

CA Intermediate - New Syllabus

Paper 3 - Cost & Management Accounting

Errors in New Module of ICAI (September, 2021 edition)

Dear Student Friends,

First of all, I must congratulate ICAI for constantly striving hard to make further improvements in study material and trying to make it error free. But, the TQM principle says that "There is always a scope for improvement". Hence, this effort ...

After going through the new module released by ICAI in September, 2021; I noticed certain errors like : (a) Printing errors (b) Calculation errors (c) Conceptual errors (d) Grammatical errors and (e) Differences of opinion etc.

Around 50% errors of October, 2020 module are corrected in this module but some more scope for improvement is left. I will report these errors to BOS also through the Council Members of ICAI.

However, I want you also to report these errors to BOS individually. It will put pressure on ICAI to do further corrections in the module and we will reach towards 100% error free module in future. You may write an email to BOS at email id : **cma-inter@icai.in**

Please remember that you will not get any response or acknowledgement from ICAI. But still do it. When lot of students write an email about the same thing to ICAI, then only it makes the impact. Hence, students unity is important.

One more purpose of preparing the following table of errors is that - when the students compare what a faculty has taught in the classroom with what is written in the module, then they get fully confused. The table below will help you to minimise such confusion and will improve your conceptual understanding of the subject.

Your personal views, suggestions and feedback are always welcome for making further improvement. You may personally write to me on my email : **ngp.rakesh@gmail.com**

Please go through the following table very carefully and not casually. Sit with the new study material and try to understand both points of view. It is possible that, I might have also made an error somewhere. I am ready to accept and correct it. Please bring it to my notice using the above email address. I would also request BOS, ICAI to enrich / correct me if my views are wrong. I would love to remove some of my misconceptions or wrong notions.

I hope my efforts will help students community as well as ICAI in doing rectification of errors.

CA Rakesh Agrawal, Pune

S.N.	Module Page No.	ICAI Views and My Views about Sept. 2021 Module
Chapter 1 - Introduction to Cost & Management Accounting :		
1.	1.6	<p>1.2.1 : Difference between cost control and cost reduction</p> <p>ICAI View : At point no. 4, it is mentioned that Cost Control is a preventive function and Cost Reduction is a corrective function.</p> <p>My View : Cost Control is a corrective function, because we first identify the errors and then we correct it like standard costing technique. Cost Reduction is a preventive function, because it is an innovative solution, which will help us to reduce future costs.</p>
Chapter 2 - Material Cost :		
2.	2.13	<p>Point no. (xvii) Shortage : It is mentioned in the module that breaking of bulk quantity is a shortage due to normal reason.</p> <p>My View : Breaking of bulk, means breaking of huge quantity and not a small quantity. It may happen only due to accident or careless handling of material. I think, it should be treated as abnormal loss.</p> <p>Similarly, pilferage (i.e. theft in a very small quantity) is given as an example of abnormal loss, whereas it should be a normal loss. Theft is treated as an abnormal loss.</p>
3.	2.26	<p>Point no. (vii) Buffer Stock : In the module, Danger level and Buffer stock are written separately.</p> <p>My View : In my opinion, both are same i.e. Danger level = buffer stock.</p>
4.	2.34	<p>Solution of Illustration 9 : In the module, cumulative total of no. of units of each item is taken to calculate the % of total units for ABC analysis.</p> <p>My View : The total of no. of items should be taken and not no. of units of each item. There are total 12 varieties of items and hence each item is 8.33% of the total no. of items. Variety of item and no. of units of an item are not the same.</p> <p>The units are given for multiplying it by unit cost, so that we can calculate the total value of consumption during the year.</p> <p>It is possible that some of the items may be measured in number of units, some are measured in kgs., some in litres, some in meters etc. How, one can take the total of these quantities?</p> <p>However, ICAI module has done it correctly in illustration 10 but not in illustration 9. Difference in their own approach in two different illustrations.</p>
5.	2.69	<p>MCQ No. 3 : ICAI answer is (c) i.e. breaking the bulk</p> <p>My View : The answer should be (b) i.e. Pilferage.</p>
6.	2.79	<p>Answer of Q.5(a) : No. of orders are rounded off to higher side to calculate the 'Ordering Cost of Inventory'. The justification is also given below the table that the orders cannot be in decimals.</p> <p>My View : It is true that the orders cannot be in decimals. However, 'Ordering Cost' is to be calculated on accrual basis of one year only. For example - if order size is 2,000 units, then we will place 3 orders of 2,000 units each = 6,000 units in total. However, we will consume only 5,000 units in one year and balance 1,000 units in the next year. Hence, cost of only 2.5 orders should be considered in one year, using</p>

