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# SCANNER™ Appendix

ICWA Final Gr. III (New Course)  
December - 2009

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## PAPER'S

### Paper - 11 : Capital Market Analysis and Corporate Laws

#### Chapter-1 : Capital Market & Capital Market Instruments

**2009 - Dec [2]** (b) Explain how a trader who has bought an option can exit the trade. (5 marks)

#### Chapter-2 : Capital & Financial Market Regulations

**2009 - Dec [2]**(d) Janak Constructions Ltd. had received an e-mail from Hiroshi Ltd., emanating from the company's official website, accepting the former's offer. Later on, Hiroshi Ltd. failed to fulfill their promise. Can Janak Construction Ltd. launch proceedings against Hiroshi Ltd. on the strength of the e-mail? What precaution should Janak Constructions Ltd. have taken in this regard? (6 marks)

**2009 - Dec [3]**(b) Under what circumstances can a company be registered as a Collective Investment Management Company raise funds from the public? (5 marks)

**2009 - Dec [4]**(b) Vashisht Telecom Ltd. has been in existence for the past seven years. The relevant extracts from the company's financial statement and other records for the year ended 31.3.2009 are as under :

(i) Assets position:

Fixed Assets:	(Rs. in lacs)
Patents trademarks and copyrights	200
Goodwill	40
Land and buildings	120

Equipments	80
Vehicles	70
Current assets	20
Total value of assets	530
Share capital and reserves:	
Paid up share capital	85
General reserve	55

- (a) The company was originally in the hotel business and during April, 2008, it forayed into the telecom sector also, changing to the current name. The net profits earned by the company was Rs. 120 lacs (total turnover Rs. 400 crores), of which Rs. 75 lacs (turnover Rs. 195 crores) was from the hotel sector.
- (b) The company was consolidating its financial position and hence even though it had distributable surplus during the last five years, it declared dividend during the last two years only (including current year).

The company wishes to make a public issue of shares to the extent of rupees eight crores. It does not want to go through the book building route or engage in “market building” process after the listing, and does not want the participation of financial institutions or scheduled commercial banks. The company seeks your advice whether it is possible to make a public issue, in the light of the SEBI requirements, and if it is not possible, what it should do to correct its position so as to comply with the requirements. You may tabulate your views as under:

Sl. No.	Requirements under the option	Does the company fulfill the norms?	Action to be taken by the company
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(10 marks)

**Chapter-3 : Capital Market Analysis**

**2009 - Dec [2]** (a) There are two portfolios L and M. known to be on the minimum variance set for a population of three securities A, B and C. The weights for each of the portfolios are given below:

	WA	WB	WC
Portfolio L	0.18	0.63	0.19
Portfolio M	0.24	0.60	0.16

Ascertain the stock weights for a portfolio made up with investment of Rs. 3000 in L and Rs. 2000 in M. (4 marks)

- (c) What is a Load Fund? How are Net Asset Values, public offer price and redemption price calculated? (5 marks)

**2009 - Dec [3]** (a) Mrs. VANI has furnished the following information relating to the portfolio of two securities held by her for the past 5 years:

Year	Returns (%)	
	Security L	Security M
2005	10	12
2006	12	10
2007	9	11
2008	11	7
2009	15	12

She has invested Rs. 50,000 in security L and Rs. 75,000 in security M in all these years.

You are required to help her in ascertaining

- (i) Which security has higher historic level return and which security has lower risk;
- (ii) Return of portfolio; and
- (iii) Risk of portfolio. (15 marks)

**2009 - Dec [4]** (a) The following data relating to two stocks L and M are made available to you :

Year	Return on L (%)	Return on M (%)
2008	12	14
2009	15	19

From the above, you are required to compute:

- (i) Standard deviation of the return from stocks L and M; (2 marks)
- (ii) Co-variance of returns from the two stocks; (2 marks)
- (iii) Correlation coefficient between the returns of the two stocks L and M; (2 marks)
- (iv) Expected return of a portfolio comprising of 30% of L and 70% of M; and (2 marks)
- (v) Risk of a portfolio consisting of L and M in the same proportion (2 marks)

#### **Chapter-12 : Directors**

**2009 - Dec [6]**(b) The Board of Directors of Moonshine Ltd. are contributing every year to a charitable trust a sum of Rs. 1 lac. In a particular year, the company suffered losses and the directors are contemplating to contribute the same amount in spite of the losses. In this connection, discuss whether the directors can do so. (4 marks)

#### **Chapter-13 : Company Meetings**

**2009 - Dec [6]** (a) A public company sought extension of time from the ROC for holding AGM upto a period of 3 months and it was granted. However, when the actual AGM was to be held, the company faced a situation that the annual accounts were upto a period beyond which it is permissible. The

company contended that since ROC granted extension of time for holding the AGM, the same would also be applicable for presentation of accounts as well. Referring to the relevant provisions of the Companies Act, 1956, state whether the contention of the company holds good. (4 marks)

**Chapter-16 : Compromises, Arrangements & Reconstruction and Inter-corporate loans & Investments**

**2009 - Dec [6]**(c) Ganga Plastics Ltd. and Yamuna Tubeplasts Ltd. entered into a scheme of amalgamation by which former would transfer its entire undertaking to the latter. However, the Central Government raised an objection that unless the objects clause of the companies are similar and the Memorandum empowers to do so, the scheme of amalgamation cannot be permitted. Is the objection of the Central Government tenable? (7 marks)

**Chapter-17 : Winding up of Company**

**2009 - Dec [7]** (a) Fruits Ltd. has its subsidiary company Oranges Ltd., which was formed to carry out some of the objectives of the former. Fruits Ltd. suspends one of its several businesses, by passing a resolution at the company's extra-ordinary general meeting with effect from 1st January, 2009. The business so suspended continues to be suspended until the end of March, 2009. On 1st April 2009, a group of shareholders of Fruits Ltd. File a petition in the Court for winding of the company on the ground of suspension of business by the company.

