

REVISED SYLLABUS 2012

TEST PAPERS

Intermediate Group II

QUESTION PAPERS FOR POSTAL STUDENTS ONLY
(FOR JUNE/DECEMBER 2016)



**THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
BOARD OF STUDIES**

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Postal Test Papers_P9_Intermediate_Syllabus 2012

Paper 9 (Operations Management and Information Systems)

Test Paper—I/9/OMS/2012/T-1

Section A (Operations Management): [60 marks]

Answer Question 1 and any four from the rest

Question 1

- What is application of technology or process to the raw material to add use value is known as?
- What is activity of specifying when to start the job and when to end the job is known as?
- What type of layout would you choose for job production?
- What do you understand by aesthetic quality of product?
- Name the phases in production, productivity and control.
- What principle is used in work sampling?
- Random numbers are used in which production planning process?
- What is 'effectiveness'?
- What do you understand by commercialization of a product?
- State the equation of EBQ (Economic Batch Quantity).
- Which method is used for forecasting new products?
- Despatching is toughest in which type of production? [12]

Question 2

- What do you understand by the term 'Operations Management? What are its basic objectives?
- What are the characteristics of a good product design?
- What is process planning? [5+5+2]

Question 3

- Two alternative methods X and Y using different tooling set-ups may be employed to manufacture a component on a particular machine tool whose operating cost is Rs. 20(including wages of operator) per hour.

Particulars	Method X	Method Y
Component	4000pieces	3000pieces
Cost of tooling	Rs. 320	Rs.1500
Production rate per hour	10pieces	15pieces

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Justify with suitable calculation which of the two methods would you choose as being more economical for regular production? Would your answer be different if only 1000 pieces of particular component are required?

b) ABC Ltd, manufacturer of radio sets makes x sets of radio sets per week and total cost is

$\left(\frac{x^2}{25} + 3x + 100\right)$. The equation of the demand function is $x = 75 - 3p$ ($p = \text{price}$). Show that if he wants to maximise profit, he will produce about 30 sets of radio per week. What price per set will he charge?

c) What do you understand by the term 'Design Capacity'?

d) A workshop operates on 2 shifts of 8 hours per day. It has 10 machines. It works for 6 days in a week. Machine utilization is 90% and the efficiency of the machines is 85%. Calculate the designed / rated capacity of the workshop in standard hours. [3+4+2+3]

Question 4

a) Distinguish between a flow shop and a job shop.

b) P, a fabricator with specialization in making steel wardrobes, made a survey to decide on the area to locate his new factory. He has found two alternative locations which suits his requirements. He has to plan to produce 1000 units in a year. Selling price of wardrobes is Rs. 10,000/per unit. Fixed and variable costs relating to both the locations are:

Location	Fixed Cost(Rs)	Variable Cost(Rs.)
I	12,50,000	500/units
II	20,00,000	350/units

Calculate:

- i) Production level at break-even point for location I and location II.
- ii) Which location should P choose to set up his unit?
- iii) State the production level at which either of the locations can be selected.
- iv) Which is the preferred location for production level of 1000 units?

c) What do you understand by the term 'Project Life Cycle'?

d) Project with the following data is to be implemented. Draw the network and find the critical path.

Activity	Predecessor	Duration (days)	Cost (Rs. Day)
A	-	2	50
B	-	4	50
C	A	1	40
D	B	2	100
E	A,B	3	100
F	E	2	60

- i. What is the minimum duration of the project?
- ii. Draw a Gantt chart for early start schedule.
- iii. Determine the peak requirement money and day on which it occurs above schedule (3+3+3+3)

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Question 5

a) XYZ Ltd has 3 factories and 3 customers. The following table gives the transportation cost per unit from the factories to the customers and also the quantities available and required. Determine the initial transportation cost per unit from the factories to the customers and also quantities available and required. Determine the initial transportation solution using Vogel's method.

Factory	P	Q	R	Availability
F1	10	11	20	10
F2	15	12	10	2
F3	17	9	16	8
Requirement	8	5	7	20

b) What is Delphi technique? What is its applicability in a manufacturing organization?

c) An agriculturist has a 125-acre farm. He produces radish, muttar and potato. Whatever he raises is fully sold in the market. He gets Rs. 5 for radish per kg, Rs. 4 for muttar per kg and Rs. 5 for potato per kg. The average per acre yield is 1500 kg of radish, 1800 kg of muttar and 1200 kg of potato. To produce each 100 kg of radish and muttar and 80 kg of potato, a sum of Rs. 12.50 has to be used for manure. Labour required for each acre to raise the crop is 6 man-days for radish and potato each and 5 man-days for muttar. A total of 500 man-days of labour at a rate of Rs. 40 per man-day are available.

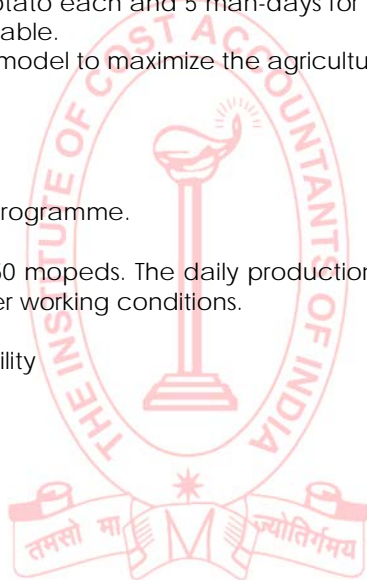
Formulate this as a Linear programming model to maximize the agriculturist's total profit. [5+2+5]

Question 6

a) Write short note on Six Sigma quality programme.

b) A company manufactures around 150 mopeds. The daily production varies from 146 to 154 depending upon the availability of raw materials and other working conditions.

Production per Day	Probability
146	0.04
147	0.09
148	0.12
149	0.14
150	0.11
151	0.10
152	0.20
153	0.12
154	0.08



The finished mopeds are transported in a specially arranged lorry accommodating only 150 mopeds. Using following random numbers 80, 81, 76, 75, 64, 43, 18, 26, 10, 12, 65, 68, 69, 61, 57, simulate the process to find out:

- What will be the average number of mopeds waiting in the factory?
- What will be the average number of empty spaces on the lorry?

c) State the managerial uses of break even analysis.

d) What is quality control?

[3+4+3+2]

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Question 7

a) The following mortality rates have been observed for a certain type of light bulbs.

Week	Present failing by week end
1	10
2	25
3	50
4	80
5	100

There are 1000 bulbs in use and it cost Rs. 20 to replace an individual bulb which has burnt out. If all bulbs are replaced simultaneously, it would cost Rs. 4 per bulb. It is proposed to replace all the bulbs at fixed intervals , whether or not they are burnt out, and to continue replacing burnt out bulbs as they fail. At what levels the bulbs should be replaced to optimise .

b) A machine shop has a press which is to be replaced as it wears out. A new press is to be installed now and an optimum replacement plan is to be for next 7 years after which the press is no longer required. Following data is available:

Rs. in '000

Years	Cost of new machine	Salvage value	Operating cost
1	500	250	150
2	525	125	200
3	550	75	250
4	600	50	300
5	650	40	375
6	725	25	450
7	800	0	575

Find the optimum replacement policy.

c) What are the objectives of using Control Charts for Variables? [4+5+3]

Section B (Information Systems) [40 marks]

Answer question 8 and any three from the rest.

Question 8

- What is the place called that a user can create to store files?
- What type of package is SAPAG?
- What is Total which is used for checking and validation and do not have any significance in accounting known as ?
- What is touch screen?
- Define protocol .
- What is 'cache'?
- What is 'peer to peer' network?
- What do you understand by data independence? Answer in one sentence.

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i) With what do you associate the terms 'public key' and 'private key'?

j) Expand the abbreviations: (i) HVAC system (ii) WAIS

[10]

Question 9

a) What is Information? How does it differ from Information System.

b) Describe the characteristics of an Information System.

c) Explain why information system die?

[4+4+2]

Question 10

a) What is a database? What are the functions of DBMS?

b) What is the role of Database Designer?

c) Who are the end users in a database environment?

[3+4+3]

Question 11

a) Give a definition of MIS. Why are information systems for managers difficult to design and build?

b) Executive Information System is different from Traditional Information System. Do you agree?

Justify your answer.

c) State various software tools used in Decision support system.

[4+3+3]

Question 12

a) What is meant by E-Commerce? Mention some advantages offered by E-Commerce.

b) What is a Certifying Authority? Mention the functions of Certifying Authorities in India in context of digital signature.

c) What is meant by "Affixing digital signature"?

[3+4+3]

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Paper 9 (Operations Management and Information Systems)

Test Paper—I/9/OMS/2012/T-2

Section A (Operations Management): [60 marks]

Answer Question 1 and any four from the rest .

Question 1

- How does a Finance Manager define a product?
- Define in one sentence the term 'routing'.
- On what does ABC analysis depends?
- (Total station time/Cycle time*Number of work stations)*100 is known as:-----
- Why do we build 'Buffer Stock'?
- Define by an equation , Standard Time.
- What is a Brown Field project?
- Production management is a line function. Do you agree?
- What is optimum capacity?
- How would you define 'Kaizen'?
- Define 'tempering'.
- Name an important factor for forecasting production.

[12]

Question 2

- Discuss the role of operations manager in decision making process.
- What do you understand by 'designing product for customer'?
- Discuss the framework for process design.

[5+4+3]

Question 3

a) KBC Ltd. has to process a large number of components/month. The process equipment time required is 36 minutes/component, whereas the requirement of an imported process chemical is 1.2 litres/component. The manual skilled manpower required is 12 minutes/component for polishing and cleaning. The following additional data is available:

	Availability/month	Efficiency of utilisation
Equipment hour	500	85%
Imported chemicals	1000	95%
Skilled manpower - hours	250	65%

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- (I) What is the maximum possible production under the current conditions?
- (II) If skilled man-power availability is increased by overtime by 20%, what will be the impact on production increase?
- b) The work - study engineer carries out the work sampling study. The following observations were made for a machine shop.

Total number of observations	7000
No. Working activities	1200
Ratio between manual to machine elements	2:1
Average rating factor	120%
Total number of jobs produced during study	800 units
Rest and personal allowances	17%

Compute the standard time for the job.

- c) The demand for new double door refrigerators is increasing every year. This is thought to be related to increase in population of the urban areas. The relationship observed between the two is:

$X = 7000 + 1100 Y$, where X is the demand for new double door refrigerators, Y is the years with Y at 2008 being zero.

If the demand for new double door refrigerators is seasonal and indices for September, October and November are 1.30, 0.90 and 0.95, respectively, then

- i) Forecast the demand for new double door refrigerators in September 2013
- ii) Find the trend values (i.e., deseasonalised) for September 2014, and November 2014 and
- iii) Find estimates of demand for new double door refrigerators for October 2014. **[3+4+5]**

Question 4

- a) Explain the 'Operator Performance' scheme.
- b) Three components are to be manufactured on three machines i.e. Center lathe, Milling machine and Cylindrical grinding machine.
- (I) Calculate the number of machines required of each kind to produce the components if the plant works for 48 hours per week.
 - (II) Calculate the number of machines required assuming the machine efficiency of 75%.
 - (III) How do you reduce the number of machines. The following information is given:

Machine	Component A Setup operation		Component B Setup operation		Component C Setup operation	
Centre lathe	30 min	2 min	55 min	2.5 min	40 min	1.5 min
Milling machine	45 min	8 min	30 min	4 min	-	-
Cylindrical grinding	50 min	8 min	60 min	8 min	60 min	10 min
Other details						
Lot size	350		400		600	
Quantity demanded/ month	1750		4000		3000	

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c) Discuss the principles involved in choice of layout.

[4+5+3]

Question 5

a) What do you understand by Work Breakdown Structure (WBS)?

b) Consider a small maintenance project, as given below, plan it with the help of CPM.

Activity Relationship

Activity	Duration	Predecessor
A	11	Nil
B	3	Nil
C	5	Nil
D	0	A
E	2	A
F	1	B
G	12	B
H	6	C, F
I	7	D, H
J	3	E

Compute the following for each job:

Early start time (ES), late start time (LS), early finish time (EF), late finish time (LF), Total Float (TF), Free float (FF), minimum total duration of the project, if all the jobs have been scheduled to start as early as possible and the work has been in schedule up to the end of week 5. There is strike on week 6 causing a delay of 1 week. Draw a CPM diagram for the jobs remaining to be done when work resumes on week 7.

c) A machining centre in a job shop of a local fabrication company has five unprocessed jobs remaining at a particular point in time. The jobs are labeled 1, 2, 3, 4 and 5 in the order they enter the shop. The respective processing time and due dates are given in the time table below:

Job number	Processing time (days)	Due date
1	11	61
2	29	45
3	31	31
4	1	33
5	2	32

The production manager and the marketing manager of the job shop have different opinion on customer service. The production manager feels that for certain jobs delays are inevitable in the basic structure of the job shop working the loss as Rs. 50 per job per day of delay with respect to delivery date. The marketing manager feels delay would cost the organization Rs.1000 per tardy job.

Examine the three commonest sequencing rules and state sequencing rule that would satisfy the organization requirement best.

[3+4+5]

Question 6

a) A company manufactures two items X1 and X2. They are sold at a profit of Rs. 30 per unit of X1 and Rs. 20 per unit of X2. X1 requires 2kgs of materials, 3 man-hours and 1 machine hour per unit. X2 requires 1 kg of material, 2 man hours and 3 machine hours per unit.

During each production run there are 280 kgs of material available, 500 labour hours and 420 hours of machines used. How much of the two items should the company produce to maximize profits?

Maximize $30X_1 + 20X_2$ subject to

$$2x_1 + x_2 < 280$$

$$3x_1 + 2x_2 < 500$$

$$x_1 + 3x_2 < 420$$

$$x_1, x_2, x_3 > 0$$

b) What is maintenance? What types of losses may arise due to poor maintenance?

c) Write short note on Sound incentive plan .

[5+4+3]

Question 7

a) Distinguish between:

i) Quality of Design and Quality of Conformance.

ii) 100% Inspection and Sampling Inspection

b) A firm has to place orders for the supply of raw materials every three months. The raw materials are procured from a supplier at periodic intervals. The annual requirements of the raw materials amount to Rs. 12 lacs. The cost of ordering is estimated to be Rs.5000/- per order and the cost of carrying inventory is estimated to be 25% of the value of inventory. Average lead time for procurement of the raw materials from the supplier is observed to be two months. The demand for the raw materials can be approximated to a normal distribution with a standard deviation of Rs. 1 lac per period. Design an inventory system for the raw materials for a service level of 97.5% .

c) What do you understand by the term 'economics of quality'?

[5+4+3]

Section B(Information Systems)[40 marks]
Answer question 8 and any three from the rest.

Question 8

a) What do you understand by 'domain name'?

b) What is the first calculating machine known as?

c) What is 'bootstrapping'?

d) State one word for 'eliminating errors of a program'.

e) What is 'throughput'?

f) One KB stands for how many bytes?

g) Define 'download'.

h) What has made PDAs obsolete?

i) What do you understand by 'string'?

j) For information recording the magnetic tape is divided into vertical columns called:----- **[10]**

Question 9

a) Explain prototyping approaches to systems development.

b) Distinguish between Hardware and software.

c) Describe briefly four categories of the major tools that are used for system development. **[3+3+4]**

Question 10

- Which areas of DBMS should be addressed while maintaining a database? Explain.
- Distinguish between logical record and physical record in relation to DBMS.
- Write a short note on System maintenance.

[4+3+3]

Question 11

- Explain the concept of MIS in terms of its three elements.
- Discuss the prerequisites of effective MIS.
- "Decision support systems are widely used as part of an Organisation's Accounting Information system".
Comment.

[4+3+3]

Question 12

- Explain the process of evaluation of various ERP packages.
- Define the following terms with reference to Section 2 of Information Technology Act, 2000:
 - Key Pair
 - Originator
 - Secure System

[4+6]



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Paper 9(Operations Management and Information Systems)

Test Paper—I/9/OMS/2012/T-3

Section A (Operations Management): [60 marks]

Answer Question 1 and any four from the rest.

Question 1

- When is process layout useful?
- For movement of materials in a fixed path, the equipment should be:-----
- What is the focus of good material handling system?
- Which study considers Relaxation Allowance?
- State one word for 'addition of value to raw materials through application of technology'.
- What is Control chart for proportion of defectives known as?
- Therbligs normally form part of which chart?
- What is expediting?
- In a waiting line problem, the customer arrival is expected to follow which distribution?
- Name a group incentive plan.
- What is the function Gantt Chart?
- Should method study precede or succeed work measurement?

[12]

Question 2

- Discuss the contribution of Operations Management in business policy decisions.
- Discuss the concept of 'product life cycle management'.
- What do you understand by the term 'process strategy'?

