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SCANNER™ Appendix

ICWA Stage-IV (Old Course)

June - 2009

INDEX

PAPER'S

Paper - 17 : Management Accounting-Decision Making

Chapter 1 : Introduction to Management Accounting

2009 - June [8] Write short notes on the following;

(b) Investing in IT (Information Technology); (4 marks each)

(c) Problems before the management in multi-national organization;

Chapter 2 : Basic Concepts in Decision Making

2009 - June [5] (b) XYZ Ltd. manufactures two sub-assemblies A and B. One unit of each is assembled to produce the final product AB.

The following information is available:

	Sub-assembly A	Sub-assembly B	Final Product AB
Material used-special steel Plates	20 kg.	20 kg.	—
Other direct manufacturing cost	Rs.500	Rs.500	
Final assembly cost	—	—	Rs. 1,000

XYZ Ltd. has procured an order for supply of 40,000 units of the final product AB on an urgent basis at a price of Rs. 3,000 per unit. However, XYZ Ltd. can arrange for only 800 mt of special steel plate required for production. However, on enquiry in the market a supplier has been located who has got ready stock of 40,000 units of Sub-assembly B and is willing to sell the entire quantity to XYZ Ltd.

Considering that if Sub-assembly B is procured from the outside supplier and there will be an additional handling cost of Rs.100 per unit, what is the maximum price that XYZ Ltd. can pay to the supplier for procuring Sub assembly B? (12 marks)

Chapter 7 : Replacement Analysis

2009 - June [2] (a) Financeguru is a large consultancy firm with a cost of capital of 14%. The firm is trying to determine the optimal replacement cycle for the laptop computers used by its assistants. The following information is relevant to the decision.

The cost of each laptop is Rs. 24,000. Maintenance costs are payable at the end of each full year of ownership, but not in the year of replacement, e.g. if the laptop is owned for two years, then the maintenance cost is payable at the end of year 1.

Interval between replacement (years)	Trade- in value	Maintenance Cost
	Rs.	Rs.
1	12,000	zero
2	8,000	750 (payable at end of year 1)
3	3,000	1500 (payable at end of year 2)

You are a junior qualified assistant at Financeguru.

You are asked by Senior Partner-

(i) to calculate the equivalent annual cost of the three different replacement cycles, and to recommend which should be adopted. (6 marks)

(ii) What other factors the firm should the into account when determining the optimum cycle? (2 marks)

Chapter 8 : Linear Programming

2009 - June [5] (a)What are the areas in which linear programming is used? (4 marks)

Chapter 10 : Queuing Theory

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

(a) Queing theory in decision making; (4 marks)

Chapter 14 : Decentralisation and Transfer Pricing

2009 - June [3] (a) Boraco Ltd. has been offered supplies of special ingredient S at a transfer price of Rs.15 per kg by Chhotaco Ltd. which is part of the same group of companies. Chhotaco Ltd processes and sells S to customers external to the group at Rs. 15 per kg. Chhotaco Ltd bases its transfer price on cost plus 25% profit mark-up. Total cost has been estimated as 75% variable and 25% fixed.

You are required to:

Discuss the transfer prices at which Chhotaco Ltd. should offer to transfer special ingredient S to Boraco Ltd in order that group profit maximizing decisions may be taken on financial grounds in each of the following situations;

(i) Chhotaco Ltd has an external market for all of its production of S at a selling price of Rs. 15 per Kg. Internal transfers to Boraco Ltd would enable Rs. 1.50 per kg of variable packing cost to be avoided. (5 marks)

(ii) Conditions are as per (i) but Chhotaco Ltd. has production capacity for 3,000 kg of S for which no external market is available. (3 marks)

(iii) Conditions are as per(ii) but Chhotaco Ltd. has an alternative use for some of its spare production capacity.
This alternative use is equivalent to 2,000 kg of S and would earn a contribution of Rs.6,000. (3 marks)

2009 - June [3] (b) Briefly describe five primary types of transfer prices that companies can use to transfer goods and services. (5 marks)

2009 - June [7] A structural engineering company has received an enquiry from a customer for supplying a prefabricated structure and the estimating department has worked out the following cost estimates:

	Rs.
Steel sheet 5000 kg @ Rs.40 per kg.	2,00,000
Steel rods 1000 kg @ Rs.30 per kg	30,000
Welding Material and other consumables	25,000
Wages of monthly rated workmen 2000 hrs @Rs 10 per hour	20,000
Overheads :	
Fabrication shop 500 hrs. @Rs. 30	15,000
Welding shop 200 hrs@ Rs. 40	8,000
Planning Deptt. 100 hrs @ Rs. 25	2,500
Design Department 100 hrs @ Rs. 20	2,000
	3,02,500
Mark up at 10 %	30,250
	3,32,750

The customer is not willing to pay such a high amount and has requested for a revised quotation. As the company does not want to lose the order, you have been asked to consider the possibility whether a lower price can be quoted by adopting relevant cost approach

You have gathered the following additional information:

(a) the steel sheets to be used are lying in stock for a long time and the present market price is Rs.35 per kg;

(b) the labour force is always moved from job to job depending on exigency

(c) The Fabrication shop is treated as a profit center. A transfer price of Rs. 30 per hour is charged to other shops in the workshop for utilising facility. The fabrication job does jobs for outside parties when Rs.40 per hour is charged. The Fabrication shop is fully occupied at present.

(d) The transfer prices fixed by Welding shop is Rs. 40 per hour.

(e) The transfer prices are fixed as under:

	Fabrication	Welding
	Rs.	Rs.
Variable cost per m/c hr.	10	15
Departmental fixed cost	10	15
Profit	10	10
	30	40

(f) The hourly rate of Planning Department and Design Department Engineers are Rs.20 and Rs.15 per hour respectively but for outside consultancy work the practice is to charge@ Rs.25 and Rs.20 per hour respectively.

