

Total Marks: 50 Master Test Series - 01 10/09/2024

### **Cost and Management Accounting**

### **General Instructions**

- (1) The question paper is divided into two parts. Part A and Part B.
- (2) Part A consists of MCQ and Case study MCQ of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
- (4) All the questions are compulsory in nature.
- (5) Attempt all the questions.

Total Time: 90 Min.

(6) Part A has 4 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

### Part - A

# TOTAL MARKS 15 (CASE STUDY MCQ + MCQ) TOTAL 4 QUESTIONS

# CASE STUDY MCQ

### (Showing of working note is important in case study MCQ)

- 1. The board of the J Ltd. has been appraised by the General Manager (HR) that the employee attrition rate in the company has increased. The following facts has been presented by the GM(HR):
  - (1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.
  - (2) 20% of the output during training period was defective. Cost of rectification of a defective unit was ₹ 25.
  - (3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.
  - (4) Selling price per unit is ₹ 180 and P/V ratio is 20%.
  - (5) Settlement cost of the workers leaving the organization was ₹ 1,83,480.
  - (6) Recruitment cost was ₹ 1,56,340
  - (7) Training cost was ₹ 1,13,180

You being an associate finance to GM(HR), has been asked the following questions:

### $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$

- **(A)** How much quantity of output is lost due to labour turnover?
  - (1) 10,000 units
- (2) 8,000 units
- (3) 12,000 units
- (4) 12,600 units
- **(B)** How much loss in the form of contribution, the company incurred due to labour turnover?
  - (1) ₹ 4.32,000
- (2) ₹ 4.20.000
- (3) ₹ 4,36,000
- (4) ₹4,28,000
- (C) What is the cost repairing of defective units?
  - (1) ₹ 75,000
- (2) ₹ 15,000
- (3) ₹ 50,000
- (4) ₹ 25,000

- **(D)** Calculate the profit lost by the company due to increased labour turnover.
  - (1) ₹ 7,50,000
- (2) ₹ 15,00,000
- (3) ₹ 5,00,000
- (4) ₹ 9,00,000
- **(E)** How much quantity of output is lost due to inexperience of the new worker?
  - (1) 1.000 units
- (2) 2,600 units
- (3) 2,000 units
- (4) 12,600 units

### **General MCQs (5 Marks)**

2. Prime cost = Rs 2,70,000,

Cost of production = Rs 3,50,000,

Cost of goods sold = Rs 3,15,000

Units produced = 4000,

Units sold = 3600.

Calculate Cost per unit of goods produced.

(2 Marks)

- (1) Rs 87.5
- (2) Rs 78.5
- (3) Rs 90
- (4) None of the above
- 3. If the amount of wages under Halsey plan is ₹ 420, total time allowed is 8 hours and the guaranteed time rate is ₹ 60 per hour. What is the total time saved by the worker? (2 Marks)
  - (1) 2 hours
- (2) 3 hours
- (3) 6 hours
- (4) 3.5 hours
- **4.** Following information is given of a newly setup organization for the year ended on 31<sup>st</sup> March, 2021:

Number of workers replaced during the	50
period	
Number of workers left and discharged	25
during the period	
Average number of workers on the roll	500
during the period	

Compute the employee turnover ratios using Separation Method. (1 Mark)

- (1) 15%
- (2) 20%
- (3) 5%
- (4) 6%



1. What is the difference between cost accounting and cost accountancy?

(5 Marks)

- 2. G Ltd. manufactures leather bags for office and school purpose. The following information is related with the production of leather bags for the month of September 2021:
  - (i) Leather sheets and cotton cloths are the main inputs, and the estimated requirement per bag is two meters of leather sheets and one meter of cotton cloth. 2,000 meter of leather sheets and 1,000 meter of cotton cloths are purchased at ₹ 3,20,000 and ₹ 15,000 respectively. Freight paid on purchases is ₹ 8,500.
  - (ii) Stitching and finishing need 2,000 Man hours at ₹ 80 per hour.
  - (iii) Other direct cost of ₹ 10 per labour hour is incurred.
  - (iv) G Ltd. has 4 machines at a total cost of ₹ 22,00,000. Machine has a life of 10 years with a scrape value of 10% of the original cost. Depreciation is charged on straight line method.
  - (v) The monthly cost of administrative and sales office staffs are ₹ 45,000 and ₹ 72,000 respectively. G Ltd. pays ₹ 1,20,000 per month as rent for a 2,400 sq. feet factory premises. The administrative and sales office occupies 240 sq. feet and 200 sq. feet respectively of factory space.
  - (vi) Freight paid on delivery of finished bags is ₹ 18,000.
  - (vii) During the month 35 kg of leather and cotton cuttings are sold at ₹ 150 per kg.
  - (viii)There is no opening and closing stocks for input materials. There is 100 bags in stock at the end of the month.

You are required to prepare a cost sheet in respect of above for the month of September 2021 showing:

- (a) Cost of raw material consumed
- (b) Prime cost
- (c) Works/Factory cost
- (d) Cost of production
- (e) Cost of goods sold
- (f) Cost of sales (10 Marks)
- 3. Aditya Agro Ltd. mixes powdered ingredients in two different processes to produce one product. The output of Process-I becomes the input of Process-II and the output of Process-II is transferred to the Packaging department. From the information given below, you are required to prepare accounts for Process-I, Process-II and Abnormal loss/gain to record the transactions for the month of February 2019.

### **Process-I**

Input	
Material A	6,000 kilograms at Rs. 50 per kilogram
Material B	4,000 kilograms at Rs. 100 per kilogram
Labour	430 hours at Rs. 50 per hour
Normal Loss	5% of inputs. Scrap are disposed off at Rs. 16 per kilogram
Output	9,200 kilograms

There is no work-in-progress at the beginning or end of the month.

#### Process-II

Input	
Material C	6,600 kilograms at Rs. 125 per kilogram
Material D	4,200 kilograms at Rs. 75 per kilogram
Flavoring Essence	Rs. 3,300
Labour	370 hours at Rs. 50 per hour
Normal Loss	5% of inputs with no disposal value
Output	18,000 kilograms

There is no work-in-process at the beginning of the month but 1,000 kilograms in process at the end of the month and estimated to be only 50% complete so far as labour and overhead were concerned.

Overheads of Rs. 92,000 incurred to be absorbed on the basis of labour hours.

(10 Marks)



**4.** A total of 108 labour hours have been put in a particular job card for repair work engaging a semi-skilled and skilled labour (Mr. Deep and Mr. Sam respectively)

The hours devoted by both the workers individually on daily basis for this particular job are given below:

Monday	Tuesday	Wednesday	Thursday	Friday
10.5	8.0	10.5	9.5	10.5

The skilled labour also worked on Saturday for 10 hours.

Sunday is a weekly holiday and each worker has to work for 8 hours on all week days and 5 hours on Saturdays; the workers are however paid full wages for Saturday (8 hours for 5 hours worked). Semi-skilled and skilled worker is paid ordinary wage  $@ \ $<\ $400$  and  $\ $<\ $600$  respectively per day of 8 hours labour. Further, the workers are also paid dearness allowance @20%. Extra hours worked over and above 8 hours are also paid at ordinary wage rate however, overtime premium of 100% of ordinary wage rate is paid if a worker works for more than 9 hours in a day and 48 hours in a week.

You are required to compute the wages payable to Mr. Deep (semi-skilled) and Mr. Sam (skilled). (10 Marks)



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### **Master Test Series - 01**

### Time Allowed- 1.5 Hours

**Maximum Marks-50** 

### Audit and Ethics

### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 90 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

#### Part - A

Multiple choice question (MCQ)

(Case Scenario I carries 5 Marks)

(Case Scenario II carries 4 Marks)

(Case Scenario III carries 3 Marks)

General MCQs (3 MCQs  $\times$  1 Mark each = 3 Marks)

### Case Scenario - I

# Directions (1-5) Read the following passage and answer the given questions.

Me and You Private Limited has been newly incorporated. The plant of the company has recently started production with the help of funds provided by a bank for purchase and installation of machinery. Further, the company is also utilizing working capital credit facilities from the same bank for meeting its day to day working capital requirements like for purchase of raw materials, labour payment etc. However, just within six months of its operations, the management feels that working capital funds are inadequate and situation is creating liquidity issues in the company.

The management of the company approached its bankers and requested for enhancement in working capital credit facilities. The bank manager is insisting upon financial statements of the company for half year along with report providing assurance in this respect duly signed by Chartered Accountant as audit is far away. It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management. The management approaches CA P, who has qualified recently and started practising. Reports providing assurance for half yearly results and projected financial statements are sought from CA P. The Management provides necessary information and records to him in this regard.

Assume, in above case, the company only provides trial balance, financial statements in draft/preliminary form along with accompanying records for the relevant half year to CA P and requests him to provide duly signed financial statements with a report for mutually agreed professional fees.

Based on above, answer the following questions:

- 1. The management of company has engaged CA P to issue a duly signed report for half year. Which of the following standards, if any, issued by ICAI are relevant for CA P?
  - (1) Standards on Review Engagements
  - (2) Standards on Auditing
  - (3) Standards on Related Services
  - (4) There are no standards for issuing report in such situation
- **2.** Which of the following statements is MOST APRROPRIATE in given case situation?
  - (1) CA P can assist management in preparation of financial statements of the company. However, issue of a report in such a case is outside the scope of work
  - (2) CA P can assist management in preparation of financial statements of the company and he can issue an audit report.
  - (3) CAP can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect.
  - (4) The responsibility of preparation of financial statement is of company's management. CA P cannot assist management in preparation of financial statements of the company. However, he can issue a review report.



- 3. In the above said scenario for issuance of signed financial statements for half year by CA P, as discussed in last para of Case Study, identify the MOST APPROPRIATE statement:-
  - (1) Standard on Quality control (SQC 1) is not applicable as CA P cannot issue audit report.
  - (2) Standard on Quality Control (SQC 1) is not applicable as CA P cannot issue review report.
  - (3) Standard on Quality Control (SQC 1) is applicable in such type of engagement.
  - (4) Standard on Quality Control (SQC 1) is not applicable as CA P is barred from issuing any report in such type of engagement.
- 4. The banker of company has also requested for projected financial statements for coming years along with a report from CA regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?
  - (1) Standards on Review Engagements
  - (2) There are no standards for issuing such type of reports.
  - (3) Standards on Related Services
  - (4) Standards on Assurance Engagements
- 5. Suppose CA P also accepts work of issuing projected financial statements with a report to be signed by him. The management has projected turnover of ₹ 100 core for the next year, ₹ 150 crore & ₹ 200 crore for following years respectively as compared to present turnover of ₹ 25 crore in current half year. Identify the MOST APPROPRIATE statement in this situation:-
  - (1) CA P has to satisfy himself regarding arithmetical accuracy of projected data.
  - (2) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover and its consistency with actuals.
  - (3) CA P has to satisfy himself regarding arithmetical accuracy of data along with its proper presentation to banker.
  - (4) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.

# Case Scenario – II Directions (6-9) Read the following passage and answer the given questions.

CA Rajan Pillai is heading the engagement team conducting audit of a company.

While audit is in progress, consider following issues regarding audit documentation:-

- (A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- (B) The team has determined materiality for financial statements as a whole.
- (C) The team has assessed risks of material misstatements to be low.
- (D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.
- 6. Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?
  - (1) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.
  - (2) Audit programme was already prepared.
    Only persons assigned specific responsibilities can perform those duties.
  - (3) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.
  - (4) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous.



- 7. As regards materiality, which of the following statements is most appropriate in context of audit documentation?
  - (1) Materiality has already been determined. There is no need to put it into working papers.
  - (2) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.
  - (3) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.
  - (4) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.
- **8.** As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?
  - (1) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.
  - (2) Details of risk assessment procedures have to be documented.
  - (3) Details about how understanding of each component of internal control was obtained has to be documented.
  - (4) Precise calculation of risk of material misstatements has to be documented.
- **9.** CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?
  - (1) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.
  - (2) Detail of test counting undertaken should form part of audit documentation.
  - (3) Detail of obsolete goods found should form part of audit documentation.
  - (4) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.

# Case Scenario – III Directions (10-12) Read the following passage and answer the given questions.

Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her. She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

# Based on above, answer the following questions:

- 10. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?
  - (1) She is establishing audit strategy
  - (2) She is conducting preliminary engagement activities
  - (3) She is designing audit plan
  - (4) She is checking her compliance of ethical requirements



- 11. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following-
  - (1) Developing audit plan
  - (2) Establishing overall audit strategy
  - (3) Designing audit programme
  - (4) Designing risk assessment procedures
- **12.** Taking into account description of planned inquiry and visit, which of the following statements is TRUE?
  - (1) Planned inquiry and visit fall in area of audit strategy
  - (2) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan
  - (3) The said description is not related to audit planning
  - (4) Planned inquiry and visit fall in scope of audit programme

### **General MCQs**

- **13.** Which of the following is not included in an audit programme normally?
  - (1) Extent of checking
  - (2) Date of checking
  - (3) Nature or type of procedure
  - (4) Planning of risk assessment procedures

- **14.** What action should the engagement partner take if there are identified breaches of the firm's independence policies and procedures?
  - (1) Ignore the breaches if they don't impact the audit engagement
  - (2) Report the breaches only to the relevant engagement team members
  - (3) Evaluate the breaches and take appropriate action to eliminate or reduce threats
  - (4) Withdraw from the audit engagement without further investigation
- **15.** Which of the following is not considered in planning an audit generally?
  - (1) Understanding of legal and regulatory framework of an entity
  - (2) Need to consider determination of materiality
  - (3) Need to consider determination of materiality
  - (4) Need to consider involvement of expert



# Part – B Descriptive Questions Question No. 1 is compulsory.

## Attempt any four questions from the Rest.

1. (A) Explain Preconditions for an audit as per SA 210 "Agreeing the Terms of Audit Engagements".

