REVISED SYLLABUS 2012

TEST PAPERS

Final

Group III

QUESTION PAPERS FOR POSTAL STUDENTS ONLY

(FOR JUNE/DECEMBER 2014)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

BOARD OF STUDIES

P13 - Corporate Laws & Compliance

Test Paper—III/13/CLC/2012/T-1

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

Section A-Corporate Laws (75 Marks)

Question 1

(a) What is Right Share? Discuss the procedure for issue of Right Shares. **[1+7=8]**

(b) Discuss the provisions for resignation and removal of the Chairperson of the Appellate Tribunal as per The Indian Electricity Act, 1910. **[2]**

(c) Who cannot be appointed as Cost Auditors? What are the additional disqualifications notified by ICAI regarding cost auditor? **[3+2=5]**

Question 2

(a) The Board of Directors of M/s Aditya Consultants Limited, registered in Kolkata, proposes to hold the next board meeting in the month of May, 2012. They seek, your advice in respect of the following matters:
  (i) Can the board meeting be held in Chennai, when all the directors of the company reside at Kolkata.
  (ii) Whether the board meeting can be called on a public holiday and that too after business hours as the majority of the directors of the company have gone to Chennai on vacation.
  (iii) Is it necessary that the notice of the board meeting should specify the nature of business to be transacted?

  Advise with reference to the relevant provisions of the Companies Act. **[2+2+2=6]**

(b) Briefly discuss the provisions of the Competition Act, 2002 relating to: **[2+2=4]**
  (i) Power of Central Government to exempt.
  (ii) Restriction on disclosure of information.

(c) What do you understand by the term "Price Sensitive Information" as contemplated in the Securities and Exchange Board of India Act, 1992 ? What is the information which can be deemed to be "Price Sensitive Information". **[1+4=5]**

Question 3.

(a) Distinguish between Members' voluntary winding up & creditors' voluntary winding up. **[5]**

(b) M/s Info-tech Overtrading Ltd. was ordered to be wound up compulsorily by an order dated 15th October, 2012 of the Delhi High Court. The official liquidator who has taken control of the assets and other records of the company has noticed the following:

  (i) The Managing Director of the company has sold certain properties belonging to the company to a private company in which his son was interested causing loss to the company to the extent of ₹ 50 lakhs. The sale took place on 10th May, 2012.

  (ii) The company created a floating charge on 1st January, 2012 in favour of a private bank for the overdraft facility to the extent of ₹ 5 crores, by hypothecating the current assets viz., stocks and book debts.

  Examine what action the official liquidator can take in this matter having regard to the provisions of the Companies Act, 1956. **[2+3=5]**

(c) State the Cash Reserve which is required to be maintained by banks as per The Banking Regulation Act, 1949 **[2]**

(d) There are eight shareholders in M/s Supriya Private Ltd. Mr. Ram who is holding less than one-tenth of the Share Capital of the company seeks your advice whether he can apply to the Company Law Board for relief against Oppression and Mismanagement. Advice**[3]**

Question 4.

(a) What is Demerger? Explain the conditions for Demerger. **[2+4=6]**

(b) What provision has been made under Section 15G of the SEBI Act, 1992 in connection with penalty for insider trading? **[3]**

(c) Explain the meaning of the term "Current Account Transaction" and the right of a citizen to obtain Foreign Exchange under the Foreign Exchange Management Act, 1999. **[3]**

(d) What are the Duties of Transmission licensees as per the Indian Electricity Act, 1910. **[3]**

Question 5.

(a) Sunrise Company Limited was merged with Moonlight Company Limited on account of amalgamation. Some workers of sunrise Company Limited refused to join as workers of Moonlight Company Limited and claimed compensation on the ground of premature termination of their services. Moonlight Company Limited resists the claim of the workers on the ground that their services have been transferred to Moonlight Company Limited in view of the order of amalgamation and merger and hence the workers must join the service of Moonlight Company Limited and cannot claim any compensation.
State the powers of the court about the matters that would be considered while sanctioning the scheme of amalgamation under the provisions of the Companies Act, 1956. Decide whether the contention of the workers is justified. **[4]**

(b) State as per The Insurance Act, 1938: **[5]**
   (i) Provision for securing compliance with requirements relating to capital structure.
   (ii) Particulars to be filled by insurers established outside India.

(c) Examine with reference to the relevant provisions to the Competition Act, 2002 whether a person purchasing goods not for personal use, but for resale can be considered as a 'consumer'. **[3]**

(d) The Board of Directors of M/s Greenfield Projects Limited, a company whose shares are listed on the Delhi Stock Exchange propose to give loans to a sister company in excess of the limit prescribed under Section 372A(1) of the Companies Act, 1956. The next annual general meeting of the company is due only after six months. Since the board is anxious to complete the formalities quickly without waiting for the date of next annual general meeting, advise the Board about the steps to be taken to comply with the legal requirements under the Companies Act, 1956. **[3]**

Part B-Corporate Governance and Responsibilities (25 Marks)

Question 6.

(a) What is corporate governance? State the recommendations of Kumar Mangalam Committee Report on Corporate Governance in India. **[2+8=10]**

(b) State the OECD Guidelines for Corporate Governance of State-owned Enterprises. **[5]**

Question 7.

(a) What is Whole life cycle costing? What are the data requirements in whole life-cycle costing and risk assessment? **[3+4=7]**

(b) Mention the core Elements that a CSR Policy should normally cover. **[3]**

Test Paper—III/13/CLC/2012/T-2

Section A-Corporate Laws (75 Marks)

Question 1.

(a) Define LLP and state the advantages of having a LLP. **[2+4=6]**

(b) Role of Audit committee as per clause 49. **[5]**

(c) Aakash Ltd. issued Convertible Debentures during the financial year 2011-12. Now it wants to alter the terms of redemption. Is it permissible under the provision of SEBI Regulations? **[2]**

(d) Mr. Mani was appointed as director of the company in an annual general meeting. He took over the office and carried on his functions as director. Subsequently, it was found that there were some irregularities in voting and hence the appointment was declared invalid. Would the acts done by Mr. Mani, while in office as director, be binding upon the company? **[2]**

Question 2.

(a) The Official Liquidator of a public company in liquidation instituted misfeasance proceedings against the Managing Director of the Company. During the pendency of the proceedings, the Managing Director passed away.
What is meant by misfeasance? Can the legal representatives of the Managing Director be impleaded and the proceedings continued against him? **[1+3=4]**

(b) What is money laundering and what is the punishment given for it? **[2+3=5]**

(c) No dividend can be paid by a company except out of profits". Comment **[4]**

(d) SEBI is of the opinion that in the interest of investors it is desirable to amend the rules of ABC Stock Exchange prohibiting the appointment of the broker-member as President of the stock exchange. Explain with reference to the provisions of the Securities Contracts (Regulation) Act, 1956 whether it is possible for SEBI to amend the rules of the Stock Exchange, if the rules are not amended by the stock exchange. **[2]**

Question 3.

(a) State the reasons for passing the Competition Act, 2002. What are its powers? **[3+5=8]**

(b) Can a company pay compensation to its directors for loss of office? Explain briefly the relevant provisions of the Companies Act, 1956 in this regard? **[2]**

(c) Difference between Amalgamation and Reconstruction. **[5]**

Question 4.

(a) Explain as per The Indian Electricity Act, 1910: **[2.5x2=5]**
   (i) National Electricity policy and plan
   (ii) Hydro- electric generation

(b) Referring to the provision of the Companies Act, 1956, as contained in section 397 of the Act, examine whether the following acts of the company amount to oppression?
   (i) Allotment of shares by the directors of the company by which the existing majority is reduced to minority.
   (ii) Allotment of shares by the directors by which the existing minority shareholders are made to majority? **[2+2=4]**

(c) Mrs. Kochhar is a Director in 14 public limited companies on 30th November, 2012. This apart, she is an alternate director in another public limited company. The following particulars are made available to you, relating to her appointment as Director in various companies in annual general meetings (AGM) held:

Name of Company	Date of AGM
Daya Organics Ltd.	1st December, 2012
Vimala Plastics Ltd.	29th November, 2012
Balaji Association (a company registered under section 25 of the Companies Act, 1956)	30th November, 2012

Based on the provisions of the Companies Act, 1956, you are required to advise Mrs. Kochhar, as to the options available to her for accepting or refusing the aforesaid appointment. **[4]**

(d) The Official Liquidator of the Bobby Limited (in liquidation) has realised ₹50 lakhs by selling the land owned by the company. The company owes ₹1 crore to its bankers towards a loan secured by the company's land and factory buildings. The bank has claimed that the amount realised by sale of land must be paid in full to it in preference to the 'workmen' dues' to the extent of ₹25 lakhs. Examine the bank's claim with reference to the relevant provisions of the Companies Act, 1956. **[2]**

Question 5.

