

PAPER – 1 : ADVANCED ACCOUNTING

QUESTIONS

1. Red and Co. of Mumbai started a branch at Bangalore on 1.4.2006 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2007:

	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2007 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2007	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2007	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment a/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

2. (a) From the following particulars prepare customers control account in general ledger:

	Rs.
Opening balance in customers ledger (Dr.)	2,35,000
Opening balance in customers ledger (Cr.)	3,500
Goods sold during the year	7,65,000
Returns inwards	15,000
Cash/cheques received	5,90,000
Bills received	1,10,000
Discount allowed	9,000
Cheque received dishonoured	5,000
Bills received dishonoured	7,000

Bad debts	9,000
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A debit of Rs. 1,500 is to be transferred from customers ledger to suppliers ledger. Similarly a credit entry Rs. 1,600 is to be transferred from suppliers ledger to customers ledger. Closing credit balance in customers ledger is Rs. 3,000.

- (b) Hari owes Ram Rs. 2,000 on 1st April, 2006. From 1st April, 2006 to 30th June, 2006 the following further transactions took place between Hari and Ram:

April 10 Hari buys goods from Ram for Rs. 5,000

May 16 Hari receives cash loan of Rs. 10,000 from Ram

June 9 Hari buys goods from Ram for Rs. 3,000

Hari pays the whole amount, together with interest @ 15% per annum, to Ram on 30th June, 2006. Calculate the interest payable on 30th June, 2006 by the average due-date method.

3. A, B, C and D were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March, 2006:

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Sundry creditors		15,500	Sundry debtors	16,000	
A's loan		10,000	Less: Provision for bad debts	<u>500</u>	15,500
Capital accounts:			Stock in trade		10,000
A	20,000		Cash at bank		2,000
B	<u>15,000</u>	35,000	Furniture and fixture		4,000
			Trade mark		7,000
			Capital accounts:		
			C	16,000	
			D	<u>6,000</u>	<u>22,000</u>
		<u>60,500</u>			<u>60,500</u>

On 31st March, 2006, the partnership firm was dissolved and B was appointed to realise the assets and pay off the liabilities. He was entitled to receive 5% commission on the amount finally paid to other partners as capital. He was to bear the expenses of realization.

The assets realised were as follows: sundry debtors Rs 11,000; stock Rs. 8,000; furniture and fixture Rs. 1,000; trade mark Rs 4,000; creditors were paid off in full; in addition a contingent liability for bills receivable discounted, materialized to the extent of Rs 2,500. Also there was a joint life insurance policy for Rs.

30,000 This was surrendered for Rs. 3,000. Expenses of realisation amounted to Rs 500. 'C' was insolvent, but Rs 3,700 were recovered from his estate.

You are required to show the following account in the book of partnership firm:

1. Realisation account
2. Cash account
3. Partners' capital accounts.

Find out the correct departmental Profits after charging Managers' commission

4. On 1st March, 2006, XY Corporation Ltd purchased Rs.30,000, 5% Government stock at Rs.95 cum-interest. On 1st May, 2006 the company sold Rs.10,000 of stock at Rs.97 cum-interest. On 15th December, 2006, another Rs.10,000 stock was sold at Rs.93 ex-interest. On 31st December, 2006, the closing date of the financial year, the market price of the stock was Rs.9200. Half-yearly interest is received every year as on 30th June and 31st December,.

Prepare a ledger account in the investment ledger assuming that the stock transfer book is closed 20 days before the date of payment of interest. Ignore income tax and brokerage.

5. A Bombay merchant opens a new branch in Delhi, which trades independently of the Head Office. The transactions of the Branch for the year ended 31st March, 2006 are as under :

		Rs.
Goods supplied by Head Office		2,00,000
Purchases from outsiders :		
Credit	1,55,500	
Cash		<u>30,000</u>
1,85,500		
Sales :		
Credit	2,50,500	
Cash	<u>46,000</u>	2,96,500
Cash received from Customers		3,04,500
Cash paid to Creditors		1,42,500
Expenses paid by Branch		89,500
Furniture purchased by Branch on credit		35,000
Cash received from Head Office initially		40,000
Remittances to Head Office		
1,10,000		

Prepare the Branch Final Accounts and the Branch Account in the Head Office Books on incorporation of the Branch trial balance in the Head Office Books, after taking the following into consideration:

- (1) The accounts of the Branch fixed assets are maintained in the Head Office books.

- (2) Write off Depreciation on Furniture at 5 per cent per annum for full year.
- (3) A remittance of Rs. 20,000 from the Branch to the Head Office is in transit.
- (4) The Branch values its closing stock at Rs. 1,20,000.
6. The trial balance of Complex Ltd. as at 31st March, 2007 shows the following items:

	Dr.	Cr.
	Rs.	Rs.
Advance payment of income tax	2,20,000	—
Provision for income tax for the year ended 31.3.2006	—	1,20,000

The following further informations are given :

- (i) Advance payment of income tax includes Rs. 1,40,000 for 2005-2006.
- (ii) Actual tax liability for 2005-2006 amounts to Rs. 1,52,000 and no effect for the same has so far been given in accounts.
- (iii) Provision for income tax has to be made for 2006-07 for Rs. 1,60,000.