		<p>accrual concept. The fraction order is correct for cost calculation purpose only. Practically, we will not give fraction order.</p> <p>Self conflict : There is similar concept of EBQ in 'Batch Costing'. On page 8.13, the solution of illustration 7 is given. In this table, Set-up cost p.a. is calculated correctly by considering no. of batches in fraction.</p>
Chapter 3 - Employee Cost / Labour Cost :		
7.	3.20	<p>Solution of illustration 4 : Error in calculation of Worker B & C.</p> <p>ICAI View : It is mentioned in the question that if a worker works on Saturday, he will get 8 hours wages for 4 hours of work. Worker B & C, both have worked for 8 hours each on Saturday. However, they are paid for 8 hours only. Even if they would have worked for 4 hours, they will still get 8 hours payment. In such case why they will work for extra 4 hours. In my opinion, they should get 16 hours payment for 8 hours work on Saturday.</p> <p>Similarly, Dearness Allowance is calculated in terms of rate per hour and then added to basic wage rate per hour. Then it is multiplied by total normal hours, which includes overtime (double) hours. In this way, the DA got paid for overtime hours at double rate, because overtime is counted twice in the normal hours. In absence of specific information about calculation of DA, it is a matter of debate.</p> <p>My View : For Saturday working of 8 hours, either pay basic wages at double rate or count it as 16 normal hours. The question should provide some information about payment of DA on overtime hours, because DA is given as fixed amount per month @ ₹ 968.</p>
8.	3.40	<p>(iii) Flux Method : It is a long time observation, that there are two formulae in use to calculate the labour turnover ratio using Flux Method. It is observed that, in the suggested answers, sometimes ICAI uses first formula and sometimes second formula.</p> <p>My view : Please keep only one formula to avoid confusion.</p>
9.	3.50	<p>MCQ No. 11 : Answer for this question is given as (b). It is correct. But, the wordings of the question is : physical and behavioural traits.</p> <p>In my opinion, the wordings of the question should be : physical and biological traits.</p>
Chapter 4 - Overheads - Absorption Costing Method :		
10.	4.17	<p>Method of Re-apportionment : For Reciprocal services, there are three methods given in the module i.e. (a) Simultaneous equation method (b) Trial & error method and (c) Repeated distribution method.</p> <p>My view : Actually, the calculation procedure of Trial & error method and Repeated distribution method is mathematically the same. These are the two names of same method and not two separate methods.</p>
11.	4.34	<p>Illustration 6 : Computation of machine hour rate : While doing the calculation of insurance premium, 1% premium is calculated on Rs. 91,00,000; which is original cost less scrap value.</p> <p>My view : Insurance premium is generally based on original cost i.e. 100 lakhs and not on (cost minus scrap value). Cost minus scrap value is used only for calculation of depreciation and not insurance.</p>