[5+4+3]

Question 3

a) The order position (i.e requirements of dispatch) for the next twelve months in respect of a particular product is as under:

Month	Required units
1	13000
2	12000
3	10000
4	9000
5	11000
6	13000
7	11000
8	7000
9	15000
10	13000
11	12000
12	10000

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The production capacity of the shop is 10000 units per month on regular basis and 3000 units per month on overtime basis. Sub-contracting can be relied upon up to a capacity of 3000 units per month after giving a lead time of 3 months.

Cost data reveal as under:

Rs.5/- per piece on regular basis.

Rs.9/- per piece on overtime basis.

Rs. 7/- per piece on sub-contract basis.

Assuming an initial inventory of 1000 units and that no back logging of orders is permissible, suggest an optimal production schedule . Also work out the total cost on the basis of the suggested schedule.

b) The targeted weekly output of a manufacturing unit employing 20 workers is 400 pieces. The group is entitled to earn an incentive @ 10% on aggregate of wages based on basic piece rate plus dearness allowance (which is Rs. 120 per week) upon achievement of a minimum of 80% of the output target. This incentive rate is increased by 2.5 % flat for every 10% increase in achievement of targets upto a maximum of 10% at the level of 120% of the output target in the following manner:

Output Target	Incentive Rate
80%-90%	10%
90%-100%	12.5%
100%-110%	15%
110%-120%	17.5%
120% and above	20%

During the four weeks in February, the actual output achieved by the workers are 383 pieces,442 pieces,350 pieces and 318 pieces respectively. The average basic rate is Rs 5 Compute the amount of incentive earned by the group during each of the four weeks.

c) Define Motion Study. What are the steps involved in carrying out Motion Study. [4+5+3]

Question 4

a) Estimate the number of scooters to be sold in a town with population of 12 lacs with help of following data.

Population(in lacs)	(X)	4	6	7	10	13
No. of scooters	(Y)	5500	6600	5700	9000	10500

b) The production function of the firm, is $Q = 12 - \frac{1}{K} - \frac{1}{L}$

and $P_L = 1$, $P_K = 4$ and $P_Q = 9$. Which input combination will the firm use in order to maximise profit ?

c) The time study of a machinery operation recorded cycle times of 8.0, 7.0, 8.0 and 9.0 minutes. The analyst rated the observed worker as 90%. The firm uses a 0.15 allowance fraction. Compute the standard time. [4+5+3]

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Question 5

- a) A worker is employed for 12 hours. During this period he takes 8 hours to complete a job with the standard time of 7 hours. Calculate the productivity of the workers as a percentage.
- b) Five jobs are required to be processed through two machines 1 and 2 sequentially. The table below gives the processing times in hours:

Job	A	B	C	D	E
Machine 1	2	7	5	6	5
Machine 2	4	8	8	7	3

What is the minimum total time for completion of all jobs? For what period, if any, Machine 2 remains idle?

When does Job B gets completed?

- c) State the difference between PERT and CPM.

[4+5+3]

Question 6

- a) The XYZ Scientific Laboratories is engaged in producing different types of high class equipment for use in science laboratories. The company has two different assembly lines to produce its most popular product 'Pressurex'.

The processing time for each of the assembly lines is regarded as a random variable and is described by the following distributions.

Process Time (minutes)	Assembly A ₁	Assembly A ₂
10	0.10	0.20
11	0.15	0.40
12	0.40	0.20
13	0.25	0.15
14	0.10	0.05

Using the following random numbers, generate data on the process times for 15 units of the item and compute the expected process time for the product. For the purpose, read the numbers vertically taking the first two digits for the processing time on assembly A₁ and the last two digits for processing time on assembly A₂.

4134	8343	3602	7505	7428
7476	1183	9445	0089	3424
4943	1915	5415	0880	9309

- b) ABC Ltd. has four sales representatives who are to be assigned to four different sales territories. The monthly sales increase estimated for each sales representative for different sales territories (in lakhs of rupees), are shown in the following table:

Sales Representatives	Sales Territories			
	I	II	III	IV
A	200	150	170	220
B	160	120	150	140
C	190	195	190	200
D	180	175	160	190

Suggest optimal assignment and the total maximum sales increase per month.

If for certain reasons, sales representative 8 cannot be assigned to sales territory III, will the optimal assignment schedule be different? If so, find that schedule and the effect on total sales.

- c) Explain the term 'cost of quality'.

[4+5+3]

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Question 7

a) A manufacturing firm needs 5 component parts. Due to inadequate resources, the firm is unable to manufacture all its requirements. Thus, the management is interested in determining as to how many, if any, units of each component should be purchased from outside and how many should be produced internally. The relevant data are given here.

Component	M	A	T	TR	PP	PC
C ₁	4	1	1.5	20	48	30
C ₂	3	3	2	50	80	52
C ₃	1	1	0	45	24	18
C ₄	3	1	0.5	70	42	31
C ₅	2	0	0.5	40	28	16

M: Per unit milling time in hours
A: Per unit assembly time in hours
T: Per unit testing time in hours
TR: Total requirement in units
PP: Price per unit quoted in the market
PC: Per unit direct costs (including materials, labour etc.)

Resources available are as follows:

Milling hours : 300

Assembly hours : 160

Testing hours : 150

Formulate this as an LPP, taking the objective function as maximisation of saving by producing the components internally.

b) Discuss the points to be considered while designing a Maintenance programme for an organization ?

c) Product A has a Mean Time Between Failures(MTBF) of 30 hours and has a Mean

Time To Repairs (MTTR) of 5 hours. Product B has an MTBF of 40 hours and has an MTTR of 2 hours.

i) Which product has higher reliability?

ii) Which product has greater maintainability?

iii) Which product has greater availability?

[5+4+3]

Section B (Information Systems) [40 marks]

Answer Question 8 and any three from the rest.

Question 8

a) What does a 'key field' imply?

b) What is 'cursor'?

c) What type of device is OCR?

d) Define 'surfing'.

e) Transistor Technology was used in which generation of Computers?

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- f) Define 'function' in relation to computer technology.
- g) What do you understand by the term 'gateway' in relation to computer technology?
- h) Name a software package for DBMS.
- i) What is mapping?
- j) Name two broad types of system maintenance. [10]

Question 9

- a) Explain the concept of system decomposition.
- b) Explain the role played by Financial Information System in making financial decisions.
- c) Discuss briefly the reasons as to why the organizations fail to achieve their Systems Development Objectives? [2+4+4]

Question 10

- a) What do you understand by the term 'Data Dictionary'?
- b) What are the important decisions, which influence the physical design of a database? Discuss.
- c) What are the functions of Database System Utilities? [3+4+3]

Question 11

- a) Discuss the effect of applying computer technology to Management Information System.
- b) What are the limitations of the Management Information system?
- c) What are the four basic components of decision support system? [4+2+4]

Question 12

- a) Write short notes on the following:
- (i) Benefits of Enterprise Resource Planning
- (ii) Business Process Reengineering (BPR).
- b) Explain the terms Attribution, Acknowledgement and Dispatch of Electronic Records with reference to The Information Technology Act, 2000. [6+4]

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Operations Management and Information Systems

Test Paper—I/9/OMS/2012/T-4

Section A (Operations Management): [60 marks]

Answer Question 1 and any four from the rest.

Question 1

- The deviations of work centre time and cycle time for five work centres on an assembly line are 0,10,10, 10 and 40 minutes. What is the smoothness index?
- What are utilities?
- Define 'free float'.
- What do you mean by 'acceptance number' ?
- With whom do we associate Time Study?
- Expand '5 S'.
- What do slack variable represent?
- Which department prepares job card and why?
- What is Human Resource Planning? Answer in one sentence.
- State the function of 'Centrifugal pump'.
- Why do we carry out VED analysis?
- With whom do we associate Assembly Line?

[12]

Question 2

- Discuss the scope of operations management.
- List the stages involved in design process of goods and services.
- Write short note on 'process decisions'

[4+5+3]

Question 3

- What factors will have to be considered in choosing the location for the following industries?
 - Aluminium industry.
 - Thermal power plant.
 - Large furniture(domestic and office)manufacturing unit.

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b) Empire Glass Company can produce a certain insulator on any three machines which have the following charges shown below . The firm has an opportunity to accept an order for either (1) 50 units at ₹ 20/unit or (2) 150 units at ₹ 12/unit.

Machine	Fixed Cost (₹)	Variable Cost(₹)
A	50	4/unit
B	200	2/unit
C	400	1/unit

- (i) Which machine should be used if 50 units order is accepted and how much profit will result?
- (ii) Which machine should be used if the 150 unit order is accepted and what will be the resultant profit?
- (iii) What is the break-even volume for machine B when the price is ₹ 12/unit?
- (iv) Suppose the fixed cost for machine A is a stepped function with ₹ 50 up to 40 units and ₹ 100 thereafter. Will the answers to (i) and (ii) above vary? If so, what will be the revised answer?
- c) P Timber Works uses forklift trucks to transport lumber from factory to a storage area 0.3 km away. The lift trucks can move three loaded pallets per trip and travel at an average speed of 8 km. per hour (allowing for loading, unloading, delays and travel). If 640 pallet loads must be moved during 8 hours shift, how many lift trucks are required? Assume single shift working and 300 working days in a year. [4+5+3]

Question 4

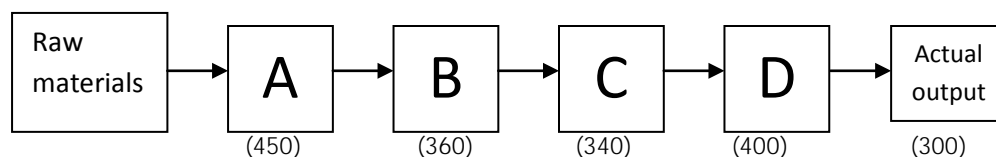
- a) The demand curve faced by a firm is $p = 20 - 4x$ and the cost function is $C = 4x$ (where p = price, x = output, and C = total cost).
- (i) Determine the optimum level of output, price and maximum profit if the objective of the firm is to maximise profit.
- (ii) What will be the new price if a unit tax of ₹ .0.50 is imposed?
- (iii) Determine the rate of unit tax so that tax revenue is maximum.
- b) Pilot study showed percentage of occurrence of an activity as 50%. Determine the number of observation required for a work sampling study for 95% confidence level and a relative error of $\pm 2\%$.
- c) Following is the data obtained from the Bureau of Industrial Costs and Prices. Have the prices kept pace with the rising costs?

	Note 1994 = 100											
	2004	5	6	7	8	9	10	11	12			
Costs per unit of output	203	216	223	239	248	253	279	301	311			
Price of final output	225	242	250	271	275	277	295	318	329			

[5+3+4]

Question 5

a) A firm has four work centres, A, B, C & D, in series with individual capacities in units per day shown in the figure below.

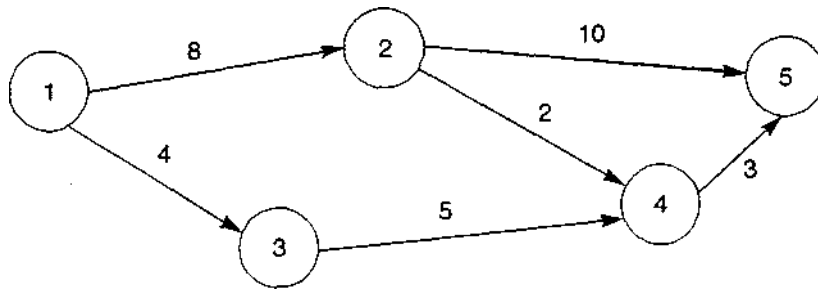


- (i) Identify the bottle neck centre.
- (ii) What is the system capacity?

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(iii) What is the system efficiency?

b) For given network find Total Float (TF), Free Float (FF) and Independent Float (IF)



Network

c) Write short notes on Supply Chain Management

[4+5+3]

Question 6

a) Customers arrive at the rate of twenty per hour and the present serving arrangements can cope with thirty per hour for an eight-hour day.

Using the queuing formulae provided, you are required to calculate and state:

- (i) the average time in the queue;
- (ii) the implied value of customers' time if the owner of the service has considered but rejected a faster service arrangement which would cost an extra ₹ 20 for an eight-hour day and would raise the service rate to forty per hour.

b) PQR Airlines operating 7 days a week has given the following time-table. Crews must have a minimum lay-over of 5 hours between flights. Obtain the pairing flights that minimises lay-over time away from home. For any given pairing the crew will be based at the city that results the smallest lay-over:

Hyderabad-Delhi			Delhi-Hyderabad		
Flight No.	Departure	Arrival	Flight No.	Departure	Arrival
A1	6 AM	8 AM	B1	8 AM	10 AM
A2	8 AM	10 AM	B2	9 AM	11 AM
A3	2 PM	4 PM	B3	2 PM	4 PM
A3	8 PM	10 PM	B4	7 PM	9 PM

c) KBC Ltd. has two factories that ship to three regional warehouses. The costs of transportation per unit are:

Warehouse	Factory	
	F ₁	F ₂
W ₁	2	4
W ₂	2	2
W ₃	5	3

Factory F₂ is old and has a variable manufacturing cost of ₹20 per unit. Factory F₁ is modern and produces for Rs. 10 per unit. Factory F₂ has a monthly capacity of 250 units, and Factory F₁ has a monthly capacity of 400 units. The

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requirements at the warehouses are:

Warehouse	Requirement
W ₁	200
W ₂	100
W ₃	250

How should each factory ship to each warehouse in order to minimize the total cost? Formulate this problem as a linear programming model. Do not solve it. [4+5+3]

Question 7

- Explain the need for acceptance sampling.
- What are the pros and cons of placing the quality department under operations manager?
- The following cost have been recorded:

Particulars	₹
Incoming materials inspection	10000
Training of personnel	30000
Warranty	45000
Process planning	15000
Scrap	9000
Quality laboratory	30000
Rework	25000
Allowances	10000
Complaints	14000

What are the costs of prevention, appraisal, external failure and internal failure? [4+4+4]

Section B (Information Systems) [40 marks]

Answer Question 8 and any three from the rest.

Question 8

- How do you define nanosecond?
- With which device concept of 'cylinder' is used?
- What is 'handshaking'?
- What is 'firmware'?
- What do we mean by data?
- What are the two types of data independence?
- What do you understand by 'domain'?
- What does 'packet switching' on internet refer to?

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i) Define 'cyber crime'.

j) What do you mean by reliability in respect of MIS?

[10]

Question 9

a) State the attributes of useful information.

b) What do you understand by "Requirement analysis"? What is the significance of analysing the present system and how is it carried out?

c) What is program documentation?

[4+4+2]

Question 10

a) Discuss the several integrity controls that DBMS has to support.

b) What do you understand by 'Data Independence'?

c) Write short note on the role of Database Administrator.

[5+3+2]

Question 11

a) Explain the important characteristics of a good Management Information System.

b) What is an Executive Information system? Discuss its various purposes.

c) Write short notes on Expert systems.

[4+4+2]

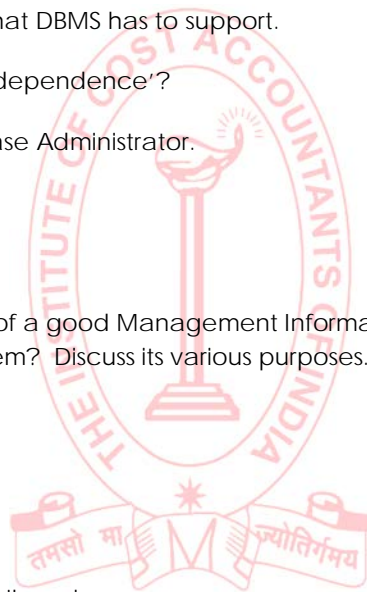
Question 12

a) Write short note on Cyber Appellate Tribunal.

b) State the objectives and scope of IT Act, 2000.

b) Write down the general guidelines which are to be followed before starting the implementation of an ERP package.

[3+4+3]



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Paper 10(Cost & Management Accountancy)

Test Paper—II/10/CMA/2012/T-1

Time Allowed-3hours

Full Marks-100

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

(2 marks each)

Question 1

(a)The following information relates to budgeted operations of Division X of a manufacturing company.

Particulars	Amount in ₹
Sales-50,000 units @₹8	4,00,000
Less: Variable Costs @₹6 per unit	3,00,000
Contribution margin	1,00,000
Less: Fixed Costs	75,000
Divisional Profits	25,000

The amount of divisional investment is ₹ 1,50,000 and the minimum desired rate of return on the investment is the cost of capital of 20%

Calculate

- Divisional expected ROI and
- Divisional expected RI

Q.1.(b) B Ltd. has earned net profit of ₹1 lakh, and its overall P/V ratio and margin of safety are 25% and 50% respectively. What is the total fixed of the Company?

Q.1.(c) A company makes and sells a single product. The selling price and marginal revenue equation are:

Selling price=₹50- Re.0.001x

Marginal revenue=₹50- Re.0.002x

Where x is the product of the company makes. The Variable Costs amount to ₹20 per unit and the Fixed costs are ₹1,00,000.

