CT

No of Questions: 8 **Total Marks: 100**
No of Pages Printed: 4 **Time Allowed: 3 Hours**

Answer All Questions

1. Answer any five of the following

i) Pass journal entries in the cost books, maintained on integrated system, for the following
Under/over absorbed Factory (over) Rs.20,000;
Overheads Administration (under) Rs.10,000.

List two main advantages of "Integrated Accounts"

ii) In a company Sales = Rs.1,00,000 , Fixed cost = Rs.20,000, Breakeven point Rs.80,000.Determine the profit.

iii) In a factory actual units produced 2,000 units and wages paid 29,500 hours @ Rs.25 per hour. Standard labour hours per month is 30,000 and standard labour rate is Rs.23 per hour. Calculate labour efficiency variance

iv) An employee working under a bonus scheme saves 4 hours in a job for which the standard time is 32 hours. Calculate wages payable when the hourly rate is Rs.1 per hour and he receives an increase in the hourly rate based on the % that the time saved bears to the time set.

v) Select a suitable unit of cost to be used in the following
(i) Hospital
(ii) City Bus Transport
(iii) Hotels providing lodging facilities

vi. List two differences between Job costing and Process Costing **(5 x2 =10 Marks)**

2a. From the following data you are required to calculate the composite machine hour rates of two production departments A and B. There are two service departments X and Y as well as an establishment department E. The data given is the annual budgeted expenses for the year.

Expenditure	Total Amount Rs.	Remarks
Establishment expenses	3,00,000	Direct to establishment deptt.
Indirect Labour	10,00,000	Allocate Rs.1,00,000 to each of the Service departments and the balance to production departments on the basis of direct wages
Electric power	70,000	On the basis of HP rating ratio
Electric Light	25,000	On the basis of light points
Fuel consumption	1,00,000	Only dept. B consumes fuel
Repairs to plant & m/c	1,00,000	Value of Plant & machinery
Rent	1,00,000	Both for factory and office
Factory general expenses	95,000	Allocate as per floor space but not for office

Other Details

	Total	Prodn.depts. A	B	Service depts.. X	Y	Establishment E
Floor space sq.ft	1,00,000	40,000	30,000	15,000	10,000	5,000
HP rating ratio		4	2	1	-	-
Light points	50	30	12	3	3	2
Direct labour hours	4,20,000	2,00,000	1,50,000	50,000	20,000	-
M/c hours	2,00,000	1,00,000	80,000	20,000	-	-

Direct wages-Rs.	10,00,000	5,00,000	3,00,000	1,52,500	47,500	-
Personnel employed	3,265	1,265	1,000	500	300	200
Value of plant & Machinery Rs.	100 lacs	50 lacs	35 lacs	15 lacs	-	-
Value of building Rs .	19.75 lacs	10 lacs	6 lacs	3 lacs	0.5 lacs	0.25 lacs
Tools stock at purchase Value Rs.	2.5 lacs	1 lacs	1 lacs	0.5 lacs		
Amortisation of tools As a % on straight line Method		25%	25%	25%	-	-
Depreciation on straight Line method						
Machinery %		10%	8%	5%		
Building %		2%	2%	2%	2%	2%

Service dept Y renders services to A, B and X departments. Service department X renders service to production departments only. Expenses apportioned to service department Y are to be distributed to service department X and production departments on the basis of direct labour hours. Expenses of service department X are to be distributed to production departments only on the basis of machine hours . Please ignore decimals in calculation.

(12 Marks)

2b. What is notional rent of a factory building?. Give one reason why it may be included in cost accounts.

(3 Marks)

3. The following particulars are extracted from the records of a company

	Per Unit	
	Product A	**Product B**
	Rs.	Rs.
Sales	100	120
Consumption of material	2kgs	3kgs
Material cost	10	15
Direct wages cost	15	10
Direct expenses	5	6
Machine hours used - hours	3	2
Overhead expenses		
Fixed	5	10
Variable	15	20

Direct wages per hour is Rs.5. Comment on the profitability of each product when

(i) Total sales potential in units is limited
(ii) Total sales potential in value is limited
(iii) Raw material is in short supply
(iv) Production capacity in terms of machine hours is the limiting factor.

Assuming raw material as the key factor, availability of which is 10,000 kgs, and maximum sales potential of each product being 3,500 units, find the product mix which will yield the maximum profit

(16 Marks)

4. In manufacturing the main product A, a company processes the resulting waste material into two by-products X1 and X2. Using the method of working back from sales value to an estimated cost prepare a comparative profit and loss statement of the three products from the following data.

- Total cost up to separation point was Rs.1,36,000

	A	X1	X2
Sale - Rs.	3,28,000	32,000	48,000
Costs after separation – Rs.		9,600	14,400
Estimated net profit % to Sales value		20%	30%
Estimated selling expenses as % of sale vale	20%	20%	20%

(9 Marks)

5. Answer any five of the following

i. Write a short note on factoring

ii. What are the assumptions of the Theory of Cost of Capital

iii. A company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Rs.1 per share and the investor expects a growth rate of 5% per year. Compute the company's cost of equity capital

iv. From the following information find out the expected rate of return of the security

Risk free rate of return	8 %
Expected rate of return on market portfolio	16%
β of security	0.7

v. From the following data, work out the point of indifference

	Plan A	Plan B
Equity shres of Rs.100 each	Rs.2,00,000	Rs.1,00,000
Debt 10%	Nil	1,00,000
Corporate tax rate is 50%		

vi. What are the objectives of Social Cost Benefit Analysis? **(5x2=10 Marks)**

6a. M/S Sree Industries Limited purchased a machine five years ago. A proposal is under consideration to replace it by a new machine. The life of the machine is estimated to be 10 years. The existing machine can be sold as its written down value. As the cost accountant to the company you are required to submit your recommendation based following information:

	Existing machine	New machine
Initial cost	Rs 25,000	Rs.50,000
Machine hours per annum	2,000	2,000
Wages per running hour	1.25	1.25
Power per hour(Rs)	0.50	2.00
Indirect machine per hour	3,000	5,000
Other expenses per annum	12,000	15,000
Cost of material per unit	1	1
Number of units produced per hour	12	18
Selling price per unit	2	2

Interest to be paid at 10% on fresh invested. **(12 Marks)**

6b. Write a note on indifference point **(3 Marks)**

7. From the following summarized balance sheet of ABC Ltd as on 31st March 2007 and 2008 and the income statement for the year ended 31st March 2008 you are required to prepare cash flow statement by indirect method:

Balance Sheet (**Rs`000)**

Liabilities	31.3.2005	31.3.2006
Equity share capital	1,250	1,500
Reserves	1,380	3,330
Debentures	1,040	1,110
Creditors	1,890	150
Interest payable	100	230
Provision for tax	1,000	400
	6,660	6,720

Assets				
Fixed Assets	1,910		2,180	
Less: Depreciation	1,060		1,450	
		850		**730**
Long term investment		2,500		2,500
Inventories		1,950		900
Trade debtors		1,200		1,700
Cash and bank		160		790
Interest receivable		---		100
		6,600		6,720

Income Statement for the Year 2007-2008 **(Rs`000)**

Sales		30,650
Less Cost of goods sold		26,000
Gross Profit		4,650
Less Depreciation	450	
Interest	400	
Advertisement	950	1800
		2,850
Add Interest income	300	
Dividend	200	500
		3,350
Add Insurance claim for earthquake loss		180
		3,530
Less Income-tax provision		260
Net Profit		3,270

Additional information:

i) Plant having cost of Rs.80,000 and accumulated depreciation of Rs.60,000 was sold for Rs.20,000

ii) Debentures of Rs.1,80,000 were redeemed during the year.

iii) Out of the interest expenses of Rs.4,00,000 , Rs.2,70,000 were paid during the year.

iv) Divided (including corporate dividend tax) Rs.13,20,000 was paid during the year.

(16 Marks)

8. Following information are available from the books of Big Project Ltd:

Debtors velocity	3months
Stock velocity	6months
Creditors velocity	2months
Gross profit Ratio	20%

Gross profit for the year ended 31st March 2005 was Rs.5,00,000 stock on 31st March 2005 was Rs.20,000 more than what it was at the beginning of the year. Bills Receivable and Bills Payable were Rs.60,000 and 36,667 respectively.

Your are required to calculate the value of i)sales; ii)sundry debtors; iii)sundry creditors and iv)closing stock. **(9 Marks)**

PRIME ACADEMY

Costing & Financial Management – Model Test paper

All Questions are compulsory

Time 3 hours

1.Answer any five of the following

(i).Pass journal entries in the cost books, maintained on integrated system, for the following
Under/over absorbed Factory overheads (over) Rs.20,000;
Adminisytration (under) Rs.10,000.
List two main advantages of "Integrated Accounts"
Answer:

Factory overheads control A/c	Dr.	20,000	
To Costing Profit & Loss A/c			20,000

(Being the entry for transfer of over absorbed factory overheads)

Costing Profit & Loss A/c	Dr.	10,000	
To Admn.Overhead Control A/c			10,000

(Being the entry for transfer of under absorbed Admn.overheads)

Advantages of integrated accounts :-

- This system obviates the need for reconciling financial and cost accounts as the system is integrated and there is only one set of books.

- Costing data are readily available from the original entry and this saves time in getting costing data.

ii) In a company Sales = Rs.1,00,000 , Fixed cost = Rs.20,000, Breakeven point Rs.80,000.Determine the profit.

Answer:
At B.E point, marginal contribution = Fixed cost = Rs.20,000
P/V ratio = Marginal contribution/sales = 20,000/80,000 = 25%
For Rs.1,00,000 sales, marginal contribution = Rs.1,00,000 x 25% = Rs.25,000
Profit = Marginal contribution – Fixed cost = Rs.25,000 – Rs.20,000 – Rs.5,000

iii) In a factory actual units produced 2,000 units and wages paid 29,500 hours @ Rs.25 per hour. Standard labour hours per month is 30,000 and standard labour rate is Rs.23 per hour. Calculate labour efficiency variance

Answer:-
Actual hours = 29,500/2000 = 14.75 hours
Labour efficiency variance = Rs.23 (14.75 – 15.00) = Rs.5.75 (Fav

iv. An employee working under a bonus scheme saves 4 hours in a job for which the standard time is 32 hours. Calculate wages payable when the hourly rate is Rs.1 per hour and he receives an increase in the hourly rate based on the % that the time saved bears to the time set.