Tabulate the revised cost estimate using the additional information showing reasons for each of the revised figures used in the revised estimate . (16 marks)

Chapter 15 : Decision Tree

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

(e) Decision Tree (4 marks)

Chapter 16 : CVP Analysis

2009 - June [4] Titan Engineering is operating at 70% capacity and presents the following information:

Break-even point	Rs. 200 crores
P/V ratio	40%
Margin of safety	Rs.50 crores

Titan's management has decided to increase production to 95% capacity level with the following modifications:

(i) The selling price will be reduced by 8%

(ii) The variable cost will be reduced by 5% on sales.

(iii) The fixed cost will increase by Rs. 20 crores, including depreciation on additions but excluding interest on additional capital.

(iv) Additional capital of Rs.50 crores, will be needed for capital expenditure and working capital.

Required

(a) Indicate the sales figures, with the working, that will be needed to earn Re.10 crores over and above the present Profit and also meet 20% interest on the additional capital. (10 marks)

(b) What will be the revised
   (i) Break even point.
   (ii) P/V ratio
   (iii) Margin of safety? (2 + 2 + 2 = 6 marks)

Chapter 17 : Modern Development [Pareto, JIT, LCC, TC etc.]

2009 - June [2] (b) In general, budget preparation is started by the identification of a 'limiting factor' or the 'principle budget' factor.

(i) List four possible limitations on activity that could be principal budget factors. (2 marks)

(ii) For each, suggest two means of overcoming the limitation. (4 marks)

(iii) State which limitation will be most frequently encountered, and hence choose the first individual budget to be prepared. (2 marks)

2009 - June [6] (a) What is the theory of constraints? (4 marks)

(b) A company produces two products X and Y, production costs of which are shown below :

	X	Y
	Rs.	Rs.
Direct material cost	10	10
Direct labour cost	5	9
Variable overhead	5	9
Fixed overhead	5	9
	25	37

Fixed overhead is absorbed on the basis of direct labour cost.

The product passes through two processes. Assembly and Finishing. The associated labour cost is Rs. 10 per direct labour hour in each. The direct labour associated with the two products for these processes are shown below:

Process	Time taken	
	Product X	Product Y
Assembly	10minutes	40minutes
painting	20 minutes	15 minutes

The current market price for X is Rs. 65 and for Y is Rs. 52. At these prices, the market will absorb as many units of X and Y as the company can produce. The capacity of the company to produce X and Y is limited by the available capacity of the two processes. The company operates two shifts of 8 hours each. Painting is a single process line and two hours in each shift will be down time. Assembly can process two units simultaneously, although this will double the requirement of direct labour . Painting can operate for full 16 working hours each day.

What production plan should the company follow in order to maximize profit under (i) Traditional Costing System and (ii) Throughput Accounting system? (6 + 6 = 12 marks)

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

(d) Direct Product Profitability;

(f) Customer profitability Analysis. (4 marks each)

Chapter 20 : Objective Questions

2009 - June [1] {C} (a) State if each of the following statements is T (true) or F (false):

(i) When it becomes difficult to use an optimization technique for solving a problem one has to resort to simulation.

(ii) An effective action is not necessarily efficient

(iii) The after- sales service is a distribution overhead.

(iv) Customers loyalty makes a product relatively price elastic.

(v) A business earns maximum profit from its product when the difference between its marginal revenue and marginal cost is maximum.

(vi) To derive the cash generated by operation from a corporate Profit and Loss A/C, you need only to add depreciation to the bottom line profit. (1 × 6 = 6 marks)

2009 - June [1] {C} (b)Examine if each of the following statements is *true or false*−

if true, write only T as your answer;

if false, write the correct statement as your answer:

(i) In economic theory, relevant cost≡opportunity cost ≡ avoidable cost.

(ii) 'Cost-Center' is responsible for costs, revenues and profits in relation to investment.

(iii) ‘Target Cost’ is a cost that bears an observable and known relationship to a quantifiable activity base.

(iv) A management decision may be beneficial for a given ‘profit-center’ but not for the entire company. From the overall company’s view point, this decision leads to maximization of benefit.

(v) ‘Full absorption cost’ is the term that refers to cost incurred in the past that are not relevant to a future decision. (1 × 5 = 5 marks)

2009 - June [1] {C} (c) Find the correct answer from the given four to each of the problems below, with your working :

(i) A firm had opening stocks and purchases totalling 12.400 kg and closing stocks of 9.600 kg. Profits using marginal costing were Rs. 76,456 and using absorption costing were Rs. 61,056.

What was the fixed overhead absorption rate per kilogram?

(a) Rs. 1.60;

(b) Rs.5.50;

(c) Rs.6.17;

(d) Rs. 6.36.

(ii) MFG Limited has recently introduced an Activity Based Costing system. It manufactures three products, details of which are set out below:

Product	M	F	G
Budgeted annual production (units)	1,00,000	1,00,000	50,000
Batch size (units)	100	50	25
Machine set-ups per batch	3	4	6
Purchase orders per batch	2	1	1
Processing time per units(minutes)	2	3	3

Three cost pools have been identified their budget cost for the year ending 30 June 2010 are as follows:

	Rs.
Machine set-up cost	1,50,000
Purchasing of materials	70,000
Processing	80,000

The budgeted machine set-up cost per unit of product F is nearest to

(a) Re. 0.52

(b) Re. 0.60

(c) Rs. 6.52;

(d) Rs. 26.09.

(iii) PQR Ltd. is about to launch a new product. Facilities will allow the company to produce up to 20 units per week. The marketing department has estimated that at a price of Rs. 8,000 no units will be sold, but for each Rs. 150 reduction in price one additional unit per week will be sold.

Fixed costs associated with manufacture are expected to be Rs. 12,000 per week.

Variable costs are expected to be Rs .4,000 per unit for each of the first 10 units; there after each unit will cost Rs. 400 more than the preceding one.