(2.5 Marks)

- (B) APR & Associates, a Chartered Accountant firm, are appointed as the auditors of Time Ltd. and Bakes Ltd. The volume and nature of business of both the companies are entirely different. CA R is the engagement partner for Bakes Ltd. CA P is the engagement partner for Time Ltd. CA R formulates an Audit Programme for conducting the audit of Bakes Ltd. He suggests CA P to use the same audit programme for Time Ltd. But CA P is of the opinion that this audit programme will not be useful for the audit of Time Ltd. In light of the above, mention the matters that should generally be considered while preparing an Audit Programme. Is CA P correct in emphasizing for a different Audit Programme for Time Ltd.? (2.5 Marks)
- (C) A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about integrity of client. Explain with examples. (2 Marks)
- 2. (A) Auditor is not expected to perform duties which fall outside domain of his competence. Explain it with the examples. (2.5 Marks)
  - (B) "The independent audit of an entity's financial statements is a vital service to investors, trade payables, and other participants in economic exchange". Explain (2.5 Marks)
  - (C) B Ltd. is a company manufacturing bed-sheets and pillow covers. They have appointed M/s C & Co., Chartered Accountants, as their auditors. The auditor is establishing audit strategy with his team members. As the work progressed, they came to know that the company has diversified its business and now they are also planning to manufacture wooden furniture. The auditor, in his professional judgement, considers this to be a significant factor in directing the engagement team's efforts. Give examples of factors that, in auditor's professional judgement, are significant in directing the engagement team's efforts. (2 Marks)
- 3. (A) CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him?

  (2.5 Marks)
  - (B) Preliminary engagement activities include certain activities to be performed by an auditor while planning an audit. Discuss such activities briefly. How performing such activities assists an auditor? (2.5 Marks)
  - (C) The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant. A professional accountant shall comply with each of the fundamental principles. Explain Professional competence and due care and Confidentiality principle. (2 Marks)
- **4. (A)** Every auditor gives reasonable assurance during audit. Explain meaning of assurance engagement with any of its three elements. **(2.5 Marks)** 
  - (B) M/s TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has diversified their business into newer areas during the last year. The senior member of the audit team handed over the standard audit programme of earlier years to the audit assistants and instructed them to follow the same. The assistants are conducting the audit accordingly. Whether the attitude of the audit assistants is justified or they are required to keep an open mind? Guide them. (2.5 Marks)
  - (C) Standards on review engagements apply in the context of review of financial statements. Explain with examples. (2 Marks)



- 5. (A) What should auditor consider before agreeing to change the audit engagement to the engagement providing lower level of assurance? (2.5 Marks)
  - (B) The assistant of CA K is assigned responsibility of drafting "audit programme" relating to purchases appearing in financial statements of "Broad Industries", a partnership firm. The said firm is a GST registered tax payer and is engaged in manufacturing of packing boxes from a special type of paper taxable under GST. Help him by drafting a sample audit programme for purchases. (2.5 Marks)
  - (C) CA Abhay knowns that it is not possible to define "independence" precisely. Independence implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him, or to his own self-interest. There are two interlinked perspectives of independence of auditors. Explain both the perspectives in detail. (2 Marks)
- **6. (A)** Besides reasonable assurance engagements and limited assurance engagements, there is another kind of assurance which is related to matters other than historical financial information. Such an assurance may relate to prospective financial information and not to historical financial information. It may relate to providing assurance on internal controls in an entity. Explain the differences between prospective financial information and historical financial information. **(2.5 Marks)** 
  - (B) Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. Explain Self-interest threats and Familiarity threats. (2.5 Marks)
  - (C) Zeeba Products is a partnership firm engaged in trading of designer dresses. The firm has appointed JJ & Co, Chartered accountants to audit their accounts for a year. One of the partner Mr. Eba is of view that audit is not mandatory so why to appoint auditor for firm. Please explain any four points mentioned the need of audit?

    (2 Marks)

OR

(D) Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy". Explain. (2 Marks)



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Total Marks: 50 Master Test Series - 01 16/09/2024

Total Time: 90 Min.

### **Financial Management**

### **General Instructions**

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- (2) Part A consists of MCQ and Case study MCQ of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
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- (6) Part A has 5 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

#### Part - A

### Multiple choice question (MCQ)

- 1. A company issued 10,000 debentures of Rs 100 each at a premium of 10% on 1.4.2023 to be matured on 1.4.2028. The debentures will be redeemed on maturity. Compute the cost of debentures assuming 35% as tax rate. (2 Marks)
  - (1) 4.28%
- (2) 4.78%
- (3) 3.56%
- (4) None of the above
- 2. What is the Weighted Average Cost of Capital (WACC) primarily used to assess? (1 Mark)
  - (1) Profitability of a firm
  - (2) Investment risk of a firm
  - (3) Cost-effectiveness of financing sources
  - (4) Liquidity position of a firm
- 3. Which statement is true regarding capital structure theory? (1 Mark)
  - According to Modigliani and Miller, in a world with taxes, the value of a leveraged firm is equal to the value of an unleveraged firm.
  - (2) According to Modigliani and Miller, in a world without taxes, the value of a leveraged firm is greater than the value of an unleveraged firm.
  - (3) The trade-off theory of capital structure suggests that firms always prefer debt financing over equity financing.
  - (4) Packing order theory suggests that firms have a preference for internal financing over external financing.
- **4.** SK Ltd. issues, 20,000 10% preference shares of Rs 100 each at Rs 95 each. Calculate the cost of preference shares. (1 Mark)
  - (1) 9.50%.
- (2) 10.53%.
- (3) 7.53%.
- (4) None of the above

5. Case study MCQ (From A to E) (2 Marks × 5) = 10 Marks

ABC Ltd. is a manufacturing company that is engaged in the manufacturing of wooden products. The company has provided the following financial details for the year ended 31<sup>st</sup> March, 2022. Imagine you are a financial analyst working for a medium-sized manufacturing company planning to expand its operations internationally. The CFO has approached you to analyse the potential benefits and risks of using financial leverage to fund this expansion.

Sales = Rs 86 lakhs

Profit Volume (P/V) Ratio = 35%

Fixed cost excluding interest expenses = Rs 10 lakhs

10% Debt = Rs 55 lakh

Equity Share Capital of Rs 10 each = Rs 75 lakh Income Tax rate = 40%

Based on the above information, You need to calculate

- (A) Company's return on capital employed (pretax) and Eps
  - (1) 17.86 ₹ 1.118
- (2) 13.46 ₹ 2.168
- (3) 15.46 ₹ 1.168
- (4) 05.46 ₹ 1.157
- **(B)** Does the company have a favourable financial leverage?
  - (1) Since, the return on capital employed (15.46%) is more than the interest rate (10%), thus the company has a favourable financial leverage.
  - (2) Since, the return on capital employed (7.87%) is less than the interest rate (10%), thus the company has a favourable financial leverage.
  - (3) Since, the return on capital employed (15.46%) is more than the interest rate (29%), thus the company has a favourable financial leverage.
  - (4) None of the above



- (C) Calculate operating and combine leverages of the company
  - (1) 0.498 times, 1.062 times
  - (2) 2.062 times, 1.498 times
  - (3) 2.498 times, 1.062 times
  - (4) 1.498 times, 2.062 times
- **(D)** Calculate percentage change in EBIT, if sales increases by 10%.
  - (1) 13.98%
- (2) 14.98%
- (3) 15.98%
- (4) 16.98%

- (E) At what level of sales, the Earning before Tax (EBT) of the company will be equal to zero?
  - (1) Rs 44,28,571
- (2) Rs 40,28,571
- (3) Rs 34,28,571
- (4) Rs 44,20,578



#### Part - R

- 1. Which theory states that capital structure decision is affected by manager's choice? Also, As per this theory, manager may raise funds from various sources in which order. (5 Marks)
- **2.** The following information pertains to CIZA Ltd.:

Capital Structure	
Equity share capital (₹10 each)	8,00,000
Retained earnings	20,00,000
9% Preference share capital (₹100 each)	12,00,000
12% Long-term loan	10,00,000
Interest coverage ratio	8
Income tax rate	30%
Price-earnings ratio	25

The company is proposed to take up an expansion plan, which requires an additional investment of 34,50,000. Due to this proposed expansion, earnings before interest and taxes of the company will increase by 6,15,000 per annum. The additional fund can be raised in following manner: By issue of equity shares at present market price, or By borrowing 16% Long-term loans from bank.

You are informed that Debt-equity ratio (Debt/ Shareholders' fund) in the range of 50% to 80% will bring down the price-earnings ratio to 22 whereas; Debt-equity ratio over 80% will bring down the price-earnings ratio to 18.

### Required:

Advise which option is most suitable to raise additional capital so that the Market Price per Share (MPS) is maximized. (10 Marks)

**3.** Amrit corporation has the following book value capital structure:

Equity capital (50 lakh shares of Rs 10 each) = Rs 5,00,00,000

15% Preference shares (50,000 shares of Rs 100 each) = Rs 50,00,000

Retained earnings = Rs 4,00,00,000

Debentures 14% (2,50,000 debentures Rs 100 each) = Rs 2,50,00,000

Term loan 13% = Rs 4,00,00,000

The companies last year earnings per share was Rs 5, and it maintains a dividend pay-out ratio of 60% and returns on equity is 10%. The market price per share is Rs 20.80. Preference shares redeemable after 10 years is currently selling for Rs 90 per share. Debentures redeemable after 6 years are currently selling for Rs 90 per share. Debentures redeemable after 6 years are currently selling for Rs 75 per debenture. The income tax rate is 40%.

- (a) Calculate the weighted average cost of capital (WACC) using market value proportions.
- (b) Determine the marginal cost of capital (MACC) if it needs Rs 5,00,00,000 next year assuming the amount will be raised by 60% equity, 20% debt and 20% retained earnings. Equity issues will fetch a net price of Rs 14 and cost of debt will be 13% before tax up to Rs 40,00,000 and beyond Rs 40,00,000 it will be 15% before tax.

  (10 Marks)

### 4. Answer Both the Questions

(A) The sales revenue of SK Ltd. @ Rs 20 per unit of output is Rs 20 lakhs and contribution is Rs 10 lakhs. At the present level of output, the DOL of the company is 2.5, the company does not have any Preference Shares. The number of Equity Shares are 1 lakh. Applicable corporate income tax rate is 50% and the rate of interest on Debt Capital is 16% p.a. Calculate the Eps (at sales revenue of Rs 20 lakhs) and amount of debt capital of the company if a 25% decline in Sales will wipe out EPS. (4 Marks)



## **(B)** Following are the information of TT Ltd.:

Particulars	
Earnings per share	Rs 10
Dividend per share	Rs 6
Expected growth rate in Dividend	6%
Current market price per share	Rs 120
Tax rate	30%
Requirement of Additional Finance	Rs 30 lakhs
Debt Equity Ratio (For additional finance)	2:1
Cost of Debt	
0-5,00,000	10%
5,00,001 – 10,00,000	9%
Above 10,00,000	8%

Assuming that there is no Reserve and Surplus available in TT Ltd. You are required to:

- Find the pattern of finance for additional requirement
- Calculate post tax average cost of additional debt
- Calculate cost of equity
- Calculate the overall weighted average after tax cost of additional finance.

(6 Marks)



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Total Marks: 50 Master Test Series – 02

### Total Time: 90 Min.

### **Cost and Management Accounting**

### **General Instructions**

- (1) The question paper is divided into two parts. Part A and Part B.
- (2) Part A consists of MCQ and Case study MCQ of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
- (4) All the questions are compulsory in nature.
- (5) Attempt all the questions.
- (6) Part A has 4 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

### Part - A

### TOTAL MARKS 15 (CASE STUDY MCQ + MCQ) TOTAL 4 QUESTIONS

### **CASE STUDY MCQ**

- A meeting of the heads of departments of the Arnav Ltd. has been called to review the operating performance of the company in the last financial year. The head of the production department appraised that during the last year the company could operate at 70% capacity level but in the coming financial year 95% capacity level can be achieved if an additional amount of ₹ 100 Crore on capex and working capital is incurred.
  - The head of the finance department has presented that during the last financial year the company had a P/V ratio of 40%, margin of safety and the breakeven were ₹ 50 crore and ₹ 200 crore respectively. To the reply to the proposal of increasing the production capacity level to 95%, the head of the finance department has informed that this could be achieved if the selling price and variable cost are reduced by 8% and 5% of sales respectively. Fixed cost will also increase by ₹ 20 crore due to increased depreciation on additional assets. The additional capital will be arranged at a cost of 15% p.a. from a bank.

In the coming financial year, it has been aimed to achieve an additional profit of ₹ 10 crore over and above the last year's profit after adjusting the interest cost on the additional capital.

The following points is required to be calculated on urgent basis to put the same in the meeting. You being an assistant to the head of finance, has been asked the followings:

### $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$

- **(A)** What will be the revised sales for the coming financial year?
  - (1) ₹ 322.22 Crore (2) ₹ 311.11 Crore
  - (3) ₹ 300.00 Crore (4) ₹ 324.24 Crore

- **(B)** What will be the revised break-even point for the coming financial year?
  - (1) ₹ 222.22 Crore (2) ₹ 252.22 Crore

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- (3) ₹ 244.44 Crore (4) ₹ 255.56 Crore
- **(C)** What will be the revised margin of safety for the coming financial year?
  - (1) ₹ 100 Crore
  - (2) ₹ 58.89 Crore
  - (3) ₹ 55.56 Crore
  - (4) ₹ 66.66 Crore
- **(D)** The profit of the last year and for the coming year are:
  - (1) ₹ 50 Crore & ₹ 95 Crore respectively
  - (2) ₹ 20 Crore & ₹ 65 Crore respectively
  - (3) ₹ 20 Crore & ₹ 30 Crore respectively
  - (4) ₹ 45 Crore & ₹ 66.66 Crore respectively
- **(E)** The total cost of the last year and for the coming year are:
  - (1) ₹ 230 Crore & ₹ 292.22
  - (2) ₹ 230 Crore & ₹ 275 Crore
  - (3) ₹ 220 Crore & ₹ 282.22 Crore
  - (4) ₹ 220 Crore & ₹ 292.22 Crore

### **General MCQs (5 Marks)**

2. SK Ltd. buys its annual requirement of 36,000 units in 6 instalments. Each unit costs ₹ 1 and the ordering cost is ₹ 25. The inventory carrying cost is estimated at 20% of unit value. Find the total annual cost of the existing inventory policy.