Answer:
Wages payable = $\left(28 + \frac{28 \times 4}{32}\right)$ X Rs.1 = Rs.31.50

v. Select a suitable unit of cost to be used in the following

(i) Hospital
(ii) City Bus Transport
(iii) Hotels providing lodging facilities

Answer:
Hospital – Patient / day, No. of beds / day
Citi Bus Transport – Passenger km
Hotels providing lodging facilities – Rooms/day

vi. List two differences between Job costing and Process Costing

Answer:
(i) Job Costing and Process Costing
- In Job costing the production is by specific orders whereas in the case of Process costing it is in continuous flow, the production being homogeneous
- In Job costing costs are determined by jobs or batches of products whereas in process costing costs are compiled on time basis for each process or department

(5 x 2 =10 marks)

2a. From the following data you are required to calculate the composite machine hour rates of two production departments A and B. There are two service departments X and Y as well as an establishment department E. The data given is the annual budgeted expenses for the year.

Expenditure	Total Amount Rs.	Remarks
Establishment expenses	3,00,000	Direct to establishment deptt.
Indirect Labour	10,00,000	Allocate Rs.1,00,000 to each of the Service departments and the balance to production departments on the basis of direct wages
Electric power	70,000	On the basis of HP rating ratio
Electric Light	25,000	On the basis of light points
Fuel consumption	1,00,000	Only dept. B consumes fuel
Repairs to plant & m/c	1,00,000	Value of Plant & machinery
Rent	1,00,000	Both for factory and office
Factory general expenses	95,000	Allocate as per floor space but not for office

Other Details

	Total	Prodn.depts.		Service depts..		Establishment
		A	B	X	Y	E
Floor space sq.ft	1,00,000	40,000	30,000	15,000	10,000	5,000
HP rating ratio		4	2	1	-	-
Light points	50	30	12	3	3	2
Direct labour hours	4,20,000	2,00,000	1,50,000	50,000	20,000	-
M/c hours	2,00,000	1,00,000	80,000	20,000	-	-
Direct wages-Rs.	10,00,000	5,00,000	3,00,000	1,52,500	47,500	-
Personnel employed	3,265	1,265	1,000	500	300	200
Value of plant & Machinery Rs.	100 lacs	50 lacs	35 lacs	15 lacs	-	-
Value of building Rs .	19.75 lacs	10 lacs	6 lacs	3 lacs	0.5 lacs	0.25 lacs
Tools stock at purchase Value Rs.	2.5 lacs	1 lacs	1 lacs	0.5 lacs		
Amortisation of tools As a % on straight line Method		25%	25%	25%	-	-
Depreciation on straight Line method Machinery %		10%	8%	5%		

Building %	2%	2%	2%	2%	2%

Service dept Y renders services to A, B and X departments. Service department X renders service to production departments only. Expenses apportioned to service department Y are to be distributed to service department X and production departments on the basis of direct labour hours. Expenses of service department X are to be distributed to production departments only on the basis of machine hours . Please ignore decimals in calculation. (12 marks)

Answer:

		Total	Production Deptt.		Service Deptt.		Establi. Deptt.
			A	B	A	B	E
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Direct wages	Direct allocation	1000000	500000	300000	152500	47,500	
Establishment expenses	Estab.deptt.	300000					300000
Indirect labour	Direct wages	1000000	500000	300000	100000	100000	
Electric power	H.P.rating ratio	70,000	40,000	20,000	10,000		
Electric light	Light points	25,000	15,000	6,000	1,500	1,500	1,000
Fuel Consumption	Direct	100000		100000			
Repairs to plant & m/c	value of P&M	100000	50,000	35,000	15,000		
Rent	Floor space	100000	40,000	30,000	15,000	10,000	5,000
Factory general expenses	Floor space	95,000	40,000	30,000	15,000	10,000	
Tool amortization	% given	62,500	25,000	25,000	12,500		
Depreciation:							
Machinery	Do	855000	500000	280000	75,000		
Building	Do	39,500	20,000	12,000	6000	1000	500
		3747000	1730000	1138000	402500	170000	306500
	Personnel employed		126500	100000	50000	30000	-306500
			1856500	1238000	452500	200000	0
	Direct labour hours		100000	75000	25000	-200000	
			1956500	1313000	477500	0	
	Machine hours		265275	212225	-477500		
			2221775	1525225	0		
	Machine hour rate - Hours		100000	80000			
	Rate - Rs.		22.22	19.07			

2b. What is notional rent of a factory building?. Give one reason why it may be included in cost accounts. (3 marks)

Answer :

The factory building may be rented or owned by the entrepreneur. When it is rented the rent is paid to the owner and the amount is included in cost. When the factory building is owned no rent is payable and for comparison of cost of items made in rented factory building and in owned factory building, a notional rent is raised in books for comparison of cost in both the cases. However it should be remembered that when the building is owned the cost is charged as depreciation of the building.

3. The following particulars are extracted from the records of a company

	Per Unit	
	Product A	Product B
	Rs.	Rs.

Sales	100	120
Consumption of material	2kgs	3kgs
Material cost	10	15
Direct wages cost	15	10
Direct expenses	5	6
Machine hours used - hours	3	2
Overhead expenses		
Fixed	5	10
Variable	15	20

Direct wages per hour is Rs.5. Comment on the profitability of each product when

(v) Total sales potential in units is limited
(vi) Total sales potential in value is limited
(vii) Raw material is in short supply
(viii) Production capacity in terms of machine hours is the limiting factor.

Assuming raw material as the key factor, availability of which is 10,000 kgs, and maximum sales potential of each product being 3,500 units, find the product mix which will yield the maximum profit (16 marks)

Answer:

Per unit	Product A Rs.	Product B Rs
Sales	100	120
Material	10	15
Direct wages	15	10
Direct expenses	5	6
Variable overhead	15	20
Total variable cost	45	51
Marginal contribution per unit	55	69
Marginal contribution per kg of material	27.50	23
Marginal contribution per machine hour	18.33	34.50

When the limiting factor is

Sales	Ranking is	B A
Raw materials		A B
Production capacity		B A

When raw material supply is limited to 10,000 kgs

Product A – 7,000 kgs for 3,500 units
Product B – 3,000 kgs for 1,000 units

Total contribution - 3500 x 55 + 1,000 x 69 = Rs.1,92,500 + Rs.69,000
= Rs.2,61,500

Total fixed cost = 3500 x 5 + 1000 x 10 = Rs.17,500 + Rs.10,000 = Rs.27,500

Total profit = Rs.2,61,500 - Rs.27,500 = Rs.2,34,000

4. In manufacturing the main product A, a company processes the resulting waste material into two by-products X1 and X2. Using the method of working back from sales value to an estimated cost prepare a comparative profit and loss statement of the three products from the following data.

- Total cost up to separation point was Rs.1,36,000

	A	X1	X2
Sale - rs.	3,28,000	32,000	48,000
Costs after separation – Rs.		9,600	14,400
Estimated net profit % to Sales value		20%	30%
Estimated selling expenses as % of sale vale	20%	20%	20%

(9 marks)

Answer:

Cost at the point of separation is worked out as follows:

	X1	X2	A	TOTAL
	RS.	RS.	RS.	Rs.
Sale value	32,000	48,000		
Less Net profit	6,400 (at 20%)	14,400 (at 30%)		
Less Selling expenses	6,400 (at 20%)	9,600 (at 20%)		
Less Cost after separation	9,600	14,400		
Cost up to separation	Rs.9,600	Rs.9,600	1,16,800*	1,36,000

(Rs.1,36,000 less cost of X1 and X2 Rs.19,200)

Comparative profit and loss account:

	Total	A	X1	X2
	Rs.	Rs.	Rs,	Rs.
Cost up to separation	1,36,000	1,16,800	9,600	9,600
Cost after separation	24,000	-----	9,600	14,400
Total Cost	1,60,000	1,16,800	19,200	24,000
Sales	4,08,000	3,28,000	32,000	48,000
Gross Profit	2,48,000	2,11,200	12,800	24,000
Less Selling expense at 20% Of Sales	81,600	65,600	6,400	9,600
Net Profit	1,66,400	1,45,000	6,400	14,400

5. Answer any five of the following

i. Write a short note on factoring

Factoring is new service that involves provision of specialized services relating to credit investigation, sales ledger management, purchase and collection of debts, credit protection as well as provision of finance against receivables and risk bearing. In factoring the value of receivable is sold to a factor who charges commission for taking responsibility of collecting the receivables and bears the credit risk associated with receivables which are purchased.

Factoring offers attractive advantages to many firms

- as the firm can quickly convert the receivables to cash without bothering about repayment.
- It ensures a definite pattern of cash in flows.
- Continuous factoring eliminates the need for credit department
- Considerable saving in credit collection
- Unlike an unsecured loan, compensating balances are not required in this case.

ii.What are the assumptions of the Theory of Cost of Capital

The theory of cost of capital is based on certain assumptions, which are given below:

(1) That there would be no change whatsoever in the business risks of a company as a result of acceptance of new investments proposals.
(2) That the company's financial structure will remain unchanged. It means that the additional funds required to finance the new project are to be raised in the same proportion as the company's existing financial pattern
(3) Cost of capital for each source will be determined on an after tax basis.

iii.A company's share is quoted in the market at Rs.20 currently. The company pays a dividend of Rs.1 per share and the investor expects a growth rate of 5% per year. Compute the company's cost of equity capital

Answer:

Cost of equity – K e = D/P + g where D – Dividend per share

P – Current market price
g - Growth rate of dividend

= 1/20 + 0.05 = 0.10 or 10%

iv. From the following information find out the expected rate of return of the security

Risk free rate of return	8 %
Expected rate of return on market portfolio	16%
β of security	0.7

Answer

Rate of return = Ks = Rf + β (Km – Rf)
= 0.08 + 0.7 (0.16 – 0.08)
= 13.6%

v. From the following data, work out the point of indifference

	Plan A	Plan B
Equity shres of Rs.100 each	Rs.2,00,000	Rs.1,00,000
Debt 10%	Nil	1,00,000

Corporate tax rate is 50%

Answer:

Point of idifference formula is

$$\frac{E(1-t)}{N} = \frac{(E-I)(1-T)}{n}$$

$$\frac{0.5E}{2000} = \frac{(E-10{,}000) \times 0.5}{1{,}000}$$

E = Rs.20,000

vi. What are the objectives of Social Cost Benefit Analysis?

