

Intermediate Course

Paper 1 Accounting and Paper 5 Advanced Accounting

1. **Guide us about how to prepare for the Accounting Papers at Intermediate level.**

Ans: In the preliminary phase of studies for the papers of Accounting, one must have all relevant materials for the subject to study and an apt strategy for preparation. Thus study includes gathering all relevant reference materials whereas strategy tells us how to effectively use the same. Study and Strategy both are the stepping stones of the success. It will be difficult to get through the Accounting Papers unless both are present. Planning for study of the papers of Accounting should be done in a manner which makes you go through the subject syllabus at least three times.

2. **How should we present our answers to practical problems in the examination?**

Ans: Analyze the facts of the case. In reference to the Provisions of the Standards. Application of the provisions in the given situation and conclude

3. **What publications would we refer while preparing for the examination?**

Ans:

1. Study Material
2. RTPs/ Suggested Answers/Mock Test Papers
3. Students' Journal for academic updates/ knowledge updates
4. Accounting Pronouncements

4. **How should we study and understand Accounting Standards? Which Accounting Standards are applicable in syllabus of Paper 1 and Paper 5 for November, 2019 Examination?**

Ans: Read those AS paras which are in bold and italics carefully. Apply the provisions through examples. Practice the illustrations on AS given in Study Material. After studying each standard explained in chapter refer the bare text of accounting standard for building strong conceptual knowledge on the accounting standards specified in the syllabus.

For paper 1: AS 1, AS 2, AS 3, AS 4, AS 5, AS10, AS 11, AS 12, AS 13, AS 16, AS 17, AS 22 are applicable for November, 19 Exam.

For paper 5: AS 7, AS 9, AS 14, AS 18, AS 19, AS 20, AS 24, AS 26, AS 29 are applicable for November, 19 Exam.

5. **Are Ind AS applicable for Accounting papers at Intermediate level?**

Ans: Ind AS are not applicable for Accounting papers at Intermediate level for November, 19 Exam.

6. Explain component method of depreciation. Is Grouping of Components possible?

Ans: Component Method of Depreciation: Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately. For eg. it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

Yes. Grouping of Components is possible. A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

7. Can the cost of PPE change? If yes, under what circumstances? How will we account for these changes?

Ans. The cost of PPE may undergo changes subsequent to its acquisition or construction on account of changes in liabilities; price adjustments, changes in duties, changes in initial estimates of amounts provided for dismantling, removing, restoration, and other similar factors.

8. Elaborate the overall threshold limits when the external revenue total is less than 75% of total external revenue.

Ans: A business segment or geographical segment should be identified as a reportable segment if:

- a. Its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or
- b. Its segment result, whether profit or loss, is 10% or more of –
 - (i) The combined result of all segments in profit, or
 - (ii) The combined result of all segments in loss,Whichever is greater in absolute amount; or
- c. Its segment assets are 10% or more of the total assets of all segments.

A business segment or a geographical segment which is not a reportable segment as per above paragraph, may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75% of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10% thresholds, until at least 75% of total enterprise revenue is included in reportable segments.

A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10% thresholds should continue to be a

reportable segment for the current period notwithstanding that its revenue, result, and assets all no longer meet the 10% thresholds.

9. What are future operating losses?

Ans Future operating losses do not meet the definition of a liability and the general recognition criteria, therefore provisions should not be recognised for future operating losses.

10. How can we determine the stage of completion of a contract?

Ans. The stage of completion of a contract may be determined in a variety of ways. The enterprise uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:

- (a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or
- (b) surveys of work performed; or
- (c) completion of a physical proportion of the contract work.

11. What are indicators of Finance Lease? How to distinguish it from operating lease?

Ans. Situations, which would normally lead to a lease being classified as a finance lease are:

- (a) The lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- (c) The lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) At the inception of the lease, present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) The leased asset is of a specialised nature such that only the lessee can use it without major modifications being made.

Any lease other than finance lease is operating.

12. How to calculate Diluted Earnings per share? Difference between diluted and Basic EPS.

Ans For the purpose of calculating diluted earnings per share, an enterprise should assume the exercise of dilutive options and other dilutive potential equity shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value.

Paper 2 Corporate & Other Laws

1. How many marks of Multiple Choice Questions will be asked in the Paper of Corporate and Other Laws?

Ans The question paper will have two divisions, Division A comprising MCQs to the tune of 30 marks (each carrying 1 to 2 marks) and Division B comprising descriptive type questions to the tune of 70 marks.

2. Will the MCQs be asked from both the Company Laws and Other Laws?

Ans Yes, MCQs will be asked from both the Company Laws and Other Laws. Out of 30 Marks, MCQs of 18 Marks will be asked from Company Law portion and 12 Marks will be asked from Other Laws portion.

3. What types of skills will be assessed in MCQs?

Ans Students will be tested on 'Knowledge and Comprehension' and 'Application and Analysis' basis.

4. What shall be the mode of answering the question paper containing MCQ's and the descriptive type questions?

Ans Candidates will be required to write their answers in respect of Division A of the paper (i.e. MCQs) in OMR answer sheet by darkening the appropriate circles with HB pencil and Division B of the paper (i.e. the descriptive type questions) in the descriptive type answer booklet in the normal course.

5. Will there be any choice or all MCQs will be compulsory?

Ans All the MCQs are compulsory. There would be no internal or external choice.

6. Whether there will be negative marking for wrong answers?

Ans There will be no negative marking for wrong answers.

7. Whether reasoning is required to be given along with answers of MCQs?

Ans No reasoning is required for answers to MCQs.

8. From where can the students see the questions for 30:70 Assessment pattern?

Ans The sample questions for 30:70 assessment are available on the website of the Institute.

9. Will a separate time be allotted for answering the MCQs?

Ans There is no segregation of timing within the 3 hours duration, separately for answering descriptive type questions and objective type questions. Candidates will be free to use the time as per their convenience.

10. What can be used for filling of OMR Sheets during the examination?

Ans Students are advised to carry HB pencils and erasers to the exam hall. No exchange of pencils or erasers will be permitted in the exam hall.

11. What will be the case where more than one circle/ no circle is darkened?

Ans No mark will be awarded, in case no circle is darkened or more than one circle is darkened in respect of a particular question in the OMR answer sheet.

12. Is there change in reading time due to introduction of composite paper i.e. containing MCQ's & descriptive questions?

Ans Reading time of 15 minutes will continue to be allowed in the composite papers, as in other papers.

13. What is the cut off period of the amendments applicable for a particular attempt?

Ans A cut off period of six month prior to the examination has been prescribed i.e. for May examinations the cut- off date will be 31st October of the preceding year and for November examinations the cut- off date will be 30th April of the same year.

