



The Institute
of Chartered
Accountants of
India
(Set up by an act of
Parliament)

The Chartered Accountant **STUDENT**

Your monthly guide to CA news, information and events

FOUNDATION

Logical Reasoning

INTERMEDIATE

Company Law

FINAL

Strategic Cost
Management and
Performance Evaluation



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SWACHH BHARAT - A STEP TOWARDS CLEANLINESS



My Dear Students,

As you read this communication, I hope that you would be fully prepared for the examinations. I would like to extend my best wishes to all of you appearing for the same. Right now, you must single-mindedly focus on your preparation, and strive to utilize every minute of your time productively. It is of utmost importance that you organize yourself and your study space well so that you are able to locate important books, notes for final revision. At the same time, you must take due care of your health, and take reasonable sleep for good concentration and retention.

Points to Remember

Conceptual clarity, sound practice and thorough revision are the guiding pointers that will always lead you to success. You must enhance your understanding and significance of not just the topic at hand, but its inter-linkages with other topics and capture broad overview. This will help you to understand questions better and answer them with precision. You have to strengthen your commitment, do your best and give your 100% each day to elevate your performance. Self-awareness is crucial to your success. Allocate your time wisely, devoting more time on topics that require multiple revisions for retention.

During the examination, it is important that you maintain your composure to utilize every minute of the allocated time. Time management is very crucial to your success. How effectively you utilize your time during examination affects your performance. Hard work delivered within a given period transforms into desired results. I urge you to keep a track on time during examinations and smartly manage the time allocation vis-à-vis questions attempted. Carefully utilise the initial time to read the question paper as well as instructions thoroughly and strategise the sequence of the questions you wish to attempt, from the solution you know the best to the solution you know the least, commensurate with the time assigned to the questions respectively. Also make sure to reserve some time for revision.

Once a paper gets over, relax for some time then only start preparing for the next exam. Do not worry about the paper(s) which have gotten over but just look forward to the next paper and try to do your best.

ICAI: Your Mentor

We at ICAI, have always stood by you, have always taken

proactive and exemplary initiatives to facilitate best resources. We have constantly strived to address your concerns from time to time. As a premier accounting body, it is our responsibility to ensure that the institute is renowned for imparting world class accounting education and its professionals having intellect are devoted towards common good.

ICAI has a robust examination system in place and you are advised to repose your faith in your institute. We will do everything to ensure that you get your rightful place in our fraternity at the earliest.

The current issue features a composite capsule for Foundation level on **Logical Reasoning**, Intermediate on **Company Law** in continuation with the previous issue and Final on **Strategic Cost management and Performance Evaluation**. I urge all of you to thoroughly read this issue as well as compilation of these capsules available at <http://icaity.com/sites/default/files/bos-2019/Final-Course/index.html> for CA Final and <http://icaity.com/sites/default/files/bos-2019/Intermediate-Course/index.html> for Intermediate to revise the significant concepts and vital details from the exam perspective.

My sincere advice is to concentrate on your studies, remember: **Persistence and perseverance are the keys that will unlock the doors to success.**

I am confident that most of you would have taken/attended the **Virtual Revision Classes** organised for CA Intermediate and Final for the upcoming examinations. I am hopeful that you would have benefitted from these.

Update/Enhance your Knowledge

After exams, you must update your knowledge to stay ahead of the learning curve. Read at least one national and business newspaper on regular basis to stay abreast about the current political and business environment. The current world order defining the world economy is rapidly changing, exhorting big industrial conglomerates and multi-national companies to re-examine their strategies giving rise to several mergers and acquisitions. Studying and analyzing such events is important to determine thrust areas where you can enhance your knowledge, particularly from the career/placement perspective. You must also supplement your knowledge about contemporary issues like **Insolvency & Bankruptcy Code, IFRS, Valuation and Goods and Services Tax (GST)** etc. Remember - **An investment in Knowledge pays the best interest.** So become a true knowledge seeker.

You should never hesitate to ask questions or seek advice from your seniors, teachers and most importantly your Principal. Stay focused and do your best with utmost dedication and commitment towards your goal. I am sure you shall soon join the CA fraternity and make your family proud. Remember: **Success comes to those who deserve it.** So, work hard to deserve the success you aspire.

Wishing you all the success,

CA. PRAFULLA P. CHHAJED
PRESIDENT, ICAI

VICE PRESIDENT'S COMMUNICATION ||



Dear Students,

At the outset, we would like to convey our best wishes to all of those who are appearing for the November 2019 examinations, which would have been started while you receive this Journal. We are fully aware and acknowledge the seriousness and the hard work that are required for achieving success in the professional examination. Your sincere efforts and dedication in dealing with the examinations will bring to you the desired results. As you are aware that CA examination aims not only to test the theoretical knowledge but application skills also. We are sure and very much confident that you will outshine in both these areas and remain excited on your success.

It is always our endeavour to provide contemporary education and training to the students. We are happy to announce that the Study Materials for May, 2020 examination for Foundation, Intermediate and Final Group I, based on the revised/trimmed syllabi, have been published. Study Materials for Final Group II are being finalised and would be made available soon. These Study Materials are based on the updated provisions of law/standards applicable for May, 2020 examination. In these Study Materials, as in the past, the maker checker approach has been extensively followed to reduce the possibility of errors. Learning aids in the form of tabular presentations and diagrams have been included to make the Study Materials more student friendly. Students may note that these study materials have also been web-hosted at the BoS Knowledge Portal. I am sure you would benefit immensely by reading these value-added Study Materials.

Development of Case Studies and Integrated Case Scenarios

In the New Scheme of Education and Training, the assessment of elective papers at the Final level is open book and case study based. Further, in certain core papers at the Intermediate and Final levels, BoS is working on the development of integrated case scenarios followed by MCQs based on such case scenarios to assess the analytical and application skills of candidates. BoS very soon will be coming up with booklet of case studies / case scenarios for each elective paper / core paper which will give you more exposure and hone your analytical skills. Besides academic assistance and guidance, Board of Studies has taken various initiatives to help its students through different ways such as:

Student Support Initiative

The Toll-free Help line service (18001211330), initiated by the Board of Studies as a Student Support Initiative

has been operating successfully since its inception in May 11, 2017. The service was initiated to redress queries/grievances of CA students from across the country. This facility serves as a single point of contact for students located nationwide. Calls are being answered to the students' satisfaction by a well-trained workforce. If calls are missed, during the working hours, the students are called back to elicit their grievances, striving to render best possible service. The helpline enables students from far-flung rural areas across the country to connect with BoS through the easily accessible service available free of cost. The purpose of this service initiative is to provide timely information (both generic and subject specific) to students up to their requirement and resolving students' grievances at the earliest.

Student Activity Portal

Student Activity Portal help students to get themselves registered from anywhere anytime for various students' programmes being organised by Regional Councils and Branches.

The students can login from time to time to register for events like, Student Seminars and Conferences, Mock Tests, Workshop, Special Counselling Programme, Talent Search, CA Students festival, Sports Competition etc. To register, the students can login using their credentials and pay the required registration fees online (through Debit Card/Credit Card/ Net Banking) on student's activity portal itself. After successful registration, the student will be eligible to attend the event.

The students are advised to visit: <https://bosactivities.icaai.org/> and login with their details in order to activate their account and register for the events from time to time.

Articleship & Industrial Training Placement Portal

Articleship and Industrial Training Placement Portal is a common platform for Members, Organisations and Students to interact with one another facilitates Members & Organisations to search, shortlist and schedule interviews with the interested students. Students can also apply/search vacancies indicating their preferences of place and areas. The Portal is user friendly and help in bridging the requirement gaps between members/industries and students seeking articleship/industrial training. Facility is being provided Free of Cost to Members, Organizations & Students.

Towards the end, I extend my best wishes on the festive occasion of **Deepawali**. Remember not to get carried away with fervour of festival season as it is also high time for you to speed up your examination preparation.

"To succeed in your mission, you must have single-minded devotion to your goal."

A.P.J. Abdul Kalam

Wishing you all the best for a wonderful time ahead.

Yours sincerely



CA. ATUL K. GUPTA
VICE PRESIDENT, ICAI, NEW DELHI



Dear Students,

By the time you will receive this journal, you would be neck deep into studies. We at BoS, convey our best wishes to all of you who are appearing for the November 2019 examinations. We are fully aware and duly acknowledge the seriousness and the hard work put in by you, our students to achieve success. Sincere efforts coupled with absolute dedication and unfeigned spirit will definitely yield desired results. We are confident that you shall perform well and come out with flying colours. As students of this coveted professional course, you must know that there are no short-cuts/secrets to success. As General Colin Powell puts it, ***Success is the result of preparation, hard work and learning from failure.*** Preparation not just means studying for the exam, it means holistic preparation i.e. preparing your mind to retain and retrieve information, training to contain your anxiety and remain composed during the exam. Above all, your confidence is the best possible preparation. Remember: ***Dreaming for success without required efforts is like trying to harvest where you have not planted.***

Opportunities Galore

As you would know, we are currently passing through an era of economic upheavals throughout the world, larger market interests are blurring boundaries and the global world order has tilted in India's favor. In the current scenario, the Chartered Accountancy Profession continues to be more relevant than ever before. Experienced CAs facilitate the much-needed advice to many an industrial conglomerates to strengthen their presence and diversify through mergers and acquisition. Competent young CAs can help young start-up companies to self-sustain financially as well as advise them how to expand their businesses for wealth creation and maintenance. There is no dearth of opportunities for competent and discerning accounting professionals yearning to make a difference in the corporate world globally.

Multi-Dimensional Skills: Key for Professional Growth

In order to leverage opportunities world-wide as well as widen your professional growth, you are required to develop multi-dimensional skills to realize your career aspirations. Articleship training provides the learning turf and exposure to face practical situations while developing the vital multi-dimensional skills such as communication, negotiation, articulation, professional conduct, team harmony, camaraderie and leadership. A well-disciplined, well-balanced and structured articleship will go a long way in laying a strong foundation to an illustrious career ahead. As you know, you can gauge your practical and

technical skills by taking the **Practical Training Assessment Test** after completion of first and second year practical training respectively. I urge you to take this test to assess your knowledge vis a vis your peers. Inclusion of MCQs in select few papers at the Intermediate and Final level has introduced much-needed objectivity, emphasizing thorough learning as against rote learning. This would certainly help to enhance your analytical skills by inculcating logical, sequential and quick thinking. ICITSS and AICITSS inculcate the necessary software and interpersonal skills. These skills will go a long way in carving a niche and establishing a formidable reputation for yourself as a member. So do not take these trainings lightly as these are stepping stones to holistic skill development.

Identify as a True Professional

Being prospective Chartered Accountants, you all should uphold the ethics of the profession. You must continuously strive to outdo yourself. Remember always that success is not just an event, it is a journey from one goal to another, however, big or small these might be, calling on us to persistently and positively change and grow. Our profession is helmed upon the firm foundations of Independence, Integrity and Excellence. While qualification gives you recognition and power, your character only will command respect. As Martin Luther King, Jr. said, ***"The function of education is to teach one to think intensively and to think critically. Intelligence plus character - that is the goal of true education."***

Change yourself to Change your circumstances

Accounting profession is challenging, with expectations running high from all quarters, be it industry, government or public at large. As students of this profession, you must consistently improve for the better, exploring new avenues that challenge your knowledge and exhort you to stretch out of your comfort zones. If you intend to improve your circumstances, you must wilfully change yourself. You should always remember the fact that it is your skill, attitude and behaviour that help you to shape your circumstances. Never be afraid of change. In fact, change is the only constant. Change yourself to be in harmony with the change!

Seek Guidance

To embark successfully on your chosen path, you need proper guidance and consultation. Never hesitate to seek guidance from your principal, teachers and seniors. Translate your ideas into actions to achieve success and fulfilment.

As a regular feature, the current issue includes aptly summarized, comprehensible study capsules on **Logical Reasoning** for CA Foundation, **Company Law** for CA Intermediate and **Strategic Cost Management and Performance Evaluation** for CA Final. These capsules serve as nuggets of knowledge for swift revision.

I conclude with what Jimmy Dean once said, ***"I can't change the direction of the wind, but I can adjust my sails to always reach my destination"***.

Wish you all the best.

CA. KEMISHA SONI
CHAIRPERSON, BOARD OF STUDIES, ICAI

Strategic Cost Management and Performance Evaluation

SKILL ASSESSMENT

The questions/ cases are based on **Skill Assessment**. An illustrative list of the verbs that appear in the requirements for each question/ case is given below. It is important that students answer according to the definition of the verb:

Important

Evaluation & Synthesis

Analysis & Application

Comprehension & Knowledge

Level	Learning Objective	Illustrative Verbs	Definition/ Explanations ¹
III	EVALUATION How are you expected to use your learning to evaluate, make decisions or recommendations?	Recommend	♦ To recommend you must: ♦ Identify and explain any reasonable options → evaluate each → conclude → recommend.
		Evaluate	♦ 'Evaluate' means balanced assessment including both the <i>positive</i> and <i>negative</i> aspects of an issue. ♦ It might mean computations, but it might not. ♦ It is important to emphasise something is in <i>qualitative terms</i>, as well as <i>monetary</i>.
		Advise	♦ 'Advise' requires to build up a good, comprehensive, <i>argument</i> that leads to one or more choices for the owners or managers to consider.
II	ANALYSIS How are you expected to analyse the detail of what you have learned?	Produce	♦ Begin with very little or nothing to make something or bring something into existence.
		Prioritise	♦ To decide which of a group of things are the most important so that you can deal with them first. Here, you'll also have to <i>elucidate/ clarify</i>, for each item, why you put it, where you did in the list of 'priorities'.
		Interpret	♦ Generally, 'Interpret' is translation of one form of words to another, where the latter is more clear in its exact sense than the former. ♦ This is often the <i>second stage</i> of 'analyse'.
		Discuss	♦ There needs to be an 'argument'. ♦ You need two or more differing or conflicting viewpoints. Also, any discussion should, if possible, end in an outcome. ♦ For example; advantages vs. disadvantages → outcome; Or reasons why vs. why not → outcome; Or maybe this vs. maybe that → outcome.
		Construct	♦ As 'prepare', but maybe with an <i>elucidation</i> as to why you put things.
		Compare and contrast	♦ An elucidation of the <i>similarities</i> and <i>differences</i> between two or more things.
		Categorise	♦ To put things into groups with the same features with an <i>explanation</i> after each item saying why you put it in that particular group and not one of the others.
		Analyse	♦ Taking apart information or data to discover <i>relationships, causes, patterns</i> and <i>connections</i>. ♦ This is about a series of <i>detailed explanations</i>.
	APPLICATION How are you expected to apply your knowledge?	Tabulate	♦ An arrangement of facts and numbers in rows or blocks.
		Solve	♦ Generally, 'Calculation' is how to do something. ♦ 'Solve' leave you to select the <i>most suitable</i> technique or process.
		Reconcile	♦ To find a way in which two situations (often the results of calculations) that are opposed to each other can agree and exist together.
		Prepare	♦ 'Prepare' is used where there is a fair amount of numerical data given in the question. ♦ You have to consider the relevant data, process it by calculations or rearranging it, then provide it in a specific form.
		Demonstrate	♦ 'Demonstrate' is consistent with situations where there is <i>only one correct answer</i>. ♦ You need to show something to be correct, apart from any doubt, by giving proof.
I	COMPREHENSION What you are expected to understand?	Calculate	♦ Ascertain or reckon mathematically.
		Apply	♦ Applying the facts, rules, concepts, and ideas. ♦ This is not just talk about it in theory, do it for real i.e. new situations.
		Illustrate	♦ Give an example.
		Identify	♦ Recognise, establish or select after consideration.
		Explain	♦ To make something clear or easy to understand by describing or giving information about it. ♦ Write a sentence that makes point → Then write another to clarify why the sentence is so → If point still isn't clear, write another sentence that makes it clearer.
	KNOWLEDGE What you are expected to know?	Distinguish	♦ To recognize the difference between two things. ♦ List the features of each of the things that make them unlike from each other.
		Describe	♦ What it is? ♦ This is <i>next step</i> from list, state, define. ♦ You might need to give a <i>short paragraph</i> covering the issues.
		Define	♦ Just give a textbook or dictionary <i>definition</i>, you may use your <i>own words</i> instead. ♦ This is simply a <i>test of memory</i>.
		State	♦ What is...? ♦ Convey what need to say <i>in brief</i>. ♦ No need to explain, unless it isn't clear.
		List	♦ How many...? ♦ Just give a list. ♦ Each of the points on 'list' should be stated in terms of a <i>full sentence</i>, for clarity, but there's no requirement to go any further than that.

It may be presumed that the skills specified in Level I are inherent in Level II i.e., only when the student possesses Level I skills, he/ she would be able to achieve Level II skills. Likewise, the skills specified in Levels I and II are inherent in Level III i.e., only when a student possesses Level I and II skills, he/ she would be able to achieve Level III skills.

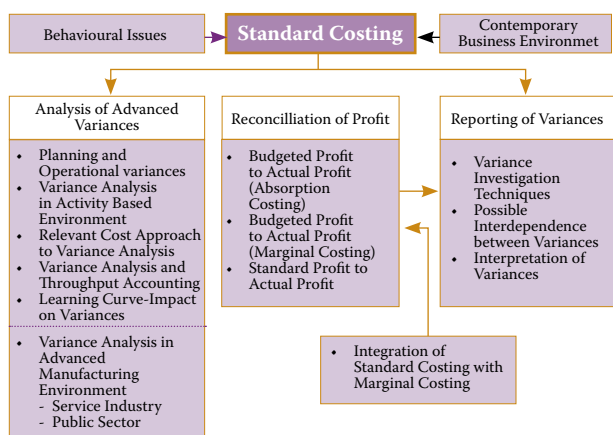
“Competition on dimensions other than price—on product features, support services, delivery time, or brand image, for instance—is less likely to erode profitability because it improves customer value and can support higher prices.”

– Michael Porter

Strategic issues are increasingly becoming important, cost management has transformed from a traditional role of product costing and operational control to a broader, strategic focus. Strategic Cost Management (SCM) requires that professional accountants hold new skills that extend *beyond their traditional practices*. They must collaborate with corporate strategists in creating, managing, and protecting value. SCM emphasises on developing, implementing and monitoring strategies in order to *enhance value for the organization*. Such a focus would not be possible without understanding the key role that *Performance Management* plays in strategy and value creation. Syllabus links strategy, management control systems and performance management. The various models of performance management, the strategy mapping process, as well as flowing performance measures in performance management, are part of the curriculum.