Answer:

- To determine and measure the expected future economic and social benefits that may be derived from an intended project.
- To determine and measure the flow of future economic and social costs that may be incurred to accomplish the benefits and to determine the net benefit as a result of above appraisal.
- To decide which of the projects will yield maximum benefits in relation to set economic standards and goals for the national economy. (5 x 2 – 10 marks)

6a.M/S Sree Industries Limited purchased a machine five years ago. A proposal is under consideration to replace it by a new machine.The life of the machine is estimated to be 10 years.The existing machine can be sold as its written down value.As the cost accountant to the company you are required to submit your recommendation based following information:

	Existing machine	New machine
Initial cost	Rs 25,000	Rs.50,000
Machine hours per annum	2,000	2,000
Wages per running hour	1.25	1.25
Power per hour(Rs)	0.50	2.00
Indirect machine per hour	3,000	5,000
Other expenses per annum	12,000	15,000
Cost of material per unit	1	1
Number of units produced per hour	12	18
Selling price per unit	2	2

Interest to be paid at 10% on fresh invested. (12 marks)

Answer:

Production = Machine hours p.a x No of units produced per hour
Existing Machine = 2,000hrs x 12 units =24,000units.
New Machine = 2,000hrs x 18 units = 36,000

Statement showing profit per unit from existing and new machines

	Existing Machine	New Machine
1.Sales @ Rs.2 per unit	Rs.48,000	Rs,72,000
2.Cost of Sales		
Materials	24,000	36,000
Wages(2,000 x 1.25)	2,500	2,500
Power	1,000	4,000
Indirect materials	3,000	5,000
Other expenses	12,000	15,000
Depreciation	2,500	5,000
Interest	---	3,750*
	45,000	71,250
3.Profit(1-2)	3,000	750
4.Profit per unit	0.125	0.02
5.Cost per unit	1.875	1.98
6.Profit as a% of capital invested	12%	1.5%

The above analysis shows the total profit as well as profit per unit is much more from existing machine.ROI is also quite attractive from existing machine. There is no need for replacing the existing machine.
*10% of (initial cost of new machine less sale proceeds of old machine)
=10%of(Rs.50,000 -12,500) = Rs3,750
@(3,000 /25,000) x 100; (750/50,000) x 100

6b. Write a note on indifference point (3 marks)

Answer:
The capital structure of a firm consist of an optimum mix of equity and debt. In attempting an optimum mix, one should compare cost of capital with the expected return from the investment. So long as the cost of financing by debt is less than the rate of return from the investment, add the difference to the earnings per share. In such a case debt finance is more profitable. The indifference point in planning the capital structure is that point at which the after tax cost of acquisition of outside funds is equal to the rate of return from the investment. This point refers to that EBIT level at which EPS remains the same irrespective of debt equity mix. In other words, at this point rate of return on capital employed is equal to the rate of interest on debt

7. From the following summarized balance sheet of ABC Ltd as on 31st March 2007 and 2008 and the income statement for the year ended 31st March 2008 you are required to prepare cash flow statement by indirect method:

BalanceSheet Rs`000

Liabilities	31.3.2005	31.3.2006
Equity share capital	1,250	1,500
Reserves	1,380	3,330
Debentures	1,040	1,110
Creditors	1,890	150
Interest payable	100	230
Provision for tax	1,000	400
	6,660	6,720

	-------------	------------
Assets		
Fixed Assets	1,910	2,180
Less Depreciation	1,060	1,450
	--------	----------
	850	730
Long term investment	2,500	2,500
Inventories	1,950	900
Trade debtors	1,200	1,700
Cash and bank	160	790
Interest receivable	---	100
	--------------	----------------
	6,600	6,720
	-------------	-------------

Income Statement for the Year 2007-2008 (Rs`000)

Sales		30,650
Less Cost of goods sold		26,000

Gross Profit		4,650
Less Depreciation	450	
Interest	400	
Advertisement	950	1800
	------------------	------------------
		2,850
Add Interest income	300	
Dividend	200	500

		3,350
Add Insurance claim for earthquake loss		180

		3,530
Less Income-tax provision		260

Net Profit		3,270

Additional information:

i)Plant having cost of Rs.80,000 and accumulated depreciation of Rs.60,000 was sold for Rs.20,000

ii)Debentures of Rs.1,80,000 were redeemed during the year.

iii)Out of the interest expenses of Rs.4,00,000 , Rs.2,70,000 were paid during the year.

iv)Divided(including corporate dividend tax) Rs.13,20,000 was paid during the year.

(16 marks)

Answer:

Cash Flow Statement for the Year ended 2008 (indirect method)

(Rs.`000)

<u>Cash Flow from Operating Activities</u>		3,350
Net profit before tax and extraordinary items		
Adjuestments for		
Depreciation	450	
Interest	400	
Interest received	(300)	
Dividend income	(200)	350
	------------	---------------
Operating profit before working capital changes		3,700
Decrease in inventries	1050	
Increase in debtors	(500)	

Decrease in creditors	1,740)	
Income tax paid	(890)	
Insurance claim received from earthquake loss	180	
	-----------	---------------
Cash from Operating Activities		1,830

<u>Cash Flow from Investing Activities</u>

Purchase fixed assets	(350)	
Sale of Plant	20	
Interest received (300-100)	200	
Dividend received	200	

Cash flow from InvestingActivities		70

<u>Cash flow from Financing Activities</u>

Issue of share	250	
Issue of debentures	250	
Redemption of debentures	(180)	
Dividend	(1,320)	
Interest paid	(270)	(1270)

Net increase in Cash and Cash equivalents		630
Cash and Cash equivalents at the beginning		160
Cash and Cash equivalents at the end		790

Working Notes:

Provision for Income Tax (Rs.`000)

To Bank A/C	860	By Balance c/d	1,000
To Balance b/d	400	By P&L A/c	260
	1,260		1,260

Fixed Assets Accounts (Rs`000)

To Balance c/d	1,960	By Bank (sold)	80
To Bank A/Cpurchased	350	By Balance b/d	2,180
	2,260		2,260

Debentures Account

To cash A/c	180	By Balance c/d	1.040
To Balance b/d	1,110	By Bank A/c(New Debenture)	250
	1,290		1,290

8. Following information are available from the books of Big Project Ltd:

Debtors velocity 3months
Stock velocity 6months
Cteditors velocity 2months
Gross profit Ratio 20%

Gross profit for the year ended 31st March 2005 was Rs.5,00,000 stock on 31st March 2005 was Rs.20,000 more than what it was at the beginning of the year.Bills Receivable and Bills Payable were Rs.60,000 and 36,667 respectively.

Your are required to calculate the value of i)sales;ii)sundry debtors;iii)sundry creditors and iv)closing stock. (9 marks)

Answer:
(i)Sales
Gross Profit =Rs.5,00,000
Rate of Gross Profit =20%
Sales =(Rs.5,00,000 x 100)/20 =Rs.25,00,000
(ii)Sundry debtors
Sales =Rs.25,00,000
Debtors velocity =3 months
Year end sales outstanding $= \frac{\text{Rs.}25,00,000}{12} \times 3 = 6,25,000$

Less Bills Receivable	60,000
Sundry Debtors	5,65,000

(iii)Sundry Creditors
Purchases =Sales-Gross Profit +Increase in Stocks
=Cost of Goods Sold + Increase in Stock

Cost of Goods sold =Rs.25,00,000-5,00,000	20,00,000
Increase in stocks	20,000
Purchases	20,20,000

Creditors velocity = 2months
Year end outstanding for purchases
$= \frac{\text{Rs.}20,20,000 \times 2}{12} =$ 3,36,667

Less: Bills payable	36,667
Sundry creditors	3,00,000

iv) Closing stock
Cost of goods sold Rs.20,00,000
Stock velocity = 6 months
Average stock $= \frac{\text{Rs.}20,00,000 \times 6}{12} =$ Rs.10,00,000

Suppose opening stock = x
Closing stock = x + 20,000
Twice average stock $= \frac{(x + (x +20,000))}{2} * 2$
= 2x + 20,000 = Rs.20,00,000
x = Rs.9,90,000

Hence closing stock = 9,90,000+20,000 = Rs.10,10,000

IT

No of Questions: 8 | **Total Marks: 100**
No of Pages Printed: 4 | **Time Allowed: 3 Hours**

Answer All Questions

Workings wherever necessary should form part of your answer

1. State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act 1961:

i. Sec.10(10BC) exempts all income received by an individual or his legal heirs from central government or a state government or a local authority on any disaster.
ii. Assessee claimed income lower than the income prescribed under section 44AF, the assessee does not want his books of accounts audited by the Chartered Accountant.
iii. A gain of Rs. 4 lakhs received on sale of paintings are not chargeable to tax.
iv. Income arising to minor married daughter will also be clubbed with their parents.

(4 x 2=8 Marks)

2. Mr.Sandeep, Finance Manager of ABC Ltd., Chennai, furnishes the following particulars for the financial year 2007 - 08 :

a. Salary Rs.46,000 per month;
b. Value of medical facility in a hospital maintained by the company Rs.7,000;
c. Rent free accommodation owned by the company;
d. Housing loan of Rs.6,00,000/- repayable in 15 years at the interest rate of 5% p.a. (No repayment made during the year);
e. A wooden table and 4 chairs were provided to Mr.Sandeep at his residence (dining table). This was purchased on 01.05.2003 for Rs.60,000/- and sold to Mr.Sandeep on 01.08.2007 for Rs.30,000/-;
f. Personal purchases through credit card provided by the company amounting to Rs.10,000/- was paid by the company. No part of the amount was recovered from Mr.Sandeep;
g. An ambassador car which was purchased by the company on 16.07.2003 for Rs.2,50,000/- was sold to the assessee on 14.07.2007 for Rs.80,000/-;
h. Gifts Rs. 50,000.
i. Other income received by the Assessee during the previous year 2007-08 :

- Interest on fixed deposits with a company	Rs. 5,000
- Income from specified mutual fund	Rs. 3,000
- Interest on bank deposits of a minor married daughter	Rs. 3,000
- Income from UTI received by his handicapped minor son	Rs. 1,200
x. Contribution to LIC towards premium u/s.80CCC	Rs.10,000
xi. Deposit in PPF Account made during the year 2007-08	Rs.75,000

xii. Bonds of ICICI (Tax Savings) eligible for Sec. 80C Rs.25,000

Compute the taxable income of Mr.Sandeep and the tax thereon for the A.Y.2008-09

(20 Marks)

3(a) During the financial year 2007-08, X (32 years) pays the following installments of Advance Tax:

Particulars	Amount (in Rs.)
On September 15, 2007	4,800
On December 15, 2007	11,000
On March 15, 2008	28,000
On March 16, 2008	52,000

X files return of Rs. 5,56,000. X is entitled to a tax credit of Rs.12,510/- on account of tax deducted at source. Compute interest under section 234B and 234C.

