
- b) Commodity Exchange
- c) Over-the-counter market
- d) Clearing corporation

Answer: c) Over-the-counter market

2. In a futures contract, the counterparty to every trade is generally:

- a) Commercial bank
- b) Clearing corporation
- c) Broker
- d) Central Government

Answer: b) Clearing corporation

3. Which derivative instrument gives the buyer a “right but not an obligation”?

- a) Futures
- b) Forward
- c) Option
- d) Swap

Answer: c) Option

4. A long position in a forward contract profits when:

- a) Prices fall
- b) Prices remain constant
- c) Prices rise
- d) Interest rates decline

Answer: c) Prices rise

5. Which of the following is a characteristic feature of futures contracts?

- a) Customized contracts
- b) No margin requirement
- c) Standardized contracts
- d) Bilateral settlement only

Answer: c) Standardized contracts

6. Basis in futures market is defined as:

- a) Spot Price + Futures Price
- b) Spot Price – Futures Price

c) Futures Price – Spot Price

d) Spot Price × Futures Price

Answer: c) Futures Price – Spot Price

7. In a normal market, basis is usually:

- a) Zero
- b) Negative
- c) Positive
- d) Constant

Answer: c) Positive

8. Daily settlement of gains and losses in futures contracts is known as:

- a) Hedging
- b) Arbitrage
- c) Marking to Market
- d) Swaption

Answer: c) Marking to Market

9. Which of the following is an example of a complex derivative?

- a) Forward contract
- b) Futures contract
- c) Swaption
- d) Interest rate future

Answer: c) Swaption

10. A swaption is a combination of:

- a) Futures and options
- b) Swap and option
- c) Forward and futures
- d) Swap and forward

Answer: b) Swap and option

11. Interest Rate Futures are generally used for:

- a) Currency speculation only
- b) Hedging interest rate risk
- c) Equity valuation only
- d) Commodity trading only

Answer: b) Hedging interest rate risk

12. Which of the following is NOT a feature of forward contracts?

- a) Tailor-made contracts
- b) Exchange traded
- c) OTC trading
- d) Counterparty risk

Answer: b) Exchange traded

13. The value of a plain vanilla interest rate swap is generally computed as:

- a) Floating leg + Fixed leg
- b) Floating leg \times Fixed leg
- c) Fixed leg – Floating leg
- d) Floating leg – Fixed leg

Answer: c) Fixed leg – Floating leg

14. A callable swap provides the right to terminate the swap to:

- a) Floating-rate payer
- b) Fixed-rate payer
- c) Swap dealer only
- d) Clearing corporation

Answer: b) Fixed-rate payer

15. Which of the following is an advantage of forward contracts?

- a) High liquidity
- b) Centralized trading
- c) Perfect hedging through customization
- d) Daily settlement guarantee

Answer: c) Perfect hedging through customization

16. An investor writes a three-month put on the stock of an oil company at an exercise price of ₹550 per share at a premium of ₹68. If the expiration date price is ₹560, calculate the gain/loss of put writer.

- a) ₹10
- b) (-) ₹10
- c) ₹68
- d) None of the above

Answer: c) ₹68

17. An investor buys 100 shares of a sugar mill at ₹420 per share and at the same time writes a September ₹500 call at a premium of ₹40 per share. If the expiration date price is ₹560, calculate the net gain/loss.

- a) ₹40
- b) ₹80
- c) ₹120
- d) None of the above

Answer: c) ₹68

18. A stock currently sells at ₹700. The put option to sell the stock sells at ₹760 with a premium of ₹40. The time value of option will be:

- a) ₹ 20
- b) ₹ 20
- c) ₹ 40
- d) 0

Answer: d) 0

Comprehensive Questions

Problem 1

Compute the theoretical forward price of the following securities for 2 month, 3 months and 4 months.

Securities of	X Ltd.	Y Ltd.	Z Ltd.
Spot Price [S_0]	₹9,100	₹720	₹1,800
Dividend Expected	₹100	₹40	₹100
Dividend Receivable in	2 Months	3 Months	4 Months
6 Month's Futures Contract Rate	₹9,200	₹780	₹1,840

You may assume a risk-free interest rate of 9% p.a.

What action should follow to benefit from futures contract?

Solution:

Securities of	A Ltd.	B Ltd.	D Ltd.
Spot Price [S_0]	₹9100	₹720	₹1800
Dividend Expected [D_F]	₹100	₹40	₹100
Dividend Receivable in [t]	2 Months or 1/6 Year or 0.1667	3 Months or 1/4 Year or 0.25	4 Months or 1/3 year or 0.333
Risk Free Interest Rate [r]	9% or 0.09	9% or 0.09	9% or 0.09
Present Value of Dividend [I]	$D_F \times e^{-rt}$ $= 100 \times e^{-0.09 \times 0.1667}$ $= ₹98.511$	$D_F \times e^{-rt}$ $= 40 \times e^{-0.09 \times 0.25}$ $= ₹39.11$	$D_F \times e^{-rt}$ $= 100 \times e^{-0.09 \times 0.333}$ $= ₹97.047$
Adjusted Spot Price [$S_0 - I$]	₹9100 – ₹98.511 $= ₹9001.489$	₹720 – ₹39.11 $= ₹680.89$	₹1800 – ₹97.047 $= ₹1702.953$
Theoretical Forward Price [TFP]	$= 9001.489 \times e^{0.09 \times 0.50}$ $= 9001.489 \times e^{0.045}$ $= 9001.489 \times 1.04603$ $= ₹9415.82$	$= 680.89 \times e^{0.09 \times 0.50}$ $= 680.89 \times e^{0.045}$ $= 680.89 \times 1.04603$ $= ₹712.23$	$= 1702.953 \times e^{0.09 \times 0.50}$ $= 1702.953 \times e^{0.045}$ $= 1702.953 \times 1.04603$ $= ₹1781.34$
6 Months Futures Contract Rate [AFP]	₹9200	₹780	₹1840
TFP Vs. AFP	AFP _x is Lower	AFP _x is Higher	AFP _x is Higher
Valuation in Futures Market	Undervalued	Overvalued	Overvalued
Recommended Action	Sell Spot. Buy Future.	Buy Spot. Sell Future.	Buy Spot. Sell Future.

Problem 2

A portfolio manager owns 3 stocks

Stock	Shares owned	Stock price (₹)	Beta
1	4 lakhs	400	1.1
2	8 lakhs	300	1.2
3	12 lakhs	100	1.3

The spot Nifty Index is at 5400 and futures price is 5408. Use stock index future to (a) decrease the portfolio beta to 0.8 and (b) Increase the portfolio beta to 1.5. Assume the index factor is Rs.100. find out the number of contracts to be bought or sold of stock index futures.

Solution:**Computation of existing Portfolio Beta**

Security	Market value of security (₹ Lakhs)	Proportion	Beta of the Security	Weighted Beta
1	1,600	4/13	1.1	0.34
2	2,400	6/13	1.2	0.55
3	1,200	3/13	1.3	0.30
	5,200			1.19

Value per Futures Contract

= Index Price per unit × Lot Size per Futures Contract

= ₹5400 × 100

= ₹5,40,000

a. Activity to Reduce Portfolio Beta to 0.8

(i) Object: Reduce portfolio Beta

(ii) Activity: Sell Index Futures

- Beta of Existing Portfolio = $\beta_1 = 1.19$
- Desired beta of the New Portfolio = $\beta_N = 0.8$
- Contract Size = 100 units
- Value per Futures Contract in NIFTY = $VF = ₹5,400 \times 100 = ₹5,40,000$
- Value of the portfolio = $VP = ₹5,200$ Lakhs
- No. of Futures contract to be sold:
 - = Portfolio value x [Beta of the Portfolio - Desired Value of Beta]/ Value of a Futures Contract
 - = $VP \times [\beta_1 - \beta_N]/VF$
 - = $₹5,200 \text{ Lakhs} \times [(1.19 - 0.8) \div 5,40,000]$
 - = 376 Contracts

b. Activity to Increase the portfolio Beta to 1.5

(i) Object: Increase portfolio Beta

(ii) Activity: Buy Index futures

- Beta of Existing portfolio = $\beta_1 = 1.19$
- Desired Beta of the New portfolio = $\beta_N = 1.5$
- Value per Futures contract in NIFTY = $VF = 5,400 \times 100 = ₹5,40,000$
- Value of the portfolio = $VP = ₹5,200$ Lakhs
- No. of Futures contract to be sold:
 - = Portfolio value x [Beta of the Portfolio - Desired Value of Beta]/ Value of a Futures Contract
 - = $VP \times [\beta_1 - \beta_N]/VF$
 - = $₹5,200 \text{ Lakhs} \times [(1.50 - 1.19) \div 5,40,000]$
 - = 299 Contracts

Topic

Module 3:
Grievance
Redressal

FINAL

Group III - Paper-15

Direct Tax Laws
and International
Taxation (DIT)

Appeal before JCIT (Appeals)

The Income Tax Act, 1961, provides comprehensive mechanisms for addressing grievances related to tax assessments and other orders passed by tax authorities. Two key mechanisms are appeals and revisions, which ensure that errors can be rectified and that justice is served. An appeal is a statutory remedy provided to taxpayers who are aggrieved by any order of the tax authorities. The appeal process ensures that taxpayers have the opportunity to have their case reviewed and decided upon by higher authorities, thereby maintaining fairness in tax administration. The multi-tiered appeal structure allows for thorough scrutiny and correction of errors, ensuring that taxpayers are treated fairly.

Revisions are another mechanism provided under the Income Tax Act to correct errors in tax orders. They allow tax authorities to correct errors that may adversely affect revenue collection and provide taxpayers with a means to rectify mistakes and seek justice. Unlike appeals, revisions can be initiated either by the tax authorities on their own motion or by the taxpayer through an application.

The right to appeal under income tax law is a creation of statute and not an inherent right. Appeal can be filed only against orders listed in the Income Tax Act and not any order.

Initially, the following course of action is available in the Income-tax Act:

Assessee	Department
Rectification u/s 154	Rectification u/s 154
Appeals	Revision u/s 263
Revision u/s 264	Reassessment u/s 147

Generally, civil disputes are first filed and heard in a Civil Court; thereafter, aggrieved parties may appeal to the High Court and Supreme Court. However, the route of revenue cases is different. Any Assessee or any deductor or any collector of tax at source, who is aggrieved from the order passed by the Assessing officer, shall first file an appeal to the Joint Commissioner (Appeal) / Commissioner (Appeals). Then case shall be moved and an appeal shall be filed to Appellate tribunal, by the assessee or Deductor or Collector of tax at source or the department, if they are aggrieved with the order passed by the Commissioner (Appeal). Thereafter case shall be moved to High Court, if assessee or Deductor or Collector of tax at source or the department is aggrieved to the order passed by the Appellate tribunal and at last to Supreme Court, if Assessee or Deductor or Collector of tax at source or the department is aggrieved to the order passed by the High court.

