CMA INTERMEDIATE

VIVITSU

REVIEWER™

GROUP - I

BUSINESS LAWS AND ETHICS

5

APPLICABLE FOR JUNE '26 & DECEMBER '26

CHAPTER-WISE COMPILATION OF PYP + MQP + WORKBOOK + SM + MCQ BANK



REFERENCE TO ALL QUESTIONS



LAST DAY REVISION QUESTIONS MARKED



ABC ANALYSIS



QUICK RECAP OF IMPORTANT CONCEPTS

REVIEWER™

BUSINESS LAWS AND ETHICS

CMA Intermediate

1st Edition

Publisher:

VIVITSU
STRIVING TOWARDS KNOWLEDGE

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Reviewer™

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To the one who's not just dreaming CMA —
but becoming it

CMA

Write your name here

What Matters in CMA?

1 CONCEPTUAL CLARITY

Law isn't about memorising sections — it's about *understanding logic*, rights, and duties. When the "why" behind each provision is clear, writing answers becomes effortless. Use this *Reviewer to test your understanding* right after studying a concept. Apply the law, don't just read it.

2 CONSISTENCY

Law needs *regular revision*. Just a few case-based or objective questions daily can help retain legal language and presentation.

This *chapter-wise structure* helps you revise consistently and master each concept one at a time, without waiting for the full syllabus.

3 CONFIDENCE

CMA exams demand crystal clear clarity and understanding of Laws. Practising how to *apply concepts while writing answers* builds confidence.

This book gives you *ICMAI-style* questions and solving practice to help you get the right answer.

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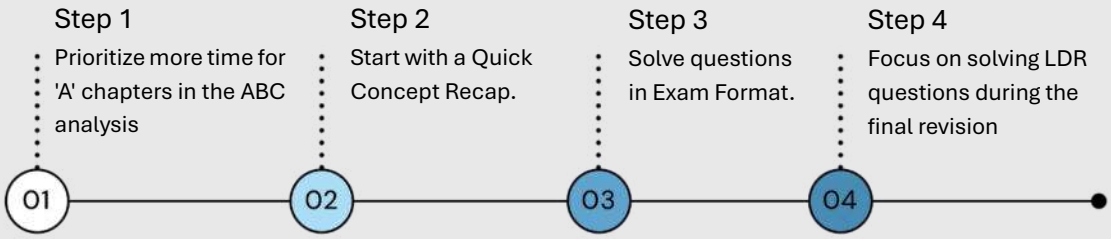
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Your journey from a CMA student to a professional, starts here. Scan to connect with us on LinkedIn for industry insights, career guidance, and expert articles.

Don't just study—study smart. Watch renowned professors solve the Vivitsu Reviewer with you on YouTube, breaking down every concept, question, and answer for better understanding and stronger retention.

STRATEGY TO SCORE

60+ in BUSINESS LAWS AND ETHICS



Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

(MQP[1] 7 Marks June'24, MQP[2] 7 Marks June'25, PYP 7 Marks Dec'19)

"Chapter V provides the welfare measures to be taken in a factory" examine the measures prescribed in the Factory's Act 1948 to be provided by the factory to their workmen.

Answer 1:

Chapter V provides the welfare measures to be taken in a factory for the workmen employed in the factory. The following are the welfare measures prescribed in the Act to be provided by the factory to their workmen:

- washing facilities;
- facilities for storing and drying clothing;
- facilities for sitting;
- first aid appliances;
- canteens;
- shelters, rest rooms and lunch rooms;
- [illegible]
- [illegible]

Includes 100% coverage of Work Book+ SM + MCQ Bank + MQP + PYP

→ [illegible]

use of male and female workers. The washing facility shall be conveniently accessible and shall be kept clean.

→ **Facilities for storing and drying clothing:**

Section 43 provides that the State Government may, in respect of any factory or class or description of factories, make rules requiring the provision therein of suitable places for keeping clothing not worn during working hours and for the drying of wet clothing.

→ **Facilities for sitting:**

Section 44 provides that suitable arrangements for sitting shall be provided and maintained for all workers obliged to work in a standing position, in order that they may take advantage of any opportunity for rest which may occur in the course of their work.

→ **First aid appliances:**

Section 45 provides that first aid appliances shall be provided and maintained so as to be readily accessible during all working hours or cupboards equipped with the prescribed contents and the number of such boxes or cupboards to be provided and maintained shall not be less than for every 150 workers at any one time in the factory. Each first aid box or cupboard shall be kept in charge of a separate reasonable person who holds a certificate in the first aid treatment recognized by the State Government and he should always be readily available during the working hours of the factory. In a factory where more than 500 workers are employed an ambulance of the prescribed size containing the prescribed equipment, nursing staff etc., shall be provided and made readily available at all times.

→ **Canteens:**

Section 46 provides that if more than 250 workers are employed in a factory a canteen or canteens shall be provided and maintained by the occupier for the user of the workers. The items of expenditure in the running of the canteen which are not to be taken into account in fixing the cost of foodstuffs shall be borne by the employer.

→ **Shelters, rest rooms and lunch rooms:**

Section 47 provides that if more than 150 workers are employed adequate and suitable shelters or rest rooms and a suitable lunch room with provision for drinking water shall be provided and maintained for the use of the workers. The same shall be sufficiently lighted and ventilated and shall be maintained in a cool and clean condition.

→ **Creches:**

Section 48 provides that if more than 30 women workers are employed there shall be provided and maintained a suitable room for the use of children under the age of 6 years of such women. The same shall be adequately ventilated and shall be maintained in clear and sanitary conditions and under the charge of women trained in the care of children and infants.

→ **Welfare Officers:**

LDR Questions	Q 4, Q 7, Q 12, Q 14, Q 18, Q 25, Q 27 MCQ- 6, 24, 30, 33, 35, 44, 61, 65, 69, 76

Last Day Revision Questions

Last Day Revision Questions mentioned right at the beginning of each chapter
Easy to find 1 day before the exam

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Sr.	Particulars	2023		2024		2025		Average	Page No.	IMP
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	SECTION A: COMMERCIAL LAWS									
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2	Indian Contracts Act, 1872	19	25	23	16	23	25	25	2.1 – 2.12	A
3	Sale of Goods Act, 1930	8	7	2	2	6	9	6.33	3.1 – 3.13	B
								4.5	4.1 – 4.14	A
								4.67	5.1 – 5.13	C
								6.83	6.1 – 6.12	
										C
7	Factories Act, 1948	1	-	9	2	2	2	2.67	7.1 – 7.6	B
8	Payment of Gratuity Act, 1972	5	16	7	7	-	-	5.83	8.1 – 8.7	C
9	Employees Provident Fund and Miscellaneous Provisions Act, 1952	3	-	-	2	-	7	2	9.1 – 9.5	
10	Employees State Insurance Act, 1948	5	-	-	-	9	-	2.33	10.1 – 10.4	C
11	The Code on Wages, 2019	10	9	2	7	7	7	7	11.1 – 11.5	A
	SECTION C: CORPORATE LAWS									
12	Companies Act, 2013	38	40	47	47	47	41	43.33	12.1 – 12.44	A
	SECTION D: BUSINESS ETHICS									
13	Business Ethics and Emotional Intelligence	14	18	18	18	18	16	17	13.1 – 13.11	A

Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

CHAPTER 7: FACTORIES ACT, 1948

C

LOK Questions | Q 1, Q 2
MCQ - 2, 8, 14, 20

QUICK REVIEW OF IMPORTANT CONCEPTS

Purpose: - A social welfare law enacted to protect factory workers and ensure proper health, safety, welfare and working conditions.

Applicability:

Applies across India to factories where:

- 10+ workers work with power, or
- 20+ workers work without power.

Important definitions:

- Factory: Place where manufacturing process is carried out.
- Worker: Any person employed in manufacturing or related work, with or without wages.
- Manufacturing process: Includes making, repairing, packing, cleaning, power generation, etc.
- Occupier: Person having ultimate control over factory operations.

Main objectives:

- Protect workers from exploitation
- Provide welfare facilities
- Ensure safe working environment
- Regulate working hours and employment conditions

Health provisions: Factories must maintain cleanliness, ventilation, lighting, drainage, drinking water, sanitation and waste disposal.

Safety provisions: Measures for machinery safety, fire prevention, protection from hazardous substances, dangerous fumes and accidents.

Welfare measures: Facilities like washing areas, seating, first aid, canteen (if 250+ workers), rest rooms (150+ workers), crèche (30+ women workers), and welfare officers (500+ workers).

Working hours:

- Maximum 9 hours per day and 48 hours per week
- Overtime allowed with double wages

Women and young persons:

- No child below 14 years allowed to work
- Adolescents need fitness certificate
- Women's working hours regulated for safety

Leave provisions: -Workers completing 240 days in a year get annual leave with wages.

Duties of occupier: - Ensure health, safety, welfare, maintain records, and comply with legal requirements.

Penalties: - Violation of the Act may lead to fines, imprisonment, or both for the occupier/manager.

Quick Review of Important Concepts

2. Contract Of Guarantee (Sec 126–147)

- Surety Promises To Discharge Liability Of Principal Debtor If He Defaults.
- Three Parties: Creditor, Principal Debtor, Surety.
- Liability Of Surety Is Co-Extensive With Principal Debtor.
- Includes Continuing Guarantee, Revocation, Discharge, And Rights Of Surety (Subrogation, Securities, Indemnity).

3. Bailment (Sec 148 Onwards)

- Delivery Of Goods By Bailor To Bailee
- Bailee Must Take Reasonable Care An
- Bailment Ends When Purpose Is Ach

4. Pledge

- Bailment Of Goods As Security For P ment of Debt Or Performance of Promise.
- Parties: Pawner And Pawnee.
- Pawnee Can Retain Goods, Sue, Expenses, Or Sell Them On Default After Notice.

5. Agency (Sec 182 Onwards)

- Agent Acts On Behalf Of Principal In Dealings with Third Parties.
- Authority May Be Express Or Implied; Consideration Not Necessary.
- Agent Must Follow Instructions, Act With Skill And Honesty, And Maintain Accounts.
- Principal Must Indemnify Agent For Lawful Acts.
- Agency Terminates By Revocation, Completion Of Work, Death, Insanity, Or Insolvency.

Topic-wise Break up

Question & Answer

Essential Elements of a Contract, Offer and Acceptance

Question 1 (MGP (1) 7 Marks Dec 20)

X offered to sell his house to Y for ₹50,000/-. Y accepted the offer by E-mail. On the next day Y sent a fax revoking the acceptance which X received X before the E-mail. Examine the validity of revocation. Inspect whether would it make any difference if both the E-mail of acceptance and the fax of revocation of acceptance reach X at the same time.

Answer 1

The problem is related with the communication and time of acceptance and its revocation. As per Section 4 of the Indian Contract Act, 1872, the communication of an acceptance is complete as against the acceptor when it comes to the knowledge of the proposer. An acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterward. Referring to the above provisions

(i) Yes, the revocation of acceptance by Y (the acceptor) is valid.

(ii) If X reads the Fax first, the acceptance stands revoked. If he opens the email first and reads it, revocation of acceptance is not possible as the contract has already been concluded.

Question 2 (MGP (1) 10 Marks June 21)

What are the essential elements of a contract?

Answer 2

Essential Elements of a valid contract

Section 10 provides that all agreements are contracts if they are made by the free consent of parties, competent to contract, for a lawful consideration and with a lawful object, and are not otherwise expressly declared to be void.

The following are the elements for a valid contract

- There shall be an offer or proposal by one party and acceptance of the proposal by the other party which results in an agreement.
- There shall be an intention to create legal relations or intent to legal consequences.
- The agreement shall be supported by lawful consideration.

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3	Sale of Goods Act, 1930	8	7	2	2	9	9	6.17	3.1 – 3.13	A
4	Negotiable Instruments Act, 1881	2	2	9	16	2	2	5.5	4.1 – 4.14	B
5	Indian Partnership Act, 1932	14	7	9	-	7	9	7.67	5.1 – 5.13	A
6	Limited Liability Partnership Act, 2008	-	2	-	9	2	4	2.83	6.1 – 6.12	C
	SECTION B: INDUSTRIAL LAWS									
7	Factories Act, 1948	1	-	9	2	2	2	2.67	7.1 – 7.6	C
8	Payment of Gratuity Act, 1972	5	16	7	7	-	-	5.83	8.1 – 8.7	B
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ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- **SM: ICMAI Study Material Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: INTRODUCTION TO LAW AND LEGAL SYSTEM IN INDIA

B

LDR Questions	Q 3 MCQ 3, 22, 30, 36

QUICK REVIEW OF IMPORTANT CONCEPTS

INTRODUCTION TO THE CONSTITUTION OF INDIA

Indian Constitution

- Lengthiest written Constitution.
- Mix of rigidity + flexibility.
- Federal system with unitary features.
- Parliamentary form of government.
- Independent judiciary.
- Includes emergency provisions for governance.

Preamble (Intro of Constitution)

- Adopted on 26 November 1949.
- India declared: Sovereign, Socialist, Secular, Democratic, Republic.
- Promises:
  - Justice – social, economic, political
  - Liberty – thought, expression, belief, faith, worship
  - Equality – status & opportunity
  - Fraternity – dignity, unity, integrity of nation

Purpose of Preamble

1. Shows source of Constitution (people of India).
2. States date of adoption.
3. Explains rights & freedoms aimed for citizens.
4. Declares nature of government.

Legal Position

- In Kesavananda Bharti v. State of Kerala: Preamble is part of Constitution.
- Helps in interpretation of Constitution.
- Not enforceable in courts.
- Not a source of legislative power and does not restrict legislature.

FUNDAMENTAL RIGHTS

Aim: Protect basic rights like life, liberty, speech, faith; called Magna Carta of India.

Right to Equality (Art 14–18):

- Equality before law; no discrimination (religion, race, caste, sex, place of birth).
- Equal opportunity in public employment; reservation allowed for backward classes, SC/ST.
- Untouchability abolished; titles abolished (except military/academic).

Right to Freedom (Art 19–22):

- 6 freedoms: speech & expression, assembly, association, movement, residence, profession.
- Subject to reasonable restrictions (security, public order, morality, etc.).
- Free & compulsory education for children 6–14 years (Art 21A).

Right Against Exploitation (Art 23–24):

- Prohibits human trafficking, forced labour, child labour in hazardous work.

Right to Freedom of Religion (Art 25–28):

- Freedom to profess, practice, propagate religion.

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- Religious groups can manage institutions.
- No tax or forced religious instruction by the State.

Cultural & Educational Rights (Art 29–30):
- Protect language, script, culture.
- Minorities can establish and manage educational institutions.

Right to Constitutional Remedies (Art 32):
- Citizens can approach Supreme Court.
- Court issues writs to protect Fundamental Rights.

SOURCES OF LAW

Main Sources

1. Custom | 2. Judicial Precedent | 3. Legislation

Custom
- Long-established, continuous practices accepted by society.
- Valid if ancient, continuous, reasonable, moral, and not against law.
- Types: General, Local, Conventional.
- Importance reduced today but still relevant in personal laws.

Judicial Precedent
- Decisions of higher courts binding on lower courts.
- Supreme Court binding on all; High Court within its state.
- Parts of judgment:
  - Ratio decidendi – binding principle.
  - Obiter dicta – persuasive remarks.

Legislation
- Most important modern source; law made by State.
- Types:
  - Primary legislation – laws by Parliament.
  - Subordinate legislation – made under authority (bye-laws, rules, delegated laws).
- Delegated legislation used due to lack of time, technical issues, emergencies.

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PRIMARY & SUBORDINATE LEGISLATION

Primary legislation
- Laws made directly by Parliament/Legislature.
- Main and supreme form of law (within Constitution).

Subordinate (delegated) legislation
- Made by executive/local authorities under powers given by legislature.
- Includes rules, regulations, bye-laws.
- Depends on parent law and must work within its limits.

Need
- Legislature sets policy; detailed rules made by experts/executive.
- Saves time, ensures flexibility, speed, and practical implementation.

Limit
- Cannot override, replace, or modify the main law.

LEGISLATIVES PROCESSES IN INDIA
- Laws regulate society; Constitution is the supreme law and basis of all legislation.
- Ministry identifies need, conducts studies, consults stakeholders/public, and prepares proposal.
- Draft Bill prepared with Ministry of Law & Justice and approved by Cabinet.
- Bill introduced in Parliament: Money Bill only in Lok Sabha; other Bills in either House.
- Bill must be passed by both Houses; joint sitting possible in case of disagreement.
- Special procedure for Money Bills (Rajya Sabha gives recommendations only).

- Sent to President for assent; may return once (except Money Bill).
- After assent, published in Gazette of India → becomes enforceable law.

LEGAL METHODS INCLUDING JUDICIAL ALTERNATIVE DISPUTE RESOLUTION (ADR) PROCESS IN INDIA

Ways to Resolve Disputes

- Through courts/tribunals (litigation) or ADR methods.
- Two types:
  - Adjudicative: decision by judge/arbitrator.
  - Consensual: parties settle with mutual agreement.

Litigation

- Formal court process; judgment binding; appeal allowed.
- Time-consuming and costly.

ADR (Alternative Dispute Resolution)

- Faster, flexible, private; used in civil, commercial, family disputes.
- Includes arbitration, conciliation, mediation, Lok Adalat.

Arbitration

- Dispute decided by arbitrator; decision binding.
- Requires written arbitration agreement; quicker and confidential.

Conciliation

- Neutral conciliator helps parties reach settlement.
- Voluntary, flexible; not binding until agreement signed.

Mediation

- Mediator facilitates negotiation; parties control outcome.
- Quick, confidential, preserves relationships.

Lok Adalat

- People's courts; settle disputes through compromise.
- Based on Legal Services Authorities Act & Sec 89 CPC.

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Question & Answers

1.2 Fundamental Rights

Question 1 (MQP [2] 8 Marks June'23)

Critically assess how the fundamental rights guarantee equality of citizens.

Answer 1

"Equality is a dynamic concept with many aspects and dimensions and it cannot be described, cabined and confined" within traditional limits from a positivistic point of view, equality is antithesis to arbitrariness.

In fact equality and arbitrariness are sworn enemies, one belongs to the rule of law in a republic while the other, to the whim and caprice of an absolute monarch. Where an act is arbitrary, it is implicit in it that it is unequal both according to political logic and constitutional law and is therefore violated of Article 14.

Article 15(1) provides that the state shall not discriminate against any citizen on grounds of only :-

- Religion
- Race
- Caste
- Sex
- Place of birth or
- Any of them

Article 15 (2) provides that :- No citizen shall be on above grounds, subject to any disability, liability, restriction or condition with regard to:

a) access to shops, public restaurants, hotels and places of public entertainment; or

b) the use of wells, tanks, bathing ghats, roads and places of public resort maintained wholly or partly out of State funds or dedicated to the use of the general public.

Exceptions :- Article 15 (3), (4) and (5) contain exceptions to the general principal laid down under Article 15 (1) and (2):-

Nothing in this article shall prevent the State from making any special provision for women and children.

Nothing in this article shall prevent the State from making any special provision for the advancement of any socially and educationally backward classes of citizens or for the Scheduled Castes.

Nothing in this article shall prevent the State from making any special provision, by law, for the advancement of any socially and educationally backward classes of citizens or for the Scheduled Castes or the Scheduled Tribes in so far as such special provisions relate to their admission to educational institutions including private educational institutions, whether aided or unaided by the State, other than the minority educational institution.

Article 16: Equality of opportunity in matters of public employment :-

- There shall be equality of opportunity for all citizens in matters relating to employment or appointment to any office under the State.
- No citizen shall, on grounds only of: religion, race, caste, sex, descent, place of birth, residence, or any of them, be ineligible for, or discriminated against in respect of, any employment or office under the State.

Exceptions:-

- Nothing in this article shall prevent Parliament from making any law prescribing, in regard to a class or classes of employment or appointment to an office under the Government of, or any local or other authority within, a State or Union territory, any requirement as to residence within that State or Union territory prior to such employment or appointment.
- Nothing in this article shall prevent the State from making any provision for the reservation of appointments or posts in favour of any backward class of citizens which, in the opinion of the State, is not adequately represented in the services under the State.
- Nothing in this article shall prevent the State from making any provision for reservation in matters of promotion, with consequential seniority, to any class or classes of posts in the services under the State in favour of the Scheduled Castes and the Scheduled Tribes which, in the opinion of the State, are not adequately represented in the services under the State.
- Nothing in this article shall affect the operation of any law which provides that the incumbent of an office in connection with the affairs of any religious or denominational institution or any member of the governing body thereof shall be a person professing a particular religion or belonging to a particular denomination.