(8 Marks)

3(b). Mrs. sailu acquired 1000 listed shares in 1981 at a cost of Rs. 2 lacs. The company allotted one bonus share for every 2 shares held in March 1996. She sells 250 original shares and 250 bonus shares in April 2007 for a consideration of Rs. 6 lacs. The transaction is subject to securities transaction tax. Determine the capital gains. FMV as on 1.4.81 is Rs. 600 per share.

(7 Marks)

EITHER

4(a). Mr.X and Y constructed their house on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq.ft. Ground Floor and an equal area in the first floor. X started construction on 01.04.2006 and completed on 31.03.2007. Y started the construction on 01.04.2006 and completed the construction on 30.06.2007. X occupied the entire house on 01.04.2007. Y occupied the Ground Floor on 01.07.2007 and let out the first floor for a rent of Rs.15,000/- per month. However, the tenant vacated the house on 31.12.2007 and Y occupied the entire house during the period 01.01.2008 to 31.03.2008.

Following are the other information : **Rs.**

(i)	**Fair rental value of each unit (Ground floor / first floo**	**1,0**
(ii)	**Municipal value of each unit (Ground floor / first floor**	**7**
(iii)	**Municipal taxes paid by X**	
	Municipal taxes paid by Y	
(iv)	**Repairs & Maintenance charges paid by X**	**2**
	Repairs & Maintenance charges paid by Y	**3**

X has availed a housing loan of Rs.20 Lakhs @ 12% p.a. on 01.04.2006. Y has availed a housing loan of Rs.12 Lakhs @ 10% p.a. on 01.07.2006. No repayment was made by either of them till 31.03.2007. Compute income from house property for X and Y for the previous year 2007-08 (A.Y.2008-09).

(7 Marks)

4(b).**An individual practising as a chartered Valuer is in receipt of fees from a company, which had retained him for purposes of valuation of properties. The total fee agreed upon between the parties was Rs.50,000 and the engineer was also to be reimbursed of all expenses incurred by him to visit the various locations where the properties are situated.**

The company paid the Valuer the following amounts:

Date	Particulars	Amount (Rs)
20th April, 2006	Advance of fees	10,000
10th June, 2006	Towards expenses incurred	20,000
5th July, 2006	Balance of fees on completion of work	40,000
10th July, 2006	In total settlement of claim for reimbursement of expenses	25,000

Discuss the liability of the company in regard to tax deduction at source on these payments.

(5 Marks)

OR

4(a). The Income tax Act grants exemption from tax to political parties in respect of their income. What are the incomes exempt and what are the conditions to be fulfilled for claiming exemption?

(7 Marks)

4(b). Explain any five transactions not regarded as transfer? **(5 Marks)**

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

(a). 'X' a Co-operative Bank had a business re-organisation with another Co-operative Bank 'Y' in the year 2007-08. The Co-operative bank has approached you for your advice whether it can set-off and carry forward its losses. Comment?

(b). Explain the provision relating to hotels and convention centers under Sec. 80-ID of the Income-tax act, 1961.

(c). Explain the provisions of section 139C and 139D of Income-tax Act, 1961.

(d). General Deduction allowed for business (Section 37)

(e). Concept and procedure for registration of trust **(5 x 4 = 20 Marks)**

6. Answer the following:

a) Whether a person, who is having his business in any of the Indian states other than the state of Jammu and Kashmir and provides the service to the client in the state of Jammu and Kashmir, would he liable to pay service tax.

b) Would the services provided in India for the foreign client be liable for payment of Service tax? What if, when services are provided abroad?

c) Who is a pure agent?

d) Write at least four merits of Value Added Tax?

e) Ms.Ayu collected excess service tax. Advise her what she has to do and if not what are the consequences she has to face?

(5 x 2 = 10 Marks)

7. **MCA, a partnership firm, gives the following particulars relating to the service provided to various clients by them for the half-year ended on 30.09.2007.**

i) Total bills raised for Rs. 10,50,000 out of which bill for Rs. 1,00,000 was raised on an unit in SEZ and payments of bills for Rs. 1,00,000 were received.

ii) Amount of Rs. 50,000 was received as an advance from Mr.X. on 01.09.2007 to whom the services were to be provided.

iii) An amount of Rs. 10,000, which was written-off has bad debts in the last year was received now. The above amount was not included in the amount of Rs.10,50,000.

You are required to work out the :

a) taxable value of services

b) amount of service tax payable.

(6 Marks)

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

a. Explain the Small Service Provider under Service tax.

b. According to Sec. 68, service tax is payable by the Service Provider. What are the exceptions to this rule?

c. Explain income Variant under VAT?

d. What are the Salient features of subtraction method under VAT?

(3 x 3 = 9 Marks)

PRIME ACADEMY

26TH SESSION MODEL EXAM

PCC – INCOME TAX, SERVICE TAX & VAT(Answers)

1.

i. **True.** According to Sec.10(10BC), any amount received or receivable from central government or a state government or a local authority by an individual or his legal heirs by way of compensation on account of disaster is exempt. However, this exemption is not applicable for any amount received or receivable to the extent such individual or his legal heir has been allowed a deduction under ths Act on account of any loss or damage caused by such disaster.

ii. **False**. Sec.44AB – Audit of accounts

In the case of any person –

1. Carrying on business where the total sales, turnover or gross receipts exceeds Rs.40 lakhs; **or**
2. Carrying on profession where the gross receipts exceed Rs. 10 lakhs; **or**
3. *Carrying on the business referred to in section 44AD or 44AE or 44AF or 44BB or 44BBB and claiming his income from any such business to be lower than the income prescribed under the relevant section, the books of account for the relevant previous year are required to be audited by a Chartered Accountant before the specified date and the audit report obtained under this provision is required to be furnished by that date. If the audit report obtained u/s.44AB is not filed along with the return of income then the Assessing Officer may treat the return of income as defective u/s.139(9).*

iii. **False**. Sale of paintings, though personal in nature, is not covered by exceptions provided u/s. 2(14), and therefore, gain of Rs.4 lakhs is subject to capital gain tax.

iv. **True**. Sec.64(1A) does not exclude minor married daughter, therefore, even income arising to minor married daughter would be clubbed.

2. COMPUTATION OF TAXABLE INCOME

Name of the Assessee : Mr. Sandeep A.Y. : 2008-09

	Rs.	*Rs.*
I. Salaries		
As per Working Note A		7,62,900
II. Income from other sources		
As per Working Note B		6,500
Gross Total Income		**7,69,400**
Less : Deductions under Chapter VI-A		
- U/s.80C – Contribution to PPF & ICICI (Tax saving) Bonds	1,00,000	
- U/s.80CCC – Contribution to LIC	10,000	
Total	1,10,000	
Restricted to		1,00,000
Net Total Income		**6,69,400**
Income-tax on the above		1,49,820
Add : Education cess @ 3% (Including 1% Secondary & higher education cess)		4,495
Tax Payable		**1,54,315**
Rounded off to		**1,54,320**

Working Note A – Salaries		
Particulars	**Notes**	**Amount (Rs.)**
Salary (46,000 x 12)		5,52,000
Value of medical facility	1	Nil
Rent free furnished accommodation	2	1,12,400
Housing loan interest – taxable	3	34,500
Gifts on the occasion of marriage		Nil
Perquisite in respect of sale of furniture	4	6,000
Credit card expenses – personal usage		10,000
Perquisite in respect of sale of car	5	48,000
Gross Salary		7,62,900
Less : Deduction u/s.16		Nil
Taxable Salary		**7,62,900**

Working Note B – Income from other sources	*Rs.*	*Rs.*
(a) Interest on Fixed Deposits with Company		5,000
(b) Gift received within limits		Nil
(c) Income from specified mutual fund	3,000	
Less : Exempt u/s.10(35)	3,000	Nil
(d) Interest on bank deposits of a minor married daughter to be clubbed u/s.64(1A)	3,000	
Less : Exempt u/s.10(32)	1,500	1,500
(e) Income from UTI received by his handicapped minor son – shall not be clubbed as per Sec.64(1A)		Nil
Taxable income from other sources		**6,500**

Notes:

1. Value of medical facility in a hospital maintained by the employer is an exempt perquisite. Therefore, Rs.7,000/- is not taxable.

2. Value of Furnished Rent Free Accommodation – Salary – Rs.5,52,000/-

   Since the assessee lives in Mumbai where population exceeds 4 lakhs, the value of rent free accommodation shall be taken at 20% of the salary which works out to Rs.1,10,400/-

   Use of the asset shall be taken as perquisite @ 10% of the cost of the asset per annum. The cost of the assets given in the problem is Rs.60,000/-. Therefore, Rs.6,000/- being 10% of Rs.60,000/- shall be considered as value of perquisite. The asset is sold to the assessee on 01.08.2007. Hence value of perks for 4 months is Rs.2,000/-.

   Value of furnished rent free accommodation = Rs. 1,10,400 + Rs.2,000 = Rs.1,12,400

3. The value of the benefit to the employee on account of interest free or concessional loan made available to him or any member of his household shall be equal to simple interest computed at the rate of 10.75% per annum in respect of housing loan repayable. As interest is already levied at 5 % the amount to be taxed works out to Rs.34,500/- (Rs.6,00,000 x 5.75%)

4. Perquisite in respect of sale of Furniture

	Rs.
Value of furniture as on 01.05.2003	60,000
Less : 10% normal wear and tear for 4 completed years of usage (60,000 x 10% x 4)	24,000

Reduced actual cost	(A)	36,000
Sale Price	(B)	30,000
Taxable perquisite	**(A) – (B)**	**6,000**

5. Perquisite in respect of Sale of Car :

	Rs.
Value of the car as on 16.07.2003	2,50,000
Less : Normal wear & tear upto 15.07.2004(July 2004)	50,000
	2,00,000
'Less : Normal wear & tear upto 15.07.2005 (July 2005)	40,000
	1,60,000
Less : Normal wear & tear upto 15.07.2006 (July 2006)	32,000
Reduced actual cost (A)	1,28,000
Sale Price (B)	80,000
Taxable perquisite (A) – (B)	**48,000**

3(a). Calculation of interest u/s. 234B

Particulars	Amount (in Rs.)
Income	5,56,000
Tax on Rs.5,56,000	1,19,274
Less: Tax deducted at source	12,510
Total Tax	1,06,764
90% of assessed tax	96,088
Advance tax paid during 2007 – 08 (i.e., 4,800+11,000+28,000+52,000)	95,800
Shortfall (1,06,764 – 95,800)	10,964
Interest u/s. 234B (10,964*1%*10 months)	1,096

Note: Since advance tax during the financial year 2007 – 08 is less than 90% of the assessed tax, X is liable to pay interest u/s. 234B

Calculation of interest u/s. 234C

Particulars	Rs.	Amount (in Rs.)
Income		5,56,000
Tax on Rs.5,56,000		1,19,274
Less: Tax deducted at source		12,510
Total Tax		1,06,764
Interest u/s. 234C		
First instalment - [{(1,19,274 – 1,06,764)* 30%}- 4,800] * 1% * 3 months	816	
Second instalment - [{(1,19,274 – 1,06,764)* 60%}- 15,800] * 1% * 3 months	1446	

Third instalment - [{(1,19,274 – 1,06,764)* 100%}- 43,800] * 1% * 1 months	629	
Total interest u/s. 234C		2,891

3(b). Computation of capital gains for the A.Y 2008-09

(i) Original Shares:	Rs.
Sale consideration	3,00,000
Less : Indexed cost of acquisition :	
(600 x 250) x 551/ 100	8,26,500
Long term capital Loss (refer note)	5,26,500
(ii) Bonus Shares:	
Sale Consideration	3,00,000
Less : Cost of acquisition	Nil
Long term Capital Gains	3,00,000
Less : Exempt u/s 10(38)	3,00,000
Taxable Long Term Capital Gains	**Nil**

Note : As the transaction is covered by exemption u/s 10, loss suffered is not eligible either for set-off or for carry forward and set-off.