Appeals before Joint Commissioner (Appeals) [JCIT (A)] [Sec. 246]

As per the existing scheme for appeals, the first appellate authority for an assessee aggrieved by any order issued under the Act is the Commissioner (Appeals). Such Commissioner (Appeals) has the powers to confirm, reduce, enhance or annul/ cancel an order of assessment or an order of penalty, after providing an opportunity of being heard to the assessee and the AO. The order passed by the Joint Commissioner (Appeals) / Commissioner (Appeals) are appealable before the Appellate Tribunal.

However, as the first authority for appeal, Commissioner (Appeals) were overburdened due to the huge number of appeals and the pendency being carried forward every year. In order to clear this bottleneck, a new authority for appeals is created at Joint Commissioner/ Additional Commissioner level to handle certain class of cases involving small amount of disputed demand. Such authority has all powers, responsibilities and accountability similar to that of Commissioner (Appeals) with respect to the procedure for disposal of appeals

Any assessee aggrieved by any of the following orders of an Assessing Officer (below the rank of Joint Commissioner) may appeal to the Joint Commissioner (Appeals) against:

- an intimation u/s 143(1), where the assessee objects to the making of adjustments; or
- Any order of assessment u/s 143(3) or sec. 144, where the assessee objects to the amount of income assessed, or to the amount of tax determined, or to the amount of loss computed, or to the status (*Status* means the category under which the assessee is assessed as “individual”, “Hindu undivided family” and so on) under which he is assessed;
- an order of assessment, reassessment or recomputation u/s 147;
- an intimation u/s 200A(1);
- an order u/s 201;
- an intimation u/s 206C(6A);
- an order u/s 206CB(1);
- an order imposing a penalty under Chapter XXI; and
- an order u/s 154 or sec. 155 amending any of the orders mentioned above

Exception

No appeal shall be filed before the Joint Commissioner (Appeals) if any of the aforesaid order is passed by or with the prior approval of, an income-tax authority above the rank of Deputy Commissioner.

Further, the Board notifies the specific *class of cases* or *monetary limits* that fall under the JCIT(A)'s jurisdiction to prevent overlap with the CIT(A)

Taxpoint

➤ *Transfer of appeals:* Where any appeal filed against any of the aforesaid order is pending before the Commissioner (Appeals), the Board or authorised income-tax authority may transfer such appeal and any matter arising out of or connected with such appeal and which is so pending, to the Joint Commissioner (Appeals) who may proceed with such appeal or matter, from the stage at which it was before, it was so transferred.

The Board or authorised income-tax authority may transfer any appeal which is pending before a Joint Commissioner (Appeals) and any matter arising out of or connected with such appeal and which is so pending, to the Commissioner (Appeals) who may proceed with such appeal or matter, from the stage at which it was before, it was so transferred.

- After such transfer of an appeal, the appellant shall be given an opportunity of being reheard.
- The provision shall not apply to any case or any class of cases as specified by the Board.
 - *Scheme for disposal of the appeal:* For the purposes of disposal of appeal by the Joint Commissioner (Appeals), the Central Government may make a scheme (e-Appeals Scheme, 2023) so as to dispose of appeals in an expedient manner with transparency and accountability, by eliminating the interface between the Joint Commissioner (Appeals) and the appellant, in the course of appellate proceedings to the extent technologically feasible and direct that any of the provisions of this Act relating to jurisdiction and procedure for disposal of appeals by the Joint Commissioner (Appeals), shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification.

Revision u/s 263 -vs.- Revision u/s 264

Sec. 263 of the Income Tax Act, 1961, stands as a custodian, guarding the integrity of the tax assessment process in India. It is a mechanism to rectify orders perceived as both erroneous and prejudicial to the interests of the revenue. There is a virtually parallel provision – Section 264 of the Act, which also empowers the Commissioner to revise any order other than the order under Section 263, passed by an authority subordinate to him, on his own motion or on an application by the assessee for revision.

A comparative study of revision u/s 263 & revision u/s 264 are given here in below:

Basis	Sec. 263	Sec. 264
Which order can be revised	Order, which is prejudicial to the interest of revenue.	Order, which is prejudicial to the interest of assessee.
Proceedings at the motion of	At the own motion of the authorities.	At the own motion of the authorities or on the application of the assessee.
Scope	Revision is possible of the issues which have not been considered and decided in an appeal, i.e., doctrine of partial merger is applicable	Revision u/s 264 is not possible on any issue if an appeal has been filed, i.e., doctrine of total merger is applicable
Time limit for application	Assessee does not apply	Within 1 year from the date on which the order in question was communicated to the assessee
Time limit for passing a revisional order	2 years from the end of the financial year in which the order sought to be revised was passed.	<ul style="list-style-type: none"> • <i>Where the authorities act on his own motion:</i> within 1 year from the date of original order. • <i>Where the application is made by the assessee:</i> within 1 year from the end of the financial year in which such application is made.
Fee	Not applicable	₹500 where the application for revision is made by the assessee.
Appeal against order	Appeal can be filed to the Tribunal	No appeal can be filed.
Beneficial to	Revenue	Assessee

In the complex arena of tax litigation, choosing the appropriate remedial mechanism—whether an appeal before the JCIT (Appeals) or a revision application under Section 264—can fundamentally alter the trajectory of a tax dispute. The introduction of the Joint Commissioner (Appeals) and the transition towards the faceless ‘e-Appeals Scheme’ signify a paradigm shift in how grievances are resolved in India. Developing a strategic command over the doctrine of merger, statutory timelines, and appellate hierarchies is essential to master the art of effective client representation and safeguard taxpayers’ rights against erroneous assessments.

Topic

Module 3:
Decision Making
Techniques (Case
Study-based
Approach)

Module 8:
Assignment

FINAL

Group III - Paper-16

Strategic Cost
Management (SCM)

Transfer Pricing

1. Concept of Transfer Pricing

Transfer Pricing is the price charged for goods, services, or intangibles exchanged between related enterprises (divisions, subsidiaries, group companies). Since transactions occur within the same group, prices are not set by market forces. Transfer Pricing is crucial for performance evaluation, tax planning, and goal congruence.

2. Why Transfer Pricing Matters

Area	Significance
Performance Measurement	TP affects divisional profit, directly influencing manager performance assessment and incentives.
Tax Optimization	MNCs shift profits to low-tax jurisdictions by pricing intra-group transactions strategically.
Goal Congruence	Aligns divisional goals with overall organizational objectives.
Regulatory Compliance	Tax authorities scrutinize TP to prevent base erosion and profit shifting (BEPS).
Resource Allocation	Facilitates optimal allocation of resources across divisions.

3. Methods of Transfer Pricing

• Market-Based Transfer Price

The transfer is made at the prevailing external market price. This is considered the ideal basis when a competitive external market exists for the intermediate product.

Transfer Price = External Market Price (or Market Price – Selling costs saved on internal transfer)

Advantage: Preserves divisional autonomy; allows divisions to be assessed as independent profit centres.

Limitation: An external market may be imperfect, thin, or may not exist at all for the intermediate product.

• Cost-Based Transfer Price

Basis	Formula	Remarks
Variable / Marginal Cost	TP = Variable Cost per unit	No contribution to selling division. Appropriate only when selling division has idle capacity.
Full Cost (Absorption)	TP = Full Cost per unit	Selling division earns no profit. May lead to sub-optimal decisions by buying division.

Basis	Formula	Remarks
Cost Plus Mark-up	TP = Full Cost + Profit Mark-up %	Ensures profit to selling division. Mark-up % is often negotiated between divisions.
Standard Cost	TP = Standard Cost (not actual)	Removes efficiency variances of selling division from buying division's reported cost.

Negotiated Transfer Price

The transfer price is determined by negotiation between divisional managers. This is practical when both divisions have bargaining power and external market prices exist as reference points.

Lower Limit (Selling Division) = Marginal Cost + Opportunity Cost per unit

Upper Limit (Buying Division) = Net Marginal Revenue (or External Market Price)

Condition for Mutual Benefit: Lower Limit < Negotiated TP < Upper Limit. Both divisions gain only if the TP falls within this range.

• Opportunity Cost Approach (Minimum Transfer Price)

Minimum TP = Marginal Cost per unit + Opportunity Cost per unit

Where Opportunity Cost = Contribution lost on external sales forgone (per unit). If selling division has idle capacity, Opportunity Cost = Nil, so Minimum TP = Marginal Cost only.

Problem:

Gamma Precision Ltd. operates two semi-autonomous divisions: Division P (Production) and Division Q (Quality Assembly). Division P manufactures a specialized optical sensor chip branded 'SensorX'. The standard variable manufacturing cost of SensorX is ₹60 per unit. Division P can sell unlimited quantities of SensorX in the open wholesale market at a stable price of ₹150 per unit. Division P faces a critical machine-hour constraint. Each unit of SensorX requires exactly 4 machine hours. The total machine hours available to Division P are strictly capped at 40,000 hours per annum. Division Q wishes to procure 5,000 units of SensorX from Division P for use in a new product line. If Division P supplies internally, it saves ₹8 per unit in external packaging and distribution costs.

Requirements

- (i) Compute the Minimum Transfer Price that Division P must charge to protect its divisional profitability.
- (ii) Division Q has received an external quotation from an independent supplier offering an equivalent chip at ₹135 per unit (inclusive of ₹6 inward freight and insurance). Analyse whether the internal transfer should proceed from a corporate perspective.

Solution

(i) Minimum Transfer Price for Division P**Step 1: Assess Capacity Position**

Total machine hours available = 40,000 hours. Each unit requires 4 machine hours.

Maximum possible external production = $40,000 \div 4 = 10,000$ units of SensorX

External market can absorb all 10,000 units (demand is unlimited). Division P is therefore operating at FULL CAPACITY. Any internal supply to Division Q directly displaces external sales — Opportunity Cost is fully activated.

Step 2: Compute Adjusted Internal Variable Cost

Particulars	₹ per unit
Standard Variable Manufacturing Cost	60.00
Less: Packaging & Distribution Savings (internal transfer)	(8.00)
Adjusted Internal Variable Cost	52.00

Step 3: Compute Opportunity Cost per Unit

Particulars	₹ per unit
External Market Price of SensorX	150.00
Less: Standard Variable Cost (external sale)	(60.00)
Contribution Forfeited per External Unit	90.00

Step 4: Calculate Minimum Transfer Price

Minimum TP = Adjusted Internal Variable Cost + Opportunity Cost

Minimum TP = ₹52 + ₹90 = ₹142 per unit

Result: Division P must charge at least ₹142 per unit on any internal transfer to fully recover both its cost of production and the external contribution it foregoes.

