REVISED SYLLABUS 2008

TEST PAPER

Final
Group III

TEST QUESTION PAPER FOR POSTAL STUDENTS ONLY

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

DIRECTORATE OF STUDIES

PAPER – 11
CAPITAL MARKET ANALYSIS & CORPORATE LAWS

TEST PAPER – III11/CMC/2008/T-1

Time Allowed: 3 Hours Full Marks: 100

Answer Q.No.1 and any five Questions from the rest

1. Critically analyse the link between SML, CML and Characteristic Line. Discuss the implications of CAPM and APT Theory in portfolio selection.

2. What is the relationship between bond price and time? How are bond duration, convexity and dispersion related to each other?

3. What is Fundamental Analysis? Explain in detail the various stages involved? What are its strengths and weakness?

4. Explain in detail the Dow Theory and how it might be used to determine the direction of the stock market? How does it differ from Eliot Wave Theory?

5. Best and Excel are the two mutual funds. Best has a mean success of .15 and Excel has .22. The Excel has double the beta of Best fund's 1.5. The standard deviation of Best and Excel funds are 15% and 21.43%. The mean return of market index is 12% and its standard deviation id 7. The risk free rate is 8%.

a) Compute the Jensen Index for each fund
b) Compute the Treynor and Sharpe Indices for the funds and Interpret the results.

6. Assume you have recently graduated and have been hired as a financial planner by Radiant Securities Ltd., a financial services company. You have been given the following information relating to the return of RIL scrip and of market return.

Year	Return on RIL	Return on BSE sensex
2001	0.2	0.1
2002	0.3	0.2
2003	0.5	0.3

Cont'd…..2

2004	0.4	0.4
2005	0.6	0.5

Compute and Comment on the results ;

(i) Beta value

(ii) Alpha value

(iii) the residual variance of RIL and Sensex and

(iv) The coefficient Correlation .

7. Mrs. Kiran's portfolio consists of six securities The individual returns of each of the security in the portfolio is given below:

Security	Proportion of investment in the portfolio	Return
Wipro	10%	18%
Latham	25%	12%
SBI	8%	22%
ITC	30%	15%
RNL	12%	6%
DLF	15%	8%

Calculate the weighted average of return of the securities consisting the portfolio.

PAPER – 11

CAPITAL MARKET ANALYSIS & CORPORATE LAWS

TEST PAPER – III11/CMC/2008/T-2

Time Allowed: 3 Hours Full Marks: 100

Answer Q.No.1 and any five Questions from the rest

1. Explain in detail the role of Foreign Institutional Institutions in Indian Capital markets? Are they creating imbalance in the market by providing excess liquidity into the system? What according to you should be the approach SEBI should take with respect to FII participation in the Indian Capital Market?

2. What is Diversification in Portfolio Management? Explain in detail the various diversification strategies and their advantages and disadvantages?

3. What is the basic assumption behind APT? What are the advantages and disadvantages of the APT over CAPM?

4. Discuss the various types of risk. How would you manage with an effective portfolio during a bull and a bear phase in capital market?

5. What is an Index in Stock Market? Explain in detail the need, composition and its uses in Indian Capital Markets with respect to both NSE and BSE Indices?

The returns of Security Wipro and Security Infosys for the past six years are given below:

Year	Security Wipro Return %	Security Infosys Return %
2003	9	10
2004	5	-6
2005	3	12
2006	12	9
2007	16	15

Calculate the (i) Mean (ii) Standard deviation and (iii) Correlation Coefficient.

Cont'd…..2

6. Ravi Shankar has prepared the following information regarding two investments under consideration. Which investment should be accepted ?

Security ABC		Security XYZ	
Probability	Return	Probability	Return
0.30	27%	0.21	15%
0.50	18%	0.30	6%
0.30	-2%	0.40	10%
-	-	0.10	4%

7. Suppose you invest in four securities. Company ABC has on expected return of 20 percent, Company BCD has on expected return of 10 percent, Company CDE has on expected return of 12 percent, and Company DEF has an expected return of 9 percent. You have invested Rs. 40,000. What is the expected rate of return on your portfolio?

