CMA INTERMEDIATE

VIVITSU

REVIEWER™

GROUP - I

BUSINESS LAWS AND ETHICS

5

APPLICABLE FOR JUNE '26 & DECEMBER '26

CHAPTER-WISE COMPILATION OF PYP + MTP + WORKBOOK + POSTAL PAPER

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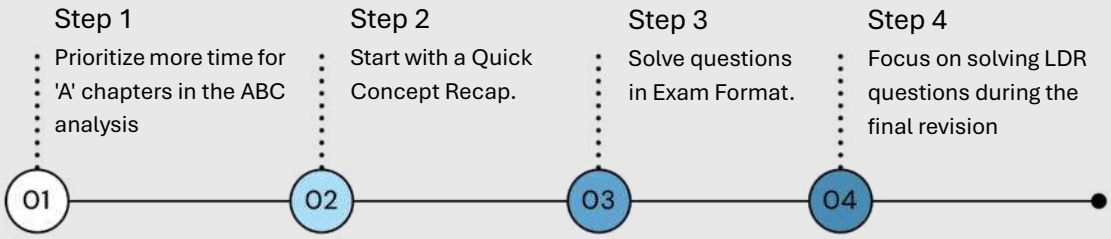
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Your journey from a CMA student to a professional, starts here. Scan to connect with us on LinkedIn for industry insights, career guidance, and expert articles.

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
								1.5	4.1 – 4.14	A
								4.67	5.1 – 5.13	C
								3.83	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, 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
- 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.

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 G Expenses, Or Sell Them On Default After Notice.

5. Agency (Sec 182 Onw

- Agent Acts On Be f Of Principal In Dealings with Third Parties.
- Authority May Be xpress Or Implied; Consideration Not Necessary.
- Agent Must Follow structions, Act With Skill And Honesty, And Maintain Accounts.
- Principal Must Indem 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 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 [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.

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).

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- 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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6

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To the one who's not just dreaming CMA —
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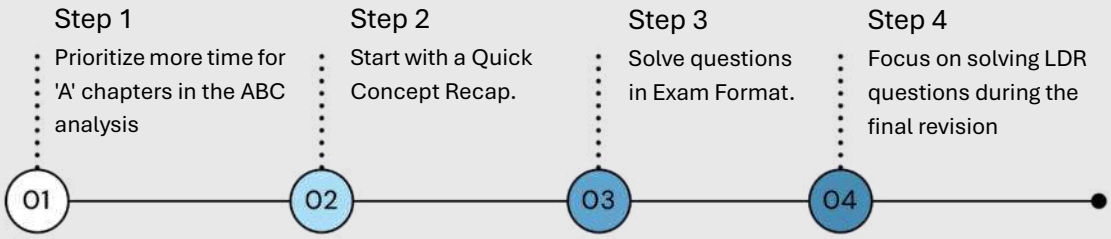
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STRATEGY TO SCORE

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:

Accounting Principles:

- Basic rules guiding recording & reporting.
- Must be objective, reliable, fair/true 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

CHAPTER 6.2 : DEPARTMENTAL ACCOUNTS

C

LOR 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 Interest Received	xx	xx
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	By Gross Profit b/d	xx
To Financial Expenses	xx	By Interest Received	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**

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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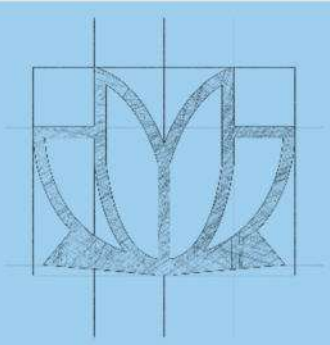
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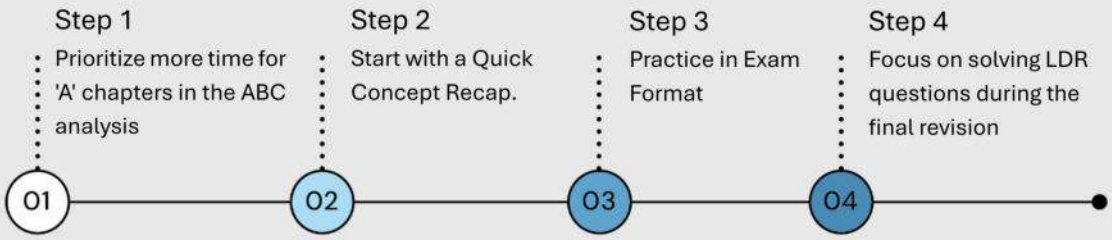
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Step 1: Prioritize your chapters

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. Since she stayed in India for 81 days during the previous year 2025-26, for the purpose of becoming resident in India, her continuous stay in India is not necessary.

(1) 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.

Amended as per latest amendments

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

Question 4 (SM)

Mr. X, aged 19 years, left India for first time on May 31, 2023. 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) Since he left India for employment purposes, hence for becoming resident each assessee [illegible] the previous year 2025-26 as per 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.

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

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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1.1	Basic Concepts, Basis of Charge and Capital & Revenue Receipts	2	-	-	7	-	4	2.17	1.1 – 1.1.5	B
1.2	Residential Status and Scope of Total Income	6	7	7	-	7	7	5.17	1.2.1 – 1.2.18	B
1.3	Exempted Income							2	1.3.1 – 1.3.9	A
2	Computation of Income under the Head									A
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

QUICK REVISION 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	Sets the basic conditions (182 days stay or 60
Explanation section 6(1)		
6(1A)		
6(3)		
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.

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
3.2	Set off and Carry Forward of Losses	3	7	7	7	7	7	6.33	3.2.1 – 3.2.18	A
3.3	Deductions, Rebate and Relief	5	4	-	-	2	2	2.17	3.3.1 – 3.3.25	B
3.4	Taxation of Individual	6	7	7	7	7	7	6.83	3.4.1 – 3.4.22	A
3.5	Advance Tax	-	-	2	-	-	-	0.33	3.5.1 – 3.5.7.	C
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
3.8	PAN	-	-	-	-	-	-	-	3.8.1 – 3.8.1	C

3.9	Self-Assessment & Intimation	-	-	-	-	-	-	-	3.9.1 – 3.9.2	C
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4	**Concept of Indirect Taxes**	-	7	-	7	7	9	5	4.1 – 4.5	B
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
6	**Customs Act & Rules**									
6.1	Customs Act-Basic Concepts and Definitions	2	1	-	1	-	2	1	6.1.1 – 6.1.3	C
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
6.4	Computation of Assessable Value and Duties	8	-	7	7	7	7	6	6.4.1 – 6.4.14	A

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 1.2: 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.

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'.

VIVITSU

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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STRIVING TOWARDS KNOWLEDGE

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

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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

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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**

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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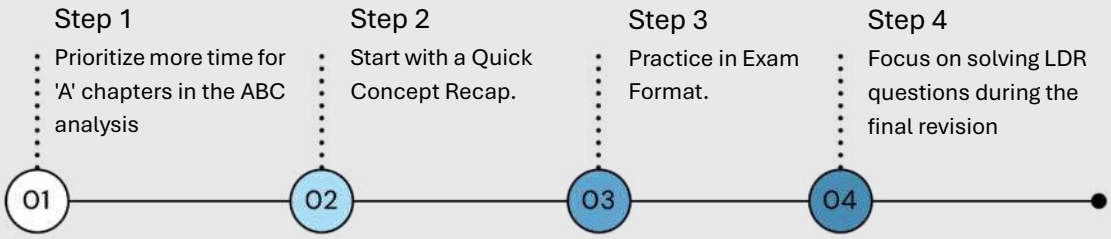
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Step 1: Prioritize your chapters

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 typically 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 Review 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.
- **Cost Allocation:** Direct charging of cost to a specific cost centre/unit.
- **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:**

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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2.1	Material Costs	10	9	13	14	5	9	10.00	2.1. – 2.1.27	B
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6.2	Standard Costing and Variance Analysis	8	9	9	9	13	9	9.50	6.2.1 – 6.2.30	A
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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

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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.

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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.
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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	

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⇒ **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

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

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= $\text{Earnings} = R \times \sqrt{(TA \times T)}$

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

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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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:

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9

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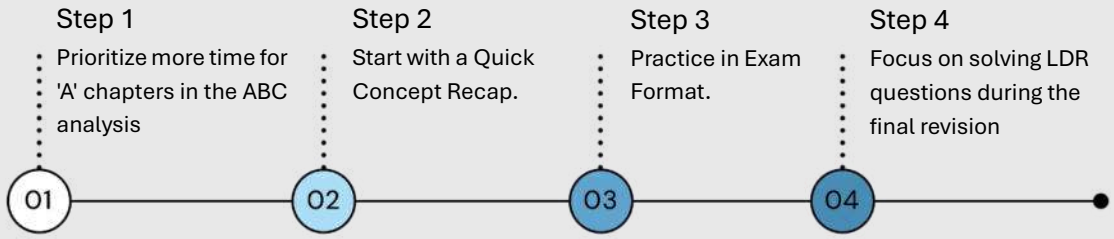
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Step 1: Prioritize your chapters

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.

1.2

Characteristics of Modern Operations Functions

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Key Features

1. Competitive Advantage	2. Services Orientation
3. Smokestack Disappearance	4. Small is Beautiful

2. Competitive Advantage

Past	Present
High demand	Excess capacity
Production focus	Competition focus
Basic function	Strategic tool

3. Services Orientation

Point	Description
Nature	Intangible, perishable
Interaction	High customer
Volume	Small scale
Location	Near market

4. Smokestack Disappearance

Earlier	Now
Polluting	Eco-friendly

5. Small is Beautiful

Old	New
Large scale	Small units
Mass production	Flexible production

Topic-wise Break up

Question & Answers

Question 3 (MQP [1] 7 Marks Dec'23, MQP [2] 7 Marks Dec'25, June'25, PYP 7 Marks June'24) LDR

Enumerate the characteristics of Modern Operations Functions.

OR

"The Production Management of to-day presents certain characteristics which make it look totally different from what it was during the past. Specifically, To-day's production system is characterized by at least Four Features". In this Context Summarize the Said Features.

Answer 3

Today's production system is characterized by the following features:

1. **Manufacturing as Competitive Advantage:** Unlike the past, today plants have excess capacities, competition is mounting and firms seek and competitive edge and firms intend to exploit the potential. Total Quality Management (TQM), Time- Based Competition, Business Process Re-engineering (BPRE), Just-in-Time (JIT), Fac... The vir... adv...
2. **Ser...** ...The entire manufacturing needs to be geared to serve (i) intangible and perishable nature of the services, (ii) constant interaction with clients or customers, (iii) small volumes of production to serve local markets, and (iv) need to locate facilities to serve local markets. There is increased presence of professionals on the production, instead of technicians and engineers.
3. **Disappearance of Smokestacks:** Protective labour legislation, environmental movement and gradual emergence of knowledge based organisations have brought total transformation in the production system. Today's factories are aesthetically designed and built, environment friendly - in fact, they are homes away from homes. Going to factory every day is no more excruciating experience, it is like holidaying at a scenic spot.
4. **Small has Become Beautiful:** E. F. Schumacher, in his famous book Small is Beautiful, opposed giant organizations and increased specialisation. He advocated, instead, intermediate technology based on smaller working units, community ownership, and regional workplaces utilising local labour and resources.

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LDR Questions | Descriptive: Q 1, Q3
MCQ: 2, 9, 24

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

CHAPTER 4.3: CONTROL MEASURES – TIME & MOTION STUDY, METHOD STUDY, WORK STUDY

C

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Time Study

Aspect	Point
Meaning	Scientific measurement of time for a job
Aim	Determine standard time
Focus	Best method + time required
Use	Costing, wages, standards

2. Key Concepts (Related Terms)

Term	Meaning
Operation Analysis	Improve process (eliminate/combine/change)
Job Standardisation	Fix best method + time
Job Analysis	Study job requirements & skills

4. Time Study vs Motion Study

Basis	Time Study	Motion Study
Focus	Time taken	Movements
Division	Elements of work	Basic motions
Aim	Set time standards	Find best method

5. Preconditions for Time Study

Condition	Point
Method	Standardised
Sequence	Proper flow
Effort	Minimum human effort

6. Work Study

Aspect	Point
Meaning	Study of work efficiency
Includes	Method study + Time study
Aim	Best use of resources

7. Method Study

Aspect	Point
Meaning	Improve method of doing work
Aim	Easy, efficient, low-cost method
Focus	Eliminate unnecessary motions

8. Features of Method Study

Feature	Point
Uniformity	Standard application
Standard practice	Defined methods
Continuous review	Regular improvement
Cooperation	Employee involvement

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Question & Answer

Quick Review of Important Concepts

Table of Contents

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2	Operations Planning	10	11	13	20	15	7	12.67	2.1 – 2.46	A
3	Designing of Operational Systems and Control	8	9	9	11	2	9	8	3.1 – 3.11	B
4	Production Planning and Control	22	27	25	23	-	23	20		
4.1	Introduction	-	-	-	-	-	-	-	4.1-1 – 4.1-2	C
4.2	Production Planning and Control	-	-	-	-	-	-	-	4.2-1 – 4.2-6	C
4.3	Control Measures – Time & Motion Study, Method Study, Work Study	-	-	-	-	-	-	-	4.3-1 – 4.3-3	C
4.4	Optimum Allocation of Resources – LPP	-	-	-	-	-	-	-	4.4-1 – 4.4-12	A
4.5	Transportation	-	-	-	-	-	-	-	4.5-1 – 4.5-18	A
4.6	Job Evaluation, Job Allocation – Assignment	-	-	-	-	-	-	-	4.6-1-4.6-22	A
4.7	Scheduling and Queuing Models	-	-	-	-	-	-	-	4.7-1 – 4.7-12	B
4.8	Simulation and Line Balancing	-	-	-	-	-	-	-	4.8-1 - 4.8-20	A
4.9	Lean Operations	-	-	-	-	-	-	-	4.9-1	C
4.10	JIT	-	-	-	-	-	-	-	4.10-1	B
5	Productivity Management and Quality Management	9	2	4	6	23	4	8	5.1 – 5.18	B
6	Project Management, Monitoring and Control	10	9	9	9	13	13	10.5	6.1 – 6.38	A
7	Economics of Maintenance and Spares Management	11	9	7	7	7	11	8.67	7.1- 7.28	A

SECTION B: STRATEGIC MANAGEMENT										
8	Strategic Management - Introduction	11	9	11	2	9	13	9.17	8.1- 8.18	B
9	Strategic Analysis and Strategic Planning	27	20	16	16	16	16	18.5	9.1 -9.20	A
10	Formulation and Implementation of Strategy	8	16	16	16	14	16	14.33	10.1 – 10.23	A
11	Digital Strategy	-	7	11	16	11	7	8.67	11.1 – 11.15	B

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 Workbook Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: OPERATIONS MANAGEMENT - INTRODUCTION

B

LDR Questions	Descriptive: Q 1, Q3 MCQ: 2, 9, 24

1.1 Scope

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Basic Functions of Business

Function	Role
Organisation	Structure & coordination
Finance	Funds & capital management
Operations	Production of goods/services
Marketing	Demand creation & sales

2. Supply–Demand Balance

Situation	Impact
Excess Supply	Wasteful, high cost
Insufficient Supply	Lost sales, dissatisfaction
Ideal Situation	Balance of supply & demand

3. Role of Functions

Area	Function
Supply Side	Operations & Supply Chain
Demand Side	Sales & Marketing
Supporting Fuel	Finance
Core Activity	Operations (Engine of business)

4. Operations Management (OM)

Aspect	Description
Meaning	Managing conversion process
Input	Raw materials, labour, capital
Process	Transformation
Output	Goods & Services
Nature	Tangible + Intangible

5. Objectives of OM

Objective	Meaning
Customer Service	Satisfaction of customer needs
Resource Utilisation	Efficient use of resources

6. Customer Service Dimensions

Dimension	Meaning
Specification	Right quality/product
Cost	Affordable price
Timing	Right delivery time

- **Formula: Right Product + Right Price + Right Time**

7. Resource Utilisation

Aspect	Explanation
Goal	Maximum output, minimum waste
Measures	Time, capacity, productivity
Risk	Inefficiency leads to failure

8. Conflict of Objectives

Aspect	Explanation
Customer Service ↑	Cost may increase
Efficiency ↑	Service may reduce
Solution	Maintain balance

9. Scope of OM

Area	Activity
Facility	Location
Layout	Plant design
Product	Design
Process	Method selection
Planning	Production control
Quality	Quality control
Materials	Materials management
Maintenance	Equipment upkeep

10.Key Decision Questions

Question	Decision Area
What to produce?	Product selection
How much?	Demand forecasting
Where?	Facility location
How?	Process & layout
When?	Scheduling
Materials?	Inventory/MRP
Quality?	Quality management
Machines?	Maintenance
Delivery?	Logistics

11.Major Decision Areas

Decision Area	
Product selection	Inventory management
Facility location	Supplier selection
Demand forecasting	Process management
Process & layout	Quality management
Capacity planning	Maintenance
Production scheduling	Warehousing & transport
MRP / ERP	Reverse logistics

12.Additional Responsibilities

Area	Role
Working Capital	Manage funds for operations
Skill Management	Workforce efficiency

Question & Answers

Question 1 **(MQP [1] 7 Marks June'25, June'24, MQP[2] 7 Marks June'23)** **LDR**

Define the scope of operations management.

Answer 1

Operations Management concerns with the conversion of inputs into outputs, using physical resources, so as to provide the desired utilities to the customer while meeting the other organizational objectives of effectiveness, efficiency and adaptability. It distinguishes itself from other functions such as personnel, marketing, finance, etc. by its primary concern for 'conversion by using physical resources'.

Following are the activities, which are listed under Production and Operations Management functions:

i. Location of facilities.
ii. Plant layouts and Material Handling.
iii. Product Design.
iv. Process Design.
v. Production Planning and Control.
vi. Quality Control.
vii. Materials Management.
viii. Maintenance Management.

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Question 2 **(PYP 7 Marks June'23, June'25)**

List down various major decision areas under Production and Operations management. (Any Ten)

Answer 2

1. Product Selection
2. Facility Location Selection
3. Demand Forecasting
4. Process Selection & Layout Decision
5. Capacity Planning
6. Aggregate Planning & Master Production Schedule (MPS)
7. Materials Requirement Planning (MRP) / Manufacturing Resource Planning (MRP II) / Distribution Resource Planning (DRP) / Enterprise Resource Planning (ERP)
8. Inventory Management
9. Supplier Selection / Sourcing
10. Process Management
11. Quality Management
12. Maintenance
13. Warehousing & Transportation
14. Reverse Logistics

In Addition, an operations manager is also responsible for working capital management, skill – Management etc.

