BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – I

Model Test Paper – BOS/PCC/ Advanced Accounting – 1/2007

Time : 3 hours Maximum Marks : 100

PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions.

1. The following information relates to the business of Mr. Ashok, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2006 and a Balance Sheet as on that date:

(a)

	Balance as on 31st March, 2005 Rs.	Balance as on 31st March, 2006 Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

(b) Cash transactions during the year included the following besides certain other items:

	Rs.		Rs.
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
		Payment to creditors	1,84,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Cash Sales	80,000
Collection from debtors	2,00,000		

(c) Other information:

(i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2005 was Rs. 20,000 was sold on 30th September, 2005 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.

(iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.

(v) Outstanding salary on 31st March, 2005 was Rs. 8,000 and on 31st March, 2006 was Rs. 10,000. On 31st March, 2005 Profit and Loss Account had a credit balance of Rs. 40,000.

(vi) 20% of total sales and total purchases are to be treated as for cash.

(vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts. (20 Marks)

2. (a) Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are Rs. 10,000 as down payment and 8 monthly instalments of Rs.5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 2006.

As on 1st January, 2006 last instalment on 30 computers was outstanding as these were not due up to the end of the previous year.

During 2006 the firm sold 240 computers. As on 31st December, 2006 the position of instalments outstanding were as under :

Instalments due but not collected :

2 instalments on 2 computers and last instalment on 6 computers.

Instalments not yet due :

8 instalments on 50 computers, 6 instalments on 30 computers and last instalment on 20 computers.

Two computers on which 6 instalments were due and one instalment not yet due on 31.12.2006 had to be repossessed. Repossessed stock is valued at 50% of cost. All other instalments have been received.

(b) The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st March, 2006:

Rebate on bills discounted as on 1-4-2005	68,259 (Cr.)
Discount received	1,70,156 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (Rs.)	Due date
2,80,000	June 1, 2006
8,72,000	June 8, 2006
5,64,000	June 21, 2006
8,12,000	July 1, 2006
6,00,000	July 5, 2006

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2006 and pass Journal Entries. The rate of discount may be taken at 10% per annum. (8 +8= 16 Marks)

3\. (a) Mr. A owed Rs. 4,000 on 1st January, 2004 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	Rs.
15 January, 2004 Mr. X sold goods to Mr. A	2,230
29 January, 2004 Mr. X bought goods from Mr. A	1,200
10 February, 2004 Mr. A paid cash to Mr. X	1,000
13 March, 2004 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2004. Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

(b) On 1.4.2005, Mr. Krishna Murty purchased 1,000 equity shares of Rs. 100 each in TELCO Ltd. @ Rs. 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per Rs. 100 as cost of shares transfer stamps. On 31.1.2006 Bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share respectively. On 31.3.2006 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as current assets and closing value of investments shall be made at Cost or Market value. (6+6 = 12 Marks)

4. (a) The balance sheet of A & B, a partnership firm, as at 31st March, 2006 is as follows.

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Goodwill	14,000
A	26,400		Land and building	14,400
B	33,600	60,000	Furniture	2,200
Contingency reserve		6,000	Stock	26,000
Sundry creditors		9,000	Sundry debtors	6,400
			Cash at bank	12,000
		75,000		75,000

A & B share profits and losses as 1:2. They agree to admit C (who is also in business on his own) as a third partner from 1.4.2006.

The assets are revalued as under:

Goodwill Rs. 18,000, land and building Rs. 30,000 and furniture Rs. 6,000. C brings the following assets into the partnership: goodwill Rs. 6,000, furniture Rs. 2,800 and stock Rs. 13,600.

Profits in the new firm are to be shared equally by the three partners and the capital accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening balance sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.

(b) The position of Unfortunate Ltd. on its liquidation is as under:

Issued and paid up Capital:

3,000 11% preference shares of Rs. 100 each fully paid.

3,000 Equity shares of Rs. 100 each fully paid.

1,000 Equity shares of Rs. 50 each Rs. 30 per share paid.

Calls in Arrears are Rs. 10,000 and Calls received in Advance Rs. 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs. 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

(c) From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2006 :

	Direct Business	Re-Insurance
	Rs.	Rs.
Claim paid during the year	46,70,000	7,00,000
Claim Payable— 1st April, 2005	7,63,000	87,000
31st March, 2006	8,12,000	53,000
Claims received	–	2,30,000
Claims Receivable—1st April, 2005	–	65,000
31st March, 2006	–	1,13,000
Expenses of Management	2,30,000	–
(includes Rs. 35,000 Surveyor's fee and Rs. 45,000		
Legal expenses for settlement of claims)		

(10+5+ 5= 20 Marks)

5. Answer any ten of the following (Give adequate reasoning or working notes in support of your answer) :

(i) The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions. Is the statement true or false?

(ii) If payment is made on the average due date, it results in loss of interest to creditors. Is the statement true or false?

(iii) During the year 2005-2006, a medium size manufacturing company wrote down its inventories to net realisable value by Rs. 5,00,000. Is a separate disclosure necessary in final accounts?

(iv) A, B and C are partners with profit sharing ratio 5:3:2. A wants to retire , B and C agreed to continue at 2:1. Find the profit gaining ratio between B and C.

(v) If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. State whether the statement is true or false.

(vi) Joint life policy is taken by the partners in order to provide working capital for the firm. Is the statement true or false?

(vii) The company finds that the stock sheets of 31.3.2006 did not include two pages containing details of inventory worth Rs. 14.5 lakhs. State, how you will deal with this matter in the accounts of U Ltd. for the year ended 31st March, 2007 with reference to AS 5.

(viii) Following are the statements of interest on advances in respect of performing and non-performing assets of Madura Bank Ltd. Find out the income to be recognised for the year ended 31st March. 2006.

Performing Assets	Interest earned	Interest received
		(Rs. in lakhs)
Cash credit and overdrafts	1,800	1,060
Bills purchased and discounted	700	550
Non-performing Assets		
Cash credit and overdrafts	450	70
Bills purchased and discounted	350	36

(ix) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

Issued Rs. 1,00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.

(x) In self balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger. State whether the statement is true or false.

(xi) Net profit for the current year Rs. 1,00,00,000

No. of equity shares outstanding	50,00,000
Basic earnings per share	Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000

Compute Diluted Earnings Per Share.

(10x 2= 20 Marks)

6. Answer any four of the following:

(i) Explain the salient features of a computerized accounting system in brief.

(ii) Explain the provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.

(iii) X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2006 it changed to WDV basis. The impact of the change when computed from the date of the asset coming to use amounts to Rs. 20 lakhs being additional charge.

Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS 6.

(iv) When Capitalisation of borrowing cost should cease as per Accounting Standard 16?

(v) List the preferential creditors, who are eligible for preferential payment upon insolvency of an individual. (4 x 3 = 12 Marks)

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PROFESSIONAL COMPETENCE COURSE

GROUP – I

Model Test Paper – BOS/PCC/ Advanced Accounting – 2/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 1 : ADVANCED ACCOUNTING

Answer all questions.

1. The following are the Balance Sheets of RS Ltd. and XY Ltd. as on 31.3.2006:

Rs. in '000s

Liabilities	RS Ltd.	XY Ltd.	Assets	RS Ltd.	XY Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Fixed Assets net of		
Equity Shares of Rs. 100 each fully paid up	2,000	1,000	depreciation	2,700	850
			Investments	700	–
Reserves and Surplus	800	–	Sundry Debtors	400	150
10% Debentures	500	–	Cash and Bank	250	–
Loan from Financial Institutions	250	400	Profit and Loss Account	–	800
Bank Overdraft	–	100			
Sundry Creditors	300	300			
Proposed Dividend	200	—			
Total	4,050	1,800	Total	4,050	1,800

It was decided that XY Ltd. will acquire the business of RS Ltd. for enjoying the benefit of carry forward of business loss. After acquisition, XY Ltd. will be renamed as XYZ Ltd. The following scheme has been approved for the merger:

(i) XY Ltd. will reduce its shares to Rs. 10 and then consolidate 10 such shares into one share of Rs. 100 each (New Share).

(ii) Financial institutions agreed to waive 15% of the loan of XY Ltd.

(iii) Shareholders of RS Ltd. will be given one new share of XY Ltd. in exchange of every share held in RS Ltd.

(iv) RS Ltd. will cancel 20% holding of XY Ltd. Investments were held at Rs. 250 thousands.

(v) After merger the proposed dividend of RS Ltd. will be paid to the shareholders of RS Ltd.

(vi) Authorised Capital of XY Ltd. will be raised accordingly to carry out the scheme.

