

Test Paper 1  
Paper 1: Accounting

Answer all questions.

Working notes should form part of the answer.

(Maximum marks 100)

(Time allowed three hours)

1. Aarush Agencies started business on 1<sup>st</sup> April, 2008. During the year ended 31<sup>st</sup> March, 2009, they sold under-mentioned durables under two schemes — Cash Price Scheme (CPS) and Hire-Purchase Scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at Cash Price plus 50%.

The following are the details available at the end of 31<sup>st</sup> March, 2009 with regard to the products :

Product	Nos. purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit Rs.	No. of instalments due during the year	No. of instalments received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year :

	Rs.
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare :

- (i) Hire-purchase Trading Account, and  
(ii) Trading and Profit & Loss Account.

(16 Marks)

- 2.(a) H owes R Rs. 2,000 on 1<sup>st</sup> April, 2009. From 1<sup>st</sup> April, 2009 to 30<sup>th</sup> June, 2009 the following further transactions took place between H and R:

April 10 H buys goods from R for Rs. 5,000

May 16 H receives cash loan of Rs. 10,000 from R

June 9 H buys goods from R for Rs. 3,000

H pays the whole amount, together with interest @ 15% per annum, to R on 30<sup>th</sup> June, 2009. Calculate the interest payable on 30<sup>th</sup> June, 2009 by the average due-date method.

(8 Marks)

(b) Prepare the Sales ledger control account from the following particulars:-

Sales Ledger	
Debit balance as on 1.1.2009	1,50,000
Credit balance as on 1.1.2009	200
Credit sales and purchases	4,00,000
Cheque received and paid	4,50,000
Advance paid to creditors	-
B/R received and B/P accepted	50,000
Discounts allowed and received	5,000
Returns	10,000
Transfer from purchases to sales ledger	10,000
Bad debts	2,000
Reserve for discounts	10,000
B/R and B/P dishonoured	5,000
Debit Balances as on 30.6.2009	30,000
Credit Balances as on 31.6.2009	?

(8 Marks)

3. The following is the Receipts and Payments Account of Mahendra Club for the year ended 31<sup>st</sup> March, 2009:

Receipts	Rs.	Payments	Rs.
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Wines and spirits	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance	
		Cash	8,000
		Bank	<u>2,24,600</u>
	<u>21,53,600</u>		<u>21,53,600</u>

The assets and liabilities as on 1.4.2008 were as follows:

	Rs.
Fixed assets (net)	5,00,000

Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

1. Subscription received in advance as on 31<sup>st</sup> March, 2009 was Rs. 18,000.
2. Outstanding subscription as on 31<sup>st</sup> March, 2009 was Rs. 7,000.
3. Outstanding expenses are salaries Rs. 8,000 and electricity Rs. 15,000.
4. 50% of the entrance donation was to be capitalized. There was no pending membership as on 31<sup>st</sup> March, 2009.
5. The cost of assets sold net as on 1.4.2008 was Rs. 10,000.
6. Depreciation is to be provided at the rate of 10% on assets.
7. A sum of Rs. 20,000 received in October 2008 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2009.
8. Purchases made during the year amounted Rs. 15,00,000.
9. The value of closing stock was Rs. 2,10,000.
10. The club as a matter of policy charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31<sup>st</sup> March, 2009 and the Balance Sheet as on 31<sup>st</sup> March, 2009 along with necessary workings.

(16 Marks)

- 4.(a) From the following Summary Cash Account of X Ltd., prepare Cash Flow Statement for the year ended 31<sup>st</sup> March, 2009 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2009

	Rs. '000		Rs. '000
Balance on 1.4.2008	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2009	<u>150</u>
	<u>3,250</u>		<u>3,250</u>

(8 Marks)

- 4.(b) A, B and C were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. B retired from the partnership on 31<sup>st</sup> March, 2009, when the firm's balance sheet was as under :

		Rs. in thousand	
Sundry creditors	600	Cash and bank	284
Capital accounts :		Sundry debtors	400
A	2,700	Stock	800
B	1,200	Furniture	266
C	<u>600</u>	Plant	850
		Land and building	<u>2,500</u>
	<u>5,100</u>		<u>5,100</u>

B's share in goodwill and capital was acquired by A and C in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off B. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31<sup>st</sup> March, 2009 in thousands of rupees were :

	Rs.
2005-2006	450
2006-2007	250
2007-2008	600
2008-2009	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1<sup>st</sup> April, 2009, G, son of A is to be admitted as a partner with 25% share of profit.

A gifts to G, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by G from A and C in the ratio of 2 : 1.

The firm asks to you prepare partners' capital accounts.

(8 Marks)

5. Answer any ten of the following (Give adequate working notes in support of your answer):
- (i) If payment is made on the average due date, it results in loss of interest to creditors. State whether the statement is true or false.
  - (ii) In Account Current, red-ink interest is treated as negative interest. Explain.
  - (iii) How do the Self balancing ledgers follow the system of double entry?
  - (iv) If there appears a sports fund, then what will be the treatment of expenses incurred on sports activities?.
  - (v) A machinery costing Rs.10 lakhs has useful life of 5 years. After the end of 5 years, its scrap value would be Rs.1 lakh. How much depreciation is to be charged every year in the books of the company as per Accounting Standard 6?
  - (vi) All significant accounting policies adopted in preparation and presentation of financial statements must be disclosed. State whether the statement is true or false.
  - (vii) A, B and C share profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively: They agree to take D into partnership and give him 1/8<sup>th</sup> share. Compute new profit sharing ratio between A B, C and D.

- (viii) The company deals in three products, A and B, which are neither similar nor interchangeable. At the time of closing of its account for the year 2005-06. The Historical Cost and Net Realizable Value of the items of closing stock are determined as follows:

Items	Historical Cost (Rs. in lakhs)	Net Realisable Value (Rs. in lakhs)
A	40	28
B	16	24

What will be the value of Closing Stock?

