

REVISED SYLLABUS – 2008

REVALIDATION TEST PAPERS

FINAL

Group III



**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

DIRECTORATE OF STUDIES

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PAPER - 11
CAPITAL MARKET ANALYSIS & CORPORATE LAWS
QUESTIONS TO
REVALIDATION TEST PAPER-RV/11/CMC/2010

SECTION I: CAPITAL MARKET ANALYSIS

Time Allowed : 3 Hours

Full Marks : 100

(Answer Question No. 1 and any *two* from the remaining)

1. (a) Define :
- (i) Systematic Risk
 - (ii) Expected Return
 - (iii) Capital Market Line
 - (iv) Future Contract
 - (v) Option
 - (vi) Secondary Market
 - (vii) Buy back of Shares (2×7 marks)
- (b) Fill up the blanks with appropriate answers :
- (i) The expected Return as per CAPM is _____, when $R_m = 22\%$, $R_f = 9\%$, $\beta = 0.6$.
 - (ii) The Security Market Line shows the linear relationship between the expected returns and _____ .
 - (iii) _____ (Economic; Fundamental; Technical) analysis is based on past performance of Prices and trading volume of Stocks.
 - (iv) The Fixed Price at which the Option Holder can buy/sell the underlying asset is called the _____ .
 - (v) Mr X agrees to exchange 100 kgm Basmati rice three months later at Rs. 80 per kgm. This is an example of _____ (Forward Contract/Future Contract)
 - (vi) SEBI stands for _____ . (1×6 marks)
2. (a) Explain Briefly the operation of Indian Stock Market. What are principal weaknesses of Indian Stock MARKET? (10 marks)
- (b) Distinguish
- (i) Forward Contract and Future Contract
 - (ii) Primary Market and Secondary Market (10 marks)
3. (a) The rate of Return of equity shares of Wipro Ltd for past 6 years are given below :
- | YEAR | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------|------|------|------|------|------|------|
| RATE OF RETURN (%) | 12 | 18 | -6 | 20 | 22 | 24 |
- Calculate the average rate of return, standard deviation and variance. (10 marks)
- (b) Write in brief on :
- (i) Bought Out Deal
 - (ii) Book Building (5×2 marks)

4. (a) Explain in detail the role of Foreign Institutional Institutions in Indian Capital markets? Are they creating imbalance in the market by providing excess liquidity into the system? (10 marks)
- (b) Suppose you invest in four securities. Company ABC has an expected return of 20 percent, Company BCD has an expected return of 10 percent, Company CDE has an expected return of 12 percent, and Company DEF has an expected return of 9 percent. You have invested Rs. 40,000. What is the expected rate of return on your portfolio? (Assumption Invested Equally) (10 marks)

SECTION II : CORPORATE LAWS

(Answer Question No. 1 and any *two* from the remaining)

5. Define the following under the RTI Act 2004.
- (i) Competent Authority under the RTI Act 2004
 - (ii) Record under the RTI Act 2004
 - (iii) Appropriate Government under the RTI Act 2004
 - (iv) Cartel under the Competition Act 2002
 - (v) Consumer under the Competition Act 2002 (2×5 marks)
6. (a) Can a company buy its own shares? If so, under what circumstances.
- (b) “No Dividend can be paid by a company except out of Profits” - Comments. (10+5 marks)
7. (a) State in brief the salient Features of Corporate Governance.
- (b) “A Good Corporate Governance should have certain basic principles” - Enumerate them. (5+10 marks)
8. (a) Distinction between.
- (i) Memorandum & Articles of Association
 - (ii) Public Co & Private Co
 - (iii) Fixed Charge & Floating Charge (5×3 marks)

PAPER - 12
FINANCIAL MANAGEMENT & INTERNATIONAL FINANCE
QUESTIONS TO
REVALIDATION TEST PAPER-RV/12/AFM/2010

Time Allowed : 3 Hours

Full Marks : 100

(Answer Question No. 1 and any *five* from the remaining)