You are required to prepare (a) provision for income tax account, (b) advance payment of income tax account, (c) liabilities for taxation account and also show, how the relevant items will appear in the profit and loss account and balance sheet of the Company.

7. A company issues 1,000 14% Debentures of Rs.1,000 each at a premium of 20%. Sixty per cent of the issue was underwritten by M/s Bulls & Bears for a commission @ 1.5% of the issue price of debentures underwritten. Applications were received for 800 debentures which were accepted and payment of these was received in full. Give journal entries
8. Electric Supply Ltd. rebuilt and re-equipped one of their Mains at a Cash Cost of Rs. 40,00,000. The old Mains thus superseded cost Rs. 15,00,000. The capacity of the new Main is double that of the old Main. Rs. 70,000 was realised from sale of old materials. Four old motors valued at Rs. 2,00,000 salvaged from the old Main were used in the reconstruction. The cost of Labour and Materials is respectively 30% and 25% higher now than when the old Main was built. The proportion of Labour to Materials in the Main then and now is 2 : 3.
- Show the Journal entries for recording the above transactions, if accounts are maintained under Double Account System.
9. Answer the following (Give adequate working notes in support of your answer):
- (a) Alpha Ltd. purchased marketable securities of the face value of Rs. 10,000 at Rs. 9,200. The fair value of the securities is Rs. 9,500. The company intends to dispose off the securities in less than 12 months period. Compute value of investments to be shown in the books.
- (b) A machinery was purchased on 1.1.2005, which was delivered on 1.4.2005. The installation was completed on 30.09.2005 but was made available for use

on 1.10.2005. The actual utilization started from 1.12.2005. The effective period for calculation of its depreciation for the year 2005 is

- (c) Yash Ltd. wants to prepare its cash flow statement. It sold equipment of book value of Rs. 60,000 at a gain of Rs. 8,000. What amount is required to be reported in its cash flow statement under operating activities?

- (d) Goods purchased on 24.02.2005 for US \$ 10 (Exchange rate – 50)

(Rate of exchange on 31.3.2005 – 51)

Date of actual payment 5.6.2005 (Exchange rate – 52)

Calculate the amount of loss/gain to be recognized in the financial statements for the year ended 31st March, 2005.

- (e) Sohan raised 10% loan of Rs. 1,00,000 on 1.7.2004 to meet the cost of construction of an asset. The total cost of construction of an asset (completed on 31.12.2004) came to Rs. 2,00,000. The amount borrowed for construction was temporarily invested by Sohan in short term fixed deposit which earned interest of Rs. 2,000. The cost of the asset as on 31.12.2004 should be

- (f) Sparkli Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were bought back on September 1. The weighted average number of shares outstanding during the year is

- (g) On March 31, 2005 Fortunate company exchanged an old machinery having a carrying amount of Rs. 20,000 and paid cash difference of Rs. 5,000 for a new machinery having a total cash price of Rs. 23,000. On March 31, 2005 the amount of loss to be recognized on this exchange will be

- (h) On 1.4.2004 Bills for collection were Rs. 10,000. During 2004-2005 bills received for collection amounted to Rs. 1,00,000, bills collected were Rs. 80,000 and bills dishonoured and returned were Rs. 5,000. What will be the amount of bill for collection (assets) to be shown in the Balance Sheet as on 31.3.2005?

- (i) An old electricity plant, which originally costed Rs. 10,00,000 in the year 1999, was replaced by spending Rs. 15,00,000. Present cost of its replacement was calculated as Rs. 13,00,000. Calculate the amount to be capitalized.

- (j) If goods are transferred from department A to department B at a price so as to include a profit of 50% on cost. Compute the amount of stock reserve on closing stock of Rs. 9,000 in department B.

- (k) Total capital employed in the firm Rs. 7,00,000

Reasonable rate of return 15%

Profit for the year Rs. 1,20,000.

Calculate the goodwill of the firm using capitalization method.

- (l) Omega Ltd. issued 20,000, 8% debentures of Rs. 10 each at par, which are redeemable after 5 years at a premium of 20%. What will be the amount of loss on redemption of debentures to be written off each year.
 - (m) G Ltd. acquired assets worth Rs. 7,50,000 from H Ltd. by issue of shares of Rs. 100 at a premium of 25%. Compute the number of shares to be issued by G Ltd. to settle the purchase consideration.
 - (n) Ramesh & Suresh are partners sharing profits in the ratio of 2:1 (Ramesh Capital is Rs. 1,02,000 and Suresh Capital is Rs. 73,000) They admitted Mahesh & agreed to give him $\frac{1}{5}$ in share. He brings Rs. 14,000 as his share of goodwill. He agreed to contribute capital in profit sharing ratio. How much capital will be brought by the incoming partner?
10. (a) How will you choose a pre-packaged accounting software? Explain in brief.
- (b) Describe the method of calculation of profit or loss on disposal of investments.
 - (c) Explain the purpose and status of the conceptual framework for preparation and presentation of financial statements in brief.
 - (d) Write short note on red ink interest in the context of account current.
 - (e) What are the implications of Garner vs Murray rule in partnership accounting? Explain in brief.
 - (f) State the conditions to be fulfilled by a joint stock company to buy-back its equity.