The most profitable level of output per week for the new product is

(a) 10 units

(b) 11 units

(c) 13 units

(d) 14 units (3 × 3 = 9 marks)

Paper - 18 : Management Accounting Financial Strategy & Reporting

Chapter 4 : Inflation and its effect on Financial Statements

2009 - June [5] (a) Explain under Current Cost Accounting (CCA) method, what is meant by (i) Gearing Adjustment (ii) Cost of Sales Adjustment.
(6 marks)

(b) The summarised current cost Balance Sheet of NAVEENA LTD. are as follows:

(Rs. in thousand)

	31.3.2009	31.3.2008
Fixed Assets	5,950	5,600
Stock	3,450	1,500
Debtors less Creditors	1,725	1,200
Taxation	(550)	(430)
Posposed Dividends	(250)	(200)
Total	10,325	7,670
Share Capital	3,000	3,000
Reserves	2,990	1,615
	5,990	4,615
Loan less Cash	4,335	3,055
Total	10,325	7,670

The historical cost Profit & Loss Account for the year ended 31.3.2009 are as follows:

(Rs. in thousand)

Turnover	16,200
Operating Profit	1,770
Interest Payable	400
Profit before Tax	1,370
Tax	550
Profit after Tax	820
Proposed Dividend	250
Retained Profit	570

Notes:

(i) The following current cost adjustments have been calculated :

(Rs. in thousand)

Cost of Sales	275
Monetary Working Capital	205
Depreciation	350

(ii) The following are the movements of current cost Reserve :

Surplus or Revaluation :	(Rs. in thousand)
Fixed Assets	1,200
Stock	300

You are required to prepare :

(i) The current cost Profit & Loss Account for the year ending 31.3.2009.

(ii) Statement of retained Profits/ Reserve for the year ending 31.3.2009.

(10 marks)

Chapter 5 : Impairment of Assets, Provisions, Foreign Currency Translation, contingent Liabilities and Assets

2009 - June [3] (a) ENRON LTD, is developing a new distribution system of its material. The following are the costs incurred at different stages on research and development of the system :

Year	Phase/Expenses	Amount (Rs. in crore)
2004	Research	4
2005	Research	5
2006	Development	15
2007	Development	18
2008	Development	20

On 31.12.2008 ENRON LTD. identified the level of cost of savings at Rs.8 crore per annum expected to be achieved by the new system over a period of 5 years, in addition this system developed can be marketed by way of consultancy which will earn cash flow of Rs. 5 crore per annum. ENRON LTD. demonstrated that new system meet the criteria of asset recognition on 01.01.2006. The incremental financing cost is 10% which represents current market assessment of the time value of money. System shall be available for use from 2009. Presuming that no active market exist to determine the selling price of product i.e. System Developed.

You are required to determine :

(i) The amount/ cost which will be expensed and to be capitalised as intangible assets.

(ii) Impairment loss to be recognised for the year ended 31.12.2008.

(iii) The value of new distribution system to be carried in the Balance Sheet-keeping in view the relevant Accounting Standards (AS -26 and AS-28).

[Given PVIF at 10% for year 1 to 5: 0.909, 0.826, 0.751, 0.683, 0.621]

(9 marks)

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

(a) Onerous Contract;

(c) Cash Generating Unit in the context of Accounting for impairment loss;

(4 marks each

Chapter 6 : Analysis of Financial Statements - I Financial Analysis

2009 - June [4] (b) DEEPAK CORPN. had outstanding equity shares 50,00,000 on 01.01.2009. Net profit for the year is Rs. 1,00,00,000; Deepak Corpn. had 12%, 1,00,000 convertible debentures outstanding of Rs. 100 each to be converted into 10 equity shares. Tax rate is 30%. Calculate (i) Basic EPS (ii) Diluted EPS. (6 marks)

2009 - June [6] The following Balances are extracted from the Account of ENDALCO LTD.(EL) in respect of the Accounting year ended on March 31,2009: (Amount in Rs. lakh)

Sales (for 2008-09)	300.00
Fixed Assets	75.00
Bank Overdraft(31.3.2009)	7.50
Long-term Debt(31.3.2009)	45.00
Equity Shares (Rs. 10 each)	15.00
Reserve and Surplus	75.00

Forecast for the year 2009-10 :

(i) Sales will increase by 25%. They will spread evenly throughout the year. There will be no further increase in Sales in the following year.
(ii) Year-end Cash Balance should be a minimum of 2.5% annual Sales.
(iii) Inventory Turnover : 8 times.
(iv) Additional Capital Expenditure will equal depreciation.
(v) Sundry Creditors: 1 month's purchase.
(vi) Upper limit of Bank borrowing : Rs. 10 lakh.
(vii) Accruals : 3% of Sales.
(viii) Gross margin : 40% of Sales.
(ix) Net profit margin (after tax): 8% of Sales.
(x) Average collection period : 2 months.
(xi) Purchases: 50% of the cost of goods sold.
(xii) Redemption of long-term Debts at the year of year: Rs. 11.25 lakh.
(xiii) The Company (EL) is subject to 40% Corporate Tax Rate.

Requirements :

(a) Prepare a Proforma Profit & Loss Account for the year ended March 31,2010.
(b) Prepare a Proforma Balance Sheet as on 31st March, 2010.
(All relevant workings are to be shown.) (6 + 7 + 3 = 16 marks)

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

(f) Earning Value (Equity Share) (4 marks)

Chapter 7 : Analysis of Financial Statement - II Portfolio Analysis

2009 - June [2] (a) Discuss the key factors that influence the value of a Call option. (5 marks)

(b) An investor purchase Reliance May Futures (500 shares tick size) at Rs. 1,200 and write a Rs. 1,245 May Call option at a premium of Rs. 12(500 shares tick size). As on May 20, spot price rises and so the Future price and the Call premium. Future price rises to Rs. 1,230 and Call premium rises to Rs. 18.

Brokerage is 0.045% for the transaction value of Futures and strike price net of Call premium for option.

(i) Find out the profit/(loss) of the investor, if he/she settle the transaction on that date and at stated prices.(Assuming no transaction taxes and service taxes exist).

(ii) Why did the investor write a Call? Why did he/she buy a Call subsequently to settle the written Call, he/she needed to buy a Call?