STANDARD COSTING

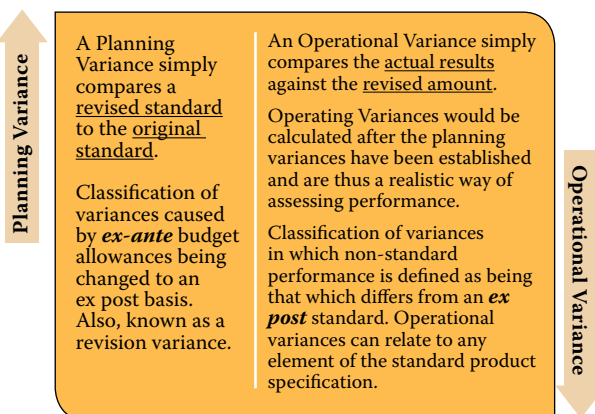
CHAPTER OVERVIEW



Planning & Operational Variances

When the current environmental conditions are different from the anticipated environmental conditions (prevailing at the time of setting standard or plans) the use of routine analysis of variance for measuring managerial performance is not desirable / suitable. The variance analysis can be useful for measuring managerial performance if the variances computed are determined on the basis of revised targets / standards based on current actual environmental conditions.

In order to deal with the above situation i.e. to measure managerial performance with reference to **material, labour and sales variances**, it is necessary to compute the Planning and Operational Variances.



ANALYSIS OF ADVANCED VARIANCES

Variance analysis is examinable both at Intermediate Level (Cost and Management Accounting) and at Final Level (Strategic Cost Management and Performance Evaluation). One main difference in syllabus between the two papers is that the Final Level syllabus includes analysis of advanced variances, as follows:

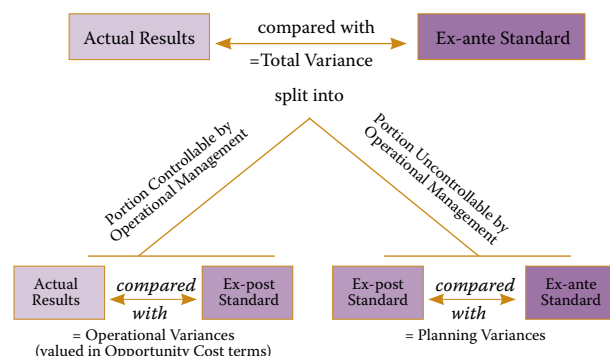


Standard ex ante

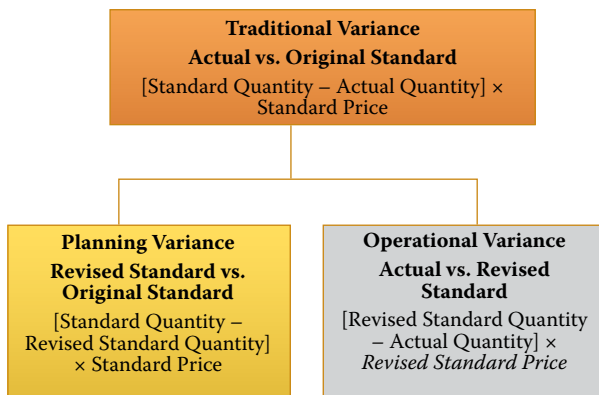
Before the event. An ex ante budget or standard is set before a period of activity commences.

Standard, ex post

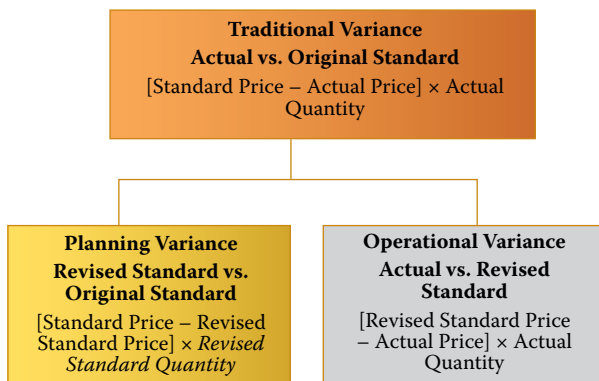
After the event. An ex post budget, or standard, is set after the end of a period of activity, when it can represent the optimum achievable level of performance in the conditions which were experienced. Thus, the budget can be flexed, and standards can reflect factors such as unanticipated changes in technology and in price levels. This approach may be used in conjunction with sophisticated cost and revenue modelling to determine how far both the plan and the achieved results differed from the performance that would have been expected in the circumstances which were experienced.



Direct Material Usage Variance



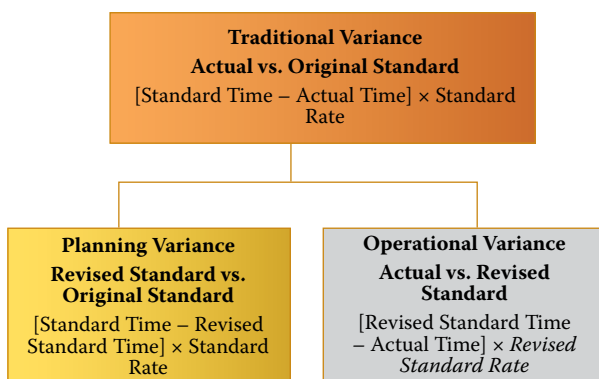
Direct Material Price Variance

**Note:**

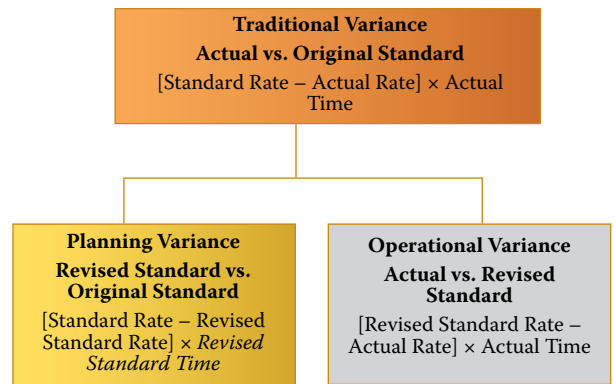
Direct Material Usage Operational Variance using *Standard Price*, and the Direct Material Price Planning Variance based on *Actual Quantity* can also be calculated. This approach reconciles the Direct Material Price Variance and Direct Material Usage Variance calculated in part.

Like Material Variances, here also Labour Efficiency and Wage Rate Variances should also be adjusted to reflect changes in environmental conditions that prevailed during the period.

Direct Labour Efficiency Variance



Direct Labour Rate Variance

**Note:**

Direct Labour Efficiency Operational Variance using *Standard Rate*, and the Direct Labour Rate Planning Variance based on *Actual Hours* can also be calculated. This approach reconciles the Direct Labour Rate Variance and Direct Labour Efficiency Variance calculated in part.

The conventional Sales Volume Variance reports the difference between actual and budgeted sales valued at the standard price per unit. The variance just indicates whether sales volume is greater or less than expected. It does not indicate **how will sales management has performed**. In order to assess the performance of sales management, market conditions prevailing during the period should be taken into consideration.

Accordingly, the sales volume variance can be sub-divided into a planning variance (market size variance) and operational variance (market share variance).

A Planning Variance simply compares a revised standard to the original standard. An Operational Variance simply compares the actual results against the revised amount. Controllable Variances are those variances which arises due to inefficiency of a cost centre /department. Uncontrollable Variances are those variances which arises due to factors beyond the control of the management or concerned department of the organization.

Planning variances are generally *not controllable*. Where a revision of standards is required due to environmental/ technological changes that were not anticipated at the time the budget was prepared, the planning variances are truly *uncontrollable*. However, standards that failed to anticipate known market trends when they were set will reflect faulty standard-setting: it could be argued that these variances were controllable at the planning stage.

Variance Analysis in Activity-Based Costing

Variance analysis can be applied to activity costs (such as setup costs, product testing, quality testing etc.) to gain understanding into why actual activity costs vary from activity costs in the static budget or in the flexible budget.

Interpreting cost variances for different activities requires understanding whether the costs are output unit-level, batch level, product sustaining, or facility sustaining costs³.

We use the similar track to variance analysis for activity-based costing as for traditional costing. The price variance is the difference between standard price and actual price for the actual quantity of input used for each cost driver. The efficiency variance measures the difference between the actual amount of cost driver units used, and the standard allowed to make the output. We multiply the difference in quantities by the standard price per cost driver to get the rupee value of the variance³.

ABC approach is based on the assumption that the overheads are basically variable (but variable with the delivery numbers and not the units output). The **efficiency variance** reports the cost impact of undertaking more or less activities than standard, and the **expenditure variance** reports cost impact of paying more or less than standard for the actual activities undertaken⁴.

Learning Curve- Impact on Variances

Learning curve is a geometrical progression, which reveals that there is steadily decreasing cost for the accomplishment of a given repetitive operation, as the identical operation is increasingly repeated. The amount of decrease will be less and less with each successive unit produced. As more units are produced, people involved in production become more efficient than before. Each additional unit takes less time to produce. The amount of improvement or experience gained is reflected in a decrease in man-hours or cost. Where learning takes place with a regular pattern it is important to take account of reduction in labour hours and cost per unit.

Automated manufacturing is unlikely to have much variation or to display a regular learning curve. In less-automated processes, however, where learning curves do occur, *it is important to take the resulting decline in labour hours and costs into account in setting standards, determining prices, planning production, or setting up work schedules.*

With the help of the learning curve theory the standard time of any batch or unit can be computed then compare the actual data with the standard and compute the variances.

Relevant Cost Approach to Variance Analysis

Traditional approach to variance analysis is to compute variances based on total actual cost for production inputs and total standard cost applied to the production output. This is ambiguous, when inputs are limited. Failure to use limited inputs properly leads not only to increased acquisition cost but also to a lost contribution. Therefore, it is necessary to consider the *lost contribution* in variance analysis. When this approach is used, price or expenditure variances are not affected.

Variance Analysis and Throughput Accounting

Variance analysis has no emphasis on the constrained resources. Instead, it is based on the *efficiency* and *cost of operation* of each part of the manufacturing system, rather than the ability of the entire system to generate a profit. Thus, a firm may find that it attains excellent efficiency and price variances by having long manufacturing rounds and buying in large quantities. A system based on constraint management will likely show very odd results under a variance reporting system.

For example, when a terminal upstream from the constrained resource runs out of work, a manager functioning under throughput accounting system will shut it down in order to avoid the formation of an unnecessary level of work-in-process inventory. However, this will result into a negative labor efficiency variance, since the terminal's staff is not actively producing anything.

Throughput accounting does use variance analysis, but not the ones used by a traditional system. Instead, its main emphasis is on tracking variations in the size of the inventory buffer placed before the constrained resource, to confirm that the constraint is never halted due to an inventory shortage.

Variance Analysis in Advanced Manufacturing Environment/ High-Technology Firms

The variance analysis generally applies to all types of organizations; however, high-technology firms like Audio Technology, Automotive, Computer Engineering, Electrical and Electronic Engineering, Information Technology, Medical

devices, Nanotechnology, Semiconductors, Telecommunication apply the model somewhat differently. Now much of electronic industry is highly automated. A large part of manufacturing process is computerized.

In the high-technology environment that is emerging, many costs that once were largely variable have become fixed, most becoming committed fixed cost. Some high technology manufacturing organizations have found that the two largest variable costs involve materials and power to operate machines. In these companies, the emphasis of variance analysis is placed on direct materials and variable manufacturing overhead.

Much of the manufacturing labour consists of highly skilled experts/ operators/ programmers are largely committed cost. Firms don't want to take risk losing such highly trained personnel even during an economic downturn. The result is **less direct labour and more overhead**. For these firms labour variances may no longer be meaningful because direct labour is a committed cost, not a cost expected to vary with output.

Standard Costing in Service Sector

Standard Costing can be equally applicable for various types of industries for example accountants, solicitors, dentists, hairdressers, transport companies and hotels. Service industries comprise a wide range of different businesses that differ in size and types of service provided. Standard costing and variance analysis is more tough to apply to service sector organizations as *major portion of their cost is comprised of overhead expenses rather than production expenses*. While traditional variance analysis of overheads does not deliver very useful information for overheads control purposes, **application of activity based costing can provide an effective basis for variance analysis** of overheads in service sector organizations although this may need significant time and effort in the implementation of a MIS.

McDonaldization⁵

McDonaldization is a process of rationalisation, which takes a task and breaks it down into smaller tasks. This is repeated until all tasks have been broken down to the smallest possible level. The resulting tasks are then rationalised to find the single most efficient method for completing each task. All other methods are then deemed inefficient and discarded.

The impact of McDonaldization is that standards can be more accurately set and assessed. It can be easily ascertained that how much time and cost should go into each activity. The principles can be applied to many other services, such as hairdressing, dentistry, or opticians' services.

Standard Costing in Public Sector⁶

In order to cost control in public sector (e.g. street cleaning refuse disposal and so on), regular variance analysis is required. Actual unit costs should be calculated on a monthly basis and compared with estimated unit cost. To achieve this comparison, information needs to be maintained about the unit of service adopted. For example, statistics would be maintained on the number of visits made and the number of hours worked. In this example, time recording may be beneficial in providing the detailed information necessary for variance analysis. Actual monthly costs should be taken from the organisation's financial management system and each month financial reports should be produced which offer an accurate image of budgeted vs actual expenditure. These reports are must for budgetary control. Actual expenditure reported on financial systems may require *some modification* to take account of:

- ◆ Trade Payables (services used but bills unpaid)
- ◆ Accruals (services used but bills yet to be received)
- ◆ Timing Differences (some costs are not incurred evenly over the year)

STANDARD MARGINAL COSTING

Standards and Variances can be calculated on the basis of marginal costing. A standard marginal costing system incorporates only costs which are variable to the product. Accordingly, the absorption of fixed costs, and the variances derived therefrom, do not feature in a standard marginal costing system. **When Marginal Costing is in use there is no Overhead Volume Variance, because Marginal Costing does not absorb Fixed Overhead.** Fixed Overhead Expenditure Variance is the only variance for Fixed Overhead in a Marginal Costing system. It is calculated as in an Absorption Costing system.

RECONCILIATION OF PROFIT

Generally, under variance analysis we compute various variances from the actual and the standard/budgeted data. Sometimes all or a few variances and actual data are made available and from that we are required to prepare standard product cost sheet, original budget and to reconcile the budgeted profit with the actual profit. Some important concepts are given below:

Reconciliation Statement-I

Budgeted Profit to Actual Profit (Absorption Costing)

Budgeted Profit					☐
(Budgeted Quantity × Standard Margin)					
<i>Effect of Variances</i>					
Material Cost Variance					
Material Price Variance				☐	
Material Usage Variance					
Material Mix Variance		☐			
Material Yield Variance		☐	☐		☐
Labour Cost Variance					
Labour Rate Variance				☐	
Labour Idle Time Variance				☐	
Labour Efficiency Variance					
Labour Mix Variance		☐			
Labour Sub-Efficiency Variance		☐	☐		☐
Variable Overhead Cost Variances					
Variable Overhead Expenditure Variance				☐	
Variable Overhead Efficiency Variance			☐		☐
Fixed Overhead Cost Variances					
Fixed Overhead Expenditure Variance				☐	
Fixed Overhead Volume Variance					
Fixed Overhead Capacity Variance		☐			
Fixed Overhead Efficiency Variance		☐	☐		☐
Sales Margin Variances (in terms of Profit)					
Sales Margin Price Variance				☐	
Sales Margin Volume Variance					
Sales Margin Mix Variance		☐			
Sales Margin Quantity Variance		☐	☐	☐	☐
Actual Profit					☐

Reconciliation Statement-II

Budgeted Profit to Actual Profit (Marginal Costing)

[illegible]

Reconciliation Statement-III Standard Profit to Actual Profit (Absorption Costing)

Standard Profit				☐
(Actual Quantity × Standard Margin)				
Effect of Variances				
Material Cost Variance				
Material Price Variance			☐	
Material Usage Variance				
Material Mix Variance	☐			
Material Yield Variance	☐	☐	☐	
Labour Cost Variance				
Labour Rate Variance			☐	
Labour Idle Time Variance			☐	
Labour Efficiency Variance				
Labour Mix Variance	☐			
Labour Sub-Efficiency Variance	☐	☐	☐	
Variable Overhead Cost Variances				
Variable Overhead Expenditure Variance			☐	
Variable Overhead Efficiency Variance		☐	☐	
Fixed Overhead Cost Variances				
Fixed Overhead Expenditure Variance			☐	
Fixed Overhead Volume Variance				
Fixed Overhead Capacity Variance	☐			
Fixed Overhead Efficiency Variance	☐	☐	☐	
Sales Margin Variance (in terms of Profit)				
Sales Margin Price Variance			☐	
Sales Margin Volume Variance				
Sales Margin Mix Variance	NA			
Sales Margin Quantity Variance	NA	NA	☐	☐
Actual Profit				☐

INVESTIGATION OF VARIANCES

Variances focus attention on deviations, but all deviations cannot be taken as 'out of Control' situations. However, variance investigation on the other hand may not be fruitful in any given situation considering that it requires resources and thus a **cost benefit analysis** should be considered before undertaking investigation.

Investigating variances is a key step in using variance analysis as part of performance management. *"Interpretation may suggest possible cause of variances but investigation must arrive at definite conclusions about the cause of the variance so that action to correct the variance can be effective."* There are behavioural as well as technical consequences to the decision to investigate variances. If no variances are investigated, it may cease to be motivated by the system which produce variances. Investigating favourable and adverse variances may create positive behavioural reinforcements, with implications for motivation, aspiration levels and inter-departmental relationships.

Factors to be Considered When Investigating Variance

Certain set of factors should be considered before undertaking the variance investigation of the actual performance against the estimates set.

Size: A standard is seen as an average of the estimates and therefore small variations seen from the standard should be ignored and not investigated further. In addition, organizations can establish limits and the variances seen beyond those limits should be undertaken for further investigation.

Type of Variance: Adverse variance is given more importance by the organization over favourable variances seen with regards to the estimates.

Cost: The costs associated with the undertaking of the investigation should be lower than the benefits associated with the investigation of variances for the organization to undertake the said investigation.

Pattern in Variance: The variances need to be monitored over a period of time and if the variance of a particular cost is seen to be worsening over time then in that case the investigation in relation to the variance needs to be undertaken.

Budgetary Process: In case the budgetary process is uncontrollable and unrealistic then in that case the investigation should be re-evaluating the budgetary process rather than undertaking investigation of the variances.



Method Used for Investigating Variance⁷

Simple Rule of Thumb Model

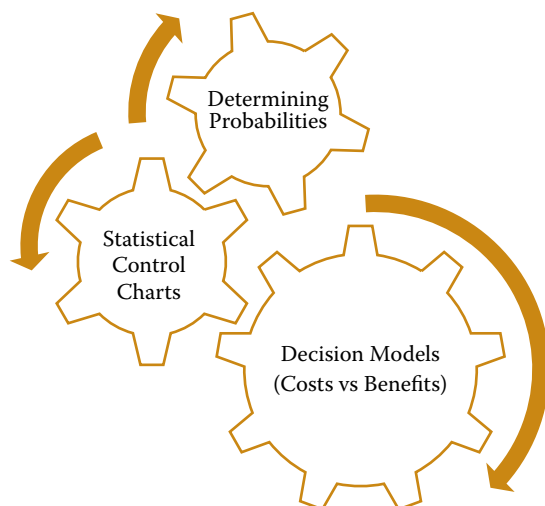
It is based on arbitrary criteria such as investigating if the absolute size of a variance is greater than a certain amount or if the ratio of the variance to the total cost exceeds some predetermined percentage. They are based on *managerial judgement* and do not consider statistical significance.