(ii) Corporate Viability Analysis**Step 1: Establish Division Q's Maximum Ceiling Price**

External quotation from independent supplier = ₹135 per unit (all-inclusive). Division Q will not pay more than ₹135 internally.

Step 2: Compare Pricing Boundaries

Party	Pricing Threshold	₹ per unit
Division P (Selling)	Minimum Transfer Price (Floor)	142.00
Division Q (Buying)	External Procurement Price (Ceiling)	135.00

Strategic Range Check: ₹142 (Floor) > ₹135 (Ceiling)
→ No viable transfer range exists

Step 3: Quantify Corporate Loss if Transfer is Forced

Particulars	₹
Division P's minimum economic sacrifice per unit	142.00
Less: Division Q's external procurement price	(135.00)
Net Corporate Loss per unit if transfer is mandated	7.00
Total units required by Division Q	5,000
Total Net Corporate Loss	₹35,000

Corporate Decision: The internal transfer must NOT proceed. Forcing it would destroy ₹35,000 of corporate net income. Division Q should procure from the external supplier at ₹135, and Division P should deploy its full 40,000 machine hours to satisfy the open market at ₹150 per unit, maximising group contribution.

Assignment

The Assignment Model is a special and simpler form of the Transportation Model in Operations Research. It is used when a company wants to assign workers, machines, salesmen, or other resources to different jobs or tasks in the best possible way.

The main objective is:

- to minimize total cost or time, OR
- to maximize total profit or sales.

The assignment is always done on a **one-to-one basis**.

This means:

- one worker can do only one job, and
- one job can be given to only one worker.

This is called the **1-to-1 Matching Rule**.

Another important condition is that the matrix must be a **Square Matrix**, meaning:

$$\text{Number of Rows} = \text{Number of Columns}$$

If rows and columns are not equal, we must balance the matrix first.

The Hungarian Method

The Hungarian Method is used to find the best assignment. It works by reducing costs step-by-step until the best assignment becomes clear.

Step 0: Check Whether Matrix is Balanced

First check whether: Rows = Columns

If they are not equal:

- add a **Dummy Row** or
- add a **Dummy Column**

with all values equal to zero.

This makes the matrix square.

Step 1: Row Reduction

For each row:

1. Find the smallest number in that row.
2. Subtract that number from every element of the same row.

After this step, each row will contain at least one zero.

These zeros help in finding the best assignment.

Step 2: Column Reduction

Now look at each column.

1. Find the smallest number in that column.
2. Subtract it from every element in that column.

After this step, each column will also contain at least one zero.

Note:

If a column already has zero values (especially because of a Dummy row), then that column may remain unchanged.

Step 3: Optimality Test (Covering Zeros)

Now draw the minimum number of straight horizontal and vertical lines needed to cover all zeros in the matrix.

Let the number of lines be:

Compare with matrix size .

Case 1: If $N = n$, then the solution is optimal.

Go directly to Step 5.

Case 2: If $N < n$, then the solution is not yet optimal.

Go to Step 4.

Step 4: Modify the Matrix

Find the smallest number that is NOT covered by any line.

Let this number be: x

Now do the following:

- subtract x from all uncovered elements
- add x to elements lying at the intersections of two lines
- leave elements covered by only one line unchanged

After modification, go back to Step 3 and repeat the process.

Step 5: Final Assignment

Now make the assignments.

Look for rows or columns having only one zero.

- Put a box around that zero [0]
- This means assignment is fixed.
- Cross all other zeros in the same row and column.

Repeat until all assignments are completed.

Maximization Problems (Profit/Sales)

The Hungarian Method is mainly designed for minimization problems. But sometimes questions are based on:

- profit,
- sales,
- productivity, etc.

In such cases, convert the problem into a minimization problem first.

How to Convert Maximization into Minimization

Find the largest number in the entire matrix.

Then use:

New Value = Largest Value – Original Value

This creates a Loss Matrix or Opportunity Cost Matrix.

Then solve normally using Hungarian Method.

Important:

Final profit must always be taken from the ORIGINAL matrix, not the converted matrix.

Practice Problems

Problem 1:

A company has four managers and who are to be assigned to three projects , , and . The estimated profits (in ₹ '000) from assigning each manager to each project are given below:

Managers/Projects	A	B	C
M ₁	73	59	68
M ₂	77	66	71
M ₃	69	72	64
M ₄	75	61	70

Using the Hungarian Method, determine the optimal assignment of managers to projects so that the total profit is maximized. Also find the maximum total profit.

Answer:

The company has **4 managers** to be assigned to **3 projects (A, B, C)**. Since one manager will remain unassigned, a **dummy project (D)** is introduced.

The estimated profit (₹'000) from each assignment is given below:

Managers/Projects	A	B	C	D (Dummy)
M ₁	73	59	68	0
M ₂	77	66	71	0
M ₃	69	72	64	0
M ₄	75	61	70	0

Convert to Opportunity Loss Matrix

Maximum profit value = 77

Loss = 77 – Profit

Managers/Projects	A	B	C	D
M ₁	4	18	9	77
M ₂	0	11	6	77
M ₃	8	5	13	77
M ₄	2	16	7	77

Reduced Matrix after Row Operation:

Subtract the minimum value of each row from all elements of that row.

Managers / Projects	A	B	C	D
M ₁	0	14	5	73
M ₂	0	11	6	77
M ₃	3	0	8	72
M ₄	0	14	5	75

Reduced Matrix after Column Operation

Now subtract the minimum element of each column from all elements of that column.

Managers / Projects	A	B	C	D
M ₁	0	13	0	1
M ₂	1	11	1	5
M ₃	4	0	3	0
M ₄	0	13	0	3

Optimal Assignments

Assignments are made as follows

Select independent zeros:

Managers / Projects	A	B	C	D
M ₁	0	13	0	1
M ₂	1	11	1	5
M ₃	4	0	3	0
M ₄	0	13	0	3

M1 → A

- M2 → D (Dummy)
- M3 → B
- M4 → C

Maximum Profit Calculation:

- M1 → 73
- M2 → 0
- M3 → 72
- M4 → 70

Total Profit = 73+0+72+70=215

Topic

Module 11:
Management
Audit in Different
Functions

FINAL

Group IV - Paper-17

Cost and
Management Audit
(CMAD)

Management Audit in Different Functions / Audit of Different Service Organisations

Auditing service organizations differs significantly from auditing manufacturing or trading entities because services are intangible, heterogeneous, and often produced and consumed simultaneously. As a result, the audit approach focuses more on processes, internal controls, compliance, and performance metrics. Service organizations provide intangible outputs such as educational institutions, healthcare, transport, IT services, hospitality, etc. However, the audit objectives are similar to that of manufacturing sectors, viz. to ensure true and fair view of financial statements, to ensure accuracy in revenue recognition and completeness, to evaluate internal control systems, to ensure regulatory compliances and to assess efficiency and effectiveness of operations. Unlike other sectors the audit approach includes System-based audit (internal control evaluation), Substantive testing of transactions, carrying out analytical procedures and review of Compliances. Key challenges include, difficulty in measuring service output, High risk of revenue manipulation, Dependence on IT systems, Lack of physical evidence and Complex regulatory requirements.

Some important tips for service sector audits –

- Clarity on Organization structure
- Legislative bindings i.e laws governing the Organization
- Organizational guidelines
- Organizational goals
- Alignment of activities with Organizational goals, objectives, mission and vision
- Management structure, delegation of authority
- Internal control structure
- Internal checks
- Accounts, evidence and records to support accounting
- Assets-procurement, existence, movement and maintenance
- Payable and liabilities
- Recoveries – scheduled and actuals
- Timelines and actions of accounting recognition
- Compliances

Audit of Electricity Service organization

- Application of provisions of Indian Electricity Act and Electricity Supply Act with respect to maintenance of Accounts, Reserves etc.
- Recording of consumption of electricity by Consumers

- Applicable tariff for different category of consumers
- Collection from consumers at collection points, from collection Agents, online credits etc. and Consumer number-wise collection reconciliation
- Installation and Equipment/Meter sale, re-connection proceeds and reconciliation
- Overdue consumer numbers and necessary steps
- Reconciliation of Rebates, applicability/eligibility and availing the same
- Accounting of Security Deposits (SD) received and up-dation due to higher consumption
- Collection of enhanced SD
- Expense booking (all expenses) and payments
- Stores, issue procedure and consumption
- Fund allocation for capital expenditure and Capex spent
- Fuel surcharge and computations, claims
- Depreciation and other applicable charges

Shipping services

- Fleet size including owned Vessels and Chartered Vessels
- Flag of Chartered Vessels and related fees
- Third Party Chartering Agreements (Time Charter and Cargo Charter) with financial exposure
- Type/Capacity of Vessels/Tankers (Suez Max, Panamax, VLCC etc.) and related capacity with cargo specification
- Vessel Registration and charges
- Insurance and Depreciation
- Computation of Demurrage and Detention' vs 'Dispatch' as per lay can period
- Force majeure and delays (without penalty)
- Loading and Unloading operation & Portage and other charges payable
- Benchmarking of freight against Baltic freight
- Ballasting and Fuelling cost
- On board crew and legal formalities

Logistic Services - Transportation of Goods, Rake Clearance, Warehousing, Handling and Distribution

- Owning fleet

- Local / National Permit
- Arranging fleet from open market
- Loading
- Unloading
- Delivery and Acceptance
- Certification of Volume by the User
- Rate Agreement/Contract
- Billing
- Collection
- Taxation implications
- Recovery by User for short/defective delivery
- Payment to Staff/ Driver/office bearers
- Fuel and Vehicle Maintenance cost
- Security Deposit made to User and recovery on discontinuance of service

Passenger Transport Organization

- Capital Budget for Vehicle purchases
- Budget for major overhauling and actual spent
- Vehicles Registration and Ownership right
- Obtaining rout permits for operating in State/National destinations
- Monitoring of running expenses like fuel, tyre replacement, spare parts life cycle etc.
- Operators (Driver, Helper etc.) attendance and payments
- Sale of Tickets (number control over tickets) and booking charges
- Passenger per Km. cost and Revenue (guide to fix Ticket /Revenue)
- Vehicle-wise Log Book maintenance and checking for mileage, fuel performance etc.
- Finance cost and allocation to Vehicles for cost accumulation purposes
- Compliance w.r.t PUC (Pollution Under Control) certification, Certificate of Fitness etc.
- Cash, petty cash physical count against Cash Collection Statement

Educational Institutions

- Documents relating to formation of the institution, affiliation, Management structure, Governing Body, ownership etc. requires due attention for fund monitoring, donation, affiliation fees payment etc.