4(a). Computation of income from House Property of Mr.X & Mr.Y (Rs.)

	Mr.X	Mr.Y	
		Ground Floor	First Flo
Gross Annual Value	**Nil**	**Nil**	**90,000**
Less : Municipal tax paid	**Nil**	**Nil**	**4,000**
Net Annual Value	**Nil**	**Nil**	**86,000**
Less : Deduction u/s.24			
- 30% of NAV	**Nil**	**Nil**	**25,800**
- Interest on housing loan	**1,50,000**	**72,000**	**72,000**
		(72,000)	(11,800
Income from House Property	(1,50,000)	(83,800)	

Interest on Housing Loan (Rs.)

		Mr.Y	
(i) Pre construction interest from 01.04.2006 to 31.03.2007		**12,00,000 x 10%**	**1,20,000**
(ii) In five equal installments		**1,20,000 / 5**	**24,000**
(iii) Interest on housing loan for current y			
- 20,00,000 x 12%			
- 12,00,000 x 10%	**2,**		**---**
			1,20,000
TOTAL	2,		1,44,000

RESTRICT	1,	

Note : In the case of Mr.A, there is no pre-construction period interest, as the commencement and completion of the property was in the same financial year - 2006-07.

4(b). According to Sec.194-J, where any sum is paid towards fees for professional services rendered by a person tax at the rate of 10% shall be deducted at source by the person responsible for making such payment. Such responsibility to deduct tax arises only if the aggregate amount of fees paid to such professional exceeds Rs.20,000 in a previous year. In the given case, the assessee being a company, shall be responsible to deduct 10% and education cess @ 3%. Surcharge will not apply as the aggregate payment to the individual does not exceed Rs.10 lakhs for the previous year 2007-08.

The effective rate is 10.30% on Rs.50,000 towards fees. The Central Board of Direct Taxes in Circular no.715 dated 8-8-95 has stated that if the amount paid towards fees is inclusive of reimbursement of expenses still the TDS shall be effected on the gross amount.

OR

4(a). POLITICAL PARTIES - Sec.13A

Exempt Income

The following categories of income derived by a political party are exempt:

i) income from house property;
ii) income from other sources;
iii) income by way of voluntary contributions; and
iv) capital gains.

Conditions

The above exemption is available only if the following conditions are fulfilled:

1) The political party is registered u/s.29A of the Representation of the People Act, 1951;
2) The political party keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income there from;
3) The political party keeps and maintains a record of each such voluntary contribution in excess of Rs.20,000 and of the name and address of the person who has made such contribution; and
4) The accounts of the political party should be audited.
5) The political party has to file a report in accordance with sub-section (3) of section 29C of the Representation of the People Act, 1951 to the Election Commission before the due date for furnishing a return u/s.139 of the Income-tax Act. The said report shall provide details of contributions in excess of Rs.20,000/- received in a financial year by such political party out of which contributions from companies, other Government companies shall be listed separately.

Under the provisions of sec.139(4B) of the Income-tax Act, a political party is required to file a return of income if, before claiming exemption u/s.13A, the party has taxable income.

4(b). Some of the transactions not regarded as transfer are stated as under:

Amalgamations of companies

1. Transfer of a capital asset by holding company to its subsidiary company or vice versa if the following two conditions are fulfilled:
   a) The holding company or its nominee should hold the whole of the share capital of the subsidiary company;
   b) The transferee company should be an Indian Company.
2. Transfer of a capital asset in a scheme of amalgamation, if the amalgamated company is an Indian company.
3. Transfer of shares held in Indian company, in a scheme of amalgamation between two foreign companies, by the amalgamating foreign company if the following two conditions are fulfilled:
   a) At least 25% of the shareholders of the amalgamating foreign company continue to be shareholders of the amalgamated foreign company; and
   b) Such transfer does not attract tax on capital gains in the country in which the amalgamating company is incorporated.

Amalgamations of banking companies

4. Transfer of capital asset by a banking company to a banking institution in a scheme of amalgamation brought into force by the Central Government.
5. Transfer of capital asset being shares held by the shareholder of the amalgamating company in lieu of the shares issued by the amalgamated company if the following two conditions are fulfilled :
   a) The transfer is made in consideration of allotment to him of any shares in the amalgamated company; and
   b) The amalgamated company is an Indian company.

De-merger of companies

6. Transfer of a capital asset, in a demerger, by the demerged company to the resulting company, if the resulting company is an Indian company.
7. Transfer of shares by the shareholder of a demerged company in a scheme of demerger in consideration of the shares transferred or issued by the resulting company.
8. Transfer of a capital asset, being share or shares held in an Indian company by the demerged Foreign company to the resulting foreign company, if –
   a) shareholders holding not less than three-fourths in value of the shares of the demerged foreign company continue to remain shareholders of the resulting foreign company; and
   b) such transfer does not attract tax on capital gains in the country in which the demerged foreign company is incorporated.

Conversion of firm in to company

9. According to Clause (xiii) of section 47, nothing contained in section 45 shall apply to any transfer of a capital asset or intangible assets by a firm to a company as a result of succession or any transfer of a capital asset to a company in the course of demutualisation or corporatisation of a recognised stock exchange in India as a result of which an AOP or BOI is succeeded by such company subject to certain specified conditions. The conditions are as follows:
   a) All the assets and liabilities of the firm or AOP or BOI relating to the business immediately before the succession shall become the assets and liabilities of the company.
   b) All the partners of the firm immediately before the succession become the shareholders of the company in the same proportion in which their capital accounts stood in the books of the firm on the date of succession.

c) The partners of the firm do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company.

d) The aggregate of the shareholding in the company of the partners of the firm is not less than 50% of the total voting power in the company and their shareholding continues to be as such for a period of five years from the date of the succession.

e) The demutualisation or corporatisation of a recognised stock exchange in India is carried out in accordance with a scheme approved by SEBI in this regard.

Conversion of proprietary concern in to company

10. According to clause (xiv) of section 47, nothing contained in section 45 shall apply to transfer of a capital asset to the company where a proprietary concern is succeeded by a company in the business carried on by it, subject to certain specified conditions. The conditions are as follows -

    i. All the assets and liabilities of the sole proprietary concern relating to the business immediately before the succession shall become the assets and liabilities of the company.

    ii. The shareholding of the sole proprietor in the company is not less than 50% of the total voting power in the company and shareholding shall continue to so remain for a period of five years from the date of succession.

    iii. The sole proprietor does not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company.

Business Reorganisation of co-operative bank

11. Transfer of capital asset by a predecessor co-operative bank to a successor co-operative bank in a scheme of business reorganisation.

12. Transfer of shares held by the shareholder in predecessor co-operative bank in lieu of the shares issued by the successor co-operative bank in a scheme of business reorganisation.

Debentures, GDR's, Membership in stock exchange, etc.

13. Conversion of debentures, debenture stock, deposit certificates of a company into shares or debentures of that company.

14. Transfer of a capital asset, being bonds and Global Depository Receipts referred to in Sec. 115AC, made outside India by a non-resident to another non-resident.

15. Any transfer of a capital asset being a membership right held by a member of a recognised stock exchange in India for acquisition of shares and trading or clearing rights acquired by such member in that recognised stock exchange in accordance with a scheme for demutualisation or corporatisation which is approved by SEBI.

16. Any transfer in a scheme for lending of any securities under an agreement or arrangement, which the assessee has entered into with the borrower of such securities and which is subject to the guidelines issued by SEBI or RBI – Sec.47(xv).

5(a). Sec. 72AB – Business Reorganisation - co-operative banks

In the case of business reorganisation of co-operative banks, the unabsorbed losses and unabsorbed depreciation of the predecessor co-operative bank shall be the loss or depreciation of the successor co-operative bank.

Such loss shall be set off or carried forward for an unexpired period of the predecessor co-operative bank and unabsorbed depreciation shall be carried forward indefinetly.

The above provisions are subject to the following conditions:

1. Conditions to be satisfied by the **predecessor co-operative bank:**
    a) it is engaged in the business of banking for three or more years; and
    b) it has held continuously as on the date of business reorganisation atleast 3/4th of the book value of fixed assets held by it two years prior to the date of business reorganisation.
2. Conditions to be satisfied by the **successor co-operative bank**:
    a) it holds continuously for a minimum period of 5 years from the date of business reorganisation at least 3/4ths of the book value of fixed assets of the predecessor co-operative bank acquired in a scheme of business reorganisation;
    b) it continues the business of the predecessor bank for a minimum period of 5 years from the date of business reorganization.
3. For the purpose of this section, there are two periods for set off and carry forward of loss and depreciation:
    a) From the beginning of the previous year to the ending on the date immediately preceding the date of business reorganization.
    b) Second from the date of business reorganization to the ending of the ending of such previous period.
4. Any other conditions notified by central government for this purpose.

In a case where any of the above conditions are not complied with, the set off of loss or depreciation made in any previous year in the hands of the successor bank shall be deemed to be the income of the successor bank chargeable to tax for the year in which such conditions are not complied with.

5(b). Deduction for gains from business of Hotel and Convention Centers

Eligible Business - Section 80-ID

Assessees engaged in the business of Hotel and Convention Centers in specified are.

a) Hotel located in the specified area;

b) Building, owning and operating a convention centre, located in a specified area.

