

FREE OF COST

I.S.B.N : 81-7666-306-9

SCANNER'S APPENDIX

ICWA Stage - III

December 2005

Paper - 13

Operations and Project Management and Control

Chapter - 5 : Production Planning, Integrated Planning & Control Systems

2005 - Dec [2] Vision Graphics provides copy services for law firms in Mumbai suburbs. Five customers submitted their orders at the beginning of the week. Specific scheduling data are as follows:

Job (In order arrival)	Processing Time (Days)	Due Date (Days hence)
A	3	5
B	4	6
C	2	7
D	6	9
E	1	2

All orders require the use of the only colour copy machine available.

Vision Graphics would like to use the following Priority Rules and decide the best rule for the Job Sequencing, using the evaluation criterion of minimum flow time:

- (a) FCFS (First Come First Served)
- (b) SOT (Shortest Operation Time)
- (c) D Date (Due Date)
- (d) STR (Slack Time Remaining)
- (e) LCFS (Last Come First Served)

Compute the Mean Flow Time and the Average Lateness using the five Priority Rules and determine the best Priority Rule to sequence the jobs.

(3×5 = 15 marks)

Chapter - 6 : Material Planning and Control

2005 - Dec [4] (b) A company orders its stock twice in a year, the order quantity each time being one half of the year's forecast of demand. The new Materials Manager, however, wants to change this practice and wishes to introduce professional materials management practices like EOQ and orders to be released based on Reorder Levels.

For an inventory item, "X", the following data is available:

Forecast of Annual Demand	:	500 units
Procurement Cost/Unit	:	Rs. 12/-
Cost of placing an order	:	Rs. 5/-
Lead Time for Procurement	:	4 weeks
Stockholding Cost	:	20% of average stock value

The Materials Manager wants to maintain a safety stock of 15 units to cater to demand fluctuations and to ward off stock-outs. If the new Materials Manager has his way, calculate for item "X".

- Reorder Level;
- Expected reduction in average stock value; and
- Anticipated reduction in inventory costs in the first year and in subsequent years. (2+4+4 = 10 marks)

2005 - Dec [6] (b) Excellent Products Co. Ltd., has a manufacturing capacity of 1,00,000 units of product A per month. The selling price varies with volume as follows:

Volume in unit per month	Selling price per unit (Rs.)
(i) Up to 50,000	1.80
(ii) 50,000 to 80,000	1.70
(iii) 80,000 to 90,000	1.60
(iv) Above 90,000	1.50

Fixed costs work out to Rs. 80,000/- p.m. But for achieving a production beyond 60,000 units p.m. three additional workers and beyond 80,000 units p.m., five additional workers would be required.

Variable cost is Rs. 0.30/- per unit.

Average salary of a worker is Rs. 2000/-p.m.

Find out the production volume at which profit is the highest and calculate the maximum profit. (4+3 = 7 marks)

Chapter - 9 : Maintenance, Planning and Control

2005 - Dec [4] (a) What are the measures commonly dopted to assess the effectivity of maintenance department? Which measure would you like to adopt in case of maintenance of CNC m/cs when there is a surplus capacity but the parts/components are very costly in nature? (2+3 = 5 marks)

Chapter - 11 : Productivity

2005 - Dec [3] (b) An automobile ancillary unit manufactures and supplies three types of radiator brass caps A, B and C to an automobile manufacturer. During the year 2004-05 the unit produced 30,000; 45,000 and 30,000 of A, B and C respectively. Unit SMH of A, B and C are 3, 4 and 4.5 respectively. The unit engaged 300 industrial employees during the year and the ratio of Direct Labour to Indirect Labour was 1:0.5. The unit worked 8 hrs shift per day for 6 working days in a week and there were 50 weeks working during the year. Assuming on an average 10% absenteeism among employees, what was the productivity of direct labour during the year? (10 marks)

2005 - Dec [5] (a) The Production Manager of a company is very much reluctant to initiate any action to improve productivity during the recession in his industry. Enumerate your views in the above context. (5 marks)

(b) Under what circumstances an industry can show financial loss despite high productivity? (6 marks)

(c) "Any increase in productivity has to come through the concerted efforts of all parties." Explain, in this respect, the role of:

- (i) workers
- (ii) Trade unions
- (iii) management and
- (iv) Government (1+1+1+1 = 4 marks)

Chapter - 12 : Manufacturing Technologies

2005 - Dec [6] (a) Manufacture of a component requires operations to be performed on three machines A, B and C respectively. The standard times, operator efficiencies and machine availabilities of each of the machines are as follows:

Machine	Operator Efficiency	Std. Man-Hrs Per component	Machine availability
A	80%	0.20	100%
B	100%	0.25	80%
C	90%	0.15	75%

(i) If the factory operates in 2 shifts of 8 hours each for 6 days in a week, how many each of machines A, B and C will be required to produce 4800 components per week?

(ii) What is the spare capacity available on each of the machines? (4+4 = 8 marks)

Chapter - 15 : Project Selection Consideration and Feasibility Studies

2005 - Dec [12] Write short notes on the following:

(c) Benchmarking of Projects (4 marks)

Chapter - 16 : Project Appraisal

2005 - Dec [8] (b) The projected cash flows and the expected net abandonment values for a project are given below:

Year	Cash inflows Rs.	Abandonment Value Rs.
0	(-) 1,00,000	Nil
1	35,000	65,000
2	30,000	45,000
3	25,000	20,000
4	20,000	Nil

Should the project be abandoned and if so, when?

