

REVISED SYLLABUS – 2008

REVALIDATION TEST PAPERS

FINAL

Group IV



**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

DIRECTORATE OF STUDIES

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PAPER - 15
MANAGEMENT ACCOUNTING-ENTERPRISE PERFORMANCE
QUESTIONS TO
REVALIDATION TEST PAPER-RV/15/EPM/2010

Time Allowed : 3 Hours

Full Marks : 100

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

1. (a) Expand the following abbreviations : (8 marks)
- (i) CRP
 - (ii) DBR
 - (iii) DRP
 - (iv) PLCM
 - (v) SQC
 - (vi) EFQM
 - (vii) DMAIC
 - (viii) JUSE
- (b) Define the following terms : (2×6 marks)
- (i) V in VAT Analysis
 - (ii) McKinsey's 7s Framework
 - (iii) Bench Marking
 - (iv) Contribution Approach
 - (v) Talent Drain
 - (vi) Bill of Materials
- (c) State the correct Answers : (1×5 marks)
- (i) Synergy is often expressed as
- (A) $2+2=5$
 - (B) $2+2=4$
 - (C) $2+2<4$
 - (D) $2+2>4$
- (ii) Given :
- Cost of risk free debt = 8.5%
 - Market premium = 6%
 - Beta = 0.8
- what is the cost of equity?
- Choice
- (A) 12.8%
 - (B) 15.3%
 - (C) 11.6%
 - (D) 13.3%

(iii) Which one of the following does not belong to the five general types of risks companies face?

Choice

- (A) Technological risks
- (B) Market risks
- (C) Operational risks
- (D) Legal risks

(iv) The cost of coordinating the efforts of sub-units is known as

- A. Opportunity Cost
- B. Sunk Cost
- C. Transaction Cost
- D. Fixed Cost

(v) ——— is a Japanese strategy of continuous improvement.

2. What is Benchmarking? Discuss different types of Benchmarking. (15 marks)
3. A company has accepted an order for making 15 items of a specialized machine at a price of Rs. 4 lacs each. The delivery is to be completed within 4 months. The company works 23 days a month and the normal direct wages per day amount to Rs. 10,000. However, in case of need, the company can work over time upto 8 days during the said period at double the normal rate of wages. Overheads amount to Rs. 12,000 per normal working day but no overheads are charged on overtime working days. The material cost is Rs. 2,40,000 per machine. The company has estimated that it will take 10 working days to manufacture the first machine. The company is expected to experience a learning effect of 90% ($b=0.152$). The contract stipulates a penalty of Rs. 40,000 per machine delivered beyond the schedule of 4 months.
You are required to calculate the costs and advise the company whether it is preferable to work only during normal working days and pay penalty for any delayed delivery of the machines or to work overtime to avoid paying penalty. (15 marks)
4. (a) Write a note on Cause Effect Diagram. When should it be used?
(b) After inspection of 10 rods, each of length 5 meters, the following no of defects is found on each rod
45, 42, 52, 46, 51, 46, 50, 43, 51, 49
(c) Distinguish between proportion defective chart and number defective chart. (5+8+2 marks)
5. (a) "Purpose of sensitivity analysis is to identify the critical variable in the project analysis" - Discuss.
(b) X Co Ltd. purchases a component A at a price of Rs 18 per unit. The management decides to manufacture the component at a marginal cost of Rs. 12 per unit with a processing time 4 hours in a particular machine. State whether the decision of the management is correct :
(i) when there is spare capacity in the machine;
(ii) when the machine is at present working to the full capacity by manufacturing another product M with selling price Rs. 200, marginal cost 110 and processing time 40 hours.
Is the decision of the management correct? (7+8 marks)
6. (a) What is lean manufacturing? Briefly describe the Lean/ JIT system?
(b) Briefly describe the operation of an MRP System? (10+5 marks)
7. (a) Write a note on Total Quality Management.
(b) Discuss the principal four steps in Target costing
(c) Write a note on Matrix Organization Structure. (5+5+5 marks)
8. (a) Write short notes (on any three) (5+5+5 marks)
(a) Balance Score Card
(b) Enterprise risk management
(c) Value Chain Analysis
(d) Margin of safety