Condition to be complied with

In order to avail the deduction u/s. 80ID the following conditions shall be fulfilled:

1. **The hotel or convention centre is constructed and started or starts functioning at any time during April 1, 2007 and March 31, 2010.**
2. **The hotel or convention centre is not formed by the splitting up, or the reconstruction, of a business already in existence.**
3. **The hotel or convention centre is not formed by the transfer to a new business of machinery or plant previously used for any purpose.**
4. **Audit report should be submitted along with the return of income.**
5. **Return of income is submitted on or before the due date of submission of return of income given under section 139(1). Consequential amendment has been made to sec. 80AC also to give effect to this condition.**

"Specified area" means the National Capital Territory of Delhi and districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad.

"Hotel" means a hotel of two-star, three-star or four-star category as classified by the Central Government.

"Convention Centre" means a building of a prescribed area comprising of convention halls to be used for the purpose of holding conferences and seminars, being of such size and number and having such other facilities and amenities, as may be prescribed.

'Initial Assessment year' means the assessment year relevant to the previous year in which the business of the hotel or Convention center starts functioning or operating on a commercial basis;

Quantum & Period of Deduction

An amount equal to 100% of the profits and gains derived from such business for 5 consecutive assessment years beginning from the initial assessment year shall be allowed as deduction.

Additional Points

2. **No deduction can be claimed by the assessee under any other section contained in Chapter VI-A or in sec.10A or sec.10B.**
3. **Incase the assessee was already claiming the benefit u/s.10C or 80IB(4), the aggregate period of deduction availed by the assessee in respect of the undertaking or enterprise under this section or u/s.80-IB(4) or u/s.10C shall not exceed 10 assessment years.**

5(C). Sec. 139C – Power of Board to dispense with furnishing of documents

The Central Board of Direct Taxes is empowered to make rules to provide for a class or classes of persons who may not be required to furnish documents, statements, receipts, certificates, audit report or any other documents which are otherwise required under the Act. This provision is subject to sec.139D under which the Central Board of Direct Taxes may require an assessee to furnish such documents. In any case, where the assessing officer demand the production of such documents, the assessee shall furnish the same.

Sec. 139D – Filing of return in electronic form

The Central Board of Direct Taxes is empowered to make rules providing for:

a) the class or classes of persons who shall be required to furnish the return in electronic form;

b) the form and the manner in which the return in electronic form may be furnished;

c) the documents, statements, receipts, certificates or audited reports which may not be furnished along with the return in electronic form but shall be produced before the Assessing Officer on demand;

d) the computer resource or the electronic record to which the return in electronic form may be transmitted.

5(d). General – Sec. 37

The legislature, having rightly envisaged the impracticability of listing out all the admissible expenses in the computation of taxable business income, enacted sub-sec.(1) of sec.37 so as to accommodate all deductible expenses other than those specifically covered by other provisions. The provisions of sec.37(1) reads as follows:

37(1) Any expenditure,

- i) Not being expenditure of the nature described in section 30 to 36; and
- ii) Not being in the nature of capital expenditure; or
- iii) Not being in the nature of personal expenditure of the assessee; and
- iv) Laid out or expended wholly or exclusively for the purposes of the business or profession,

shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession".

Any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure - Explanation to section 37(1).

In order to claim a deduction u/s.37(1) assessee must have incurred an expenditure during the year or relating to the year. If no expenditure is incurred, deduction cannot be allowed. Assessee obtained mining lease from State Government and the lease agreement required that the assessee shall restore the lands to the original condition on the termination of the lease. Assessee claimed deduction on the basis of such obligation certain expenditure. It has been held that during the relevant previous year the assessee did not incur any expenses to restore the lands to their original condition and therefore no deduction is allowable – *New India Mining Corporation Pvt. Ltd. vs. CIT*, 243 ITR 640 (SC)..

5(e). Registration of Trust

*E*very trust or institution shall submit an application for registration in the prescribed form (Form 10A) as required u/s.12A to the Commissioner of Income-tax before the expiry of a period of one year from the date of the creation of the trust or the establishment of the institution, whichever is later.

Provided that –

i) The above provision of this clause shall not apply in relation to any application made on or after the 1^{st} day of June 2007.

ii) Where any application has been made on or after the 1^{st} day of June, 2007, the provisions of sections 11 and 12 shall apply in relation to the income of such trust or institution from the assessment year immediately following the financial year in which such application is made.

On receipt of the application, according to the provisions of Sec.12AA which prescribe the procedure for registration, the Commissioner shall call for such documents or information as considered necessary in order to satisfy about the genuineness of activities of the trust or institution. Inquiries can also be made as deemed necessary. After being satisfied about the objects and the genuineness of activities an order shall be passed in writing, registering the trust or institution. If not so satisfied, an order shall be passed in writing, refusing to register. Copy of any such order shall be sent to the applicant. Before an order is passed refusing registration, reasonable opportunity of being heard should be given. The time limit for passing an order u/s.12AA is six months from the end of the month in which the application is received.

Note: Any order passed u/s.12AA refusing the registration by the Commissioner of Income-tax Act is appealable u/s.253 to the Income tax Appellate Tribunal.

6a. No, A person, having its business premises in any of the Indian states other than the state of Jammu and Kashmir who provides the service tax to the persons in the state of Jammu and Kashmir, would not be liable to pay service tax.

6b. The service tax is payable on all taxable services in India, whether the services rendered in to an Indian or foreign client. The services rendered abroad shall not attract service tax as the levy covers the services provided within India.

6c. Pure agent is a person who has an agreement with the service receiver to act as his pure agent to incur expenditure for providing service. The salient features of a pure agent are:

a. He has no title over the goods/services of the principal.
b. He cannot use them for his purpose.
c. He gets from the service receiver only the actual cost of such purchases.

Eg:- Contractor procures cement, steel etc., on behalf of the flat promoter, passes on the actual cost to the recipient, possesses no title over the materials and leaves the balance materials at the site. In such cases, Assessable Value shall be exclusive of cost of materials.

6d. The following are some of the merits of VAT

1. For claiming set-off the dealer should maintain proper accounts of purchases. There will be no suppression of purchases and hence tax evasion is ruled out.

2. What ever be the source of purchase set-off is equally available. All purchases carry credit and hence the system has anti-cascading effect. Thus neutrality is ensured in the selection of source of purchases.

3. The system is transaction based. VAT is applicable to all sales. No need to seek interpretation on turnover, sale, sale price etc. The simple equation is as follows:

   VAT payable = Tax on sale – Tax on purchase.

   Thus there is certainty in the quantum of tax.

4. The amount of tax should be clearly indicated in the invoice. The buyer knows the amount he pays as tax. Government also knows the amount it gets as tax in every transaction. Thus, there is transparency in the system in regard to the quantum of tax.

5. At every stage of sale, Government gets the tax leviable on the transaction value at that stage. The balance due is realised at the last stage of sale i.e., sale to consumer. Obviously, there is better revenue collection.

6. The system is self-policing. For getting credit on purchases, the dealer has to follow better accounting system. Otherwise, he will lose the benefit of set-off.

7. The availability of set-off the tax element on all inputs is totally wiped out. Naturally, retail sale price decreases or atleast **does not increase.**

6e. Excess collection of tax – Sec. 73A & 73B

1. The service provider shall not collect tax in excess of what he pays to the Government.
2. In case his collection is more than his payment, he shall promptly deposit the excess with Government.
3. Any delay in this regard attracts payment of interest @ 13% p.a.

7. Computation of taxable value of service and service tax to be paid:

(a) Taxable Value of Services :	Rs.
Amount billed for	10,50,000
Less: Unit in SEZ (Exempt)	1,00,000
Taxable Service	**9,50,000**
Add: Amount received which is already written off has bad debt	10,000
Amount received for service provided	9,60,000
Add: Amount received for services to be provided – Advance amount	50,000
Assessable Value	10,10,000
(b) Amount of Service Tax payable, including education cess, i.e. (10,10,000 x 12.36%)	**1,24,836**

Billings to a unit in SEZ are exempt from tax .

8a. Small Service Provider [SSP]

i. Exemption granted through notification No.6/2005 – ST dt. 01.03.05.
ii. Exemption is upto a turnover (money received) of Rs.8,00,000 in a financial year.
iii. Cenvat credit on inputs, input service and capital goods cannot be availed during the period of exemption.
iv. On crossing the exemption limit of Rs.8,00,000/- tax is payable at the usual rate and cenvat credit can also be availed.

v. The service provider shall opt for the exemption.

vi. Option is irreversible till the end of that financial year.

vii. Registration is necessary if the turnover (collection) exceeds Rs.7,00,000.

viii. For eligibility to *opt* for being SSP this year, the criterion is the value of service provided last year.

Eg: If Mr.A opts to claim SSP benefit during the Financial Year 2007-08, he has to satisfy the criterion of Rs.7,00,000, during the Fainancial Year 2006-07.

ix. Exemption is available in the current year, if in the previous year, the aggregate value of taxable services provided does not exceed Rs.8,00,000/-.

For eligibility to ***avail*** exemption, the criterion is the value of service received in the current year (exemption is upto Rs.8,00,000/-)

8b. According to Sec. 68, service tax is payable by the Service Provider. However, Service receiver has to pay in some exceptional cases:

i. Insurance auxiliary services

ii. Service provided to a person in India from outside India

iii. Goods transport agency for transport of goods by road.
Note: If the service receiver is individual, HUF etc., tax is payable by the service provider (GTA)

iv. Business Auxiliary services – Mutual fund distribution

v. Sponsorship services

8c. Income Variant

Levy: Tax is levied on all sales i.e., every sale is taxed (Multi-point Tax System).

Deduction: Deduction is allowed on all raw materials. In other words, the manufacturer can take credit of tax paid on the raw materials purchased by him and set off such credit against the tax payable on his product.

Deduction is allowed only on the depreciation of capital goods and not on the capital goods as such. In other words, credit cannot be taken in one shot when capital goods are purchased. However credit can be availed on a *pro rata* basis as and when depreciation is charged on the plant and machinery.

Merits: In the previous method deduction is totally denied on capital goods. Here deduction is allowed on the basis of the depreciation suffered by the capital goods from time to time. In other words credit on capital goods is allowed in a phased manner. There is no denial of availment. There is only deferment in availment.

Demerits: No doubt credit is allowed on depreciation factor. But how to calculate depreciation? There are different methods of depreciation. Further the life of all capital goods is not the same. Hence there will be difficulties in prescribing a uniform depreciation formula for all capital goods.

8d. Salient features of subtraction method under VAT

i. Tax is levied at every stage of sale.

ii. Tax is calculated only on the value addition made at each stage of sale.

iii. Since tax is not on the sale value but confined to value added only, the set-off contemplated in the invoice method does not arise.

iv. This method is convenient, where tax is not charged separately i.e., invoice price represents cum-tax price. Billing will be for Rs. 101 instead of Rs. 100 + VAT Re.1/-.