(11 marks)

2009 - June [4] (a) NAVIN ENTERPRISES LTD. provides the following extracts from its accounts as at 31st March, 2009 :

	Rs.
Capital and Reserves	1,50,00,000
Debt: Corporation Bank Loan(12%)	1,00,00,000
Axis Bank Loan (13.5%)	2,50,00,000
Capital Employed	5,00,00,000
Profit before Tax	1,80,00,000
Provision for Tax	45,00,000
Profit after Tax	1,35,00,000

The risk-free rate of return in the economy is 10% and the premium expected from business in general is 5%. The beta of Navin Enterprises Ltd. shares is currently 1.28.

(i) Work out the Weighted Average Cost of Capital (WACC) in percentage terms (accurate to two decimal places).

(ii) If beta is reduced to 1.18 in future, what will be the impact on the WACC? (10 marks)

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

(e) Currency Option; (4 marks)

Chapter 9 : Trends in Corporate Reporting

2009 - June [3] (b) Following is the data regarding five segments of GALAXY LTD.: (Rs. in lakh)

Particulars		Segments M	N	O	P	R	Total
1. Segment Revenue :							
	(a) External Sales	—	300	100	60	40	500
	(b) Internal Sales	200	60	40	—	—	300
	Total Revenue (a + b)	200	360	140	60	40	800
2. Segment Result :							
	[Profit/(Loss)]	30	50	(20)	15	5	80
3. Segment Assets		50	100	30	15	5	200

The Director (Finance) is of opinion that segments 'M' and 'N' alone should be reported. Is he justified in his view ? -Discuss with reference to AS-17.

(7 marks)

2009 - June [7] (a) Discuss the steps involved in implementing EVA (Economic Value Added) system. (6 marks)

(b) SITERAZE LTD.(SL) engaged in manufacturing business furnishes the following Profit & Loss Account :

Profit & Loss Account for the year ended March 31,2009

(Amount in Rs. lakh)

Particulars	Notes	
Turnover	1	2,982
Other Income		104
		3,086
Expenditure :		
Operating Expenses	2	2,670
Interest on 8% Debentures		98
Interest on Cash Credit	3	15
Excise Duty		195
		2,978

(Amount in Rs. lakh)

Particulars	Notes	
Profit before Depreciation		108
Less : Depreciation		35
Profit before Tax		73
Provision for Tax		38
Profit after Tax	4	35
Less: Transfer to Fixed Assets Replacement		6
Reserve		29
Less : Dividend Paid		12
Retained Profit		17

Notes:

1. Turnover is based on invoice value and net sales tax.
2. Salaries, wages and other employee benefits amounting to Rs. 1,476 lakh are included in operating expenses.
3. Cash credit represents a temporary source of finance. It has not been considered as a part of capital.
4. Transfer of Rs. 5.00 lakh to the credit of deferred tax account is included in provision for tax.

Required :

(i) Prepare Value Added Statement for the year ended March 31,2009, and

(ii) Reconcile total Value Added with profit before taxation.

(10 marks)

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

(b) Quality Financial Reporting (QFR);

(d) Global Reporting Initiative (GRI); (4 marks each)

Chapter 10 : Objective Questions

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

(i) CALRISK LTD. currently pays a dividend of Rs. 3 per share that is expected to grow at a rate 10% per annum for the next two years, after which it is expected to grow at rate of 8% forever. What value would you place on the stock of this company if a 15% rate of return is required ?(Rounded off your answer to the nearest integer.)
[Given : PVIF (15%, 1 year, 2 years) = 0.8696, 0.7561]
(a) Rs. 52.19
(b) Rs. 47.96
(c) Rs. 42.21
(d) None of A,B,C

(ii) The total asset-turnover ratio and total asset to net-worth of ALEENA LTD. are 1.5 and 2.00 respectively. If the net-profit margin of the company is 5 percent, its return on Equity (ROE) will be.
(a) 10.00%
(b) 12.50%
(c) 15.00%
(d) Insufficient information

(iii) The covariance between the return on shares of AKRUTI LTD. and the return on market index is 25. What would be the systematic risk of Akruti Ltd. Shares, if the variance of the return on the market index is 20?.
(a) 20.00
(b) 25.00
(c) 31.25
(d) None of A,B,C

(iv) In September 2008, a six month call on VINTEX LTD.'s stock with an exercise price of Rs. 30 sold for Rs. 6. The stock price was Rs. 25. The risk-free interest rate was 6% per annum.. How much would you be willing to pay for a six month put on Vintex Ltd.'s stock with same exercise price? [Given: PVIF (6%,   year) = 0.9709]

(a) Rs. 7.40

(b) Rs. 12.50
(c) Rs. 10.13
(d) Rs. 15.31

(v) BHARATI LTD. has an asset having book value of Rs. 5,40,000. The current replacement cost of an identical asset is Rs. 7,20,000. The net present value of future cash flows estimated to be generated by the asset is Rs. 9,00,000. What would be the Deprival Value of the asset, if the net realizable value of the same is Rs.8,00,000?
(a) Rs. 9,00,000
(b) Rs. 8,00,000
(c) Rs. 7,20,000
(d) Rs. 5,40,000 (2 × 5 = 10 marks)

2009 - June [1] {C} (b) Choose the most appropriate one from the stated options and write it down (only indicate A,B,C,D as you think correct):

(i) As per the Accounting Standard (AS)-20 which of the following is not potential equity shares ?
(a) Share Warrants
(b) Employee Stock Option Plans
(c) Redeemable Preference Shares
(d) Convertible Preference Shares

(ii) The CAPM establishes a linear relationship between which of the following two parameters?
(a) Alpha of the security and the risk-free rate of return
(b) Alpha of the security and its beta
(c) Required rate of return of a security and its systematic risk
(d) Required rate of return of a security and its expected rate of return.

(iii) Four companies, have the following P/E ratios :
P-17,Q-24, R-12, S-8- Which of the statement about the companies is incorrect?
(a) Q's share price must be twice that of R
(b) P's share price is 17 times its earnings
(c) S has the lowest share price relative to its earnings growth
(d) Q has the greatest expectations of future earnings growth.