In order to maximise the profit, what should be the selling price?

(2 marks each)

Q.1.(d) Define the following terms not more than two sentences:

- out-of-pocket Cost
- Budget
- Angle of incidence

(1×2)

Q.1.(e) State whether the statements True or False

- One of the goals JIT seeks to achieve is batch size of one.
- Imputed costs are similar to Opportunity costs.

(9 marks)

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Question 2

Q.2.(a) Prepare a Cash Budget for the three months ending 30th June, 2015 from the information given below: (a)

MONTH	SALES (₹)	MATERIALS (₹)	WAGES (₹)	OVERHEADS (₹)
February	14,000	9,600	3,000	1,700
March	15,000	9,000	3,000	1,900
April	16,000	9,200	3,200	2,000
May	17,000	10,000	3,600	2,200
June	18,000	10,400	4,000	2,300

(b) Credit terms are:

Sales / Debtors: 10% sales are on cash, 50% of the credit sales are collected next month and the balance in the following month.

Creditors: Materials 2 months

Wages 1/4 month

Overheads 1/2 month.

(c) Cash and bank balance on 1st April, 2012 is expected to be ₹ 6,000.

(d) Other relevant information are:

- Plant and machinery will be installed in February 2015 at a cost of ₹96,000. The monthly installment of ₹2,000 is payable from April onwards.
- Dividend @ 5% on preference share capital of ₹2,00,000 will be paid on 1st June.
- Advance to be received for sale
- Dividends from investments amounting to ₹1,000 are expected to be received in June. (9 marks)

Q.2.(b) Distinguish between

(a) Job Costing and Contract Costing

(b) Fixed budget and Flexible budget

(9 marks)

Question 3

Q.3.(a) The standard mix of product M5 is as follows :

Material	Mix Ratio	Material Price per unit
A	50%	5.00
B	20%	4.00
C	30%	10.00

Standard loss is 10% of input. There is no scrap value. Actual production for month was 7240 units of M5 from 80 mixes.

Purchases and consumption is as follows:

Material	Unit	price
A	4,160	5.5
B	1,680	3.75
C	2,560	9.5

Calculate variances.

(9 marks)

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Q.3.(b) Kapur Engineering Company undertakes long term contract which involves the fabrication of pre stressed concrete block and the reaction of the same on consumer's life.
The following information is supplied regarding the contract which is incomplete on 31st March, 2015.

Cost Incurred:

Fabrication cost to date:

(₹)

Direct Material	2,80,000
Direct Labour	90,000
Overhead	75,000
	4,45,000
Erection Cost to date	15,000
Total	4,60,000
Contract price	8,19,000
Cash received on account	6,00,000

Technical estimate of work completed to date:

Fabrication: Direct materials 80%
 Direct labour and overheads 75%
 Erection 25%

You are required to prepare a statement for submission to the management indicating

- (a) The estimated profit on the completion of the contract;
 (b) The estimated profit to date on the contract. (6 marks)

Question 4

Q.4. (a) The following results of a company for the last two years are as follows:

Year	Sales(₹)	Profit(₹)
2014	1,50,000	20,000
2015	1,70,000	25,000

You are required to calculate:

1. P/V Ratio
2. B.E.P
3. The sales required to earn a profit of ₹ 40,000
4. Profit when sales are ₹ 2,50,000
5. Margin of safety at a profit of ₹ 50,000 and
6. Variable costs of the two periods (9 marks)

Q.4. (b) The share of total production and the cost-based fair price computed separately for each of the four units in industry are as follows:

	₹ per unit			
	40%	25%	20%	15%
Share of Production				
Material Costs	150	180	170	190
Direct Labour	100	120	140	160
Depreciation	300	200	160	100
Other Overheads	300	300	280	240

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	850	800	750	690
20% return on capital employed	630	430	350	230
Fair Price	1,480	1,230	1,100	920
Capital employed per unit is worked out as follows:				
Net Fixed Assets	3,000	2,000	1,600	1,000
Working Capital	140	150	150	150
Total	3,140	2,150	1,750	1,150

Indicate with reasons, what should be the Uniform Price fixed for the product.

(3 marks)

Q.4.(c) Write short note on Opportunity Costing?

Section B –Cost Records and Cost Audit (20 Marks)

Attempt Question No-5 which is compulsory and any ONE from the restQ

Question 5

What is the applicability of the Companies (Cost Records and Audit) Rules, 2014? **[5]**

Q.6.(a) The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost Accounting Standards/GACAP and its applicability vis-à-vis CRA-1? **[5]**

Q.6.(b) What is the meaning of “Turnover” in relation to the Companies (Cost Records and Audit) Rules, 2014? **[5]**

Q.6.(c) Is maintenance of cost accounting records mandatory for a multi-product company where all the products are not covered under the Rules even if the Turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores? **[5]**

Q.7. (a) How to identify products covered under 4-digit CETA Code as mentioned in the Rules? **[5]**

Q.7. (b) The Rules prescribed in 2011 had introduced the concept of reporting under “Product Group”. The present Rules are silent about Product Group. What is the requirement of preparation of cost statements of products/services so far as maintenance of cost accounting records is concerned and reporting thereof in the cost audit report? **[5]**

Q.7. (c) Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit? **[5]**

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Section C –Economics for Managerial Decision Making

(30 Marks)

Attempt Question No-8 which is compulsory and any TWO from the rest

Question 8. State whether the following statements are true or false: [1x10=10 marks]

- (i) Tea and sugar are complimentary goods.
- (ii) The economies of localization is a class of internal economies of scale.
- (iii) Under perfect competition $AR=MR$
- (iv) The demand of a factor of production is derived demand.
- (v) The income elasticity of demand of inferior goods is greater than 1
- (vi) MC is always equal to AC
- (vii) Demand of salt is elastic.
- (viii) Marginal cost curve is negatively sloped.
- (ix) Average fixed cost curves never touch X axis.
- (x) Cross elasticity of unrelated product will be positive

Question 9.(a) What do you mean by Elasticity of cost? [3 marks]

(b) Prove that Cost elasticity is equal to the ratio of Marginal cost to average cost. [3 marks]

(c) Write a short note on Price determination under oligopoly. [4 marks]

Question 10.

(a) What do you mean by elasticity of substitution? [3 marks]

(b) Prove that for a Production function $Q=AL^{\alpha}K^{\beta}$
Elasticity of substitution is equal to one. [7 marks]

Question 11.

Calculate the trend values by the method of least squares from the data given below and estimate the sales for the year 2017

Year	2008	2009	2010	2011	2012
Sales	12	18	20	23	27

[10 marks]

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Paper 10(Cost & Management Accountancy)

Test Paper—II/10/CMA/2012/T-2

Time Allowed-3hours

Full Marks-100

Section A

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

(1×4)

Q.1. (a) State whether the following statements are 'True' or 'False':

- (i) ABC analysis is based on the unit price of materials.
- (ii) No distinction is made between direct and indirect materials in process costing.
- (iii) Opportunity Cost is the value of benefit sacrificed in favour of an alternative course of action.
- (iv) Job costing is ideal where the products are dissimilar and non-repetitive in nature.

(1×4)

Q.1. (b) Match the statement in Column I with the appropriate statement in column II:

(i) Variance Analysis	(a) Does not involve any cash out flow
(ii) Differential Costing	(b) Decision Package
(iii) ZBB	(c) Management by Exception
(iv) Notional cost	(d) Decision making

(2×3)

Q.1. (c) In each of the cases given below one out of four is correct. Indicate the correct answer(=1 mark) and give your workings/reasons briefly(=1 mark):

- (i) If the asset turnover and profit margin of a company are 1.85 and 0.35 respectively, the return on investment is
 - a) 0.65
 - b) 0.35
 - c) 1.50
 - d) 5.29
- (ii) A company is currently operating at 80% capacity level. The production under normal capacity level is 1,50,000 units. The variable cost per unit is ₹14 and the total fixed costs are ₹ 8,00,000. If the company wants to earn a profit of ₹4,00,000, then the price of the product per unit should be...
 - a) ₹37.50
 - b) ₹38.25
 - c) ₹24.00
 - d) ₹16.00

(iii) In two consecutive periods, sales and profit were ₹ 1,60,000 and ₹ 8,000 respectively in the first period and ₹ 1,80,000 and ₹ 14,000 respectively during the second period. If there is no change in fixed cost between the two periods, then what would be profit if sales are ₹ 2,00,000?

- (A) ₹ 16,000
- (B) ₹ 18,000
- (C) ₹ 20,000
- (D) ₹ 22,000

(10 marks)

Q.2.(a) A factory has a key resource (bottleneck) of Facility A which is available for 31,300 minutes per week. Budgeted factory costs and data on two products, X and Y, are shown below:

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Product	Selling Price /unit	Material Cost/unit	Time in Facility A
X	₹35	₹20.00	5 minute
Y	₹35	₹17.50	10 minutes

Budgeted factory costs per week:

	₹
Direct Labour	25,000
Indirect Labour	12,500
Power	1,750
Depreciation	22,500
Space Costs	8,000
Engineering	3,500
Administration	5,000

Actual production during the last week is 4,750 units of product X and 650 units of product Y. Actual factory cost was ₹78,250.

Calculate:

- (i) Total factory costs (TFC)
- (ii) Cost per Factory Minute
- (iii) Return per Factory Minute for both products
- (iv) TA ratios for both products.
- (v) Throughput cost per the week.
- (vi) Efficiency ratio

Q.2.(b) Write four limitations of inter-firm comparison and Standard costing? (8 marks)

(12 marks)

Q.3.(a) Draw up a flexible budget for overhead expenses on the basis of the following data and determine the overhead rate at 70%, 80% and 90% plant capacity level :

Plant Capacity	At 80% capacity
	₹
Variable overheads:	
Indirect Labour	12,000
Indirect material	4,000
Semi-Variable overhead:	
Power (30% fixed, 70% variable)	20,000
Repair and maintenance (60% fixed, 40% variable)	2,000
Fixed overhead:	
Depreciation	11,000
Insurance	3,000
Others	10,000
Total Overhead	62,000
Estimated direct labour hours	1,24,000

Q.3.(b) Write notes on Chargeable Expenses. (6 marks)

(9 marks)

Q.4.(a) Leo Limited undertakes to supply 1,200 units of a component per month for the months of October, November and December 2014. Every month a batch order is opened against which materials and labour cost are booked at actual. Overheads are levied at a rate per labour hour. The selling price is contracted at ₹18/- per unit.

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From the following data, present the cost and profit per unit of each batch order.

Month	Batch Output (Numbers)	Material Cost ₹	Labour Cost ₹
October 2014	1,500	7,500	3,000
November 2014	1,800	10,800	3,600
December 2014	1,200	6,000	2,400

Labour is paid at the rate of ₹2 per hour. The other details are:

Months	Overheads	Total Labour
October 2014	14,400	4,800
November 2014	10,800	3,600
December 2014	18,000	6,000

(9 marks)

Q.4.(b) Present the following information to show to management:

- (i) The marginal product cost and the contribution p.u.
- (ii) The total contribution and profit resulting from each of the following sales mix results.

Particulars	Product	Per unit ₹
Direct Materials	A	10
Direct Materials	B	9
Direct wages	A	3
Direct Wages	B	2

Fixed Expenses – ₹ 800

(Variable expenses are allotted to products at 100% Direct Wages)

Sales Price ---- A ₹ 20

Sales Price ---- B ₹ 15

- Sales Mixtures:
- a) 100 units of Product A and 200 of B.
 - b) 150 units of Product A and 150 of B.
 - c) 200 units of Product A and 100 of B.

Section B –Cost Records and Cost Audit (20 Marks)

Attempt Question No-5 which is compulsory and any ONE from the rest

Q.5. Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?

[5]

Q.6.(a) Whether companies registered under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) and One Person Company (OPC) introduced in Companies Act, 2013 covered under the Rules?

[5]

Q.6. (b) The manufacturing process of a company generates Metal Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is sold in the market after the same is cleared under CETA Codes that are covered in the Rules. Will the company be covered under cost audit for generation of scrap?

[5]

Q.6. (c) What is the procedure for appointment of cost auditor under the Companies Act, 2013?

[5]

Q.7. (a) Who can be appointed as a cost auditor?

[5]

Q.7. (b) What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder?

[5]

Q.7. (c) Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?

[5]

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Section C –Economics for Managerial Decision Making (30 Marks)

Attempt Question No-8 which is compulsory and any TWO from the rest

Q8. Define: [2x5 =10marks]

- (i) Diminishing return.
- (ii) Incremental cost.
- (iii) Elasticity of supply.
- (iv) Break even point
- (v) Consumer surplus.

Q9 (a) What do you mean by Return to Scale? [2 marks]

(b) Distinguish between return to a factor and return to scale. [3 marks]

(c) The Cost function of a firm is given by

$$C=Q^3-4Q^2+6Q.$$

Find the level of output at which average cost is minimum. [5 marks]

Q10. a) Define economies of scale. [3 marks]

(b) Distinguish between Accounting Profit and Economic Profit. [3 marks]

(c) What do you mean by the term variable cost of production? How is marginal Cost related to variable cost? [4 marks]

Q11

(a) Bring out the meaning of the statement that a firm attains equilibrium when its marginal revenue is equal to Marginal cost..Examine whether this statement applies to a firm in a perfectly competitive market. [5 marks]

(b) Explain the relationship between Marginal Cost and Average Cost [5 marks]

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Paper 10(Cost & Management Accountancy)

Test Paper—II/10/CMA/2012/T-3

Time Allowed-3hours

Full Marks-100

Answer Question No.1 which is Compulsory and any two from the rest in this section:

Q.1. (a) Fill up the blanks suitably: (1×5)

- (i) At break even point total revenue is equal to Cost.
- (ii) When the production volume is nil, the loss will be equal to
- (iii) Two industries where batch costing is used are and
- (iv) Sales proceeds from abnormal losses are credited to A/c.
- (v) The balance is cost of sales account if transferred to

(2×3)

Q.1. (b) In each of the cases given below, one out of four answer is correct. Indicate the correct answer and give working reasons:

- (i) The cost of obsolete inventory acquired several years ago, to be considered in a keep vs. disposal decision is an example of :
 - a) Uncontrollable cost
 - b) Sunk cost
 - c) Avoidable cost
 - d) Opportunity cost

- (ii) Budgeted sales for the next year is 5,00,000 units. Desired ending finished goods inventory is 1,50,000 units and equivalent units in ending W-I-P inventory is 60,000 units. The opening finished goods inventory for the next year is 80,000 units, with 50,000 equivalent units in beginning W-I-P inventory How many equivalent units should be produced
 - a) 5,80,000
 - b) 5,50,000
 - c) 5,00,000
 - d) 5,75,000

- (iii) In a manufacturing company, the production passes through four processes – A, B, C & D sequentially and the output of each process is the input of the subsequent process. The following is the loss of the four processes :

A	-	12%
B	-	14%
C	-	16%
D	-	15%

The output in process D is 7,754.44 kg., the input of process A is

- a) 12,500 kgs.
- b) 11,400 kgs.
- c) 10,475 kgs.
- d) 12,800 kgs.

Q.1. (c) Match the statement in Column I with the appropriate statement in Column II : (1×3)

Column I	Column II
Flexible budget	ABC costing
Uniform Costing	Technique to assist interfirm comparison
Cost driver	Considers cost by behavior

(9 marks)

Q.2. (a) You are required to prepare a Selling overhead Budget from the estimates given below:

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	₹
Advertisement	1,000
Salaries of the Sales Dept.	1,000
Expenses of the Sales Dept. (Fixed)	750
Salesmen's remuneration	3,000

Salesmen's and Dearness Allowance – Commission @ 1% on sales affected
 Carriage Outwards: Estimated @ 5% on sales
 Agents Commission: 7½% on sales

The sales during the period were estimated as follows:

- (a) ₹ 80,000 including Agent's Sales ₹ 8,000
- (b) ₹ 90,000 including Agent's Sales ₹ 10,000
- (c) ₹ 1,00,000 including Agent's Sales ₹ 10,500

(9 marks)

Q.2. (b) A manufacturing co. operates a costing system and showed the following data in respect of the month of November.

Actual No. of Working days	22
Actual man hours Worked during the month	4,300
No. of Products Produced	425
Actual Overhead incurred	₹1,800

Relevant information from the company's budget and standard cost data is as follows:

Budgeted No. of Working days per month	20
Budgeted man hours per month	4,000
Standard man hours per product	10
Standard overhead rate per month per hour	50 p.

You are required to calculate the overhead variances for the month of November (10 marks)

Q.3. (a) Manar lodging home is being run in a small hill station with 50 single rooms. The home offers concessional rates during six off- season months in a year. During this period, half of the full room rent is charged. The management's profit margin is targeted at 20% of the room rent. The following are the cost estimates and other details for the year ending on 31st March 2012. [Assume a month to be of 30 days].