(vii) Sundry creditors of XY Ltd. includes payable to RS Ltd. Rs. 1,00,000.

Pass the necessary entries to implement the scheme in the books of RS Ltd. and XY Ltd. and prepare a Balance Sheet of XYZ Ltd. (20 Marks)

2. (a) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2007 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2007

	Rs. '000		Rs.'000
Balance on 1.4.2006	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2007	150
	3,250		3,250

(b) Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	Rs.
Department X	36,000
Department Y	27,000
Department Z	18,000

Stock lying at different departments at the end of the year are as under :

	Dept. X Rs.	Dept. Y Rs.	Dept. Z Rs.
Transfer from Department X	—	15,000	11,000
Transfer from Department Y	14,000	—	12,000
Transfer from Department Z	6,000	5,000	—

Find out the correct departmental Profits after charging Managers' commission

(6 +6 = 12 Marks)

3. (a) Ajay, Vijay, Ram and Shyam are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2006 :

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		3,00,000	Sundry Debtors	3,50,000
Capital A/cs :			Less: Doubtful Debts	50,000
Ajay	7,00,000			3,00,000
Shyam	3,00,000	10,00,000	Cash in hand	1,40,000
			Stocks	2,00,000
			Other Assets	3,10,000
			Capital A/cs:	
			Vijay	2,00,000
			Ram	1,50,000
		13,00,000		13,00,000

On 31st March, 2006, the firm is dissolved and the following points are agreed upon:

Ajay is to takeover sundry debtors at 80% of book value

Shyam is to takeover the stocks at 95% of the value and

Ram is to discharge sundry creditors.

Other assets realise Rs. 3,00,000 and the expenses of realisation come to Rs.30,000.

Vijay is found insolvent and Rs. 21,900 is realised from his estate.

Prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c.

The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(b) On 1st December, 2005, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for Rs. 85 lakhs. On 31st March, 2006 the company found that it had already spent Rs. 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs. 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2006 as per provisions of Accounting Standard 7 (Revised)?

(c) A fire occurred in the premises of Agni on 25th August, 2006 when a large part of the stock was destroyed. Salvage was Rs. 15,000. Agni gives you the following information for the period of January 1, 2006 to August 25th, 2006:

(a) Purchases Rs. 85,000.

(b) Sales Rs. 90,000

(c) Goods costing Rs. 5,000 were taken by Agni for personal use.

(d) Cost price of stock on January 1, 2006 was Rs. 40,000

Over the past few years, Agni has been selling goods at a consistent gross profit margin of 33-1/3%.

The insurance policy was for Rs. 50,000. It included an average clause.

Agni asks you to prepare a statement of claim to be made on the insurance company. (12+5+4=21 Marks)

4. (a) From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2006 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

Information:

1. Subscriptions in arrear for 2006 Rs. 900 and subscriptions in advance for 2006 Rs.350.
2. Insurance premium outstanding Rs. 40.
3. Misc. expenses prepaid Rs. 90.
4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

(b) Calculate Average Due date from the following information:

Date of the bill	Term	Amount Rs.
August 10, 2004	3 months	6,000
October 23, 2004	60 days	5,000
December 4, 2004	2 months	4,000
January 14, 2005	60 days	2,000
March 08, 2005	2 months	3,000

(10 +5= 15 Marks)

5. Answer any ten of the following (Give adequate reasoning or working notes in support of your answer) :

(i) All significant accounting policies adopted in preparation and presentation of financial statements must be disclosed. State whether the statement is true or false.

(ii) A, B and C share profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively: They agreed to take D into partnership and give him 1/8th share. Compute new profit sharing ratio between A B, C and D.

(iii) As per the decision in Garner vs. Murray the loss on account of insolvency of a partner should be borne by the solvent partners in their profit sharing ratio. State the validity of the statement.

(iv) M/s Dogra & Co. installed a machinery for Rs. 5,00,000 on 1.1.2000. They were charging deprecation on straight line basis taking useful life of the machine as 10 years. In December, 2006 they found that the machine became obsolete which could not be used. The machine can fetch only Rs. 50,000. Classify this loss into capital or revenue.

(v) During 2005, subscription received in cash in Rs. 42,000. It includes Rs. 1,600 for 2004 and Rs. 600 for 2006. Also Rs. 3,000 has still to be received for 2005. Calculate amount to be credited to income and Expenditure Account in respect of subscription.

(vi) The company deals in two products, A and B, which are neither similar nor interchangeable. At the time of closing of its account for the year 2005-06, the Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

Items	Historical Cost (Rs. in lakhs)	Net Realisable Value (Rs. in lakhs)
A	40	28
B	16	24

What will be the value of Closing Stock?

(vii) A plant was depreciated under two different methods as under:

Year	SLM (Rs. in lakhs)	W.D.V. (Rs. in lakhs)
1	7.80	21.38
2	7.80	15.80
	15.60	37.18
3	7.80	6.38

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to SLM method for first two years?

(viii) A Ltd. take over B Ltd. on April 01, 2007 and discharges consideration for the business as follows:

(a) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

(b) Issued fully paid up 15% preference shares of Rs. 100 each to discharge the preference shareholders (Rs. 1,70,000) of B Ltd. at a premium of 10%.

(c) It is agreed that the debentures of B Ltd. (Rs. 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate the amount of purchase consideration.

(x) ABC Ltd. is constructing a fixed asset. Following are the expenses incurred on the construction:

Materials	Rs. 10,00,000
Direct Expenses	Rs. 2,50,000
Total Direct Labour	Rs. 5,00,000

(1/10th of the total labour time was chargeable to the construction)

Total office & administrative expenses	Rs. 8,00,000
(5% is chargeable to the construction)	
Depreciation on the assets used for the construction of this assets	Rs. 10,000

Calculate the cost of fixed assets.

(xi) In Account current, red-ink interest is treated as negative interest. Judge the validity of the statement. (10 x 2= 20 Marks)

6. Answer any four of the following:

(i) X Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at Rs.10 lacs to another company for Rs.15 lacs. The agreement to sell was concluded on 28th February, 2006 and the sale deed was registered on 1st May, 2006. Comment with reference to AS 4.

(ii) A Pharma Company spent Rs. 33 lakhs during the accounting year ended 31st March, 2006 on a research project to develop a drug to treat "AIDS". Experts are of the view that it may take four years to establish whether the drug will be effective or not and even if found effective it may take two to three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment.

(iii) Distinguish between Receipt and Payment and Income and Expenditure account.

(iv) Explain 'Classification of Advances' in the case of a Banking Company.

(v) State the different types of Leases contemplated in Accounting Standard 19 and discuss briefly. (4x3 =12 Marks)

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GROUP – I

Model Test Paper – BOS/PCC/ Auditing And Assurance – 1/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 2 : AUDITING AND ASSURANCE

Answer all the questions

1. Answer any ten questions.

   (a) SG Ltd. is a subsidiary of a Government company. Can it be called a Government Company?

   (b) SBC Ltd. is a Company in which 26% of the subscribed share capital is held by the Central Government. Whether it is required to appoint / reappoint the auditor by special resolution?

   (c) 'Pratham' is the first auditor of company Nirman Pvt. Ltd. He is removed from office before the expiry of his term. Is obtaining prior approval of Central Government is necessary?

   (d) 'Dharm Sanstha' is a company licenced to operate under section 25 of the Companies Act, 1956. Will CARO, 2003 be applicable to it?

   (e) The internal auditor as well as the statutory auditor are both appointed by the members in general meeting. Comment.

   (f) 'Child Treat' is an NGO, registered under the Companies Act, 1956. It maintains its books of accounts on cash basis. Would it amount to non compliance of the provision of the Companies Act?

   (g) Karmen did the audit of XX Pvt. Ltd. Directors of XX Pvt. Ltd. claim that audit working papers are the property of the company. Is the claim proper?

(h) 'D' a CA in practice disclosed information acquired in the course of his professional engagement to his friend 'P' without the consent of his client. Comment.

(i) What is Control Risk?

(j) ACC & Co. is a partnership firm. At the time of admission of D, goodwill of the firm is raised to Rs. 100000, by passing following entry;

Goodwil a/c	Dr.	100000	
A's Capital a/c			33334
B's Capital a/c			33333
C's Capital a/c			33333

Is the entry passed by ACC & Co. in confirmity with AS 10?

(k) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward losses. Comment.

(l) An auditor purchased goods worth Rs.1,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers.Comment. (10 X 2 = 20 Marks)

2. (a) An entity's continuance as a going concern is usually assumed in the preparation of financial statements. However there are some indicators questioning the appropriateness of the going concern assumption. What are those indicators?