Statistical Decision Model

For the statistical models, two mutually exclusive states are possible. First assumes that the system is 'In Control' and a variance is simply due to *random fluctuations around the expected outcome*. The second possible state is that the system is in some way 'Out of Control' and corrective action can be taken to remedy the situation.

An investigation is undertaken when the probability that an observation comes from an 'In-Control' distribution falls below some arbitrarily determined probability level.

A number of cost variance investigation models have been proposed that determine the statistical probability that a variance comes from an 'In Control' distribution.



Determining Probabilities

'In Control' state can be stated in the form of a known probability distribution such as a *normal* one.

Let's take example, consider a situation where the standard time required for a particular project has been derived from the average of a series of past experience made under 'close' supervision. The average time is 2.5 hrs. per unit of output. We shall consider that the actual observations were normally distributed with a standard deviation of 15 minutes. Suppose that the actual time taken for a week was 3,000 hrs. for output of 1,000 units. Thus, average time taken was 3 hrs. per unit of output. We can determine the probability of perceiving an average time of 3 hrs. or more when the process is under control through application

of normal distribution theory. An observation of an average time taken of 3 hrs. per unit of output is 2 standard deviations from the expected value, where, for a normal distribution,

Probability of Completing the Project in 3 hrs.

$$Z = \frac{x - \mu}{\sigma}$$

$$Z = \frac{3.00 - 2.50}{0.25}$$

$$Z = 2.0$$

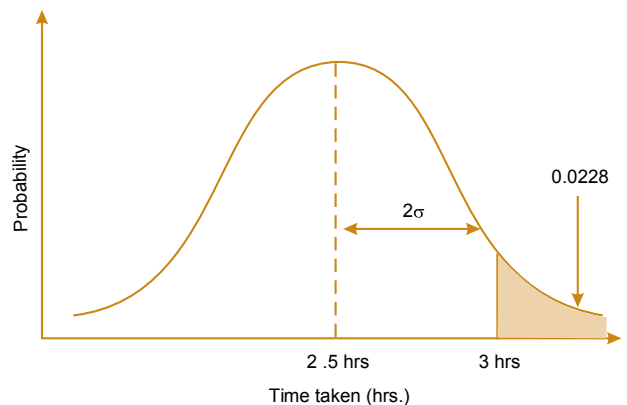
$$P(Z = 2.0) = 0.9772$$

Probability of Completing the Project in more than 3 hrs.

$$P = 1 - 0.9772$$

$$= 0.0228$$

The shaded area illustrates that 0.0228 of the area under the curve falls to the right of $\mu + 2\sigma$. Thus, the probability of actual time taken per unit of output being 3 hrs. or more when the operation is under control is 2.28%.



It is likely that this observation comes from another distribution and that the time taken for the week is out of control.

Statistical Control Charts

Statistical quality control is used mainly for monitoring and maintaining of the quality of products and services, but within a standard costing framework, statistical control charts can be used to monitor accounting variances. For example, labour usage could be plotted on a control chart on an hourly basis for each project. This process would consist of sampling the output from a project and plotting on the chart the mean usage of resources per unit for the sample output.

A *control chart* is a graphic presentation of a series of past observations in which each observation is plotted relative to pre-set points on the expected distribution. Only observations beyond specified pre-set control / tolerance limits are considered for investigation. The control limits are set based on a series of

past observations of a process when it is under control, and thus working efficiently. It is assumed that the past observations can be represented by a *normal distribution*.

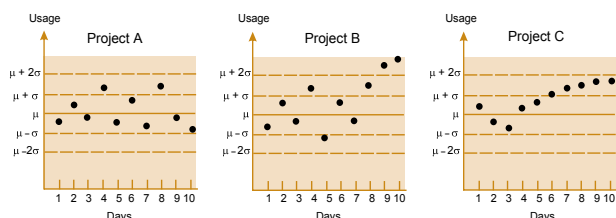
The past observations are used to estimate the population mean and the population standard deviation σ . Assuming that the distribution of possible outcomes is normal, then, when the process is under control, we should expect

68.27% of the observations to fall within the range $\mu \pm \sigma$ from the mean;

95.45% of the observations to fall within the range $\mu \pm 2\sigma$ from the mean;

99.8% of the observations to fall within the range $\mu \pm 3\sigma$ from the mean.

For example, if control limits are set based on 2σ from the mean then this would show 4.55% (100% - 95.45%) of future observations would result from pure chance when the process is under control. Therefore, there is a high probability that an observation outside the 2σ control limits is out of control.



Above Figure shows three control charts, with the outer horizontal lines representing a possible control limit of 2σ , so that all observations outside this range are investigated.

For Project A the process is deemed to be **in control** because all observations fall within the control limits.

For Project B the last two observations suggest that the project is **out of control**. Therefore, both observations should be investigated.

With Project C, the observations would not prompt an investigation because all the observations are within the control limits. However, the last six observations show a gradually increasing usage in excess of the mean, and the process may be out of control. Statistical procedures that consider the trend in recent usage as well as daily usage can also be used.

Statistical decision models have been extended to incorporate the **costs and benefits of investigation**.

Decision rule to investigate if

$$PB > C$$

Where,

P is the *probability* that the process is 'Out of Control'

B is the *benefit* associated with returning the process to its 'In-Control' state if the process is 'Out of Control'. Benefit represents the cost saving that will arise through bringing the system back under control and thereby avoiding variances in future periods.

C is the *cost* will be incurred when an investigation is undertaken

and includes the manager's time spent on investigation, the cost of interrupting the production process, and the cost of correcting the process. **C** is known with certainty.

The model requires an estimate of **P**, the probability that the process is 'Out of Control'. Bierman et al. (1961) have suggested that the probabilities could be determined by computing the probability that a particular observation, such as a variance, comes from an 'In Control' distribution. It also considers that the 'In-Control' state can be expressed in the form of a known probability distribution such as a *normal distribution*.

Let us assume that the incremental cost of investigating the labour efficiency variance in our example is ₹25. Assume also that the estimated benefit **B** from investigating a variance and taking corrective action is ₹100.

Investigate if

$$P > 25/100 \text{ or } 0.25$$

Consider our example, the probability of an observation of 3 hrs (or larger) was 0.0228. The probability of the process being 'Out of Control' is one minus the probability of being 'In Control'. Thus, $P = 0.9772$ ($1 - 0.0228$). We ascertained that the variance should be investigated if the probability that the process is 'Out of Control' is > 0.25 .

The process should therefore be investigated.

POSSIBLE INTERDEPENDENCE BETWEEN VARIANCES

It is a term used to express the way in which the cause of one variance may be wholly or partially explained by the cause of another variance. For control purposes, it might therefore be essential to look at several variances together and not in isolation. Some **examples** of interdependence between variances are listed below:

Use of cheaper material which is poorer quality, the material price variance will be favourable, but this can cause more wastage of materials leading to adverse usage variance.

Using more skilled labour to do the work will result in an adverse labour rate variance, but productivity might be higher as a result due to experienced labour.

Changing the composition of a team might result in a cheaper labour mix (favourable mix variance) but lower productivity (adverse yield variance).

Workers trying to improve productivity (favourable efficiency variance) in order to get bonus (adverse rate variance) might use materials wastefully in order to save time (adverse materials usage).

Cutting sales prices (adverse sales price variance) might result in higher sales demand from customers (favourable sales volume variance).

Similarly, favourable sales price variance may result in adverse sales volume variance.

INTERPRETATION OF VARIANCES

There can be a number of *potential causes leading to variances* in the operational costs



Material Price Variance

- ◆ Might be caused due to the *use of a different supplier*.
- ◆ *Order size* can result in variance.
- ◆ Any form of unexpected increase in *buying costs* such as higher delivery charges.
- ◆ Efficiency or inefficiency associated with the *buying procedure* adopted.
- ◆ Lack of appropriate *inventory control* can result in emergency purchase of material resulting in adverse variance.

Labour Rate Variance

- ◆ Unexpected increase in the *pay rate* of labour.
- ◆ Level of *experience* of the labour can impact the direct cost of labour.
- ◆ Payment of bonuses added to the direct labour costs.

Material Usage Variance

- ◆ Purchase of *inferior quality material*.
- ◆ Implementation of better *quality control*.
- ◆ Increased *efficiency* in production can help in bringing down wastage rate.
- ◆ Changes made in the *material mix*.
- ◆ Careless way of *handling material* by production department.
- ◆ *Change in method* of production/ design.
- ◆ *Pilferage* of material from the production department.
- ◆ *Poor inspection*.

Labour Efficiency Variance

- ◆ Improvement in work or *productivity efficiency*.
- ◆ *Workforce mix* can have an impact upon labour efficiency levels.
- ◆ *Industrial action* in relation to workforce.
- ◆ *Poor supervision* of the workforce.

Labour Rate Variance

- ◆ Change in the *composition* of the workforce can impact direct labour costs.

Labour Efficiency Variance

- ◆ *Learning curve effect* upon the labour efficiency levels.
- ◆ *Resource shortages* causing an unexpected delay and lowering of labour efficiency levels.
- ◆ Using *inferior quality of material*.
- ◆ *Introduction of new machinery* resulting in improvement of labour productivity levels.

Fixed Overhead Variance

- ◆ Fixed Overhead Expenditure Variance (adverse) are caused by *spending in excess* of the budget.
- ◆ Fixed Overhead Volume Variance is caused by *changes in production volume*.

Variable Overhead Variance

- ◆ Variable Overhead Expenditure Variance are often caused by changes in machine running costs.
- ◆ Variable Overhead Efficiency Variances- Causes are similar to those for a direct labour efficiency variance.

Sales Price Variance

- ◆ Higher *discounts* given to customers in order to encourage bulk purchases.
- ◆ The effect of low price offers during a *marketing campaign*.
- ◆ *Poor performance* by sales personnel.
- ◆ *Market conditions or economic conditions* forcing changes in prices across the industry.

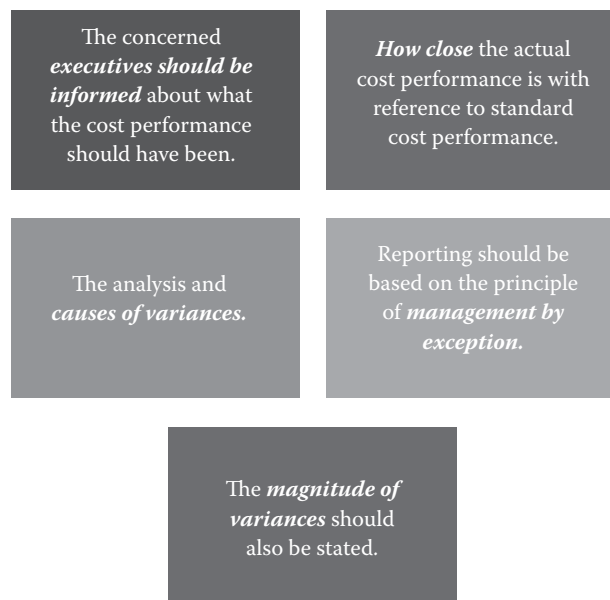
Sales Volume Variance

- ◆ Successful or unsuccessful *direct selling efforts*.
- ◆ Successful or unsuccessful *marketing efforts* (for example, the effects of an advertising campaign).
- ◆ Unexpected changes in *customer preferences* and *buying patterns*.
- ◆ Failure to satisfy demand due to *production difficulties*.
- ◆ Higher demand due to a *cut in selling prices*, or lower demand due to an *increase in sales prices*.

REPORTING OF VARIANCES

Computation of variances and their reporting is not the final step towards the control of various elements of cost. It in fact demands an analysis of variances from the side of the executives, to ascertain the correct reasons for their occurrence. After knowing the exact reasons, it becomes their responsibility to take necessary steps so as to **stop the re-occurrence of adverse variances in future**. To enhance the utility of such a reporting system it is necessary that such a system of reporting should not only be prompt but should also facilitate the concerned

managerial level to take necessary steps. Variance reports should be prepared after keeping in view its ultimate use and its periodicity. Such reports should highlight the essential cost deviations and possibilities for their improvements. In fact the variance reports should give due regard to the following points:-



an organization's performance measurement system to be based on an extensive range of **quantitative** and **qualitative** measures so as to encourage management to adopt a long-term view that is aligned with an organization's strategic direction.

Ethics⁹

Variance analysis for evaluating performance can have strong ethical consequences. For example, standard costing methods have been proposed for medicine as a means for improving performance. Interpretation of a favourable variance may be difficult because it either reflects insufficient treatment or compliance to guidelines. Most hospitals in various countries are reimbursed as specified by the diagnostic related groups (DRG). Each DRG has specified standard "length of stay". If a patient leaves the hospital early, the hospital is financial impacted favourably but a patient staying longer than the specified time costs the hospital money.

STANDARD COSTING IN CONTEMPORARY BUSINESS ENVIRONMENT¹⁰



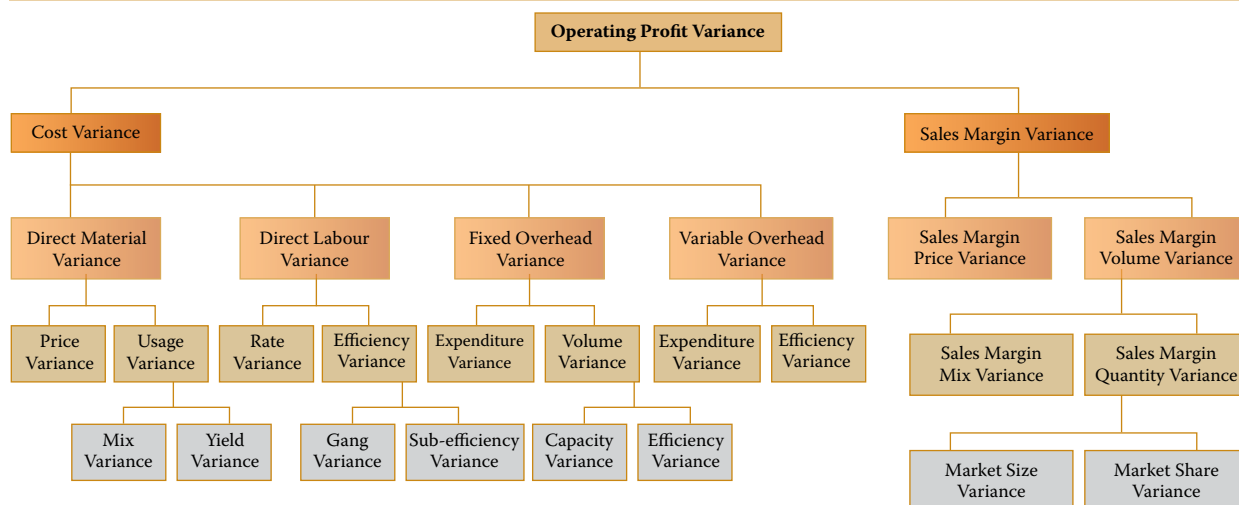
BEHAVIOURAL ISSUES⁸

Variance analysis may encourage **short-termism** due to their inherent tendency towards short-term, quantified objectives and results.

A negative perception of an organization's variance analysis process can also encourage other **sub-optimal behaviour** among employees such as attempts to include budget slacks.

The behavioural issues connected with variance analysis could be managed by participating employees during budget setting so that they do not assess the procedure as biased. It is also vital for

FORMULAE



Sales Variances (Absorption Costing)

Sales Margin Variance*
(Actual Margin) Less (Budgeted Margin)
 [(AQ × AM) – (BQ × SM)]

Sales Margin Price Variance
 (Actual Margin) Less
 (Standard Margin)
 [(AM × AQ) – (SM × AQ)]
Or [AQ × (AM – SM)]

Sales Margin Volume Variance
 (Standard Margin) Less
 (Budgeted Margin)
 [(SM × AQ) – (SM × BQ)]
Or [SM × (AQ – BQ)]

Sales Margin Mix Variance
 (Standard Margin) Less
 (Revised Standard Margin)
 (AQ × SM) – (RAQ × SM)
Or SM × (AQ – RAQ)
Alternative Formula
 [Total Actual Qty. (units) ×
 {Average Standard Margin
 per unit of Actual Mix Less
 Average Budgeted Margin
 per unit of Budgeted Mix}]

Sales Margin Quantity Variance
 (Revised Standard Margin)
 Less (Budgeted Margin)
 (RAQ × SM) – (BQ × SM)
Or SM × (RAQ – BQ)
Alternative Formula
 [Average Budgeted Margin
 per unit of Budgeted Mix ×
 {Total Actual Qty. (units)
 Less Total Budgeted Qty.
 (units)}]

Market Size Variance
 [Budgeted Market Share
 % × (Actual Industry Sales
 Quantity in units – Budgeted
 Industry Sales Quantity in
 units) × (Average Budgeted
 Margin per unit)]

Market Share Variance
 [(Actual Market Share %
 – Budgeted Market Share
 %) × (Actual Industry Sales
 Quantity in units) × (Average
 Budgeted Margin per unit)]

* in terms of profit

Note:

BQ = Budgeted Sales Quantity
 AQ = Actual Sales Quantity
 RAQ = Revised Actual Sales Quantity
 = Actual Quantity Sold Rewritten in Budgeted Proportion
 SM = Standard Margin
 = Standard Price per Unit – Standard Cost per Unit
 AM = Actual Margin
 = Actual Sales Price per Unit – Standard Cost per Unit

Market Size Variance

Budgeted Market Share % × (Actual Industry Sales Quantity in units – Budgeted Industry Sales Quantity in units) × (Average Budgeted Margin per unit) **Or**
 (Budgeted Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Budgeted Industry Sales Quantity in units) × (Average Budgeted Margin per unit) **Or**
 (Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Margin per unit)

Market Share Variance

(Actual Market Share % – Budgeted Market Share %) × (Actual Industry Sales Quantity in units) × (Average Budgeted Margin per unit) **Or**
 (Actual Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Actual Industry Sales Quantity in units) × (Average Budgeted Margin per unit) **Or**
 (Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Margin per unit)

Market Size Variance + Market Share Variance

(Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Margin per unit) **Add**
 (Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Margin per unit) **Equals to**
 (Total Actual Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Margin per unit)

Sales Margin Quantity Variance

Sales Variances (Marginal Costing)

Sales Contribution Variance
(Actual Contribution) Less (Budgeted Contribution) [(AQ × AC) – (BQ × SC)]

Sales Contribution Price Variance
 (Actual Contribution) Less
 (Standard Contribution)
 [(AC × AQ) – (SC × AQ)]
Or [AQ × (AC – SC)]

Sales Contribution Volume Variance
 (Standard Contribution) Less
 (Budgeted Contribution)
 [(SC × AQ) – (SC × BQ)]
Or [SC × (AQ – BQ)]