Examine the Trust Deed, or Regulations. in the case of school or college, note all the provisions affecting accounts. In the case of university, refer to the Act of Legislature and the Regulations framed thereunder.

- Approving authority for expense, fund transfer, bank account operation etc. Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, especially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- Semester / class-wise Student Register with details of Student name, address, Aadhar No./Card, Guardian etc. and fee structure (full fees, half fees, sanctioned waiver etc.) mapped for ensuring accuracy of collection. Where collection through direct Banking takes place, the Bank Statement to be equivated with 'fees receivable/recoverable' for completeness check and proper revenue /collection (advance/ arrear collection) recognition. Fees collected and Fees Book counterfoil reconciliation also can be carried out. Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test check amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
- Check admission fees with signed admission slips and confirm the amount had been credited to a Capital Fund., unless specified otherwise.
- See that free studentship and concessions have been granted by a person authorized to do so, having regard to the prescribed Rules.
- Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
- Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- Caution Deposit, Laboratory Deposit etc. collected and refunded are accounted for correctly in the relevant period.
- Verify rental income from land, property with the rent rolls, etc.
- Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. Tag against the spent booked for the period under review and physical existence. Reference to Stock Register and values applied to various items should be test checked.

- Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
- Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
- Review of Receipts and Payments, Income and Expenditure for completeness and accuracy of Fund balances against bank balances. Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.
- Vouching to be carried out for proper supporting and due approval w.r.t Income and expenses.
- Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.
- See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated.
- Verify that the Provident Fund money of the staff has been invested in appropriate securities.
- Vouch donations, if any. If some donations were meant for any specific purpose, see that the money was utilized for the purpose.
- Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
- See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.
- Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
- Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income tax.
- Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of Staff, etc.

Topic

Module 4:
NBFCs –
Provisioning Norms,
Accounting and
Reporting

Module 5:
Accounting
for Business
Combinations and
Restructuring

FINAL

Group IV - Paper-18

Corporate Financial Reporting (CFR)

Topic: NBFCs – Provisioning Norms, Accounting and Reporting

• Multiple Choice Questions

1. A Non-Banking Financial Company (NBFC) is primarily governed by:
 - a) Companies Act, 1956 only
 - b) Banking Regulation Act, 1949
 - c) RBI Act, 1934
 - d) FEMA, 1999

Answer: c) RBI Act, 1934

2. Which of the following activities is commonly undertaken by an NBFC?
 - a) Agricultural operations only
 - b) Chit business and hire purchase financing
 - c) Manufacturing activities only
 - d) Retail trade only

Answer: b) Chit business and hire purchase financing

3. NBFCs initially get incorporated under:

- a) RBI Act, 1934
- b) SEBI Act, 1992
- c) Companies Act, 2013
- d) Banking Regulation Act, 1949

Answer: c) Companies Act, 2013

4. As per RBI directions, income on Non-Performing Assets (NPAs) should be recognized:

- a) On accrual basis
- b) On due basis
- c) Only when actually realized
- d) At year-end estimation

Answer: c) Only when actually realized

5. Dividend income in case of NBFCs is generally recognized:

- a) On accrual basis in all cases
- b) On cash basis unless right to receive is established
- c) Only after audit completion
- d) On mercantile basis only

Answer: b) On cash basis unless right to receive is established

6. Investments of NBFCs are required to be classified into:

- a) Quoted and unquoted

- b) Current and long-term

- c) Equity and debt

- d) Domestic and foreign

Answer: b) Current and long-term

7. Inter-class transfer of investments by NBFCs on an ad hoc basis is:

- a) Permitted freely

- b) Mandatory every year

- c) Not permitted

- d) Allowed with shareholder approval only

Answer: c) Not permitted

8. A doubtful asset in NBFC provisioning norms refers to an asset which has remained sub-standard for more than:

- a) 3 months

- b) 6 months

- c) 12 months

- d) 24 months

Answer: c) 12 months

9. Which of the following is classified as a standard asset?

- a) Asset with no repayment default

- b) Asset overdue for several years

- c) Fully irrecoverable asset

- d) Asset identified as loss asset

Answer: a) Asset with no repayment default

10. Provision requirement for loss assets under NBFC prudential norms is generally:

- a) 10%

- b) 20%

- c) 50%

- d) 100%

Answer: d) 100%

11. Which authority issues prudential norms for NBFCs in India?

- a) SEBI

- b) ICAI

- c) RBI

- d) Ministry of Finance

Answer: c) RBI

12. The minimum Net Owned Fund (NOF) requirement prescribed for NBFCs was increased to:
- ₹25 lakh
 - ₹50 lakh
 - ₹1 crore
 - ₹2 crore
- Answer: d) ₹2 crore**
13. An NBFC has standard assets of ₹5,000 lakh. Provisioning rate applicable is 0.40%. Required provision will be:
- ₹2 lakh
 - ₹5 lakh
 - ₹20 lakh
 - ₹40 lakh
- Answer: c) ₹20 lakh** ($₹5,000 \times 0.40\%$)
14. An NBFC has sub-standard assets of ₹800 lakh. Provision required at 10% will be:
- ₹8 lakh
 - ₹40 lakh
 - ₹80 lakh
 - ₹100 lakh
- Answer: c) ₹80 lakh** ($₹800 \times 10\%$)
15. Secured doubtful assets outstanding for more than 3 years amount to ₹50 lakh. Provisioning rate is 50%. Provision required will be:
- ₹10 lakh
 - ₹20 lakh
 - ₹25 lakh
 - ₹50 lakh
- Answer: c) ₹25 lakh** ($₹50 \times 50\%$)

• Comprehensive Problems

Problem 1

While closing the books of accounts on 31st March, a NBFC has its advances classified as follows:

Particulars	₹ in lakhs
Standard Assets	80,000
Sub Standard Assets	8,000
Secured Positions of Doubtful Debts	
Up to one year	2,000
One to three years	1,200
More than three years	400
Unsecured portions of doubtful debts	320
Loss Assets	240

Calculate the amount of provision which must be made against the advances.

Solution:

Calculation of Provision

Particulars	₹ in lakhs	Provision (%)	Provision (₹ in lakh)
Standard Assets	80,000	0.4%	320
Sub Standard Assets	8,000	10%	800
Secured Positions of Doubtful Debts			
Up to one year	2,000	20%	400
One to three years	1,200	30%	360
More than three years	400	50%	200
Unsecured portions of doubtful debts	320	100%	320
Loss Assets	240	100%	240
Total			2,640

Topic: Business Combination

• Multiple Choice Question

1. DAWN Ltd. has acquired 100% of the equity of NIGHT Ltd. on March 31, 2023. The purchase consideration comprises of an immediate payment of ₹20 lakhs and three further payments of ₹2 lakh each if the return on equity exceeds 16% in each of the subsequent three financial years. On the acquisition date, the aggregate value of D's identifiable assets is ₹22,00,000. Calculate purchase consideration and Goodwill/ gain on bargain purchase. Assume discount rate @10%.
- (A) Purchase consideration ₹20,00,000 and gain on bargain purchase ₹2,00,000
 (B) Purchase consideration ₹26,00,000 and goodwill ₹4,00,000
 (C) Purchase consideration ₹24,97,360 and goodwill ₹4,97,360
 (D) Purchase consideration ₹24,97,360 and goodwill ₹2,97,360

Solution:

As per applicable Accounting Standard, contingent consideration should be added with purchase consideration at discounted present value.

Accordingly, Purchase consideration and goodwill are calculated:

	₹ In Lakhs
Immediate cash payment	20,00,000
Fair value of contingent consideration $[2,00,000/1.1 + 2,00,000/(1.1)^2 + 2,00,000/(1.1)^3]$	<u>4,97,360</u>
Purchase Consideration	24,97,360
Less: Net Assets	22,00,000
Goodwill	<u>2,97,360</u>

• Comprehensive Problems

Following are the extracts from the Balance Sheets of two companies, BETA Ltd. and DELTA Ltd. as at 31st March, 2023.

Particulars	BETA Ltd.	DELTA Ltd.
	(₹)	(₹)
Assets		
Non-current Assets		
Property, Plant & Equipment	10,00,000	5,00,000
Financial Assets (20,000 Shares in BETA Ltd.)	-	2,00,000
Current Assets		
Inventory	2,00,000	1,00,000
Financial Assets		
Trade Receivables	<u>3,00,000</u>	<u>1,00,000</u>
Total Assets	<u>15,00,000</u>	<u>9,00,000</u>
Equity and Liabilities		
Equity Share Capital (₹10)	10,00,000	6,00,000
Other Equity		
Reserve	2,00,000	1,10,000
Current Liabilities		
Trade Payables	<u>3,00,000</u>	<u>1,90,000</u>
Total Liabilities	<u>15,00,000</u>	<u>9,00,000</u>

BETA Ltd was to absorb DELTA Ltd. Ltd on the basis of intrinsic value of the shares, the purchase consideration was to be discharged in the form of fully paid shares. A sum of ₹40,000 is owed by BETA Ltd. to DELTA Ltd. Also included in the stocks of BETA Ltd. ₹60,000 goods supplied by DELTA Ltd. cost plus 20%. Absorption was completed on 31.03.2023.

Required:

- Calculate fair value of the shares of BETA Ltd. & DELTA Ltd. Make necessary assumptions
- Calculate the amount of purchase consideration and the number of shares to be issued by BETA Ltd.

Solution:**(i) Calculation of fair value of share**

Particulars	BETA Ltd. (₹)	DELTA Ltd. (₹)
Property, Plant and Equipment	10,00,000	5,00,000
Investment	2,00,000	1,00,000
Trade Receivables	3,00,000	1,00,000
Total Assets (A)	15,00,000	7,00,000
Add: Investment in BETA Ltd. 20000 shares @ ₹12* each (B)		2,40,000
Less: Trade Payables (C)	3,00,000	1,90,000
Net assets (A+B-C)	12,00,000	7,50,000
No. of shares outstanding	1,00,000	60,000
Intrinsic and fair value per share	12	12.50

*Fair value

Note: It is assumed that the intrinsic value of shares is same as the fair value and book value of assets and liabilities represents the fair value of each item of assets.