(2 Marks)

- (1) Rs 750
- (2) Rs 800
- (3) Rs 900
- (4) Rs 950



3. SK company has established the following standards for factory overheads.

Variable overhead per unit = Rs 10

Fixed overheads per month = Rs 1,00,000

Capacity of the plant 20,000 units per month.

The actual data for the month are as follows:

Actual overheads incurred = Rs 3,00,000

Actual output (units) = 15,000 units

Calculate Production volume variance.

(2 Marks)

- (1) Rs 30,000
- (2) Rs 25,000
- (3) Rs 45,000
- (4) Rs 90,000

4. During a particular period, ABC Ltd. has furnished the following data: [Jan 2021]
Sales ₹ 10,00,000 Contribution to sales ratio 37% and Margin of safety is 25% of sales A decrease in selling price and decrease in the fixed cost could change the "contribution to sales ratio" to 30% and "margin of safety" to 40% of the revised sales.

Calculate: Revised fixed cost (1 Mark)

- (1) Rs 1,62,000
- (2) Rs 1,50,000
- (3) Rs 3,15,000
- (4) None of the above



1. What are the assumptions underlying CVP analysis?

(5 Marks)

2. SK School has a total of 180 students consisting of 6 sections with 30 students per section. The school plans for a picnic around the city during the weekend to places such as the zoo, the amusement 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 ₹ 500 per teacher. It will also lease out the required number of buses. The following are the other cost estimates: (10 Marks)

	Cost per Student (₹)
Breakfast	50
Lunch	100
Tea	10
Entrance fee at zoo	20

Rent ₹ 6500 per bus

Special permit fee ₹ 500 per bus

Block entrance fee at the planetarium ₹ 2500

Prizes to students for games ₹ 500

No costs are incurred in respect of the accompanying teachers (except the allowance of ₹ 500 per teacher)

You are required to prepare:

- (a) A flexible budget estimating the total cost for the levels of 60, 90, 120, 150 and 180 students. Each item of cost is to be indicated separately.
- (b) Compare the average cost per student at these levels.
- (c) What will be your conclusions regarding the break-even level of students if the school proposes to collect ₹ 400 per student?
- **3.** (A) Sara Ltd. has furnished the following standard cost data per unit of production:

(5 Marks)

Material 15 kg @ ₹ 15 per kg.

Labour 6 hours @ ₹ 5 per hour

Variable overhead 6 hours @ ₹ 12 per hour.

Fixed overhead ₹ 4,50,000 per month (Based on a normal volume of 30,000 labour hours.)

The actual cost data for the month of August 2023 are as follows:

Material used 65,000 kg at a cost of ₹ 9,85,000.

Labour paid ₹ 1,40,000 for 31,500 hours worked.

Variable overheads ₹ 3,60,200

Fixed overheads ₹ 4,70,000

Actual production 4,800 units.

Calculate:

- (i) Material Cost Variance.
- (ii) Labour Cost Variance.
- (iii) Fixed Overhead Cost Variance.
- (iv) Variable Overhead Cost Variance
- (B) JVG Ltd. produces a product and operates a standard costing system and value material and finished goods inventories at standard cost. The information related with the product is as follows. (5 Marks)

Particulars	Cost per unit (₹)
Direct materials (30 kg at ₹ 350 per kg)	10,500
Direct labour (5 hours at ₹ 80 per hour)	400



The actual information for the month just ended is as follows:

- (a) The budgeted and actual production for the month of September 2019 is 1,000 units.
- (b) Direct materials 5,000 kg at the beginning of the month. The closing balance of direct materials for the month was 10,000 kg. Purchases during the month were made at ₹ 365 per kg. The actual utilization of direct materials was 7,200 kg more than the budgeted quantity.
- (c) Direct labour -5,300 hours were utilized at a cost of  $\ge 4,34,600$ .
- 4. ACE Ltd. produces a product EMM using a material 'REX'. To produce one unit of EMM 0.80 kg of 'REX' is required. As per the sales forecast conducted by the company it will be able to sell 45,600 units of product EMM in the coming year. There is an opening stock of 3,150 units of product EMM and company desires to maintain closing stock equal to one month's forecasted sale. Following is the information regarding material 'REX'.

	0	
Purchase price per kg		₹ 25
Cost of placing order		₹ 240 per order
Storage cost		2% per annum
Interest rate		10% per annum
Average lead time		8 days
Difference between minimum and maximum lead time		6 days
Maximum usage		150 kg
Minimum usage		90 kg

Opening stock of material 'REX' is 2,100 kg and closing stock will be 10% more than opening stock. Required:

- (i) Compute the EOQ and total cost as per EOQ.
- (ii) Compute the reorder level and maximum level.
- (iii) If the company places an order of 7,500 kg of REX at a time, it gets 2% discount, should the offer be accepted?

**(10 Marks)** 



PW Web/App - https://smart.link/7wwosivoicgd4

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### **Master Test Series - 02**

### Time Allowed- 1.5 Hours

### **Maximum Marks-50**

### Audit and Ethics

### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 90 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

### Part - A

**Multiple choice question (MCQ)** 

(Case Scenario I carries 5 Marks)

(Case Scenario II carries 4 Marks)

(Case Scenario III carries 3 Marks)

General MCQs ( $3 \text{ MCQs} \times 1 \text{ Mark each} = 3 \text{ Marks}$ )

### Case Scenario - I

# Directions (1-5) Read the following passage and answer the given questions.

DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS & Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas.

The following is extract of financial information of the company:-

(Figures in rupees crores)

S.	Particulars	Year	Year
No.		2022-23	2021-22
1.	Turnover	30.00	15.00
2.	Inventories	5.00	2.00
3.	Property, plant and equipment (Gross black)	1.25	1.25
4.	Property, plant and equipment (Net black)	1.00	1.25
5.	Gross profit	6.00	3.75
6.	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.



# Based on above, answer the following questions:

- 1. Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?
  - (1) Engagement partner is known socially to promoters and directors of the situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
  - (2) Engagement partner is known socially to promoters and directors of the situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
  - (3) The situation reflected in the case scenario may not constitute threat to independence of Irrespective of this, detection risk in engagement is low.
  - (4) The situation reflected in the case scenario may not constitute threat to independence of Irrespective of this, detection risk in engagement is high.
- 2. CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?
  - (1) Inspecting and reviewing company's plan for physical verification of PPE
  - (2) Assessing depreciation method used
  - (3) Verifying cost of PPE items acquired during the year with purchase bills
  - (4) Recalculation of depreciation charged in statement of profit and loss
- 3. Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?
  - (1) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
  - (2) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.
  - (3) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.

- (4) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.
- 4. CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of?
  - (1) Ratio analysis forming part of substantive analytical procedures
  - (2) Trend analysis forming part of substantive analytical procedures
  - (3) Reasonable test forming part of substantive analytical procedures
  - (4) Structural modelling forming part of substantive analytical procedures
- 5. Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?
  - (1) SQC 1, SA 220, SA 501, SA 505
  - (2) SA 550, SA 510, SA 220, SA 610
  - (3) SA 700, SA 510, SA 220, SA 500
  - (4) SQC 1, SA 700

# Case Scenario – II

# Directions (6-9) Read the following passage and answer the given questions.

Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.

Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.

Before concluding audit, he requests written representations from management regarding its responsibilities. However, it is noticed that such written representations provided by management use qualifying language.



He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails. Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.

# Based on above description, answer the following questions:

- 6. As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?
  - (1) The auditor should express an unmodified opinion.
  - (2) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
  - (3) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.
  - (4) Such an issue does not affect auditor's opinion.
- 7. As regards going concern basis of accounting is concerned, which of the following statements is true?
  - (1) A company showing net loss in its financial statements is essentially not a going concern.
  - (2) Following going concern assumption of accounting is primary duty of auditor.
  - (3) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.
  - (4) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.
- **8.** Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?
  - (1) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report.

- (2) There is no obligation for an auditor to perform audit procedures after signing of auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.
- (3) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events.
- (4) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.
- **9.** As regards use of qualifying language in written representations, which of the following statement is most appropriate?
  - (1) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
  - (2) Written representations should be unconditional. Such a wording is not acceptable.
  - (3) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances.
  - (4) Qualifying language in written representations is compulsory.

## Case Scenario – III Directions (10-12) Read the following passage and answer the given questions.

Pluto Limited is engaged in the manufacturing and distribution of furniture. After Covid, as the number of people working from home has gone up, this customisable range home office furniture has gained lot of importance. They were able to perform very well over the years and the same has been reflected in their financial statements.

During the year 2023-24, M/s Saha and Associates was reappointed as the auditor. The new engagement team has CA Saha (partner) and five article assistants. Given the large volume of transactions, the partner instructed the article assistants to review the financial statements and auditor's report from the previous year, 2022-23, to gain a thorough understanding. While reviewing the summary page, one of the article Kabir noticed that few points were under discussion with the partner before finalising the audit:



The team verified the following points with respect to employee benefit expenses:

- The employee benefit expenses recorded in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel have been accounted for.
- The expenses recognised during the period are pertaining to the current accounting period.

It was also noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023 and was recognised as liability in the year 2022-23.

Another article Krish noticed that debtors constitute a major component of the company's financial statements. As part of audit procedure, the auditor requested the client to obtain external confirmations from the parties. For this, a list of all the debtors were obtained and a random sampling was performed by the auditor. The client directly obtained the selected debtor confirmations from the customers on time.

Krish also observed addition in the assets amounting 50 lakhs during the year supported by sufficient audit evidence. However, upon scrutiny, it was found that some of the invoices were not in the name of the company. Further, Cash and cash equivalents were classified as balances with banks, cheques and drafts on hand, cash on hand and earmarked balances with banks (e.g. unpaid dividend)

# Based on above, answer the following questions:

- 10. Krish pointed out that that the method followed to obtain debtor confirmation in the previous year was not in accordance with SA 505. Therefore, M/s Saha & Associated should reperform the same in the correct manner.
  - (1) As per SA 505, confirmation should be directly obtained by the auditor. Further, for all significant account balances as on the Balance sheet date confirmations should necessarily be collected and for the smaller outstanding balances, random sampling could be performed.
  - (2) It is ok to obtain confirmation through clients as they are in constant contact with their customers. Also, many customers may not respond to auditor's external confirmation request mail. Random selection can be done for all debtors irrespective of the amount in accordance with SA 505.

- (3) As per SA 505, confirmation should be directly obtained by the auditor. Whereas random selection can be done for all debtors irrespective of the amount.
- (4) Either auditor or client can obtain confirmation based on time availability. However, it is necessary to obtain confirmation for all significant account balances as on the Balance sheet date and for the remaining random sampling could be performed in accordance with SA 505.
- **11.** Which assertion has been affected in case of fixed assets?
  - (1) Existence
  - (2) Rights and Obligations
  - (3) Completeness
  - (4) Measurement
- **12.** Cash and cash equivalents were not properly classified by the client.

Which of the following is incorrect disclosure of the same?

- (1) Balances with banks
- (2) Cheques and drafts on hand
- (3) Cash on hand
- (4) Earmarked balances with banks (e.g.: unpaid dividend)

### **General MCQs**

- during course of audit of a company. He has found nothing unusual till now. The company is earning handsome profits since last many years and there is little debt burden on it. It is also in the process of expanding its business by taking loan from a bank. The bank has also granted "inprinciple" approval for lending money to the company. Which of the following statements is most appropriate in evaluation of going concern assumption being followed by management?
  - (1) Appropriateness of management's assessment in relation to going concern assumption may be made by auditor without performing detailed evaluation procedures.
  - (2) Appropriateness of management's assessment in relation to going concern assumption would be made by auditor by performing detailed evaluation procedures.



- (3) Appropriateness of going concern assumption would be made by auditor directly by skipping management's assessment.
- (4) Appropriateness of going concern assumption would be made by auditor by necessarily examining cash flow forecast.
- 14. CA Sargun is conducting statutory audit of branch of KBC Bank. During the course of audit, it is noticed that one borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet. Which of the following statements is appropriate?
  - Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset.
  - (2) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset.
  - (3) Both Housing loan as well as car loan should be classified as "Non-Performing Assets" in accordance with RBI norms on asset classification.
  - (4) Both Housing as well as car loans should be classified as Standard assets

<b>15.</b>	The company shall explain the items included in	n
	numerator and denominator for computing the	e
	ratios. Further explanation shall be provided fo	r
	any change in the ratio by a	S
	compared to the preceding year.	

- (1) more than 25%
- (2) more than 20%
- (3) more than 15%
- (4) more than 10%



#### Part – B

### **Descriptive Questions**

### Question No. 1 is compulsory.

### Attempt any four questions from the Rest.

- 1. (A) The management of PQ Ltd. changed during the period under audit. Mr. G an auditor, at the time of receiving written representation on the management responsibilities from the management, was in a dilemma related to the date of and period(s) covered by the written representation.
  - Further, new management was of the view that they can give written representation from the date they took over and not for the prior period when old management were managing affairs of the company. Guide the auditor & the management in this respect. (2 Marks)
  - **(B)** Compute the Drawing Power for Cash Credit A/c of Kirpa Limited for the month of March 2024 with following information:

	(Amount in ₹)
Stock	60,000
Debtors (Including Debtor of ₹ 15,000 for an invoice dated 20.10.2023)	55,000
Sundry creditors	10,000
Sanctioned Limit	48,000

Margin on stock is 30% and on debtors is 40%.

Note: Debtors older than 3 months are ineligible for calculation of DP.