Abolition of Untouchability "Untouchability" is abolished and its practice in any form is forbidden. The enforcement of any disability arising out of "untouchability" shall be an offence punishable in accordance with law. However, the term "Untouchability" is not defined under the Constitution. However, it refers to social disabilities imposed on certain class of person by reason of their birth in certain caste. However, it does not cover social boycott of a few individuals.

Abolition of Titles:

- No title, not being a military or academic distinction, shall be conferred by the State.
- No citizen of India shall accept any title from any foreign State.
- No person who is not a citizen of India shall, while he holds any office of profit or trust under the State, except without the consent of the President any title from any foreign State.
- No person holding any office of profit or trust under the State shall, without the consent of the President, accept any present, emolument, or office of any kind from or under any foreign State.

Article 17: abolishes the practice of untouchability in any form, making it an offense punishable by law.

Article 18: prohibits the State from conferring any titles other than military or academic distinctions, and the citizens of India cannot accept titles from a foreign state. Thus, Indian aristocratic titles and title of nobility conferred by the British have been abolished. However, military and academic distinctions can be conferred on the citizens of India.

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CHAPTER 2: INDIAN CONTRACTS ACT, 1872

A

LDR Questions	Q 4, Q 7, Q 12, Q 14, Q 18, Q 25, Q 27 MCQ- 6, 24, 30, 33, 35, 44, 61, 65, 69, 76

QUICK REVIEW OF IMPORTANT CONCEPTS

ESSENTIAL ELEMENTS OF A CONTRACT, OFFER AND ACCEPTANCE

Contracts

- Present In Daily Life (Buying Goods, Tickets, Online Orders).
- Define Rights & Duties of Parties; Breach Lead to Dispute Resolution.
- Governed By Indian Contract Act, 1872.
- Contract = Agreement Enforceable by Law (Sec 2h).

Agreement Vs Contract

- Agreement: Promise Between Parties.
- Void Contract: Not Enforceable.
- Contract: Agreement + Legal Enforceability.

Offer (Sec 2a)

- Proposal Showing Willingness to Enter Contract.
- Types: Specific Offer and General Offer.
- Must Be Clear, Definite, Communicated.
- Can Be Revoked Before Acceptance Is Complete.

Acceptance

- Assent To Offer; Must Be Absolute & Unqualified.
- Silence ≠ Acceptance.
- Can Be Oral/Written/Express/Implied.
- Can Be Revoked Before Communication Is Complete.

Essentials of A Valid Contract

1. Offer & Acceptance: Clear Proposal and Absolute Acceptance.
2. Intention To Create Legal Relations: Parties Must Intend Legal Binding.
3. Lawful Consideration: Something Valuable Exchanged.
4. Competent Parties: Major, Sound Mind, Not Disqualified by Law.
5. Free Consent: No Coercion, Fraud, Misrepresentation, Undue Influence, Mistake.
6. Lawful Object: Purpose Must Be Legal and Not Against Public Policy.
7. Certainty Of Terms: Terms Must Be Clear and Definite.
8. Possibility Of Performance: Contract Must Be Capable of Being Performed.
9. Not Expressly Void: Must Not Fall Under Void Agreements.

VOID AND VOIDABLE AGREEMENTS

Void Agreement (Sec 2g)

- Agreement Not Enforceable by Law.
- Main Types:
  - Unlawful Consideration/Object (Sec 24)
  - Restraint Of Marriage (Sec 26)
  - Restraint Of Legal Proceedings (Sec 28)
  - Wagering Agreements (Sec 30)
  - Without Consideration (Sec 25, With Few Exceptions)
  - Restraint Of Trade (Sec 27)
  - Uncertain Agreements (Sec 29)

Agreement Without Consideration (Sec 25) — Exceptions

- Written & Registered Due To Natural Love/Affection.
- Promise To Compensate Past Voluntary Act.
- Written Promise to Pay Time-Barred Debt.

Voidable Contract (Sec 2i)

- Enforceable At the Option of One Party Only.

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Key Void Agreements Explained

- Restraint Of Marriage: Restricting Marriage Is Void.
- Restraint Of Trade: Restricting Lawful Business Is Void (Except Sale of Goodwill).
- Restraint Of Legal Proceedings: Cannot Restrict Right to Go to Court (Except Arbitration).
- Uncertainty: Vague Agreements Void.
- Wagering: Betting Agreements Not Enforceable.

CONSIDERATION

- Consideration = Something Done, Promised, Or Abstained in Return far A Promise (Sec 2d).

Essential For a Valid Contract.

- Must Be at the Desire of the Promisor.
- Must Have Value; Can Be Act, Abstinence, Or Promise.
- Need Not Be Adequate but Must Be Real and Lawful.
- May Move From Promisee or Any Other Person.
- Can Be Past, Present, Or Future.

Rule: No Consideration = No Contract.

Exceptions (Sec 25)

- Natural Love & Affection (Written & Registered).
- Promise To Pay Time-Barred Debt.
- Compensation For Past Voluntary Act.
- Gifts, Agency, Charitable Subscriptions.

Unlawful Consideration Makes the Agreement Void.

LEGALITY OF OBJECT

- Object = Purpose of the Contract.
- Agreement Valid Only If Object and Consideration Are Lawful.

Unlawful If:

- Forbidden By Law.
- Causes Injury to Person/Property.
- Defeats Provisions of Law.
- Immoral Or Against Public Policy.
- Fraudulent.

→ Such Agreements Are Void.

E-CONTRACTS - ESSENTIAL REQUIREMENTS FOR ENFORCEABILITY

Electronic, Paperless Contracts Formed Online Through Software/Email.

- Same Essentials as Normal Contracts: Offer, Acceptance, Lawful Consideration, Intention, Competent Parties, Free Consent, Lawful Object, Certainty & Possibility of Performance.

Features

- Fast, Accurate, Reliable.
- Digital Signatures Used Instead of Manual Signing.
- Governed By Information Technology Act, 2000.
- Click-Wrap/Email Agreements Valid and Enforceable If Contract Conditions Are Met.

CONSTRAINTS TO ENFORCE CONTRACTUAL OBLIGATIONS

Who Are Competent to Contract? (Sec 11)

- Person Must Be:
  1. Major (18+, Or 21 If Guardian Appointed)
  2. Of Sound Mind
  3. Not Disqualified By Law

Not Competent

- Minor → Agreement Void Ab Initio; Liable Only for Necessities; Cannot Ratify.
- Unsound Mind → Must Understand Contract & Judge Its Effects at Times Of Agreement.
- Disqualified Persons → Alien Enemy, Foreign Sovereign, Convicts, Insolvents, Companies Beyond Powers.

Free Consent (Sec 13–14)

- Consent = Agreement on Same Thinking Same Sense.
- Free When Not Caused By: Coercion, Undue Influence, Fraud, Misrepresentation OR Mistake

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Coercion (Sec 15)

- Threat Or Act Forbidden by IPC Or Unlawful Detention of Property.
- Includes Threat to Commit Suicide.
- Contract Voidable at Option of Aggrieved Party.

Undue Influence (Sec 16)

- One Party Dominates Will of Other and Gains Unfair Advantage.
- Presumed In Fiduciary Relations (Parent-Child, Doctor-Patient, Etc.).
- Contract Voidable (Sec 19A).

Fraud (Sec 17)

- Intentional False Statement or Concealment.
- Silence Amounts to Fraud When Duty to Speak Exists.
- Contract Voidable.

Misrepresentation (Sec 18)

- False Statement Made Innocently.
- Contract Voidable, Unless Truth Could Be Discovered by Due Diligence.

Mistake (Sec 20–22)

- Bilateral Mistake of Fact → Agreement Void.
- Unilateral Mistake → Generally Not Void.
- Mistake Of Indian Law → No Excuse; Foreign Law → Treated As Fact.

QUASI-CONTRACTS, CONTINGENT CONTRACTS, TERMINATION OR DISCHARGE OF CONTRACTS

Quasi-Contract

- Not A Real Contract; Created by Law to Prevent Unjust Enrichment.
- No Offer or Agreement, But Obligation Imposed.
- Examples: Supply Of Necessaries, Payment by Mistake, Finder of Goods, Quantum Meruit.

Contingent Contract (Sec 31)

- Contract Dependent on Happening/Non-Happening Of A Future Uncertain Event.
- Enforceable Only When Event Happens; Void If Event Becomes Impossible.

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Discharge Of Contract

Contract Ends When Rights and Duties Terminate. Modes:

1. Performance – Actual or Attempted.
2. Agreement – Novation, Alteration, Rescission, Remission, Waiver.
3. Lapse Of Time – Limitation Period Ends.
4. Operation Of Law – Death, Insolvency, Merger, Material Alteration.
5. Impossibility Of Performance – Act Becomes Impossible.
6. Breach – Failure to Perform Obligations.

Termination

- Contract Can Be Ended by Proper Notice to Other Party Within Reasonable Time.

ASSIGNMENT OF CONTRACTUAL RIGHTS AND OBLIGATIONS

Assignment: Transfer Of Contractual Rights/Liabilities to A Third Party; Assignee Can Enforce the Contract.
Sec 37: Parties Must Perform Promises Unless Excused or assigned.
Offer Of Performance (Sec 38): If Promisor Offers Proper Performance and It Is Refused, He Is Not Liable. Conditions: Unconditional, Proper Time/Place, Reasonable Opportunity to Check Performance.

REPRESENTATIONS AND WARRANTIES

Representation- Statement Of Fact Made to Induce a Party to Enter A Contract.

Misrepresentation (Sec 18)

- False Statement Believed to Be True.
- Breach Of Duty Misleading Another.
- Causing Mistake About Subject Matter.

Effect (Sec 19)

- Contract Voidable at Option of Aggrieved Party.
- Not Voidable If Truth Could Be Discovered with Reasonable Diligence.

Indemnity (Sec 124)

- Promise To Protect Another from Loss Caused by Promisor or Third Party.

Rights Of Indemnity-Holder (Sec 125)

- Can Recover Damages, Legal Costs, And Sums Paid in Settlement.

IMPOSSIBILITY AND FORCE MAJEURE

Sec 32 — Contingent Contracts

- Enforceable Only When the Uncertain Future Event Happens.
- If Event Becomes Impossible → Contract Void.

Sec 36

- Agreement Based on Impossible Event → Void from Start.

Sec 56 — Impossibility

- Agreement To Do Impossible Act → Void.
- If Act Becomes Impossible/Unlawful Later → Contract Void.
- Promisor Must Compensate If He Knew the Act Was Impossible.

Examples

- Marriage If Impossible Condition Fulfilled → Void.
- War, Death, Insanity Making Performance Impossible → Contract Void.

TERMINATION BY NOVATION

Novation, Rescission & Alteration (Sec 62) If Parties Substitute, Cancel, Or Change A Contract → Original Contract Need Not Be Performed.

Novation

- Old Contract Replaced by New One (May Involve New Parties).
- Old Obligations End.

Rescission

- Contract Cancelled by Mutual Consent or By Aggrieved Party.
- Benefits Received Must Be Returned (Sec 64).
- Rightful Rescission → Compensation Allowed (Sec 75).

Alteration

- Change In Terms of Contract with Consent of Parties.

Communication (Sec 66)

- Rescission Communicated Like Offer/Acceptance.

TENDER PROCEDURE OF GOVERNMENT CONTRACT

- Tender = Invitation to Offer; Bids Are Offers.
- Acceptance Of Bid → Contract Formed.

Tender Document: Specifications, Time, Conditions.
Govt Procurement: Guided by GFR 2017 → Transparency, Fairness, Competition, Reasonable Pricing.

SPECIAL CONTRACTS - INDEMNITY AND GUARANTEE; BAILMENT AND PLEDGE, LAWS OF AGENCY

1. Contract Of Indemnity (Sec 124–125)

- One Party (Indemnifier) Promises to Compensate Another (Indemnity Holder) For Loss Caused by HiorOr A Third Party.
- Can Be Express Or Implied.
- Indemnity Holder Can Recover Damages, Legal Costs, And Settlement Amounts From Indemnifier.

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2. Contract Of Guarantee (Sec 126–147)

- Surety Promises To Discharge Liability Of Principal Debtor If He Defaults.
- Three Parties: Creditor, Principal Debtor, Surety.
- Liability Of Surety Is Co-Extensive With Principal Debtor.
- Includes Continuing Guarantee, Revocation, Discharge, And Rights Of Surety (Subrogation, Securities, Indemnity).

3. Bailment (Sec 148 Onwards)

- Delivery Of Goods By Bailor To Bailee For A Specific Purpose, To Be Returned After Completion.
- Bailee Must Take Reasonable Care And Use Goods As Per Terms.
- Bailment Ends When Purpose Is Achieved, Time Expires, Or by Misuse/Death.

4. Pledge

- Bailment Of Goods As Security For Repayment of Debt Or Performance of Promise.
- Parties: Pawner And Pawnee.
- Pawnee Can Retain Goods, Claim Expenses, Or Sell Them On Default After Notice.

5. Agency (Sec 182 Onwards)

- Agent Acts On Behalf Of Principal In Dealings with Third Parties.
- Authority May Be Express Or Implied; Consideration Not Necessary.
- Agent Must Follow Instructions, Act With Skill And Honesty, And Maintain Accounts.
- Principal Must Indemnify Agent For Lawful Acts.
- Agency Terminates By Revocation, Completion Of Work, Death, Insanity, Or Insolvency.

Question & Answer

2.1 Essential Elements of a Contract, Offer and Acceptance

Question 1 **(MQP [1] 7 Marks Dec'24)**

X offered to sell his house to Y for ₹50,000. Y accepted the offer by E-mail. On the next day Y sent a fax revoking the acceptance which X reached X before the E-mail. Examine the validity of revocation. Inspect whether would it make any difference if both the E-mail of acceptance and the fax of revocation of acceptance reach X at the same time.

Answer 1

The problem is related with the communication and time of acceptance and its revocation. As per Section 4 of the Indian Contract Act, 1872, the communication of an acceptance is complete as against the acceptor when it comes to the knowledge of the proposer. An acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterward. Referring to the above provisions

(i) Yes, the revocation of acceptance by Y (the acceptor) is valid.

(ii) If X reads the Fax first, the acceptance stands revoked. If he opens the email first and reads it, revocation of acceptance is not possible as the contract has already been concluded**.**

Question 2 **(MQP [1] 10 Marks June'23)**

What are the essential elements of a contract?

Answer2

Essential Elements of a valid contract

Section 10 provides that all agreements are contracts if they are made by the free consent of parties, competent to contract, for a lawful consideration and with a lawful object, and are not otherwise expressly declared to be void.

The following are the elements for a valid contract

- There shall be an offer or proposal by one party and acceptance of the proposal by the other party which results in an agreement.
- There shall be an intention to create legal relations or intent to legal consequences.
- The agreement shall be supported by lawful consideration.

- The parties to the contract shall be competent to contract.
- There shall be free consent between the parties to the contract.
- The object and consideration of the contract shall be legal and the same shall not be opposed to public policy.
- The terms of the consent shall be certain.
- The agreement is capable of being performed and it is not impossible of being performed.

Examples:

1. A proposes, by letter, to sell a house to B at a certain price. B accepts A's proposal by a letter sent by post. The communication of the acceptance is complete, as against A when the letter is posted and as against B, when the letter is received by A.
2. R offers M his house for sale at Rs1 Crore on 5th July, 2022. M agrees to buy the same at the given time and price asked by R. Both R and M are 40 years old and are of sane mind.
   This is a contract as per Section 10 of the Indian Contract Act, 1872.

Question 3 **(SM, MQP[2] 7 Marks Dec'24)**

Analyze the conditions of enforceability of the standard form of contracts.

Answer 3

A standard form contract is a pre-drafted contract containing set terms and conditions, offered by one party on a "take it or leave it" basis, without negotiation or customization to the transaction or parties involved. They are also known as contracts of adhesion, signifying the weaker party simply adheres to the terms presented with little choice, or boilerplate contracts, containing standard boilerplate terms. Businesses use standard forms to maximize efficiency in mass contracting. However, they limit the free exercise of contracting powers and are prone to overreach.

Under section 10 of the Indian Contract Act, 1872, standard forms constitute valid contracts. The parties objectively manifest assent through signature or conduct. However, additional requirements may apply:

1. Reasonable notice of terms – Unexpected or surprising terms may be unenforceable if the adherent lacks reasonable notice.
2. Incorporation into contract – Terms must be incorporated into the contract rather than merely stated on an ancillary document like a receipt.
3. Absence of misrepresentation/fraud – If there is misrepresentation or fraud regarding the terms of the contract, this will vitiate consent and render the contract voidable at the instance of the affected party. This aligns with the Indian Contract Act, which makes a contract voidable if consent is obtained by misrepresentation or fraud (Section 19 and 17 of the Indian Contract Act).
4. Fundamental breach – Exclusion clauses cannot protect a party committing a fundamental breach. This means that if one party commits a major violation of the contract's terms, an exclusion clause (such as a clause that limits liability for breach) will not protect them.
5. Contra proferentem – The contra proferentem rule is applicable in interpreting ambiguous terms in a contract. This rule dictates that any ambiguity in the terms of a contract will be interpreted against the party that drafted the contract, typically the proferens (the offeror).
6. Contemporaneous notice – Notice of terms must be given at the time of contract formation.

These requirements flowing from fairness and public policy principles can limit oppressive terms in standard form contracts under Indian law.

Question 4 **(MQP [2] 7 Marks Dec'23)** LDR

Analyze the legal provisions relating to competence of parties to enter into a valid contract under "The Indian Contract Act 1872".

Answer 4

The law of Contract in India is contained in the Indian Contract Act,1872 and it is mainly based on English common law consisting of judicial precedents. The Act ensures that the rights and obligations arising out of the contract are honoured and the promises are kept. It provides for the appropriate legal remedies to the aggrieved party in case of breach of the contract.

(i) Proposal (Section 2 (a)): When one person signifies to another his willingness to do or to abstain from doing anything to obtain the assent of that other to such act or abstinence, he is said to make a proposal

(ii) (ii) Agreement (Section 2(e)): Every promise and every set of promises forming consideration for each other is called an agreement

(iii) Contract (Section 2(h)) →An agreement enforceable by Law[iii]: Offer + Acceptance = Promise Promise + consideration = agreement Agreement + enforceability = Contract.

Every contract is an agreement, but every agreement is not a contract. An agreement becomes a contract when the essentials mentioned in Section 10 and other sections of the Indian Contract Act,1872 are fulfilled, as then only an agreement becomes enforceable by law and the law will protect the parties to the contract against any breach of the terms and conditions of such contract.

Essentials of a valid contract

Section 10 of the Act lays down the following essentials which are required to make an agreement into a valid contract.

1. They are made with free consent
2. Made between two or more competent parties.
3. Made for lawful consideration.
4. Made with a lawful object.
5. Not expressly declared to be void.

Some other essentials of a valid contract are:

1. **Offer and acceptance: -** The first essential for creating a contract is an offer. The person making the proposal is called an offeror or promisor and the person accepting the offer is called the offeree or promisee.
   - **Essentials of a valid offer:**
     - ➤ An offeror expresses his willingness to do or abstain from doing with a view to obtain the assent of the offeree
     - ➤ Intention to create a legal relation.
     - ➤ A valid offer could be in expressed form i.e in words either written or spoken or implied form i.e by conduct.
     - ➤ The terms of the offer must be certain and not ambiguous.
     - ➤ The offer must be clearly communicated to the other party
     - ➤ When the proposal is accepted by the offeree it results in an agreement. Acceptance is the assent given to the proposal.
   - **Essentials of a valid acceptance: -**
     - ➤ The acceptance must be communicated to the offeror by the offeree - Communication of acceptance by post, Communication of acceptance by telephone
   - The acceptance must be unconditional and absolute

The contract is completed when the offeror had heard the acceptance at his end rather than when the acceptor has spoken the words of acceptance unlike the case when the letter of acceptance is posted and it gets completed the moment it is posted.

2. **Intention to create a legal obligation:** - Agreements made by the parties without an intention to create a legal obligation are not enforceable by law. The law presumes that the parties in case of domestic and social agreements do not have an intention to create a legal obligation.
3. **The terms contained in an agreement must not be vague or uncertain:** - Lawful Consideration, Lawful Object, Free consent, Two or more competent parties, Terms of the agreement must be certain.
4. **The agreement must be capable of performance:** - According to Section 56 of the Contract Act, any agreement made to do an impossible or unlawful act is itself a void agreement.
   When a contract is made and afterward, it becomes impossible or unlawful to perform due to some reason which the promisor could not prevent, the contract becomes void. Here, the section provides for the subsequent or supervening impossibility which made the performance of the contract impossible. This is also known as the Doctrine of frustration.
5. **Other legal formalities:** - A contract can be in written form or can be entered orally. In certain cases, it is given under the Act that the contract must be in writing, registered or there must be witnesses, etc. All these legal formalities also decide the validity of a contract.