Sales Contribution Mix Variance
 (Standard Contribution)
 Less (Revised Standard Contribution)
 (AQ × SC) – (RAQ × SC)
Or SC × (AQ – RAQ)
Alternative Formula
 [Total Actual Qty. (units) ×
 {Average Standard Contribution
 per unit of Actual Mix Less
 Average Budgeted Contribution
 per unit of Budgeted Mix}]

Sales Contribution Quantity Variance
 (Revised Standard Contribution) Less (Budgeted Contribution)
 (RAQ × SC) – (BQ × SC)
Or SC × (RAQ – BQ)
Alternative Formula
 [Average Budgeted Contribution
 per unit of Budgeted Mix ×
 {Total Actual Qty. (units) Less
 Total Budgeted Qty. (units)}]

Market Size Variance
 [Budgeted Market Share
 % × (Actual Industry Sales
 Quantity in units – Budgeted
 Industry Sales Quantity in
 units) × (Average Budgeted
 Contribution per unit)]

Market Share Variance
 [(Actual Market Share %
 – Budgeted Market Share
 %) × (Actual Industry Sales
 Quantity in units) × (Average
 Budgeted Contribution per
 unit)]

Note:

BQ = Budgeted Sales Quantity
 AQ = Actual Sales Quantity
 RAQ = Revised Actual Sales Quantity
 = Actual Quantity Sold Rewritten in Budgeted Proportion
 SC = Standard Contribution
 = Standard Price per Unit – Standard Cost (variable) per Unit
 AC = Actual Contribution
 = Actual Sales Price per Unit – Standard Cost (variable) per Unit

Market Size Variance

Budgeted Market Share % × (Actual Industry Sales Quantity in units – Budgeted Industry Sales Quantity in units) × (Average Budgeted Contribution per unit) **Or**
 (Budgeted Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Budgeted Industry Sales Quantity in units) × (Average Budgeted Contribution per unit) **Or**
 (Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Contribution per unit)

Market Share Variance

(Actual Market Share % – Budgeted Market Share %) × (Actual Industry Sales Quantity in units) × (Average Budgeted Contribution per unit) **Or**
 (Actual Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Actual Industry Sales Quantity in units) × (Average Budgeted Contribution per unit) **Or**
 (Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Contribution per unit)

Market Size Variance + Market Share Variance

(Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Contribution per unit) **Add**
 (Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Contribution per unit) **Equals to**
 (Total Actual Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Contribution per unit)

Sales Contribution Quantity Variance

- ♦ **Sales Price Variance** is equal to **Sales Margin/ Contribution Price Variance**. This is because, for the actual quantity sold, standard cost remaining constant, change in selling price will have equal impact on turnover and profit/ contribution.
- ♦ **Sales Margin Volume Variance** is equal to **Sales Volume Variance × Budgeted Net Profit Ratio**
- ♦ **Sales Contribution Volume Variance** is equal to **Sales Volume Variance × Budgeted PV Ratio**

A Relation

Sales Margin Volume Variance in terms of Profit & Contribution

Sales Margin Volume Variance	Standard Margin Per Unit × (Actual Quantity – Budgeted Quantity) Or
Sales Margin Volume Variance	[Standard Contribution Per Unit – Standard Fixed Overheads Per Unit] × (Actual Quantity – Budgeted Quantity) Or
Sales Margin Volume Variance	[Standard Contribution Per Unit × (Actual Quantity – Budgeted Quantity)] – [Standard Fixed Overheads Per Unit × (Actual Quantity – Budgeted Quantity)] Or
Sales Margin Volume Variance	Sales Contribution Volume Variance – Fixed Overhead Volume Variance Or
Sales Contribution Volume Variance	Sales Margin Volume Variance + Fixed Overhead Volume Variance
Note: Production units equals to Sales units for both actual & budget.	

Sales Variances (Turnover or Value)

Sales Variance
(Actual Sales) Less (Budgeted Sales)
[(AQ × AP) – (BQ × SP)]

Sales Price Variance
(Actual Sales) Less
(Standard Sales)
[(AP × AQ) – (SP × AQ)]
Or [AQ × (AP – SP)]

Sales Volume Variance
(Standard Sales) Less
(Budgeted Sales)
[(SP × AQ) – (SP × BQ)]
Or [SP × (AQ – BQ)]

Sales Mix Variance
(Standard Sales) Less
(Revised Standard Sales)
(AQ × SP) – (RAQ × SP)
Or SP × (AQ – RAQ)
Alternative Formula
[Total Actual Qty. (units) × {Average Standard Price per unit of Actual Mix} Less Average Budgeted Price per unit of Budgeted Mix]

Sales Quantity Variance
(Revised Standard Sales) Less
(Budgeted Sales)
(RAQ × SP) – (BQ × SP)
Or SP × (RAQ – BQ)
Alternative Formula
[Average Budgeted Price per unit of Budgeted Mix × {Total Actual Qty. (units)} Less Total Budgeted Qty. (units)]

Market Size Variance
[Budgeted Market Share % × (Actual Industry Sales Quantity in units – Budgeted Industry Sales Quantity in units) × (Average Budgeted Price per unit)]

Market Share Variance
[(Actual Market Share % – Budgeted Market Share %) × (Actual Industry Sales Quantity in units) × (Average Budgeted Price per unit)]

Note:
BQ = Budgeted Sales Quantity
AQ = Actual Sales Quantity
RAQ = Revised Actual Sales Quantity
= Actual Quantity Sold Rewritten in Budgeted Proportion
SP = Standard Selling Price per Unit
AP = Actual Selling Price per Unit

Market Size Variance

Budgeted Market Share % × (Actual Industry Sales Quantity in units – Budgeted Industry Sales Quantity in units) × (Average Budgeted Price per unit) **Or**

(Budgeted Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Budgeted Industry Sales Quantity in units) × (Average Budgeted Price per unit) **Or**
(Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Price per unit)

Market Share Variance

(Actual Market Share % – Budgeted Market Share %) × (Actual Industry Sales Quantity in units) × (Average Budgeted Price per unit) **Or**
(Actual Market Share % × Actual Industry Sales Quantity in units – Budgeted Market Share % × Actual Industry Sales Quantity in units) × (Average Budgeted Price per unit) **Or**
(Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Price per unit)

Market Size Variance + Market Share Variance

(Required Sales Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Price per unit) **Add**
(Total Actual Quantity in units – Required Sales Quantity in units) × (Average Budgeted Price per unit) **Equals to**
(Total Actual Quantity in units – Total Budgeted Quantity in units) × (Average Budgeted Price per unit)

Sales Quantity Variance

Direct Material Variances

Direct Material Total Variance#

[Standard Cost* Less Actual Cost]
(The difference between the Standard Direct Material Cost of the actual production volume and the Actual Cost of Direct Material)
[(SQ × SP) – (AQ × AP)]

Direct Material Price Variance

[Standard Cost of Actual Quantity Less Actual Cost]
(The difference between the Standard Price and Actual Price for the Actual Quantity)

[(SP – AP) × AQ]
Or
[(SP × AQ) – (AP × AQ)]

Direct Material Usage Variance

[Standard Cost of Standard Quantity for Actual Production Less Standard Cost of Actual Quantity]
(The difference between the Standard Quantity specified for actual production and the Actual Quantity used, at Standard Purchase Price)
[(SQ – AQ) × SP]
Or
[(SQ × SP) – (AQ × SP)]

Direct Material Yield Variance

[Standard Cost of Standard Quantity for Actual Production Less Standard Cost of Actual Quantity in Standard Proportion]
(The difference between the Standard Quantity specified for actual production and Actual Quantity in standard proportion, at Standard Purchase Price)
[(SQ – RAQ) × SP]
Or
[(SQ × SP) – (RAQ × SP)]

Alternative Formula
[Average Standard Price per unit of Standard Mix × {Total Standard Quantity (units)} Less Total Actual Quantity (units)]

Direct Material Mix Variance

[Standard Cost of Actual Quantity in Standard Proportion Less Standard Cost of Actual Quantity]
(The difference between the Actual Quantity in standard proportion and Actual Quantity in actual proportion, at Standard Purchase Price)

[(RAQ – AQ) × SP]
Or

[(RAQ × SP) – (AQ × SP)]
Alternative Formula
[Total Actual Quantity (units) × {Average Standard Price per unit of Standard Mix} Less Average Standard Price per unit of Actual Mix]

Note:

- SQ = Standard Quantity = Expected Consumption for Actual Output
 AQ = Actual Quantity of *Material Consumed*
 RAQ = Revised Actual Quantity = Actual Quantity Rewritten in Standard Proportion
 SP = Standard Price per Unit
 AP = Actual Price per Unit
 (*) = Standard Cost refers to 'Standard Cost of Standard Quantity for Actual Output'
 (#) = Direct Material Total Variance (also known as material cost variance)

Material Purchase Price Variance

[Standard Cost of Actual Quantity – Actual Cost]

(The difference between the Standard Price and Actual Price for the actual quantity of material purchased)
 $[(SP - AP) \times PQ]$

Or

$[(SP \times PQ) - (AP \times PQ)]$

Note:

- PQ = Purchase Quantity
 SP = Standard Price
 AP = Actual Price

Direct Labour Variances**Direct Labour Total Variance***

[Standard Cost* – Actual Cost]

(The difference between the Standard Direct Labour Cost and the Actual Direct Labour Cost incurred for the production achieved)
 $[(SH \times SR) - (AH^* \times AR)]$

Direct Labour
Idle Time
Variance

Direct Labour Rate Variance

[Standard Cost of Actual Time – Actual Cost]

(The difference between the Standard Rate per hour and Actual Rate per hour for the Actual Hours paid)

$[(SR - AR) \times AH^*]$ **Or**
 $[(SR \times AH^*) - (AR \times AH^*)]$

Direct Labour Efficiency Variance

[Standard Cost of Standard Time for Actual Production – Standard Cost of Actual Time]

(The difference between the Standard Hours specified for actual production and Actual Hours worked at Standard Rate)

$[(SH - AH^*) \times SR]$ **Or**
 $[(SH \times SR) - (AH^* \times SR)]$

Direct Labour Mix Variance Or Gang Variance

[Standard Cost of Actual Time Worked in Standard Proportion – Standard Cost of Actual Time Worked]

(The difference between the Actual Hours worked in standard proportion and Actual Hours worked in actual proportion, at Standard Rate)
 $[(RAH - AH^*) \times SR]$ **Or**
 $[(RAH \times SR) - (AH^* \times SR)]$

Alternative Formula

[Total Actual Time Worked (hours) × {Average Standard Rate per hour of Standard Gang Less Average Standard Rate per hour of Actual Gang*}]
 *on the basis of hours worked

Direct Labour Yield Variance Or Sub-Efficiency Variance

[Standard Cost of Standard Time for Actual Production – Standard Cost of Actual Time Worked in Standard Proportion]

(The difference between the Standard Hours specified for actual production and Actual Hours worked in standard proportion, at Standard Rate)
 $(SH - RAH) \times SR$ **Or**
 $(SH \times SR) - (RAH \times SR)$

Alternative Formula

[Average Standard Rate per hour of Standard Gang × {Total Standard Time (hours) Less Total Actual Time Worked (hours)}]

Direct Labour Idle Time Variance

[Standard Rate per Hour × Actual Idle Hours]

(The difference between the Actual Hours paid and Actual Hours worked at Standard Rate)

$[(AH^* - AH^*) \times SR]$

Or

$[(AH^* \times SR) - (AH^* \times SR)]$

Note:

- SH = Standard Hours = Expected time (Time allowed) for Actual Output
 AH* = Actual Hours paid for
 AH# = Actual Hours worked
 RAH = Revised Actual Hours = Actual Hours (worked) rewritten in Standard Proportion
 SR = Standard Rate per Labour Hour
 AR = Actual Rate per Labour Hour Paid
 (*) = Standard Cost refers to 'Standard Cost of Standard Time for Actual Output'
 (#) = Direct Labour Total Variance (also known as labour cost variance)

In the absence of idle time

Actual Hours Worked = Actual Hours Paid

Idle Time is a period for which a workstation is available for production but is not used due to e.g. shortage of tooling, material, or operators. During Idle Time, Direct Labour Wages are being paid but no output is being produced. The cost of this can be identified separately in an Idle Time Variance, so that it is not 'hidden' in an adverse Labour Efficiency Variance.

Some organizations face Idle Time on regular basis. In this situation, the Standard Labour Rate may include an allowance for the cost of the expected idle time. Only the impact of any unexpected or abnormal Idle Time would be included in the Idle Time Variance.

Fixed Production Overhead Variances**Fixed Overhead Total Variance***

(Absorbed Fixed Overheads) Less
(Actual Fixed Overheads)

Fixed Overhead Expenditure Variance

(Budgeted Fixed Overheads)
Less
(Actual Fixed Overheads)

Fixed Overhead Volume Variance

(Absorbed Fixed Overheads)
Less
(Budgeted Fixed Overheads)

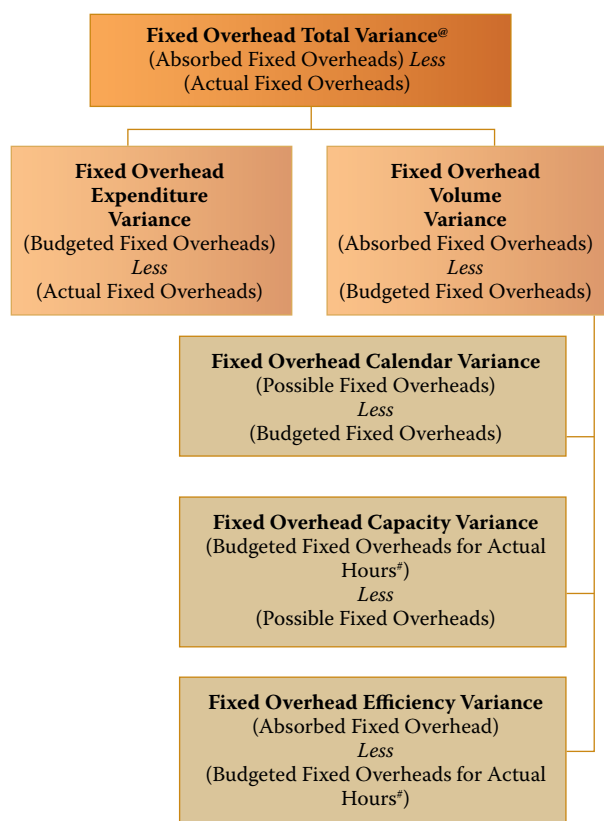
Fixed Overhead Efficiency Variance

(Absorbed Fixed Overheads)
Less
(Budgeted Fixed Overheads for Actual Hours*)

Fixed Overhead Capacity Variance

(Budgeted Fixed Overheads for Actual Hours*)
Less
(Budgeted Fixed Overheads)

Or



Actual Hours (Worked)

Note:

Standard Fixed Overheads for Production (Absorbed)

- = Standard Fixed Overhead Rate per Unit × Actual Production in Units
- = Standard Fixed Overhead Rate per Hour × Standard Hours for Actual Production

Budgeted Fixed Overheads

- = It represents the amount of fixed overhead which should be spent according to the budget or standard during the period
- = Standard Fixed Overhead Rate per Unit × Budgeted Production in Units
- = Standard Fixed Overhead Rate per Hour × Budgeted Hours

Actual Fixed Overheads Incurred

Budgeted Fixed Overheads for Actual Hours

- = Standard Fixed Overhead Rate per Hour × Actual Hours

Possible Fixed Overheads

- = Expected Fixed Overhead for Actual Days Worked
- = $\frac{\text{Budgeted Fixed Overhead}}{\text{Budgeted Days}} \times \text{Actual Days}$

(*)

- = Fixed Overhead Total Variance also known as 'Fixed Overhead Cost Variance'

Fixed Overhead Efficiency Variance

(Absorbed Fixed Overheads) – (Budgeted Fixed Overheads for Actual Hours)

Or

(Standard Fixed Overhead Rate per Hour × Standard Hours for Actual Output) – (Standard Fixed Overhead Rate per Hour × Actual Hours)

Or

Standard Fixed Overhead Rate per Hour × (Standard Hours for Actual Output – Actual Hours)

Fixed Overhead Capacity Variance

(Budgeted Fixed Overheads for Actual Hours) – (Budgeted Fixed Overheads) *Or*

(Standard Fixed Overhead Rate per Hour × Actual Hours) – (Standard Fixed Overhead Rate per Hour × Budgeted Hours) *Or*

Standard Fixed Overhead Rate per Hour × (Actual Hours – Budgeted Hours)

Fixed Overhead Volume Variance-I

(Absorbed Fixed Overheads) – (Budgeted Fixed Overheads) *Or*

(Standard Fixed Overhead Rate per Unit × Actual Output) – (Standard Fixed Overhead Rate per Unit × Budgeted Output) *Or*

Standard Fixed Overhead Rate per Unit × (Actual Output – Budgeted Output)

Fixed Overhead Volume Variance-II

(Absorbed Fixed Overheads) – (Budgeted Fixed Overheads) *Or*

(Standard Fixed Overhead Rate per Hour × Standard Hours for Actual Output) – (Standard Fixed Overhead Rate per Hour × Budgeted Hours)

Or

Standard Fixed Overhead Rate per Hour × (Standard Hours for Actual Output – Budgeted Hours)

Or

Standard Fixed Overhead Rate *per Hour* × (Standard Hours per Unit × Actual Output – Standard Hours per Unit × Budgeted Output)

Or

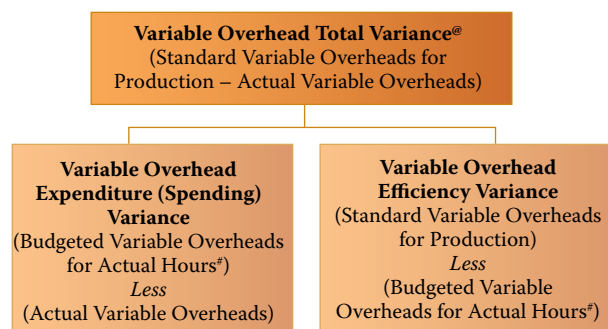
(Standard Fixed Overhead Rate per Hour × Standard Hours per Unit) × (Actual Output – Budgeted Output)

Or

Standard Fixed Overhead Rate per Unit × (Actual Output – Budgeted Output)

Overhead Variances can also be affected by idle time. It is usually assumed that Overheads are incurred when labour is working, not when it is idle. Accordingly, hours worked has been considered for the calculation of Variable and Fixed Overheads Variances.