IS

No of Questions: 10 — **Total Marks: 100**
No of Pages Printed: 3 — **Time Allowed: 3 Hours**

PART- I (50 Marks)

Answer all Questions

1. a. Define any of the **five** terms briefly:

(i) Buffer
(ii) Asynchronous transmission
(iii) Client
(iv) Uniform resource Locators
(v) Blue tooth
(vi) HTML (Hypertext markup language) **(5x1=5 Marks)**

b. Give reasons for the use of the following – any **five**

(i) Importance of Firmware
(ii) Need for boot record
(iii) Use of firewall in system
(iv) Use of Gateway in computer network
(v) Internet
(vi) Need of Modem in data communication **(5x1=5 Marks)**

2. a. What is an operating System? What are its basic functions **(7 Marks)**

b. Write briefly about Data Dictionary **(3 Marks)**

3. a. What are Disaster recovery sites? **(3 Marks)**

b. What is Database? Also describe in brief about applications of Database? **(7 Marks)**

4. You are given a list of names and marks in 3 subjects for 100 students. Calculate the average marks for every student and display a list of name and average marks for all the 100 students. **(10 Marks)**

5. Case Study:

A Text book supplier approached Sage with a project to implement a distributed information system that allowed for coordinated online construction of booklists, and remote processing of parcel delivery and payment. This system was needed to reduce cycle times for booklist modification, by being highly interactive and easy to use, and to automate the physical booklist production process, all in a managed online environment.

After tenders were sought from various suppliers, Sage was chosen to undertake the development of a web systems using B2B technology to overcome distances between the schools and the book supplier and the supplier and their regional offices

Utilising these web systems, schools are able to construct and manage their booklists for each school year level. The book supplier can automatically produce booklists and quantify the resulting booklists for purchasing and delivery.

The system maintains information extracted from the schoolbook supplier's corporate systems and user remote data consolidation to ensure the web systems reflect an exact replica of the internal databases systems. The web systems are protected with SSL Secure Sockets and a username and password security system with 4 levels of authorization implemented across the web systems.

Being the first to market with a non-paper based booklist system, our client has a competitive market advantage, by offering an easy to access and utilize system for their customers, and have significantly improved their processes through reduced cycle times.

1. What do you mean by B2B technology? What are its advantages
2. What do you mean by non-paper based booklist system?
   How is it advantageous over the traditional paper based systems
3. How are web systems protected? Explain
4. How has the textbook supplier benefited by E-Commerce **(10 Marks)**

PART-II

(50 Marks)

Answer all Questions

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

(a) Internet has no strategic relation with an organization engaged in manufacturing

(b) Environmental factors are totally beyond the control of a Single industrial enterprise

(c) Strategies are rigidly defined **(3X2=6 Marks)**

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

(a) What is Kieretsus?

(b) What do understand by Focus Strategy

(c) What is corporate culture **(2X2=4 Marks)**

8. Explain porter's five forces model **(10 Marks)**

9. What is TOWS Matrix? Is it same as SWOT analysis. Discuss **(10 Marks)**

10. Case Study:

Speed technologies is an Indian company with three major divisions

(1) Notebooks, (2) Desktops and (3) Accessories

Its total revenue for the last year approximated Rs. 1200 Crores and its net operating income was 60 crores

The organization structure of the company is considered to be quite formal. Each division operates as an independent unit and is responsible for its own activities, with only modest direction from the corporate office. It also has offices located in Nepal and Sri Lanka. These offices function as liaising office for local importers. The monthly requisitions from the importers are directly despatched by the corporate office. The sales of the company from these two countries is marginal and their market share in the markets is also low., However there is huge potential, Considering this, the company intends to expand its network in both the countries with little control from the Head Office. It intends to increase the workforce and setup local assembling units

(a) Is the present structure of Speed Technologies functional or divisional? Discuss

(b) What kind of structure will you suggest in two countries? **(10+10 =20 Marks)**

PRIME ACADEMY

26^{TH} SESSION MODEL EXAM

PCC – INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT(Answers)

Part - I

1a.

(vii) **Buffer:** It stores the information on a temporary basis. It is a link between the speed of the CPU and low speed input and output devices

(viii) **Asynchronous transmission**: It is a transmission system in which the spped of operation is not related to any frequency in the system to which it is connected. Each character transmitted in this mode of communication is preceded by a start signall and succeeded by a stop signal. It is very slow.

(ix) **Client:** A software program that is used to contact and obtain data from a server software program on another computer.

(x) **Uniform resource Locators**: The standard way to give the address of any resource on the internet that is part of the world wide web.

(xi) **Blue tooth:** It is a telecommunications industry specification that describes how mobile phones, computers and personal digital assistants can be easily interconnected using a short-range wireless connection, The maximum range is 10meters.

(xii) **HTML (Hypertext markup language**): It is a coding language which can be used to create web pages.

1b.

(vii) **Importance of Firmware:** The firmware refers to **a** series of special programs which deal with very low-level machine operations and thus essenmtially substitutes for additional hardware requirement.

(viii) **Need for boot record:** Boot record contain a small program that runs when the computer system is switched on. This program determines whether the disk has the basic components, which are necessary to run the operating system successfully. If it determines that the required files are present, it transfers control to one of the files of the operating system that continues the process of starting the computer system. Boot record also describes the disc characteristics such as number of sectors/track and number of bytes/sector.

(ix) **Use of firewall in system**: Firewalls are hardware and software systems that control the flow of traffic between the Internet and organisation's Local area network and systems. These are set up to enforce desired security policies of the organizations.Firewall is a effective means of protecting the firm's internal resources from unwanted intrusion.

(x) **Use of Gateway in computer network** Gateways are usually used to link LANs of different topologies, e.g., Ethernet and token ring for enabling the exchange of data. They do not possess the management facilities of routers but like routers they can translate data from one protocol to another.

(xi) **Internet: It** is an umbrella covering countless networks and services that comprise a super network is a global network of computer networks. Internets' Common uses can be classified into three primary types: communication, data retrieval and data publishing.

(xii) **Need of Modem in data communication:** Modem stands for modulator/ demodulator . It is a device that converts a digital computer signal into analog telephone signal or vice versa. Modems are required to tele-communicate computer data with ordinary telephone lines because computer data is in digital form but telephone lines are analog.

2a. An operating system is defined as an integrated system of programs which-

(i) supervises the operation of CPU;
(ii) Controls of the input/output functions of the computer system;
(iii) Translates programming languages into machine languages
(iv) And provides various support services

Operation system is a master control program of a computer that manages its internal function, provides means to control the computer's operations and file system
Programs are held in the computer memory, freeing thereby the operator from inputting a program for each application. The codes of the operating system of a computer are stored externally in a series of program files on the computer's hard disk or external memory
The operating systems are based on the concept of modularity
The operating systems are usually the creation of computer manufacturers, who design the OS to suit the capabilities of that particular system.
Functions of an operating system include

(a) Scheduling jobs
(b) Managing hardware and software resources
(c) Maintaining System security
(d) Enabling multiple user resource sharing
(e) Handling interrupts and
(f) Maintaining usage records

2b. Data Dictionary is centralized depository of information in a computerized form about the data in the database.
They are also called data directory and contain the scheme of the database ie., the name
Of each item in the database and a description and definition of its attributes along with the names of the programs that use them and who is responsible for the data authorization tables that specify users and the data and programs authorized for their use.
These description and definitions are covered under data dictionary,
If a data field is to be altered in any way or eliminated from the database, the dictionary can identify all programs that might require some modification

(i) It is also helpful in protecting the integrity of database data
(ii) It helps programmer to quickly locate blocks of code that can be reused in new applications.
(iii) It also ensures that all design or coding actions performed by an analyst are internally consistent with the application.
They inform the users/programmers of what data is available in the database and how it is used

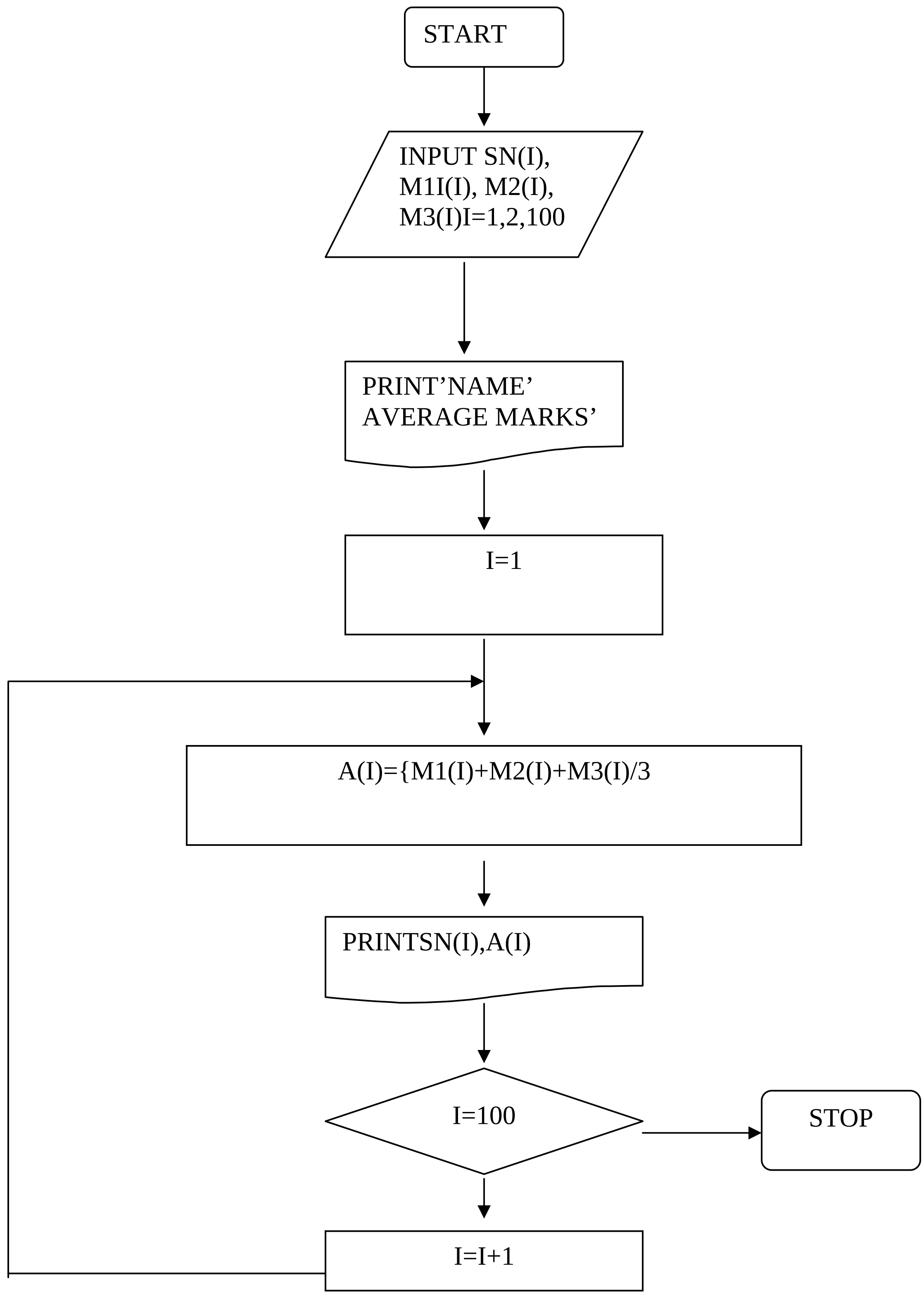
3a. Data centers need to be equipped with the appropriate disaster recovery systems that minimize downtime for its customers. This means that every data center needs to invest in solutions such as power backup and remote management. Downtime can be eliminated by having proper disaster recovery plans for mission-critical types of organizations, so as to be prepared when disaster strikes. The different types of plans are :
Cold Sites: An alternative site with no facilities
Warm Site: An alternative site that is partially equipped
Hot site: An alternative facility that is fully equipped that has resources to recover business functions that are affected by the disaster