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CHAPTER 7: FACTORIES ACT, 1948

C

LDR Questions	Q 1, Q 2 MCQ - 2, 8, 16, 20

QUICK REVIEW OF IMPORTANT CONCEPTS

Purpose: - A social welfare law enacted to protect factory workers and ensure proper health, safety, welfare and working conditions.

Applicability:

Applies across India to factories where:

- 10+ workers work with power, or
- 20+ workers work without power.

Important definitions:

- Factory: Place where manufacturing process is carried out.
- Worker: Any person employed in manufacturing or related work, with or without wages.
- Manufacturing process: Includes making, repairing, packing, cleaning, power generation, etc.
- Occupier: Person having ultimate control over factory operations.

Main objectives:

- Protect workers from exploitation
- Provide welfare facilities
- Ensure safe working environment
- Regulate working hours and employment conditions

Health provisions-Factories must maintain cleanliness, proper ventilation, safe temperature, lighting, drinking water, sanitation and waste disposal.

Safety provisions - Measures for machinery safety, fire prevention, protection from hazardous substances, dangerous fumes and accidents.

Welfare measures - Facilities like washing areas, seating, first aid, canteen (if 250+ workers), rest rooms (150+ workers), crèche (30+ women workers), and welfare officers (500+ workers).

Working hours:

- Maximum 9 hours per day and 48 hours per week
- Overtime allowed with double wages
- Rest interval compulsory

Women and young persons:

- No child below 14 years allowed to work
- Women's working hours regulated for safety
- Adolescents need fitness certificate

Leave provisions: -Workers completing 240 days in a year get annual leave with wages.

Duties of occupier:- Ensure health, safety, welfare, maintain records, and comply with legal requirements.

Penalties: - Violation of the Act may lead to fines, imprisonment, or both for the occupier/manager.

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Question & Answers

Question 1 **(MQP[1] 7 Marks June'24, MQP[2] 7 Marks June'25, PYP 7 Marks Dec'19)** LDR

"Chapter V provides the welfare measures to be taken in a factory"-examine the measures prescribed in the Factory's Act 1948 to be provided by the factory to their workmen.

Answer 1

Chapter V provides the welfare measures to be taken in a factory for the workmen employed in the factory.
The following are the welfare measures prescribed in the Act to be provided by the factory to their workmen-

- washing facilities;
- facilities for storing and drying clothing;
- facilities for sitting;
- first aid appliances;
- canteens;
- shelters, rest rooms and lunch rooms;
- creches;
- appointment of welfare officers.

→ **Washing facilities:**

Section 42 provides that in every factory adequate and suitable facilities for washing shall be provided and maintained for the use of the workers. Separate and adequately screened facilities shall be provided for the use of male and female workers. The washing facility shall be conveniently accessible and shall be kept clean.

→ **Facilities for storing and drying clothing:**

Section 43 provides that the State Government may, in respect of any factory or class or description of factories, make rules requiring the provision therein of suitable places for keeping clothing not worn during working hours and for the drying of wet clothing.

→ **Facilities for sitting:**

Section 44 provides that suitable arrangements for sitting shall be provided and maintained for all workers obliged to work in a standing position, in order that they make take advantage of any opportunities for rest which may occur in the course of their work.

→ **First aid appliances:**

Section 45 provides that first aid appliances shall be provided and maintained so as to be readily accessible during all working hours or cupboards equipped with the prescribed contents and the number of such boxes or cupboards to be provided and maintained shall not be less than for every 150 workers at any one time in the factory. Each first aid box or cupboard shall be kept in charge of a separate reasonable person who holds a certificate in the first aid treatment recognized by the State Government and he should always be readily available during the working hours of the factory. I n a factory where more than 500 workers are employed an ambulance of the prescribed size containing the prescribed equipment, nursing staff etc., shall be provided and made readily available at all times.

→ **Canteens:**

Section 46 provides that if more than 250 workers are employed in a factory a canteen or canteens shall be provided and maintained by the occupier for the user of the workers. The items of expenditure in the running of the canteen which are not to be taken into account in fixing the cost of foodstuffs shall be borne by the employer.

→ **Shelters, rest rooms and lunch rooms:**

Section 47 provides that if more than 150 workers are employed adequate and suitable shelters or rest rooms and a suitable lunch room with provision for drinking water shall be provided and maintained for the use of the workers. The same shall be sufficiently lighted and ventilated and shall be maintained in a cool and clean condition.

→ **Creches:**

Section 48 provides that if more than 30 women workers are employed there shall be provided and maintained a suitable room for the use of children under the age of 6 years of such women. The same shall be adequately ventilated and shall be maintained in clear and sanitary conditions and under the charge of women trained in the care of children and infants.

→ **Welfare Officers:**

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To the one who's not just dreaming CMA —
but becoming it

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1 CONCEPTUAL CLARITY

Accounting is not just about ***preparing statements*** — it's about interpreting what the numbers actually mean. Strong understanding of financial concepts helps you make better decisions and spot errors easily
Use this reviewer ***after each topic*** to test clarity of concepts. Focus on understanding the logic, not just memorising the format.

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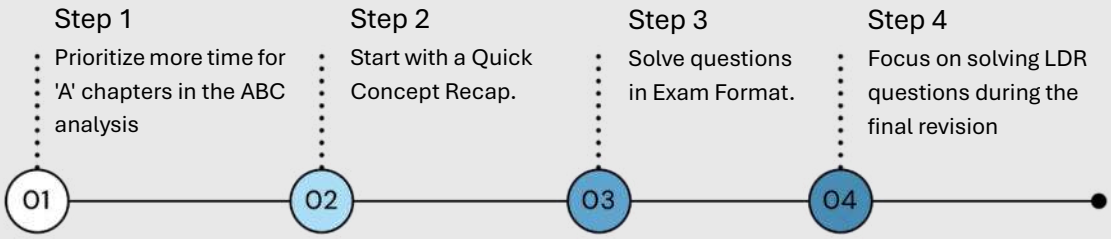
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STRATEGY TO SCORE

60+ in FINANCIAL ACCOUNTING



Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

Topic-wise Break up

Accounting Principles, Concepts and Conventions

Question 3 (MQP [1] 5 Marks Dec'24, PYP 5 Marks Dec'17)

Includes 100% coverage of Work Book+ SM + MCQ Bank + MQP + PYP

LDR Questions	Q 7, Q 20, Q 24, Q 31, Q 41, Q 43, Q 55 MCQ – 3, 18, 29, 45, 54, 61, 72

QUICK REVISION OF IMPORTANT CONCEPTS

FOUR FRAMEWORKS OF ACCOUNTING

Meaning: Framework = set of [illegible] for recognition, measurement, presentation & disclosure in financial statements.

Four Pillars of Accounting Framework:

1. Conceptual Framework: Objectives & fundamentals of financial reporting; guides recognition, measurement and qualitative features.
2. Legal Framework: Laws governing entities (Companies Act, Banking Regulation Act, etc.) and accounting requirements.
3. Institutional Framework: Standards issued by bodies like ICAI, Ind AS, Cost Accounting Standards for consolidation.
4. Regulatory [illegible]

Purpose: Pro[illegible]

ACCOUNTING

GAAP (Gener[illegible]

- Common[illegible]
- Ensure [illegible]
- In India:[illegible]

Accounting Principles:

- Basic rules guiding recording & reporting.
- Must be objective, reliable, [illegible] and understandable.
- Divided into: (A) Concepts and (B) Conventions.

Accounting Concepts (Basic Assumptions)

- Entity – Business separate from owner.
- Going Concern – Business continues indefinitely.
- Periodicity – Life divided into accounting periods.
- Money Measurement – Record only monetary transactions.
- Accrual – Record income & expenses when earned/incurred.
- Dual Aspect – Every transaction has two effects (Assets = Liabilities + Capital).
- Matching – Match revenue with related expenses.
- Realisation – Recognize revenue when realized.
- Cost – Record assets at historical cost.

Accounting Conventions (Practical Guidelines)

- Conservatism – Provide for losses, not anticipated gains.
- Consistency – Follow same methods over time.
- Materiality – Record significant information only.
- Full Disclosure – Disclose all material facts.

CAPITAL AND REVENUE TRANSACTIONS

Capital Expenditure

- Benefit > one accounting period; non-recurring.
- Shown in Balance Sheet; depreciated over time.
- For acquiring/improving fixed assets or earning capacity.
- Ex: Purchase of machinery, building, installation cost.

Last Day Revision Questions

Last Day Revision Questions mentioned right at the beginning of each chapter
Easy to find 1 day before the exam

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Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

QUICK REVIEW OF IMPORTANT CONCEPTS

MEANING OF DEPARTMENTAL ACCOUNTS

- Large organisations divide activities into departments to measure performance separately.
- Separate Trading A/c → P&L A/c prepared for each department.
- Common expenses/incomes are apportioned on logical basis.
- Inter-department transfers treated as sales for one & purchases for another.
- If transfer at profit and stock remains unsold → Provision for Unrealised Profit required.

1) Departmental Trading Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Opening Stock	xx	xx	By Sales	xx	xx
To Purchases	xx	xx	By Transfer (to other dept)	xx	xx
To Wages	xx	xx	By Closing Stock	xx	xx
To Direct Expenses	xx	xx			
To Gross Profit c/d	xx	xx			

2) Departmental Profit & Loss Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Rent	xx	xx	[illegible]	[illegible]	[illegible]
To Salaries	xx	xx	[illegible]	[illegible]	[illegible]
To Depreciation	xx	xx			
To Other Indirect Expenses	xx	xx			
To Net Profit → General P&L	xx	xx			

3) General Profit & Loss Account

Dr.	Amount	Cr.	Amount
To General Expenses	xx		
To Financial Expenses	xx		
To Provision for Unrealised Profit	xx		
To Net Profit → Capital	xx		

4) Transferor Department A/c

Dr.	Amount	Cr.	Amount
To Transferee (Dept (returns)	xx	By Transferee (Dept (goods transferred)	xx

5) Transferee Department A/c

Dr.	Amount	Cr.	Amount
To Transferor (Dept (goods received)	xx	By Transferor (Dept (returns)	xx

6) Provision for Unrealised Profit A/c

Dr.	Amount	Cr.	Amount
To General P&L (opening reversal)	xx	By General P&L (creation on closing stock)	xx

7) Working Note — Provision for Unrealised Profit

Particulars	Amount
Closing stock from transferor dept	xx
× GP rate	xx
Provision for Unrealised Profit	xx

Quick Review of Important Concepts

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ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- **SM: ICMAI Study Material Questions**
- **WB: ICMAI Work Book Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: ACCOUNTING FUNDAMENTALS

A

LDR Questions	Q 7, Q 20, Q 24, Q 31, Q 41, Q 43, Q 55 MCQ – 3, 18, 29, 45, 54, 61, 72

QUICK REVIEW OF IMPORTANT CONCEPTS

FOUR FRAMEWORKS OF ACCOUNTING

Meaning: Framework = set of rules/guidelines for recognition, measurement, presentation & disclosure in financial statements.

Four Pillars of Accounting Framework:

1. Conceptual Framework: Objectives & fundamentals of financial reporting; guides recognition, measurement and qualitative features.
2. Legal Framework: Laws governing entities (Companies Act, Banking Regulation Act, etc.) and accounting requirements.
3. Institutional Framework: Standards issued by bodies like ICAI, Ind AS, Cost Accounting Standards for consistency.
4. Regulatory Framework: Rules by regulators (RBI, SEBI, IRDAI, etc.) affecting accounting & reporting.

Purpose: Provides base for corporate accounting, ensures uniformity, reliability and better financial reporting.

ACCOUNTING PRINCIPLES, CONCEPTS AND CONVENTIONS

GAAP (Generally Accepted Accounting Principles):

- Common set of rules, standards & procedures for recording and reporting financial transactions.
- Ensure uniformity, consistency and comparability of financial statements.
- In India: Based on ICAI standards + applicable laws (e.g., Companies Act, 2013).

Accounting Principles:

- Basic rules guiding recording & reporting.
- Must be objective, reliable, feasible and understandable.
- Divided into: (A) Concepts and (B) Conventions.

Accounting Concepts (Basic Assumptions)

- Entity – Business separate from owner.
- Going Concern – Business continues indefinitely.
- Periodicity – Life divided into accounting periods.
- Money Measurement – Record only monetary transactions.
- Accrual – Record income & expenses when earned/incurred.
- Dual Aspect – Every transaction has two effects (Assets = Liabilities + Capital).
- Matching – Match revenue with related expenses.
- Realisation – Recognize revenue when realized.
- Cost – Record assets at historical cost.

Accounting Conventions (Practical Guidelines)

- Conservatism – Provide for losses, not anticipated gains.
- Consistency – Follow same methods over time.
- Materiality – Record significant information only.
- Full Disclosure – Disclose all material facts.

CAPITAL AND REVENUE TRANSACTIONS

Capital Expenditure

- Benefit > one accounting period; non-recurring.
- Shown in Balance Sheet; depreciated over time.
- For acquiring/improving fixed assets or earning capacity.
- Ex: Purchase of machinery, building, installation cost.

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Revenue Expenditure

- Benefit for current period; recurring.
- Charged to Income Statement.
- For day-to-day operations.
- Ex: Salaries, rent, repairs, depreciation.

Deferred Revenue Expenditure -Heavy expense with future benefit; partly written off over time (now mostly treated as revenue as per AS-26).

Capital vs Revenue Receipts

- Capital receipts: Non-operating, non-recurring; shown in Balance Sheet (e.g., issue of shares).
- Revenue receipts: From regular operations; credited to Income Statement (e.g., sales).

Capital vs Revenue Profit/Loss

- Capital profit/loss: From non-operating activities; usually transferred to capital reserve.
- Revenue profit/loss: From normal business operations; shown in Income Statement.

ACCOUNTING CYCLE, ANALYSIS OF TRANSACTIONS ETC

Accounting Cycle: - Process of identifying, recording, classifying and reporting transactions in financial statements.

Steps:

1. Identify transactions
2. Journalise (Books of original entry)
3. Post to ledger
4. Trial balance
5. Adjustment entries
6. Adjusted trial balance
7. Prepare financial statements
8. Close books

Transactions: - Events with monetary impact causing change in assets, liabilities, capital, income or expenses.

Chart of Accounts: - List of all ledger accounts with codes; helps classification and easy reporting.

Accounting Equation:

- Assets = Liabilities + Equity
- Foundation of double-entry system.

Double Entry System:

- Every transaction has two aspects (Debit & Credit).
- Total debits = total credits.
- Journal → Ledger → Trial Balance → Financial Statements.

Books of Original Entry:- Journals/subsidiary books where transactions are first recorded chronologically.

Finalisation:

- Nominal accounts → Income Statement.
- Real & personal accounts → Balance Sheet (financial position).

JOURNAL & LEDGER

Journal (Book of Original Entry)

- First record of transactions in chronological order.
- Process = *Journalising*; entry = *Journal Entry* with narration.
- Based on source documents (invoice, debit/credit note, etc.).
- Types:
  - Special Journals (Cash Book, Purchase Book, Sales Book, Returns, Bills Receivable/Payable).
  - General Journal (Journal Proper) – for adjustments, rectifications, asset purchase/sale, opening & closing entries.

Rules of Journalising (Golden Rules):

- Personal A/c → Debit receiver, Credit giver
- Real A/c → Debit what comes in, Credit what goes out
- Nominal A/c → Debit expenses/losses, Credit incomes/gains

(Or Accounting Equation approach)

Functions: Chronological record, analysis of debit/credit, legal evidence.

6. Provision for Discount on Creditors

Expected discount received from creditors; treated as anticipated gain.

- Provision for Discount on Creditors A/c Dr → P&L A/c
  Shown as deduction from creditors in Balance Sheet.(Generally avoided due to prudence concept.)

Questions & Answers

1.1 Four Frameworks of Accounting

Question 1 **(PYP 3 Marks June'23)**

The conceptual framework is a body of interrelated objectives and fundamentals. Explain.

Answer 1

Conceptual framework:

The conceptual framework is a body of Interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial Reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported. It states the objectives of general purpose financial Reporting and the information provided by it. Conceptual framework also guides on the qualitative characteristics that the financial statements must possess. Conceptual framework also plays an important role in the development of institutional framework and assists preparers to develop consistent accounting policies when no accounting standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy.

1.2 Accounting Principles, Concepts and Conventions

Question 2 **(PYP 5 Marks Dec'23)**

Explain the following accounting conventions:

(i) Full Disclosure (ii) Consistency (iii) Materiality (iv) Conservatism

Answer 2

(i) According to the Convention of Full Disclosure, all significant information relating to the economic affairs of the entity should be reported in the financial statements in an understandable manner.

(ii) According to the Convention of Consistency, accounting practices once selected and adopted should be consistently applied year after year.

(iii) According to the Convention of Materiality, a transaction should be reported in the financial statements on the basis of its materiality. An item is material if it can influence the decision of the user.

(iv) According to the Convention of Conservatism, anticipated losses should be accounted for while anticipated incomes should not be accounted.

Question 3 **(MQP [1] 5 Marks Dec'24, PYP 5 Marks Dec'17)**

Which factors are governing the selection the application of accounting policies.

Or

Methods/Criteria to the selection and application of Accounting policies.

Answer 3

The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date. The major considerations governing the selection and application of accounting policies are:

a. Prudence In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. Substance over Form The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.
c. Materiality Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

1.3 Capital and Revenue Transactions

Question 4 (WB)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Freight on new machine ₹ 8,000 and its installation cost ₹ 4,000.
(b) Old Furniture sold for ₹ 1400 (Cost ₹ 8,000 but written down value ₹ 1,800)
(c) ₹ 8,000 spent to double the production capacity of a machine.
(d) Compensation paid to a retrenched employee ₹ 4,000
(e) ₹ 2,00,000, spent for increasing the sitting capacity of a cinema hall and ₹ 10,000 paid for painting it.

Answer 4

(a) Both ₹ 8,000 and ₹ 4,000 are capital expenditure because these are incidental to the acquisition and starting of operation of the machine, the earning capacity of the business will increase.
(b) The cost price need not be considered, the loss on sale ₹ 400 (₹ 1800 - ₹ 1400) is a revenue loss to be debited to the Profit/Loss Account. The sale price received ₹ 1400 is a capital receipt.
(c) It is a capital expenditure as it has resulted into a permanent improvement of the working potential of the machine.
(d) It is a revenue expenditure as it has been paid in lieu of salary for the period of notice before retrenchment. But its nature is special, it is not a regular expense. So it should be treated us a deferred revenue expenditure to be charged against profits of more than one year.
(e) Increase of sitting capacity is a permanent improvement of the cinema hall.it will help to increase the earning capacity. So, it is a capital expenditure. Cost of painting is a normal and regular expense. It is a revenue expense.

Question 5 (WB)

State with reasons the nature of expenditure or receipts in each of the following cases:

(a) Employees State Insurance Premium ₹ 1600
(b) Expenses incurred in connection with obtaining licence, for starting the factory ₹ 20,000.
(c) Rings and Pistons of an Engine changed at a cost of ₹ 10,000 to get full efficiency.
(d) A factory shed was constructed at a cost of ₹ 4,00,000. ₹ 20,000 had been incurred to construct temporary huts for storing building materials.
(e) A firm of builders spent ₹ 8,00,000 for purchasing a plot of land erected its own office over 1/4th of the site. The remaining area was developed for sale to the public.

Answer 5

(a) It is a regular or recurring payment – a periodical cost.it is a revenue expense.
(b) It is a capital expenditure. It will create a right to carry on the business over a number of years.
(c) The change of ring and pistons will not enhance the capacity of the engine. It will restore the lost efficiency as no additional benefit will be enjoyed, the cost related to the change is a revenue expense.
(d) Both ₹ 4,00,000 and ₹ 20,000 should be treated as capital expenditure. The first is paid to acquire an asset and the second is incidental to the acquisition.

¼ the of cost of land or ₹ 2,00,000 is a capital expenditure.it helps to acquire office premises, a fixed asset. The rest ₹ 6,00,000 is a revenue expenditure as the trading activities of the builders, firm include buying and selling of lands.

Question 6 (PYP 7 Marks Dec'24)

State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a license for starting the factory were ₹10,000.
(ii) ₹1,000 paid for removal of stock to a new site.
(iii) Rings and Pistons of an engine were changed at a cost of ₹5,000 to get full efficiency.

(iv) ₹2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ₹10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ₹1,00,000. A sum of ₹5,000 had been incurred for the construction of the temporary huts for storing building materials.

(vii) A pair of bullocks of ₹50,000 was killed by lightning.

Answer 6

(i) Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(ii) Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.