12.	4.40 7.12 7.15	<p>Treatment of under / over absorption of overheads in cost accounting : There are two method given to deal with this situation. In the old syllabus module, there was third method also i.e. carry forward of under / over absorption of overheads to next period. This third method is now deleted from this new syllabus module.</p> <p>My view : The above change is welcome. But then, the carry forward of overheads should also be deleted from the Chapter 7 : Cost Accounting System. If you refer answer of illustration 1 on Page 7.12 of the module, then you will notice that in "Manufacturing Overhead Control Account' the opening balance of OH is also taken and closing balance is also carried forward to next period.</p> <p>Same thing is again repeated in the answer of illustration 2 on page no. 7.15 & 7.16 in Overhead Accounts.</p> <p>In my opinion, the treatment of under/over absorption of overheads should be uniform in both the chapters.</p>
13.	4.60 7.38	<p>MCQ No. 7 : The answer given is (c). In my view it is wrong.</p> <p>My view : Though there might be a difference of opinion about the accounting treatment of 'Baddebts', the general view is to ignore it in the cost records and consider only in financial records. This view is supported by the treatment of bad debts in Chapter 7.</p> <p>If you refer solution of illustration 8 on page no. 7.38, then bad debts are shown in the reconciliation statement and ignored in cost sheet.</p> <p>There should be a uniformity in approach in both the chapters.</p>
Chapter 5 - Activity Based Costing :		
14.		It is nice to know that all the typing errors of previous module, as reported by me are now corrected. Well done ICAI.
Chapter 6 - Cost Sheet :		
15.	6.4	<p>(iii) Direct Expenses : Point (a) Cost of utilities such as power & fuel, steam etc. is shown under 'Direct Expenses' head.</p> <p>My view : It is very difficult to co-relate power, fuel and steam cost with each unit produced. Because, the utility bills are generally received for the entire organisation and not for each machine. Hence, cost of utilities should be put under the head 'Production Overheads'.</p>
16.	6.17 7.38	<p>Solution of illustration 3 : Treatment of fees paid to legal advisors.</p> <p>This cost is shown under the head 'Administrative Overheads' in the cost sheet.</p> <p>My view : If it is to be shown in cost sheet in Chapter 6, then in Chapter 7, it should not form part of Reconciliation Statement. On page 7.38, the item 'Legal Charges' is shown in reconciliation statement, which means, it is not an item of cost. Uniformity in approach is needed.</p>
Chapter 7 - Cost Accounting System :		
17.	7.7	<p>Journal Entry no. (m) for Carriage Inward</p> <p>It is debited to Production Overhead Control A/c</p> <p>My view : Carriage inward is a part of purchase expenses i.e. a part of landed cost of raw material and it is added to the purchase cost of material as mentioned in Chapter 2 : Material Cost and also in Chapter 6 : Cost Sheet.</p>

		Just to maintain the uniformity in approach, it should also be treated here as part of material cost and 'carriage inward' should be debited to 'Stores Ledger Account' instead of Production Overhead A/c.
18.	7.23	<p>Illustration 4 : While asking the question 'Required' i.e. prepare the following accounts for the month : at point no. (e) Costing Profit & Loss Account is mentioned.</p> <p>My view : This question is based on 'Integrated Accounting System'. Under integrated accounting system, we don't prepare 'Costing Profit & Loss Account'. It should be just a 'Profit & Loss Account'. 'Costing Profit & Loss Account' is prepared under 'Non-integrated Accounting System'.</p>
19.	7.25	<p>Notes : (2) Non-production time of direct workers is a production overhead.</p> <p>My view : The reasoning for non-production time (i.e. idle time) is important. Alternatively, if it is assumed as Abnormal idle time, then it may directly be debited to 'Profit & Loss Account'. This alternative treatment should also be mentioned in the notes.</p> <p>Just like note (4), where excess credit balance in WIP A/c is treated as abnormal gain and transferred to 'Profit & Loss Account'.</p>
20.	7.38	<p>7.5 : Accounting for Management Information & Cost Control : Under this heading, some information about Single Plan & Partial Plan is given. It is of no use here and should be deleted completely.</p> <p>My view : This matter is related to 'Standard Costing' topic and it was present in the old syllabus of CA Final Costing (AMA). It requires in depth understanding of Standard Costing & Cost Ledger Accounting. I feel just 3 pages of theory notes is insufficient to understand this concept and it is irrelevant for CA Inter students, hence to be dropped.</p>
21.	7.49	<p>Q.5 : You are required to : Point no. (b). It is mentioned that indirect expenses are absorbed on the basis of normal production capacity.</p> <p>My view : Only fixed overheads are charged on the basis of normal production capacity and not all the overheads. It can be seen in the solution also. Hence, the wordings of the question requires modification to avoid confusion.</p>
22.	7.58	<p>Solution of Q. 4 : In the cost sheet, administration expenses are considered along with selling & distribution expenses after COGS.</p> <p>My view : This treatment is correct only if the administration expenses are general in nature or related to sales. The question is silent about the type of administration expenses, whether production related or general? It should be specified clearly in the question itself.</p>
Chapter 8 - Unit and Batch Costing :		
		It is nice to know that all the typing errors of previous module, as reported by me are now corrected. Well done ICAI.
Chapter 9 - Job and Contract Costing :		
		It is nice to know that all the typing errors of previous module, as reported by me are now corrected. Well done ICAI.

