

# Principles of **MANAGEMENT ACCOUNTING**



**Dr. S.N. Maheshwari**  
**Dr. Suneel K. Maheshwari • CA Sharad K. Maheshwari**

**SULTAN CHAND & SONS**

**PRINCIPLES OF  
MANAGEMENT ACCOUNTING**

*Dedicated to the Everlasting Memory of  
MRS. RUKMANI MAHESHWARI*



*[20<sup>th</sup> Sept. 1944 – 22<sup>nd</sup> May 2019]*

*Beloved wife of Dr. S.N. Maheshwari  
Loving Mother of  
Dr. Suneel & CA Sharad Maheshwari  
A Gracious Kind-hearted & Pious Lady  
Affectionately Remembered & Revered by  
All Family Members & Friends*

# Principles of Management Accounting

**DR. S.N. MAHESHWARI**

Professor Emeritus and Academic Director  
Delhi Institute of Advanced Studies  
Delhi – 1100085

[Formerly, Principal, Hindu College, Delhi University, Professor &  
Dean, Faculty of Commerce and Business Management, Goa University]

**DR. SUNEEL K. MAHESHWARI**

Professor of Accounting  
Eberly College of Business, Indiana University, U.S.A  
[Formerly, Professor of Accounting in the Division of Accountancy and  
Legal Environment, Marshall University, U.S.A]

**CA SHARAD K. MAHESHWARI**

Maheshwari Sharad & Co.  
Chartered Accountants  
Gurugram, Haryana



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## SULTAN CHAND & SONS

23, Daryaganj, New Delhi-110002

Tel.: 23266105, 23277843, 23247051, 23243183, 23281876

E-mail: sultanchand74@yahoo.com; info@sultanchandandsons.com

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**Author's Acknowledgement :** The writing of a Textbook always involves creation of a huge debt towards innumerable authors and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive footnotes throughout the book. If, for any reason, any acknowledgement has been left out we beg to be excused. We assure to carry out correction in the subsequent edition, as and when it is known.

# Preface

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## To the Eighteenth Edition

We are pleased to place before the esteemed readers the revised and enlarged edition of our book 'Principles of Management Accounting'. The increasing heart warming response to each new edition of the book is a matter of great satisfaction and privilege for us.

The New Edition, besides maintaining the *PLUS* feature of the earlier editions, viz., simplicity of style, lucid presentation, helpful questions and problems, etc. incorporates the following welcome changes:

- The book covers all the more comprehensively the course content requirements of the students preparing for B.Com., M.Com., BBA and MBA examinations of different Indian Universities.
- The latest position regarding Accounting Standards, including *IFRS* Covergence in India has been incorporated in Chapter 2 – Financial Principles (Section A), of the book.
- Certain new concepts viz. Target Costing and Kaizen Costing have been incorporated in Chapter 3 – Basic Cost Concepts (Section A) and Balanced Scorecard Appendix 1 of the book.
- The Schedule III to the Companies Act, 2013, containing the formats of Financial Statements and the main features of AS 20: Earning per share have been incorporated in the Chapter 2 (Section B) – Ratio Analysis.
- Questions and Problems from recent University and Professional Examinations have been incorporated in the relevant chapters of this book.
- The syllabi coverage in the book of the course contents in the paper Management Accounting at different Universities has been incorporated in the preliminary pages of the book.
- The book continues to follow a user-friendly and examination oriented approach.

We are confident that with all these changes, additions and adaptations, the readers will find the revised edition of the book all the more useful and rewarding. Constructive and helpful suggestions for improvement in the book will be gratefully acknowledged.

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2. Evaluation of Projects	C-8.374
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Practical Problems	C-8.376
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Select References	C-9.394

**SECTION D**  
**APPENDICES**

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# Syllabuses

**GURU GOBIND SINGH INDRAPRASTHA UNIVERSITY, DELHI**  
**Bachelor of Commerce (B.Com Hons) BBA 207 B.COM 203**  
**Management Accounting**