PAPER – 2 : AUDITING AND ASSURANCE

QUESTIONS

1. Define Auditing. What are the basic principles governing an audit as per AAS 1? of auditors, What are those provisions?
2. What do you mean by long term investments and short term investments? What is the audit procedure regarding valuation and disclosure of long-term investments as per AAS 34?
3. What is auditor's report? What are the different types of auditor's report?
4. Write short notes on the following:
 - (a) Examination in depth
 - (b) Scope paragraph of Auditor's report
 - (c) Purpose of providing depreciation
 - (d) Related parties
 - (e) Permanent audit file
5. How will you vouch and/or verify the following?
 - (a) Research and Development expenses
 - (b) Foreign travel expenses
 - (c) Sale proceeds of Scrap Material.
 - (d) Borrowing from Banks
 - (d) Development of property
6. In which cases an auditor be appointed by special resolution? If a company fails to pass a special resolution in such cases, who will appoint the auditor?
7. State the requirements of Schedule VI to the Companies Act,1956, in respect of the disclosure of the following items in the accounts of a limited company:
 - (a) Share capital
 - (b) Fixed assets
 - (c) Contingent liabilities
 - (d) Miscellaneous expenditure
8. An Audit of expenditure is one of the major components of Government Audit. In the context of "Government Expenditure Audit" write in brief, what do you understand by:
 - (i) Audit against Rules and Orders
 - (ii) Audit of Sanctions
 - (iii) Audit against Provision of Funds
 - (iv) Propriety Audit
 - (v) Performance Audit.

PAPER – 3 : LAW, ETHICS AND COMMUNICATION

QUESTIONS

1. Mr. X, is employed as a cashier on a monthly salary of Rs.2,000 by ABC bank for a period of three years. Y gave surety for X's good conduct. After nine months, the financial position of the bank deteriorates. Then X agrees to accept a lower salary of Rs.1,500/- per month from Bank. Two months later, it was found that X has misappropriated cash since the time of his appointment. What is the liability of Y?
2. 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-fourth 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.
3. (a) What is meant by Anticipatory Breach of Contract?
(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.
4. A' stands surety for 'B' for any amount which 'C' may lend to B from time to time during the next three months subject to a maximum of Rs. 50,000. One month later A revokes the guarantee, when C had lent to B Rs. 5,000. Referring to the provisions of the Indian Contract Act, 1872 decide whether 'A' is discharged from all the liabilities to 'C' for any subsequent loan. What would be your answer in case 'B' makes a default in paying back to 'C' the money already borrowed i.e. Rs. 5,000?
5. An unpaid seller parted the possession of goods to a transporter for delivering goods to the buyer. In meanwhile, buyer becomes insolvent. State whether an unpaid seller is having right of stoppage of goods?
6. Mr. J sells and consigns certain goods to Mr. S for cash and sends the Railway Receipt to him. Mr. S becomes insolvent and while the goods are in transit, he assigns the Railway Receipt to Mr. N who does not know that Mr. S is insolvent. Mr. J being an unpaid seller wants to exercise his rights. Advise:
(a) whether Mr. J can exercise the right of stoppage of goods in transit ?
(b) would your answer be different if Mr. N was aware of Mr. J's insolvency before the assignment of the Railway Receipt in favour of Mr. N ?

7. M draws a bill on N payable three months after sight. It passes through several hands before T becomes its holder. On presentation by T, N refuses to accept. Discuss the duties and rights of T on the bill.
8. A promoter who has borrowed a loan on behalf of company, who is neither a director nor a person-in-charge, sent a cheque from the companies account to discharge its legal liability. Subsequently the cheque was dishonoured and the compliant was lodged against him. Does he liable for an offence under section 138?
9. On 1st January, 2007, 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.

10. Manorama Group of Industries sold its textile unit to Giant Group of Industries. Manorama Group contributed 25% of total contribution in Pension Scheme, which was due before sale under the provisions of Employees Provident Fund and Miscellaneous Provisions Act, 1952. The transferee company (Giant Group of Industries) refused to hear the remaining 75% contribution in the Pension Scheme. Decide, in the light of the Employees Provident Fund and Miscellaneous Provisions Act, 1952, who will be liable to pay for the remaining contribution in case of transfer of establishment and upto what extent?
11. An employee who is governed by the Payment of Gratuity Act, 1972 committed a theft in the course of his employment. And consequently his services was terminated. State in this connection, whether the gratuity payable to him shall be wholly or partly forfeited.
12. A Company was incorporated on 10th April, 2007, and had entered into a contract with a third party on 9th March, 2007 for supply of goods. After incorporation the company does not want to proceed with the contracts. State in this connection, whether the company is bound by the contract. If not who can be held personal liable?
13. The number of members in the public company were reduced to six and the company continued to carry on its business. State in this connection, whether the remaining persons will be liable and under what circumstances?
14. A limited company is formed with its articles stating that one Mr. X shall be the legal advisor of the company and that he shall not be removed except on the

ground of misconduct. Can the company remove Mr. X from the position even though not guilty of misconduct?