1.2 Characteristics of Modern Operations Functions

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Key Features

1. Competitive Advantage	2. Services Orientation
3. Smokestack Disappearance	4. Small is Beautiful

2. Competitive Advantage

Past	Present
High demand	Excess capacity
Production focus	Competition focus
Basic function	Strategic tool

3. Services Orientation

Point	Description
Nature	Intangible, perishable
Interaction	High customer contact
Volume	Small scale
Location	Near market

4. Smokestack Disappearance

Earlier	Now
Polluting	Eco-friendly
Basic	Modern & aesthetic

5. Small is Beautiful

Old	New
Large scale	Small units
Mass production	Flexible production

Question & Answers

Question 3 **(MQP [1] 7 Marks Dec'23, MQP [2] 7 Marks Dec'25, June'25, PYP 7 Marks June'24)** LDR

Enumerate the characteristics of Modern Operations functions.

OR

"The Production Management of To-day presents certain characteristics which make it look totally different from what it was during the past. Specifically, To-day's production system is characterized by at least Four Features". In this Context Summarize the Said Features.

Answer 3

Today's production system is characterised by the following features:

1. **Manufacturing as Competitive Advantage:** Unlike the past, today plants have excess capacities, competition is mounting and firms look and competitive edge and firms intend to exploit the potential. Total Quality Management (TQM), Time- Based Competition, Business Process Re-engineering (BPRE), Just-in-Time (JIT), Focused Factory, Flexible Manufacturing Systems (FMS), Computer Integrated Manufacturing (CIM), and The Virtual Corporation are but only some techniques which the companies are employing to gain competitive advantage.
2. **Services Orientation:** Service sector is gaining greater relevance these days. The production system, therefore, needs to be organised keeping in mind the peculiar requirements of the service component. The entire manufacturing needs to be geared to serve (i) intangible and perishable nature of the services, (ii) constant interaction with clients or customers, (iii) small volumes of production to serve local markets, and (iv) need to locate facilities to serve local markets. There is increased presence of professionals on the production, instead of technicians and engineers.
3. **Disappearance of Smokestacks:** Protective labour legislation, environmental movement and gradual emergence of knowledge based organisations have brought total transformation in the production system. Today's factories are aesthetically designed and built, environment friendly - in fact, they are homes away from homes. Going to factory every day is no more excruciating experience, it is like holidaying at a scenic spot.
4. **Small has Become Beautiful:** E. F. Schumacher, in his famous book Small is Beautiful, opposed giant organisations and increased specialisation. He advocated, instead, intermediate technology based on smaller working units, community ownership, and regional workplaces utilising local labour and resources.

CHAPTER 4.5: TRANSPORTATION

A

LDR Questions	Descriptive: Q 5, Q 10, Q 14

QUICK REVIEW OF IMPORTANT CONCEPTS

Transportation Problem

Standard Matrix

	D_1	D_2	D_3	...	D_n	Supply
O_1	c_{11}	c_{12}	c_{13}	...	c_{1n}	a_1
O_2	c_{21}	c_{22}	c_{23}	...	c_{2n}	a_2
...	...	...	...	...	...	...
O_m	c_{m1}	c_{m2}	c_{m3}	...	c_{mn}	a_m
6Demand	b_1	b_2	b_3	...	b_n	

– Fill:
- **c_{ij} = cost**
- **x_{ij} = allocation**

$Z = \sum c_{ij} x_{ij}$

Step 1: Balance Check

- If Supply = Demand → OK
- If not: Add Dummy row/column (cost = 0)

Step 2: Initial Solution (IBFS)

✓ North-West Corner
- Start top-left
- Allocate min(supply, demand)

✓ Least Cost Method
- Choose lowest cost cell

✓ Vogel Approximation (VAM)
- Penalty = difference of 2 lowest costs
- Choose highest penalty
- Allocate to lowest cost

Key Conditions

- Allocations = m + n – 1
- If less → add **ε (degeneracy)**

Special Cases

- Prohibited route → cost = M
- Ma**ximisation** → convert:
- New cost = Max − profit

Step 3: Check Optimality (MODI)

If all opportunity costs ≥ 0 → Optimal
If any negative → Improve

Step 4: Improvement

- Form closed loop
- Add (+) and subtract (–)
- Reallocate

Key Conditions

- Allocations = m + n – 1
- If less → add **ε (degeneracy)**

Exam Tricks

- Always draw matrix first
- Use VAM (best method)
- Check m+n−1 rule
  Optimal → **no negative in MODI**

Question & Answers

Question 1 **(SM)**

The cost conscious company requires for the next month 300, 260 and 180 tonnes of stone chips for its three constructions C_1, C_2 and C_3 respectively. Stone chips are produced by the company at three mineral fields taken on short lease by the company. All the available boulders must be crushed into chips. Any excess chips over the demands at sites C_1, C_2 and C_3 will be sold ex-fields.
The fields are M_1, M_2 and M_3 which will yield 250, 320 and 280 tones of stone chips respectively.
Transportation costs from mineral fields to construction sites vary according to distances, which are given below in monetary unit (MU).

	To	C_1	C_2	C_3
From	M1	8	7	6
	M2	5	4	9
	M3	7	5	5

(i) Determine the optimal economic transportation plan for the company and the overall transportation cost in MU.

(ii) What are the quantities to be sold from M_1, M_2 and M_3 respectively?

Answer 1

(i) Table: 1 Cost Matrix

To / From	C1	C2	C3	Supply
M1	8	7	6	250
M2	5	4	9	320
M3	7	7	5	280
Demand	300	260	180	850 / 740

From the given data we have Total Supply = 850 tonnes and total Demand = 740 tonnes i.e., Supply ≠ Demand. So this is an unbalanced problem of transportation. To make it balanced we introduce a "Dummy" construction site of demand 850 – 740 = 110 tonnes and having zero cost elements for all the cells of the matrix corresponding to it.

Table: 2 Basic Feasible Solution by VAM (Optimal)

To / From	C1	C2	C3	Dummy	Row Penalties: Supply	1st	2nd	3rd	4th	Row Nos.(u_i)
M_1	8	7	(140) 6	(110) 0	250 140	6*	2	1	1	u_1=0
M_2	(300) 5	(20) 4	9	0	320 20	4	1	5*	-	u_2=-2
M_3	7	(240) 5	(40) 5	0	280 40	5	0	0	0	u_3=-1
Demand	~~300~~	~~240~~ 260	~~40~~ 180	~~110~~	850					
Column Penalties: 1st	2	1	1	0						
2nd	2*	1	1	-						
3rd	-	1	1	-						
4th	-	2*	1	-						
Column Nos.(v_j)	v_1=7	v_2=6	v_3=6	v_4=0						

Row Penalty = 2nd lowest cost figure of a row – Lowest cost figure of that row.

For the **1st Set of Row Penalties –**

(a) For 1st row, 2nd lowest cost = 6 and lowest cost = 0

∴ Penalty = 6 – 0 = 6

(b) For 2nd Row, 2nd lowest cost = 4 and Lowest cost = 0

∴ Penalty = 4 – 0 = 4

(c) For 3rd Row, 2nd lowest cost = 5 and Lowest cost = 0,

∴ Penalty = 5 – 0 = 5

Similarly, **Column Penalty** = 2nd lowest cost figure of a column – Lowest cost figure of that column

For the **1st Set** of **Column Penalties** –

(a) For 1st column, 2nd lowest cost = 7 and Lowest cost = 5, ∴ Penalty = 7 – 5 = 2

(b) For 2nd column, 2nd lowest cost = 5 and Lowest cost = 4, ∴ Penalty = 5 – 4 = 1

(c) For 3rd column, 2nd lowest cost = 6 and Lowest cost = 5, ∴ Penalty = 6 – 5 = 1

Of all these Row and Column penalties of 1st set, 6 is highest and it corresponds to 1st Row.

Hence allocation should be done at that cell of 1st Row where cost is least. This corresponds to the cell (M1 – Dummy). So maximum possible unit of 110 is allocated in this cell by maintaining parity of supply and demand. With this allocation the total demand of 'Dummy' site is exhausted. But the supply of the corresponding Mineral Field (M1) is not fully exhausted. Remaining supply capacity of M1 i.e. 250 – 110 = 140 tonnes is shown as balance in the supply cell of M1. As the demand of 'Dummy' is fullfilled, the entire column for this has been shaded indicating the same. Figures of this column will no longer participate in any of the subsequent calculations of Penalty (for Rows as well as columns)

The same procedure of calculating penalty for Rows and Columns and subsequently allocating maximum possible quantity in the least cost cell corresponding to highest penalty is repeated until all the allocations are made maintaining parity of Supply and Demand.

The solution thus obtained is the **Basic Feasible Solution**. It is given as follows.

Table: Showing Optimum Allocation

Cell	Allocation	Cost of Transportation (₹)
$M_1 - C_3$	140 tonnes	140 × 6 = 840
M_1 - Dummy	110 tonnes	110 × 0 = 0
$M_2 - C_1$	300 tonnes	300 × 5 = 1500
$M_2 - C_2$	20 tonnes	20 × 4 = 80
M_3 - C_2	240 tonnes	240 × 5 = 1200
M_3 - C_3	40 tonnes	40 × 5 = 200
Total	850 tonnes	₹3820

Here, m = No. of rows of the matrix = 3

n = No. of columns of the matrix = 4

$\therefore$ m + n – 1 = 3 + 4 – 1 = 6

Also, no. of allocated cells = 6

As, no. of allocated cells = 6 = m + n – 1, the solution is a **non degenerate** one.

Now the solution is tested for **OPTIMALITY**.

For this, Row Nos. (u_i) and column nos. (v_j) are calculated by using the equation $C_{ij} = u_i + v_j$ for all the **allocated cells**, where C_{ij} = Cost figure of the cell i-j.

Allocated Cell	C_{ij}	$C_{ij} = u_i + v_j$			
$M_1 - C_3$	$C_{13} = 6$	$C_{13} = u_1 + v_3$	or, $6 = u_1 + v_3$	or, $6 = 0 + v_3$ (Assume $u_1 = 0$) or, $v_3 = 6$	**(1)**
M_1 - Dummy	$C_{14} = 0$	$C_{14} = u_i + v_4$	or, $0 = u_1 + v_4$	or, $0 = 0 + v_4$ or, $v_4 = 0$	**(2)**
$M_2 - C_1$	$C_{21} = 5$	$C_{21} = u_2 + v_1$	or, $5 = u_2 + v_1$	or, $5 = -2 + v_1$ or, $v_1 = 7$	**(6)**
$M_2 - C_2$	$C_{22} = 4$	$C_{22} = u_2 + v_2$	or, $4 = u_2 + v_2$	or, $4 = u_2 + 6$ or, $u_2 = -2$	**(5)**
$M_3 - C_2$	$C_{32} = 5$	$C_{32} = u_3 + v_2$	or, $5 = u_3 + v_2$	or, $5 = -1 + v_2$ or, $v_2 = 6$	**(4)**
M_3 - C_3	$C_{33} = 5$	$C_{33} = u_3 + v_3$	or, $5 = u_3 + v_3$	or, $5 = u_3 + 6$ or, $u_3 = -1$	**(3)**

Hence no. of equations = 6 and no. of unknowns = 7. So to start with a solution, it is assumed u1 = 0. thereafter all the other row nos. and column nos. are calculated. The sequence of usage of the above equations is indicated as (1), (2), (3), ... (6).

Next opportunity cost (Δ_{ij}) for all the unallocated cells are calculated using $\Delta_{ij} = C_{ij} - (u_i + v_j)$

Unallocated Cell	C_{ij}	Opportunity Cost [$\Delta_{ij} = C_{ij} - (u_i + v_j)$]
M_1 - C_1	$C_{11} = 8$	$\Delta_{11} = C_{11} - (u_1 + v_1) = 8 - (0 + 7) = 1$
$M_1 - C_2$	$C_{12} = 7$	$\Delta_{12} = C_{12} - (u_1 + v_2) = 7 - (0 + 6) = 1$
$M_2 - C_3$	$C_{23} = 9$	$\Delta_{23} = C_{23} - (u_3 + v_3) = 9 - (-2 + 6) = 5$
M_2 - Dummy	$C_{24} = 0$	$\Delta_{24} = C_{24} - (u_2 + v_4) = 0 - (-2 + 0) = 2$
M_3 - C_1	$C_{31} = 7$	$\Delta_{31} = C_{31} - (u_3 + v_4) = 7 - (-1 + 7) = 1$
M_3 - Dummy	$C_{34} = 0$	$\Delta_{34} = C_{34} - (u_3 + v_4) = 0 - (-1 + 0) = 1$

As all the opportunity cost values are nonnegative, the solution is optimal.

(i) So the optimal transportation plan is as shown in Table-3 and minimum cost of transportation is ₹ 3820/-

(ii) Quantities to be produced by M_1, M_2 and M_3 are respectively 250,320 and 280 tonne of which 110 tonnes worth of stone chips produced by M_1 will remain unused by the construction sites. So this quantity can be sold ex-field.

CHAPTER 4.3: CONTROL MEASURES – TIME & MOTION STUDY, METHOD STUDY, WORK STUDY

C

LDR Questions	Descriptive: Q 3

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Time Study

Aspect	Point
Meaning	Scientific measurement of time for a job
Aim	Determine standard time
Focus	Best method + time required
Use	Costing, wages, standards

2. Key Concepts (Related Terms)

Term	Meaning
Operation Analysis	Improve process (eliminate/combine/change)
Job Standardisation	Fix best method + time
Job Analysis	Study job requirements & skills

3. Time Study vs Motion Study

Basis	Time Study	Motion Study
Focus	Time taken	Movements
Division	Elements of work	Basic motions
Aim	Set time standards	Find best method

4. Preconditions for Time Study

Condition	Point
Method	Standardised
Sequence	Proper flow
Effort	Minimum human effort

5. Work Study

Aspect	Point
Meaning	Study of work efficiency
Includes	Method study + Time study
Aim	Best use of resources

6. Method Study

Aspect	Point
Meaning	Improve method of doing work
Aim	Easy, efficient, low-cost method
Focus	Eliminate unnecessary motions

7. Features of Method Study

Feature	Point
Uniformity	Standard application
Standard practice	Defined methods
Continuous review	Regular improvement
Cooperation	Employee involvement

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Question & Answer

Question 1 (WB)

The time study of a work operation yields a cycle time of 10 minutes. The analyst rated the worker observed at 80%. The firm uses a 15% allowance factor. Please compute the normal time and standard time for this operation.

Answer 1

Average Cycle Time (ACT) = 10 Minutes
Performance rating (PR) = 80%
Therefore, Normal time (NT) = ACT × PR = 10 Minutes × 80% = 8 Minutes

Standard time $= \frac{\text{Normal Time}}{1 - \text{Allowance Fraction}} = \frac{8}{1 - 0.15}$ = 9.41 Minutes

Question 2 (WB)

A work measurement study was conducted in a company for 80 hours and the following results were obtained:

- **Units produced : 3200**
- **Idle time : 15%**
- **Performance rating : 120%**
- **Allowance time : 12% of standard time**

Compute the standard time for the task.

Answer 2

Computation of Standard time:

Particulars	Value
Total time (80 × 60)	4,800 Minutes
Less: Idle time 15%	720 Minutes
Effective time	4,080 Minutes
Units produced	3,200 units
ACT (Actual Cycle Time)	1.275 Minutes
Performance Rating	120%
Normal Time (ACT × PR)	1.53 Minutes
Standard Time (ST) = NT / (1 – AF)	1.53 / (1 – 0.12) = 1.74 Minutes

Question 3 (WB) LDR

A time study of a shop worker revealed the actual times shown below. The analyst rated the worker at 90% rating factor and the company allows the following per 8-hour day:

Worker	Machine time (minute / cycle)	Total
2.3	0.80	3.10
1.8	0.80	2.60
2	0.80	2.80
2.2	0.80	3.00
1.9	0.80	2.70
10.20*	0.80	11.00
2.20	0.80	3.00
1.80	0.80	2.60

Personal time : 20 minutes and delay time : 30 minutes

***Unusual non-recurring situation.**

Please compute the standard time.

Answer 3

Step 1: Computation of normal time (NT)

	ACT	PR	NT = ACT × PR
Average Cycle Time (ACT):			
• Worker: (2.30 + 1.80 + 2.00 + 2.20 + 1.90 + 2.20 + 1.80) / 7	2.0286	90%	1.8257
• Machine	0.8000	100%	0.8000
Total Normal Time			2.6257

Allowance Fraction (AF) = (20 + 30) / (8 × 60) = 0.1042

Standard Time (ST) = NT / (1 - AF) = 2.6257 / (1 - 0.1042) = 2.93 Minutes (Approx.)

Question 4 (WB)

A time study was conducted for a worker in shipping department in a factory. The observations (in minutes) are as under:

Elements	A	B	C	D	Performance Rating
P: Obtain the case	0.15	0.25	0.20	0.17	90%
Q: Place 3 dozen bottles in case	1.56	*	1.80	1.75	105%
R: Set case aside	0.20	0.10	0.10	0.15	95%

* Dropped the bottle.

Please compute the following:

(i) Normal time; (ii) Standard time if the allowance factor is 10%.

Answer 4

Elements	ACT (Average Observed Time)	ACT	PR	NT = ACT × PR
P	(0.15 + 0.25 + 0.20 + 0.17) / 4	0.1925	90%	0.1733
Q	(1.56 + 1.80 + 1.75) / 3	1.7033	105%	1.7885
R	(0.20 + 0.10 + 0.10 + 0.15) / 4	0.1375	95%	0.1306
Total				2.0924

Standard Time (ST) = NT / (1 – AF) = 2.0924 / (1 – 0.10) = 2.32 Minutes

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Multiple Choice Questions

1. Work study comprises following main techniques: *(MQP[1] 2 Marks June'25)*

(a) Method study & work measurement
(b) Method study & time study
(c) Time study & work measurement
(d) Method study & job evaluation.

Ans: (a)

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CMA INTERMEDIATE

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GROUP – II

CORPORATE ACCOUNTING AND AUDITING

10

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™

CORPORATE ACCOUNTING AND AUDITING

CMA Intermediate

1st Edition

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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

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Master the *rationale* behind every technique because in Paper 10, clarity is the key to accuracy.

Use this Reviewer to solidify your grip on the mechanics of Accounting & Auditing as soon as you complete your primary study.

2 CONSISTENCY

Solve one comprehensive question daily to master speed and complex adjustments without waiting for syllabus completion.

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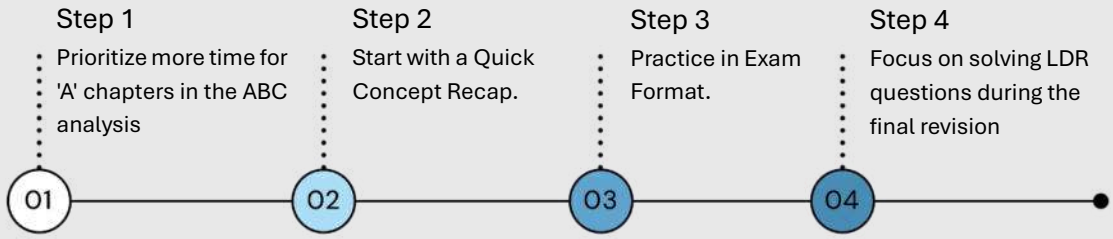
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STRATEGY TO SCORE

60+ in Corporate Accounting and Auditing



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.

