FINAL EXAMINATION

December 2011

F–P11(CMC)
Syllabus 2008

Capital Market Analysis & Corporate Laws

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

Please: (1) Answer all bits of a question at one place.
(2) Open a new page for answer to a new question.
(3) Attempt the required number of questions only.

Section I (60 Marks)

(Capital Market Analysis)

Answer Question No. 1 *which is compulsory and answer* any two *from the rest in this section.*

1. (a) In each of the cases given below, one out of four is correct. Indicate the correct answer and give workings/ reasons briefly in support of your answer:

(i) The Market Price of Stock of ATCO Ltd. is ₹ 102 and its Alpha is –1.3%. The realized return on the Stock is 16% p.a. and the Risk-free rate of retun is 7.02% p.a. Market Risk premium is 7% p.a. What would be the Required rate of return on the Stock of ATCO Ltd., if its co-variance with the market portfolio declines by 50%?

A. 14.235%
B. 13.125%
C. 12.165%
D. None of the above

(ii) The buy and sell value of two securities in stock exchange are as under:

Security	Buy value (₹)	Sell value (₹)
L.	5,00,000	2,00,000
M	3,00,000	7,00,000

The Gross Exposure Margin is

A. ₹ 17,00,000
B. ₹ 7,00,000
C. ₹ 12,00,000
D. Insufficient information

(iii) The Stock of VENTEX LTD (FV ₹ 10) quotes ₹ 920 on NSE and the 3 months futures price quotes at ₹ 950 and borrowing rate is given as 8% p.a. If the expected annual dividend yield is 15% p.a. payable before expiry, then the theoretical price of 3 month Ventex Ltd. Futures would be

A. ₹ 948.80
B. ₹ 939.90
C. ₹ 936.90
D. ₹ 928.40

(iv) The following two types of securities are available in the market for investment:

Security	Return (%)	Standard Diviation (%)
Gilt-edged Security	7	0
Equity	25	30

Using the above two securities, if you are planning to invest ₹ 1,00,000 to construct a portfolio with a standard deviation of 24%, the return of such portfolio is

A. ₹ 10,900
B. ₹ 15,600
C. ₹ 21,400
D. None of the above

(v) MS. VASUDA is considering an investment in a Mutual Fund with a 2% load. As another alternative, she can also invest in a Bank deposit paying 10% interest. Her investment planning period is 3 years. What should be the annual rate of return on Mutual Fund so that she prefers the investment in the fund to the investment in Bank Deposit?

A. 10.743%
B. 11.282%
C. 11.884%
D. None of the above

2×5=10

(b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C or D as you think correct):

(i) Green shoe option denotes an option
A. of allocating shares in excess of the shares included in the public issue
B. of allocating of shares lower than the shares included in the public issue
C. to buy shares at a specified price in the stock exchange
D. none of the above

(ii) An appeal against the order of the Banking ombudsman can be made to
A. No appeal is possible
B. The Finance Ministry
C. The Deputy Governor's Office of the RBI
D. The Central Government

(iii) The conversion of existing assets into marketable securities is known as
A. Future flows securitisation
B. Asset-backed securitisation
C. Venture funds
D. None of the above

(iv) Which of the following statements is true?
A. If market price = face value, then coupon rate > YTM > current yield
B. If market price = face value, then coupon rate < current yield < YTM
C. If market price > face value, then coupon rate > current yield > YTM
D. If market price < face value, then coupon rate = current yield = YTM

(v) A portfolio holding 90 per cent of its assets in CNX Nifty Stocks in proportion to their market capitalization and 10 percent in Treasury bills is more sensitive to
   A. Index Risk
   B. Systematic Risk
   C. Unsystematic Risk
   D. Both (A) and (B) of above

(c) Fill in the blanks in the following sentences by using appropriate words/phrases/numbers: 1×5=5

(i) Inter-bank market for deposits of maturity beyond ________ is covered in money market instruments.

(ii) SEBI was constituted in the year ________ .

(iii) A prospectus is said to be a ________ prospectus which contains all information as per prospectus contents but does not have information on price of securities offered and number of securities (quantum) offered through document.

(iv) The RBI performs the financial supervision function under the guidance of ________ .

(v) Buying and selling call or put option with same strike price but different expiration dates is called ________ spread. 1×5=5

2. (a) What is "money market"?
Explain the terms "Treasury bills" and "Certificate of Deposits" in this context. 1+2+3=6

(b) MR. VASANT SHAH an analyst of REVAMP SECURITIES LTD has made risk and return projections for the securities of SPARX LTD and DEPROTIV LTD which are as follows:

Scenario	Probability	Returns % associated with		
		SPARX LTD	DEPROTIV LTD	Market Index
Recession & High interest Rate	0.20	–13	–4	–9
Recession & Low Interest rate	0.15	16	–2	8
Boom & High Interest rate	0.40	32	21	16
Boom & Low Interest rate	0.25	12	20	20

It is felt that the interest rate of 7 per cent on the 91-day T-Bill is a good approximation of the risk-free rate. Assume that CAPM holds good in the market.

You are required to

(i) Calculate the ex-ante Betas for Sparx Ltd and Deprotiv Ltd.

(ii) Comment on the proportions of systematic and unsystematic Risk in the two stocks.

(iii) Recommend for fresh investment in any of these two stocks.

—Show all the necessary calculations. 6+4+(2+2)=14

3. (a) Briefly state the objective behind issuance of SEBI (Disclosure and Investor Protection) Guidelines, 2000.

(i) To whom are the said guidelines applicable?