PAPER – 12

FINANCIAL MANAGEMENT & INTERNATIONAL FINANCE

TEST PAPER – III12/AFM/2008/T-1

Time Allowed: 3 Hours | Full Marks: 100

Answer Q.No.1 and any five Questions from the rest

1. "Capital structure constitutes one of the most important decisions in finance". Explain the above statement with examples

2. Explain the various techniques of capital budgeting with the help of an example, clearly highlighting the merits and demerits of each technique

3. What do you mean by cash from operations? How will you prepare a cash from operations statement?

4. " Cost, Volume, Profit relationship analysis helps in proper measurement of product profitability"- Explain the above statement with examples and also the limitations of CVP analysis

5. What is Balanced score card? What is its philosophy?

6. Explain the Black & Scholes model of option valuation. Where is this model used?

7. Explain the process of project appraisal with illustration

8. Explain the difference between forward and future as risk management products. Explain how options help in management of risk

PAPER – 12

FINANCIAL MANAGEMENT & INTERNATIONAL FINANCE

TEST PAPER – III12/AFM/2008/T-2

Time Allowed: 3 Hours | Full Marks: 100

Answer Q.No.1 and any five Questions from the rest

1. What are the various sources of funding for a coporate? Explain some of the recent trends in fund mobilization by the Indian corporates

2. What do you understand by EBIT/EPS analysis? How and when do you use this analysis? Illustrate with an example

3. Show how you will perform an inter-firm comparison with the help of ratio analysis

4. Distinguish between financial and operating leverage with examples. How are they related to each other?

5. What is venture capital? What is its relevance and role in the development of a country?

6. What do you mean by project finance? How is project finance different from conventional financing?

7. What are the various products for interest rate risk management? Explain their mechanics with examples

8. What is the role of international financial services in the growth and development of international trade?

PAPER – 13

MANAGEMENT ACCOUNTING-STRATEGIC MANAGEMENT

TEST PAPER – III/13/MSM/2008/T-1

Time Allowed: 3 Hours Full Marks: 100

Answer Part A and any five Questions from Part B

Part A

Objective type **2 x 10 = 20**

1. Improving quality is not due to?
   a. Pressure from customers
   b. Good training programmes
   c. Motivated supervision
   d. Inadequate documentation
   e. Modern machinery
2. SEBI stands for?
   a. Securities and exchange body of India
   b. Securities and exchange board of India
   c. Shares equities board of India
   d. Stock exchange board of India
   e. Stock exchange board of investors
3. Reducing headcount and selling assets / belt-tightening to face business downturn is called by Prahalad and Hamel as:
   a. Numerator Management
   b. Denominator Management
   c. Turnaround Management
   d. Crisis Management
   e. Transition Management

Cont'd…..2

4. The Government encourages industry, investment and FDI by creating SEZ's. The term SEZ stands for:-
   a. Special Equity Zones
   b. Software Export Zones
   c. Special Economic Zones
   d. Special Entitlement Zones
   e. Special Effort Zones
5. Value drivers identified in cost leadership model do not include?
   a. Sales growth rate
   b. Operating profit margin
   c. Differentiation
   d. Working capital investment
   e. Cost of capital
6. Post-hoc segmentation method does not include
   a. Preferences to product attributes and values
   b. Basic demographic groups (Age, sex and household composition)
   c. Brand preferences and brand loyalty
   d. Price sensitivity
   e. Usage groups (Volume users, lean users, and non-users)
7. Contribution of management accountant in environmental scan and SWOT analysis is
   a. Research information on competitive activity
   b. Collate information on key environmental factors and statutory regulations
   c. Research, collect and collate information on statutory regulations
   d. Research, collect and collate information on key environmental factors including statutory regulations and competitive activity
   e. None of the above

Cont'd…..3

8. Risk management techniques do not include
   a. Risk avoidance
   b. Risk premium
   c. Risk retention
   d. Risk reduction
   e. Risk transfer

9. Ruin probability relates to
   a. Insurable interest
   b. Marine insurance
   c. Burglary insurance
   d. Fire insurance
   e. Insolvency of a company

10. Variability in return on investments in the market is referred to as
    a. Market risk
    b. Physical risk
    c. Financial risk
    d. Pooling risk
    e. Business risk

Part B

Answer any five questions **5 x 16 = 80**

11. Good governance practices stem from the culture mind set and shared values of the organization. Comment on the statement in the context of Agency theory and Stewardship theory.