14. From where can the students refer the amendments?

Ans The students can refer the amendments from the authorised website with respect to a particular Legislature, say for the Companies Act, 2013 (mca.gov.in), the Securities and Exchange Board of India Act, 1999 (sebi.gov.in), FEMA (www.rbi.org) etc.

For the benefit of the students, all the relevant amendments are compiled and provided through the Revisionary Test Papers.

15. What are available sources related to the subject for the reference of the students?

Ans Study material, Revision Test Papers, Mock test papers, video lectures, e- capsules for quick revisions, Sample questions for MCQ's on the website, Live virtual classes etc.

Paper 3 Cost & Management Accounting

1. How should I study cost and Management accounting for CA IPCC on my own ?

Ans : Costing is a very interesting subject and loved by most of the students. Again this is a practical subject and before solving any question your concepts must be very clear. Begin with the overview of this subject. It includes:-

- Method of Costing (Single unit cost, Job Costing, Batch Costing, Contract Costing, Process/ Operation costing, Costing of Service sectors).
- Cost Control and Analysis (Standard Costing, Marginal Costing, Budgetary costing).
- Always start with the basic concepts and read the theory well. Understand the formulas because learning them can create confusion in exam. But if you understand them thoroughly then you will never get confuse.
- Now came to the Ascertainment of Cost and priority should be given to the Material, Labour and Overhead because this is the core part to understand each and every chapter. ABC costing is simple and scoring.
- Each and every method of Accounting is important but Process and Contract Costing are considered quite more important so go through them very well.
- Reconciliation of Financial Accounts with the Cost Accounts should also be properly done.
- Finally, require to do lot of proper written practice which is very beneficial for the success

2. Distinguish between Explicit and Implicit cost

Ans Explicit costs, which are also known as out of pocket costs, refer to costs involving immediate payment of cash. Salaries, wages, interest on capital, etc. are some of the examples of explicit costs. They can be easily measured.

Implicit costs (also known as economic costs) do not involve any immediate cash payment.

- The main points of difference between Explicit and Implicit costs are: Implicit costs do not involve immediate cash payment whereas Explicit costs involves immediate outgo of cash.
- Implicit costs are not recorded in the book of account whereas explicit costs are entered in the books of Accounts.

3. Distinguish between Profit Centres and Investment Centres.

Ans A profit centre is a centre where the manager has the responsibility of generating and maximising profits. In such centres, the manager is responsible for revenue and cost.

Investment centres are those centres which are concerned with earning an adequate ROI. In such centres, the manager is responsible for investment, revenue and cost.

4. State the escalation clause in contract costing.

Ans If during the period of execution of a contract, the prices of materials, or labour etc., rise beyond a certain limit, the contract price will be increased by an agreed amount. Inclusion of such a clause in a contract deed is called an "Escalation Clause"

5. Discuss briefly the principles to be followed while taking credit for profit on incomplete contract ?

Ans Earlier the profit from Incomplete contracts were recognized as per the percentage of completion method. But now it has been removed from the study material since as per Accounting standards and industry practice, revenue cannot be recognized on incomplete contracts. We only calculate notional profits every year and estimated profits in case the contract is near completion.

6. Explain Conversion cost.

Ans Conversion cost: It is the cost of transforming basic material into finished goods. Conversion Cost consists of direct wages, direct expenses and manufacturing overheads.

So, Conversion Cost = Direct labour Cost + Direct Expenses + Manufacturing Overhead

Or

Conversion Cost = Factory Cost – Direct Materials Cost

7. What Is the difference between Perpetual Inventory System and Periodic Inventory System?

Ans In business and accounting/accountancy, perpetual inventory or continuous inventory describes systems of trading stock where information on inventory quantity and availability is updated on a continuous basis as a function of doing business.

Periodic inventory is a system of inventory in which updates are made on a periodic basis. This differs from perpetual inventory systems, where updates are made as seen fit. In a periodic inventory system no effort is made to keep up-to-date records of either the inventory or the cost of goods sold.

8. What Is The Difference Between Actual Overhead And Applied Overhead?

Ans In accounting, overhead usually refers to the indirect manufacturing costs. These are the manufacturing costs other than direct materials and direct labor.

The actual overhead refers to the indirect manufacturing costs actually occurring and recorded. These include the manufacturing costs of electricity, gas, water, rent, property tax, production supervisors, depreciation, repairs, maintenance, and more.

The applied overhead refers to the indirect manufacturing costs that have been assigned to the goods manufactured. Manufacturing overhead is usually applied, assigned, or allocated by using a predetermined annual overhead rate. For example, a manufacturer might estimate that in its upcoming accounting year there will be Rs 2,000,000 of manufacturing overhead and 40,000 machine hours. As a result, this manufacturer sets its predetermined annual overhead rate at Rs 50 per machine hour.

Since the future overhead costs and future number of machine hours were not known with certainty, and since the actual machine hours will not occur uniformly throughout the year, there will always be a difference between the actual overhead costs incurred and the amount of overhead applied to the manufactured goods. Hopefully, the differences will be minimal at the end of the accounting year.

9. What Is Inventory Shrinkage?

Ans Inventory shrinkage is the term used to describe the loss of inventory. For example, if the inventory records of a retailer report that 3,261 units of Product X are on hand, but a physical count indicates that there are only 3,248 units on hand, there is an inventory shrinkage of 13 units. The retailer's inventory shrinkage might be due to shoplifting, employee theft, damage, obsolescence, etc.

The term shrinkage is also used by manufacturers when referring to the loss of raw materials during a production process. For example, a manufacturer of baked food items will experience shrinkage throughout its processes due to ingredients adhering to the beaters and bowls, and also due to evaporation. This shrinkage is also known as spoilage or waste and it can be either normal or abnormal.

10. What Is The Difference Between A Budget And A Standard?

Ans A budget usually refers to a department's or a company's projected revenues, costs, or expenses. A standard usually refers to a projected amount per unit of product, per unit of input (such as direct materials, factory overhead), or per unit of output.

For example, a manufacturer will have budgets for its manufacturing or factory overhead departments. Let's assume that the budgeted manufacturing overhead for the upcoming year is expected to be Rs1,000,000 in order to produce the expected 100,000 identical units of product. The standard cost of manufacturing overhead per unit of product is Rs 10 (Rs 1,000,000 divided by 100,000 units). When the products are not identical, the Rs 1,000,000 of manufacturing overhead might be divided by the expected number of machine hours required to manufacture the units of product. Assuming it will take 50,000 machine hours, the standard cost of the manufacturing overhead will be Rs 20 per machine hour (Rs 1,000,000 divided by 50,000 machine hours).