(iv) In put-Call parity, the pay-offs of buying a stock can be replicated by.
(a) Buying a Call and writing a put option
(b) Buying a Call and buying a put option
(c) Writing a Call and writing a put option
(d) Buying two Calls and a put option

(v) Equity multiplier is defined in Du Pont analysis as

(a) EPS/Market price of shares
(b) EPS/Book value of shares
(c) Average assets/Average equity
(d) PAT/Networth

(vi) The ratio of the systematic risk of security to total risk can be symbolically represented as
(a) Market variance
(b) Beta
(c) Alpha
(d) Coefficient of determination

(vii) As per AS-17 the revenue of the reportable segments must have at least the following percentage of total revenue of the enterprise :
(a) 75%
(b) 80%
(c) 90%
(d) 60%

(viii) The Capital Market line depicts the risk-return relationship for
(a) Aggressive securities
(b) Zero Beta portfolios
(c) Efficient portfolios
(d) None of the above

(ix) According to AS-29, Restructuring Cost does not include-
(a) Cost of sale or termination of line of business
(b) Cost of retraining or relocating continuing staff
(c) Marketing cost
(d) Both B and C above

(x) Under the CPP method of Price Level Accounting which of the following is not considered as Monetary Asset ?
(a) Fixed Interest investments
(b) Debtors
(c) Inventory
(d) Both B and C of the above (1 ×10 = 10 marks)

Paper - 19 : Cost Audit and Management Audit

Chapter 2 : Nature and Scope of Cost Audit

2009 - June [2] (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 the appointment of proprietary firms also be appointed? (2 + 2 + 2 = 6 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)

Chapter 6 : Professional Ethics & Code of Conduct

2009 - June [2] (b) A Cost Accountant takes voluntary retirement from his employer and starts practice. He continues his association with his previous employer as an auditor, on a monthly retainer. Does his actions amount to professional misconduct? (3 marks)

(d) A Cost Accountant gives a certificate of cost for a product manufactured by an SSI Unit owned entirely by his son. Is he right? (3 marks)

Chapter 7 : Cost Accounting Record Rules

2009 - June [3] (a) There was a strike from 13.9.2008 to 16.11.2008 in a company, of which you were the Cost Auditor for the year ending 31.03.2009. Although the company began working from 17.11.2008, production could effectively begin only from 5.12.2008. The expenses incurred during the year ended 31.03.2009 were:

	Rs. in lakh
Salaries and Wages (direct)	300
Salaries and Wages (indirect)	200
Power (variable)	120
Depreciation	180
Other Fixed Expenses	240

Detail examination of the records reveals that of the above, the following relate to the period 13.09.2008 to 16.11.2008:

	Rs. in lakh
Salaries and Wages (indirect)	70
Depreciation	60
Other Fixed Expenses	90

Calculate the amount which, in your opinion, should be treated as abnormal for exclusion from the product costs. (5 marks)

(b) The following figures are taken from the accounts of AB Ltd:

	31.03.07	31.03.06	31.03.05
	Rs.in lakh	Rs.in lakh	Rs. in lakh
Gross Fixed Assets	4,615	4,212	3,845
Cumulaive Depreciation	1,312	1,263	1,224
Capital Work-in-Progress	273	225	317
Investments in Shares & Debentures	724	712	693
Inventories	625	580	511
Sundry Debtors	334	317	292
Advances for purchases of			

Capital Equipment	24	61	47
Other Loans and Advances	65	58	53
Other Current Assets	32	29	26
Sundry Creditors	214	187	174
Provisions for Expenses	29	34	28
Net Sales	3,924	3,212	2,931
Depreciation	54	47	44
Interest	614	497	416
Profit before Taxes	232	145	197

Compute the following ratios, for the year ended 31.03.2007 and 31.03.2006, as per the Cost Audit Report Rules, 1996:

(i) Profit as a percentage of Capital Employed. (5 marks)

(ii) Profit as a percentage of Net Sales. (5 marks)

2009 - June [4] (a) Distinguish between "Notes" and "Qualifications" in the Cost Audit Report. Give suitable examples. (3 marks)

(b) A company receives the Cost Audit Report for a period, after filing of the Income-tax Return. Is the company required to submit a copy of the Report to the Income-tax Officer? If yes, What is the period by which the Report must be so filed? (3 marks)

Chapter 8 : Cost Accounting Record Rules

2009 - June [4] (c) The profit as per financial accounts of XY Cement Ltd., for the year 2008-09 was Rs. 1,34,27,561. The profit as per Cost Accounting Records for the same period was more. You are required to prepare a reconciliation statement and arrive at the profit, as per Cost Accounts. The following details are collected from the financial accounting schedules and cost accounting records.

	Financial Accounts Rs.	Cost Accounts Rs.
Value of Stock:		
Opening Balance : W.I.P.	29,52,315	23,45,720
Finished Goods	2,48,37,410	2,72,16,930
Closing Balance : W.I.P.	41,72,635	36,35,345
Finished Goods	3,67,51,410	4,15,24,148
Interest Income from Inter-company Deposits	6,14,250	—
Donation given	4,75,250	—
Loss on Sale of Fixed Assets	1,04,148	—
Value of cement taken for own consumption	3,75,920	3,45,200
Cost of Power drawn from own wind Mill:		

— E.B. Tariff	48,58,415	
— At Cost	34,10,420	(9 marks)

Chapter 9 : Basics of Management Audit

2009 - June [6] (b) What are the qualities and functions of a Management Auditor? (3 + 4 = 7 marks)

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

(d) SWOT Analysis. (5 marks)

Chapter 10 : Corporate Services Audit

2009 - June [6] (a) What do you understand by "Corporate Image" and "Brand Equity"? Are they inter related? What are the possible approaches to evaluate Corporate Image? (2 + 1 + 5 = 8 marks)

2009 - June [7] (b) What do you understand by "Corporate Services Audit"? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such audit. (7 marks)