(ii) Two whom are the said guidelines not applicable? 1+1+2=4

(b) For an important business offer made by your client BEAUTIFUL LTD, the offeree is ready to send a digitally signed email, accepting the offer. Your client wants to know if the same is legally binding. Advise the client suitably. 5

(c) The Stock of GREENENVIRON LTD. (G.L.) is currently trading at ₹ 796.17 and Put Option exercisable in three months time has an exercise rate of ₹ 800. The annual standard deviation of its continuously compounded rate of return is 20 per cent.
The annualised Treasury Bill rate corresponding to this option life is 6 per cent.

Requirement:

Calculate the value of a three month PUT OPTION on the stock of GREENENVIRON LTD. (Using Black and Scholes Model)

Note: Extracted from the Tables:

1. In (0.99521) = –0.00480, In (1.0048) = 0.004788
2. Value of e^{-x} : $e^{-0.01}$ = 0.99005, $e^{-0.015}$ = 0.98511
3. Cumulative standardized normal probability distribution: NCX

When X ≥ 0 : N(0.152) = 0.5604, N(0.052) = 0.5207
When X ≤ 0 : N(0 – 0.152) = 0.4396, N(–0.052) = 0.4793 2+1+1+3=7

(d) The following table gives an analyst's expected return on two stocks for particular market returns:

Market Return	Bulls Ltd.	Bears Ltd.
8%	4%	7%
18	25	15

Required:

(i) Compute the Beta of the two stocks.

(ii) If the risk-free rate is 6% and the market return is equally likely to be 8% or 18%, what are the required Rate of Returns of the two Stocks? 2+2=4

4. (a) Explain in brief the differences between futures and option. 2+2=4

(b) SUN MUTUAL FUND LTD promoted an open-ended equity oriented scheme in 2004 with two plans—Dividend Re-investment Plan (Plan-D) and a Bonus Plan (Plan-B). The face value of the units was ₹ 10 each. MS. ADITA invested ₹ 2,00,000 each on 1.4.2006 in Plan-D and Plan-B respectively, when the NAV was ₹ 38.20 for Plan-D and ₹ 35.60 for Plan-B. MS. ADITA redeemed her units in Plan-D and Plan-B respectively on 31.3.2011.

Particulars of dividend and bonus declared over the period were as follows:

Date	Dividend (%)	Bonus Ratio	Net Asset Value (Rs.)	
			Plan-D	Plan-B
30.9.2006	10	–	39.10	35.60
30.6.2007	–	1 : 5	41.15	36.25
31.3.2008	15	–	44.20	33.10
15.9.2009	13	–	45.05	37.25
30.10.2009	–	1 : 8	42.70	38.30
27.3.2010	16	–	44.80	39.10
11.4.2010	–	1 : 10	40.25	38.90
31.3.2011	–	–	40.40	39.70

Required:

Calculate the Annual rate of return in respect of Plan-D and Plan-B for Ms. Adita.

Note: Ignore:

(i) Income tax of Capital gains

(ii) Security Transaction Tax (STT).

4+4=8

(c) The settlement price of a NIFTY FUTURES contract, on a particular day in a particular month of the year 2011 on NSE was 8288.4. The multiple associated with the contract is 50. The initial margin for the contract is ₹ 30,000 and the maintenance margin is set at ₹ 20,000. The settlement prices on subsequent 8 (eight) days were as follows:

Day	Settlement Price (₹)
1	7968.40
2	8429.70
3	8580.00
4	8307.70
5	7754.60
6	8143.00
7	8231.00
8	8444.00

Required:

Calculate the Mark to Market (MTM) cash flows, the daily Closing Balances and Net-Profit (or loss) in the Account of MR. S. BAKSHI an investor who has gone:

(i) Long at 8288.40

(ii) Short at 8288.40

4+4=8

SECTION II (40 Marks)

(Corporate Laws)

Answer Question No. 1 *which is compulsory and answer* any two *from the rest in this section.*

1. (a) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C or D as you think correct):

(i) In a Public Limited Company there are 10 directors including Managing Director and a nominee of ICICI. How many directors are liable to retire by rotation?

A. Four

B. Five

C. Six

D. Seven

(ii) MR. RAJESH, a director of GROW WELL LTD died in a train accident. The Board of directors would like to appoint MR. ARUN KUMAR in place of MR. RAJESH. Which of the following statements is true?

A. The company has to call for extra-ordinary general meeting

B. The company has to continue with the existing number of Directors till the next Annual General Meeting

C. The Board can fill up the vacancy at the Board Meeting

D. None of the above

(iii) Buy-back of equity shares in a financial year shall not exceed
A. 25% of total authorised equity capital of the company
B. 25% of total paid-up equity capital of the company
C. 25% of total called up equity capital of the company
D. None of the above

(iv) In the context of calssification of Risks war risks will fall under
A. Political Risks
B. Credit Risks
C. Disaster Risks
D. Systems Risks 1×4=4

(b) Fill in the Blanks in the following sentences by using appropriate words/phrases:
(i) As per clause-49 of the listing agreement where chairman is a Non-executive director, at least ________ of Board should consist of independent directors.
(ii) After the commencement fo the Companies (Amendment) Act, 2011, no person, shall, save as otherwise provided in section 276, hold office at the same time as director in more than ________ companies.
(iii) Section ________ to ________ of the Companies Act, 1956 contain elaborate provisions for regulating payment of compensation to directors for loss of office.
(iv) In the case of a public limited company, the director must obtain qualification shares within ________ from the date of appointment.
(v) To examine how a result will change if the predicted financial outcomes are not achieved or if an underlying assumption changes, managers can use ________ analysis.
(vi) Related party disclosure requirements are spelt out in IAS ________ 1×6=6