Case 3: Partial Underwriting – Single Underwriter

Step	Formula
Gross Liability	Issue Size × %Underwritten
Unsubscribed Shares	Issue − Total Subscription
Deficit	Gross − Marked
Net Liability	Lower of (Unsubscribed, Deficit)
Final Liability	+ Firm Underwriting

Underwriting Commission Rules

Aspect	Rule
Shares	Max 5% of issue price

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

(A) Shares Taken by Underwriter
Entry – Underwriters A/c Dr. → To Share Capital A/c + Securities Premium A/c

(B) Commission Entry
Entry – Underwriting Commission A/c Dr. → To Underwriters A/c

(C) Final Settlement

Situation	Entry
Amount receivable from underwriter	Bank A/c Dr. → To Underwriters A/c
Amount payable to underwriter	Underwriters A/c Dr. → To Bank A/c

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

XYZ Ltd. is issuing 20,00,000 shares of ₹10 each to the public. N Ltd. has been appointed as the underwriter for 5% of the issue size. The commission payable to the underwriter is 5% of the issue price. Calculate the amount of underwriting commission payable to N Ltd. if the shares are issued at par. How will your answer change if the shares are issued at 20% premium?

Answer 1

When shares have been issued at par:

Gross Liability = 5% of 20,00,000 = 1,00,000 shares.

Issue price = Face value = ₹ 10 per share

Underwriting Commission = [Gross Liability (in shares) × Issue Price per share] × Rate of Commission

= [1,00,000 × 10] × 5% = ₹50,000.

When shares have been issued at a premium of 20%:

Gross Liability = 5% of 20,00,000 = 1,00,000 shares.

Issue price = ₹ 10 + 120% = ₹ 12 per share

Underwriting Commission = [Gross Liability (in shares) × Issue Price per share] × Rate of Commission

= [1,00,000 shares × 12] × 5% = ₹60,000

Question 2 (SM)

A Ltd. issued 1,00,000 equity shares of ₹100 each at par to the public, underwritten only by X & Co. The company received applications for 90,000 shares of which 80,000 shares were marked. Determine the liability of the X & Co.

Answer 2

Underwriting liability of M/s U & Co.

= No. of Shares Issued (-) No. of shares subscribed by the public

= 1,00,000 (-) 90,000

= 10,000 shares.

LDR Questions	Descriptive: Q 5, Q 7, Q 13, Q 16, Q 19, Q 21 MCQ: 1, 6, 15, 23, 28

QUICK REVISION OF IMPORTANT CONCEPTS

1. Statement of Profit & Loss

Step	Particulars	What to include	Exam Tip
1	Revenue from Operations	Sales / Service income	Net of returns
2	+ Other Income	Interest, dividend, profit on sale	Non-operating
3	= Total Income	(1 + 2)	Starting point
4	– Expenses	See below	Main working
5	= Profit before Tax	Core profit	Important
6	– Tax Expense	Current + Deferred	If given
7	= Profit after Tax	Final profit	Answer

Expense Classification

Material Consumed	Purchases ± Change in Inventory	Direct cost
Employee Benefits	Salary, wages, PF, gratuity	Staff cost
Finance Costs	Interest on loans, bank charges	Borrowing cost
Depreciation & Amortisation	Fixed assets, intangibles	Non-cash
Other Expenses	Rent, admin, misc.	Balancing figure

2. Balance Sheet

Equity & Liabilities

Head	Sub-items	Key Understanding
Shareholders' Funds	Share Capital + Reserves	Owner's funds
Share Application Money	Pending allotment	Temporary
Non-Current Liabilities	Debentures, long loans	>12 months
Current Liabilities	Creditors, short loans	≤12 months

Assets

Head	Sub-items	Key Understanding
Non-Current Assets	Fixed assets, investments	Long-term use
Current Assets	Stock, debtors, cash	Short-term

3. Most Important Adjustments

Adjustment	P&L Effect	Balance Sheet Effect
Closing Stock	Reduce expense	Current Asset
Outstanding Expense	Increase expense	Liability
Prepaid Expense	Decrease expense	Asset
Accrued Income	Increase income	Asset
Unearned Income	Decrease income	Liability
Depreciation	Expense	Reduce asset
Bad Debts	Expense	Reduce Debtors
Provision for DD	Expense	Reduce Debtors

Last Day Revision Questions

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

Table of Contents

Sr.	Particulars	2023		2024		2025		Average	Page No.	IMP
		June	Dec	June	Dec	June	Dec			
	SECTION A : CORPORATE ACCOUNTING									
1	Accounting for Shares and Debentures	15	18	18	16	18	18	17.17		A
1.1	Issue of Shares, Forfeiture of Shares, Rights Issue, Bonus Issue, Sweat Equity Shares, Employee Stock	-	-	-	-	-	-	-	1.1.1 – 1.1.xx	
1.2									1.2.1 – 1.2.22	B
1.3	Securities	-	-	-	-	-	-	-	1.3.1 – 1.3.8	C
2	Preparation of the Statement of Profit and Loss and Balance Sheet	15	16	16	18	16	18	16.50	2.1 – 2.71	A
3	Cash Flow Statement	10	9	9	7	9	2	7.67	3.1 – 3.40	A
4	Accounts of Banking, Electricity and Insurance Companies	16	16	18	16	16	16	16.33		
4.1	Accounts of Banking Companies	-	-	-	-	-	-	-	4.1.1 – 4.1.26	A
4.2	Accounts of Electricity Companies	-	-	-	-	-	-	-	4.2.1 – 4.2.9	B
4.3	Accounts of Insurance Companies	-	-	-	-	-	-	-	4.3.1 – 4.3.25	B
5	Accounting Standards	6	9	9	7	7	20	9.67	5.1 – 5.32	B

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

LOR Questions | Description: Q 4, Q 5, Q 10 MCQ: 3, 5, 6

QUICK REVIEW OF IMPORTANT CONCEPTS

Comprehensive Table – Underwriting of Shares

Topic	Concept / Rule	Formula / Logic	Journal Entry
Meaning of Underwriting	Underwriting is an agreement where underwriters guarantee full subscription of securities.	—	—
Underwriter	A financial intermediary who undertakes the risk of under-subscription.	—	—
Underwriting Commission	Commission paid for bearing risk of under-subscription.	Commission = Gross Liability × Issue Price × Rate	Underwriting Commission A/c Dr. → To Underwriters A/c



Quick Review of Important Concepts

Table of Contents

Sr.	Particulars	2023		2024		2025		Average	Page No.	IMP
		June	Dec	June	Dec	June	Dec			
	SECTION A : CORPORATE ACCOUNTING									
1	**Accounting for Shares and Debentures**	15	18	18	16	18	18	17.17		
1.1	Issue of Shares, Forfeiture of Shares, Rights Issue, Bonus Issue, Sweat Equity Shares, Employee Stock Option and Stock Purchase Scheme, Buy-back of Shares	-	-	-	-	-	-	-	1.1.1 - 1.1.52	A
1.2	Redemption of Preference Shares, Issue and Redemption of Debentures	-	-	-	-	-	-	-	1.2.1 – 1.2.22	B
1.3	Underwriting of Securities	-	-	-	-	-	-	-	1.3.1 – 1.3.8	C
2	**Preparation of the Statement of Profit and Loss and Balance Sheet**	15	16	16	18	16	18	16.50	2.1 – 2.71	A
3	**Cash Flow Statement**	10	9	9	7	9	2	7.67	3.1 – 3.40	A
4	**Accounts of Banking, Electricity and Insurance Companies**	16	16	18	16	16	16	16.33		
4.1	Accounts of Banking Companies	-	-	-	-	-	-	-	4.1.1 – 4.1.26	A
4.2	Accounts of Electricity Companies	-	-	-	-	-	-	-	4.2.1 – 4.2.9	B
4.3	Accounts of Insurance Companies	-	-	-	-	-	-	-	4.3.1 – 4.3.25	B
5	**Accounting Standards**	6	9	9	7	7	20	9.67	5.1 – 5.32	B

SECTION B: AUDITING										
6	Basic Concepts of Auditing	24	15	18	21	13	9	15.17	6.1 – 6.22	A
7	Provision Relating to Audit under Companies Act, 2013	32	34	29	36	40	34	35.83	7.1 – 7.39	A
8	Auditing of Different Types of Undertakings	6	11	11	7	9	11	9.67	8.1 – 8.15	B

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 Workbook Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 2: PREPARATION OF THE STATEMENT OF PROFIT AND LOSS AND BALANCE SHEET

A

LDR Questions	Descriptive: Q 5, Q 7, Q 13, Q 16, Q 19, Q 21 MCQ: 1, 6, 15, 23, 28

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Statement of Profit & Loss

Step	Particulars	What to include	Exam Tip
1	Revenue from Operations	Sales / Service income	Net of returns
2	+ Other Income	Interest, dividend, profit on sale	Non-operating
3	= Total Income	(1 + 2)	Starting point
4	– Expenses	See below	Main working
5	= Profit before Tax (PBT)	Core profit	Important
6	– Tax Expense	Current + Deferred	If given
7	= Profit after Tax (PAT)	Final profit	Answer

Expense Classification

Expense Type	Examples	Adjustment Impact
Material Cost	Raw material used	Opening + Purchase – Closing
Purchases	Trading goods	Direct expense
Change in Inventory	Opening – Closing	Adjust properly
Employee Benefit	Salary, PF	Add outstanding
Finance Cost	Interest, bank charges	Always separate
Depreciation	Fixed assets	Mandatory adjustment
Other Expenses	Rent, admin, misc	Adjust prepaid/outstanding

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2. Balance Sheet

Equity & Liabilities

Head	Sub-items	Key Understanding
Shareholders' Funds	Share Capital + Reserves	Owner's funds
Share Application Money	Pending allotment	Temporary
Non-Current Liabilities	Debentures, long loans	>12 months
Current Liabilities	Creditors, short loans	≤12 months

Assets

Head	Sub-items	Key Understanding
Non-Current Assets	Fixed assets, investments	Long-term use
Current Assets	Stock, debtors, cash	Short-term

3. Most Important Adjustments

Adjustment	P&L Effect	Balance Sheet Effect
Closing Stock	Reduce expense	Current Asset
Outstanding Expense	Increase expense	Liability
Prepaid Expense	Decrease expense	Asset
Accrued Income	Increase income	Asset
Unearned Income	Decrease income	Liability
Depreciation	Expense	Reduce asset
Bad Debts	Expense	Reduce Debtors
Provision for DD	Expense	Reduce Debtors

4. Current vs Non-Current Classification

Item	Rule	Example
Current Asset	Realised within 12 months	Stock, Debtors
Non-current Asset	>12 months	Machinery
Current Liability	Payable within 12 months	Creditors
Non-current Liability	Long-term	Debentures

→ If not given → assume 12 months rule

5. Share Capital

Item	Treatment
Authorized Capital	Only disclosure
Issued Capital	Given
Subscribed Capital	Applied shares
Paid-up Capital	After calls
Calls in Arrears	Deduct from capital
Calls in Advance	Show as liability

6. Reserves & Surplus

Reserve	Purpose
Securities Premium	Share issue premium
Capital Redemption Reserve	Preference share redemption
Debenture Redemption Reserve	Debenture redemption
General Reserve	Free reserve
Surplus (P&L)	Accumulated profit

7. Borrowings & Interest

Type	Example	Treatment
Long-term	Debentures, bank loan	Non-current liability
Short-term	OD, creditors	Current liability
Interest	On loans/debentures	Finance cost in P&L

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8. Key Disclosures

Area	What to remember
Depreciation	Separate expense
Interest	Finance cost
Dividend	Not expense (appropriation)
Provision	Show separately
Exceptional Items	Separate line
CSR	Separate disclosure if given
Auditor Fees	Part of other expenses

9. Trade Items

Item	Meaning
Trade Receivable	Debtors (from sales)
Trade Payable	Creditors (from purchases)

Statement Of Profit & Loss

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. Revenue from Operations			
II. Other Income			
III. Total Income (I + II)			
IV. Expenses:			
Cost of Materials Consumed			

Purchases of Stock-in-Trade			
Changes in Inventory (FG/WIP/Stock)			
Employee Benefits Expense			
Finance Costs			
Depreciation & Amortization			
Other Expenses			
Total Expenses			
V. Profit before Exceptional Items & Tax			
Exceptional Items			
VI. Profit before Tax			
Tax Expense			
VII. Profit after Tax (PAT)			
Earnings per Share (Basic & Diluted)			

Balance Sheet

Equity & Liabilities

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. Equity & Liabilities			
1. Shareholders' Funds			
(a) Share Capital			
(b) Reserves & Surplus			
(c) Money against Share Warrants			
2. Share Application Money Pending Allotment			
3. Non-Current Liabilities			
(a) Long-term Borrowings			
(b) Deferred Tax Liabilities			
(c) Other Long-term Liabilities			
(d) Long-term Provisions			
4. Current Liabilities			
(a) Short-term Borrowings			
(b) Trade Payables			
(c) Other Current Liabilities			
(d) Short-term Provisions			
Total			

Assets

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
II. Assets			
1. Non-Current Assets			
(a) Property, Plant & Equipment			
(b) Intangible Assets			
(c) Capital Work-in-Progress			
(d) Non-current Investments			
(e) Deferred Tax Assets			
(f) Long-term Loans & Advances			
(g) Other Non-current Assets			
2. Current Assets			
(a) Current Investments			
(b) Inventories			
(c) Trade Receivables			
(d) Cash & Cash Equivalents			
(e) Short-term Loans & Advances			
(f) Other Current Assets			
Total			

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Question 1 (SM)

(Reporting Authorised, Issued, Subscribed, Called up and Paid up Capital including Forfeited Shares)
Authorised Capital:
Equity Share 1,00,000 Shares @ ₹100 each = ₹ 1,00,00,000. Preference Share Capital: 15% Redeemable Preference Shares, 50,000 Shares @ ₹100 each = ₹50,00,000. 18%, Convertible Preference Shares, 30,000 shares @ ₹100 each = ₹30,00,000.
Issued Capital: Equity Share 30,000 Shares @ ₹100 each, fully paid up = ₹30,00,000; 19,800 Equity Shares of ₹100 each, ₹80 called up and paid up = ₹15,84,000. Amount received on 200 shares forfeited for non-payment of allotment and first call of ₹30 and ₹40 each, final call was not made on those shares. Amount payable on application ₹10 per share.
Preference Share Capital: 15% Redeemable Preference Shares, 10,000 Shares @ ₹100 each = ₹10,00,000. 18%, Convertible Preference Shares, 20,000 shares @ ₹100 each = ₹20,00,000
How will this be shown in the Workings/Schedules, assuming first year of operation?

Answer 1

Share Capital

A. Authorised Capital

Particulars	Current Year (₹)	Previous Year
(i) Equity Share 1,00,000 Shares @ ₹100 each	1,00,00,000	
(ii) 15%, 50,000 Redeemable Preference Shares @ ₹100 each	50,00,000	
(iii) 18%, 30,000 Convertible Preference Shares @ ₹100 each	30,00,000	
Total	**1,80,00,000**	

B. Issued Capital

Particulars	Current Year (₹)	Previous Year
(i) Equity Share 50,000 Shares @ ₹100 each	50,00,000	
(ii) 15%, 10,000 Redeemable Preference Shares @ ₹100 each	10,00,000	
(iii) 18%, 20,000 Convertible Preference Shares @ ₹100 each	20,00,000	
Total	**80,00,000**	

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C. Subscribed, Called up and Paid-up Capital

Particulars	Current Year (₹)	Previous Year (₹)
(i) 30,000 Equity Shares @ ₹100 each, fully paid up	30,00,000	
(ii) 19,800 Equity Shares @ ₹100 each, ₹80 called up and paid up	15,84,000	
(iii) 15%, 10,000 Redeemable Preference Shares @ ₹100 each	10,00,000	
(iv) 18%, 20,000 Convertible Preference Shares @ ₹100 each	20,00,000	
	75,84,000	
Add: Forfeited Shares (amount originally paid-up)	2,000	
Total for Balance Sheet	**75,86,000**	

D. Reconciliation of Number and Amount of Shares

(1) For Equity Shares

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount (₹)
Opening Balance	Nil	Nil	Nil	Nil
Add: Fresh Issue (including Bonus Shares, Right Shares, Split of Shares, Shares issued otherwise than for cash as a Purchase Consideration)	49,800	45,84,000	Nil	Nil
Sub Total	49,800	45,84,000	Nil	Nil
Less: Buy-back of Shares	Nil	Nil	Nil	Nil
Closing Balance	49,800	45,84,000	Nil	Nil

(2) For Preference Shares

(i) For 15% Redeemable Preference Shares of ₹100 each

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount (₹)
Opening Balance	Nil	Nil	Nil	Nil
Add: Fresh Issue (including shares issued otherwise than for cash as a Purchase Consideration)	10,000	10,00,000	Nil	Nil
Sub Total	10,000	10,00,000	Nil	Nil
Less: Redemption of Shares	Nil	Nil	Nil	Nil
Closing Balance	10,000	10,00,000	Nil	Nil

(ii) For 18% Convertible Preference Shares of ₹100 each

Particulars	Current Year		Previous Year	
	No. of Shares	Amount (₹)	No. of Shares	Amount (₹)
Opening Balance	Nil	Nil	Nil	Nil
Add: Fresh Issue	20,000	20,00,000	Nil	Nil
Sub Total	20,000	20,00,000	Nil	Nil
Less: Redemption/Buy-back of Shares	Nil	Nil	Nil	Nil
Closing Balance	20,000	20,00,000	Nil	Nil

Question 2 (SM)

While preparing the Balance Sheet as on 31.03.2023, the Accountant of ABC Ltd. is confused regarding classification of following Trade Payables into current and non-current.

Sl. No.	Amount due (₹)	Due from	To be settled on
1	3,10,000	01.04.2022	18.05.2023
2	1,80,000	01.06.2022	15.09.2024
3	40,000	01.08.2022	15.07.2024
4	15,000	01.01.2023	30.04.2024
5	2,30,000	06.03.2023	05.07.2024
6	1,08,000	15.03.2023	31.12.2023

The normal operating cycle of the company is 15 months. Advice the Accountant on classification with reason.

Answer 2

Classification of Trade Payables as Current and Non-current Liabilities

Sl. No.	Amount Due (₹)	Date of settlement	Due from	Cut of period based on operating cycle	Whether due within the cut of date	Whether Current or non-current
1	3,10,000	18.05.2023	01.04.2022	01.07.2023	Before	Current Liabilities
2	1,80,000	15.09.2024	01.06.2022	01.09.2023	After	Non-current Liabilities
3	40,000	15.07.2024	01.08.2022	01.11.2023	After	Non-current Liabilities
4	15,000	30.04.2024	01.01.2023	01.04.2024	After	Non-current Liabilities
5	2,30,000	05.07.2024	06.03.2023	06.06.2024	After	Non-current Liabilities
6	1,08,000	31.12.2023	15.03.2023	15.06.2023	Before	Current Liabilities

Note: An item of liability is considered as a current liability is the same is due to be settled within the normal operating cycle which is calculated from the date of recording the asset in the books. It may also be noted that item no. 2, 3, 4 and 5 are also not likely to be settled within 12 months from the end of the reporting period.