11. What Is A Standard Cost?

Ans A standard cost has been described as a predetermined cost, an estimated future cost, an expected cost, a budgeted unit cost, a forecast cost, or a "should be" cost. Standard costs are often a part of a manufacturer's annual profit plan and operating budgets. Standard costs will be established for the following year's direct materials, direct labor, and manufacturing overhead. If standard costs are used, there will be:

a standard cost for each unit of input (e.g., \$20 per hour of direct labor)

a standard quantity of each input for each unit of output (e.g., 2 hours of labor for each product)

a standard cost for each unit of output (e.g., \$20 X 2 hours = \$40 of direct labor per product)

Under a standard cost system, the standard costs of the manufacturing activities will be recorded in the inventories and the cost of goods sold accounts. Since the company must pay its vendors and production workers the actual costs incurred, there are likely to be some differences. The difference between the standard costs and the actual manufacturing costs is referred to as a cost variance and will be recorded in separate variance accounts. Any balance in a variance account indicates that the company is deviating from the amounts in its profit plan.

While standard costs can be a useful management tool for a manufacturer, its external financial statements must comply with the cost principle and the matching principle. Therefore, significant variances must be reviewed and properly reported as part of the cost of goods sold and/or inventories.

12. What Do Overabsorbed And Underabsorbed Mean?

Ans In cost accounting, manufacturing overhead costs are often assigned to products by using a predetermined overhead rate. The predetermined rate is likely based on an annual manufacturing overhead budget divided by some activity such as the expected number of machine hours. Instead of saying that the manufacturing overhead is assigned, we might say it is allocated, applied or apportioned to the products manufactured during the period. We could also say that the products have absorbed the overhead.

If the amount of overhead assigned to the products manufactured is greater than the amount of overhead actually incurred, the products have overabsorbed the overhead costs. If the amount of overhead assigned to the products is less than the amount of overhead actually incurred, the products have underabsorbed the overhead costs. The cause of the overabsorption or underabsorption will be some combination of 1) the quantity of products manufactured, and 2) the actual overhead costs incurred.

13. State the difference between cost control and cost reduction.

Ans The following are the major differences between Cost Control and Cost Reduction:

1. The activity of maintaining cost as per the established norms is known as cost control. The activity of decreasing per unit cost by applying new methods of production in such a way that it does not affect the quality of the product is known as cost reduction.
2. Cost Control focuses on decreasing the total cost while cost reduction focuses on decreasing per unit cost of a product.
3. Cost Control is temporary in nature. Unlike Cost Reduction which is permanent.
4. The process of cost control is completed when the specified target is achieved. Conversely, the process of cost reduction has no visible end as it is a continuous process that targets for eliminating wasteful expenses.
5. Cost Control does not guarantee quality maintenance. However, 100% quality maintenance is assured in case of cost reduction.
6. Cost Control is a preventive function as it ascertains the cost before its occurrence. Cost Reduction is a corrective action.

14. Explain 'Sunk Cost' and 'Opportunity Cost'.

Ans Sunk cost: Historical costs or the costs incurred in the past are known as sunk cost. They play no role in the current decision making process and are termed as irrelevant costs. For example, in the case of a decision relating to the replacement of a machine, the written down value of the existing machine is a sunk cost, and therefore, not considered.

Opportunity cost: It refers to the value of sacrifice made or benefit of opportunity foregone in accepting an alternative course of action. For example, a firm financing its expansion plan by withdrawing money from its bank deposits. In such a case the loss of interest on the bank deposit is the opportunity cost for carrying out the expansion plan.

15. What is A.B.C. Analysis

Ans ABC Analysis: It is a system of selective inventory control whereby the measure of control over an item of inventory varies with its usage value. It exercises discriminatory control over different items of stores grouped on the basis of the investment involved. Usually the items of material are grouped into three categories viz; A, B and C according to their use value during a period. In other words, the high use value items are controlled more closely than the items of low use value. (i)'A' Category of items consists of only a small percentage i.e., about 10 % of the total items of material handled by the stores but require heavy investment i.e., about 70% of inventory value, because of their high prices and heavy requirement. (ii)'B' Category of items comprises of about 20% of the total items of material handled by stores. The percentage of investment required is about 20% of the total investment in inventories. (iii)'C' category of items does not require much investment. It may be about 10% of total inventory value but they are nearly 70% of the total items handled by stores

16. What is meant by JIT inventory.

Ans Just in time (JIT) inventory is a strategy to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, thereby reducing inventory costs. In other words, JIT inventory refers to an inventory management system with objectives of having inventory readily available to meet demand, but not to a point of excess where you must stockpile extra products.

17. What is the difference between JIT and JIC Inventory.

Ans The JIC inventory strategy is much different than the newer 'just in time' (JIT) strategy where companies try to minimize inventory costs by producing the goods after the orders have come in. The older 'just in case' strategy is used by companies that have trouble forecasting demand. With this strategy, the companies have enough production material on hand to meet unexpected spikes in demand. Higher storage costs are the main disadvantage of this strategy. A good example would be a car manufacturer that operates with very low inventory levels, relying on their supply chain to deliver the parts they need to build cars. The parts needed to manufacture the cars do not arrive before nor after they are needed, rather they arrive just as they are needed. This inventory supply system represents a shift away from the older "just in case" strategy where producers carried large inventories in case higher demand had to be met.

18. What Does Zero-Based Budgeting Mean?

Ans Zero-based budgeting (ZBB) is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether each budget is higher or lower than the previous one.

19. What are the mistakes students make while studying Cost Accounting subject?

Ans

1. Students ignore theory and lack concept clarity.

2. Students don't do written practice of the numerical questions. They just see the solutions but don't solve them on their own. Practice by solving helps you to recognize the minor mistakes which can then be avoided in the exams.

20. What are the simple tips for success in practical papers such as Cost and Management accounting?

Ans Step 1: Read theory properly before practical problems:

Before starting with any practical problems, read the theory of the chapter thoroughly and don't move on to practical problems unless you are very sure that you understood the theory well. Please note that theory comes as a savior in practical papers because it takes far less time to attend and write answers to theory questions as compared to solving practical problems of the same weightage in marks. Learning theory very well helps in attempting difficult and unknown questions.

Step 2: Formulae, formats etc

From study material, go through the basic formulae and formats that are given. If the chapter involves entries for different situations, then learn those entries and make mental notes of what are the practical aspects involved in the same like how you will do working and how the respective accounts will be prepared, etc.

Step 3: Learning practical problems:

Start understanding the simple problems by reading and noting how various calculations are made and try to figure out how the solution arrives. Two or three problems can be tackled in this manner to acquaint you with the practical part.

Step 4: Practicing by yourself without referring to answers:

Generally, simple problems in the beginning and tougher ones as you move ahead in the chapter, you will need to start solving the problems yourself in that particular chapter.