(2 Marks)

- (C) Proceedings have been initiated against False Limited for holding benami property under law relating to prohibition of benami transactions and the rules made thereunder but such property is not recorded in books of accounts. As a consultant to the company, what will you advise the company as far as disclosure requirements are concerned in financial statements in relation to said proceedings? (1.5 Marks)
- (**D**) CA B, an auditor, after the completion of busy audit season, was occupied in assembling of final audit files of one of his client. First of all, he started preparing various documents of that client and then kept those documents in various folders. He was preparing documents as well as audit file in paper form because he believed that it is mandatory. He could complete documentation as well as assembling of final audit file of that client after three months from the date of audit report.

Generally, he retains audit file of the clients for 4 years from the date of audit report. Check the validity of the action of CA B. (1.5 Marks)

**2. (A)** Mr. L is a principal auditor of OP Ltd. There are several divisions of OP Ltd. that are audited by other auditors. State the procedures Mr. L should ordinarily perform to obtain sufficient and appropriate audit evidence that the work of other auditors is adequate for the principal auditor's purpose in the context of this assignment.

(2 Marks)

- (B) Droma Shoes Private Limited was established in year 2022-23 for manufacturing of footwear. As funds were needed to carry on its business activities including for purchase of different raw materials, incurring of regular expenses like power and fuel and payment of wages etc., it had got sanctioned a credit facility amounting to ₹ 2 crores repayable on demand from a bank against primary security of its current assets and collateral security of residential house of one of its directors. Duly signed guarantee documents by directors in favour of bank also form part of bank's loan documentation. Account statement of above facility downloaded from bank's website shows debit balance of ₹ 1.85 crores as on 31<sup>st</sup> March, 2023. The operations in above credit facility are satisfactory. In this regard:-
  - (i) Identify nomenclature of such credit facility given by banks. How would above amount of ₹ 1.85 crores be reflected and classified in financial statements of company as on 31.3.23?
  - (ii) Also state specific disclosure requirements of Schedule III of Companies Act, 2013 in relation to above. (2 Marks)
- (C) MNB bank advanced certain loans guaranteed by government. State the prudential norms for asset classification and income recognition of such loans. (1.5 Marks)



- (D) CA Kartik is planning for audit of a company engaged in manufacturing of cosmetics. Considering nature of operations of the company, he had planned to include testing of controls of the company over purchases, sales and inventories. One fine day, he reaches the corporate office and asks for manuals and required documentation to ensure surprise element in testing. He had never shared with management his intention to carry out above procedures. Is approach of CA Kartik proper?

  (1.5 Marks)
- 3. (A) PQ & Co. want to diversify its business and for that purpose they want to raise money by issuing shares to the general public. The face value of the shares is ₹ 100 but the directors of the company propose to issue the shares at a discounted rate off ₹ 95/- so as to receive more response. The statutory auditor, however, objects to the same as it is not allowed as per the Companies Act, 2013.

  State the provisions of Section 53 of the Companies Act, 2013 with reference to shares issued at a discount and the consequences where the company fails to comply with the provisions of this section. (2 Marks)
  - (B) While conducting statutory audit of branch of a nationalized bank, it is noticed by CA Z that credit facilities granted to a borrower consisting solely of term loan have been classified as "Sub-standard Asset" during the year 2022-23 due to failure of borrower to pay EMIs on time. Such EMIs were outstanding for more than 90 days and account was, therefore, classified as "Sub-Standard Asset". CA Z has also agreed to above asset classification made by branch management.

    What are CA Z's responsibilities regarding verification of compliance with income recognition norms by branch in respect of above credit facilities? (2 Marks)
  - (C) Audit Documentation helps in planning the audit of a company in a proper manner and also helps in conducting the audit of that company in a more effective way. What are the purpose of Audit documentation (1.5 Marks)
  - (**D**) Explain the objectives of auditor with regard to SA 570?

(1.5 Marks)

**4. (A)** Following is extract of notes to accounts of financial statements of STU Private Limited listing some ratios. Discuss, whether disclosure, given in following manner meets requirements of Schedule III of the Companies Act, 2013. Ignore other ratios which are not listed in extract given below: **(2 Marks)** 

ret, 2013. Ignore other ratios which are not listed in ext	idet given below.	
Name of ratio	31.3.2023	31.3.2022
Current ratio	2.50	2.30
Inventory turnover ratio	3.00	6.00
Trade receivables turnover ratio	1.75	5.00
Net profit ratio (in %)	13%	10%

(B) List out Auditor's responsibilities regarding evaluation of misstatements identified during the audit.

(2 Marks)

- (C) Explain following types of banks:-
  - 1. Payments Bank
  - 2. Development Bank

(1.5 Marks)

- (D) During the course of audit of a company, an issue arose relating to treatment of interest costs of company on its restructured loans taken from a bank. This important matter was discussed with CFO of the company and was properly resolved. Is it necessary for the auditor to include in its working papers? (1.5 Marks)
- 5. (A) An auditor is called upon to assess the actualities of the situation, review the statements of account and give an expert opinion about the truth and fairness of such accounts. This he cannot do unless he has examined the financial statements objectively. Explain. (2 Marks)
  - (B) While verifying provisions of advances of a branch of MCO Bank as part of statutory branch audit, CA Z notices that credit facilities consisting of term loan to KRT Enterprises have been classified under doubtful asset (D1) category. The outstanding balance in above term loan account as on 31.3.2023 is ₹ 50 lakhs. Value of security held in account is ₹ 40 lakhs. The branch has made provision of ₹ 7.50 lakhs. Is provision made by branch proper? Discuss. (2 Marks)



- (C) ABC & Co. are in the business of manufacturing toys. The stock taking process has been done by the company as on 31.3.2024. The company has used FIFO method for valuation of its inventories. The cost of inventory as on 31.3.24 is ₹ 25,25,000/- and the net realizable value of the inventory on the same date is ₹ 25,24,000/-. The cost of inventory includes the following:
  - (1) Material purchase cost- ₹ 25,05,000/-
  - (2) Allocated transport cost- ₹ 18,000/-
  - (3) Abnormal wastage- ₹ 2,000/-

The management seeks your advice in arriving at the value of inventory to be shown in the financial statements of the company. What should be the value of inventory in accordance with AS-2? (1.5 Marks)

**(D)** What is the purpose of Audit Documentation?

(1.5 Marks)

**6. (A)** While conducting the audit of AB Ltd, the auditor K of KLM and Associates, Chartered Accountants observes that there are large number of Trade payables and receivables standing in the books of accounts as on 31st March. The auditor wanted to send confirmation request to few trade receivables, but the management refused the auditor to send confirmation request.

### Required

How would the auditor proceed?

(2 Marks)

(B1) HR & Associates are the auditors of a large manufacturing company. The company has recently invested huge amount in Property, Plant and Equipment (PPE) for its new unit. They have added many incidental expenses to the cost of PPE. The junior audit team members are not sure about which costs should be excluded from the cost of PPE. Give examples of costs that should not form part of costs of PPE. (2 Marks)

#### OR

(B2)LD Ltd. has given below loans to the following borrowers during the financial year 2023-24. Mr. B an auditor wants your guidance regarding additional regulatory information required to be provided under the Companies Act, 2013: (2 Marks)

Borrowers	Maximum Loan granted during the year 2023-2024 (₹ in Lakh)	Outstanding Loan as at 31/03/2024 (₹ in Lakh)
X (Promoter)	20	15
Y (Director)	30	25
Z (KMP)	10	05
A (Related Party)	20	10
Others	80	65
Total	160	120

- (C) Mr. D an auditor, while auditing ACE Ltd., identified certain misstatements in relation to particular class of transactions and account balances. He had communicated same to those charged with governance and also taken written representation for the same. State the audit documentation required by the auditor regarding misstatements identified during the audit. (1.5 Marks)
- (D) During course of audit of branch of a nationalized bank, you find that system has generated a report marking ten term loan accounts as SMA. Discuss, meaning of SMA accounts and significance of such a classification.

  (1.5 Marks)



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Total Marks: 50 Master Test Series - 02 07/10/2024

### T.

### Financial Management General Instructions

- (1) The question paper is divided into two parts. Part A and Part B.
- (2) Part A consists of MCO and Case study MCO of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
- (4) All the questions are compulsory in nature.
- (5) Attempt all the questions.

Total Time: 90 Min.

(6) Part A has 5 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

### Part - A

### Multiple choice question (MCQ)

# 1. Case study MCQ (From A to E) (2 Marks × 5) = 10 Marks

ArMore LLP is a newly established startup dealing in manufacture of a revolutionary product HDHMR which is a substitute to conventional wood and plywood. It is an economical substitute for manufacture of furniture and home furnishing. It has been asked by a venture capitalist for an estimated amount of funds required for setting up plant and also the amount of circulating capital required. A consultant hired by the entity has advised that the cost of setting up the plant would be ₹ 5 Crores and it will require 1 year to make the plant operational. The anticipated revenue and associated cost numbers are as follows:

Units to be sold = 3 lakh sq metres p.a.

Sale Price of each sq mtr = ₹ 1000

Raw Material cost = ₹ 200 per sq mtr

Labour cost = ₹ 50 per hour

Labour hours per sq mtr = 3 hours

Cash Manufacturing Overheads = ₹ 75 per machine hour

Machine hours per sq mtr = 2 hours

Selling and credit administration Overheads = ₹ 250 per sq mtr

Being a new product in the industry, the firm will have to give a longer credit period of 3 months to its customers. It will maintain a stock of raw material equal to 15% of annual consumption. Based on negotiation with the creditors, the payment period has been agreed to be 1 month from the date of purchase. The entity will hold finished goods equal to 2 months of units to be sold. All other expenses are to be paid one month in arrears. Cash and Bank balance to the tune of ₹ 25,00,000 is required to be maintained.

The entity is also considering reducing the working capital requirement by either of the two options:

- (a) reducing the credit period to customers by a month which will lead to reduction in sales by 5%.
- (b) Engaging with a factor for managing the receivables, who will charge a commission of 2% of invoice value and will also advance 65% of receivables @ 12% p.a. This will lead to savings in administration and bad debts cost to the extent of ₹ 20 lakhs and ₹ 16 lakhs respectively.

The entity is also considering funding a part of working capital by bank loan. For this purpose, bank has stipulated that it will grant 75% of net current assets as advance against working capital. The bank has quoted 16.5% rate of interest with a condition of opening a current account with it, which will require 10% of loan amount to be minimum average balance.

You being an finance manager, has been asked the following questions:

- (A) The anticipated profit before tax per annum after the plant is operational is \_\_\_\_\_.
  - (1) 750 Lakhs
- (2) 570 Lakhs
- (3) 370 Lakhs
- (4) 525 Lakhs
- **(B)** The estimated current assets requirement in the first year of operation (debtors calculated at cost) is \_\_\_\_\_\_.
  - (1) 9,42,50,000
- (2) 2,17,08,333
- (3) 7,25,41,667
- (4) 67,08,333
- (C) The net working capital requirement for the first year of operation is \_\_\_\_\_.
  - (1) 9,42,50,000
- (2) 2,17,08,333
- (3) 7,25,41,667
- (4) 67,08,333



- **(D)** The annualised % cost of two options for reducing the working capital is \_\_\_\_\_.
  - (1) 18.18% and 16.92%
  - (2) 18.33% and 16.92%
  - (3) 18.59% and 18.33%
  - (4) 16.92% and 19.05%
- **(E)** What will be the Maximum Permissible Bank Finance by the bank and annualised % cost of the same?
  - (1) 4,55,03,630 and 18.33%
  - (2) 5,44,06,250 and 18.33%
  - (3) 4,45,86,025 and 18.59%
  - (4) 3,45,89,020 and 19.85%

### **General MCQs**

- 2. K Ltd. has a Quarterly cash outflow of Rs 9,00,000 arising uniformly during the Quarter. The company has an investment portfolio of Marketable Securities. It plans to meet the demands for cash by periodically selling marketable securities. The marketable securities are generating a return of 12% p.a. Transaction cost of converting investments to cash is Rs 60. The company uses Baumol model to find out the optimal transaction size for converting marketable securities into cash. Consider 360 days in a year. You are required to calculate: Company's average cash balance. (2 Marks)
  - (1) 30,000
- (2) 40,000
- (3) 50,000
- (4) 60,000

is that minimum level of investment in the current assets which is required at all times to carry out minimum level of business activities.

(1 Mark)

- (1) Permanent working capital
- (2) Temporary working capital
- (3) Fixed working capital
- (4) Variable working capital
- **4.** The following information is given below in case of SK Ltd.:

Earning per share	₹ 60
Capitalisation rate	15%
Return on investment	25%
Dividend payout ratio	30%

Compute price per share using Walter's Model.

(2 Marks)

- (1) Rs 589
- (2) Rs 586.67
- (3) Rs 678
- (4) Rs 567



#### Part - R

- 1. SK Ltd. has 10 lakh equity shares outstanding at the start of the accounting year. The existing market price per share is ₹ 150. Expected dividend is ₹ 8 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 10%.
  - (a) Calculate the market price per share when expected dividends are:
    - (i) declared, and
    - (ii) not declared, based on the Miller-Modigliani approach.
  - (b) Calculate the number of shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is  $\mathfrak{T}$  3 crore, investment budget is  $\mathfrak{T}$  6 crores when
    - (i) dividends are declared, and
    - (ii) dividends are not declared.
  - (c) Proof that the market value of the shares at the end of the accounting year will remain unchanged irrespective of whether
    - (i) dividends are declared, or
    - (ii) dividends are not declared

(10 Marks)

2. Consider the balance sheet of SK ltd. as on 31<sup>st</sup> December, 2022. The company has received a large order and anticipates the need to go to its bank to increase its borrowings. As a result, it has to forecast its cash requirements for January, February and March, 2023. Typically, the company collects 20 percent of this sales in the month of sale, 70 percent in the subsequent month, and 10 percent in the second month after the sale. All sales are credit sales.