(ii) Calculation the amount of purchase consideration

Particulars	Amount (₹)
a. No. of Shares of DELTA Ltd. (₹6,00,000 / ₹10)	60,000
b. Value of shares @ ₹12.5	7,50,000
c. No. of shares issuable based on Intrinsic value of ₹12 (7,50,000 / 12)	<u>62,500</u>
d. No. of shares held by DELTA Ltd.	<u>(20,000)</u>
e. Net shares to be issued	<u>42,500</u>
f. Total consideration at par (42,500 × ₹12)	5,10,000

(iii) Calculation of value of Goodwill

Net Assets acquired at fair value (6,90,000* - 1,90,000)	5,00,000
Consideration Transferred	<u>5,10,000</u>
Goodwill	<u>10,000</u>

* ₹7,00,000 – ₹10,000 [for inter-company profit (₹60000 × 20% / 120%)]

Topic

Module 8:
E-way Bill

FINAL

Group IV - Paper-19

Indirect Tax Laws
and Practice (ITLP)

E-WAY BILL

The implementation of the Goods and Services Tax (GST) in India marked a significant transformation in the country's indirect taxation system. Among the various components introduced under GST, the Electronic Way Bill, commonly known as the **e-way bill**, is a pivotal mechanism aimed at simplifying and streamlining the transportation of goods across India. Introduced to replace the traditional waybill system prevalent in the pre-GST era, the e-way bill system leverages technology to ensure transparency, reduce tax evasion, and facilitate smooth movement of goods.

An **e-way bill** is an electronic document generated on the GST portal evidencing the movement of goods. It includes details such as the consignor, consignee, origin, destination, and route. The primary purpose of the e-way bill is to provide a mechanism for tracking the movement of goods and ensuring that the appropriate taxes are paid.

Legal Framework

The e-way bill system is governed by Section 68 of the Central Goods and Services Tax Act, 2017, and Rule 138 of the CGST Rules, 2017. These provisions mandate that any registered person causing the movement of goods of consignment value exceeding ₹50,000 must generate an e-way bill prior to the commencement of such movement.

Purpose and Importance

- **Prevention of Tax Evasion:** By tracking the movement of goods, tax authorities can ensure that taxable supplies are duly reported and taxes are paid.
- **Simplification of Logistics:** The e-way bill replaces the need for multiple transit passes and waybills, reducing paperwork and delays at checkpoints.
- **Transparency:** Real-time tracking and centralized data enhance transparency in supply chain operations.
- **Compliance and Uniformity:** A standardized system across all states promotes ease of doing business and consistent compliance requirements.

When is an E-Way Bill Required?

An e-way bill is required when there is a movement of goods:

- In relation to a supply (sale)
- For reasons other than supply (e.g., return, job work)
- Due to inward supply from an unregistered person

The movement can be:

- **Inter-state:** Between different states
- **Intra-state:** Within the same state (subject to state-specific rules)

Threshold Limit:

- The consignment value must exceed ₹50,000.
- Some states may have specified different limits for intra-state movement.

Components of an E-Way Bill

An e-way bill consists of two parts:

1. **Part A:** This part contains details about the consignment, such as:
 - o GSTIN of the recipient
 - o Place of delivery (PIN Code)
 - o Invoice or challan number and date
 - o Value of goods
 - o HSN code
 - o Reason for transportation
2. **Part B:** This part contains details about the transporter, such as:
 - o Vehicle number
 - o Transporter ID

Generation of E-Way Bill

Who Can Generate?

- **Registered Person:** Consignor or consignee who is registered under GST.
- **Unregistered Person:** If the supply is from an unregistered person to a registered recipient.
- **Transporter:** If neither the consignor nor the consignee generates it, the transporter can do so.

Modes of Generation:

- **Online Portal:** The primary method is through the GST e-way bill portal.
- **SMS:** E-way bills can be generated via SMS for small businesses or in case of emergencies.
- **Bulk Upload:** Facility provided for businesses to generate multiple e-way bills at once.
- **API Integration:** Large businesses can integrate their systems with the e-way bill portal for seamless generation.
- **Android App:** Registered users can generate e-way bills through the mobile app.

Steps

Here are the steps to generate an e-way bill:

1. **Login:** Access the e-Way Bill System and log in using your credentials.
2. **Enter Details:** Fill in the required details in Part A and Part B of the e-way bill form.
3. **Generate:** Once the details are entered, click on the 'Generate' button to create the e-way bill.
4. **Print:** The generated e-way bill can be printed and should be carried along with the goods during transportation.

Validity of E-Way Bill

The validity of an e-way bill depends on the distance the goods need to be transported. The validity period is calculated from the date and time of generation of the e-way bill. Here is a general guideline for the validity:

Type of conveyance	Distance	Validity of EWB
Other than Over dimensional cargo	Less Than 200 Kms	1 Day
	For every additional 200 Kms or part thereof	additional 1 Day
For Over dimensional cargo	Less Than 20 Kms	1 Day
	For every additional 20 Kms or part thereof	additional 1 Day

Exceptions and Exemptions

There are certain exceptions (subject to certain restrictions) and exemptions to the requirement of an e-way bill:

- a. where the goods being transported are specified in Annexure;

Taxpoint

- Liquefied petroleum gas for supply to household and Non domestic exempted category (NDEC) customers
 - Kerosene oil sold under PDS
 - Postal baggage transported by Department of Posts
 - Natural or cultured pearls and precious or semi-precious stones; precious metals and metals clad with precious metal (Chapter 71)
 - Jewellery, goldsmiths' and silversmiths' wares and other articles (Chapter 71)
 - Currency
 - Used personal and household effects
 - Coral, unworked (0508) and worked coral (9601)
- b. where the goods are being transported by a Non-motorised conveyance;
 - c. where the goods are being transported from the customs port, airport, air cargo complex and land customs station to an inland container depot or a container freight station for clearance by Customs;
 - d. in respect of movement of goods within such areas as are Notified under clause (d) of sub-rule (14) of rule 138 of the State or Union territory Goods and Services Tax Rules in that particular State or Union territory;
 - e. where the goods, other than de-oiled cake, being transported, are specified in the Schedule appended to Notification No 2/2017- Central tax (Rate) dated the 28th June, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 674 (E) dated the 28th June, 2017 as amended from time to time;
 - f. where the goods being transported are alcoholic liquor for human consumption, petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas or aviation turbine fuel;
 - g. where the supply of goods being transported is treated as No supply under Schedule III of the Act;
 - h. where the goods are being transported-
 - i. under customs bond from an inland container depot or a container freight station to a customs port, airport, air cargo complex and land customs station, or from one customs station or customs port to another customs station or customs port, or
 - ii. under customs supervision or under customs seal;

- i. where the goods being transported are transit cargo from or to Nepal or Bhutan;
- j. where the goods being transported are exempt from tax under Notification No 7/2017-Central Tax (Rate), dated 28th June 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 679 (E) dated the 28th June, 2017 as amended from time to time and Notification No 26/2017 Central Tax (Rate), dated the 21st September, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R 1181(E) dated the 21st September, 2017 as amended from time to time;
- k. any movement of goods caused by defence formation under Ministry of defence as a consignor or consignee;
- l. where the consignor of goods is the Central Government, Government of any State or a local authority for transport of goods by rail;
- m. where empty cargo containers are being transported; and
- n. where the goods are being transported upto a distance of twenty kilometers from the place of the business of the consignor to a weighbridge for weighment or from the weighbridge back to the place of the business of the said consignor subject to the condition that the movement of goods is accompanied by a delivery challan issued in accordance with rule 55.
- o. where empty cylinders for packing of liquefied petroleum gas are being moved for reasons other than supply.

Challenges and Issues

Despite its benefits, the e-way bill system has faced some challenges:

1. **Technical Glitches:** The online system has experienced technical glitches, causing delays in the generation of e-way bills.
2. **Compliance Burden:** Small businesses and transporters have found it challenging to comply with the e-way bill requirements due to a lack of resources and technical know-how.
3. **Interstate Variations:** Different states have different rules and procedures for the e-way bill, leading to confusion and compliance issues.

Recent Updates and Amendments

The government has made several updates and amendments to the e-way bill system to address these challenges and improve its efficiency. Some of the recent updates include:

1. **Auto Calculation of Distance:** The system now auto-calculates the distance between the source and destination based on the PIN codes entered.
2. **Blocking of E-Way Bill Generation:** If a taxpayer has not filed their GST returns for two consecutive tax periods, they will be blocked from generating e-way bills.
3. **Extension of Validity:** The validity of the e-way bill can be extended if the goods cannot be transported within the original validity period due to exceptional circumstances.
4. **Mandatory Multi-Factor Authentication (MFA):** To enhance system security, MFA has been made mandatory for all taxpayers logging into the e-way bill and e-invoice portals.

Conclusion

The e-way bill system has evolved far beyond a simple transit document; it is now a highly sophisticated, data-driven mechanism at the absolute heart of GST compliance. With the integration of stringent portal validations, mandatory multi-factor authentication, and rigid validity caps, the margin for operational error has drastically shrunk. For modern businesses, flawless e-way bill management is no longer just a logistical necessity—it is a critical safeguard against blocked portals, heavy penalties, and disrupted supply chains. As future cost and management accountants, mastering both the statutory provisions of Rule 138 and these real-time portal dynamics is essential for ensuring seamless trade and robust corporate compliance.

Topic

Module 2:
Performance
Measurement,
Evaluation and
Improvement Tools

Module 4:
Enterprise Risk
Management

ELECTIVES

Paper-20A

Strategic
Performance
Management and
Business
Valuation (SPMBV)

Performance Measurement

Performance Measurement, Evaluation and Improvement Tools –

In order to sustain and survive in a dynamic business world, it is essential for an organization to outgrow its competitors. Performance management assists organization to move along the strategic direction towards securing its pre-determined strategic goal(s). It creates an enabling environment where everyone in the organization acts in a manner that achieves its competitive advantage. In this context, it is essential that organizational performance needs to be properly measured, evaluated and reported. Further, while managing performance at various levels in an organization, it is desirable that necessary direction is created for their continuous improvement.

Two elements merit attention in this context :

- People performance management (PPM) -It acts as a focal point for the communication process, standard setting process and the performance measurement techniques / tools agreed upon
- Corporate Performance management (CPM) – It focusses on the entire organizational performance and is also referred to as Enterprise Performance Management (EPM).It is understood as a set of management processes that helps the organization define and execute its strategy.

Following tools and techniques are generally used to measure/evaluate / appraise corporate performance under a given set of conditions and in a given context and to further initiate corporate performance improvement at various activity levels where possible scope for improvement exists :-

1. Balance Score Card (BSC)
2. Designing appropriate KPI(s) - Key Performance Indicators
3. Budgeting and Forecasting
4. Benchmarking & Bench Trending
5. Business Excellence Model
6. Statistical Quality Control
7. Six Sigma
8. Total Quality Management
9. Total Productive Maintenance
10. Enterprise Risk Management
11. Performance Reporting
12. Responsibility Accounting & Responsibility reporting

Let us briefly discuss some of the above tools and techniques: -

BSC (Balance Score Card) –

A company's success is related to the realisation of its vision and mission. BSC augments the process of translation of a business vision and strategy into tangible objectives and measures. BSC stresses that financial and non-financial measures must be a part of performance measurement system at the strategic level as well as at the operation level. The basic premise of the measure is that it endeavours a balance between the financial measures for shareholders wealth maximisation, operational measures for customer satisfaction and internal business processes. It is a set of financial and non-financial measures relating to a company's critical success factors. As a management tool, it helps companies to assess overall performance, improve operational process, and enable management to develop better plans for long term improvements. The aim of BSC is to provide a comprehensive framework for translating a company's strategic objectives into a coherent set of performance measurement indicators.