(iii) Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(iv) Revenue Expenditure.

(v) Revenue Expenditure. [As per As-26]

(vi) Both are Capital Expenditure

(vii) Capital loss. Live stock is a fixed asset.

Question 7 **(MQP[2] 7 Marks June'23,MQP[1] 7 Marks Dec'25)** **LDR**

Classify the following items as capital or revenue expenditure with reason:

(i) An extension of railway tracks in the factory area;

(ii) Wages paid to machine operators;

(iii) Installation costs of new production machine;

(iv) Materials for extension to foremen's offices in the factory;

(v) Rent paid for a running factory;

(vi) Payment for computer time to operate a new stores control system,

(vii) Wages paid to own employees for building the foremen's offices.

Answer 7

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.

(iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit the Company only during the current period.

(vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.

(vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

1.4 Accounting Cycle, Analysis of Transactions etc

Question 8 **(PYP 4 Marks June'23)**

The accounting cycle consists of certain sequential steps. List out those steps.

Answer 8

Stages of Accounting Cycle.

The accounting cycle consists of the following sequential steps:

1. Identifying transactions: The first step in the accounting cycle is to analyze events to determine if they are " transactions ". Transactions are the starting point from which the rest of the accounting cycle follows.
2. Recording transactions in books of original entry: The second step in the accounting cycle is to record the identified transactions in the relevant books of original entry as journal entries.

CHAPTER 2.1 : ACCOUNTING FOR BILLS OF EXCHANGE

B

LDR Questions	Q 3, Q 5, Q 9, Q 11 MCQ – Q 5, Q 15

QUICK REVIEW OF IMPORTANT CONCEPTS

Parties:

- Drawer: person who draws the bill
- Payee: person who receives payment
- Drawee: person who accepts and pays

Essential Elements:

- In writing and signed
- Certain parties and certain sum
- Unconditional order to pay
- Properly stamped

Types of Bills:

- Demand bill – payable on presentation
- Inland bill – payable within one country
- Trade bill – arises from business transaction
- Usance bill – payable after a specified time
- Foreign bill – payable outside India
- Accommodation bill – drawn without consideration

Maturity & Grace Days:

- Demand bills: no grace days
- If due date is a national holiday → previous working day
- Time bills (after date/after sight): 3 days grace added
- If emergency holiday → next working day

Situation	Drawer Books	Drawee Books
Acceptance of bill	Bills Receivable Dr → Drawee	Drawer Dr → Bills Payable
Discounting with bank	Bank Dr + Discount Dr → Bills Receivable	—
Endorsement to creditor	Creditor Dr → Bills Receivable	—
Sent for collection	Bills for Collection Dr → Bills Receivable	—
Honour (bill retained)	Bank/Cash Dr → Bills Receivable	Bills Payable Dr → Bank/Cash
Honour (discounted/endorsed earlier)	—	Bills Payable Dr → Bank/Cash
Dishonour	Drawee Dr → Bills Receivable + Bank (Noting)	Bills Payable Dr + Noting → Drawer
Renewal – cancel old bill	Drawee Dr → Bills Receivable	Bills Payable Dr → Drawer
Renewal – interest	Drawee Dr → Interest	Interest Dr → Drawer
Renewal – part payment	Bank/Cash Dr → Drawee	Drawer Dr → Bank/Cash
Renewal – new bill accepted	Bills Receivable Dr → Drawee	Drawer Dr → Bills Payable
Retirement of bill	Bank/Cash Dr + Rebate Allowed Dr → Bills Receivable	Bills Payable Dr → Bank/Cash + Rebate Received
Insolvency of drawee	Bad Debts Dr → Drawee	Deficiency Dr → Drawer

Question & Answers

Question 1 (SM)

Calculate the due dates of the bills in the following cases

Sl. No.	Date of Bill	Tenure (Period)
1	1st January 2023	4 months
2	23rd November 2023	2 months

CHAPTER 6.2 : DEPARTMENTAL ACCOUNTS

C

LDR Questions	Q 8, Q 9 MCQ - 3

QUICK REVIEW OF IMPORTANT CONCEPTS

MEANING OF DEPARTMENTAL ACCOUNTS

- Large organisations divide activities into departments to measure performance separately.
- Separate Trading A/c → P&L A/c prepared for each department.
- Common expenses/incomes are apportioned on logical basis.
- Inter-department transfers treated as sales for one & purchases for another.
- If transfer at profit and stock remains unsold → Provision for Unrealised Profit required.

1) Departmental Trading Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Opening Stock	xx	xx	By Sales	xx	xx
To Purchases	xx	xx	By Transfer (to other dept)	xx	xx
To Wages	xx	xx	By Closing Stock	xx	xx
To Direct Expenses	xx	xx			
To Gross Profit c/d	xx	xx			

2) Departmental Profit & Loss Account

Dr.	Dept A	Dept B	Cr.	Dept A	Dept B
To Rent	xx	xx	By Gross Profit b/d	xx	xx
To Salaries	xx	xx	By Indirect Income	xx	xx
To Depreciation	xx	xx			
To Other Indirect Expenses	xx	xx			
To Net Profit → General P&L	xx	xx			

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3) General Profit & Loss Account

Dr.	Amount	Cr.	Amount
To General Expenses	xx	By Dept Net Profit (A)	xx
To Financial Expenses	xx	By Dept Net Profit (B)	xx
To Provision for Unrealised Profit	xx		
To Net Profit → Capital	xx		

4) Transferor Department A/c

Dr.	Amount	Cr.	Amount
To Transferee Dept (returns)	xx	By Transferee Dept (goods transferred)	xx

5) Transferee Department A/c

Dr.	Amount	Cr.	Amount
To Transferor Dept (goods received)	xx	By Transferor Dept (returns)	xx

6) Provision for Unrealised Profit A/c

Dr.	Amount	Cr.	Amount
To General P&L (opening reversal)	xx	By General P&L (creation on closing stock)	xx

7) Working Note — Provision for Unrealised Profit

Particulars	Amount
Closing stock from transferor dept	xx
× GP rate	xx
Provision for Unrealised Profit	xx

Questions & Answers

Question 1 (MQP[1] 7 Marks June'24)

Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa. From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former.

Answer 1

Suppose, a is the total cost of Department X, and
b is the total cost of Department Y

a = ₹ 10,000 + $\frac{1}{5}$ b

b = ₹ 5,000 + $\frac{1}{4}$ a

or, a = ₹ 10,000 + $\frac{1}{5}$ $(5{,}000 + \frac{1}{4}a)$

= ₹ 10,000 + 1,000 + $\frac{1}{20}$a = ₹ 11,000 + $\frac{1}{20}$ a

Or, 20 a = ₹ 2,20,000 + a

Or, 19a = ₹ 2,20,000

= ₹ $\frac{2{,}20{,}000}{19}$ = ₹11,579

Now, b = ₹5,000 + $\frac{1}{4}$ a

=₹ 5,000 + $\frac{1}{4}$ × 11,579 =₹ 5,000 + ₹ 2,895 = ₹ 7,895

Total Cost goods manufactured

Particulars	Amount (₹)	Amount (₹)
	Department X	Department Y
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

Question 2 (SM, MQP[2] 9 Marks Jun'23, PYP 9 Marks Dec'17, Dec'18)

The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year.

Answer 2

Computation of Closing Stock Quantity (in units)

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchases	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	**100**	**160**	**56**

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Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under. Assuming all purchases are sold, the sale proceeds would be

Particulars		₹
Department X	1,000 units @ ₹ 20.00	20,000
Department Y	2,000 units @ ₹ 22.50	45,000
Department Z	2,400 units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	**1,25,000**	
Less: Cost of Purchase	1,00,000	
Gross Profit Amount	**25,000**	
Gross Profit Ratio	25,000 ÷ 1,25,000	20% of Selling Price

Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales – Profit
Department X	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department Z	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

Dr. Departmental Trading Account for the year ended... Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	1,00,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
Total	**22,000**	**46,080**	**63,520**	**1,31,600**	**Total**	**22,000**	**46,080**	**63,520**	**1,31,600**

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

Question 3 (SM)

M/s Auto Garage consists of three departments: Spares, Services and Repairs. Each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit. In the absence or inadequacy of profit, a minimum commission of ₹ 3,000 is to be paid to managers. Interdepartmental transfers of goods and services are made on the basis of loaded price given as under:

From Spares to Services 5% above cost

From Spares to Repairs 10% above cost

From Repairs to Services 10% above cost

In respect of the year ended 31st March 2023 the books has already been closed and positions drawn. Subsequently it was discovered that closing stock of departments had included inter-departmental transferred goods at loaded price instead of the correct cost price. From the following information prepare a revised statement recomputing the departmental profit or loss.

	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/Loss as per accounts	19,000 (loss)	25,200 (profit)	36,000 (profit)
Inter-departmental transfers included at loaded price in the departmental stocks	---	32,500 (₹10,500 from Spares and ₹22,000 from Repairs)	2,100 (from Spares)

Answer 3

Statement showing computation of correct departmental profit:

Particulars	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/(Loss) as per accounts	(19,000)	25,200	36,000
Add: Managerial Remuneration:			
[Spares: Higher of (19,000 × 5/95) and 3,000]	3,000	-	-
[Service: Higher of (22,500 × 10/90) and 3,000]	-	3,000	-

[Repairs: Higher of (36,000 × 10/90) and 3,000]	-	-	4,000
∴ Profits before Managerial Remuneration	(16,000)	28,200	40,000
Less: Unrealised Profits of transferor department [WN:1]	691	-	2,000
	(16,691)	28,200	38,000
Less: Managerial Remuneration:			
[Spares: Higher of (16,691 × 5%) and 3,000]	3,000	-	-
[Service: Higher of (28,200 × 10%) and 3,000]	-	3,000	-
[Repairs: Higher of (38,000 × 10%) and 3,000]	-	-	3,800
∴ Correct departmental profit	(19,691)	25,200	34,200

Working Notes:

Transferor	Transferee		
	Services (₹)	Repairs (₹)	Total (₹)
Spares	500 [10,500 × 5/105]	191 [2,100 × 10/110]	691
Repairs	2,000 [22,000 × 10/110]	..	2,000

Question 4 (WB)

X Ltd has three departments A, B and C. from the particulars given below, compute - (a) Values of Stock as on 31st December, and (b) Department Results.

Particulars	A	B	C
Stock (at year beginning)	₹12,000	₹18,000	₹6,000
Purchases	₹73,000	₹62,000	₹24,000
Actual Sales	₹86,250	₹79,700	₹37,300
Gross Profit on Normal Selling Price	20%	25%	33⅓%

During the year, certain items were sold at discount, and these discounts were reflected in the value of Sales shown above. The items sold at discount were –

Particulars	A	B	C
Sales at Normal Price	₹ 5,000	₹ 1,500	₹ 500
Sales at Actual Price	₹ 3,750	₹ 1,200	₹ 300

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Answer 4

1. Computation of Cost of Goods Sold

Particulars	A	B	C
Sales at Actual Price	86,250	79,700	37,300
Less: Sales at Discounted Price	(3,750)	(1,200)	(300)
Net Sales at Normal Price	82,500	78,500	37,000
Add: Normal Value of Discounted Sales	5,000	1,500	500
Total Sales at Normal Selling Price	100%=87,500	100%=80,000	100%=37,500
Less: GP on Normal Selling Price	20% = 17,500	25% = 20,000	33.33% = 12,500
Total Cost of Goods Sold	**80%=70,000**	**75%=60,000**	**66.67%=25,000**

2. Computation of Value of Closing Stock

Particulars	A	B	C
Opening Stock	12,000	18,000	6,000
Add: Purchases	73,000	62,000	24,000
Less: Cost of Goods Sold	85,000	80,000	30,000
Closing Stock	(70,000)	(60,000)	(25,000)
Closing Stock	15,000	20,000	5,000

3. Departmental Trading and Profit and Loss A/c for the year ending 31st December (in ₹.)

Particulars	A	B	C	Particulars	A	B	C
To Opening Stock	12,000	18,000	6,000	By Sales	86,250	79,700	37,300
To Purchases	73,000	62,000	24,000	By Closing Stock (WN 2)	15,000	20,000	5,000
To Gross Profit	16,250	19,700	12,300				
Total	**1,01,250**	**99,700**	**42,300**	**Total**	**1,01,250**	**99,700**	**42,300**

Answer 1

Sr. No.	Particulars	Calculation of Due Date
1	Date of drawing of bill	01.01.2023
	Period / Tenure (month)	4
		01.05.2023
	Days of grace	3
	Due date / Maturity date	04.05.2023
2	Date of drawing of bill	23.11.2023
	Period / Tenure (month)	2
		23.01.2024
	Days of grace	3
	Due date / Maturity date	26.01.2024
	But 26.01.2024 is a National Holiday. So due date would be one day before i.e. 25.01.2024	

Question 2 (SM)

X sold goods for ₹ 20,000 to Y on credit on January 01, 2023. X drew a bill of exchange upon Y for the same amount for three months. Y accepted the bill and returned it to X. Y met his acceptance on maturity. Record the necessary journal entries under the following circumstances:

(i) X retained the bill till the date of its maturity and collected directly

(ii) X discounted the bill @ 12% p.a. from his bank on January 01, 2023

(iii) X endorsed the bill to his creditor Z, on January 01, 2023

(iv) X retained the bill and on March 31, 2023 X sent the bill for collection to its bank. On April 05, 2023 bank advice was received.

Answer 2

In the Books of X Journal

(i) When the bill is retained till its maturity

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Being goods sold to Y's on credit)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Being received Y's acceptance payable afterthree months)				
April 4	Bank A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Being Y met his acceptance on maturity)				

(ii) When the bill was discounted from the book

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance three months)				
January 1	Bank A/c	Dr.		19,400	
	Discount A/c (₹ $20,000 \times 12\% \times \frac{3}{12}$)	Dr.		600	
	To Bills Receivable A/c				20,000
	(Y's acceptance discounted with the bank)				

(iii) When X endorsed the bill in favour of his creditor Z

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
January 1	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's on credit)				
January 1	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance three months)				
January 1	Z's A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Y acceptance endorsed in favour of Z)				

(iv) When the bill was sent for collection by X to the bank

Date 2023	Particulars		L.F	Dr. (₹)	Cr. (₹)
Jan. 01	Y's A/c	Dr.		20,000	
	To Sales A/c				20,000
	(Sold goods to Y's on credit)				
Jan. 01	Bills Receivable A/c	Dr.		20,000	
	To Y's A/c				20,000
	(Received Y's acceptance payable after three months)				
Mar. 31	Bills Sent for Collection A/c	Dr.		20,000	
	To Bills Receivable A/c				20,000
	(Bills sent for collection)				
Apr. 05	Bank A/c	Dr.		20,000	
	To Bills sent for collection A/c				20,000
	(Bills sent for collection collected by the bank)				

The following journal entries will be made in the books of Y under all the four circumstances

In the Books of Y Journal

Date 2023	Particulars		L.F.	Dr. (₹)	Cr. (₹)
Jan. 01	Purchases A/c	Dr.		20,000	
	To X's A/c				20,000
	(Purchases goods from X on credit)				
Jan. 01	X's A/c	Dr.		20,000	
	To Bill's Payable A/c				20,000
	(Accepted bill drawn by X payable after three months)				
Apr. 04	Bills payable A/c	Dr.		20,000	
	To Bank A/c				20,000
	(Met acceptance maturity)				

Question 3 **(SM, MQP[1] 7 Marks Dec'25)** LDR

Mr. X sold goods for ₹ 15,000 to Mr. Y and immediately drew a bill upon him on Jan. 01, 2023 payable after 3 months. On maturity the bill was dishonoured and ₹ 50 were paid by the holder of the bill as noting charges. The journal entries will be recorded in the books of Mr. X and Mr. Y as given below under the following circumstances:

i. When the bill was kept by Mr. X till maturity.

ii. When the bill was discounted by Mr. X with his bank immediately @ 12% p.a.

iii. When the bill was endorsed by Mr. X in favour of his creditor Miss. Z.

Answer 3

In the Books of X Journal

i. When the bill was retained till its maturity

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	

	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Bills Receivable A/c				15,000
	To Cash A/c				50
	(Y dishonored his acceptance and paid ₹ 50 as noting charges)				

ii. When the bill was discounted with the bank

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance payable after threemonths)				
Apr. 04	Bank A/c	Dr.		14,550	
	Discount A/c			450	
	To Bills Receivable A/c				15,000
	(Y's acceptance discounted)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Bank A/c				15,050
	(Y dishonoured his acceptance on maturityand bank paid noting charges of ₹50)				

iii. When the bill was endorsed to Z

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Y's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Y)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Y's A/c				15,000
	(Received Y's acceptance)				
Jan. 01	Z's A/c	Dr.		15,000	
	To Bills Receivable A/c				15,000
	(Y's acceptance endorsed in favour of Z)				
Apr. 04	Y's A/c	Dr.		15,050	
	To Z's A/c				15,050
	(Y dishonoured his acceptance on maturity and Z paid ₹ 50 as noting charges)				

The following journal entries will be made in the books of Y in all the three cases.

In the Books of Y Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 01	Purchases A/c	Dr.		15,000	
	To X's A/c				15,000
	(Purchase goods from X)				
Jan. 01	X's A/c	Dr.		15,000	
	To Bills Payable A/c				15,000
	(Accepted X's draft)				

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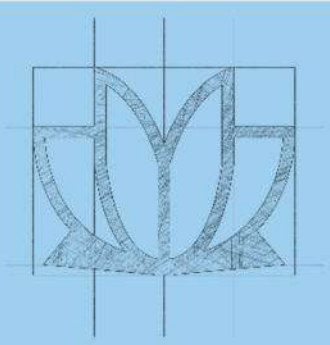
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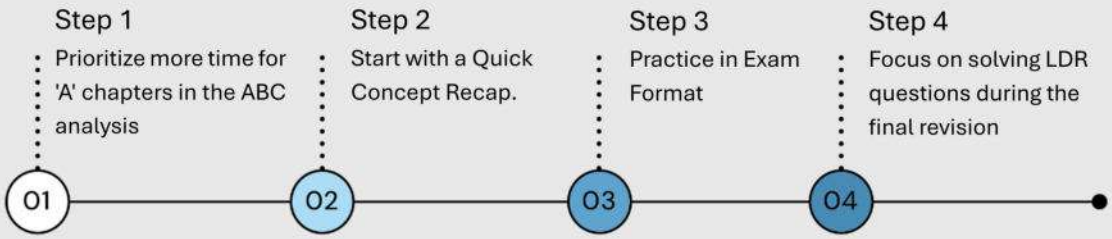
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60+ in DIRECT and INDIRECT TAXATION



Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

Year	2021-22	2022-23	2023-24	2024-25	Total
No. of days stayed in India	55	60	80	160	355

∴ He is non-resident.

Question 3 (SM)

Miss Pal, an Indian citizen, left India for first time on 1st April, 2025 for joining job in Tokyo. on 11th Jan, 2026 for only 170 days. Determine her residential status for P.Y. 2025-26.

Answer 3

Number of days Miss Pal stayed in India can be calculated as under:

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	1	-	-	-	-	-	-	-	-	11	28	31	81
26-27	30	31	30	19	-	-	-	-	-	-	-	-	110

Since she left India for employment purposes, hence for becoming resident she has to stay in India for at least 182 days during the previous year. Therefore, she is not resident for the previous year 2025-26.

Amended as per latest amendments

(SM, MQP [1] 7 Marks Dec'25)

Includes 100% coverage of Work Book+ SM + MCQ Bank + MQP + PYP

(2) Continuous stay in India is not necessary.

(3) A person shall be deemed to reside in India, if he is on the territorial waters of India*. For instance, if an individual stays on a ship, which is in the territorial waters of India, then it shall be treated as his presence in India.

Question 4 (SM, MQP [1] 7 Marks Dec'25)

Mr. X, aged 19 years, left India for first time on May 31, 2025. Determine his residential status for the previous year 2025-26 if:

(1) He left India for employment purposes.

(2) He left India on the world tour.

Answer 4

During the previous year 2025-26, Mr. X was in India for 61 days as shown below –

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	30	31	-	-	-	-	-	-	-	-	-	-	61

During the previous year 2025-26, X stayed in India for 61 days. Further, he was in India for more than 365 days during 4 years immediately preceding the relevant previous year (as he left India for the first time).

(1) He left India for employment purposes – Since he left India for employment purposes, hence for becoming resident such assessee has to stay in India for at least 182 days during the previous year. Therefore, he is not resident for the previous year 2025-26.

(2) He left India on the world tour – Since he left India for world tour, hence for becoming resident such assessee has to stay in India for at least 60 days during the previous year and 365 days during 4 years immediately preceding the previous year. Therefore, he is resident in India. Further, he also satisfies dual conditions specified u/s 6(1) (since he left India for the first time). Therefore, he is an ordinarily resident for the previous year 2025-26.