(a) Amalgamation and transfer of insurance business as per The Insurance Act, 1938. **[5]**

(b) ABC Ltd. is a listed company having a shareholders fund of ₹60 crore of which ₹24 crore is general reserves, desires to make a loan of ₹10 crore to XY Ltd. ABC Ltd., holds 60% of the equity shares in XY Ltd. ABC Ltd. has already made investments in and given loans to other companies aggregating to ₹30 crore. ABC Ltd., has not committed any default in respect of institutional loans or in repayment of fixed deposits. Advise the managing director of the steps to be taken to implement the decision. Would your answer be different if MN Ltd., is ABC Ltd.'s wholly owned subsidiary? **[2+2=4]**

(c) Explain the circumstances under which a Director retiring at an annual general meeting shall be deemed to have been re-appointed even though no such appointment has been made. **[2]**

(d) Short note on: **[2+2=4]**
  (i) Conglomerate merger
  (ii) Horizontal merger

Part B-Corporate Governance and Responsibilities (25 Marks)

Question 6.

Write a note on:

(a) Corporate governance in family business. **[6]**
(b) Cadbury Report **[2]**
(c) Hampel Report **[2]**

Question 7.

(a) What is Corporate Social Responsibility (CSR)? **[4]**

(b) Corporate Social Responsibility is not charity- Evaluate the statement. **[6]**

(c) Why risk assessment is needed in whole life costing? **[5]**

P14 - Advanced Financial Management

Test Paper—III/14/AFM/2012/T-1

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

Section A – Financial Markets and Institutions [30 marks]

Question 1

(a) What are the key elements of a well functioning financial system? **[3]**

(b) What are the differences between:

(i) Merchant Banks and Commercial Banks

(ii) Banks and NBFC's

(iii) 'Hard' and 'soft' infrastructure

[2+2+3=7]

Question 2

(a) What are the duties and obligations of an asset management company (AMC) with reference to management of mutual fund scheme? **[4]**

(b) Mr. Karan can earn a return of 16 per cent by investing in equity shares on his own. Now he is considering a recently announced equity based mutual fund scheme in which initial expenses are 6.7 per cent and annual recurring expenses are 1.7 per cent. How much should the mutual fund earn to provide Mr. Karan a return of 16 per cent? **[3]**

(c) The unit price of RSS Scheme of a mutual fund is ₹10. The public offer price (pop of the unit is ₹10.204 and the redemption price is ₹ 9.80. calculate (i) front-end load, and (ii) Back-end load. **[3]**

Question 3

(a) What are the features of National level commodity Exchange? **[3]**

(b) What makes commodity trading attractive? **[3]**

(c) What are the sources of infrastructure investment in India? **[4]**

Section B – Financial Risk Management [25 marks]

Question 4

(a) What are the needs for setting up a depository in India? **[2]**

(b) Define credit risk and mention types of credit risk. **[3]**

(c) M company LTD and Y Company Ltd both wish to raise US 40M dollar's loan five years. X company ltd has the choice of issuing fixed rate debt at 7.50% or floating rater debt at Libor + 25 basis points. On the other, Y company Ltd, which has a lower credit rating, can issue fixed rate debt of the same maturity at 8045% or floating rate at LIBOR + 37 basis points. X Company Ltd prefers to issue floating rate debt with a lower coupon. City bank is in the process of arranging an interest rate swap between these two companies.

X company ltd negotiates to pay the bank a floating rate of LIBOR flat while the Bank agrees to pay X company Ltd a fixed rate of 7.60%. Y Company Ltd agrees to pay the bank a fixed rate of 7.75% while the bank pays Y company Ltd a floating rate of LIBOR flat.

Requires:
(i) With a schematic diagram, show how the swap deal can be structured.
(ii) What are interests saving by each Company?
(iii) How much would City bank receive? **[4+5+1=10]**

Question 5
(a) Write down the criticism of purchasing power parity (PPP) theory. **[4]**

(b) The following rates appear in the foreign exchange market: **[1+1+1+1 =4]**

Re/1US $	Spot Rate	2 month forward
	₹48.80/49.05	₹49.5/50.00

(i) How many dollars should a firm sell to get ₹49.50 million after 2 months?
(ii) How many rupees is the firm required to pay to obtain US $ 200000 in the spot market?
(iii) Assume the firm has US $ 50000. How many rupees does the firm obtain in exchange for the US $?
(iv) Are forward rates at premium or discount? Determine the percentages also?

(c) On 1st April, 3 month interest rate in the US and Germany are 6.5% and 4.5% per annum respectively. The $/DM spot rate is 0.6560. What would be the forward rate for DM for delivery on 30th June? **[2]**

Section C – Security Analysis and Portfolio Management [20 marks]

Question 6
(a) What is Bollinger Bands? What are its features? **[5]**

(b) What is the difference between security market line and capital market line? **[3]**

(c) What is Du Pont model? **[2]**

Question 7
(a) Five Star Ltd., has been specially formed to undertake two investment opportunities. The risk and return characteristics of the two projects are shown below:

Project	P	Q
Expected return	16%	22%
Risk	3%	7%

Five Star plans to invest 80% of its available funds in project P and 20% in Q. The directors believe that the correlation co-efficient between the returns of the projects is +1.0.
Required—
(i) Calculate the returns from the proposed portfolio of Projects P and Q.
(ii) Calculate the risk of the portfolio;
(iii) Suppose the correlation coefficient between P and Q was -1. How should the company invest its funds in order to obtain zero risk portfolios? **[1+2+2=5]**

(b) The rates of return on the Security of Company A and Market portfolio for 10 periods are given below:

Period	Return of Security A (%)	Return on Market portfolio (%)

1	18	23
2	20	20
3	24	18
4	26	16
5	18	20
6	-5	8
7	17	-6
8	19	5
9	-7	6
10	20	12

(i) What is the beta of Security A?
(ii) What is the characteristic line for security A? **[2+3 = 5]**

Section D – Investment Decisions [25 marks]

Question 8

(a) A company is considering two mutually exclusive projects X and Y. Project X costs ₹3,00,000 and Project Y ₹3,60,000. You have been given below the net present value, probability distribution for each project:

Project X		Project Y	
NPV Estimate	**Probability**	**NPV Estimate**	**Probability**
₹		₹	
30,000	0.1	30,000	0.2
60,000	0.4	60,000	0.3
1,20,000	0.4	1,20,000	0.3
1,50,000	0.1	1,50,000	0.2

(i) Compute the expected net present value of Projects X and Y.
(ii) Compute the risk attached to each project i.e., Standard Deviation of each probability distribution.
(iii) Which project do you consider more risky and why?
(iv) Compute the profitability index of each project. **[2+1+1+1 = 5]**

(b) Determine the risk adjusted net present value of the following projects:

	A	B	C
Net cash outlays (₹)	1,00,000	1,20,000	2,10,000
Project life	5 years	5 years	5 years
Annual cash inflow (₹)	30,000	42,000	70,000
Coefficient of variation	0.4	0.8	1.2

The company selects the risk-adjusted rate of discount on the basis of the co-efficient of variation:

Coefficient of variation	Risk adjusted rate of discount	Present value factor 1 to 5 years at risk adjusted rate of discount
0.0	10%	3.791
0.4	12%	3.605

0.8	14%	3.433
1.2	16%	3.274
1.6	18%	3.127
2.0	22%	2.864
More than 2.0	25%	2.689

[5]

Question 9

(a) Define Venture capital Financing. Explain methods of venture capital financing. **[4]**

(b) The following is an extract from the Financial Statements of KPN Ltd. (in ₹ Lakhs)

Operating Profit	115
Less: Interest on Debentures	33
Net Operating Income before Tax	82
Less: Income Tax	36
Net Profit after Tax	46
Equity Share Capital (Shares of ₹ 10 each)	200
Reserves and Surplus	100
15% Non-Convertible Debentures (of ₹ 100 each)	220
Total	520

Market Price per Equity Share is ₹12 and per Debenture is ₹ 93.75

Required :

(i) What is the Earnings per Share?

(ii) What is the percentage cost of capital to the Company for the Debenture Funds and the Equity? **[2+2=4]**

Question 10

A company manufactures 30 items per day. The sale of these items depends upon demand which has the following distribution:

Sales (units)	27	28	29	30	31	32
Probability	0.10	0.15	0.20	0.35	0.15	0.05

The production cost and sale price of each unit are ₹40 and ₹50 respectively. Any unsold product is to be disposed off at a loss of ₹15 per unit. These are penalty of ₹5 per unit if the demand is the demand is not met.

Using the following random numbers estimate total/loss for the company for next 10days: 10,99,65,99,95,01,79,11,16,20

If the company decides to produce 29 items per day, what is the advantage to the company? **[7]**

P14 - Advanced Financial Management

Test Paper—III/14/AFM/2012/T-2

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

Section A – Financial Markets and Institutions [30 marks]

Question 1

(a) What are the types/categories of NBFC's registered with RBI?