Equity & liabilities	Amount (₹ in '000)	Assets	Amount (₹ in '000)
Equity share capital	100	Net fixed assets	1,836
Retained earnings	1,439	Inventories	545
Long-term borrowings	450	Accounts receivables	530
Accounts payables	360	Cash and bank	50
Loan from banks	400		
Other liabilities	212		
	2,961		2,961

Purchase of raw materials are made in the month prior to the sale and amounts to 60 percent of sales. Payments for these purchases occur in the month after the purchase. Labour costs, including overtime, are expected to be 1,50,000 in January,  $\stackrel{?}{\stackrel{?}{}} 2,00,000$  in February and  $\stackrel{?}{\stackrel{?}{}} 1,60,000$  in March. Selling, administrative, taxes and other cash expenses are expected to be  $\stackrel{?}{\stackrel{?}{}} 1,00,000$  per month for January through March. Actual sales in November and December and projected sales for January through April are as follows (in thousands):

Month	₹	Month	₹	Month	₹
November	500	January	600	March	650
December	600	February	1,000	April	750

On the basis of this information:

- (a) Prepare a cash budget and determine the amount of additional bank borrowings necessary to maintain a cash balance of ₹ 50,000 at all times for the months of January, February, and March.
- (b) Prepare a pro forma balance sheet as on 31st March 2022.

 $(5 \times 2 = 10 \text{ Marks})$ 

3. Current annual sales of SKD Ltd. is ₹ 360 lakhs. Its directors are of the opinion that company's current expenditure on receivables management is too high and with a view to reduce the expenditure they are considering following two new alternative credit policies:

	Policy X	Policy Y
Average collection period	1.5 months	1 month
% of default	2%	1%
Annual collection expenditure	₹ 12 lakhs	₹ 20 lakhs



Selling price per unit of product is ₹ 150. Total cost per unit is ₹ 120.

Current credit terms are 2 months and percentage of default is 3%.

Current annual collection expenditure is ₹ 8 lakhs. Required rate of return on investment of SKD Ltd. is 20%. Determine which credit policy SKD Ltd. should follow. (10 Marks)

4. What are the assumptions of Walter model. List any three limitations of Walter model. (5 Marks)



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Total Marks: 50 Master Test Series – 03 29/10/2024 Total Time: 90 Min.

### **Cost and Management Accounting**

### **General Instructions**

- (1) The question paper is divided into two parts. Part A and Part B.
- (2) Part A consists of MCQ and Case study MCQ of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
- (4) All the questions are compulsory in nature.
- (5) Attempt all the questions.
- (6) Part A has 4 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

### Part - A

# TOTAL MARKS 15 (CASE STUDY MCQ + MCQ) TOTAL 4 QUESTIONS

## **CASE STUDY MCQ**

- 1. M Ltd. is producing a single product and may expand into product diversification in next one to two years. M Ltd. is amongst a labour-intensive company where majority of processes are done manually. Employee cost is a major cost element in the total cost of the company. The company conventionally uses performance parameters Earnings per manshift (EMS) to measure cost paid to an employee for a shift of 8 hours, and Output per manshift (OMS) to measure an employee's output in a shift of 8 hours. The Chief Manager (Finance) of the company has emailed you few information related to the last month. The email contains the following data related to the last month: During the last month, the company has produced 2,34,000 tonnes of output. Expenditures for the last months are:
  - (i) Raw materials consumed ₹ 50,00,000
  - (ii) Power consumed 13,000 Kwh @ ₹ 8 per Kwh to run the machines for production.
  - (iii) Diesels consumed 2,000 litres @ ₹ 93 per litre to run power generator used as alternative or backup for power cuts.
  - (iv) Wages & salary paid ₹ 6,40,00,000

  - (vi) Hiring charges paid for HEMM- ₹ 30,00,000. HEMM are directly used in production.
  - (vii) Hiring charges paid for cars used for official purpose ₹ 66,000
  - (viii)Reimbursement of diesel cost for the cars ₹ 22,000
  - (ix) The hiring of cars attracts GST under RCM @5% without credit.
  - (x) Maintenance cost paid for weighing bridge (used for weighing of final goods at the time of dispatch) ₹ 12,000

- (xi) AMC cost of CCTV installed at weighing bridge (used for weighing of final goods at the time of dispatch) and factory premises is ₹8,000 and ₹18,000 per month respectively.
- (xii) TA/DA and hotel bill paid for sales manager-₹ 36,000
- (xiii)The company has 1,800 employees works for 26 days in a month.

 $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$ 

You are asked to calculate the followings:

- (A) What is the amount of prime cost incurred during the last month:
  - (1) ₹ 7,54,20,000
  - (2) ₹ 7,57,10,000
  - (3) ₹ 7,56,06,000
  - (4) ₹ 7,87,10,000
- **(B)** What is the total and per shift cost of production for last month:
  - (1) ₹7,87,10,000 and ₹336.37 respectively
  - (2) ₹7,87,10,000 and ₹1,681.84 respectively
  - (3) ₹7,87,28,000 and ₹1,682.22 respectively
  - (4) ₹ 7,87,28,000 and ₹ 336.44 respectively
- (C) What is the value of administrative cost incurred during the last month:
  - (1) ₹ 92,400
  - (2) ₹88,000
  - (3) ₹ 1,48,400
  - (4) ₹ 1,44,000
- **(D)** What is the value of selling and distribution cost and total cost of sales:
  - (1) ₹ 36,000 & ₹ 7,88,76,400 respectively
  - (2) ₹ 56,000 & ₹ 7,88,76,400 respectively
  - (3) ₹ 36,000 & ₹ 7,88,72,000 respectively
  - (4) ₹ 56,000 & ₹ 7,88,72,000 respectively



- **(E)** What is the value EMS and OMS for the last month:
  - (1) ₹ 1,504.70 & 5 tonnes respectively
  - (2) ₹ 1,367.52 & 5 tonnes respectively
  - (3) ₹ 1,504.70 & 4.37 tonnes respectively
  - (4) ₹ 1,367.52 & 4.37 tonnes respectively

### **General MCQs (5 Marks)**

2. Determine Profit when sales = 2,00,000BEP = 1,60,000 and Fixed cost = 40,000

(1 Mark)

- (1) 10,000
- (2) 20,000
- (3) 30,000
- (4) 40,000
- **3.** Calculate the employee hour rate of a worker S from the following data:

Basic pay ₹ 10,000 p.m. D.A. ₹ 3,000 p.m.

Fringe benefits ₹ 1,000 p.m.

Number of working days in a year 300. 20 days are availed off as holidays on full pay in a year. Assume a day of 8 hours. (2 Marks)

- (1) 80
- (2) 75
- (3) 90
- (4) 105

**4.** Find out the most appropriate unit cost from the following information of ZMD Transport Services Ltd. dealing in goods carriage:

Total cost = ₹ 5,25,000

Kms. Travelled = 8,75,000

Tonnes carries = 4.000

No. of Drivers = 25

No. of trucks = 20,

Tonnes Km carried = 6,55,000 (2 Marks)

- (1) 0.8
- (2) 0.10
- (3) 0.18
- (4) 0.60



#### Part . F

1. What is difference between allocation of overheads and apportionment of overheads?

(5 Marks)

2. (A) A group of 'Health Care Services' has decided to establish a Critical Care Unit in a metro city with an investment of ₹ 85 lakhs in hospital equipments. The unit's capacity shall be of 50 beds and 10 more beds, if required, can be added.

Other information for a year are as under:

	₹
Building Rent	2,25,000 per month
Manager Salary (Number of Manager - 03)	50,000 per month to each one
Nurses Salary (Number of Nurses - 24)	18,000 per month to each Nurse
Ward Boy's Salary (Number of Ward Boys - 24)	9,000 per month per person
Doctor's payment (Paid on the basis of number of patients attended	5,50,000 per month
and time spent by them)	
Food and laundry services (variable)	39,53,000
Medicines to patients (variable)	22,75,000 per year
Administrative Overheads	28,00,000 per year
Depreciation on equipments 15% per annum on original cos	

It was reported that for 200 days in a year 50 beds were occupied, for 105 days 30 beds were occupied and for 60 days 20 beds were occupied.

The hospital hired 250 beds at a charge of ₹ 950 per bed to accommodate the flow of patients. However, this never exceeded the normal capacity of 50 beds on any day. Find out:

- (i) Profit per patient day, if hospital charges on an average ₹ 2,500 per day from each patient
- (ii) Break-even point per patient day (Make calculation on annual basis)

(5 Marks)

**(B)** SK engineering factory fabricates machine parts to customers. The factory commenced fabrication of 12 Nos. machine parts to customer's specifications and the expenditure incurred on the job for the week ending 21<sup>st</sup> August, is given below:

	(₹)	(₹)
Direct materials (all items)		78.00
Direct labour (manual) 20 hours @ ₹ 1.50 per hour		30.00
Machine facilities:		
Machine No. 1: 4 hours @ ₹ 4.50	18.00	
Machine No. II: 6 hours @ ₹ 6.50	39.00	57.00
Total		165.00
Overheads @ ₹ 0.80 per hour on 20 manual hours		16.00
Total cost		181.00

The overhead rate of ₹ 0.80 per hour is based on 3,000 man hours per week; similarly, the machine hour rates are based on the normal working of Machine Nos. I and II for 40 hours out of 45 hours per week. After the close of each week, the factory levies a supplementary rate for the recovery of full overhead expenses on the basis of actual hours worked during the week. During the week ending 21<sup>st</sup> August, the total labour hours worked was 2,400 and machine Nos. I and II had worked for 30 hours and 32½ hours respectively. Prepare a cost sheet for the job for the fabrication of 12 Nos. machine parts duly levying the supplementary rates.

(5 Marks)

**3.** PQR Ltd. is engaged in the production of three products P, Q and R. The company calculates Activity Cost Rates on the basis of Cost Driver capacity which is provided as below:

Activity	Cost Driver	<b>Cost Driver Capacity</b>	Cost (₹)
Direct Labour Hours	Labour Hours	30,000 Labour Hours	3,00,000
Production runs	No. of Production runs	600 Production runs	1,80,000
Quality Inspections	No. of Inspections	8000 Inspections	2,40,000



The consumption of activities during the period is as under:

Activity/Products	P	Q	R
Direct Labour Hours	10,000	8,000	6,000
Production runs	200	180	160
Quality Inspections	3,000	2,500	1,500

You are required to:

- (i) Compute the cost allocated to each Product from each Activity.
- (ii) Calculate the cost of unused capacity for each activity
- (iii) A potential customer has approached the company for supply of 12,000 units of net product 'S' to be delivered in lots of 1,500 units per quarter. This will involve an initial design cost of ₹ 30,000 and per quarter production will involve the following:

e e e e e e e e e e e e e e e e e e e	
Direct Material	₹ 18,000
Direct Labour hours	1,500 hours
No. of Production runs	15
No. of Quality Inspection	250

Prepare cost sheet segregating direct and indirect cost and compute the sales value per quarter of product 'S' using ABC system considering a markup of 20% on cost. (10 Marks)

**4.** Following are the figures extracted form the Cost Ledger of a manufacturing unit.

Stores	₹
Opening balance	15,000
Purchases	80,000
Transfer from WIP	40,000
Issue to WIP	40,000
Issue to repairs and maintenance	10,000
Sold as a special case at cost	5,000
Shortage in the year	3,000
Work-in-Process:	
Opening inventory	30,000
Direct labour cost charged	30,000
Overhead cost charged	1,20,000
Closing balance	20,000
Finished Products:	
Entire output is sold at 10% profit on actual cost from work-in-process.	
Others:	
Wages for the period	35,000
Overhead expenses	1,25,000
Ascertain the profit or loss as per financial accounts and cost accounts and reconcile them.	

(10 Marks)



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### **Master Test Series - 03**

### Time Allowed- 1.5 Hours

### **Maximum Marks-50**

### Audit and Ethics

### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 90 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

#### Part - A

**Multiple choice question (MCQ)** 

(Case Scenario I carries 5 Marks)

(Case Scenario II carries 4 Marks)

(Case Scenario III carries 3 Marks)

General MCQs (3 MCQs  $\times$  1 Mark each = 3 Marks)

### Case Scenario - I

# Directions (1-5) Read the following passage and answer the given questions.

XYZ Corp. is a medium-sized manufacturing company that has recently undergone an audit for the financial year ending December 31, 2023. The prior year's (2022) financial statements were audited by a predecessor auditor, who issued an unmodified opinion. However, during the current audit, the auditor discovered a significant misstatement in the 2022 financial statements related to inventory valuation, which had not been rectified in 2023.

- 1. The current auditor, upon review, finds that the prior year's financial statements contained a material misstatement regarding inventory that was not addressed.
- 2. The auditor considers the implications for the audit opinion on the 2023 financial statements and the corresponding figures from 2022.
- 3. The prior period financial statements were audited by a predecessor auditor, who issued an unmodified opinion despite the material misstatement.
- 4. The current auditor decides to modify the opinion on the 2023 financial statements due to the unresolved issue from the prior year.

In the auditor's report for the financial year ending December 31, 2023, the auditor includes a Basis for Modification paragraph that outlines the material misstatement and its implications for the comparability of the current period's figures with the prior period's figures.

Based on above, answer the following questions:

- 1. What action must the current auditor take if they discover a material misstatement in the prior period's financial statements that was not addressed?
  - (1) Issue an unmodified opinion for the current period.
  - (2) Express a qualified opinion or adverse opinion for the current period.
  - (3) Ignore the misstatement as it pertains to the past.
  - (4) Only refer to the prior period figures without any modification.
- 2. In which circumstance can the auditor refer to the corresponding figures in their opinion?
  - (1) When the corresponding figures are fully accurate.
  - (2) If the auditor's report on the prior period included an unmodified opinion.
  - (3) If the matter leading to modification is unresolved and affects the current period's figures materially.
  - (4) Only if the current period's figures are also misstatement-free.
- **3.** If the prior period financial statements were not audited, what must the current auditor include in their report?
  - (1) statement that the financial statements are completely accurate.
  - (2) An Other Matter paragraph stating that the corresponding figures are unaudited.
  - (3) No mention of the prior period figures is necessary.
  - (4) A reference to the current year's opinion only.