Variable Production Overhead Variances



Actual Hours (Worked)

Note:

Standard Variable Overheads for Production/Charged to Production

- = Standard/Budgeted Variable Overhead Rate per Unit × Actual Production (Units)
- = Standard Variable Overhead Rate per Hour × Standard Hours for Actual Production

Actual Overheads Incurred

Budgeted Variable Overheads for Actual Hours

- = Standard Variable Overhead Rate per Hour × Actual Hours

(*)

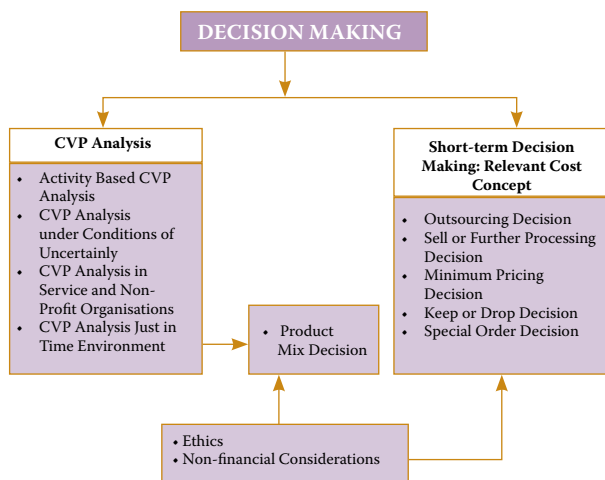
- = Variable Overhead Total Variance also known as 'Variable Overhead Cost Variance'

Variable Overhead Efficiency Variance
(Standard Variable Overheads for Production) – (Budgeted Overheads for Actual Hours)
<i>Or</i>
(Standard Variable Overhead Rate <i>per Hour</i> × Standard Hours for Actual Output) – (Standard Variable Overhead Rate <i>per Hour</i> × Actual Hours)
<i>Or</i>
Standard Variable Overhead Rate <i>per Hour</i> × (Standard Hours for Actual Output – Actual hours)

Variable Overhead Expenditure Variance
(Budgeted Variable Overheads for Actual Hours) – (Actual Variable Overheads)
<i>Or</i>
(Standard Rate <i>per Hour</i> × Actual Hours) – (Actual Rate <i>per Hour</i> × Actual Hours)
<i>Or</i>
Actual Hours × (Standard Rate <i>per Hour</i> – Actual Rate <i>per Hour</i>)

DECISION MAKING

CHAPTER OVERVIEW



CVP ANALYSIS¹¹

CVP analysis involves analysing the interrelationships among revenues, costs, levels of activity, and profits. CVP analysis is useful for numerous decisions related to production, pricing, marketing, cost structure, and many more. Although CVP analysis is most useful for planning, it can also be used to assist with **controlling decisions** and **evaluating decisions**.

Consider a decision about choosing *additional features of an existing product* i.e. product modification. Different choices can affect selling prices, variable cost per unit, fixed costs, units sold, and operating income. CVP analysis helps managers make product decisions by estimating the *expected profitability* of these choices.



Activity Based CVP Analysis

Conventional CVP analysis assumes *volume based* measures. An alternative approach is activity based costing. In an activity-based costing system, costs are segregated into unit and *non-unit-based* categories. Activity-based costing acknowledges that some costs vary with units produced and some costs do not. However, while activity-based costing admits that non-unit-based costs are fixed with respect to production volume changes, it also argues that many non-

unit-based costs vary with respect to other cost drivers. In contrast, the volume based approach combines the cost of these activities and treat them as fixed costs since they do not vary with output volume. Activity based costing provides a more accurate determination of costs because it separately identifies and traces non-unit based costs to products rather than combining them in a pool of fixed costs as volume based approach does.

The Break-even can then be expressed as follows:

$$\text{Break-even units} = \frac{[\text{Fixed costs} + (\text{Setup cost} \times \text{Number of Setups}) + (\text{Engineering Cost} \times \text{Number of Engineering Hours})]}{(\text{Price} - \text{Unit Variable Cost})}$$

A comparison of the ABC break-even point with the conventional break-even point reveals two important differences.

First, the fixed costs differ. Some costs previously identified as being fixed may actually vary with non-unit cost drivers, in this case setups and engineering hours.

Second, the numerator of the ABC break-even equation has two non-unit-variable cost terms: one for batch-related activities and one for product-sustaining activities.

"The use of activity-based costing does not mean that CVP analysis is less valuable. In fact, it becomes more valuable, since it delivers more precise understandings concerning cost behaviour. These understandings produce better decisions. CVP analysis within an activity-based framework, however, must be improved."

CVP Analysis - Conditions of Uncertainty

Cost-Volume-Profit analysis suffers from a limitation that it **does not consider** adjustments for *risk and uncertainty*. A possible approach by which uncertainty can be incorporated into the analysis is to apply *normal distribution theory*.

If the manager is comparing this product with other products then this approach will enable him or her to assess the risk involved for each product, as well as to compare the relative break-even points and expected profits. The analysis can be changed to include fixed cost, variable cost and selling price as *uncertain variables*. The effect of treating these variables as uncertain will lead to an increase in the standard deviation because the variability of the variable cost, fixed cost and selling price will add to the variability of profits.

Probability distributions play important role in providing decision-making information. It provides information that helps the decision maker better understand the risks and uncertainties associated with the problem. Ultimately, this information may assist the decision maker in reaching a good decision.

Example

The selling price of a product for the next accounting period is ₹110, and the variable cost is estimated to be ₹70 per unit. The budgeted fixed costs for the period are ₹1,63,500. Estimated sales for the period are 5,000 units, and it is assumed that the probability distribution for the estimated sales quantity is normal with a standard deviation of 125 units. The selling price, variable cost and total fixed cost are assumed to be certain. What is the probability of profits being greater than ₹40,000?

The calculations are as follows:

$$\begin{aligned}\text{Expected Profit} &= \text{Expected Sales Volume (5,000 units)} \times \\ &\quad \text{Contribution per unit (₹40)} - \\ &\quad \text{Fixed Costs (₹1,63,500)} \\ &= ₹36,500\end{aligned}$$

$$\begin{aligned}\text{Standard Deviation} &= \text{Standard Deviation of Sales Volume (125 units)} \times \text{Contribution per unit ₹40} \\ &= ₹5,000\end{aligned}$$

Probability for profit (₹40,000):

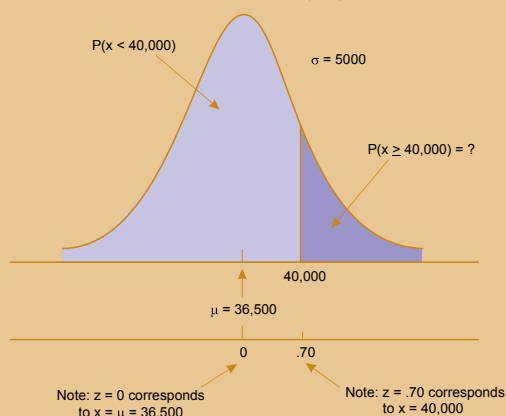
$$Z = \frac{x - \mu}{\sigma}$$

$$Z = \frac{₹40,000 - ₹36,500}{₹5,000}$$

$$Z = +0.70$$

$$\begin{aligned}\text{Probability} \\ (Z = +0.70) &= 0.7580\end{aligned}$$

Refer now following Figure



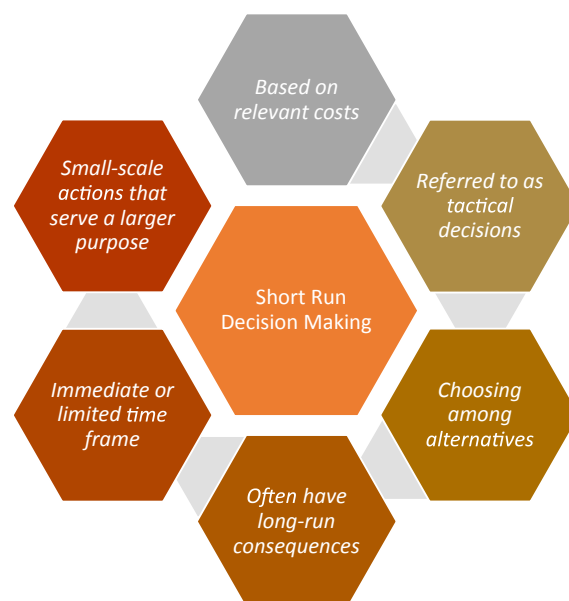
We see that a value of 40,000 corresponds to a value of $Z = 0.70$ on the standard normal distribution. Using the standard normal probability table, we see that the area under the standard normal curve to the left of $Z = 0.70$ is 0.7580. Thus, $1.000 - 0.7580 = 0.2420$ is the probability that profit will exceed 40,000.

Therefore, the cost equation for Just in Time can be expressed as follows:

$$\text{Total Cost} = \text{Fixed Cost} + (\text{Unit variable Cost} \times \text{Number of Units}) + (\text{Engineering Cost} \times \text{Number of Engineering hours})$$

“Managers often use CVP analysis to guide other decisions, many of them are of strategic nature due to tremendous potential of increase in the profitability and organisational effectiveness”

SHORT RUN DECISION MAKING



Short-run decision making involves the act of choosing one course of action among various feasible alternatives available. Short-term decisions sometimes are referred to as tactical, or relevant, decisions because they involve choosing between alternatives with an immediate or limited time frame.

Strategic decisions, on the other hand, usually are long term in nature because they involve choosing between different strategies that attempt to provide a *competitive advantage* over a long time frame.

Short run decisions involve evaluation of the costs and benefits of short term actions, such as *whether to make a product or outsource, whether to accept a special order, whether to keep or drop an unprofitable segment, and whether to sell a product as is or process it further*. If resources are limited, managers may also have to decide on the *most appropriate product mix*. While such decisions tend to be *short run* in nature, it should be emphasized that they often have *long-run consequences*.

Consider a second example, suppose that a company is thinking about producing a component instead of buying it from suppliers. The immediate objective may be to lower the cost of making the main product. Yet this decision may be a small part of the overall strategy of establishing a cost leadership position for the firm. Therefore, short-run decisions often are *small-scale actions that serve a larger purpose*¹².

The tactical decision making approach just described emphasized the importance of identifying and using **relevant costs**. But how do we identify and define the costs that affect the decision?

CVP Analysis in Service and Non-Profit Organisations

CVP analysis can also be applied to decisions by service and non-profit organisations. To apply CVP analysis in service and non-profit organisations, we need to *focus on measuring their output*, which is different from tangible units sold by manufacturing and merchandising companies.

CVP Analysis in Just in Time Environment

In a firm has implemented *Just in Time*, the variable cost per unit sold is reduced, and fixed costs are increased. Direct labor is considered as fixed instead of variable. On the other hand, direct material vary with production volume (unit- based variable cost) due to emphasis on *total quality and long-term purchasing*. Waste, scrap, and quantity discounts are removed. Other unit-based variable costs, such as power and sales commissions, also exist. Further, the batch - level variable is absent as in Just in Time, the batch is equal to one unit.

For a cost to be relevant to a decision it must be

A future cost, i.e. related to the future.

A differential Cost, i.e. its level must be different for each of the alternatives under consideration.

Accordingly, only future costs can be relevant to decisions. However, to be relevant, a cost *must not only be a future cost but must also differ from one alternative to another*. If a future cost is the same for more than one alternative, it has no effect on the decision. Such a cost is irrelevant cost. The ability to identify relevant and irrelevant costs is a vital decision making skill.

Non-Financial Considerations

With increase in competition, dynamic market changes and changing needs of customers, non-financial information have gained relevance in the decision-making process. Information to which monetary value can be attached is in the nature of financial information. Information of an organization like number of employees, employee morale, customer satisfaction that cannot be expressed in monetary terms is termed non-financial in nature. *Non-financial information is long term focused and ensures profitability and sustainability in long term for an organization thereby evaluating the internal performance of the company.* Non-Financial information which a company should focus that would turn out to be advantageous while making decisions for a company are:

Quality	Employee Satisfaction	Customer Satisfaction
Corporate Social Responsibility	Environmental Factors	Intellectual Property
Intangible Assets	Competitor's Movements	Brand Name

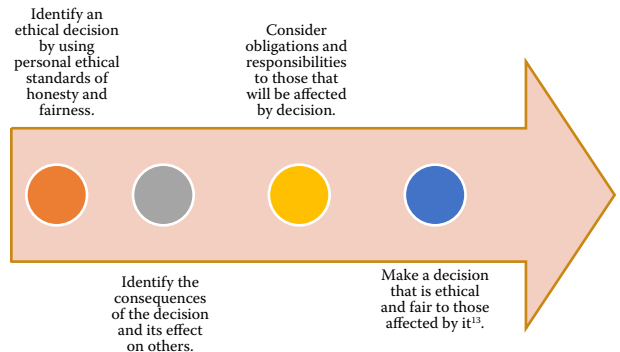
Decisions made in a business rest on the *balance between the perceived effects of financial and non-financial information*. Following are Limitations of Non-Financial Information-

Limitations of Non-Financial Information

- Time and Cost of the company involved.
- Subjective measurement – No proper of common denominator to measure performance.
- Improper measures will lead the companies to draw attention on wrong objectives.
- Lack of Statistical Reliability – Possible chances of error.
- Management Disintegration when excess of measures and indications used by the company.

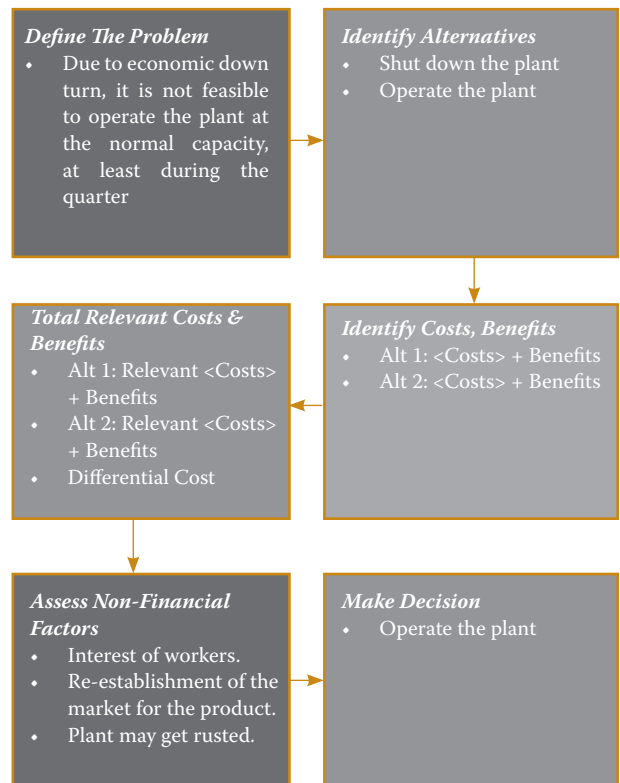
Ethics

Ethics are moral principles that guide the conduct of individuals. By their behaviour and attitude, managers set the company culture.



Some ethical problems can be avoided simply by using common sense and not focusing solely on the short term at the expense of *long term*.

Firms with a strong code of ethics can create strong customer and employee loyalty. Furthermore, a firm that values people more than profit and is viewed as operating with integrity and honour is more likely to be a commercially successful business¹⁴.

Decision Making Model**An Application**

SOME APPLICATIONS OF CVP ANALYSIS AND COST CONCEPTS

Short run decisions are many and varied but some of the more important ones, we shall look in this chapter include:

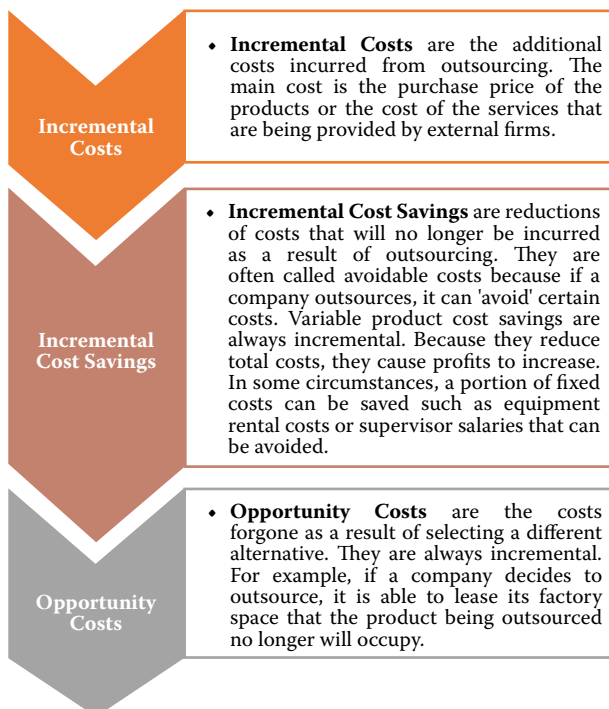


Outsourcing Decision¹⁵

Outsourcing decision is often called a 'make or buy' decision. It involves a decision of whether to continue 'making' a product versus 'buying' it from an external firm. Outsourcing enables a firm to

- ♦ reduce costs or
- ♦ benefit from supplier efficiencies

Outsourcing decision requires *incremental analysis*. The incremental amounts are based on the difference in the *cost of buying a product or service compared to the cost of producing the item or providing the service in house*.



Outsourcing Decisions- Accept or Reject?

• If incremental cost savings + opportunity costs < incremental costs	• If incremental cost savings + opportunity costs > incremental costs	• If incremental cost savings + opportunity costs = incremental costs
• reject the outsourcing, unless qualitative factors fiercely impact the decision.	• accept the outsourcing unless qualitative factors fiercely impact the decision.	• focus primarily on qualitative factors to evaluate the decision.

Qualitative Factors

While considering the decision to Outsourcing the management should consider qualitative aspects like quality of goods, reliability of suppliers, impact on the customers and suppliers etc.

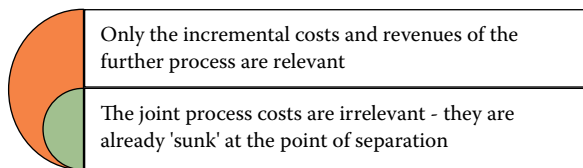
A firm generally decides to outsource:

- If it costs less rather than to manufacture it internally;
- If the return on the necessary investment to be made to manufacture is not attractive enough;
- If the company does not have the requisite skilled manpower to make;
- If the concern feels that manufacturing internally will mean additional labour problem;
- If adequate managerial manpower is not available to take charge of the extra work of manufacturing;
- If the component shows much seasonal demand resulting in a considerable risk of maintaining inventories;
- If transport and other infrastructure facilities are adequately available;
- If the process of making is confidential or patented;
- If there is risk of technological obsolescence for the component such that it does not encourage capital investment in the component.

Sell or Further Process

Sell or process further refers to a decision-making situation where an executive has to decide either to sell a component/ product/ raw material as it is or alternatively process it further by incurring additional expenses. For instance, sometime, a redundant material lying in stores for a long time may be sold as scrap at a small value or may be thrown away as waste. This material may, however, be converted into a product of higher saleable value by carrying out some further operations or processes. On further processing the component/product/raw material may not only be improved or reconditioned but will mostly fetch a higher sale value as well. Here if the *differential sales value is more than the further processing cost*, then it is beneficial to process the product further otherwise sell it without further processing. Such type of decision making problems usually arise in the case of joint products.

There are two rules to follow when ascertaining whether the further processing is worthwhile:



Qualitative Factors

Qualitative factors related to processing further decisions include resource availability such as the readiness of employees to work extra hours to further process the products and availability of materials required for the processing. In addition, the influence on customers that prefer the original product should also be considered, as sales to these customers may be lost to competitors.