(b) A Mutual Fund made an issue of ₹10,00,000 units of ₹10 each on 01.01.2012. No entry load was charged. It made the following investments:

Particulars	₹
50,000 Equity Shares of ₹100 each @ ₹160	80,00,000
7% Government Securities	8,00,000
9% Debentures (Unlisted)	5,00,000
10% Debentures (Listed)	5,00,000
	98,00,000

During the year, dividends of ₹12,00,000 were received on equity shares. Interest on all types of debt securities was received as and when due. At the end of the year equity shares and 10% debentures are quoted at 175% and 90% respectively. Other investments are quoted at par.

Find out the Net Asset Value (NAV) per unit given that the operating expenses during the year amounted to ₹5,00,000. Also find out the NAV, if the Mutual Fund had distributed a dividend of Re.0.90 per unit during the year to the unit holders.

(c) What are the difference between commodity future &financial future? **[5+5+5 = 15]**

Question 2

(a) What is Wholesale price Index (WPI). What are the difference between the primary market and secondary market?

(b) Ram invested in a Mutual Fund when the Net Asset Value was ₹12.65. 60 Days later the Asset Value per unit of the fund was ₹12.25. In the meantime, Ram had received a cash dividend of Re.0.50 and a Capital Gain distribution of Re.0.30. Compute the monthly return.

(c) What is commercial paper? Explain the silent features of commercial paper?

[5+5+5 = 15]

Section B – Financial Risk Management [25 marks]

Question 3

(a) What do you mean by Prepayment Risk?

(b) Write the name of five credit rating agencies registered with the SEBI.

(c) Determine the value of option, both call and put, on expiry for the stock of Nirmal Spice Foods (NSF) Ltd. from the following information :-

- Exercise Price - ₹510
- Spot Price on Exercise Date Ranges between ₹495 and ₹525, with interval of ₹5.

Also state what will be the action on the above range of prices for both the options?

[3+4+4+4 = 15]

Question 4

(a) What are the benefits of international Portfolio Investment?

(b) Chandan Pharma Ltd, an American Company, is evaluating an overseas investment in an East Asian Country, where the currency EA. The initial investment for the project is EA 250 Millions. The project cash flows are as follows -

Years	1	2	3	4
Cash Flows (EA Millions)	75	95	125	135

The following additional information is available —

(i) Inflation Rate in the East Asian Country is 4%.

(ii) Risk free interest rate in US is 10% whereas; in East Asian country is 8%. Both US and East Asian Country have identical real rate of interest. No change in real rate of interest expected during the life of the project.

(iii) Current spot rate is USD 1 = EA 4

(iv) The desired return on the project is 16% in USD terms.

Calculate NPV by discounting annual cash flows in — (a) US Dollars; and (b) EA

[4+3+3 = 10]

Section C – Security Analysis and Portfolio Management [20 marks]

Question 5

(a) Define the different types of risk.

(b) What are the type and objectives of portfolio Management?

(c) The Following data relating to two stocks L and M are made available to you:

Year	**Returns on L (%)**	**Returns on M (%)**
2011	12	14
2012	15	19

From the above, you are required to compute:

(i) Standard deviation of the return from stocks L and M;

(ii) Co-variance of returns from the two stocks;

(iii) Correlation coefficient between the returns of the two stocks L and M;

(iv) Expected return of a portfolio comprising of 30% of L and 70% of M; and

(v) Risk of a portfolio consisting of L and M in the same proportion.

[4+6+(2 x 5) = 20]

Section D – Investment Decisions [25 marks]

Attempt any one from Question No 6 and Question No 7

Question 6

(a) Write short notes on (any two) **[4+4 = 8]**

(i) Effects of Inflation on cash Flows

(ii) Effects of Inflation on Discount Rate

(iii) Decision Tree Analysis

(b) Green Builders has been approached by a foreign embassy to build for it a block of six flats to be used as guest houses. As per the terms of the contract, the foreign embassy would provide Green Builders the plans and the land costing ₹ 25 lakhs. Green Builders would build the flats at their own cost and lease them to the foreign embassy for 15 years. At the end of which the flats will be transferred to the foreign embassy for a nominal value of ₹ 8 laks. Green Builders estimated the cost of constructions as follows:

Area per flat, 1,000 sq. Feet; Construction cost, ₹ 400 per sq. feet; Registration and other costs, 2.5 percent of cost of construction; Green Builders will also incur ₹ 4 lakhs each in years 14 and 15 towards repairs.

Green Builders proposes to change the lease rentals as follows:

Years	Rentals
1-5	Normal
6-10	120 percent of normal
11-15	150 percent of normal

Green Builders present tax rate averages at 35 percent which is likely to be the same in future. The full cost of construction and registration will be written off over 15 years at a uniform rate and will be allowed for tax purposes.

You are required to calculate the normal lease rental per annum per flat. For your exercise you may assume: (a) Minimum desired return of 10 percent, (b) Rentals and repairs will arise on the last day of the year, and , (c) Construction, registration and other costs will be incurred at time=0. **[7]**

Question 7

(a) Explain Emerging issues in outward FDI. **[7]**

(b) The total market value of the equity share of a Company is ₹ 80,00,000 and the total value of the debt is ₹ 60,00,000. The treasurer estimate that the beta of the stock is currently 1.5 and that the expected risk premium on the market is 12 per cent. The treasury bill rate is 8 per cent.

Required:

(i) What is the beta of the Company's existing portfolio of assets?

(ii) Estimate the Company's Cost of capital and the discount rate for an expansion of the company's present business. **[2+2=4]**

(c) The Textile Manufacturing Company Ltd., is considering one of two mutually exclusive proposals, Projects M and N, which require cash outlays of ₹ 8,40,000 and ₹ 8,75,000 respectively. The certainty-equivalent (C.E) approach is used in incorporating risk in capital budgeting decisions. The current yield on government bonds is 7% and this is used as the risk free rate. The expected net cash flows and their certainty equivalents are as follows:

Year-end	Project M		Project N	
	Cash Flow ₹	C.E.	Cash Flow ₹	C.E.
1	4,50,000	0.8	4,50,000	0.9
2	5,00,000	0.7	4,50,000	0.8
3	5,00,000	0.5	5,00,000	0.7

Present value factors of Re. 1 discounted at 7% at the end of year 1, 2 and 3 are 0.9346, 0.8734 and 0.8163 respectively. Which the project should be accepted?

[4]

Question 8
(a) What are the difference between Factoring and securitization?

(b) Khan Ltd. Issued 10,000, 10% Debentures of ₹ 100 each, redeemable in 10 years time at 10% premium. The cost of issue was ₹25,000. The Company's Income Tax Rate is 35%. Determine the cost of debentures if they were issued (a) at par (b) at premium of 10% and (c) at a discount of 10%. **[5+5 = 10]**

P 15 – Business Strategy and Strategic Cost Management

Test Paper- III/15/BSCM/2012/T-1

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

Section A – Business Strategy [50 marks]

Question 1
From the four alternatives given against each of the following cases, indicate the correct answer. (just state A, B, C or D) **[1 x 5 =5]**

(i) A firm can effectively use its operations function to yield competitive advantage via all of the following except
A. Customization of the product
B. Set equipment utilization goals below the industry average
C. Speed of delivery
D. Constant innovation of new products

(ii) Which of the following statements is not true when describing a successful strategy?
A. It provides some property that is unique or distinctive
B. It provides the means for renewing competitive advantage
C. It addresses changes in the external environment
D. It guarantees long term survival

(iii) Two reasons for mergers and acquisitions are
A. To increase managerial staff and to minimize economies of scale
B. To reduce tax obligations and increase managerial staff
C. To create seasonal trends in sales and to make better use of a new sales force
D. To provide improved capacity utilization and to gain new technology

(iv) Which strategy would be effective when the new products have a counter cyclical sales pattern compared to an organization's present products ?
A. Forward integration
B. Retrenchment
C. Horizontal Diversification
D. Market Penetration

(v) The means by which long term objectives will be achieved are
A. Mission statements
B. Strategies
C. Visions statements
D. Long-term goals

Question 2
a) Consider Porter's Generic Strategies. In your opinion, how cost - based advantages can be sustained? Give Example to support your argument. [**5**]
b) The competitive (positioning) and competence (resource-based) views are two dominant theoretical perspectives in strategic management. Compare and contrast these two perspectives. Give example to support your arguments. **[4]**

Question 3

Strategic alliance and acquisitions are two different methods of strategic development. Compare and contrast the motives of these two development methods. Discuss factors that can influence the success of strategic alliances/ acquisition. **[9]**

Question 4

Strategy is developed at different levels in large organisations. The process starts with the corporate strategy which is then translated into the strategy for the business divisions and business functions.