15. State in the following cases, whether the resolution is carried out and the kind of resolution:
 - (a) 12 members who are entitled to vote are presented at the meeting. Seven voted in favour and 5 against the resolution.
 - (b) If in the above situation, nine abstain from voting, two vote in favour and one against the resolution. Is the resolution carried out?
 - (c) 12 members are present, 10 voted in favour and the balance against the resolution.
 - (d) If in the above situation, 8 abstain from voting, 3 voted in favour and one against the resolution. Is the resolution carried out?
16. A Company wants to provide financial assistance to its employees to enable them to subscribe for fully paid shares of the company. Does it amount to purchase of its own shares. If, in the instant case, the company itself purchasing to redeem its preference shares, does it amount to acquisition of its own shares?
17. Distinguish between Morals and Ethics
18. What Guidelines you would suggest for managing ethics in workplace?
19. What are the various types of Consumer Protection Councils in India?
20. Draft a power of attorney authorizing a Chartered Accountant to appear before the Income Tax authorities.

PAPER – 4 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

Part I : Cost Accounting

QUESTIONS

1. Identify the correct answer from the given alternatives of the following questions:

- (i) One of the most important tools in cost planning is:
 - (a) Direct cost;
 - (b) Budget;
 - (c) Marginal costing;
 - (d) None of above.
- (ii) The main purpose of cost accounting is to :
 - (a) Maximise profits;
 - (b) Help in inventory valuation;
 - (c) Provide information to management for decision making;
 - (d) Aid in the fixation of selling price.
- (iii) The variable cost per unit is,
 - (a) Variable in nature;
 - (b) Fixed in nature;
 - (c) Semivariable in nature;
 - (d) None of the above.
- (iv) A company presently does not utilise its available capacity. In case of full capacity utilisation, the cost per unit shall
 - (a) Increase;
 - (b) Decrease;
 - (c) Remain constant;
 - (d) None of the above.
- (v) Selling and distribution overheads are
 - (a) Product costs in a manufacturing environment;
 - (b) Period costs in a manufacturing environment;
 - (c) Neither period, nor product costs;
 - (d) None of the above.
- (vi) Separate books of accounts are maintained for costing and financial accounting purposes under,
 - (a) The inter locking system of accounting;

- (b) The integrated system of accounting;
 - (c) Both a and b;
 - (d) None of the above.
- (vii) What would be the most appropriate basis for apportioning machinery insurance costs to cost centres within a factory?
- (a) The number of machines in each cost centre;
 - (b) The floor area occupied by the machinery in each cost centre;
 - (c) The value of the machinery in each cost centre;
 - (d) The operating hours of the machinery in each cost centre.
- (viii) Under integrated system of accounting, purchase of raw material is debited to which account,
- (a) Purchase Account;
 - (b) Work in progress control account;
 - (c) Raw material control account.
- (ix) Labour turnover is measured by
- (a) Replacement method;
 - (b) Separation method;
 - (c) Flux method;
 - (d) All of the above.
- (x) What do you understand by over absorbed overheads?
- (a) When overheads absorbed are more than overheads incurred;
 - (b) When overheads absorbed are less than overheads incurred;
 - (c) When overheads absorbed are equal to overheads incurred;
 - (d) None of the above.
2. (a) 'Cost Accounting has become an essential tool of Management of a business concern'. Explain the statement.
- (b) Discuss the factors which should be considered before installing a Costing system in a manufacturing firm.
- (c) What are the characteristics of a good Costing System.
3. The following information is provided by ATLANTA Industries with regard to the operations of raw material stores for the fortnight of April, 2007:

Material ASH:

Stock on 1-4-2007 100 units at Rs. 5 per unit.

Purchases

5-4-07	300	units	at	Rs. 6
8-4-07	500	units	at	Rs. 7

12-4-07	600	units	at	Rs. 8
Issues				
6-4-07	250	units		
10-4-07	400	units		
14-4-07	500	units		

Required :

- (a) Calculate using FIFO and LIFO methods of pricing issues (you may assume a nil opening and closing balance of stock on the production floor):
 - (i) the value of raw materials consumed during the period
 - (ii) the value of stock of raw materials on 15-4-07.
 - (b) Explain why the figures in (a) and (b) in part A of this question are different under the two methods of pricing of raw material issues used. You need not draw up the Stores Ledgers.
4. (a) Describe the factors which should be taken into consideration before introducing an incentive system.
- (b) Using the details given below, you are required to calculate the earnings of workers Rio and Rayan and subsequently allocate these earnings to the three Jobs A, B and C.

	Rio	Rayan
(a) Basic Wages	Rs. 100	Rs. 100
(b) Dearness Allowance	50%	55%
(c) Provident Fund (on basic wages)	8%	8%
(d) Employee's State Insurance (on basic wages)	2%	2%
(e) Overtime	10 hrs.	–
(f) Idle time and leave	–	16 hrs.