Cost of Capital may be taken as 10%.

Given:	Year	PV Factor @ 10%
	0	1.000
	1	0.909
	2	0.826
	3	0.751
	4	0.683 (3+4 = 7 marks)

2005 - Dec [11] An entrepreneur wishes to set up an engineering consultancy and training services company in India with a capital of Rs. 10 lakhs. He enters into a joint venture with an overseas company with the terms and conditions that

- his firm can provide consultancy and training services in India for which the overseas firm would provide technical help; and
- that 40% of the consultancy fee earned in India each month will be paid to the overseas collaborator, in the subsequent month.

The entrepreneur secured a bank loan of Rs. 50 lakhs in January 2003 and agrees to repay Rs. 10 lakhs every quarter to the bank. the bank assured the firm to provide additional funds in case of a shortfall, if the loan repayment is made regularly.

The expenditure of the entrepreneur against fixed assets is as follows for the year 2003:

- Buildings : Rs. 8 lakhs in January & Rs. 12 lakhs in February
- Interiors : Rs. 4 lakhs in January
- Office Equipment : Rs. 4 lakhs in January
- Computer Systems : Rs. 10 lakhs in February
- Furniture & Fixtures : Rs. 2 lakhs each in January and February & 4 lakhs in March
- Motor Vehicles : Rs. 2 lakhs in January and February & Rs. 8 lakhs in May

The monthly running expenditure is as follows:

- Salaries & Wages : Rs. 10 lakhs in January, 6 lakhs in February
Rs. 8 lakhs each in March and May
Rs. 2 lakhs in April & Rs. 4 lakhs in June
- Advertisement : Rs. 12 lakhs in two equal instalments in January and April
- Provision for Tax : Rs. 12 lakhs payable in equal instalments in March and June
- Depreciation : Rs. 2 lakhs per month

The entrepreneur has an opening cash balance of Rs. 10 lakhs and would like to maintain a minimum cash balance of Rs. 10 lakhs as follows:

Draw the Capital Expenditure Budget, Trading (Profit) forecast and the Projected cash flows for a period of Six months from January, 2003 if the firm estimates the earnings (in Rs. lakhs) as follows:

	Jan.	Feb.	March	April	May	June
(i) Consultancy	10	20	20	10	40	20
(ii) Training	10	10	20	16	16	20

(3+5+7 = 15 marks)

2005 - Dec [12] Write short notes on the following:

(a) Ecological Analysis of Projects (4 marks)

Chapter - 18 : Organising & Staffing Project

2005 - Dec [8] (a) What are the skills and attributes required of a successful Project Manager? (4+4 = 8 marks)

Chapter - 20 : Project Finance

2005 - Dec [12] Write short notes on the following:

(b) Milestone Payment Plan (4 marks)

(d) Promoter's Contribution (3 marks)

Chapter - 21 : Project Cost Estimation

2005 - Dec [9] (a) What is two-bid system of tender? Why it is suitable for certain circumstances? (3+2 = 5 marks)

(b) The top management of a company is considering the problem of marketing a new product. The investment or the fixed cost, required in the project is Rs. 15,000. The three factors that are uncertain are the selling price, variable cost and the annual sales volume. The product has a life of only one year. The management has collected the following data regarding the possible levels of these three factors. The factors are independent of each other:

Series 1		Series 2		Series 3	
Selling Price/Unit	Probability	Variable Cost/Unit	Probability	Sales Volume	Probability
Rs.		Rs.		Units	
14	0.35	2	0.30	3000	0.25
15	0.50	3	0.50	4000	0.40
16	0.15	4	0.20	5000	0.35

Using the Monte Carlo Simulation, determine the expected profit from the above investment on the basis of 10 trials and using the following 3 series of ten random numbers each:

Series 1: 18, 71, 32, 55, 31, 20, 48, 73, 75, 03

Series 2: 81, 93, 18, 97, 21, 83, 94, 19, 90, 02

Series 3: 67, 63, 39, 55, 29, 78, 70, 06, 78, 76 (10 marks)

2005 - Dec [10] (a) What is the significance of option clause in a supply order? What is risk Purchase? (2+3 = 5 marks)

Chapter - 23 : Project Cost Control

2005 - Dec [10] (b) The following data pertains to a project:

Activity	Normal Time	Crash Time	Crash Cost	Normal Cost
	(days)	(days)	(Rs.)	(Rs.)
1-2	3	1	19,000	15,000
2-3	4	3	24,000	18,000
2-4	3	2	16,000	14,000
2-5	8	7	16,000	15,000

3-6	4	2	15,000	13,000
4-6	6	4	13,000	12,000
5-7	5	4	24,000	20,000
6-7	3	1	20,600	17,000

- (i) What is the normal cost and the duration of the projects?
(1+1 = 2 marks)
- (ii) Crash the project till it cannot be crashed further and compute the extra cost involved with each crashing.
(8 marks)

Chapter - 25 : Objective Questions

2005 - Dec [1] {C} (a) Expand the following acronyms:

- (i) SCM (ii) ERP (iii) TOT (iv) CRM (v) COPQ
(1×5 = 5 marks)

(b) Match each item in the left hand column with an appropriate item in the right hand column:

- | | |
|------------------|-----------------------|
| (A) Cold Rolling | (1) Surface Treatment |
| (B) Tempering | (2) Machining |
| (C) Soldering | (3) Joining |
| (D) Broaching | (4) Forming |
| (E) Pickling | (5) Heat Treatment |
- (1×5 = 5 marks)

(c) Fill in the blank with appropriate words:

- (i) EOQ model/method of ordering quantity reduces
- (ii) Manpower efficiency of an unit is measured by index.
- (iii) Shot-blasting is a technique.
- (iv) Average time per cycle declineswith number of cycles.
- (v) The Residual value of Plant & Machinery is known as thevalue.
(1×5 = 5 marks)

(d) Distinguish between (very short answers please):

- (i) BPO & BPR
- (ii) Accountability & Responsibility
- (iii) Production & Productivity
(2+2+1 = 5 marks)

2005 - Dec [3] (a) What material handling equipment you would choose for handling:

- (i) Iron scrap in a scrap yard.
- (ii) Red hot steel billets in a rolling mill.
- (iii) Charging iron ore in blast furnace.
- (iv) Handling heavy machine parts within small radial distance.
- (v) For movement of small components in a shop.
(1×5 = 5 marks)

2005 - Dec [7] {C} (a) Expand the following acronyms:

- (i) EPC (ii) BOT (iii) EIA (iv) CBR (v) DSCR
(1×5 = 5 marks)

(b) Match each item in the left hand column with an appropriate item in the right hand column:

- | | |
|------------------------|------------------------|
| (A) Utility | (1) Vertical Bar Chart |
| (B) Feasibility Report | (2) Consumer Industry |

- | | |
|------------------------|------------------------------|
| (C) Gantt Chart | (3) Cost Benefit Analysis |
| (D) Soaps & Detergents | (4) Power |
| (E) Histogram | (5) Project Scheduling Tool. |
- (1×5 = 5 marks)

- (c) Mention whether the following statements are "True" or "False"
- (i) The Earliest Occurrence Time and the Latest Occurrence Time of an Event on the Critical Path of a PERT Network are the same.
 - (ii) Pre-qualification Criteria help in the selection of a competent contractor for bidding for a project.
 - (iii) Pre-operative Expenses do not fall under Capital Expenditure.
 - (iv) Dummy activities in a PERT Network do not require time or other resources.
 - (v) Detailed Project Report (DPR) is prepared before the Feasibility Report. (1×5 = 5 marks)
- (d) Distinguish between:
- (i) Efficiency and Productivity (1 mark)
 - (ii) Accounting Rate of Return & Internal Rate of Return (2 marks)
 - (iii) Item Rate Contract & Lump Sum Contract (2 marks)

Paper - 14

Advanced Financial Management and International Finance

Chapter - 3 : Sources of Finance (National) – I

2005 - Dec [2] (a) Distinguish between:

- (ii) Capital Market and Money Market (4 marks)
- (iv) Book building and Underwriting (4 marks)

2005 - Dec [7] (a)

- (i) Explain the concept, structure and process of assets based securitisation. (4 marks)
- (ii) Distinguish between 'pay-through' and 'pass-through' certificates. (3 marks)
- (iii) What are the benefits of securitisation to a housing finance company? (3 marks)

Chapter - 4 : Sources of Finance (National) – II

2005 - Dec [2] (a) Distinguish between:

- (i) Foreign bond and Euro-bond (4 marks)

Chapter - 8 : Capital Budgeting

2005 - Dec [3] EXCEL INDUSTRIES LTD designs and manufactures toys. Past experience indicates that the product life of a toy is 3 years. Promotional advertising produces an increase in Sales in the early years, but there is a substantial Sales decline in the final year of a toy's life.

Consumer demand for new toys placed on the market tends to fall into three classes. About 30 per cent of the new toys sell well above expectations,

60 per cent sell as anticipated, and 10 per cent have poor Consumer acceptance. A new toy has been developed. The following sales projections were made by carefully evaluating the consumer demand:

Consumer demand for a new toy	Probability of occurrence	Estimated Sales in year (Rs. in lakh)		
		1	2	3
Above average	0.30	12	25	6
Average	0.60	7	17	4
Below average	0.10	2	9	1.5

Variable costs are estimated at 30 per cent of the selling price. Special machinery must be purchased at a cost of Rs. 8,60,000 which will be installed in an unused portion of the factory. The company has been trying unsuccessfully for several years to rent out the vacant portion at Rs. 50,000 per year. Fixed expenses (excluding depreciation) are estimated at Rs. 50,000 per year. The new machinery will be depreciated by the written down value method @ 25 per cent with an estimated value of Rs. 1,10,000 at the end of the third year. Assume this is the only asset in the block. Advertising and promotional expenses will be incurred uniformly, and will total Rs. 1,00,000 in the first year, Rs. 1,50,000 in the second year, and Rs. 50,000 in the third year. The company is subject to a corporate tax rate of 35 per cent. Its cost of capital is 10 per cent. It is assumed that no depreciation will be charged in the Terminal year.

Requirements:

- Prepare a Schedule computing the probable Sales of this new toy in each of the three years. Also determine NPV of the proposal.
- Assuming that Cash Flows occur uniformly throughout each year, determine Net Present Value (NPV) of the proposal.
- Give your recommendation in both the situations.