6. (a) MS. SUCHANDA has entered into a transaction with GLAMOUR LTD for a contract value of ₹ 40 lacs. The Articles of Association enjoin that contracts above ₹ 10 lacs should be approved in Board Meeting. Mr. Dhruuv, an officer of the company, produces forged documents to her, which show a resolution having been passed in a Board Meeting approving the contract. Later, the forgery comes to light. MS. Suchanda pleads that she is protected by the Doctrine of Indoor Management.—Discuss. 3+2=5

(b) Can any fine or penalty be imposed on the Public Information Officer of a Government Department, where he has deliberately delayed the furnishing of information sought for properly, under the RTI Act, 2004?
Is such Levy automatic?
How can the fine or penalty imposed, be recovered from him? 1+2+2=5

(c) "Corporate governance is merely the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled". Critically examine this statement. 5

7. (a) Discuss the role, membership and operations of a Nomination Committee. 6

(b) In the context of management audit, what is meant by "control risk" vis-a-vis detection of material misstatements in the financial statements?
In this regard, what is "Control Risk at the maximum" and "Control Risk at less than the maximum"? 6

(c) An understanding has been reached among the manufacturers of cotton to control the price of cotton, but the understanding is not in writing and it is also not intended to be enforced by legal proceedings. —Examine whether the above understanding can be considered as an 'agreement' within the meaning of section 2(b) of the Competition Act, 2002. 3

8. (a) VAIBHAV POLYMERS LTD has an authorised capital of ₹ 250 lacs. Its paid up capital is ₹ 200 lacs. The free reserves are to the tune of ₹ 120 lacs. The company has advanced to other companies to the tune of ₹ 180 lacs, as on 30th November, 2011. On this date, the Board of directors of the company wants to advance ₹ 35 lacs to Vasudha Textiles Ltd., without the prior permission of the shareholders in a general meeting. —Discuss the correctness of the proposal. 6

(b) MR. JYOTIRMAYEE has supplied goods worth ₹ 3,000 to TWINKLE LTD. The company proposes to appoint him as an independent director in the Board. The total annual purchases of the company amount to ₹ 4 crores.—

Discuss about the appropriateness and correctness of this proposal, in the light of provisions of the Companies Act, 1956. 5

(c) A group of shareholders of DECEPTIVE TECHNO LTD. filed an application before the Company Laws Board (CLB) alleging various acts of frauds and mismanagement by MR NAVIN, the Managing Director & his associates. During the course of hearing before the CLB, the authorized representatives of the said company contended that the alleged transactions had taken place several years ago and the company has already removed the Managing director, who was responsible for such transactions and hence there is no case before the CLB to interfere in the working of the company. Against the submiussions on behalf of the company, the applicants submitted that although the fraudulent transactions were done in the past and the Managing Director has been removed, but the company is still controlled by the person, who are in leage with the erstwhile Managing Director and are working as his Henchman.

—State the merits of the applicants' arguments and power of the CLB. 4

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FINAL EXAMINATION

December 2011

F–P12(AFM)
Syllabus 2008

Financial Management & International Finance

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.

Please: (i) Answer all bits of a question at one place.
(ii) Open a new page for answer to a new question.
(iii) Tick the question number answered on the front sheet of the answer-book.

Answer Question No. 1 *from Part A which is compulsory and* any five *questions from Part B.*

PART A (25 Marks)

1. (a) Choose the correct words from those in italic type face:

(i) A joint product should be processed further if (*post-separation/pre-separation*) costs are (*greater than/ less than*) the (*increase in revenue/additional fixed costs*).

(ii) Value (*engineering/analysis*) is cost avoidance or cost prevention before production whereas value (*engineering/analysis*) is cost reduction during production.

(iii) The aim of ABM is to try to eliminate as far as possible the (*core/primary/secondary/discretionary*) activities.

(iv) The point at which a physical activity causes an entry in the accounts which flushes out cost in a backflush system is known as the (*trigger point/bottleneck*).

(v) Market (*skiming/penetration*) pricing should be used if an organization wishes to discourage new entrants into a market. 1×8=8

(b) (i) In the formula for the learning curve, $Y_x = aX^b$, how is the value of b calculated?

A. Log of the learning rate/log of 2

B. Log of 2/learning rate

C. Learning rate × log of 2

D. Log of learning rate/2 1

(ii) Which of the following is incorrect as a description of part of the ABC process?

A. Transactions undertaken by support department personnel are appropriate cost drivers for long-term variable overheads.

B. Longer-term production overhead costs are partly driven by volume of output.

C. Longer-term production overhead costs are partly driven by the complexity and diversity of production work.

D. Short-term variable overhead costs should normally be traced to products using volume-related cost drivers. 1

(iii) Which of the following is correct?

A. Cost of conformance = cost of prevention + cost of internal failure

B. Cost of conformance = cost of internal failure + cost of external failure

C. Cost of conformance = cost of appraisal + cost of prevention

D. Cost of non-conformance = cost of prevention + cost of appraisal 1

Please Turn Over

(iv) Which of the following statements relates to Kaizen Costing?

A. Employees are often viewed as the cause of problems.

B. The aim is to meet cost performance targets.

C. It is assumed that current manufacturing conditions remain unchanged.

D. Costs are reduced by implementing continuous improvement. 1

(c) In the context of a balanced score-card approach to performance measurement, to which of the four perspectives does each measure relate?

Performance measure	*Perspective*
A. Time taken to develop new products	....
B. Percentage of on-time deliveries	....
C. Average se-up time	....
D. Return on capital employed	....

