



# CMA VIDYARTHI

## सीएमए विद्यार्थी

*Editor:* CMA Shrenik S. Shah  
1. CMA Malav Dalwadi  
2. CMA Darshan Vohra  
3. CMA Rahul Jain

**E-Bulletin Vol. 2 For CMA Students Only November 2013**

### *From the Desk of Chairman*



Dear All Students,

Dear All Students,

I am sure while you are reading this communication you must be having lot of emotions in your mind. At the one hand you are studying very hard for your December examinations and on the other hand some news about scope of our noble profession. I am sure with talking to seniors of profession you must have realize that we are still hopeful and we should work together to fight this difficult situation. I am requesting all of you to go to internet and register your comment on MCA website about draft rules published by MCA. Your single comment will make big difference in our fight against these regressive draft rules.

Coming back to examination I am sure you all are well prepared and will appear confidently in the examination.

HQ has already published RTPs, Test Papers and some other documents related to December examinations. In case if you have not received your Hall Ticket please contact your nearest office of Institute for getting any help on this issue. Please do not appear for examination if no hall ticket is issued to you for any valid reason.

WIRC conducted Mock tests for our Final and Intermediate Appearing students for the first time in new syllabus. I am sure you must have taken advantage of such facility provided by WIRC. I once again wish you all the best for you examinations and our Inter Campus and Final Campus are waiting for you in the month of April-May 2014.

Wish you all the best once again and do not appear for examination unless you give feedback on MCA website which is most important.

**With Warm Regards**

**CMA Ashish Thatte**

### **Diwali Pujan**

A celebration on the auspicious occasion of Deepawali was organized by Indore-Dewas Chapter of Cost Accountants on 3rd November 2013 at Chapter Office Hall, Indore. Celebrations were started with Laxmi Pooja. Treasurer & Ex. Chairman CMA Dr. Niranjan Shastri welcomed staff, students and members for the divine

program. CMA Vijay P. Joshi (Hon. Secretary WIRC) explained the importance of this festival in the life of a professional. Program was attended by faculty members, ICAI members and students. The program was concluded with distribution of sweets and the Diwali bonus to staff, workers and volunteers.



*Picture of Goddess Laxmi in the Centre surrounded by CMA Vijay P. Joshi (Hon. Secretary WIRC) and CMA Dr. Niranjan Shastri (Treasurer & Ex. Chairman IDCCA) standing left along with members, students & staff*



# Success Mantra For CMA Exam

CMA Rahul Jain

Email: jain.s.rahul3@gmail.com , Cell: +919754100001

## 1. Introduction

My dear students, success it is the product of both intelligence and hard work. This applies to CMA exams also. It is my experience that a large number of students face problems for preparation of CMA exam e.g. how to start , from where to start and from which subject to start etc.

In this article I wish to provide you step by step guidance for systematic preparation of CMA exam.

## 2. Step Wise Guidance for Exam Preparation

**Step 1:** After completion of your coaching assess remaining period for exams. Later on analyse your preparation level and check whether you can appear for both groups or single group if you decide for single group then select the group with which you are most confident.

**Step 2:** Prepare time table for the remaining entire period and break it into weekly and daily coverage.

**Step 3:** Introspect your body clock and find most suitable time when you can read and remember theoretical papers without boredom and with faster speed. Remaining time you should prepare practical problems.

**Step 4:** Remember you have to give more time to practical papers like Accounts, Costing, Financial Management, Taxation etc. Because more practice of problems is required in these subjects otherwise you will face time shortage of time in examinations hours.

**Step 5:** Revision is very important and while preparing your time table as per step 2, you must provide for cushion of revision. Before going to exams you have to be revision total syllabus 2 to 3 times.

**Step 6:** My dear students in Law & Taxation subjects don't quote wrong section as it may results in loss of marks. You have to be 100% confident if you want to quote sections.

**Step 7:** In examination presentation is very important. Start every question from fresh page. State question number clearly in top left corner of the page. Avoid over writing striking and write legible hand writing.

**Step 8:** After finishing your paper don't discuss with friends regarding that paper. Leave thinking about your question paper which is over right from the examination hall and start your preparation for next Paper. Suppose in A/c's paper you feel that you could not perform properly then just ignore that and prepare for next Paper. So think positive.

**Step 9:** Dear students after completion of your exams

for one group start your preparation immediately for other group even if you have doubt in any subject. If you wait for results then you will find only 2.5 months only left with you for preparations.