Referring to the provisions of the Companies Act, 1956,

- (i) State whether the contention of the shareholders is legally correct;
- (ii) Will your answer be the same in case Fruits Ltd. suspends all its businesses? (8 marks)

**Chapter-21 : Corporate Governance**

**2009 - Dec [7]**(b) What do you comprehend by the term "Corporate Governance"? Explain how the provisions of the Companies Act, 1956 relating to Audit Committee will help in realizing some of the objectives of Corporate Governance. (7 marks)

**Chapter-22 : Board of Directors & Different Committees and key Financial Decisions & Disclosures**

**2009 - Dec [8]** (a) Can it be said that management audit incorporates in itself, an efficiency audit? What are the main objects of efficiency audit? (7 marks)

**2009 - Dec [8]** (b) State the importance of going concern concept in preparation of corporate financial statements in India. How is the term "foreseeable future" defined in this context? (8 marks)

**Chapter-23 : Objective Questions****2009 - Dec [1] {C}**(a) Fill up the blanks with the appropriate answers:

- (i) For LMN Ltd., the market standard deviation is 0.03, standard deviation of an asset is 0.027 and the correlation coefficient of the portfolio with market is 0.8. The market sensitivity index is \_\_\_\_\_.
- (ii) Continuing (i) above, if the expected market return is 12% and the risk-free rate of return is 8%, the expected rate of return of a portfolio applying Capital Asset Pricing Model is \_\_\_\_\_ %.
- (iii) In the context of Capital Adequacy Ratio (CAR) of banks, Tier II Capital \_\_\_\_\_ [can/cannot] be more than Tier I Capital.
- (iv) \_\_\_\_\_ is regarded as the father of modern portfolio theory.
- (v) The external factor that affects the industry as a whole is termed as \_\_\_\_\_ risk. in capital market analysis.
- (vi) In the case of options, only the \_\_\_\_\_ is obligated to perform the contract.
- (vii) The entire pre-issue share capital, other than that locked in as promoter's contribution, shall be locked in for a period of \_\_\_\_\_.
- (viii) Premium settlement is adopted by stock exchanges for the products \_\_\_\_\_ and \_\_\_\_\_. (1×8 = 8 marks)

**(b) State with reasons**, whether the following statements are True or False (*Mere conclusion will not be sufficient*):

- (i) In the capital issuance through the book building process, the merchant banker acting as book runner determines the subscription price.
- (ii) Gross exposure limits of members of stock exchange are computed in absolute terms. ignoring positive and negative sings (purchase values and sale values).
- (iii) Junk bonds are corporate bonds, considered as unfit for investment purposes and so branded, by the investing fraternity.
- (iv) Repo and reverse repo trade are also termed as collateralized lending and borrowing mechanism.
- (v) An e-mail is not an acceptable form of approved evidence towards receipt of communication from a person.
- (vi) Efficient Market Hypothesis implies that a new information revealed about a firm will effect the share price rapidly and rationally. (2×6 = 12 marks)

**2009 - Dec [5] {C}**(a) Fill up the blanks :

- (i) Every public company having a paid-up capital of not less than rupees \_\_\_\_\_ shall constitute the Audit Committee.
- (ii) In the context of classification of risk, tax risk will fall under \_\_\_\_\_ risk (credit. liquidity. disaster).

- (iii) The Competition Commission shall consist of a Chairperson and more than \_\_\_\_\_ other Members to be appointed by the Central Government.
- (iv) In the context of corporate governance, Narayana Murthy Committee was formed in the year \_\_\_\_\_. (1×4 = 4 marks)
- 2009 - Dec [5] {C}**(b) State with reasons whether true or false (*Mere conclusion will not suffice*);
- (i) Where a charge requiring registration is not registered, the charge becomes voidable against the creditor and not against the liquidator.
- (ii) To effect buy back of shares, the same should be, inter alia, after passing an ordinary resolution in a meeting of the Board of directors.
- (iii) Amalgamation in the nature of merger is to be accounted as per the purchase method. (3×2 = 6 marks)

**Paper - 12 : Financial Management and International Finance**

**Chapter-1 : Overview of Financial Management**

**2009 - Dec [3]** (a) Explain briefly the functions performed by the Securities & Exchange Board of India (SEBI). (5 marks)

**Chapter-2 : Capital Structure & Cost of Capital**

**2009 - Dec [4]** The key information pertaining to the proposed new financing plans of ADVENTURE LTD. is given below :

Sources of Funds	Financing Plan I	Financing Plan II
Equity	15,000 shares of Rs. 100 each	30,000 shares of Rs. 100 each
Preference shares	12%, 25,000 shares of Rs. 100 each	—
Debentures	Rs. 5,00,000 at a coupon rate of 10%	Rs. 15,00,000, coupon rate 11%

The corporate tax rate is 35 per cent.

Required :

- (a) Determine the two EBIT-EPS coordinates for each financial plan.
- (b) Determine the
- (i) Indifference point; and
- (ii) Financial break-even point for each financing plan.
- (c) Which plan has more financial risk and why ?
- (d) Indicate over what EBIT range, if any, one plan is better than the other.
- (e) If the firm is fairly certain that its EBIT will be Rs. 12,50,000, which plan would you recommend, and why ?

