

PCC MAY 2008

ACCOUNTANCY

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever applicable appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Marks 20

1. A, B and C are partners of the firm ABC & Co., sharing profits and losses in the ratio of 5: 3: 2.

Following is the Balance Sheet of the firm as at 31.3.2008:

Balance Sheet as at 31.3.2008

Liabilities	Rs.	Assets	Rs.
Partners Capital A/cs:		Goodwill	1,00,000
A	4,50,000	Building	10,50,000
B	1,30,000	Machinery	6,50,000
C	1,70,000	Furniture	2,15,000
Investment fluctuation reserve	1,00,000	Investments (Market value Rs.75,000)	60,000
Contingency reserve	75,000	Stock	6,50,000
Long-term loan	15,00,000	Sundry debtors	6,95,000
Bank overdraft	2,20,000	Advertisement suspense	25,000
Sundry creditors	8,00,000		
	34,45,000		34,45,000

It was decided that B would retire from the partnership on 1.4.2008 and D would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission

- (i) Goodwill is to be valued at Rs. 5,00,000, but the same will not appear as an Asset in the books of the firm.
- (ii) Building and Machinery are to be revalued at Rs. 10,00,000 and Rs. 5,20,000 respectively.
- (iii) Investments are to be taken over by B at the market value.
- (iv) Provision for doubtful debts to be maintained at 20% on sundry debtors.
- (v) The Capital of the reconstituted firm will be Rs. 10,00,000 to be contributed by the partners A, C and D in their new Profit Sharing ratio of 2:2:1.
- (vi) Surplus funds if any will be used to pay the bank overdraft.
- (vii) Amount due to retiring partner B will be transferred to his loan account.

Prepare:

- (i) Revaluation Account;
- (ii) Capital Accounts of the partners; and
- (iii) Balance Sheet of the firm after reconstitution.

2. Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008 : 16

Particulars	A Ltd.	B Ltd.
Share Capital : Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Share premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and Loss account	1,80,000	1,60,000
10% debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and Building	9,00,000	4,50,000
Plant and Machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

- (i) A new company is to be formed by name AB Ltd.
- (ii) AB Ltd. to take over all the assets and liabilities of the existing companies.
- (iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under
 - A Ltd. = Rs. 18 per share
 - B Ltd. = Rs. 20 per share
- (iv) A contingent liability of A Ltd. of Rs. 60,000 is to be treated as actual existing liability.
- (v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs. 6 per share.
- (vi) The face value of shares of AB Ltd. are to be of Rs. 10 each.

You are required to :

- (i) Calculate the purchase consideration (i.e. number of shares to be issued to A Ltd. and B Ltd.).
- (ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.
- (iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.
- (iv) Prepare the Balance Sheet of AB Ltd.

3. (a) On 11.11.2007 the premises of Rocky Ltd. was destroyed by fire. The following information is made available: 8

	Rs.
Stock as on 1.4.2006	3,75,000
Purchase from 1.4.2006	5,20,000
Sales from 1.4.2006 to 31.3.2007	8,55,000
Stock as on 31.3.2007	2,00,000
Purchase from 1.4.2007	3,41,000
Sales from 1.4.2007 to 11.11.2007	4,35,500

In valuing the stock on 31.3.2007, due to damage 50% of the value of the stock which originally cost Rs. 22,000 was written off.

In June, 2007 about 50% of this stock was sold for Rs. 5,500 and the balance of obsolete stock is expected to realise the same price (i.e. 50c'o of the original cost).

The gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to Rs. 11,500.

Compute the value of stock lost in fire.

(b) From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger adjustment in General Ledger:

	Rs.
Balance as on 1.4.2008	
Debit balances in Debtors Ledger	2,46,200
Credit balances in Debtors Ledger	3,400
Transactions during the month of April, 2008	
Credit sales	9,74,900
Sales return	21,700
Cash received from debtors	8,62,100
Discount allowed to debtors	39,200
Bills receivable received from debtors	51,200
Bills receivable dishonoured	3,500
Bills payable given to suppliers	27,000
Credit balances in Debtors Ledger on 30.4.2008	5,200

Marks 16

4. Following is the Receipts and Payments Account of Mayur Club for the year ended 31st March, 2008:

Receipts	Rs.	Payments	Rs.
Opening balance (1.4.2007)		Payments:	
Cash on hand	39,100	Sports materials	3,04,500
Cash at bank	50,000	Salaries	3,15,000
Receipts:	1,70,000	Equipment purchased on	
Subscriptions		1.10.2007	60,000
For the year 2006-07	18,000	Bank fixed deposit on 31.3.2008	
For the year 2007-08	9,63,000	Rent	1,50,000
For the year 2008-09	4,500	Ground maintenance	1,48,500
Interest on bank		Insurance	22,120
Fixed deposits @ 10%	45,000	Stationery	38,400
		Sundry expenses	3,450
		Closing balance as on 31.3.2008	5,880
		Cash on hand	
		Cash at bank	
			31,750
			40,000
	11,19,600		11,19,600

Following additional information is provided to you;

- (i) The Club has 220 members. The annual subscription is Rs. 4,500 per member.
- (ii) Depreciation to be provided on Furniture at 10% p.a. and on Sports equipment at 15% p.a.
- (iii) On 31st March, 2008, stock of sports material in hand (after member: use during the year) is valued at Rs. 78,000 and stock of stationery at Rs. 3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to Rs. 9,600
- (iv) On 31st March, 2007 the Club had the following Assets

	Rs.
Furniture	2,70,000
Sports equipment	1,80,000

Bank fixed deposit	4,50,000
Stock of stationery	1,500
Stock of sports material	73,500
Unexpired insurance	8,400
Subscription in arrear	22,500

Note: There was no liability on 31.3.2007.