Note:

P.V. of Re. 1 at a 10% discount rate are as follows:

Year	Re. 1 received at the end of year	Re.1 received uniformly throughout the year
1	0.909	0.952
2	0.826	0.864
3	0.751	0.783

(16 marks)

2005 - Dec [7] (b) A company is considering to set up a cogeneration power plant. Cost of generation is estimated as given below:

Year	1	2	3	4	5	6	7	8	9
Rs. Per Kwh	3.87	3.99	4.11	4.23	4.36	4.49	4.62	4.76	4.90

What is the levelized cost of generation over the 9 years? Assume cost of capital of 11 per cent for your calculation.

Note: Extracted from the table:

- The present value factors at 11% discount rate for 0 to 9 years are: 1.0000, 0.9009, 0.8116, 0.7312, 0.6587, 0.5934, 0.5346, 0.4817, 0.4339, and 0.3909.

- (ii) The present value factor of an annuity of Re. 1 for 9 years at 11% = 5.5370 (6 marks)

Chapter - 9 : Working Capital Management

2005 - Dec [4] (a) The marketing manager of a company has estimated the following regression equation:

$$C_t = 0.10 S_{t-0} + 0.62 S_{t-1} + 0.27 S_{t-2}$$

where C_t = cash collection in month t
 S_t = sales in month t

- (i) What is the Sales-weighted DSO?
 (ii) At present, the company makes a bad debt provision of 0.5 per cent. Is it adequate? What should be the provision for bad debt?

(4 marks)

(b) The ABC company currently sells on terms 'net 45'. The company has sales of Rs. 3.75 million a year, with 80 per cent being the credit sales. At present, the average collection period is 60 days. The company is now considering offering terms '2/10, net 45'. It is expected that the new credit terms will increase current credit sales by 1/3rd. The company also expects that 60 per cent of the credit sales will be on discount and average collection period will be reduced to 30 days. The average selling price of the company's product is Rs. 100 per unit, and variable cost per unit works out to be Rs. 85. The company is subject to a tax rate of 40 per cent, and its before-tax rate of borrowing for working capital is 18 per cent. Should the company change its credit terms to '2/10, net 45'? Support your answers by calculating the expected change in net profit. (Assume 360 days in a year). (12 marks)

2005 [5] (b) SUNSHINE LTD expects its Cash flows to behave in a random manner, as assumed by the Miller and Orr model. The company wants you to establish (i) the 'Return Point' and the 'Upper control limit'.

It provides the following information as requested by you:

- The annual yield on marketable securities is 12 per cent.
- The fixed cost of effecting a marketable securities transaction is Rs.1,600.
- The standard deviation of the change in daily Cash balance is Rs. 5,000.
- The management of Sunshine Ltd. would like to maintain a minimum Cash balance of Rs. 50,000. (5 marks)

Chapter - 13 : Cost Volume Profit Analysis, Financial Forecasting and Inter Firm Comparison

2005 - Dec [5] (a) The Balance Sheet of EVERGREEN LTD as on March 31, 2005 is as follows: (Rs. in lakh)

Source of Funds:		
Shareholders' Funds		
Share Capital	200	
Reserves and Surplus	<u>140</u>	340
Loss Funds:		
Long-term Loans		<u>360</u>
Total		<u>700</u>

Application of Funds:	
Fixed Assets (Net Block)	500
Current Assets, Loans & Advances:	
Inventories	300
Receivables	240
Cash and Bank	<u>60</u>
	<u>600</u>
<hr/> <i>Less: Current Liabilities and Provisions:</i>	
Short-term Loans	200
Payables	120
Provisions	<u>80</u>
	<u>400</u>
Net Current Assets	<u>200</u>
Total	<u>700</u>

Sales for the year 2004-05 were Rs. 600 lakh. For the year ending on March 31, 2006, they are expected to increase by 20 per cent. The net profit margin after taxes and dividend payout are expected to be 4 and 50 per cent respectively.

You are required to:

- (i) Estimate the "External Funds Requirement"(EFR) for the year 2005-06.
- (ii) Determine the mode of raising EFR given the following parameters:
 - (a) Current ratio should be 1.33;
 - (b) Ratio of Fixed assets to Long-term loans should be 1.50;
 - (c) Long-term Debt to Equity ratio should not exceed 1.06.
- (iii) Determine the order of Preference of EFR amongst Short-term loans, Long-term loans and Equities.

Note: Assuming Assets will increase pari passu with sales. (11 marks)

Chapter - 15 : Risk Management and International Finance

2005 - Dec [2] (a) Distinguish between

- (iii) Futures Contract and Options Contract (4 marks)

2005 - Dec [2] (b) Briefly explain forfaiting as means of financing export receivable. (4 marks)

2005 - Dec [6] (a) Consider the following:

Spot rate = \$ 0.75/DM

Forward rate (one year) = \$ 0.77/DM

Interest rate (DM) = 7 % per year

Interest rate (\$) = 9% per year.

- (i) Assuming no transaction cost or taxes exist, do covered arbitrage profits exist in the above situation? Explain.
- (ii) Suppose now that transaction costs in the foreign exchange market equal 0.25% per transaction. Do unexploited covered arbitrage profit opportunities still exist? (8 marks)

(b) Company A has outstanding debt on which it currently pays fixed rate of interest at 9.5%. The company intends to refinance the debt with a floating rate

of interest. The best floating rate it can obtain is LIBOR + 2%. However, it does not want to pay more than LIBOR. Another company B is looking for a loan at a fixed rate of interest to finance its exports. The best rate it can obtain is 13.5% , but it cannot afford to pay more than 12%. However, one bank has agreed to offer finance at a floating rate of LIBOR + 2%.