- (ix) A plant was depreciated under two different methods as under:

Year	SLM (Rs. in lakhs)	W.D.V. (Rs. in lakhs)
1	7.80	21.38
2	<u>7.80</u>	<u>15.80</u>
	<u>15.60</u>	<u>37.18</u>
5	7.80	6.38

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to SLM method for first four years?

- (x) When can revenue be recognised in the case of transaction of sale of goods?  
 (xi) What will be the treatment of fixed assets owned jointly with other enterprise?  
 (xii) Mention the methods of accounting for amalgamation as per Accounting Standard-14.  
 (2 Marks each)

6. Answer any four out of five

- (a) What do you mean by customized accounting software?  
 (b) Explain the valuation of different types of investment in the balance sheet as per AS 13.  
 (c) Discuss different types of contracts mentioned in AS 7.  
 (d) Illustrate the benefits of setting the Accounting Standards.  
 (e) Write short note on adoption of IFRS in India.

(4 Marks each)

**Question**

*Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answer in Hindi, his answer in Hindi will not be valued.*

**PART – I**

*Question Nos. 1 and 2 are compulsory. Attempt any eight questions from the rest.*

1. (a) Ashok lends Rs.50,000, on terms that it will be returned in two month's time, to Sanjay for helping the latter buy certain contraband transmitting equipment. Can Ashok get the loan amount returned in case Sanjay defaults and under what circumstances?
- (b) State with reason whether the following statements are correct or incorrect:
  - (i) A minor is a person who has not completed 21 years of age.
  - (ii) Strikes, lock-out and civil disturbances do not discharge a contract.
- (c) Pick out the correct answer from the following and give reasons.
  - (i) X undertakes to paint a picture of Y. X dies before painting it. The contract is
    - (a) discharged by X's death.
    - (b) becomes voidable at the option of Y.
    - (c) becomes voidable at the option of X's legal representatives.
    - (d) will have to be performed by that legal representative of X, who has good painting skills.
  - (ii) Specific performance may be ordered by the Court when
    - (a) the contract is voidable.
    - (b) damages are an adequate remedy.
    - (c) damages are not an adequate remedy.
    - (d) the contract is uncertain.
  - (iii) A contract of indemnity is a
    - (a) Contingent Contract.
    - (b) Wagering Contract.
    - (c) Quasi Contract
    - (d) Void Agreement
2. (a) Annual General Meeting of a Public Company was scheduled to be held on 15.12.2008. Mr. A, a shareholder, issued two Proxies in respect of the shares held by him in favour of Mr 'Y' and later another in favour of Mr. 'X'. The proxy in favour of 'Y' was lodged on 12.12.2008 and the one in favour of

Mr. X was lodged on 15.12.2008. The company rejected both the proxies, in favour of Mr. Y and Mr. X. Is the rejection by the company in order?

- (b) State with reasons whether the following statements are correct or incorrect:
- (i) There cannot be a company without share capital.
  - (ii) The prospectus must be issued to the public within 90 days of its delivery to registrar.
- (c) Pick out the correct answer from the following and give reasons:
- (i) A promoter of a company that is to be incorporated is
    - a. an agent of the company
    - b. a trustee of the company
    - c. a quasi-trustee of the company
    - d. an employee of the company
  - (ii) To use the expression “Enterprises”, the minimum authorized capital must be
    - a. 1 lakhs
    - b. 10 lakhs
    - c. 1 crore
    - d. 3 crores
  - (iii) The doctrine of indoor management is also known as
    - a. The Salomon Rule
    - b. The Briggs Rule
    - c. The Turquand Rule
    - d. The Daimler Rule

3. A promoter borrowed a loan on behalf of company and sent a cheque from the company’s account to discharge its legal liability. Subsequently the cheque was dishonoured and a complaint was lodged against him. Here the promoter is neither a director nor a person-in-charge. Is he liable for an offence under section 138?
4. Examine the circumstances under which different departments of a company can be treated as separate establishments for the payment of bonus under the Payment of bonus Act, 1965.
5. Who determines the various amounts of money due from an employer under the Employees’ Provident Fund Act, 1952? State the factors to be considered at the time of such determination.
6. Examine the concept of ‘continuous service’ under the Payment of Gratuity Act, 1972.
7. Discuss the rules relating to ‘sans recours’ endorsement.
8. A scheme of amalgamation of XYZ Ltd. with ABC Ltd. was approved at statutory meeting of company XYZ Ltd. convened under Section 391 and the scheme was presented to the High Court for sanction. The exchange ratio of shares of company XYZ Ltd. for that of company ABC Ltd. was not to the satisfaction of XYZ Ltd.’s shareholders. Examine if the shareholders of XYZ

- Ltd. can requisition an EGM to ask their company to renegotiate with the other company. Can the High Court prevent the shareholders from discussing the terms of amalgamation?
9. The Directors of Volga Computers Ltd. decide to change the name of the company to Ganga Technologies Ltd. and seek your advice. Explain the procedure to be followed under the Companies Act, 1956.
  10. Distinguish reduction of capital from diminution of capital.
  11. The Articles of Association of XYZ Ltd. require the personal presence of 7 members to constitute quorum for General Meetings. The following persons were present in the extra-ordinary general meeting to consider the appointment of Managing Director.
    - (i) Mr. A, the representative of the President of India
    - (ii) M/s B and C, preference shareholders
    - (iii) Mr. D, representing ABC Ltd and DEF Ltd
    - (iv) M/s E, F and G, proxies of shareholdersDo the above people constitute valid quorum?
  12. M/s Panacea Pharma Ltd, a company having its Registered Office at Mumbai desires to shift its Registered Office to Pune, also within Maharashtra. Briefly explain the procedure applicable in this regard under the Companies Act, 1956.

## **PART – II**

Question No. 13 is compulsory. Attempt any two questions from the rest.

13. (a) Mention and elaborate any three avenues by which workplace ethics can be enhanced.
  - (b) Discuss issues relating to eco-friendly business practices.
14. Set out the pragmatic reasons for behaving ethically in marketing.
15. What steps can help in creating an ethical environment in a company?
16. Enumerate and discuss briefly the fundamental principles relating to ethics.