You are required to prepare

- (i) Income and Expenditure Account; and
- (ii) Balance Sheet as at 31st March, 2008.

5. Answer any **eight** out of the following :

8X2=16

- (i) Mr. A advanced Rs. 30,000 to Mr. B on 1.4.2008. The amount is repayable in 6 equal monthly instalments commencing from 1.5.2008. Compute the average due date for the loan.
- (ii) A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2008 is Rs. 1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2008.
- (iii) In a concern, the opening provision for doubtful debts is Rs. 51,000. During the year a sum of Rs. 10,000 was written off as bad debt. The closing balance of sundry debtors amounts to Rs. 6,30,000. It was decided that 10% of the debtor is to be maintained as provision. Calculate the closing balance towards provision for doubtful debts and pass journal entry for giving effect to the provision maintained.
- (iv) How would you record a non-monetary grant received from the Government as per AS-12?
- (v) What is the accounting entry to be passed as per AS-10 for the following situations:
 - (a) Increase in value of fixed asset by Rs. 50,00,000 on account of revaluation.
 - (b) Decrease in the value of fixed asset by Rs. 30,00,000 on account of revaluation.
- (vi) "One of the characteristics of financial statements is neutrality" – Do you agree with this statement?
- (vii) An industry borrowed Rs. 40,00,000 for purchases of machinery on 1.6.2007. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2008. Pass journal entry for the year ended 31.3.2008 to record the borrowing cost of loan as per AS-16.
- (viii) What is Account Current?
- (ix) Domestic Assurance Co. Ltd. received Rs. 5,90,000 as premium on new policies and Rs. 1,20,000 as renewal premium. The company received Rs.90,000 towards reinsurance accepted and paid Rs. 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?
- (x) A loan outstanding of Rs. 50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk adjusted asset?

6. Answer any **four** of the following:

- (a) When can an item qualify to be a prior period item as per AS-5?
- (b) Ram & Co. acquired a motor lorry on hire-purchase basis. It has to make cash down payment of Rs. 1,00,000 at the beginning. The payments to be made subsequently are Rs. 2,63,000; Rs. 1,85,000 and Rs. 1,14,000 at the end of first year, second year and third year respectively. Interest charged is @ 14% per annum. Calculate the cost price of motor lorry and interest paid in each instalment.
- (c) Explain Garner v/s Murray rule applicable in the case of partnership firms. State when is this rule not applicable.'
- (d) Albert Ltd. issued 50,00,000 Equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below:

- A 15,00,000 shares
- B 25,00,000 shares
- C 10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

- A 12,00,000 shares
- B 25,00,000 shares
- C 8,50,000 shares

Calculate the number of shares to be taken up by the underwriters.

- (e) Explain the factors to be considered before selecting the pre-packaged accounting software.
- (f) What are the items that are to be excluded in determination of the cost of inventories as per AS-2?

AUDITING

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** the questions.

Marks 10X2=20

1. State with reasons (in short) whether the following statements are True or False :
(Answer any **ten**)
 - (i) Procedural error arises as a result of transactions having been recorded in a fundamentally incorrect manner.
 - (ii) When inherent and control risks are low, an auditor can accept a lower detection risk.
 - (iii) Audit procedure and Audit technique are not one and same thing.
 - (iv) An auditor can be appointed as first auditor of a newly formed company simply because his name has been stated in the Articles of Association.
 - (v) AAS-24 deals with responsibility of the auditor of the service organisation.
 - (vi) Interest accrued but not due on "Secured loans" is required to be shown under appropriate sub-heads under the head "Secured loans".
 - (vii) For the purpose of AAS-10 "Principal Auditor" means the partner of the firm signing the Audit report.
 - (viii) The term 'fund' and 'reserve' can be used interchangeably.
 - (ix) An expert for the purpose of AAS-9 is a person, firm or association of persons possessing special skill, knowledge and experience in auditing.
 - (x) CARD '200 is also applicable to the audit of branch of a company, except where the company is exempt from the applicability of the order.
 - (xi) All the joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the joint auditors.
 - (xii) Compliance procedures are tests designed to obtain audit evidence as to completeness, accuracy and validity of the data produced by accounting system.
2. As an auditor how would you react to the following situations/comments?