<i>L-4 T-0</i>	<i>Credits –4</i>	<i>External Marks: 75</i>	Coverage in the Book			
			Section	Chapter (s)		
<p><b>Objective:</b> The objective of the course is to familiarize the students with the basic management accounting concepts and their applications in managerial decision making.</p> <p><b>Course Contents</b></p>						
<b>Unit 1 (14 Hours)</b>						
<p>Management Accounting: Nature and Scope, Financial Accounting, Cost Accounting and Management Accounting, Advantages and Limitations of Management Accounting, Role of Management Accountant.</p>					A	1
<b>Unit II – Financial Analysis (14 Hours)</b>						
<p>Financial Statements and their Limitations, Concepts of Financial Analysis, Tools of Financial Analysis: Comparative Financial Statements, Common Size Financial Statements, Trend Percentages.</p>					B	1
<p><b>Ratio Analysis:</b> Nature and interpretation, Classification of Ratios, Profitability Ratios, Turnover Ratios, Financial Ratios, Utility and Limitations of Ratios.</p>					B	1
<p><b>Cash Flow Analysis:</b> Difference between Cash and Funds, Utility of Cash Flow Statement, Accounting Standard 3 (AS 3: Revised), Construction of Cash Flow Statement.</p>					B	4
<b>Unit III – Budgets and Budgetary Control (14 Hours)</b>						
<p>Concept of Budgets and Budgetary Control, Advantages and Limitations of Budgetary Control, Establishing a System of Budgetary Control, Preparation of Different Budgets, Fixed and Flexile Budgeting, Performance Budgeting and Zero Base Budgeting, Concept of Responsibility Accounting–Types of Responsibility Centres.</p>					C	1
<p><b>Standard Costing and Variance Analysis:</b> Meaning of Standard Cost, Relevance of Standard Cost for Variance Analysis, Significance of Variance Analysis, Computation of Material, Labour and Overhead Variances.</p>					C	2 & 3

**Unit IV – Marginal Costing and Profit Planning (14 Hours)**

Coverage in  
the Book

Marginal Costing Differentiated from Absorption Costing, Direct Costing, Differential Costing. Key Factor, Break-even Analysis, Margin of Safety, Cost-Volume-Profit Relationship, Advantages, Limitations and Applications of Marginal Costing.

**Decisions Involving Alternative Choices:** Concept of Relevant Costs, Steps in Decision Making, Decisions Regarding Determination of Sales Mix, Exploring new Markets, Discontinuance of a Product Line, Make or Buy, Equipment Replacement, Expand or Contract and Shut-Down or Continue.

Section	Chapter (s)
C	4 & 5

**UNIVERSITY OF DELHI**  
**Master of Commerce (M.Com.) Semester I**  
**Course MCCC 102: Advanced Management Accounting**

*marks: 100*

*Duration - 60 Hrs.*

**Objective:** The objective of this course is to equip the students with the knowledge of concepts, methods and techniques of management accounting and enable them to use various techniques of cost ascertainment, budget preparation and variance analysis, while focusing on its need for managerial decision making.

**Unit I – Management Accounting**

Nature and functions; Financial vs. Management Accounting; Cost vs. Management Accounting; Role of Management Accountant. Cost concepts and classifications.

A 1 & 3

**Unit II – Activity Based Costing (ABC)**

Concept and Uses; Flow of Costs in ABC: Traditional Costing System vs. ABC.

A 4

**Unit III – Variable and Absorption Costing**

Concept, Comparison, Applications of Variable Costing; Preparation of Income Statements; Cost-Volume-Profit (CVP) Analysis–Contribution Margin; Break-even Analysis: Profit Volume (P/V) Analysis; Multiple Product Analysis; Optimal use of Limited Resources.

C 4

**Unit IV – Relevant Information and Short-Run Managerial Decisions**

Managerial decision making: Decision making process; Differential analysis; Types of managerial decisions–Make/Buy, Add/Drop, Sell/ Process Further, Operate/Shutdown, Special Order. Product-Mix. Pricing Decisions.

C 5

**Unit V – Budgeting**

Nature and functions; Preparation of different types of budgets;, Fixed versus Flexible Budgeting; Standard Costing, –Concept, advantages; Types of standards; Variance analysis: Materials, Labour, Overheads, Sales variances, Managerial uses of variances.

C 1, 2 & 3

## Unit VI – Responsibility Accounting and Divisional Performance Measurement

Advantages and disadvantages of divisionalisation; Concept of responsibility accounting; Responsibility centres: Cost centre, Revenue centre. Profit centre, Investment centre; Responsibility performance reporting; Financial measures of performance, Non-financial performance measures.