CHAPTER 1.3: UNDERWRITING OF SECURITIES

C

LDR Questions	Descriptive: Q 4, Q 5, Q 10 MCQ: 3, 5, 6

QUICK REVIEW OF IMPORTANT CONCEPTS

Comprehensive Table – Underwriting of Shares

Topic	Concept / Rule	Formula / Logic	Journal Entry
Meaning of Underwriting	Underwriting is an agreement where underwriters guarantee full subscription of securities.	—	—
Underwriter	A financial intermediary who undertakes the risk of under-subscription.	—	—
Underwriting Commission	Commission paid for bearing risk of under-subscription.	Commission = Gross Liability × Issue Price × Rate	Underwriting Commission A/c Dr. → To Underwriters A/c

Types of Underwriting

Basis	Types	Key Point
Extent	Full / Partial	Full = 100% covered
Number	Single / Multiple	Multiple = shared liability
Commitment	Firm / Regular	Firm = fixed obligation

Marked VS Unmarked Applications

Type	Meaning	Exam Logic
Marked	Applications with underwriter's stamp	Deduct from that underwriter
Unmarked	No stamp	Distributed among underwriters

Underwriter's Liability

Type	Formula
Gross Liability	Given in agreement
Net Liability	Gross − (Marked + Unmarked Share) + Firm Underwriting

Case 1: Fully Underwritten – Single Underwriter

Concept	Formula
Liability	Issue Size − Public Subscription

Case 2: Fully Underwritten – Multiple Underwriters

Step	Formula
Step 1	Start with Gross Liability
Step 2	Less: Marked Applications
Step 3	Less: Share of Unmarked Applications
Step 4	Add: Firm Underwriting
Final	Net Liability

Firm Underwriting Treatment

Method	Rule
Treated as Marked	Deduct individually
Treated as Unmarked	Distribute among all

Case 3: Partial Underwriting – Single Underwriter

Step	Formula
Gross Liability	Issue Size × %Underwritten
Unsubscribed Shares	Issue − Total Subscription
Deficit	Gross − Marked
Net Liability	Lower of (Unsubscribed, Deficit)
Final Liability	+ Firm Underwriting

Underwriting Commission Rules

Aspect	Rule
Shares	Max 5% of issue price
Debentures	Max 2.5%
Basis	Calculated on Gross Liability
Paid Even If	Fully subscribed

Accounting Entries

(A) Shares Taken by Underwriter

Entry - Underwriters A/c Dr. → To Share Capital A/c + Securities Premium A/c

(B) Commission Entry

Entry - Underwriting Commission A/c Dr. → To Underwriters A/c

(C) Final Settlement

Situation	Entry
Amount receivable from underwriter	Bank A/c Dr. → To Underwriters A/c
Amount payable to underwriter	Underwriters A/c Dr. → To Bank A/c

Question & Answers

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

XYZ Ltd. is issuing 20,00,000 shares of ₹10 each to the public. N Ltd. has been appointed as the underwriter for 5% of the issue size. The commission payable to the underwriter is 5% of the issue price. Calculate the amount of underwriting commission payable to N Ltd. if the shares are issued at par. How will your answer change if the shares are issued at 20% premium?

Answer 1

When shares have been issued at par:

Gross Liability = 5% of 20,00,000 = 1,00,000 shares.

Issue price = Face value = ₹ 10 per share

Underwriting Commission = [Gross Liability (in shares) x Issue Price per share] x Rate of Commission

= [1,00,000 x 10] x 5% = ₹50,000.

When shares have been issued at a premium of 20%:

Gross Liability = 5% of 20,00,000 = 1,00,000 shares.

Issue price = ₹ 10 x 120% = ₹ 12 per share

Underwriting Commission = [Gross Liability (in shares) x Issue Price per share] x Rate of Commission

= [1,00,000 shares x 12] x 5% = ₹60,000

Question 2 **(SM)**

A Ltd. issued 1,00,000 equity shares of ₹100 each at par to the public, underwritten only by B & Co. The company received applications for 90,000 shares of which 80,000 shares were marked. Determine the liability of the B & Co.

Answer 2

Underwriting liability of M/s U & Co.

= No. of Shares Issued (-) No. of shares subscribed by the public

= 1,00,000 (-) 90,000

= 10,000 shares.

CHAPTER 4.2: ACCOUNTS OF ELECTRICITY COMPANIES

B

LDR Questions	Descriptive: Q 1, Q 6, Q 8 MCQ: 3

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Key Theory Statements

- Governed by **Electricity Act, 2003**
- Replaced: 1910 Act, 1948 Act, 1998 Act
- Activities separated → **Generation, Transmission, Distribution**
- Accounting → As per **Companies Act, 2013 + CERC + RBI (if applicable)**

2. IMPORTANT AUTHORITIES

Authority	Function
CEA	Technical coordination
CERC	Tariff regulation (Central)
SERC	Tariff regulation (State)

3. Important Practical Adjustments

(a) **Security Deposit**

→ **Journal Entries**

1. On receipt
   - Bank A/c Dr
   - To Security Deposit
2. Interest accrued
   - Interest Exp Dr
   - To Interest Accrued
3. Adjustment in bill
   - Interest Accrued Dr
   - To Sales

→ **Balance Sheet**

- Security Deposit → **Non-current Liability**
- Interest Accrued → **Non-current Liability**

(b) **SLD (Service Line Development Charges)**

Method	Treatment
Liability	Transfer to income gradually
Reserve	Show under Reserves
Capital Reserve	Transfer to P&L proportionately
Asset Reduction	Reduce asset cost

→ **Most important in exam:** Capital Reserve method

(c) **Government Grant (APDRP)**

→ **Treatment:**

- Shown as **Capital Reserve**
- Transferred to P&L in proportion to depreciation

→ **Exam Trick:**

Match → **Grant transfer = Depreciation proportion**

(d) **Depreciation**

→ **Method**: **SLM (as per CERC)**

→ **Key Rules:**

- Land → No depreciation
- Salvage value → **10%**
- Max depreciation → **90%**
- IT assets → 100%

→ **Weighted Average Rate Formula:**

$$\text{Rate} = \frac{\text{Total Depreciation}}{\text{Total Cost}} \times 100$$

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(e) **Tariff Components (Thermal Power)**

1. Capacity Charges (Fixed Cost)

- Return on Equity
- Interest on Loan
- Depreciation
- O&M Expenses
- Interest on Working Capital

2. Energy Charges

- Fuel cost
- Secondary fuel
- Other reagents

4. Important Calculations

(a) **Debt-Equity Ratio**

- Standard = **70 : 30**
- Excess equity → treated as loan

(b) **Return On Equity (Roe)**

- Base rate = **15.5% (Thermal)**
- Formula: ROE = Average Equity × Rate

(c) **Interest On Loan**

- Loan = 70% of capital
- Repayment = Equal to depreciation

(d) **Working Capital**

Includes:

- Fuel cost
- O&M expenses
- Receivables
- Maintenance spares

5. Accounting Treatments Summary

Item	Treatment
Security Deposit	Liability
Interest on Deposit	Expense
SLD Charges	Capital Reserve
Govt Grant	Capital Reserve
Depreciation	SLM
Land	No depreciation

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6. Exam Important Points

- Use **CERC rates (not Companies Act)**
- Show **Capital Reserve clearly**
- Match **Depreciation with Grant transfer**
- Mention **70:30 ratio**
- Write **formula for working capital interest**

Question & Answers

Question 1 **(WB)** LDR

From the following information of SDF Electricity Co. Ltd., an Electricity generation Project, Compute the following:

i. Depreciation and

ii. Advance against depreciation up to the year 2024-2025 as per Regulation 21 of the central Electricity Regulatory Commission (Terms and Conditions of Tariff), Regulations 2004.

- **Date of Commercial Operation of COD: 1st April,2021**
- **Approved Opening Capital Cost as on 1st April,2021: ₹5,00,000**
- **Weighted average Rate of Depreciation: 5.20%**
- **Details of allowed Additional capital, Repayment of Loan and weighted Average Rate of Interest on Loan are as follows:**

Average Rate of Interest on loan are as follows:

Particulars	2021-2022	2022-2023	2023-2024
Additional capital Expenditure (Allowed)	35,000	10,000	7,500
Repayment of Loan	30,000	35,000	35,000
Weighted Average Rate of Interest on Loan	7.50%	7.60%	7.80%

Answer 1

Calculation of total depreciation including Advance Against Depreciation:

Particulars	2021-2022	2022-2023	2023-2024
Opening Capital Cost	5,00,000	5,35,000	5,45,000
Additional Capital Cost	35,000	10,000	7,500
Closing Capital Cost (a + b)	5,35,000	5,45,000	5,52,500
Average Capital Cost [(a + b) /2]	5,17,500	5,40,000	5,48,750
Weighted average rate of depreciation	5.20%	5.20%	5.20%
a. Annualized depreciation	26,910	28,080	28,535
b. Advance against depreciation (AAD)	3,090	6,920	6,465
c. Total depreciation (including ADD) for tariff	30,000	35,000	35,000

Calculation of total depreciation including Advance Against Depreciation:

Particulars	2021-2022	2022-2023	2023-2024
a. Repayment of Loan (10% of Loan amount)	30,000	35,000	35,000
b. Depreciation (Excluding AAD)	26,910	28,080	28,535
c. Excess of Loan repaid over depreciation (a-b)	3,090	6,920	6,465
d. Cumulative repayment of Loan	30,000	65,000	1,00,000
e. Cumulative Depreciation (excluding AAD)	26,910	54,990	83,525
f. Cumulative repayment of loan over cumulative depreciation (d-e)	3,090	10,010	16,475
g. Advance against depreciation (AAD) (lower of c or f)	3,090	6,920	6,465

Question 2 (SM)

Consider the following information provided by ABC Power Supply Company Ltd.
Security deposit received from a customer on 01.10.2021 for ₹2,00,000. Interest rate applicable was 8% for 2021-22 and 9% for 2022-23. The accrued interest for the year is adjusted against the bill for the immediate next quarter. Journalize the above transaction for 2021-22 and 2022-23.

Answer 2

In the books of ABC Power Supply Company Ltd.
Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
01.10.21	Bank A/c To Security Deposit A/c (Being the Security Deposit received)	2,00,000	2,00,000
31.03.22	Interest Expense A/c (2,00,000 × 8% × 6/12) To Interest Accrued on Security Deposit A/c (Being the Provision for Interest Accrued on Security Deposit Made)	8,000	8,000
30.06.22	Interest Accrued on Security Deposit A/c To Sales Turnover A/c (Being the Adjustment of Interest Accrued on Security Deposit in Consumer's Bill)	8,000	8,000
31.03.23	Interest Expense A/c (2,00,000 × 8% × 6/12) To Interest Accrued on Security Deposit A/c (Being the Provision for Interest Accrued on Security Deposit Made)	8,000	8,000
30.06.23	Interest Accrued on Security Deposit A/c To Sales Turnover A/c (Being the Adjustment of Interest Accrued on Security Deposit in Consumer's Bill)	8,000	8,000

Question 3 (SM)

From the following calculate Weighted Average Rate of Depreciation considering the rates as per Appendix-I.

Sr. No.	Assets	Closing Balance at Cost (₹)
1	Land under full ownership	14,30,000
2	Land under Lease	4,30,000

3	(a) Building & Civil Engineering Works Other than Kutcha Roads	33,00,000
	(b) Railways Sidings	40,00,000
	(c) Temporary Erections such as Wooden Structures	10,00,000
4	IT Equipment	20,00,000
5	Self-Propelled Vehicles	30,00,000
6	Portable Air Conditioning Plants	25,00,000
7	(a) Apparatus other than Motors let on hire	15,00,000
	(b) Motors let on hire	2,00,000
8	Communication Equipment	5,00,000
9	Office Furniture, Furnishing, Equipment, Fittings & Apparatus	5,00,000
10	Plants & Machinery in generating stations	2,52,00,000
11	Cooling Towers & Circulating Water Systems	10,00,000
12	Hydraulic Works Forming part of the Hydro-dams, etc.	20,00,000
13	Transformers & Switchgear	2,05,00,000
14	Lighting Arrester, Batteries, Overhead lines including cable support	42,00,000
15	Meters	20,00,000
16	Static Air Conditioning Plants	1,00,00,000
17	Street Light Fittings	47,85,000
18	Vehicles other than Self Propelled Vehicles	2,15,000

Answer 3

Calculation of Total Coat and Total Depreciation

S. No.	Assets	Rate	Cost (₹)	Depreciation (₹)
1	Land under full ownership	0.00%	14,30,000	0
2	Land under Lease	3.34%	4,30,000	14,362
3	Building & Civil Engineering Works			
	(a) Other than Kutcha Roads	3.34%	33,00,000	1,10,220
	(b) Railways Sidings	3.34%	40,00,000	1,33,600
	(c) Temporary Erections such as Wooden Structures	100.00%	10,00,000	10,00,000
4	IT Equipment	15.00%	20,00,000	3,00,000
5	Self-Propelled Vehicles	9.50%	30,00,000	2,85,000
6	Portable Air Conditioning Plants	9.50%	25,00,000	2,37,500
7	(a) Apparatus other than Motors let on hire	9.50%	15,00,000	1,42,500
	(b) Motors let on hire	6.33%	2,00,000	12,660
8	Communication Equipment	6.33%	5,00,000	31,650
9	Office Furniture, Furnishing, Equipment, Fittings & Apparatus	6.33%	5,00,000	31,650
10	Plants & Machinery in generating stations	5.28%	2,52,00,000	13,30,560
11	Cooling Towers & Circulating Water Systems	5.28%	10,00,000	52,800
12	Hydraulic Works Forming part of the Hydro-dams, etc.	5.28%	20,00,000	1,05,600
13	Transformers & Switchgear	5.28%	2,05,00,000	10,82,400
14	Lighting Arrester, Batteries, Overhead lines including cable support	5.28%	42,00,000	2,21,760
15	Meters	5.28%	20,00,000	1,05,600
16	Static Air Conditioning Plants	5.28%	1,00,00,000	5,28,000
17	Street Light Fittings	5.28%	47,85,000	2,52,648
18	Vehicles other than Self Propelled Vehicles	5.28%	2,15,000	11,352
Total			**9,02,60,000**	**59,89,862**

Total Capital Cost of All Assets (other than Freehold land) = 9,02,60,000 -14,30,000 = 8,88,30,000

Weighted Average Rate of Depreciation = $\frac{\text{Total depreciation on all assets(other than freehold land)}}{\text{Total capital cost of all assets (other than freehold land)}} \times 100$

$= \frac{59,89,862}{8,88,30,000} \times 100 = 6.7431\%$

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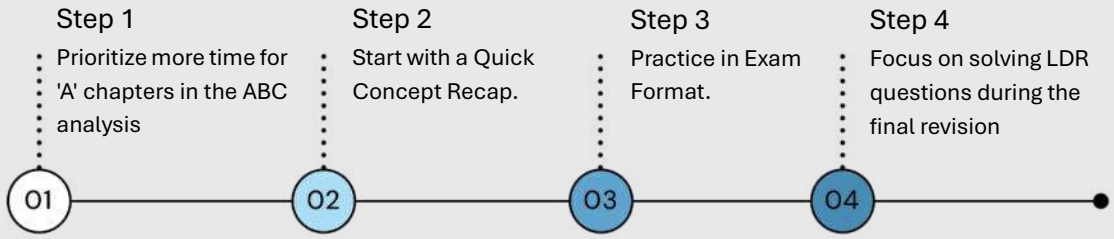
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Step 1: Prioritize your chapters

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.

17.BETA

- Measures systematic risk

Beta	Meaning
< 1	Low risk
= 1	Same as market
> 1	High risk
< 0	Negative relation

18.CAPM

$E(R) = R_f + \beta(R_m - R_f)$

Where:

- R_f = risk-free rate
- β = beta
- R_m = market return

Key points:

- Return depends on systematic risk
- Diversification removes unsystematic risk
- Used to calculate required return

Question & Answers

Question 1 (MQP[2] 6 Marks June'23)

Answer 1

Systematic risk represents that portion of total risk which is attributable to factors that affect the market as a whole. It arises out of external and uncontrollable factors which are not specific to a security or industry to which such security belongs. Different types of systematic risk are discussed below:

(i) **Market Risk:** Share prices fluctuate frequently following political and economic events. These risks arise due to changes in demand and supply, expectations of the investors, information flow, investor's risk perception, etc. consequent to the social, political and economic events.

(ii) **Interest Rate Risk:** Uncertainty of future market values and extent of income in the future, due to fluctuations in the general level of interest, is known as Interest Rate Risk. These are risks arising due to fluctuating rates of interest and cost of corporate debt.

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operationally feasible criterion? State briefly interrelationship between Investment, Financing and Dividend Decisions.

Answer 2

(i) **Value/Wealth Maximization as the objective of financial management:**

Value/Wealth Maximization is considered as the appropriate objective of an enterprise. When the firms maximize the shareholder's value/wealth, the individual shareholder can use this wealth to maximize his individual utility. Value/Wealth Maximization is the single substitute for a shareholder's utility.

Arguments in favour of Value/Wealth Maximization:

(i) Due to wealth maximization, the short-term money lenders get their payments in time.
(ii) The long time lenders too get a fixed rate of interest on their investments.
(iii) The employees share in the wealth gets increased.
(iv) The various resources are put to economical and efficient use.

(ii) **Profit Maximization:**

Profit maximization is one of the leading goals for all firms as it is reflected in the income statement. If the net operating profits tend to increase consecutively, the firm portrays efficient performance and if the net operating profits tend to decrease consecutively, the firm shows poor financial performance.

Arguments against profit maximization:

(i) It leads to exploitation of workers and consumers.
(ii) It ignores the risk factors associated with profit.
(iii) Profit in itself is a vague concept and means differently to different people.

LDR Questions	Descriptive: Q 2, Q 34, Q 36 MCQ: 13, 18, 52

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Fundamentals of Finance
   - Finance = science of mon… funds)
   - Financial Management … controlling financial resources
   - Two key aspects:
     - Procurement of funds
     - Effective utilization of funds

2. Objectives of Financial Management
   Main objectives:
   - Profit maximization
   - Wealth (value) maximization

   Comparis…

Focus	
Nature	
Risk	
Time value	
Decision	
Conclusion	

3. Scope of F…
   Three key decisions:
   - Investment decision – where and how much to invest
   - Financing decision – debt vs equity mix
   - Dividend decision – distribution vs retention

4. Functions of Financial Management
   - Determining financial needs
   - Determining sources of funds
   - Financial analysis (ratios, performance)
   - Capital structure decision
   - Working capital management
   - Capital budgeting
   - Profit planning and control
   - Dividend policy
   - Fixed asset management
   - Corporate taxation

5. PROFIT vs WEALTH MAXIMIZATION
   Profit Maximization (Pros):
   - Measures efficiency
   - Source of growth
   - Helps survival

   Profit Maximization (Cons):
   - Ignores risk
   - Ignores time value of money
   - Short-term focus
   - Vague concept

   Wealth Maximization (Pros):
   - Considers risk and time value
   - Focus on cash flows
   - Long-term objective
   - Maximizes share price

   Conclusion: Wealth maximization is better and practical.