Required:

(a) Explain what the corporate strategy of a multi-business organisation is typically concerned with. **[5]**

(b)Describe the important role that the corporate level strategy has in relation to the development of the business and functional strategy in a multi-business organization **[4]**

Question 5

Dr. Mohan inherited his father's Mathur's Lab in Gujrat in 2005. Till 2012, he owned 4 labs in. His ambition was to turn it into a National chain. The number increased to 7 in 2013 across the country, including the acquisition of Platinum lab in Mumbai. The number is likely to go to 50 within 2-3 years from 21 at present. Infusion of ₹ 50 crores for a 26% stake by Pharma Capital has its growth strategy.

The lab with a revenue of ₹ 80 crores is among top three Pathological labs in India with Atlantic (₹ 75 crores) and Pacific (₹ 60 crores). Yet its market share is only 2% of ₹ 5,000 crores market. The top 3 firms command only 8% as against 40-45% by their counterparts in the USA.

There are about 20,000 to 1,00,000 stand alone labs engaged in routine pathological business in India, with no system of mandatory licensing and registration. That is why Dr. Mohan has not gone for acquisition or joint ventures. He does not find many existing laboratories meeting quality standards. His ten labs have been accredited nationally whereon many large hospitals have not thought of accreditation; The College of American pathologists accreditation of Mathur's lab would help it to reach clients outside India.

In Mathur's Lab, the bio-chemistry and blood testing equipments are sanitised every day. The bar coding and automated registration of patients do not allow any identity mix-ups. Even routine tests are conducted with highly sophisticated systems. Technical expertise enables them to carry out 1650 variety of tests. Same day reports are available for samples reaching by 3 p.m. and by 7 a.m. next day for samples from 500 collection centres located across the country. Their technicians work round the clock, unlike competitors. Home services for collection and reporting is also available.

There is a huge unutilised capacity. Now it is trying to top other segments. 20% of its total business comes through its main laboratory which acts as a reference lab for many leading hospitals. New mega labs are being built to Encash preclinical and multi-centre clinical trials within India and provide postgraduate training to the pathologists.

Required :

(i) What do you understand by the term Vision? What is the difference between 'Vision' and 'Mission'? What vision Dr. Mohan had at the time of inheritance of Mathur's Lab? Has it been achieved? **[1 + 1 + 1 + 1]**

(ii) For growth what business strategy has been adopted by Dr. Mohan? **[2]**

(iii) What is the marketing strategy of Dr. Mohan to overtake its competitors? **[2]**

(iv) In your opinion what could be the biggest weakness in Dr. Mohan's business strategy? **[2]**

Question 6

Lotus is one of the leading detergent manufacturing companies. The firm has more than twenty-five product types. These have been developed over a period of its ten year existence. Some products are very successful while others have not performed well. The challenge for the board has been the formulation of strategy policy in the way the company manages the portfolio of products.

As a newly recruited Cost Accountant, your advice is being sought to address the following questions the Product manager has prepared as input into his paper to the Board.

a) Describe the Boston Consulting Group (BCG) growth vector matrix. **[4]**
b) Explain what strategic options are available to Hassan in accordance to the BCG Matrix. **[5]**

Section B – Strategic Cost Management [50 marks]

Question 7

(a) Honey Ltd. initiated a quality improvement program at the beginning of the year. Efforts were made to reduce the number of defective units produced. By the end of the year, reports from the production manager revealed that scrap and rework had both decreased. Though pleased with success, the CEO of the company wanted some assessment of the financial impact of the improvements. To make this assessment, the following financial data were collected for the current and preceding year:

Particulars	**2011-12 (₹)**	**2012-13 (₹)**
Sales	10,00,00,000	10,00,00,000
Scrap	4,00,000	3,00,000
Rework	6,00,000	4,00,000
Product inspection	1,00,000	1,25,000
Product warranty	8,00,000	6,00,000
Quality training	40,000	80,000
Material inspection	60,000	40,000

You are required to —

(i) Classify the cost as prevention, appraisal, internal failure, or external failure.
(ii) Compute the profit that has increased because of quality improvements? **[3+2]**

Or

Explain about the new seven tools of quality in details? **[5]**

(b) What is Benchmarking? What are the benefits of Benchmarking? How does it work? **[5]**

Question 8

(a) H Ltd. has decided to adopt JIT policy for materials. The following effects of JIT policy are identified-

i. To implement JIT, the company has to modify its production and material receipt facilities at a capital cost of ₹10,00,000. The new machine will require a cash operating cost ₹1,08,000 p.a. The capital cost will be depreciated over 5 years.
ii. Raw material stockholding will be reduced from ₹40,00,000 to ₹10,00,000.

iii. The company can earn 15% on its long-term investments.

iv. The company can avoid rental expenditure on storage facilities amounting to ₹33,000 per annum. Property Taxes and insurance amounting to ₹22,000 will be saved due to JIT programme.

v. Presently there are 7 workers in the store department at a salary of ₹5,000 each per month. After implementing JIT scheme, only 5 workers will be required in this department. Balance 2 workers' employment will be terminated.

vi. Due to receipt of smaller lots of Raw Materials, there will be some disruption of production. The costs of stock-outs are estimated at ₹77,000 per annum.

Determine the financial impact of the JIT policy. Is it advisable for the company to implement JIT system? **[5+2]**

(b) An agriculturist firm has 480 hectares of land on which he grows potatoes, tomatoes, Cabbage and carrots. Out of the total area of land, 340 hectares are suitable for all the four vegetables but the remaining 140 hectares of land are suitable only for growing Cabbage and carrots. Labour for all kinds of farm work is available in plenty.

The market requirement is that all the four types of vegetables must be produced with a minimum of 5,000 boxes of any one variety. The farmer has decided that the area devoted to any crop should be in terms of complete hectares and not in fractions of a hectare. The only other limitation is that not more than 1,13,750 boxes of any one vegetable should be produced.

The relevant data concerning production, market prices and costs are as under:

	Potatoes	Cabbage	Carrots	Tomatoes
Annual yield :				
Boxes per hectare	350	100	70	180
	₹	₹	₹	₹
Costs :				
Direct Material per hectare	952	432	384	624
Direct Labour :				
Growing per hectare	1792	1216	744	1056
Harvesting and Packing per box	7.20	6.56	8.80	10.40
Transport per box	10.40	10.40	8.00	19.20
Market price per box	30.76	31.74	36.80	44.55

Fixed expenses per annum :	₹
Growing	1,24,000
Harvesting	75,000
Transport	75,000
General Administration	1,50,000

It is possible to make the land presently suitable for Cabbage and carrots, variable for growing potatoes and tomatoes if certain land development work is undertaken. This work will involve a capital expenditure of ₹ 6,000 per hectare which a Bank is prepared to finance at the rate of interest of 15% p.a. If such improvement is undertaken, the harvesting cost of the entire crop of tomatoes will decrease on an average by ₹ 2.60 per box.

Required:

i. Calculate, within the given constraints, the area to be cultivated in respect of each crop to achieve the largest total profit and the amount of such total profit before land development work is undertaken.
ii. Assuming that the other constraints continue, advise the grower whether the land development scheme should be undertaken and if so the maximum total profit that would be achieved after the said development schemes is undertaken **[4+4]**

Or

A company makes four products in a joint process. Each of these products can be sold as it emerges from the joint process or can be processed further for eventual sale at a higher price. The company has a plan to process 2,00,000 kg of basic raw material during the next year and it has adequate machine capacity available for fully processing this input further.

The initial processing cost of each batch of 500 kgs of input is ₹ 600 and the cost of raw materials is ₹ 4 per kg. The output per batch and the selling price at split off state are as under:

Product	Out per batch of 500 kg of input	Selling Price per kg of output (₹/kg)
P	200	8
Q	150	4
R	100	10
S	50	2

The details of resources used and variable costs incurred in processing these products further and the selling price per kg of the final output are as under:

Product	Machine (hours/kg.)	Direct labour (hours/kg.) (₹)	Direct labour hour Rate per hour	Variable overheads per kg. (₹)	Selling price (₹/kg.)
P	2	1	6	4	20
Q	6	1	6	2	16
R	4	5	6	3	51
S	2	2	6	2	15

Fixed overheads of further processing amounts to ₹ 6,70,000 per annum.

Required:

i. Advice which of the products should be subjected to further processing. Show the calculations.
ii. The company's policy is to apportion the joint costs on the basis of the sales values less further processing costs. The fixed further processing cost can be apportioned to the products processed further either on the basis of (a) machine hours or (b) directs labour hours. Present a statement showing product wise profitability of the year based on each of the aforesaid two bases.
iii. What should in your opinion be the proper basis for the apportionment of the joint costs of this type of problem? **[2+3+3]**

Question 9

(a) A company has developed two types pocket T.V. sets operated on battery and having liquid crystal display. Model 'Simplax' is having single channel and model 'Delux' is having multi-channels. The management of the company asked their accountant to recommend prices for these new products which will fetch a margin of 20% on selling price. The accountant has collected following data for 1st year of production.