- (a) Director (Finance) of KK Ltd. informed their newly appointed statutory auditor that they have sound Internal control system implemented by a renowned professional firm and he is satisfied with its effectiveness and functioning and therefor, the statutory auditor should concentrate on verifying only the routine books and financial statements. 8
- (b) TT Ltd. has suffered recurring losses due to steep fall in production and has negative net worth. It's-production head, an expert, have also left the company. Reply of the management is inadequate to these developments and there is no sound action plan to mitigate these situations. 6
- (c) PP Ltd., a garment exporter, asked their internal auditor, a practicing chartered accountant, to conduct physical verification of the year end inventory and the report of such verification was handed over to the statutory auditor for their view and use. Can Statutory auditor rely on such report? 6
3. (a) What are the various assertions an auditor is concerned with while obtaining audit evidence from substantive procedure? 6
- (b) What does AAS-3 say about utility, ownership, custody and retention of working papers? 4
4. (a) How would you assess the reliability of Internal control system in computerised information system? 6
- (b) When does an auditor issue unqualified opinion and what does it indicate? 4
5. (a) Briefly mention five important items which you would examine while verifying payment of interest out of capital during construction. 5
- (b) What is the importance of having the accounts audited by an independent auditor? 5
6. (a) State any six important points to be examined by you, as an auditor, in verifying the correctness of bank balance of an Educational Institution which deposits all its collection/receipt in separate collection account of a bank. 6
- (b) Mention, any four, areas where surprise check can significantly improve the effectiveness of an audit. 4
7. How would you vouch/verify the following? (Answer any **two**) 5+5=10
- (a) Advertisement expenses
- (b) Sale of Scrap
- OR**
- Borrowings from Bank.
- (c) Work in progress.
8. Write short notes on the following: (Answer any **two**) 5+5=10
- (a) Reliability of audit evidences.
- (b) Audit against Rules and Orders.
- OR**
- Advantages of Statistical sampling in Auditing.
- (c) Contents of Audit Note-book.

LAW

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PART-I

Question Nos. 1 and 2 are compulsory.
Attempt any **eight** questions from rest.

Marks 5

2. (a) P appoints A as his agent to sell his estate. A, on looking over the estate before selling it, finds the existence of a good quality Granite-Mine on the estate, which is unknown to P. A buys the estate himself after informing P that he (A) wishes to buy the estate for himself but conceals the existence of Granite-Mine. P allows A to buy the estate, in ignorance of the existence of Mine. State giving reasons in brief the rights of P, the principal, against A, the Agent.
What would be your answer if A had informed P about the existence of Mine before he purchased the estate, but after two months, he sold the estate at a profit of Rs. 1 lac?

(b) 2X1=2

- (i) State with reasons whether the following statements are correct or incorrect:

(a) In a contract of guarantee, forbearance by the creditor to sue the Principal Debtor discharges the surety.

(b) A pledge of documents of title to goods by a mercantile agent is a valid pledge.

- (ii) Pick-up the correct answer from the following and give reasons: 3X1=3

(a) If time is the essence of the contract and there is a failure to perform the contract and there is to perform specified time, the contract:

- (1) becomes voidable at the option of the promisee
- (2) becomes unenforceable
- (3) becomes void
- (4) remains valid.

(b) A contingent contract is

- (1) valid
- (2) void
- (3) voidable
- (4) illegal.

(c) A Promissory-note drawn jointly by X, a minor and Y, a major is

- (1) void
- (2) valid but not negotiable
- (3) valid but can be enforced only against Y
- (4) None of the above.

3. (a) MN Limited held its Annual General Meeting on 27th March, 2008. Mr. M, the Chairman of the said meeting died on 1st April, 2008, when minutes of the annual general meeting were not yet recorded and signed. How would you deal with the situation? Would your answer be different in case the meeting held on 27th March, 2008 was a Board meeting?

(b) (i) State whether the following statements are True or False and give reasons. 2x1=2

- (a) A certificate of incorporation issued by the Registrar of Companies is not valid if all the signatures of the subscribers to memorandum of association have been forged.
- (b) A Public Company can issue either redeemable or irredeemable preference shares.

Marks

(ii) Pick-up the correct answer from the following and give reasons: 3x1=3

(a) A Public Company need not offer further shares to existing shareholders, if:

- 1) Ordinary resolution is passed to that effect by the company in General meeting.
- 2) Special resolution is passed to that effect by the company in - General meeting.
- 3) Resolution is passed by Board of Directors and approved by Company Law Board.
- 4) Special resolution is passed by the Company in General meeting and approved by Registrar of Companies.

(b) Resolution requiring special notice is required

- 1) For appointment of a person other than the retiring auditor as auditor at the Annual General Meeting
- 2) For removing a Director before the expiry of the period of his office
- 3) For both (1) and (2)
- 4) For None of the above.

(c) Quorum for a General meeting of a Public Company is

- 1) 5 members present in person or by proxy
- 2) 3 members personally present as required by the Articles of Association of the company
- 3) 5 members personally present
- 4) 2 members personally present.

4. A workshop is employing 50 workmen. A shop-supervisor is drawing monthly wages of Rs. 9,000. HRD paid annual bonus to all employees except the Supervisor. The Supervisor contends that he is also entitled to bonus. Referring to the provisions of the Payment of Bonus Act, 1965 decide whether the HRD's action is correct. 5
5. What is meant by 'Presentment' of a bill of exchange under the Negotiable Instruments Act, 1881? When is such a bill of exchange presented for payment? State when is the presentment not necessary. 5
6. Describe in brief the mode of transfer of balance to the credit of Provident Fund Account of an employee leaving one organisation and joining another organisation, to the new employer under the provisions of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952. 5
7. 'A' draws a bill of exchange payable to himself on 'X'. Who accepts the bill without consideration just to accommodate 'A'. 'A' transfers the bill to 'P' for good consideration. State the rights of 'A' and 'P'. 5
- Would your answer be different if 'A' transferred the bill to 'P' after maturity? 5
8. Examining the provisions of the Payment of Gratuity Act, 1972, state whether gratuity is payable to an employee for the periods when he does not actually work in the organization. Explain the manner in which gratuity is calculated for regular employees. 5
9. A Public Company proposes to issue 'Sweat Equity Share' to its employees. Referring to the provisions of the Companies Act, 1956, state the conditions required to be fulfilled by the Company. 5

10.