## **PART – III**

*Question No. 17 is compulsory. Attempt any two questions from the rest.*

17. (a) Discuss the merits and limitations of the grapevine phenomenon.
  - (b) Explain chronemics.
18. Describe the main characteristics of group personality.
19. Discuss the elements that influence Organizational Culture.
20. Board of Directors of ABC Private Limited, New Delhi, proposes to convene an Extraordinary General Meeting for changing the name of the company to Global ABC Private Limited. Draft the notice for calling the Extraordinary General Meeting of the Members.

### Paper 3: COST ACCOUNTING & Financial Management

All questions are compulsory.

Working note should form part of the answer wherever appropriate, suitable assumptions should be made

Question 1  
10 Marks)

(5 x 2 =

Answer any five of the following:

- (i) A Ltd. Maintains margin of safety of 37.5% with an overall contribution to sales ratio of 40%. Its fixed costs amount to Rs. 5 lakhs.

Calculate the following:

- (a) Break-even sales
  - (b) Total variable cost
  - (c) New 'margin of safety' if the sales volume is increased by 7 ½ %.
- (ii) Compute notional profit and profit to be taken to contracts P & L A/C on a contract (which has been 80% completed) from the following particulars:

	Rs.
Total expenditure to date	1,70,000
Estimated further expenditure to complete the contract (including contingencies)	34,000
Contract price	3,06,000
Work certified	2,00,000
Work not certified	17,000
Cash Received	1,63,200

- (iii) When material prices fluctuate widely, what is the most suitable method (from amongst the Weighted Average, LIFO or FIFO) for pricing material?
- (iv) Department L production overheads are absorbed using a direct labour hour rate. Budgeted production overheads for the department were Rs. 480,000 and the actual labour hours were 100,000. Actual production overheads amounted to Rs. 516,000. Based on the above data, and assuming that the production overheads were over absorbed by Rs. 24,000, what was the overhead absorption rate per labour hour?
- (v) In Akanksha Ltd raw material passes through four processes A, B,C and D and the output of each process is the input of the subsequent process. The loss in the four processes A,B,C and D are respectively 25%, 20%, 20% and 16 % of the Input. If the end product at the end of process D is 40,000 kgs, what is the quantity of raw materials required along with its cost to be fed at the beginning of Process A when the cost of the same is Rs.5 per kg.
- (vi) Distinguish between 'Committed Fixed Costs' and 'Discretionary Fixed Costs'.

Question 2  
15 Marks)

(9 + 6 =

- (a) Vivek Elementary School has a total of 150 students consisting of 5 sections with 30 students per section. The school plans for a picnic around the city during the week-end to places such as the zoo, the Niko Park, the planetarium etc. A private transport operator has come forward to lease out the buses for taking the students. Each bus will have a maximum capacity of 50 (excluding 2 seats reserved for the teachers accompanying the students). The school will employ two teachers for each bus, paying them an allowance of Rs. 50 per teacher. It will also lease out the required number of buses. The following are the other cost estimates:

	Cost per student
Breakfast	Rs. 5
Lunch	10
Tea	3
Entrance fee at zoo	2

Rent Rs. 650 per bus.

Special permit fee Rs. 50 per bus.

Block entrance fee at the planetarium Rs. 250.

Prizes to students for games Rs. 250.

No cost are incurred in respect of the accompanying teachers (except the allowance of Rs. 50 per teacher).

You are required to prepare:

- A flexible budget estimating the total cost for the levels of 30, 60, 90, 120 and 150 students. Each item of cost is to be indicated separately.
  - Compare the average cost per student at these levels.
  - What will be your conclusions regarding the break-even level of student if the school proposes to collect Rs. 45 per student?
- (b) The standard and actual figures of a firm are as under:

Standard time for the job	1,000 hours
Standard rate per hour	Re. 0.50
Actual time taken	900 hours
Actual wages paid	Rs. 360

Compute

- Rate variance
- Efficiency variance
- Total labour cost variance

Question 3  
16 Marks)

(2 x 8 =

- 3 (a) In a factory, the basic wage rate is Rs. 10 per hour and overtime rates are as follows:



Salary of 30 drivers	Rs. 4,000 each driver
Wages of 25 Helpers	Rs. 2,000 each helper
Wages of 20 Labourers	Rs. 1,500 each labourer
Consumable stores	Rs. 45,000
Insurance (Annual)	Rs. 24,000
Road Licence (Annual)	Rs. 60,000
Cost of Diesel per litre	Rs. 35
Kilometres run per litre each vehicle	5 Km.
Lubricant, Oil etc.	Rs. 23,500
Cost of replacement of Tyres, Tubes, other parts etc.	Rs. 1,25,000
Garage rent (Annual)	Rs. 90,000
Transport Technical Service Charges	Rs. 10,000
Electricity and Gas charges	Rs. 5,000
Depreciation of vehicles	Rs. 2,00,000

There is a workshop attached to transport department which repairs these vehicles and other vehicles also. 40 per cent of transport manager's salary is debited to the workshop. The transport department is charged Rs. 28,000 for the service rendered by the workshop during October, 2008. During the month of October, 2008 operation was 25 days.

You are required:

- (i) Calculate per ton-km operating cost.
- (ii) Find out the freight to be charged per ton-km, if the company earned a profit of 25 per cent on freight.

#### Question 4

(3 x 3 = 9 Marks)

Answer any three of the following:

- (i) What is cost plus contract? State its advantages.
- (ii) Discuss the reasons for disagreement of profits as per Cost Accounting and Financial Accounting
- (iii) A Company manufactures a special product which requires a component 'Alpha'. The following particulars are collected for the year 2008:

(i) Annual demand of Alpha	:	8,000 units
(ii) Cost of placing an order	:	Rs. 200 per order
(iii) Cost per unit of Alpha	:	Rs. 400
(iv) Carrying cost % p.a.	:	20%

The company has been offered a quantity discount of 4% on the purchase of 'Alpha', provided the order size is 4,000 components at a time.

Required:

- (a) Compute the economic order quantity.
  - (b) Advise whether the quantity discount offer can be accepted.
- (iv) What is 'Defective Work'? How it is accounted for in cost accounts?