Step 5: Mastering the solutions:

When you become confident about solving problems on your own, you can shift to another chapter. Forgetting the confidence, you need to check the RTP or practice manual about lengthy problems. You should try those big and bulky questions also on your own because they are the real test of your abilities, all others were league matches and practice matches. These big lengthy problems are like a semi-final and final matches. If you can do it to the extent of 80% accuracy, then nobody can stop you from getting good marks in that particular chapter. It's worth spending time on attempting those questions even if it takes one hour for one question.

PAPER 4A: INCOME TAX LAW

1 Whether the amendments made by the Finance Act, 2019 are relevant for May 2019 and November 2019 Examinations?

Ans. No, the amendments made by the Finance Act, 2019 are **not** relevant for May 2019 and November 2019 Examinations.

The Income-tax Act, 1961, as amended by the Finance Act, 2018, is relevant for May 2019 and November 2019 Examinations. The relevant assessment year is A.Y. 2019-20.

Further, notifications and circulars issued prior to six months of the examination are applicable for these examinations. Accordingly, notifications and circulars issued upto 31.10.2018 are relevant for May 19 examination and notifications and circulars issued upto 30.4.2019 are relevant for November 2019 examination, respectively.

2 Which BoS publications are relevant for Intermediate (New) Paper 4A: Income-tax Law for May 2019 and November 2019 Examinations?

Ans. Study Material [3 Modules]: July 2018 edition of the Study Material is relevant for May and November 19 examinations.

Revision Test Paper (RTP) for May 19 or November 19 Examinations: There are two parts in RTP. The Statutory Update i.e., Notifications and Circulars are contained in Part I and Questions & Answers are contained in Part II. For May, 2019 examination, Part I of the RTP contains significant notifications, circulars etc. issued between 1.5.2018 to 31.10.2018. For November, 2019 examination, Part I of the RTP would contain significant notifications, circulars etc. issued between 1.5.2018 to 30.4.2019.

Sample Objective Type Questions: Webhosted at the BOS Knowledge Portal at <https://resource.cdn.icai.org/52595bos42131-inter-p4a.pdf>.

3 Whether the above BoS publications are relevant for IIPCC (Old) Paper 4A: Income-tax also?

Ans. Yes; the above publications are also relevant for IIPCC (Old) Course Paper 4A Income-tax also for May, 2019 and November, 2019 examinations. However, the following topics are **not** relevant for Intermediate (Old) Course Scheme:

- Tax Collection at Source – Basic Concepts [Section 206CC] [pages 9.66 to 9.72] in Chapter 9
- Self-Assessment [Pt. no. 18 in pages 10.30-10.31] in Chapter 10

Thus, IIPCC (Old) Course Students are advised to study from the July 2018 edition of the Study Material, with the exception of the two topics mentioned above.

4 What are the skill-wise and section wise weightages assigned for Intermediate (New) Paper 4A: Income-tax Law and IIPCC (Old) Paper 4A: Income-tax?

Ans. The skill-wise and section wise weightages assigned for Intermediate Paper 4A: Income-tax Law are available at <https://resource.cdn.icai.org/46878bos36667.pdf> and <https://resource.cdn.icai.org/49201bos32949.pdf>.

The skill-wise and section-wise weightages assigned for IIPCC (Old) Paper 4A: Income-tax are available at <https://resource.cdn.icai.org/53970bos43334finalold-p7.pdf>

5 What would be weightage for MCQs in Intermediate (New) Paper 4A: Income-tax Law and IIPCC (Old) Paper 4A: Income-tax?

Ans. Under both New and Old Scheme, in Paper 4A, the assessment would be partially based on objective type questions. The weightage for objective type questions would be 30%. The remaining questions i.e., 70% of the paper would be as per the present pattern of assessment. Intermediate Paper 4A: Income-tax Law is for 60 marks. Accordingly, MCQs would be for 18 marks and remaining 42 marks would be as per the present pattern of assessment.

IIPCC (Old) Paper 4A: Income-tax is for 50 marks. Accordingly, MCQs would be for 15 marks and the remaining 35 marks would be as present pattern of assessment.

The MCQs would be for 1 or 2 marks. There will be no negative marking for wrong answers. It may be noted that MCQs will be compulsory and there will be no internal or external choice in them.

6 Is the indexation benefit available on transfer of long term capital assets being an equity share in a company or a unit of an equity oriented fund referred to in section 112A?

Ans. No; Long term capital gains exceeding Rs.1,00,000 on transfer of equity share in a company or a unit of equity oriented fund on which STT is paid at the time of acquisition and transfer, in case of an equity share, and at the time of transfer, in case of a unit of equity oriented fund, is chargeable to tax at a concessional rate of 10%. Indexation benefit would **not** be available on transfer of such long term capital asset.

7 What is the maximum rebate under section 87A and to whom is it available?

Ans. Section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India having total income upto Rs.3,50,000. The maximum rebate under section 87A for A.Y.2019-20 would be the tax payable or Rs.2,500, whichever is less.

8 Whether rebate under section 87A be available in respect of tax payable on long term capital gain chargeable under section 112A and 112 and short term capital gain chargeable under section 111A?

Ans. Rebate under section 87A is **not** available in respect of tax payable on long term capital gains chargeable under section 112A. However, it is available in respect of tax payable on long term capital gain chargeable under section 112 and short term capital gain chargeable under section 111A, since there is no restriction contained in these sections.

9 Is the benefit of deduction of upto Rs.40,000 under section 80TTB available to a non-resident individual aged 60 years and above in respect of interest on fixed deposit?

Ans. Deduction under section 80TTB is available to a senior citizen only. Senior citizen means an individual resident in India who is the age of sixty years or more at the time during the relevant previous year. Hence, deduction under section 80TTB is **not** available to a non-resident even if he is of the age of 60 years or more.

10 Is the benefit of deduction of upto Rs.10,000 under section 80TTA available to a non-resident individual in respect of interest on fixed deposit?

Ans. Deduction under section 80TTA is available to an assessee being individual, HUF other than assessee referred to in section 80TTB i.e., a resident senior citizen. Deduction is available in respect of interest on deposits in a saving account with a bank, a co-operative society or a post office. Deduction under section 80TTA of upto Rs.10,000 for A.Y.2019-20, is, thus, available to both resident as well non-resident individual but it is not available in respect of interest on fixed deposit.

11 Section 43B provides for deduction of certain expenditure on actual payment basis on or before due date of filing of return of income of the relevant previous year. Is this section applicable to an assessee following cash system of accounting?

Ans. Section 43B is applicable only to an assessee following mercantile system of accounting. As per section 43B, in respect of certain expenditure, deduction would be only if the payment has been made on or before the due date of filing of return. Since deduction in respect of **any expenditure under section 30 to 37** is allowable to an assessee following cash system of accounting on actual payment basis on or before the end of the relevant previous year, section 43B is not applicable to an assessee following cash system of accounting.