A

charge requiring registration with Registrar of Companies was created 1st February, 2008 by XYZ Limited. The Secretary of the Company realised on March, 2008 that the charge was not filed with the Registrar. State the steps to be taken by the Secretary to get the charge registered with the Registrar. 5

11. What is meant by 'Red-herring prospectus'? State the circumstances under which such prospectus is required to be filed with the Registrar of Companies. What is the requirement relating to filing of final prospectus in such cases? 5

12. VD Company Ltd. is registered in Tamil Nadu within the jurisdiction of the Registrar of Companies, Chennai. The company proposes to shift its registered office to a place within the jurisdiction of Registrar of Companies, Coimbatore. State the steps to be taken by the company to give effect to the proposed -h sting of its registered office. 5

13. DJA Company Ltd., desirous of buying back of all its equity shares from the existing shareholders of the company, seeks your advice. Examining the provisions of the Companies Act, 1956 advise whether the above buy back of equity shares by the company is possible. Also state the sources out of which buy-back of shares can be financed. 5

PART-II

Question No. 13 is compulsory.

Answer any **two** questions of the rest.

14.(a) Explain the role played by different committees in regulating the 'Corporate Governance'. 5

(b) Self interest threats may occur as a result of financial or other interests of finance and accounting professional. Give three examples each of such threats when the accounting professional is working as-

- (i) An auditor or consultant
- (ii) An employee in a company.

15. Explain the extent to which it is possible to observe ethical behaviour in marketing. Also explain in brief the merits and demerits of the above.

16. Answer any **two** out of four. You are required to state whether the statement is correct or incorrect with brief reasons: 2X2_{1/2}=5

(a) Ensuring fair treatment to whistle blowers will help in creating good ethical accounting environment in a business enterprise.

(b) Ethical behaviour in marketing is necessary to avoid Government intervention/regulation.

(c) Promotion policies based on individual merit and not purely on the basis of seniority is discriminatory.

(d) Depletion of Ozone layer will have adverse effect on human beings and not on vegetation.

17. State the benefits of socially responsible corporate performance.

PART-III

Question No. 17 is compulsory.

Attempt any two questions of the rest.

18.(a) Explain clearly the meaning of the term 'Grapevine' as applicable to 'Communication'. 5

(b) Draft a 'Power of Attorney' by an assessee authorising a Chartered Accountant to appear before Income-tax officer in respect of the pending taxation matter. 5

19. Board of Directors of Prakash Traders Private Limited propose to convene an extraordinary general meeting for changing the name of the company to Prakash International Private Limited. Draft the notice for calling the Extraordinary General Meeting of the Members. 5

20. Draft a notice for calling the Board of Directors meeting of M/s. MN Limited where Mr. RS is to be co-opted as an Additional Director and also to consider buyback of company's equity shares to an extent of 10%, of issued share capital. 5
21. Explain clearly the process of Communication. 5

COST ACCOUNTING & FM

Answers to questions are to be given only in English except in the case of candidate who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

All questions are compulsory.
Working notes should form part of the answer.

- Marks
5X2=10
1. Answer any five of the following:
- (i) What are the main objectives of cost accounting?
 - (ii) Discuss the treatment of over time premium in cost accounting.
 - (iii) Explain controllable and non-controllable cost with examples.
 - (iv) What are the main advantages of cost plus contract?
 - (v) Discuss the difference between allocation and apportionment of overhead.
 - (vi) Standard output in 10 hours is 240 units; actual output in 10 hours is 264 units. Wages rate is Rs. 10 per hour. Calculate the amount of bonus and total wages under Emerson Plan.
2. TQM Ltd. has furnished the following information for the month ending 30th June, 2007: 5+10=15

	Master Budget	Actual	Variance
Units produced and sold	80,000	72,000	
Sales (Rs.)	3,20,000	2,80,000	40,000(A)
Direct material (Rs.)	80,000	73,600	6,400 (F)
Direct wages (Rs.)	1,20,000	1,04,800	15,200 (F)
Variable overheads (Rs.)	40,000	37,600	2,400 (F)
Fixed overhead (Rs.)	40,000	39,200	800 (F)
Total Cost	2,80,000	2,55,200	

The Standard costs of the products are as follows:

	Per unit (Rs.)
Direct materials (1 kg. at the rate of Re. 1 per kg.)	1.00
Direct wages (1 hour at the rate of Rs. 1.50)	1.50
Variable overheads (1 hour at the rate of Re. 50)	.50
Actual results for the month showed that 78,400 kg. of material were used and 70,400 labour hours were recorded.	

Required:

- (i) Prepare Flexible budget for the month and compare with actual results.
- (ii) Calculate material, labour, sales price, variable overhead and fixed overhead expenditure variances and sales volume (profit) variance.