6. Role Of CFO
   - Estimate fund requirements
   - Raise funds (internal/external)
   - Invest funds efficiently
   - Manage working capital
   - Ensure returns to stakeholders
   - Manage risk and treasury
   - Comply with regulations
   - Monitor financial markets
   -





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

CHAPTER 3.4: CASH FLOW STATEMENT - PREPARATION AND ANALYSIS

A

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Cash Flow Statement – Core Concept

Meaning + Definitions

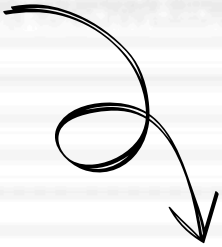
Aspect	Explanation
Meaning	Cash Flow Statement shows the changes in cash position between two balance sheet dates.
Cash	Cash includes cash in hand and demand deposits with banks.
Cash Equivalents	These are short-term highly liquid investments with maturity up to 3 months.
Cash Flows	Cash flows include inflows (increase in cash) and outflows (decrease in cash).

2. CLASSIFICATION OF CASH FLOWS

Type	Explanation	Examples
Operating Activities	These are main revenue generating activities of business.	Cash from sales, payments to suppliers, salaries, taxes.
Investing Activities	These relate to purchase and sale of long-term assets.	Purchase/sale of fixed assets, investments.
Financing Activities	These relate to capital and borrowings.	Issue of shares, loans, repayment, dividend paid.

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Particulars	Amount (₹)
A. CASH FLOW FROM OPERATING ACTIVITIES	
Net Profit before Tax and Extraordinary Items	xxx
Add: Non-cash and Non-operating Expenses	
Depreciation / Amortisation	xxx
Loss on Sale of Fixed Assets / Investments	xxx
Goodwill / Preliminary Expenses Written off	xxx
Interest Expense	xxx
Transfer to Reserves	xxx
Less: Non-operating Incomes	
Profit on Sale of Fixed Assets / Investments	(xxx)
Interest Income	(xxx)
Dividend Income	(xxx)
Operating Profit before Working Capital Changes	xxx
Adjustments for Working Capital Changes	
Increase in Current Assets (Debtors, Inventory, Prepaid etc.)	(xxx)
Decrease in Current Assets	xxx
Increase in Current Liabilities (Creditors, Outstanding etc.)	xxx
Decrease in Current Liabilities	(xxx)
Cash Generated from Operations	xxx
Less: Income Tax Paid	(xxx)
Net Cash from Operating Activities (A)	xxx
B. CASH FLOW FROM INVESTING ACTIVITIES	
Sale of Fixed Assets	xxx
Sale of Investments	xxx



Quick Review of Important Concepts

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7.1	Capital Structure and Capital Stacking	-	-	-	-	-	-	-	7.1.1 – 7.1.14	A
7.2	Leverage Analysis and EBIT- EPS Analysis	-	-	-	-	-	-	-	7.2.1 – 7.2.20	A
7.3	Dividend Decisions and Dividend Theories	-	-	-	-	-	-	-	7.3.1 – 7.3.12	B

SECTION B: BUSINESS DATA ANALYTICS										
8	Introduction to Data Science for Business Decision-making	8	9	9	7	7	7	7.83	8.1 – 8.8	B
9	Data Processing, Organisation, Cleaning and Validation	7	-	-	2	9	2	3.33	9.1 – 9.5	C
10	Data Presentation: Visualisation and Graphical Presentation	16	2	7	2	-	2	4.83	10.1 – 10.7	B
11	Data Analysis and Modelling	1	16	11	16	11	14	11.50	11.1 – 11.10	A

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 Workbook Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 1: FUNDAMENTALS OF FINANCIAL MANAGEMENT C

LDR Questions	Descriptive: Q 2, Q 34, Q 36 MCQ: 13, 18, 52

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Fundamentals of Finance

- Finance = science of money (raising + using funds)
- Financial Management = planning and controlling financial resources
- Two key aspects:
  - Procurement of funds
  - Effective utilisation of funds

2. Objectives of Financial Management

Main objectives:

- Profit maximization
- Wealth (value) maximization

Comparison:

Basis	Profit Maximization	Wealth Maximization
Focus	Profit	Shareholder value
Nature	Short-term	Long-term
Risk	Ignored	Considered
Time value	Ignored	Considered
Decision base	Profit	Cash flows

Conclusion: Wealth maximization is superior.

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3. Scope of Financial Management

Three key decisions:

- Investment decision → where and how much to invest
- Financing decision → debt vs equity mix
- Dividend decision → distribution vs retention

4. Functions of Financial Management

• Determining financial needs	• Determining sources of funds
• Financial analysis (ratios, performance)	• Capital structure decision
• Working capital management	• Capital budgeting
• Profit planning and control	• Dividend policy
• Fixed asset management	• Corporate taxation

5. PROFIT vs WEALTH MAXIMIZATION

Profit Maximization (Pros):

- Measures efficiency
- Source of growth
- Helps survival

Profit Maximization (Cons):

- Ignores risk
- Ignores time value of money
- Short-term focus
- Vague concept

Wealth Maximization (Pros):

- Considers risk and time value
- Focus on cash flows
- Long-term objective
- Maximizes share price

Conclusion: Wealth maximization is better and practical.

6. Role Of CFO

• Estimate fund requirements	• Raise funds (internal/external)	• Invest funds efficiently
• Manage working capital	• Ensure returns to stakeholders	• Manage risk and treasury
• Comply with regulations	• Monitor financial markets	•

7. Time Value of Money (TVM)

- Money has time value
- ₹1 today > ₹1 in future

Reasons:

- Risk/uncertainty
- Preference for present consumption
- Investment opportunities

8. TVM Techniques

- Compounding → present to future
- Discounting → future to present

9. Important Formulas

Future Value: $FV = PV(1 + r)^n$

Present Value: $PV = \frac{FV}{(1+r)^n}$

10. ANNUITY & PERPETUITY

- **Annuity = equal payments over time**
- **Perpetuity = infinite annuity**

Formulas:

Future Value of Annuity: $FV_{annuity} = A\left(\frac{(1+r)^n-1}{r}\right)$

Present Value of Annuity: $PV_{annuity} = A\left(\frac{1-(1+r)^{-n}}{r}\right)$

Perpetuity: $PV = \frac{A}{r}$

11. CAGR

$CAGR = \left(\frac{EV}{BV}\right)^{\frac{1}{n}} - 1$

Uses:

- Measure growth
- Compare investments
- Forecast trends

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12. RETURN CONCEPT

- **Return = income + capital gain**

Types:

- Realised return (past)
- Expected return (future)

13. EX-ANTE vs EX-POST

- Ex-ante → expected return
- Ex-post → actual (historical) return

14. TYPES OF RISK

Systematic Risk (cannot be diversified):

- Market risk
- Interest rate risk
- Purchasing power risk

Unsystematic Risk (can be diversified):

- Business risk
- Financial risk
- Default risk

15. RETURN FORMULAS

Total Return: $\text{Total Return} = \frac{D_1+(P_1-P_0)}{P_0}$

- Expected Return: $E(R) = \sum R_i P_i$
- Portfolio Return: $E(R_p) = \sum w_i E(R_i)$

16. RISK MEASURES

- Standard deviation → total risk
- Variance → square of SD
- Coefficient of variation (CV): $CV = \frac{\sigma}{E(R)}$

17.BETA

- **Measures systematic risk**

Beta	Meaning
< 1	**Low risk**
= 1	**Same as market**
> 1	**High risk**
< 0	**Negative relation**

18.CAPM

$$E(R) = R_f + \beta(R_m - R_f)$$

Where:

- Rf = risk-free rate
- β = beta
- Rm = market return

Key points:

- Return depends on systematic risk
- Diversification removes unsystematic risk
- Used to calculate required return

Question & Answers

Question 1 (MQP[2] 6 Marks June'23)

Prepare a list of different types of systematic risks.

Answer 1

Systematic risk represents that portion of total risk which is attributable to factors that affect the market as a whole. It arises out of external and uncontrollable factors, which are not specific to a security or industry to which such security belongs. Different types of systematic risks are discussed below:

(i) **Market Risk:** These are risks that are triggered due to social, political and economic events. These risks arise due to changes in demand and supply, expectations of the investors, information flow, investor's risk perception, etc. consequent to the social, political or economic events.

(ii) **Interest Rate Risk:** Uncertainty of future market values and extent of income in the future, due to fluctuations in the general level of interest, is known as Interest Rate Risk. These are risks arising due to fluctuating rates of interest and cost of corporate debt.

(iii) **Purchasing Power Risk:** Purchasing Power Risk is the erosion in the value of money due to the effects of inflation.

Question 2 (PYP 5 Marks June'23) LDR

What is Wealth Maximisation as the Objective of Financial Management? Why is profit maximization, not an operationally feasible criterion? State briefly Interrelationship between Investment, Financing and Dividend Decisions.

Answer 2

(i) Value/Wealth Maximization as the objective of financial management:

Value/Wealth Maximization is considered as the appropriate objective of an enterprise. When the firms maximize the shareholder's value/wealth, the individual shareholder can use this wealth to maximize his individual utility. Value/Wealth Maximization is the single substitute for a shareholder's utility.

Arguments in favour of Value/Wealth Maximization:

(i) Due to wealth maximization, the short-term money lenders get their payments in time.
(ii) The long-time lenders too get a fixed rate of interest on their investments.
(iii) The employees share in the wealth gets increased.
(iv) The various resources are put to economical and efficient use.

(ii) Profit Maximization:

Profit maximization is one of the leading goals for all firms as it is reflected in the income statement. If the net operating profits tend to increase consecutively, the firm portrays efficient performance and if the net operating profits tend to decrease consecutively, the firm shows poor financial performance.

Arguments against profit maximization:

(i) It leads to exploitation of workers and consumers.
(ii) It ignores the risk factors associated with profit.
(iii) Profit in itself is a vague concept and means differently to different people.

(iv) It is narrow a concept at the cost of social and moral obligations. Thus, profit maximization as an objective of Financial Management has been considered inadequate.
Hence, profit maximization, not an operationally feasible criterion.

(iii) Interrelationship between Investment, Financing and Dividend Decisions:

Investment Decision: Investment decision of a firm includes two main aspects—where to invest and how much to invest or the amount of investment. This maximizes the wealth of a firm. There are two basic issues involved in investment decisions:

(a) Evaluation of alternative investment avenues so as to select the best option.

(b) Monitoring and implementation of the selected investment option.

Financing Decision: The objective of a financing decision of a firm should be to find out the optimum combination of debt - equity, where cost of capital will be minimum and return will be maximum. Financing decision involves decision regarding the financing pattern of the firm. There are mainly two sources of raising funds—internal source and external source. Internal source includes the owned fund of the firm *i.e.* the share capital. Whereas the external source includes the borrowed funds *i.e.* loans from banks and other financial institutions, issuing debentures etc. Risk involved in borrowed funds is higher than the risk involved in owned funds. This is because borrowed funds entail a fixed payment commitment like interest, but the owned funds (equity capital) do not include any such fixed commitment except preference shares. So, reasonable care should be exercised while deciding upon the capital structure.

Dividend Decision: Dividend decision of a firm includes determining how much to distribute as dividend and how much to retain for future expansion programme. The objective of dividend policy is to maximize the market value of the equity shares. If the shareholders' expectations are not fulfilled, ultimately it will have a negative impact on the market value of shares. On the other hand, if a firm fails to grasp or rather predict the reinvestment opportunities then it will have an impact on the future growth of the firm.

Conclusion:

So, the scope of financial management is striking a proper balance between all the three decisions of investment, financing and dividend to ensure achieving objective of the firm.

Question 3 (SM)

Find the present value of ₹ 1,000 receivable 6 years hence if the rate of discount is 10%.

Answer 3

₹1,000 × $PVIF_{10\%,6}$ = ₹1,000 × 0.5645 = ₹ 564.5

Question 4 (SM)

An investor expects a perpetual sum of ₹ 5,000 annually from his investment. What is the present value of the perpetuity if interest rate is 10%?

Answer 4

Present value of a perpetuity = $\frac{\text{Perpetuity}}{\text{Interest Rate}}$ | PV= $\frac{A}{i}$ = ₹ 50,000

Question 5 (SM)

From the following data, compute the beta of Security X.

σ_x = 12%; σM = 9%; $r_{(X,M)}$ = +0.72

Answer 5

Beta (β) = $\frac{r_{(AM)} \times \sigma_A \times \sigma_M}{\sigma_M^2}$ | = $\frac{0.72 \times 12 \times 9}{9^2} = \frac{77.76}{81} = 0.96$

Question 6 (SM)

The following information is given:

Security Beta: 1.2, Risk-free rate: 4%, Expected market return: 12%. Calculate expected rate of return on the security.

Answer 6

$E(R_s) = R_F + \{ \beta_s \times (R_M - R_F) \}$

Substituting these data into the CAPM equation, we get

$E(R_s)$ = 4% + [1.20 × (12% - 4%)]

= 4% + 9.6% = 13.6%.

Question 7 (SM)

Compute the future values of (1) an initial ₹ 100 compounded annually for 10 years at 10% and (2) an annuity of ₹ 100 for 10 years at 10%.

Answer 7

The future value of an investment compounded annually = $F_n = P(1 + i)^n = P \times FVIF_{i,n} = F_{10} = ₹100\ (1 + 0.10)^{10} = ₹100\ (2.5937) = ₹259.4$

The future value of an annuity = $A \times FVIFA_{in} = ₹100 \times 15.937 = ₹1593.7$

Question 8 (SM)

A note (secured premium note) is available for ₹ 1,400. It offer, including one immediate payment, 10 annual payments of ₹ 210. Compute the rate of return (yield) on the note.

Answer 8

$V=\sum_{i=1}^{n} \frac{C_i}{(1+r)^i}$

⇒ ₹1,400 = ₹210 $(1 + PVIFA_{r,9})$

⇒ $(1 + PVIFA_{r,9})$ = ₹1,400 / ₹210 = 6.67

$(1 + PVIFA_{r,9})$ = 6.67 - 1 = 5.67

Question 9 (SM)

The shares of ABC Ltd. are currently selling for ₹ 100 on which the expected dividend is ₹ 4. Compute the total return on the shares if the earnings or dividends are likely to grow at (a) 5 % (b) 10 % and (c) 0 (zero) % (no growth).

Answer 9

$r = (D_1 / P_0) + g$

(a) Rate of growth, 5%:

r = (₹4 / ₹100) + 0.05 = 0.04 + 0.05 = 9%

(b) Rate of growth, 10%:

r = (₹4 / ₹100) + 0.10 = 14%

(c) Rate of growth, 0 (zero) % (no growth):

r = ₹4 / 100 = 4%

Question 10 (SM)

Consider, two securities, A and B, whose normal probability distributions of one-year returns have the following characteristics:

	Security A	Security B
Expected return, [E(R)]	0.08	0.24
Standard deviation, (σ)	0.06	0.08
Coefficient of variation, (CV)	0.75	0.33

Comment on the above information.

Answer 10

From the above information it is found that the standard deviation of Security B is larger than that of Security A. So, Security B is the riskier investment opportunity with standard deviation as risk measurement tool. However, relative to the size of expected return, Security A has greater variation. So, Security A is higher risky investment than Security B.

Question 11 (SM)

ABC Ltd. is considering a proposal to buy a machine for ₹ 30,000. The expected cash flows after taxes from the machine for a period of 3 consecutive years are ₹ 20,000 each. After the expiry of the useful life of the machine, the seller has guaranteed its repurchase at ₹ 2,000. The firm's cost of capital is 10% and the risk adjusted discount rate is 18%. Should the company accept the proposal of purchasing the machine?

Answer 11

Year	CFAT (₹)	PV factor (0.18)	Total PV (₹)
1-3	20,000	2.174	43,480
3	2,000	0.751 (As per PVIF Table)	1,502
			44,982
Less cash outlays			30,000
NPV			14,982

Yes, the company should accept the proposal.

CHAPTER 3.1: COMPARATIVE, COMMON-SIZE FINANCIAL STATEMENTS AND TREND ANALYSIS

B

LDR Questions	Descriptive: Q 10, Q 11, Q 12, Q 13

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Comparative Financial Statement Format

Particulars	Previous Year (PY)	Current Year (CY)	Absolute Change (CY – PY)	% Change $\frac{\text{Change}}{\text{PY}} \times 100$
Item 1				
Item 2				
Item 3				
Total				

Key Formulas

Absolute change = Current Year – Previous Year

% Change = $\frac{\text{Absolute Change}}{\text{Previous Year}} \times 100$

2. Common Size Balance Sheet Format

(A) Assets Side

Assets	Amount	% of Total Assets $\frac{\text{Item}}{\text{TotalAssets}} \times 100$
Fixed Assets		
Investments		
Current Assets		
Fictitious Assets		
Total Assets		**100%**

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(B) Liabilities Side

Liabilities	Amount	% of Total Liabilities $\frac{\text{Item}}{\text{TotalLiabilities}} \times 100$
Share Capital / Owner's Fund		
Long-term Liabilities		
Current Liabilities		
Total Liabilities		**100%**

3. Common Size Income Statement Format

Particulars	Amount	% of Sales $\frac{\text{Item}}{\text{Sales}} \times 100$
Sales		100%
Cost of Goods Sold		
Gross Profit		
Operating Expenses		
Operating Profit		
Interest		
Tax		
Net Profit		

Steps to Solve

1.Identify base (Total Assets / Sales).	2.Divide each item by base.
3.Multiply by 100.	4.Present in % format.

4. Trend Analysis Format

Year	Amount	Trend % $\frac{\text{Current}}{\text{Base}} \times 100$
Base Year		**100%**
Year 2		
Year 3		
Year 4		

5. Final Formula Summary Table

Concept	Formula
Absolute Change	$\text{CY} - \text{PY}$
Percentage Change	$\frac{\text{CY}-\text{PY}}{\text{PY}} \times 100$
Common Size %	$\frac{\text{Item}}{\text{Total}} \times 100$
Trend %	$\frac{\text{Current}}{\text{Base}} \times 100$

Question & Answer

Question 1 (MQP[2] 7 Marks Dec'23)

The following data relate to some important items of a company disclosing its development during the last five years:

	2018 (₹)	2022 (₹)
Working Capital	**2,33,53,010**	**3,82,50,955**
Plant and Equipment	**99,78,420**	**2,41,76,835**
Long – Term Debts	**72,80,000**	**1,40,00,000**
Net Tangible Assets	**2,80,80,230**	**4,98,76,090**

By computing the trend ratios, evaluate the changes in the financial position (soundness / weakness) of the company.

Answer 1

Computation of Trend Percentage

Particulars	Absolute Changes	Trend % 2018	Trend % 2022
Working capital	1,48,97,945	100	163.79
Plant & Machinery	1,41,98,415	100	242.3
Long-term borrowings	67,20,000	100	192.31
Net Tangible assets	2,17,95,860	100	177.62

Interpretation of changes:

Trend percentage depicts that there is an increase of 142.3% in plant and machinery while an increase in working capital is 63.79%. These trend percentages show that there is rapid increase in fixed assets. But if we see the changes in absolute figures of above said both items then just opposite result comes before us.