((3 + 4) + 3 + 2 + (1 × 3) = 15 marks)

**Chapter-3 : Capital Budgeting**

**2009 - Dec [3]** (b) ANKIT LTD. a manufacturing company produces 25,000 litres of special lubricants in its plant. The existing plant is not fully depreciated for tax purposes and has a book value of Rs. 3 lakh (it was bought for Rs. 6 lakh six years ago). The cost of the product is as under :

	Cost/litre (Rs.)
Variable Costs	60.00
Fixed Overheads	<u>15.00</u>
	<u>75.00</u>

It is expected that the old machine can be used for further period of 10 years by carrying out suitable repairs at a cost of Rs. 2 lakh annually.

A manufacturer of machinery is offering a new machine with the latest technology at Rs. 10 lakh after trading off the old plant (machine) for Rs. 1 lakh. The projected cost of the product will then be :

	Cost/litre (Rs.)
Variable Costs	45.00
Fixed Overheads	<u>20.00</u>
	<u>65.00</u>

The fixed overheads are allocations from other department plus the depreciation of plant and machinery.

The old machine can be sold for Rs. 2 lakh in the open market. The new machine is expected to last for 10 years at the end of which, its salvage value will be Rs. 1 lakh. Rate of corporate taxation is 50%. For tax purposes, the cost of the new machine and that of the old one may be depreciated in 10 years. The minimum rate of return expected is 10%.

It is also anticipated that in future the demand for the product will remain at 25,000 litres.

Advise whether the new machine can be purchased. Ignore capital gain taxes.

[Given : PVIFA (10%, 10 years) = 6.145, PVIF (10%, 10 years) = 0.386.]

(5 + 3 + 2 = 10 marks)

**Chapter-7 : Financial Analysis and Planning**

**2009 - Dec [2]**(b) The Balance Sheets of MAGNAVISION LTD. as on 31.03.2008 and 31.03.2009 are given below :

	31.03.2008	31.03.2009
<b>Assets</b>		
Land & Buildings	8,00,000	6,40,000
Investments	1,00,000	1,20,000
Inventory	4,80,000	4,20,000

Accounts Receivables	4,20,000	9,10,000
Cash & Bank Balances	2,98,000	3,94,000
<b>Total Assets</b>	<b>20,98,000</b>	<b>24,84,000</b>
<b>Liabilities</b>		
Share Capital	9,00,000	9,00,000
Reserves	6,00,000	6,20,000
P & L Account	1,12,000	1,36,000
Term Loan	Nil	5,40,000
Current Liabilities	4,86,000	2,88,000
<b>Total Liabilities</b>	<b>20,98,000</b>	<b>24,84,000</b>

The following details are provided :

- (i) Dividend paid during the year 2008-09 was Rs. 80,000.
- (ii) Net profit for the year 2008-09 was Rs. 1,24,000 after charging depreciation on fixed assets amounting to Rs. 1,40,000.
- (iii) Investments worth Rs. 16,000 were sold during the year 2008-09 for Rs. 17,000. No revaluation of the investments was carried out at the year-end.
- (iv) Fixed assets were sold at a profit of Rs. 4,000 during the year and the profit is included in the net profit for the year ending 31.03.2009.

You are required to prepare the Statement of Changes in Working Capital and the Funds Flow Statement for the year ended 31st March, 2009.

(3 + 4 + 3 = 10 marks)

**Chapter-8 : Leverage & CVP Analysis**

**2009 - Dec [2]** (a) Explain how the combined effect of operating and financial leverages provide the risk profile of an organization. (5 marks)

**Chapter-9 : Financial Strategy**

**2009 - Dec [6]** (a) What is meant by Balanced Scorecard ? (5 marks)

(b) A financial analyst has been asked to appraise NETWORKS LTD., an IT company in terms of the future cash generating capacity. He has projected the following after-tax cash flows :

Year	1	2	3	4	5
Cash Flows	352	96	128	172	234

(Rs. in lakh)

It is further estimated that beyond 5th year, cash flows will perpetuate at a constant growth rate of 7% per annum, mainly on account of inflation. The perpetuate cash flow is estimated to be Rs. 2,052 lakh at the end of the 5th year.

Additionally the following information are available :

- (1) The cost of capital is 20%.
- (2) The company has outstanding debt of Rs. 724 lakh and cash/bank balance of Rs. 542 lakh.

(3) The number of outstanding shares of the company is 30.30 lakh.

Requirements :

- (i) What is the value of NETWORKS LTD. in terms of expected future cash flows ?
- (ii) Calculate the value of shareholders.
- (iii) The company has received a take over bid of Rs. 402 per share. Is it good offer ?

[Given: (PVIF at 20% for year 1 to 5): 0.833, 0.694, 0.579, 0.482, 0.402.]

(6 + 2 + 2 = 10 marks)

**2009 - Dec [8]** Write short notes on the following :

(b) Measures of Non-Financial Performance; (5 marks)

**Chapter-10 : Investment Decisions**

**2009 - Dec [5]** (a) What are the differences between warrants and convertible debentures ? (5 marks)

**2009 - Dec [5]** (b) The equity share of AMTREX LTD. is quoted at Rs. 210. A 3-month call option is available at a premium of Rs. 6 per share and a 3-month put option is available at a premium of Rs. 5 per share.