For your calculations, you may assume the following:

- Normal working hours for a month are 200 hours.
- Overtime is paid at double the normal wages plus dearness allowance.
- Employer's contributions to State Insurance and Provident Fund are at equal rate with the employee's contributions.
- The month contains 25 working days and one paid holiday.

The two workers were employed on jobs A, B and C in the following proportions:

Job	A	B	C
Worker A	80	60	60
Worker B	100	40	60

Overtime was done on job Y.			
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5. (a) Discuss briefly the Step method and Reciprocal Service method of secondary distribution of overheads.
(b) Differentiate between Job costing and Batch costing.
6. Write short notes on:
 - (a) Cost of work uncertified
 - (b) Retention money
 - (c) Profit /loss on incomplete contracts
 - (d) Cost plus contract
 - (e) Escalation clause.
7. A factory is currently running at 50% capacity and produces 5,000 units at a cost of Rs. 900 per unit as per details below:

	Rs.
Material	500
Labour	150
Factory overheads	150 (Rs. 60 fixed)
Administrative overheads	100 (Rs. 50 fixed)

The current selling price is Rs. 1,000 per unit. At 70% working, material cost per unit increases by 2% and selling price per unit falls by 2%.

Estimate profits of the factory at 70% working by preparing a flexible budget.

8. DECCAN Airways owns a single jet aircraft and operates between Bangalore and New Delhi. Flights leave Bangalore on Mondays and Thursdays and depart from New Delhi on Wednesdays and Saturdays. DECCAN Airways cannot afford any more flights between Bangalore and New Delhi. Only tourist class seats are available on its flights. An analyst has collected the following information:

Seating capacity per plane	360
Average Passengers per flight	100
Flights per week	4
Flights per year	208
Average one-way fare	Rs. 10,000
Variable fuel costs	Rs. 1,40,000 per flight
Food service to passengers (not charged to passengers)	Rs. 400 per passenger
Commission paid to travel agents paid by DECCAN Airways on each ticket booked on DECCAN Airways	8% of fare
(Assume that all DECCAN tickets are booked by	

travel agents)

Fixed annual lease costs allocated to each flight Rs. 5,30,000 per flight

Fixed ground services (maintenance, check-in baggage handling) costs allocated to each flight Rs. 70,000 per flight

Fixed salaries of flights crew allocated to each flight Rs. 40,000 per flight

For the sake of simplicity, assume that fuel costs are unaffected by the actual number of passengers on a flight.

Required:

(a) What is the operating income that DECCAN Airways makes on each one-way flight between Bangalore and New Delhi?

(b) The market research department of DECCAN Airways indicates that lowering the average one-way fare to Rs. 9,600 will increase the average number of passengers per flight to 106. Should DECCAN Airways lower its fare?

(c) Travel India, a tour operator, approaches DECCAN Airways to charter its jet aircraft twice each month, first to take Travel India International tourists from Bangalore to New Delhi and then bring the tourists back from New Delhi to Bangalore. If DECCAN Airways accepts the offer, it will be able to offer only 184 (208 minus 24) of its own flights each year. The terms of the charter are:

(i) For each one-way flight Travel India will pay DECCAN Rs. 7,50,000 to charter the plane and to use its flight crew and ground service staff.

(ii) Travel India will pay for fuel costs.

(iii) Travel India will pay for all food costs.

On purely financial considerations, should DECCAN Airways accept the offer from Travel India Tours and Travel?

9. (a) You are given the following data for the coming year for a factory.

Budgeted output 8,00,000 units

Fixed expenses 40,00,000

Variable expenses per unit Rs. 10

Selling price per unit Rs. 20

Draw a break-even chart showing the break-even point.

(b) If price is reduced to Rs. 180, what will be the new break-even point?

10. The following standards have been set to manufacture a product:

Direct materials: Rs.

2.5 units of X at Rs. 4 per unit 8.00

3 units of Y at Rs. 3 per unit 9.00

15 units of Z at Re. 1 per unit	<u>15.00</u>
	<u>32.00</u>
Direct labour 3 hours @ Rs. 8 per hour	<u>24.00</u>
Total standard prime cost	<u>56.00</u>

The company manufactured and sold 6,000 units of the product during the year 2006.

Direct material costs were as follows:

12,500 units of X at Rs. 4.40 per unit.

18,000 units of Y at Rs. 2.80 per unit.

88,500 units of Z at Rs. 1.20 per unit.

The company worked 17,500 direct labour hours during the year 2006. For 2,500 of these hours the company paid at Rs. 12 per hour while for the remaining hours the wages were paid at the standard rate.

Compute material price, usage variances, labour rate, and efficiency variances.

Part B :FINANCIAL MANAGEMENT

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

Question 1

Answer the following:

- (i) Explain the concept of Profit Maximisation.
- (ii) Discuss the concept of Debt Securitisation.
- (iii) How is Price Earning Ratio calculated? What is its significance?
- (iv) Discuss the term Indian Depository Receipts (IDRs).
- (v) Explain Modified Internal Rate of Return.