3b. Data base is a structured collection of records or data which is stored in a computer so that a program can consult it to answer queries. The records retrieved in answer to queries become information that can be used to make decisions, The computer program used to manage and query a database is known as a database management system.
The central concept of a database is that of a collection of record or pieces of knowledge Typically, for a given database this description is known as a schema. The schema describes the objects that are re[resented in the database, and the relationships among them. There are a number of different ways of organizing a schema, that of modeling the database structure, these are known as database models or data models.

Applications of Database:

Databases are used in many applications, spanning virtually the entire range of computer software. Databases are the preferred method of storage for large multiuser applications, where coordination between many users is needed. Even multiuser applications, where individual users find them convenient, though and many electronic mail programs and personal organizers are based on standard database technology. Software database drivers are available for most database platforms so that application software can use a common application programming interface(API) to retrieve the information stored in a database. Two commonly used database APIs are JDBC and ODBC. A database is also a place where one can store data and then arrange that data easily and efficiently.

4. Student name SN(I) I= 1,2,………..100
Mark in 1st subject M1(I) I= 1,2,…….100
Mark in 2nd subject M2(I) I = 1,2,……..100
Mark in 3rd subject M3(I) I = 1,2,……….100
Average marks A(I) I = 1,2,……………..100


START
INPUT SN(I), M1I(I), M2(I), M3(I)I=1,2,100
PRINT'NAME' AVERAGE MARKS'
I=1
A(I)={M1(I)+M2(I)+M3(I)/3
PRINTSN(I),A(I)
I=100
STOP
I=I+1

5(1) B2B is the short form of business to business, the exchange of services, information and products from one business to another, B2B e-Commerce helps to remove barriers raised by geographic fragmentation of the market.. While buyers get to know about new sellers with better products, suppliers discover new buyers.B2B also helps in eliminating unnecessary inventory build-up for both buyers and sellers, lack of information about production schedules of the buyers lead to inventory build-up for the sellers. At the same time, the difficulty associated with finding alternative supply sources forces the buyers to build up inventory. As B2B promotes information flow and enhances transparency, supply-chain management becomes possible, in addition, both sellers and sellers enjoy reduced order processing costs and lower cost of interacting with each other. Mere order matching which earns commission, is just not enough for the third party exchanges. They will have to strive to retain the buyers and sellers, that is they have to provide other value added services that help retain the existing sellers and buyers and attract fresh traders. Buyers and sellers, in turn benefit through specialized information content. In effect, the market benefits from the buyer and seller discovery and price and product transparency.

5(2) Non paper based means the electronic mode. It is cheaper easily updated has a wider reach available 24 hours throughout the year when compared to the papewr based system

5(3) Secure sockets layer technology protects your web site. It

i. A SSL Certificate enables encryption of sensitive information during online transactions.
ii. Each SSL Certificate contains unique, authenticate information about the certificate owner.
iii. Every SSL certificate is issued by a Certificate authority that verifies the identity of the certificate owner.

5(4) Online booklists and remote processing of parcel delivery and payment highly interactive and easy to use competitive market advantage by offering an easy to access system for their customers and have significantly improved their processes through reduced cycle times

PART- II

6. (a) Incorrect, as Internet has opened up new opportunities for organizations engaged in manufacturing.

correct. Environmental factors are totally within the control of a single industrial enterprise

(c) Incorrect. In the dynamic environment it is necessary that the strategies are action oriented and flexible enough to take on the changes in the environment. In a sound strategy allowances are made for possible miscalculations and unanticipated events.

7. (a) Large cooperative networks of business are known as KIERETSUS. These are formed by companies in related industries, in order to enhance the abilities of individual member business to compete in their respective industries.

Kieretsu members are peers and may own significant amounts of each other's capital and may have board members in common.

In Kieretsu, members remain independent companies in their own right. The only strategy they have in common, is to prefer to do business with other Kieretsu members, both when buying and when selling.

Kieretsus are different from conglomerates where in all members are lineated through ownership pattern.

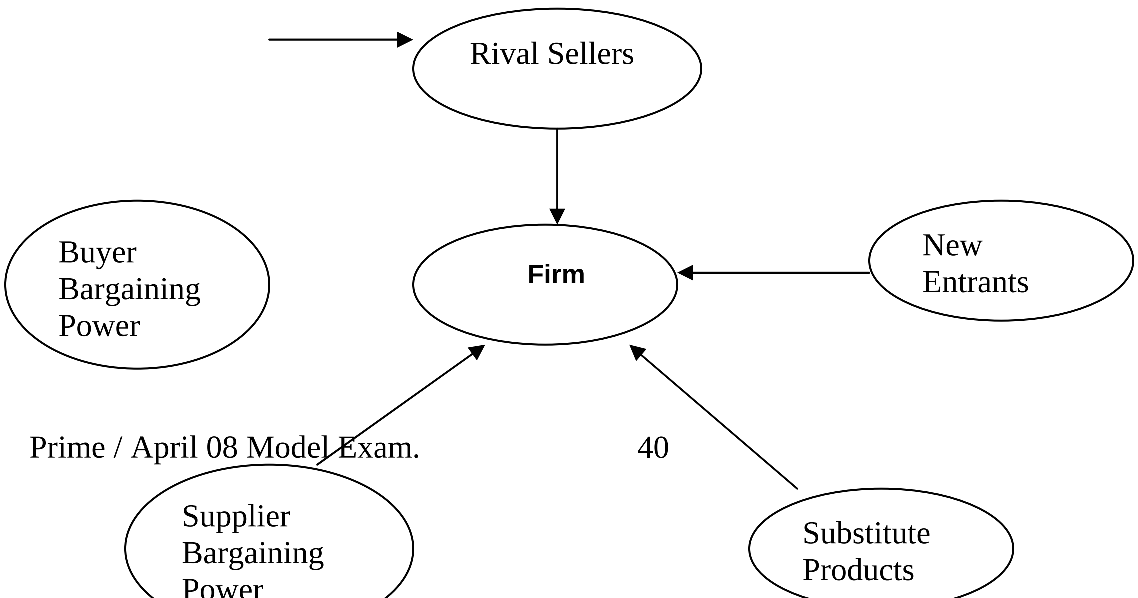
A Kierestus also differs from a consortium or an association as the primary purpose of a Kieretsu is not to share information or agree industry standards, but to share purchasing, distribution or any other function.

(b) Focus strategy is nothing but the strategy that defines the focus that needs to be directed at by the organization.

A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment. An organization using a focus strategy may concentrate a particular group of customers, geographic markets or on a particular product-line segments in order to serve a well-defined but narrow market better than competitors who serve a broader market.

(c) Corporate culture refers to a company's values, beliefs, business principles traditions ways of operating and internal work environment. Every company has a unique organizational culture. Each has its own business philosophy and principles its own ways of approaching problems and making decisions its own work climate and so on define its corporate culture.

8.



1. **Porter's Five Model Competitive Analysis** is a powerful and widely used tool for systematically diagnosing the principal competitive pressures in a market and assessing the strength and importance of each. The five forces together determine industry attractiveness /profitability

2. **Competitive Pressures**: This model states that the state of competition in an industry is the result of competitive pressures operating in five areas of the overall market –
   (a) Competitive pressures associated with the market, maneuvering and jockeying for buyer patronage that goes on among rival sellers in the industry
   (b) Competitive pressures associated with the threat of new entrants into the market
   (c) Competitive pressures coming from the attempts of Companies in other industries to win buyers over their own substitute products
   (d) Competitive pressures stemming from supplier bargaining power & Supplier –seller collaboration
   (e) Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration

3. **Steps:** The steps to determine competition in a given industry are –

Step	a. Description
1	Identify the specific competitive pressures associated with each of the five forces
2	Evaluate how strong the pressures comprising each of the five forces are- (a) fierce, (b) strong, (c) moderate to normal or (d) weak
3	Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits

9. Heinz Weihrich has developed a matrix called TOWS Matrix by comparing the strengths and weaknesses of an organization (internal) with that of market opportunities and threats (external) TOWS Matrix uses the inputs viz., strength, weakness, opportunities and threat reorganises them and integrates them into the strategic planning process.
The matrix takes into account various environmental and organizational factors so as to facilitate strategy formulation and ensure efficient utilization of organizational resources.
The various combinations are given below:

Internal environment factors

Organisational Strengths **Organisational Weaknesses**

External factors

Opportunities

Strength and opportunity (SO) To capitalize or build upon existing or emerging opportunities based on available strengths	**Weakness & Opporutnity(WO)** To overcome organizational weakness if existing. To exploit / utilize emerging opportunities.

Threats

Strength & threat (ST)	Weakness & Threat (WT)
To minimize existing or emerging threats	To minimize or overcome weakness To cope with existing or emerging threats as far as possible

SWOT Analysis is also an comparison of weaknesses, opportunities strengths and threats Tows is also a tool of doing SWOT analysis.

10.

(a) Refer in ICAI study material under Chapter Strategy implementation and control sub Heading Divisional structure Page 6.13 – 6.15

(b) Refer under Sub Heading Matrix Structure Page 6.17---6.18 of ICAI study material.