12 Whether the benefit of unexhausted basic exemption limit is available in respect of LTCG chargeable to tax under section 112, 112A, 111A? If so, is it available for both residents and non-residents?

Ans. The benefit of adjusting unexhausted basic exemption limit against LTCG chargeable to tax under section 112, 112A and STCG chargeable to tax under section 111A is available only in case of resident individuals or HUFs. Thus, this benefit is not available in case of assessee other than individuals and HUF. It is also not available to non-resident individuals or HUFs.

13 Whether deduction under section 80C would be available on repayment of loan taken from bank for renovation or repair of house property chargeable to tax under the head "Income from house property"?

Ans. No; Deduction under section 80C would be available on repayment of loan from bank only if the loan is taken for the purpose of purchase or construction of a residential house property the income from which chargeable to tax under the head "Income from house property". It would not be available for repayment of loan taken for renovation or repair of house property.

14 Whether deduction under Chapter VI-A is available in respect of long term capital gain chargeable under section 112 and 112A and short term capital gains chargeable under section 111A and casual income chargeable under section 115BB?

Ans. No; Deduction under section Chapter VI-A is not available in respect of long term capital gain chargeable under section 112 and 112A, short term capital gains chargeable under section 111A and casual income chargeable under section 115BB.

Paper 4B Indirect Tax

1 What is the suggested pattern of the Question paper regarding MCQs?

Ans From May, 2019 examination, 30 marks would be dedicated for objective type questions in the form of MCQs. The questions would be compulsory and there would be no internal or external choice. There would be no negative marking for wrong answers. No reasoning is required to be given by candidates for answers to multiple choice questions.

2 What is the coverage of notifications and circulars for May, 2019 examinations?

Ans Provisions of the CGST Act, 2017 and IGST Act, 2017 (to the extent included in the syllabus read with the Study Guidelines) will be applicable for May 2019 examinations.

Students are expected to be updated with the notifications and circulars issued upto 6 months prior to the examination. Therefore, for May, 2019 examination, such amendments made upto 31st October, 2018 will be relevant.

3 Which BoS publications are relevant for May 2019 and November 2019 Examinations?

Ans Study Material [2 Modules]: September 2018 edition of the Study Material is relevant for May and November 19 examinations.

Revision Test Paper (RTP) for May 19 or November 19: RTP covering questions and answers webhosted on the Institutes website.

Statutory Updates: The Statutory updates i.e., significant Notifications and Circulars webhosted on the Institutes website.

Sample Objective Type Questions: Webhosted on the Institutes website.

4 Whether the same publications are relevant for IIPCC (Old) Scheme also?

Ans Yes; the above publications are also relevant for IIPCC (Old) Course Scheme.

5. Is there any skill-wise and section wise weightage assigned for Intermediate Paper 4B: Indirect Taxes?

Ans Yes, the skill-wise and section wise weightage is there for Intermediate Paper 4B: Indirect Taxes which is available at <https://resource.cdn.icai.org/46878bos36667.pdf> and. <https://resource.cdn.icai.org/49201bos32949.pdf>

6. Whether the same skill-wise and section wise weightage assigned for Intermediate Paper 4B: Indirect Taxes is also applicable for IIPCC (Old) Paper 4B: Indirect Taxes?

Ans Yes, the skill-wise and section wise weightage is same for IIPCC (Old) Paper 4B: Indirect Taxes which is available at <https://resource.cdn.icai.org/53976bos43334iipc-p4b.pdf>.

7 What is the implication of services taxable under reverse charge in the context of input tax credit?

Ans (i) As per section 49(4) of the CGST Act, 2017, amount available in the electronic credit ledger [ITC amount] may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.

(ii) Every registered person is entitled to take credit of input tax charged on any inward supply of goods and/or services which are used or intended to be used in the course or furtherance of his business in terms of section 16 of CGST Act, 2017. Further “input tax” in relation to a registered person includes the tax payable under reverse charge mechanism in terms of section 2(62) of the CGST Act, 2017.

8 What is the meaning of “date of receipt of payment” in the context of time of supply?

Ans “Date of receipt of payment” refers to the date on which the payment is recorded in the books of account of the entity (supplier of service) that receives the payment, or the date on which the payment is credited to the entity’s bank account, whichever is earlier.

9 Can input tax credit be adjusted for payment of interest, penalty and payment of tax under reverse charge?

Ans No, as per Section 49(4) of the CGST Act, 2017 the amount available in the electronic credit ledger may be used for making any payment towards ‘output tax’.

As per Section 2(82) of the CGST Act, 2017, output tax means, the CGST/SGST chargeable under this Act on taxable supply of goods and/or services made by him or by his agent and excludes tax payable by him on reverse charge basis. Therefore, input tax credit cannot be used for payment of interest, penalty, and payment under reverse charge.

10 What should be the study plan for examination?

Ans The foremost requirement for preparation is conceptual clarity. So, you must study thoroughly from Study Material alongwith the amendments (statutory updates) web-hosted under BoS Knowledge portal. You should make use of the “Let us Recapitulate” for revising the concepts learnt. Further, you may practice from Revision Test Paper, mock test paper and any other source as well.

11 How can the cash available in the Electronic Cash Ledger be utilised? Can a taxpayer utilise the amount available in any minor head of a major head for any other minor head of the same major head?

Ans The amount available in the Electronic Cash Ledger can be utilised for payment of any liability for the respective major and minor heads. For example, liability for the tax under SGST/UTGST can be settled only from the available amount of cash under minor head tax of SGST/UTGST Major head.

12 Is transfer of funds between the major heads permissible for discharging liabilities?

Ans Amount available under one major head (SGST/UTGST, CGST, IGST or CESS) cannot be utilised for discharging the liability under any other major head. For example, amount available in SGST/UTGST cannot be utilised for discharging liabilities under CGST, IGST, or CESS and vice versa.

13 How are the quarters calculated for the purpose of section 18(6) of the CGST Act, i.e. in case of supply of capital goods?

Ans As per section 2(19) of the CGST Act, 2017, “quarter” shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year. Further, part of a quarter shall be treated as the full quarter for the purpose of section 18(6) of the CGST Act.

14 What is the procedure in respect of return of time expired drugs or medicines?

In case of return of time expired medicines/drugs either of the following two options can be followed:

- (a) Return of time expired goods to be treated as fresh supply.
- (b) Return of time expired goods by issuing credit note.

Paper 6 Auditing & Assurance

1. When the auditor delegates work to assistants, will he be responsible for expressing his opinion on the financial information ?

Ans one of the basic principles, which govern the auditor's professional responsibilities and which should be complied with wherever an audit is carried, is that when the auditor delegates work to assistants or uses work performed by other auditor and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. This is the fundamental principle which is ethically required as per Code of Ethics.