- (i) Ascertain the net pay-offs to the option holder of a call option and a put option, given that :
  - (1) The strike price in both cases is Rs. 220; and
  - (2) The share price on the exercise day is Rs. 200, Rs. 210, Rs. 220, Rs. 230 and Rs. 240 respectively.
- (ii) Also indicate the price range at which the call and the put options may be gainfully exercised. (4 + 4 + 2 = 10 marks)

**2009 - Dec [7]** (a) VATSAN LTD. is considering a project with the following expected cash flows :

Initial investment : Rs. 1,00,000.

Year	1	2	3
Expected Cash Inflows (Rs.)	70,000	60,000	45,000

Due to uncertainty of future cash flows, the management decides to reduce the cash inflows to certainty equivalent (CE) by taking only 80% for 1st year, 70% for 2nd year and 60% for 3rd year respectively.

The cost of capital is 10%.

Required :

Is it worthwhile to take up the project ? (5 marks)

**Chapter-12 : International Finance & Sources of International Finance**

**2009 - Dec [7]** (b) WILSON LTD. an Indian company has a payable of US\$ 1,00,000 due in 3 months. The company is considering to cover the payable through the following alternatives :

- (i) Forward contract;
- (ii) Money market; and
- (iii) Option.

The following information is available with the company :

Exchange rate :

Spot Rs./\$ 45.50/45.55

3-m Forward 40/45

Interest rates (%) : Per Annum

US 4.5/5.0 (Deposit/Borrow)

India 10.0/11.0 (Deposit/Borrow)

Call option on \$ with a strike price of Rs. 46.00 is available at a premium of Rs. 0.10/\$. Put option on \$ with a strike price of Rs. 46.00 is available with a premium of Rs. 0.05/\$.

Treasury department of the company forecasted the future spot rate after 3 months to be :

Spot rate after 3-m	Probability
Rs. 45.60/\$	0.10
Rs. 46.00/\$	0.60
Rs. 46.40/\$	0.30

You are required to suggest the best alternative of hedging.

((1 + 3 + 4) + 2 = 10 marks)

**2009 - Dec [8]** Write short notes on the following :

- (a) Currency Futures; (5 marks)
- (c) Foreign Direct Investment; (5 marks)

**Chapter-13 : IMF & Financial System**

**2009 - Dec [8]** Write short notes on the following :

- (d) Balance of Payment. (5 marks)

**Chapter-14 : Objective Questions**

**2009 - Dec [1] {C}** (a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark) and give your workings/reasons briefly in support of your answer (= 1 mark) :

- (i) The Board of Director of MOULIN LTD. (ML) is dissatisfied with last year's ROE of 15%. If the net profit margin and asset turnover ratio remain unchanged at 10% and 1.25 respectively, by how much must the asset to equity increase to achieve 20% of ROE ?
  - A. Must increase by 0.6
  - B. Must increase by 0.5
  - C. Must increase by 0.4
  - D. Insufficient information

- (ii) The rates available in the Kolkata market are :
- |        |               |
|--------|---------------|
| Rs./\$ | Spot 46.75/78 |
| £/\$   | 0.5285/86     |
- If an Indian importer requires pounds, the rate quoted to him is
- A. Rs. 88.46/£
  - B. Rs. 88.51/£
  - C. Rs. 88.64/£
  - D. None of (A), (B), (C)
- (iii) The degree of operating leverage of SHEETAL LTD. is increased by 30 per cent. What will be the change in the degree of total leverage, if the degree of financial leverage is decreased by 20 per cent ?
- A. 2% decrease
  - B. 3% increase
  - C. 4% increase
  - D. Data insufficient
- (iv) MARISON LTD. an Indian company is planning to invest in the USA. The rates of inflation are 8% in India and 3% in USA. If the spot rate is currently Rs. 46.50/\$, what spot rate can the company expect after 5 years ?
- A. Rs. 57.93/\$
  - B. Rs. 58.94/\$
  - C. Rs. 59.00/\$
  - D. Rs. 59.13/\$
- (v) The current price of a share of RONEX LTD. is Rs. 55. The company is planning to issue one right share for every four equity shares. If the company targets that the ex-rights value of a share shall not fall below Rs. 52, the subscription price for one rights share should be more than or equal to
- A. Rs. 50
  - B. Rs. 48
  - C. Rs. 40
  - D. None of (A), (B), (C)
- (vi) ASHLEEN LTD. is to pay dividend of Rs. 3.00 at the end of the year and expected to grow at 12% per year forever. If the required rate of return on the company stock is 15 per cent per annum, its intrinsic value will be
- A. Rs. 100
  - B. Rs. 110
  - C. Rs. 115
  - D. None of (A), (B), (C)

- (vii) The earning power of SYNTEX LTD. is 0.30. If the average of total assets and interest expenses are Rs. 2,00,000 and Rs. 15,000 respectively, the interest coverage ratio will be
- A. 1.5
  - B. 3.00
  - C. 4.00
  - D. None of (A), (B), (C) (2 × 7 = 14 marks)
- (b) Choose the most appropriate one from the stated options and write it down [only indicate A, B, C, D as you think correct (= 1 mark each)] :
- (i) Which one of the following would describe commercial paper most appropriately ?
    - A. Unsecured long-term notes as loan
    - B. Unsecured short-term loan notes
    - C. Secured short-term loan notes
    - D. Secured long-term loan notes
  - (ii) Hedging through forward, futures, swaps etc. is an example of
    - A. Risk avoidance
    - B. Risk sharing
    - C. Risk transfer
    - D. None of the above
  - (iii) In which of the following appraisals by the financial institutions, is the schedule of implementing the whole project critically studied ?
    - A. Market appraisal
    - B. Technical appraisal
    - C. Financial appraisal
    - D. Economical appraisal
  - (iv) Which of the following is a correct sequence of life cycle of a project ?
    - A. Planning, selection, scheduling, termination
    - B. Planning, implementation, control, evaluation
    - C. Selection, scheduling, implementation, evaluation, control
    - D. Planning, implementation, control, evaluation
  - (v) When cost of capital of a project is equal to its Internal Rate of Return (IRR)
    - A. The NPV will be zero
    - B. The NPV will be + ve
    - C. The NPV will be - ve
    - D. Benefit cost ratio will be zero