12. Not all joint ventures lead down the garden path. They end up many a time on the way side due to various reasons. Enumerate.

13. "Agricultural sector is poised for a second green revolution during the eleventh five year plan period" Comment.

Cont'd…..4

14. What are the types of simulation models? What are the advantages and disadvantages of simulation models?

15. Customer now articulates his own option to create a new product, as he has become “the boss”. How does this reflect change from product orientation to market orientation?

16. From a cost plus pricing model, a market driven model for pricing has lead to “target price”. How has it lead to target costing method for cost reduction?

17. What are the types of risks? What are the characteristics of insurance contract?

PAPER – 13

MANAGEMENT ACCOUNTING-STRATEGIC MANAGEMENT

TEST PAPER – III13/MSM/2008/T-2

Time Allowed: 3 Hours | Full Marks: 100

Answer Part A and any five Questions from Part B

Part A

Objective type **2 x 10 = 20**

1. Strategic Control does not include?
   a. Strategic surveillance
   b. Premise control
   c. Implementation control
   d. Budgetary control
   e. Special alert control

2. Standard classes of organization structure do not include?
   a. Simple structure
   b. Machine bureaucracy
   c. Professional bureaucracy
   d. Capital structure
   e. Adhocracy

3. An anti takeover defense that creates securities that provide their holders with special rights in the event of a takeover is called:-
   a. Poison Put
   b. Poison Pill
   c. Flip Pill
   d. Proxy rights
   e. Bear Hug

Cont'd…..2

4. NRAA has been created in November 2006 to support up gradation and management of dry land and rain fed agriculture. NRAA stands for

    a. National Rain fed Area Authority
    b. National Rural farming Areas Authority
    c. National Reconstruction Asset Allocation
    d. National Reallocation of Available Assets
    e. None of the above

5. Value drivers identified in Differentiation Strategy do not include?

    a. Sales growth rate
    b. Waste reduction
    c. Operating profit margin
    d. Fixed capital investment
    e. Cost of capital

6. Judy Strauss and Raymond Frost's e-marketing model defines e-business as

    a. EB = EC + SCM + ERP
    b. EB = EC + BI + CRM + SCM + ERP
    c. EB = EC + BI + CRM
    d. EB = CRM + SCM + ERP
    e. EB = SCM + ERP

7. Contribution of management accountant in strategic change portfolio exercise is

    a. To lay down strategic initiatives in a chronological order over the time horizon of the strategy
    b. Be part of cross functional team to lay down tactical initiatives
    c. Be part of cross functional team to lay down strategic initiatives in a chronological order over the time horizon of the strategy
    d. Be part of cross functional team to perform financial audit
    e. None of these

Cont'd…..3

8. Types of risks do not include
    a. Business risks
    b. Market risks
    c. Interest rate risks
    d. Default risks
    e. Uncertainty
9. RORAC means
    a. Risk oriented return against capital
    b. Return on real asset computation
    c. Return on risk-adjusted capital
    d. Return on risky assets and capital
    e. Return on risk associated capital
10. ________ refers to the uncertainty of market volumes in the future and the quantum of future income caused by the variations in the interest rates.
    a. Market risk
    b. Physical risk
    c. Interest rate risk
    d. Pooling risk
    e. Exchange risk

Part B

Answer any five questions **5 x 16 = 80**

11. SEBI has introduced corporate governance in a comprehensive manner to protect shareholders interests as well as provide teeth in monitoring companies' performance through independent directors. Discuss.

12. "Growth through concentric diversification into a related industry may be a very appropriate corporate strategy" Comment.