PART A

1. (a) Define :
- (i) Factoring
 - (ii) Put Option
 - (iii) Capital Rationing
 - (iv) Financial Leverage
 - (v) Commercial Paper
 - (vi) Rights issue
 - (vii) IRR
 - (viii) Redeemable Debenture
 - (ix) Financial Restructuring
 - (x) Systematic Risk
- (2×10 marks)
- (b) Distinguish between Economic Value Added & Economic Profit. (5 marks)

PART B

2. (a) What are the main stages in the Capital Budgeting Process?
- (b) AB Ltd is considering to buy an equipment and it has two options. The cost of the equipment is Rs. 1,00,000.
Option I- To buy with borrowed funds at a cost of 18% pa, repayable in five equal instalments of Rs. 32,000.
Option II- To take equipment on lease on an annual rental of Rs. 32,000.
The salvage value of the equipment at the end of five year period will be zero. The company uses straight line depreciation. Assume tax @ 10%.
Which of the two options would you recommend? (5+10 marks)
3. (a) What is meant by Balance Score Card?
- (b) Calculate the value of the share of a company, if its beta is 1.5, the previous Dividend was Rs. 2/- per share and the growth rate is expected to be 8%. The Risk free return is 10% and the market portfolio earns a return of 15%.
- (c) The Risk free return is 6% and return on market portfolio on stock is 13%, Calculate beta. (5+5+5 marks)
4. (a) Comment on the emerging role of the Financial Manager in India.
- (b) How does financial leverage increase the potential reward to the shareholders?
- (c) What are the commonly employed measures of financial performance? (5+5+5 marks)

5. (a) If the value of a Malaysian Ringgit ($\text{\$/MR}$) was 0.2632 and the value of an Indian rupee ($\text{\$/Rs}$) was 0.02212. Find the value of a Malaysian Ringgit in terms of Indian Rupee?
 (b) From the following quotes of a bank, determine the rate at which Yen can be purchased with Rs.

Rs/Pd. Sterling-75.31-33
 Pd Sterling/Dollar-1.563-565
 Dollar/Yen-1.048/52(Per 100 Yen)

- (c) A spot rate is $\text{DM}=\text{\$}0.3302-10$. Another spot rate is $\text{FF} = \text{\$}0.1180-90$. Compute the direct quote of FF in Germany. (5+5+5 marks)
 6. XYZ & Co has three financial plans before it, Plan I, Plan II & Plan III. Calculate Operating and Financial Leverage for the firm on the basis of the following information and also find out the highest and lowest value of combined leverage :

Production-800 units
 Selling Price Per Unit-Rs15/-
 Variable Cost Per Unit-Rs10/-
 Fixed Cost
 Situation A-Rs. 1000/-
 Situation B-Rs. 2000/-
 Situation C-Rs. 3000/-

| Capital Structure | Plan I | Plan II | Plan III |
|-------------------|------------|------------|------------|
| Equity Capital | Rs. 5000/- | Rs. 7500/- | Rs. 2500/- |
| 12% Debt | Rs. 5000/- | Rs. 2500/- | Rs. 7500/- |

(15 marks)

7. (a) The turnover of R Ltd is Rs. 60 lacs of which 80% is on credit. Debtors are allowed on month to clear off the dues. A factor is willing to advance 90% of the bills raised on a credit for a fee of 2% a month plus a commission of 4% on the total amount of debts. R Ltd as a result of this arrangement is likely to save Rs. 21600/- annually in management costs and avoid bad debts at 1% on credit sales.

A scheduled bank has come forward to make an advance equal to 90% of the debts at an interest of 18% pa. However its processing fee will be at 2% on debts.

Would you accept factoring or offer from the bank?