## Part B: FINANCIAL MANAGEMENT

All questions are compulsory.  
Working notes should form part of the answer.

### Question 1

Answer the following:

- (i) Explain the concept of Wealth Maximisation.
- (ii) Discuss the concept of Venture Capital Financing.
- (iii) How is Interest Coverage Ratio calculated? What is its significance?
- (iv) Discuss the term Global Depository Receipts (GDRs).
- (v) Explain the advantages of Multiple Internal Rate of Return. (5 × 2 = 10 Marks)

### Question 2

Sansakar Limited has furnished the following cost data relating to the year ending of 31st March, 2009.

	Rs. (in Lakhs)
Sales	450
Material consumed	150
Direct wages	30
Factory overheads (100% variable)	60
Office and Administrative overheads (100% variable)	60
Selling overheads	50

The company wants to make a forecast of working capital needed for the next year and anticipates that:

- Sales will go up by 100%;
- Selling expenses will be Rs. 150 lakhs;
- Stock holdings for the next year will be - Raw material for two and half months, Work-in-progress for one month, Finished goods for half month and Book debts for one and half months; and
- Lags in payment will be of 3 months for creditors, 1 month for wages and half month for Factory, Office and Administrative and Selling overheads.

You are required to:

- (i) Prepare statement showing working capital requirements for next year, and
- (ii) Calculate maximum permissible bank finance as per Tandon Committee guidelines assuming that core current assets of the firm are estimated to be Rs. 30 lakhs.

(8 + 8 = 16 Marks)

### Question 3

(a) The following details of Maharishi Limited for the year ended 31<sup>st</sup> March, 2009 are given below:

Operating leverage	1.4
Combined leverage	2.8
Fixed Cost (excluding interest)	Rs. 2.04 lakhs

Sales	Rs. 30.00 lakhs
12% Debentures of Rs. 100 each	Rs. 21.25 lakhs
Equity Share Capital of Rs. 10 each	Rs. 17.00 lakhs
Income tax rate	30 per cent

You are required to:

- (i) Calculate financial leverage
  - (ii) Calculate P/V ratio and Earnings per Share (EPS)
  - (iii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets leverage?
  - (iv) At what level of sales the Earning before Tax (EBT) of the company will be equal to zero?
- (b) Cesa Limited is planning its capital investment programme for next year. It has five projects all of which give a positive NPV at the company cut-off rate of 15 percent, the investment outflows and present values being as follows:

<i>Project</i>	<i>Investment</i> <i>Rs. '000</i>	<i>NPV @ 15%</i> <i>Rs. '000</i>
<i>A</i>	(50)	15.4
<i>B</i>	(40)	18.7
<i>C</i>	(25)	10.1
<i>D</i>	(30)	11.2
<i>E</i>	(35)	19.3

The company is limited to a capital spending of Rs. 1,20,000.

You are required to optimise the returns from a package of projects within the capital spending limit. The projects are independent of each other and are divisible (i.e., part-project is possible).  
(8 + 7 = 15 Marks)

Question 4

Answer the following:

- (a) Distinguish between Cash Flow and Funds Flow statement.
- (b) Sasha Limited sells 40,000 optical mouses evenly throughout the year. The cost of carrying one unit in inventory for one year is Rs. 16, and the purchase order cost per order is Rs. 64. What is the economic order quantity?
- (c) Camera Limited maintains a separate account for cash disbursement. Total disbursements are Rs. 10,50,000 per month. Administrative and transaction cost of transferring cash to disbursement account is Rs. 50 per transfer. Marketable securities yield is 15% per annum. Determine the optimum cash balance according to William J Baumol model.  
(3 × 3 = 9 Marks)

PAPER – 4 : TAXATION

Answer all questions

PART - I

1. Following are the details of income provided by Mr. Ramaswamy for the year ending 31.3.2009:

- (i) Rental income from property at Chennai - Rs.5,00,000, Municipal Value – Rs.4,00,000; Standard Rent - Rs.3,50,000, Fair Rent – Rs.3,00,000.
- (ii) Municipal and water tax paid to Municipality, Current year - Rs.40,000, Arrears – Rs.1,60,000.
- (iii) Interest on loan borrowed towards major repairs to the property - Rs.1,40,000
- (iv) Arrears of rent from property at Hyderabad which was sold on 10.04.2005 – Rs.25,000

Mr. Ramaswamy furnishes the following additional information regarding sale of a property in Delhi:

- (i) Mr. Ramaswamy's father acquired a property in April 1988 for Rs.40,000. Mr. Ramaswamy acquired this property by inheritance on 1<sup>st</sup> December 1988 after the demise of his father.
- (ii) Fair Market Value as on 01.04.1981 was Rs.15,000.
- (iii) Fair Market Value as on 12.12.1988 was Rs.45,000.
- (iv) Sale consideration received is Rs.40,00,000.
- (v) Stamp duty charges paid by the purchaser at the time of registration @ 13% is Rs.6,50,000 without any protest.
- (vi) Mr. Ramaswamy has invested the sale consideration in a residential flat for Rs.25 lakhs out of the sale proceeds. A sum of Rs.20 lakhs was invested in Capital Gains Bonds issued by NHA and Rural Electrification Corporation Limited.

Compute the total income and tax payable thereon by Mr. Ramaswamy for the assessment year 2009-10.

[Cost Inflation Index (CII): F.Y.2008-09: 582, F.Y.1988-89: 161]

2. (a) *Ashok has a house property situated in Delhi which consists of two units. Unit A has 60% floor area, whereas Unit B has 40% floor area. Unit A was self-occupied by Ashok for 8 months and w.e.f. 1-12-2008, it was let out for Rs.12,000 p.m. Unit B was also meant for self occupation but it was also let out w.e.f. 1-10-2008 for Rs. 9,000 p.m. The other particulars of the house property were as under:*

	Rs.
Municipal taxes paid	55,000
Insurance premium	8,000
Interest on money borrowed	25,000

Compute income from house property of Ashok for assessment year 2009-10.