2 Would it be practicable to evolve one audit programme for all businesses ?

Ans Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable. However, it becomes a necessity to specify in detail in the audit programme the nature of work to be done so that no time will be wasted on matters not pertinent to the engagement and any special matter or any specific situation can be taken care of.

3 How would Completion Memorandum be helpful to the auditor ?

Ans The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-

- the significant matters identified during the audit and
- how they were addressed.

Such a summary may facilitate effective and efficient review and inspection of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

4 Do all type of appointment of auditors require recommendations of Audit committee ?

Ans Where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

5 What is objective examination ?

Ans Objective examination connotes critical examination and scrutiny of the accounting statements of the undertaking with a view to assessing how far the statements present the actual state of affairs in the correct context and whether they give a true and fair view about the financial results and state of affairs.

6 What is information contained in the accounting records ?

Ans Accounting records include the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

7 When the auditor is said to have obtained reasonable assurance ?

Ans As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. The sufficiency and appropriateness of audit evidence are interrelated.

8 Is Inquiry alone sufficient to test the operating effectiveness of controls ?

Ans Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry. In this regard, inquiry combined with inspection or reperformance may provide more assurance than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

9 What is the relevance of external confirmation ?

Ans External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items.

10 What are assertions ?

Ans Assertions refer to representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

11 Do written representations provide sufficient appropriate audit evidence ?

Ans Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

12 What is negative confirmation request ?

Ans Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

13 What is misstatement ?

Ans Misstatement refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

14 What is risk of material misstatement ?

Ans Risk of material misstatement may be defined as the risk that the financial statements are materially misstated prior to audit.

15 What is Internal Audit function ?

Ans A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Paper 7A: Enterprise Information Systems

1. What is the objective of the paper Intermediate Paper 7A: Enterprise Information Systems in CA Curriculum?

Ans The overall objective of the paper is that CA aspirants develop an understanding of technology enabled Information Systems and their impact on enterprise-wide processes, risks and controls.

2. How many chapters are there in the paper and how the syllabus is relevant in today's scenario?

Ans The paper has five chapters namely – Automated business Processes, Financial and Accounting Systems, Information Systems Concepts, E-Commerce, M-Commerce and Emerging Technologies and Core Banking Systems. The subject provides both concepts and practical aspects of each chapter and hence build a basic understanding of the Information Systems widely used in Banking, Finance and E-Commerce/M-Commerce sectors.

3. Are the questions based on Multiple Choice Questions (MCQ) included in the paper? If yes, what is the weightage of the same?

Ans Yes, the Question Paper has two Divisions. The Division – I comprises of Multiple Choice Questions with 30% weightage and Division – II includes Descriptive Questions for the weightage of 70%. Each MCQ will have four options out of which a candidate shall select the correct/most appropriate option.

4. Is the MCQ Section compulsory?

Ans Yes, the 30% of the paper weightage has been allotted to MCQs which is compulsory part of the paper. There will neither internal nor external choice in MCQs.

5. What level of skill-sets are tested in the paper?

Ans The Question paper will be based on two skill-sets - Knowledge & Comprehension (K&C) and Application & Analysis (A&A).

6. What shall be the mode of answering the question paper containing MCQ'S and the descriptive type questions?

Ans The MCQ based questions are to be attempted through an OMR sheet wherein candidates will be required to write darkening the appropriate circle pertaining to the correct option. The Descriptive Questions are to be attempted in an answer book.

7. Does a candidate require to provide reasoning in MCQ Section of the paper?

Ans No reasoning is to be provided in MCQs as the answers are to be marked in OMR sheets. Furthermore, there is no negative marking for wrong answers.

8. How to prepare for Multiple Choice Questions? Is there any separate publication for it?

Ans To answer MCQ based questions; a candidate should develop thorough understanding of every concept in each chapter of the study material. There is no separate publication related to MCQs.

9. What are the Institute's publications/ resources through which a candidate can prepare well for the paper?

Ans A candidate should refer to the relevant edition of study material, Revision Test Papers, Mock test papers, video lectures, Sample questions for MCQ's on the website, Live virtual classes etc. to prepare well for his/her exam.

10. What is the expected level of answers in the examination?

Ans A candidate is expected to provide technically correct, complete and specific answer in commensuration with the marks allotted to it.

Paper 7B Strategic Management

1. How to study Strategic Management in an interesting manner and which material to use? What is strategy to study Strategic Management?

Ans You need to make your own strategy to learn the subject. There is no alternative to concentration, focus and hard work. You will also be able to make it interesting by linking it to real world around you. The study material has been prepared with focus on chartered accountancy students and they exhaustively cover syllabus. Thus the study material should be your main source for learning the subject. You may compliment them with Revision Test Papers, Suggested Answers, news articles and so on.

Your approach strategy to learn the subject may include the following:

- First reading should be slow to understand the concept.
- Revise the subject at least 3-4 times before appearing in the examinations.
- Do a lot of writing. Prepare notes. Practice writing answers to the questions. Compare your answers with the suggested answers or study material.
- Read financial newspapers and business magazines. Try to link the strategic actions of business organisations with theory.
- Make a discussion group. You may discuss theoretical concepts or strategic news. For example, whether news of Company X acquiring Company Y would be good for both companies and its stakeholders.
- In examinations write legibly in proper language.

2. Is it important to use book language?

Ans No, You may write in your own language. However, use terminologies of strategic management in correct perspective.

3. Whether introduction and conclusion should be included in addition to explanation while answering questions?

Ans You may write introduction and conclusion. But do not lose focus on main crux. Introduction and conclusion should be very brief.

4. Is it important to write answers in points?

Ans It will depend on the nature of question. If option exist, prefer providing points over long narrations. In long paragraphs sometimes key points may get lost.

5. What is strategy audit? Can we use the term strategic audit?

Students need to understand that Strategy audit is not same as strategic audit. Strategy audit is an examination and evaluation of areas affected by the operation of

a strategic management process within an organization. The concept is explained in Chapter 8

6. "Structure supports strategy or Structure follow strategy" Which one is correct? "

Ans Both. Strategies are implemented through structure.

Organization structure is also redesigned to support strategy implementation and control. According to Chandler, changes in strategy lead to changes in organizational structure. Structure should be designed or redesigned to facilitate the strategic pursuit of a firm and, therefore, structure should follow strategy.

Further, it is also true that strategy may be created or redesigned to match constraints of structure.

Paper 8A Financial Management

1 Discuss the conflicts in Profit versus Wealth maximization principle of the firm.

Ans Conflict in Profit versus Wealth Maximization Principle of the Firm: Profit maximisation is a short-term objective and cannot be the sole objective of a company. It is at best a limited objective. If profit is given undue importance, a number of problems can arise like the term profit is vague, profit maximisation has to be attempted with a realisation of risks involved, it does not take into account the time pattern of returns and as an objective it is too narrow.