- **4.** When the prior period financial statements were audited by a predecessor auditor, what information must the current auditor include if they decide to refer to the predecessor's report?
  - (1) Just the opinion type expressed by the predecessor auditor.
  - (2) The predecessor auditor's report date only.
  - (3) The fact that the prior period statements were audited, the opinion type, and the report date.
  - (4) No need to include any predecessor auditor information.
- 5. If the effects of a prior period misstatement on current financial statements are not material, what should the auditor do?
  - (1) Modify the opinion to highlight the issue.
  - (2) Provide no mention of the prior period figures.
  - (3) Issue a disclaimer of opinion.
  - (4) State in the report that the prior misstatement is resolved.

# Case Scenario – II Directions (6-9) Read the following passage and answer the given questions.

CA Piyush is understanding internal controls as part of audit exercise of a company.

It is a new client. He has studied controls in place in various operational areas of the company. After studying and gaining an understanding of such controls, he has decided to test few controls to actually see whether these are operating as intended by the management.

Till now, he has studied controls over inventories and bank. Few of such controls are listed below:

Nature of	Control description
Control	
Control	Inventories of the company
over	lying at each location should
inventories	be insured.
Control	There should be inventory
over	counts on a regular basis for
inventories	each location of the company.
Control	Bank reconciliations are to be
over Bank	performed at regular
operations	intervals.

Based on above description, answer the following questions:

- **6.** Which of the following most appropriately describes test of control regarding insurance of inventories?
  - (1) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. The sum insured and period of validity of policy are not relevant.
  - (2) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.
  - (3) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure policy period has not expired.
  - (4) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. Ensure policy period has not expired.
- **7.** Which of the following most appropriately describes test of control regarding inventory counts?
  - (1) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure.
  - (2) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count.
  - (3) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.
  - (4) Attend inventory count and perform test count.
- **8.** While testing control over bank reconciliations, it has been noticed that bank reconciliations are not being performed at regular intervals. Identify the most appropriate description of "control deficiency" in this regard:
  - (1) Bank reconciliations are not being performed regularly as concerned staff is overburdened.
  - (2) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors.



- (3) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.
- (4) Bank reconciliations are not being performed regularly as concerned staff is overburdened. These should be performed monthly and reviewed by senior accountant.
- **9.** Since the company is a new client, which of the following statements is most appropriate?
  - (1) There is reduced detection risk
  - (2) There is increased detection risk
  - (3) There is no effect on detection risk
  - (4) Detection risk should be increased to lower audit risk.

#### Case Scenario – III

# Directions (10-12) Read the following passage and answer the given questions.

Financial statements of a firm have been put up for audit before CA Manushi. On going through financial statements, she wants to verify assertions contained in financial statements and has planned certain procedures for carrying out detailed checking.

- (a) She plans to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.
- (b) She plans to verify that all balances appearing under trade payables are genuine and not fake.
- (c) She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.
- (d) She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.
- (e) The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.

# Based on above, answer the following questions:

10. As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform?

- (1) Tests of Controls
- (2) Tests of transactions
- (2) Tests of balances
- (4) Risk assessment procedures
- 11. As regards comparison of wages of current year and last year and comparison of relationship between the number of employees and wages paid in both years, identify what she is trying to do?
  - (1) She is intending to perform tests of details
  - (2) She is intending to perform tests of transactions
  - (3) She is intending to perform tests of balances
  - (4) She is intending to perform substantive analytical procedures.
- **12.** She wants to verify whether conversion of foreign currency into Indian rupees is proper or not.

Identify what she is trying to do?

- (1) Re-performanace
- (2) Recalculation
- (3) Observation
- (4) Inspection
- **13.** Why is the auditor required to seek audit evidence about the validity and reasonableness of management's refusal reasons?
  - (1) To accuse management of fraud.
  - (2) To revise the financial statements.
  - (3) Due to the risk of management denying access to evidence revealing fraud or error.
  - (4) As a routine procedure in every audit.
- **14.** Which of the following is not a risk to a company's internal control due to its IT environment?
  - (1) Potential loss of data
  - (2) Inability to access data when required
  - (3) Unauthorized access to data
  - (4) Processing of large volumes of data
- **15.** Which of the following is not an objective of a company's policies for ensuring "internal financial controls"?
  - (1) Efficient conduct of business
  - (2) Safeguarding of assets
  - (3) Prevention and detection of frauds and errors
  - (4) Assessing audit risk



#### Part – B

#### **Descriptive Questions**

#### Question No. 1 is compulsory.

#### Attempt any four questions from the Rest.

- **1. (A)** CA Q is the engagement partner for the audit of a Departmental store. As a part of the risk assessment procedure, he wants to make inquiries of the management and others within the entity. What kind of information can the auditor get by inquiring from the following?
  - (i) Internal audit personnel
  - (ii) In-house legal counsel
  - (iii) Marketing or sales personnel
  - (iv) Information systems personnel

(2 Marks)

- (B) The statutory auditor of MNO Ltd., CA Kishore identifies certain inconsistencies while applying analytical procedures to the financial and non-financial data of MNO Ltd. What should CA Kishore do in this case with reference to SA 520 on "Analytical Procedures"? (2 Marks)
- (C) M/s T and Co. Chartered Accountants, a partnership firm, is appointed as an auditor of Treatment Hospital run by Smile Foundation, a charitable trust. Over and above the receipts of treatment of patients, during the year trust has received donations from various donors to treat COVID-19 patients and also incurred some capital expenditure for further development of the hospital. On some of the investment income, income tax has been deducted. What are the special points to be considered by M/s T and Co. while auditing such transactions of Treatment Hospital? (1.5 Marks)
- (D) The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of examples.

  (1.5 Marks)
- 2. (A) Discuss the reporting requirements as per CARO, 2020, regarding:
  - (i) Statutory Dues
  - (ii) Transactions with Related Parties

(2 Marks)

**(B)** Cinescreen Multiplex Ltd. is operating cinemas in different locations in Mumbai and has appointed you as an internal auditor. What are the areas that need to be verified in relation to receipts from sale of Tickets?

(2 Marks)

- (C) CA Arpita has joined a mid-sized CA firm recently. She finds that partners remain too busy and the firm is proposing to accept audit work in areas in which it has no experience or capabilities. The firm is proposing to accept audit of some entities engaged in emerging "fin-tech" sector. Such audits may be requiring extensive use of technology and data analytics. However, the said firm has no such capabilities and trained personnel. Discuss, whether, firm should accept such audits with reason.

  (1.5 Marks)
- (D) CA E is auditor of LM Ltd. Before commencing with current year's audit, he initiated planning for the audit. Planning includes the need to consider certain matters, prior to the identification and assessment of the risk of material misstatements. Enumerate such matters. (1.5 Marks)
- 3. (A) CA Aarav wants to verify the payments made by XYZ Ltd. on account of building rent during the FY 2022-23. The rent amounts to ₹50,000/- per month for the year. The monthly rent payments are consistent with the rent agreement. However, the other companies in the similar industry are paying rent of ₹ 10,000/- per month for a similar location. How will applying the analytical procedures impact the verification process of such rental payments by XYZ Ltd.? (2 Marks)
  - (B) According to 'Propriety audit', the auditors try to bring out cases of improper, avoidable, or ineffective expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Some general principles have been laid down in the Audit Code, which have for long been recognised as standards of financial propriety. Mention above stated principles. (2 Marks)



- (C) CA. S, while conducting audit of an entity is facing the following issues:
  - (i) He has not been provided with necessary support for attending inventory count process of entity as at year end.
  - (ii) Accounts Manager is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.
  - (iii) He was not able to verify revenues of entity due to lack of complete details.
  - (iv) He has been asking for bills on a sample basis for the purpose of verifying expenses, but staff has been making lame excuses.

The matter was brought to knowledge of higher management, but of no avail. The auditor, CA S has come to the conclusion that the possible effects on the financial statements of undetected misstatements would be material and affecting many aspects of financial statements and in such a case, a qualification of the opinion would be inadequate to communicate the gravity of the situation.

How should the auditor proceed in such a situation?

(1.5 Marks)

- (D) JK Ltd. has opened a new manufacturing unit and for that they want plant and machinery. Since the capital outflow will be huge, they are considering of taking it on lease. They have approached several parties and have shortlisted one of them who is ready to give the plant on lease for 11 years, which is approximately the estimated economic life of the asset. As per the agreement, JK Ltd. will bear the insurance and maintenance expenses of the asset. Which kind of lease agreement have JK Ltd. entered into and what is the ownership status, the accounting treatment and the tax benefits of the same? (1.5 Marks)
- **4. (A)** In case of Government entities, audit of accounts of stores and inventories has been developed as a part of expenditure audit. Discuss about the duties and responsibilities entrusted to CandAG. **(2 Marks)** 
  - (B) You have been appointed as an auditor of ABC Hotel, a three star hotel, for Financial Year 2021- 22. As an auditor what are the special points that need to be considered in verifying the Inventories in the nature of food and beverages? (2 Marks)
  - (C) The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers. Explain any 4 duties of C and AG. (1.5 Marks)
  - (D) When auditor identifies deficiencies and report on internal controls, he determines the significant financial statement assertions that are affected by the ineffective controls in order to evaluate the effect on control risk assessments and strategy for the audit of the financial statements. Explain (1.5 Marks)
- **5. (A)** While applying the Substantive Analytical Procedures what techniques can be used by the statutory auditor of a company to obtain sufficient and appropriate audit evidence? **(2 Marks)** 
  - (B) The auditors of an NGO registered under the Societies Registration Act, 1860 (or under any law corresponding to this Act, in force in any part of India) or the Indian Trusts Act 1882 are normally appointed by the Management of the Society or Trust. What are the major points an auditor should keep in mind while planning the audit of NGO?

    (2 Marks)
  - (C) You are appointed as the auditor of a company manufacturing paints. The company has a robust system of internal control. Most of the controls in the company are automated and they are working effectively. However, in certain situations, manual elements in internal controls are more suitable. What are the circumstances where manual elements in internal controls may be more suitable? (1.5 Marks)
  - (**D**) "An auditor is required to make specific evaluations while forming an opinion in an audit report." State those evaluations.

    (1.5 Marks)



- **6. (A)** The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of at least three examples. **(2 Marks)** 
  - (B1) Mention some examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. (2 Marks)

OR

- **(B2)** State the important objectives of Local bodies Audit.
- (C) Ban LLP is formed during the year 2023-24. They are not sure about the type of books of accounts to be maintained. What are the books of accounts that the LLP is required to maintain? (1.5 Marks)
- (**D**) Explain the factors to be considered while determining the extent of checking on a sampling plan.

(1.5 Marks)



PW Web/App - https://smart.link/7wwosivoicgd4

Library- https://smart.link/sdfez8ejd80if

Feedback- https://forms.gle/tZpnxPhzQof2s4pn8



Total Marks: 50 Master Test Series - 03 04/11/2024

### Total Time: 90 Min.

#### **Financial Management**

#### **General Instructions**

- (1) The question paper is divided into two parts. Part A and Part B.
- (2) Part A consists of MCQ and Case study MCQ of 15 marks.
- (3) Part B consists of Subjective and numerical questions of 35 marks.
- (4) All the questions are compulsory in nature.
- (5) Attempt all the questions.
- (6) Part A has 5 Questions (MCQ + Case Study MCQ) and Part B has 4 Questions. (Subjective)

#### Part - A

#### Multiple choice question (MCQ)

- 1. Case study MCQ (From A to E) (2 Marks × 5) = 10 Marks
  - Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of ₹ 10,000 and since then it has raised funds by IPO taking the total paid up capital to ₹ 1 crore comprising of fully paid-up equity shares of face value ₹ 10 each. The company currently has undistributed reserves of ₹ 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. The current EPS is estimated as ₹ 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of ₹ 1,20,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4 x. The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer ₹ 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds. The preference shares will have a face value of ₹ 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of 5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed. The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of ₹ 25,00,000 p.a. Assume marginal tax rate to be 27%.
- (A) Which of the following is best estimate of cost of equity for Tiago Ltd?
  - (1) 12.99%
  - (2) 11.99%
  - (3) 13.99%
  - (4) 14.99%
- **(B)** Which of the following is the most accurate measure of issue price of debentures?
  - (1) 100
  - (2) 96
  - (3) 90.58
  - (4) 95.88
- (C) Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)
  - (1) 7.64%
  - (2) 6.74%
  - (3) 4.64%
  - (4) 5.78%
- (**D**) Calculate the cost of preference shares using approximation method
  - (1) 10.23%
  - (2) 11.22%
  - (3) 12.12%
  - (4) 12.22%
- **(E)** Which of the following best represents the overall cost of marginal capital to be raised?
  - (1) 11.76%
  - (2) 17.16%
  - (3) 16.17%
  - (4) 16.71%



#### **General MCQs**

- 2. Given Data: Sales is ₹ 10,00,000, Break even sales is ₹ 6,00,000. What is the Degree of operating leverage? (2 Marks)
  - (1) 3
  - (2) 2
  - (3) 2.5
  - (4) 2
- **3.** Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

**Option 1:** 

Equity Shares 25,000 @ ₹ 100

Option 2:

Equity Shares 10,000 @ ₹ 10012% Preference Shares 5,000 @ ₹ 10010% Debentures 10,000 @ ₹ 100

What is the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.

(2 Marks)

- (1) ₹ 2,94,872; ₹ 11.80
- (2) ₹ 3,20,513; ₹ 8.33
- (3) ₹ 2,94,872; ₹ 7.67
- (4) ₹ 3,20513; ₹ 12.82

		(1 Mark)
	its threats and	its weakness.
	organization's opportunities and	strengths while
4.	The goal of SWOT analysis is	to the

- (1) avoid; neutralizing; correcting
- (2) exploit; neutralizing; correcting
- (3) avoid; capitalizing; neutralizing
- (4) exploit; avoiding; ignoring



#### Part - R

1. Define strategic management and also discuss the limitations of strategic management?

(5 Marks)

2. HMR Ltd. is considering replacing a manually operated old machine with a fully automatic new machine. The old machine had been fully depreciated for tax purpose but has a book value of ₹ 2,50,000 on 31<sup>st</sup> March. The machine has begun causing problems with breakdowns and it cannot fetch more than ₹ 40,000 if sold in the market at present. It will have no realizable value after 10 years. The company has been offered ₹ 1,50,000 for the old machine as a trade in on the new machine which has a price (before allowance for trade in) of ₹ 6,00,000. The expected life of new machine is 10 years with salvage value of ₹ 35,000.