- (b) Mohan owns two houses. He transfers the following long-term capital assets during the previous year 2008-09:

Particulars	Residential house property at Bangalore	Gold	Silver
Date of sale	May 07, 2008	May 15, 2008	May 14, 2008
	Rs.	Rs.	Rs.
Sale consideration	12,00,000	9,00,000	7,00,000
Indexed cost of acquisition	5,00,000	8,00,000	3,50,000

Mohan purchases the following assets-

	Date of purchase	Amount invested
Residential house at Bangalore	November 7, 2008	8,00,000
Bonds of National Highways Authority of India for the purpose of section 54EC	November 10, 2008	3,50,000

Ascertain the amount of capital gain chargeable to tax for the assessment year 2009-10. Can he claim exemption under sections 54, 54EC and 54F?

3. (a) Ram is the Karta of a HUF, whose members derive income as given below:

Particulars	Amount (Rs.)
(i) Income from Ram's own business	55,000
(ii) Mrs. Ram an engineer draws salary	95,000
(iii) Minor son Ajay earning interest on fixed deposits with PQR Ltd. which were gifted to him by his uncle	25,000
(iv) Minor daughter Supriya gave a music contest and received remuneration	1,20,000
(v) Ajay got winnings from lottery (Gross)	2,50,000

Discuss the taxability of the above items.

- (b) Shyam has converted his private assets comprising of the following assets into his business assets on 01.4.2008:

Particulars of Asset	Original cost	Date of acquisition	Fair Market Value as on 01.04.2008	Value recorded in the books as on 01.04.2008
Building	25,00,000	01.04.2006	35,00,000	40,00,000
Land	20,00,000	01.04.2006	30,00,000	20,00,000
Furniture	8,00,000	01.04.2007	3,00,000	8,00,000

Compute the cost of asset to be capitalized in the books of Shyam.

or

3. (a) Mr. Suresh and Mrs. Suresh are foreign citizens. During the previous year 2008-09, Mr. Suresh and Mrs. Suresh have the following income:

Particulars	<b>Mr. Suresh</b>	<b>Mrs. Suresh</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
(i) Interest on company deposits in India	50,000	7,50,000
(ii) Income deemed to be received in India	35,000	60,000
(iii) Income from business situated in Nepal and controlled from India (40 percent is received in India and 60 per cent is received outside India)	70,000	42,000
(iv) Dividend declared by an Indian company	35,000	50,000
(v) Salary received in India for services rendered outside India	97,000	90,000
(vi) Interest received from the Government of India (received outside India)	60,000	21,000
(vii) Interest received from a foreign company outside India (on capital which is utilized outside India)	80,000	7,000
(viii) Income from a business in France, controlled from Mumbai	42,000	97,000
(ix) Royalty received in India from the Government of India	15,000	7,000
(x) Royalty received in India from a non-resident in respect of technology used by such person outside India	22,000	10,000
(xi) Agricultural income in Europe	58,000	76,000

From the above particulars ascertain the gross total income of Mr. Suresh and Mrs. Suresh for the assessment year 2009-10, if Mr. Suresh is a resident but not ordinarily resident in India and Mrs. Suresh is non - resident in India.

- (b) Dr. Umesh is an individual medical practitioner. His gross receipts from the medical practice for the year ending 31.03.2008 are Rs. 80 Lakhs. The gross receipts for the year ending 31.03.2009 are Rs. 9 Lakhs. During the financial year 2008-09, he makes the following payments to a resident contractor for various activities:

Contract No.	Name of the Contractor	Description of the Contract	Amount paid or credited in the

			books (Rs.)
A	Mr. P	Medical equipment maintenance contract	50,000
B	Mr. P	Household personal equipment maintenance contract	2,70,000
C	Mr. R	Clinic furnishing contract	19,000
D	Mr. R	Clinic furnishing contract	18,000
E	Mr. R	Clinic furnishing contract	19,500

Examine the liability to deduct tax and the amount of TDS under section 194C(1) for the A.Y. 2009-10.

4. Answer any **three** out of the following four sub-divisions, relating to the provisions of the Income-tax Act, 1961:
- Discuss the applicability of TDS provisions under section 194-I to service tax component of rental income.
  - Explain the concept of reverse mortgage and discuss its tax implications.
  - A non-resident is engaged in shipping business. The company also operates its ship in India. Explain how the income from the company's business operation in India is computed.
  - Write short note on payment of advance tax in case of capital gains/casual income.

#### PART – II

5. Answer any five of the following:- (4×2=8 Marks)
- Who is the person liable to pay service tax in relation to general insurance business?
  - Discuss the liability of the service provider if he has not collected the service tax from the client.
  - Guru Kalishwar Study Centre (GKSC) is a commercial training centre which provides vocational training that impart skills to enable the trainee to seek employment or undertake self-employment, directly after such training or coaching. Discuss whether GKSC is liable to pay service tax under the category 'commercial training or coaching services'.
  - Hi-tech Ltd. is providing business auxiliary services. It has made an advance payment of service tax during the month of January, 2009 on its own and wants to adjust the same in the subsequent period. The company has appointed you as a consultant to know whether it can do so. Give your opinion.
  - State briefly whether the services provided by the Reserve Bank of India to any person, are taxable services under the Finance Act, 1994 as amended.
- 6.(a) (i) Prahlad has paid the amount of service tax for the quarter ending June 30, 2009 by cheque. The date of presentation of cheque to the designated bank is July 5, 2009 and it is realised by the bank on July 7, 2009? What is the date of payment of service tax in this case? Whether any interest and penalty is attracted in this case? (4 Marks)
- (ii) Anand, a practicing chartered accountant, provides taxable audit services. He has started his practice in the mid year of 2008. He wants to file the service tax return first time. Whether

the records including computerized data maintained by him shall be acceptable by the department? For how long such records shall be preserved by him? (4 Marks)

(b) Answer any three: -

(3×3=9 Marks)

- (i) Explain the provisions relating to the transactions with associated enterprise.
- (ii) Explain the special provision for payment of service tax in case of an air travel agent.
- (iii) Discuss the liability of a sub-contractor to pay service tax.
- (iv) Briefly discuss, the liability of a service provider in relation to delivery of contents of a cinema in digitized encrypted form.