- (vi) A transaction where two currencies are exchanged by the parties involved, only to be exchanged back later is termed as
- A. Forward contract
  - B. Option contract
  - C. Currency swap
  - D. Future contract
- (1 × 6 = 6 marks)
- (c) Mention whether the following statements are True (T) or False (F) :
- (i) TRIPS is an international agreement on intellectual property rights.
  - (ii) In the Bank's parlance, net working capital represents margin money.
  - (iii) GDR may be converted into underlying shares are vice-versa.
  - (iv) The changes in foreign exchange reserves and reserves of monetary gold held by the monetary authority will be recorded in Capital account of the BOP statement.
  - (v) Portfolio Balance Approach assumes that the Purchasing Power Parity (PPP) holds good.
- (1 × 5 = 5 marks)

**Paper - 13 : Management Accounting Strategic Management****Chapter-2 : Strategy Implementation**

**2009 - Dec [2]** (a) Discuss the importance of Strategy Implementation. What are the key steps involved in Strategy Implementation? (6 marks)

**Chapter-4 : Forecasting, Model Building & Models**

**2009 - Dec [1] {C}** (c) Define the following terms (in not more than two sentences):

- (v) Cash Cow (2 marks)

**2009 - Dec [3]** (a) What do you understand by Product Life Cycle (PLC)? Discuss four stages of a typical PLC Curve. What kind of strategy a firm generally adopts in each stage? (8 marks)

**2009 - Dec [5]** (a) What are the types of simulation models? What are the advantages and disadvantages of simulation models? (7 marks)

**Chapter-5 : Marketing Strategy**

**2009 - Dec [1] {C}** (c) Define the following terms (in not more than two sentences):

- (i) Channels of Distribution
  - (ii) Market Segmentation
- (2 marks each)

**2009 - Dec [3]** (b) Examine the degree to which the three concepts of product position, product differentiation and market segmentation relate to each other. (7 marks)

**2009 - Dec [5]** (b) Discuss the principal elements of “Marketing Mix” and identify those elements that would be particularly relevant to a manufacturer of heavy commercial vehicles. (8 marks)

**Chapter-6 : Management Accounting in Strategic Management**

**2009 - Dec [1] {C}** (c) Define the following terms (in not more than two sentences) :

(iii) Activity Based Management (2 marks)

**2009 - Dec [2]** (b) The world class approach to Cost Management would require understanding the total production management, total quality management and align the total Cost Management on the lines of the other two strategies. How is it accomplished? (9 marks)

**2009 - Dec [4]** (a) “Strategic Management is considered to be that type of management through which an organization tries to obtain a good fit with its environment.” Explain briefly how forecasting can assist an organization to obtain a good fit with its environment.

(b) “Nine Price-Quality strategies” offer a relationship between price and quality under different perceptions. Explain. (8 + 7 = 15 marks)

**Chapter-7 : Risk Measurement & Management**

**2009 - Dec [1] {C}** (c) Define the following terms (in not more than two sentences):

(iv) Systematic Risk (2 marks)

**2009 - Dec [6]** (a) What is Business Risk? How do you measure Physical Risk? (7 marks)

**2009 - Dec [7]** (a) Define Risk Management and explain its important objectives. (5 marks)

**2009 - Dec [8]** Write short notes on the following:

(a) Impact of Macro Economic factors and Risk; (5 marks)

**Chapter-8 : Risk Insurance**

**2009 - Dec [6]** (b) List the different statutes governing Employer-Employee liability in India. (8 marks)

**Chapter-9 : Corporate Risk Management**

**2009 - Dec [7]** (b) Enterprise risks involved in solvency transactions as well as ageing debts have to be taken care of on a day-to day basis in the business. What are the instruments used for this purpose and application thereof? (10 marks)

**2009 - Dec [8]** Write short notes on the following:

(b) Asset-Liability Management;

(c) Enterprise Risk Management; (5 marks each)

**Chapter-10 : Objective Questions**

**2009 - Dec [1] {C}** (a) In each of the cases/statements given below, one out of the four alternatives is correct. Indicate the correct answer.