Whereas, on the other hand, wealth maximisation, as an objective, means that the company is using its resources in a good manner. If the share value is to stay high, the company has to reduce its costs and use the resources properly. If the company follows the goal of wealth maximisation, it means that the company will promote only those policies that will lead to an efficient allocation of resources.

2 Discuss any three ratios computed for investment analysis.

Ans Three ratios computed for investment analysis are as follows:

(i) Earnings per share	=	$\frac{\text{Net Profit available to equity shareholders}}{\text{Number of equity shares outstanding}}$
(ii) Dividend yield ratio	=	$\frac{\text{Equity dividend per share (DPS)} \times 100}{\text{Market price per share (MPS)}}$
(iii) Return on capital employed*	=	$\frac{\text{Earnings before interest and tax (EBIT)} \times 100}{\text{Capital employed}}$

* It can be pretax or post tax

3 What is the relevance and significance of cost of capital in capital budgeting? How does the cost of capital enter the capital budgeting process?

Ans The importance and significance of the concept of cost of capital can be stated in terms of the contribution it makes towards the achievement of the objective of maximization of the wealth of the shareholders. If a firm's actual rate of return exceeds its cost of capital and if this return is earned without of course, increasing the risk characteristics of the firm, then the wealth maximization goal will be achieved.

4 Why must a CA keep in mind the degree of Financial Leverage in evaluating various financial plans? When Financial Leverage becomes favorable?

Ans The Financial Leverage (FL) measures the relationship between the EBIT and the EPS and it reflects the effect of change in EBIT on the level of EPS. The FL measures the responsiveness of the EPS to a change in EBIT and is defined as the % change in EPS divided by the % change in EBIT.

FL becomes favorable in case of increasing EBIT.

5 Is it true that a firm with high degree of Operating Leverage (OL) should have high degree of Financial Leverage (FL)? Examine

Ans No. Both are independent of each other.

6 What is EBIT-EPS Analysis? How is it different from leverage analysis?

Ans The analysis of the effect of different patterns of financing or the financial leverage on the level of returns available to the shareholders, under different assumptions of EBIT is known as EBIT-EPS analysis. Leverage analysis focuses on the impact of the change in sales and interest liability on the change in EPS.

7 What do you mean by financial break-even? How is it calculated?

Ans In case the EBIT level of a firm is just sufficient to cover the fixed financial charges then such level of EBIT is known as financial break-even level.

Financial break-even EBIT = Interest Charge + Pref. Div./(1-t)

8 How the cost of equity capital behaves in the Traditional theory and MM approach on capital structure?

Ans Modigliani-Miller have provided the behavioral justification for the concept that capital mix is irrelevant and does not affect the value, of the firm. However, in later analysis, they have agreed that the value of the levered firm may be more than unlevered firm because the former has the tax advantage of interest payment.

The Traditional Approach argues that leverage may increase the value of the firm but to a certain degree only and therefore, a judicious use of debt-equity mix can help maximizing the value of the firm.

9 What is Agency Cost?

Ans The equity investors and lenders do not always agree on the best course of action to protect their claims against the firm. Largely because, they have very different cash flow claims against the firm. Equity investors, who have a residual claim on the profits, tend to favour those actions that increase the value of their holding even if that means increasing the risk that the bondholders (who have a fixed claim on the profits) will not receive their promised payments. Bondholders, on the other hand, want to preserve and increase the security of their claims. Because the equity investor control the firm's management and the decision making, their interest will dominate the interest of the bondholders, unless the bondholders take some protective action. Hence agency cost arises

1. If the debt investors believe that there is significant chance that the shareholder's actions might make them worse off, they can build this expectation into the bond prices by demanding a higher rate of interest.

2. If debt investors can protect themselves against such actions by writing in restrictive conditions, two costs may follow:
 - a. The direct cost of monitoring the conditions which increases as the conditions become more detailed and restrictive, and
 - b. The indirect cost of lost flexibility, because the firm is not able to take certain projects. This costs will also increase the conditions become more restrictive.

10 What is financial distress? Examine the effects of financial distress on the value of the firm.

Ans The financial distress is a situation when a firm finds it difficult to honour its commitment to the creditors/debt investors. Value of the firm reduces with increasing financial distress.

11 How does Gordon's Model differ from Walter's Model to relevance of dividends?

Ans In Walter's Model, if $r=k_e$, the dividend is irrelevant and the dividend policy is not expected to affect the market value of the share.

In Gordon's Model, if $r=k_e$, the dividend policy is relevant as investors prefer current dividends as against the future uncertain capital gains.

12 What is the significance of stability of dividends?

Ans Firms which follow a stable dividend policy, command a better goodwill in the market and higher market price of the share.

13 Why depreciation is ignored while determining the working capital need for a firm?

Ans Depreciation is neither a current asset nor current liability and hence is ignored.

14 What is the effect of paucity of working capital?

Ans Inadequate working capital has the following effect

- a. The fixed assets may not be optimally used.
- b. Firms growth may stagnate.
- c. Interruptions in production schedule may occur ultimately resulting in lowering of the profit of the firm.
- d. The firm may not be able to take benefit of an opportunity.
- e. Firm's goodwill in the market is affected if it is not in a position to meet its liabilities on time.

15 What is the effect of excess of working capital?

Ans Excessive working capital has the following effect

- a. Unnecessary accumulation of inventories resulting in waste, theft, damage etc

- b. Delays in collection of receivables resulting in more liberal credit terms to customers than warranted by the market conditions.
- c. Adverse influence on the performance of the management.

16 What is the difference between Baumol's model of cash management and Miller-Orr Model of cash management?

Ans Baumol's model gives an optimum cash balance which aims at minimizing the total cost of maintaining cash.

The Miller-Orr model says that a firm should maintain its cash balance within a range of lower and higher limit.

17 What is Concentration banking?

A firm may open collection centres (banks) in different parts of the country to save the postal delays. This is known as concentration banking.

18 What is Lock-box system?

Ans Under the lock-box system, the customers mail their payments to a post office near their work place. The firm arranges with a local bank or some other agency to collect the payments and credit to the firm's account as quickly as possible.

19 What is credit policy? What are the elements of a credit policy?

Ans The credit policy deals with the setting of credit standards and credit terms relating to cash discount and credit period.

20 What are various costs which affect Economic Order Quantity (EOQ)?

Ans Ordering Cost and Carrying Cost

Paper 8B Economic for Finance

1. **What's the maximum number marks of the Question Paper Economics for Finance**

Ans 40

2. **What is the expected format for answers in Economics for Finance?**

Ans Total Five questions in Section B .Question NO. 7 is Compulsory . Answer any three from rest of the Four questions.