Question 5 (MQP)

Mr. X came in India for the first time on April 16, 2025 and left India On December 13, 2025. During his stay in India, he was in Delhi up to 30.06.2025 and thereafter in Mumbai.

Determine his residential status for the assessment year 2026-27.

Answer 5

Number of days Mr. X stayed in India can be calculated as under:

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	15	31	30	31	31	30	31	30	13	-	-	-	242

Since X resides in India for 242 days in the previous year 2025-26, he satisfies the condition of sec. 6(1)(a). He is, therefore, resident in India for the previous year 2025-26. As he did not reside in India for any number of days in immediately preceding previous years, therefore, he does not satisfy conditions of sec. 6(6), as a result, he is a "resident but not ordinarily resident".

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1.3	Exempt Income							2	1.3.1 – 1.3.9	A
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2.1	Salaries							8.33	2.1 – 2.1.42	A
2.2	House Property							7.33	2.2.1 – 2.2.26	A
2.3	Profits and Gains of Business or Profession							9.67	2.3.1 – 2.3.47	A
2.4	Capital Gains	-	7	7	9	9	9	6.83	2.4.1 – 2.4.29	A
2.5	Income from Other Sources	1	9	7	7	9	7	6.67	2.5.1 – 2.5.17	A
3	Total Income and Tax Liability of Individuals & HUF									C
3.1	Income of Other Person included in Assessee Total Income	1	-	-	2	-	-	0.5	3.1.1 – 3.1.14	A
3.2	Set off and Carry Forward of Losses	3	7	7	7	7	7	6.33	3.2.1 – 3.2.18	B
3.3	Deductions, Rebate and Relief	5	4	-	-	2	2	2.17	3.3.1 – 3.3.25	A
3.4	Taxation of Individual	6	7	7	7	7	7	6.83	3.4.1 – 3.4.22	C
3.5	Advance Tax	-	-	2	-	-	-	0.33	3.5.1 – 3.5.7	B
3.6	Tax Deducted at Source & Tax Collected at Source	4	2	-	2	4	-	2	3.6.1 – 3.6.8	B
3.7	Filing of Return of Income	-	-	-	-	-	-	-	3.7.1 – 3.7.6	C
3.8	PAN	-	-	-	-	-	-	-	3.8.1 – 3.8.1	

Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

LDR Questions	Descriptive: Q 5, Q 10, Q 17, Q 22 MCQ: 1

Last Day Revision Questions

Last Day Revision Questions mentioned right at the beginning of each chapter
Easy to find 1 day before the exam

LDR Questions | Descriptive: Q 3.6 MCQ: 4

QUICK REVIEW OF IMPORTANT CONCEPTS

Section No.	Section Title	What the Section Covers
190	Deduction of Tax at Source and Advance Payment	Addresses the modes of recovery of income-tax (TDS, TCS, Advance Tax) from an assessee.
191	Direct Payment	Requires tax to be paid directly by the assessee where tax is not required to be deducted or is not deducted, and defines deemed assessee-in-default.
207	Liability for payment of advance tax	States that tax shall be payable in advance during the financial year in respect of the assessee's current income.
208	Obligation to pay advance tax	Specifies that the obligation to pay advance tax arises if the advance tax payable is ₹ 10,000 or more.
209	Computation of advance tax	Provides rules for the assessee to estimate and compute the advance tax payable on current income, reduced by tax deductible at source.



Quick Review of Important Concepts

5	**Goods and Services Tax (GST) Laws**									
5.1	Introduction to GST Law	**6**	**8**	**15**	**7**	**7**	**7**	**8.33**	**5.1.1 – 5.1.9**	**A**
5.2	Levy and Collection of CGST and IGST	**12**	**7**	**9**	**13**	**9**	**6**	**9.33**	**5.2.1 – 5.2.34**	**A**
5.3	Basic concepts of Time, Place and Value of Supply	**-**	**7**	**8**	**7**	**9**	**9**	**6.67**	**5.3.1 – 5.3.22**	**A**
5.4	Input Tax Credit	**8**	**7**	**-**	**7**	**1**	**2**	**4.16**	**5.4.1 – 5.4.13**	**A**
5.5	Computation of GST Liability	**-**	**1**	**-**	**-**	**-**	**-**	**0.17**	**5.5.1 – 5.5.6**	**C**
5.6	Registration	**16**	**1**	**7**	**-**	**-**	**9**	**5.5**	**5.6.1 – 5.6.8**	**A**
5.7	Tax Invoice – Electronic Way Bill	**7**	**2**	**2**	**1**	**1**	**-**	**2.17**	**5.7.1 – 5.7.7**	**B**
5.8	Returns and Payment of Taxes	**2**	**2**	**1**	**-**	**8**	**7**	**3.33**	**5.8.1 – 5.8.8**	**B**

Topic-wise Break up

ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

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1.2	Residential Status and Scope of Total Income	6	7	7	-	7	7	5.67	1.2.1 – 1.2.18	B
1.3	Agricultural Income	6	2	2	2	-	-	2	1.3.1 – 1.3.9	B
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2.2	Income from House Property	9	7	7	7	7	7	7.33	2.2.1 – 2.2.26.	A
2.3	Profits and Gains of Business or Profession	9	11	11	11	7	9	9.67	2.3.1 – 2.3.47	A
2.4	Capital Gains	-	7	7	9	9	9	6.83	2.4.1 – 2.4.29	A
2.5	Income from Other Sources	1	9	7	7	9	7	6.67	2.5.1 – 2.5.17	A
3	**Total Income and Tax Liability of Individuals & HUF**									
3.1	Income of Other Person included in Assesses Total Income	1	-	-	2	-	-	0.5	3.1.1 – 3.1.14	C
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3.6	Tax Deducted at Source & Tax Collected at Source	4	2	-	2	4	-	2	3.6.1 – 3.6.8	B
3.7	Filing of Return of Income	-	-	-	-	-	-	-	3.7.1 – 3.7.6	B
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5.2	Levy and Collection of CGST and IGST	12	7	9	13	9	6	9.33	5.2.1 – 5.2.34	A
5.3	Basic concepts of Time, Place and Value of Supply	-	7	8	7	9	9	6.67	5.3.1 – 5.3.22	A
5.4	Input Tax Credit	8	7	-	7	1	2	4.16	5.4.1 – 5.4.13	A
5.5	Computation of GST Liability	-	1	-	-	-	-	0.17	5.5.1 – 5.5.6	C
5.6	Registration	16	1	7	-	-	9	5.5	5.6.1 – 5.6.8	A
5.7	Tax Invoice – Electronic Way Bill	7	2	2	1	1	-	2.17	5.7.1 – 5.7.7	B
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6	**Customs Act & Rules**									
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6.2	Types of Duties	1	7	2	-	-	2	2	6.2.1 – 6.2.4	B
6.3	Valuation Rules	-	-	-	1	2	2	0.83	6.3.1 – 6.3.5	C
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ABC Analysis

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C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- **SM: ICMAI Study Material Questions**
- **WB: ICMAI Work Book Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1.2: RESIDENTIAL STATUS AND SCOPE OF TOTAL INCOME

B

LDR Questions	Descriptive: Q 13, Q 23, Q 27 MCQ: 11

QUICK REVIEW OF IMPORTANT CONCEPTS

Section No.	Section Title	What the Section Covers
5	Scope of Total Income	Defines the total income of an assessee based on their residential status (ROR, RNOR, or Non-resident).
6	Residential Status	Outlines the provisions for classifying taxpayers (Individual, HUF, Company, etc.) into categories like Resident or Non-resident.
6(1)	Basic Conditions for Residence (Individual)	Sets the basic conditions (182 days stay or 60 days/365 days stay) determining if an individual is a resident in India.
Explanation 2 to section 6(1)	Crew Member Stay Determination	Provides the method for computing the period of stay in India for an Indian citizen who is a crew member of a foreign bound ship.
6(1A)	Deemed Resident (Individual)	Applies to Indian citizens with total income (excluding foreign sources) exceeding ₹ 15 lakhs who are not liable to tax in any other country.
6(3)	Residential Status of Companies	Stipulates a company is resident if it is an Indian company or if its Place of Effective Management (POEM) is in India.
Explanation to section 6(3)	Meaning of POEM	Defines "Place of effective management" as the place where key management and commercial decisions are, in substance, made.
6(6)	Additional Conditions for ROR/RNOR Status	Defines the conditions (non-resident status or days of stay in preceding years) that determine if a resident is "ordinarily resident" or "not ordinarily resident".
7	Income Deemed to be Received in India	Specifies certain items of income, such as annual accretion to Recognized Provident Fund (RPF) and contributions to specific pension schemes, that are deemed to be received in India.
9	Income Deemed to Accrue or Arise in India	Specifies certain types of income that are statutorily treated as accruing or arising in India, even if they physically accrue outside India.
9(1)	Categories of Deemed Accrual	Lays out the general categories of income that are deemed to accrue or arise in India.
9(1)(i)	Business Connection/Property/Assets/Capital Assets	Income arising from business connection, property, assets, source of income, or transfer of a capital asset situated in India is deemed to accrue in India.
Explanation 1 to section 9(1)(i)	Exceptions to Deemed Accrual	Provides specific exceptions for non-residents (e.g., purchase for export, news collection, shooting films) where income is not deemed to accrue in India.

9(1)(ii)	Salaries Earned in India	Income falling under "Salaries" earned for services rendered in India (including related rest or leave periods) is deemed to accrue or arise in India.
9(1)(iii)	Salary Paid by Government for Services Outside India	Salaries payable by the Government to an Indian citizen for services rendered outside India are deemed to accrue or arise in India.
9(1)(iv)	Dividend from Indian Company	Dividends paid by an Indian company outside India are deemed to accrue or arise in India.
9(1)(v)	Interest	Defines when interest (payable by Government, resident, or non-resident) is deemed to accrue or arise in India, subject to exceptions based on use outside India.
9(1)(vi)	Royalty	Defines when royalty (payable by Government, resident, or non-resident) is deemed to accrue or arise in India, subject to exceptions based on use outside India.
9(1)(vii)	Fees for Technical Services	Defines when fees for technical services (payable by Government, resident, or non-resident) are deemed to accrue or arise in India, subject to exceptions based on utilization outside India.
9(1)(viii)	Sum of Money without Consideration	Treats certain sums of money paid without consideration by a resident to a non-corporate non-resident, foreign company, or RNOR as income deemed to accrue in India.
Explanation to Section 9	Territorial Nexus (Interest, Royalty, FTS)	Ensures that income deemed to accrue via Section 9(1)(v), (vi), and (vii) is taxable for non-residents regardless of whether they have a business connection or rendered services in India.

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Questions & Answers

Question 1 (SM)

Sam came to India first time during the P.Y. 2025-26. During the previous year, he stayed in India for (i) 50 days; (ii) 183 days; & (iii) 153 days. Determine his residential status for the A.Y. 2026-27.

Answer 1

(i) Since Sam resides in India only for 50 days during the P.Y. 2025-26, he does not satisfy any of the conditions specified in sec. 6(1). He is, therefore, a non-resident in India for the P.Y. 2025-26.

(ii) Since Sam resides in India for 183 days during the previous year 2025-26, he satisfies one of the conditions specified in sec. 6(1). He is, therefore, a resident in India for the P.Y. 2025-26.

(iii) Sam resides in India only for 153 days during the previous year 2025-26. Though he resided for more than 60 days during the previous year but in 4 years immediately preceding the previous year (as he came to India for the first time), he did not reside in India. Hence, he does not satisfy any of the conditions specified in sec. 6(1). Thus, he is a non-resident for the P.Y. 2025-26.

Question 2 (SM)

Andy, a British national, comes to India for the first time during 2021-22. During the financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in India for 55 days, 60 days, 80 days, 160 days and 70 days respectively. Determine his residential status for the assessment year 2026-27.

Answer 2

During the previous year 2025-26, Andy was in India for 70 days & during 4 years immediately preceding the previous year, he was in India for 355 days as shown below:

Year	2021-22	2022-23	2023-24	2024-25	Total
No. of days stayed in India	55	60	80	160	355

∴ He is non-resident.

Question 3 **(SM)**

Miss Pal, an Indian citizen, left India for first time on 1st April, 2025 for joining job in Tokyo. She came to India on 11th Jan, 2026 for only 170 days. Determine her residential status for P.Y. 2025-26.

Answer 3

Number of days Miss Pal stayed in India can be calculated as under:

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	1	-	-	-	-	-	-	-	-	21	28	31	81
26-27	30	31	30	19	-	-	-	-	-	-	-	-	110

Since she left India for employment purpose, hence for becoming resident she has to stay in India for at least 182 days. However, she is in India for only 81 days during the previous year, thus she is a non-resident for the P.Y. 2025-26.

Points to be kept in mind

(a) Stay at same place in India is not necessary.

(b) Continuous stay in India is not necessary.

(c) A person shall be deemed to reside in India, if he is on the territorial waters of India*. For instance, if an individual stays on a ship, which is in the territorial waters of India, then it shall be treated as his presence in India.

Question 4 **(SM, MQP [1] 7 Marks Dec'25)**

Mr. X, aged 19 years, left India for first time on May 31, 2025. Determine his residential status for the previous year 2025-26 if:

(i) He left India for employment purpose

(ii) He left India on the world tour.

Answer 4

During the previous year 2025-26, Mr. X was in India for 61 days as shown below –

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	30	31	-	-	-	-	-	-	-	-	-	-	61

During the previous year 2025-26, X stayed in India for 61 days. Further, he was in India for more than 365 days during 4 years immediately preceding the relevant previous year (as he left India for the first time).

(i) Since he left India for employment purpose, condition of sec. 6(1)(c) shall not be applicable on such assessee. He will be treated as resident in India, if and only if, he resided in India for at least 182 days during the previous year. Hence, Mr. X is a non-resident in India for the previous year 2025-26.

(ii) Since he left India on the world tour, which is not an exception of sec. 6(1), satisfaction of any one condition of sec. 6(1) makes him resident in India for the previous year 2025-26. As he satisfies 2nd condition of sec. 6(1) [shown above], he is resident in India. Further, he also satisfies dual conditions specified u/s 6(6) (since he left India for the first time). Therefore, he is an ordinarily resident for the previous year 2025-26.

Question 5 **(WB)**

Mr. X came in India for the first time on April 16, 2025 and left India On December 13, 2025. During his stay in India, he was in Delhi up to 30.06.2025 and thereafter in Mumbai.

Determine his residential status for the assessment year 2026-27.

Answer 5

Number of days Mr. X stayed in India can be calculated as under:

P.Y.	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
25-26	15	31	30	31	31	30	31	30	13	-	-	-	242

Since X resides in India for 242 days in the previous year 2025-26, he satisfies the condition of sec. 6(1)(a). He is, therefore, resident in India for the previous year 2025-26. As he did not reside in India for any number of days in immediately preceding previous years, therefore, he does not satisfy conditions of sec. 6(6), as a result, he is a 'resident but not-ordinarily resident'.

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CHAPTER 3.2: SET OFF AND CARRY FORWARD OF LOSSES

A

LDR Questions	Descriptive: Q 5, Q 10, Q 17, Q 22 MCQ: 1

QUICK REVIEW OF IMPORTANT CONCEPTS

Section No.	Section Title	What the Section Covers
32(2)	Unabsorbed Depreciation	Governs the carry forward and set-off of unabsorbed depreciation for an indefinite period.
36(1)(ix)	Unabsorbed Expenditure on Family Planning	Governs the carry forward of unabsorbed expenditure on family planning.
64(1A)	Clubbing of Minor's Income	Governs the mandatory inclusion (clubbing) of a minor child's income in the parent's income, except for income earned from special talent.
68, 69, 69A, 69B, 69C, 69D	Aggregation of Income / Deemed Income	Governs amounts deemed as income (e.g., unexplained investments, unexplained expenditure, cash credits) to be aggregated with the assessee's income.
70	Inter-Source Adjustment	Allows losses incurred in respect of one source to be set off against income from any other source under the same head of income.
70(3)	Long-term capital loss set-off restriction (Inter-source)	Specifies that long-term capital loss can be set off only against long-term capital gains, even within the capital gains head.
71	Inter-Head Adjustment	Allows loss computed under one head of income (subject to specific restrictions) to be set off against income under another head in the same year.
71(3A)	House Property Loss Set-off Limit (Normal Regime)	Limits the set-off of loss from house property against income under any other head to ₹ 2 lakhs, if the assessee opts out of the default tax regime.
71B	Carry Forward & Set-off of Loss from House Property	Governs the carry forward of unabsorbed house property loss for a maximum of 8 assessment years against future house property income.
72	Carry Forward & Set-off of Business Losses	Governs the carry forward and set-off of unabsorbed business loss (non-speculative) for a maximum of 8 assessment years.
73	Losses in Speculation Business	Governs the set-off and carry forward of losses arising from speculation business.
73(1)	Restriction on Speculation Loss Set-off (Inter-source)	States that a loss in speculation business can be set off only against the profits of any other speculation business.
73A	Carry Forward & Set Off of Specified Business Losses (Sec 35AD)	Governs the indefinite carry forward and set-off of loss from a specified business defined under section 35AD.
74	Losses under the head 'Capital Gains'	Governs the carry forward and set-off of short-term and long-term capital losses for a maximum period of 8 assessment years.
74(1)	Carry Forward of Capital Gains Loss	Pertains to the allowance for carrying forward losses under the head 'Capital Gains' (allowed for SEZ Unit losses).
74A(3)	Loss from Owning & Maintaining Race Horses	Governs the restricted set-off and carry forward of losses from the activity of owning and maintaining race horses for up to 4 assessment years.
80	Submission of Return of Losses	Makes filing a return of loss under section 139(3) mandatory for carrying forward specific losses.

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139(3)	Filing Return of Loss	Requires the assessee to file a return of loss within the due date specified under section 139(1) to be able to carry forward certain losses.

Question & Answers

Question 1 **(SM, WB)**

Compute gross total income of Mr. X in following cases-

Source of income	Case I	Case II
Income from house property (A)	30,000	40,000
Income from house property (B)	(10,000)	(25,000)
Speculation income	80,000	(70,000)
Business income	(30,000)	50,000
Income from activity of owning and maintaining race-horses business (A)	(50,000)	10,000
Income from activity of owning and maintaining race-horses business (B)	20,000	(6,000)
Income from agricultural business	(25,000)	10,000
Short term capital gain (transaction A)	30,000	(20,000)
Short term capital gain (transaction B)	(10,000)	5,000
Long term capital gain (transaction A)	(30,000)	45,000
Long term capital gain (transaction B)	10,000	(2,000)
Income from lottery	3,40,000	-
Income from horse races	10,000	25,000
Income on card games	(5,000)	(3,000)
Interest on securities	20,000	10,000

Answer 1

Computation of gross total income of Mr. X for the A.Y. 2026-27

Particulars	Case I		Case II	
	Details	Amount	Details	Amount
Income from House Property				
House Property A	30,000		40,000	
House Property B	(10,000)	20,000	(25,000)	15,000
Profits & Gains of Business or Profession				
Speculation income	80,000		(70,000)	Nil[3]
Other business	(30,000)	50,000	50,000	
Income from agricultural business (Exempted)	Nil		Nil	
Capital Gains				
Short term capital gain				
Transaction A	30,000		(20,000)	
Transaction B	(10,000)	20,000	5,000	
Long term capital gain				
Transaction A	(30,000)		45,000	
Transaction B	10,000	Nil[2]	(2,000)	28,000
Income from other sources				
Casual income				
Income from lottery	3,40,000		-	
Income from horse races	10,000		25,000	
Income on card games (losses not to be considered)	Nil	3,50,000	Nil	25,000
Income from activity of owning & maintaining race-horses				
Business (A)	(50,000)		10,000	
Business (B)	20,000	Nil[1]	(6,000)	4,000
Other income				
Interest on securities		20,000		10,000

VIVITSU STRIVING TOWARDS KNOWLEDGE

Gross Total Income		4,60,000		1,32,000
Losses to be carried forward				
1. Loss from activity of owning & maintaining race horse		(30,000)		
2. Long term capital loss		(20,000)	-	
3. Speculation loss	-			(70,000)

Question 2 (SM)

Smart has computed his tax liability under the old regime as under-

Particulars	Details	Amount
Income from business A		4,50,000
Long term capital gain	20,000	
Less: Income from business B u/s 71	(10,000)	10,000
Income from other sources		50,000
Gross Total Income		5,10,000
Less: Deduction u/s 80C to 80U		-
Total Income		5,10,000
Tax liability		15,080

Comment on the above computation.