- (i) An anti take-over defence that creates securities that provide their holders with special rights in the event of a take-over is called:
  - (A) Poison Put
  - (B) Poison Pill
  - (C) Bear Hug
  - (D) Flip Pill
- (ii) For an actor in Bollywood, his outstanding performance would be a/an
  - (A) Asset
  - (B) Strategic Asset
  - (C) Core competency
  - (D) Capability
- (iii) A Question Mark in BCG Matrix is an investment, which
  - (A) Yields low current income but has bright growth prospects.
  - (B) Yields high current income and has bright growth prospects.
  - (C) Yields high current income and has bleak growth prospects.
  - (D) Yields low current income and has bleak growth prospects.
- (iv) The strategy of the TATA group in India could be viewed as a good example of
  - (A) Conglomerate diversification
  - (B) Market development
  - (C) Cost Leadership
  - (D) Concentric diversification
- (v) Value Chain includes
  - (A) Customer service, Distribution, Marketing
  - (B) Production, Product and service and Process design
  - (C) Research and development
  - (D) All of the above
- (vi) The World Class approach to Cost Management would require understanding.
  - (A) Total Production Management
  - (B) Total Quality Management
  - (C) Align the total Cost Management on the lines of the above two strategies
  - (D) None of the above

- (vii) Commercial Insurance do not include
- (A) Jewellers block policy
  - (B) Bankers indemnity policy
  - (C) Endowment policy
  - (D) Marine cargo policy
- (viii) Risk Management Strategies are
- (A) Avoid Risk, Reduce Risk, Retain Risk, Combine Risk
  - (B) Transfer Risk, Share Risk and Hedge Risk
  - (C) Both (A) and (B)
  - (D) None of the above
- (ix) Unsystematic Risk relates to
- (A) Market Risk
  - (B) Beta
  - (C) Inherent Risk
  - (D) Interest Rate Risk
- (x) Variability in return on investment in the market is referred to as
- (A) Market Risk
  - (B) Physical Risk
  - (C) Pooling Risk
  - (D) Business Risk
- (1 × 10 = 10 marks)

**2009 - Dec [1] {C}** (b) State whether the following statements, based on the quoted terms, are TRUE or FALSE with justifications for your answer. If any statement is False, you are required to give the correct terms, duly quoted. No credit will be given for any answers without justifications.

- (i) “Benchmarking” is the simulation of cost reduction schemes that help to build commitment and improvement of actions.
  - (ii) “Dogs” are the products in a high-growth market but where they have a low market share.
  - (iii) Contribution of Management Accountant in environmental scan and SWOT analysis is Research information on competitive activity.
  - (iv) RAROC in Risk Analysis means Risk and return on capital.
  - (v) Interest Rate Risk refers to the uncertainty of market volumes in the future and quantum of future income caused by the variations in the interest rates.
- (1 × 5 = 5 marks)

<b>Paper - 14 : Indirect and Direct Tax Management</b>
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**Chapter-1 : Central excise Law**

**2009 - Dec [5]** (c) The value of clearance from four units of Janak Corporation Limited (JCL) during 2008-09 are as follows:

<i>Units situated at</i>	<i>Value of clearances (Rs. in lakhs)</i>
Noida	110
Kolkata	90
Salem	120
Chennai	140

JCL sought your advice as a consultant whether benefit under Excise Notification No. 8/2003 shall be available to JCL during 2009-10. You are required to indicate your advice in this context. (4 marks)

**2009 - Dec [8]** (a) M/s. XYZ Ltd. sold machinery to Mr. K at a price of Rs. 5 lakhs on 15th June, 2008 and the same was removed from the factory at Kolkata. The rate of excise duty applicable is 10.3% on the date of removal. Mr. K refused to take delivery of the machine when it reached his destination. In the meantime, M/s. XYZ Ltd. increased the prices of the similar type of machinery to Rs. 6 lakhs with effect from 16th June, 2008. The machinery as refused by Mr. K. has been sold on 20th June 2008 to Mr. L at the revised price of Rs. 6 lakhs. The excise duty including education cess is 12.36% applicable with effect from 10th June, 2008.

Explain the following with reasons :

- (i) What is the value to be taken as assessable value? (2 marks)
- (ii) What is the rate of excise duty applicable and duty payable on above transaction ? (2 marks)
- (iii) The Central Excise Officer is demanding duty on the price of Rs. 6 lakhs at the time of sale to Mr. L. Is he right in his approach ? (2 marks)
- (iv) Does cost of production have any bearing on the assessable value? (2 marks)

#### **Chapter-2 : CENVAT Credit**

**2009 - Dec [2]** (b) You have been appointed as Cost Auditor to conduct special audit of Cenvat credit under section 14AA of Central Excise Act, 1944. Discuss major areas where you will concentrate while conducting your audit. (5 marks)

#### **Chapter-3 : Customs Law**

**2009 - Dec [3]** (c) Mr. and Mrs. Bose visited Canada and brought following goods while returning to India on 9th February, 2009: (i) Their personal effects like cloths, etc., valued at Rs. 40,000/- (ii) A personal computer bought for Rs. 36,000/- (iii) A laptop computer bought for Rs. 98,000/- (iv) Two litres of liquor bought for Rs. 2,000/- (v) A new camera bought for Rs. 38,000/-.

What is the amount of customs duty payable by Mr. Bose? (3 marks)

**2009 - Dec [5]** (a) Durga Steel Industries imported certain goods and kept them in warehouse. However, the goods were not removed from the warehouse at the expiration of the statutory time period during which such goods were permitted under section 61 to remain in a warehouse.

Durga Steel Industries sought to relinquish the title to such goods under the proviso to section 68 of the Customs Act, 1962. However, the Department contended that since the goods were deemed to be improperly removed from the warehouse (considering the over stay of such goods in the warehouse) under section 73(1)(b), the case would not fall under section 68 and thus proviso to section 68 could not be invoked. It was submitted that before invoking the proviso to section 68, the conditions of section 68 must be fulfilled which was not done in the instant case. The Department further contended that the relinquishment is subject to discretion of proper officer and that the same cannot be done where the importer has the ability to pay the impugned duty.

Durga Steels contends that this relinquishment absolves the importer from total liability.