(10 Marks)

(b) What is the purpose of the AAS 20 (Knowledge of Business). State the sources of obtaining knowledge of the industry and the entity. (10 Marks)

3. (a) AB Pvt. Ltd. maintains its books of accounts in EDP environment. According to Mr. M, the Chief Accountant of AB Pvt. Ltd., ' auditing in an EDP environment is simpler since the trial balance always tallies.' Analyse critically his statement. (5 Marks)

(b) What is the meaning of the term ' Examination in Depth'? Explain with an example.

(5 Marks)

4. (a) While doing audit of a concern, you observe that there are some cheques received by the concern on the last date of the financial year, but they have not been deposited with the bank on that day. No entry is passed for these cheques received by the auditee on the last day of the year. Comment. (6 Marks)

(b) How will you vouch the "Goods sent out on sale or return basis"? (4 Marks)

5 State the special steps involve in the audit of a hospital. (10 Marks)

6. (a) CG Ltd. is a company in which 25% of the paid up share capital is held by a State Government and 26% of the paid up share capital is held by a Government Company.Who will appoint the auditor of CG Ltd.?Also state other categories of companies to which provision of section 619B is applicable. (6 Marks)

(b) Books of accounts of ST Pvt. Ltd. were audited by CA. Sidharth.After completing audit he issued an unqualified audit report. What does an unqualified audit report indicate? (4 Marks)

7. (a) CNT Ltd. has raised money by issue of shares to meet the cost of construction of building and plant. Building and plant cannot be made profitable for a long time. CNT Ltd. wants to pay interest on paid up share capital during construction period. Is there any provision in the Companies Act, 1956 under which it can pay interest on paid up share capital during construction period?

OR

SW Ltd. wants to issue sweat equity shares. Explain the meaning of sweat equity shares and conditions to be fulfilled for issuing these type of equity shares.

(6 Marks)

(b) How auditing is related to financial management? (4 Marks)

8. Write short notes on any two of the following:

(a) Work performed by others

(b) Limitation of scope

(c) Qualities of auditors (5 x 2 = 10 Marks)

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Time : 3 hours | Maximum Marks : 100

PAPER – 2 : AUDITING AND ASSURANCE

Answer all the questions

1. Answer any ten questions.

   (a) The primary responsibility for the prevention and detection of fraud and error rests with auditor of the company. Comment.

   (b) In case of difference of opinion among the joint auditors, the joint auditors are bound by the view of majority of joint auditors. State it is true or false.

   (c) Rs. 5 lakhs paid by a pharma company to the legal advisor defending the patent of a product treated as Capital Expenditure. Is the treatment correct?

   (d) State whether a casual vacancy created on account of resignation can be filled by the Board of directors.

   (e) What is the meaning of good evidence? Give an example.

   (f) The auditor has to ensure that material items are properly and distinctly disclosed in the financial statements. What are material items?

   (g) The members of C. Ltd. preferred a complaint against the auditor stating that he has failed to send the auditors report to them.Comment.

   (h) ULT Company is a private company with unlimited liability. It has paid up share capital of Rs. 20 lakhs. Will CARO, 2003 be applicable to it?

   (i) When an adverese opinion is expressed?

(j) Cost auditor of CD Ltd. is appointed by the Board of Directors. Can the cost auditor be appointed by Board of Directors?

(k) The auditor of a company wanted to see the minutes book of Directors meetings. The Chairman of the company refused for the same on the ground that matters of confidential nature were contained therein. Comment.

(l) As per view of a director of TCG Ltd. 'the primary responsibility of prevention and detection of fraud and errors is of auditor.'Comment. (10 X 2 Marks)

2. (a) "For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence as per AAS 22".Comment. (8 Marks)

(b) What is auditor's report? What are the basic elements of auditor's report as per AAS 28 (The Auditor's Report on Financial Statements) (12 Marks)

3. (a) In an CIS environment, an entity establishes an organizational structure and procedures to manage the CIS activities. What are the characteristics of an CIS organizational structure? (5 Marks)

(b) While auditing the books of PE Pvt. Ltd., it is found that personal expenditure of Mr. Freeflow, a director of the company, has been met by the company. How will this expenditure be vouched? (5 Marks)

4. (a) SBD Ltd. is a company in which 13% of the subscribed capital is held by a public financial institution and 14% of the subscribed capital is held by a Government company. State whether SBD Ltd. is required to pass a special resolution for the appointment of auditor. (5 Marks)

(b) Whether the auditor can exercise lien on the client's documnt in his possession for non-payment of fees for work done for the client? (5 Marks)

5. State the special steps involved in the audit of a club. (10 Marks)

6. (a) Which are the different organisations that require audit under law? (5 Marks)

(b) The paid up capital and reserves of the BC Ltd. is Rs. 51 lakh as at the commencement of the financial year 2005-06. Is BC Ltd. required to have an internal audit system? (5 Marks)

7. (a) How would you verify the issue of bonus shares?

OR

What is audit risk? What are the different components of audit risk? (6 Marks)

(b) What are the significant matters observed during the course of audit, a record of which should be kept in the audit note book? (4 Marks)

8. Write short notes on any two of the following:

(a) Internal Control Questionnaire

(b) Director's Responsibility Statement

(c) Intangible Assets (5 X 2 Marks)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – I

Model Test Paper – BOS/PCC/ Law, Ethics and Communication – 1/2007

Time : 3 hours Maximum Marks : 100

PAPER – 3 : LAW, ETHICS AND COMMUNICATION

PART – I : LAW (60 MARKS)

Question No. 1 & 2 are compulsory and answer any eight from the rest

1. (a) What is meant by Anticipatory Breach of Contract? (4 Marks)

   (b) Mr. Dubious textile enters into a contract with Retail Garments Show Room for supply of 1,000 pieces of Cotton Shirts at Rs. 300 per shirt to be supplied on or before 31st December, 2006. However, on 1st November, 2006 Dubious Textiles informs the Retail Garments Show Room that he is not willing to supply the goods as the price of Cotton shirts in the meantime has gone upto Rs.350 per shirt. Examine the rights of the Retail Garments Show Room in this regard. (6 Marks)

2. ABC Company Limited at a general meeting of members of the company pass an ordinary resolution to buy-back 30% of its Equity Share Capital. The articles of the Company empower the company for buy-back of shares. The company further decide that the payment for buy-back be made out of the proceed of the company's' earlier issue of equity shares. Explaining the provisions of the Companies Act, 1956, and stating the sources through which the buy-back of companies own shares be executed. Examine.

   (i) Whether company's proposal is in order?

   (ii) Would your answer be still the same in case the company instead of 30% decide to buy-back only 20% of its Equity Share Capital? (10 Marks)

3. Ram, Rahim and Robert are partners of software business and jointly promises to pay Rs.30, 000 to Raheja. Over a period of time Rahim became insolvent, but his assets are sufficient to pay one-forth of his debts. Robert is compelled to pay the whole. Decide whether Robert is required to pay whole amount himself to Raheja in discharging joint promise. (5 marks)

4. Define an offer. How an offer is different from an invitation to offer. (5 Marks)

5. Who is holder in due course? How he is different from a Holder? (5 Marks)

6. What are the conditions upon which unit-wise profitability can be the basis for payment of bonus by an establishment under the Payment of Bonus Act, 1965? (5 Marks)

7. A draws a bill on B. B accepts the bill without any consideration. The bill is transferred to C without consideration. C transferred it to D for value. Decide-

   (i) Whether D can sue the prior parties of the bill, and

   (ii) Whether the prior parties other than D have any right of action intense?

   Give your answer in reference to the provisions of Negotiable Instruments Act, 1881.

   (5 Marks)

8. How can a person acquire membership of a public company? Explain in brief, whether shareholders and members are similar? Illustrate, whether a limited company can become partner in a partnership firm? (5 Marks)

9. Define Private Company. Briefly explain the privileges and exemptions for a private company as provided under the Companies Act, 1956. (5 Marks)

10. What do you mean by Proxy? Explain the provisions relating appointment of Proxy under the Companies Act, 1956. (5 Marks)

11. Explain the procedure for payment of Interim Dividend. (5 Marks)

12. Briefly explain the effects of Irregular allotment under the Companies Act 1956.

    (5 Marks)

PART – II : BUSINESS ETHICS (20 Marks)

Answer all questions

13. Write an essay (up to 200 words) on any one of the following:

    (a) Work Place Ethics

    (b) Corporate Governance-Key Issues (10 Marks)

14. Explain the need for business ethics.

    OR

    Explain the term "sustainable development" with reference to pollution and conservation of natural resources. (5 Marks)

15. What are the various ethical threats faced by an accounting and finance professional working as an employee of a company?