- (i) Occupancy during the season is 80% while in the off- season it is 40% only. (ii) Expenses:
 - > Staff salary [Excluding room attendants] ₹2, 75, 000
 - > Repairs to building ₹1, 30, 500
 - > Laundry and linen ₹40, 000
 - > Interior and tapestry ₹87, 500
 - > Sundry expenses ₹95, 400
- (ii) Annual depreciation is to be provided for buildings @ 5% and on furniture and equipments @ 15% on straight-line basis.
- (iii) Room attendants are paid ₹5 per room day on the basis of occupancy of the rooms in a month.
- (iv) Monthly lighting charges are ₹120 per room, except in four months in winter when it is ₹30 per room and this cost is on the basis of full occupancy for a month.
- (v) Total investment in the home is ₹100 lakhs of which ₹80 lakhs relate to buildings and balance for furniture and equipments.

You are required to work out the room rent chargeable per day both during the season and the offseason months on the basis of the foregoing information.

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(4+4)

Q.3. (b) What do you understand by Batch Costing? In which industries it is applied?

Q.3. (c) What are the objectives of Standard Costing Technique?

(7 marks)

Q.4. (a) A company fixes the inter-divisional transfer prices for its products on the basis of cost plus and estimated return on investment in its division. The relevant portion of the budget for the division A for the year 2012-13 is given below:

Fixed assets	₹5,00,000
Current assets (other than debtors)	3,00,000
Debtors	2,00,000
Annual fixed cost of the division	8,00,000
Variable cost per unit of product	10
Budgeted volume of production per year (units)	4,00,000
Desired return on investment	28%

You are required to determine the transfer price for the Division A.

(9 marks)

Q.4.(b) The following is the Trading and Profit and Loss account of M/s. Time and Trading limited for the year ended 31.12.2011.

Dr.

Trading and profit & Loss Account

Cr.

Particulars	₹	Particulars	₹
To, Materials consumed	7,08,000	By, Sales A/c (30,000 units)	15,00,000
To, Direct Wages A/c	3,71,000	By, Finished stock A/c (1,000 units)	40,000
To, Works overheads A/c	2,13,000	By, Work-in-progress:	
To, Admn. overheads A/c	95,500	Materials	17,000
To, Selling and Distribution overheads A/c	1,13,500	Wages	8,000
To, Net profit	69,000	Works OH	5,000
	15,70,000		15,70,000

Manufacturing a standard unit, the company's cost records show that:

- (i) Works overheads have been charged to work-in-progress at 20% on prime cost.
- (ii) Administration overheads have been recovered at ₹3 per finished unit.
- (iii) Selling and distribution overheads have been recovered at ₹4 per unit sold.
- (iv) The unabsorbed or over absorbed overheads have not been adjusted into costing profit and loss account.

Prepare:

- a) A Costing Profit and Loss Account indicating Net Profit.
- b) A Statement Reconciling the Profit as disclosed by Cost Accounts and that shown in Financial Accounts. (2 marks)

Q.4. (c) Define Cost Accountancy?

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Section B –Cost Records and Cost Audit (20 Marks)

Attempt Question No-5 which is compulsory and any ONE from the rest

Q. 5. A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit?

[5]

Q.6.(a) In the abridged cost statement, what are Industry specific operating expenses? When should this be used?

[5]

Q.6.(b) What is installed capacity and how is this different from total available capacity? How the installed capacity is to be calculated in a multi-product company using the same machine/facilities? Should installed capacity be the capacity at the beginning of the year or at the end of the year under audit?

[5]

Q.6.(c) Whether each and every transactions with Related Parties is to be disclosed under Para D-5 of Annexure to the Cost Audit Report?

[5]

Q.7. (a) Is CRA-3 applicable for companies whose financial year commenced prior to April 1, 2014? Which Rules are applicable to companies whose financial year commenced on January 1, 2014?

[5]

Q.7. (b) The Companies (Cost Records and Audit) Rules, 2014 requires submission of a single cost audit report at company level. What is the procedure of certifying and submission of cost audit report of a company where more than one cost auditor is appointed?

[5]

Q.7. (c) What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014?

[5]

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Section C –Economics for Managerial Decision Making (30 Marks)

Attempt Question No-8 which is compulsory and any TWO from the rest

Q8 (a) Match the following:

[1x5=5marks]

A	B
Perfect competition	Excess capacity
Monopoly	Single buyer
Monopsony	P=AR=MR
Monopolistic Competition	Inter dependence
Oligopoly	Single seller

(b) Fill in the blanks:

[1x5=5marks]

- (i) If the average revenue is a straight line then the marginal revenue will be _____.
- (ii) AR curve is kinked shape under _____.
- (iii) Tea and coffee are _____ goods.
- (iv) Ceteris Paribus means _____.
- (v) Cross elasticity of complementary goods will be _____.

9(a) What do you mean by shut down point?

[3 marks]

(b) A Ltd sells output in a perfectly competitive market. The average variable cost function is given by

$$AVC=300-40Q+2Q^2$$

A LTD has an obligation to pay Rs500/-irrespective of the output produced. What is the price below which A Ltd has to shut down its operation in short run? [7 marks]

Q10 (a) How would you define the cross elasticity of demand? What is the economic significance of this concept. [4 marks]

(b) Define

Dual Pricing

Multiple Product Pricing

[6 marks]

Q11 (a) What is price discrimination?

[3 marks]

(b) The market with the higher price elasticity will have the lower price. Explain.

[7 marks]

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Paper 10 (Cost & Management Accountancy)

Test Paper—II/10/CMA/2012/T-4

Time Allowed-3hours

Full Marks-100

Answer Question No.1 which is Compulsory and any two from the rest in this section:

Q.1.(a)

(2×3)

(i) When P/V ratio is 40% and sales value is ₹10,000, the variable cost will be

- (a) ₹ 4000
- (b) ₹ 6000
- (c) ₹10000
- (d) Variable Cost cannot be calculated from data given.

(ii) Standard costs are

- (a) Estimated cost
- (b) Budgeted cost
- (c) Expected cost
- (d) Scientifically pre-determined cost.

(iii) Consider the following particulars for a month :

Budgeted fixed production overhead cost - ₹1,10,000

Budgeted production - 5,500 units

The fixed overhead cost was under absorbed by ₹12,000 and the fixed production overhead expenditure variance was ₹2,500 (Adverse).

The number of units produced during the month was.....

- (a) 5,025
- (b) 5,625
- (c) 4,775
- (d) 4,885

Q.1.(b) State whether the following statements are 'True' or 'False' :

(1×3)

- (i) Margin costing is useful for long term planning.
- (ii) Idle time variance is always adverse.
- (iii) Fixed cost vary with volume rather than time.

Q.1.(c) Fill in the blanks :

(1×5)

- (i) The total of indirect expenses is known as
- (ii) Ordering cost and carrying cost are in nature.
- (iii) The purpose of cost control accounts is to control the
- (iv) The scarce factor of production is known as
- (v) LIFO method of pricing issues is useful during periods of

(12 marks)

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Q.2. (a) From the following particulars for a period reconcile the actual profit with the budgeted profit.

	Budgeted	Actual
	(₹ lacs)	(₹ lacs)
Direct Material	50.00	66.00
Direct Wages	30.00	33.00
Variable overheads	6.00	7.00
Fixed overheads	10.00	12.00
Net Profit	4.00	8.50
	100.00	126.50

Actual material price and wage rates were higher by 10%. Actual sales prices are also higher by 10%. (6 marks)

Q.2. (b) A product passes through three processes— A, B and C. 10,000 units at a cost of ₹1.10 were issued to Process A. The other direct expenses were as follows:

	PROCESS-A	PROCESS-B	PROCESS-C
Sundry materials	1,500	1,500	1,500
Direct labour	4,500	8,000	1,000
Direct expenses	1,000	1,503	6,500

The wastage of process 'A' was 5% and in process 'B' 4%

The wastage of process 'A' was sold at ₹0.25 per unit and that of 'B' at ₹ 0.50 per unit and that of C at ₹ 1.00.

The overhead charges were 160% of direct labour. The final product was sold at ₹10 per unit fetching a profit of 20% on sales. Find out the percentage of wastage in Process 'C'

(5 marks)

Q.3. (a) Enumerate the points on which uniformity is essential before introducing uniform costing system?

(3 marks)

Q.3. (b) A customer has been ordering 60,000 special design metal columns at the columns at the rate of 18,000 per order during the past years. The production cost comprises ₹120 for material, ₹60 for labour and ₹20 for fixed overheads. It costs ₹1,500 to set up for one run of 18,000 column and inventory carrying cost is 15% since this customer may buy at least 5,000 columns this year, the company would like to avoid making five different production runs. Find the most economic production run. (10 marks)

Q.3. (c) Beauty soap, company manufactures four different brands of soaps namely Komal, Lovely, Makeup and Nice. The data on production and sale of these brands during 2012 is reproduced below

Brand Name	Komal	Lovely	Makeup	Nice
Production & sales (units)	3,00,000	5,00,000	70,000	40,000
Sales value ₹ lakhs	15	31	2.8	1.2

All the above soaps are manufactured jointly up to a particular process. At split off point they are formed into cake-sand packed. The annual cost data were as under.

Direct Material Cost	₹30 lakhs
Value added (includes profit at 25% on total cost)	₹20 lakhs

Out of the above brands, Make up is sold in unpacked condition without further processing while other 3 brands further processed at an additional cost:

Komal	₹1,20,000
Lovely	₹1,30,000
Nice	₹50,000

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You are required to:-

- a) Work out the profit and cost of each brand of soap after allocating joint cost on the basis of Net Realisable value at split up point. (per unit cost not required).
- b) Find out revised cost and profit on each brand if the company decides to sell all soaps at split up point at following prices; Komal ₹4.50; Lovely ₹6.00; Make up ₹4.00 and Nice ₹1.50 per unit.

Assume that for allocation of joint cost net Realisable value method is used.

- c) With the working results in (a) and (b) above advise Beauty Soap Company about the processing decision as to which soap to be sold at split of point and which to be processed Further so as to maximise profit. Substantiate your decision with suitable costing to technique. (8 marks)

Q.4.(a) X Chemical Ltd. manufacture two products AB and CD by making the raw material in the proportion shown:

Raw Material	Product AB	Product CD
A	80%	
B	20%	
C		50%
D		50%

The finished weight of products AB and CD are equal in the weight of in gradients. During the month of June it is expected that 60 tons of AB and 200 tons of CD will be sold.

Actual and budgeted inventories for the month of June as follows:

	Actual Inventory (1 st June) Quantity (Tons)	Budgeted Inventory (30 th June) Quantity (Tons)
A	15	20
B	10	40
C	200	300
D	250	200
Product AB	10	5
Product CD	50	60

The purchase price of materials for June is expected to be as follows:

Material	Cost per ton (₹)
A	500
B	400
C	100
D	200

All materials will be purchased on 3rd of June, Prepare:

- (a) The Production Budget for the month of June,
- (b) The Material Requirement budget for June,
- (c) The Material Purchase Budget indicating the expenditure for material for the month of June.

(7 marks)

Q.4. (b) A market gardener is planning his production for next season and he asked you, as a cost consultant, to recommend the optimum mix of vegetable production for the coming year. He has given you the following data relating to the current year:

	POTATOES	TOMATOES	PEAS	CARROTS
Area occupied in acres	25	20	30	25
Yield per acre in tons	10	8	9	12

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Selling Price per ton ₹	1,000	1,250	1,500	1,350
Variable Cost per acre:				
Fertilizer	300	250	450	400
Seeds	150	200	300	250
Pesticides	250	150	200	250
Direct Wages	4,000	4,500	5,000	5,700

Fixed Overhead per annum: ₹5,40,000

The land which is being used for the production of carrots and peas can be used for either crop but not for potatoes and tomatoes. The land being used for potatoes and tomatoes can be used for either crops but not carrots and peas. In order to provide an adequate market service, the gardener must produce each year at least 40 tons of each of potatoes and tomatoes and 36 tons of each peas and carrots. You are required to present a statement to show :

- a) (1) The profit for the current year:
 - (2) The profit for the production mix you would recommend;
- b) Assuming that the land could be cultivated in such a way that any of the above crops could be produced and there was no market commitment. You are required to:
 - (1) Advise the market gardener on which crop he should concentrate his production.
 - (2) Calculate the profit if he were to do so, and
 - (3) Calculate in rupees the breakeven - point of sales.

(3 marks)

Q.4. (c) Enumerate the benefits of transfer pricing policy?

Section B –Cost Records and Cost Audit (20 Marks)

Attempt Question No-5 which is compulsory and any ONE from the rest

Q.5. King Pvt. Ltd is the manufacturer of Drugs and Pharmaceuticals products falling under CETA Heading No. 2901 to 2942. The turnover of the company for the financial year ended 2013-14 & 2014-15 was ₹ 60 crores & ₹ 90 crores and one of the product as per CETA Heading no. 2907 whose individual turnover is ₹ 30 crores. As a Cost Accountant, please suggest the applicability of Companies (Cost Records and Audit) Rules, 2014 for the financial year 2013-14. [5]

Q.6.(a) Whether the Companies (Cost Records and Audit) Rules, 2014 is applicable to a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under section 7(9) of the Micro, Small and Medium Enterprises Development Act, 2006? [5]

Q.6.(b) Whether Companies (Cost Records and Audit) Rules, 2014 is applicable to a company which is generating electricity for captive use? [5]

Q.6.(c) Whether all petroleum products are covered under Companies (Cost Records and Audit) Rules, 2014? [5]

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Q.7. (a) XYZ Ltd is a manufacturer of Steel since 1st December, 2012. The aggregate turnover of the product during the immediately preceding financial year is ₹ 30 crore. During the current financial year 2014-15 his turnover is ₹ 120 crore. You as a Cost Accountant, suggest whether any Cost Records is required to be maintained by XYZ Ltd for the financial year 2014-15? [5]

Q.7. (b) XYZ Ltd is a manufacturing company, on which Rule 3 of Companies (Cost Records and Audit) Rules, 2014 is applicable. But he is not liable to do Cost Audit of the company. Whether the company is liable to file compliance report to the Central Government? [5]

Q.7. (c) What is the time limit within which a company shall furnished the Cost Audit Report to the Central Government? [5]

Section C –Economics for Managerial Decision Making (30 Marks)

Attempt Question No-8 which is compulsory and any TWO from the rest

Q8. Define: [2x5=10marks]

- (i) The demand forecasting
- (ii) Constant return to scale.
- (iii) Collusion
- (iv) Price leadership
- (v) Sunk cost

Q9. (a) What do you mean by Arc Price Elasticity of demand? [3 marks]

(b) Prove that

$$\text{Elasticity of Demand} = \frac{AR}{AR-MR} \quad [5 \text{ marks}]$$

(c) What do you mean by derived demand. [2 marks]

Q10(a) Demand function is given by $X=3P^{-2}$ where P and X are the price and quantity demand respectively. Prove that the price elasticity of demand is constant. [5 marks]

(b) Define income elasticity of demand. Discuss the importance of income elasticity in managerial decision making. [5 marks]

Q11(a) Explain Skimming Pricing and Penetration Pricing. [5 marks]
(b) Explain the role of cost in pricing decision. [5 marks]

Paper 11 - Indirect Taxation

Test Paper - II/11/ITX/2012/T-1

Full Marks : 100

Time : 3 hours

(Answer all the Questions)

Question 1.

- (a) What is Taxable Event?
- (b) M/S ABC Ltd., (manufacturing computer hardware) has cleared goods of the value of ₹120 lakhs during the financial year 2015-16 exclusive of duties and taxes. The goods attract 12.5% ad valorem excise duty plus education cess as applicable. Determine the excise duty liability when the assessee opts for cenvat facility and also in the case when the assessee decides not to avail Cenvat benefit. The turnover of the assessee in the previous year 2014-15 was ₹100 lakhs.
- (c) State the rules used for reversal of Cenvat Credit.
- (d) Anoop & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption. Determine the cost of production in terms of rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 and as per CAS-4 (cost accounting standard) (i) Direct material cost per unit inclusive of excise duty at 12.5% - ₹1,320, (ii) Direct wages - ₹250, (iii) Other direct expenses - ₹100, (iv) Indirect materials - ₹75, (v) Factory Overheads - ₹200, (vi) Administrative overhead (25% relating to production capacity) ₹100 (vii) Selling and distribution expenses - ₹150, (viii) Quality Control - ₹25, (ix) Sale of scrap realized - ₹20, (x) Actual profit margin - 15%. The total production is 20000 units, and the number of units captively consumed is:
- (a) 18000 units
- (b) 20000 units

[2+6+6+6]

Question 2.

- (a) What do you understand by transit and transshipment of goods? Under what conditions do they enjoy exemptions from duty under the Customs Act, 1962?
- (b) Explain briefly the procedures for Import.
- (c) The assessable value of an imported items in ₹1,00,000. Basic customs duty is 20%, additional duty of customs is 12.5% and secondary and higher education cess as applicable. No additional duty of customs is chargeable on such goods u/s. 3(5) of the Act. Compute the amount of customs duty payable. Also state the amount of credit available to the importer.