Working capital is increased by ₹1,48,97,945 and plant and machinery is increased by ₹1,41,98,415. On the basis of trend percentage, it can be said that finance has been provided from long term borrowing and working capital for purchasing plant and machinery.

There is an increase of 92.31% and 77.62% respectively in long term debt and net tangible assets which is undesirable because more increase in long term debts in comparison to net tangible assets is the indicator of increasing debt burden.

Question 2 (SM)

A partial list of trend and common-size percentages for ABC Ltd. is given below.

	March, current year	March, previous year
Trend percentages:		
Sales (net)	**120**	**100**
Cost of goods sold	**?**	**100**
Gross profit on sales	**?**	**100**

Operating expenses and income taxes	?	100
Net income	?	100
Common-size percentages:		
Sales (net)	100	100
Cost of goods sold	?	?
Gross profit on sales	40	?
Operating expenses and income taxes	20	25
Net income	20	10

Determine the missing trend and common-size percentages.

Answer 2

Determination of common-size percentages and missing trends

Particulars	Common-size percentages		Trend percentages	
	(March current year)	(March previous year)	(March current year)	(March previous year)
Sales(net)	100	100	120	100
Cost of goods sold	60	65	110.76	100
Gross profit on sales	40	35	137.14	100
Operating expenses and income taxes	20	25	96	100
Net income	20	10	240	100

Question 3 **(PYP 7 Marks Dec'24)**

Prepare a Common-size Income Statement from the following income statements and interpret the same.

INCOME STATEMENT

Particulars	31st March 2023 (₹)	31st March 2024 (₹)
Gross Sales	10,30,000	12,42,000
Less: Sales Returns	30,000	42,000
Net Sales	10,00,000	12,00,000
Less: Cost of Goods Sold	6,00,000	6,60,000
Gross Profit	4,00,000	5,40,000
Less: Operating Expenses:		
Administrative Expenses	85,000	1,14,000
Selling Expenses	2,00,000	1,93,200
Total Operating Expenses	2,85,000	3,07,200
Income from Operations	1,15,000	2,32,800
Add: Non-operating Income	24,000	34,200
Total Income	1,39,000	2,67,000
Less: Non-operating Expenses	36,000	53,280
Net Profit	1,03,000	2,13,720

Answer 3

Common Size Income Statement

Particulars	31st March 2023		31st March 2024	
	(₹)	(%)	(₹)	(%)
Gross Sales	10,30,000	103	12,42,000	103.5
Less: Sales Returns	30,000	3	42,000	3.5
Net Sales	10,00,000	100	12,00,000	100
Less: Cost of Goods Sold	6,00,000	60	6,60,000	55
Gross Profit	4,00,000	40	5,40,000	45
Less: Operating Expenses:				
Administrative Expenses	85,000	8.5	1,14,000	9.5
Selling Expenses	2,00,000	20	1,93,200	16.1
Total Operating Expenses	2,85,000	28.5	3,07,200	25.6
Income from Operations	1,15,000	11.5	2,32,800	19.4

Add: Non-operating Income	24,000	2.4	34,200	2.85
Total Income	1,39,000	13.9	2,67,000	22.25
Less: Non-operating Expenses	36,000	3.6	53,280	4.44
Net Profit	1,03,000	10.3	2,13,720	17.81

Note: All percentages have been calculated based on Net Sales.

Comment:

(i) In the year 2024, the cost of goods sold declines by 5%.This may be due to the reduction in the cost of raw materials. As a result, gross profit increases from 40% to 45%.

(ii) The operating expenses reduces by 2.9%. This is due to efficient working of the company. There is reduction in the COGS and operating expenses which jointly contributes in increasing income from operation by 7.9%. Therefore, it can be concluded that the company is efficiently managed in the year 2024 as compared to 2023.

Question 4 (PYP 7 Marks Dec'23)

Prepare a Common Size Income Statement from the following figures extracted from the Statement of Profit and Loss of XYZ Ltd. and offer your comments on its profitability position.

Particulars	2021-22 (₹)	2022-23 (₹)
Net Sales	5,25,000	6,75,000
Less: Cost of Goods sold	2.85,000	3,22,500
Gross profit	2,40,000	3,52,500
Less: Operating Expenses	75,000	1,08,000
Operating profit	1,65,000	2,44,500
Less: Interest on debentures	30,000	25,500
Profit before Tax	1,35,000	2,19,000

Answer 4

Common Size Income Statement

Particulars	2021-22 (%)	2022-23 (%)
Net Sales	100	100
Less: Cost of Goods sold	54.3	47.8
Gross profit	45.7	52.2
Less: Operating Expenses	14.3	16
Operating profit	31.4	36.2
Less: Interest on debentures	5.7	3.8
Profit before Tax	25.7	32.4

Comment:

(i) The PBT to net sales has increased from 25.71% in the year 2021-22 to 32.44% in the year 2022-23. It indicates that the profit earning capacity of the company has improved during the study period. This improvement in the profitability of the company has been mainly due to significant reduction in the cost of goods sold of the company. It may occur due to fall down of input market or may occur due to improvement in the efficiency of the company. As other operating expenses are higher in 2022-23 so, it is clear that company has been operated with tight supervision, tight inventory control for reduction of Cost of Goods Sold.

(ii) The interest on long-term debt to net sales has declined from 5.71% in the 2021-22 to 3.78% in 2022-23. It implies that the financial burden of the company has reduced significantly during the study period. Higher operating profit or fund from operation has been utilised for repayment of long-term debt, so that the financial risk associated with the company has declined significantly during the study period.

Question 5 (SM, WB)

From the following income statement, prepare a common size statement and also interpret the results

Income Statement for the year ended 31st March

Particulars	2023 (₹)	2024 (₹)
Net Sales	10,50,000	13,50,000
Less: Cost of Goods Sold	5,70,000	6,45,000
Gross Profit	4,80,000	7,05,000

Less: Other Operating Expenses	1,50,000	2,16,000
Operating Profit	3,30,000	4,89,000
Less: Interest on Long-term Debt	60,000	51,000
Profit Before Tax (PBT)	2,70,000	4,38,000

Answer 5

Common Size Statement for the year ended 31st March, 2023 and 2024

Particulars	2023	2024
Net Sales	100%	100%
Less: Cost of Goods Sold $\left(\frac{\text{Cost of Goods Sold}}{\text{Net Sales}} \times 100\right)$	54.3%	47.8%
Gross Profit $\left(\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100\right)$	45.7%	52.2%
Less: Other operating expenses $\left(\frac{\text{Other Operating Expenses}}{\text{Net Sales}} \times 100\right)$	14.3%	16%
Operating Profit $\left(\frac{\text{Operating Profit}}{\text{Net Sales}} \times 100\right)$	31.4%	36.2%
Less: Interest on Long-term Debt $\left(\frac{\text{Interest}}{\text{Net Sales}} \times 100\right)$	5.7%	3.8%
Profit Before Tax (PBT) $\left(\frac{\text{PBT}}{\text{Net Sales}} \times 100\right)$	25.7%	32.4%

Comments:

(i) The PBT to net sales has increased from 25.7% in the year 2022-23 to 32.4% in the year 2023-24. It indicates that the profit earning capacity of the company has improved during the study period. This improvement in the profitability of the company has been mainly due to significant reduction in the cost of goods sold of the company. It may occur due to fall down of input market or may occur due to improvement in the efficiency of the company. As other operating expenses are higher in 2023-24 so, it is clear that company has been operated with tight supervision, tight inventory control for reduction of Cost of Goods Sold.

(ii) The interest on long-term debt to net sales has declined from 5.7% in the 2022-23 to 3.8% in 2023-24. It implies that the financial burden of the company has reduced significantly during the study period. Higher operating profit or fund from operation has been utilised for repayment of long-term debt, so that the financial risk associated with the company has declined significantly during the study period.

Question 6 (SM)

From the following figures prepare a common size comparative statement and comment on the results.

Particulars	2019-20 (₹in lakh)	2020-21 (₹in lakh)	2021-22 (₹in lakh)	2022-23 (₹in lakh)	2023-24 (₹in lakh)
Cost of Materials	150	220	250	200	200
Labour Cost	200	140	150	150	175
Conversion Cost	150	150	140	200	175
Total Manufacturing cost	500	510	540	550	550
Sales Revenue	1,200	1,100	1,000	1,000	950
Gross Profit	700	590	460	450	400
Less: Other Operating Expenses	300	220	200	200	180
Operating Profit	400	370	260	250	220

Answer 6

Common Size Comparative Income Statement

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
Cost of Materials $\frac{\text{Cost of Materials}}{\text{Sales}} \times 100$	12.5%	20%	25%	20%	21.05%
Labour Cost $\frac{\text{Labour Cost}}{\text{Sales}} \times 100$	16.67%	12.73%	15%	15%	18.42%
Conversion Cost $\frac{\text{Conversion Cost}}{\text{Sales}} \times 100$	12.50%	13.64%	14%	20%	18.42%
Total Manufacturing Cost $\frac{\text{Total Manufacturing Cost}}{\text{Sales}}$ 100	41.67%	46.36%	54%	55%	57.89%
Sales Revenue	100%	100%	100%	100%	100%
Gross Profit $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$	58.33%	53.64%	46%	45%	42.11%

Other Operating Expenses $\frac{\text{Other Operating Expenses}}{\text{Net Sales}}$ 100	25%	20%	20%	20%	18.95%
Operating Profit $\frac{\text{Operating Profit}}{\text{Sales}} \times 100$	33.33%	33.64%	26%	25%	23.16%

Comments:

From the above analysis, it can be concluded that there was a clear upward rising trend in the manufacturing cost of goods sold during the study period. As a result, gross profit to sales has been decreased very significantly during the same period. It was 58.33% in the year 2019-20 which ultimately reduced to 42.11% in the ultimate year of the study period i.e., 2023-24. It implies that operational efficiency of the company has been reduced very significantly during the period.

Question 7 (MQP[1] 7 Marks Dec'23)

Presented below are revenue and expense data for the XYZ Company:

	2022 (₹)	2021 (₹)
Sales	**8,16,000**	**6,56,500**
Sales returns and allowances	**16,000**	**6,500**
Cost of goods sold	**4,00,000**	**3,12,000**
Selling Expenses	**2,00,000**	**1,30,000**
General Expenses	**1,20,000**	**78,000**
Miscellaneous Income	**6,400**	**6,500**
Income Tax	**32,000**	**67,600**

You are required to prepare a comparative statement for the year 2022 and 2021 for the company and also comment on the relationships revealed in the comparative income statement.

Answer 7

Comparative Income Statement

Particulars	Amount(₹)		%	
	2022	2021	2022	2021
Sales	8,16,000	6,56,500	102.0	101.0
Less: Sales returns and allowances	16,000	6,500	2.0	1.0
Net Sales	8,00,000	6,50,000	100.0	100.0
Less: Cost of goods sold	4,00,000	3,12,000	50.0	48.0
Gross Profit (A)	4,00,000	3,38,000	50.0	52.0
Less: Operation Expenses:				
Selling Expenses	2,00,000	1,30,000	25.0	20.0
General Expenses	1,20,000	78,000	15.0	12.0
Total operating Expenses (B)	3,20,000	2,08,000	40.0	32.0
Net Operating Income (A – B)	80,000	1,30,000	10.0	20.0
Add: Miscellaneous Income	6,400	6,500	0.80	1.00
Income before Tax	86,400	1,36,500	10.80	21.00
Less: Income Tax	32,000	67,600	4.00	10.40
Net Income after Tax	54,400	68,900	6.8	10.6

The following are the significant rendered by the comparative income statement:

(i) The ratio of gross profit decreased from 52% to 50% because of increase in the ratio of cost of goods sold. The company suffered ₹ 16,000 (i.e., 2% of ₹ 8,00,000) decrease in potential gross profit.

(ii) The rate of selling expenses rose from 20% to 25% because of increase in advertising expenses.

(iii) There is 3% of increase in general expenses. This may be due to strike in the plant.

(iv) The increase in sales returns and allowances may be due to poor product quality or too aggressive sales policy.

CHAPTER 3.4: CASH FLOW STATEMENT - PREPARATION AND ANALYSIS

A

LDR Questions	Descriptive: Q 11, Q 14 MCQ: 5

QUICK REVIEW OF IMPORTANT CONCEPTS

1. Cash Flow Statement – Core Concept

Meaning + Definitions

Aspect	Explanation
Meaning	Cash Flow Statement shows the changes in cash position between two balance sheet dates.
Cash	Cash includes cash in hand and demand deposits with banks.
Cash Equivalents	These are short-term highly liquid investments with maturity up to 3 months.
Cash Flows	Cash flows include inflows (increase in cash) and outflows (decrease in cash).

2. CLASSIFICATION OF CASH FLOWS

Type	Explanation	Examples
Operating Activities	These are main revenue generating activities of business.	Cash from sales, payments to suppliers, salaries, taxes.
Investing Activities	These relate to purchase and sale of long-term assets.	Purchase/sale of fixed assets, investments.
Financing Activities	These relate to capital and borrowings.	Issue of shares, loans, repayment, dividend paid.

Comprehensive Cash Flow Statement (Indirect Method)

Particulars	Amount (₹)
A. CASH FLOW FROM OPERATING ACTIVITIES	
Net Profit before Tax and Extraordinary Items	xxx
Add: Non-cash and Non-operating Expenses	
Depreciation / Amortisation	xxx
Loss on Sale of Fixed Assets / Investments	xxx
Goodwill / Preliminary Expenses Written off	xxx
Interest Expense	xxx
Transfer to Reserves	xxx
Less: Non-operating Incomes	
Profit on Sale of Fixed Assets / Investments	(xxx)
Interest Income	(xxx)
Dividend Income	(xxx)
Operating Profit before Working Capital Changes	xxx
Adjustments for Working Capital Changes	
Increase in Current Assets (Debtors, Inventory, Prepaid etc.)	(xxx)
Decrease in Current Assets	xxx
Increase in Current Liabilities (Creditors, Outstanding etc.)	xxx
Decrease in Current Liabilities	(xxx)
Cash Generated from Operations	xxx
Less: Income Tax Paid	(xxx)
Net Cash from Operating Activities (A)	xxx
B. CASH FLOW FROM INVESTING ACTIVITIES	
Sale of Fixed Assets	xxx
Sale of Investments	xxx

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Interest Received	xxx
Dividend Received	xxx
Purchase of Fixed Assets	(xxx)
Purchase of Investments	(xxx)
Loans/Advances Given	(xxx)
Loans/Advances Recovered	xxx
Net Cash from Investing Activities (B)	xxx
C. CASH FLOW FROM FINANCING ACTIVITIES	
Issue of Share Capital	xxx
Issue of Debentures / Loans	xxx
Borrowings Taken	xxx
Interest Paid	(xxx)
Dividend Paid	(xxx)
Redemption of Shares / Debentures	(xxx)
Repayment of Loans	(xxx)
Net Cash from Financing Activities (C)	xxx
Net Increase / Decrease in Cash (A + B + C)	xxx
Add: Opening Cash & Cash Equivalents	xxx
Closing Cash & Cash Equivalents	xxx

Question and Answer

Question 1 (MQP[1] 5 Marks June'23)

Identify whether the following items are inflows or outflows and place them under appropriate categories in the cash flow statement under Ind AS 7:

Item Description	Inflow	Outflow	Category
Normal income tax refund			
Proceeds of a share issue			
Interest received by a financial enterprise			
Decrease in debtors			
Dividend received by a manufacturing company			

Answer 1

Item Description	Inflow	Outflow	Category
Normal income tax refund	Yes		Operating Activities
Proceeds of a share issue	Yes		Financing Activities
Interest received by a financial enterprise	Yes		Operating Activities
Decrease in debtors	Yes		Operating Activities
Dividend received by a manufacturing company	Yes		Investing Activities

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

Following information is available from the books of Standard Company Ltd.

Particulars	2021 (₹)	2022 (₹)
Profit made during the year		2,50,000
Income received in advance	500	600
Prepaid expenses	1,600	1,400
Debtors	80,000	95,000
Bills Receivable	25,000	20,000
Creditors	45,000	40,000
Bills Payable	13,000	15,000
Outstanding expenses	2,500	2,000
Accrued Income	1,500	1,200

Calculate cash flow from operations.

Answer 2

Profit made during the year		2,50,000
(+) Increase in Income received in Advance	100	
(+) Decrease in Prepaid Expenses	200	
(-) Increase in Debtors	(15,000)	
(+) Decrease in Bills Receivable	5,000	
(-) Decrease in Creditors	(5,000)	
(+) Increase in Bills Payable	2,000	
(-) Increase in Outstanding Expenses	(500)	
(+) Decrease in Accrued Income	300	(12,900)
Net Cash from Operating Activities		2,37,100

Question 3 (WB)

Following information is available from the books of Suresh Ltd. for the year end 31-12-2021 and 31-12-2022.

Particulars	31-12-2021	31-12-2022
Profit made during the year	-	2,50,000
Income received in advance	500	400
Prepaid expenses	1,600	2,000
Debtors	80,000	20,000
Bills receivable	25,000	40,000
Creditors	45,000	65,000
Bills payable	13,000	5,000
Outstanding expenses	2,500	3,000
Accrued income	1,500	1,800

Calculate cash flow from operations for the year ending 31-03-2022.

Answer 3

Calculation for cash from operation for the year ending on 31.03.2022

Particulars	₹	₹
Profit made during the year		2,50,000
Add:		
Decrease in Debtors		
Increase in Creditors	60,000	
Increase in Outstanding Expenses	20,000	80,500
	500	3,30,500
Less:		
Decrease in income received in advance	100	
Increase in prepaid expenses	400	
Increase in bills receivable	15,000	
Decrease in bills payable	8,000	
Increase in accrued income	300	(-)23,800
		3,06,700

Question 4 (WB, PYP 7 Marks June'25)

Calculate Cash Flow from Operating Activities from the following:

Net Profit before tax	₹ 13,60,000
Items considered in determining the above Net Profit:	
Interest on long term borrowings	₹ 1,60,000
Depreciation and Amortization	₹ 3,40,000
Transfer to Reserves	₹ 2,00,000
Gain on sale of machinery	₹ 1,20,000

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Balances of Current Assets and Current Liabilities were as follows:

Particulars	Opening Balance (₹)	Closing Balance (₹)
Trade Receivables	11,00,000	9,60,000
Trade Payables	7,60,000	8,00,000
Inventories	5,60,000	6,40,000
Prepaid Expense	80,000	1,00,000
Income received in advance	20,000	60,000

Answer 4

Cash Flow Statement
For the year ended on ……

Particulars	₹	₹
Net Profit before tax		13,60,000
Add: Depreciation and amortization		3,40,000
Add: Interest on long term borrowings		1,60,000
Add: Transfer to Reserves		2,00,000
Less: Gain on sale of machinery		(1,20,000)
Operating profit before working capital changes		19,40,000
Add: Decrease in trade receivables		1,40,000
Add: Increase in trade payables		40,000
Add: Increase in income received in advance		40,000
		21,60,000
Less: Increase in inventory		(80,000)
Less: Increase in prepaid expense		(20,000)
Cash Flow from Operating Activities		20,60,000

Question 5 (WB)

From the following summary of cash account of XL Pharma Ltd. for the year ended 31.03.2024, calculate Cash Flow from Operating Activities using Direct Method and prepare Cash Flow Statement.

Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Cash Purchase	5,20,000
To Cash Sales	6,00,000	By Trade Payables	5,76,000
To Trade Receivables	6,40,000	By Rent	2,00,000
To Interest and Dividend	8,000	By Administrative Exp.	1,00,000
To Bank Loan	6,00,000	By Income Tax	1,20,000
To Sale of Investment	3,20,000	By Investment	3,60,000
To Trade Commission	1,60,000	By Repayment of Loan	4,00,000
		By Interest on Bank Loan	28,000
		By Balance c/d	5,24,000
	28,28,000		28,28,000

Answer 5

Cash Flow Statement
For the year ended on 31.03.2024

Particulars	₹	₹
Cash Flow from Operating Activities		
Cash Sales		6,00,000
Collection from Trade Receivables		6,40,000
Trade Commission received		1,60,000
		14,00,000
Less: Cash purchase	5,20,000	
Less: Payment to Trade Payables	5,76,000	
Less: Payment of Rent	2,00,000	
Less: Payment of administration expenses	1,00,000	13,96,000
Cash Generated from Operations		4,000

Less: Payment of Income Tax		1,20,000
		(1,16,000)
Cash Flow from Investing Activities		
Sale of investment	3,20,000	
Interest and dividend received	8,000	
Purchase of investment	(3,60,000)	(32,000)
Cash Flow from Financing Activities		
Bank loan raised	6,00,000	
Repayment of loan	(4,00,000)	
Interest on bank loan	(28,000)	1,72,000
		24,000
Add: Opening Cash Balance		5,00,000
Closing Cash Balance		5,24,000

Question 6 **(PYP 7 Marks June'24)**

The following information has been provided by B Ltd. for the year ended on 31.03.2024.

(i) Sales for the year ₹ 96,00,000 entirely made in cash.
(ii) Cost of goods sold was 75% of the sales.
(iii) Trade payables on 31.03.2024 was ₹ 2,00,000 more than the balance on 31.03.2023.
(iv) Closing inventory was higher than the opening inventory by ₹ 1,00,000.
(v) Suppliers were paid ₹ 71,00,000 during the year.
(vi) Operating expense of ₹ 7,20,000 were paid during the year.
(vii) Taxes paid during the year were ₹ 3,00,000.
(viii) The company paid equity dividend of ₹ 2,40,000 during the year.
(ix) The company acquired a land for ₹ 8,00,000 and bought a new machinery for ₹ 4,00,000 during the year.
(x) Interest was received on investment for ₹ 20,000.
(xi) Cash and cash equivalent on 01.04.2023 was ₹ 80,000.
(xii) Cash and cash equivalent on 31.03.2024 was ₹ 1,40,000.

You are required to prepare a Cash Flow Statement for the year ended on 31.03.2024 as per AS 3.

Answer 6

Cash Flow Statement for the year ended on 31.03.2024

Particulars	₹	₹
I. Cash flow from operating activities:		
Cash Receipts from customers		96,00,000
Cash paid to suppliers		(71,00,000)
Cash paid for Operating Expenses		(7,20,000)
Less: Taxes paid		(3,00,000)
Net Cashflow from Operating activities		**14,80,000**
II. Cash flow from investing activities:		
Purchase of Fixed Assets	(12,00,000)	
Interest received on investment	20,000	
Net Cashflow from Investing activities		**(11,80,000)**
III. Cash flow from financing activities:		
Dividend paid	(2,40,000)	
Net Cashflow from Financing activities		**(2,40,000)**
Net increase in cash and cash equivalent		**60,000**
Cash and cash equivalent at the beginning		80,000
Cash and cash equivalent at the end		**1,40,000**

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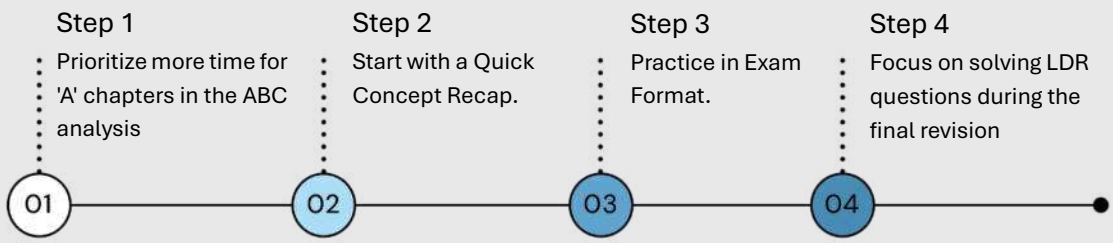
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Step 1: Prioritize your chapters

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.

Particulars	Per Unit (₹)	Total (₹)
	20	14,00,000
Less: Variable Cost	10	8,00,000
Contribution	10	8,00,000
Less: Fixed Cost		4,00,000
Profits		4,00,000

Calculation of Break-Even Point (in ₹)

Break-Even Point (in ₹) = (Fixed Costs × Sales) ÷ Contribution = 4,00,000 × 14,00,000 ÷ 8,00,000 = ₹8,00,000

Calculation of Margin of Safety (in ₹)

Margin of Safety (in ₹) = Actual (or Budgeted) Sales − Break-Even Sales = ₹14,00,000 − ₹8,00,000 = ₹6,00,000

Question 6 (SM)

XYZ Co. makes a product, the Goldy, which has a variable production cost of ₹6 per unit and a sales price of ₹10 per unit. At the beginning of September 2021, there were no opening inventories and production during the month was 20,000 units. Fixed costs for the month were ₹ 45,000 (production, administration, sales and distribution). There were no variable marketing costs.

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

1. To identify the variable cost of sales, and then the contribution
2. To deduct fixed costs from the total contribution to derive the profit
3. To value all closing inventories at marginal production cost (₹ 6 per unit)

Particulars	18,000 Goldies		15,000 Goldies		20,000 Goldies	
Sales (at ₹10 per unit)		1,80,000		1,50,000		2,00,000
Variable production cost	1,20,000		1,00,000		1,33,333	
Less: Value of closing inventory (at marginal cost)	12,000		30,000		—	
Variable cost of sales		1,08,000		90,000		1,33,333
Contribution		72,000		60,000		66,667
Less: Fixed costs		45,000		45,000		45,000
Profit / (Loss)		27,000		15,000		21,667
Profit (loss) per unit		1.5		1		1.75
Contribution per unit		4		4		4

Question 7 (SM, MQP[2] 7 Marks Dec'23)

(1) P/V Ratio

(2) Break-Even Point

(3) If the selling price is reduced to ₹ 80, calculate New Break-Even Point.

Particulars	₹
Total sales	5,00,000
Selling price per unit	100
Variable cost per unit	60
Fixed cost	1,20,000

Answer 7

(1) P/V Ratio = Contribution ÷ Sales × 100

Contribution = Sales − Variable Cost

Total Sales = ₹ 5,00,000

Selling price per unit = ₹ 100

Sales in units = 5,000 units

Contribution = ₹ 2,00,000

P/V Ratio = 40%

(2) Break-Even Point in sales = Fixed Cost ÷ P/V Ratio = ₹ 3,00,000

(3) If the Selling price is reduced to ₹ 80

Sales = ₹ 4,00,000

LDR Questions	Descriptive: Q 6, Q 18, Q 26, Q 30, Q 33 MCQ: 6, 9, 14, 27, 56, 58

QUICK REVIEW OF IMPORTANT CONCEPTS



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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	SECTION B : ACTIVITY BASED COSTING									
2	Activity Based Costing	12	7	7	11	9			2.1 – 2.[illegible]	B
	SECTION C : DECISION MAKING TOOLS									
3	Marginal Costing	22	15	11	11	11	13	13.83	[illegible] – 3.32	A
4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.1 – 4.55	A
5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.1 – 5.18	[illegible]
6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.1 – 6.60	B
	SECTION E: FORECASTING, BUDGETING AND BUDGETARY CONTROL									A
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	SECTION H: DECISION THEORY									
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										B

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

LOR Questions | Descriptive: Q 11,Q 16, Q 19 MCQ: 3, 13, 25

QUICK REVIEW OF IMPORTANT CONCEPTS

Traditional Costing

Meaning

- Traditional Costing = Allocation of overheads based on volume
- Uses:
  - Machine hours OR
  - Labour hours

Core Concept

- Overheads are applied using a single cost driver (volume-based)

$$\text{Overhead Rate} = \frac{\text{Total Overheads}}{\text{Total Cost Driver}}$$

Quick Review of Important Concepts

Table of Contents

Sr.	Particulars	2023		2024		2025		Average	Page No.	IMP
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8	Divisional Performance Measurement	20	22	20	22	20	16	20	8.1 – 8.44	A
	SECTION G: RESPONSIBILITY ACCOUNTING									
9	Responsibility Accounting	1	7	9	9	11	9	7.67	9.1 – 9.16	C
	SECTION H: DECISION THEORY									
10	Decision Theory	16	9	13	7	9	11	10.83	10.1 – 10.30	B

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 Workbook Questions**
- **MCQ Bank**
- **PYP: Past Year Papers**
- **MQP: Model Question Papers (1 or 2 denotes MQP 1 or MQP 2)**

CHAPTER 2: ACTIVITY BASED COSTING

B

LDR Questions	Descriptive: Q 6, Q 18, Q 26, Q 30, Q 33 MCQ: 6, 9, 14, 27, 56, 58

QUICK REVIEW OF IMPORTANT CONCEPTS

Traditional Costing

Meaning

- Traditional Costing = Allocation of overheads based on volume
- Uses:
  - Machine hours OR
  - Labour hours

Core Concept

- Overheads are applied using a single cost driver (volume-based)

$$\text{Overhead Rate} = \frac{\text{Total Overheads}}{\text{Total Cost Driver}}$$

Steps

1. Identify overhead costs
2. Select cost driver (labour/machine hours)
3. Estimate total driver units
4. Calculate: - $\text{Overhead Rate} = \frac{\text{Overhead}}{\text{Driver Units}}$
5. Apply: - $\text{Overhead Applied} = \text{Rate} \times \text{Actual Usage}$

Types of Overhead Rates

- Plant-wide rate → Single rate for whole factory
- Departmental rate → Different rates for each department

Key Assumption - All products consume resources in proportion to volume

Major Problems / Limitations

1. Ignores different resource usage by products
2. Overheads (50%+) allocated on small base (labour)
3. Not suitable when automation is high
4. Distorts cost:
   - High-volume → Over costed
   - Low-volume → Under costed
5. Ignores activities like:
   - Setup
   - R&D
   - Material handling

Peanut-Butter Costing

- Spreading cost uniformly across products
- Leads to wrong cost and pricing decisions

Activity-Based Costing (ABC)

- ABC is a costing system that allocates costs based on activities rather than broad averages.
- It focuses on accurate allocation of indirect costs to cost objects like products, services, or customers.

Key Elements

- Cost Objects: Products, customers, business units.
- Cost Pools: Group of similar costs (e.g., production, marketing).
- Cost Drivers: Factors causing cost (e.g., no. of orders, machine hours).

Working of ABC

- Identify activities.
- Determine cost drivers.
- Assign costs to activity pools.
- Allocate costs to cost objects based on activity usage.

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Key Features

- Links indirect costs to activities.
- Converts many indirect costs into direct costs.
- Uses multiple cost drivers, not just volume-based.

ABC vs Traditional Costing

- ABC → Activity-based, more accurate.
- Traditional → Volume-based, less accurate.

Advantages

- Better cost accuracy.
- Improved pricing decisions.
- Helps in cost control and reduction.
- Identifies inefficient activities.

Activity-Based Management (ABM)

- Focuses on managing and improving activities.
- Aims at cost reduction and efficiency improvement.

Need / Emergence of ABC

- Increase in indirect costs due to automation.
- Greater product diversity.
- Importance of non-volume activities.
- Need for better decision-making in competitive markets.

Conditions Where ABC is Useful

- High overhead costs.
- Multiple product lines.
- Complex operations.
- Costs not driven by volume.

Steps in Activity-Based Costing (ABC)

1. **Identify Activities -** List major activities (setup, inspection, etc.)
2. **Create Cost Pools**
   - Group costs for each activity
3. Identify Cost Drivers
   - Factor causing cost (e.g., no. of orders, setups)
4. Compute Driver Rate = Driver Rate $= \frac{\text{Total Cost Pool}}{\text{Total Driver Units}}$
5. **Allocate Cost to Product** = Cost $=$ Driver Rate $\times$ Activity Usage

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Cost Pool

- Group of overhead costs collected together.
- Based on departments/activities.
- Used for cost allocation.
- Example: Purchasing, maintenance, inspection.

Cost Driver

- Factor that causes cost.
- Used to allocate costs.

  Types:
  - Resource driver (resources used)
  - Activity driver (activity demand)
  - Volume-based (machine hours)
  - Non-volume (setups, orders)

  Examples:
  - No. of orders, setups, machine hours

Cost Object

- Item for which cost is calculated.
- Example: Product, service, customer

ABC – Merits vs Demerits

Merits (Advantages)	Demerits (Disadvantages)
Considers multiple cost drivers (more realistic)	Costly and resource-intensive to implement
Includes all overheads (even non-factory costs)	Complex system, requires detailed records
Provides accurate product costing	Some costs still allocated arbitrarily
Helps in better pricing & decision-making	Too many cost drivers increase complexity
Aids cost control and cost reduction	May overburden low-volume products

• Links cost with activities & resources clearly	• Risk of misinterpretation of data
• Useful for customer profitability analysis	• Not suitable for external reporting (GAAP)
• Applicable in manufacturing, service & retail	• Requires parallel systems (internal & external)

Use of ABC in Decision Making

Key Uses

• Accurate product costing & pricing	• Helps in profitability analysis (product/customer)
• Supports make-or-buy / outsourcing decisions	• Useful in capital investment & plant decisions
• Helps in market segmentation & distribution decisions	

Strategic Use

• Identifies cost drivers → better cost control	• Helps reduce non-value-added activities
• Improves product mix & design decisions	

Practical Benefits

• Better than traditional costing (realistic cost)	• Supports TQM & cost reduction
• Helps in performance evaluation	

When ABC is Needed

• High overheads	• Multiple/diverse products	• Complex operations

Question & Answers

Question 1 **(SM)**

State with a brief reason whether you would recommend an activity based system of costing in each of the following independent situations:

(i) Company Dee produces one product. The overhead costs mainly consist of depreciation.

(ii) Company BC produces 5 different products using different production facilities.

(iii) A consultancy firm consisting of lawyers, accountants and computer engineers provides management consultancy services.

(iv) Company Simens produces two different labour intensive products. The contribution per unit in both products is very high. The BEP is very low. All the work is carried on efficiently to meet the target costs.

Answer 1

(i) ABC is not applicable. One product situation- for allocation of overhead, ABC is not required. ABC for cost reduction not beneficial since most of the overhead is depreciation.

(ii) Multi product situation, production facilities are different - ABC is required for allocation of overhead. Cost drivers are likely to be different, and Cost reduction may be possible through ABC.

(iii) Variety of services and hence ABC required for cost allocation.

(iv) Different products, but labour intensive. Hence, overhead allocation based on readily traceable direct labour cost will be accurate. Hence, ABC is not required for cost allocation.

Question 2 **(SM)**

State whether each of the following independent activities is value-added or non-value-added:

(i) Polishing of furniture used by a systems engineer in a software firm.

(ii) Maintenance by a software company of receivables management software for a banking company.

(iii) Painting of walls of an office building.

(iv) Customers' computer key board cleaning by a computer repair centre.

(v) Providing, brake adjustments in cars received for service by a car service center.

Answer 2

(i) Non-Value Added, (ii) Value Added, (iii) Non-Value Added, (iv) Value-Added, (v) Value-Added

CHAPTER 3: MARGINAL COSTING

A

LDR Questions	Descriptive: Q 37, Q 38, Q 40, Q 42 MCQ: 10, 23, 28, 36, 41

QUICK REVIEW OF IMPORTANT CONCEPTS

Meaning

- Technique separating **Fixed & Variable costs**
- Used for **decision making (not costing method)**

♦ Key Concept

- Marginal Cost = **Variable Cost per unit**

1. Basic Relationships

$S = V + F + P$

$C = S - V$

$C = F + P$

2. Contribution

Contribution per unit $= SP - VC$

Total Contribution $= Sales - VariableCost$

3. P/V Ratio (Contribution Ratio)

$P/V\ Ratio = \frac{C}{S} \times 100$

$P/V\ Ratio = \frac{Change\ in\ Profit}{Change\ in\ Sales} \times 100$

$C = Sales \times \frac{P}{V}\ Sales = \frac{C}{P/V}$

4. Variable Cost Ratio

$VC\ Ratio = \frac{V}{S} \times 100$

$P/V\ Ratio + VC\ Ratio = 100\%$

5. Break-Even Point (BEP)

In Units :$BEP\ (Units) = \frac{F}{C\ per\ unit}$

In Sales Value: $BEP\ (Sales) = \frac{F}{P/V\ Ratio}$

6. Profit

$P = C - F$

$P = \left(Sales \times \frac{P}{V}\right) - F$

7. Sales for Target Profit

$Sales = \frac{F + Desired\ Profit}{P/V}$

In Units: $Units = \frac{F + Desired\ Profit}{C\ per\ unit}$

8. Margin of Safety (MOS)

$MOS = Actual\ Sales - BEP\ Sales\ MOS = \frac{Profit}{P/V}$

$MOS\% = \frac{MOS}{Sales} \times 100$

9. Fixed Cost

$F = \left(Sales \times \frac{P}{V}\right) - Profit$

$F = BEP\ Sales \times \frac{P}{V}$

10. Sales Relationship

$Sales = BEPSales + MOS$

11. Indifference Point

$Indifference\ Sales = \frac{Difference\ in\ Fixed\ Cost}{Difference\ in\ P/V\ Ratio}$

12. Key Factor (Limiting Factor)

$Contribution\ per\ unit\ of\ key\ factor = \frac{Contribution}{LimitingFactor}$

13. Shutdown Point

$Shutdown\ Sales = \frac{F - Avoidable\ Fixed\ Cost}{\frac{P}{V}}$

♦ Abbreviations & Meanings

S / Sales → Total Sales Value	**SP** → Selling Price per unit
V → Total Variable Cost	**VC** → Variable Cost per unit
F → Fixed Cost	**P** → Profit
C → Contribution	**C per unit** → Contribution per unit
P/V Ratio → Profit-Volume Ratio (Contribution ÷ Sales)	**VC Ratio** → Variable Cost Ratio

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BEP → Break-Even Point	**MOS** → Margin of Safety
MC → Marginal Cost (Variable Cost per unit)	

Cost-Volume-Profit (CVP) Analysis

Meaning

- Studies relationship between **cost, volume & profit**.
- Also called **Break-even analysis**.
- Helps in **profit planning & decision-making**.