(5 × 2 = 10 Marks)

Question 2

The following figures of Royalroads Limited are presented as under:

		(Rs.)
Earnings before interest and tax		23,00,000
Less: Debenture interest @ 18%	80,000	
Long Term Loan interest @ 11%	<u>2,20,000</u>	<u>3,00,000</u>
		20,00,000
Less: Income Tax		<u>10,00,000</u>
Earnings after tax		10,00,000
No. of equity shares of Rs. 10 each	5,00,000	
EPS	Rs. 2	
Market price of share	Rs. 20	
P/E ratio	10	

The company has undistributed reserves and surplus of Rs. 20 lakhs. It is in need of Rs. 30 lakhs to pay off debentures and modernise its plants. It seeks your advice on the following alternative modes of raising finance.

- Alternative 1 - Raising entire amount as term loan from banks @ 12%.
- Alternative 2 - Raising part of the funds by issue of 1,00,000 shares of Rs. 20 each and the rest by term loan at 12%.

The company expects to improve its rate of return by 2% as a result of modernisation, but P/E ratio is likely to go down to 8 if the entire amount is raised as term loan.

- (i) Advise Royalroads Limited on the financial plan to be selected.
- (ii) If it is assumed that there will be no change in the P/E ratio if either of the two alternatives is adopted, would your advice still hold good?

(8 + 8 = 16 Marks)

Question 3

- (a) The present credit terms of Shasha Limited are 1/10 net 30. Its annual sales are Rs. 80 lakhs, its average collection period is 20 days. Its variable costs and average total costs to sales are 0.85 and 0.95 respectively and its cost of capital is 10 per cent. The proportion of sales on which customers currently take discount is 0.5. Shasha Limited is considering relaxing its discount terms to 2/10 net 30. Such relaxation is expected to increase sales by Rs. 5 lakhs, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.8. What will be the effect of relaxing the discount policy on Shasha Limited's profit? Take year as 360 days.
- (b) Ganpati Limited is considering building an assembly plant and it has two options, out of which it wishes to choose the best plant. The projected output is 10,000 pieces per month. The following data are available:

		Rs.
	Plant A	Plant B
Initial Cost	60,00,000	44,00,000
Direct Labour cost p.a. (1st Shift)	30,00,000	15,00,000
(Second Shift)	-	19,00,000
Overhead (per year)	5,00,000	4,20,000

Both the plants have an expected life of 10 years after which there will be no salvage value. The cost of capital is 10%. The present value of an ordinary annuity of Re. 1 for 10 years @ 10% is 6.1446. Ignore effect of taxation.

You are required to determine:

- What would be the desirable choice?
- What other important elements are to be considered before the final decision is taken?

(8 + 7 = 15 Marks)

Question 4

Answer the following:

- (a) Distinguish between Financial Leverage and Operating Leverage.
- (b) Suhasini Limited sells goods on cash as well as on credit (though not on deferred instalment terms). The following particulars are extracted from their books of accounts for the current year-end.

Total gross sales	Rs. 1,00,000
Cash sales (included in above)	20,000
Sales returns	7,000
Total debtors at the end	9,000
Bills receivable	2,000

Provision for doubtful debts at the end of the year	1,000
Total creditors at the end	10,000

You are required to calculate the average collection period of Suhasini Limited.

(c) The following data pertains to Aneja Limited:

	Rs.
Sales	20,00,000
Average invested capital (total assets)	50,00,000
Net income	12,50,000
Cost of capital	10%

You are required to calculate the return on investment. (3 × 3 = 9 Marks)

PAPER – 5: TAXATION

Note: Students are advised to answer this test paper based on the assessment year 2009-10

QUESTIONS

1. State with reasons whether the following statements are true or false [A.Y. 2008-09] -
 - (a) The benefit of weighted deduction under section 35(2AB) in respect of scientific research expenditure would be available up to 31.3.2007.
 - (b) Any sum received by an employer from his employees towards contributions to provident fund, superannuation fund etc. are not taxable.
 - (c) Under section 40A(3), 20% of the expenditure in respect of which payment exceeding Rs. 20,000 has been made by account payee cheque or account payee draft is disallowed.
 - (d) Deemed dividend under section 2(22)(e) is chargeable to tax on mercantile basis, irrespective of the method of accounting followed by the assessee.
2. Mr. Suresh and Mrs. Suresh are foreign citizens. During the previous year 2007-08, Mr. Suresh and Mrs. Suresh have the following income:

Particulars	Mr. Suresh Amount (Rs.)	Mrs. Suresh Amount (Rs.)
(i) Interest on company deposits in India	50,000	7,50,000
(ii) Income deemed to be received in India	35,000	60,000
(iii) Income from business situated in Nepal and controlled from India (40 per cent is received in India and 60 per cent is received outside India)	70,000	42,000
(iv) Dividend declared by an Indian company	35,000	50,000
(v) Salary received in India for services rendered outside India	97,000	90,000
(vi) Interest received from the Government of India (received outside India)	60,000	21,000
(vii) Interest received from a foreign company outside India (on capital which is utilized outside India)	80,000	7,000

(viii)	Income from a business in France, controlled from Mumbai	42,000	97,000
(ix)	Royalty received in India from the Government of India	15,000	7,000
(x)	Royalty received in India from a non-resident in respect of technology used by such person outside India	22,000	10,000
(xi)	Agricultural income in Europe	58,000	76,000

From the above particulars ascertain the gross total income of Mr. Suresh and Mrs. Suresh for the assessment year 2008-09, if Mr. Suresh is a resident but not ordinarily resident in India and Mrs. Suresh is non-resident in India.