Further, the company follows written down value method depreciation @ 10% but for tax purpose, straight line method depreciation is used considering that this is the only machine in the block of assets. A working capital of ₹ 50,000 will be needed and it will be released at the end of tenth year.

Given below are the expected sales and costs from both old and new machine:

	Old machine	New machine
Annual output	60,000 units	80,000 units
Selling price per unit	₹ 18	₹ 18
Annual operating hours	2,800	2,800
Material cost per unit	₹ 5	₹5
Labour cost per hour	₹ 50	₹ 75
Indirect cash cost per annum	₹ 1,00,000	₹ 1,75,000

From the above information, ANALYSE whether the old machine should be replaced or not if the opportunity cost of capital of the Company is 10%?

The Income tax rate is 30%. Further assume that book profit is treated as ordinary income for tax purpose.

Also ESTIMATE the internal rate of return of the replacement decision.

All the calculations are made upto 3 places of decimal.

(10 Marks)

3. (A) Kalyanam Ltd. has an operating profit of ₹ 34,50,000 and has employed Debt which gives total Interest Charge of ₹ 7,50,000. The firm has an existing cost of equity and cost of debt as 16% and 8% respectively. The firm has a new proposal before it, which requires funds of ₹ 75 lakhs and is expected to bring an additional profit of ₹ 14,25,000. To finance the proposal, the firm is expecting to issue an additional debt at 8% and will not be issuing any new equity shares in the market. Assume no tax culture. [SM]

You are required to calculate the Weighted Average Cost of capital (WACC) of Kalyanam Ltd:

- (a) Before the new proposal
- (b) After the new proposal

(6 Marks)

(B) "The bargaining power of suppliers determines an industry's attractiveness and profitability." Discuss

(4 Marks)

- **4. (A)** A factoring firm has offered a company to buy its accounts receivables. The relevant information is given below:
  - (i) The current average collection period for the company's debt is 80 days and ½% of debtors default. The factor has agreed to pay over money due to the company after 60 days and it will suffer all the losses of bad debts also.
  - (ii) Factor will charge commission @2%.
  - (iii) The company spends ₹ 1,00,000 p.a. on administration of debtor. These are avoidable costs.
  - (iv) Annual credit sales are ₹ 90 lakhs. Total variable costs is 80% of sales. The variable costs is 80% of sales. The company's cost of borrowing is 15% per annum. Assume 365 days in a year. Should the company enter into agreement with factoring firm?(5 Marks)



(B) Airlines industry in India is highly competitive with several players. Businesses face severe competition and aggressively market themselves with each other. Luxury jet is a private Delhi based company with a fleet size of 9 small aircrafts with seating capacity ranging between 6 seats to 9 seats. These aircrafts are chartered by big business houses and high net worth individuals for their personalised use. With customised tourism packages their aircrafts are also often hired by foreigners. Identify and explain the Michael Porter's Generic Strategy followed by luxury Jet. (5 Marks)



PW Web/App - https://smart.link/7wwosivoicgd4

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Feedback- https://forms.gle/tZpnxPhzQof2s4pn8



Total Marks: 100 Master Test Series – 04 18/11/2024

#### **Cost and Management Accounting**

#### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises Multiple Choice Questions and Case study (MCQs). Total Question is 7. Total Marks is 30.
- (3) Part-B comprises questions which require descriptive type answers. Total Questions is 6. Question 1 is compulsory. Attempt any four questions from the Rest. Total Marks is 70.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 180 minutes

**Total Time: 3 Hours** 

- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) Working is important to show wherever necessary.

#### Part - A

#### **CASE STUDY MCQ**

- 1. A meeting of the heads of departments of the Arnay Ltd. has been called to review the operating performance of the company in the last financial year. The head of the production department appraised that during the last year the company could operate at 70% capacity level but in the coming financial year 95% capacity level can be achieved if an additional amount of ₹ 100 Crore on capex and working capital is incurred. The head of the finance department has presented that during the last financial year the company had a P/V ratio of 40%, margin of safety and the breakeven were ₹ 50 crore and ₹ 200 crore respectively. To the reply to the proposal of increasing the production capacity level to 95%, the head of the finance department has informed that this could be achieved if the selling price and variable cost are reduced by 8% and 5% of sales respectively. Fixed cost will also increase by ₹ 20 crore due to increased depreciation on additional assets. The additional capital will be arranged at a cost of 15% p.a. from a bank. In the coming financial year, it has been aimed to achieve an additional profit of ₹ 10 crore over and above the last year's profit after adjusting the interest cost on the additional capital. The following points is required to be calculated on urgent basis to put the same in the meeting. You being an assistant to the head of finance, has been asked the followings:
  - $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$
  - (A) What will be the revised sales for the coming financial year?
    - (1) ₹ 322.22 Crore
    - (2) ₹ 311.11 Crore
    - (3) ₹ 300.00 Crore
    - (4) ₹ 324.24 Crore

- **(B)** What will be the revised break-even point for the coming financial year?
  - (1) ₹ 222.22 Crore
  - (2) ₹ 252.22 Crore
  - (3) ₹ 244.44 Crore
  - (4) ₹ 255.56 Crore
- (C) What will be the revised margin of safety for the coming financial year?
  - (1) ₹ 100 Crore
  - (2) ₹ 58.89 Crore
  - (3) ₹ 55.56 Crore
  - (4) ₹ 66.66 Crore
- **(D)** The profit of the last year and for the coming year are:
  - (1) ₹ 50 Crore and ₹ 95 Crore respectively
  - (2) ₹ 20 Crore and ₹ 65 Crore respectively
  - (3) ₹ 20 Crore and ₹ 30 Crore respectively
  - (4) ₹ 45 Crore and ₹ 66.66 Crore respectively
- **(E)** The total cost of the last year and for the coming year are:
  - (1) ₹ 230 Crore and ₹ 292.22
  - (3) ₹ 230 Crore and ₹ 275 Crore
  - (4) ₹ 220 Crore and ₹ 282.22 Crore
  - (4) ₹ 220 Crore and ₹ 292.22 Crore
- 2. M Ltd. is producing a single product and may expand into product diversification in next one to two years. M Ltd. is amongst a labour-intensive company where majority of processes are done manually. Employee cost is a major cost element in the total cost of the company. The company conventionally uses performance parameters



Earnings per manshift (EMS) to measure cost paid to an employee for a shift of 8 hours, and Output per manshift (OMS) to measure an employee's output in a shift of 8 hours. The Chief Manager (Finance) of the company has emailed you few information related to the last month. The email contains the following data related to the last month: During the last month, the company has produced 2,34,000 tonnes of output. Expenditures for the last months are:

- (i) Raw materials consumed ₹ 50,00,000.
- (ii) Power consumed 13,000 Kwh @ ₹ 8 per Kwh to run the machines for production.
- (iii) Diesels consumed 2,000 litres @ ₹ 93 per litre to run power generator used as alternative or backup for power cuts.
- (iv) Wages and salary paid  $\ge 6,40,00,000$
- (v) Gratuity and leave encashment paid ₹ 64,20,000
- (vi) Hiring charges paid for HEMM- ₹ 30,00,000. HEMM are directly used in production.
- (vii) Hiring charges paid for cars used for official purpose ₹ 66,000
- (viii)Reimbursement of diesel cost for the cars ₹ 22.000
- (ix) The hiring of cars attracts GST under RCM @5% without credit.
- (x) Maintenance cost paid for weighing bridge (used for weighing of final goods at the time of dispatch) ₹ 12,000
- (xi) AMC cost of CCTV installed at weighing bridge (used for weighing of final goods at the time of dispatch) and factory premises is ₹8,000 and ₹18,000 per month respectively.
- (xii) TA/DA and hotel bill paid for sales manager-₹ 36,000
- (xiii)The company has 1,800 employees works for 26 days in a month.

#### $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$

- (A) What is the amount of prime cost incurred during the last month:
  - (1) ₹ 7,54,20,000
  - (2) ₹ 7,57,10,000
  - (3) ₹ 7,56,06,000
  - (4) ₹ 7,87,10,000
- **(B)** What is the total and per shift cost of production for last month:

  - (2) ₹7,87,10,000 and ₹1,681.84 respectively
  - (3) ₹7,87,28,000 and ₹1,682.22 respectively
  - (4) ₹ 7,87,28,000 and ₹ 336.44 respectively

- (C) What is the value of administrative cost incurred during the last month:
  - (1) ₹ 92,400
  - (2) ₹88,000
  - (3) ₹ 1,48,400
  - (4) ₹ 1,44,000
- **(D)** What is the value of selling and distribution cost and total cost of sales:
  - (1) ₹ 36,000 and ₹ 7,88,76,400 respectively
  - (2) ₹ 56,000 and ₹ 7,88,76,400 respectively
  - (3) ₹ 36,000 and ₹ 7,88,72,000 respectively
  - (4) ₹ 56,000 and ₹ 7,88,72,000 respectively
- **(E)** What is the value EMS and OMS for the last month:
  - (1)  $\ge$  1,504.70 and 5 tonnes respectively
  - (2)  $\neq$  1,367.52 and 5 tonnes respectively
  - (3)  $\ge$  1,504.70 and 4.37 tonnes respectively
  - (4)  $\ge$  1,367.52 and 4.37 tonnes respectively

#### General MCQs (10 Marks)

3. A Ltd. a toy company purchases its requirement of raw material from S Limited at ₹ 120 per kg. The company incurs a handling cost of ₹400 plus freight of ₹ 350 per order. The incremental carrying cost of inventory of raw material is ₹ 0.25 per kg per month. In addition, the cost of working capital finance on the investment in inventory of raw material is ₹ 15 per kg per annum. The annual production of the toys is 60,000 units and 5 units of toys are obtained from one kg of raw material. Required:

Calculate the Economic Order Quantity (EOQ) of raw materials and frequency of order. (2 Marks)

- (1) 1000 KG, 30 days
- (2) 2000 KG, 14 days
- (3) 3000 KG, 15 days
- (4) 4000 KG, 17 days
- **4.** SK company has established the following standards for factory overheads.

Variable overhead per unit = Rs 10

Fixed overheads per month = Rs 1,00,000

Capacity of the plant 20,000 units per month.

The actual data for the month are as follows:

Actual overheads incurred = Rs 3,00,000

Actual output (units) = 15,000 units

Calculate Production volume variance.

(2 Marks)

- (1) Rs 30,000
- (2) Rs 25,000
- (3) Rs 45,000
- (4) Rs 90,000



- 5. During a particular period, ABC Ltd. has furnished the following data: [Jan 2021] Sales ₹ 10,00,000 Contribution to sales ratio 37% and Margin of safety is 25% of sales A decrease in selling price and decrease in the fixed cost could change the "contribution to sales ratio" to 30% and "margin of safety" to 40% of the revised sales. Calculate: Revised fixed cost. (2 Marks)
  - (1) Rs 1,62,000
  - (2) Rs 1,50,000
  - (3) Rs 3,15,000
  - (4) None of the above
- 6. A customer has been ordering 80,000 caps during the year. It is estimated that it costs ₹ 1 as inventory holding cost per cap per month and that the set-up cost per run of cap manufacture is ₹ 3,500. What is optimum run size of cap manufacture? (2 Marks)
  - (1) 12 runs
  - (2) 10 runs
  - (3) 15 runs
  - (4) 7 runs

- 7. Based on the data below, what is the amount of the overhead under-/over absorbed? (2 Marks)

  Budgeted overhead– Rs 5,25,000

  Budgeted machine hours– 17,500

  Actual machine hours– 17,040

  Actual overheads– Rs 5,20,000
  - (1) 5,000 under-absorbed
  - (2) 8,800 under-absorbed
  - (3) 8,800 over-absorbed
  - (4) 5,000 over-absorbed



#### Part - B

- **1. (A)** Maharatna Ltd., a public sector undertaking (PSU), produces product A. The company is in process of preparing its revenue budget for the year 2022. The company has the following information which can be useful in preparing the budget:
  - (i) It has anticipated 12% growth rate in sales volume from the year 2021 of 4,20,000 tonnes.
  - (ii) The sales price of ₹23,000 per tonne will be increases by 10% provided Wholesale Price Index (WPI) increases by 5%.
  - (iii) To produce one tonne of product A, 2.3 tonnes of raw material are required. The raw material cost is ₹ 4,500 per tonne. The price of raw material will also increase by 10% if WPI increases by 5%.
  - (iv) The projected increase in WPI for 2022 is 4%.
  - (v) A total of 6,000 employees works for the company. The company works 26 days in a month.
  - (vi) 85% of employees of the company are permanent and getting salary as per 5-year wage agreement. The earnings per manshift (means an employee cost for a shift of 8 hours) is ₹ 3,000 (excluding terminal benefits). The new wage agreement will be implemented from 1<sup>st</sup> July 2022 and it is expected that a 15% increase in pay will be given.
  - (vii) The casual employees are getting a daily wage of ₹ 850. The wages is liked to Consumer Price Index (CPI). The present CPI is 165.71 points and it is expected to be 173.59 points in 2022.
  - (viii) Power cost for the year 2021 is ₹ 42,00,000 for 7,00,000 units (1 unit = 1 Kwh). 60% of power is used for production purpose (directly related to production volume) and remaining are for employee quarters and administrative offices.
  - (ix) During the year 2021, the company has paid ₹ 60,00,000 for safety and maintenance works. The amount will increase in proportion to the volume of production.
  - (x) During the year 2021, the company has paid ₹ 1,20,000 for the purchase of diesel to be used in car hired for administrative purposes. The cost of diesel will increase by 15% in year 2022.
  - (xi) During the year 2021, the company has paid ₹ 6,00,000 for car hire charges (excluding fuel cost). In year 2022, the company has decided to reimburse the diesel cost to the car rental company. Doing this will attract 5% GST on Reverse Charge Mechanism (RCM) basis on which the company will not get GST input credit.
  - (xii) Depreciation on fixed assets for the year 2021 is ₹ 80,40,00,000 and it will be 15% lower in 2022. Required to prepare revenue (Flexible) budget for the year 2022 and also the show the budgeted profit/loss for the year. (10 Marks).
  - **(B)** The following data relates to the manufacture of a standard product during the month of April:

Raw materials (₹) 1,80,000

Direct wages (₹) 90,000

Machine hours worked (hours) 10,000

Machine hour rate (per hour) 8

Administration overheads (general) (₹) 35,000

Selling overheads ₹ 5 per unit

Units produced 4,000

Units Sold 3,600

Selling price per unit (₹) 125

You are required to prepare a cost sheet in respect of the above, showing:

- (a) Cost per unit of goods produced
- (b) Profit for the month

(4 Marks)

**2. (A)** MRSL Healthcare Ltd. has incurred the following expenditure during the last year for its newly launched 'COVI-19' Insurance policy:

	₹
Office administration cost	48,00,000
Claim management cost	3,80,000
Employees' cost	16,20,000
Postage and logistics	32,40,000
Policy issuance cost	29,50,000



Facilities cost	46,75,000
Cost of marketing of the policy	1,38,90,000
Policy development cost	35,00,000
Policy servicing cost	96,45,000
Sales support expenses	32,00,000
IT cost	?