PAPER - 16
ADVANCE FINANCIAL ACCOUNTING & REPORTING
QUESTIONS TO
REVALIDATION TEST PAPER-RV/16/AFA/2010

Time Allowed : 3 Hours

Full Marks : 100

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

PART A

1. (i) A company held 25% of stake in another company and during the year, it withdrew the investment to the extent of 10%. How should the company account for the investment?
 - a. treat as investments as per AS-13 for the whole year.
 - b. Account for as per 'equity method' till date of withdrawal of investment and thereafter as per AS-13.
 - c. Account for as per 'equity method' for the whole year.
- (ii) A venturer (who is having 50% share in the joint venture) sold a plant (WDV Rs. 75 lacs) for Rs. 60 lacs to the joint venture. The amount of loss to be recognized in the books of the venturer would be :
 - a. Rs. 7.50 lacs
 - b. Rs. 15 lacs
- (iii) A Ltd. purchased 80% shares of B Ltd. on 1st January, 2008 for Rs. 1,40,000. The issued capital of B Ltd. on 1st January, 2008 was Rs. 1,00,000 and the balance in the Profit & Loss Account was Rs. 60,000. For the year ending 31st December 2008, B Ltd. has earned a profit of Rs. 20,000 and at the same time, declared and paid a dividend of Rs. 30,000. What is the amount of Minority Interest as on 1st January, 2008 and 31st December, 2008? (Amount in Rs.)
 - a. Rs. 32,000 and Rs. 30,000 respectively
 - b. Rs. 30,000 and Rs.32,000 respectively
 - c. Rs. 30,000 and Rs.35,000 respectively
 - d. Rs. 35,000 and Rs.30,000 respectively
- (iv) B Ltd. purchased from the shareholders of A Ltd. all the issued shares @ Rs. 14 per share. A Ltd. had 60,000 shares of Rs. 10 each fully paid up. The shareholders of A Ltd. took over one of the freehold properties of A Ltd. for Rs. 60,000 at the book value of the same. The balance due to them would be satisfied by the issue of an appropriate no. of equity shaers in B Ltd. at Rs.20 per share. The number of shares to be issued by B Ltd. to shareholders of A Ltd. are :
 - a. 42,000
 - b. 39,000
 - c. 40,000
- (v) With the following facts of an amalgamation, state the total number of shares to be issued by the Purchasing company (P Ltd.) to satisfy the purchase consideration :

	P Ltd	S Ltd
No. of shares	10,00,000	1,00,000
No. of shares held by		
S Ltd. in P Ltd.	30,000	
P Ltd. in S Ltd.		20,000

P Ltd. agreed to issue 2 shares for every 1 share in S Ltd.

- a. 1,30,000
- b. 1,40,000
- c. 1,60,000
- d. 1,50,000

(vi) When the carrying amount of a fixed asset is less than its net realizable value, then the fixed asset in the books should be disclosed at :

- a. Carrying amount
- b. Net realizable value
- c. Management choice
- d. None.

(vii) A non-corporate enterprise, whose turnover exceeds Rs.50 crores is a :

- a. Level – I enterprise
- b. Level – II enterprise
- c. Level – III enterprise

(viii) Fixed Production Overheads are allocated to Inventory on the basis of :

- a. Actual Capacity
- b. Idle capacity
- c. Normal Capacity
- d. None

(ix) Dividends which were proposed after the balance sheet date is :

- a. adjusting event as per AS-4
- b. adjusting event as required by Schedule VI of The Companies Act, 1956
- c. non-adjusting event as per As-4

(x) Which of the following items of income / liabilities will not be included in the segment income / liability respectively, of a Company which has three business segments namely, "Paper division", "Printing division", and "Publishing division"?

- a. Interest or dividend income
- b. Loan obtained by the company to purchase an asset for Printing division
- c. Both (a) and (b)
- d. Neither (a) nor (b).

(2×10 marks)

(b) A Limited Company finds that the stock sheets as on 31.03.09 had included twice an item the cost of which was Rs. 20,000.

You are asked to suggest, hoe the error would be dealt with in the accounts of tbhe year ended 31.03.2010.

(5 marks)

PART B

2. (a) a firm of contractors obtained a contract for construction of bridges across river Mahanadi. The following details are available n the records kept for the year ended on 31st March,2009.

(Rs. in lacs)

Total Contract Price	1000
Work Certified	500
Work not Certified	105

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Estimated further Cost to Completion	495
Progress Payment Received	400
To be received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS-7 (Revised) issued by ICAI.

- (b) Write short note on Effect on uncertainties of Revenue Recognition. (10+5 marks)
3. (a) What are the GENERAL PRINCIPLES OF Government Accounting?
 (b) State the basic structure in the form of Government Accounts. (8+7 marks)
4. (a) For the given abbreviation name the terms in full
 (i) ICAI
 (ii) AS
 (iii) IAS
 (iv) US GAAP
 (v) IFRS
 (b) S Ltd have six segments with following data

Rs in crore

Particulars	A	B	C	D	E	F
Segment Revenue	250	520	70	50	60	50
Segment Result	50	(190)	10	10	(10)	30
Segment Assets	100	200	75	50	50	25

The Finance Director is of the view that it is sufficient that segment A & B ONLY BE THE REPORTED. Advise. (5+10 marks)

5. (a) The following is the Balance Sheet of P Ltd.