3. **Is Section B Economics for Finance required to be written on different answer sheet as compared to Section A Financial Management?**

Ans Yes

4. **What is the level of knowledge in Section B Economics for Finance questions are based in question paper**

Ans Level I: Knowledge and Comprehension: and Level: II Application Analysis

5. **Where can we post our queries related to the Subject Economics for Finance.**

Ans Email: eff-inter@icai.in

6. **How can I score more than 35 marks in economics?**

Ans

- Please understand that good marks are to be obtained by means of Exam only. **And you can do it You can ... You really can**
- Prepare a Time Table for self-study for every day in which Economics should get one-hour slot. **And strictly follow it ...**
- Go through **previous Question papers and Revision Test Papers and Mock Test papers** and try to solve them. (Please see the pattern of question papers and sample question papers)
- Prepare a **list of diagrams** and practice them.
- Try to prepare **value based questions** on your own. And think about them logically.
- **Practice numerical every day.**

Subject Related Questions received from students with Hints:

1. **What do you understand by the term 'final good'?**

Ans A final good is a good sold to final purchasers and is consumed by the end user in its present state. It does not require any further processing and therefore will not undergo any further transformation at the hands of producer. Once a final good has been sold, it passes out of the active economic flow. The value of the final goods already includes the value of the intermediate goods that have entered into their production as inputs.

2. What is meant by nominal GDP-growth?

Ans Nominal GDP is calculated in terms of current prices. Nominal GDP growth refers to the percentage change in nominal GDP over a specific period of time. Since the effect of inflation/ deflation is not removed, it does not present the true picture of growth of the economy.

3. Explain Four Sector Circular Flow of Income.

Ans The four sector model includes all four macroeconomic sectors, the household sector, the business sector, the government sector, and the foreign sector. The foreign sector includes households, businesses, and governments that reside in other countries.

Flow Chart: Please refer the diagram in 1.2.8

Please refer the study material Page No.1.57 and 1.58

4. How to compute formula of Govt. Expenditures?

Ans Since the collective services provided by the governments such as defence, education, healthcare etc are not sold in the market, the only way they can be valued in money terms is by adding up the money spent by the government in the production of these services. This total expenditure is treated as consumption expenditure of the government. Government expenditure on pensions, scholarships, unemployment allowance etc. should be excluded because these are transfer payments.

5. What constitute Gross Capital Formation.

Ans Gross domestic fixed capital formation includes final expenditure on machinery and equipment and own account production of machinery and equipment's, expenditure on construction, expenditure on changes in inventories, and expenditure on the acquisition of valuables such as, jewellery and works of art.

6. Define Crowding out?

Ans Negative effect fiscal policy when spending by government in an economy replaces private spending -money from private sector is 'crowded out' to the public sector- decline in private spending - fiscal policy becomes ineffective.

7. What is the major goal of a tax on pollution?

Ans The aim of a tax on pollution is to make sure that those responsible for causing the pollution are made to pay the costs. This will eliminate as far as possible the divergence between private costs and external costs and also act as an incentive not to pollute.

8. Define the term 'externality' and explain the reason to name it so?

Ans Externalities occur when the actions of either consumers or producers result in costs or benefits to others and the relevant costs and benefits are not reflected as part of market prices. Such costs or benefits which are not accounted for by market price

are called externalities because they are “external” to the economic transaction and are borne by third parties not directly involved in the transaction.

9. Explain how changes in policy rates affect other interest rates in the economy?

Ans The policy rate or the repo rate is the market interest rate for overnight loans between financial institutions. The policy rate is, in fact, the key lending rate of the central bank in a country. It serves as a benchmark for interest rates at which funds can be lent or borrowed in financial markets, including for different sources of bank funding, such as wholesale debt and deposits. A change in the policy rate gets transmitted through the money market to the entire the financial system and alters all other short term interest rates in the economy. The policy rate and other interest rates generally move in similar directions. Through its effect on the funding costs of financial institutions, the policy rate has a strong influence over the lending and deposit rates that households and businesses face.

10. Explain the function of money as a unit of account?

Ans A unit of account is a common unit for measuring how much something is worth. The monetary unit (for e.g. Rupee, Dollar) serves as a numeraire or common measure value in terms of which the value of all goods, services, assets, liabilities, income, expenditure etc are measured and expressed. This helps in measuring and fixing the exchange values in terms of a common unit and avoids the problem of recording and expressing the value of each commodity in terms of quantities of other goods. Use of money as a unit of account thus

- reduces the number of exchange ratios between goods and services
- makes it possible to keep business accounts
- allows meaningful interpretation of prices, costs, and profits, and
- facilitates a system of trade through orderly pricing ,comparison of value and rational economic choices.

11. What is the nature of relationship between money multiplier and the money supply?

Ans The multiplier indicates what multiple of the monetary base is transformed into money supply. The link from reserve money to money supply is through the money multiplier. The multiplier indicates what multiple of the monetary base is transformed into money supply. The multiplier process operates as long as banks have excess reserves.

The additional units of high-powered money that goes into ‘excess reserves’ of the commercial banks do not lead to any additional loans, and therefore, these excess reserves do not lead to creation of deposits. In other words, excess reserves may be considered as an idle component of reserves and therefore has no effect on money multiplier.

12. What is Bilateral agreement?

Ans Please refer the study material Page Glossary No. 1 .2

13.. Important decisions taken in Doha round.

Ans Please refer the study material Page No 4.61 and 4.62

14. Define 'real exchange rate'. What purpose does it serve?

Ans The real exchange rate (RER) is the purchasing power of a currency relative to another currency at current exchange rates and prices. The 'real exchange rate' describes 'how many' of a good or service in one country can be traded for 'one' of that good or service in a foreign country. The real exchange rate between two currencies is the product of the nominal exchange rate (the dollar cost of a euro, for example) and the ratio of prices between the two countries. It is calculated as :

$$\text{Real exchange rate} = \text{Nominal exchange rate} \times \frac{\text{Domestic price Index}}{\text{Foreign price Index}}$$

Nominal exchange rate states how much of one currency (i.e. money) can be traded for a unit of another currency when prices are constant. When prices of goods and services change in either or both countries, it would be difficult to know the change in relative prices of foreign goods and services. Therefore Real Exchange Rate (RER) which incorporates changes in prices is calculated.

15. What is the principal objective of WTO? How does it fulfill this?

Ans The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly and predictably. The WTO does its functions by acting as a forum for trade negotiations among member governments, administering trade agreements, reviewing national trade policies, assisting developing countries in trade policy issues through technical assistance and training programmes and cooperating with other international organizations.