	Simplax	Delux
(1)Maximum Production and Sale/units	2,500	1,500
(2)Variable Cost per unit ₹:		
Direct Materials	300.00	500.00
Direct Labour	100.00	200.00
(3)Attributable fixed overheads ₹ lakh	2.50	3.00
(4)Labour Hours per units	20.00	40.00
(5)Machine Hours per unit	30.00	15.00

The marketing department is contemplating to sell the entire output produced during the year. The other common fixed overheads relating to these products are ₹8.58 lakhs p.a. The management wants to have a statement of costs, revenue and profit for both the products. The accountant, accordingly prepared two statements, one with common fixed costs absorbed on labour hour basis and another with common fixed costs absorbed on machine hour basis. However, he is not able to decide as to which one is correct for deciding price of the products.

Required:

i. Present the statement showing annual costs, revenue and profit for each product using both the bases that were used by the accountant for absorbing common fixed overheads.
ii. Which set of prices would you recommend?
iii. Do you think that cost plus pricing decision is valid for a newly developed product? **[3+2+2]**

Or

A Company manufactures a product, particulars of which are detailed below:

Annual production	2,00,000 units
Material cost	₹ 60,000
Other variable costs	₹ 1,20,000
Fixed cost	₹ 40,000
Total cost	₹ 2,20,000
Apportioned investment	₹ 2,00,000

Determine the unit selling price under each of the following strategies:

i. 20% return on investment;
ii. 30% mark-up based on total cost;
iii. 20% profit on net sales price;
iv. 15% profit on list sales when trade discount is 35%;
v. 40% mark-up based on incremental cost;
vi. 50% mark-up based on value added by manufacturer.
vii. Assume that the Company's tax rate is 52%. **[1×7]**

(b) A firm has developed a product for which the following standard cost estimates have been made for first batch to be manufactured in month 1.

Standard cost per batch	
500 labour hours @ ₹8 per hour	₹4,000
55 units of direct materials @₹100 per unit	₹5,500

Variable overhead 500 hours @ ₹15 per hour	₹7,500
	₹17,000

From experience the firm knows that labour will benefit from a learning effect and labour time will be reduced. This is expected to approximate to an 80% learning curve and to follow the general function.

Budgetary Control and Standard Costing in Profit Planning

$Y=ax^b$
Where,
Y=Average labour hours per batch
a=Number of labour hours for the first batch
x=Cumulative number of batches
b=learning coefficient
(The learning coefficient is found as follows:

$$b = \frac{\log(1\text{-Proportionate decrease})}{\log 2}$$

The coefficient for 80% learning curve is b=0.322)

In addition, the growing expertise of labour is expected to improve the efficiency with which materials are used. The usage of material is expected to approximate to a 95% learning curve and to follow the general function
$Y=ax^b$
Where,
Y=Average units of material per batch
a=number of units for the first batch
And x and b are explained previously.
The actual production for the first six months was as follows:

Month 1	20 batches	Month 4	24 batches
Month 2	30 batches	Month 5	33 batches
Month 3	25 batches	Month 6	28 batches

During month 6 the following results were recorded for the last batch made:

Actual result of last batch

Labour hours	115
Direct wages	₹978
Direct materials(41 units)	₹3,977
Variable overhead	₹1,685

You are required:
i. To calculate the learning coefficient for materials,
ii. To derive the standard cost of the last batch in Month 6,
iii. To calculate what variances have arisen in connection with the last batch,
iv. To explain what information the variances provide for management. **[2+2+2+2]**

Or

You have been provided with the following data for M Plc. for September 2012:

Accounting method:	Absorption	Marginal
Variances	₹	₹
Selling price	1,900 (A)	1,900 (A)
Sales volume	4,500 (A)	7,500 (A)
Fixed overhead expenditure	2,500 (F)	2,500 (A)
Fixed overhead volume	1,800 (A)	Not applicable

During September 2012 production and sales volume were as follows:

	Sales	Production
Budget	10,000	10,000
Actual	9,500	9,700

Calculate:

(i) The standard contribution per unit,
(ii) The standard profit per unit,
(iii) The actual fixed overhead cost total. **[2+3+3]**

Question 10

(a) What makes a problem suitable for Simulation modeling and Analysis? **[5]**

(b) Is a value chain, supply chain, and demand chain management the same? Who can become involved in a value chain? What impact can a value chain have on the industry? **[1+2+2]**

Test Paper- III/15/BSCM/2012/T-2

Section A – Business Strategy [50 marks]

Question 1

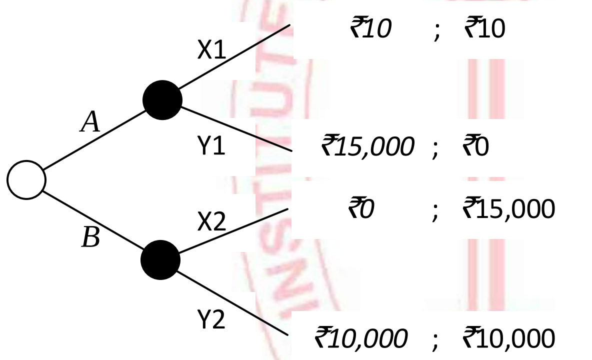
Strategy making is a key function of any successful manager. Many strategists agree that strategy is a fit between what is obtaining in the internal environment of the organization and the dictates of the external environment. However, the manager must consider a number of factors that shape any strategy.

Describe any five (5) factors that shape strategy. **[10]**

Question 2

a) Logical Incrementalism is widely used by organizations to develop its strategy. Explain the term "Logical Incrementalism" and describe the major steps (or characteristics) involved when it is used for strategy development. Give an example to illustrate your understanding. **[6]**

b) What is the rollback equilibrium of this game? Player 1 is indicated by a hollow circle and player 2 by a solid circle. Player 1's payoffs are listed first. **[4]**



Question 3

Benchmarking exercise is based on "best exercise" and not on 'best performances". Explain. Also state briefly the important benchmarking processes used in strategy implementation. **[3 + 7]**

Question 4

X Ltd., is a small family controlled manufacturing company. In its 60 yrs history, the company has grown to the extent that it now employs 75 employees, producing a wide and diverse range of industrial products and special components. The company has increased in size from its small original base. However, it has never employed a strategic management approach for its development and has relied on operational decision-making to determine priorities.

X Ltd., has never gathered any information relating to its markets. In recent years, the company has experienced a reduction in turnover and profitability and is assessing how it might redress the situation.

a) You explain how strategic management differs from operational management to the directors of X Ltd. After being convinced, the directors of X Ltd., have now decided to introduce strategic management approach, which will assist in the selection of appropriate strategies for future development of the company. **[5]**
b) Discuss the cultural and organizational changes which X Ltd., will need to implement in order to successfully introduce strategic management. **[5]**

Question 5
Strategy involves planning ways in which the long-term objectives of the organisation can be achieved. An important part of such a process is the analysis of the external environment to determine future potential factors that are most relevant to the organisation.

Some believe that the external environment within which organisations operate has become increasingly uncertain and therefore wholly unpredictable. This raises important issues for strategy development, with some questioning the value of past approaches.
Requirements
(a) Discuss how environmental uncertainty might affect strategic thinking within organisations. **[5]**
(b) Assess the usefulness of scenario planning in strategy formulation, particularly under conditions of extreme uncertainty. **[5]**

Section B – Strategic Cost Management [50 marks]

Question 6
(a) What is Life Cycle Costing? Write down the different phases of LCC? **[5]**

(b) Write short note on Cost of Quality Report? **[5]**

Question 7
(a) Shan and Mann Ltd. is introducing a new type of pocket calculator in the market and is now deciding on its production plans pricing policy. The standard variable cost of the new product will be ₹50 per unit, the same as that of the old model withdrawn from the market. The fixed costs that have to be borne works out to ₹10,40,000. Three alternative selling price - ₹70, ₹80, ₹90 per unit are discussed. The Sales Manager has estimated for each selling price an optimistic, a pessimistic and a most likely demand figure and associated probabilities for each of these. For the ₹90 selling price the figures are

	Annual demand units	Probability of demand
Pessimistic	20,000	0.20
Most likely	35,000	0.70
Optimistic	40,000	0.10

On the cost side, it is clear the standard variable cost of ₹50 is an ideal which has been achieved in practice. An analysis of the past 20 months shows that an adverse variance of ₹10 arose on 4 occasions, an adverse variance of around ₹5 arose on 14 occasions and a variance of around zero arose on two occasions. There is no reason to think that the pattern for the new product will differ significantly from this.