Chapter 10 - Process & Operation Costing :		
23.	10.24	<p>Solution to illustration 6 :</p> <p>Valuation of WIP is done using 'Average Cost Method' however, valuation of finished goods is done using 'FIFO' method. It is technically wrong and we should follow a uniform approach for valuation of WIP & FG both.</p> <p>My view : The reason given by ICAI is that, in the question, it is mentioned that "Finished stock is valued at the price at which it is received from process II". The correct interpretation of this sentence is that valuation of FG is to be done before adding any other cost of FG department, but to be done using Average Method.</p>
24.	10.27	<p>MCQ No.8 : The answer given is (c)</p> <p>My view : There are two correct answers here i.e. (b) & (c).</p>
25.	10.28	<p>MCQ No.10 : Either the question is wrong or choices are wrong.</p>
26.	10.29	<p>MCQ No.14 : The answer given is (b)</p> <p>My view : The correct answer is (a)</p>
		<p>It is nice to know that many errors of previous module, as reported by me are now corrected, but few are still left.</p>
Chapter 11 - Joint Products & By Products :		
27.	11.6	<p>(ii) Net Realisable Value at Split off point method -</p> <p>ICAI view : The steps given to calculate NRV = Final Sale Value - Estimated profit margin - S&D expenses - Post split off costs</p> <p>My view : The above steps are taken from 'Reverse Cost Method'. Actually, NRV = Final Sale Value - S&D expenses - Post split off costs</p> <p>NRV should not be treated as equal to Reverse cost method.</p> <p>I would recommend ICAI to re-introduce 'Reverse Cost Method' again in the syllabus.</p> <p>Example 1 given below is correct for NRV method. However, steps given in the table above requires a correction.</p>
28.	11.18	<p>MCQ No.3 : The answer given by ICAI is (d)</p> <p>My view : The answer should be (c)</p>
29.	11.22	<p>In the table at the beginning of the page, at 3rd line -</p> <p>'Process costs' is written with the figures 2,00,000 & 3,00,000.</p> <p>Actually, it is 'Further Processing Cost' in my view. It needs a correction to avoid confusion.</p>
30.	11.28	<p>Solution of Q.4 : The question clearly says that apportion the joint cost on the basis of NRV. However, the solution developed is not in line with the requirement of question.</p> <p>My view : Apportionment of joint cost has nothing to do with the decision of 'Further Processing'. These two are independent. Secondly, I feel that the data given in this question itself is wrong. Because, the organisation suffers loss in all the cases, irrespective of the decision of further processing or not.</p> <p>This view can be substantiated by looking at the answer of Q.2 on page no. 11.25. In this question 2, the allocation of cost is based on NRV, irrespective of the decision of further processing; which is correct.</p>