    OR

    Distinguish between any two

    (a) Morals and ethics.

    (b) Shareholder and stakeholder

    (c) Public interest and consumer interest (5 Marks)

PART – III : BUSINESS COMMUNICATION (20 Marks)

Answer all questions

16. Draft a Notice and Minutes of an Annual General meeting of XYZ Ltd. to be held on __________ at its Registered Office in Mumbai to transact the following business.

    (i) To consider and adopt the Audited Balance Sheet of the company as on __________ and the Profit & Loss Account for the year ended on that date and Auditor's and Directors' Reports thereon.

    (ii) To declare dividend for the year ending __________ .

    (iii) Reappointment of Directors.

    (iv) Appoint Statutory Auditors of the company; and fix their remuneration. (10 Marks)

17. Enlist and briefly outline the major components of a typical business letter.

    OR

    Why is organisation wide change difficult to accomplish? (5 Marks)

18. How would you guide someone who wants to improve his active listening skills

    OR

    What are the different types of press releases in case of Government. (5 Marks)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – I

Model Test Paper – BOS/PCC/ Law, Ethics and Communication – 2/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 3 : LAW, ETHICS AND COMMUNICATION

PART – I : LAW (60 MARKS)

Question No. 1 & 2 are compulsory and answer any eight from the rest

1. (a) Explain the concept of 'misrepresentation' in matters of contract. (4 Marks)

   (b) Sohan induced Suraj to buy his motorcycle saying that it was in a very good condition. After taking the motorcycle, Suraj complained that there were many defects in the motorcycle. Sohan proposed to get it repaired and promised to pay 40% cost of repairs. After a few days, the motorcycle did not work at all. Now Suraj wants to rescind the contract. Decide giving reasons. (6 Marks)

2. (a) Explain clearly the meaning of Lifting the Corporate Veil, as applicable in case of companies incorporated under the Companies Act, 1956. Under what circumstances the veil of a company can be lifted by the court? (6 Marks)

   (b) Who is an 'Expert'? When an expert is not liable for the mis-statement in the prospectus of a public company? (4 Marks)

3. What do you understand by "Agency by Ratification"? Point out any four elements of a valid ratification. (5 Marks)

4. What are the differences between "negotiability" and "assignability" under the Negotiable Instruments Act, 1881? (5 Marks)

5. On 1st January, 2002, Aryan Textiles Ltd. agreed with the employees for payment of an annual bonus linked with production or productivity instead of bonus based on profits subject to the limit of 30% of their salary wages during the relevant accounting year. It was also agreed by the employees that they will not claim minimum bonus stated under Section 10 of the Payment of Bonus Act, 1965. As per the agreement the employees of Aryan Textiles Ltd claimed annual bonus linked with production or productivity in the relevant accounting year. On refusal of the company the employees of the company moved to the court for relief.

   Decide in reference to the provisions of the payment of Bonus Act, 1965 whether the employees will get the relief? Inspite of the aforesaid agreement whether the employees are still entitled to receive minimum bonus. (5 Marks)

6. Is the amount standing to the credit of a member of the Provident Fund attachable in the execution of decree or order of the Court? Examine the law, on this point, laid down in the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. (5 Marks)

7. Mr. Seth an industrialist has been fighting a long drawn litigation with Mr. Raman another industrialist. To support his legal campaign Mr. Seth enlists the services of Mr. X a legal expert stating that an amount of Rs.5 lakhs would be paid, if Mr. X does not take up the brief of Mr. Raman. Mr. X agrees, but at the end of the litigation Mr. Seth refuses to pay. D ecide whether Mr. X can recover the amount promised by Mr. Seth under the provisions of the Indian Contract Act, 1872. (5 Marks)

8. Advise the Board of Directors of a public limited company in relation to following matters, under the provisions of the Companies Act, 1956 :

   (i) Sources out of which the company can declare dividend.

   (ii) Transfer of profits to reserves before declaring dividend, for a particular financial year. (5 Marks)

9. Explain the provisions of the Companies Act, 1956 relating to establishment of an "Investors Education and Protection Fund." (5 Marks)

10. The Board of Directors of a company decide to pay 5% of issue price as underwriting commission to the underwriters. On the other hand the Articles of Association of the company permit only 3% commission. The Board of Directors further decide to pay the commission out of the proceeds of the share capital. Are the decisions taken by the Board of Directors valid under the Companies Act, 1956? (5 Marks)

11. What do you understand by "share-warrant"? How is a share-warrant different from "share certificate"? (5 Marks)

12. A who holds one share certificate of 1000 Equity shares in a company, wants to transfer 300 shares in favour of B. Explain the procedure to be followed for executing the partial transfer under the provisions of the Companies Act, 1956. (5 Marks)

PART – II : BUSINESS ETHICS (20 Marks)

Answer all questions

13. (a) Examine the importance of business ethics in the present corporate environment.

    (b) List the benefits of eco-friendly business practices. (10 Marks)

14. What is an ethical dilemma? List the guidelines one could follow to address an ethical dilemma.

OR

Write short notes on any two

(i) Ethical conflict resolution.

(ii) Conservation of natural resources

(iii) Global Reporting Initiative. (5 Marks)

15. List the various ways in which a business could integrate corporate social responsibility in to its business strategy and decision making framework

OR

What are the initiatives that have been taken in the Indian context towards maintaining and promoting healthy competition? (5 Marks)

PART – III : BUSINESS COMMUNICATION (20 Marks)

Answers all questions.

16. Draft the Chairman's speech for the Annual General Meeting of a listed company.

(10 Marks)

17 . " Effective listening is an essential skill for managers." Explain.

OR

Comment on the following statements in about 30 words each:

(i) Feedback enhances effectiveness of communication.

(ii) A leader is indispensable for group discussion.

(iii) Good business correspondence promotes Company's public relations.

(iv) Sign language is quite likely to be misunderstood.

(v) Written communication is indispensable to an organisation. (5 Marks)

18. Draft a press release for a national business paper regarding introduction of dress code for CAs .

OR

You have to write an effective business letter. Answer the following questions:

(a) How many format styles are often used

(b) What are the main differences among them? (5 Marks)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – II

Model Test Paper – BOS/PCC/ Cost Accounting and Financial Management – 1/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 4 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART – I : COST ACCOUNTING (50 marks)

1. Give brief answers to any five of the following:

   (a) Are fixed costs per unit variable in nature? If yes, why?

   (b) Amongst the four alternatives provided to you below, which would be the most appropriate basis for apportioning machinery insurance costs to cost centres within a factory and why?

      1. The number of machines in each cost centre
      2. The floor area occupied by the machinery in each cost centre
      3. The value of the machinery in each cost centre
      4. The operating hours of the machinery in each cost centre.

   (c)- Department L production overheads are absorbed using a direct labour hour rate. Budgeted production overheads for the department were Rs. 480,000 and the actual labour hours were 100,000. Actual production overheads amounted to Rs. 516,000. Based on the above data, and assuming that the production overheads were over absorbed by Rs. 24,000, what was the overhead absorption rate per labour hour?

(d) When material prices fluctuate widely, what is the most suitable method (from amongst the Weighted Average, LIFO or FIFO) for pricing material?

(e) "A favourable production volume variance may indicate that the capacity of the plant has not been estimated properly". Do you agree with the statement ? If yes, why?

(f) What do you understand by over absorbed overheads? (5×2=10 Marks)

2. The following Bill of Material relates to a Product called 'ABAB' , the maximum capacity per month of which is 200 Units .

Material description	Std Quantity	Std Cost
A	1 Kg	Rs 2000 per Kg
B	10 Nos	Rs 200 per Unit
C	2 Litres	Rs 50 per litre

Budgeted fixed expenses per month equal Rs 1.5 Lakhs. The budgeted selling price of the product is Rs 6000/. Other variable costs (apart from Raw Material) are budgeted at Rs 1000 per Unit. In a particular month 175 Units of this product are produced and sold . The fixed costs incurred in the concerned month were Rs 2 Lakhs whereas the variable cost expenditure was Rs 900 per Unit . You are required to :

(a) Compute the Standard Cost of the product.