3. (a) JK Ltd. produces a product "AZE", which passes through two processes, viz, process I and process II. The output of each process is treated as the raw material of the next process to which it is transferred and output of the second process is transferred to finished stock. The following data related to December, 2007:

	Process I	Process II
25,000 units introduced at a cost of	Rs. 2,00,000	-
Material consumed	Rs. 1,92,000	96,020
Direct labour	Rs. 2,24,000	1,28,000
Manufacturing expenses	Rs. 1,40,000	60,000
Normal wastage of input	10%	10%
Scrap value of normal wastage	Rs. 9.90	8.60
Output in Units	22,000	20,000

Required:

- (i) Prepare Process I and Process II account.
- (ii) Prepare Abnormal effective/wastage account as the case may be each process.
2+1+2+3=8
- (b) ZED Company supplies plastic crockery to fast food restaurants in metropolitan city. One of its products is a special bowl, disposable after initial use, for serving soups to its customers. Bowls are sold in pack 10 pieces at a price of Rs. 50 per pack.
- The demand for plastic bowl has been forecasted at a fairly steady rate of 40,000 packs every year. The company purchases the bowl direct from manufacturer at Rs. 40 per pack within a three days lead time. The ordering and related cost is Rs. 8 per order. The storage cost is 10% per cent per annum of average inventory investment.

Required:

- (i) Calculate Economic Order Quantity.
- (ii) Calculate number of orders needed every year.
- (iii) Calculate the total cost of ordering and storage bowls for the year.
- (iv) Determine when should the next order to be placed. (Assuming that the company does maintain a safety stock and that the present inventory level is 333 packs with a year of 360 working days.)
4. Answer any **three** of the following:
- (i) Explain and illustrate cash break even chart.
- (ii) Discuss ABC analysis as a technique of inventory control.
- (iii) Distinguish between Job evaluation and Merit rating.
- (iv) A company has fixed cost of Rs. 90,000, Sales Rs. 3,00,000 and Profit Rs. 60,000.

Required:

- (i) Sales volume if in the next period, the company suffered a loss of Rs. 30,000.
- (ii) What is the margin of safety for a profit of Rs. 90,000?
5. Answer any **five** of the following :
- (i) Explain the relevance of time value of money in financial decisions.
- (ii) Discuss the features of Secured Premium Notes (SPNs).
- (iii) The following data relate to RT Ltd:

	Rs.
Earning before interest and tax (EBIT)	10,00,000
Fixed cost	20,00,000
Earning Before Tax	8,00,000

Required: Calculate combined leverage

(iv) Explain the concept of closed and open ended lease.

(v) Discuss the advantages of preference share capital as an instrument of raising funds.

(vi) Explain the principles of "Trading on equity".

6. The financial statement and operating results of PQR revealed the following position as on

31st Ma

8+7=15

Equity share capital (Rs. 10 fully paid share)	Rs. 20,00,000
Working capital	Rs. 6,00,000
Bank overdraft	Rs. 1,00,000
Current ratio	2.5:1
Liquidity ratio	1.5:1
Proprietary ratio (Net fixed assets/Proprietary fund)	.75:1
Cost of sales	Rs. 14,40,000
Debtors velocity	2 months
Stock turnover based on cost of sales	4 times
Gross profit ratio	20% of sales
Net profit ratio	15% of sales

Closing stock was 25% higher than the opening stock. There were also free reserves brought forward from earlier years. Current assets include stock, debtors and cash only. The current liabilities except bank overdraft treated as creditors.

Expenses include depreciation of Rs. 90,000.

The following information was collected from the records for the year ended 31st March, 2007

- Total sales for the year were 20% higher as compared to previous year.
- Balances as on 31st March, 2007 were Stock Rs. 5,20,000, Creditors Rs. 4,15,000, Debtors Rs. 4,95,000 and Cash balance Rs. 3,10,000.
- Percentage of Gross profit on turnover has gone up from 20% to 25% and ratio of net profit to sales from 15% to 16%.
- A portions of Fixed assets was very old (book values Rs. 1,80,000) disposed for Rs. 90,000. (No depreciations to be provided on this item).
- Long-term investments were purchased for Rs. 2,96,600.
- Bank overdraft fully discharged.
- Percentage of depreciation to Fixed assets to be provided at the rate in the previous year.

Required:

(i) Prepare Balance Sheet as on 31st March, 2006 and 31st March, 2007.

(ii) Prepare the fund flow statement for the year ended 31st March, 2007.

2+3+3=8

7. (a) ABC Ltd. wishes to raise additional finance of Rs. 20 lakhs for meeting its investment plans. The company has Rs. 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:

- Debt equity ratio 25:75.
- Cost of debt at the rate of 10 per cent (before tax) upto Rs. 2,00,000 and 13% (before tax) beyond that.
- Earning per share, Rs. 12.
- Dividend payout 50% of earnings.

- Expected growth rate in dividend 10%.
- Current market price per share, Rs. 60.
- Company's tax rate is 30% and shareholder's personal tax rate is 20%.

Required:

- (i) Calculate the post tax average cost of additional debt.
- (ii) Calculate the cost of retained earnings and cost of equity.
- (iii) Calculate the overall weighted average (after tax) cost of additional finance.

2+3+3=8

- (b) C Ltd. is considering investing in a project. The expected original investment in the project will be Rs. 2,00,000, the life of project will be 5 year with no salvage value. The expected net cash inflows after depreciation but before tax during the life of the project will be as following:

Year	1	2	3	4	5
Rs.	85,000	1,00,000	80,000	80,000	40,000

The project will be depreciated at the rate of 20% on original cost. The company is subjected to 30% tax rate.