13. Growth of infrastructure has lagged behind and may assume serious proportions during the eleventh five year plan. How does the government of India plan to meet this challenge?

Cont'd…..4

14. Write short notes on:
    a. Value migration
    b. Profiling customers
    c. Segmentation
15. What are the phases of a value engineering job plan?
16. How do you measure physical risk?
17. Define liability exposures. Write a short note on:
    - Contractual liability
    - Agro and Bio liabilities

PAPER – 14

Indirect & Direct Tax Management

TEST PAPER – III/14/TXM/2008/T-1

Time Allowed: 3hrs Full Marks: 100

Part A
Direct Tax Management

Answer All Questions

1. Mr. K. purchased 2000 shares of A Ltd. on 01.07.2006 @Rs.120.00 per share. He incurred 5% brokerage in this connection. He sells the shares @Rs.200.00 per share and pays brokerage @4%.

Compute Capital Gain in the following cases

(i) Date of sale is 01.07.2007
(ii) Date of sale is 02.07.2007

Which date of sale is preferable to Mr. K.

(10)

2. From the following date, you are requires to work out total income chargeable to tax and ascertain tax thereon.

Assessment Year – 2008-09

	Rs.
Business Loss	(-) 50,00,000
Property Income	45,00,000
Income from other sources	1,00,000
Capital gain	
Short term	3,00,000
Long term	10,00,000

(10)

3. a) Detail the implications of 'Demerger' with reference to Income Tax.

b) State the factors to be considered in taking a management decision relating to owning or leasing fixed assets.

8+7 = (15)

4. a) Whether the following expenses incurred during the year 2007 – 08 are liable to FBT. If so, determine the amount which FBT would be charged.
A Five Star hotel in Delhi, run by A Ltd., a foreign company, incurred the following expenses on

(i)	Purchased Musical Instruments	2,00,000
(ii)	TV sets / Coffee Machines / Fridges to entertain guests	3,00,000
(iii)	Food, Beverages and drink	2,00,000
(iv)	Cost of lighting / decoration	1,00,000
(v)	Honorarium paid to TV stars/ Singers to entertain customer / guest	5,00,000
(vi)	Gifts / Prizes to best dancing couples to attract More and more participation	1,00,000
(vii)	Ad films	1,00,000

b) Write a short note on "Tax Implications on International Joint Venture".

(15)

Part – B
Indirect Tax Management

Answer All Questions:

1. Software is 'goods', but unbranded Software is Service" – Comment

(10)

2. 1500 pieces of a product 'K' were manufactured during the financial year. Its list price (ie, retail price) is Rs.250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the list price. During the year, 840 pieces were sold in wholesale, 510 pieces were sold in retail, 35 pieces were distributed as free samples. Balance quantity of 115 pieces was in stock at the end of the year. The rate of duty is 16% plus education cess and SAH education cess as applicable. What is the total duty paid during the financial year? Assume that the manufacture is not eligible for SSI concession.

(10)

3. An assessee cleared various manufactured final products during June 2007. The duty payable for June 2007 on his final product was as follows:-

Basic – Rs.2,00,000
Education Cess – As applicable

During this month he received various inputs on which total duty paid by suppliers of inputs was as follows

Basic duty	Rs.50,000
Education Cess	Rs. 1,000
SAH Education Cess	Rs. 500

Excise duty paid on Capital goods received during the month was as follows:-

Basic duty	Rs.12,000.00
Education Cess	Rs. 240.00
SAH Education Cess	Rs. 120.00

Service Tax paid on input services was as follows

Basic duty	Rs.10,000.00
Education Cess	Rs. 200.00
SAH Education Cess	Rs. 100.00

How much duty the assessee will be required to pay by G A R -7 Challan for the month of June 2007, if assessee had no opening balance in his P/L A/C? What is last date for payment?

(15)

4. a) List the 'Capital goods' which are eligible for purpose of availment of Cenvant Credit.

b) Explain restriction on availing depreciation in respect of capital goods on which cenvat credit has been availed.

c) Explain briefly the procedure for fixing anti-dumping duty on a product.