(b) Calculate production volume and overhead expense variances. (15 Marks)

3. (a) XYZ manufactures a special type of a 'Metal Ingot', the raw material of which needs to be heated and brought to the desired shape in a Foundry Shop, subsequent to which it is worked upon in the Machine Shop on a Lathe and a Drill machine. The product is finally assembled in the Assembly Shop.Details of manufacturing expenses are as follows:

	Foundry Shop	Machine Shop	Assembly Shop	Total
Direct wages	Rs. 10,000	Rs. 50,000	Rs. 10,000	Rs. 70,000
Works overhead	5,000	90,000	10,000	1,05,000

The Product cost of manufacturing one unit of a 'Metal Ingot' was prepared by the company as follows:

Material:		Rs. 16
Direct wages:		
Foundry shop	Rs 2	
Machine shop	4	
Assembly shop	2	8
Works overhead (150% of Direct wages)		12
Total cost		36

Recommend a better way to arrive at the Product Cost. (10 Marks)

(b) Discuss briefly the characteristics of Job, Batch and Contract Costing. (6 Marks)

4. Distinguish between (ANY THREE)

(a) Cost center and Cost unit

(b) Period cost and Product cost.

(c) Fixed Budget and Functional Budget

(d) Absorption Costing and Marginal Costing (3×3 = 9 Marks)

PART – II : FINANCIAL MANAGEMENT (50 marks)

(Answer all questions)

5. Answer any five of the following, supporting the same with reasoning/working notes:

(a) You are considering borrowing Rs.10,000 for 3 years at an annual interest rate of 6%. The loan agreement calls for 3 equal payments, to be paid at the end of each of the next 3 years. (Payments include both principal and interest.) Calculate the annual payment that will fully pay off (amortize) the loan.

(b) Theta Company will pay a Rs. 4 dividend next year on its common shares, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

(c) Interest rates and bond prices sometimes move in the same direction, sometimes in opposite directions. Is the statement true or false?

(d) Risk varies inversely with profitability. Is the statement true or false?

(e) EOQ is the order quantity that minimizes total carrying costs over our planning horizon. Is the statement true or false?

(f) Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are Rs. 80,00,000 and ROI is 8 percent. (5×2=10 Marks)

6. A company is considering its working capital investment and financial policies for the next year. Estimated fixed assets and current liabilities for the next year are Rs. 2.60 crores and Rs. 2.34 crores respectively. Estimated sales and EBIT depend on current assets investment, particularly inventories and book-debts. The financial controller of the company is examining the following alternative Working Capital Policies:

(Rs. Crores)

Working Capital Policy	Investment in Current Assets	Estimated Sales	EBIT
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the Financial Controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use Rs. 2.50 crores of the equity funds. The corporate tax rate is 35%. The company is considering the following debt alternatives.

(Rs. Crores)

Financing Policy	Short-term Debt	Long-term Debt
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average	12%	16%

You are required to calculate the following:

(A) Working Capital Investment for each policy:

(a) Net Working Capital position

(b) Rate of Return

(c) Current ratio.

(B) Financing for each policy:

(a) Net Working Capital position

(b) Rate of Return on Shareholders equity

(c) Current ratio. (15 Marks)

7. (a) A Company earns a profit of Rs.3,00,000 per annum after meeting its interest liability of Rs.1,20,000 on 12% debentures. The tax rate is 50%. The number of equity shares of Rs.10 each are 80,000 and the retained earnings amount to Rs.12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs.4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

You are required to:

(i) Compute the Earnings Per Share (EPS), if:

– the additional funds were raised as debt

– the additional funds were raised by issue of equity shares.

(ii) Advise the company as to which source of finance is preferable.

(b) A company has to make a choice between two projects namely A and B. The initial capital outlay of two Projects are Rs.1,35,000 and Rs.2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual incomes are as under:

Year	Project A	Project B	Discounting factor @ 16%
1	-	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

You are required to calculate for each project:

(i) Discounted payback period

(ii) Profitability index

(iii) Net present value. (8+8=16 Marks)

8. Write short notes on any three of the following:

(a) Basic Functions of Financial Management

(b) Effect of Inflation on Inventory Management

(c) Advantages of Debt Securitisation

(d) Limitations of Financial Ratios. (3×3=9 Marks)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – II

Model Test Paper – BOS/PCC/ Cost Accounting and Financial Management – 2/2007

Time : 3 hours Maximum Marks : 100

PAPER – 4 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART – I : COST ACCOUNTING (50 marks)

1. Give brief answers to any five of the following :

   (a) If Rs 10 is spend on producing 10 units and Rs 15 for producing 15, what is the fixed cost per unit ?

   (b) In a perpetual inventory system which classifies inventory into the A,B and C categories, which category of items should be checked most frequently and why?

   (c) Why is a blanket overhead rate not suitable for product costing in a company which is semi automated?

   (d) A company presently does not utilise its available capacity. In case of full capacity utilisation, the cost per unit shall,

      1. Increase
      2. Decrease
      3. Remain constant
      4. None of the above

(e) An increase in contribution can be because of

1. An increase in fixed costs
2. A increase in the selling price of the product
3. A decrease in the variable cost per unit of the product
4. Both 2 and 3.

(f) What do you understand by under absorbed overheads. (5×2=10 Marks)

2. ABC Ltd manufactures Picture Tubes and has a capacity of 1,000 Units per month. The following cost sheet has been prepared on ideal standards by the management accountant;

Description	Fixed Cost per unit(Rs)	Variable cost per unit(Rs)	Total cost per unit(Rs)
Direct material		2,000	2,000
Fixed overheads	1,000		1,000
Variable Overheads		1,000	1,000
Total cost			4,000
Standard selling price			5,000

Details of direct material to be used is as under;

Bill of Material

Description	Standard quantity per unit of Picture Tube (Rs)	Standard price per uni (Rs)	Total cost (Rs)
Glass shell	01	1,000	1,000
Phosphor	100 grams	5 per gram	500
Laquor	50 grams	5 per gram	250
Electron guns	02	125	250
Total cost per picture tube			2,000

During a particular month, the actual usage of Glass Shells and Electron guns was upto the standards. However there was a 20% extra usage accounted for both Phosphor and Laquor. The actual purchase price of these two raw material did not vary from the standards established. However, the price paid for procuring Glass Shell and Electron guns was Rs 1,200 and Rs 150 respectively. The actual production in the concerned month was 800 units of Picture Tubes.There was no deviation in the fixed and variable overheads from the standards established. You are required to compute the following;

(a) Production volume variance.

(b) Usage and purchase price variance of all of the concerned direct material.

(c) Profit made by the company in the relevant month with an actual selling price of Rs 6,000 per Picture Tube. (15 Marks)

3. (a) From the following particulars with respect to a particular item of material of a manufacturing company, calculate the best quantity to order:

Ordering Quantities (tons)	Price per Ton
Less than 250	Rs.6.00
250 but less than 800	5.90
800 but less than 2,000	5.80
2,000 but less than 4,000	5.70
4,000 and above	5.60

The annual demand for the material is 4,000 tonnes.

Stock holding costs are 20% of material cost p.a.

The delivery cost per order is Rs.6. (8 Marks)

(b) The following particulars for the first week of September 2003 relate to X and Y, two workers employed in a factory:

		X	Y
(a)	Job completed (units)	3,600	4,200
(b)	Out of above, output rejected and unsaleable	540	420
(c)	Time allowed	12 minutes per dozen	3 hours for 200 units
(d)	Basic wage rate per hour	Rs.5	Rs.6
(e)	Hours worked	45	50

The normal working hours per week are fixed at 42 hours. Bonus is paid @ 2/3of the basic wage rate for gross time worked and gross output produced without deduction of rejected output. The rate of overtime for first 4 hours is paid at time plus 1/3 and next 4 hours is paid at time plus ½.

From the above data, calculate for each employee:

(a) Number of bonus hours earned and amount of bonus earned,

(b) Total wages earned. (8 Marks)

4. Answer any three of the following;

(a) Distinguish between budget and budgetary control

(b) Distinguish between functional and master budgets.

(c) Differentiate between Marginal and Direct costing.

(d) Differentiate between Profit centre and Investment centre. (3×3=9 Marks)

PART – II : FINANCIAL MANAGEMENT

(Answer all questions)

5. Answer any five of the following, supporting the same with reasoning/working notes:

   (a) The trade terms "2/15, net 30" indicate that a 2% discount is offered if payment is made within 30 days. Is the statement true or false?

   (b) The estimated benefits from a project are expressed as cash flows instead of income flows because it is simpler to calculate cash flows than income flows. Is the statement true or false?

   (c) Beta Company's shares have a beta of 0.90, while Alpha Company's shares have a beta of 1.80. The expected return on the market is 10 percent, and the risk-free rate is 6 percent. According to the capital-asset pricing model (CAPM) and making use of the information given, calculate the required return on Beta and Alpha Companies' shares.

   (d) PL Forgings Limited has an 8 percent return on total assets of Rs.3,00,000 and a net profit margin of 5 percent. What are its sales?

   (e) Best of Luck Company's debt-to-total assets (D/TA) ratio is 0.4. What is its debt-to-equity (D/E) ratio?