Required:

- (i) Calculate pay back period and average rate of return (ARR)
- (ii) Calculate net present value and net present value index, if cost of capital is 10%.
- (iii) Calculate internal rate of return

Note : The P.V. factors are:

Year	P.V at 10%	P.V at 37%	P.V at 38%	P.V at 40%
1	.909	.730	.725	.714
2	.826	.533	.525	.510
3	.751	.389	.381	.364
4	.683	.284	.276	.260
5	.621	.207	.200	.186

8. Answer any **three** of the following:

3x3=9

- (i) Explain the concept of Debt securitization.
- (ii) Explain briefly the functions of Treasury Department.
- (iii) Explain briefly the features of External Commercial. Borrowings. (ECB)
- (iv) The Sales Manager of AB Limited suggests that if credit period is given for 1.5 months then sales may likely to increase by Rs. 1,20,000 per annum. Cost of sales amounted to 90% of sales. The risk of non-payment is 5%. Income tax rate is 30%. The expected return on investment is Rs. 3,375 (after tax). Should the company accept the suggestion of Sales Manager?

TAXATION

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer.

Marks
5X2=10

1. Answer any five of the following sub-divisions with regard to the provisions of the Income-tax Act, 1961 for the assessment year 2008-09 :

- (a) Ms. Vasudha contends that sale of a work of art held by her is not exigible to capital gains tax; is she correct ?
- (b) Will a charitable trust forfeit the exemption granted to it, if it holds shares in a public sector company?
- (c) Deduction under Section 80CCD is available only to individuals employed by Central Government. Discuss the correctness of this statement.
- (d) Mrs. Hemalatha has made payments of Rs. 5 lacs to a contractor (for business purposes) during the last two quarters of the year ended 31.3.2008. Her turnover for the year ended 31.3.2007 was Rs. 45 lacs. Is there any obligation to deduct tax at source?
- (e) Can an individual who is not in India, sign the return of income from outside India? Is there any other option?
- (f) Mr. Vatsan has transferred through a duly registered document the income arising from a godown, to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Ma

2. Ramesh is the karta of Ramesh (HUF) in which the other members are his wife Padma, major son Guru and a minor daughter Champaka. The following details of this HUF, resident in India, pertaining to the year ended 31st March, 2008 are made available to you

- (a) Rent (at Rs. 10,000 per month) received from a flat in Salem is Rs. 1,10,000. Rent of Rs. 10,000 for the month of March, 2008 was received in April, 2008.
Property tax paid Rs. 10,000.
Bank loan of Rs. 10,00,000 was taken for construction of this interest at 10%. Rs. 8,000 interest is in arrears pertaining to this year which was paid by the HUF in May, 2008 only. Principal repayment was Rs. 48,000.
- (b) Ramesh represents the HUF in a partnership firm M/s. Ashok & Co. engaged in turmeric business. The firm has paid interest of Rs. 1,80,000 to the HUF computed at 15%.
For the services rendered by Ramesh to this firm as the lone Working partner, the firm has paid him a remuneration of Rs. 1,50,000, as per the provisions of the partnership deed. The "book profit" of the firm in terms of Section 40 (b) is Rs. 1,35,000.
- (c) The HUF is also running two businesses, as narrated below
 - (i) Retail trade in food grains
A rough account-book alone is maintained. Expense bills/voucher are not properly maintained. The total turnover is Rs. 38 lacs. The net profit as per the rough account is Rs. 1,41,000. This has been arrived at after considering a penalty of Rs. 8,000 levied by Sales-tax authorities for misuse of "C" Form.
 - (ii) Business of Civil construction
Cash received from contractee Rs. 31,00,000
Value of materials supplied by contractee Rs. 7,00,000
No books of account are maintained.
- (d) The HUF has received dividend of Rs. 90,000 from shares held in a foreign company.
- (e) Tuition fees of Rs.20,000 was paid for the purpose of part-time education of Ms. Champaka in an Indian college.
- (f) The following sums have been paid by the HUF in respect of Life Insurance Premium:

Policyholder's name	Insurer	Premium (Rs.)	Late fee (Rs.)
Mrs. Padma	LIC	30,000	500
Guru	IRDA-approved private insurer	42,000	1,500

Part of the above premiums were paid from out of agricultural income of Rs. 60,000 derived from agricultural lands situated in Colombo.

You are required to compute the total income of Ramesh (HUF) for the assessment year 2008-09, showing clearly the computation under proper heads of income. You are also required to indicate with reasons, whether any item is to be considered in the hands of Ramesh (individual).

3. (a) M/s. Vivitha & Co., a partnership firm, with four partners A, B, C and D having equal shares, furnishes the following details, summarized from the valid returns of income filed by it:

Assessment year	Item eligible for carry forward and set off
2006-07	Unabsorbed business loss Rs. 1,20,000
2007-08	Unabsorbed business loss Rs. 1,90,000
2007-08	Unabsorbed depreciation Rs. 1,20,000
2007-08	Unabsorbed long-term Capital gains
	- from shares Rs. 1,10,000
	- from building Rs. 1,90,000

C who was a partner during the last three years, retired from the firm with effect from 1.4.2007.

The summarized results of the firm for the assessment year 2008-09 are as under

	Rs.
Income from house property	70,000
Income from business:	
Speculation	2,20,000
Non-speculation	(-) 50,000
Capital gains	
Short-term (from sale of shares)	40,000
Long-term (from sale of building)	2,10,000
Income from the other sources	60,000

Briefly discuss, how the items brought forward from earlier years can be set off in the hands of the firm for the assessment year 2008-09, in the manner most beneficial to the assessee. Also show the items to be carried forward. Computation of total income is not required.