Citi Bank is in the process of arranging an interest rate swap between these two companies.

- (i) With a schematic diagram, show how the swap deal can be structured.
- (ii) What are the interest savings by each company?
- (iii) How much would Citi Bank receive? (8 marks)

2005 - Dec [8] (a) What are Forwards? How they can be used to hedge?

(4 marks)

(b) ZENITH LTD (ZL) places an order to buy machinery with an American company. As per the agreement Zenith Ltd will be paying \$ 2,00,000 after 180 days. The company (ZL) considers to use (1) a Forward hedge (2) a Money market hedge, (3) an option hedge or (4) no hedge.

The Consultant of Zenith Ltd. collects and develops the following data/information as desired by the company, which can be used to assess the alternative approaches for hedging:

- (i) Spot rate of dollar as of to-day is Rs. 47/\$.
- (ii) 180 day forward rate of dollar as of to-day is Rs. 47.50/\$
- (iii) Interest rates are as follows:

	India	US
180 day deposit rate (per annum)	7.5%	3%
180 day borrowing rate (per annum)	8.0%	4%
(Assume 360 days in a year)		

- (iv) Future Sport rate in 180 days as estimated by the Consultant is Rs.47.75\$.
- (v) A call option on the dollar, which expires in 180 days has an exercise price of Rs. 47/\$ and premium Re. 0.52/\$
- (vi) A put option on the dollar, which expires in 180 days has an exercise price of Rs. 47.50 and premium Re. 0.40/\$.

Required:

Carry out a comparative analysis of various outcomes (rupee cost of import)/alternatives and decide which of the alternatives is the most attractive to Zenith Ltd. (12 marks)

Chapter - 16 : Objective Questions

2005 - Dec [1] {C} (a) In the cases below, one of the answer is correct. Choose the correct answer and give your workings/reasons briefly.

- (i) Syntex Ltd. is to pay dividend of Rs. 2.15 at the end of the year and is expected to grow at 11.20 per cent per year forever. If the required rate of return on the company stock is 15.20 per cent per annum, its intrinsic value will be
 - A. Rs. 59.77
 - B. Rs. 53.75

- C Rs. 52.50
D none of (A), (B), (C)
- (ii) A company is planning to issue a discount bond with a par value of Rs.1,000, implicit interest rate of 11.5% and a redemption period of 5 years. The company also intends to offer an early bird incentive of 1.5%. The issue price (rounded up to nearest rupee) will be
[Given: PVIF (11.5%, 5 years) = 0.5803]
- A. Rs. 580
B. Rs. 572
C. Rs. 543
D. Rs. 490
- (iii) MS Ltd. has a debt-equity mix of 30/70. If MS Ltd's debt Beta is 0.30 and Beta for its activity (or project) is 1.21, what is the Beta for its equity?
- A. 1.65
B. 1.60
C. 1.52
D. none of (A), (B), (C)
- (iv) Consider the following for Strong Ltd:
- | | | |
|---------------------------------|---|-------|
| Return on Government Securities | : | 12% |
| Share Beta | : | 1.50% |
| Market Return | : | 16% |
- Based on CAPM, cost of equity capital is equal to
- A. 28%
B. 22%
C. 18%
D. 12%
- (v) Barclays Bank, London has credited the Nostro A/c of ABN-Amro, Mumbai with £ 250000 to fund Barclays Bank's Vostro A/c with ABN-Amro, Mumbai. With what Rupee equivalent ABN-Amro Mumbai will credit Barclays Bank's Vostro A/c when inter bank rate is £ 1 = Rs. 80.9570-90?
- A. Rs. 202 39250
B. Rs. 202 39500
C. Rs. 202 39750
D. none of (A), (B), (C)
- (vi) In June 2005, a six month Call on Ritz Ltd's stock with an exercise price of Rs. 25 sold for Rs. 5. The stock price was Rs. 20. The risk-free interest rate was 5% per annum. How much would you be willing to pay for a Put on Ritz Ltd's stock with same maturity and exercise price?
[Given: PVIF (5%, 1 year) = 0.9756]
- A. Rs. 6.39
B. Rs. 9.39
C. Rs. 12.39
D. none of (A), (B), (C)
- (vii) The spot exchange rate is \$ 0.02090/Re. and the six month Forward

exchange rate is \$ 0.02105/Re. If the normal rate of India 6-month T-Bills is 5.50% p.a., what would be the normal rate US 6-month T-Bills?