### Some general tips for High Score

- Refer to suggested answer and revisionary test papers to acquaint your-self with pattern and variety of questions.
- Best prepare the objective type question to cover 25% mark in full.
- Strong Practice in Practical Subject and very fast Speed to save time for review during attempting the practical paper.
- To the point preparation for theoretical questions.
- Write full working for every Practical Question.
- Time Management is very important in Exam hall. Don't leave question un attempted because of lake of time. Lake is time is not reality. You feel lake of time because either your speed is slow or you have not prepared well time allocation for each question after you get the paper.
- Take Sleep of at least 6 hours during in Exam time.

Before winding up I wish all the best to students who are appearing for December 2013 exams.

I hope this article useful to you.

## Colloquy – Study Circle Discussion

Series I of Colloquy was organized by Indore-Dewas Chapter of ICAI on "Recent Issues in Taxation, Finance, Cost & Management Accounting with Special Reference to CMA E Bulletin - September 2013" on 19th October 2013 at Indore-Dewas Chapter Premises. CMA Vijay P Joshi, Chairman PD Committee & Hon. Secretary - WIRC expressed the theme of Seminar.

CMA Dr. Niranjan Shastri (Treasurer & Ex. Chairman IDCCA) was the resource person for the seminar. Topics for discussion were linked with Recent Issues in Taxation, Finance, Cost & Management Accounting. Program was well attended by Members and Seminar was approved for 1 CEP hour. Chairman CMA Sunil Singh appreciated active participation of members.

# COST OF POOR QUALITY (COPQ)

CMA Ulka Deshpande

COPQ was popularized by IBM quality expert H. James Harrington in his 1987 book *Poor Quality Costs*. COPQ is a refinement of the concept of quality costs.

Profit is **Sales value less total Costs**. So we can improve the bottom line margin either by **improving the sales (volume or SP) or by reducing the costs**. Product Selling Prices are market driven, so generally to increase the volume is the only alternative to improve the sales.

Another way to improve the bottom line is cost savings, cost reductions. Cost reduction gives better results in bottom line as compared to Sales volume.

## Tools used for Cost reduction and Savings –

### 1. Inventory Levels –

Determining Minimum, Maximum level of inventories for the RM and FG reduces the inventory carrying cost & blocked capital cost, also smoothens the supply.

### 2. Budgetary Control –

Budgetary Control is the establishment of Budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action the objective of the policy or to provide basis for its revision.

### 3. Optimum Capacity Utilization –

When the capacity utilization is optimum the fixed costs gets absorbed fully, reducing the cost per unit of the product.

### 4. Optimum Product Mix –

Determining the product OR sales mix which yields maximum profit.

### 5. Cost of Poor Quality (COPQ) –

**Cost of Poor Quality can be defined as costs that would disappear if systems, processes, and products were perfect.**

## COPQ Equation

$COPQ = (\text{External failures cost} + \text{Internal failures Cost} + \text{appraisal cost} + \text{preventive cost})$

COPQ includes:

- The costs generated as a result of producing defective material.
- The cost involved in fulfilling the gap between the desired and actual product or service quality.
- The cost of lost opportunity due to the loss of resources used in fixing the defect, including all the labour cost, rework cost, disposition costs and material costs that have been added to the unit up to the point of rejection.
- A portion of the appraisal cost if there is an inspection point.
- **Different Poor quality Costs –**
- **Prevention cost**
- The costs incurred towards support activities whose purpose is to reduce / prevent the number of defects. Like-Quality tests, Inspections, Audits, Process controls, trainings, Design reviews etc

## Appraisal Cost

- Appraisal costs which are sometimes called *inspection costs*, are incurred to identify defective products before the products are shipped to customers. For Example- Inspection of Finished Goods, Tests, Trial runs etc.

## Internal Failure Costs

- Internal failure costs include scrap, rejected products, reworking of defective units, and downtime caused by quality problem, in process

Inspection, process changes, any other non value adding activities. This is the price that is paid to avoid incurring external failure costs.

- Failure costs are incurred when a product fails to conform to its design specifications. Failure costs can be internal and external.

## External Failure Costs

- When a defective product is delivered to customer, external failure cost is the result. **External failure costs** include warranty, repairs and replacements, product recalls, liability arising from legal actions against a company, and lost sales arising from a reputation for poor quality. Such costs can decimate profits.
- External failure costs usually give rise to another intangible cost. These intangible costs are hidden costs that involve the company's image. They can be three or four times greater than tangible costs. Missing a deadline or other quality problems can be intangible costs of quality

## Indirect Poor-Quality Costs

- Indirect COPQ is difficult to measure because it is a delayed result of time, effort, and financial costs incurred by the customer. Examples are like –