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

(a) Industrial Sickness;

(c) Confederation of Indian Industries (CII); (5 marks each)

Chapter 11 : Evaluation of Financial, Cost & Management Accounting

2009 - June [5] {C} (b) The following figures relate to usage of power for a product:

	2006-07	2005-06	2004-05
Total power consumed (Kwh)	24,02,474	24,94,872	21,75,677
Rate/Kwh (Rs.)	2.29	2.12	1.90
Total Production in Million kg	337.730	333.084	300.865

Compute necessary productivity measures and compare the efficiency of power usage during the three years. (10 marks)

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

(b) Energy Audit; (5 marks)

Chapter 13 : Environment Protection and Audit

2009 - June [7] (a) What do you understand by environment audit? Explain its significance with reference to control of product cost. (8 marks)

Chapter 15 : Objective Questions

2009 - June [1] {C} (a) State whether the following statements are "True" or "False". No reason or justification need be given:

(i) Cost Accounting Record Rules once applicable to a company require cost accounting record to be maintained year after year on a continuous basis.

(ii) The Cost Auditor should not exceed the number of audits, as prescribed under section 233-B(5) of the Companies Act, 1956.

(iii) The Cost Auditor has same powers, as Financial Auditor has, under Section 227(1) of the Companies Act, 1956.

(iv) Interest received on the Security deposit with the Electricity Board can be considered as an 'Investment outside the business".

(v) The real beginning of Cost Audit started in-India in the year 1956, when the Companies Act, 1956 was amended to incorporate the provisions relating to the maintenance of Cost Accounting Records and Cost Audit.

(vi) Financial position and Ratio analysis are being dealt with under Para-16 of the Cost Audit Report Rules.

(vii) "Central Excise reconciliation for the product under reference" is being dealt with under Para-27 of the Cost Audit Report Rules.

(viii) A copy of the Cost Audit Report must be attached to Company's Income Tax Return.

(ix) Every Cost Auditor shall have to give clarification, if any, required by the Central Government on the 'Cost Audit Report', submitted by him, within two months of the receipt of the communications. addressed to him, calling for such clarification.

(x) The Cost Auditor shall forward his report to the Central Government and to the concerned company, within one hundred and sixty days from the close of the company's financial year to which the report relates to. (1 × 10 = 10 marks)

2009 - June [1] {C} (b) Choose the correct answer :

(i) The structuring of cost audit includes
(a) audit programmes;
(b) audit working papers;
(c) checking including test checking;
(d) all of the above.

(ii) Examination of the cost and financial statements by the cost auditor may not include.
(a) licenced capacity, installed capacity, production and capacity utilised;
(b) financial position including financial ratios as per Para-24 of the Annexture to the Cost Audit Report Rules.
(c) fixed assets of the company;
(d) sales realisation-local and export in units and total of each variety or product.

(iii) The Cost Auditor shall submit cost audit report to Central Government containing
(a) auditors observation and suggestions;
(b) annexure to the Cost Audit Report Rules;
(c) proforma showing production costs, sales and margin;
(d) all of these above.

(iv) The time limit for submission of Cost Audit Report is within
 (a) 100 days from the close of the company's financial year;
 (b) 120 days from the close of the company's financial year;
 (c) 60 days from the close of the company's financial year;
 (d) none of the above.

(v) If default is made by the Cost Auditor in complying with the provisions of Rule 4 or Rule 5 of the Cost Audit Report Rules, he shall be punishable with fine which may extend to
 (a) Rs. 7,000;
 (b) Rs. 6,000;
 (c) Rs. 5,500;
 (d) none of these above.

(vi) In Para-4 of the Annexure to the Cost Audit Report Rules production during the year is
 (a) self manufactured;
 (b) third party or job work;
 (c) loan licence;
 (d) all of the above.

(vii) Each major materials for which details to be furnished as per Annexure to the Cost Audit Report Rules should constitute
 (a) 10% of the raw material cost;
 (b) 2% of the raw material cost;
 (c) 5% of the raw material cost;
 (d) 1% of the raw material cost.

(viii) The role of Cost Auditor in respect of non-moving stock is to review
 (a) the causes explained by the company for non-movement of the items;
 (b) how the company deals with the non-moving stock;
 (c) the policy of the company regarding determination on non-moving items;
 (d) all of these.

(ix) As per the Companies Act, every public company shall constitute "Audit Committee" if the capital of the company is not less than.
 (a) Rs. 5 crores;
 (b) Rs. 10 crores;
 (c) Rs. 25 crores;
 (d) none of the above.

(x) Royalty and technical know-how charges are being dealt with in Annexure to Cost audit Report Rules vide.
 (a) Para-12;
 (b) Para-16;

(c) Para-14;
(d) Para-8. (1 × 10 = 10 marks)

2009 - June [5] {C} (a) Fill in the blanks:

(i) Cost audit is ordered by the Government under Section______ of the Companies Act. 1956.
(ii) Cost audit report has to be submitted to the Central Government with a copy to the ______ of the company.
(iii) A cost auditor cannot undertake audit of more than ______ companies having a share capital of more than 25 lakhs.
(iv) When a clean report is not given by a cost auditor it is called a ____ report.
(v) Audit Committee shall meet at least ______ a year.

(1 × 5 = 5 marks)

2009 - June [5] {C} (c) What do the following abbreviations stands for?