**Transfer Pricing:** Concept; Objectives; Requisites; Methods of transfer pricing: Transfer pricing in multinational companies.

**Performance Measurement:** Traditional performance measures; Balanced Scorecard–Meaning, perspectives in Balanced Scorecard; Weighting performance measures; Requisites of Balanced Scorecard

Coverage in  
the Book

Section	Chapter (s)
C	1
C	6
	Appendix 1

## BANGALORE UNIVERSITY

### 6.4 Management Accounting

**Objective:** The objective of this subject is to enable the students to understand the analysis and interpretation of financial statements with a view to prepare management reports for decision-making.

#### UNIT I – Introduction to Management Accounting      12 Hrs

Management Accounting: Meaning – Definition– Objectives–Nature and Scope–Role of Management Accountant–Relationship between Financial Accounting and Management Accounting, Relationship between Cost Accounting and Management Accounting.

Analysis of Financial Statements: Types of Analysis–Methods of Financial Analysis – Problems on Comparative Statement Analysis – Common Size Statement Analysis and Trend Analysis.

#### UNIT II – Ratio Analysis      14 Hrs

Meaning and Definition of Ratio, Classification of Ratios, Uses & Limitations–Meaning and Types of Ratio Analysis– Calculation of Liquidity Ratios, Profitability Ratios and Solvency Ratios.

#### UNIT III – Fund Flow Analysis      10 Hrs

Meaning and Concept of Fund – Meaning and Definition of Fund Flow Statement–Uses and Limitations of Fund Flow Statement–Differences between Cash Flow Statement and Fund Flow Statement–Procedure for Preparation of Fund Flow Statement–Statement of changes in Working Capital–Statement of Funds from Operations–Statement of Sources and Applications of Funds–Problems.

#### UNIT IV – Cash Flow Analysis      14 Hrs

Meaning and Definition of Cash Flow Statement–Concept of Cash and Cash Equivalents–Uses of Cash Flow Statement–Limitations of Cash Flow Statement–Provisions of Ind AS-7 (owld AS 3)–Procedure for preparation of Cash Flow Statement – Cash Flow from Operating Activities–Cash Flow from Investing Activities and Cash Flow from Financing Activities–Preparation of Cash Flow Statement according to Ind AS-7 (old AS 3) (Indirect Method Only).

A      1

B      2

B      3

B      4

**UNIT V – Management Reporting****06 Hrs**Coverage in  
the Book

Meaning of Management Reporting – Requisites of a Good Reporting System – Principles of Good Reporting System – Kinds of Reports – Drafting of Reports under Different Situations.

Section	Chapter (s)
C	8

**UNIVERSITY OF MADRAS (Academic Year 2020-2021)****B.Com. Degree Course (GENERAL)****Core Paper XVIII Management Accounting****Objectives****No. of Credits: 4**

- To enable the students to get knowledge about the various techniques of Management Principles.
- To make the students to get practical skill in solving management problems.

**UNIT I – Introduction**

Management Accounting – Meaning- Scope- Importance- Limitations – Management Accounting Vs Cost Accounting – Management Accounting Vs Financial Accounting.

A

1

**UNIT II – Financial Statement Analysis**

Analysis and Interpretation of Financial Statements – Nature and Significance – Types of Financial Analysis – Tools of Analysis – Comparative Statements – Common size Statement – Trend Analysis.

B

1

**UNIT III – Ratio Analysis**

Meaning – Advantages – Limitations – Types of Ratios – Liquidity Ratios – Profitability Ratios Turnover Ratios – Capital Structure Ratios – Leverage Ratios – Calculation of Ratios.

B

2

**UNIT IV – Fund Flow Analysis & Cash Flow Analysis**

Introduction, Meaning of Funds Flow Statement-Ascertainment of flow of funds- Technique of preparing funds flow statement- Schedule of Changes in Working Capital- Adjusted Profit and Loss account-Funds Flow Statement Meaning of Cash Flow Statements – Advantages – Limitations – Preparation of Cash Flow Statement – Types of Cash flows – Operating, Financing and Investing Cash flows.