(Note: Your answer may be of the form: Capital letter indicating performance measure—Name of the perspective). 4

(d) Match the *descriptions* to the budgeting style:

Description

(i) Budget allowances are set without the involvement of the budget holder.

(ii) All budget holders are involved in setting their own budgets.

(iii) Budget allowances are set on the basis of discussions between budget holders and those to whom they report.

Budgeting style

A. Negotiated budgeting

B. Participative budgeting

C. Imposed budgeting

(Note: Your answer may be of the form:
Description No. ———— capital letter indicating Budgeting style) 1×3=3

(e) Fill in the blanks in the statement below, using the words in the box:

Throughput Accounting ratio = ... per factory hour ÷ .... per factory hour.

Box of words
Bottlenecks
Constraints
Conversion cost
Material costs
Seles revenue
Throughput contribution

1×2=2

(f) An extract of the costs incurred at two different activity levels is shown. Classify the costs according to their behaviour patterns and show the budget cost allowance for an activity of 1,500 units.

	1,000 units Rs. (000)	2,000 units Rs. (000)	Type of cost (F/V/S-V)	Budget cost allowance for 1,500 units Rs. (000)
(i) Fuel	300	600	....	....
(ii) Photocopying	950	1,100	....	....
(iii) Heating	240	240	....	....
(iv) Direct wages	600	800	....	....

1×4=4

PART B (75 Marks for any five questions)

2. (a) Saran Ltd. has achieved sales of Rs. 40 million and a net profit of Rs. 5 milliom in the year ended 31-03-2011. The following figures are extracted from the accompanying Balance Sheet (31-03-2011) of the company:

	Rs. (million)
Paid up Equity Share Capital	5
Reserve and Surplus	3
Long-term Loans	8
Current Liabilities and Provisions	4

The company wants to increase the Return on Equity by 7.5 percent in the year ending 31-03-2012.

Required:

Assess the change needed in the Net Profit margin of the company to meet the desired increase in its ROE. Assume that the other ratios will not change. 9

(b) (i) What do you understand by 'Trading on Equity'? 2

(ii) What are the limitations of Trading on Equity? 4

3. (a) RUI-WAY Ltd. has a surplus cash of Rs. 80 lac. It wants to distribute 30 percent of it to the shareholders. The company decides to buyback some of its shares.

The finance manager of the company estimates that its share price after repurchase is likely to be 10 per cent above the buyback price, if the buyback route is taken. The number of shares outstanding at persent is 10 lac and the current EPS is Rs. 3.

Required:

Determine

(i) the price at which the shares can be repurchased if the market capitalisation of the company should be Rs. 180 lac after buyback; 5

(ii) the number of shares that can be repurchased; 1

(iii) the impact of the share repurchase on the EPS, assuming the net income remains the same as before. 3

(b) (i) Briefly discuss the Baumal Model of Cash Management. 3

(ii) Illustrate the model by using the following information about A Ltd.

The annual cash requirement of A Ltd. is Rs. 10 lac. The company has marketable securities in lot sizes of Rs. 100,000, Rs. 200,000, Rs. 250,000. Cost of conversion of marketable securities per lot is Rs. 1,000. The company can earn 5% annual yield on its securities. The optimal lot size to be sold will be Rs. ? 3

4. (a) An oil company imports crude oil at the rate of 100 tonnes per month. The price of crude oil in the month of January in Rs. 5,000 per barrel (1 barrel = $\frac{1}{7.33}$ tonnes). It is forecast that in the month of March the price per barrel of crude oil is likely to touch Rs. 6,000. The company wants to hedge against the rising price for its requirement in March. The futures contract price for March is now traded at Rs. 5,700 per barrel for 100 barrels.

Required:

(i) Explain how the oil company can hedge its exposure against the rising price of crude, and state the number of contracts it should book for it. 3+2=5

(ii) What will be the effective price per barrel if in the month of March the price of crude oil is as under:

Spot price – Rs. 5,500 per barrel
Futures – Rs. 5,800 per barrel. 5

(b) Mention, in brief, the main official foreign sources of finance. 5

5. (a) The following quotes are available:

Spot (\$/E) 0.8385/0.8391
3-m swap points 20/30
Spot (\$/£) 1.4548/1.4554
3-m swap points 35/25

Find the 3-m (€/£) outright forward rates. 10

(b) What is 'Covered Interest Arbitrage'? Briefly state the role of an arbitrageur under covered interest arbitrage. 1+4=5

6. (a) A company expects to generate the following net income and incur the following capex in the next five years:

Year	1	2	3	4	5
	Rs. (crore)				
NP	75	60	45	40	25
Capex	40	45	55	47	50

The total number of outstanding shares are 18,00,000 and the current dividend is Rs. 6.50 per share.

Required:

(i) Determine the dividend per share if the firm follows a residual dividend policy.
(ii) Determine the external financing needed if the current dividend is maintained.
(iii) Determine the external financing required if the company maintains a 50% dividend payout ratio.
(iv) Under which of the above is the external need of funds maximized? 2.5×4=10

(b) Explain the 'Hedging Approach' to financing working capital requirements of a firm. 5

7. (a) Cookme Ltd. a well-established food manufacturing and distribution company, currently has an annual turnover in excess of Rs. 15 crore. At present, the company has three production and distribution divisions, each responsible for specific product groups, and a cost of capital of 15%.

The summary information of the Ready-to-cook division relating to divisional assets and profitability is as follows.

Ready-to-cook division

The division produces a wide range of products which it sells to both the supermarket sector and the restaurant trade.

Last year the divisional figures were as follows:

	Rs. (crore)
Investment in non-current assets	1.5
Investment in working capital	1.0
Operating profit	0.5

Divisional budgets are set at the beginning of each year and these are then monitored on a month by month basis. Managers are given as much freedom as possible to manage their divisions which operate as autonomous profit-making units. Divisional managers are rewarded in terms of divisional return on investment.

The company is currently considering expansion into a new but allied product range. This range consists of sauces and canned foods. Projected figures for the expansion into sauces and canned foods are:

	Rs. (crore)
Additional non-current assets required	0.75
Additional investment in working capital	0.35
Budgeted additional profit	0.198

The manager of the Ready-to-cook division has produced successful results over the past few years for her division. She and her staff have enjoyed handsome bonuses on the basis of return on investment. The company has traditionally calculated return on investment as operating profit as a percentage of return on all net divisional assets, and bonuses are paid as a percentage on this basis. The board proposes that the Ready-to-cook division will be responsible for the expansion into sauces and canned foods.

Required:

(i) Calculate the return on investment for the division both before and after the proposed divisional expansion. 4

(ii) Calculate the residual income for the division both before and after the proposed divisional expansion. 4

(iii) Determine how the manager of Ready-to-cook division of Cookme Ltd. would like to accept the proposed expansion. 2

(b) State briefly the importance of life cycle costing at today's business environment. 5

8. It has been suggested that much of the training of management accountants is concerned with cost control whereas the major emphasis should be on cost reduction.

Required:

(a) Distinguish between cost control and cost reduction. 3

(b) Give <u>three</u> examples <u>each</u> of the techniques and principles used for

(i) cost control and

(ii) cost reduction. 6

(c) Discuss the proposition contained in the statement. 6

FINAL EXAMINATION

December 2011

Management Accounting—Strategic Management

F–P13(MSM)
Syllabus 2008

Time Allowed: 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

SECTION -I (60 Marks)

(Strategic Management)

Answer Question No. 1 *and* any other two *more from the rest in this section.*
(Please answer all part of the question at one place.)

1. (a) In each of the cases/statements given below, one of four alternatives is correct. Indicate the correct answer: 1×10

   (i) Brand names such as Coca-Cola, Sony, McDonald's and Nike are a source of competitive advantage as:
   - A. They are owned by global firms
   - B. They are more than 50 years old
   - C. They are well-managed brands
   - D. They are highly innovative firms

   (ii) The product life cycle is decreasing for an increasing number of products, because of:
   - A. Technological changes in materials and processes
   - B. Changing tastes of consumers
   - C. Competitive activity aimed at increasing market share
   - D. All of the above

   (iii) The acquisition of Corus by TISCO is an example of:
   - A. Horizontal integration
   - B. Vertical integration
   - C. Concentric diversification
   - D. Forward integration

   (iv) Focus on cost reductions:
   - A. May result in overlooking competitor's efforts to differentiate what has traditionally been an indifferentiated commodity like product
   - B. Is the best way to compete to earn higher profits
   - C. Takes care of changes in customer needs and expectations
   - D. Cannot create value for the customers

   (v) Target price is:
   - A. Market driven
   - B. Product driven
   - C. Cost driven
   - D. Investment driven

   (vi) Which one of the following is not a measure related to Balanced Score Card?
   - A. Financial
   - B. Customer satisfaction
   - C. Internal processes
   - D. Gap Analysis

   (vii) Value analysis aims at:
   - A. Increasing sales by economizing expenditure and increasing productivity
   - B. Reducing costs by economizing expenditure and increasing productivity
   - C. Reducing profits by increasing expenditure and increasing productivity
   - D. Reducing costs by economizing expenditure and increasing manpower

Please Turn Over

(viii) Forecasting models like Regression analysis and Economic modeling fall in the category of:
(A) Native Quantitative model
(B) Casual Quantitative model
(C) Delphi model
(D) Normal group technique

(ix) An increase in productivity, augmented by automation, as one of the environmental factors that can affect an organization's strategy, should be classified as the:
(A) Economic change in environment
(B) Demographic change in environment
(C) Technological change in environment
(D) Industry change in environment

(x) The Corporate Governance framework should ensure:
(A) Equitable treatment of all shareholders
(B) Rights of stakeholders as established by law
(C) Timely and accurate disclose of all material matters including finance, performance and ownership of the company
(D) All of the above and social responsibility

(b) State whether the following statements, based on the quoted terms, are 'TRUE' or 'FALSE' with justifications for your answer. If any statement is false, you are required to give the correct terms, duly quoted. No credit will be given for any answer without justification: 1×5

(i) Cash Reserve Ratio (CRR) refers to the cash which banks have to maintain with RBI as a percentage of their demand and time liability.
(ii) Ansoff proposed that for filling the corporate planning gap, one follows four strategies, namely, market penetration, product differentiation, market identification and diversification.
(iii) Delphi can never be useful as a sales forecasting tool though it may be a reasonably good tool for demand estimating.
(iv) Blue Ocean Strategy is concerned with moving into new market with new product.
(v) CVP model is a simple break-even model.

(c) Define the following terms (in not more than two sentences): 1×5

(i) Barriers to entry
(ii) Value tests
(iii) Turnaround management
(iv) Direct Product Profitability (DPP)
(v) Strategic Advantage Profile (SAP)

2. (a) Discuss in brief the elements of a meaningful mission statement of a corporate organization.
(b) Explain the linkage between environmental analysis and strategic management.
(c) What is 'Profit planning'? What is 'Boston classification'? Why the Public Sector Insurance Companies have started using BCG services of late? 5+5+(2+6+2)

3. (a) The following data are available from the records of a company:
Capital: Rs. 10,000
NOPAT: Rs. 2,000
Cost of Capital (C*) : 15 per cent
Return on Capital (r): 20 per cent
Economic Value Added (EVA) = Capital × (r – C*) = 10,000 (0.20 – 0.15) = 500.

Illustrate and quantify the impact of the four strategies [i.e., Improvement in operating performance, Profitable investment, Withdrawal of unproductive capital and Reduction in the cost of capital] on improving EVA using above recorded data.

(b) Define a PPP in the context of developmental efforts in infrastructure in India.

(c) What is meant by Strategic Total Cost Management? Mention the specific tools with which the Management Accountant should associate himself in the implementation of Strategic TCM in an organization.

$(2\frac{1}{2}\times 4) + 2\frac{1}{2} + (2\frac{1}{2} + 5)$

4. Write short notes on the following: 5×4

(a) Conglomerates and Diversified Majors

(b) Kaizen Costing

(c) M_cKinsey's 7_sFramework

(d) J. Strauss and R. Frost's E-marketing model

Section-II (40 Marks)

(Risk Management)

Answer Question No. 5 *and* any other two *more from the rest in this section.*
(Please answer all part of the question at one place.)

5. (a) In each of the cases/statements given below, one of four alternatives is correct. Indicate the correct answer. 1×5

(i) ECOR in risk management means:
- A. Expected Cost of Ruin
- B. Expected Cost of Opportunity Loss
- C. Economic Cost of Ruin
- D. Economic Cost of Opportunity Loss

(ii) Post-loss objectives in risk management are:
- A. Survival of the organization, continuance of organization's operations
- B. Initiate and improve the income/earnings
- C. Obligation to society
- D. All of the above

(iii) Physical risk arising out of social, political, economical and legal environments are often identified:
- A. Through the performance of lead indicators
- B. Through the performance of lagging indicators
- C. Through the performance of lead and lagging indicators
- D. Through the performance of the government

(iv) Often analysts focus on characteristics of loss distribution such as:
- A. Expected loss
- B. Standard Deviation of loss
- C. Maximum probable loss
- D. All of the above

(v) Risk management strategies are:
- A. Avoid risk, Reduce risk, and Retain risk
- B. Combine risks, Transfer risk, and Share risk
- C. Hedge risk
- D. All of the above

(b) State whether the following statements, based on the quoted terms, are 'TRUE' or 'FALSE' with justifications for your answer. If any statement is false, you are required to give the correct terms, duly quoted. No credit will be given for any answer without justification: 1×5

(i) EPD in risk management means 'Expected Policyholder Deficit'.

(ii) Performance related risk measures include shortfall risk.

(iii) Interest rate risk refers to the uncertainty of market volumes in the future and the quantum of future income caused by the variations in the interest rates.

(iv) The IRDA regulates all kinds of insurance related activities in India.

(v) 'Future' a derivative, is used as a hedging mechanism against 'Risk'.

6. (a) In today's environment, financial firms operate in increasingly complex, competitive and global challenging market. In the light of this statement, can you briefly describe the various risks prevalent in the financial services?

(b) What types of risks a firm may face while developing a new product?

(c) Explain the concept of 'Risk Pooling' and 'Diversification of Risk'. 5+4+(3+3)

7. (a) An Automobile Insurance Company computes the premiums for a motor vehicle (INR 3 lakhs) on the following basis [rates are typically per thousand of sum insured unless otherwise specified. The rating parameters are the (i) age of the vehicle, and (ii) age of the driver]:

(A) The rates for the age of the vehicle are as follows:

If age of vehicle < 5 years, then rate is 0·5

If age of vehicle > 5 years, then rate is 0·8

Premium I $= \frac{0{\cdot}5}{1000} \times 300000 =$ Rs. 150

(B) The rates of the age of the driver are as follows:

For driver age 30 years, rate is 7·5/1000

For driver age 35 years, rate is 7·9/1000

So the premium for a vehicle with ages less than 5 years and the age of driver is 35, can be calculated as:

Premium I $= \frac{0{\cdot}5}{1000} \times 300000 =$ Rs. 150

Premium II $= \frac{7{\cdot}9}{3000} \times 300000 =$ Rs. 2,370

Total Premium = Premium I + Premium II = Rs. (150 + 2,370) = Rs. 2,520

Based on the above details, briefly answer to the following issues:

(i) What are the variables considered for computation of premium?

(ii) Tariff rates as indicated by the insurance company vary with the age of vehicle and the age of driver. Why?

(b) Define Enterprise Risk Management.

(c) What are the performance related measures for risk management? (3+5)+3+4

8. Write short notes on the following: 5×3

(a) CAPM

(b) Impact of macro economic factors and risk

(c) Re-insurance

FINAL EXAMINATION

F–P14(TXM)
Syllabus 2008

December 2011

Indirect & Direct Tax Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidates may make suitable assumptions and state them clearly in the answer.

Working notes should form part of the answer.

All sub-divisions of a question should be answered continuously.

Answer Question No. 1 *which is compulsory and* any five *from the rest.*

1. (a) Fill in the blanks : 1×5=5

(i) A certificate of CST registration issued by the concerned Authority shall be in Form ________.

(ii) Under the CST Act, 1956, one declaration in Form C can cover all the transactions of purchase in one ________, irrespective of the total value of the transactions during the said period.

(iii) A shipping bill or bill of entry filed through ICEGATE shall be digitally signed with digital signature issued by ________.

(iv) Duty drawback rate shall not exceed ______ percent of market price of export goods.

(v) As per section 2 (ea) of the Wealth Tax Act, urban land is a land which is situated in any municipality, cantonment, town committee, etc., whose population exceeds ________.

(b) Provide brief answers (*not exceeding three or four sentences*) for the following: 2×10=20

(i) State the type of goods and the situations in which packing, repacking, etc. constitutes deemed manufacture under the Central Excise Act, 1944.

(ii) Briefly discuss about excise duty based on production capacity.

(iii) Are inputs used for other purposes, like repair, maintenance, and/or installation of capital goods, entitled for CENVAT credit?

(iv) Under Customs Law, state the initial steps to be undertaken by a person for carrying out export of goods (any two).

(v) In the context of anti-dumping duty, what is meant by "New Shipper Review"?

(vi) When is e-filing of service tax return mandatory?

(vii) Is it correct to say that all imports are free unless restricted or prohibited under the Foreign Trade Policy (FTP)?

(viii) What is an oral trust and in whose hands will the income of such trust be assessed?

(ix) During the assessment year 2010-11, an individual assessee had net agricultural loss of Rs. 34,000. During the assessment year 2011-12, he derived total income of Rs. 3,40,000 and net agricultural income of Rs. 84,000. What is the quantum of agricultural income which will be considered for rate purposes for computing the tax payable? (Actual computation of tax is **not required**).

(x) Mr. Subramani transferred jewellery worth Rs. 12 lacs to Ms. Geeta, his son's fiancée on 21.1.2011. His son got married to Ms. Geeta on 12.3.2011. Can the value of the jewellery be clubbed in the hands of Mr. Subramani, for computing the net wealth as on 31.3.2011?

2. (a) In the context of business auxiliary services in service tax, when is job work liable for service tax? State the exemptions/exclusions available in this regard. 4

(b) Name the goods which have been specifically excluded from the definition of 'input' under Cenvat Credit Rules. 2

(c) State two situations in which motor cars are not treated as asset under the Wealth Tax Act. 2

Please Turn Over

(d) The following details are available relating to Mr. Harivallabh, who always files the return of income within the time stipulated under section 139(1) of the Income Tax Act, 1961:

	(Rs. in lacs)
(i) Assessment year 2010-11	
Long-term capital loss	3.2
(ii) Assessment year 2011-12	
Long-term capital gain	5.3

The LTCG during the assessment year 2011-12 is from sale of shares in a recognised stock exchange.

The Assessing Officer contends that brought forward LTCG loss of Rs. 3.2 lacs should be set off against above LTCG of Rs. 5.3 lacs for the current year and hence there is no LTCG loss of assessment year 2010-11 which can be further carried forward. Is the same justified? 5

(e) While ascertaining the assessable value for customs duty purposes, specify any two charges to be excluded under rule 3 of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. 2

3. (a) Does delayed payment of service tax attract any interest? If so, what is the rate of interest payable with effect from 1.4.2011? 2

(b) Anantha, the assessee sold certain goods to Govinda Co. Ltd. for Rs. 17,000 on 29.02.2011. The buyer is a related person as defined under section 4(3)(b) of the Central Excise Act, 1944. The buyer did not sell the goods but used it as intermediary product. The cost of production of the goods was Rs. 16,000. What should be the assessable value?

What should be the assessable value, if the goods were sold to an unrelated person for Rs. 20,000, who also used it as intermediary product?

You may assume that the price charged from the buyer is excluding excise duty and other taxes. 4

(c) Name any four Duty Credit Schemes which are being used as export promotional measure. 4

(d) In a revision petition filed by the assessee under section 264 of the Income-tax Act, 1961, the CIT accepted the plea of the assessee that the power subsidy was a capital receipt and allowed the relief prayed for by the assessee. The CIT considered the decisions then available on the issue involved and accepted the stand of the assessee. Later on, within a period of four years, the Supreme Court, in a case involving subsidy which was linked to production, held in favour of the Revenue. Based on this decision of the Apex Court, through rectification proceedings under section 154, the CIT seeks to rectify the earlier order passed by him under section 264. Is the rectification under section 154 permissible? 5

4. (a) Johar Engineering Industries are selling a component for gross price of Rs. 80 per unit. The price includes packing charges of Rs. 2, loading charges within the factory of Rs. 1, excise duty @ 10%, education cess as applicable and State Vat @ 5%. Calculate excise duty and Vat payable per unit. 4

(b) New Era Manufacturing Co. Ltd. had placed an order for supply of textile manufacturing plant for Rs. 76 crores. The period of delivery agreed was 6 months. It was stipulated that in case of delay in supply of machinery beyond six months, the supplier would pay liquidated damages to New Era Manufacturing Co. Ltd. The supplier did not supply the machinery in time and as per the stipulated condition, he paid liquidated damages of Rs. 6.75 lakhs to New Era Manufacturing Co. Ltd. Advise New Era Manufacturing Co. Ltd. how the amount received should be treated for income tax purposes. You may take help of decided case law, if any. 3

(c) Is it true that where a person draws from his own stock-in-trade for personal use, the profit computed by considering the market value of such stock should be offered for income-tax? 2

(d) M/s. Pioneer Consulting Ltd., provided Consulting Engineering Services to a client at USA for value of Rs. 50 lakhs during the financial year 2010-11. No service tax was paid during the year. The company availed input services and procured inputs capital goods which were used in relation to providing such services. Total eligible input tax credit was Rs. 50,000/-. M/s. Pioneer Consulting Services Ltd. claimed rebate for such input tax complying to the procedures enumerated under service tax legislation/rules and notifications there-under. The jurisdictional Assessing Officer rejected the claim of rebate on the ground that the export of services are exported against which no rebate would be available. As a tax consultant, you are required to clarify,—

(i) Should Consulting Engineering Services provided by M/s. Pioneer Consulting Services Ltd. be treated as an exempted service?

(ii) What are the alternatives available to M/s. Pioneer Consulting Services Ltd. on payment of service tax and claim of refund of input tax credit?

(iii) Has M/s. Pioneer Consulting Services Ltd. rightly exported without payment of service tax? 6

5. (a) Mr. Prakash Kumar based at Mumbai, is a retailer, having turnover of Rs. 59,70,000/- for the financial year 2010-11. His income from the said business as per the books of account is computed at Rs. 4,96,000/-. He is having unabsorbed depreciation of Rs. 40,000/- related to the assessment year 2010-11 eligible for set off. Retail trade is the only source of income for Mr. Prakash Kumar. There is no depreciable asset in this year. He approaches you to advise him on the following queries for the assessment year 2011-12:

(i) Is Mr. Prakash Kumar eligible to opt for presumptive determination of his business income chargeable to tax?

(ii) If so, what will be his income from retail trade as per the applicable presumptive provision? Is it beneficial to him? Support your answer with reasoning.

(iii) Explain whether provisions of payment of advance tax are applicable to him, when he opts for the presumptive taxation and when he does not opt.

(iv) What is the due date for filing his return of income when he opts for the presumptive taxation and when he does not opt?

Please explain with reference to the provisions of the Income-tax Act, 1961. 7

(b) Briefly explain the provisions relating to provisional assessment of customs duty. 4

(c) What are the purposes for which Advance Authorisation can be issued? 2

(d) In respect of stock/branch transfers, can input tax credit be claimed under State VAT laws? 2

6. (a) Mr. Natarajan provides the following particulars and asks you to work out the net wealth as on 31.3.2011 to be declared by him in the wealth tax return:

Value of a Motor car	Rs. 8,00,000
Value of a Motor Cycle	Rs. 50,000
A house of which ground floor is used by him for his business purposes and first floor as self-occupied residence having value of	Rs. 50,00,000

Jewellery worth Rs. 42 lacs purchased on 30.3.2011 by his wife out of funds given by him of Rs. 25 lacs and by his son of Rs. 17 lacs.

Shares of various companies worth Rs. 2,00,000 purchased by him in the name of his daughter-in-law. 4

(b) From the data given below relating to import of printing machinery, compute the assessable value for customs duty purposes:

	(in USD)
FOB value of printing machinery	1,00,000
Air Freight	22,000
Expenses incurred by seller for improving the design, at buyer-importer's request	4,000
Transit insurance	3,000
Exchange rate 1 USD = Rs. 50	
Basic duty may be taken as 30%	

4

(c) State the excise duty exemptions conferred to SSI units. 7

7. (a) Who are the persons not eligible for compounding of offence as per the provisions of the Central Excise Act, 1944? 4

Please Turn Over

(b) Mr. Nathan is a qualified Cost Accountant and has been rendering taxable services for the past several years. He furnishes the following details pertaining to the quarter ended 30th June, 2010:

			(Rs.)
(i)	Services rendered to Reserve Bank of India	....	6,18,000
(ii)	For preparation of accounting statements for		
	Charitable trusts	....	2,00,000
	Other clients	....	7,00,000
(iii)	Advance received from LMN Ltd. for tax consultancy	....	3,09,000
(iv)	Fees received for appearing before first appellate authority in income tax	....	4,12,000
(v)	Fees received from World Health Organisation	....	6,00,000

The assessee ultimately did not render any service to LMN Ltd. and by mutual consent, Rs. 2 lacs was returned to LMN Ltd. on 10th March, 2011.

All the above figures are gross amounts of receipts and wherever required, service tax was billed separately and the same was also received separately from all the clients.

You are required to compute the value of taxable services rendered by Mr. Nathan for the above quarter (assume that service tax is chargeable on receipt basis). 7

(c) In the context of VAT law, explain the difference between exempt sale and zero rated sale. 4

8. (a) What is 'Importer Exporter Code Number' (IEC)? State the manner in which IEC has to be applied for. In what export/import documents should the same be stated? 4

(b) Vivitha Logistics Ltd., engaged in the business of logistics support and infrastructural activities (started on 12.5.2008), has set up a cold chain facility during the current year. The particulars of investment relating to this cold chain facility business are as under:

	(Rs. in lacs)
Land	40
Building	100
Machinery	200
Non-compete fee paid to machinery manufacturer	60
Profit from cold chain facility (covered by section 35AD) before depreciation	120

The assessee has earned profits of Rs. 150 lacs from the business of infrastructural activity (covered by section 35AD of the Income-tax Act, 1961), Rs. 40 lacs from the logistics support business and Rs. 2 lacs as income from other sources.

Determine the total income of the assessee and the loss, if any, to be carried forward, as per normal provisions. *Notes on treatment of each item above, should form part of your answer.* Logistics support business is not covered by section 35AD.

Where the return of income is being filed on 3rd December, 2011, will the right of carry forward of loss be affected? 7

(c) Achdha Castings Ltd. is manufacturing a product (which is captively consumed) to produce a final product, which is exempt from the payment of excise duty. The intermediary product is having a distinct market of its own. The company is of the view that since the final product is exempt, no duty liability arises on the intermediary product also. The Department objected to the view of the assessee.

Discuss, with reference to a decided case law, if any, whether the view of company is justified. 4