A summary of the result of an analysis of the data for the other two selling prices – ₹70 and ₹80 is as under:

	Prices

	₹70	₹80
Probability of a loss :		
Greater than or equal to :		
₹ 5 lakhs	0.02	0
₹ 3 lakhs	0.07	0.05
₹ 1 lakh	0.61	0.08
0	0.61	0.10
Probability of a profit:		
Greater than or equal to :		
0	0.39	0.91
₹ 1 lakh	0.33	0.52
₹ 3 lakhs	0.33	0.04
₹ 5 lakhs	0	0.01
Expected profit (Loss)	(55,750)	68,500

(i) From the above calculate the expected annual profit for a selling price of ₹90.

(ii) With the help all these data, compare the three selling price and give your recommendation regarding the selling price to be adopted. Substantiate your recommendation. **[2+3+2]**

(b) Explain in brief about Lean Accounting? **[7]**

Or

Sunny Ltd. a company engaged in the manufacture of electrical appliances has set the following budget for 20x1:

	Immersion Heaters	**Table Lamp**	**Bread Toasters**	**Room Heaters**
Production (units)	40,000	10,000	50,000	30,000
Selling price per unit (₹)	30.00	50.00	60.00	80.00
Cost per unit:				
Direct Materials (₹)	6.00	13.50	10.50	24.00
Direct labour (₹)	7.50	10.00	18.00	24.00
Variable overheads (₹)	4.50	10.00	12.00	13.00
Fixed overheads (₹)	7.50	10.00	18.00	24.00
Profit/(Loss) (₹)	4.50	6.50	1.50	(5.00)

When the budget was placed before the Budget committee, the Marketing Manager put up a proposal to increase the sales by 20,000 additional units for which capacity existed. The additional 20,000 units could be one product or any combination of products. The proposal was accepted by the Committee.

The Committee also decided that the production capacity for the next year, namely 20x2 would be set in such way that there would be a further increase in the output by 50,000 units over and above the increase of 20,000 units envisaged for 20x1. The additional production of 50,000 units would be of table lamp only for which a new plant would be acquired. The additional fixed expenses of the new plant were estimated ₹50,000 per annum. During 20x1, the material and labour costs were expected to increase by 10.% but the other cost and selling prices would remain same.

Required:

(i) Set a budget for 20x1 in such a way that the additional capacity of 20,000 units is utilized to maximize the profits.
(ii) Set a budget for 20x2.
(iii) Assuming that the increased output may not fully materialise, calculate the number of units of table lamps required to be sold in 20x2 at the given price in order to ensure that profitability at least at 20x1 level is maintained. **[3+2+2]**

[3+5]

Question 8

(a) Simpark Limited makes three main products, using broadly the same production methods and equipment for each. A conventional product costing system is used at present, although an Activity Based Costing (ABC) system is being considered. Details of the three products, for typical period are:

Particulars	**Labour Hours per unit**	**Machine Hours per unit**	**Material Per unit**	**Volumes Units**
Product A	½	1 ½	₹20	750
Product B	1 ½	1	12	1,250
Product C	1	3	25	7,000

Direct labour costs ₹6 per hour and production overheads are absorbed on a machine hour basis. The rate for the period is ₹28 per machine hour.

You are required:

(i) To calculate the cost per unit for each product using conventional methods. **[3]**

Further analysis shows that the total of production overheads can be divided as follows

	%
Costs relating to set-ups	35
Costs relating to machinery	20
Costs relating to material handling	15
Costs relating to inspection	30
Total production overhead	100

The following activity volumes are associated with the product line for the period as a whole. Total activities for the period

	Number of Set-ups	**Number of movements of materials**	**Number of Inspections**
Product A	75	12	150
Product B	115	21	180
Product C	470	87	670
	660	120	1,000

You are required:

(ii) To calculate the cost per unit for each product using ABC principles;
(iii) To comment on the reasons for any differences in the costs in your answers to (i) and (ii) **[3+2]**

(b) Average time taken by an operator on a specific machine is tabulated below. The management is considering replacing one of the old machines by a new one and the estimated time for operation by each operator on the new machine is also indicated.

Machines							
Operation	M_1	M_2	M_3	M_4	M_5	M_6	New
01	2	3	2	1	4	5	6
02	4	4	6	3	2	5	1
03	6	10	8	4	7	6	1
04	8	7	6	5	3	9	4
05	7	3	4	5	4	3	12
06	5	5	6	7	8	1	6

(i) Find out an allocation of operators to the old machines to achieve a minimum operation time.

(ii) Reset the problem with the new machine and find out the allocation of the operators to each machine and comment on whether it is advantageous to replace an old machine to achieve a reduction in operating time only.

(iii) How will the operators be reallocated to the machines after replacement? **[3+2.5+2.5]**

Question 9

(a) Harman Ltd. is selling 30,000 units of a product at ₹50 per unit. Fixed cost is ₹3,00,000 and variable cost if ₹25 per unit. The company proposes to increase selling price to ₹55 per unit. You are required to calculate Price Indifference Point and also suggest whether the company should implement this pricing proposal if it anticipated sale of 17,000 units. **[4]**

(b) Shobha Ltd. has the capacity of production of 80,000 units and presently sells 20,000 units at ₹50 each. The demand is sensitive to Selling Price and it has been observed that for every reduction of ₹10 in Selling Price, the demand is doubled.

Required:

(i) What should be the Target Cost at full capacity, if Profit Margin on Sale is 10%?

(ii) What should be the Cost Reduction Scheme if at present 40% of Cost is variable, with same % of profit?

(iii) If Rate of Return desired is 15%, what will be the maximum investment at full capacity?

[2+1+1]

(c) Explain the buyer power which influence on the price of the product? **[2]**

P16 - Tax Management & Practice

Test Paper—III/16/TMP/2012/T-1

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

Section A-Tax Management [70 Marks]

Question 1

(i) Discuss briefly whether excise duty is attracted on the excisable goods manufactured:

(a) in Jammu & Kashmir;

(b) in special economic zone;

(c) in 100% EOU;

(d) beyond Indian territorial waters (within 150 nautical miles from the shore line).

(ii) What is the legal status or otherwise of the Explanatory Notes to Harmonised System of Nomenclature (HSN) for the purposes of classification of goods under the Central Excise Tariff Act, 1985?

(iii) On 15.05.2013 goods were removed from the factory at Jalandhar for sale from the depot at Bombay. On that date (at Jalandhar factory) assessable value = ₹ 1,20,000 and tariff rate = 8%. These goods were sold ex New Delhi depot on 13.06.2013. On that date assessable value at New Delhi depot = ₹ 1,30,000 and tariff rate = 14%. The manufacturer has paid duty @ 8% on ₹ 1,20,000, but the department claims duty @ 14% on ₹ 1,30,000. Discuss the correct approach to be adopted in the case.

[4+3+3]

Question 2

(i) With reference to the CENVAT Credit Rules, 2004, comment upon the validity of the following statements taking into account the position after 01.03.2008:

(a) An amount equal to the credit availed in respect of capital goods has to be paid when such capital goods are removed outside the premises of the output service provider for providing the output service and are not brought back to the premises within 180 days of their removal.

(b) As per rule 6(3), one of the options available to a provider of output service, who opts not to maintain separate accounts is to pay an amount equal to 8% of value of the exempted services.

(c) The CENVAT Credit Rules, 2004 do not provide for any general penalty for contravention of any of the provisions of the said rules.

(ii) With reference to the Customs Act, 1962, differentiate between the following:

(i) Clearance for home consumption and Clearance for warehousing

(ii) Indian territorial water and Indian custom water

(iii) Bill of Entry and Entry Inward

(iii) Briefly explain the owner's right to deal with the warehoused goods as provided under section 64 of the Customs Act, 1962.

[4+3+3]

Question 3

(i) An exporter obtained inputs on payment of customs duty and has availed CENVAT credit. Advise whether he could also avail duty drawback under section 75 of the Customs Act, 1962, if imported inputs are used in the manufacture of goods which are then exported.

(ii) With reference to Notification No. 6/2005 ST dated 01.03.2005, answer the following questions:

(a) What is the threshold limit of service tax exemption for small service providers?

(b) Is the exemption mandatory to service provider in all cases?

(c) Whether credit on the capital goods received during the period of exemption limit can be availed after crossing of exemption limit?

(d) On opting for exemption in the beginning of the financial year, whether the credit of the duty paid on inputs lying in stock has to be reversed?

(e) If balance in CENVAT credit is available after the above said reversal, whether the same can be carried forward?

(f) In a case where the service provider provides more than one taxable service, does the exemption limit apply to individual taxable services or all taxable services?

(iii) Explain the concept of Reverse charge mechanism. Explain the services specified under Reverse Charge mechanism.

Or

(iv) A Ltd. provided Information Technology & Software services to B Ltd. in the month of July 2013. A bill inclusive of Service Tax issued in the month of July 2013. B Ltd paid ₹ 22,24,728 (after deducting TDS under sec 194J of the Income Tax Act, 1961 @10% towards TDS) in the month of August, 2013. You are required to calculate:

(a) Service tax liability

(b) Due date of payment of service tax.