B

3 &amp; 4

**UNIT V – Budgetary Control & Marginal Costing**

Budgetary Control – Meaning – Preparation of various Budgets – Cash Budget – Flexible Budget – Production Budget – Sales Budget. Capital Expenditure Control – Application of Marginal Costing in Decision Making – Make or Buy – Shut down or Continue – Exploring New Markets.

C

1, 4 &amp; 5

**Note:** Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

**B.Com (Information System Management) Degree Program, Semester VI  
Core Paper XVII – Management Accounting**

**objectives****No. of Credits: 4**Coverage in  
the Book

- To enable the students to get knowledge about the various techniques of Management Principles.
- To make the students to get practical skill in solving management problems.

Section

Chapter (s)

**Unit I – Introduction**

Management Accounting – Meaning – Scope – Importance – Limitations – Management Accounting Vs Cost Accounting – Management Accounting Vs Financial Accounting.

A

1

**Unit II – Financial Statement Analysis**

Analysis and Interpretation of Financial Statements – Nature and Significance – Types of Financial Analysis – Tools of Analysis – Comparative Statements – Common size Statement – Trend Analysis.

B

1

**Unit III – Ratio Analysis**

Meaning – Advantages – Limitations – Types of Ratios – Liquidity Ratios – Profitability Ratios -Turnover Ratios – Capital Structure Ratios – Leverage Ratios – Calculation of Ratios.

B

2

**Unit IV – Cash Flow Analysis & Marginal Costing**

Meaning of Cash Flow Statements – Advantages – Limitations – Preparation of Cash Flow Statement- Types of Cash flows – Operating, Financing and Investing Cash flows. Application of Marginal Costing in Decision Making – Make or Buy – Shutdown or Continue – Exploring New Markets.

B

4

C

4 &amp; 5

**Unit V – Budgetary Control & Capital Budgeting Control**

Budgetary Control – Meaning – Preparation of various Budgets – Cash Budget – Flexible Budget -Production Budget – Sales Budget. Capital Expenditure Control- Meaning of Capital Budgeting -Assessment of Capital Expenditure through Pay Back Method, Net Present Value Method and Accounting Rate of Return Method.

C

1, 7 &amp; 8

**Note:** Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

**B.Com. Degree Course (Accounts & Finance)  
Core Paper XVIII – Management Accounting**

**objectives****No. of Credits: 4**

- To enable the students to get knowledge about the various techniques of Management Principles.
- To make the students to get practical skill in solving management problems.

**UNIT I – Introduction**

Management Accounting – Meaning- Scope- Importance- Limitations – Management Accounting Vs Cost Accounting – Management Accounting Vs Financial Accounting.

A

1



**UNIT II: Financial Statement Analysis**

Analysis and Interpretation of Financial Statements – Nature and Significance – Types of Financial Analysis – Tools of Analysis – Comparative Statements – Common size Statement – Trend Analysis.

**UNIT III – Ratio Analysis**

Meaning – Advantages – Limitations – Types of Ratios – Liquidity Ratios – Profitability Ratios Turnover Ratios – Capital Structure Ratios – Leverage Ratios – Calculation of Ratios.

**UNIT IV – Fund Flow Analysis & Cash Flow Analysis**

Introduction, Meaning of Funds Flow Statement-Ascertainment of flow of funds- Technique of preparing funds flow statement- Schedule of Changes in Working Capital- Adjusted Profit and Loss account-Funds Flow Statement Meaning of Cash Flow Statements – Advantages – Limitations – Preparation of Cash Flow Statement – Types of Cash flows – Operating, Financing and Investing Cash flows.

**UNIT V – Budgetary Control & Marginal Costing**

Budgetary Control – Meaning – Preparation of various Budgets – Cash Budget – Flexible Budget – Production Budget – Sales Budget. Capital Expenditure Control – Application of Marginal Costing in Decision Making – Make or Buy – Shut down or Continue – Exploring New Markets.

**Note:** Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

Coverage in the Book	
Section	Chapter(s)
B	1
B	2
C	3 & 4
C	4, 4 & 5

**B.Com. Degree Course (Bank Management)  
Revised Scheme of Examination:  
Core Paper XVIII – Management Accounting**

**Objectives****No. of Credits: 4**

- To enable the students to get knowledge about the various techniques of Management Principles.
- To make the students to get practical skill in solving management problems.