7. Answer any five of the following:-  
Marks)

(4×2=8

- (a) Which is the most widely used variant of VAT and why?
  - (b) Administering VAT in India is a real big challenge. Examine the validity of the statement.
  - (c) Who is eligible for composition scheme?
  - (d) Illustrate any two purchases which are not eligible for input tax credit.
  - (e) Explain whether units in SEZ and EOU units are required to pay input tax on purchases made by them?
8. (a) Calculate the VAT liability for the period Jan. 1, 2009 to Jan. 31, 2009 from the following particulars:

Inputs worth Rs. 1,00,000 were purchased within the State. Rs. 2,00,000 worth of finished goods were sold within the State and Rs. 1,00,000 worth of goods were sold in the course of inter-State trade. VAT paid on procurement of capital goods worth Rs. 1,00,000 during the month was at 12.5%. If the input and output tax rate in the State are 12.5% and 4% respectively and the central sales tax rate is 3%, show the total tax liability under the State VAT law and under the Central Sales Tax Act.

(8 Marks)

(b) Answer any three: -

(3×3=9 Marks)

- (i) Distinguish between input tax and output tax.
- (ii) What are the special features of the composition scheme?
- (iii) Distinguish between compulsory and voluntary registration.
- (iv) Under what circumstances registration can be cancelled under VAT?

## Paper 5: Advanced Accounting

Answer all questions.

Working notes should form part of the answer.

(Maximum marks 100)

(Time allowed three hours)

1. A, V, R and S are partners in a firm sharing profits and losses in the ratio of 4 : 1 : 2 : 3. The following is their Balance Sheet as at 31st March, 2009 :

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	3,00,000	Sundry Debtors	3,50,000
Capital A/cs :		Less: Doubtful Debts	<u>50,000</u>
A	7,00,000	Cash in hand	1,40,000
S	<u>3,00,000</u>	Stocks	2,00,000
	10,00,000	Other Assets	3,10,000
		Capital A/cs:	
		V	2,00,000
		R	<u>1,50,000</u>
	<u>13,00,000</u>		<u>3,50,000</u>
			<u>13,00,000</u>

On 31st March, 2009, the firm is dissolved and the following points are agreed upon:

1. Ajay is to takeover sundry debtors at 80% of book value
2. Shyam is to takeover the stocks at 95% of the value and
3. Ram is to discharge sundry creditors.
4. Other assets realise Rs. 3,00,000 and the expenses of realisation come to Rs. 30,000.
5. Vijay is found insolvent and Rs. 21,900 is realised from his estate.

Prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c.

The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(16 Marks)

- 2.(a) On 31st March, 2008, Uncertain Bank Ltd. had a balance of Rs. 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2009, Uncertain Bank Ltd. discounted bills of exchange of Rs. 4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of Rs. 600 crores were due for realisation from the acceptors/customers after 31st March, 2009, the average period outstanding after 31st March, 2009 being 36.5 days.

Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to :

- (i) discounting of bills of exchange and
- (ii) rebate on bills discounted.

(8 Marks)

- 2.(b) X Fire Insurance Co. Ltd. commenced its business on 1.4.2008. It submits you the following information for the year ended 31.3.2009:

Rs.

Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.2009	1,00,000
Create reserve for unexpired risk @ 40%	
Prepare Revenue account for the year ended 31.3.2009.	

(8 Marks)

- 3.(a) Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The balance sheets of both the companies were as under:

Super Express Ltd.  
Balance Sheet as at 31st December, 2008

	Rs.		Rs.
20,000 Equity shares of Rs. 100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Sundry creditors	60,000	Stock	3,00,000
Insurance reserve	1,00,000	Sundry debtors	2,40,000
		Cash at bank	2,20,000
		Cash in hand	<u>1,00,000</u>
	<u>22,60,000</u>		<u>22,60,000</u>

Fast Express Ltd.

Balance Sheet as at 31st December, 2008

	Rs.		Rs.
10,000 Equity shares of Rs. 100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Sundry creditors	40,000	Machinery	5,00,000
Reserve account	1,00,000	Stock	40,000
Surplus	1,00,000	Sundry debtors	40,000
		Cash at bank	10,000
		Cash in hand	<u>10,000</u>
	<u>13,00,000</u>		<u>13,00,000</u>

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of Rs. 100 each in lieu of purchase consideration.

Prepare opening balance sheet of Super Fast Express Ltd.

(8 Marks)

3.(b) Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in January, 2009, make the entry in the books of Head Office :

(a) Bombay Branch

- (1) Received Goods : Rs. 6,000 from Calcutta Branch, Rs. 4,000 from Patna Branch.
- (2) Sent Goods to Rs. 10,000 to Patna, Rs. 8,000 to Calcutta.
- (3) Received B/R : Rs. 6,000 from Patna.
- (4) Sent Acceptance : Rs. 4,000 to Calcutta, Rs. 2,000 to Patna.

(b) Madras Branch (Apart from the above)

- (5) Received Goods : Rs. 10,000 from Calcutta, Rs. 4,000 from Bombay.
- (6) Cash Sent : Rs. 2,000 to Calcutta, Rs. 6,000 to Bombay.

(c) Calcutta Branch (Apart from the above)

- (7) Sent Goods to Patna : Rs. 6,000.
- (8) Paid B/P : Rs. 4,000 to Patna, Rs. 4,000 cash to Patna.

(8 Marks)

4.(a) On 1<sup>st</sup> April, 2008, in MK Ltd's ledger 9% debentures appeared with a opening balance of Rs. 50,00,000 divided into 50,000 fully paid debentures of Rs. 100 each issued at par.

Interest on debentures was paid half-yearly on 30<sup>th</sup> of September and 31<sup>st</sup> March every year.

On 31.5.2008, the company purchased 8,000 debentures of its own @ Rs. 98 (ex-interest) per debenture.