The four perspectives of BSC –

1. Customer perspective – How do customers see the entity
2. Internal Business perspective – What must the entity excel at
3. Learning and Growth perspective – Can the entity continue to improve and create value
4. Financial perspective- Under this perspective, the focus will be on financial measures like operating profit, ROI, residual income, EVA, revenue growth, cost reduction, asset utilization, growth in net worth, working capital management, etc

Main Benefits of BSC –

- Better strategic planning initiatives
- Improved strategy execution and communication
- Better alignment of projects / programs and initiatives
- Designing better management information system
- Improved performance reporting
- Better organizational alignment
- Better process alignment

KPIs (Key Performance Indicators) –

These are Key Performance Indicators set by management to evaluate performance standards and their reliability or acceptance. Different KPIs are fixed in a given context

depending on the nature of the organization, its size, authority structure and strategic goals & objectives.

Bench Marking and Bench Trending-

Benchmarking is the process of evaluating the business performance with the standard business metrics of the industry. The business processes that are measured for their performance include productivity (both overall & factorial), cycle time, cost and quality. Bench trending is used for monitoring the performance and operations for bringing improvements and setting a direction. Bench trending is a technique used for bridging the gaps and improving performance levels through new technological methods.

Six Sigma and Lean Management & Lean Manufacturing –

Six Sigma is a tool for process improvement and is prima facie quality focused, identifies defects, and finds ways and means to remove them to ensure processes are efficient, effective and economical under a given set of conditions. Lean Manufacturing on the other hand refers to systematised reduction of time reduction of time within the production / process cycle including response times of customers & suppliers. Lean manufacturing focuses on reduction of inventory cost & wastages and increased productivity. It eliminates all such activities that do not add value to the finished product.

Five principles of Lean Manufacturing are : Value, Value Stream, Flow, Pull and Perfection

Statistical Quality Control (SQC) –

SQC is a technique of applying appropriate statistical methods (probability and sampling) to establish quality standard and to sustain a minimum qualitative process at least cost.

Techniques of SQC -

- Statistical process control (control charts)
- Acceptance sampling (related to products)

Management Information System –

Properly designed MIS depending on the size of the organization, authority structure, nature of the entity's business, technology impact, management objectives, etc. contributes significantly towards performance measurement, evaluation and initiating performance improvement.

Performance Reporting / Responsibility Accounting & Responsibility Reporting –

The frequency, nature, information coverage and reliability of management reports related to key responsibility areas highlights responsibility accounting and helps management to identify performance gaps

or weaknesses in a given situation and helps to initiate suitable performance improvement measures to attain the desired objectives & goals with due earnest.

Total Productivity Maintenance (TPM) –

Adoption of a well-designed TPM in an organization helps performance improvement in the following manner:

- Improving overall equipment effectiveness & productivity
- Involving operators in a meaningful way with routine & preventive maintenance of equipment(s) and, thus, improving employee safety
- Improving maintenance efficiency and thereby overall machinery effectiveness
- Lifecycle equipment management and reducing breakdown maintenance.
- Reducing overall maintenance cost over time.

Total Quality Management and Business Excellence Model -

In the context of performance evaluation & improvement, TQM contributes as under :-

- An integrated organizational effort to improve quality at all levels
- It is an organizational vision
- It is a part of long-term business performance planning
- Is also a part of Annual Quality Plan of an organization and forms a part of overall Business Improvement Plan.

Essentials of TQM in the context of Performance Improvement –

- (a) Customer focus
- (b) Continuous Improvement
- (c) Employee empowerment
- (d) Use of appropriate Tools & Equipment
- (e) Appropriate product design
- (f) Process management
- (g) Suppliers' quality management

The core concepts of TQM are -

- (a) Quality Control
- (b) Quality Assurance
- (c) Quality Management

Essentially TQM trades off between quality control costs (quality prevention costs & quality appraisal costs) and quality failure costs (internal failure costs & external failure costs)

TQM is a part of Business Excellence Model (BEM) whilst BEM covers more comprehensive business functions including quality of overall management performance & decisions and directs focus as to how excellence in key business performances may be attained over a period of time.

Budgeting and Variance Analysis –

It is also an important performance improvement tools and can give impressive results if budgets are prepared covering all key responsibility centres, considering possible limiting factors and proper participation of all-responsible officials in the implementation and running of the budgetary process is assured.

More importantly, it is the promptness of the management to identify and take necessary action to rectify the budget variances at the earliest opportunity that determine how effectively this tool can control and improve performances with reference to predetermined standards / yardstick under a given set of conditions.

Enterprise Risk Management (ERM) –

It is a process of identifying, analysing, evaluating and prioritising business risks followed by integrated application of resources to reduce and control the probability or impact of unwanted events or to maximise the realization of possible opportunities commensurate with the overall & long-term objectives of an organization.

Main elements of ERM –

- Risk Identification
- Risk Analysis & Assessment
- Risk Response
- Risk Prioritization
- Risk Mitigation & Avoidance
- Risk Sharing & Transfer
- Risk Avoidance
- Risk Acceptance
- Risk Governance (Communication & Monitoring)

If effectively implemented and monitored, ERM can be a very significant performance enhancing tool in an organisation over a period of time by eliminating various risk driven unwanted events / incidents that diminishes organizational productivity and further re-directing enterprise resources (including cost & manpower) toward better attainment of organizational goals.

Concluding Remarks

The tools/methods discussed above are all uniquely significant to measure, evaluate and improve organisational performance but it is the top managements understanding as to what all tools and methods to use under a given set of conditions and circumstances depending on the purpose, objectives, goals and in the overall interest of the various stakeholders.

Topic

Module 3:
Credit Risk and
Liquidity Risk

Module 7:
Insurance
Intermediaries,
General Insurance,
Health Insurance
and Life Insurance

ELECTIVES

Paper-20B

Risk Management
In Banking and
Insurance (RMBI)

Credit Risk and Liquidity Risk in Banks

The stability of the banking system in India rests fundamentally on how effectively banks manage risks arising from their core intermediation function. Among the various risks that banks face, credit risk and liquidity risk occupy a central position because they directly influence solvency, profitability, and public confidence. In the Indian context, where banks play a dominant role in financial intermediation and economic development, the management of these risks has evolved significantly over time, especially in response to regulatory reforms, financial crises, and structural changes in the economy. Credit risk reflects the possibility of loss arising from a borrower's failure to meet contractual obligations, while liquidity risk pertains to a bank's inability to meet its financial commitments as they fall due without incurring unacceptable losses. These risks are interrelated and, if not properly managed, can trigger systemic instability.

Nature and Significance of Credit Risk in Indian Banks: Credit risk is the most significant risk faced by Indian banks, primarily because lending constitutes their principal activity. It arises when borrowers, whether individuals, corporations, or governments fail to repay principal or interest in accordance with agreed terms. In India, credit risk has historically been influenced by sectoral exposures, economic cycles, governance issues, and policy-driven lending.

The importance of credit risk lies in its direct impact on a bank's asset quality. When loans turn non-performing, banks are required to make provisions, which erode profitability and capital. In extreme cases, persistent credit losses can threaten the solvency of banks. In the Indian banking system, particularly among public sector banks, episodes of rising non-performing assets (NPAs) have highlighted the criticality of robust credit risk management.

Evolution of Credit Risk in the Indian Context: The Indian banking sector has undergone a transformation from a regulated regime to a more market-oriented system following economic liberalization in the early 1990s. During the pre-liberalization era, directed lending and priority sector mandates often led to suboptimal credit allocation and accumulation of NPAs. Post-reforms, prudential norms relating to income recognition, asset classification, and provisioning were introduced, aligning Indian practices with international standards.

Determinants of Credit Risk in Indian Banks: Credit risk in Indian banks is influenced by both internal and external factors. Internally, the quality of credit appraisal, underwriting standards, monitoring mechanisms, and governance practices play a decisive role. Weak appraisal processes, over-reliance on collateral, and inadequate due diligence can lead to poor credit decisions.

Externally, macroeconomic conditions significantly affect

borrowers' repayment capacity. Economic slowdown, inflationary pressures, interest rate fluctuations, and sector-specific challenges can increase default risk. In India, sectors such as infrastructure, power, real estate, and small and medium enterprises (SMEs) have historically exhibited higher credit risk due to structural and cyclical factors.

Another critical determinant is concentration risk. Excessive exposure to a particular borrower, group, or sector can amplify losses in adverse conditions. Indian banks have increasingly focused on diversification strategies to mitigate such risks.

Credit Risk Management Practices: Indian banks have adopted a range of practices to manage credit risk effectively. The process begins with rigorous credit appraisal, which involves financial analysis, assessment of business models, evaluation of management quality, and industry analysis. Risk rating systems are used to classify borrowers based on their creditworthiness, enabling risk-based pricing and provisioning.

Monitoring of credit exposures is equally important. Banks use early warning signals to detect signs of stress in borrower accounts. Regular review of financial statements, site visits, and tracking of operational performance help in timely identification of potential defaults.

Provisioning norms require banks to set aside funds based on the classification of assets, thereby creating a buffer against expected losses. The transition towards expected credit loss models represents a forward-looking approach, incorporating probability of default, loss given default, and exposure at default.

Risk mitigation techniques such as collateralization, guarantees, credit insurance, and securitization are also employed. However, reliance solely on collateral is not sufficient, as the realization value may be uncertain during distress.

Nature and Importance of Liquidity Risk: Liquidity risk refers to the inability of a bank to meet its obligations as they become due, without adversely affecting its financial condition. This risk arises from mismatches in the maturity profiles of assets and liabilities, unexpected withdrawals of deposits, or inability to access funding markets.

In India, where banks rely heavily on deposits as a primary source of funding, maintaining liquidity is crucial for sustaining operations and preserving depositor confidence. Liquidity risk can manifest in two forms: funding liquidity risk and market liquidity risk. Funding liquidity risk arises when a bank cannot obtain sufficient funds, while market liquidity risk occurs when assets cannot be liquidated quickly without significant loss.

The importance of liquidity risk became evident

during global financial crises, where even solvent institutions faced distress due to liquidity shortages. In the Indian context, episodes of stress in non-banking financial companies (NBFCs) and cooperative banks have underscored the interconnectedness of liquidity conditions across the financial system.