   (f) An EBIT-EPS indifference analysis chart is used for determining the impact of a change in sales on EBIT. Is the statement true or false? (5×2=10 Marks)

6. A firm has sales of Rs. 75,00,000; variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000. It has a debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000.

   (i) What is the firm's ROI?

   (ii) Does it have favourable financial leverage?

   (iii) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?

   (iv) What are the operating, financial and combined leverages of the firm?

   (v) If the sales drop to Rs. 50,00,000, what will be the new EBIT?

   (vi) At what level the EBT of the firm will be equal to zero? (15 Marks)

7. (a) Xansa Ltd. has the following book-value capital structure as on March 31, 2006.

	Rs.
Equity share capital (2,00,000 shares)	40,00,000
11.5% preference shares	10,00,000
10% debentures	30,00,000
	80,00,000

The equity share of the company sells for Rs.20. It is expected that the company will pay next year a dividend of Rs.2 per equity share, which is expected to grow at 5% p.a. forever. Assume a 35% corporate tax rate.

Required:

(i) Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.

(ii) Compute the new WACC, if the company raises an additional Rs.20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs.2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs. 16 per share.

(iii) Comment on the use of weights in the computation of weighted average cost of capital.

(b) The cash flows of two mutually exclusive Projects are as under:

	t_0	t_1	t_2	t_3	t_4	t_5	t_6
Project 'A' (Rs.)	(40,000)	13,000	8,000	14,000	12,000	11,000	15,000
Project 'B' (Rs.)	(20,000)	7,000	13,000	12,000	-	-	-

Required:

(i) Estimate the net present value (NPV) of the Project 'A' and 'B' using 15% as the hurdle rate.

(ii) Estimate the internal rate of return (IRR) of the Project 'A' and 'B'.

(iii) Why there is a conflict in the project choice by using NPV and IRR criterion?

(iv) Which criteria you will use in such a situation? Estimate the value at that criterion. Make a project choice.

The present value interest factor values at different rates of discount are as under:

	t_0	t_1	t_2	t_3	t_4	t_5	t_6
0.15	1.00	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323
0.18	1.00	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704
0.20	1.00	0.8333	0.6944	0.5787	0.4823	0.4019	0.3349
0.24	1.00	0.8065	0.6504	0.5245	0.4230	0.3411	0.2751
0.26	1.00	0.7937	0.6299	0.4999	0.3968	0.3149	0.2499

(9+ 7=16 Marks)

8. Write short notes on any three of the following:

(a) Functions of a Chief Financial Officer

(b) William J. Baumal versus Miller-Orr Cash Management Model

(c) Bridge Finance

(d) Funds Flow Statement versus Cash Flow Statement. (3×3=9 Marks)

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROFESSIONAL COMPETENCE COURSE

GROUP – II

Model Test Paper – BOS/PCC/ Taxation –1/2007

Time : 3 hours Maximum Marks : 100

PAPER – 5 : TAXATION

Answer all questions

PART – I : INCOME-TAX (75 MARKS)

1. State with reasons, whether the following statements are true or false [A.Y.2007-08] (Answer any five)
   - (i) Advance tax is payable in four installments in the case of corporate assesses.
   - (ii) Fixed deposits with companies qualify for deduction under section 80C.
   - (iii) Under the proviso to section 139(1), a person fulfilling any of the six expenditure/asset criteria listed therein, is required to furnish his return of income even if his total income is below the basic exemption limit.
   - (iv) As per section 139(1), filing of loss returns is compulsory only for companies and not for firms.
   - (v) Speculation loss can be carried forward for a maximum period of four assessment years.
   - (vi) Long-term capital loss can be set-off against short-term capital gains arising in that year. (5 x 2 = 10 Marks)
2. The following are the particulars of income of Mr. Ganesh, a resident individual, who is working as a general manager with ABC Pvt. Ltd at Mumbai. You are required to compute his total income and tax liability for the A.Y.2007-08.

Basic Salary	Rs.25,000 p.m.
Dearness allowance	Rs.12,000 p.m.
Bonus	Rs.50,000 p.a.
Entertainment allowance	Rs.5,000 p.m.
House rent allowance	Rs.10,000 p.m.
Children education and hostel allowance	Rs.2,500 p.m.
Leave travel allowance	Rs.25,000 p.a.

Neither Ganesh nor his family have undertaken any journey during the year. Ganesh has three children, all of them school-going, studying at an International School in Thane. They commute by school bus to school every day.

Both Ganesh and his employer contribute 10% of salary to recognized provident fund. Ganesh has invested Rs.60,000 in Public Provident Fund and Rs.50,000 in infrastructure bonds of ICICI. He paid mediclaim premium of Rs.7,000 by cheque and Rs.2,000 by cash to New India Assurance Co. Ltd.

Ganesh owns a house property in Chennai, his native place, which he is unable to occupy because of his employment in Mumbai. His grand parents live in that house. The municipal value of house property is Rs.2,05,000 p.a. The standard rent as per Rent Control Act is Rs.1,80,000 p.a. He pays municipal tax @5% on municipal value. Further, he has spent Rs.20,000 on repairs of the house property. He has paid during the year 2006-07, interest of Rs.60,000 on loan borrowed for purchase of the house property. The loan was taken on 31/3/2003.

Ganesh lives in a rented apartment in a society in Mumbai for which he pays a rent of Rs.12,000 per month. He also pays a monthly maintenance allowance of Rs.1,500 per month to the society.

Ganesh has incurred long term capital loss of Rs.4,000 on sale of units of equity oriented fund during the year. However, he has earned short term capital gain in respect of equity shares to the tune of Rs.15,000 (he has paid securities transaction tax in respect of these transactions). Further, he has earned Rs.7,500 on account of long-term capital gains on sale of jewellery. (20 Marks)

3. (a) Sahasra has two houses, both of which are self-occupied. The particulars of the houses for the P.Y.2006-07 are as under:

Particulars	House I	House II
Municipal valuation p.a.	2,00,000	3,00,000
Fair rent p.a.	1,50,000	3,50,000
Standard rent p.a.	1,80,000	3,20,000
Date of completion	31.3.2000	31.3.2000
Municipal taxes paid during the year	10%	6%

Interest on money borrowed for repair of property during the current year	-	40,000

Compute Sahasra's income from house property for A.Y. 2007-08 and suggest which house should be opted by Sahasra to be assessed as self-occupied so that her tax liability is minimum. (8 Marks)

(b) Following is the Profit and Loss account of Mr. Sridhar for the year ended 31.3.2007:

	Rs.		Rs.
To Repairs to building	72,000	By Gross profit	3,42,000
To Administration expenses	37,000	By Income-tax refund	6,000
To Amount paid to scientific research association approved u/s 35	60,000	By Interest from bank deposits	8,000
To Interest	65,000	By Dividends	5,000
To Conveyance and travelling	45,000		
To Banking cash transaction tax	600		
To Net Profit	81,400		
	3,61,000		3,61,000

Following additional information is furnished:

(1) Repairs to building includes Rs.32,000 being cost of raising a compound wall for the own business premises.

(2) Interest payments include interest of Rs.7,000 payable outside India to a resident Indian on which tax has not been deducted and penalty of Rs.8,000 for contravention of Excise laws.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. Sridhar for the year ended 31.3.2007. Depreciation may be ignored. (7 Marks)

4. (a) Compute the gross total income of Mr. Rajesh for the A.Y.2007-08 from the information given below –

Particulars	Rs.
Net income from house property	75,000
Income from textile business (before providing for depreciation)	2,10,000
Short term capital gains on sale of shares	70,000
Long term capital loss from sale of property (brought forward from A.Y.2006-07)	(1,00,000)
Income from tea business	1,60,000

Dividends from Indian companies carrying on agricultural operations	60,000
Current year depreciation	15,000
Brought forward textile business loss of A.Y.2004-05	(30,000)

(7 Marks)

(b) During the previous year 2006-07, Manas had the following income:

		Rs.
(i)	Salary income received in India for services rendered in Sri Lanka	25,000
(ii)	Income from profession in Bangalore, but received in Sri Lanka.	30,000
(iii)	Property income in Nepal (out of which Rs.10,000 was remitted to India).	40,000
(iv)	Profits earned from business in Mysore	22,000
(v)	Profits from a business carried on in Sri Lanka but controlled from India.	50,000
(vi)	Past untaxed profits remitted to India during the previous year.	35,000
(vii)	Agricultural income from land in Karnataka	15,000

Compute his total income for assessment year 2007-08 if he is (i) resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.
(7 Marks)

5. Write short notes on any four of the following -

(a) Tax return preparers

(b) Meaning of "Infrastructure capital company"

(c) Schools of Hindu Law

(d) Persons responsible for paying taxes deducted at source

(e) Aggregation of agricultural income (4 x 4 = 16 Marks)

PART – II : SERVICE TAX AND VAT (25 Marks)

6. (a) Answer the following questions:

(i) What are the three different methods of computation of VAT?