Minimum Pricing Decisions

The minimum pricing approach is a useful method in situations where there is a lot of intense competition, surplus production capacity, clearance of old inventories, getting special orders and/or improving market share of the product.

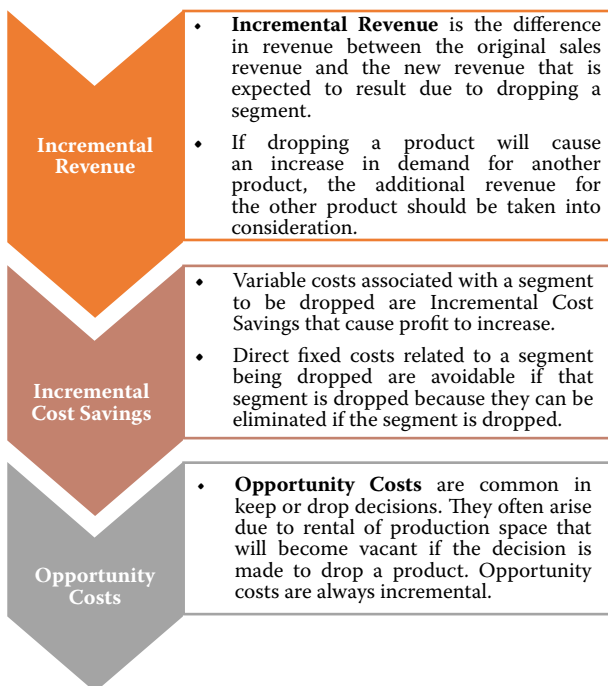
The minimum price should be set at the incremental costs of manufacturing, plus opportunity costs (if any).

For this type of pricing, the selling price is the lowest price that a company may sell its product at usually the price will be the *total relevant costs of manufacturing*.

Keep or Drop Decisions¹⁵

Another type of operating decision that management must make is whether to keep or drop unprofitable segments, such as product lines, services, divisions, departments, stores, or outlets.

The decision is based on whether or not the segment's revenue exceeds the costs directly traceable to the segment, including any direct fixed costs.



Decision - Keep or Drop?

- If <i>incremental cost savings</i> > <i>incremental revenue lost</i> - the segment should be dropped, unless qualitative characteristics fiercely impact the decision.	- If <i>incremental revenue lost</i> = <i>incremental cost savings</i> - qualitative effects must be used to make the decision.	- If <i>incremental cost savings</i> < <i>incremental revenue lost</i> - the segment should not be dropped, unless qualitative characteristics fiercely impact the decision.
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Qualitative Factors

Qualitative factors related to keep or drop decisions often include considerations of employees that will be terminated if the product is dropped, the effect a lay off might have on employees that are not terminated, effects of suppliers from which the materials needed for the product will no longer be purchased, and the effect of customers who previously purchased the product being dropped.

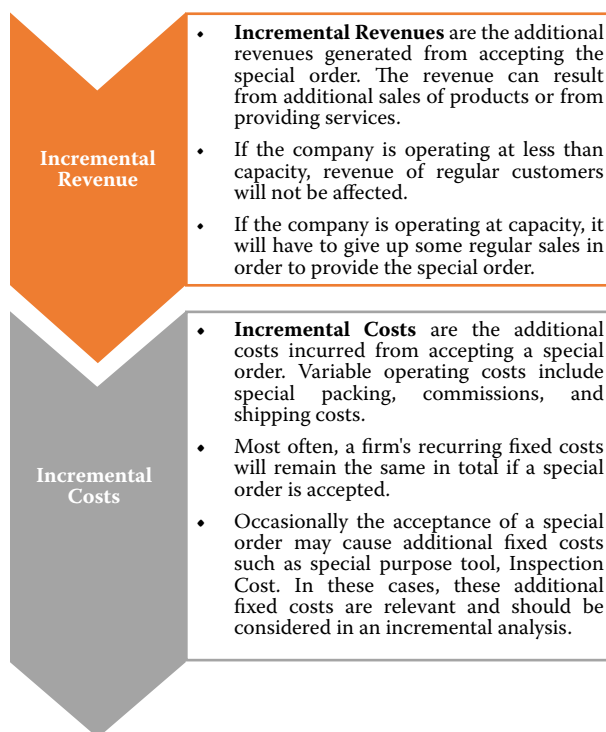
Special Order Decisions¹⁵

Special order decisions focus on whether a special priced order should be accepted or rejected. These orders often can be attractive, especially when the firm is *operating below its maximum productive capacity*.

Price discrimination laws require that firms sell identical products at the *same price to competing customers* in the same market. This law does not apply to

- ◆ Noncompeting customers from the same market.
- ◆ Potential customers in markets not ordinarily served.

Special order decisions are based on incremental analysis. Incremental analysis enables managers to emphasis on the *relevant areas of a decision*.



Decision - Accept or Reject?

If incremental revenue < incremental cost	If incremental revenue = incremental cost	If incremental revenue > incremental cost
reject the special order, unless qualitative characteristics fiercely impact the decision.	qualitative effects must be used to make the decision.	accept the order, unless qualitative characteristics fiercely impact the decision.

Dangers of Concentrating Excessively on a Short-Run Time Horizon¹⁶

- It is vital that the information presented for decision-making relates to the appropriate time horizon.
- If inappropriate time horizons are selected there is a risk that misleading information will be presented.
- Long-term considerations should always be taken into account when special pricing decisions are being evaluated.
- The effect of accepting a series of successive special orders over several periods constitutes a long-term decision.
- If demand from normal business is considered to be permanently insufficient to utilize existing capacity, then a long-term capacity decision is required.
- This decision should be based on a comparison of the relevant revenues and costs arising from using the excess capacity for special orders with the capacity costs that can be eliminated if the capacity is reduced.

Product Mix Decision

Many times, the management has to take a decision whether to produce one product or another instead. Generally, decision is made on the basis of contribution of each product. Other things being the same the product which yields the *highest contribution* is best one to produce. But, if there is shortage or limited supply of certain other resources which may act as a key factor like for example, the machine hours, then the *contribution is linked with such a key factor for taking a decision*.

For example, in an undertaking the availability of machine capacity is limited and the machine hours required for one unit of the two products are different. In such cases the contribution is to be linked with the machine hour and the product which yields the *highest contribution per machine hour* is to be preferred for taking decision.

Sources / References:

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- Cost Accounting: A Managerial Emphasis, 13/e by Charles T. Horngren, p275;
- Managerial Accounting: An Introduction to Concepts, Methods and Uses by Michael W. Maher; Clyde P. Stickney, Roman L. Weil, p 362;
- Performance Operations by Robert Scarlett, p119;
- www.mcdonaldization.com/whatisit.shtml;
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- Managerial Accounting: A Focus on Ethical Decision Making by Steve Jackson, Roby Sawyers, Greg Jenkins;
- Cornerstones of Financial and Managerial Accounting (2011) by Jay Rich, Jeff Jones, Dan L. Heitger, Maryanne Mowen, Don Hansen, Standard Costing: A Managerial Control Tool, p 1020;

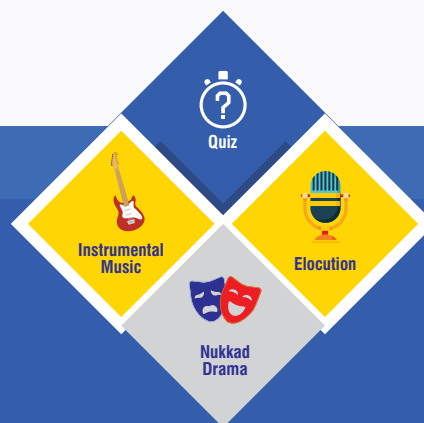
- Accounting: An Introduction, 6/E by Peter Atrill, Eddie McLaney, David Harvey;
- Accounting: Concepts and Applications by W. Albrecht, James Stice, Earl Stice, Monte Swain; Cost Management: A Strategic Emphasis by Blocher; Managerial Accounting, Hansen Mowen; Cost Accounting: A Managerial Emphasis, 13/e by Charles T. Horngren; Cost Management: Accounting and Control by Don Hansen, Maryanne Mowen, Liming Guan; Essentials of Modern Business Statistics with Microsoft Excel by David R. Anderson, Dennis J. Sweeney, Thomas A. Williams;
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- Management Accounting for Business By Colin Drury

- For previous capsule, final students may refer November 2017 Journal.
- Intermediate students may also refer pages 17 to 20 of this capsule for quick reference of 'Cost Variance' formulae.

GRAND FINALE NATIONAL LEVEL CA STUDENTS TALENT SEARCH 2019



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On 20th December, 2019
in INDORE (Madhya Pradesh)

THREE LEVEL
COMPETITION

Branch

Regional

National

Winner(s) at Regional level will compete at National level

SPECIAL ATTRACTION
CASH PRIZES FOR WINNERS AT NATIONAL LEVEL

First two Winners of Elocution Contest &
the Quiz Winner Team at National Level will participate at SAFA Elocution / Quiz Contest

The 'List of Penalties under the Companies Act, 2013' in the November 2019 issue of Students' Journal is in continuation of the Capsule on 'Company Law' in the September 2019 and October 2019 issue. It covers a compilation of penalties of significant provisions from section 1 to section 148. You are advised to read the three issues together. Further, students are also advised to read the July, 2017 edition of the Study Material and relevant RTP for a thorough understanding of the relevant provisions of Companies Act, 2013, to hone your application skills. The capsules on Intermediate Paper 2: Corporate and Other Laws are intended to assist you in the process of revision of concepts discussed in the relevant publications.

LIST OF PENALTIES UNDER THE COMPANIES ACT, 2013

Section	Particular	Penalty
Section 4: Memorandum	If Co. name is reserved by giving incorrect information:	C, OID Reserved Name: Cancelled
	If the Co. has not been incorporated	Person who made application: Fine ₹ Max 1 Lac
	If Co. has been incorporated	Name: Change name within 3 months (by passing OR), or ROC may strike off name from Register of Companies, or ROC may make a petition for winding up of Co.
Section 10 A: Commencement of business etc.	Co. commenced business or exercise any borrowing powers, without filing required declaration within 180 days or failed to file with the Registrar a verification of its registered office	C, OID C: ₹ 50,000 OID: ₹ 1,000 / day during which such default continues but not exceeding an amount of ₹ 1 Lac
Section 15: Alteration of MOA and AOA to be noted in every copy	If alteration made in the MOA or AOA of a company is not noted in every copy of the MOA or AOA.	C, OID ₹ 1,000 for every copy of the MOA or AOA issued without alteration
Section 16: Rectification of name of company	Company makes default in registration of name as (which in the opinion of CG is identical to the name of company already registered.)	C: ₹ 1,000 for every day during which the default OID: ₹ 5,000 to 1 Lac
Section 17: Copies of memorandum, articles, etc., to be given to members	If on request of member, Co. has not provided them a copy (within 7 days) of • MOA • AOA • Every agreement and resolution referred in Sec 117(1)	C, OID (for each default) ₹ 1,000 for each day during which such default continues or ₹ 1 Lac, whichever Less
Section 26: Matters to be stated in prospectus	If a prospectus is issued in contravention of provisions of Sec 26	C, Every other person who is knowingly a party to default C: ₹ 50,000 to 3 Lac Other person who is knowingly a party to default-Imprisonment: Max 3 Years or, Fine: ₹ 50,000 to 3 Lac, or both
Section 39 – Allotment of securities by company	If the Co. has not returned the application money received (when minimum subscription is not received) If a company having a share capital has not filed return of allotment with Registrar.	C, OID (for each default) ₹ 1,000 for each day during which such default continues or ₹ 1 Lac, whichever Less.
Section 40: Securities to be dealt with in stock exchanges	If a company is making public offer and it fails to inform to one or more stock exchange and/or fails to follow other related provisions of Sec 40	C, OID C: ₹ 5 Lac to 50 Lac OID: Fine: ₹ 50,000 to 3 Lac Imprisonment: May Extend to 1 Year, Or Both
Section 42: Offer or invitation for subscription of securities on private placement	If a company makes an offer or accepts monies in contravention of Sec 42	C, promoters and directors Penalty: May extend to amt raised through the private placement or 2 crore rupees, whichever is lower, and the company shall also refund all monies with interest as specified in Sec 42(6) to subscribers within a period of 30 days of the order imposing the penalty
Section 53 - Prohibition on issue of shares at discount	If a Co. does not comply with Sec 53 i.e. issues shares at discount [except as provided in Sec 54 or Sec 53 (2A)]	C, OID Fine: May extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less + Co. also liable to refund all monies received with interest at the rate of 12% p.a. from the date of issue of such shares
Section 56 -Transfer and transmission of securities	If a Company make any default in the provisions of transfer of securities	C, OID C: ₹ 25,000 to 5 Lac OID: ₹ 10,000 to 1 Lac
	Default is made by depository or depository participant with an intention to defraud	Liable under Sec 447
Section 57 -Punishment for personation of shareholder	If a person deceitfully personates as owner of any security or interest etc. in a Company.	Such Person Fine: ₹ 1 Lac to 5 Lac AND Imprisonment: 1 Year to 3 years

Section	Particular	Penalty
Section 58- Refusal of Registration and Appeal Against Refusal	Contravention of the order of the Tribunal for registration or refusal of registration of shares	Any Person Imprisonment: 1 Year to 3 Years and Fine: ₹ 1 Lac to 5 Lac
Section 59- Rectification of register of members	If a Company fails to comply with the orders of tribunal regarding rectification of registers of members.	C, OID C: ₹ 1 Lac to 5 Lac OID: ₹ 1 Lac to 3 Lac Imprisonment: May extend to 1 Year, Or Both
Section 64- Notice to be given to Registrar for alteration of share capital	If a Company fails to file notice to Registrar after alteration of Share Capital.	C, OID Fine which may extend to ₹ 1,000 / day during which such default continues, or ₹ 5 Lac whichever is less.
Section 67- Restrictions on Purchase by Company or Giving of Loans by it for Purchase of its Shares	Contravention of the provisions of sec 67	C, OID C: ₹ 1 Lac to 25 Lac OID: Fine: ₹ 1 Lac to 25 Lac Imprisonment: May extend to 3 years
Section 68- Power of company to purchase its own securities	If a Co. does not follow the provisions of buy back of Securities as provided in Sec 68 or any regulation made by SEBI	C, OID C: ₹ 1 Lac to 3 Lac OID: Fine: ₹ 1 Lac to 3 Lac Imprisonment: May extend to 3 years Or both
Section 71- Debentures	If default is committed in complying with the order of the Tribunal under section 71	OID Fine: ₹ 2 Lac to 5 Lac Imprisonment: May extend to 3 years Or both
Section 74- Repayment of deposits, etc., accepted before commencement of this Act	If Company fails to repay deposit or interest thereof, within the time specified or such further time as allowed by Tribunal	C, OID C: ₹ 1 Crore to 10 crores OID: Fine: ₹ 25 Lac to 2 Crores Imprisonment: May extend to 7 years Or both The Co. is also liable to pay the amount of deposit or part thereof and the interest due
Section 76 A- Punishment for Contravention of Section 73 or Section 76	Punishment for Contravention of Sec 73 or Sec 76	C: In addition to payment of the amount of deposit or part thereof and the interest due, be punishable with fine ranging from ₹ 1 crore rupees or twice the amount of deposit accepted by the company, whichever is lower but which may extend to ₹ 10 crore OID: Imprisonment which may extend to 7 years and with fine which shall not be less than ₹ 25 Lac but which may extend to ₹ 2 crore Also, if it is proved that the OID, has contravened such provisions knowingly or wilfully with the intention to deceive Co. or its shareholders or depositors or creditors or tax authorities, he shall be liable for action under section 447
Section 76- Punishment for contravention	If a Company contravenes the provisions of registration of Charge	C, OID C: ₹ 1 Lac to 10 Lac OID: Fine: ₹ 25,000 to 1 Lac Imprisonment: May extend to 6 months Or both
	If any person wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required for registration u/s 77	He shall be liable for action under Sec 447
Section 88- Register of members, etc	If a Company fails to maintain register of members, debenture holders, other security holders or other provisions of Sec 88	C, OID Fine: ₹ 50,000 to 3 Lac Where default is a continuing one: Fine which may extend to ₹ 1,000/ day, after the first during which the failure continues
Section 91- Power to close register of members or debenture- holders or other security- holders	If the register of members/ debenture-holders/ other security holders is closed without giving notice as provided in sec 91(1), or after giving shorter notice, or for a continuous or an aggregate period in excess of the limits specified in sec 91(1)	C, OID Fine: ₹ 5,000 for every day subject to a maximum of ₹ 1 Lac

COMPANY LAW ||

Section	Particular	Penalty
Section 92- Annual Return	If a Company fails to file copy of Annual Return within prescribed time.	C, OID Fine: ₹ 50,000 and in case of continuing failure, with further penalty of ₹ 100/ day during which such failure continues, subject to a maximum of ₹ 5 Lac
	If a CS in practice certifies the AR otherwise than in conformity with the requirements of Sec 92	CS Fine: ₹ 50,000 to ₹ 5 Lac
Section 94- Place of keeping and inspection of Registers, Returns, etc	Refusal for inspection or making of any extract or copy	C, OID (for each default) ₹ 1,000/ day during which the default/ refusal continues, subject to maximum of ₹ 1 Lac
Section 99- Punishment for default in complying with provisions of sections 96 to 98	If Company defaults in holding meeting in accordance with Sections 96, 97 and 98 or the directions of Tribunal	C, OID Fine: May extend to ₹ 1 Lac In the case of a continuing default: With a further fine which may extend to ₹ 5,000/ day during which default continues
Section 102- Statement to be annexed to notice	If default is made in complying with the provision of Sec 102	Every promoter, director, manager or other KMP of the company who is in default: Penalty- ₹ 50,000 or 5 times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher .
Section 105- Proxies	When an officer (Co. having Share capital or where Articles allow voting by proxy) fails to mention in the notice regarding the facility of proxy	OID ₹ 5,000
Section 111- Circulation of members' resolution	Violation of provisions in regard to circulation of members' resolution.	C, OID ₹ 25,000
Section 117- Resolutions and agreements to be filed	Co. fails to file the resolution or the agreement in prescribed time	C, OID C: ₹ 1 Lac and in case of continuing failure, with further penalty of ₹ 500/ day after the first during which such failure continues, subject to a max of ₹ 25 Lac OID including liquidator of the company, if any: ₹ 50,000 and in case of continuing failure, with further penalty of ₹ 500/ day after the first during which such failure continues, subject to a maximum of ₹ 5 Lac
Section 118- Minutes of proceedings of general meeting, meeting of Board of Directors and other meeting and resolutions passed by postal ballot	Co. is not complying with the provisions of Sec 118.	C, OID C: ₹ 25,000 OID: ₹ 5,000
	If a person tempers with the minutes of proceedings of meeting	Fine: ₹ 25,000 to 1 Lac Imprisonment: Up to 2 years
Section 119- Inspection of minute-books of General Meeting	Co. refuses for inspection or to take copy of minutes of general meeting.	C, OID C: ₹ 25,000 OID: ₹ 5,000 for each such default or refusal
Section 121- Report on Annual General meeting	Co. fails to file the report on AGM with ROC within 30 days of conclusion of AGM	C, OID C: ₹ 1 Lac and in case of continuing failure, with further penalty of ₹ 500/ day after the first during which such failure continues, subject to a maximum of ₹ 5 Lac. OID: ₹ 25,000 and in case of continuing failure, with further penalty of ₹ 500/ day after the first during which such failure continues, subject to a maximum of ₹ 1 Lac.
Section 124- Unpaid Dividend Account	Co. fails to comply with requirement of Sec 124	C, OID C: ₹ 5 Lac to 25 Lac OID: ₹ 1 Lac to 5 Lac
Section 127- Punishment for failure to distribute dividends	-	See Chart in October 2019 issue of The Chartered Accountant Student journal
Section 128- Books of account, etc., to be kept by company	If the persons charged by BOD (MD, WTD in charge of finance, CFO or any other person of a company charged by the Board with the duty of complying with the provisions of this section) with the duty of maintaining accounts of the Co. contravenes the relevant provisions	Such designated persons Fine: ₹ 50,000 to 5 Lac Imprisonment: May extend to 1 year Or both