- A. 8.00%
- B. 7.00%
- C. 6.50%
- D. 4.60%

(2×7 = 14 marks)

(b) From the following, choose the most appropriate answer (only indicate A, B, C, D as you think correct):

- (i) Euro-dollar deposit means:
 - A. dollar deposit outside USA
 - B. dollar deposit beyond the control of monetary authority
 - C. dollar deposit in the US and outside US
 - D. none of (A), (B), (C)
- (ii) A shareholder has received bonus shares in the proportion of 1:1. What is his/her stake holding in the company? (indicate the most appropriate alternative)
 - A. Stake holding remains the same
 - B. Stake holding goes up with more shares available for trading
 - C. Stake holding goes up
 - D. Stake holding remains the same with more shares available for trading
- (iii) Buying and selling Call or put option with different strike prices and different expiration dates are called:
 - A. Butterfly spread
 - B. Diagonal spread
 - C. Vertical spread
 - D. Short hedge
- (iv) The mechanism of spot and forward exchange ratio is determined by
 - A. Arbitrageurs
 - B. Hedgers
 - C. Speculation
 - D. All of the above
- (v) is composed of several large banks that accept deposits and provided loans in various currencies. (Fill in the gap from below)
 - A. Foreign Exchange Market
 - B. Euro-currency market
 - C. Euro credit market
 - D. Euro bond market
- (vi) Variable rate investors are the typical users of
 - A. Interest rate Caps
 - B. Interest rate Collars
 - C. Both (A) and (B)
 - D. Interest rate floors

(1×6 = 6 marks)

Paper - 15
Strategic Management and Marketing

Chapter - 1 : Planning Environmental Economics

2005 - Dec [18] Write short notes on the following with appropriate examples:

(d) Bargaining power of customers; (8 marks)

Chapter - 2 : Strategies

2005 - Dec [12] What is 'Situation Audit' in Strategic Planning? Draft a conceptual model for creating a "Strategic Plan" for a company.

(8+8 = 16 marks)

2005 - Dec [18] Write short notes on the following with appropriate examples:

(a) Mission statement; (8 marks)

Chapter - 3 : Model Buildings and Models

2005 - Dec [13] What is differentiation Strategy? How does it help a firm in combating the five competitive forces in the environment?

(6+10 = 16 marks)

2005 - Dec [15] (a) Explain the strategic implications of BCG Matrix model. (8 marks)

(b) Prahalad opined that an organisation should be analysed as a portfolio of "core competencies". What are the similarities or differences of this approach with BCG Matrix model? (8 marks)

2005 - Dec [18] Write short notes on the following with appropriate examples:

(b) Product life cycle; (8 marks)

(e) Hofer's evolution Matrix. (8 marks)

Chapter - 4 : Basic Concepts of Marketing

2005 - Dec [11] Discuss 'consumer Psychographics' and their impact on the marketing decisions (16 marks)

2005 - Dec [18] Write short notes on the following with appropriate examples:

(c) Distinctive competence; (8 marks)

Chapter - 5 : Control or Applications of Management Accounting in Marketing

2005 - Dec [17] Firms try to achieve multiple objectives through pricing strategies. Outline a list of different types of (a) pricing objectives; (b) pricing methods. (6+10 = 16 marks)

Chapter - 6 : Evaluation of Sales Promotion and Advertisement

2005 - Dec [14] Explain the factors that should be considered when setting an advertising budget. Suggest a frame work to evaluate the effectiveness of an advertising campaign. (6+10 = 16 marks)

2005 - Dec [16] A business may use two types of sales promotion techniques: viz., (a) consumer promotion or (b) trade promotion tools. Briefly discuss these two types of sales promotion tools and their effectiveness in nature of products/businesses. (8+8 = 16 marks)

Chapter - 7 : Objective Questions

2005 - Dec [1] Technology can modify industry structure through:

- (a) change in economy of scale
- (b) creation of new products and/or services
- (c) change in the bargaining relationship between the industry and its buyers or its suppliers
- (d) combination of (a) and (b) above
- (e) all of the above (2 marks)

2005 - Dec [2] Marketing Research studies are undertaken:

- (a) to measure brand loyalty of a class of consumers
- (b) to predict market potential of a product on a future date
- (c) to understand product-price relationships
- (d) to make out a case for revision of an existing strategy
- (e) all of the above (2 marks)

2005 - Dec [3] Successful differentiation strategy allows the company to:

- (a) gain buyer loyalty to its brands
- (b) charge too high a price premium
- (c) depend only on intrinsic product attributes
- (d) have product quality that exceeds buyers' needs
- (e) segment a market into distinct group of buyers (2 marks)

2005 - Dec [4] The corporate governance frame work should ensure

- (a) rights of stakeholders as established by law
- (b) equitable treatment to all shareholders
- (c) timely and accurate disclose of all material matters including finance, performance and ownership of the company
- (d) all of the above and social responsibility
- (e) none of the above (2 marks)

2005 - Dec [5] Organization culture is:

- (a) appreciation for the arts in the organization
- (b) ability of the organization to act in a responsible manner to its employees
- (c) combination of (a) and (b) above,
- (d) deeper level of basic assumptions and beliefs that are shared by the members of the firm
- (e) none of the above (2 marks)

2005 - Dec [6] Switching costs refer to the:

- (a) cost of changing a firm's strategic group
- (b) cost of installing new electric switches in a factory when technology changes
- (c) one time costs incurred by the customers when they buy from a different supplier.
- (d) all of the above
- (e) none of the above (2 marks)

2005 - Dec [7] Backward integration occurs when:

- (a) a company produces its own inputs
- (b) an integrated company disintegrates into units
- (c) a company is concentrated in a single industry
- (d) there are no linkages among the business units

2005 - Dec [8] Innovation strategy is:

- (a) defensive strategy
- (b) offensive strategy
- (c) responding to, or anticipating customer and market demands
- (d) guerrilla strategy
- (e) harvesting strategy (2 marks)