[4+6+5]

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Question 3.

- (a) "Direct taxes are 'regressive' in nature" — Is it true or false? State this with reasons.
(b) Describe the power of taxation under the Constitution of India.

[2+3]

Question 4.

- (i) Fill in the blanks:
(i) Service tax came into force from _____ Finance Act.
(ii) E-payment of service tax is _____. (optional/mandatory)
- (ii) State with reasons whether the following statements are true or false:
(i) The Commissioner of Central Excise is empowered to review the service tax orders passed by the officers subordinate to him and re-adjudicate it, in case he finds the order to be legally inappropriate.
(ii) A service provider can opt for centralised registration under service tax even if he does not have any centralised billing system.
- (iii) "Services in recognized systems of medicines in India are exempt." — Discuss.
(iv) Define the Rule 3 for determination of point of taxation.
(v) Calculate the value of taxable service of Robin Transport Company engaged in the business of transport of goods by road. Give reasons for taxability or exemption of each item. No freight is received from any of the specified category of consignor/consignee. Suitable assumption may be made wherever required. Robin does not avail cenvat credit.

		₹
(i)	Total freight charges received by Robin during the year	6,75,000
(ii)	Freight charges received for transporting fruits	62,500
(iii)	Freight collected for transporting small consignment for persons who paid less than ₹ 750 for each consignment	37,500
(iv)	Freight collected for transporting goods in small vehicles for person who paid less than ₹ 1500 per trip	75,000

- (vi) What is the place of provision where the location of receiver is not ascertainable in the ordinary course of business?
(vii) Ms P, practicing Cost Accountant received ₹ 20,00,000 in June, **2015**. He paid services tax on 25th July 2015 by way of GAR – 7 challan. Gross receipts in the year **2014-15** were ₹25 lakhs.

You are required to calculate interest on delay payment of service tax.

[(1×2)+(1×2)+4+4+5+4+4]

Question 5.

- (a) Define Arm's Length Price.
(b) State the difficulties in applying Arm's Length Principle.

[5+5]

Question 6.

- (a) State the following statements whether true or false:

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- (i) Levy of VAT will have effect on retail price of goods.
(ii) Appeal against an order passed by the Registration authority must be filed within 90 days of the service of order to the Central Sales Tax Authority.
- (b) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer with working notes thereon.
- (i) Priti & Co. a dealer in Delhi dealing in consumer goods, had purchased goods of ₹2,16,000 (exclusive VAT) and after adding for expenses of ₹24,000 and of Profit ₹60,000 had sold out the same. If the rate of VAT on purchase and sales is 12.5% what would be the amount of tax payable (Net) under VAT?
A. ₹10,500
B. ₹9,000
C. ₹3,000
D. None of the above
- (ii) The selling price of URP LTD. inclusive of basic Excise duty @ 12.5%, and CST @ 2% is ₹3,600. What would be the assessable value of the product per unit under the Central Excise Act?
A. ₹3325.94
B. ₹3260.87
C. ₹3065.10
D. None of (A), (B) & (C)
- (c) State the distinctions between 'Zero Rated Sale' and 'Exempt Sale' in the context of VAT.
(d) Define the terms — 'Dealer' and 'Business' as per Central Sales Tax Act, 1956.

[(2×2)+(2×2)+3+4]

Question 7.

- (a) "Inputs required to manufacture export products can be imported without payment of customs duty under Advance Authorisation." — Define the statement.
(b) State the method of Duty Drawback on Re-export as per Section 74 of Customs Act, 1962.

[5+5]

Paper 11 - Indirect Taxation

Test Paper - II/11/ITX/2012/T-2

Full Marks : 100

Time : 3 hours

(Answer all the Questions)

Question 1.

- (a) Write a short note on Anti-Dumping Duty.
- (b) An importer imported Description of goods: Mulberry Raw Silk (not thrown) (HS Code 5002 00) from People's Republic of China. CIF value was US \$ 20,000 and quantity 1,000 Kgs. Exchange rate was US \$ = ₹44 on date of presentation of Bill of Entry. Customs Duty rates are – (i) Basic Customs Duty 10%, (ii) Education Cess 2%, (iii) SAH Education Cess - 1%. There is no excise duty payable on these goods if manufactured in India. As per Notification No. 106/2003-Cus dated 10-7-2003, anti-dumping duty has been imposed on these goods imported from China, manufactured by any producer in People's Republic of China. The anti-dumping duty will be equal to difference between amount calculated @ US \$31.69 per Kg and 'Landed value' of goods. Compute Customs Duty liability & anti-dumping liability.

Or,

An importer has imported a machine from UK at FOB cost of 10,000 UK Pounds. Other details are as follows:

- (i) Freight from UK to Indian port was 700 pounds.
- (ii) Insurance was paid to insurer in India: ₹6,000
- (iii) Design and development charges of 2,000 UK pounds were paid to a consultancy firm in UK
- (iv) The importer also spent an amount of ₹50,000 in India for development work connected with the machinery.
- (v) ₹10,000 were spent in transporting the machinery from Indian port to the factory of importer.
- (vi) Rate of exchange as announced by RBI was: ₹68.82 = one UK Pound
- (vii) Rate of exchange as announced by CBE&C (Board) by notification under section 14(3)(a)(i) : ₹68.70 = One UK pound
- (viii) Rate at which bank recovered the amount from importer: ₹68.35 = One UK Pound.
- (ix) Foreign exporters have an Agent in India. Commission is payable to the agent in Indian Rupees @ 5% of FOB price.

Customs duty payable was 10%. If similar goods were produced in India, excise duty payable as per tariff is 12.5%. Education cess is as applicable Spl. CVD is payable at applicable rates.

Find customs duty payable. What are the duty refunds/benefits available if the importer is (a) manufacturer (b) service provider (c) Trader?

- (c) Mrs. And Mr. Kapoor visited Germany and brought following goods while returning to India on 8th April 2015 after 1 year.
- (i) Their personal effects like clothes, etc., valued at ₹35,000.
 - (ii) A personal computer bought for ₹36,000.

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- (iii) A laptop computer bought for ₹95,000.
- (iv) Two liters of liquor bought for ₹1,600.
- (v) A new camera bought for ₹37,400.
- (vi) Jewellery carried by Mrs. Kapoor worth ₹110000.

What is the amount of customs duty payable?

[4+6+5]

Question 2.

- (a) What are the differences between direct taxes and indirect taxes in relation to nature of tax and taxable event?
- (b) Why manufacturers or dealers psychologically favour indirect taxes?

[4+1]

Question 3.

- (a) An SSI unit is not eligible for exemption from excise duty if it manufactures goods with brand name belonging to other person. However, SSI exemption is available if the goods bearing brand name of other person are manufactured in a specified area. Explain provisions relating to that area. Is there any limit to the exemption?
- (b) Write a short note on Harmonised System of Nomenclature.
- (c) 1,500 pieces of a product 'A' were manufactured during the financial year. Its list price (i.e. retail 250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the price) is list price. During the year, 840 pieces were sold in wholesale, 510 pieces were sold in retail, 35 pieces were distributed as free samples. Balance quantity of 115 pieces was in stock at the end of the year. The rate of duty is 12.5%. What is the total duty paid during the financial year? Assume that the manufacture is not eligible for SSI concession.
- (d) Following transactions took place in the factory of A Ltd.:
 - (i) An imported consignment of raw materials was received vide Bill of Entry dated 2.12.15 showing the following customs duty payments: Basic Customs duty ₹25,000; Additional duty (CVD) ₹20,000; Special Additional duty ₹5,800.
 - (ii) A consignment of 1,000 kgs of inputs was received. The Excise duty paid as per the invoice was ₹10,000. While the input was being unloaded 50 kgs were damaged and were found to be not usable.
 - (iii) A vehicle containing machinery was received. The machinery was purchased through a dealer and not from the manufacturer. The dealer's Invoice No. 925, dated 3.4.15 marked 'original for buyer' certified that the Excise duty paid by the manufacturer of machinery was ₹24,000. The dealer is registered with the Central Excise Authorities.
 - (iv) Some inputs for final products were received. These were accompanied by a certified Xerox copy (photo copy) of Invoice No. 286 dated 15.1.2016 indicating that Excise duty of ₹6,400, has been paid on inputs. The original or duplicate copies of invoice are not traceable.

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Indicate the eligibility of CENVAT Credit in each case under the CENVAT Credit Rules, 2004 with explanations where necessary.

[4+4+6+6]

Question 4.

“Software is the set of instructions that allows physical hardware to function and perform computations in a particular manner, be it a word processor, web browser or the computer's operating system. These expressions are in contrast with the concept of hardware which are the physical components of a computer system, and data, which is information that performs no computation and gives no enabling instructions to computer hardware but is ready for processing by the computer software” – LML Ltd. vs. Commissioner of Customs 2010 (258) ELT 321 (SC).

Also held that CD- ROM containing images of drawings and designs of engineering goods are not classifiable as computer software.

In 2004, the Supreme Court pronounced a landmark judgement in case of Tata Consultancy Services vs. State of Andhra Pradesh (2004) 141 Taxman 132 (SC) – TCS case. The judgement stated the parameters under which software would qualify as "goods". The relevant text of the judgement read "the text, to determine whether a property is 'goods; for the purposes sales tax (now VAT), is not whether the property is tangible or intangible or incorporeal. The test is whether the concerned items is capable of abstraction, consumption and whether it can be transmitted, transferred, delivered, stored, possessed, etc. Admittedly in the case of software, both canned and uncanned, all of these are possible'.

While the Supreme Court firmly concluded that sale of branded/canned software is liable to sales tax law (now VAT), the view expressed on unbranded software was with convert stating that' even unbranded software, when it is marketed/sold, may be goods. We, however, are not dealing with this aspect and express no opinion thereon because in case of unbranded software other questions like situs of contract of sale and/ or whether the contract is a service contract may arise'.

Answer the following questions —

- (a) What is Software?
- (b) State the judgemental view in regard to whether software is good or not.
- (c) What is the view of Supreme Court on unbranded software?

[3+4+3]

Question 5.

- (a) List out the exclusions from negative list in respect of services provided by Govt. or local authority.
- (b) Determine the point of taxation in case of specified services or persons.
- (c) Ms. Q rendered taxable services to a client. A bill of ₹40,000 were raised on 29-4-2015. ₹15,000 were received from the client on 01-05-2015 and the balance on 23-05-2015. No service tax was separately charged in the bill.

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(i) Is Ms. Q liable to pay service tax, even though the same has not been charged by her?

(ii) If so, what is the value of taxable services and the service tax?

(iii) Due date of payment of service tax?

Note: previous year turnover is ₹25 lakhs.

(d) What is location of the service provider and service receiver?

(e) Y Ltd. Filed the ST-3 return on 30th November, 2015 for the period from 1st April, 2015 to 30th September, 2013. Subsequently on 1st February 2016, some mistakes were found in the ST-3 return which was originally submitted on 30th November, 2015. Service tax authorities rejected the revised return filled by the Y Ltd. On 5th February, 2016, since the revised return was filled by the assessee after 90 days from the due date of filling the return (i.e. 25th October, 2015). The action of the department is correct?

[8+4+5+4+4]

Question 6.

(a) Define Penultimate sale for export of goods.

(b) Goods worth ₹1,02,000 are sold by A of Andhra Pradesh to C of Chennai, CST @ 2% is included in the above. If the local sales tax rate is 0%, 1%, 4% or 12.5% on such sale within the state of Andhra Pradesh. What will be the tax liability?

(i) If buyer is the registered dealer and C Form given.

(ii) If buyer is the unregistered dealer.

(c) Write a short note on Tax Identification Number.

[5+5+5]

Question 7.

State the different types of duty drawback rates.

[10]

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Paper 11 - Indirect Taxation

Test Paper - II/11/ITX/2012/T-3

Full Marks : 100

Time : 3 hours

(Answer all the questions)

Question 1.

"Inputs required to manufacture export products can be imported without payment of customs duty under Advance Authorisation." — Write a note on Advance Authorisation.

[10]

Question 2.

- (a) What is Provisional Anti-Dumping Duty?
- (b) An importer imported some goods for subsequent sale in India at \$12,000 on CIF basis. Relevant exchange rate as notified by the Central Government and RBI was ₹45 and ₹45.50 respectively. The item imported attracts basic duty at 10% and education Cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 12.5%. Arrive at the Assessable value and the total duty payable thereon. State eligibility of CENVAT credit to buyer.
- (c) "No anti-dumping duty is payable by EOUs under the Customs Act, 1962, even where the goods imported are used for manufacture of goods sold in India." — State the statement whether true or false with reason.
- (d) Describe the aspects of Duty Drawback on Re-Export according to the Customs Act, 1962.

[4+4+2+5]

Question 3.

- (a) M/s Fin Finance Ltd. purchased equipment on 1.7.2015 from a vendor for ₹100 lakhs (exclusive of VAT @4%) on behalf of a dealer for giving on lease. The deemed sale Price of such goods is ₹1,20,00,000 (principal amount), taxable @4% of VAT and interest for the lease period is ₹30,00,000. The lease term covers substantially the whole useful life of the equipment. Assume input tax credit on purchased equipment is fully allowed in the first year. Find VAT payable by M/s Fin Finance Ltd.
- (b) Define Works Contract as per CST Act, 1956.
- (c) Write with examples about the 'Carousel Fraud' in VAT.
- (d) Mr. A, a first stage dealer in pharmaceutical plant and boiler in the State of Tamil Nadu, furnishes the under mentioned information:

		₹
(i)	Total inter-State sales during financial year 2015-16 (CST not shown separately)	2,31,25,000
(ii)	Trade commission for which credit notes have to be issued separately	5,78,125

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(iii)	Freight and transportation charges (of this ₹1,50,000 is on inclusive basis)	4,50,000
(iv)	Insurance premium paid prior to delivery of goods	70,000
(v)	Installation and commissioning charges levied separately in invoices	75,000

Compute the tax liability under the CST Act, assuming the rate of tax @ 2%.

[5+3+3+4]

Question 4.

- (a) Write down the Power of Taxation under Constitution of India.
- (b) Give some examples of Direct Taxes and Indirect Taxes.

[3+2]

Question 5.

Based on classification, write a note 'Cross Border Services'.

[10]

Question 6.

- (a) Mr. X a composer of a song having the copyright for his song. When he allow the recording of the song on payment of some royalty by a music company for further distribution, if so Mr. X is required to pay service tax on the royalty amount received from a music company?
- (b) What types of exemptions are provided to the services by an Arbitral Tribunal and Advocates?
- (c) Describe Point of Taxation.
- (d) Mr. Agarwal, a consulting engineer raised a bill ₹2,20,600 (including service tax @14.5%) on his client for consulting services rendered by him in the month of June, 2015. A partial payment of ₹1,65,450 was received by Mr. Agarwal in the month of September, 2015 as full and final settlement. Compute the service tax amount payable by Mr. Agarwal and the due date by which service tax can be deposited. Previous year taxable services were ₹74 lakhs.
- (e) State briefly whether the following services under the Finance Act, 1994 relating to service tax are taxable service.
 - (i) Service provided in the state of Rajasthan by a person having a place of business in the State of Jammu and Kashmir.
 - (ii) Service provided from India for use outside India.
 - (iii) Service provided from outside India and received in India by individual otherwise than purpose of use in business or commerce.
 - (iv) Service provided to an Export Oriented Unit.
- (f) Briefly list out the manner of distribution of credit by input service distributor as per Rule 7 of the Cenvat Credit Rules, 2004.

[3+5+4+5+4+4]

Question 7.

- (a) State the excisability of Waste and Scrap. (Case reference may be given)
- (b) A manufacturer has appointed brokers for obtaining orders from wholesalers. The brokers procure orders for which they get brokerage of 5% on selling price. Manufacturer sells goods to buyers at ₹250 per piece. The price is inclusive of State Vat and Central excise duty. State Vat rate is 4% and excise duty rate is 12.5%. What is the AV, and what is duty payable per piece?
- (c) Avisari Ltd. is a small-scale industrial unit manufacturing a product X. The Annual report for the year 2015-16 of the unit shows a gross sale turnover of ₹1,91,40,000, which includes excise duty and sales tax. The product attracted an excise duty rate of 12.5% and Sales Tax 10%. Determine the duty liability under Notification No. 8/2003-CE, if SSI unit had availed SSI exemption and then paid duty. On the other hand, if SSI had availed Cenvat Credit on all its inputs, what would be the excise duty liability? (Ignore SAH education Cess).
- (d) Z Ltd. purchased 25 computer systems, eligible as capital goods under CENVAT Credit Rules, 2004 on 01.07.2013 paying a duty of ₹2,600 on each computer system. However, since these systems became outdated, it sold 20 computer systems out of 25 on 25.6.2015 at a residual value of ₹2,000 each. Excise duty on such residual value @12.5%. Determine the amount of CENVAT credit required to be reversed in the financial year 2015-16.