On 31.12.2008 it cancelled 5,000 debentures out of 8,000 debentures acquired on 31.5.2008.

On 31.1.2009 it resold 2,000 of its own debentures in the market @ Rs. 101 (ex-interest) per debenture.

You are required to prepare:

- (i) Own debentures account;
- (ii) Interest on debentures account; and

(8 Marks)

4.(b) Anu Ltd. furnishes you with the following balance sheet as at 31<sup>st</sup> March, 2008:

(Rs. in crores)

Sources of Funds

Share Capital:

Authorised

100

Issued:

12% redeemable preference shares of Rs.100 each fully paid

75

Equity shares of Rs.10 each fully paid

25

100

Reserves and surplus:

Capital reserve

15

Securities Premium

25

Revenue reserves

260

300

		<u>400</u>
Application of Funds		
Fixed assets: cost	100	
Less: Provision for depreciation	<u>(100)</u>	nil
Investments at cost (Market value Rs.400 Cr.)		100
Current assets	340	
Less: Current liabilities	<u>40</u>	<u>300</u>
		<u>400</u>

The company redeemed preference shares on 1<sup>st</sup> April, 2008. It also bought back 50 lakh equity shares of Rs.10 each at Rs.50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- (i) Pass journal entries to record the above.
- (ii) Calculate the value of a equity share on net assets basis.

(8 Marks)

5. Answer any ten from the following (Give adequate working notes in support of your answer):

- (i) Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.:

Issued Rs. 1,00,000, 11% debentures at 95% redeemable at the end of 10 years at 102%.

(ii) Net profit for the current year		Rs. 1,00,00,000
No. of equity shares outstanding		50,00,000
Basic earnings per share		Rs. 2.00
No. of 12% convertible debentures of Rs. 100 each		1,00,000
Each debenture is convertible into 10 equity shares		
Interest expense for the current year		Rs. 12,00,000
Tax relating to interest expense (30%)		Rs. 3,60,000

Compute Diluted Earnings per Share.

- (iii) The company finds that the stock sheets of 31.3.2006 did not include two pages containing details of inventory worth Rs. 14.5 lakhs. State, how you will deal with this matter in the accounts of U Ltd. for the year ended 31st March, 2007 with reference to AS 5.
- (iv) Goods purchased on 24.02.2005 for US \$ 10 (Exchange rate – 50)  
(Rate of exchange on 31.3.2005 – 51)  
Date of actual payment 5.6.2005 (Exchange rate – 52)  
Calculate the amount of loss/gain to be recognized in the financial statements for the year ended 31st March, 2005.
- (v) An old electricity plant, which originally costed Rs. 10,00,000 in the year 1999, was replaced by spending Rs. 15,00,000. Present cost of its replacement was calculated as Rs. 13,00,000. Calculate the amount to be capitalized.

- (vi) If goods are transferred from department A to department B at a price so as to include a profit of 50% on cost. Compute the amount of stock reserve on closing stock of Rs. 9,000 in department B.
- (vii) G Ltd. acquired assets worth Rs. 7,50,000 from H Ltd. by issue of shares of Rs. 100 at a premium of 25%. Compute the number of shares to be issued by G Ltd. to settle the purchase consideration.
- (viii) Explain the treatment of Refund of Government Grants as per AS-12
- (ix) Explain finance lease as per AS 19.
- (x) When Capitalisation of borrowing cost should cease as per Accounting Standard 16?
- (xi) In which order does the accounts of partnership in case of dissolution, is settled under piecemeal distribution of cash?
- (xii) When will the liability of B List Contributories be crystallized?

(2 Marks each)

6. Answer any four out of five:

- (a) Explain the provisions of AS 26 relating to retirement and disposal of intangible assets.
- (b) X Co. Ltd., has obtained an Institutional Loan of Rs. 680 lakhs for modernisation and renovation of its plant & machinery. Plant & machinery acquired under the modernisation scheme and installation completed on 31.3.2008 amounted to Rs. 520 lakhs, 30 lakhs has been advanced to suppliers for additional assets and the balance loan of Rs. 130 lakhs has been utilized for working capital purpose. The total interest paid for the above loan amounted to Rs. 62 lakhs during 2007-2008.  
  
You are required to state how the interest on the institutional loan is to be accounted for in the year 2007-2008.
- (c) A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss.
- (d) Write a short note on 'Double Accounts System of presentation of financial statements' by Electricity Supply Companies.
- (e) Mention the bases of measurement of elements of financial statements, as recognized by the conceptual framework issued by ICAI.

(4 Marks each)

**Paper – 6**  
**AUDITING AND ASSURANCE**  
**Questions**

**1.** State with reasons (in short) whether the following statements are True or False. (Answer any **ten**):

- (i) Potential for human error in the development, maintenance and execution of computer information systems more than in manual systems.
- (ii) In case of audit of partnership or sole proprietorship, the auditor's duties are defined purely by the contract between him and the client.
- (iii) There is no difference between auditing and accounting as both deals with financial statements.
- (iv) Once audit plan is developed at the start of the audit it should be stuck to and not revised during the course of audit.
- (v) Misstatement of financial information may not be the objective of certain frauds.
- (vi) There is no single list of accounting policies applicable to all enterprises.
- (vii) The auditor of a company has a right to carry out surprise checks of transactions beyond the end of the accounting year for which he is reporting.
- (viii) If the assessed levels of inherent and control risks are low, there is no need to perform substantive procedures.
- (ix) Clerical errors ordinarily associated with manual processing are virtually eliminated in CIS system.
- (x) Vouching is mere comparison of the entries in the books of account with evidence supporting the entries.
- (xi) An unqualified opinion in audit report is a guarantee as to the future viability of the company.
- (xii) If there is a material tax liability for which no provision is made in the accounts, the auditor should qualify his report in this respect even if the reserves are adequate to cover the liability.