(15)

PAPER – 14

Indirect & Direct Tax Management

TEST PAPER – III14/TXM/2008/T-

Time Allowed: 3hrs Full Marks: 100

Part A

Direct Tax

Answer All Questions:

1. a) What are the methods under which the arm's length price, relating to an international transaction, is determined u/s 92C?

b) J Ltd., is an Indian Company which is a 100% subsidiary of K Ltd., a foreign company. K Ltd. Sells its product to J Ltd., at 15$ per unit. At the same time, it sells its products to an unrelated party at $ 20 per unit. How will the arm's length price be determined in this transaction?

(10)

2. Write a short note on
i) Tax Implication – Make or Buy Decision
ii) Tax Implication – Own or Lease

(10)

3. Given below is the P&L A/C of K,L,M & Associats, a partnership firm for the previous year 2007-2008.

Particular	Rs.	Particular	Rs.
Purchase	15,45,000	Sales	35,00,000
Direct & Indirect Expense	8,00,000	Interest on Securities	45,000
Depreciation	2,00,000	(TDS – Rs.5,000)	
Interest to partners	2,00,000		
Salaries to partners	6,60,000		
Net Profit	1,40,000		
	35,45,000		35,45,000

You are further informed

i) Depreciation allowable as per Section 32 is Rs.1,50,000
ii) Purchase include cash purchase of Rs.30,000
iii) A,B,C share profits in the ratio of 4:3:3 C is a sleeping partner

iv) Interest is paid to partners @20% p.a. interest is authorized by partnership deed

v) Salaries, authorized by partnership deed are paid to all the partners equally

Compute (i) Book profit and

(ii) Total income of the firm in the following cases:-

(a) It is a professional form

(b) It is a business form

(c) It does not file the return of its income , leading to best judgment assessment.

(15)

4. a) Enumerate the list of person / entities treated as "individual" u/s 3 of the Wealth Tax Act.

b) Who are the persons / entities to whom Wealth Tax is not applicable u/s 45 of the Wealth Tax Act?

c) Is Wealth Tax a debt owed on the valuation date and hence deductible while computing net wealth?

d) On what grounds can it be said that partial partition in de-recognised under the Wealth Tax Act?

e) How far is the exemption of Public charitable trust under the Income Tax Act, 1961 relevant for exemption under Wealth Tax Act?

3+3+3+3+3= (15)

Part B
Indirect Tax Management

Answer All Questions

1. Briefly explain with reference to the Central Excise Act, 1944

a. Factory

b. Whole sale dealer

c. Dutiability of Waste and Scrap

(10)

2. Explain in brief the procedure for assessment and clearance of imported goods from customs port.

(10)

3. An Importer has imported a machine from UK at FOB cost of 10,000 UK pounds. Other details are as follows:-

a. Freight from UK to Indian Port was 700 pounds
b. Insurance was paid to Insurer insured in India – Rs.6000
c. Design and development charges of 2000UK pounds were paid to a consultancy firm in UK
d. The importer also spent and amount of Rs.50,000 in India for development work connected with the machinery.
e. Rs.10,000 were spent in transporting the machinery from Indian Port to the factory of importer.
f. Rate of exchange RBI: Rs. 68.82 = One UK Pound
g. Rate of exchange as announced by CBE 2C (Board) by Notification u/s 14 (3) (a) (i): Rs.68.70 = One UK Pound
h. Rate at which bank recovered the amount from importer Rs.68.35 = One UK Pound.
i. Foreign exporters have an Agent in India Commission is payable to the agent in Indian Rupees @5% of FOB price.

Custom duty payable was 10%. If similar goods were produced in India, Excise duty payable @24%. There is an excise exemption notification which exempts the duty as in excess of 16%. Education Cess 2% and SAH Education Cess 1%. Find custom duty payable .

How much Cenvat can be availed by importer, if he is manufacturer?

(15)

4. Write Short Note on

a. Identical goods and similar goods with reference to custom valuation Rules 1988.
b. Residual Method of valuation of Imported goods
c. ‘Entry’ with reference to the provisions of the custom Act 1962.

(15)