Sources of Liquidity Risk in Indian Banks: Liquidity risk in Indian banks arises from several sources. One of the primary causes is asset-liability mismatch. Banks typically fund long-term loans with short-term deposits, creating inherent maturity mismatches. If a large number of depositors withdraw funds simultaneously, banks may face liquidity pressures.

Another source is reliance on wholesale funding. Banks that depend heavily on interbank borrowings or market instruments are more vulnerable to disruptions in financial markets. In times of stress, access to such funding may become constrained.

Contingent liabilities, such as committed credit lines and guarantees, can also create liquidity risk. When these commitments are drawn upon unexpectedly, banks need to arrange funds quickly.

Macroeconomic factors, including changes in monetary policy, interest rates, and market sentiment, also influence liquidity conditions. In India, the central bank's policy actions play a significant role in shaping system-wide liquidity.

Liquidity Risk Management Framework: Indian banks follow a structured framework for managing liquidity risk, guided by regulatory requirements. Asset-Liability Management (ALM) is the cornerstone of this framework. It involves monitoring and managing mismatches between assets and liabilities across different time buckets.

Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are key regulatory metrics that ensure banks maintain adequate high-quality liquid assets and stable funding sources. These measures are aligned with international standards and have been implemented progressively in India.

Banks maintain a stock of liquid assets, such as government securities, which can be readily converted into cash. The statutory liquidity ratio (SLR) requirement mandates banks to hold a certain proportion of their deposits in liquid assets, providing an additional buffer.

Stress testing is an essential component of liquidity risk management. Banks simulate adverse scenarios, such as sudden deposit withdrawals or market disruptions, to assess their resilience. Contingency funding plans are developed to address potential liquidity shortfalls.

Interrelationship Between Credit Risk and Liquidity Risk: Credit risk and liquidity risk are closely interconnected. Deterioration in asset quality can lead to liquidity stress, as non-performing assets reduce cash

inflows and erode market confidence. Conversely, liquidity shortages can force banks to sell assets at discounted prices, leading to losses and increased credit risk.

In the Indian context, this interrelationship has been evident during periods of financial stress. For instance, rising NPAs in the banking system have often been accompanied by tightening liquidity conditions. Similarly, stress in one segment of the financial system, such as NBFCs, can transmit to banks through funding and credit linkages.

Effective risk management requires an integrated approach that considers the interaction between different types of risks. Banks increasingly adopt enterprise-wide risk management frameworks to address this complexity.

Regulatory Role and Supervisory Framework: The regulatory framework in India plays a crucial role in managing credit and liquidity risks. Prudential norms, capital adequacy requirements, and risk management guidelines ensure that banks maintain financial stability.

Supervisory mechanisms include regular inspections, stress testing, and monitoring of key risk indicators. The introduction of prompt corrective action (PCA) framework enables early intervention in banks exhibiting signs of stress.

Recent reforms have emphasized transparency, governance, and accountability. The adoption of advanced risk measurement approaches, use of technology, and data analytics have strengthened risk management capabilities.

Challenges in Managing Credit and Liquidity Risks: Despite significant progress, Indian banks face several challenges in managing credit and liquidity risks. Credit risk assessment remains complex due to information asymmetry, especially in lending to small businesses and informal sectors. Delays in legal processes and recovery mechanisms can prolong resolution of stressed assets.

Liquidity management is complicated by volatile capital flows, changing depositor behaviour, and evolving financial markets. The increasing integration of financial institutions adds to systemic risk, requiring coordinated regulatory oversight.

Technological disruptions and digital banking introduce new dimensions of risk, including cyber threats and operational vulnerabilities, which can indirectly impact credit and liquidity positions.

To Conclude: Credit risk and liquidity risk are fundamental to the functioning and stability of Indian banks. While credit risk affects the quality of assets and profitability, liquidity risk determines the ability to meet obligations and sustain operations. The Indian banking sector has made significant strides in strengthening risk management practices through regulatory reforms, improved governance, and adoption of advanced methodologies.

Insurance Intermediaries, General Insurance, Health Insurance and Life Insurance

Insurance plays a critical role in financial stability by transferring risk from individuals and businesses to insurers. However, the insurance ecosystem does not function in isolation; it depends heavily on intermediaries who bridge the gap between insurers and policyholders. In India, the insurance sector, regulated by the Insurance Regulatory and Development Authority of India has evolved significantly with the expansion of general and health insurance segments. Understanding insurance intermediaries alongside general and health insurance provides a comprehensive view of how risk protection mechanisms operate in practice.

Insurance Intermediaries: Meaning and Role:

Insurance intermediaries are entities or individuals who facilitate the distribution, servicing, and management of insurance products. They act as a vital link between insurance companies and customers, ensuring that policies are properly understood, sold, and serviced throughout their lifecycle. Their role extends beyond mere sales; they provide advisory services, assist in claims processing, and help policyholders select suitable products based on their risk profile and financial capacity.

Intermediaries include insurance agents, brokers, corporate agents, web aggregators, and third-party administrators. Agents typically represent a single insurer, whereas brokers act independently and provide comparative advice across multiple insurers. Corporate agents, such as banks under bancassurance models, leverage their customer base to distribute insurance products. Web aggregators, enabled by digital transformation, allow customers to compare policies online, enhancing transparency and competition in the market.

The importance of intermediaries lies in reducing information asymmetry. Insurance products are often complex, involving legal and financial nuances. Intermediaries simplify these complexities, ensuring that customers make informed decisions. Additionally, they contribute to insurance penetration, particularly in rural and semi-urban areas where awareness is limited.

Regulatory Framework for Intermediaries: The functioning of insurance intermediaries in India is strictly governed by the Insurance Regulatory and Development Authority of India. The regulator prescribes licensing requirements, code of conduct, commission structures, and compliance norms to ensure ethical practices and consumer protection.

Intermediaries must meet eligibility criteria, undergo training, and pass certification examinations before obtaining licenses. Continuous professional development is also emphasized to keep intermediaries updated

with evolving products and regulations. The regulatory framework ensures accountability, minimizes mis-selling, and promotes transparency in dealings with customers.

Life Insurance-Concept and Coverage: Life insurance in India is a financial contract between an individual and an insurer, most prominently institutions like Life Insurance Corporation of India and private players such as HDFC Life Insurance Company, SBI Life Insurance etc. where the insurer promises to pay a specified sum to the nominee upon the policyholder's death or after a defined period in exchange for regular premiums. The concept is rooted in risk protection and long-term financial planning, offering security against uncertainties while also serving as a savings and investment tool through products like endowment plans, term insurance, and unit-linked insurance plans (ULIPs). In India, life insurance coverage typically includes death benefits, maturity benefits, tax advantages under prevailing laws, and optional riders such as critical illness or accidental death cover, thereby addressing both protection and wealth creation needs of individuals across diverse income groups.

General Insurance-Concept and Coverage: General insurance refers to non-life insurance products that provide protection against risks other than death. These policies typically have a fixed tenure, usually one year, and must be renewed periodically. General insurance covers a wide range of risks including property damage, liability, travel risks, and motor accidents.

The essence of general insurance lies in indemnity, meaning the insured is compensated for the actual loss suffered, subject to policy terms and conditions. Unlike life insurance, which has a savings or investment component, general insurance is purely risk-oriented. It ensures financial protection against unforeseen events that could otherwise lead to significant economic hardship.

Types of General Insurance: General insurance encompasses various categories, each designed to address specific risks. Motor insurance is one of the most prominent segments, mandated by law for vehicle owners. It covers damages to vehicles as well as third-party liabilities arising from accidents. Property insurance protects assets such as homes, factories, and commercial establishments against risks like fire, theft, and natural disasters.

Marine insurance facilitates international and domestic trade by covering goods in transit against loss or damage. Liability insurance protects businesses against legal liabilities arising from injuries, damages, or negligence. Travel insurance, another important segment, provides coverage for medical emergencies, trip cancellations, and loss of belongings during travel.

These diverse offerings highlight the versatility of general insurance in catering to both individual and corporate needs, thereby supporting economic activity and risk management.

Health Insurance-Importance and Scope: Health insurance has emerged as a critical component of financial planning, particularly in the context of rising healthcare costs. It provides coverage for medical expenses incurred due to illness, injury, or hospitalization. In India, the growing awareness of healthcare risks and the increasing burden of medical inflation have made health insurance indispensable.

Health insurance policies typically cover hospitalization expenses, pre and post hospitalization costs, day-care procedures, and sometimes preventive health check-ups. Advanced policies also include coverage for critical illnesses, maternity benefits, and outpatient treatments.

The importance of health insurance extends beyond financial protection. It ensures access to quality healthcare services without the burden of significant out-of-pocket expenses. This is particularly relevant in a country like India, where a large portion of healthcare expenditure is borne directly by individuals.

Role of Third-Party Administrators (TPAs): A unique feature of health insurance is the involvement of Third-Party Administrators (TPAs), who act as intermediaries between insurers and policyholders. TPAs handle claims processing, maintain hospital networks, and facilitate cashless treatment services.

Through tie-ups with hospitals, TPAs enable policyholders to receive treatment without immediate payment, as the insurer settles the bills directly with the hospital. This enhances customer convenience and ensures timely medical care. TPAs also assist in documentation, claim verification, and dispute resolution, thereby improving operational efficiency in the health insurance ecosystem.

Government Initiatives in Health Insurance: The Government of India has taken several initiatives to

expand health insurance coverage, particularly for economically weaker sections. One of the most notable schemes is Ayushman Bharat Pradhan Mantri Jan Arogya Yojana, which provides health coverage to millions of low-income families.

Such initiatives aim to achieve universal health coverage by reducing financial barriers to healthcare access. They also promote the development of healthcare infrastructure and encourage private sector participation in delivering medical services.

Challenges in General and Health Insurance: Despite significant growth, both general and health insurance sectors face several challenges. Low insurance penetration, particularly in rural areas, remains a concern. Lack of awareness and trust issues often hinder adoption. In health insurance, issues such as claim rejections, policy exclusions, and rising premiums create dissatisfaction among policyholders.

Fraudulent claims and moral hazard pose additional challenges, increasing costs for insurers and ultimately affecting premium pricing. Regulatory bodies continue to address these issues through stricter norms and technological interventions such as data analytics and digital platforms.

To Conclude: Insurance intermediaries, general insurance, and health insurance collectively form the backbone of the non-life insurance ecosystem. Intermediaries ensure accessibility and informed decision-making, while general insurance provides protection against diverse risks, and health insurance safeguards individuals against medical uncertainties. With strong regulatory oversight by the Insurance Regulatory and Development Authority of India and proactive government initiatives like Ayushman Bharat Pradhan Mantri Jan Arogya Yojana, the sector is poised for continued growth. However, addressing challenges related to awareness, affordability, and service quality will be essential for achieving deeper penetration and ensuring comprehensive risk coverage across the population.