3. Discuss the meaning of the following terms under the Income-tax Act, 1961-

- (i) Infrastructure Capital Company;
- (ii) Infrastructure Capital fund;
- (iii) India.

4. Ramesh was the General Manager of Amity Ltd. in Delhi. He retired from his service on 31-12-2007 after 30 years of service. The following information has been provided by him:

- (i) Basic Salary Rs. 20,000 p.m. Dearness allowance 40% of basic salary (50% of which forms part of salary for retirement benefits).
- (ii) House rent allowance Rs. 5,000 p.m. He pays Rs. 6,000 p.m. as rent.
- (iii) Medical allowance Rs. 1,200 p.m.
- (iv) A car of 1.4 ltrs. engine cubic capacity is provided by the company for official and personal use and all expenses of running and maintenance of car and salary of the driver are borne by the company.
- (v) The monthly expenses incurred by Ramesh on gas and electricity were Rs. 800 which were reimbursed by the employer.
- (vi) Reimbursement of educational expenses of his two children which amount to Rs. 450 p.m.
- (vii) A watchman, a sweeper and a cook have been provided to whom the company pays a salary of Rs.600 p.m. each.
- (viii) Loan of Rs. 1,50,000 @ 10% p.a. for construction of his house was given by the company. SBI rate of interest is 8% p.a.
- (ix) He received Rs. 2,40,000 as gratuity. His salary for the preceding years was as under:

	<i>Particulars</i>	<i>Rs.</i>
(a)	Year ending 31-12-2004	1,10,000

(b)	Year ending 31-12-2005	1,16,000
(c)	Year ending 31-12-2006	1,20,000

- (x) He received Rs. 1,25,000 for encashment of leave being twelve months unavailed leave of Ramesh. He was entitled to one month's leave for every year of service.
- (xi) Ramesh contributes 20% of his salary to a recognised provident fund and the employer's contribution is 10%.
- (xii) He has invested Rs. 20,000 in National Savings Certificates VIII issue and Rs. 15,000 in public provident fund. He paid Rs. 10,000 towards life insurance premium.

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

5. Ashok has a house property situated in Delhi which consists of two units. Unit A has 60% floor area, whereas Unit B has 40% floor area. Unit A was self-occupied by Ashok for 8 months and w.e.f. 1-12-2007, it was let out for Rs.12,000 p.m. Unit B was also meant for self occupation but it was also let out w.e.f. 1-10-2007 for Rs. 9,000 p.m. The other particulars of the house property were as under:

	<i>Rs.</i>
Municipal taxes paid	55,000
Insurance premium	8,000
Interest on money borrowed	25,000

Compute income from house property for the assessment year 2008-09.

6. Discuss briefly on:
- (a) Carry forward and set off losses in case of change in constitution of firm or succession
- (b) Exemption of specified income of Investor Protection Fund set up by commodity exchanges.
7. Dr. Umesh is an individual medical practitioner. His gross receipts from the medical practice for the year ending 31.03.2007 are Rs. 80 Lakhs. The gross receipts for the year ending 31.03.2008 are Rs. 9 Lakhs. During the financial year 2007-08, he makes the following payments to a resident contractor for various activities:

Contract No.	Name of the Contractor	Description of the Contract	Amount paid or credited in the books (Rs.)
A	Mr. P	Medical equipment maintenance contract	50,000
B	Mr. P	Household personal	2,70,000

		equipment maintenance contract	
C	Mr. R	Clinic furnishing contract	19,000
D	Mr. R	Clinic furnishing contract	18,000
E	Mr. R	Clinic furnishing contract	19,500

Examine the liability to deduct tax and the amount of TDS under section 194C(1) for the A.Y. 2008-09.

8. State with reasons whether the following statements are true or false [A.Y. 2008-09] -
 - (a) The income of all Mutual Funds will be exempt from tax irrespective of whether or not the prescribed conditions laid down by the Central Government are fulfilled.
 - (b) No capital gains would arise in the hands of the company in respect of compensation received on compulsory acquisition of agricultural land.
 - (c) Partnership firms deriving loss need not file return of income.
 - (d) Interest on loan borrowed which is payable outside India shall not be allowed as deduction.
9. Sumit purchases 2,500 (non-listed) shares in Amit Ltd. on August 16, 1990 for Rs. 10,000. On May 17, 1992, he gets 500 bonus shares. On October 20, 2006, he acquires 1,500 right shares at the rate of Rs. 15 per share. He sells 4,500 (non-listed) shares in Amit Ltd. on February 12, 2008 at the rate of Rs. 150 per share (brokerage on sale: 2 per cent). He owns one residential house property. He purchases a residential house on June 29, 2008 for Rs. 3,50,000. Ascertain the amount of capital gains chargeable to tax for the assessment year 2008-09. [Cost Inflation Index (CII): F.Y.2007-08: 551, F.Y.2006-07: 519, F.Y.1990-91:182]
10. Discuss the provisions of section 139B relating to the scheme for submission of returns through Tax Return Preparers.