(i) MAR
(ii) LTO
(iii) OECD
(iv) COO
(v) SEBI (5 marks)

Paper - 20 : Valuation Management and Case Study

Chapter 1 : Principles and Techniques of Valuation

2009 - June [2] Write short notes on the following:

(b) Economic Value Added.
(c) Valuing Synergy. (4 marks each)

2009 - June [3] (b) Explain the salient features of McKinsey Model of value-based management. (4 marks)

2009 - June [5] Mr. S.K. Singh, the Managing Director of Dolphin Electronics Limited, attended recently a workshop on Economic Value Added (EVA) and he is convinced that EVA is a highly effective tool for performance evaluation and for valuation. Therefore, he wants that one should calculate EVA for his company. For that he has provided the following summarized financial data for the year ending on March 31, 2008.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.3.2008

	(Rs. in thousands)
INCOME	
Sales Less Returns	14,758,944
Income from Services	182,514
Turnover (Gross)	14,941,458
Less: Excise Duty	365,545

Turnover (Net)	14,575,913
Other Operating Revenues	283,839
Accretion/Decretion to Work-in-progress, Finished Goods and Scrap	491,462
Profit on Sale of Assets (Net)	30,503
Transfer from Grants	1
	15,381,718
EXPENDITURE	
Consumption of Raw Materials and Components	5,896,697
Consumption of Stores & Spares	318,966
Purchase of Finished Goods	1,688,371
Employees Remuneration and Benefits	3,397,721
Other Expenses of manufacturing, administration, selling and distribution	1,624,195
	12,925,950
Profit before Depreciation, Interest and Tax	2,455,768
Depreciation of Fixed Assets	479,700
Profit before Interest and Tax	1,976,068
Interest	327,898
Profit before Extraordinary Items and Tax	1,648,170
Add: Expenditure allocated to capital jobs and Work-in-Progress	16,148
Profit before Tax	1,664,318
Less : Provision for Taxation	585,000
Profit after Tax	**1,079,318**

BALANCE SHEET AS ON 31.03.2008

	(Rs. in thousands)
SOURCES OF FUNDS	
Shareholders Funds	
Share Capital	800,000
Reserves & Surplus	4,448,287
	5,248,287
Loan Funds	
Secured Loans	Nil
Unsecured Loans	1,097,357
	1,097,357
	6,345,644
APPLICATION OF FUNDS	
Fixed Assets	
Gross Block	7,722,230
Less: Depreciation	5,718,745

Net Block	2,003,485
Capital work-in-progress	111,120
	2,114,605
	6,51,034
Investments	
Current Assets, Loans & Advances	
Inventories	6,715,544
Sundry Debtors	6,034,787
Cash & Bank Balances	1,292,704
Loans & Advances	2,002,231
	16,045,266
Less: **Current Liabilities and Provisions**	
Current Liabilities	11,404,381
Provisions	1,396,645
	12,801,026
Net Current Assets	3,244,240
Miscellaneous Expenditure (to the extent not written off or adjusted)	
Technical Know-how fee	335,765
	6,345,644

In addition to above, the following information is also available:

- The company's average borrowing cost after tax is 8.5% per annum.
- Yield on Government Securities is estimated at 6.75%.
- Return on a benchmark index is 14.5% with a variance of 0.005.
- The covariance between the company's share return and that of the benchmark index is 0.006.

From the above information, you are required to estimate EVA for the company for the year ending on March 31,2008. (16 marks)

2009 - June [7] (b) Is hostile takeover legally allowed in India ? If yes, what are the bases of arriving at the public offer price ? (4 marks)

Chapter 4 : Valuation of Shares

2009 - June [2] Write short notes on the following:

(a) Valuation of stock index futures contract.

(e) Types of Futures. (4 marks each)

2009 - June [4] (b) State the *Impact* of the following change on the Value of a European Call Option by writing the appropriate word from (Increase/Decrease/No Impact):

(i) Increase in the current share price of the underlying from Rs. 100 to Rs. 120. (Increase/Decrease/No Impact)

(ii) Strike Price has increased from Rs. 75 to Rs. 80. (Increase/Decrease/No Impact)

(iii) The volatility of the underlying represented by σ has increased from .15 to .20. (Increase/Decrease/No Impact)

(iv) Time to expiration has decreased from 3 months to 1 month. (Increase/Decrease/No Impact)

(v) Risk Free Interest Rate has decreased from 9% to 8.5% (Increase/Decrease/No Impact) (5 marks)

2009 - June [7] (a) Happy Ltd. and Muskan Ltd. are in the same industry with identical earnings per share for the last five years. Happy Ltd. has a policy of paying 40% of earnings as dividends while Muskan Ltd. pays a constant amount of dividend per share. There is disparity between the market price of the shares of these two companies. The price of the Happy's share is generally lower than that of the Muskan Ltd., even though in some years Happy Ltd. paid more dividends than Muskan Ltd. The data on earnings, dividends and market price for the two companies are as under:

	Happy Ltd.			Muskan Ltd.		
Year	EPS (Rs.)	DPS (Rs.)	Market Price (Rs.)	EPS (Rs.)	DPS (Rs.)	Market Price (Rs.)
2004	4.00	1.60	12.00	4.00	1.80	13.50
2005	1.50	0.60	8.50	1.50	1.80	12.50
2006	5.00	2.00	13.50	5.00	1.80	12.50
2007	4.00	1.60	11.50	4.00	1.80	12.50
2008	8.00	3.20	14.50	8.00	1.80	15.00

You are required to calculate :

(i) (1) Pay-out ratio;

(2) Dividend yield; and

(3) Earning yield for both the companies.

(ii) What are the reasons for the difference in the market prices of the two companies shares?

(iii) What can be done by Happy Ltd. to increase the market price of its shares? (12 marks)

Chapter 6 : Valuation of Intangible Assets

2009 - June [2] Write short notes on the following:

(d) Intellectual Capital Management.