Liabilities	Rs.
Equity Share Capital	2,00,000
Reserve & Surplus	4,00,000
Secured Loan	2,00,000
Unsecured Loan	6,00,000
	<u>14,00,000</u>
Assets	
Fixed Assets	7,00,000
Investments	4,00,000
(Market Value Rs 9,00,000)	
Current Assets	4,00,000
Less: Current Liabilities	<u>(1,00,000)</u>
	<u>3,00,000</u>
	<u>14,00,000</u>

The company consists of three divisions. The scheme was agreed upon, according to which a new company B Ltd is to be formed. It will take investments at Rs 9.00 and unsecured loans at balance sheet value. It is to allot equity share of Rs. 10 each at par to the shareholders of P LTD in satisfaction of the amount due under the arrangement. The scheme was duly approved by the High Court. Pass Journal Entries in the Books of P Ltd.

- (b) State any five salient points of distinction between Pooling of Interest Method & Purchase Method of Accounting for Mergers and Acquisitions. (10+5 marks)
6. (a) State the scope of disclosure of Accounting Policies as per Accounting Standard.
 (b) What is the material effect of changes in Accounting policies. (8+7 marks)
7. AB Ltd. and MB Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their balance sheets as at 31.3.2009 :

Liabilities	AB Ltd.	MB Ltd.	Assets	AB Ltd.	MB Ltd.
Share Capital (Rs. 100) each	10,00,000	6,00,000	Fixed Assets	7,50,000	2,00,000
General Reserve	1,00,000	50,000	Investments:		
Investment Allowance	40,000	30,000	1,500 Shares in MB	3,50,000	—
Reserve			4,000 Shares in AB	—	5,00,000
12% Debentures (Rs. 100 each)	3,00,000	1,00,000	Current Assets	4,00,000	1,00,000
Sundry Creditors	60,000	20,000			
	15,00,000	8,00,000		15,00,000	8,00,000

Calculate the amount of purchase consideration for AB Ltd. and MB Ltd. and draw up the balance sheet of AM Ltd. after considering the following :

- (a) Assume amalgamation is in the nature of purchase.
 (b) Fixed assets of AB Ltd. are to be reduced by Rs. 50,000 and that of MB Ltd. are to be taken at Rs. 3,00,000.
 (c) 2% debentureholders of AB Ltd. and MB Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interest.
 (d) Shares of AM Ltd. are of Rs. 100 each.
- Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.
8. Write short note on the following with reference to IAS-30, Impairment of Assets
 a. Identification of an asset that may be impaired
 b. Measuring recoverable amount
 c. Reversal of an Impairment Loss. (15 marks)
9. (a) What are the advantages of preparation of Value Added Statements?
 (b) What is economic value added and how is it calculated? (8+7 marks)

PAPER - 17
COST AUDIT AND OPERATIONAL AUDIT
QUESTIONS TO
REVALIDATION TEST PAPER-RV/17/COA/2010

Time Allowed : 3 Hours

Full Marks : 100

(Answer Question No. 1 and 5 and any *two* each from the remaining questions of Section I & II)

SECTION : I

1. State whether the following statements are **True** or **False**. (14 marks)
- (i) Cost Audit is statutorily recognized form of audit in most of the country.
 - (ii) Royalty is an item of Cost of Production under the Cost Accounting Record Rules.
 - (iii) A nomination director is covered by the definition of 'Related Party'
 - (iv) The Cost Auditor is appointed by the Board of Directors subject to the approval of the Central Government.
 - (v) Dividend can be declared out of Revaluation Reserve.
 - (vi) Cost Auditor cannot be appointed as internal auditor of the same company.
 - (vii) Presently cost audit report should be sent to the Department of Company Affairs after binding.
2. (a) Define Cost Audit & State its purposes.
(b) What review should be made by a Cost Auditor of Cost Accounting Records?
(c) Define in not more than one/two sentences :
(i) Non moving Stocks
(ii) Capitalization
(iii) Cost Pools
(iv) Arm's Length Price (6+6+6 marks)
3. (a) Under what conditions, will the appointment of cost auditor for conducting Cost Audit be appointed in firm's name? Who will authenticate such reports and how? Can a proprietary firm also be appointed as a cost auditor? (10 marks)
(b) Can Cost Auditor of a company also be its internal auditor? Justify your answer. (5 marks)
(c) Can a Cost Accountant who is appointed as the concurrent auditor of a company accept appointment as cost auditor of the same company? (3 marks)
4. Write short notes (any three) (6×3 marks)
- (a) Energy Audit;
 - (b) Audit Committee;
 - (c) Industrial Sickness;
 - (d) Management Frauds.