Section	Particular	Penalty
Section 129- Financial statements	Co. contravenes the provisions of Sec 129	MD, WTD in charge of finance, the CFO or any other person charged by the Board with the duty of complying with the requirements of this section and in the absence of any of the officers mentioned above, all the directors shall be punishable. Fine: ₹ 50,000 to 5 Lac Imprisonment: May extend to 1 year Or both
Section 134- Financial Statement, Board's report, etc	If Company violates the provisions of Sec 134	C, OID C: ₹ 50,000 to 25 Lac OID: Fine: ₹ 50,000 to 5 Lac Imprisonment: Upto 3 Years Or Both
Section 136- Right of member to copies of audited financial statement	Co. fails to send copy of FS, including CFS, if any, auditor's report and every other document required to be attached to FS, which are to be laid before at GM, to member/ trustee/ other entitled person, within the prescribed time or other provisions of Sec 136	C, OID C: ₹ 25,000 OID: ₹ 5,000
Section 137- Copy of financial statement to be filed with Registrar	Co. fails to file the copy of the FS with the Registrar	C, Other designated Officers C: ₹ 1,000/ day during which the failure continues but which shall not be more than ₹ 10 Lac. MD and CFO, if any, and, in the absence of the MD and the CFO, any other director who is charged by the Board with the responsibility of complying with the provisions of this section, and, in the absence of any such director, all the directors of the company, shall be liable to a penalty of ₹ 1 Lac and in case of continuing failure, with further penalty of ₹ 100/ day after the first during which such failure continues, subject to a max of ₹ 5 Lac.
Section 140- Removal, Resignation of Auditor and Giving of Special Notice	Auditor does not file with ROC or C&AG (as the case may be), a statement indicating the reasons and other facts as may be relevant with regard to his resignation	Auditor Fine: ₹ 50,000 or an amt equal to remuneration of auditor, whichever is less. In case of continuing failure, further penalty of ₹ 500/ day after the first during which such default continues, subject to max of ₹ 5 Lac
Section 143- Powers and Duties of Auditors and Auditing Standards	Auditor, fails to report the matter to CG, Audit Committee or BOD (depending on the amount involved) regarding a fraud which is being or has been committed in the company by its officers or employees (for which he has reason to believe)	Auditor, cost accountant or company secretary in practice Fine: ₹ 1 Lac to 25 Lac
Section 147- Punishment for Contravention		See Chart in October 2019 issue of The Chartered Accountant Student journal
Section 148- Central Government to Specify Audit of Items of Cost in Respect of Certain Companies	Default in complying with the provisions of Sec 148	C, OID, Cost Auditor C & OID: As per Sec 147 Cost Auditor in default: in the manner as provided in sub-sections (2) to (4) of Sec 147
Section 447- Punishment for Fraud	Fraud/ wrongful gain/ wrongful loss	Any person who is found to be guilty of fraud (i) Involving an amount of at least ₹ 10 Lac or 1% of the turnover of the company, whichever is lower Fine: At least amount involved in the fraud, which may extend to 3 times the amount involved in the fraud, and Imprisonment: 6 months to 10 years Also, if fraud in question involves public interest, the term of imprisonment shall not be less than 3 years. (ii) Where fraud involves an amount less than ₹ 10 Lac or 1% of the turnover of the company, whichever is lower, and does not involve public interest , Fine: May extend to ₹ 50 Lac Imprisonment: May extend to 5 years, or both

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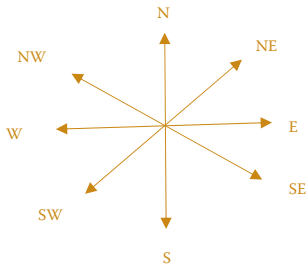
C stands for Company

OID stands for Officer in Default

Foundation Paper 3: Logical Reasoning Questions with explanations

At the Foundation level, students are expected to inculcate/evolve logical thinking and reasoning skills to further develop their analytical skills. This section attempts to capture basic techniques underlying concept of direction-related problems. Here are a few Logical Reasoning Questions with explanations to get you psyched!

CHAPTER 10: DIRECTION SENSE TESTS

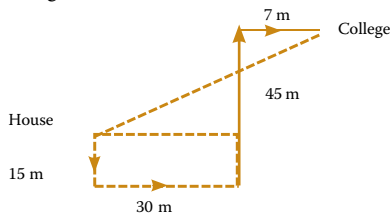


1. Gopal goes 15 m south from his house, turns left and walks 30 m, again turns left and walks 45 m, then turns right and walks 7 m to reach the college. In which direction is the college from his house?

(a) North-East (b) West (c) East (d) North

Explanation: Answer (a)

According to the information stated in the question, direction diagram can be drawn as follows.

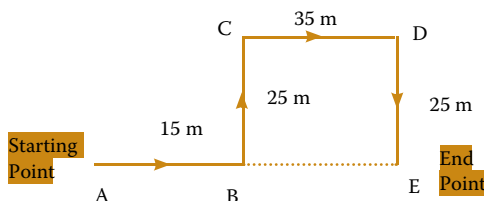


So it's clear from the diagram that college is North -East direction from Gopal's house

2. Ram start moving from a point, facing in East direction. After walking 15 m, he turned to his left and walked 25m, before turning to his right. Then, he walked a distance of 35 m, then turned to his right and stop after walking further a distance of 25 m. Find how far Ram is from his starting point.

(a) 20 m (b) 50 m (c) 15 m (d) 25 m

Explanation: Answer (b), the direction map of Ram's walk can be drawn as,

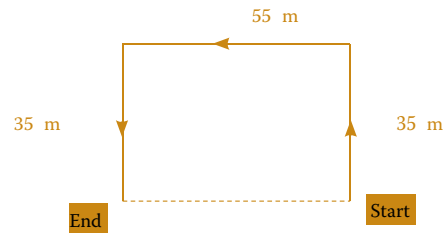


The distance between the starting point and end point is $AB + BE = 15 + 35 = 50$ m.

3. Facing towards North, Ravi walks 35 m. He then turns left and walks 55 m. He again turns left and walks 35 m. How far is from original position and towards which direction.

(a) 30 m, North (b) 20 m, East (c) 55 m, West (d) 20 m, South

Explanation: Answer (c)



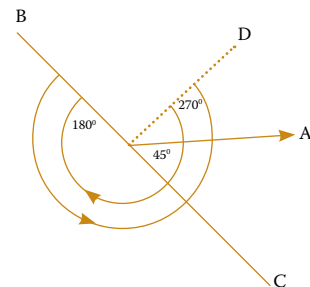
From the figure it is clear that, Ravi is 55 m away in West direction from his original position.

4. A man is facing towards East and turns through 45° clock wise again 180° clock wise and then turns through 270° anti-clock wise. In which direction is he facing now?

(a) West (b) North- East (c) South (d) South-West

Explanation: Answer (b)

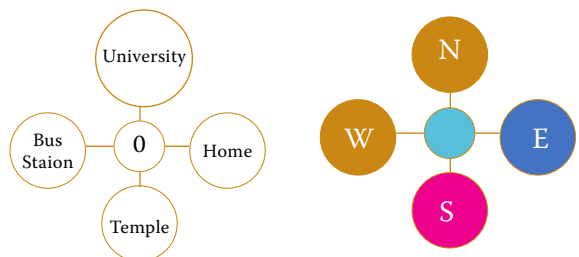
As shown in figure , the man initially faces in the direction of OA. On moving 45° clockwise, the man faces the direction OB . On further moving 180° clockwise, he faces in the direction of OC. Finally on moving 270° anti-clock wise, he faces the direction OD, which is North-East.



5. Kamal wants to go to university which is situated in a direction opposite to that of a temple. He starts from his house, which is in the East and comes at a four-ways place. His left side road goes to the temple and straight in front is the Bus Station. In which direction is university is located?

(a) North (b) North- East (c) South (d) East

Explanation: Answer (c)



Kamal comes from East towards West. He reached O (four-way place). Now university will not in front or left. It will be towards the right, so it will be north direction.

FINANCE UPDATES

Startups seek change in listing requirement

The companies, which include ANI Technologies that owns and operates ride-hailing app Ola, eyewear solutions company Lenskart and online insurance policy aggregator PolicyBazaar, want the SEBI to either remove the requirement of promoters holding at least a 20% stake in the companies that they have founded, or consider it on a case-by-case basis.

For startup founders whose holdings in their companies typically range between the high single digits or in the low-to-mid-teens, the SEBI directive to maintain a 20% stake in order to list on Indian bourses is proving restrictive. For example, the founders of Lenskart, Ola and PolicyBazaar have stakes ranging between 4% and 15% in their respective ventures, following dilution in their holdings after multiple rounds of funding.

<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/startups-seek-change-in-listing-requirement/articleshow/71177465.cms>

BSE companies take 'Permitted to Trade' route to offer shares on NSE platform

Companies exclusively listed on the BSE are increasingly offering their shares to investors on the National Stock Exchange (NSE) platform through 'Permitted to Trade' category, a regulatory framework. The move aims to boost liquidity in their stocks as offering their shares on the NSE helps in attracting more trading volumes.

"Permitted to Trade" category allows a public company to trade on an exchange where it is not listed. In India, a company that is exclusively listed on the BSE can offer its shares on the NSE platform and vice-versa. But companies using the framework needn't sign a listing agreement on the exchange where they choose to offer their shares and hence the compliance burden remains unchanged.

BSE stated that this does not require the approval of the company and is based on the request of the trading members of that platform. This process is in existence for nearly a decade where several stocks are traded on Permitted to Trade basis on alternative trading platforms. However, it is showing signs of revival this year.

<https://economictimes.indiatimes.com/markets/stocks/news/bse-companies-take-permitted-to-trade-route-to-offer-shares-on-nse-platform/articleshow/71269113.cms>

Regulator makes changes in valuation matrix of money market, debt securities

SEBI has made changes to the valuation matrix of money market and debt securities. In a circular to bring in consistency in valuation, SEBI said a money market or debt security shall be considered as traded when, on the date of valuation, there are trades (in marketable lots) in that security on any recognised stock exchange or there are trades reported (in marketable lots) on the trade reporting platform of recognised stock exchanges or the clearing corporation.

In this regard, the marketable lots shall be defined by AMFI, the mutual fund body, in consultation with SEBI. A money market or debt security shall be considered as non-traded when, on the date of valuation, there are no trades in such security on any recognised stock exchange or no trades (in marketable lots) have been reported on any of the aforementioned trade reporting platforms, SEBI said.

Amortization-based valuation will be permitted for money market and debt securities including floating rate securities, with residual maturity of up to 30 days. Further, the amortised price shall be compared with the reference price which shall be the average of the security level price of such security as provided by the agency(ies) appointed by AMFI for that purpose.

The amortised price shall be used for valuation only if it is within a threshold of $\pm 0.025\%$ of the reference price. In case of deviation beyond this threshold, the price shall be adjusted to bring it within the threshold of $\pm 0.025\%$ of the reference price.

<https://www.thehindubusinessline.com/markets/regulator-makes-changes-in-valuation-matrix-of-money-market-debt-securities/article29511004.ece>

SEBI eases norms for registration of FPIs, junks 'broad-basing' criteria

The SEBI issued a notification for easing the process for on-boarding

overseas investors. The notification states that foreign portfolio investors (FPIs) are no longer required to meet the 'broad-basing' criteria, under which at least 20 investors were required to establish a fund.

However, in order to ensure the money coming in is clean, the FPI or underlying investors — contributing a minimum of 25 per cent or identified on the basis of control — should not be part of the Sanctions List notified by the UN Security Council, and also should reside in the country identified in the public statement of the Financial Action Task Force (FATF) as delinquent countries.

Central banks that are not members of the Bank for International Settlements (BIS) will be allowed to register as FPIs.

The erstwhile three categories of FPIs have been merged into two. Category I will include central banks, sovereign wealth funds, pension funds, banks, asset management companies, portfolio managers, and entities from FATF member countries. Category III has now been converted into category II, comprising corporate bodies, charitable organisations, family offices, individuals and unregulated funds in the form of limited partnerships and trusts.

Offshore funds floated by Indian fund houses will be permitted to invest in the domestic markets under the FPI route, and be required to obtain registration as an FPI within 180 days from the date of notification of the regulations. Transactions between multi-manager investment structures with the same beneficial owner and a common PAN have been allowed.

https://www.business-standard.com/article/markets/sebi-eases-norms-for-registration-of-fpis-junks-broad-basing-criteria-119092501459_1.html

SEBI asks MFs to adopt waterfall approach for money market, debt securities valuation

In order to bring uniformity and consistency in valuation, market regulator SEBI has asked mutual fund houses to follow "waterfall" approach for the valuation of money market and debt securities. Under this approach, all traded securities would be valued on the basis of traded yields, subject to identification of outlier trades by the valuation agencies.

Besides, the regulator has come out with a framework relating to valuation of inter-scheme transfers and barred the use of own trades for valuation.

Further, the regulator said a money market or debt security will be classified as "below investment grade" if the long-term rating of the security issued by a Credit Rating Agency (CRA) is below BBB- or if the short-term rating of the security is below A3.

<https://economictimes.indiatimes.com/markets/stocks/news/sebi-asks-mfs-to-adopt-waterfall-approach-for-money-market-debt-securities-valuation/articleshow/71292589.cms>

PSBs start giving loans based on customers' risk profile

Three public-sector lenders — Bank of Baroda, Union Bank of India and Syndicate Bank have taken the first steps in transparently segregating retail loans into their own versions of prime and subprime risk exposure, using third-party credit scores of potential borrowers to offer them different home-financing rates.

Under the new external benchmarking regime, Bank of Baroda, for instance, will be using three credit score slabs from the Credit Information Bureau (India) Ltd (CIBIL) to price new home loans. Customers with high credit score, defined in excess of 760 out of a maximum 900, will pay 1% lower interest compared with those reporting scores in 675-724 range — the lowest score slab at which loans will be offered.

<https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-start-linking-loans-to-customers-risk-profile/articleshow/71513343.cms>

Banks can quote forex rates round the clock

Taking cues from its taskforce's report on offshore rupee, the RBI allowed domestic banks to freely offer foreign exchange prices to non-residents at all times, out of their Indian books, either by a domestic sales team or through their overseas branches. The apex bank has also allowed rupee derivatives (with settlement in foreign currency) to be traded in International Financial Services Centres (IFSCs).

ECONOMIC UPDATES

RBI cuts key lending rate by 25 basis points to 5.15%, loans to get cheaper-

RBI's six-member Monetary Policy Committee (MPC) has announced the fourth bi-monthly policy for 2019-20 in October, 2019. The Reserve Bank of India cut its benchmark interest rates for the fifth time this year. The RBI monetary policy committee announced a 25 basis points cut in its policy rates in an effort to boost a sluggish economy as inflation remains in a comfortable zone.
<https://www.hindustantimes.com/business-news/rbi-may-cut-repo-rate-for-5th-straight-time-to-boost-economy/story-YmgEX8BcTS79G0a2tnZc6O.html>

India slips 10 places to 68th on global competitiveness index: Singapore is on top

India has moved down 10 places to rank 68th on an annual global

competitiveness index, largely due to improvements witnessed by several other economies, while Singapore has replaced the US as the world's most competitive economy.
<https://www.livemint.com/news/india/india-slips-10-places-to-68th-on-global-competitiveness-index-singapore-on-top-11570586339815.html>

Abhijit Banerjee, Esther Duflo, Michael Kremer win Nobel Prize for Economics-

Nobel Economics Prize for 2019 has been awarded to Abhijit Banerjee, Esther Duflo and Michael Kremer "for their experimental approach to alleviating global poverty".
<https://www.livemint.com/news/world/abhijit-banerjee-esther-duflo-michael-kremer-win-nobel-prize-for-economics-11571047986956.html>

INDIRECT TAX UPDATES

Key Highlights of the 37th GST Council Meeting

The key highlights of the decisions taken in the 37th GST Council meeting held on 20th September, 2019 at Goa are as under:-

(A) GST rate reduction sector wise:

□ Hospitality and tourism:

- To reduce the rate of GST on hotel accommodation service as below: -

Transaction Value per Unit (Rs) per day	GST
₹ 1000 and less	Nil
₹ 1001 to ₹ 7500	12%
₹ 7501 and more	18%

- To reduce rate of GST on outdoor catering services other than in premises having daily tariff of a unit of accommodation of ₹ 7501 and more from present 18% with ITC to 5% without ITC. The rate shall be mandatory for all kinds of catering. Catering in premises with daily tariff of a unit of accommodation of ₹ 7501 and above shall remain at 18% with ITC.

□ Job work service:

- To reduce rate of GST from 5% to 1.5% on supply of job work services in relation to diamonds.

- To reduce rate of GST from 18% to 12% on supply of machine job work such as in engineering industry, except supply of job work in relation to bus body building which would remain at 18%.

(B) Law and procedure related changes

- Relaxation in filing of annual returns for MSMEs for FY 2017-18 and FY 2018-19 as under:

- waiver of the requirement of filing FORM GSTR-9A for composition taxpayers for the said tax periods; and
- filing of FORM GSTR-9 for those taxpayers who (are required to file the said return but) have aggregate turnover up to ₹ 2 crores made optional for the said tax periods.

- Extension of last date for filing of appeals against orders of Appellate Authority before the GST Appellate Tribunal as the Appellate Tribunals are yet not functional.

- New return system now to be introduced from April, 2020 (earlier proposed from October, 2019), in order to give ample opportunity to taxpayers as well as the system to adapt.

- Suitable amendments to be made in the CGST Act, the UTGST Act, and the corresponding SGST Acts in view of creation of UTs of Jammu & Kashmir and Ladakh.