(ii) Before the introduction of State-Level VAT in respect of sales-tax in India, in which form was VAT present in India? (2 x 2 = 4 Marks)

(b) Answer any three of the following with reference to the Finance Act, 1994 as amended relating to applicability of service tax:

(i) Drilling done in sea beyond 12 nautical miles from Indian lands mass in relation to exploration of oil.

(ii) An advance of Rs.5000 received by a company towards provision of a taxable service.

(iii) Construction of a residential housing complex consisting of 10 bungalows.

(iv) Air transport services provided by an aircraft operator to a passenger embarking in India for going to London in economy class. (2 x 3 = 6 Marks)

7. M/s. X & Y is a chartered accountancy firm. Following services are rendered by it during the month of December 2006:

S. No	Particulars	Amount (Rs.)
(a)	Preparation and filing of Form 'A' with BIFR	10,000
(b)	Preparation and filing of Income tax returns	4,000
(c)	Concurrent Audit	2,500
(d)	Certification under the provisions of Income tax Act, 1961	4,500
(e)	Services rendered to a Nationalised bank to recover non performing assets (NPA)	5,500
(f)	Advice on amalgamations and mergers	15,000
(g)	Representing the client before Income-tax Appellate Tribunal	10,000

The consideration for the services mentioned in clause (b) and (e) has not been received during December but in January. The value of taxable services received by Ms. X & Y during the months of September, October, November and January is Rs.45,000, Rs.55,000, Rs.60,000 and Rs.25,000 respectively.

M/s. X & Y is not a small service provider for the purpose of Notification No.6/2005 ST dated 01.03.2005.

You are required to:

(a) compute the service tax liability of M/s. X & Y for the month of December 2006.

(b) determine the service tax payable by M/s. X & Y by January 5th. (3 + 3 = 6 Marks)

8. Answer any three of the following:

(a) Write a brief note on provisional payment of service tax.

(b) Briefly discuss the provisions of the Finance Act, 1994 as amended relating to service tax with respect to packaging services.

(c) List the documents to be submitted along with the service tax return.

(d) Explain the gross product variant of VAT. (3 x 3 = 9 Marks)

BOARD OF STUDIES

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PROFESSIONAL COMPETENCE COURSE

GROUP – II

Model Test Paper – BOS/PCC/ Taxation – 2/2007

Time : 3 hours Maximum Marks : 100

PAPER – 5 : TAXATION

Answer all questions

Part – I : Income-tax (75 marks)

1. State with reasons, whether the following statements are true or false [A.Y.2007-08] (Answer any five)

   (i) The rate of surcharge applicable to foreign companies is 10% of tax on total income.

   (ii) Furnishing return of income on or before due date is mandatory for claiming exemption under section 80-IB.

   (iii) A legal practitioner who is entitled to practice in any civil court in India is qualified to be a tax return preparer.

   (iv) The maximum permissible deduction under section 80CCC is Rs.1,00,000.

   (v) Business loss can be set off against salary income arising during the year.

   (vi) Section 10(38) exempts any capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax. (5 x 2 = 10 Marks)

2. Pranav is the Karta of a HUF consisting of four members viz. Pranav, Pratyoosh, Anirudh and Arvind who share income equally. He furnishes the following information for the purpose of computing the total income and tax liability of the HUF and its members for the A.Y. 2007-08:

	Particulars	Rs.
1.	HUF's business income	6,00,000
2.	Capital gain on sale of shares through the National stock exchange. The shares were in the name of Pranav (purchased out of family funds) and were held for a period of 6 months before sale. Securities transaction tax has been paid on sale.	1,00,000
3.	Capital gain on sale of house owned by HUF, held by it for 7 years before sale	1,20,000
4.	Share of profit from a firm in which Pranav was a partner on behalf of the HUF	1,60,000
5.	Rental receipt from a let out joint family property	1,05,000
6.	Dividend from Indian company in respect of shares held in the name of Pranav (purchased out of family funds)	10,000
7.	Dividend from Indian company received by Pranav on shares purchased out of his own funds	18,000
8.	Short-term capital gains on sale of shares referred to in (7) above through the National Stock Exchange	75,000
9.	Receipt of remuneration by Anirudh on account of his professional qualification from a company in which shares are held by Pranav (shares are purchased out of family funds)	3,52,000
10.	Salary income of Pratyoosh	3,00,000
11.	Donation to Prime Minister's National Relief Fund (out of family funds)	35,000
12.	Deposit in PPF account in the name of Pranav (out of family funds)	50,000
13.	Medical insurance premium paid by cheque by the HUF for insuring the health of Arvind	8,000

(20 Marks)

3. (a) Mr. Ganesh is working in Amazon Ltd. and has given the details of his income for the P.Y. 2006-07. You are required to compute his gross salary from the details given below:

Basic Salary	Rs.12,000 p.m.
D.A. (40% forms part of retirement benefits)	Rs.6,000 p.m.
Commission as a percentage of turnover	2%
Turnover [P.Y.2006-07]	Rs.7,00,000
Bonus	Rs.55,000

Gratuity	Rs.32,000	
Ganesh's contribution to RPF	Rs.25,000	
Employer's contribution to RPF	18% of his basic salary	
Interest accrued in the RPF @ 14% p.a.	Rs.21,000	(8 Marks)

(b) Raghav owns a house in Bangalore. During the previous year 2006-07, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of Rs.5,000 p.m. Municipal value of the property is Rs.2,00,000 p.a., fair rent is Rs.1,80,000 p.a. and standard rent is Rs.2,20,000. He paid municipal taxes @10% of municipal value during the year. A loan of Rs.15,00,000 was taken by him during on 1.1.2005 for acquiring the property. Interest due on loan during the previous year 2006-07 was Rs.80,000. Compute Raghav's income from house property for the A.Y. 2007-08. (7 Marks)

4. (a) A proprietory business was started by Mrs.Sridhar in the year 2004. As on 1.4.2005, her capital in the business was Rs.4,00,000.

Mr.Sridhar gifted Rs.3,00,000 on 3.4.2005, which amount Mrs. Sridhar invested in her business on the same date. Mrs. Sridhar earned profits from her proprietory business for the P.Y.2005-06, Rs.3,50,000 and P.Y.2006-07, Rs.4,90,000. Compute the income to be clubbed in the hands of Mr.Sridhar for the A.Y.2007-08. (7 Marks)

(b) Mrs. Smita Mishra is a citizen of India residing in France for the past 11 years. During the previous year 2006-07, the particulars of her income are as follows:

(i) She owns a residential house in Calcutta which she has rented out. Her rental income is deposited in her bank account in Calcutta.

(ii) She also owns some agricultural land near Kanpur from which she earns agricultural income. This is remitted to her in France every year.

(iii) She works with a company in France and earns salary of 1000 € per month.

(iv) She owns shares in ABC Ltd., an Indian company and receives dividend every year. These cheques are deposited in her bank account in Calcutta.

She has some fixed deposits in her bank in France, the interest from which is credited to her account in the same bank. This income is however remitted by her to her Calcutta bank account regularly. During the P.Y.2006-07, she has remitted Rs.35,000.

She visits India for the first time in March 2007 after she went abroad. She is under the impression that since she is an Indian citizen, she is liable to income-tax in India. She seeks your advice in this regard. You are required to guide her regarding the taxability of her income under the provisions of the Income-tax Act, 1961. (7 Marks)

5. Write short notes on any four of the following -

   (a) Components of income-tax law

   (b) Marginal relief

   (c) Profits in lieu of salary

   (d) Authorised signatories to the return of income in case of a company

   (e) Deduction of tax at source from payment of compensation on acquisition of immovable property (4 x 4 = 16 Marks)

PART – II : SERVICE TAX AND VAT (25 marks)

6. (a) Answer the following questions:

   (i) Which administrative unit coordinates between Central Board of Excise and Customs and Central Excise Commissionerates?

   (ii) Which method of computation of VAT is being adopted in India?

   (2 x 2 = 4 Marks)

   (b) Answer any three of the following with reference to the Finance Act, 1994 as amended relating to applicability of service tax:

   (i) Use of the precincts of a religious place as a mandap.

   (ii) Disinfecting services provided in relation to agriculture.

   (iii) Excavation services provided in relation to construction of a dam.