- (b) What are the factors affecting dividend policies? (10+5 marks)

8. Write short notes on any three of the following :

- (a) SWOT Analysis
 (b) Leveraged Buy Outs
 (c) Bill of Entry
 (d) Future Contract

(5×3 marks)

PAPER - 13
MANAGEMENT ACCOUNTING-STRATEGIC MANAGEMENT
QUESTIONS TO
REVALIDATION TEST PAPER-RV/13/MSM/2010

SECTION I : STRATEGIC MANAGEMENT

Time Allowed : 3 Hours

Full Marks : 100

(Answer Question No. 1 & 6 which are compulsory and any other *three* questions from Section I and two questions from Section-II)

1. (a) Define the following terms : (2×5 marks)
- (i) Long range Planning
 - (ii) Forecasting
 - (iii) Econometric Model
 - (iv) Human Resource Strategy
 - (v) Marketing Strategy
- (b) (i) SEBI stands for (1×5 marks)
- a. Securities and exchange body of India
 - b. Securities and exchange board of India
 - c. Shares equities board of India
 - d. Stock exchange board of India
 - e. Stock exchange board of investors
- (ii) The acquisition of HUTCH by Vodafone is an example of
- a. Horizontal Integration
 - b. Forward Integration
 - c. Vertical Integration
 - d. Concentric Diversification
- (iii) The Government encourages industry, investment and FDI by creating SEZ's. The term SEZ stands for :
- a. Special Equity Zones
 - b. Software Export Zones
 - c. Special Economic Zones
 - d. Special Entitlement Zones
 - e. Special Effort Zones
- (vi) Value drivers identified in cost leadership model do not include?
- a. Sales growth rate
 - b. Operating profit margin
 - c. Differentiation
 - d. Working capital investment
 - e. Cost of capital

- (v) Standard classes of organization structure do not include?
- Simple structure
 - Machine bureaucracy
 - Professional bureaucracy
 - Capital Structure
 - Adhocracy
2. Growth through concentric diversification into a related industry may be a very appropriate corporate strategy” Comment. (15 marks)
3. State briefly the purpose of a SWOT analysis? What are the major outcomes from such an analysis? (15 marks)
4. Customer now articulates his own option to create a new product, as he has become “the boss”. How does this reflect change from product orientation to market orientation? (15 marks)
5. Write short notes on :
- Value migration
 - Profiling customers
 - Segmentation
- (5×3 marks)

SECTION II : RISK MANAGEMENT

6. State whether the following statements are true or false (with justification) (2×5 marks)
- Measures relating to risk profiling are related to the level of operational efficiency of the company
 - CAPM attempts to measure the risk for capital asset of a company
 - Risk Management Techniques include among other things the risk premium payable
 - Risk cannot be avoided through insurance but may be considered as a means to transfer the risk
 - The concept of certainty equivalent coefficient represents the computation of a certain amount equivalent to a probable income or loss.
7. What is risk? Discuss different types of risks? What are the characteristics of insurance contract? (15 marks)
8. Risk MANAGEMENT Strategies are seven fold-Identify them and discuss any three of them. (15 marks)
9. Write a short note on :
- Project Risk Management
 - Risk and Uncertainty
 - Diversification of Risk
- (5×3 marks)

PAPER - 14
INDIRECT AND DIRECT TAX MANAGEMENT
QUESTIONS TO
REVALIDATION TEST PAPER-RV/14/TXM/2010

Time Allowed : 3 Hours

Full Marks : 100

(Answer Question No. 1 and any *five* from the remaining)

PART A

1. (a) (i) Enumerate the list of person / entities treated as “individual” u/s 3 of the Wealth Tax Act.
 (ii) Who are the persons / entities to whom Wealth Tax is not applicable u/s 45 of the Wealth Tax Act?
 (iii) Is Wealth Tax a debt owed on the valuation date and hence deductible while computing net wealth?
 (iv) On what grounds can it be said that partial partition is de-recognised under the Wealth Tax Act?
 (v) How far is the exemption of Public charitable trust under the Income Tax Act, 1961 relevant for exemption under Wealth Tax Act? (3×5 marks)