2005 - Dec [9] Porter's 5 forces model have not touched upon:

- (a) Threats of potential new entrants
- (b) Competitive strategy of different players
- (c) Technological development within similar industry
- (d) Bargaining power of buyers/sellers
- (e) Price Strategy of substitutes (2 marks)

2005 - Dec [10] Technology adaptation is:

- (a) the complete assimilation of technical know-how acquired from a collaborator
- (b) the acquisition of technical know-how from the source external to the firm
- (c) the acquisition of design from a collaborator and carrying onto necessary modifications thereto
- (d) the improvement of the level or quality
- (e) none of the above (2 marks)

Paper - 16

Strategic Tax Management

Chapter - 1 : Preliminary

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the following statements:

- (h) Under the Income Tax Act, 1961, local authorities are exempt from payment of education cess. (2 marks)

2005 - Dec [5] (b) Though Union Government cannot levy Income Tax on agricultural income, it has indirectly levied Income Tax on agricultural income. Do you agree? Explain. (4 marks)

Chapter - 3 : International and Corporate Taxation

2005 - Dec [2] (a) State the conditions to be fulfilled for carry forward of unabsorbed depreciation and accumulated losses in the hands of the amalgamated company. (9 marks)

Chapter - 4 : Exemptions, Deductions and Rebates

2005 - Dec [3] The accounts of the X Ltd., an Indian Company for the year ended 31.3.2005 prepared in accordance with the provisions of parts II and III of Schedule VI to the Companies Act, 1956 reveals the following:

	Rs. in lacs
PAT but prior to depreciation	200
Less: Depreciation for the year	<u>30</u>

Net Profit after depreciation	170
Less: Provision for loss of Z Ltd., its subsidiary	<u>10</u>
Balance	160

As per its books, the company has unabsorbed business loss of Rs. 30 lacs for the asst. year 2003-2004 and Rs. 80 lacs for the asst. year 2004-2005. The unabsorbed depreciation as per books are Rs. 20 lacs and Rs. 90 lacs respectively. The carried forward business losses eligible for set off under the Income Tax Act, 1961 for these two years are Rs. 56 lacs and Rs. 90 lacs respectively.

For the current year, Income Tax (including deferred tax) debited is Rs. 3 lacs and depreciation allowable as per the Income Tax Act is Rs. 40 lacs. The net profit includes a sum of Rs. 40 lacs from export turnover.

Compute the tax payable by X Ltd. for the asst. year 2005-2006.

(16 marks)

2005 - Dec [6] (b) M/s. Slow Movers Ltd. have obtained a term loan from Bihar State Financial Corporation. The company maintains books of account on mercantile basis. They have made provision of Rs. 3,00,000 in their books of account towards interest payable to the Bihar State Financial Corporation for 2004-2005. However, actual payments were made as follows:

- (i) Rs. 40,000 on 10-4-2004,
- (ii) Rs. 55,000 on 5-1-2005,
- (iii) Rs. 35,000 on 21-9-2005,
- (iv) Rs. 65,000 on 14-12-2005,
- (v) Rs. 25,000 on 25-7-2006,
- (vi) Rs. 60,000 on 2-4-2007,
- (vii) Rs. 20,000 — requested for waiver to Financial Corporation on 3-4-2007.

State how much payment will be allowed as deduction for Income Tax and in which Assessment Year's.

(6 marks)

Chapter - 5 : Specific Management Decisions – Tax Implications

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the following statements:

- (b) The gross turnover of Mr. X is Rs. 30 lacs and that of his minor child whose income is clubbed in his hands, Rs. 15 lacs. The AO contends that Mr. X is liable to tax audit under Section 44AB of the Income Tax Act, 1961.

(2 marks)

Chapter - 8 : Central Excise – Classification and Valuation

2005 - Dec [7] (b) What is 'captive consumption' under Central Excise? How the goods are valued in case of captive consumption?

(8 marks)

2005 - Dec [8] (a) Explain provisions of valuation for excise purposes on basis of MRP printed on the product.

(10 marks)

(b) Discuss provision for classification of Mixture or Combinations in Central Excise Tariff.

(6 marks)

Chapter - 9 : Other Aspects of Central Excise

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the

following statements:

- (f) 1000 units of Rs. 50 each raw material are purchased by Ram on which duty at 16% i.e. Rs. 8,000 has been paid. Ram avails Cenvat credit thereafter. Since these inputs are subsequently not required, he sells them for Rs. 55 each. On the date of clearance, the duty rate is 10%. The excise authorities contend that Rs. 8,000, being the duty at the first instance, should be paid. (2 marks)
- (g) 2000 units of raw material were purchased on which duty paid was Rs.32,000. 20 units were damaged during the course of unloading, rendering them unfit for consumption or sale. Cenvat credit can be claimed in respect of all the units. (2 marks)

Chapter - 10 : Customs Laws

2005 - Dec [2] (b) Mr. Bharghava had filed an appeal against higher collection of provisional antidumping duty and the issue is decided in his favour on 12-04-2004, the amount levied in excess being Rs. 2.3 lacs. The refund is issued after ten months from the date of finalization of duty. The authorities refuse to grant interest on the ground that the claim for refund was filed belatedly. Discuss. (3 marks)