( 10 x 2 = 20

Marks )

**2.** Comment on the following:

- (a) In case the existing auditor(s) appointed at the Annual General Meeting refused to accept the appointment, whether the Board of Directors could fill up the vacancy. (5 Marks)
- (b) X and Co., Chartered Accountants, who were appointed as the first auditors of the company, were removed without the prior approval of the Central Government, before the expiry of their term, by calling an Extraordinary General Meeting. (5 Marks)
- (c) Due to the resignation of the existing auditor(s), the Board of directors of X Ltd appointed Mr. Hari as the auditor. Is the appointment of Hari as auditor valid? (5 Marks)
- (d) At the Annual General Meeting of the Company, a resolution was passed by the entire body of

shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted? (5 Marks)

**3. How the work of an expert should be evaluated before accepted the same as an Audit evidence ?**

(10 Marks)

**4. Comment on the following:**

- (a) The surplus arising from a change in the basis of accounting was set off by X Ltd., against a non-recurring loss. (4 Marks)
- (b) Z Ltd. gave a guarantee to the Court for payment of excise dues of Rs.10 lakhs for one of its subsidiaries. According to the company, since the guarantee was given on behalf of its subsidiary, no disclosure was required. (6 Marks)

**5. (a) How does an auditor audit Government Expenditure? (4 Marks)**

**(b) What categories of Companies are specifically exempted from the application of Companies (Auditor's Report) Order, 2003? (6 Marks)**

**6. (a) Give your comment on "The Central Government has appointed Mr. Sushil, a retired Finance Director of a reputed company, a non-practising member of ICAI, as a special auditor of MM Ltd., on the ground that the company was not being managed on sound business principles. Mr. Ajay, MD of MM Ltd. feels, that the appointment of Mr. Sushil is not valid as he does not hold a certificate of practice". (6 Marks)**

**(b) As a company auditor how would you react to the following situation?**

*Rs. 5 lakhs paid by a pharma company to the legal advisor defending the patent of a product*

*treated as capital expenditure. (4 Marks)*

7. How will you, as an auditor, vouch and/or verify the following ? (Answer any two)

- (i) Deferred Revenue Expenditure  
(ii) Goodwill  
(iii) Sales Commission Expenditure (5 x 2 = 10 Marks)

OR

(iv) Sales Return.

8. Write the short notes on the following (Answer any two) (5 x 2 = 10 Marks)

- (a) *Examination in Depth.*  
(b) *Audit Trail.*

(c) *Auditor's Lien*

**OR**

*Disclaimer of Opinion*

PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

Section–A: Information Technology

Mock Paper

Attempt all questions.

Question 1

- (a) Describe briefly the following terms:
- (i) Workstation
  - (ii) Metadata
  - (iii) Communication channel
  - (iv) EBCDIC Code
  - (v) MMX (5x1 = 5 Marks)
- (b) Explain each of the following:
- (i) Candidate Key
  - (ii) URL
  - (iii) BIOS
  - (iv) Extranet
  - (v) IDS (5x1 = 5 Marks)

Question 2

- (a) What do you understand by System software. Discuss some of the examples of system software. (7 marks) OR
- (b) Discuss some of the different types of storage used in computer. (7 marks)
- (c) Discuss the threats and vulnerabilities to any computer network system. (3 marks)

Question 3

Answer the following questions :

- (a) What is a Data Centre. Mention about its categories also. (4 marks)
- (b) Define Data warehouse and its components in brief. (6 Marks)

OR

- (c) Discuss various Database Structures.

Question 4

- (a) Define Decision Table and its parts. (1+2 = 3 marks)
- (b) Draw a flow chart to calculate the local taxes as per the following details :

Code No.	Type of Goods	Tax Rate	
001	Perishable	15%	
002	Textiles	10%	
003	Luxury Items	20%	
004	Machinery	12%	(7 marks)

Question 5

- (a) Discuss in brief the various classes of Electronic commerce. (5 marks)
- (b) Discuss various network topologies used in a computer network. (5 marks)

**Section B: Strategic Management**

- 1. State with reasons which of the following statements are correct/incorrect (Attempt any three statements):
  - (a) Customers and consumers represent same group of people.
  - (b) Manufacturers can sell their products directly to the customers.
  - (c) Strategies are rigidly defined.
- (d) Benchmarking relates to embossing organisational motif on the furniture.

2. What is SWOT? Discuss its significance in strategic analyses.

3. Case Study

AO Swift (Pvt) Ltd. was promoted nineteen years back as company manufacturing automobile parts with an investment of Rupees 5 crores by Abhishek Oberai. He took over as its chief executive and is occupying the same position till date. Abhishek an automobile engineer himself possessed rich experience of working abroad and in Hindustan Motors Ltd in India. He is dynamic and ready to take risk. He always emphasized on maintaining high quality standards.

Initially, the products were supplied to automobile service centers all across the country. The market was small and the company suffered some losses. Eight years after its inception the company entered into an agreement with Maruti Udyog Ltd to manufacture and supply specific components for their small car.

This agreement was a turning point for the company. Later the company was able to enter agreements with other companies entering India. The company is able to manage a growth rate of over 25% in last five years. Its turnover in the last financial year exceeded 800 crores. The overall market is also witnessing a very high growth rate.

Abhishek also possessed strong behavioural skills and allowed some autonomy and discretion to the senior managers of the company. A year back in an internal meeting Abhishek felt that the company can grow still faster if it enters other markets outside India. Various options were analysed and efforts were made to discuss and negotiate with major manufacturers of the world. Getting some response from two manufacturers in European Union the company opened an office in London.

Abhishek closely monitored the day-to-day working of this office. Having strategic implications all major decisions were taken by himself. He will also visit London every month to have first hand information about its working. However, as the company is growing it is becoming increasing

difficult for him to manage this office. He also wants to expand further. He called a meeting with head of various department. In the meeting following alternatives were considered for foreign market:

- ◆ Continue to manufacture products in India and export them to other countries.
- ◆ Initiate manufacturing activities in other countries.
- ◆ Takeover existing manufacturers of the products.

Answer the following questions:

- (a) Write a note on reasons for AO Swift Ltd to open office in London?
- (b) What should be the strategy of the company in a high growth market? Why?
- (c) Make an analysis of various alternatives that are being considered for expanding in foreign markets?