[4+3+3]

Question 4

(i) What are the reasons for setting up of Export Promotion Councils? Write a brief note on their responsibilities and types of Councils in India in the context of foreign trade policy. Should an exporter compulsorily register himself as a member of such Export Promotion Council? (5 Marks)

(ii) Whether input tax credit of the VAT paid on purchases of goods that are stock transferred is available?

(iii) What is the difference between orders under Section 6A(1) and 6A(2) of the CSR Act, 1956.

[5+2+3]

Question 5

(i) Y Ltd. is a company in which 60% shares are held by P Ltd. Y Ltd declared a dividend amounting to ₹45 lakhs to its share holders for the financial year 2012-13 in its AGM held on 12th May, 2013. Dividend Distribution Tax was paid by Y Ltd. on 14th May, 2013. P Ltd declared an interim dividend amounting to ₹70 lakhs on 15th October, 2013 for the year ended 31st March, 2014.

Compute:
(a) The amount of tax on dividend payable by P Ltd.
(b) What would be your answer, if 58% shares of P Ltd are held by K Ltd. an Indian company?
(c) Does the position change further, if K Ltd. is a foreign company?

(ii) Where a trust is created, for carrying on the business hitherto carried on by joint family, after its partition, could such trust be treated as one liable to be assessed as AOP constituted by the beneficiaries?

(iii) Is it open to Arati, a member of HUF, to convert her property to that of a joint family of which she is a member?

(iv) What is the liability of a non-working partner as regards liability of firm after dissolution?

(v) X and Y enter into a partnership agreement on May 15, 2013 to sell chemicals in domestic market. As per terms of partnership, each of them is entitled for salary @₹4,500 per month for conducting the business of the firm. On December 1, 2013, they, however, amend the aforesaid stipulation in the deed to enhance salary, with retrospective effect from July 1, 2013 from ₹4,500 per month to ₹12,000 per month (in the case of X) and ₹10,000 per month (in the case of Y). Comment.

(vi) Are all partners of LLP equally responsible for the acts of LLP?

(vii) Amalgamation of companies S and T has been approved by the BIFR. CBDT refuses to allow carry forward of losses u/s. 72A. Is the CBDT justified?

(viii) Will incentive deductions available for amalgamating company continue for the remaining period to the amalgamated company? **[5+3+1+1+2+1+1+1]**

or

(i) A co-operative society bought text books at a discount from the Government and sold them at profit to various persons including its members. The society claimed that the profit earned by the sales to its members was not taxable on ground of mutuality. Whether the claim of the society is in order?

(ii) Mr. A wants to set up a business. How can he select a location for the business?

(iii) What is the procedure for service of notice for assessment of amalgamating company, when it has ceased to exist on amalgamation?

(iv) Can a Nidhi company registered under section 620A of the Companies Act, 1956, be a mutual society, immune from application of section 269SS bearing deposits in cash above the specified limit?

(v) Can incomplete, unsigned or unverified return lead to best judgment assessment?

(vi) Is there any liability of the private company's directors in liquidation? Discuss briefly.

(vii) Who is liable for prosecution for the offences made by HUF under Income Tax Act?

(viii) Can a CIT revise the order of the Income Tax Officer even if the same has been passed with the directions of the superior authorities?

(ix) Is commission earned by a co-operative society from public distribution of controlled commodities exempt?

(x) A, B, & C are the partners of a firm sharing profits and losses in the ratio 1:1:1 respectively. The firm has brought forward business loss of ₹2,50,000 and unabsorbed depreciation of ₹1,80,000. During the previous year 2013-14, B retired from the firm w.e.f. 1st July, 2013. Compute the business loss which will not be allowed to be carried forward in the hands of firm if the firm has earned business income of ₹4,00,000 during the previous year 2013-14.

(xi) The Assessing Officer made an assessment for A.Y. 2013-14, in the name of the trust. But, during the assessment proceedings of A.Y. 2014-15 the Assessing Officer found that the assessment in the hands of the beneficiaries would be more beneficial to the revenue than the assessment in the hands of the trust. Accordingly, he made the assessment for A.Y. 2014-15 in the hands of the beneficiaries. Was the Assessing Officer justified in doing so? **[1+1+1+1+1+3+2+1+1+2+1]**

Question 6.

(A) Where the building is grossly under-valued, is penalty leviable, when the building itself was disposed and is it possible to reassess wealth for undervalued building with reference to Valuation Officer?

(B) Azan received a vacant site under his father's will which was purchased by his father at a cost of ₹15 Lakhs. The value of the site on 31.3.2014 is ₹25 Lakhs. As per terms of the 'Will' in the event Azan wants to sell the site he should offer it to his brother for sale at ₹20 Lakhs. Azan, therefore, claims that the value of the site should be taken at ₹20 Lakhs as at 31.3.2014. Is the claim correct?

(C) Can the provisions relating to compensation for acquisition of land under Urban Land (Ceiling and Regulation) Act, 1976 be applicable in valuation of urban land?

[2+2+1]

Question 7.

(A) (i) Discuss the procedure to deal with requests for bilateral or multilateral advance pricing agreements.

(ii) M Ltd. operating in India, is the dealer for the goods manufactured by SJ Ltd. of Japan. SJ Ltd. owns 57% of shares of M Ltd. and out of 7 directors of the company, 4 were appointed by them. The Assessing Office after verification of the transaction of ₹2,00,00,000 of M Ltd. for the relevant year and by noticing that the company had failed to maintain the requisite records and had also obtained the accountant's report adjusted its income by making an addition of ₹35,00,000 to the declared income and also issued a show case notice to levy various penalties. M Ltd. seeks your advice.

(iii) Can Assessing Officer complete the assessment of an income from international transactions in disregard of the order passed by the Transfer Pricing Officer by accepting the contention of the assessee?

[4+4+2]

or

(B) (i) Eastern Oil Corporation (EOC) imports crude oil for its requirements on a regular basis. Its requirements are estimated at 100 tonnes per month.

Of late, there has been a surge in the prices of oil. The current price (month of July) of crude oil is ₹5,600 per barrel. The firm expects the price to rise in coming months to ₹5,900 by September. It wants to hedge against the rising prices for its requirements of the month of September.

Multi Commodity Exchange (MCX) in India offers a futures contract in crude oil. The contract size is 100 barrels and September contract is currently traded at ₹5,700 per barrel.

(a) How can EOC hedge its exposure against the rising price of crude oil?
(b) If EOC hedges its exposure at MCX, how many contracts it must book?
(c) Analyse the position of EOC if in the month of September (I) the spot price is ₹5,950 and futures price is ₹5,780, (II) the spot price is ₹5,800 and futures market were matched?

Ignore marking-to-the-market and initial margin on futures contracts.

(ii) What are the consequences of non-compliance with regulations on international transactions? State with the exceptions.

[5+5]

Section B - Tax Practice and Procedure [30 marks]

Question 8

Suggest your answers with the help of case laws (Any Four)

(i) Whether the theoretical possibility of product being sold is sufficient to establish the marketability of a product?

(ii) Whether the clearances of two firms having common brand name, goods being manufactured in the same factory premises, having common management and accounts etc. can be clubbed for the purposes of SSI exemption?

(iii) Whether time-limit under section 11A of the Central Excise Act, 1944 is applicable to recovery of dues under compounded levy scheme?

(iv) Whether the carpet, in which jute is predominant by weight, but the surface is entirely of polypropylene, should be classified as jute carpet or polypropylene carpet?

(v) Can the Settlement Commission decline to grant immunity from prosecution after confirming the demand and imposing the penalty?

(vi) Whether remission of duty is permissible under section 23 of the Customs Act, 1962 when the remission application is filed after the expiry of the warehousing period (including extended warehousing period)? **[5x4]**

Question 9

Suggest your answers with the help of case laws (Any Two)

(i) Whether the fine paid for belated payment of excise duty is a allowable business expenditure?

(ii) Can the expenditure incurred by the assessee on techno-economic feasibility report for the manufacture of a new product be eligible for deduction under section 35D?

(iii) Can an assessee be deprived of claiming exemption under section 54EC, if bonds of assessee's choice are not available or are available only for a broken period within the period of six months after the date of transfer of capital asset and the bonds are purchased shortly after it became available next time after the expiry of the said six months?