- (b) State with reasons whether the following statements are *true* or *false*:
 (i) Waste and Scrap are always treated as excisable goods.
 (ii) Importers can store imported without payment of duty in public warehouse or private warehouse (5×2 marks)

PART B

2. Given below is the P&L A/C of K,L,M & Associates, a partnership firm for the previous year 2009-2010.

| Particular | Rs. | Particular | Rs. |
|---------------------------|------------------|------------------------|------------------|
| Purchase | 15,45,000 | Sales | 35,00,000 |
| Direct & Indirect Expense | 8,00,000 | Interest on Securities | 45,000 |
| Depreciation | 2,00,000 | (TDS – Rs. 5,000) | |
| Interest to partners | 2,00,000 | | |
| Salaries to partners | 6,60,000 | | |
| Net Profit | 1,40,000 | | |
| | 35,45,000 | | 35,45,000 |

You are further informed

- (i) Depreciation allowable as per Section 32 is Rs. 1,50,000
- (ii) Purchase include cash purchase of Rs. 30,000
- (iii) A,B,C share profits in the ratio of 4:3:3 C is a sleeping partner
- (iv) Interest is paid to partners @ 20% p.a. interest is authorized by partnership deed
- (v) Salaries, authorized by partnership deed are paid to all the partners equally

Compute (i) Book profit and

(ii) Total income of the firm in the following cases :

(a) It is a professional form

(b) It is a business firm

(c) It does not file the return of its income, leading to best judgment assessment.

(5 marks)

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

a. Freight from UK to Indian Port was 700 pounds

b. Insurance was paid to Insurer insured in India – Rs.6000

c. Design and development charges of 2000UK pounds were paid to a consultancy firm in UK

d. The importer also spent an amount of Rs.50,000 in India for development work connected with the machinery.

e. Rs.10,000 were spent in transporting the machinery from Indian Port to the factory of importer.

f. Rate of exchange RBI: Rs. 68.82 = One UK Pound

g. Rate of exchange as announced by CBE 2C (Board) by Notification u/s 14 (3) (a) (i): Rs.68.70 = One UK Pound

h. Rate at which bank recovered the amount from importer Rs.68.35 = One UK Pound.

i. Foreign exporters have an Agent in India Commission is payable to the agent in Indian Rupees @5% of FOB price.

Custom duty payable was 10%. If similar goods were produced in India, Excise duty payable @24%. There is an excise exemption notification which exempts the duty as in excess of 16%. Education Cess 2% and SAH Education Cess 1%. Find custom duty payable.

How much Cenvat can be availed by importer, if he is manufacturer?

(15 marks)

4. (a) Detail the implications of 'Demerger' with reference to Income Tax.

(b) State the factors to be considered in taking a management decision relating to owning or leasing fixed assets.

(8+7 marks)

5. (a) Software is 'goods', but unbranded Software is Service" – Comment

(10 marks)

(b) 1500 pieces of a product 'K' were manufactured during the financial year. Its list price (ie, retail price) is Rs.250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the 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 16% plus education cess and SAH education cess as applicable. What is the total duty paid during the financial year? Assume that the manufacture is not eligible for SSI concession.

(5 marks)

6. (a) What are the methods under which the arm's length price, relating to an international transaction, is determined us 92C?

(b) J Ltd., is an Indian Company which is a 100% subsidiary of K Ltd., a foreign company. K Ltd. Sells its product to J Ltd., at 15\$ per unit. At the same time, it sells its products to an unrelated party at \$ 20 per unit. How will the arm's length price be determined in this transaction?

(8+7 marks)

7. (a) Write a note on Exemption granted to SSI

(b) Define Captive Consumption

(8+7 marks)

8. Write Short Notes on any three of the following :

(a) Slump Sale

(b) Anti Dumping Duty

(c) Basic Principle of VAT

(d) Dutiability of Waste and Scrap

(5×3 marks)