Examine the correctness of the rival contentions. (6 marks)

**2009 - Dec [5]** (b) Illustrate the points of differences between pilferage of goods under section 13 and loss/destruction of goods under Section 23 of the Customs Act, 1962. (5 marks)

**2009 - Dec [7]** (c) Please specify the relevant date for determination of rate of customs duty in respect of following goods imported/exported :

- (i) In the case of entry for export under section 50 of the Customs Act, 1962.
- (ii) If bill of entry is presented before the date of entry inward of Vessel.
- (iii) In case of goods imported by Postal Parcel. (3 marks)

#### **Chapter-4 : Service Tax**

**2009 - Dec [1] {C}** (c) Provide brief answers:

- (i) On 18.06.2009 Mr. Sakti discovers a mistake in the service tax refund pertain up to the half year ended 31.03.2009, filed on 23.04.2009. Can he rectify the mistake? (2 marks)

**2009 - Dec [4]** (b) State the provisions relating to best judgement assessment in the context of service tax. (4 marks)

(c) Examine the validity of the following statements with regard to service tax:

- (i) The service provided by a consulting engineer engaged in providing consultancy in the discipline of computer software engineering shall be exempt under the category "Consulting engineer's service" (2 marks)
- (ii) Some transporters undertake door-to-door transportation of goods or articles and they have made special arrangements for speedy transportation and timely delivery of such goods or articles. Such

services are known as 'Express Cargo Service' with assurance of timely delivery. Such 'Express Cargo Service' is covered under 'courier agency service'. (2 marks)

**2009 - Dec [7]** (b) M/s. ABC Services Ltd. a service provider for the first time made an agreement on 22nd May, 2008 with XYZ Ltd. to provide different services covered under Business Auxillary Services at a price of Rs. 80 lakhs (inclusive of service tax) per annum. They are not providing any other services except as above. As per terms of contract executed by ABC Services Ltd., an advance of 15% of contract price has been received for the services to be provided which would be adjusted against final bill in the end of the year. The bills raised and amount received are given as follows :

SI. No.	Particulars	(Amount Rs. in Lakhs)			
		Bill raised		Amount received	
		Date	Amount	Date	Amount
1.	Advance 15% of contract price for service to be provided	01.06.2008	12	01.06.2008	12
2.	1st Bill for June '08 service provided	08.07.2008	25	20.07.2008	12
3.	2nd Bill for July '08 service provided	05.08.2008	12	18.08.2008	25

Service tax due as per provision has been deposited in due time. Total gross value of services provided was Rs. 37 lakhs after which the contract was terminated with mutual consent. On closer of the contract amount of advance of Rs. 12 lakhs has been refunded to M/s. XYZ Ltd. Please explain the following assuming service tax payable is 10.3% (and figures are expressed in Rs. in lakhs) :

- (i) What action should be taken by ABC Services Ltd. on execution of agreement on dated 22nd May, 2008 ? (1 mark)
- (ii) Can ABC Services Ltd. avail threshold limit for the year 2008-09, if so what is the amount ? (1 mark)
- (iii) Service tax payable on the advance of Rs. 12 lakhs for which no service has been provided. How much advance is taken for computation of service tax ? (2 marks)
- (iv) What is the value of services taken for computation and the amount of service tax paid through designated branches and on which dates ? (3 marks)
- (v) What will happen to the service tax, if any, excess deposited for which no service was provided due to termination of contract and refund of the amount thereof ? (2 marks)

**Chapter-5 : Foreign Trade Policy & Export Promotion Schemes**

**2009 - Dec [1] {C}** (c) Provide brief answers:

- (iii) Enumerate any four matters covered by Foreign Trade Policy. (2 marks)

**2009 - Dec [4]** (a) (i) Is 'Duty Free Import Authorization (DFIA)' transferable? (1 mark)

- (ii) Is any value addition required for the same? (2 marks)  
(iii) What are the conditions relating to issue of DFIA? (4 marks)

**Chapter-6 : Central Sales Tax**

**2009 - Dec [2]** (a) State the transactions which have been excluded from levy of central sales tax and those in respect of which central sales tax leviable is nil. (8 marks)

**Chapter-7 : VAT**

**2009 - Dec [1] {C}** (c) Provide brief answers:

- (ii) As per the White Paper on State-level VAT, is a trader eligible for refund if VAT credit of input tax available cannot be utilized for any reason. (2 marks)

**2009 - Dec [3]** (a) State the basic principle of VAT. (6 marks)

**Chapter-8 : Overview of Income Tax**

**2009 - Dec [2]** (c) Is the expenditure incurred on buying MS Office software, a deductible business expenditure under the Income tax Act, 1961? (2 marks)

**2009 - Dec [6]** (a) Mr. Ankit was a partner in a firm in his capacity as the Karta of his HUF, representing the HUF. On the amounts deposited by the partner, the firm paid interest. Ankit in his individual capacity had made deposit in the said firm. The assessee firm claimed that the interest paid in his individual capacity should not be disallowed. The Assessing Officer did not agree and disallowed the interest paid to Mr. Ankit in his individual capacity, under section 40 (b) of the Income-tax Act, 1961. Is the aforesaid interest allowable as deduction in the hands of the firm? (3 marks)

(c) Mr. Akash, an individual assessee, has filed an appeal before Hon'ble High Court against the order passed by Income Tax Appellate Tribunal. Can the High Court interfere with the factual findings recorded by the Tribunal ? Under what circumstances will the appeal challenging the factual findings be admitted ? (2 marks)