- (b) Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri: 6

(i) Housing loan @ 6% per annum. Amount outstanding on 1.4.2007 is Rs. 6,00,000. Mr. Badri pays Rs. 12,000 per month, on 5th of each month.

(ii) Air-conditioners purchased 4 years back for Rs. 2,00,000 have been given to Mr. Badri for Rs. 90,000.

Compute the chargeable perquisite in the hands of Mr. Badri for the assessment year 2008-09.

The lending rate of State Bank of India as on 1.4.2007 for housing loan may be taken as 10%.

EITHER

8

4. (a) Ms. Vasumathi purchased 10,000 equity shares of Rejesh Co. Pvt. Ltd. on 28.2.2004 for Rs. 1,20,000. The company was wound up on 31.7.2007. The following is the summarized financial position of the company as on 31.7.2007:

Liabilities	Rs.	Assets	Rs.
60,000 Equity shares	6,00,000	Agricultural lands	42,00,000
General reserve	40,00,000	Cash at bank	6,50,000
Provision for taxation	2,50,000		
	48,50,000		48,50,000

The tax liability (towards dividend distribution tax) was ascertained at Rs. 3,00,000, after considering refund due to the company. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market

value of 6 acres of agricultural land (in an urban area) as on 31.7.2007 is Rs. 10,00,000 per acre.

The agricultural land received above was sold by Ms. Vasumathi on 29.2.2008 for Rs. 15,00,000.

Discuss the tax consequences in the hands of the company and Ms. Vasumathi. Cost inflation indices are:

Financial year	Index number
2003-04	463
2007-08	551

- (b) Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.1.2008 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.3.2008:

- Salary @ Rs. 16,000 p.m. comprising of basic salary of Rs. 10,000, Dearness allowance of Rs. 3,000, City compensatory allowance of Rs. 2,000 and Night duty allowance of Rs. 1,000.
- Pension @ 30% of basic salary from 1.2.2008.
- Leave salary of Rs. 75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year.
- Gratuity of Rs. 50,000.

Compute the total income of Mr. Narendra for the assessment year 2008-09.

OR

4. (a) Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

8

	Rs.
(i) Salary income (computed) of Mrs. Hetal	4,60,000
(ii) Income of minor son. 'B' who suffers from disability specified in Section 80U	1,08,000
(iii) Income of minor daughter 'C' from singing	86,000
(iv) Income from profession of Mr. Dhaval	7,50,000
(v) Cash gift received by 'C' on 2.10.2007 from friend of Mrs. Hetal on winning of singing competition	48,000
(vi) Income of minor married daughter 'A' from company deposit	30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal for the assessment year 2008-09.

- (b) Mr. Kalpesh borrowed a sum of Rs. 30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May, 2008, repayments towards principal and interest had been made during the year ended 31.3.2008.

In the light of the above facts, state:

- (i) Whether Mr. Kalpesh can claim deduction under Section 24 in respect of interest for the assessment year 2008-09;
- (ii) Whether deduction under Section 80C can be claimed for the above assessment year, even though the construction was completed only after the closure of the year.

5. Answer any **four** of the following five sub-divisions with regard to the provisions of the Income-tax Act, 1961:

4X4=16

- (a) How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary?
- (b) Briefly discuss about the interest chargeable under Section 234A for delay or default in furnishing return of income.
- (c) List six items of expenses which otherwise are deductible shall be disallowed, unless payments are actually made within the due date for furnishing the return of income under Section 139(1). When can the deduction be claimed, if paid after the said date?
- (d) What are the due dates of instalments and the quantum of advance tax payable by companies?
- (e) Briefly explain the term "substantial interest". State any two situations in which the same assumes importance.

6. Answer any **five** of the following :

5x2=10

- (a) Briefly explain the nature of Service tax.
- (b) A particular service has been brought into the Service tax net with effect from 1.6.2007. Mr. Vignesh has provided this service on 20.5.2007; the payment for the same was received on 10.6.2007. Is Service tax payable on the same?
- (c) Mr. Saravanan has collected a sum of Rs. 15,000 as service tax from a client mistakenly, even though no service tax is chargeable for such service. Should the amount so collected be remitted to the credit of the Central Government?
- (d) Who are the persons liable to File Service tax returns?
- (e) Briefly explain the income variant of VAT.
- (f) What is the demerit of VAT from the view point that it is a form of consumption tax?

2+4

7. Ms. Priya rendered a taxable service to a client. A bill for Rs. 40,000 was raised on 29.4.2007; Rs. 15,000 was received from the client on 1.5.2007 and the balance on 23.5.2007. No service tax was separately charged in the bill. The questions are:

- (a) Is Ms. Priya liable to pay service tax, even though the same has not been charged by her?
- (b) Is case she is liable, what is the value of taxable service and the service tax payable?

8. Answer any **three** of the following:

3x3=9

- (a) Briefly explain about the charge of service tax.
- (b) Mr. Vasudevan has rendered freely, a service to a client which is taxable, but has not charged or received any fee from the client. Is service tax payable on such free service?
- (c) What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer?
- (d) Briefly explain, how VAT helps in checking tax evasion and in achieving neutrality.

INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Answers to questions are to be given only in English except in the case of .candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answers to Sections A and B should be given in separate sets of answer-books.

SECTION-A

Attempt **all** questions.

1. (a) Describe briefly the following terms:

Marks

5x1=5

- (i) CMOS
- (ii) Multiprocessing
- (iii) Computer output microfilm
- (iv) Structured Query Language
- (v) DNS Server.

(b) Explain each of the following:

5x1=5

- (i) Firewalls
- (ii) Flash memory
- (iii) Interpreter
- (iv) Multiplexer
- (v) Transaction log.

Marks

2. Answer any **two** of the following:

2x5=10

- (a) Describe various factors which must be considered in determining the best file organization for a particular application.
- (b) Briefly explain various types of communication services used to transmit data in a network.
- (c) Explain briefly various Disaster Recovery (DR) plans for eliminating Down Time.

6

3. (a) Describe the various features of Third-Generation Languages (3GLs) and Fourth Generation Languages (4GLs).

(b) What are the Network Threats and Vulnerabilities '?

4. A bicycle shop in a city hires bicycles by the day at different rates for different models as given below:

10

Model No.	Hire rate per day (Rs.)
Model No.1	14.00
Model No.2	12.00
Model No.3	10.00

In order to attract customers, the shopkeeper gives a discount on the number of days a bicycle is hired for. The policy of discount is as given below:

No. of days	Discount rate (%)
1-5	0.00
6-10	8
11 and over	15

For every bicycle hired, a deposit of Rs. 30.00 must be paid.

Develop a flow chart to print out the details for each customer such as name of the customer, bicycle model number, number of days a bicycle is hired for, hire charges, discount and total charges including deposits.

5. Write short notes on the following :

2x5=10

- (i) Data warehouse
- (ii) Bullwhip effect in Supply Chain Management.

Marks

SECTION-B

Attempt **all** questions.

6. State with reasons which of the following statements is correct/incorrect $3 \times 2 = 6$ (Attempt any **three**):
- (a) "Profit may not be a universal objective but business efficiency is definitely an objective common to all business."
 - (b) "Industry is a grouping of dissimilar firms."
 - (c) "Resistance to change is an impediment in building of strategic supportive corporate culture."
 - (d) "Changes of any type are always disquieting, sometimes they may be threatening."
 - (e) "Efficiency and effectiveness mean the same in strategic management."
7. Briefly answer any **two** of the following : $2 \times 2 = 4$
- (a) What is meant by retrenchment strategy?
 - (b) Growth phase of product life cycle
 - (c) Strategic groups.
8. What do you mean by strategic leadership " What are two approaches to leadership style? To bring in strategic change which three steps may be initiated? $3 + 3 + 4 = 10$
9. Under what conditions would you recommend the use of Turnaround strategy in organisation? What could be a suitable work plan for this ? $5 + 5 = 10$
10. Read the following case and answer the questions given at the end:

In 2006-07 PTC Food division decided to enter the fast growing (20-30% annually) snacks segment, an altogether new to it. It had only one national competitor-Trepsico's Trito. After a year its wafer snack brand-Ringo, fetched 20% market share across the country. Ringo's introduction was coincided with the cricket world cup. The wafer snacks market is estimated to be around Rs. 250 crores.

The company could take the advantage of its existing distribution network and also source potatoes from farmers easily. Before the PTC could enter the market a cross-functional team made a customer survey through a marketing research group in 14 cities of the country to know about the snacks of eating habits of people. The result showed that the customers within the age-group of 15-24 years were the most promising for the product as they were quite enthusiastic about experimenting new snack taste. The company reported to its chefs and the chefs came out with 16 flavours with varying tastes suiting to the targetted age-group.

The company decided to target the youngsters as primary target on the assumption that once they are lured in, it was easier to reach the whole family. Advertising in this category was extremely crowded. Every week two-three local products in new names were launched, sometimes with similar names. To break through this clutter the company decided to bank upon humour appeal.

The Industry sources reveal that PTC spent about Rs. 50 crores on advertisement and used all possible media-print and electronic, both including the creation of its own website, Ringoringoyoungo.com with offers of online games, contests etc. Mobile phone tone downloading was also planned which proved very effective among teenagers. The site was advertised on all dotcom networks. Em TV, Shine TV, Bee TV and other important channels were also used for its advertisement along with FM radio channels in about 60 cities with large hoardings at strategic places.

Analysts believes that Ringo's success story owes a lot to PTC's widespread distribution channels and aggressive advertisements. Humour appeal was a big success. The 'Ringo' was made visible by painting the Railway bogies passing across the States. It has also been successful to induce Lovely Brothers' Future Group to replace Trito in their Big-Bazaar and chain of food Bazaars. PTC is paying 4% higher margin than Trepsico to Future group and other retailers.

Ringo to giving Trepsico a run for its money. Trito's share has already been reduced considerably. Retail tie-ups, regional flavours, regional humour appeals have helped PTC. But PTC still wants a bigger share in the market and in foreign markets also, if possible.

Questions:

- | | |
|--|---|
| (a) What is SWOT Analysis? | 4 |
| (b) What are the strength of PTC? | 4 |
| (c) What are the weaknesses of PTC for entering into the branded snacks market? | 4 |
| (d) What kind of marketing strategy was formulated and implemented for Ringo? | 8 |

What else need to be done by Ringo so as to enlarge its market?