[4+6+4+6]

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Paper 11 - Indirect Taxation

Test Paper - II/11/ITX/2012/T-4

Full Marks : 100

Time : 3 hours

(Answer all the questions)

Question 1.

- Write a note on Negative List.
- State Rule 7 (Determination of point of taxation in case of specified services or persons) of the Point of Taxation Rules, 2011.
- Determine the value of service in relation to money changing.
- What are the criteria to determine if a service is 'directly in relation to' immovable property located in taxable territory?
- What is 'input service' as per Rule 2(l) of Cenvat Credit Rules, 2004?

[8+4+5+4+4]

Question 2.

- Are sale of bundles of old newspapers as waste papers exempt from CST?
- Whether the following statements are true or false state with reasons —
 - Insurance company which takes possession of damaged goods for which it has paid, sells the damaged goods. The insurance company is a dealer under the Central Sales Tax Act.
 - Lottery ticket is not goods under the CST Act.
- State briefly the basic distinction between Sales tax and Excise.
- Compute the net VAT liability from the following information:-

Particulars	₹
Raw material purchased from foreign market (including duty paid on imports @ 20%)	12,000
Raw material purchased from local market (including VAT charged on the material @4%)	20,800
Raw material purchased from neighbouring state (including CST paid on purchases @ 2%)	7,140
Storage, transportation cost and interest	2,500
Other manufacturing expenses incurred	600

[3+(2×2)+2+6]

Question 3.

Write a short note on General provision with respect to export of goods, as per Foreign Trade Policy 2015-2020.

[10]

Question 4.

- Fill in the blanks with appropriate words.

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- (i) Central excise is a duty on excisable goods manufactured or produced in India, other than _____.
- (ii) Waste and Scrap will not be excisable unless it is specified in _____.
- (b) Repacking of an already manufactured product would amount to manufacture in Excise Law — State with reason whether the statement is true or false.

- (c) A Trader supplies raw material of ₹1,150 to processor. Processor processes the raw material and supplies finished product to the trader. The processor charges ₹450, which include ₹350 as processing expenses and ₹100 as his (processor's) profit. Transport cost for sending the raw material to the factory of processor is ₹50. Transport charges for returning the finished product to the trader from the premises of the processor is ₹60. The finished product is sold by the trader at ₹2,100 from his premises. He charges Vat separately in his invoice at applicable rates. The rate of duty is 12.5%. What is the AV, and what is total duty payable?

Or,

1,500 pieces of a product 'A' were manufactured during the financial year. Its list price (i.e. retail 250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the price) is list price. During the year, 840 pieces were sold in wholesale, 510 pieces were sold in retail, and 35 pieces were distributed as free samples. Balance quantity of 115 pieces was in stock at the end of the year. The rate of duty is 12.5%. What is the total duty paid during the financial year?

Assume that the manufacture is not eligible for SSI concession.

- (d) Maharaja, a manufacturer of dutiable as well as exempted goods, furnishes the following information for the month of May 2015:
- (i) Assessable value of dutiable goods ₹250 lakh (rate of duty 12.5%);
- (ii) Price of exempted goods cleared from the factory ₹200 lakh;
- (iii) CENVAT credit of input X (used only in the manufacture of exempted goods) ₹10 lakh;
- (iv) CENVAT credit of input Y (used only in the manufacture of dutiable goods) ₹15 lakh;
- (v) CENVAT credit of input Z (used commonly in manufacture of exempted as well as dutiable goods but no separate accounts are maintained in respect of such input Z) ₹20 lakh; and
- (vi) CENVAT credit of capital goods (used partly for manufacture of exempted goods also) ₹25 lakh (total amount of duty).

Compute the amount of excise duty and any other amount payable by Maharaja for the month of May 2015.

- (e) The value of excisable goods viz. Iron and Steel articles manufactured by M/s. Alpha Ltd. was ₹120 lakhs during the financial year 2015-16, net of taxes and duties. The goods attract 12.5% basic duty. Determine the excise duty liability when the assessee opts for 'CENVAT' and opts for not to avail 'CENVAT' under SSI exemption notification respectively.
- (f) M/s XYZ. are in the business of supplying "Turbo-alternators" to various customers. They manufacture steam turbines in the factory, which are removed to the customer's site on payment of Central Excise Duty. They purchase duty paid alternators from the market

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which are delivered at the customer's site. M/s XYZ assemble both the items and fix them permanently on a platform at the site. Department demands central excise duty payable on "Turbo-alternator" when it comes into existence after being assembled on the platform embedded to the earth. Is the view taken by the department correct. Discuss with the help of case laws, if any.

[(1×2)+2+3+6+4+3]

Question 5.

- (a) State briefly the basic requirements of principle of natural justice in the context of adjudication in indirect taxes.
- (b) What are the differences between direct taxes and indirect taxes?

[2+3]

Question 6.

- (a) Briefly describe Import General Manifest (IGM).
- (b) Certain goods were imported in February 2015. "Into bond" bill of entry was presented on 14th February, 2015 and goods were cleared from the port for warehousing. Assessable value was \$5,00,000. Customs officer issued the order under section 60 permitting the deposit of the goods in warehouse on 21st February, 2015 for 3 months. Goods were not cleared even after warehousing period was over, i.e., 21st May, 2015 and extension of time was also not obtained. Customs officer issued notice under section 72 demanding duty and other charges. Goods were cleared by importer on 28th June, 2015. What is the amount of duty payable while removing the goods? Compute on the basis of following information (assume that no additional duty or special additional duty payable).

	14.02.2015	21.05.2015	28.06.2015
Rate of Exchange per USD (₹)	58.30	58.40	58.50
Basic customs duty	35%	30%	25%

- (c) What is Bill of Entry? Write its significance in Customs.

[4+6+5]

Question 7.

- (a) "Globalization and the drive to achieve efficiencies within MNE groups have encouraged sharing of resources to provides support between one or more location by way of shared services." — Analyze it.
- (b) Write down the FEMARBI Compliance in the context of Cross Border Services.

[5+5]

Paper – 12 - Company Accounts & Audit

Test Paper – 1

Section A

1. Write a note on Components of Financial Statement. [5]
2. (a) Indicate the correct answer (give the workings):
- (i) Mr. RAKESH BEHARI bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = ₹47.10 when exchange rate was US\$ 1 = ₹47.11. On 31st December when he closed his books, exchange rate was US\$ 1 = ₹47.15. On 31st January, he decided to sell the contract at ₹47.18 per dollar. The profits from contract to be recognized in the P&L A/c will be :
- A. ₹1,000
B. ₹5,000
C. ₹8,000
D. None of these. [2]
- (ii) The fair market values of Pension Plan assets of Allen LTD. at the beginning of year 2014-15 was ₹7,00,000. The employer contribution to the plan and Benefit payments made to retiree during the year were ₹1,00,000 and ₹40,000 respectively. If the actual return on pension Plan assets is ₹50,000, what would be the Fair market value of pension plan at end of year 2014-15 (As per-AS-15)?
- A. ₹8,00,000;
B. ₹8,10,000;
C. ₹8,30,000;
D. Insufficient information. [2]
- (iii) Lakhpati Bank has followed the policies for retirement benefits as under:
(a) Leave encashment is accounted for on "PAY-AS-YOU-GO" method.
(b) Contribution to the gratuity fund is made based on actuarial valuation at the year end.
Comment whether the policy is in accordance with AS-15. [2]
- (b) List the objectives of AS – 26. [3]
- (c) Compute EPS:
Net profit for 2014 ₹ 22,00,000
Net profit for 2015 ₹ 30,00,000
- (i) Nos. of shares outstanding prior to Right Issue: 5,00,000 shares
(ii) Right Issue: one new share for 5 outstanding i.e. 1,00,000 new shares
(iii) Right price: ₹ 15
(iv) Last date of right option: 1st March 2015
(v) Fair value prior to the right option on 1st March 2015: ₹ 21 per equity share. [6]

or,

Tulip Ltd. has taken the assets on lease from Max Impex Ltd. The following information is given below:

- (i) Lease Term = 4 years
- (ii) Fair value at inception of lease = ₹ 16,00,000
- (iii) Lease Rent = ₹ 5,00,000 p.a. at the end of year
- (iv) Guaranteed Residual Value = ₹ 1,00,000
- (v) Expected Residual Value = ₹ 2,00,000
- (vi) Implicit Interest Rate = 14.97%

How the accounting is done in the book of lessor ?

[6]

Section B

3. Oscar Ltd. issued 10,000 Equity Shares of ₹100 each at a premium of ₹15 each. Ninety per cent of the issue was underwritten by Ashmit & Co. at a Commission of 1% on the Nominal Value. Applications were received for 8,000 Shares and allotment was fully made. All the money's due from allottees was received in one instalment. The accounts with Ashmit & Co. were settled. Show the Journal Entries to record the transactions. [6]

or,

Answer (a) and (b)

(a) Indicate the correct answer:

When interest on own debentures becomes due it will be credited to

- (i) Profit & Loss Account
- (ii) Own Debentures Account
- (iii) Debentures Interest Account
- (iv) Interest on own Debentures Account

[1]

(b) Journalize the following transactions. Narration is not required:

Issue of 12% 1,00,000 debentures of ₹ 100 each

- (i) at par and redeemable at par.
- (ii) at 10% discount and redeemable at par.
- (iii) at 10% premium and redeemable at par.
- (iv) at 10% premium and redeemable at a premium of 5%.
- (v) at par and redeemable at a premium of 5%.

[5]

4. On 1st November, 2014 Squash Ltd. was incorporated with an authorized capital of ₹200 Crores. It issued to its promoters equity capital of ₹10 Crores which was paid for in full. On that day it purchased the running business of Jam Ltd. for ₹40 Crores and allotted at par equity capital of ₹40 Crores in discharge of the consideration. The net assets taken over from Jam Ltd. were valued as follows: Fixed Assets ₹30 Crores, inventory ₹2 Crores, customers' dues ₹14 Crores and creditors ₹6 Crores. Squash Ltd. carried on business and the following information is furnished to you:

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(i) Summary of cash/bank transactions (for year ended 31st October, 2015)

Particulars		(₹ in Crores)
Equity capital raised:		
Promoters (as shown above)	10	
Other	50	60
Collections from customers		800
Sale proceeds of fixed assets (cost ₹18 Crores)		4
		864
Payment to suppliers	400	
Payment to employees	140	
Payment to expenses	100	640
Investments in Upkar Ltd.		20
Payment to suppliers of fixed assets:	120	
Instalment due	10	130
Interest		54
Tax payment		10
Dividend		10
Closing cash / bank balance		864

(ii)

Particulars		(₹ in Crores)
On 31 st October, 2015 Squash Ltd.'s assets and liabilities were:		
Inventory at cost		3
Customers' dues		80
Prepaid expenses		2
Advance to suppliers		8
Amount due to suppliers of goods		52
Amounts due to suppliers of fixed assets		150
Outstanding expenses		6

(iii) Depreciation for the year under:

(a) Companies Act, 2013	₹36 Crores
(b) Income Tax Act, 1961	₹40 Crores

(iv) Provide for tax at 38.5% of "total income". There are no disallowed expenses for the purpose of income taxation. Provision for tax is to be round off.

For Squash Ltd. prepare:

- (a) Revenue statement for the year ended 31st October, 2015 and
 (b) Balance sheet as on 31st October, 2015 from the above information. [10]

5. (a) Indicate the correct answer:

AS-3 on Cash Flow Statement classifies the activities into three types namely :

- (i) Operating Activities
 (ii) Investing Activities
 (iii) Financing Activities
 (iv) None of above

[1]

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(b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars	₹ (in lakhs)	₹ (in lakhs)
Net Profit		60,000
Add: Sale of Investments		70,000
Depreciation on Assets		11,000
Issue of Preference Shares		9,000
Loan raised		4,500
Decrease in Stock		12,000
		1,66,500
Less: Purchase of Fixed Assets	65,000	
Decrease in Creditors	6,000	
Increase in Debtors	8,000	
Exchange gain	8,000	
Profit on sale of investments	12,000	
Redemption of Debenture	5,700	
Dividend paid	1,400	
Interest paid	945	
		1,07,045
Add: Opening cash and cash equivalent		59,455
Closing cash and cash equivalent		12,341
		71,796

[5]

6. Information relating to five segment of Moon Light Ltd. is as under: (₹ in lakhs)

Segments	L	M	N	O	Total
Segment Revenue	350	250	100	300	1,000
Segment Result	(60)	90	50	(30)	50
Segment Assets	55	140	65	40	300

As a cost accountant of this company management wishes to know from you which company need to be reported. [3]

7. The Balance Sheets of Amit Ltd. and Amita Ltd. as on 31.03.2014 were as follows:

Balance Sheet (Drafted) as on 31.03.2014

Liabilities	Amit Ltd. (₹)	Amita Ltd. (₹)	Assets	Amit Ltd. (₹)	Amita Ltd. (₹)
Equity Share capital (₹ 100)	8,00,000	3,00,000	Building	2,00,000	1,00,000
10% Preference Share capital (₹ 100)	-	2,00,000	Machinery	5,00,000	3,00,000
			Furniture	1,00,000	60,000
			Investment:		
			600 shares of Small Ltd.	60,000	—

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General Reserve	3,00,000	1,00,000	Stock	1,50,000	1,90,000
Profit and Loss A/c	2,00,000	1,00,000	Debtors	3,50,000	2,50,000
Creditors	2,00,000	3,00,000	Cash and Bank	90,000	70,000
			Preliminary Expenses	50,000	30,000
	15,00,000	10,00,000		15,00,000	10,00,000

Amit Ltd. has taken over the entire undertaking of Amita Ltd. on 30.09.2014, on which date, the position of Current Assets except Cash and Bank balances and Current Liabilities were as

	Amit Ltd. (₹)	Amita Ltd. (₹)
Stock	1,20,000	1,50,000
Debtors	3,80,000	2,50,000
Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2014 after charging depreciation as 5% on building, 15% on machinery and 10% on furniture, are:

Amit Ltd. ₹ 1,02,500

Amita Ltd. ₹ 54,000

On 30.08.2014 both companies have declared 15% dividend for 2013-14.

Goodwill of Amita Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above Amit their book values on 31.03.2014. Preference shares of Amita Ltd. are to be allotted 10%. Preference Shares of Amit Ltd. and Equity shareholders of Amita Ltd. are to receive requisite number of equity shares of Amit Ltd. valued at ₹150 per share on satisfaction of their claims.

Show the Balance Sheet as of 30.09.2014 assuming absorption is through by that date. [10]

or,

A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below :

The Balance Sheets (Drafted) of A Ltd. and B Ltd. as on 31st March, 2014 (₹in lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital Equity Shares of ₹100 each	800	750	Fixed Assets		
12% Preference Shares of ₹100 each	300	200	Land and Building	550	400
Reserves and Surplus			Plant and Machinery	350	250
Revaluation Reserve	100	150	Investments	150	50
General Reserve	150	170	Current Assets		

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Investment Allowance Reserve	50	50	Loans and Advances		
Profit and Loss Account	50	30	Stock	350	250
Secured Loans 10% Debentures (Rs. 100 each)	60	30	Sundry Debtors	250	300
Current Liabilities and provisions					
Sundry Creditors	270	120	Bills Receivable	50	50
Bills Payable	150	70	Cash and Bank	300	200
	2,000	1,500		2,000	1,500

Additional Information :

(i) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹100 each so as to maintain the same amount of interest.

(ii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹150 per share (face value of ₹100).

(iii) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹10 per share.

(iv) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. [10]

8. The following is the Balance Sheet (Drafted) of Sweet Ltd. as at 31.3.2014:

Liabilities	₹	Assets	₹
Share Capital :		Fixed Assets:	
2,000 Equity Shares of ₹ 100, ₹ 75 paid up	1,50,000	Land & Buildings	4,00,000
6,000 Equity Shares of ₹ 100, ₹ 60 paid up	3,60,000	Plant & Machineries	3,80,000
2,000 10% Pref. Share of ₹ 100, fully paid up	2,00,000	Current Assets:	
10% Debentures (floating charge on all assets)	2,00,000	Stock at Cost	1,10,000
Int. accrued on Deb. (also secured as above)	10,000	Sundry Debtors	2,20,000
Sundry Creditors	4,90,000	Cash at Bank	60,000
		Profit and Loss A/c	2,40,000
Total	14,10,000	Total	14,10,000

On that date, the Company went into Voluntary Liquidation. The dividends on Preference Shares were in arrears for the last two years. Sundry Creditors include a loan of ₹ 90,000 on Mortgage of Land and Buildings. The assets realized were as under: (a) Land & Buildings ₹ 3,40,000; (b) Plant & Machinery ₹ 3,60,000; (c) Stock ₹ 1,20,000; and (d) Sundry Debtors ₹ 1,60,000.