**At Customer end** – Loss of productivity due to product or service downtime,

Backup product or service to cover failure periods

**At Company end** – Dissatisfaction shared by word of mouth, lost sales, loss of goodwill etc

COPQ is sometimes also known as the iceberg because when people view an iceberg, they usually see only the tip. Providing a poor quality product also carries hidden risks, which should be included when calculating COPQ. This can be pictorially depicted as –



## Why COPQ ??

- Speaks in the language of management, \$\$\$
- Shows how profit is affected by quality
- Can prioritize quality improvement actions
- Serves as the force for actions
- Improves Bottom lines

## Four Assumptions in the Model -

- There is a root cause for each defect
- Defects are preventable
- It is better to prevent than correct defects
- Inspection/ testing can be reduced for capable processes

## Avoid Poor Quality at All Costs -

- Financial analysts have estimated that COPQ typically amounts to 5 to 30 percent of gross sales for manufacturing and service companies.
- Reducing COPQ may have the power to transform marginally successful

companies into profitable ones.

- All levels of management, however, recognize that quality is an absolute necessity to survive and succeed in today's business environment. Therefore, understanding and determining COPQ are imperative to the success of an organization. In addition, COPQ provides quality management teams with the leverage necessary to support their process improvement efforts in the absence of hard dollar and/or easily quantifiable financial calculations.
- SIMPLE SOLUTION**  
Very simple and inexpensive procedures can be followed to prevent defects. One of the practical example which shows how defects can be prevented-  
**Yamada Electric Company** had a persistent problem assembling a simple push button switch. The switch has two buttons, an on button and an off button, with a small spring under each button. Assembly is very simple. A worker inserts the small spring in the device and then installs the buttons. However the workers some time forget to put in one of the springs.
- When the customers discover such a defective switch in a shipment from Yamada, an inspector has to be sent to the customer's plant to check every switch in the shipment. After each such incident, workers are urged to be more careful, and for a while quality improves. But eventually, someone forgets to put in a spring. This chronic problem was very embarrassing to Yamada.
- Shigeo Shingo, an expert on quality control, suggested a very simple solution. A small dish was placed next to the assembly station. At the beginning of each operation, two of the small springs are taken out of a parts box containing hundreds of springs and placed in the dish. The worker then assembles the switch. If a spring remains on the dish after assembling the switch, the worker immediately realizes a spring has been left out, and the switch is reassembled. This simple change in procedures completely eliminated the problem.

Following is the format for a medium size manufacturing company which may be helpful in calculating the Cost of Poor Quality, frequency of cost collection can be monthly/ quarterly.

Statement showing Cost of Poor Quality		
Sr no	Cost Area	Costs
<b>A</b>	<b>Internal Costs</b>	
1	Net cost of scrap	
2	Rework - Labour cost	
3	Rework - overhead	
4	Re-inspection of reworked products	

5	Analysis of Failures	
6	Downtime caused by quality problems	
7	Disposal of defective products	
8	Re-entering data because of keying errors	
9	Supplier Non-conformances	
10	Containment Activity	
11	Process Changes	
12	Obsolete Product	
13	Regrading of Product	
14	Non-value added activity	
	<b>Subtotal - Internal Costs</b>	
<b>B</b>	<b>External Costs</b>	
1	Warranty repairs and replacements	
2	Cost of field servicing and handling complaints	
3	Customer Complaints	
4	Product recalls	
5	Liability arising from defective products	
6	Lost sales arising from a reputation for poor quality.	
	<b>Subtotal - External Costs</b>	
<b>C</b>	<b>Appraisal Costs</b>	
1	Final product testing and inspection	
2	Supervision of testing and inspection activities	
3	Depreciation of test equipment	
4	Maintenance of test equipment	
5	Field testing and appraisal at customer site	
6	Material Utilized for Inspection and Testing	
	<b>Subtotal - Appraisal Costs</b>	
<b>D</b>	<b>Prevention Costs</b>	
1	Test and inspection of incoming materials	
2	Test and inspection of in-process goods	
3	Supervision of testing and inspection activities	
4	Depreciation of test equipment	
5	Maintenance of test equipment	
6	Quality training	
7	Quality data gathering, analysis, and reporting	
8	Audits of the effectiveness of the quality system	
	<b>Subtotal - Prevention Costs</b>	
	<b>Grand Total COPQ</b>	

Cost of Poor Quality is an effective tool of finding out the poor costs & having control over them so as to have improved bottom lines.



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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA  
WESTERN INDIA REGIONAL COUNCIL,  
Rohit Chambers, Janmabhoomi Marg, Fort, Mumbai 400 001.  
Tel.: 2204 3406 / 2204 3416 / 2284 1138 • Fax : 2287 0763  
E-mail : wirc@icmai.in • Website : [www.icmai-wirc.in](http://www.icmai-wirc.in)

To

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