(c) Nayanadhara Granites Ltd. obtained a chemical in Netherlands for an exceptionally low price. Whilst the market price was an equivalent of INR 200 per kg., they got it at a low price of INR 160 per kg. In determining the customs valuation, the authorities contend that price to be adopted should be INR 160 per kg, even though the purchase is bona fide and supported by genuine purchase bill. Is this correct? (4 marks)

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the following statements:

- (d) Mr. A has imported an equipment from Poland for 20,000 USD (CIF value). The rates prevailing on the date of presentation of bill of entry are (a) Bank realisation rate of the bill Rs. 46.50, (b) Rate notified by the Government under Section 14(3) Rs. 46.70 (c) R.B.I, floor rate Rs. 46.30. The assessable value for customs purposes is taken as Rs. 93,400. (2 marks)
- (e) Ram imports machinery. He pays fee for transfer of technology to the importer, and also training charges. These items are includible in ascertainment of "price" for purposes of Section 14(1) of the Customs Act. (2 marks)

2005 - Dec [5] (a) Assessable Value of an imported machinery falling under chapter heading 84 is Rs. 2,00,000. Rate of customs duty is 20%. Excise duty payable on the machinery, if manufactured in India, is 16%. There is an exemption notification, which provides that if the manufacturer does not avail Cenvat credit of inputs, the excise duty payable will be 8%. Education cess is 2%. Calculate the customs duty payable, if machinery is imported by a manufacturer for his own use. How much Cenvat credit will be available to the manufacturer? What are the restrictions on availment of the Cenvat credit? (12 marks)

2005 - Dec [7] (a) Explain distinguishing features between provisions of 'pilferage' and 'loss or destruction of goods' under Customs Act. (8 marks)

Chapter - 11 : Central Sales Tax Laws

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the following statements:

- (c) X Ltd., having its head office at Raipur, despatched goods to its branch in Chennai for Rs. 10 lacs. Sales Tax authority under the CST Act contends that since Form F is not received, CST of 10% is payable.

(2 marks)

Chapter - 12 : Objective Questions

2005 - Dec [1] {C} Answer the following questions as appropriate by selecting the correct choice:

- (a) The time limit for filing appeal before the Income Tax Appellate Tribunal against the order of the Commissioner of Income Tax (Appeals) is
- 30 days from date of order
 - 30 days from receipt of order
 - 60 days from receipt of order
 - 60 days from date of order
- (b) An order passed u/s 179 of the Income Tax Act, 1961, holding a director of a private limited company as assessee in default liable for dues of the private limited company is
- Not appealable before the CIT(A) u/s 246 of I.T. Act 1961
 - Appealable before the CIT(A) subject to payment of dues
 - Appealable before Income Tax Appellate Tribunal
 - Appealable before the settlement commission
- (c) In order to attract excise duty under the Central Excise Act, 1944 goods must be
- Movable
 - Movable or immovable
 - Immovable
 - Neither
- (d) Notional interest on security deposit/advance received by manufacturer from buyer is includible in the transaction value if
- Price is the sole consideration for sale
 - If there is evidence that selling price is lowered due to such advance/deposit
 - The transaction is at arms length
 - In all cases
- (e) Land is an asset for Wealth Tax Act, 1957 if it is
- Vacant land located in a municipality
 - Located beyond 8 kilometers of a municipality/town
 - Land on which construction is not permissible
 - Land occupied by a building used for business
- (f) Deduction u/s 54F of Income Tax Act, 1961 for capital gains on transfer of a long-term capital asset other than a house property is available only if
- On the date of transfer of original asset assessee does not own more than one residential house property
 - On the date of transfer of original asset assessee does not own

- more than one commercial house property
 - (iii) On the date of transfer of original asset assessee does not own any other house property
 - (iv) On the date of transfer of original asset assessee owns at least one other house property
- (g) Depreciation u/s 32 of I. T. Act 1961 is available if
 - (i) Asset is leased by the assessee
 - (ii) Asset is owned by the assessee
 - (iii) Asset is not used during the year at all
 - (iv) Asset is used for personal purposes but not for business
- (h) Which of the following is not liable to sales tax under CST Act?
 - (i) Lottery tickets
 - (ii) Newspapers
 - (iii) Sim cards
 - (iv) Trade licenses
- (i) Goods returned are not liable to sales tax if they are
 - (i) Returned by the buyer at any time in the financial year in which sale takes place
 - (ii) Within six months of the end of the financial year in which sale takes place
 - (iii) Within six months of sale
 - (iv) Within six months of sale but not later than three months from end of the relevant financial year in which sale took place
- (j) Income of ancestral property is not taxable as income of Hindu Undivided Family in the following cases:
 - (i) Family of husband and wife having no child
 - (ii) Family of husband and wife having a child
 - (iii) Family of two widows of deceased brothers
 - (iv) Widowed husband surviving a deceased wife with no issues.

(2×10 = 20 marks)

Chapter - : Miscellaneous

2005 - Dec [4] Briefly discuss in 3-4 sentences about the validity of the following statements:

- (a) The time limit for moving a rectification petition under section 154 of the Income Tax Act, 1961 is four years from the date of the order of the AO sought to be rectified. (2 marks)

2005 - Dec [6] (a) A major step was initiated in Budget 2004 for integration of goods and service tax. Explain highlights of the provisions. (10 marks)

Shuchita Prakashan (P) Ltd.

25/19, L.I.C. Colony, Tagore

Town, ALLAHABAD - 211002

Visit us : www.shuchita.com