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Interest accrued on Loan on Mortgage of Buildings upto the date of payment amounted to ₹ 10,000. The expenses of Liquidation amounted to ₹4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realized (except cash at bank) and 2% on the amounts distributed among Equity Shareholders. Preferential Creditors included in Sundry Creditors amount ₹ 30,000. All payments were made on 30.06.2014.

Prepare the Liquidator's Final Statement of Account.

[5]

Section - C

Answer Question 9 and any four from the rest

9. Comment on the following based on legal provisions:

- (a) In auditing, the concept of materiality can be judged only in relative context.
- (b) Auditor's primary job is to detect errors and frauds.
- (c) Audit is concerned with ethics of business.
- (d) A company can refuse to provide access to its books of accounts to the company's auditor outside normal working hours of the company, as it will inconvenience the accounts staff.
- (e) The appointment of Mr. A as statutory auditor was held to be void ab initio. So the company holds another annual general meeting and appoints Mr. B, through a special resolution.

[2X5]

10. (a) Auditors of M/s FBG (P) Ltd. were changed for the accounting year 2014-15. The closing stock of the company as on 31.3.2014 amounting to ₹ 200 lacs continued as it is and became closing stock as on 31.3.2015. The auditors of the company propose to exclude from their audit programme the audit of closing stock of ₹200 lacs on the understanding that it pertains to the preceding year which was audited by another auditor. Give your comments with respect to Standards on Auditing.

(b) "Secret Reserves can remain no longer secret". Discuss.

(c) How will you vouch/verify the following:

- (i) Foreign travel expenses
- (ii) Receipt of capital subsidy

[3+3+4]

11.(a) The SBH College, an institution managed by MT Trust, has received a grant of ₹ 3 crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college.

(b) 'At the AGM of DEF Ltd., Mr. M was appointed as the statutory auditor. He, however, resigned after 3 months. State, how the new auditor will be appointed by DEF Ltd.

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(c) R and S were appointed as Joint Auditors of GBF Ltd. What will be their professional responsibility in a case where the company has cleverly concealed certain transactions that escaped the notice of both the Auditors. Comment on the position. [4+3+3]

12. Explain how following are dealt in Auditor's Report as per CARO - 2015:

(a) Extent of Accumulated Losses;

(b) Fixed Assets;

(c) Loans.

[2+3+5]

13.(a) What are the inherent limitations of Internal Control system?

(b) State your views as an auditor with regard to each of the following:

(i) No depreciation has been charged for the year ended 31st March 2014, in respect of a spare Car purchased during the year and kept ready by the company for use as a stand-by on the ground that it was not used during the year.

(ii) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward losses. [4+6]

Paper – 12 - Company Accounts & Audit

Test Paper 2 : [100 Marks]

Section A

1. Write the objective of Financial Statement. [5]

2. Answer the following questions:

(a) R Ltd. acquired a patent at a cost of ₹80,00,000 for a period of 5 years and the product life- cycle is also 5 years. The company capitalized the cost and started amortising at ₹10,00,000 p.a. After two years it was found that the product life cycle may continue for another 5 years from then. The net cash flow from the product during these 5 years are expected to be ₹36,00,000; ₹46,00,000; ₹44,00,000; ₹40,00,000; and ₹34,00,000. Find out the amortization cost of the patent for each of the years.

(b) Vishnu Company has at its financial year ended 31st March, 2015, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the possible outcomes as below:

Result	Probability	Amount of Loss (₹)
For first ten cases:		
Win	0.6	
Loss - Low Damages	0.3	90,000
Loss -High Damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss - Low Damages	0.2	60,000
Loss -High Damages	0.3	95,000

The directors believe that the outcome of each is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

(c) Virat Ltd. received a specific grant of ₹100 lakhs for acquiring the plant of ₹500 lakhs during 2011 -12 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet during 2014 -15 and due to non-compliance of conditions laid down for the grant of ₹100 lakhs the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹450 lakhs and written down value of plant was ₹1,800 lakhs.

(i) What should be the treatment of the refund of the grant and the cost of the fixed asset and the amount of depreciation to be charged during the years 2014 -15 in profit and loss account?

(ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2011 -12? [5 × 3]

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Section B

3. On 01.01.2013, Lamco Ltd. issued 1,000, 15% Convertible Debentures of ₹ 200 each at a discount of 5% redeemable at par after 4 years by converting their holdings into equity shares of ₹ 100 each at a premium of 25%. As per terms of issue, the holders of these Debentures also have an option to convert their holdings as aforesaid at any time after 6 months but within 3 years. On 31.12.2013, a holder of 250 Debentures notified his intention to exercise the option.

(a) Give Journal entries as on 01.01.2013, 31.12.2013 and on 31.12.2014 (ignoring interest), and

(b) Prepare the Balance Sheet as on 31.12.2014. [6]

4. (a) From the following particulars, calculate Commission to the Managing Director: Profit as per Profit and Loss A/c is ₹1,45,09,000, after deducting the depreciation of ₹1,24,24,000. Salary and remuneration to the managing director of ₹72,000 and director fees of ₹4,000. The depreciation as per Schedule II of the Companies Act, 2013 is of ₹1,04,24,000. [3]

(b) The following information has been extracted from the books of account of Super Ltd. as at 31st March, 2014:

Particulars	Dr. (₹ '000)	Cr. (₹ '000)
Administration Expenses	480	
Cash at Bank and on Hand	228	
Cash Received on Sale of Fittings		10
Long Term Loan		70
Investments	200	
Depreciation on Fixtures, Fittings, Tools and Equipment (1 st April, 2013)		260
Distribution Costs	102	
Factory Closure Costs	60	
Fixtures, Fittings, Tools and Equipment at Cost	680	
Profit & Loss Account (at 1 st April, 2013)		80
Purchase of Equipment	120	
Purchases of Goods for Resale	1710	
Sales (net of Excise Duty)		3,000
Share Capital (1,00,000 Shares of ₹ 10 each fully paid)		1,000
Stock (at 1 st April, 2013)	140	
Trade Creditors		80
Trade Debtors	780	
	4,500	4,500

Additional Information:

- (i) The stock at 31st March, 2014 (valued at the lower of cost or net realizable value) was estimated to be worth ₹ 2,00,000.

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- (ii) Fixtures, fittings, tools and equipment all related to administration. Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
- (iii) During the year to 31st March, 2014, the Company purchased equipment of ₹ 1,20,000. It also sold some fittings (which had originally) cost ₹ 60,000 for ₹ 10,000 and for which depreciation of ₹ 30,000 had been set aside.
- (iv) The average Income tax for the Company is 50%. Factory closure cost is to be presumed as an allowable expenditure for Income tax purpose.
- (v) The company proposes to pay a dividend of 20% per Equity Share.

Prepare Super Ltd.'s Profit and Loss Account for the year to 31st March, 2014 and balance Sheet as at that date in accordance with the Companies Act, 2013.

[7]

5. Good Day Limited had the following condensed Trial Balance as at 31-3-2014:

Debit	Amount ₹	Credit	Amount ₹
Cash	7,500	Current Liabilities	15,000
Account Receivable	30,000	Long- Term Notes Payable	25,500
Investments	20,000	Bonds Payable	25,000
Plant Assets	67,500	Capital stock	75,000
Land	40,000	Retained Earnings	24,500
	1,65,000		1,65,000

During 2014-2015, the following transactions took place:

- (i) A tract of land was purchased for ₹7,750 cash.
- (ii) Bonds payable in the amount of ₹6,000 were retired for cash at face value.
- (iii) An additional ₹20,000 equity shares were issued at par for cash.
- (iv) Dividends totaling ₹9,375 were paid.
- (v) Net income for 2014-2015 was ₹28,450 after allowing for depreciation of ₹9,500.
- (vi) Land was purchased through the issuance of ₹22,500 in bonds.
- (vii) Usha Ltd. sold a part of its investments portfolio for ₹12,875 cash. The transaction resulted in a gain of ₹1,375 for the firm.
- (viii) Current liabilities increased to ₹18,000 at 31-03-2015.
- (ix) Accounts receivable at 31-03-2015 total ₹38,000.

Compute the cash flow from operating activity and investing activity as per AS – 3 (Revised).

[4]

6. The Chief Accountant of BHD Ltd. gives the following data regarding its six segments:

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	-50	-140	80	10	-10	10	-100
Segment Revenue	200	320	200	90	90	100	1000

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Determine the reportable segments as per AS – 17.

[3]

7. The Balance Sheets (Drafted) of Star Ltd. and Cloud Ltd. for the year ending on 31.03.2014 are as follows:

Liabilities	Star Ltd. ₹	Cloud Ltd. ₹	Assets	Star Ltd. ₹	Cloud Ltd. ₹
Equity shares capital (in shares of ₹ 10 each)	24,00,000	12,00,000	Fixed Assets	55,00,000	27,00,000
8% Preference share capital, (in share of ₹ 10 each)	8,00,000	-	Current Assets	25,00,000	23,00,000
10% Preference share capital, (in share of ₹ 10 each)	-	4,00,000		-	-
Reserves	30,00,000	24,00,000		-	-
Current Liabilities	18,00,000	10,00,000		-	-
	80,00,000	50,00,000		80,00,000	50,00,000

The following additional information is provided :

	Star Ltd. (₹)	Cloud Ltd. (₹)
Profit before tax	10,64,000	4,80,000
Taxation	4,00,000	2,00,000
Preference dividend	64,000	40,000
Equity dividend	2,88,000	1,92,000

(i) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operation.

(ii) Star Ltd. proposes to absorb Cloud Ltd. as on 31.03.2014. The terms of absorption are as under:

- Preference shareholders of Cloud Ltd. will receive 8% preference shares of Star Ltd. sufficient to increase the income of preference shareholders of Cloud Ltd. by 10%.
- The equity shareholders of Cloud Ltd. will receive equity shares of Star Ltd. on the following basis:

(i) The equity shares of Cloud Ltd. will be valued by applying to the earnings per share of Cloud Ltd. 75% of price earnings ratio of Star Ltd. based on the results of 2013-2014 of both companies.

(iii) The market price of equity shares of Star Ltd. is ₹ 40 per share.

(iv) The number of shares to be issued to the equity shareholders of Cloud Ltd. will be based on the above market value.

(v) In addition to equity shares, 8% preference shares of Star Ltd. will be issued to the equity shareholders of Cloud Ltd. to mark up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-2014.

The assets and liabilities of Cloud Ltd. as on 31.03.2014 are revalued by professional valued as under:

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	Increased by (₹)	Decreased by (₹)
Fixed Assets	10,00,000	-
Current Assets	-	2,00,000
Current Liabilities	-	40,000
Equity dividend	2,88,000	1,92,000

For the next two years no increase in the rate of equity dividend is expected. You are required to set out in detail the purchase consideration including computation of EPS. [12]

or,

The following was the balance sheet (Drafted) of Blue Sky Ltd. as at 31st March, 2014.

Liabilities	₹ in lakhs
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	2,500
Equity Shares of ₹10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss Account	300
9% Debentures	5,000
Sundry creditors	2,300
Sundry Provisions	1,000
	26,900

Assets	₹ in lakhs
Fixed assets (Tangible)	14,000
Investments	3,000
Cash at Bank	1,650
Other Current assets	8,250
	26,900

On 1st April, 2014 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹20 per share. In order to make cash available, the company sold all the investments for ₹3,150 lakh and raised a bank loan amounting to ₹2,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law. [12]

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8. "Rupa" Ltd. went into voluntary liquidation on 31.12.2013 when their Balance Sheet read as follows:

Liabilities	Amount	Assets	Amount
Issued and Subscribed Capital:		Land and Building	2,50,000
5,000, 10% Cum. Pref. Shares of ₹ 100 each fully paid	5,00,000	Machinery and Plant	6,25,000
2,500 Equity Shares of ₹ 100 each, ₹ 75 paid	1,87,500	Patents	1,00,000
7,500 Equity Shares of ₹ 100 each, ₹ 60 paid	4,50,000	Stocks	1,37,500
15% Debentures Secured by Floating Charge	2,50,000	Sundry Debtors	2,75,000
Interest outstanding on Debentures	37,500	Cash at Bank	75,000
Creditors	3,18,750	Profit and Loss A/c	2,81,250
Total	17,43,750	Total	17,43,750

- (i) Preference Dividends were in arrears for 2 years and the Creditors included Preferential Creditors of ₹ 38,000.
- (ii) The assets realized as follows (a) Land and Building ₹ 3,00,000; (b) Machinery and Plant ₹ 5,00,000; (c) Patents ₹ 75,000; (d) Stock ₹ 1,50,000 and (e) Sundry Debtors ₹ 2,00,000.
- (iii) Liquidation expenses were ₹ 27,250. Liquidator is entitled to commission of 3% on assets realized except cash.

Assuming the final payments including those on debentures were made on 30.06.2014, show the Liquidator's Final Statement of Account. [5]

Section C

Answer Question 9 and any four from the rest

9. Comment on the following based on legal provisions:

- (a) Propriety audit is applicable to all limited companies in all aspects.
- (b) Auditor is entitled to rely on work performed by others.
- (c) While conducting audit of stocks, verification of stock records is of primary importance to operational auditor.
- (d) Shareholders, by a majority vote, have authorized the Board of Directors to keep the books of accounts of the company in its Administrative Office, as against the earlier practice of keeping them in the Registered Office. The ROC was not informed about this change. Company intends that this practice is in order.
- (e) Capitalisation of Borrowing Costs would continue during extended periods in which active development is interrupted. [2X5]

10.(a) State the matters which the Statutory Auditor should look into before framing opinion on accounts on finalisation of audit of accounts?

(b) Briefly explain the inherent limitations of audit.

(c) How will you vouch/verify the following:

(i) Machinery acquired under Hire-purchase system.

(ii) Work-in-progress.

[3+3+4]

11. (a) Write short notes on financial indications to be considered for evaluating the assumption of going concern.

(b) 'In vouching payments, the duty of the auditor does not end by merely checking the proof that money has been paid away.' Comment.

(c) Mention the special points in the case of an audit of the entity from Incomplete Records.

[3+3+4]

12. (a) What are the main points involved in 'Performance Audit' under Government Accounting system?

(b) Comment on the following:

"Auditor not to render certain services".

(b) State the procedure for removal of statutory auditor before the expiry of his term as per Companies Act, 2013.

[4+6]

13. (a) As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery and whether any of these items have become obsolescent and not in use. What points you would consider while conducting the internal audit?

(b) As a Company Auditor how would you react to the following situations?

(i) Insurance claim of ₹5 lacs received stands included under Miscellaneous Income.

(ii) ₹7.50 lacs paid by a cosmetics company to the legal advisor defending the patent of a product treated as Capital Expenditure.

[4+6]

Paper – 12 - Company Accounts & Audit

Test Paper 3 : [100 Marks]

Section A

1. Write a note on uses of general purpose Financial Statements. [5]
2. Answer the following questions:
- (a) Write short notes on the Advantages and disadvantages of setting of Accounting Standards. [4]
- (b) A Ltd. purchased fixed assets costing ₹3,000 lakhs on 1.1.14 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹40.00 and ₹42.50 as on 1.1.14 and 31.12.14 respectively. First instalment was paid on 31.12.14. The entire difference in foreign exchange has been capitalized. [3]
- You are required to state, how these transactions would be accounted for.
- (c) Prithvi Ltd. availed a lease from Akash Ltd. on following terms:
- A lease for a tenor of 3 years, in the beginning of year 2012 for equipment costing ₹14,00,000 and which has an expected useful life of 5 years. The fair market value is also ₹14,00,000.
 - 3 equal annual payments are made at the end of each year.
 - The property reverts back to the lessor on termination of the lease.
 - The unguaranteed residual value is estimated at ₹1,50,000 at the end of year 2014.
 - IRR = 10%
 - The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.
 - The present value of annuity of Re. 1 due at the end of 3rd year at 10% IRR is ₹2.4868.
- (i) State with reason whether the lease constitute finance lease. [4]
- (ii) Calculate unearned finance income.
- (d) UK International Ltd is developing a new production process. During the Financial Year ended 31st March 2014, the total expenditure incurred was ₹50 Lakhs. This process met the criteria for recognition as an Intangible Asset on 1st December 2013. Expenditure incurred till this date was ₹22 Lakhs. Further expenditure incurred on the process for the Financial Year ending 31st March 2015 was ₹80 Lakhs. As at 31st March 2015, the Recoverable Amount of Know-how embodied in the process is estimated to be ₹72 Lakhs. This includes estimates of future cash outflows as well as inflows. Calculate the amount to be charged to Profit and Loss A/c and Carrying Value of Intangibles as on the closing date in respect of Financial Year ending - 31st March 2014 and 31st March 2015. Ignore depreciation. [4]

Section B

3. Virat Company made a public issue of 1,25,000 Equity Shares of ₹100 each, ₹50 payable on application. The entire issue was underwritten by four parties – Amal, Badal, Chapal and Dhabal in the proportion of 30%, 25%, 25% and 20% respectively. The Underwriting

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Commission was 5%. Amal, Bada, Chapal and Dhabal had also agreed on "Firm" Underwriting of 4,000, 6,000, NIL and 15,000 Shares respectively.