SECTION : II

5. State whether the following statements are **True** or **False**. (14 marks)
- (i) Both Authority and responsibility cannot be delegated.
 - (ii) Dumping is an illegal practice
 - (iii) In ABC system the concept of Cost Centre is very important.
 - (iv) Management Audit Report is to be submitted to the Cost Audit Branch.
 - (v) The Secretariat of the WTO will be headed by a Secretary
 - (vi) Operational Audit is termed as micro level Management Audit.
 - (vii) The Audit Committee shall meet at least four a year as per SEBI Listing Agreements
6. (a) Clearly explain the meaning of the two words “Truth & Fairness” as are used in an Audit Certificate. (8 marks)
- (b) What is Energy Audit & how is it linked to Environment Audit? (10 marks)
7. (a) State the Salient Features of an ideal flow chart.
- (b) Define Opportunity cost and Imputed cost as per CASI
- (c) Management Audit & Operational Audit are complementary and supplementary to each other. (6×3 marks)
8. Write short notes on (any three) :
- (a) Industrial Sickness
 - (b) SWOT Analysis
 - (c) Productivity Analysis
 - (d) Energy conservation (6×3 marks)

PAPER - 18
BUSINESS VALUATION MANAGEMENT
QUESTIONS TO
REVALIDATION TEST PAPER-RV/18/BVM/2010

Time Allowed : 3 Hours

Full Marks : 100

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

PART A

1. (a) Define in brief
- (i) Intellectual Capital
 - (ii) Brand
 - (iii) Dividend Yield
 - (iv) DCF Analysis
 - (v) Energy Conservation (3×5 marks)
- (b) State whether each of the following statements is True or False.
- (i) The return estimated from CAPM provides the WACC of a company
 - (ii) Value Gap is the difference between the synergy value and purchase price.
 - (iii) Brand do not influence Customer Demand.
 - (iv) The provisions of Accounting Standard do not impact of mergers of companies.
 - (v) Intrinsic Value and market price of equity shares are always equal. (2×5 marks)

PART B

2. (a) Briefly explain the various steps in the valuation of a Brand. (8 marks)
- (b) What is Human Resource Accounting? What are its benefits? Briefly discuss the two methods of its measurement? (7 marks)
3. (a) Why do many mergers fail?
- (b) Why do companies want to measure Intellectual capital?
- (c) What factors are selected for selection of a target in a business acquisition strategy? (5+5+5 marks)
4. (a) A firm had paid dividend at Rs. 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. Determine the estimated market price of the equity share if the estimated growth rate of dividends—
- (i) rises to 8% and
 - (ii) falls to 3%.
- Also, find out the present market price of the share given that the required rate of return of the equity investors is 15.5%.

- (b) A company is considering, raising Rs. 100 lakh by one of the two alternative methods viz; 14 per cent institutional term loan and 13% non-convertible debentures. The term loan portion would attract no major incidental cost. The debentures would have to be issued at a discount of 25% and would involve Rs. 1,00,000 as cost of issue. Advise the company as to the better option based on the effective cost of capital in each case. Assume a tax rate of 35%.
(8+7marks)
5. (a) Write in brief .about Financial Synergy and Operational Synergy
(b) What are the causes of horizontal merger? (8+7 marks)
6. The following are the details of the two merged firms, Nylo Ltd. And Xylo Ltd :

(Rs in Lakhs)

	Nylo Ltd.	Xylo Ltd.
Revenues	4,400	3,125
Cost of Goods Sold (excluding depreciation)	87.5%	89.0%
Depreciation	200	74
Tax rate	35%	35%
Working capital	10% of Revenue	10% of Revenue
Market value of Equity	2000	1300
Outstanding Debt	160	250

Both firms are expected to grow 5% a year in perpetuity. Capital spending is expected to be offset by depreciation. The beta for both firms are rated BBB, with an interest rate on their debt of 8.5% (the risk-free rate is 7%)

As a result of the merger, the combined firm is expected to have a cost of goods sold of only 86% of total revenue. The combined firm does not plan to borrow additional; debt.

- (a) You are required to estimate the value of the combined firm, with no synergy,
(b) Estimate the value of the combined firm, with synergy. (15 marks)
7. (a) Explain what is Tobin's Q? What are the circumstances when it is most useful?
(b) hat are the limitations of EVA? (10+5 marks)
8. Write short notes of the following :
(a) Categories of Financial Assets
(b) NRV of Inventories
(c) Fair Market Value of Intangible Assets (5+5+5 marks)