[Source: <http://www.gstcouncil.gov.in/press-cbic>. The complete press release can be accessed from this website.]

CROSSWORD SOLUTION – OCTOBER 2019

1S	2I	3L	I	4C	5O	6N		7S	A	8P		9B	
10O	N	E		11O	N	C	E			12E	13M	I	
14S	P	A		15A	L	L	O	16W		17P	E	N	18I
	U	D		19L	Y	T		20A	N		21N	A	G
22I	T	L						L		23T	U	R	N
N		24A	25G	O	26R	27A		L		R	B	Y	I
28D	I	G	I	T	A	L	29M	E	30D	I	A		T
I					31P	L	O	T	T	E	R		E
32A	33J	34A	35R		I		B		36C	D			
	37U	N	L	38I	D						39N	40P	41S
42C	L	E	A	R		43F	44A		45S	46H	A	R	E
47H	Y	P	E	R	L	I	N	48K		49O	P	E	N
I						50V	I	D	E	O		S	S
				51S	H	E	L	L		52D	O	S	E

Corrigendum

In the October 2019 issue, photographs of the toppers in CA Intermediate (New Course) for May 2019 exams, **AIR 1 Akshat Goyal** and **AIR 2 Meet Anil Shah** were inadvertently interchanged. The correct photographs are re-printed here under:



AKSHAT GOYAL
JAIPUR
1ST RANK



MEET ANIL SHAH
MUMBAI
2ND RANK

The mistake was unintentional and regretted.

The Board of Studies has planned the following Conferences for CA Students as on date from November - January, 2019-2020

Regional Office/Branch Conference	Approved Dates
Trivandrum CA Students Conference	22-23 Nov, 2019
Ahmednagar CA Students Conference	23- 24 Nov, 2019
Ludhiana CA Students Conference	29-30 Nov, 2019
Ahmedabad CA Students Conference	30 Nov- 1 Dec
Lucknow CA Students Conference	30th Nov-1st Dec, 2019
Salem CA Students Conference	30th Nov-1st Dec, 2019
Hubli & Belgaum CA Students Conference (Conf at Hubli)	1-2 Dec, 2019
Chennai National Conference	10-11 Dec, 2019
Ranchi CA Student Conference	10-11 Dec, 2019
Coimbatore CA Students Conference	13-14 Dec, 2019
Tirupur CA Students Conference	13-14 Dec, 2019
Thane CA Students Conference	15-16 Dec, 2019
Rajkot CA Students Conference	19-20 Dec, 2019
Mumbai National Conference	19-20 Dec, 2019
Akola + Amravati CA Students Conference (Conf at Akola)	20-21 Dec, 2019
Bangalore CA Students Conference	20-21 Dec, 2019
Kolhapur CA Students Conference	21-22 Dec, 2019
Agra CA Students Conference	21-22 Dec, 2019
Madurai CA Students Conference	21-22 Dec, 2019
Visakhapatnam CA Students Conference	21-22 Dec, 2019
Nashik CA Students Conference	22-23 Dec, 2019
Kalyan Dombivili CA Students Conference	23-24 Dec, 2019
Mangalore CA Student Conference	23-24 Dec, 2019
Indore National Conference	24-25 Dec, 2019
Raipur, Bhilai & Bilaspur CA Students Conference (Conf at Raipur)	25-26 Dec, 2019
Trichur CA Students Conference	27-28 Dec, 2019
Kozhikode CA Students Conference	3-4 Jan, 2020
Prayagraj CA Students Conference	4-5 Jan, 2020
Bhopal CA Students Conference	18-19 Jan, 2020

For detailed program structure please visit-
https://www.icai.org/new_category.html?c_id=348

Students Eligible to attend the Students Conference:
 Students who have registered as IPCC/Intermediate Students/ Students who are pursuing their Article ship Training/ Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training.(CPT Students and Students who have completed one year beyond their Articleship training will not be eligible to register for these Conferences)

It may however be noted that during April, 2019 - March, 2020, the students can be Paper Presenters for maximum 2 Students Conferences only. Best paper presenters (overall category) of National Conference can be permitted to present technical papers in International Students Conference where the limit of two programmes per year will not be applicable.

Director, Board of Studies



The Institute of Chartered Accountants of India (ICAI)
 (Set up by an Act of Parliament)

**ICAI Commerce Wizard
 A Talent Search Test**

Organised By: **Career Counselling Group (CCG), ICAI**

For Details and Registration please visit the Exclusive Website for ICAI Commerce Wizard: icaicommercewizard.org

The Commerce Talent Search Test titled "Commerce Wizard" is a diagnostic test that measures the ability of a Student to understand the concepts. This is not a test which tries to find out the knowledge of the student. Rather it measures how well he has understood the concept.

Online Registration

Eligibility: Students studying in class IX/X/XI/XII & B.Com./ BBA/ BMS/ Allied subjects

Registration Fees : ₹100 upto 25th December, 2019
 After due date : ₹150 upto 31st December, 2019

The Commerce Wizard will be conducted in two levels i.e. Level I & Level II in English language for Students studying in class IX onwards till B.Com./BBA/BMS/Allied Subjects:

Class	Subjects	Mode	Pattern	Duration	No. of Questions	Max. Marks	Negative Marking
IX & X	1. Social Studies (Economics) 2. Mathematics 3. Business Awareness 4. Aptitude	Online	Objective type (Multiple Choice) Questions	1 Hr	80	80	0.25
XI & XII	1. Business Studies 2. Accountancy 3. Economics 4. Aptitude						
B.Com./BBA / BMS/Allied subjects	1. Business Studies 2. Accountancy 3. Economics/ Financial Studies 4. Aptitude						

Schedule of Test

Class	Level I (Any Convenient Place 5 th January, 2020 (Sunday))	Level II (In the designated Test Centre) 19 th January, 2020 (Sunday)
Class IX & Class X	10:00 AM to 11:00 AM	
Class XI	12:00 Noon to 01:00 PM	
Class XII	02:00 PM to 03:00 PM	
B.Com./BBA/BMS/Allied Subjects	04:00 PM to 05:00 PM	

Prizes for Participants

Level I Test

- All participants will be given a Participation Certificate.

Level II Test

Prizes	Class IX, X, XI, XII & B.Com./BBA/BMS/Allied subjects separately
1 st Rank	₹ 1,00,000. If multi winners are there, the prize amount will be shared by them. If more than 50 joint rank holders for the same, the awardees will at least be awarded with the prize money of ₹ 2,000 with Merit Certificate.
2 nd Rank	₹ 50,000. If multi winners are there, the prize amount will be shared by them. If more than 33 joint rank holders for the same, the awardees will at least be awarded with the prize money of ₹ 1,500 with Merit Certificate.
3 rd Rank	₹ 25,000. If multi winners are there, the prize amount will be shared by them. If more than 33 joint rank holders for the same, the awardees will at least be awarded with the prize money of ₹ 750 with Merit Certificate.
Consolation Prize	Next 200 Participants will be awarded Consolation prize money of ₹ 500 with Appreciation Certificate.

- Rest of Participants will be given Participation Certificate.

Award Ceremony: Award Ceremony will be held in February, 2020.

CCG reserves the right to change any of the modalities cited above.

Deputy Convener
 Career Counselling Group (CCG), ICAI

Convener
 Career Counselling Group (CCG), ICAI



For any Query please contact :
Secretary, Career Counselling Group (CCG), The Institute of Chartered Accountants of India
 ICAI Bhawan, A-29, Sector 62, Noida (U.P.) - 201309
 Telephone : 0120-3876871, 886 Email: icaicommercewizard1@icai.in

ANNOUNCEMENT

INTERNATIONAL CONFERENCE FOR CA STUDENTS - PUNE

14TH & 15TH DECEMBER, 2019

Organised by: Board of Studies, ICAI

Hosted by: Pune Branch of WIRC & WICASA of ICAI

THEME: "PATH FOR SUCCESS- LEARN, ADAPT AND ACCELERATE"

DAY-1

Technical Session: I

Topic: Auditing & Corporate Laws

- New meaning assigned to CSR under the Companies Act, 2013 -Voluntary to Mandatory.
- Is Google abusing its Android Dominance- Insight in terms of the International Laws.
- Auditor's Duty regarding detection, documentation and reporting of Fraud.

Technical Session: II

Topic: Information Technology & Finance

- Crowd Funding - An option for Start-ups.
- Use of Cellphones in CA Practice.
- ABCD... Artificial Intelligence, Block Chain Cyber Securities and Data Analytics.

DAY-2

Technical Session: III

Topic: Taxation & Economics

- Global Slowdown- Is it Real or an Illusion?
- Does high Income Tax Rate Counter Productive.
- Interest Rates – Impact on Economy and Individuals.

Technical Session: IV

Topic: Accountancy & Strategic Cost Management

- Upliftment of Financial Statements on Adoption of IFRS- A Worldwide Study.
- Design and Use of "Performance Management" System in the Growth of the Modern Business Industry.
- Non-Financial consideration- Relevance in Decision Making.

Technical Session: V

Topic: Ethics

- Breach of Provisions of the Code of Ethics-Self corrected steps.
- Level of fees for Professional Assignments –Whether quality is compromised?
- Advertisements by CAs- should it be allowed?

Students Eligible to attend the Students Conference: Students who have registered as IPCC/Intermediate Students – either after passing CPT or through Direct Entry route; Students who are pursuing their Article ship Training; Students who have completed their Practical Training but could not qualify their final examinations may attend the conference till next one year from the date of completion of Practical Training. (Students who have merely registered as CPT Students and Students who have completed one year beyond their Article ship training will not be eligible to register for these Conferences)

Registration fees	₹ 500/- till 30 th Nov,2019 ₹ 600/- from 1 st -13 th Dec,2019 ₹ 700/- spot registration on 14 th Dec,2019	Accommodation (if required), please contact the branch.
Payment Mode	The student has to register & make the payment online on the Portal itself, the link will be http://bosactivities.icai.org/	
For registration	Email- admin@punecai.org , cpe@punecai.org , pune@icai.org	

CA. Kemisha Soni, Chairperson, BOS; **CA. Durgesh Kabra**, Vice-Chairman, BOS; **CA. Chandrashekhar Vasant Chitale**, Central Council Member, Conference Director; **CA. Ruta Chitale**, Chairperson, Pune Branch of WIRC of ICAI & **CA. Abhishek Dhamne Shashikant**, Chairman, Pune Branch of WICASA of ICAI, Conference Coordinators.

Residential Programme on Professional Skills Development at Centre of Excellence, Jaipur and Hyderabad

The Board of Studies is pleased to announce the next batch of ICAI's 'Four Weeks Residential Programme' on Professional Skills Development as below:

Venue	Participant	Fees	Date	Online Registration
Centre of Excellence (CoE), Jaipur	Men	₹ 48,000/-	16 th December, 2019 to 12 th January, 2020	https://resource.cdn.icai.org/57282bos46390main.pdf
Centre of Excellence (CoE), Hyderabad	Women	₹ 48,000/-	29 th January, 2020 to 25 th August, 2020	https://resource.cdn.icai.org/57261bosfwrp2020main.pdf

This programme aims to help the Chartered Accountancy students and newly qualified Chartered Accountants in imbibing the professional skills required for effective functioning in business organisations and the profession. The Programme environment focuses on development of communication skills, personal qualities, interpersonal and teamwork skills, problem solving skills, leadership skills etc.,

Salient Features of the Programme:

- Emphasis on Soft Skills, Communication Skills and Personality Development.
- Exemption from payment of Fees to Top 10 Rank holders.
- Part of Practical Training.
- No need for Separate Management and Communication Skills(MCS) forming part of Advanced Integrated Course on Information Technology and Soft Skills(AICITSS).
- Special Session on Group Discussion & Interview.
- Preparation of Project and Presentation Skills.
- Building Team Spirit.

Students who have passed Chartered Accountancy Intermediate/IPCC/ PCC/ PE- II examination and pursuing last two year of Practical training or completed Practical training are invited to join the course for this batch. Recently qualified Chartered Accountants are also welcome to join the course.

For online registration, you can proceed with 'Board of Studies Announcements' https://www.icai.org/new_category.html?c_id=345 under the 'Students' tab on the Home Page of the ICAI's website www.icai.org. For any query, you can write us at ashokdua@icai.in or may also contact us on 0120-3045935 and Mobile No.9868879548.

Director, Board of Studies



Interactive Meet with students: ICAI President CA. Prafulla P. Chhajed, Past President CA. Jaydeep N. Shah, Chairman Nagpur Branch of WIRC of ICAI CA. Suren Duragkar, Chairman WICASA CA. Sanjay M. Agrawal.



Inauguration of Renovated ITT Lab: ICAI President CA. Prafulla P. Chhajed addressing the dignitaries, Past President CA. Jaydeep N. Shah, Chairman Nagpur Branch of WIRC of ICAI CA. Suren Duragkar, Chairman WICASA CA. Sanjay M. Agrawal, ICAI Regional Council Member CA. Abhijit Kelkar, Vice Chairman Nagpur Branch of WIRC of ICAI CA. Kirit Kalyani



Live Virtual Classes

Watch live or recorded

Golden opportunity to enrol for Smart Live Virtual Classes under the New Scheme of Education and Training.

- ♦ Classes at convenient timings - Balance theoretical education with articleship training.
- ♦ Attend live lectures
- ♦ Facility of recorded lectures for missed live lectures.
- ♦ Expert faculty with rich experience
- ♦ Interactive classes with facility to raise questions during live classes
- ♦ Facility to resolve queries over email
- ♦ Exam focussed approach
- ♦ Separate question answer sessions
- ♦ Review your performance through integrated tests
- ♦ Delivered on your computers and mobiles

Quality classes with economical fees

	Single Group	Both Groups
Intermediate Course – Regular Fees	Rs. 3,750	Rs. 6,250
Intermediate Course – Concessional fees	Rs. 2,250	Rs. 4,000
Final Course – Regular Fees	Rs. 4,500	Rs. 7,500
Final Course – Concessional fees	Rs. 2,500	Rs. 4,750

Concessional fees is applicable to students who register for Live Virtual Classes simultaneously with their registration for Intermediate and Final Courses.

Register now - www.icai.org/boslvic

Queries - virtualclasses@icai.in

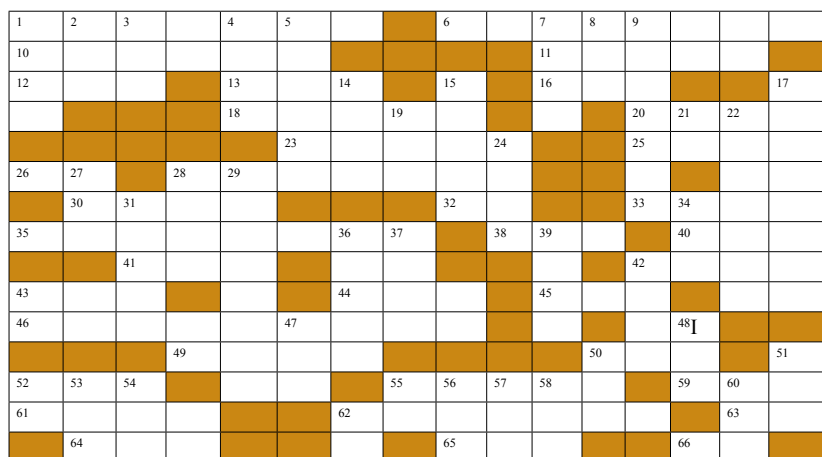
Classes for Intermediate and Final Courses running successfully. Register to watch recorded lectures that have been already held.



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

Uniformity - Continuity - Consistency

CROSSWORD - NOVEMBER 2019



ACROSS

1. The first high level programming language.....
6. Fastest Supercomputer in India.
10. Skewer
11. Under Schedule II of the CGST Act, 2017, any transfer of in goods is treated as supply of goods.
12. Lender of last resort in India.
13. Once a bill has been enacted into law, it is called of the statute.
16. A representative elected by the voters of an electoral district to the legislature of state government.
18. Capital of the Tibet Autonomous Region.
20. Inlets
23. Gif is the extension of file.
25. of the d'Urbervilles
26. A financial instrument provided by banks.
28. The first computer virus.
30. Since 2006, the every year honour and recognise exceptional talent in music, soundtrack recording and mixing in Indian music for albums and movies.
32. 'Life's Good' is the tagline of
33. A sudden strong feeling of physical or emotional pain.
35. First hour of every sitting in the Lok Sabha and Rajya Sabha is termed ----- Hour.
38. Possess
40. A prolonged contact as a part of a signal interface in a computer.
41. International Corp is a privately owned provider of technology products and services.
42. A trigonometric function of an angle.
43. Tell tale
44. with the idea: to think about something in a not very serious way.
45. One who manage the company's finances.
46. Clemency of capital punishment in India is granted by
49. A person who has the legal right to receive somebody's property when that person dies.
50. A folder in window computer can't be made with the name
52. A programming language used for data analysis.
55. If the nature of supply of a service is not determinable at the time of receipt of advance, said supply is considered as state supply.
59. An entity that provides leadership, research support and training for a focus area.

61. The monetary limit for filing of appeal by the Income-tax Department before the has been increased to Rs.50 lakhs recently.
62. In computer world, Trojan refers to
63. Roman numeral for 510
64. It is established for maintaining international peace and security.
65. Tippler
66. After Jesus was born.

DOWNWARD

1. The flow of foreign contribution to India is regulated under
2. now defunct, was founded in 1947 in Singapore by Lien Ying Chow.
3. An Act to promote transparency and accountability in the working of every public authority.
4. A number is a value of a continuous quantity that can represent a distance along a line.
5. The first search engine in Internet.
7. is the standard markup language for web pages.
8. Afflict
9. On 30.8.2019, the CBDT has constituted a special cell for redressal of grievances and mitigation of tax-related issues in case of entities.
14. Domesticize
15. A hard bread roll shaped like a ring.
17. In case of insolvent, notice of AGM be given to the of an insolvent member.
19. An enterprise resource planning software.
21. Latin clarifier
22. Ridiculous
24. Therefore
27. Coastal town near Gujarat.
28. ____ cow, in business jargon, is a venture that generates a steady return of profits that far exceed the outlay required to acquire or start it.
29. An agreement with minor cannot be
31. Looking good
34. is a set of functions and procedures allowing the creation of applications that access the features or

data of an operating system, application, or other services.

36. External
37. Middle east's homegrown online marketplace.
39. Personality
42. Average
47. All communication relating to assessment, appeals, orders, exemptions etc. issued by income-tax authorities on or after 01 October 2019 shall carry a computer generated duly quoted in the body of such communication.
48. Used after the name of a company in the US.
50. Used to control the bank's leverage for credit expansion.
51. Latin term for 'Statute'.
53. An emerging technology that provides an infrastructure for building solutions.
54. A system for communicating by computer within large group of buildings.
56. Font file format used by Microsoft Windows.
57. Minimum partners required to form an LLP-
58. Consume
60. A number which cannot be divided by two is called an number.

If undelivered, please return to: The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi-110104