Answer 2

Computation made by Smart is incorrect, as because first intra head set-off shall be made, thereafter inter head set-off can be made. The correct computation is shown below-

Computation of total income and tax liability of Smart under old regime for the A.Y. 2026-27

Particulars	Details	Amount
Profits & Gains of Business or Profession		
Income from business A	4,50,000	
Income from business B u/s 70	(10,000)	4,40,000
Capital Gains		
Long term capital gain		20,000
Income from other sources		50,000
Gross Total Income		5,10,000
Less: Deduction u/s 80C to 80U		-
Taxable Income		**5,10,000**
Tax liability		**16,640**

Question 3 (SM, MQP[1] 7 Marks Dec'24, Dec'25)

Mr. Bhola has furnished you the following data-

Income from house property (₹1,30,000)
Salaries (Net) ₹80,000
Income from other sources (₹90,000)
Income from lotteries ₹3,50,000

Mr. Bhola is seeking your advice relating to set off and carry-forward, if he has opted for old regime.

Answer 3

Statement showing application of sec. 71

Particulars	Amount
Salaries	80,000
Income from house property	(1,30,000)
Income from other sources	
Winning from lotteries	3,50,000
Other income	(90,000)
Gross total income	**3,50,000**
Conclusion Casual income shall be fully taxable as no loss can be set off against such income.	3,50,000

VIVITSU STRIVING TOWARDS KNOWLEDGE

Losses to be carried forward	
a. Loss under the head "Income from house property"	**(1,30,000)**
b. Loss under the head "Income from other sources", as such loss cannot be carried forward	**Nil**
Income under the head 'Salaries' is first adjusted with the loss under the head 'Income from other sources' as the same cannot be carried forward. Though loss under the head 'Income from other sources' is ₹ 90,000 and such loss could be adjusted with income under the head 'Salaries' only to the extent of ₹ 80,000 still the remaining loss of ₹ 10,000 cannot be carried forward.	

Question 4 (SM)

Mr. Tej Singh has the following income details –

Income from house property	**(₹30,000)**
Salaries	**₹68,000**
Income from other sources	**₹30,000**

He has computed his Gross total income for the A.Y. 2026-27 as under

Particulars	Amount
Income from house property	(10,000)
Salaries	6,80,000
Income from other sources	30,000
Gross total income	7,00,000
Carry forward of loss under the head income form house property	20,000

Answer 4

Assessee is bound to follow sec.70 and 71 and there is no choice or option whether to set off the loss or not. Even partial set off is not permissible when full loss can otherwise be set off. Hence in the given case income of Mr. Tej Singh shall be ₹ 6,80,000 (carry forward of loss shall not be permissible) as computed under:

Particulars	Amount
Income from house property	(30,000)
Salaries	6,80,000
Income from other sources	30,000
Gross total income	**6,80,000**

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Question 5 (SM) LDR

Mr. Arun has been running several businesses since last so many years. From the following details, compute his taxable business income:

Nature of business	Current year income	Brought forward (b/f) loss	Year to which b/f loss relates	Whether business continued	Year of discontinuation of business
Readymade garments	1,00,000	2,30,000	2019-20	Yes	NA
Retail of cosmetics	80,000	1,70,000	2005-06	Yes	NA
		50,000 Unabsorbed depreciation	2020-21		
Whole sale of soft-toys	Nil	80,000	2022-23	No	2023-24
Wholesale of fruits	30,000 being bad debt recovery	70,000	2008-09	No	2008-09
Optical	30,000Bad debt recovery	70,000	2007-08	No	2008-09
Investment business	90,000	-	-	Yes	NA
	15,000Dividend from foreign company	-	-	Yes	NA
Medicines	40,000Bad debt recovery	-	-	No	2000-01

Manufacturing of school uniform	-	40,000	2021-22 no return filed	No	2023-24

Answer 5

Computation of gross total income of Mr. Arun for the A.Y. 2026-27

Particulars	Details	Amount
Profits & gains of business or profession		
Readymade garments Current year income	1,00,000	
Less: Brought forward loss	(2,30,000)	(1,30,000)
Retail of cosmetics Current year income		80,000
Whole sale of sof.t-toys Current year income	Nil	
Less: Brought forward loss	(80,000)	(80,000)
Wholesale of fruits Current year income being bad debt recovery	30,000	
Less: Brought forward loss	(30,000)[1]	Nil
Optical-business Current year income being bad debt recovery		30,000[1]
Investment-business		90,000
Medicine-business Current year income (being bad debt recovery)		40,000
Manufacturing of school uniform Current year income		Nil[2]
Income from other sources: Dividend income		15,000
		30,000
		45,000
Less: Unabsorbed depreciation of retail of cosmetics business		(45,000)#
Gross total income		**Nil**

Though unabsorbed depreciation is ₹ 50,000 still only ₹ 45,000 is claimed to be set off and remaining to be carried forward for unlimited years, as there is insufficient profit.

Notes

1. Losses from wholesale of fruits business which arose during the P.Y. 2008-09, being the year in which business ceased to exist and which could not be set off against any other income of that previous year or any subsequent years can be set off against any income chargeable to tax u/s 41(4) i.e. bad debt recovery. However, in case of Optical business, brought forward loss relates to P.Y. 2007-08 whereas business ceases to exist in P.Y. 2008-09, therefore such loss cannot be set off against income chargeable u/s 41(4).
2. As per sec. 80, business loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), within time as prescribed u/s 139(1).

Question 6 (SM)

Compute total income of X Ltd. under following cases

Business A: Business of Ice cream

Business B: Business consists of purchase and sale of shares of other companies (being treated as speculative business as per explanation of sec. 73)

Particulars	Case 1		Case 2		Case 3		Case 4	
	A	B	A	B	A	B	A	B
Income of P.Y. 2025-26	80,000	20,000	75,000	85,000	(56,000)	1,50,000	3,00,000	(50,000)
B/f loss of P.Y. 2024-25	70,000	65,000	85,000	50,000	90,000	65,000	30,000	90,000
Unabsorbed depreciation	-	-	-	-	-	-	-	20,000

Answer 6

Computation of total income of X Ltd. for the A.Y. 2026-27

Particulars	Case 1		Case 2		Case 3		Case 4	
	A	B	A	B	A	B	A	B
Income of P.Y. 2025-26	80,000	20,000	75,000	85,000	(56,000)	1,50,000	3,00,000	(50,000)
Income after sec. 70	80,000	20,000	75,000	85,000	-	94,000	3,00,000	(50,000)

B/f loss of P.Y. 2024-25	70,000	65,000	85,000	50,000	90,000	65,000	30,000	90,000
Unabsorbed depreciation	-	-	-	-	-	-	-	20,000
	10,000	(45,000)	(10,000)	35,000	(90,000)	29,000	2,50,000[1]	(50,000)
Taxable income after application of sec. 72 & 73 for A.Y. 2026-27	10,000		25,000		Nil		2,50,000	
Loss to be carried forward to next assessment year	-	P.Y. 2024-25 (45,000)	-	-	P.Y. 2024-25 (61,000)	-	-	P.Y. 2025-26 (50,000)P.Y. 2024-25 (90,000)
Unabsorbed depreciation to be carried forward	-	-	-	-	-	-	-	-

[1.] After adjusting unabsorbed depreciation of business B.

Question 7 **(SM)**

MNP Ltd. commenced operations of the business of a new four-star hotel in Chennai on 1-4-2025. The company incurred capital expenditure of ₹ 40 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2025. Further, during the Previous Year 2025-26, it incurred capital expenditure of ₹ 2.5 crore (out of which ₹ 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading "profits and gains of business or profession" for the assessment year 2026-27, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C.-Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deduction u/s 35AD) for the A.Y. 2026-27 is ₹ 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ₹ 130 lakhs for assessment year 2026-27.

Answer 7

Computation of business income of MNP Ltd. for A.Y. 2026-27

Particulars	₹ in lakhs
Income from specified business covered u/s 35AD [Working 1]	(110)
Income from another hotel business	130
Profit and gains of business or profession	**20**

Working 1: Computation of income from specified business u/s 35AD

Particulars	₹ in lakhs	₹ in lakhs
Net profit from specified business before deduction u/s 35AD		80
Less: Deduction u/s 35AD being capital expenses incurred		
- Capital expenditure incurred in earlier year	40	
- Capital expenditure incurred in the previous year less cost of acquisition of land	150	190
Income from specified business covered u/s 35AD		110

CHAPTER 3.5 : ADVANCE TAX

C

LDR Questions	Descriptive: Q 3,6 MCQ: 4

QUICK REVIEW OF IMPORTANT CONCEPTS

Section No.	Section Title	What the Section Covers
190	Deduction of Tax at Source and Advance Payment	Addresses the modes of recovery of income-tax (TDS, TCS, Advance Tax) from an assessee.
191	Direct Payment	Requires tax to be paid directly by the assessee where tax is not required to be deducted or is not deducted, and defines deemed assessee-in-default.
207	Liability for payment of advance tax	States that tax shall be payable in advance during the financial year in respect of the assessee's current income.
208	Obligation to pay advance tax	Specifies that the obligation to pay advance tax arises if the advance tax payable is ₹ 10,000 or more.
209	Computation of advance tax	Provides rules for the assessee to estimate and compute the advance tax payable on current income, reduced by tax deductible at source.
210	Advance tax order by AO	Grants power to the Assessing Officer to issue an order requiring an assessee to pay advance tax based on past assessments or returns.
211	Instalments of advance tax and due dates	Lays out the schedule and minimum percentages for the payment of advance tax instalments for corporate and non-corporate assessees.
219	Credit for advance tax	States that advance tax paid or recovered is treated as a payment of tax in respect of the income of the previous year and credit is given in the regular assessment.
234B	Interest on non-payment / short payment or deferment of advance tax	Imposes interest at 1% per month for non-payment or short payment of advance tax (less than 90% of assessed tax).
234C	Interest payable for deferment of advance tax	Imposes interest at 1% per month for deferment or shortfall in the payment of advance tax instalments based on scheduled due dates.
234E	Fee for late furnishing of TDS statement	Prescribes a fee of ₹ 200 per day for late furnishing of the TDS statement, capped at the total tax deductible/collectible.

Advance payment of tax

Advance tax is payable during a F.Y. in every case where the amount of such tax payable by the assessee during the year is ₹10,000 or more for corporates and non-corporates (other than 44AD or section 44ADA)

Due date of instalment	Amount payable
On or before 15th Jun	Not less than 15% of advance tax liability.
On or before 15th Sep	Not less than 45% of advance tax liability (-) amount paid in earlier instalment.
On or before 15th Dec	Not less than 75% of advance tax liability (-) amount paid in earlier instalment/s
On or before 15th Mar	The whole amount of advance tax liability (-) amount paid in earlier instalment/s

Advance tax payment on presumptive basis under section 44AD(1) or section 44ADA(1)

Shall be required to pay advance tax of the whole amount on or before 15th March of the F.Y.

Question & Answers

Question 1 (SM, MQP[2] 4 Marks June'23)

Find out the amount of advance tax payable by A on specified dates for the financial year 2025-26: Assume assesses opts out of Section 115BAC

Business income (Tax of ₹ 14,272 is deducted at source) ₹ 8,25,000

Agricultural income ₹ 86,000

Answer 1

Computation of tax liability of A for the previous year 2025-26

Particulars	₹
Tax on ₹ 9,11,000 (i.e. agricultural income ₹ 86,000 + non-agricultural income ₹ 8,25,000)	41,100
Less: Tax on ₹ 3,86,000 (i.e. agro income ₹ 86,000 + maximum exempted limit ₹ 3,00,000)	4,300
Tax liability	36,800
Less: Rebate u/s 87A	Nil
	36,800
Add: Health & Education cess	1,472
Tax and cess payable	38,272
Less: TDS	14,272
Advance tax payable	**24,000**

Advance tax to be paid on specified dates-

Date	Alternate 1		Alternate 2	
	Working	Amount	Working	Amount
15-06-2025	15% of ₹ 24,000	3,600	15% of ₹ 24,000	3,600
15-09-2025	30% of ₹ 24,000	7,200	[45% of ₹ 24,000) – ₹ 3,600]	7,200
15-12-2025	30% of ₹ 24,000	7,200	[(75% of ₹ 24,000) – (₹ 3,600 + ₹ 7,200)]	7,200
15-03-2026	25% of ₹ 24,000	6,000	[100% of ₹ 24,000 – (₹ 3,600 + ₹ 7,200 + ₹ 7,200)]	6,000
	Total	**24,000**	**Total**	**24,000**

Question 2 (WB)

From the following information, compute the amount of instalments of advance tax payable by Ram and Shyam along with the due dates as per the Income Tax Act for the assessment year 2026- 27:

	Ram	Shyam
Tax payable (including health and education cess)	**25,000**	**30,000**
Tax deducted at source	**20,000**	**10,000**

Answer 2

Computation of Advance Tax Liability for the Previous Year 2025-26

Income	Ram	Shyam
Tax Payable (including HEC)	25,000	30,000
Less: Tax Deducted at Source	20,000	10,000
Advance Tax Payable	**5,000**	**20,000**

Advance tax to be paid on specified dates –

Ram: Since the amount of advance tax payable is less than ₹ 10,000, he is not liable to pay advance tax.

Shyam:

Date	Alternate 1		Alternate 2	
	Working	Amount	Working	Amount
15-06-2025	15% of ₹ 20,000	3,000	15% of ₹ 20,000	3,000
15-09-2025	30% of ₹ 20,000	6,000	[(45% of ₹ 20,000) – (₹ 3,000)]	6,000
15-12-2025	30% of ₹ 20,000	6,000	[(75% of ₹ 20,000) – (₹ 9,000)]	6,000
15-03-2026	25% of ₹ 20,000	5,000	[(100% ₹ 20,000) – (₹ 15,000)]	5,000
Total		20,000	Total	20,000

Question 3 (WB) LDR

The following Particulars are furnished by Mr. D Chaturvedi for the previous year 2025-26:

Income from Salary	**₹9,40,000**
Income from let out House Property	**₹3,20,000**
Income from Business	**₹5,80,000**
Income from other sources	**₹60,000**

He is entitled to a deduction u/s 80C for ₹ 1,50,000, u /s 80G ₹ 30,000 and u/s 80D ₹ 20,000. Tax Deducted at Source is ₹ 1,80,000.

Compute the advance tax payable by him (if he opts for the old tax regime) with the due dates of payment of instalments assuming he is (i) 45 years old (ii) 65 years old .

Answer 3

Computation of the total income of Mr. D Chaturvedi for the previous year 2025-26

Particulars	Details	Amount
Income from Salary		9,40,000
Income from let out property		3,20,000
Income from Business		5,80,000
Income from Other Sources		60,000
Gross Total Income		19,00,000
Less: Deduction u/s 80C	1,50,000	
Less: Deduction u/s 80D	20,000	
Less: Deduction u/s 80G	30,000	2,00,000
Total Income		**17,00,000**

Computation of tax liability of Mr. D Chaturvedi for the previous year 2025-26

Income	Case 1 45 Years	Case 2 65 Years
Tax	3,22,500	3,20,000
Less: Rebate u/s 87A	Nil	Nil
	3,22,500	3,20,000
Add: Health & Education cess	12,900	12,800
	3,35,400	3,32,800
Less: Tax Deducted at Source	1,80,000	1,80,000
Total Advance tax payable	**1,55,400**	**1,52,800**

Advance tax to be paid on specified dates –

Date	Case 1 [45 Years]		Case 2 [65 Years]	
	Working	Amount	Working	Amount
15-06-2025	15% of ₹ 1,55,400	23,310	15% of ₹ 1,52,800	22,920
15-09-2025	30% of ₹ 1,55,400	46,620	30% of ₹ 1,52,800	45,840
15-12-2025	30% of ₹ 1,55,400	46,620	30% of ₹ 1,52,800	45,840
15-03-2026	25% of ₹ 1,55,400	38,850	25% of ₹ 1,52,800	38,200
Total		**1,55,400**	**Total**	**1,52,800**

Alternative Solution

Date	Case 1 [45 Years]		Case 2 [65 Years]	
	Working	Amount	Working	Amount
15-06-2025	15% of ₹ 1,55,400	23,310	15% of ₹ 1,52,800	22,920
15-09-2025	[(45% of ₹ 1,55,400) – ₹23,310]	46,620	[(45% of ₹ 1,52,800) – ₹22,920]	45,840
15-12-2025	[(75% of ₹ 1,55,400) – (₹23,310 + ₹ 46,620)]	46,620	[(75% of ₹ 1,52,800) – (₹22,920 + ₹ 45,840)]	45,840
15-03-2026	[100% of ₹ 1,55,400 – (₹23,310 + ₹ 46,620 + ₹46,620)]	38,850	[100% of ₹ 1,52,800 – (₹22,920 + ₹ 45,840 + ₹ 45,840)]	38,200

If he is under default tax regime i.e., he is paying tax u/s 115BAC(1A)

Computation of the total income of Mr. D Chaturvedi for the previous year 2025-26

Particulars	Details	Amount

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Income from Salary		9,40,000
Income from let out property		3,20,000
Income from Business		5,80,000
Income from Other Sources		60,000
Gross Total Income		19,00,000
Less: Deduction u/s 80C	NA	
Less: Deduction u/s 80D	NA	
Less: Deduction u/s 80G	NA	Nil
Total Income		**19,00,000**

Computation of tax liability of Mr. D Chaturvedi for the previous year 2025-26

Income	Case 1 & 2
Tax	1,80,000
Less: Rebate u/s 87A	Nil
	1,80,000
Add: Health & Education cess	7,200
	1,87,200
Less: Tax Deducted at Source	(1,80,000)
Total Advance tax payable	**7,200**

Assessee is not liable to pay advance tax since tax liability is < 10,000

Question 4 (WB)

Mr. Kabra working in Y Ltd. furnishes the following details, compute the tax to be deducted at source by Y Ltd.

Gross salary	**₹ 15,50,000**
Interest paid on borrowed capital for self-occupied property	**₹ 50,000**
Loss from business	**₹ 1,00,000**
Gross Interest Income (TDS ₹ 5,000)	**₹ 60,000**
Investment in PPF	**₹ 1,00,000**
Tax Regime declared by Mr. X	**Old**

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Answer 4

Case (i): He has opted for the old tax regime Computation of tax to be deducted at source by Y Ltd

Particulars	Tax on income including other income	Tax on income excluding other income
Gross Salary	15,50,000	15,50,000
Less: Standard Deduction	50,000	50,000
	15,00,000	15,00,000
Loss from House Property	(50,000)	(50,000)
Interest Income	60,000	Nil
Gross Total Income	15,10,000	14,50,000
Less: Deduction u/s 80C [Investment in PPF]	1,00,000	1,00,000
Total Income	14,10,000	13,50,000
Tax on above	2,35,500	2,17,500
Less: Rebate u/s 87A	Nil	Nil
Tax after rebate	2,35,500	2,17,500
Add: Health & Education cess @ 4%	9,420	8,700
Tax and cess payable	2,44,920	2,26,200
Less: Tax deducted at source on other income	5,000	5,000
Balance	2,39,920	2,21,200
Tax to be deducted by Y Ltd. (Higher of ₹ 2,39,920 or ₹2,21,200)	2,39,920	

Case (i): He has opted for the default tax regime Computation of tax to be deducted at source by Y Ltd

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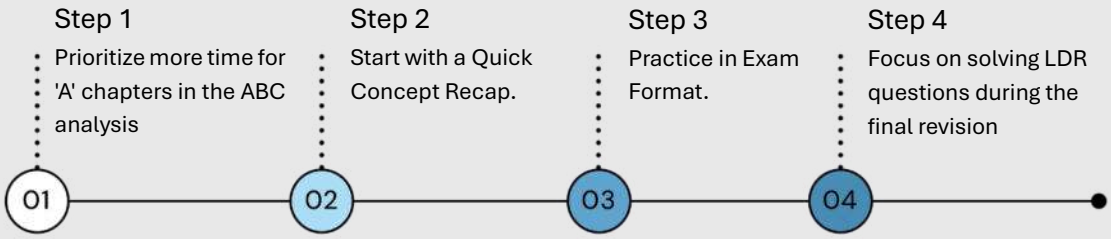
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Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

Stock valuation	In financial accounts, stocks are valued as per the relevant Accounting Standard (for example, AS 2 specifies that closing inventory should be valued at cost [carrying amount] or net realisable value whichever is lower.	In financial accounts, stocks are valued as per the relevant Accounting Standard (for example, AS 2 specifies that closing inventory should be valued at cost [carrying amount] or net realisable value whichever is lower.
Relative Efficiency	Financial accounts do not reveal the relative efficiency of each department or section.	Cost account provides information on the relative efficiencies of various plant and Machinery

1.3 IMPORTANT COST ACCOUNTING TERMS

Question 6 [MQP [1] 4 Marks June'25, PYP 4 Marks Dec'23]

What is a Responsibility Centre? What are different types of Responsibility Centre?