**Unit I – Introduction**

Management Accounting- Meaning- Scope- Importance- Limitations- Management Accounting Vs Cost Accounting – Management Accounting Vs Financial Accounting.

**Unit II – Financial Statement Analysis**

Analysis and Interpretation of Financial Statements – Nature and Significance – Types of Financial Analysis- Tools of Analysis – Comparative Statements – Common size Statement Trend Analysis.

A	1
B	1

### Unit III – Ratio Analysis

Meaning- Advantages – Limitations – Types of Ratios – Liquidity Ratios – Profitability Ratios- Turnover Ratios – Capital Structure Ratios – Leverage Ratios – Calculation of Ratios.

Coverage in the Book	
Section	Chapter(s)
B	2

### Unit IV – Cash Flow Analysis & Marginal Costing

Meaning of Cash Flow Statements – Advantages – Limitations – Preparation of Cash Flow Statement – Types of Cash flows – Operating, Financing and Investing Cashflows. Application of Marginal Costing in Decision Making- Make or Buy -Shutdown or Continue – Exploring New Markets.

B	4
C	4 & 5

### Unit V – Budgetary Control & Capital Budgeting Control.

Budgetary Control – Meaning – Preparation of various Budgets – Cash Budget- Flexible Budget- Production Budget – Sales Budget. Capital Expenditure Control – Meaning of Capital Budgeting- Assessment of Capital Expenditure through Pay Back Method, Net Present Value Method and Accounting Rate of Return Method.

C	1, 7 & 8
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## B.Com (Computer Applications) Degree Program, Semester VI Core Paper XVII – Management Accounting

### course Objectives

Number of Credits : 4

1. To enable the students to get knowledge about the various techniques of Management Principles.
2. To make the students to get practical skill in solving management problems.

### Unit I – Introduction

Management Accounting – Meaning – Scope – Importance – Limitations – Management Accounting Vs Cost Accounting – Management Accounting Vs Financial Accounting.

A	1
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### Unit II – Financial Statement Analysis

Analysis and Interpretation of Financial Statements – Nature and Significance – Types of Financial Analysis – Tools of Analysis – Comparative Statements – Common size Statement – Trend Analysis.

B	1
---	---

### Unit III – Ratio Analysis

Meaning – Advantages – Limitations – Types of Ratios – Liquidity Ratios – Profitability Ratios – Turnover Ratios – Capital Structure Ratios – Leverage Ratios – Calculation of Ratios.

B	2
---	---

### Unit IV – Cash Flow Analysis & Marginal Costing

Meaning of Cash Flow Statements – Advantages – Limitations – Preparation of Cash Flow Statement – Types of Cash flows – Operating, Financing and Investing Cash flows. Application of Marginal Costing in Decision Making – Make or Buy – Shutdown or Continue – Exploring New Markets.

B	4
C	4 & 5

**Unit V – Budgetary Control & Capital Budgeting Control.**

Budgetary Control – Meaning – Preparation of various Budgets – Cash Budget – Flexible Budget – Production Budget – Sales Budget. Capital Expenditure Control – Meaning of Capital Budgeting – Assessment of Capital Expenditure through Pay Back Method, Net Present Value Method and Accounting Rate of Return Method.

Coverage in the Book	
Section	Chapter (s)
C	1, 7 & 8

**Note:** Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

**B.Com. Hons. Course (Revised Scheme of Examination):  
CORE 25 : Accounting for Decision Making**

**Sub Code:**

**UNIT I**

**Credits: 4**

Management accounting – Meaning, nature, scope and functions, need, importance and limitations – Management Accounting vs. Cost Accounting. Management Accounting vs. Financial Accounting-Analysis and Interpretation of financial statements – Nature, objectives, essentials and tools. Methods –Comparative Statements, Common Size statement and Trend analysis.

A

1

**UNIT II – Case Study**

Ratio Analysis – Interpretation, benefits and limitations. Classification of ratios- Liquidity, Profitability, Turnover, Solvency or Financial ratios

B

1

**UNIT III**

Funds flow and Cash flow analysis. Budgets and budgetary control – Meaning, objectives, merits and demerits.