Chapter 12 - Service Costing :		
31.	12.25	Illustration 8 : It should be shifted to 'Marginal Costing' chapter. Because, it requires calculation of BEP, this concept is not yet covered in this chapter. It is covered ahead in Marginal Costing.
		It is nice to know that many errors of previous module, as reported by me are now corrected.
Chapter 13 - Standard Costing :		
32.	13.20	Illustration 4 : Method of valuation of Closing Stock should be mentioned in the question for better understanding. While developing the answer, FIFO method is used without writing an assumption or note about it. The answer will be different if we use Average or LIFO method of valuation.
33.	13.44	Illustration 12 : The data in the question is wrong or non properly given. The actual overheads data is mixed i.e. Fixed + Variable OH. It should be provided separately for calculation of correct answers. The solution of Variable Overhead Expense Variance is wrong. How the 'Actual Rate' is calculated? It is not explained in solution. The solution of Fixed Overhead Expense Variance is also wrong. How the 'Actual Variable OH' is calculated? It is calculated using standard rate and not actual rate. My view : Either this question should be withdrawn or it should be modified to make it more meaningful.
34.	13.56	Q. 4 : One important data is missing in the question i.e. Actual Output is 90 kg. The answer is developed assuming actual output is 90 kg.
35.	13.57	Q. 6 : Materials purchased 20,000 units @ ₹ 88,000 is given in the question. I think '@' is not required here. It indicates the price, whereas ₹ 88,000 is the total cost of purchase and the price per unit is ₹ 4.40. Standard output is given as 10 number for one unit. It conveys a wrong message that 10 units are produced from one unit of input. I think it should be Standard Usage as 10 units for one unit of output.
Chapter 14 - Marginal Costing :		
36.	14.24	Solution of illustration 6 : The way of calculation and presentation of BEP is confusing and not understandable. My view : The simple way is to calculate overall P/V Ratio, which comes to 40% and then BEP can be calculated as $5,000/40\% = 12,500$
37.	14.43	Illustration 15 : In part (ii) of the question, sales mix ratio values of X : Y is given as 7 : 3. However, while developing the answer, BEP Quantity is taken in the ratio of 7 : 3 and not the Value. Please either correct the question or the answer.
38.	14.48	14.14 : Distinction between Marginal and Absorption Costing : It is silent about the treatment of "Administrative Overheads related to Production Activity". It is also silent about the treatment of variable administration overheads. Treatment of Admn. OH related to production has an impact on valuation of stock of finished goods.

39.	14.50	<p>In the table at the beginning of the page, i.e. 'Income Statement (Absorption Costing)' - Under / Over absorption of fixed manufacturing overheads is shown as addition / deletion.</p> <p>My view : If after absorption of manufacturing overheads at a pre-determined rate in the cost sheet, we adjust the under / over absorption of overheads again, then it is as good as charging full overheads in the cost sheet. In such case, there will not be any difference in the treatment of 'Fixed manufacturing overheads' as per Absorption costing and as per Marginal costing. Ref. solution (c) on page no. 14.53</p> <p>On the contrary, in my opinion, the under / over absorption of overheads should form part of reconciliation statement of profit between Absorption costing and as per Marginal costing.</p> <p>Absorption costing approach of preparation of Cost Sheet should match with the topic of Cost Sheet in Chapter 6.</p>
Chapter 15 - Budgets & Budgetary Control :		
40.	15.44	<p>In illustration 5 : In the first paragraph, sales mix ratio of 3 : 4 : 2 is given. However, whether it is a ratio of Sales Qty. or Sales Value is not mentioned. While solving the question it is used as Qty. Ratio.</p> <p>My view : Mentioning the sales mix ratio in Qty. or Value clearly in the question will avoid confusion of students.</p>
41.	15.46	<p>Solution of illustration 5 : In the answer 'Budgets for the month of December' - Table (a) - Column of DP, the Sales Qty. is wrongly written as 6,300 (2,100 x 3).</p> <p>The correct Sales Qty. of DP is 4,200 (2,100 x 3). However, the Sales Value is correctly written as ₹ 14,70,000 (4,200 units x 350).</p>

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