The total subscriptions, excluding Firm Underwriting, including Market Applications were for 90,000 Shares. Market Application received were as under: Amal – 24,000 Shares; Badal – 20,000 Shares; Chapal – 12,000 Shares; and Dhabal – 24,000 Shares.

Ascertain the liability of the Individual Underwriters and also show the Journal Entries that you would make in the books of the company. All workings should form part of your answer. [10]

4. From the following particulars of Ajanta Ltd., you are required to calculate the managerial remuneration in the following situation:
- (i) There is only one whole time director;
 - (ii) There are two whole time directors;
 - (iii) There are two whole time directors, a part time director and a manager;

Particulars	Amount (₹)
Net profit before provision for income tax and managerial remuneration, but after depreciation and provision for repairs	8,70,410
Depreciation provided in the books	3,10,000
Provision for repairs of office premises during the year	25,000
Depreciation allowable under schedule II	2,60,000
Actual expenditure incurred on repairs during the year	15,000

[6]

5. From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2014 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2014

Particulars	Amount ₹'000	Particulars	Amount ₹'000
Balance on 1.4.2013	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead Expenses	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2014	150
	3,250		3,250

[4]

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6. What are the disclosure requirements as per AS-17. [3]

7. The Balance Sheet (Drafted) of S Ltd. and H Ltd. as on 31.03.14 were as follows:

Liabilities	S Ltd.	H Ltd.
Equity Share capital	80	25
Reserves and surplus	400	75
10% 25,000 Debentures of ₹100 each	---	25
Other Liabilities	120	---
	600	125

Assets	S. Ltd.		H Ltd.	
Fixed assets at cost	200		75	
Less: Depreciation	100	100	50	25
Investments in H Ltd.				
2 Lakhs Equity Shares of ₹10 each at cost	32			
10% 25,000 debentures of ₹100 each at cost	24	56		
Current assets		800		300
Less: Current liabilities	(356)	444	(200)	100
		600		125

In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹130 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹40 lakhs.

The Scheme was put through on 1st April, 2014.

- a. Journal Entries in the books of 'S' Ltd.
- b. Show the balance of 'S' Ltd. after absorption of 'H' Ltd. [12]

8. Balance Sheet (Drafted) of X Limited as on 31.03.2014:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Fixed Assets	
14%, 40,000 preference shares of ₹ 100 each fully paid up	4,00,000	Land	40,000
8,000 equity shares of ₹ 100 each. ₹ 60 per share paid up	4,80,000	Building	1,60,000
Reserves and Surplus	NIL	Plant and Machinery	5,40,000
Secured Loans		Patents	40,000
1. 14% debentures (Having a floating charge on all assets)	2,30,000	Investments	NIL
Interest accrued on above debentures.	32,200	Current assets, loans and advances	
(Also having a floating charge as		A. Current Assets Stocks at cost	1,00,000
		Sundry debtors	2,30,000
		Cash at bank	60,000

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above)		B. Loans and Advances	NIL
2. Loan on mortgage of land and building	1,50,000	Miscellaneous expenses	
Unsecured Loan	NIL	Profit and Loss A/c	2,40,000
Current Liabilities and provisions			
3. Current liabilities			
Sundry creditors	1,17,800		
	14,10,000		14,10,000

On 31.03.2014 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹ 30,000.

The assets realized the following sums:

Land ₹ 80,000; Buildings ₹ 2,00,000; Plant and Machinery ₹ 5,00,000; Patent ₹ 50,000; Stock ₹ 1,60,000; Sundry Debtors ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 29,434. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments on the 30th June, 2014. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

[5]

Section C

Answer Question 9 and any four from the rest

9. Comment on the following statements based on legal provisions:

- (a) Inventory turnover ratio is calculated by the auditor to obtain evidence concerning management's assertion about valuation of inventory.
- (b) The first auditors of a company appointed by the Board of Directors hold office till the conclusion of its statutory meeting.
- (c) The auditor examines debit notes to vouch sales return.
- (d) Working Papers of the auditor are to be returned to his client after audit since these are the property of the client.
- (e) Non-adjusting events of a material nature, need not be adjusted in accounts and can be disclosed by way of explanatory notes to the accounts.

[5X2]

10.(a) What is the importance of having the accounts audited by independent professional auditors?

(b) 'Doing an audit is full of risk.' Narrate the factors which cause the risk.

(c) As an auditor, how will you vouch and/or verify the following?

(i) Recovery of Bad Debts written off.

(ii) Borrowing from Banks.

[3+3+4]

11. (a) What do you understand by "Representations by Management"? To what extent an auditor can place reliance on such representations?

(b) As an auditor, comment on the following situation:

One of the debtors of ABC Ltd. from whom ₹ 6 lacs is recoverable for credit sales gives a motor car in full settlement of dues. The directors estimate that the market value of the car transferred is ₹ 6.50 lacs. As on date of Balance Sheet, the car has not been registered in the name of ABC Ltd.

(c) Is an auditor entitled to attend the general meeting? Discuss, the rights of an auditor while he is present in a general meeting.

[4+3+3]

12. (a) Draft a audit programme for audit of Income and Expenditure of a Charitable institution running a hospital.

(b) In carrying out audit of Government expenditure, what are the basic standards that you will examine and consider?

(c) Write short note on Cut-off arrangement.

[4+3+3]

13. (a) Elaborate the principles of internal check system that should be followed with regard to cash payments.

(b) Draft a Management Audit questionnaire for Audit of Inventory.

(c) What do you understand by the term ' Sufficient Appropriate Audit Evidence'?

[4+3+3]

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Paper – 12 - Company Accounts & Audit

Test Paper 4 : [100 Marks]

Section A

1. Write a note on Capital Maintenance. [5]

2. Answer the following questions:

(a) XYZ Ltd. supplied the following information:

You are required to compute the basic earnings per share – Accounting year 01.01.2014 – 31.12.2014 .

(i) Net Profit year 2014 = ₹ 20,00,000; 2015 = ₹ 30,00,000.

(ii) No. of shares outstanding prior to right issue = 10,00,000 shares.

(iii) Right Issue

(a) One new share for each four outstanding i.e., 2,50,000 shares.

(b) Right Issue Price ₹20

(c) Last date of exercising right – 31.03.2015

(iv) Fair rate of one equity share prior to exercise of rights on 31.03.2015 - ₹ 25. [3]

(b) A university receives two grants-one from the Ministry of Human Resource to be used for AIDS Research. The grant is for ₹45,00,000 which includes ₹3,00,000 to cover indirect expenses incurred in administering the grant. The second grant of ₹35,00,000 received from a reputed trust is to be used to set up a centre to conduct seminars on AIDS-related matters from time to time. During the year, it also received ₹5,00,000 worth of equipments donated by a well-wisher to be used for AIDS research. During the year 2013 -14, the university spent ₹32,25,000 of the Govt. grant and incurred ₹3,00,000 overhead expenses, ₹28,00,000 were spent from the grant received from the trust.

Show the necessary journals entries.

[3]

(c) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets at the end of the year.

Particulars	Amount ₹
Fair market value of plan assets (beginning of year)	9,00,000
Employer Contribution	1,50,000
Actual return on plan assets	70,000
Benefit payments to retirees	50,000

[3]

or,

Maharani Ltd. presented the following information:

How will you treat the following in the Balance Sheet of Maharani Ltd.?

Maharani Ltd. purchased a piece of land for ₹20,00,000 for which it received a grant from the Government amounting to ₹6,00,000. [3]

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(c) Decide when research and development cost of a project can be deferred to future periods as per AS 26. [3]

(d) Briefly discuss how do you calculate diluted earnings per share as per AS 20. [3]

or,

Write a note on disclosure requirements as per AS 29. [3]

Section B

3. MCL grants 1,250 options on 1st May 2011 at ₹80 when the market price is ₹ 200 and the face value of ₹ 10. The vesting period is 3 years . the maximum exercise period is one year. 450 unvested options lapse on 1st June 2013, 800 options are exercised on 30th Sept. 2014. Pass necessary journal entries to record the above transactions and also show Deferred Employee Compensation Expense Account and Employee Stock Option Outstanding Account and state how these accounts will be shown in the Balance Sheet. [10]

4. Write a note on disclosure requirements of Reserves and Surplus as per Schedule III in the Balance Sheet of a company. [6]

5.

A Ltd . has the following balances as on 1 st April 2014	₹
Fixed Assets	11,40,000
Less: Depreciation	3,99,000
	7,41,000
Stock and Debtors	4,75,000
Bank Balance	66,500
Creditors	1,14,000
Bills Payable	76,000
Capital (Shares of ₹100 each)	5,70,000

The Company made the following estimates for financial year 2014-15:

- (i) The company will pay a free of tax dividend of 10% the rate of tax being 25%.
- (ii) The company will acquire fixed assets costing ₹1,90,000 after selling one machine for ₹38,000 costing ₹95,000 and on which depreciation provided amounted to ₹66,500.
- (iii) Stock and Debtors, Creditors and Bills payable at the end of financial year are expected to be ₹5,60,500, ₹1,48,200 and ₹98,800 respectively.
- (iv) The profit would be ₹1,04,500 after depreciation of ₹1,14,000.

Prepare the projected cash flow statement of X Ltd. at the end of financial year 2014-15. [4]

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6. Asmaan Ltd. absorbs Vimaan Ltd. and the liquidation expense is ₹50,000. Give the journal entries in the books of if Transferor Company —
 Case I: The expense is incurred by Transferor Company;
 Case II: The expense is Incurred by Transferee Company;
 Case III: The expense is Incurred by Transferor Company reimbursed by Transferee Company. [3]

7. Jolly Ltd., and Kimi Ltd., had the following financial position as at 31st March, 2015

Particulars	Jolly Ltd.	Kimi Ltd.	Particulars	Jolly Ltd.	Kimi Ltd.
Shares Capital:	24,00,000	18,00,000	Goodwill	15,00,000	3,00,000
Equity Shares of ₹100 each fully paid			Fixed Assets	12,00,000	21,00,000
General Reserve	9,00,000	6,00,000	Investment at cost	9,00,000	6,00,000
Investment Allowance Reserve	---	9,00,000	Current assets	9,00,000	7,50,000
Liabilities	12,00,000	4,50,000			
	45,00,000	37,50,000		45,00,000	37,50,000

It was decided that Jolly Ltd. will take over the business of Kimi Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

- i. Investment of Kimi Ltd., included 3,000 shares in Jolly Ltd., acquired at a cost of ₹150 per share. The other investments of Kimi Ltd., have a market value of ₹75,000;
- ii. Investment Allowance Reserve was in respect of additions made to Fixed assets by Kimi Ltd., in the years 2008-2011 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2015, reserve of ₹4,50,000 for utilization;
- iii. Goodwill of Jolly Ltd., and Kimi Ltd., are to be taken at ₹12,00,000 and ₹6,00,000 respectively;
- iv. The market value of investments of Jolly Ltd., was ₹6,00,000;
- v. Current assets of Jolly Ltd., included ₹24,00,000 of stock in traded obtained from Kimi Ltd. which company sold at a profit of 25% over cost;
- vi. Fixed assets of Jolly Ltd., and Kimi Ltd., are valued at ₹15,00,000 and ₹22,50,000 respectively.
- vii. Suggest the scheme of absorption and show the journal entries necessary in the books of Jolly Ltd. Also prepare the Balance Sheet of that company after takeover of the business of Kimi Ltd. [12]

or,

Following is the Balance Sheet (Drafted) of ABC Ltd.:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	3,90,000
6,000 Equity Share of ₹60 each, ₹60 each, ₹30 paid up	1,80,000	Cash at Bank	2,70,000
		Profit & Loss A/c.	8,70,000
5% first Debentures	3,00,000		
6% Second Debentures	6,00,000		

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Unsecured Creditors	4,50,000		
	15,30,000		15,30,000

Sri Manoj holds the First Debentures for ₹3,00,000 and is an Second Debentures of ₹3,00,000. He is also an Unsecured Creditor for ₹90,000.

Sri Vasant holds second Debentures for ₹3,00,000 and is an Unsecured Creditor for ₹60,000.

The following scheme of reconstruction is proposed:

- (i) Sri Manoj is to cancel ₹2,10,000 of total debt owing to him; to advance ₹3,00,000 is cash and to take new First Debentures (in cancellation of those already issued) for ₹5,10,000 is satisfaction of all his claims.
- (ii) Sri Vasant to accept to ₹90,000 cash in satisfaction of all his claims.
- (iii) Unsecured Creditors (other than Manoj and Vasant) are to accept the allotment of 20,000 fully paid equity shares of ₹7.50 each in satisfaction of 75% of their claims and the balance of 25% is to be postponed and to be payable at the end of four years.
- (iv) Uncalled Capital is to be called-up in full and ₹52.50 per share cancelled, thus making the shares of ₹7.50 each.

The Nominal Share Capital is to be increased accordingly.

Assuming that scheme is duly approved, give the necessary journal entries and the Balance Sheet of the company after the scheme has been put into effect. [12]

8. The following is the Balance Sheet (Drafted) of "Failure Ltd" as on 30th September:

Liabilities	₹	Assets	₹
Share Capital: 11% Preference Shares of ₹ 10 each	2,00,000	Land and Building	2,40,000
10,000 Equity Shares of ₹ 10 each, fully paid	2,00,000	Sundry Current Assets	7,90,000
5,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid	75,000	Profit & Loss Account	77,000
13% Debentures	3,00,000	Debenture Issue Expenses not written off	4,000
Mortgage Loan	1,60,000		
Bank Overdraft	60,000		
Creditors for Trade	64,000		
Arrears of Income Tax (Assessments concluded in July for 2 prior Assessment years) (21,000 + 5,000)	52,000		
	11,10,000		11,10,000

Other Information -

- (a) Mortgage Loan was secured against Land and Buildings. Debentures were secured by a

Floating Charge on all the other Assets.

- (b) The Company was unable to meet the payments and therefore the Debenture holders appointed a Receiver and this was followed by a resolution for Members Voluntary Winding Up.
- (c) The Receiver for the Debenture holders brought the Land and Buildings to auction and realised ₹3,00,000. He also took charge of Sundry Assets of the value of ₹4,80,000 and realised ₹4,00,000.
- (d) The Liquidator realised ₹2,00,000 on the sale of the balance of Sundry Current Assets.
- (e) The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company, and on the Bank raising a demand, the Directors paid off the dues from their personal resources.
- (f) Costs incurred by the Receiver were ₹4,000 and by the Liquidator ₹5,600.
- (g) The Receiver was not entitled to any Remuneration, but the Liquidator was to receive 3% Fee on the value of Assets realised by him.
- (h) Preference Shareholders had not been paid dividend for 2 years, and interest for the last half-year was due to Debentureholders.

From the above information prepare the Liquidator's Final Statement of Account. [5]

Section C

Answer Question 9 and any four from the rest

9. Comment on the following statements based on legal provisions:

- (a) Auditing in depth means checking all the transactions in minute details.
- (b) When separate Branch Auditors are appointed, the company auditor need not visit the branches.
- (c) For ascertaining minority interest, there is a need to distinguish between capital and revenue profits of subsidiary.
- (d) Assets given on lease should be disclosed as part of fixed assets in the financial statements of the lessor.
- (e) Audit in EDP environment is easier as the Trial Balance always tallies. [5X2]

10. (a) Mention briefly the conditions or events, which increase the risk of fraud or error leading to material misstatement in Financial Statements.

(b) Draft a 'checklist' for carrying out audit of the "Buy Back of Own Securities".

(c) As an auditor, how will you vouch and/or verify the following?

(i) Retirement Gratuity to Employees.

(ii) Sales Commission Expenditure. [3+3+4]

11. (a) Comment on the following:

(i) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted?

(ii) G Ltd. gave a guarantee to the Court for payment of excise dues of ₹10 lacs for one of its subsidiaries. According to the company, since the guarantee was given on behalf of its subsidiary, no disclosure was required.

(b) State the reporting requirements of Company Auditor in respect of the following under CARO-2015:

(i) Inventory;

(ii) Cost Record;

(iii) Repayment of Dues.

[5+2+3]

12. (a) An Audit of expenditure is one of the major components of Government Audit. In the context of "Government Expenditure Audit" write in brief, what do you understand by:

(i) Audit against Rules and Orders

(ii) Audit of Sanctions

(iii) Audit against Provision of Funds

(b) Draft an audit programme to audit the receipts of a cinema theatre owned by a partnership firm.

[6+4]

13. (a) Discuss flow chart technique for evaluation of internal control system in an organization.

(b) Mention the difference between 'audit report' and 'audit certificate.'

(c) Why do we need Management Audit?

[3+4+3]