Key Concepts

Concept	Meaning
Break-even Point	No profit, no loss
Contribution	SP – Variable Cost
Margin of Safety	Excess of actual sales over BEP
Target Profit	Desired profit level

Uses / Importance

- Determines **break-even sales**
- Helps in **pricing & profit planning**
- Assists in **short-term decisions**
- Shows impact of **volume changes on profit**

Assumptions

- Costs divided into **fixed & variable**
- Fixed cost constant, VC per unit constant
- Selling price constant
- Single product / constant sales mix
- Production = sales
- Analysis valid within **relevant range & short term**

Limitations

- Fixed & variable cost assumption unrealistic
- Selling price may change
- Ignores inventory changes
- Difficult cost classification
- Not suitable for long-term decisions

Break-Even Chart

Meaning

- Graphical representation of **CVP (Cost–Volume–Profit)** relationship.
- Shows **break-even point (no profit, no loss)**.
- Indicates **profit/loss at different output levels**.

Key Features

- X-axis → Units (output)
- Y-axis → Cost & Revenue
- **Fixed cost line** → Parallel to X-axis
- **Total cost line** → Fixed + Variable cost
- **Sales line** → Revenue line
- Intersection = **Break-even point (BEP)**

Important Concepts

- **Profit area** → Sales > Cost
- **Loss area** → Sales < Cost
- **Margin of Safety** → Distance beyond BEP
- **Angle of Incidence** → Shows profit rate (larger = higher profit)

Assumptions

- Costs = Fixed + Variable
- Fixed cost constant
- Variable cost/unit constant
- Selling price constant
- Linear relationship
- Production = Sales

Effects of Changes

Change	Effect on BEP
↑ Selling Price	↓ BEP
↓ Variable Cost	↓ BEP
↓ Fixed Cost	↓ BEP
↑ Costs	↑ BEP

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Types

- Conventional Break-even chart
- Contribution chart
- Profit-Volume (P/V) chart

Advantages

- Easy graphical understanding
- Shows profit/loss at different levels
- Helps in decision-making

Disadvantages

- Works for **single product / constant mix**
- Based on **simplified assumptions**
- Difficult to show multiple changes

Multi-Product Break-Even Analysis

Concept

Used when firm sells **multiple products**.

- Requires assumption of **constant sales mix**.

Sales Mix

- Fixed ratio of products sold (e.g., A : B : C = x : y : z).
- Ensures **consistent proportion in analysis**.

Key Idea

- Calculate **Weighted Average Contribution (WAC)**.
- Weight based on **proportion of each product in mix**.

Important Point - Product with **higher share in mix → greater impact on contribution**.

Special Case - If all products have same **C/S ratio**, mix **does not affect BEP**.

Differential Cost

Meaning

- Change in **total cost due to alternative decision**.
- May arise from changes in **volume, price, product mix, method, etc.**
- Can be **increase or decrease** in cost.

Uses / Applications

- Make or buy decisions
- Accept/reject orders
- Product mix decisions
- Pricing decisions
- Replacement of machines
- Expansion or shutdown decisions

Important Points

- Differential cost = **Cost of Option A – Cost of Option B**
- Helps choose **most profitable alternative**
- If cost decreases → **profit increases**

Difference: Marginal vs Differential Cost

Basis	Marginal Cost	Differential Cost
Meaning	Cost of one extra unit	Change in total cost
Cost Type	Only variable cost	Variable + fixed
Use	Output decisions	Alternative decisions
Scope	Narrow	Broad

Absorption vs Marginal Costing

Basis	Absorption Costing	Marginal Costing
Meaning	Costing method including **Fixed + Variable cost**	Technique including **only Variable cost**
Nature	Traditional / Total costing	Decision-making technique
Cost Included	Fixed + Variable	Only Variable
Fixed Cost Treatment	Included in product cost	Treated as period cost
Inventory Valuation	Includes fixed cost	Only variable cost
Focus	Gross Profit	Contribution
Profit Formula	Sales – Total Cost	Contribution – Fixed Cost

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Cost per Unit	Changes with output	Constant
Use	Financial reporting	Managerial decisions
Overhead Treatment	Absorbed/apportioned	Not absorbed
Stock Effect	Affects profit	No effect on profit
Profit (Stock ↑)	Higher profit	Lower profit
Profit (Stock ↓)	Lower profit	Higher profit
When Suitable	External reporting	Internal decision-making
Key Point	Fixed cost carried in stock	Fixed cost fully charged

Marginal vs Absorption Costing (Statements)

Marginal Costing Statement	Amt (Rs.)	Absorption Costing Statement	Amt (Rs.)
Sales	**XXX**	**Sales**	**XXX**
Less: Variable Costs	(XXX)	Less: Cost of Goods Sold	(XXX)
- Direct Material		- Direct Material	
- Direct Labour		- Direct Labour	
- Variable OH		- Variable OH	
- Variable S&D		- Fixed Production OH	
Contribution (S – V)	XXX	= Total Production Cost	
Less: Fixed Costs	(XXX)	± Opening Stock	
- Fixed Production OH		– Closing Stock	
- Fixed Admin & S&D		**Gross Profit**	**XXX**
Profit	**XXX**	Less: Admin + S&D (Fixed + Variable)	(XXX)
		Net Profit	**XXX**

Question & Answers

Question 1 (PYP 4 Marks June'23)

Write down the differences between Absorption Costing & Marginal Costing.

Answer 1

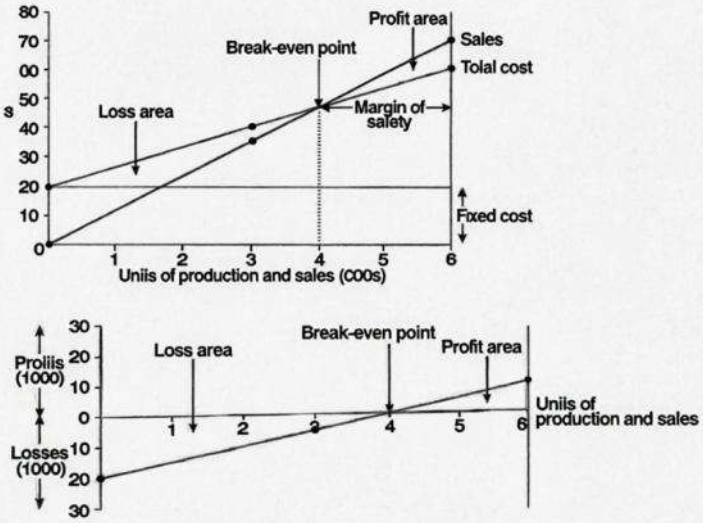
The differences between Absorption Costing & Marginal Costing are:

Absorption Costing	Marginal Costing
Both fixed and variable costs are considered for product costing and inventory valuation.	Only variable costs are considered for product costing and inventory valuation.
Fixed costs are charged to the cost of production. Each product bears a reasonable share of fixed cost and thus the profitability of a product is influenced by the apportionment of fixed costs.	Fixed costs are regarded as period costs. The profitability of different products is judged by their P/V ratio.
Cost data are presented in conventional pattern. Net profit of each product is determined after subtracting fixed cost along with their variable cost.	Cost data are presented to highlight the total contribution of each product.
The difference in the magnitude of opening stock and closing stock affects the unit cost of production due to the impact of related fixed cost.	The difference in the magnitude of opening stock and closing stock does not affect the unit cost of production.
In case of absorption costing the cost per unit reduces, as the production increases as it is fixed cost which reduces, whereas, the variable cost remains the same per unit.	In case of marginal costing the cost per unit remains the same, irrespective of the production as it is valued at variable cost.

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

Angle of Incidence in a Break-Even Chart? Can it be used in managerial decision making?

Answer 2



Question 3 (SM)

From the following information, calculate the amount of profit using marginal cost technique:
Fixed cost ₹3,00,000
Variable cost per unit ₹5
Selling price per unit ₹10
Output level 1,00,000 units

Answer 3

Contribution =Selling Price-Marginal Cost=(1,00,000 × 10)-(1,00,000 × 5)= 10,00,000 - 5,00,000= ₹ 5,00,000.
Contribution = Fixed Cost + Profit₹ 5,00,000 = ₹ 3,00,000 + Profit
Profit = ₹ 2,00,000

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Question 4 (SM)

From the following particulars find out break-even point:
Fixed Expenses ₹1,00,000
Selling price Per unit ₹20
Variable cost per unit ₹15

Answer 4

Break-Even Point in Units = Fixed Cost ÷ Contribution per unit
Contribution per unit = Selling Price per unit - Variable Cost per unit = ₹ 20 - ₹ 15 = ₹ 5
BEP (in units) = ₹1,00,000 ÷ ₹ 5 = 20,000 units
BEP in Sales = 20,000 × ₹ 20 = ₹4,00,000

Question 5 (SM,WB)

You are given the following information for the coming year of a factory:

Particulars	Amount
Fixed expenses	₹4,00,000
Selling price per unit	₹20
Variable expenses per unit	₹10
Budgeted output	80,000 units

Calculate Break-even Point in Rupees and Margin of Safety in Rupees.

Answer: 5

For calculating Break-even Point, arranging information in the following format would be appropriate and, in the format, it would be useful to show sales and variable cost per unit and fixed cost in total.
(Budgeted Output – 80,000 Units)

Particulars	Per Unit (₹)	Total (₹)
	20	16,00,000
Less: Variable Cost	10	8,00,000
Contribution	10	8,00,000
Less: Fixed Cost		4,00,000
Profits		4,00,000

Calculation of Break-Even Point (in ₹)

Break-Even Point (in ₹) = (Fixed Costs × Sales) ÷ Contribution = 4,00,000 × 16,00,000 ÷ 8,00,000 = ₹8,00,000.

Calculation of Margin of Safety (in ₹)

Margin of Safety (in ₹) = Actual (or Budgeted) Sales – Break-Even Sales = ₹16,00,000 – ₹8,00,000 = ₹8,00,000

Question 6 (SM)

XYZ Co. makes a product, the Goldy, which has a variable production cost of ₹6 per unit and a sales price of ₹10 per unit. At the beginning of September 2021, there were no opening inventories and production during the month was 20,000 units. Fixed costs for the month were ₹ 45,000 (production, administration, sales and distribution). There were no variable marketing costs.

Required

Calculate the contribution and profit for September 2021, using marginal costing principles, if sales were as follows: (a) 10,000 Goldies (b) 15,000 Goldies (c) 20,000 Goldies

Answer 6

The stages in the profit calculation are as follows:

1. To identify the variable cost of sales, and then the contribution
2. To deduct fixed costs from the total contribution to derive the profit
3. To value all closing inventories at marginal production cost (₹ 6 per unit)

Particulars	10,000 Goldies		15,000 Goldies		20,000 Goldies	
Sales (at ₹10 per unit)		1,00,000		1,50,000		2,00,000
Variable production cost	1,20,000		1,20,000		1,20,000	
Less: Value of closing inventory (at marginal cost)	60,000		30,000			—
Variable cost of sales		60,000		90,000		1,20,000
Contribution		40,000		60,000		80,000
Less: Fixed costs		45,000		45,000		45,000
Profit / (Loss)		(5,000)		15,000		35,000
Profit (loss) per unit		(0.5)		1		1.75
Contribution per unit		4		4		4

Question 7 (SM, MQP[2] 7 Marks Dec'23)

From the following information calculate:

(1) P/V Ratio

(2) Break-Even Point

(3) If the selling price is reduced to ₹ 80, calculate New Break-Even Point:

Particulars	₹
Total sales	5,00,000
Selling price per unit	100
Variable cost per unit	60
Fixed cost	1,20,000

Answer 7

(1) P/V Ratio = Contribution ÷ Sales × 100

Contribution = Sales - Variable Cost

Total Sales = ₹ 5,00,000

Selling price per unit = ₹ 100

Sales in units = 5,000 units

Contribution = ₹ 2,00,000

P/V Ratio = 40%

(2) Break-Even Point in sales = Fixed Cost ÷ P/V Ratio = ₹ 3,00,000

(3) If the Selling price is reduced to ₹ 80:

Sales =₹ 4,00,000

CHAPTER 9: RESPONSIBILITY ACCOUNTING

LDR Questions	Descriptive: Q 11,Q 16, Q 19 MCQ: 3, 13, 25

QUICK REVIEW OF IMPORTANT CONCEPTS

Responsibility Accounting – Concept

- System of **management accounting** to measure performance
- Focus on **divisions (not whole organisation)**
- Responsibility is assigned to **specific managers**
- Authority is given along with responsibility
- Performance = **Actual vs Budget comparison**

Meaning (In Simple Terms)

- Organisation divided into **responsibility centres**
- Each centre has a **manager responsible for results**
- Costs & revenues are assigned to that manager
- Used for **control and performance evaluation**

Essential Features

Inputs & Outputs

- Inputs = Costs (resources used)
- Outputs = Revenues (results achieved)

Budgeting System

- Uses **planned (budget)** + actual data
- Variance helps in control

Responsibility Centres

- Organisation divided into **manageable units**
- Each unit has a responsible person

Organisation Structure

- Must match **authority-responsibility hierarchy**

Controllable Costs

- Managers responsible only for **controllable costs**

Performance Reporting

- Reports show **budget vs actual**
- Variances highlighted
- Reporting flow = **bottom → top**

Pre-requisites

- Large/divisional organisation
- Clear goals & targets
- Budgeting system in place
- Defined authority & responsibility
- Timely reporting system

Responsibility Centres

Cost Centre

- Responsible only for **costs**
- No control over revenue
- Performance = **Cost control / variance**
- Example: Production department

Revenue Centre

- Responsible for **sales revenue**
- Limited control over costs
- Performance = **Actual vs budgeted revenue**
- Example: Sales department

Profit Centre

- Responsible for **cost + revenue**
- Focus on **profit maximization**
- Decisions: pricing, output, marketing
- Example: Product division

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Investment Centre

- Responsible for **profit + investment**
- Performance measured by **ROI, RI, EVA**
- Controls assets & capital decisions
- Example: Subsidiary/company division

Responsibility Reporting

Purpose

- Evaluate performance
- Improve future decisions

Features

- Based on organisation structure
- Easy to understand
- Highlights **variances**
- Timely & regular
- Shows **budget vs actual**
- Includes only **relevant (controllable) data**

Reporting Levels

- Lower level → detailed & frequent
- Higher level → summarized

Cost, Revenue, Profit (Basic Link)

- Cost = Input (expenses)
- Revenue = Output (income)
- Profit = Revenue – Cost

Basis of responsibility centres:

- Cost centre → Cost
- Revenue centre → Revenue
- Profit centre → Profit

Question & Answers

Question 1 (SM)

Consider each of the following scenarios:

(i) Mr. P K. Dhawan, plant manager for the laser printer factory of Bharat Co. brushed his hair back and sighed. December had been a bad month; two machines had broken down, and some direct labourers (all on salary) were idled for part of the month. Materials prices increased, and insurance premiums on the factory increased. No way out of it —costs were going up. He hoped that the marketing VP would be able to push through some price increases, but that really wasn't his department.

(ii) Ms. Sonam Kapoor was delighted to see that her ROI figures had increased for the third straight year. She was sure that her campaign to lower costs and use machinery more efficiently (enabling her factories to sell several older machines) was the reason why she planned to take full credit for the improvements at her semi annual performance review. For each of the above independent scenarios, indicate the type of responsibility center involved (cost, revenue, profit, or investment).

Answer 1

(i) Cost center — Total cost

(ii) Profit center — Operating Income

Question 2 (SM)

The processing department of a large company informs the marketing department that the price of processing 2,00,000 items will be ₹50,00,000. The marketing department submits the material for the item two weeks later than originally planned and tells the processing department that the scheduled date of completion has been advanced two weeks. In order to achieve the new schedule, the processing department incurs an additional production cost of ₹16,00,000.

(i) In an organization using responsibility accounting, where would the additional costs be assigned? Would these costs be considered controllable costs? What effect might this have on future printing orders from the marketing department?

(ii) In an organization that does not use responsibility accounting, where would the various costs be assigned? What effect might this have on future printing orders from the marketing department?

Answer 2

(i) In an organization using responsibility accounting, the originally quoted price of ₹50,00,000 plus the additional cost of ₹16,00,000 would be assigned to the marketing department. This would be considered a

controllable cost. The long-range effect might be that the marketing department will become more cost-conscious and will plan activities better.

(ii) In an organization that does not employ responsibility accounting; the additional production costs most probably would be assigned to the processing department. There would be no motivation by the marketing department to adhere to scheduled dates or to plan processing needs in a better fashion.

Question 3 (SM)

The receipt of raw materials used in the manufacture of products and the shipping of finished goods to customers are under the control of the warehouse supervisor. Approximately 60% of the warehouse supervisor's time is spent on receiving activities and 40% on shipping activities. Separate employees handle the receiving and shipping operations. The labour-related costs for the warehousing function are as follows:

Warehouse supervisor's salary	**₹40,000**
Receiving clerks' wages	**₹75,000**
Shipping clerks' wages	**₹55,000**
Employee benefit costs (30% of wage and salary costs)	**₹51,000**
	₹2,21,000

The company employs a responsibility accounting system for performance reporting purposes. The costs are classified on the report as period or product costs. You are required to state the total labour-related costs to list on the responsibility accounting performance report as product costs under the control of the warehouse supervisor for the warehousing function.

Answer: 3

This question focuses on product costs that are under the control of the warehouse supervisor. The supervisor controls both receiving and shipping, but shipping is a selling cost. Thus shipping is a period cost that is expensed in the period in which it is incurred, so shipping costs are not product costs. Therefore, the costs for the shipping department are not part of the answer, even though they are controllable by the warehouse supervisor. The supervisor's salary is not controlled by the supervisor, so that is not a part of the answer, either. The labour-related product costs that the supervisor can control include only the wages and benefits of the receiving department. The receiving clerks' wages are ₹75,000 and their benefits are 30% of this amount (₹22,500). Therefore, the supervisor controls ₹97,500 of costs (₹75,000 + ₹22,500).

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Question 4 (SM)

The following information for R & Co. for the prior year:

- **The company produced 1,000 units and sold 900, both as budgeted.**
- **There were no beginning or ending work-in-process and no beginning finished goods inventory.**
- **Budgeted and actual fixed costs were equal, all variable manufacturing costs were affected by production volume only, and all selling variable costs were affected by sales volume only.**
- **Budgeted per unit revenues and costs were as follows:**

Sales price ₹100
Direct materials ₹30
Direct labour ₹20
Other variable manufacturing costs ₹10
Fixed manufacturing costs ₹5
Variable selling costs ₹12
Fixed selling costs (₹3,600 total) ₹4
Fixed administrative costs (₹1,800 total) ₹2
Calculate the contribution margin earned by R & Co. for the prior year

Answer 4

Contribution margin is calculated as sales revenue minus the variable costs for the units sold. The sales price is ₹100 per unit and the variable costs total ₹72 per unit: Direct Material - ₹30; Direct Labour - ₹20; other variable manufacturing costs - ₹10; Variable selling costs - ₹12. Thus, contribution is ₹28 per unit (₹100 - ₹72). 900 units were sold, giving a contribution margin of ₹25,200