(f) Super profit method of valuing goodwill. (4 marks each)

Chapter 7 : Special Points on Valuation

2009 - June [3] Xing Limited is in IT sector providing wireless networking solutions. It is a company with an annual turnover of Rs. 2,500 crores. Now, it is looking for growth through acquiring BPO companies which would provide it strategic-synergic-fit. For this, the CFO of the company is negotiating a deal to acquire Shiva BPO Pvt. Ltd. whose balance sheet as on March 31, 2009 is given below:

Balance Sheet of Shiva BPO Pvt. Ltd. as on 31.03.2009

Source of Funds	(Rs. in crores)
Equity Share Capital (Rs. 10 par)	400
Reserves and Surplus	100
Shareholders Fund	500
Loan Fund (average cost is 10.50%)	200
Total Source of Funds	700
Application of Funds	
Net Fixed Assets	650
Investments	20
Net Current Assets	30
Total Application of Funds	700

Additional Information:

- The shareholders of Shiva BPO Pvt. Ltd. will get 1.5 shares in Xing Limited for every share held. The shares of Xing Limited would be issued at its current price of Rs. 18 per share.
- The lenders of loan funds will be given 11% debentures of the same amount by the acquiring company.
- The external liabilities are expected to be settled at Rs. 150 crores.
- The dissolution expenses of Rs. 15 crores are to be borne by the acquiring company.
- The following are projected incremental free cash flows expected from the acquisition for next 6 years:

Year-end	Rs. in crores
1	150
2	200
3	260
4	300
5	220
6	120

- The free cash flows of Shiva BPO Pvt. Ltd. are expected to grow at 3% per annum after 6 years forever.
- Seeing the risk profile of the target company, it is estimated that the cost of capital relevant to it will be 13%.
- It is found that the target company has unaccounted liabilities totalling Rs. 20 crores.

You are required to advise Xing Limited whether the deal to acquire Shiva BPO Pvt. Ltd. would be financially feasible and profitable.

(See Present Value Table at Page 7) (12 marks)

2009 - June [4] (a) An analyst is working on a target company, Rainbow Paint Industry Ltd. in the area of paint industry. He is to necessary valuation of the business of the target company. The target company identified is from Gujarat and it has its plant located in Jamnagar. On the basis of the past financial trends, he has projected necessary financials for the company for the next five years, which are given below:

	Years				
	2010	2011	2012	2013	2014
Sales	180.50	193.73	207.93	223.17	237.30
Less : Cost of goods Sold	144.15	154.72	166.06	178.23	189.51
Gross Profit	36.35	39.01	41.87	44.94	47.79
Depreciation	9.5	10.20	10.94	11.75	12.49
Profit before Interest and Tax	26.85	28.82	30.93	33.20	35.30
Interest	5.45	5.85	6.28	6.74	7.16
Profit before Tax	21.40	22.97	24.65	26.46	28.13
Tax @ 40%	8.56	9.19	9.86	10.58	11.25
Profit after Tax	12.84	13.78	14.79	15.88	16.88
Additional information:					
Capital Expenditure	0.65	2.25	1.50	2.00	1.75
Increase in Working Capital	2.10	2.33	2.40	1.50	2.00

The Cost of capital for the company is estimated to be 15%. Assuming that the free cash flows of the target company will grow at the rate of 10% forever after 2014, you are required to determine the value of the business based on the free cash flows.

(See Present Value Table at Page 7) (11 marks)

2009 - June [6] (a) Discuss the major aspects, assumptions and decision rules of the Discounted Cash Flow (DCF) Model. (8 marks)

(b) What is an efficient market ? What are the different levels of market efficiency ? (8 marks)

2009 - June [8] A company manufacturing electronic equipments is currently buying component A, from a local supplier at a cost of Rs.30 each. The company has under its consideration a proposal to install a machine for the manufacture of the component. Two alternative proposals are available as under:

(a) Installation of semi-automatic machine, involving annual fixed expenses of Rs.18 lakhs and variable cost of Rs. 12 per component manufactured.

(b) Installation of automatic machine, involving an annual fixed cost of Rs. 30 lakhs and a variable cost of Rs. 10 per component manufactured:

   (i) Find the annual requirement of components to justify a switchover from purchase of components to (a) Manufacture of the same by installing semi-automatic machine and (b) Manufacture of the same by installing automatic machine.

(ii) If the annual requirements of the component is 5,00,000 units, which machine would you advise the company to install ?

(iii) At what annual volume would you advise the company to select the automatic machine instead of semi-automatic machine?

Present value table:

Discount factor	10%	11%	12%	13%	15%	20%
Year end						
1	.909	.901	.893	.885	.870	.833
2	.826	.812	.797	.783	.756	.694
3	.751	.731	.712	.693	.658	.579
4	.683	.659	.636	.613	.572	.482
5	.621	.593	.567	.543	.497	.402
6	.564	.535	.507	.480	.432	.335

(16 marks)

Chapter 9 : Objective Questions

2009 - June [1] {C} (a) State whether the following statements are True or False:

(i) Hedging protects against the price risk but not gains or losses.

(ii) Synergy is a whole that is greater than the sum of its parts.

(iii) Intangible assets are treated as fixed assets.

(iv) Patents are normally written off.

(v) In discounted cash flow valuation, the discount rates are not risk-adjusted.

(vi) In DCF approach, lower rate of discount is used for safe projects.

(vii) Standard deviation is better than co-efficient of variation as measure of risk.

(ix) Call option premium is not always equal to put option premium.

(1 × 9 = 9 marks)

2009 - June [1] {C} (b) Fill in the blanks by filling the appropriate words given in the brackets:

(i) Discounted cash flow valuation is based upon__________cash flows and discount rates. (past/future)

(ii) The three principal components of income approach are:

(a) _________income;

(b) projection period; and

(c) appropriate capitalization rate. (taxable/economic)

(iii) Assets held as stock-in-trade are not___________________ (investments/disinvestments)

(iv) A positively skewed distribution means likely more________returns. (positive/negative) __(v) If projected economic income flows are non-constant,__________ capitalization method will be useful for valuing the firm. (yield/direct)

(1 × 5 = 5 marks)

2009 - June [1] {C} (c) Attempt the questions by selecting the correct option:

(i) Two-stage divided discount model is based upon two clearly delineated growth stages:
(a) High and low growth;
(b) High and stable growth;
(c) Low and stable growth;
(d) All of the above.

(ii) When the right is not exercised, the value of option will be:
(a) Zero;
(b) Less than zero;
(c) Equal to market price of underlying asset;
(d) None of the above.

(iii) Higher the Market value to Book value ratio of a company, ________ is the value of intangibles of a company. (Higher/Lower)

(2 × 3 = 6 marks)

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