Answer 6

Responsibility Centre:

CIMA official terminology defines responsibility centre as departmental organisational function whose performance is the direct responsibility of a specific manager. Responsibility centre refers to a particular segment or unit of an organisation for which a particular manager, employee, or department is held responsible and accountable for its business goals and objectives. It refers to the part of company where a manager has authority and responsibility. A responsibility centre is a functional entity within a business that tends to have its own goals and objectives, policies and procedures, thereby giving managers specific responsibilities for revenues, expenses incurred, funds invested, etc.

Types of Responsibility Centres:

(i) **Cost Centre** – Under this concept, the [illegible] department, maintenance department [illegible]

(ii) **Profit Centre** – Under this concept, the [illegible] would have all the responsibility of [illegible]

(iii) **Revenue Centre** – This concept is [illegible] center is evaluated by comparing the actual revenue attained with the budgeted revenue.

(iv) **Investment Centre** – Apart from looking into the profits, this center looks into returns on the funds invested in the group's operations. Thus, investment center is also a profit center with additional responsibilities for capital investment and possibly for financing, and whose performance is measured by its return on investment.

Topic-wise Break up

Question 7 (MQP [2] 4 Marks June'25, PYP 5 Marks Dec'19)

Answer 7

Opportunity Cost:

Opportunity cost [illegible] alternatives foregone by adopting a particular strategy or employing resources in a specific manner. It is [illegible] return expected from an investment other than the present one. These refer to costs that result from the use or application of material, labour or other facilities in a particular manner which has been foregone due to not using the facilities in the manner originally planned. Resources (or input) like men, materials, plant and machinery, finance etc., when utilized in one particular way, yield a particular return (or output). If the same input is utilized in another way, yielding the same or a different return, the original return on the [illegible] the bank [illegible] on the [illegible] space is [illegible] foregone.

Includes 100% coverage of Work Book+ SM + MCQ Bank + MQP + PYP

Imputed Cost:

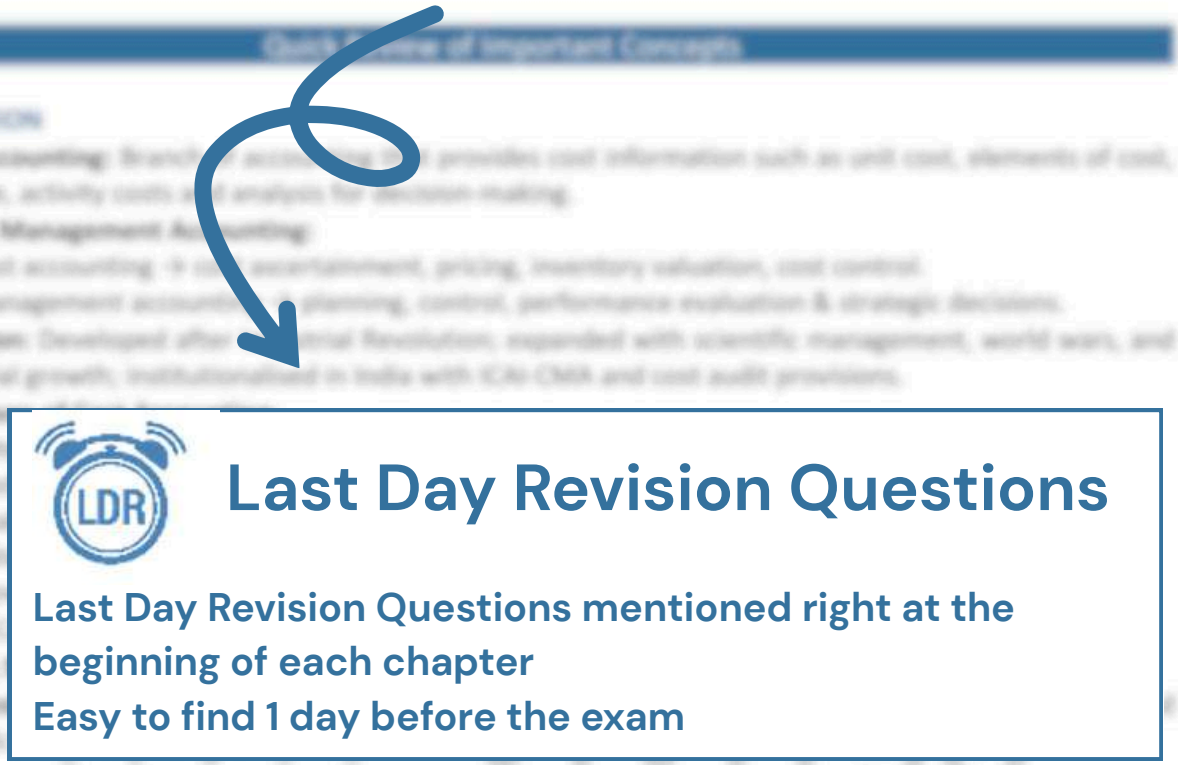
Imputed cost is a hypothetical or notional cost, not involving cash outlay and computed only for the purpose of decision-making. In this respect, imputed cost is similar to opportunity cost. Interest on funds generated

LDR Questions	DESCRIPTIVE - Q 5, Q 7, Q 10, Q 25, Q 27, Q 29 MCQ: Q 2, Q 15, Q 28, Q 39, Q 50

Quick Revision of Important Concepts

INTRODUCTION

- **Cost Accounting:** Branch of accounting that provides cost information such as unit cost, elements of cost, wastage, activity costs and analysis for decision-making.
- **Cost vs Management Accounting:**
  - Cost accounting → cost ascertainment, pricing, inventory valuation, cost control.
  - Management accounting → planning, control, performance evaluation & strategic decisions.
- **Evolution:** Developed after Industrial Revolution; expanded with scientific management, world wars, and industrial growth; institutionalised in India with ICAI-CMA and cost audit provisions.
- **Objectives:**
  - Determination of cost
  - Control of cost
  - Ascertainment of profitability
  - Determination of selling price
  - Provision of cost information for managerial decisions
- **Scope:** [illegible]
- **Costing** [illegible]
- **Core** [illegible] strategic



IMPORTANT COST ACCOUNTING TERMS

- **Cost:** Monetary value of resources used for producing goods/services.
  Types: → Historical cost, Economic (opportunity) cost, Out-of-pocket, Sunk, Imputed, Relevant, Avoidable/Unavoidable, Controllable/Non-controllable.
- **Cost Object:** Any item for which cost is measured (product, service, customer, project).
- **Cost Unit:** Unit for measuring cost per output (per kg, per unit, per hour).
  Composite cost unit: Combination units like tonne-km, passenger-km.
- **Cost Centre:** Location/department where costs are collected (production or service centres).
- **Responsibility Centres:**

Type	Manager Responsible For	Performance Measure	Example
Cost Centre	Costs only	Cost variance (Actual vs Budget)	Production Dept., HR
Revenue Centre	Revenue only	Sales variance	Sales Dept.
Profit Centre	Revenue + Costs	Profit (Revenue − Cost)	Branch Office
Investment Centre	Profit + Capital invested	ROI / Residual income	Subsidiary / Division

- **Cost of Production:** Material + labour + direct expenses + production overheads + admin & R&D related to production ± WIP/FG adjustments.
- **Conversion Cost:** Direct labour + direct expenses + production overheads (cost of converting materials into finished goods).
- **Overheads:** Indirect costs not traceable to product.
  Types: → Production, Administrative, Selling, Distribution, Marketing.
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- **Cost Apportionment:** Distribution of common costs among cost centres on a fair basis.
- **Cost Absorption:** Charging overheads to products using rates (labour hour, machine hour, % of cost).
- **Under/Over Absorption:**

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Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

Quick Review of Important Concepts

DIRECT VS INDIRECT LABOUR

Direct Labour	Indirect Labour
Directly involved in production	Support activities
Charged to cost unit	Treated as OH
Example: machine operators	Supervisors, maintenance

CAS-7 MEASUREMENT

Include: Gross wages + allowances + bonus + PF + benefits
Exclude: Penalties, abnormal cost, imputed cost
Deduct: Subsidy/benefit recoveries

LABOUR COST CONTROL TOOLS

• Production planning	• Labour budget	• Standard labour cost
• Performance reports	• Incentive schemes	• Time-keeping & payroll system

Time Keeping	Time Booking
Attendance record	Time spent on each job
Basis for wage payment	Basis for job costing
Shows total hours	Shows productive & idle time

IDLE TIME

Cost of idle time = Idle hours × Hourly rate

Type	Treatment
Normal idle time	Factory overhead
Normal but uncontrollable	Charged to jobs
Abnormal idle time	Costing P&L

Idle time ratio = Idle hours / Total hours ×100

OVERTIME TREATMENT

Situation	Treatment
Customer's urgent order	Charge to job
General workload	Factory overhead
Department fault	Department OH
Abnormal reason	Costing P&L

LABOUR TURNOVER METHODS

Method	Formula
Additions	Additions / Avg workers ×100
Separation	Separation / Avg workers ×100
Replacement	Replacement / Avg workers ×100
Flux	½(Additions+Separations)/Avg workers ×100

Quick Review of Important Concepts

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ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

WHAT DOES REVIEWER INCLUDE?

This Reviewer offers 100% coverage, including all questions from:

- **SM: ICMAI Study Material Questions**
- **WB: ICMAI Work Book Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: INTRODUCTION TO COST ACCOUNTING

A

LDR Questions	DESCRIPTIVE - Q 5, Q 7, Q 10, Q 25, Q 27, Q 29 MCQ: Q 2, Q 15, Q 28, Q 39, Q 50

Quick Review of Important Concepts

INTRODUCTION

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- **Evolution:** Developed after Industrial Revolution; expanded with scientific management, world wars, and industrial growth; institutionalised in India with ICAI-CMA and cost audit provisions.
- **Objectives of Cost Accounting:**
  - Determine unit cost & selling price
  - Cost control & reduction
  - Analyse profitability
  - Detect wastage/inefficiency
  - Provide decision-making data
- **Scope:** Cost recording, cost ascertainment, analysis, comparison, control, reporting and cost audit.
- **Costing Systems:** Historical, Absorption, Direct, Standard, Uniform etc.
- **Core Insight:** Accounting supports decision-making; cost accounting strengthens internal efficiency and strategic success of an organisation.

VIMTSU
SERVING TOWARDS KNOWLEDGE

IMPORTANT COST ACCOUNTING TERMS

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- **Cost Absorption:** Charging overheads to products using rates (labour hour, machine hour, % of cost).
- **Under/Over Absorption:**

- Actual overhead > absorbed → Under-absorbed
- Actual overhead < absorbed → Over-absorbed.

ELEMENTS OF COST

1) Cost Classification

- **Direct Cost** → Traceable to product
- **Indirect Cost (Overheads)** → Not traceable, absorbed on basis

2) Elements of Cost

- Material
- Labour
- Expenses
- Each = Direct + Indirect

3) Prime Cost

Prime Cost = Direct Material + Direct Labour + Direct Expenses

4) Overheads Types

- Production
- Administrative
- Selling & Distribution

5) Absorption Costing

- Includes Direct + Indirect manufacturing cost
- GAAP compliant
- Used for inventory valuation

CLASSIFICATION OF COST

1. Five Classifications of Cost (CAS-1 Para 6)

Basis	Types
By Nature of Expense	Material, Employee (Labour), Expenses
By Traceability	Direct Cost, Indirect Cost
By Function	Production, Administration, Selling & Distribution, R&D
By Behaviour	Fixed, Variable, Semi-variable
By Production Process	Job, Batch, Contract, Process, Joint

2. Classification by Traceability

Direct Cost	Indirect Cost
Direct Material	Indirect Material
Direct Labour	Indirect Labour
Direct Expenses	Indirect Expenses
Traceable to product	Not directly traceable → treated as overhead

3. Classification by Behaviour

Type	Key Feature	Per Unit Behaviour	Total Behaviour
Fixed Cost	Time/period related	Decreases with output	Constant
Variable Cost	Output related	Constant	Increases with output
Semi-Variable	Mixed cost	Varies	Part fixed + part variable

4. Cost Behaviour Equation

Concept	Formula
Cost Function	**y = mx + c**
y	Total Cost
m	Variable cost per unit
x	Level of activity
c	Fixed cost

5. Segregation of Semi-Variable Cost

Method	Key Idea
Graphical Method	Scatter diagram + line of best fit
High–Low Method	Use highest & lowest activity levels
Linear Equation Method	Solve using y = mx + c
Least Square Method	Statistical regression approach

VIVITSU
G TOWARDS KNOWLEDGE

PREPARATION OF COST SHEET AND ASCERTAINMENT OF PROFIT

⇒ **Standard Cost Sheet Format (Exam Table)**

Particulars	Amount
A. Prime Cost	
Opening Raw Material	
+ Purchases	
– Closing Raw Material	
+ Direct charges on material	
= Material Consumed	
+ Direct Labour	
+ Direct Expenses	
= Prime Cost	
B. Works / Factory Cost	
Prime Cost	
+ Factory Overheads	
= Works Cost	
+ Opening WIP	
– Closing WIP	
= Adjusted Works Cost	
C. Cost of Production & COGS	
Adjusted Works Cost	
+ Administrative Overheads	
= Cost of Production	
+ Opening Finished Goods	
– Closing Finished Goods	
= Cost of Goods Sold	
D. Cost of Sales	
Cost of Goods Sold	
+ Selling & Distribution OH	
= Cost of Sales	
E. Profit Statement	
Cost of Sales	
+ Profit (on cost / on sales)	
= Sales	

VIVITSU
STRIVING TOWARDS KNOWLEDGE

⇒ **Profit Calculation**

- Profit on Cost = Cost × %
- Profit on Sales = Sales × %
- Sales = Cost ÷ (1 − profit % on sales)

⇒ **GST Treatment (Adjustment)**

Situation	Cost Sheet Treatment
GST registered	Exclude GST (ITC available)
Not registered	Include GST in cost
Capital asset + ITC	Depreciation on net value
Capital asset no ITC	Depreciation on full value

1.1 INTRODUCTION

Question 1 (MQP[1] 4 Marks Dec'23, MQP [2] 4 Marks Dec'25, PYP 4 Marks Dec'24)

Summarize the objections of Cost Accounting

Answer: 1

Objection of Cost Accounting:

The objectives are Summarised in the following lines

1. To ascertain the cost of production on per unit basis, for example, cost per kg, cost per meter, cost per litre, cost per ton etc.
2. Cost accounting helps in the fixation of selling price. Cost accounting enables to determine the cost of production which helps to fix the selling price.
3. Cost accounting helps in cost control and cost reduction.
4. Ascertainment of division wise, activity wise and unit wise profitability is analysed through cost accounting.
5. Cost accounting also helps in locating wastages, inefficiencies and other gaps in the production processes/services offered.
6. Cost accounting helps in presentation of relevant data to the management which helps in decision making. Decision making is the most important functions of Management which has specific linkages to the strategic success/failure of an organisation.

Question 2 (PYP 5 Marks Dec'19, MQP[2] 4 Marks Dec'24)

State the limitations of Cost Accounting System.

Answer 2

Limitations of Cost Accounting System:

Like any other system of accounting, Cost Accountancy is not an exact science but an art which has developed through theories and accounting practices based on reasoning and commonsense. Many of the theories cannot be proved nor can they be disproved. They grownup in course of time to become conventions and accepted principles of Cost Accounting. These principles are by no means static, they are changing from day to day and what is correct today may not hold true in the circumstances tomorrow. Large number of Conventions, Estimates and Flexible factors: No cost can be said to be exact as they incorporate a large number of conventions, estimations and flexible factors such as: -

- Classification of costs into its elements.
- Materials issue pricing based on average or standard costs.
- Apportionment of overhead expenses and their allocation to cost units/centres.
- Arbitrary allocation of joint costs.
- Division of overheads into fixed and variable.

Cost Accounting lacks the uniform procedures and formats in preparing the cost information of a product/service.

Keeping in view above limitations, all Cost Accounting results can be taken as mere estimates.

Question 3 (PYP 4 Marks June'24, June'25)

State the essentials of a Cost Accounting System.

Answer 3

Essentials of a Good Cost Accounting System:

(i) Cost accounting system should be tailor made, practical, simple and capable of meeting the requirement of a business concern.

(ii) The data to be used by the cost accounting system should be accurate, otherwise it may distort the output of the system.

(iii) Necessary co-operation and participation of executives from various departments of the concern is essential for developing a good system of cost accounting.

(iv) The cost of installing and operating the system should not be too high and ultimately pass the cost-benefit analysis test.

(v) The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.
(vi) A carefully phased programme should be prepared by using network analysis for the introduction of the system.
(vii) Management should have a faith in the costing system and should also provide a helping hand for its development and success.

Question 4 (MQP [1] 4 Marks Dec'24)

Distinguish between Cost Accounting and Management Accounting.

Answer 4

Cost accounting is that branch of accounting which aims at generating information to control operations with the aim of maximizing profits and efficiency of the company. Conversely, management accounting is the type of accounting which assist management in planning and decision-making and thus is also referred as decision accounting.

Following is a tabular representation of the differences between two accounting systems.

Basis of Comparison	Cost Accounting	Management Accounting Meaning
Meaning	The recording, classifying and summarizing of cost data of an organisation is known as cost accounting.	The accounting in which the both financial and non-financial information are provided to managers is known as Management Accounting.
Information Type	It is Quantitative in nature.	It is both Quantitative and Qualitative in nature.
Objective	Ascertainment of cost of production.	Providing information to managers to make decisions, and forecast strategies.
Scope	Concerned with ascertainment, allocation, distribution and accounting aspects of cost.	Managerial decision making.
Specific Procedure	There is a Specific procedure	No. Thus the scope of management accounting is much broad.
Target	Recording of cost data (past and present).	It gives more stress on the analysis of future projections.

Question 5 (MQP[1] 4 Marks June'24, Dec'25) LDR

Distinguish between Financial Accounting and Cost Accounting.

Answer 5

Difference between Financial and Cost Accounting:

Basis of Comparison	Financial Accounting	Cost Accounting
Purpose	It is prepared for providing information about the results of the business activities as a whole for a particular period to the users.	The main purpose of Cost Accounting is to provide information to the management for the proper planning, control and decision making.
Need	Financial Accounts are maintained as per the requirements of Companies Act and Income Tax Act.	Cost accounts are maintained to meet the requirement of the Management.
Recording	Transactions are classified, recorded and analysed subjectively.	In cost accounting, transactions are classified, recorded and analysed objectively according to the purpose for which costs are incurred.
Analysis of profit	Financial accounting reveals the profit of a business as a whole.	Cost Accounting shows the profit made on each product, job or process.
Accounting period	Financial accounts are prepared for a definite period.	Cost reports are prepared frequently and submitted to the management according to their requirement which may be daily, weekly, etc.

Stock valuation	In financial accounts, stocks are valued as per the relevant Accounting Standard (for example, AS 2 specifies that closing inventory should be valued at cost [carrying amount] or net realisable value whichever is lower.	In financial accounts, stocks are valued as per the relevant Accounting Standard (for example, AS 2 specifies that closing inventory should be valued at cost [carrying amount] or net realisable value whichever is lower.
Relative Efficiency	Financial accounts do not reveal the relative efficiency of each department or section.	Cost account provides information on the relative efficiencies of various plant and Machinery

1.2 IMPORTANT COST ACCOUNTING TERMS

Question 6 **(MQP[1] 4 Marks June'25, PYP 4 Marks Dec'23)**

What is a Responsibility Centre? What are different types of Responsibility Centre?

Answer 6

Responsibility Centre:

CIMA official terminology defines responsibility centre as departmental or organisational function whose performance is the direct responsibility of a specific manager. Responsibility centre refers to a particular segment or unit of an organisation for which a particular manager, employee, or department is held responsible and accountable for its business goals and objectives. It refers to the part of company where a manager has authority and responsibility. A responsibility centre is a functional entity within a business that tends to have its own goals and objectives, policies and procedures, thereby giving managers specific responsibility for revenues, expenses incurred, funds invested, etc.

Types of Responsibility Centres:

(i) **Cost Centre** – Under this center, the manager is held responsible only for the costs, including a production department, maintenance department, human resource department, etc.

(ii) **Profit Centre** – Under this center, the manager is responsible for all costs and revenues. Here, the manager would have all the responsibility to make decisions that would affect both the revenue and costs.

(iii) **Revenue Centre** – This segment is primarily responsible for attaining sales revenue. The performance of this center is evaluated by comparing the actual revenue attained with the budgeted revenue.