PAPER – 6A : INFORMATION TECHNOLOGY

QUESTIONS

1. Define the following terms briefly:

(a) Server Memory	(b) Seek Time	(c) Bubble
(d) Boot Record Recognition	(e) Microprocessor	(f) Voice
(g) Internet Explorer	(h) String	(i) Linked List
(j) Full Duplex	(k) Gopher Server	(l) URL
(m) ISP	(n) Web Browser	(o) Bit or Binary
(p) CRT Check	(q) MIS	(r) Redundancy
(s) Spooling	(t) Router.	
2. Convert the following from one number system to another number system along with the working notes:

(1) $(1596)_{10}$	=	$(\quad)_2$
(2) $(10011011)_2$	=	$(\quad)_{10}$
(3) $(252.50)_{10}$	=	$(\quad)_2$
(4) $(101110.101)_2$	=	$(\quad)_{10}$
3. (a) Define various types of storage devices in brief.
(b) What is Optical Laser Disk? How the data is stored on Optical Laser Disk?
4. (a) What is language translators? Describe in brief each of the language translators.
(b) Describe the component used to create the expert system in brief.
5. (a) What are the different issues related with the backup and recovery of the databases.
(b) Differentiate between data winning and warehousing? Describe the component used in data warehousing in brief.
6. (a) What are different factors that determine good CRM program? Describe in brief.
(b) What is EDI? Explain? Explain how EDI works.
(c) What are different tools available to protect the system against intrusion?

Describe in brief.

7. A company has 2,500 employees. Their salaries are stored as J(s), 1, 2, ---- 2500. The salaries are divided in four categories as under :

- (i) Less than Rs. 1,000 (ii) Rs. 1,000 to Rs.2,000
(iii) Rs. 2,001 to Rs. 5,000 (iv) Above Rs. 5,000.

Draw a flow chart for finding the percentage of the employees in each category.

8. Write short notes on the following:

- (a) Mother Board
- (b) Buses
- (c) Digital Video Disk (DVD)
- (d) Touch Screen
- (e) Non-impact Printer
- (f) Application Software
- (g) Chat Server
- (h) Extranet
- (i) Mobile Commerce
- (j) Bluetooth
- (k) EFT.

PAPER – 6B : STRATEGIC MANAGEMENT

1. State with reasons which of the following statements are correct/incorrect:
 - (a) According to Peter F Drucker businesses exist for making profits.
 - (b) Businesses function in an isolated manner.
 - (c) Under Porter's five forces model new entrants are insignificant source of competition.
 - (d) Competition is bad for organisations.
 - (e) Businesses have to respond to hostile environment with strategy.
 - (f) Strategies are not substitute for sound, alert and responsible management.
 - (g) Strategy is partly proactive and partly reactive
2. Discuss the competitive environment of the business. What are the five forces of competitive analysis that are suggested by Michel Porter?
3. What is decision making? What are the major dimensions of strategic decisions?
4. Do you think that the companies should manage strategically? Discuss.
5. Discuss expansion as business strategy. What are the broad ways for businesses to expand?
6. Discuss the important areas where human resource manager can play a strategic role.
7. Discuss strategic business unit as a form of organisation structure.
8. Home Ease Ltd is a major manufacturer of home appliances in the country. The company manufactures water purifier, electric ovens, irons, juicers and choppers. Last two years have not been good for the company. It has lost its market share to its competitors and imports. The Chief Executive Officer, Kawaljit, is worried as the company has underperformed in its key financial indicators. Cheap Chinese products have also threatened the survival of the company. Opening of economy has also brought in manufacturers from around the world who also possess new technology and designs. The customers are attracted to these designs.

To discuss the matters Kawaljit called Gopinath, and Premnath to his office. Gopinath is a bright Chartered Accountant and is acting as head of Finance Department in the company. Premnath is an engineer and MBA with twelve years of experience in marketing of electronic goods. He has joined company around six months back and is acting as head of marketing division and managing things at national level

Premnath felt that the company is facing problems as it has been too complacent. It has not responded to the changing environmental conditions and has not undertaken any formal strategic planning. He also felt that in the past the company has pursued objectives that have been conflicting to each other. In order to bring competitive advantage, Premnath suggested involving people from all levels in the organisation for developing business strategy. He also said that the sales people who are in touch with the customers and retailer should also be involved and greater emphasis should be placed on understanding the external environment. This will help company to assess and formulate ways to have competitive advantage using unique combination of resources, skills and capabilities within the environment.

However, Gopinath outlined the benefits of more formal top down approach to planning. Premnath argued that in the dynamic environment in which the company is operating involving too many people would be waste of time. The company has to incur huge cost and such an approach will only result in more confusion and chaos.

Read the above case and answer the following questions:

- (a) Do you think that involving too many people in the planning exercise would be a waste of time? Discuss.
- (b) If Kawaljit hires you as an consultant which approach will you advocate? Why?