(iv) In a case where the partnership deed does not specify the remuneration payable to each individual working partner but lays down the manner of fixing the remuneration, would the assessee-firm be entitled to deduction in respect of remuneration paid to partners? **[5x2]**

P16 - Tax Management & Practice

Test Paper—III/1 6/TMP/2012/T-2

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

Section A-Tax Management [70 Marks]

Question 1

(i). X Ltd. manufactures fan regulators and sells them in corrugated boxes under their own brand name which is affixed/ printed on such boxes. However, after some time M/s. X Ltd. starts printing hexagonal artistic design of its marketing company 'Super Sales' on such boxes along with its brand name. The said hexagonal shape/design is only printed on the visiting cards of the two executives of the 'Super Sales'. The design printed on the letterheads and sales invoices of the 'Super Sales' is different. 'Super Sales' has not claimed that the hexagonal design belongs to them and that they have permitted M/s. X Ltd. to use the same on their corrugated boxes.

The Commissioner of Excise contends that the benefit of small scale exemption would not be available to M/s. X Ltd. as they are using a brand name of another person on their goods.

You are required to examine the veracity of the Commissioner's claim with the help of a decided case law, if any.

(ii) Discuss whether remission of central excise duty will be granted in the following cases under the Central Excise Rules, 2002:

(a) Goods were not fully manufactured and lost by natural causes before entry in the "Daily Stock Account".

(b) Goods (fully manufactured) were lost during transportation of the same to the customer's business premises due to unavoidable accident.

(c) (iii) Goods (fully manufactured) were lost by fire before removal from the factory and the assessee has received a claim from the insurance company.

(iii) Explain the scope of duty demanded under explanation to section 35F of the Central Excise Act, 1944. **[5+3+2]**

Question 2

(i) Ronald Chemicals obtained a chemical in Zimbabwe for an exceptionally low price. While the market price was an equivalent of ₹ 800 per kg, Ronald Chemicals got it at a low price of ₹ 400 per kg. In determining the customs valuation, the Assistant Commissioner of Customs contends that price to be adopted should be ₹ 800 per kg even though the purchase is bona fide and supported by genuine purchase bill. Do you think the stand taken by the Assistant Commissioner of Customs is valid? Discuss.

(ii) Briefly state the law relating to demand for payment of duty under section 28 of the Customs Act, 1962.

(iii) With reference to section 48 of the Customs Act, 1962, explain the procedure for disposal of goods not cleared within the specified period. **[2+2+2]**

Question 3

(i) Explain provision of Special Audit under section 72A.

(ii) A Ltd. provided services valuing ₹ 8 lakhs during the financial year 2012-13. During 2013-2014, it has provided taxable services valuing ₹ 10 lakhs and has received payments towards payable services ₹ 8.5 lakhs. It has also received services in the nature of transport of goods by road on 1-4-2013, valuing ₹ 50,000 (exclusive of service tax), in respect of which it is the person liable to pay service tax. Freight has been paid on 10-6-2013. Compute the service tax, if any, payable by A Ltd. for the financial year 2013-2014. It is given that goods transport service is exempt to the extent of 75% of value thereof

[4+4]

Question 4

(i) What are the incentives and benefits allowed to the exporter for exporting goods outside India?

(ii) What are the salient features of EOU scheme?

(iii) Briefly explain the special procedure to be adopted for removal of excisable goods for carrying out certain purposes in terms of the Central Excise Rules, 2002.

[5+2+2]

Question 5

(i) What are the different Forms under CST and their use?

(ii) Compute net VAT liabilities of Balram from the under-mentioned information:

(a) Raw material purchase from foreign market (including duty paid on imports @ 20%)- ₹ 47,000

(b) Raw material purchase from local market (including VAT charges on the material @ 1%)-? 10,000

(c) Raw material purchased from another state (excluding CST) – ₹ 20,000

(d) Storage, transportation cost and insurance – ₹ 3,000

(e) Other manufacturing expenses incurred – ₹ 600.

Balram sold the goods to Krishna adding margin of profit @ 19% on the selling price. VAT rate on sale of such goods is 10%.

[4+3]

Question 6

(A) Answer any Six of the following:

(i) Where there is more than one trustee, is it permissible to adopt the status of the trust as AOP?

(ii) Does an inherited property always entail assessment as HUF?

(iii) What is the liability of a non-working partner as regards liability of firm after dissolution?

(iv) What are the consequences if a person fails to comply with the provisions of Sec.139A?

(v) A resident pays for electronic purchase of business information reports. Is the payment to be taxed as royalty?

(vi) Can Department make fresh computation, once the assessment is made final?

(vii) Is a person entitled to interest for the delay in refunding the seized cash?

(viii) Can voluntary foregoing be taken as partition of HUF?

(ix) Smt. Asha carried on business with the gifted funds of her husband Mr. Pravat. For the Previous Year ended 31.3.2014, Asha incurred loss of ₹10 lakhs which Pravat wants to set-off from his taxable income. Can he do so?

(x) Can business loss be set-off against income from undisclosed sources?

[6×1]

(B) (i) What is the present position as regards availability of processing of living things?

[3]

or

(ii) Adi did not file any return of income for the Assessment Year 2013-14. The Assessing Officer assessed his income at ₹4,80,000 under section 144 after giving him show cause notice to which Adi did not respond. Besides the tax, the interest was charged under sections 234A, 234B and 234C. The notice of demand of ₹33,750 (including interest) was sent to Adi on 5-3-2014 which was received by him on 7-3-2014. Advise Adi, the procedure of filing an appeal?

[3]

Question 7

Answer any Two of the following:

(A) Value of asset declared in the return	₹3,00,000
Fair market value of asset, estimated by the Assessing Officer:	
Situation A	₹3,50,000
Situation B	₹4,50,000

Can a reference be made to the Valuation Officer in the above cases?

[5]

(B) Net wealth of firm consisting of three partners Bidyut, Kingshuk and Deepak in 2:3:1 and a capital contribution of ₹20 Lakhs, ₹23 Lakhs, and ₹12 Lakhs respectively is as under -
(a) Value of assets located outside India ₹30,00,000
(b) Value of assets located in India ₹90,00,000
(c) Debts incurred in relation to assets outside India ₹50,00,000
Determine the value of interest of the partners in the firm under the Wealth Tax Act, 1957.

[5]

(C) (i) Is non-filing of return liable for concealment penalty?

(ii) In respect of liability for wealth tax on taxable wealth held by a trust, whether it should be the trust itself or beneficiaries, who should be assessed?

(iii) Can the Assessing Officer make reference to the Valuation Officer after the assessment is over?

[1+2+2]

Question 8

(A) Briefly describe the information and documents to be maintained in respect of International Transaction.

(B) Does the assessee have any duty in relation to International Transaction? If yes, what are they?

(C) For imports from UK, G Ltd. of USA owes £ 6,60,000 to L Ltd., payable on May, 2013. It is now 12 February, 2013.
The following future contracts (contract size £ 60,000) are available on the US exchange:

Expiry	Current futures rate
March	1.4910 $/£ 1
June	1.4970 $/£ 1

(a) Illustrate how G Ltd. can use future contracts to reduce the transaction risk if, on 20 May the spot rate is 1.5130 $/£ and June futures are trading at 1.5220 $/£. The spot rate on 12 February is 1.4800 $/£.
(b) Calculate the "hedge efficiency" and comment on it.

(D) What will happen if avoidance arrangement is impermissible?

[5+3+5+2]

Section B – Tax Practice and Procedure [30 marks]

Question 9

Suggest your answers with the help of case laws (Any Three)

(i) Whether the charges towards pre-delivery inspection and after-sale-service recovered by dealers from buyers of the cars would be included in the assessable value of cars?

(ii) In case of combo-pack of bought out tooth brush sold alongwith tooth paste manufactured by assessee, is tooth brush eligible as input under the CENVAT Credit Rules, 2004?

(iii) Merely because assessee has sustained loss more than the refund claim, is it justifiable to hold that it is not a case of unjust enrichment even though the assessee failed to establish non-inclusion of duty in the cost of production?

(iv) Where a classification (under a Customs Tariff head) is recognized by the Government in a notification any point of time, can the same be made applicable in a previous classification in the absence of any conscious modification in the Tariff?

(v) Whether subsequent increase in the market price of the imported goods due to inflation would lead to increase in customs duty although the contract price between the parties has not increased accordingly? **[5x3]**

Question 10

Suggest your answers with the help of case laws (Any Two)

(i) Can subsidy received by the assessee from the Government of West Bengal under the scheme of industrial promotion for expansion of its capacities, modernization and improving its marketing capabilities be treated as a capital receipt?

(ii) Can the Assessing Officer reassess issues other than the issues in respect of which proceedings were initiated under section 147 when the original "reason to believe" on basis of which the notice was issued ceased to exist?

(iii) Is it permissible under section 147 to reopen the assessment of the assessee on the ground that income has escaped assessment, after a change of opinion as to a loss being a speculative loss and not a normal business loss, consequent to a mere re-look of accounts which were earlier furnished by the assessee during assessment under section 143(3)?

(iv) Where the hotel industry was established based on subsidy announced by the State Government, can such subsidy received be treated as a revenue receipt solely due to the reason that the same is received by the assessee after completion of the hotel projects and commencement of the business? **[5x3]**