Topic

Module 4:
Value Addition

ELECTIVES

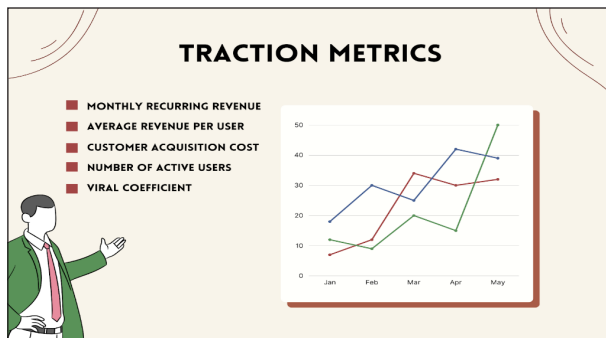
Paper-20C

Entrepreneurship
and Start Up (ENTS)

Startup Market Traction

Traction means progress and business growth. In startups, it often specifically refers to the speed and velocity at which your company is growing, and is seeing improvement in key metrics.

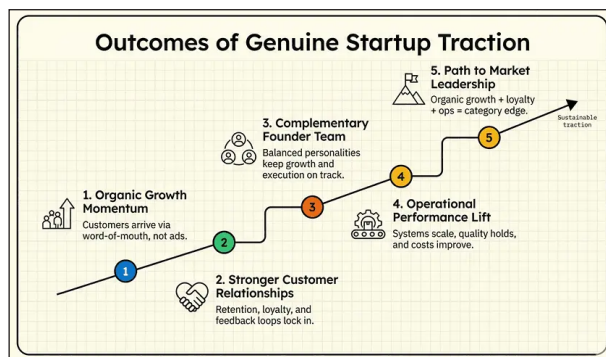
'Market traction' is the progress of a startup in terms of customer acquisition and revenue generation, demonstrating a startup's ability to attract traffic and convert users into paying customers. It is a key factor that potential investors consider when deciding whether to fund a startup, as it signifies progress and shows that the startup is actively working towards its goals.



Source: <https://www.growthmentor.com/glossary/startup-traction/>

Outcomes of Startup Traction

The primary outcome of startup traction is market validation, which shifts a business from an unproven concept into a viable, lower-risk entity with measurable operational momentum. Gaining traction acts as proof of demand. This structural shift alters the startup's relationship with investors, customers, and internal growth structures.



Source: <https://qubit.capital/blog/startup-success-signals-founder-evaluation>

Phases of Market Traction

Market traction is the measurable evidence of customer demand for a startup's product or service. Startups typically progress through four distinct phases of traction as they grow from a raw idea into a mature business.

Phase 1: Pre-Product/Market Fit (Discovery)

The focus is on validating the core problem and identifying the target customer.

- Goal: Find a repeatable problem worth solving.
- Metrics: Number of customer interviews, waitlist sign-ups, and landing page conversion rates.
- Traction Indicators: High engagement from early testers and qualitative validation of user pain points.

Phase 2: Product/Market Fit (Validation)

The focus shifts to proving that the product successfully solves the identified problem for a specific market.

- Goal: Build a product that customers actively use, love, and retain.
- Metrics: Customer retention rates, Net Promoter Score (NPS), and organic word-of-mouth growth.
- Traction Indicators: High user engagement, low churn, and customers complaining if the product disappears.

Phase 3: Channel/Market Fit (Scaling)

The focus is on finding scalable, cost-effective marketing and sales channels to reach a wider audience.

- Goal: Optimize unit economics for growth.
- Metrics: Customer Acquisition Cost (CAC), Lifetime Value (LTV), and monthly growth rate.
- Traction Indicators: LTV-to-CAC ratio greater than 3:1 and predictable sales pipelines.

Phase 4: Maturity and Dominance (Expansion)

The focus expands to defending market share, increasing efficiency, and expanding into new markets or product lines.

- Goal: Achieve profitability and market leadership.
- Metrics: Total revenue, market share percentage, and net revenue retention.
- Traction Indicators: Strong brand recognition, global expansion, and sustained profitability.

How to Measure Market Traction?

Following are the metrics for measuring market traction:

1. **Growth:** Growth is a fundamental indicator of a company's traction and success. By measuring factors such as revenue growth, user growth, and customer base expansion, startups and small businesses can assess their market position and performance. It's worth noting that consistent growth patterns signal a positive trajectory and can help attract potential investors.

2. **Burn rate:** The burn rate refers to the rate at which a company is spending its cash reserves, typically on a monthly basis. Monitoring the burn rate is especially crucial for startups and small businesses with limited financial resources, as it helps determine the company's financial runway and assess the sustainability of its business model. A lower burn rate indicates that a company is efficiently utilizing its resources, which can be an attractive factor for potential investors.
3. **Customer Acquisition Cost (CAC):** This is a measure of the average expense incurred to acquire a new customer. A low CAC should be the target for startups and small businesses, as it indicates efficient marketing and sales efforts. A lower CAC also means that the company can grow its customer base more cost-effectively, which is vital for scaling the business.
4. **Average Revenue Per User (ARPU):** The average revenue generated from each customer over a specific period—typically on a yearly basis—is what we refer to as Average Revenue Per User (ARPU). A high ARPU indicates effective monetization of the existing customer base. This means that the company has the potential to generate significant revenue as it scales. Tracking ARPU can help startups and small businesses identify opportunities for growth and optimize their pricing and product strategies.
5. **Retention:** This is a measure of the percentage of customers who continue to use a company's products or services over time. High retention rates indicate customer satisfaction and brand loyalty, which are essential for sustainable growth. Low retention indicates the opposite. Implementing strategies to improve customer satisfaction and retention can lead to increased revenue and long-term success.
6. **Marketing efficiency:** Marketing efficiency can be measured by analyzing metrics such as conversion rates, cost per lead, and return on marketing investment (ROMI). High marketing efficiency can help attract investors by demonstrating that the company can scale its customer base without significantly increasing marketing expenses. By regularly tracking and optimizing these metrics, companies can refine their marketing strategies to ensure maximum impact. Tools like *Google Analytics* and *HubSpot* are instrumental in this process. *Google Analytics* helps in identifying where potential customers might be dropping off in the sales funnel, offering insights that can improve conversion

rates. *HubSpot*, on the other hand, provides detailed reports on ROMI, helping businesses understand which campaigns are most cost-effective and where they should focus their resources.

7. **Pipeline:** This deals more with sales and may not always apply to every company as different companies have different business models. A sales pipeline represents the number of potential customers that a company has in various stages of the sales process. By monitoring each stage of the sales pipeline, startups and small businesses can gauge the effectiveness of their sales strategies and forecast potential revenue.

Examples of how market traction is achieved:

1. **Dropbox:** Gained massive traction through a viral, two-sided referral program that offered free cloud storage to both existing users and their invited friends, heavily reducing customer acquisition costs.
2. **Airbnb:** Overcame initial stagnation by dispatching professional photographers to improve listing visuals and leaning heavily into real, offline community-building to turn hosts into active advocates.
3. **Swiggy (India):** Scaled from zero orders to delivering hundreds of thousands of daily orders by tackling the trust deficit in local restaurant logistics, later expanding into hyperlocal AI-driven grocery delivery (*Instamart*).
4. **Spanx:** Achieved massive market penetration without traditional advertising. Founder Sara Blakely gained initial traction by putting her product in the hands of key influencers and relying purely on word-of-mouth and organic delight.

Barriers to Market Traction

Barriers to market traction prevent a company from converting initial interest into predictable, scalable growth. These obstacles generally fall into internal operational flaws, market dynamics, or customer psychology.

1. Internal and Product Barriers

- (i) **Feature Fatigue** Overcomplicating the product instead of solving one core problem exceptionally well.
- (ii) **Bad Pricing Strategy** Pricing too high for market entry, or too low to cover operational costs.
- (iii) **Onboarding Friction** Forcing users through complex setups, causing them to quit before seeing value.

- (iv) **Premature Scaling** Spending heavily on marketing before fixing underlying product bugs and retention.

2. Market and Competitive Barriers

(a) High Switching Costs

- **The Barrier** Customers refuse to leave competitors due to data loss, contract penalties, or retraining time.
- **The Impact** Even a superior product struggles to displace an entrenched incumbent.

(b) Incumbent Retaliation

- **The Barrier** Established market leaders use deep pockets to undercut prices or lock up distribution networks.
- **The Impact** Early-stage startups get priced out or starved of visibility before gaining momentum.

3. Fragmented Decision-Making

- **The Barrier** Enterprise B2B sales requiring approval from IT, legal, finance, and procurement departments.
- **The Impact** Sales cycles stretch across quarters, draining startup cash reserves before closing deals.

4. Customer and Behavioral Barriers

- **The “Status Quo” Bias** The natural human tendency to keep doing things the old way, even if inefficient.
- **Lack of Trust** New, unknown brands face skepticism regarding data security and long-term business survival.
- **Value Obscurity** Marketing that focuses on technical product features rather than clear, measurable customer benefits

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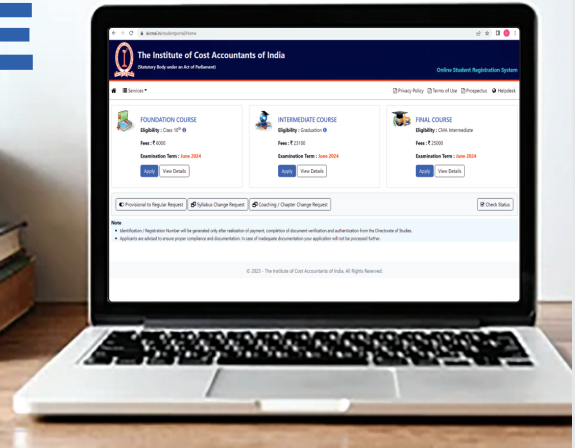


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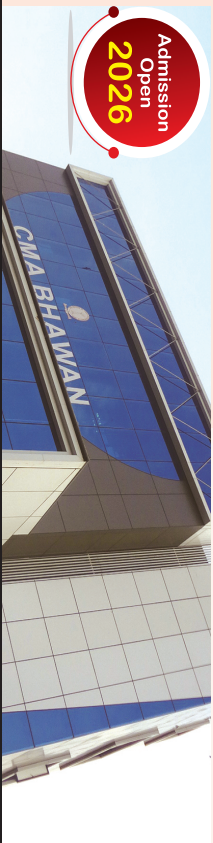
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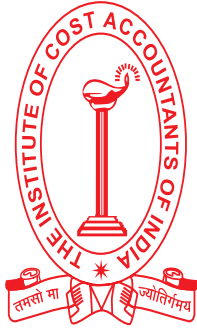
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