(iv) **Investment Centre** – Apart from looking into the profits, this center looks into returns on the funds invested in the group's operations. Thus, investment center is also a profit center with additional responsibilities for capital investment and possibly for financing, and whose performance is measured by its return on investment.

Question 7 **(MQP [2] 4 Marks June'25, PYP 5 Marks Dec'19)** LDR

Explain the concept of Opportunity Cost and Imputed Cost with suitable examples.

Answer 7

Opportunity Cost:

Opportunity cost is the value of alternatives foregone by adopting a particular strategy or employing resources in a specific manner. It is the return expected from an investment other than the present one. These refer to costs that result from the use or application of material, labour or other facilities in a particular manner which has been foregone due to not using the facilities in the manner originally planned. Resources (or input) like men, materials, plant and machinery, finance etc., when utilized in one particular way, yield a particular return (or output). If the same input is utilized in another way, yielding the same or a different return, the original return on the foregone alternative that is no longer obtainable is the opportunity cost. For example, if fixed deposits in the bank are proposed to be withdrawn for financing a project, the opportunity cost would be the loss of interest on the deposits. Similarly, when a building leased out on rent to a party is got vacated for own purpose or vacant space is not leased out but used internally, say, for expansion of the production programme, the rent so foregone is an opportunity cost.

Imputed Cost:

Imputed cost is a hypothetical or notional cost, not involving cash outlay and computed only for the purpose of decision-making. In this respect, imputed cost is similar to opportunity cost. Interest on funds generated

CHAPTER 2.2 : EMPLOYEE COSTS

B

LDR Questions	DESCRIPTIVE - Q 4, Q 17, Q 19, Q 36, Q 38 MCQ – 3, 23, 44

Quick Review of Important Concepts

DIRECT VS INDIRECT LABOUR

Direct Labour	Indirect Labour
Directly involved in production	Support activities
Charged to cost unit	Treated as OH
Example: machine operators	Supervisors, maintenance

CAS-7 MEASUREMENT

Include: Gross wages + allowances + bonus + PF + benefits
Exclude: Penalties, abnormal cost, imputed cost
Deduct: Subsidy/benefit recoveries

LABOUR COST CONTROL TOOLS

• Production planning	• Labour budget	• Standard labour cost
• Performance reports	• Incentive schemes	• Time-keeping & payroll system

TIME KEEPING VS TIME BOOKING

Time Keeping	Time Booking
Attendance record	Time spent on each job
Basis for wage payment	Basis for job costing
Shows total hours	Shows productive & idle time

VIVITSU
STRIVING TOWARDS KNOWLEDGE

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Cost of idle time = Idle hours × hourly rate

Type	Treatment
Normal idle time	Factory overhead
Normal but uncontrollable	Charged to jobs
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Idle time ratio = Idle hours / Total hours ×100

OVERTIME TREATMENT

Situation	Treatment
Customer's urgent order	Charge to job
General workload	Factory overhead
Department fault	Department OH
Abnormal reason	Costing P&L

LABOUR TURNOVER METHODS

Method	Formula
Additions	Additions / Avg workers ×100
Separation	Separation / Avg workers ×100
Replacement	Replacement / Avg workers ×100
Flux	½(Additions+Separations)/Avg workers ×100

COST TREATMENT

Cost type	Treatment
Preventive	Overheads
Replacement	Dept OH / general OH

EFFICIENCY RATIOS

1. **Labour Efficiency Ratio** $= \frac{\text{Standard hours for actual output}}{\text{Actual hours worked}} \times 100$

2. **Capacity Utilisation Ratio** $= \frac{\text{Actual hours worked}}{\text{Total available hours}} \times 100$

3. **Production Volume Ratio** $= \text{Efficiency} \times \text{Capacity utilisation}$

METHODS OF WAGE PAYMENT

A. Time Rate

- Payment based on time worked
- Suitable when quality important

B. Piece Rate

- Payment based on output

Type	Key Idea
Straight piece	Rate per unit
Taylor differential	120% efficient, 80% inefficient
Merrick	Multiple efficiency slabs

BONUS PLANS (NUMERICAL FORMULAS)

Let:
T = Time taken
TA = Time allowed
TS = Time saved = TA − T
R = Rate per hour

Halsey Plan= $\text{Earnings} = T \times R + 50\% \times TS \times R$
Halsey-Weir= $\text{Earnings} = T \times R + 33⅓\% \times TS \times R$
Rowan Plan= $\text{Earnings} = T \times R + \frac{TS}{TA} \times T \times R$
Barth Plan= $\text{Earnings} = R \times \sqrt{(TA \times T)}$

VIVITSU
STRIVING TOWARDS KNOWLEDGE

SPECIAL LABOUR COST TREATMENT

Item	Treatment
Supervisor salary	Factory OH
Night shift allowance	Production OH / job
Attendance bonus	Department OH
PF contribution	Direct wages / OH
Leave travel allowance	Direct / OH depending on employee
Holiday wages	Same as overtime

Question & Answer

Question 1 (MQP [2] 5 Marks Dec'23)

Write short notes on the following: Items to be 'excluded' for the purpose of measuring Employee Cost.

Answer 1

The following items are to be 'excluded' for the purpose of measuring employee cost:

I. Remuneration paid to non-executive director.
II. Cost of idle time [Hours spent as idle time × hourly rate]
III. Variance in employee payments / costs, due to abnormal reasons (if standard costing system is followed).
IV. Any abnormal payment to an employee – which are material and quantifiable.
V. Penalties, damages paid to statutory authorities or third parties.
VI. Recoveries from employees towards benefits provided – this should be adjusted / reduced from the employee cost.
VII. Cost related to labour turnover – recruitment cost, training cost and etc.
VIII. Unamortized amount related to discontinued operations.

Question 2 (MQP [1] 5 Marks June'24)

Analyse the Time Rate, Piece Rate and Differential Piece Rate Systems with regard to labour.

Answer 2

A. Time Rate System:
   I. Time Rate at Ordinary Levels: Under this method, rate of payment of wages per hour is fixed and payment is made accordingly on the basis of time worked irrespective of the output produced.
   II. Time Rate at High Wage Levels: This system is a variation of time rate at ordinary levels in the sense that in this system, workers are paid at time rate but the rate is much higher than that is normally paid in the industry or area.
   III. Graduated Time Rate: Under this method payment is made at time rate, which varies according to personal qualities of the workers.
B. Piece Rate System: This method is also called as payment by results where the workers are paid as per the production achieved by them. Thus, if a worker produces higher output, he can earn higher wages. Under the piece rate system of wage payment, the workers receive a flat rate of wages either for time worked or for units manufactured.
C. Differential Piece Rate System: Under these methods, the rate per standard hour of production is increased as the output level rises. The increase in rates may be proportionate to the increase in output or proportionately more or less than that as may be decided. In other words, a worker is paid higher wages for higher productivity as an incentive.

Question 3 (MQP [2] 5 Marks Dec'25)

Analyze the measurement of Labour Turnover?

Answer 3

It is essential for any organisation to measure the Labour Turnover. This is necessary for having an idea about the turnover in the organisation and also to compare the labour turnover of the previous period with the current one. The following methods are available for measurement of the labour turnover:

1. Additions Method: Under this method, number of employees added during a particular period is taken into consideration for computing the Labour Turnover. The method of computing is as follows:

   $$\text{Labour Turnover} = \frac{\text{Number of additions}}{\text{Average Number of Workers during the period}} \times 100$$

2. Separation Method: In this method, instead of taking the number of employees added, number of employees left during the period is taken into consideration. The method of computation is as follows:

   $$\text{Labour Turnover} = \frac{\text{Number of separation}}{\text{Average Number of Workers during the period}} \times 100$$

3. Replacement Method: In this method neither the additions nor the separations are taken into consideration. The number of employees replaced is taken into consideration for computing the labour turnover.

   $$\text{Labour Turnover} = \frac{\text{Number of Replacement}}{\text{Average Number of Workers during the period}} \times 100$$

4. Flux Method: Under this method Labour Turnover is computed by taking into consideration the additions as well as separations. The turnover can also be computed by taking replacements and separations also. Computation is done as per the following methods:

$$\text{Labour Turnover} = \frac{\left(\frac{1}{2}\right)\times(\text{Number of Additions} + \text{Number of Separation})}{\text{Average Number of Workers during the period}} \times 100$$

Question 4 **(MQP[1] 5 Marks Dec'25)** **LDR**

The rising labour turnover presents a dual challenge, adversely affecting both workforce productivity and leading to increased costs. Discuss the costs associated with labour turnover.

Answer 4

Cost of labour turnover: The rising labour turnover presents a dual challenge, adversely affecting both workforce productivity and leading to increased costs. The costs associated with labour turnover can be categorized into two main groups:

- Preventive Costs – Preventive Costs refer to the expenditures incurred by an organization with the primary objective of maintaining worker satisfaction and discouraging employees from leaving their employment. These costs are essentially investments made to create a positive work environment, foster employee engagement, and address factors that might contribute to high turnover. Examples of preventive costs include:
  (a) Employee Benefits: Offering attractive benefits such as health insurance, retirement plans, and wellness programs to enhance job satisfaction and loyalty.
  (b) Training and Development: Providing ongoing training and development opportunities to enhance employee skills, job satisfaction, and career growth, making them more likely to stay with the organization.
  (c) Workplace Wellness Programs: Implementing initiatives to support the well-being of employees, both physically and mentally, contributing to overall job satisfaction and reducing the likelihood of turnover.
  (d) Competitive Compensation: Ensuring that salaries and other forms of compensation are competitive within the industry, preventing employees from seeking better-paying opportunities elsewhere.
  (e) Employee Recognition Programs: Acknowledging and rewarding employees for their contributions, fostering a positive work culture and reinforcing their sense of value within the organization.

By investing in these preventive measures, organizations aim to create a workplace that employees find fulfilling and satisfying, reducing the inclination to leave for better opportunities.

Question 5 **(MQP [2] 3 Marks June'23)**

What is labour turnover? State the causes of labour turnover? What are the methods of measuring labour turnover?

Answer 5

Labour turnover is the rate of change in the labour force of a concern during a specific period. In every organisation some employees leave every year while new employees are recruited in their place. This is a natural phenomenon in industrial sector and it gives rise to the problem of labour turnover. The rate at which the employees depart from the organisation is normally measured as the ratio of number of persons leaving in a period to the average number of employees on the pay roll. A controlled level of labour turnover is considered as desirable because it helps the firm to adjust the size of its labour force in response to needs such as for seasonal changes or changes in technology.

The rate of labour turnover is high if the number of employees leaving the organisation occurs frequently. This leads to—

(i) decrease in the productivity and efficiency in the concern,
(ii) destabilize normal flow of work,
(iii) increases the labour cost.

Causes of Labour Turnover

The causes giving rise to high labour turnover may be broadly classified under the following heads:

- **Personnel Causes:** Workers may leave employment purely on personal grounds, e.g.,
  a) Dislike for the job, locality or environments.
  b) Domestic troubles and family responsibilities.
  c) Change of line for betterment.
  d) Retirement due to old age and ill health.
  e) Death.

In all such cases, personal factors count the most and employer can practically do nothing to help the situation.

- **Unavoidable Causes:** In certain circumstances it becomes obligatory on the part of the management to ask some of the workers to leave. These circumstances are:
  a) Retrenchment due to seasonal trade, shortage of any material and other resources, slack market for the product, etc.
  b) Discharge on disciplinary grounds.
  c) Discharge due to continued or long absence.
- **Avoidable Causes:** Under this head, may be grouped the causes which need the attention of the management most so that the turnover may be kept low by taking remedial measures. The main reasons for which workers leave are:
  a) Unsuitability of job
  b) Low pay and allowance
  c) Unsatisfactory working conditions
  d) Unhappy relations with co-workers and unsatisfactory behaviour of superior
  e) Dispute between rival trade unions.
  f) Lack of transport, accommodation, medical and other factors
  g) Lack of amenities like recreational centres, schools, etc.

The above causes may also be classified in a different manner under three heads, viz., Financial Causes, Social and Economic Causes and Psychological Causes relating to human relationship.

Measurement of Labour Turnover

It is essential for any organisation to measure the Labour Turnover. This is necessary for having an idea about the turnover in the organisation and also to compare the labour turnover of the previous period with the current one. The following methods are available for measurement of the labour turnover:

- **Additions Method:** Under this method, number of employees added during a particular period is taken into consideration for computing the Labour Turnover. The method of computing is as follows:

$$\text{Labour Turnover} = \frac{\text{Number of Addition}}{\text{Average Number of Worker during the period}} \times 100$$

- **Separation Method:** In this method, instead of taking the number of employees added, number of employees left during the period is taken into consideration. The method of computation is as follows:

$$\text{Labour Turnover} = \frac{\text{Number of Separation}}{\text{Average Number of Worker during the period}} \times 100$$

- **Replacement Method:** In this method neither the additions nor the separations are taken into consideration. The number of employees replaced is taken into consideration for computing the labour turnover.

$$\text{Labour Turnover} = \frac{\text{Number of Replacements}}{\text{Average Number of Worker during the period}} \times 100$$

- **Flux Method:** Under this method Labour Turnover is computed by taking into consideration the additions as well as separations. The turnover can also be computed by taking replacements and separations also. Computation is done as per the following methods:

$$\text{Labour Turnover} = \frac{\frac{1}{2}\times(\text{Number of Additions}+\text{Number of Seperation})}{\text{Average Number of Worker during the period}} \times 100$$

Question 6 (PYP 5 Marks Dec'25)

Give the meaning of Idle Time. Examine the reasons for Idle Time.

Answer 6

Meaning of Idle Time:

Idle time or machinery are not actively engaged in productive work but are still being paid. It represents unproductive time that does not contribute to the completion of tasks or the overall output of an organization. Idle time refers to the period of time when an asset, such as a machine or an employee, is available for use but remains unproductive.

e.g.: Idle time due to power failure, machine breakdown etc. Idle time cannot be booked for any particular job or process.

Reasons or Causes of Idle Time:

The reasons/causes of idle time are as follows:

1. **Production causes:**
   (i) Machine breakdown
   (ii) Power failure
   (iii) Waiting for work
   (iv) Waiting for tools
   (v) Waiting for materials
   (vi) Waiting for instructions

2. **Administrative causes:**
   (i) Poor planning
   (ii) Inadequate guidance
   (iii) Lack of supervision
   (iv) Unusual tea break
   (v) Distance between factory gate and place of work
   (vi) Interval between one job and another
3. **Economic causes:**
   (i) Poor demand for products
   (ii) Strikes or lockouts
   (iii) Underutilization of production capacity
   (iv) Closure in seasonal industries
   (v) Surplus manpower

Question 7 (SM)

The extracts from the payroll of M/s. Maheswari Bros. are as follows:

Number of employees at the beginning of 2022	**150**
Number of employees at the end of 2022	**200**
Number of employees resigned	**20**
Number of employees discharged	**5**
Number of employees replaced due to resignation and discharges	**20**

Calculate the Labour Turnover rate for the factory by different methods.

Answer 7

1. Separation Method $= \frac{25}{\frac{150+200}{2}} \times 100 = 14.29\%$
2. Replacement Method $= \frac{20}{\frac{150+200}{2}} \times 100 = 11.43\%$
3. Flux Method $= \frac{25+20}{\frac{150+200}{2}} \times 100 = 25.71\%$

Question 8 (SM)

During May 2023, there were 21 working days of 8 hours per day. The workforce consists of 10 employees, who all do the same work.

Due to problems in the production system and a machine breakdown, 240 hours were recorded as idle time during the month.

During May, the workforce produced 5,400 units of output. The expected time per unit of output is 15 minutes (= 0.25 hours).

Required:

For May 2023, Calculate, (a) the efficiency ratio (b) the capacity utilisation ratio (c) the production volume ratio

Answer 8

To calculate the efficiency ratio, the hours worked should exclude idle time.

Labour efficiency ratio $\frac{\text{Expected time to produce the output (in hours)}}{\text{Actual time to produce the output (in hours)}} \times 100\% = = 93.75\%$

Hours worked = (21 days × 8 hours × 10 employees) – 240 hours idle time = 1,680 – 240 = 1,440 hours

Therefore,

Labour efficiency ratio $= \frac{(5400 \text{ units} \times 0.25 \text{ hrs}) = 1350 \ hrs}{1440 \text{ hrs}} \times 100\% = 85.71\%$

Production volume ratio $= \frac{\text{Expected time to produce 5,400 units}}{\text{Total hours available}} = \frac{1{,}350 \text{ hours}}{1680 \text{ hours}} \times 100\% = 80.35\%$

Production volume ratio = Efficiency ratio × Capacity utilisation ratio

= Production volume ratio 93.75% × 85.71% = 80.35%.

CHAPTER 2.3 : DIRECT EXPENSES

C

LDR Questions	Descriptive: Q 3 MCQ: 5

Quick Review of Important Concepts

Direct vs Indirect Expenses

Direct Expenses	Indirect Expenses
Traceable to cost unit/job	Not traceable
Part of **Prime Cost**	Part of **Overheads**
Charged directly to job	Apportioned
Example: royalty, job charges	Office rent, supervision

Prime Cost = Direct Material + Direct Labour + Direct Expenses

CAS-10 Definition

Direct expenses = Expenses related to manufacture/service **identifiable with cost object** (excluding DM & DL).

Measurement Principles (CAS-10)

Rule	Treatment
Based on invoice price	Include duties, taxes, freight
Less trade discount/refundable taxes	Deduct
Lump sum expense	Amortise over output/benefit
R&D for specific product	Direct expense
Finance cost	Not direct expense
Imputed cost	Excluded
Subsidy/incentive	Deduct from expense
Abnormal portion	Exclude from cost
Penalty/damages	Not direct expense

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STRIVING TOWARDS KNOWLEDGE

Royalty / Lump-sum amortisation

Royalty per unit → charge per production

Lump-sum payment: $\text{Direct expense per unit} = \frac{\text{Total lump sum}}{\text{Estimated output}}$

Expense charged: $\text{Rate} \times \text{Actual production}$

Standard Cost Adjustment

Situation	Treatment
Normal variance	Included in direct expense
Abnormal variance	Excluded

Direct Expense in Cost Sheet

Direct expenses added at **Prime Cost stage**

Stage	Inclusion
Prime cost	Direct expenses included
Works cost	Indirect expenses added
Overheads	Indirect expenses apportioned

Question & Answers

Question 1 **(MQP [1] 1 Marks June'23)**

What is direct expense?

Answer 1

All expenditures other than those incurred for procurement of material and labour are termed as 'expenses'. Expenses can be classified direct expense or indirect expense. This classification is based on whether the expense is traceable to cost centre or cost unit. Expenses or costs which can be allocated to a cost centre or cost unit are referred as direct expense.

Question 2 **(SM)**

Measurement of Direct Expenses

Royalty paid on sales ₹ 30,000; Royalty paid on units produced ₹ 20,000, hire charges of equipment used for production ₹ 2,000, Design charges ₹ 15,000, software development charges related to production ₹ 22,000, compute the direct expenses.

Answer 2

Computation of Direct Expenses

Particulars	₹
Royalty paid on sales	30,000
Add: Royalty paid on units produced	20,000
Add: Hire charges of equipment used for production	2,000
Add: Design charges	15,000
Add: Software development charges related to production	22,000
Direct Expenses	**89,000**

Note:

1. Expenses are related to either manufacturing of the product or rendering of service.
2. These costs are directly identifiable and can be linked with the cost object and are not related to direct material cost or direct employee cost. Hence, these are considered as direct expenses.

Question 3 **(SM, MQP[1] 7 Marks June'24, MQP[2] 7 Marks Dec'24)** LDR

Measurement of Direct Expenses – allocation to cost object products (in a multi-product situation)

A manufacturing unit produces two products X and Y. the following information is furnished:

Particulars	Product X	Product Y
Units produced (quantity)	20,000	15,000
Units sold (quantity)	15,000	12,000
Machine Hours utilized	10,000	5,000
Design charges	15,000	18,000
Software development charges	24,000	36,000

Royalty paid on sales ₹ 54,000 [@ ₹ 2 per unit sold, for both the products]; Royalty paid on units produced ₹ 35,000 [@ ₹ 1 per unit produced, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹ 5,000, Compute the direct expenses.

Answer 3

Computation of Direct Expenses

Particulars	Product X (₹)	Product Y (₹)
Royalty paid on sales	15,000 x 2 = 30,000	12,000 x 2 = 24,000
Add: Royalty paid on units produced	20,000 x 1 = 20,000	15,000 x 1 = 15,000
Add: Hire charges of equipment used in manufacturing process of Product X only	5,000	-
Add: Design charges	15,000	18,000
Add: Software development charges related to production	24,000	36,000
Direct Expenses	**94,000**	**93,000**

Note: