REVISED SYLLABUS 2008

TEST PAPERS

Final

Group IV

QUESTION PAPERS FOR POSTAL STUDENTS ONLY

(FOR JUNE/DECEMBER 2013)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

DIRECTORATE OF STUDIES

PAPER 15

MANAGEMENT ACCOUNTING-ENTERPRISE PERFORMANCE MANAGEMENT

TEST PAPER — IV/15/EPM/2008/T-1

Time Allowed : 3 hours **Full Marks : 100**

(Answer Question No. 1 and any four questions from the rest)

All Questions carry equal marks.

1. Jetking Ltd. has the following activities and associated cost behaviours :

Activities	Cost Behaviour
Labour	₹ 10.00 per direct labour hour
Set-up	₹ 100 per set-up variable
	Step-fixed, ₹ 30,000 per step,
	Step = 10 set-ups
Receiving	Step-fixed, ₹ 40,000 per step
	Step = 2,000 hours

Activities with step cost behaviour are being fully utilized by existing products. Thus, any new product demands will increase resource spending on these activities.

Two designs are being considered for a new product-Design I & II. The following information is provided about each design (1000 units of products will be produced):

Cost Driver	Design I	Design II
Direct labour hours	3,000	2,000
Number of set-up	10	20
Receiving Hours	2,000	4,000

The company has recently developed a cost equation for manufacturing costs using direct labour hours as the driver. The equation has R^2 = 0.60 and is given below :

Y= ₹ 1,50,000 + $ 20 X

You are required to :

(i) Compute the cost of each design (based on the direct labour cost equation) if the design engineering is told that only direct labour hours drive manufacturing costs. Which design will now be chosen based on this unit-based cost assumption?

(ii) Now compute the cost of each design using all driver and activity information. Which design will now be chosen? Are there any other implications associated with the use of the more complex activity information set?

(iii) Consider the following statement: "Strategic cost analysis should exploit internal linkages." What does this mean? Explain using the results of requirements (a) and (b),

(iv) What other information would be useful to have concerning the two designs? (20)

2. Falling in the guideline of Joseph Juran, explain the differences between; Quality Planning, Quality Control & Quality Improvement. (20)

3. (a) State Deming's Fourteen Points for Top Management.

(b) You are given the data of S S Ltd. For the year ended 31st March, 2010 :

Sales 1,00,000 units of ₹ 10 each,

Variable Cost per unit ₹ 6,

Fixed Cost p.a. ₹ 300,000

Calculate the Margin of Safety. (20)

4. Write in brief :

(a) Target Costing,

(b) Quality Circle,

(c) Matrix Organisation,

(d) Kaizen,

(e) JIT Technology. (20)

5. What is meant by Quality Function Deployment (QFD) process? State in brief the utilities in using QFD. (20)

6. (a) State the difference between Manufacturing Resources Planning & Distribution Resources Planning.

(b) TIL Ltd., have an installed capacity of 5000 tractors p.a. They are presently operating at about 35 percent of installed capacity. For the coming year, they have budgeted as follows :

Production / Sales	4000 Units
Costs	₹ (Crores)
Direct Materials	8.00
Direct Wages	0.60
Factory Expenses	0.80
Administrative Expenses	0.20
Selling Expenses	0.20
Profit	1.00

Factory expenses as well as selling expenses are variable to the extent of 20 per cent.

Calculate the Break Even capacity utilization percentage. (20)

7. What do you mean by Operations Strategy? What are the components of the Operations Strategy? State the criteria for evaluating an Operations Strategy. (20)

8. (a) Does Benchmarking tantamount to Industrial Espionage?

(b) State the differences between Benchmarking & Benchtrending. (20)

PAPER 15

MANAGEMENT ACCOUNTING-ENTERPRISE PERFORMANCE MANAGEMENT

TEST PAPER — IV/15/EPM/2008/T-2

Time : 3 Hours **Full Marks : 100**

(Answer Question No 1 and any four questions from the rest)

All Questions carry equal marks.

1. Searock Ltd. builds pleasure boats made of fibre glass. The firm has now launched a new type of boat for the use of children. The cost data and selling price of the first boat built by the firm are given below :

	₹
Direct Materials	5,000
Direct Labour (800 hrs. @ ₹ 5)	4,000
Overheads (150% of direct labour)	6,000
	15,000
Profit mark-up(20%)	3,000
Selling Price	**18,000**

An 80% learning curve is expected to apply to this type of production. The Co.'s Policy is to fix selling price at cost *plus* 20%.

A customer has expressed interest in buying the boat but thinks that ₹ 18,000 is too high a price to pay. He might want to buy two or even four of these boats.

During the next six months. He has asked the co. to clarify the following:

(i) If he pays ₹ 18,000 for the first boat, what price would he have to pay for the second boat?

(ii) Can the co. quote the same unit price for two boats, if he orders two at the same time?

(iii) If he buys two boats now, at the same unit price, what would be the price for the third and fourth boats, if he orders them separately later on?

(iv) Can the co. quote a single unit price for :

(a) four boats,

(b) eight boats, if they are all ordered now?

Assuming there is no other customer now, what replies will the co. give? (20)

2. (a) What do you mean by Total Quality Management (TQM)? What are the principles of TQM?

(b) What according to you are the challenges before Performance Management System? (20)

3. Write Short Notes on :

(a) Balanced Score Card,

(b) Material Requirement Planning,

(c) Master Production Schedule,

(d) Global Benchmarking,

(e) Drum Buffer Rope (20)

4. "Some executive believe that Enterprise Risk Management (ERM) will save companies from any number of current and future ills while providing significant competitive advantages along the way."

Do you believe that the statement is correct ? If so, explain in detail your opinion about ERM. (20)

5. (a) Is there any differences between Value Engineering & Value Analysis?

(b) State the benefits of Value Analysis. (20)

6. (a) What do you mean by Manufacturing Resources Planning?

(b) State the differences between Manufacturing Resources Planning & Distribution Resources Planning. (20)

7. (a) Titagarh Paper Ltd. Has provided the following information :

Sales	20,000 units @ ₹ 5per unit
Variable Cost	@ ₹ 3 per unit
Fixed Costs	₹ 8,000 p.a.

Calculate the PV ratio and the Break Even Sales of the co.

(b) "Intranet is the private version of Internet", Justify the statement. (20)

8. (a) What is Life Cycle Costing? Why is it important?

(b) What does an Enterprise Resource Planning (ERP) package contain? (20)

PAPER 16

ADVANCED FINANCIAL ACCOUNTING & REPORTING

TEST PAPER — IV/16/AFA/2008/T-1

Time : 3 Hours **Full Marks: 100**

Answer any five questions

1. (a) Mr. Pradip an employee of CCL Ltd.went on leave with a pay for 9 months on 1.1.2009 upto 30.9.2009. His monthly pay was ₹25,000. While preparing the financial statement on 30.6.2009 for the year ended 31.3.09, the expense of salary of Mr.Pradip for 3 months (1.1.09 to 31.3.09) was not provided due to omission. When Mr.Pradip joined on 1.10.09, the whole salary for 9 months was duly paid to him. (10)

(b) B Ltd. Purchased certain plant and machinery for ₹50 lakhs. 20% of the cost net of CENVAT credit is the subsidy component to be realized from a State Government for establishing industry in a backward district. Cost includes excise ₹ 8 lakhs against which CENVAT credit can be claimed. Compute depreciable amount. (10)

2. (a) X Ltd. having a share capital of ₹20 lakhs and Y Ltd.having a share capital of ₹30 lakhs. Z Ltd. was formed to take over the business of X Ltd and Y Ltd. at a purchase consideration of ₹ 25 lakhs and ₹28 lakhs, payable in shares of Z Ltd. The assets and liabilities were taken at their carrying amounts.

(i) Calculate Price Earning Ratios.

(ii) Calculate EPS of Z Ltd. after acquisition of X Ltd. & Y Ltd. separately. (6)

(b) H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. (6)

Comment if –

(i) Sale price of ₹ 500 lakhs is equal to fair value

(ii) Fair value is ₹ 600 lakhs

(iii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs

(iv) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs

(v) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs

(vi) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs

(c) Z Ltd. acquired a machine on 1.4.2008 costing US $ 1,00,000. The suppliers agreed to the follwing terms of payment :

1.4.2008	:	down payment 50%
1.4.2009	:	25%
1.4.2010	:	25%

The company depreciates machinery @ 10% on the Straight Line Method. The rate of exchange is steady at US $ 1= ₹40 upto 30.9.2007. On 1.10.09, due to an official revaluation of rates, the exchange rate is adjusted to US $ 1= ₹48.

Show the extracts of the relevant entries in the Profit and Loss Account for the year ending 31st March, 2010 and the Balance Sheet as on that date, showing such workings as necessary. (8)

3(a) MAGIC Bank has classified its total investment on 31.03.2010 into three categories : (a) held to maturity (b) available for sale (c) held for trading.

Held to maturity investment is carried at acquisition cost less amortised amount. Available for sale are carried at marked to market. Held for trading investments are valued at weekly intervals at market rates or as per the prices declared by FIMMDA. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment on the policy of the bank in accordance with AS-13. (8)

(b) From the following information for R Ltd. for the year ended 31st March, 2010, calculate the deferred tax asset/liability as per AS-22 (12)

Accounting Profit	₹10,00,000
Book Profit as per MAT(Minimum Alternate Tax)	₹9,00,000
Profit as per Income Tax Act	₹1,00,000
Tax Rate	30%
MAT Rate	10%

4. A Ltd. and B Ltd. amalgamated on and from 1st January 2009. A new Company X Ltd. was formed to take over the businesses of the existing companies. (20)

Balance Sheet as on 31.12.2008

₹ in '000

Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Sahare capital :			Sundary fixed assets	8,500	7,500
Equity Shares of R. 10 each	6,000	7,000	Investment	1,050	550
General reserve	1,500	2,000	Stock	1,250	2,750
Profit and Loss A/c	1,000	500	Debtors	1,800	4,000
Investment allowance			Cash and Bank	450	400
Reserve	500	100			
Export profit reserve	50	100			
12% Debentures	3,000	4,000			
Sundry creditors	1,000	1,500			
	13,050	**15,200**		**13,050**	**15,200**

X Ltd. issued requisite number of equity shares to discharge the claims of the equity shareholders of the transferor companies; The total shares issued as consideration is to be aggregate of paid up capital of A Ltd. and B Ltd.

Compute the Purchase Consideration and mode of discharge thereof and draft the Balance Sheet of X Ltd. after amalgamation on the following assumptions.

a. Amalgamation is the nature of MERGER

b. Amalgamation is the nature of PURCHASE

5. The Balance Sheets of A Ltd. and B Ltd.as at 31.3.10 (20)

Liabilities	**A Ltd**	**B Ltd**	**Assets**	**A Ltd**	**B Ltd**
Eq. Sh. Capital @ ₹ 100 each	5,00,000	2,00,000	Land & Building	1,50,000	1,80,000
Capital Reserve		1,20,000	Plant & Machinery	2,40,000	1,09,000
General Reserve (1.4.09)	2,40,000	—	Investments : in B Ltd (at cost)	3,40,000	
Profit & Loss A/c	57,200	36,000	Stock	1,20,000	36,000
Bank O/D	80,000	—	Debtors	44,000	40,000
Creditors	47,100	9,000	Cash at Bank	14,500	8,000
Bills Payable (includidng ₹4,000 due to A Ltd.)		8,400	Bills Receivable (including ₹ 3,000 from A Ltd.)	15,800	—
	9,24,300	**3,73,400**		**9,24,300**	**3,73,400**

A Ltd. acquired 1,600 equity shares of B Ltd. of ₹100 each on 31st March, 10.

B Ltd. made a bonus issue on that date of one equity share for every two shares held by its shareholders. Effect has not yet been given in the accounts for this issue.

The Directors are advised that Land and Buildings of B Ltd.are under valued by ₹20,000 and Plant and Machinery of B Ltd. over valued by ₹10,000. these assets have to be adjusted accordingly.

Sundry Creditors of A Ltd. includes ₹12,000 due to B Ltd.

Prepare Consolidated Balance Sheet as on 31st March, 2010.

6. From the following Profit and Loss Account of Kalyani Ltd., prepare a Gross Value Added Statement. Show also the reconciliation between Gross Value Added and Profit before Taxation. (20)

Profit and Loss Account for the year ended 31st March, 2010.

Income	Notes		Amount
		(₹ in lakhs)	(₹ in lakhs)
Sales		206.42	
Other Income		10.20	
			216.62
Expenditure			
Production and Operational Expenses	1	166.57	
Administration Expenses	2	6.12	
Interest and Other Charges	3	8.00	
Depreciation		5.69	186.38
Profit before Taxes			30.24
Provision for taxes			3.00
			27.24
Investment Allowance Reserve Written Back			0.46
Balance as per Last Balance Sheet			1.35
			29.05
Transferred to:			
General Reserve		24.30	
Proposed Dividend		3.00	27.30
Surplus Carried to Balance Sheet			1.75
			29.05

Notes :

(1) Production and Operational Expenses

	(₹ in lakhs)
Increase in Stock	30.50
Consumption of Raw Materials	80.57
Consumption of Stores	5.30
Salaries, Wages, Bonus and Other Benefits	12.80
Cess and Local Taxes	3.20
Other Manufacturing Expenses	34.20
	166.57

(2) Administration expenses include inter-alia Audit fees of ₹ 1 lakh, Salaries and commission to directors ₹ 2.20 lakhs and Provision for doubtful debts ₹ 2.50 lakhs.

(3) Interest and Other Charges :

	(₹ in lakhs)
On Fixed Loans from Financial Institutions	3.90
Debentures	1.80
On Working Capital Loans from Bank	2.30
	8.00

(20)

PAPER 16

ADVANCED FINANCIAL ACCOUNTING & REPORTING
TEST PAPER — IV/16/AFA/2008/T-2

Time : 3 Hours **Full Marks : 100**

Answer any five questions

1. (a) A FMCG company is manufacturing two brands of soap. Cinthol and Breeze. Company has gradually planned to shift all the manufacturing operation engaged in two soaps to manufacture only 'Breeze Soap' without closing the factory/plant producing the 'Cinthol Soap', rather utilizing the production facilities of 'Cinthol Soap' for producing the 'Breeze Soap'. Can we consider the operation to have been discontinued ?

(b) On February 2010, J Ltd.bought a trademark from I Ltd. for ₹50 lakhs. J Ltd. retained an independent consultant, who estimated the trademark's remaining life to be 14 years. Its unamortized cost on I ltd. records was ₹35 lakhs. J Ltd.decided to amortize the trademark over the maximum period allowed. In J Ltd.'s Balance Sheet as on 31st December 2010, what amount should be reported as accumulated amortization?

(c) C Ltd.acquired a machine for ₹3.2 crores on 1.1.2007. It has a life of 5 years with a salvage value of ₹40 lakhs. Apply the test of impairment on 31.3.2010:

(i)	Present value of future cash flow	₹ 1.3 crores
(ii)	Net selling price	₹ 1.2crores

State the disclosure requirement.

(d) A company follows a policy of refunding money to the dissatisfied customers if they claim within 15 days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.10% of the customers claim refunds. The company sold goods amounting to ₹20 lakhs during the last month of the financial year. Is there any contingency? (5×4 = 20)

2. XYZ Ltd. has the following capital structure on of 31st March 2010.

	Particulars	***₹ in Crores***
a.	Equity Share capital (Shares of ₹ 10 each)	300
b.	Reserves :	
	General reserve	270
	Security Premium	100
	Profit and Loss A/c	50
	Export Reserve (Statutory reserve)	80
c.	Loan Funds	800

(i) The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2010 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

(ii) The market price was hovering in the range of ₹ 25/- and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

(iii) Advice the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buy back has been completed in full within the next 3 months.

(iv) If borrowed funds were ₹ 1200 Lakhs, and 1500 Lakhs respectively would your answer change? (20)

3. The following are the Balance sheets of AB Ltd. and XY Ltd. as on 31.12.2010.

Liabilities	***AB Ltd.*** ₹	***XY Ltd.*** ₹	***Assets***	***AB Ltd.*** ₹	***XY Ltd.*** ₹
Sahare capital :			Fixed assets		
Equity Shares of ₹1 00 each fully paid up	2,000	1,000	(net of depreciation)	2,700	850
			Investments	700	–
Reserves and surplus	800	–	Sundry Debtors	400	150
10% debentures	500	–	Cash and Bank	250	–
Loan from Financial Institutions	250	400	Profit and Loss A/c	–	800
Bank Overdraft	–	100			
Sundry creditors	300	300			
Proposed Dividend	200	–			
Total	**4,050**	**1,800**	**Total**	**4,050**	**1,800**

It was decided that XY Ltd. will acquire the business of AB Ltd. for enjoying the benefit of carry forward of business loss. After acquisition, XY Ltd. will be renamed as Z Ltd. The following scheme has been approved for the merger.

(i) XY Ltd. will reduce its shares to ₹ 10 and then consolidate 10 such shares into one share of ₹ 100 each (New Share).

(ii) Financial institutions agreed to waive 15% of the loan of XY Ltd.

(iii) Shareholders of AB Ltd. will be given one new share of XY Ltd. in exchange of every share held in AB Ltd.

(iv) AB Ltd. will cancel 20% holdings of XY Ltd. Investments were held at ₹ 250 thousands.

(v) After merger, the proposed dividend of AB Ltd. will be paid to the shareholders of AB Ltd.

(vi) Authorised Capital of XY Ltd. will be raised accordingly to carry out the scheme.

(vii) Sundry creditors of XY Ltd. includes payables to AB Ltd. ₹ 1,00,000.

Pass the necessary entries to implement the scheme in the books of AB Ltd. and XY Ltd. and prepare a Balance Sheet of Z Ltd. (20)

4. The Balance Sheets of Holding Ltd. and Subsidiary Ltd.as at 31.3.10

Liabilities	**M Ltd**	**D Ltd**	**Assets**	**M Ltd**	**D Ltd**
Eq.Sh.Capital @ ₹ 10 each	10,00,000	4,20,000	Goodwill		
General Reserve (1.4.08)	2,40,000	80,000	Land & Building		
Creditors	90,000		Plant & Machinery		
Bills Payable	1,70,000		Investments		
Profit & Loss A/c (1.4.08)			Stock		
Profit for the year 31.3.09			Debtors		
			Bills Receivable		
			Cash at Bank		
	20,00,000	**5,37,000**		**20,00,000**	**5,37,000**

Out of the Debtors and Bills Receivable M Ltd. ₹50,000 and ₹16,000 respectively represented those due from D Ltd.includes goods purchased from M Ltd. at ₹20,000 which includes profit charged by the latter company at 25% on cost. Both the companies have proposed dividend @10% for 2009-10.

Prepare a Consolidated Balance Sheet of M Ltd. and its subsidiary S Ltd. as at 31st March, 2010. (20)

5. (a) Briefly indicate the items, which are included in the expression "borrowing cost" as explained in AS 16. (6)

(b) Define Embedded Derivative (4)

(c) Define Held to Maturity (4)

(d) Write short note on Effect of Uncertainties on Revenue Recognition. (6)

6. (a) A Ltd. acquired 25% of shares in B Ltd. as on 31.3.2009 for ₹ 3 lakhs. The Balance Sheet of B Ltd. as on 31.3.2009 is given below :

	₹		₹
Share Capital	5,00,000	Fixed Assets	5,00,000
Reserves and Surplus	5,00,000	Investments	2,00,000
		Current Assets	3,00,000
	10,00,000		**10,00,000**

During the year ended 31.3.2010 the following are the additional information available :

(i) A Ltd. received dividend from B Ltd., for the year ended 31.3.2009 at 40% from the Reserves.

(ii) B Ltd., made a profit after tax of ₹ 7 lakhs for the year ended 31.3.2010.

(iii) B Ltd., declared a dividend @ 50% for the year ended 31.3.2010 on 30.4.2010.

(iv) A Ltd. is preparing Consolidated Financial Statements in accordance with AS - 21 for its various subsidiaries.

Calculate :

(i) Goodwill if any on acquisition of B Ltd.'s shares.

(ii) How A Ltd., will reflect the value of investment in B Ltd., in the Consolidated Financial Statements?

(iii) How the dividend received from B Ltd. will be shown in the Consolidated Financial Statements? (10)

(b) On 1st December, 2009, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for ₹ 85 lakhs. On 31st March, 2010 the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2010 as per provisions of Accounting Standard 7 (Revised)? (5)

(c) While preparing its final accounts for the year ended 31st March, 2010 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2004 a debtor for ₹ 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010? (5)

PAPER 17

COST AUDIT & OPERATIONAL AUDIT

TEST PAPER — IV/17/COA/2008/T-1

Time Allowed : 3 hours **Full Marks : 100**

(Answer Question No. 1 and any five Questions from the rest)

1. (a) State whether the following statements are "True" of "False". No reasons or explanations need be given : (1½×10 = 15)

i) Under the existing regulations, a Cost Accountant in practice can take as his partner a practicing Company Secretary.

ii) Non-moving stock of raw materials and components are those stocks which have not moved for more than 24 months.

iii) Operational audit is termed as micro level management audit.

iv) The cost auditor is a member of the audit committee of the company.

v) The secretariat of the WTO will be headed by a Secretary.

vi) A large scale footwear unit in the co-operative sector need not maintain cost accounting records.

vii) The managing director of the company can be appointed as the Chairman of the Audit Committee.

viii) "Export Performance" of a company is beyond the scope and coverage of cost audit.

ix) Under Para 27, Cost Auditor gives reconciliation only of two years.

x) At present cost audit report should be filed by e-filing.

(b) Fill in the blanks. (1×5 = 5)

i) The audit committee shall meet at least ……………….. a year.

ii) The audit of Cenvat availed can be ordered only by the ………………..

iii) Corporate image implies the ……………………. Of a corporate body in all its field of business.

iv) The cost accounting records u/s 209 (1) (d) are to be made available to the Cost Auditor within …………………… days from the close of the financial year.

v) Non-moving stocks of stores and spares are those stocks which have not moved for more than ……………….. months.

(c) Expand the abbreviation : (1×5 = 5)

i. MCA

ii. GAAP

iii. CAB

iv. MTA

v. MFN

2. Answer the following :

(a) What is meant by True and Fair Cost of Production? (5)

(b) Reconciliation of cost and financial accounts (5)

(c) Write short note on - Advantages of Cost Audit to Government (5)

3. A manufacturing company furnishes the following particulars. You are required to calculate the following from the given information : (15)

a. Value added

b. Ratio of operating profit to Net sales

c. Ratio of operating profit to value added

		₹ **In lakhs**
Net sales		1680
Increase in stock of finished goods		200
Expenses :		
Raw material consumed	2080	
Packing material consumed		960
Stores and spares consumed		448
Power and fuel	3680	
Repairs and maintenances		160
Salaries and wages		384
Depreciation		708
Interest paid		1118
Factory O/H		
Salaries and wages		192
Others		200
Selling and distribution O/H		
Salaries and wages	96	
Addl sales tax	366	
Others	1360	
Administration O/H		
Salaries and wages	96	
Others	64	

4. Short Notes : (Any *three*) (3×5 = 15)

a. Energy audit
b. Audit committee
c. Corporate governance
d. SWOT analysis

5. (a) Give the definition of the following as per CAS 1 (2×4 = 8)

i. Sunk Cost,
ii. Unavoidable cost
iii. Abnormal cost
iv. Process cost

(b) What is the disclosure requirement of CAS 2 ? (7)

6. What is the objective of Anti Dumping Duty ? What are the different provisions in the Cost Accounting Records Rules and Cost Audit Report Rules 2001 on Anti Dumping Duty? (5+10 = 15)

7. As a management auditor what are the various points you have to consider while doing the audit of a medium scale engineering unit ? (15)

PAPER 17

COST AUDIT & OPERATIONAL AUDIT

TEST PAPER — IV/17/COA/2008/T-2

Time Allowed : 3 hours **Full Marks : 100**

(Answer Question No. 1 and any five Questions from the rest)

1. (a) State whether the following statements are "True" of "False". No reasons or explanations need be given : (1½×10 = 15)

i) In the operation of Responsibility Accounting System, the concept of an "Activity Centre" is very important.

ii) UK is the first country in the world in introducing the provisions of compulsory maintenance of Cost Accounting Records.

iii) Capital employed under Para 24 means average of Share capital plus reserves.

iv) Main objective of internal audit is to prevent errors and frauds.

v) Royalty is an item of cost of production under the Cost Accounting Records Rules.

vi) Management audit in certain specified companies may be ordered by the Government by a special notification.

vii) Goodwill included in Fixed Assets is to be excluded in computing Capital Employed.

viii) Excisable clearance means only sales of goods from factory.

ix) New cost auditor is authorized to submit a supplementary report, if he considers it as necessary.

x) A practicing Cost Accountant needs to file "Service Tax Returns" annually.

(b) Fill in the blanks : (1×5 = 5)

i) Activity based costing is the extended application of …………………… to activity centers.

ii) ………………………… is the evaluation of every resources declared in industry.

iii) The concept of Management Audit was developed by ……………………..

iv) Audit committee which shall consist of not less than ……………… directors and such number of other directors as the board may determine.

v) The maximum amount of penalty payable by a cost auditor for non-compliance with the provisions of the Cost Audit (Report) Rules, is ₹ …………………………

(c) Expand the abbreviation : (1×5 = 5)

i. CII

ii. EIA

iii. TRIPS

iv. CEGAT

v. CERA

2. (a) There was a strike from 15.7.2009 to 22.9.2009 in a manufacturing company of which you were the Cost Auditor for the year ending 31.3.2010. Although the company began working from 23.9.2009, production could effectively began only from 13.10.2009. the expenses incurred during the year ended 31.3.2010 were :

	₹ In lakhs
Salaries & Wages (Direct)	3325
Salaries & Wages (Indirect)	2375
Power (Variable)	1140
Depreciation	1710
Other fixed expenses	2280

Detailed examination of the records revealed that of the above the following relate to the period 15.7.2009 to 22.9.2009 :

	₹ In lakhs
Salaries & Wages (Indirect)	675
Depreciation	656
Other fixed expenses	760

Calculate the amount which, in your opinion, should be treated as abnormal for exclusion from the product cost.

(b) What are the objectives of Cost Accounting Standard Board? (10+5 = 15)

3. (a) Highlight the provisions relating to corporate responsibility under Sarbanes Oxley Act of 2002.

(b) What type of manufacturing organizations are exempt from the maintenance of cost accounting records they are engaged in the industries in respect of which Section 209 (1) (d) Rules have been prescribed ? (7+8 = 15)

4. Calculate Installed Capacity, Available Capacity, Normal Capacity, Actual Capacity, Idle Capacity, Abnormal Idle Capacity from the following data as per CAS 2. (1½×6 = 9)

Manufacturers specification capacity per hour = 720

Number of shifts (each shift 8 hours) = 3 shifts

Holidays in a year (365 days) :

Sundays – 52 days

Other holidays – 15 days

Annual maintenance is done within 15 holidays

Preventive weekly maintenance for the machine on Sunday.

Normal idle capacity for batch change over, lunch, personal need etc. = 1.5 hour per shift

Production bases on sales expectancy in past five years = 43.34, 38.74, 42.77, 35.14 and 43.49 lakh units

Actual production for the year = 43.34 lakh units

(b) How are the cost accounting standards different from cost accounting record rules? (6)

5. The following figures are taken from the account of a company : (15)

(Rupees in lakhs)

	31.3.2009	**31.3.2008**	**31.3.2007**
Gross fixed assets	3692	3370	3076
Cumulative depreciation	1050	1010	980
Capital work-in-progress	218	180	255
Investments in shares and Debentures	580	570	555
Inventories	500	465	410
Sundry debtors	265	255	235
Advances for purchase of			
Capital equipment	20	50	40
Other loans and advances	52	45	40
Other current assets	25	25	20
Sundry creditors	170	150	140
Provision for expenses	23	27	22
Net sales	3140	2570	2345
Depreciation	43	38	35
Interest	490	400	332
Profit before taxes	185	116	160

Compute the following ratios as defined in the Cost Audit Report Rules, 2001, for the year ended 31.3.2009 and 31.3.2008.

a. Profit as a percentage of capital employed

b. Profit as a percentage of net sales.

6. a) Why is Cost Audit Report not made public ? "Parliament members also cannot have access the Cost Audit Report". Is it true ? (7)

b) State the important aspects to be considered by the External auditor in the evaluation of Internal Audit Function. (8)

7. What information should be included in the report of a Cost Accountant ? (15)

PAPER 18

BUSINESS VALUATION MANAGEMENT

TEST PAPER — IV/18/BVM/2008/T-1

Time Allowed : 3 hours **Full Marks : 100**

(Answer Question No. 1 and any five Questions from the rest)

1. (a) A man has purchased for ₹ 3,47,000 a leasehold property which produces a net income of ₹ 30,000. The lease has 30 years to run. What sum should be placed annually in a sinking fund which will accumulate at 3.5% compound interest so that he can redeem his purchase money at the termination of his lease?

(b) What are the various adjustments that you will make to financial statements before valuation and why? (12+8)

2. (a) Why do Companies want to measure Intellectual Capital?

(b) Do you think Tobin's Q can be a useful measure of intellectual capital? If so, Explain the utilities of it. (8+8)

3. XYZ Ltd. is considering merger with ABC Ltd. Shares of ABC Ltd. is currently traded at ₹ 20. It has 2,50,000 shares outstanding and its earnings after taxes (EAT) amount to ₹ 500,000. ABC Ltd. Has 1,25,000 shares outstanding, its current market price is ₹ 10 and its EAT are ₹ 1,25,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. Has agreed to a plan under which XYZ Ltd. Will offer the current market value of ABC Ltd.'s shares :

(i) What is the pre-merger earnings per share (EPS) and P/E Ratios of both the Companies?

(ii) If ABC Ltd.'s P/E ratio is 6.4, what is its current market price? What is the exchange ratio? What will XYZ Ltd.'s post-merger EPS be?

(iii) What should be the exchange ratio, if XYZ Ltd.'s pre-merger & post–merger EPS are to be the same ! (16)

4. (a) What is meant by Economic Value Added (EVA)?

(b) What are the usage of EVA method? How EVA is related to valuation? (8+8)

5. (a) Explain the concept of efficient market hypothesis and its relevance to valuation.

(b) Differentiate between absolute & relative methods of valuation. (8+8)

6. (a) State the differences between Human capital, Structural Capital & Relational Capital.

(b) The following information is given:

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

(i) Find out the expected rate of return of the security.

(ii) If another security has an expected return of 20%, what should be its beta? (6+10)

7. (a) Explain the real options basis of valuation of intellectual capital with an example.

(b) How is valuation of real estates different from other assets? Explain. (8+8)

8. (a) What do you understand by "Comparable companies approach" to valuation?

(b) In the context of Restructuring, what do you mean by 'Financial Engineering'? (8+8)

PAPER 18

BUSINESS VALUATION MANAGEMENT

TEST PAPER — IV/18/BVM/2008/T-2

Time Allowed : 3 hours **Full Marks : 100**

(Answer Question No. 1 and any five Questions from the rest)

1. How is value different from cost & price? What are the value drivers? What do you mean by relative valuation? (20)

2. (a) How will you determine the discount factor in an Merger & Amalgamation deal valuation, under the Discounted Cash Flow (DCF) method?

(b) Canon (I) Ltd., is foreseeing a growth rate of 12% p.a. in the next two years. The growth rate is likely to fall to 10% for the third year and the fourth year. After that the growth rate is expected to stabilize at 8% p.a.. If the last dividend was ₹ 1.50 per share and the investor's required rate of return is 16%, determine the current value of its equity share. The PV factors at 16% are :

Year	**1**	**2**	**3**	**4**
P.V.Factor	0.862	0.743	0.641	0.552

(8+8)

3. (a) What are the take-over defenses available for the target company? What do you mean by Balanced Score Card?

(b) The following data relate to particular stock item:

Normal Usage	110 units per day
Minimum Usage	50 units per day
Maximum Usage	140 units per day
Lead Time	25-30 days
EOQ previously calculated	5000 units

Using the above data, calculate stock levels (6+10)

4. (a) Calculate EVA with the help of the following information of i-Flex Ltd.:

Financial Leverage	:		1.4 times
Capital Structure	:	Equity Capital	₹ 170 Lakhs
Reserve & Surplus		₹ 130 Lakhs	
10% Debentures		₹ 400 Lakhs	
Cost of Equity	:	17.5%	
Income Tax Rate	:	30%	

(b) How is Human Resource Accounting related to human capital valuation? (10+6)

5. (a) Explain Skandia Navigator Methodology.

(b) What do you mean by performance prism?

(c) How will you develop an intangible asset score sheet? (5+5+6)

6. Firm A is planning to acquire Firm B. The relevant financial details of the two firms prior to merger announcement are as follows :

Particulars	**Firm A**	**Firm B**
Market price per share (₹)	75	30
Number of Shares	10,00,000	5,00,000
Market value of the firm (₹)	7,50,00,000	1,50,00,000

The merger is expected to bring gains which have present value of ₹ 1.50 crore. Firm A offers 2,50,000 shares in exchange for 5 lakh shares to the shareholders of Firm B.

You are required to calculate:

(i) True cost of Firm A for acquiring Firm B, &

(ii) Net present value of the merger to Firm B. (16)

7. (a) Discuss in detail the various multiples used in relative valuation method.

(b) Select any company of your choice and work out the value of the company using various approaches. (8+8)

8. Write in brief (any two) :

(a) Intangible Asset Monitor,

(b) Human Resource Accounting,

(c) Efficient Market Hypothesis. (8+8)