(d) Mr. Baunty is an assessee whose sales (turnover) is Rs. 38.00 lakhs, during the assessment year 2009-10. An amount of Rs. 10 lakhs as received by his minor son is clubbed u/s. 64(1) of the Income-tax Act, 1961 while filing the return of income. The Assessing Officer contended that Mr. Baunty is liable to Tax Audit under section 44AB of the Income-tax Act, 1961 as the amount exceeded Rs. 40 lakhs after clubbing of minor child receipt. (3 marks)

**2009 - Dec [7]** (a) M/s. Airways Ltd. a non-resident company operates aircrafts between Newyork and New Delhi. During the financial year 2008-09, an amount of Rs. 5 crores and Rs. 2 crores are received in course of business operations of aircraft for passengers and goods respectively between Newyork and New Delhi. Similarly an amount of Rs. 2 crores and Rs. 1 crore are also received for carriage of passengers and goods from New Delhi to Newyork. Total expenditure incurred by the company for the purpose of this business during the year ending 31.03.2009 was Rs. 8.5 crores. Compute the income chargeable to tax in India under the head “Profits and Gains of business or profession”. (3 marks)

**Chapter-9 : Income Tax - Some Issues**

**2009 - Dec [1] {C}** (c) Provide brief answers:

- (iv) Mention any four methods of computing Arm’s Length price as per Transfer Pricing provisions. (2 marks)

**2009 - Dec [6]** (b) On 1st April, 2008, Mr. A & Mrs. A purchased entire shares of M/s. Thankur Company Private Limited in which public are not substantially interested. The company had unabsorbed business loss and accumulated depreciation from earlier years.

Accumulated non-speculative business losses — Rs. 3 lakhs  
 Unabsorbed Depreciation — Rs. 8 lakhs

The company made sufficient profits during the Asst. year 2009-10 to accommodate above allowances.

- (i) State the effect of changes of shareholders in the right of the company to carry forward the losses and unabsorbed depreciation for set off. (5 marks)
- (ii) Is it different if the shares are acquired by Mr. A & Mrs. A by way of gift ? (2 marks)

**2009 - Dec [8]** (b) The Balance Sheet of LMN Ltd. as on 30th November, 2008, being the date on which Unit N has been transferred by way of slump sale is given hereunder :

<b>Balance sheet as on 30.11.2008</b>			
Liabilities	Rs. in lakhs	Assets	Rs. in lakhs
Paid up capital	1,700	Fixed Assets :	
Reserves	620	Unit L	150
Liabilities:		Unit M	150
Unit L	40	Unit N	550
Unit M	110	Other Assets :	
Unit N	90	Unit L	520
		Unit M	800
		Unit N	390
	2,560		2,560

Using the further information given below, calculate the capital gain arising on slump sale of Unit N and the tax therefor :

- (i) Slump sale consideration is Rs. 880 lakhs.
- (ii) Fixed assets of Unit N includes land which was purchased at Rs. 60 lakhs in the year 2003 and revalued at Rs. 90 lakhs as on 31.03.2008.
- (iii) Fixed assets of Unit N reflected at Rs. 460 lakhs (Rs. 550 lakhs less land value Rs. 90 lakhs) is written down value of depreciable assets as per books. However, the written down value of these assets under section 43(6) of the Income-tax Act, is Rs. 410 lakhs.
- (iv) Other assets of Unit N shown at Rs. 390 lakhs represents book value of non-depreciable assets.
- (v) Unit N is in existence since July, 2002.
- (vi) Cost inflation index may be taken as 463 for 2003-04 and 582 for 2008-09. (7 marks)

**Chapter-11 : Wealth Tax**

**2009 - Dec [3]** (b) Examine the correctness of the statement that all types of land held by an assessee on the valuation date are treated as "Urban land" under the Wealth Tax Act, 1957. (6 marks)

**Chapter-13 : Objective Questions**

**2009 - Dec [1] {C}** (a) Fill up the blanks:

- (i) Where any amount of deferred tax has been credited to the profit and loss account, while calculating book profits for MAT under section 115JB of the Income-tax Act, 1961, the said amount will \_\_\_\_\_ (be reduced/be increased/not be disturbed).
- (ii) Ownership of raw materials is \_\_\_\_\_ (relevant/not relevant) for excise duty.
- (iii) Customs duty is levied under section \_\_\_\_\_ of the Customs Act, 1962.
- (iv) Stock transfer to branch is not treated as inter-state sale when Form \_\_\_\_\_ is submitted.
- (v) An authorized dealer in foreign exchange has the option to pay service tax at \_\_\_\_\_% of the gross amount of currency exchanged, instead of paying service tax at the usual rate.
- (vi) Duty drawback \_\_\_\_\_ (is/is not) available in respect of goods manufactured by EOU/SEZ unit.
- (vii) Application for IEC number must be made to \_\_\_\_\_.

(1 × 7 = 7 marks)

**2009 - Dec [1] {C}** (b) State with reasons, whether the following statements are true or false (answer without any reasoning will not deserve any credit):

- (i) Waste and scrap are always treated as excisable goods.

- (ii) Importers can store imported goods without payment of duty in public warehouse or private warehouse.
- (iii) Security demanded from dealer under the Central Sales Tax Act, 1956 can be satisfied in the form of surety bond.
- (iv) Presumption with respect to books of account, bullion, etc. found in the control of the concerned person is not presumed in the case of survey operations of the Income-tax Department.
- (v) Duty drawback rate is fixed by the Central Government in consultation with the Board. (2 × 5 = 10 marks)

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