B  
C

3 & 4  
1

**UNIT IV**

Marginal costing – features, advantages and limitations – Absorption costing and Marginal costing – CVP analysis – Applications of Marginal Costing – Key factor, Make or Buy decision , Sales mix decision, Plant Merger decisions

C

4 & 5

**UNIT V**

Variance Analysis – Material, Labour and Overhead Variances

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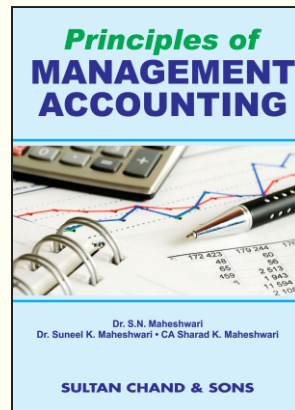
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The book provides a comprehensive coverage of the course-content requirements of the students appearing the paper 'Management Accounting' at the B.Com, M.Com, BBA and MBA Examinations of different Indian Universities. The book has been divided into THREE Convenient Sections. Each Section covers a different aspect of 'Management Accounting' with the subject divided into chapters covering different topics in a systematic and concise manner.

The unique features of this book lie in its simplicity of style and systematic presentation of theory and graded practical illustrations which have made it user friendly mainly the students. The other main strengths of this book are: exhaustive text plentiful illustrative examples and end-of-the-chapter exercises with answers.

#### NEW IN THIS EDITION

- Updated position regarding, IFRSs and steps for their convergence in India.
- Certain new concepts viz. Target Costing, Kaizen Costing and Balanced Scorecard have been incorporated in Chapter 3 (Section A) and Appendix 1 of the book.
- Schedule III regarding presentation of financial statements as per the Companies Act, 2013 has been incorporated as an Appendix 5 to the book.



**Dr S.N. Maheshwari** is presently Professor Emeritus & Academic Director, Delhi Institute of Advanced Studies, Delhi. He is also the Chairman, Indian Society of Accounting and Management, New Delhi. During his long and varied experience, he worked as Director General, Delhi Institute of Advanced Studies, Principal, Hindu College, University of Delhi; Professor and Dean, Faculty of Commerce and Business Management, Goa University; Director, Institute of Management Science and Productivity Research, New Delhi; Director (Academic), BLS Institute of Management, Mohan Nagar; Vice-Principal, Shri Ram College of Commerce, University of Delhi; and Principal, Staff Training College, New Bank of India, Chandigarh. Dr S. N. Maheshwari has more than five

decades of experience in teaching students of B.Com, BBA, M.Com, MBA, CA, CS and CMA. He has authored around one hundred fifty books/monographs and participated in several national and international seminars.

**Dr Suneel K. Maheshwari** is a PhD in Business Administration from Florida Atlantic University, USA.

He also obtained his Masters in Accountancy from Miami University, Oxford, Ohio, USA. He, prior to his present assignment, was Professor of Accounting in the Division of Accountancy and Legal Environment, Marshall University, USA. At present he is Professor of Accounting, Eberly College of Business and Information Technology, Indiana University of Pennsylvania, U.S.A. Dr. Suneel Maheshwari has also been a management consultant to many corporate-sector giants, like Holiday Inn and TCS. His research interests include Executive Compensation, Activity-based Costing, Ethical issues and Interdisciplinary Applications. He has around three decades of teaching, research and industry experience. He has also authored more than 70 books/monographs and contributed over 40 articles in refereed national and international journals, besides attending/chairing several national and international conferences.



**Mr. Sharad K. Maheshwari** is a highly qualified business professional with around 25 years of experience at senior management positions and as a Consultant. He is an accomplished Chartered Accountant, a Cost & Management Accountant, a Company Secretary, a CPA from Australia and a CMA from USA. Mr. Sharad is a Fellow Member of the Institute of Chartered Accountants of India, Associate Member of the Institute of Cost & Management Accountants of India and Associate Member of the Institute of Company Secretaries of India. He is currently practising as a Chartered Accountant at, Gurugram, Haryana. Prior to this, he also provided his services as General Manager: Dalmia Cement Bharat Ltd., New Delhi, General Manager: Corporate Finance, The Lalit Suri Hospitality Group, New Delhi, and also served as a Senior Executive with

Schlumberger Ltd., Baker Hughes, and Bumi Armada Ltd., three leading names in the oil field services industry. Mr. Sharad has also authored more than six dozen books/monographs besides participating in several national and international seminars.

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