   (iv) Construction services provided to a city's municipal corporation in respect of shops for the purpose of letting them out. (2 x 3 = 6 Marks)

7. (a) Secure Services Ltd., a security agency, provides security services to Delta Ltd. for an agreed amount of remuneration of Rs.1,24,000 per annum. Delta Ltd. has clearly indicated that it will not pay any extra amount than the agreed remuneration. Secure Services Ltd. is not a small service provider for the purpose of Notification No.6/2005 ST, dated 01.03.2005.

   Do you think any service tax is payable by Secure Services Ltd.? If yes, then compute the service tax liability. (3 Marks)

   (b) Mr. Ramesh, a chartered accountant, agrees to accept Rs.25,000 as statutory audit fee from one of his clients, Alpha Packers. Alpha Packers provides packaging services. Mr. Ramesh utilises the services of Alpha Packers while shifting his residence. Alpha Packers normally charges Rs.10,000 for such services. Mr. Ramesh has raised a bill of Rs.15,000 against Alpha Packers.

   Do you think the action of Mr. Ramesh is correct? Compute the service tax liability of

Mr. Ramesh.

(Assume Alpha Packers to be a small service provider under Notification No.6/2005 dated 01.03.2005. Mr. Ramesh is not eligible for the benefit of the above notification.) (3 Marks)

8. Answer any three of the following:

(a) State the conditions necessary for availing the exemption on goods and materials sold by the service provider to the recipient of service vide Notification No. 12/2003 ST, dated 20.06.2003.

(b) Write a brief note on due dates for payment of service tax.

(c) Briefly discuss the provisions of the Finance Act, 1994 as amended relating to service tax with respect to pandal or shamiana services.

(d) How does VAT help in controlling tax evasion? (3 x 3 = 9 Marks)

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GROUP – II

Model Test Paper – BOS/PCC/ INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT – 1/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 6 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

PART – I : INFORMATION TECHNOLOGY

Answer all the questions

1. (a) Define any of the five terms briefly:

   (i) Central Processing Unit (ii) BIOS

   (iii) Intelligent Terminal (iv) Seek Time

   (v) Subroutine (vi) File Pointers (1x 5 = 5 marks)

   (b) Give reasons for the use of the following:

   (i) Use of Diagnostic programs

   (ii) Use of interactive processing

   (iii) Preference of Network model over hierarchical model

   (iv) Bootstrap loader program

   (v) Need for Master file

   (vi) Use of Parallel Ports (1x 5 = 5 Marks)

2. (a) Discuss briefly System memory and mention some of the commonly used memory types. (3 Marks)

(b) Briefly discuss various Database structures. (7 Marks)

OR

Discuss various tools that are available to protect information and systems against compromise, intrusion or misuse. (7 Marks)

3. (a) What do you understand by the term "Data centre"? (3 Marks)

(b) Data Centres can be classified into types and tiers according to varied computing needs they serve. Discuss them briefly. (7 Marks)

4. Draw a flow chart to compute and print income-tax and surcharge on the income of a person, where income is to be read from terminal and tax is to be calculated as per the following rates :

Upto Rs. 40,000	No tax
Upto Rs. 60,000	@ 10% of amount above Rs. 40,000
Upto Rs. 1,50,000	Rs. 2,000 + 20% of amount above Rs. 60,000
Above Rs. 1,50,000	Rs. 20,000 + 30% of amount above Rs. 1,50,000

Charge surcharge @ 2% on the amount of total tax, if the income of a person exceeds Rs. 2,00,000. (10 Marks)

PART – II : STRATEGIC MANAGEMENT (50 Marks)

Attempt all questions.

1. State with reasons which of the following statements are correct/incorrect (Attempt any three statements):

(a) Customers and consumers represent same group of people.

(b) Manufacturers can sell their products directly to the customers.

(c) Strategies are rigidly defined.

(d) Benchmarking relates to embossing organisational motif on the furniture.

(2 × 3 = 6 Marks)

2. Briefly answer the following questions (any two) in 2-3 sentences each.

(a) What do you mean by strategic vision?

(b) Explain concentric diversification.

(c) What is marketing mix? (4 Marks)

3. What is SWOT? Discuss its significance in strategic analyses. (10 Marks)

4. What do you understand by implementation of strategy? What are its interrelationships with formulation? (10 Marks)

5. Case Study

AO Swift (Pvt) Ltd. was promoted nineteen years back as company manufacturing automobile parts with an investment of Rupees 5 crores by Abhishek Oberai. He took over as its chief executive and is occupying the same position till date. Abhishek an automobile engineer himself possessed rich experience of working abroad and in Hindustan Motors Ltd in India. He is dynamic and ready to take risk. He always emphasized on maintaining high quality standards.

Initially, the products were supplied to automobile service centers all across the country. The market was small and the company suffered some losses. Eight years after its inception the company entered into an agreement with Maruti Udyog Ltd to manufacture and supply specific components for their small car.

This agreement was a turning point for the company. Later the company was able to enter agreements with other companies entering India. The company is able to manage a growth rate of over 25% in last five years. Its turnover in the last financial year exceeded 800 crores. The overall market is also witnessing a very high growth rate.

Abhishek also possessed strong behavioural skills and allowed some autonomy and discretion to the senior managers of the company. A year back in an internal meeting Abhishek felt that the company can grow still faster if it enters other markets outside India. Various options were analysed and efforts were made to discuss and negotiate with major manufacturers of the world. Getting some response from two manufacturers in European Union the company opened an office in London.

Abhishek closely monitored the day-to-day working of this office. Having strategic implications all major decisions were taken by himself. He will also visit London every month to have first hand information about its working. However, as the company is growing it is becoming increasing difficult for him to manage this office. He also wants to expand further. He called a meeting with head of various department. In the meeting following alternatives were considered for foreign market:

- Continue to manufacture products in India and export them to other countries.
- Initiate manufacturing activities in other countries.
- Takeover existing manufacturers of the products.

Answer the following questions:

(a) Write a note on reasons for AO Swift Ltd to open office in London? (6 Marks)

(b) What should be the strategy of the company in a high growth market? Why?

(7 Marks)

(c) Make an analysis of various alternatives that are being considered for expanding in foreign markets? (7 Marks)

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GROUP – II

Model Test Paper – BOS/PCC/ INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT – 2/2007

Time : 3 hours | Maximum Marks : 100

PAPER – 6 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

PART – I : INFORMATION TECHNOLOGY (50 marks)

STRATEGIC MANAGEMENT (50 MARKS)

Attempt all questions.

1. State with reasons which of the following statements are correct/incorrect (Attempt any three statements):

   (a) Retrenchment strategy refers to removal of employees from job through the process of reorganisation.

   (b) Six sigma is a technique manage the behaviour of groups in organisations.

   (c) Strategy is partly proactive and partly reactive

   (d) Objectives are open ended and goals are close ended. (2 × 3 = 6 Marks)

2. Briefly answer the following questions (any two) in 2-3 sentences each.

   (a) What is social marketing?

(b) What are key success factors?

(c) What is corporate culture? (2 × 2 = 4 Marks)

3. Is competition good or bad? Explain Porter's five forces model. (10 Marks)

4. What do you understand by total quality management? Discuss the principles guiding it. (10 Marks)

5. Case Study

Sweet Drinks Ltd is a drinks company whose core business is manufacturing and selling soft drinks to 80,000 outlets throughout India. The business of the company is good with annual turnover exceeding three billon of rupees. Profits are good and shareholders are often rewarded with lucrative dividends and bonuses.

Four years back the company has diversified into the alcoholic drinks industry and has taken-over two small breweries located in western India. The company has also diversified into hotels with purchase of twenty-five hotels of three/four star category across the country. To its advantage the company has been able to obtain a monopoly for the sale of its soft drinks in its hotels and is beginning to establish itself as a brand name in the brewery industry.

Part of the strategy of the company is to continue to purchase hotels, particular by targeting National Capital Region of Delhi where tourism is likely to pick up with the forthcoming Commonwealth Games . The company also intends to construct a five star hotel in Gurgoan to take tax advantage announced recently by the finance ministers.

Everything was going on well until recently, when a Public Interest Litigation from NGO accused the company of indulging in surrogate advertising of its brewery products. In fact the company has similar brand names for its soft drinks and brewery products. This triggered a lot of protests and demonstrations against the company. Newspapers were flooded with the articles against the company. There were also some demonstrations and some small incidents of stone pelting in a few of its hotels.

(a) Discuss the factors related to SWOT analyses for the company? (8 Marks)

(b) Explain how Sweet Drinks Ltd is achieving synergy? (5 Marks)

(c) Explain the nature of diversification adopted by the company. (7 Marks)