Number of Policy sold: 2,800

Total insured value of policies - ₹3,500 crores

Cost per rupee of insured value - ₹0.002

You are required to:

- (i) Calculate the total cost for "COVID-19" Insurance policy segregating the costs into four main activities namely
  - (a) Marketing and Sales support
  - (b) operations
  - (c) IT Cost and
  - (d) Support functions.
- (ii) Calculate cost per policy

(6 Marks)

**(B)** Premier Industries has a small factory where 52 workers are employed on an average for 25 days a month and they work 8 hours per day. The normal down time is 15%. The firm has introduced standard costing for cost control. Its monthly budget for November, 2020 shows that the budgeted variable and fixed overhead are ₹ 1,06,080 and ₹ 2,21,000 respectively.

The firm reports the following details of actual performance for November, 2020 after the end of the mont:

Actual hours worked8,100 hrs.Actual production expressed in standard hours8,800 hrs.Actual Variable Overheads₹ 1,02,000Actual Fixed Overheads₹ 2,00,000

You are required to calculate:

- (i) Variable Overhead Variances
  - (a) Variable overhead expenditure variance
  - (b) Variable overhead efficiency variance
- (ii) Fixed Overhead Variances:
  - (a) Fixed overhead budget variance
  - (b) Fixed overhead capacity variance
  - (c) Fixed overhead efficiency variance
- (iii) Control Ratios:
  - (a) Capacity ratio
  - (b) Efficiency ratio
  - (c) Activity ratio

(8 Marks)

3. (A) Aditya Agro Ltd. mixes powdered ingredients in two different processes to produce one product. The output of Process-I becomes the input of Process-II and the output of Process-II is transferred to the Packaging department. From the information given below, you are required to prepare accounts for Process-I, Process-II and Abnormal loss/gain to record the transactions for the month of February 2019.

#### Process-I

Input	
Material A	6,000 kilograms at ₹ 50 per kilogram
Material B	4,000 kilograms at ₹ 100 per kilogram
Labour	430 hours at ₹ 50 per hour
Normal Loss	5% of inputs. Scrap are disposed off at ₹ 16 per kilogram
Output	9,200 kilograms

There is no work-in-progress at the beginning or end of the month.



#### Process-II

Input	
Material C	6,600 kilograms at ₹125 per kilogram
Material D	4,200 kilograms at ₹75 per kilogram
Flavoring Essence	₹ 3,300
Labour	370 hours at ₹ 50 per hour
Normal Loss	5% of inputs with no disposal value
Output	18,000 kilograms

#### Process-I

There is no work-in-process at the beginning of the month but 1,000 kilograms in process at the end of the month and estimated to be only 50% complete so far as labour and overhead were concerned.

Overheads of ₹ 92,000 incurred to be absorbed on the basis of labour hours.

**(10 Marks)** 

(B) Following data have been extracted from the books of M/s ABC Private Limited. Salary (each employee, per month) ₹ 30,000

Bonus 25% of salary

Employer's contribution to PF, ESI etc. 15% of salary

Total cost at employees' welfare activities ₹ 6,61,500 per annum

Total leave permitted during the year 30 days

Number of employees 175

Normal idle time 70 hours per annum

Abnormal idle time (due to failure of power supply) 50 hours

Working days per annum 310 days of 8 hours

You are required to calculate:

- (1) Annual cost of each employee
- (2) Employee cost per hour
- (3) Cost of abnormal idle time, per employee.

(4 Marks)

**4.** (A) A company manufactures two types of herbal product A and B. Its budget shows profit figures after apportioning the fixed joint cost of ₹ 15 lacs in proportion of the numbers of units sold. The budget for 2018, indicates.

	A	В
Profit (₹)	1,50,000	30,000
Selling price/unit (₹)	200	120
P/V Ratio (%)	40	50

#### Required:

Compute the best option among the following, if the company expects that the number of units to be sold would be equal.

- (a) Due to exchange in a manufacturing process, the joint fixed cost would be reduced by 15% and the variables would be increase by 7½%.
- (b) Price of A could be increase by 20% as it is expected that the price elasticity of demand would be unity over the range of price.
- (c) Simultaneous introduction of both the option, viz. (a) and (b) above. (9 Marks)
- (B) ASR Limited produces Product 'L' and gets a by-Product 'M' out of a joint process. The net realizable value for the by-product is used to reduce the joint production costs before the joint costs are allocated to the main product. During the month of October 2022, company incurred joint production costs of ₹ 4,00,000. The main product 'L' is not marketable at the split off point. Thus, it has to be processed further. Details of company's operation are as under:



Particulars	Product L	By-Product M
Production (units)	10,000	200
Selling price per kg	₹ 45	₹5
Further processing cost	₹ 1,01,000	_

You are required to find out:

- (i) Profit earned from Product 'L'
- (ii) Selling price per kg of product 'L, if the company wishes to earn a profit of ₹ 1,00,000 from the above production. (5 Marks)
- **5. (A)** A drug store is presently selling three types of drugs namely 'Drug A', 'Drug B' and 'Drug C'. due to some constraints, it has decided to go for only one product line of drugs. It has provided the following data for the year 2020-21 for each product line:

	Drug Types		
	A	В	C
Revenue (in ₹)	74,50,000	1,11,75,000	1,86,25,000
Cost of goods sold (in ₹)	41,44,500	68,16,750	1,20,63,750
Number of purchase orders placed (in nos)	560	810	630
Number of deliveries received	950	1,000	850
Hours of shelf-stocking time	900	1,250	2,350
Units sold (in nos)	1,75,200	1,50,300	1,44,500

Following additional information is also provided:

Activity	Description of Activity	<b>Total Cost (₹)</b>	Cost-allocation base
Drug License	Drug License fee	5,00,000	To be distributed in ratio
fee			2:3:5 between A, B and
			С
Ordering	Placing of orders for purchases	8,30,000	2,000 purchase orders
Delivery	Physical delivery and receipt of	18,20,000	2,800 deliveries
	goods		
Shelf stocking	Stocking of goods	32,40,000	4,500 hours of shelf-
			stocking time
Customer	Assistance provided to	28,20,000	4,70,000 units sold
Support	customers		

You are required to:

- (i) Calculate the operating income and operating income as a percentage (%) of revenue of each product line if:
  - (a) All the support costs (other than cost of goods sold) are allocated in the ratio of cost of goods sold.
  - (b) All the support costs (Other than cost of goods sold) are allocated using activity-based costing system.
- (ii) Give your opinion about choosing the product line on the basis of operating income as a percentage (%) of revenue of each product line under both the situation as above. (10 Marks)
- (B) A single product company sells its product at ₹ 60 per unit. In 2019-20, the company operated at a margin of safety of 40%. The fixed costs amounted to ₹ 3,60,000 and the variable cost ratio to sales was 80%. In 2020-21, it is estimated that the variable cost will go up by 10% and the fixed cost will increase by 5%.
  - (i) Find the selling price required to be fixed in 2020-21 to earn the same P/V ratio as in 2019-20.
  - (ii) Assuming the same selling price of ₹ 60 per unit in 2020-21, find the number of units required to be produced and sold to earn the same profit as in 2019-20. (4 Marks)



**6. (A)** Explain the meaning of cost driver with suitable example and what are the usefulness of ABC? **(5 Marks)** 

**(B)** Explain the advantages and disadvantages of using flexible budget in cost accounting.

(5 Marks)

**(C)** How PV ratio act as an indicator of the rate at which profit is being earned?

(4 Marks)

OR

**(D)** What are the features of batch costing?

(4 Marks)



PW Web/App - https://smart.link/7wwosivoicgd4

Library- https://smart.link/sdfez8ejd80if

Feedback- https://forms.gle/tZpnxPhzQof2s4pn8



#### **Master Test Series - 04**

#### Time Allowed- 3 Hours

**Maximum Marks- 100** 

#### **Audit and Ethics**

#### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 180 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

#### Part - A

**Multiple choice question (MCQ)** 

(Case Scenario I carries 10 Marks)

(Case Scenario II carries 8 Marks)

(Case Scenario III carries 6 Marks)

General MCQs (3 MCQs  $\times$  2 Mark each = 6 Marks)

#### Case Scenario - I

# Directions (1-5) Read the following passage and answer the given questions.

DS and Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS and Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas.

The following is extract of financial information of the company:-

(Figures in rupees crores)

S.	Particulars	Year	Year
No.		2022-23	2021-22
1.	Turnover	30.00	15.00
2.	Inventories	5.00	2.00
3.	Property, plant and equipment (Gross black)	1.25	1.25
4.	Property, plant and equipment (Net black)	1.00	1.25
5.	Gross profit	6.00	3.75
6.	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material financial misstatements in statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.



## Based on above, answer the following questions:

- 1. Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?
  - (1) Engagement partner is known socially to promoters and directors of the situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
  - (2) Engagement partner is known socially to promoters and directors of the situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
  - (3) The situation reflected in the case scenario may not constitute threat to independence of Irrespective of this, detection risk in engagement is low.
  - (4) The situation reflected in the case scenario may not constitute threat to independence of Irrespective of this, detection risk in engagement is high.
- **2.** CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?
  - (1) Inspecting and reviewing company's plan for physical verification of PPE
  - (2) Assessing depreciation method used
  - (3) Verifying cost of PPE items acquired during the year with purchase bills
  - (4) Recalculation of depreciation charged in statement of profit and loss
- 3. Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?
  - (1) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
  - (2) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.
  - (3) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.

- (4) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.
- 4. CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of \_\_\_\_\_?
  - (1) Ratio analysis forming part of substantive analytical procedures
  - (2) Trend analysis forming part of substantive analytical procedures
  - (3) Reasonable test forming part of substantive analytical procedures
  - (4) Structural modelling forming part of substantive analytical procedures
- 5. Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?
  - (1) SQC 1, SA 220, SA 501, SA 505
  - (2) SA 550, SA 510, SA 220, SA 610
  - (3) SA 700, SA 510, SA 220, SA 500
  - (4) SQC 1, SA 700

# Case Scenario – II Directions (6-9) Read the following passage and answer the given questions.

ABC Manufacturing Pvt Ltd. is a mid-sized manufacturing company registered under the Companies Act, 2013. The company has its registered office in Mumbai and operates a branch office in Pune. As part of its compliance with Section 128(1) of the Companies Act, the company maintains its books of account and financial statements to present a true and fair view of its financial state. The company uses the accrual basis of accounting and the double-entry system.

1. "Bookkeeping Practices:" ABC Manufacturing keeps its main books of account at its registered office in Mumbai. However, due to operational convenience, the Board of Directors decides to maintain the branch office's books of account in Pune. They file a notice with the Registrar of Companies within the required seven days, providing the full address of the Pune office.



- 2. "Branch Auditing:" The branch office in Pune is audited by a separate auditor appointed by the Board. This auditor is qualified under Section 139 of the Companies Act. After completing the audit, the branch auditor prepares a report and submits it to the company's principal auditor in Mumbai.
- 3. "Financial Reporting:" The principal auditor reviews the branch auditor's report and integrates it into the overall audit report for ABC Manufacturing. The audit process includes checking for any instances of fraud at both the registered office and the Pune branch.
- 4. "Compliance with Rules:" The company ensures compliance with Rule 12 of the Companies (Audit and Auditors) Rules, 2014, making sure that any reporting of fraud includes the activities at the Pune branch.

#### Based on above, answer following questions:

- **6.** Under Section 128(1) of the Companies Act, 2013, what is the primary requirement for a company regarding its books of account?
  - (1) They must be kept in the same location as the registered office only.
  - (2) They must provide a true and fair view of the company's financial affairs.
  - (3) They can be maintained without any formal accounting system.
  - (4) They must only be available for internal use and not for external stakeholders.
- 7. What must ABC Manufacturing do if it decides to keep its books of account at a place other than its registered office?
  - (1) Notify the auditors about the change in location only.
  - (2) File a notice with the Registrar of Companies within 7 days.
  - (3) Keep the decision confidential and not disclose it.
  - (4) Only inform its shareholders about the decision.
- **8.** Who is responsible for auditing the branch office accounts of ABC Manufacturing in Pune?
  - (1) The principal auditor based in Mumbai only.
  - (2) Any auditor who is not qualified under Section 139.
  - (3) A separate branch auditor appointed under Section 139.
  - (4) The Registrar of Companies.

- **9.** How should the principal auditor handle the branch auditor's report in the final audit report?
  - (1) Ignore the branch auditor's report completely.
  - (2) Incorporate it as is without any review.
  - (3) Review it and deal with it in the manner he considers necessary.
  - (4) Provide a separate report for the branch office.

# Case Scenario – III Directions (10-12) Read the following passage and answer the given questions.

Kaur and Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her. She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

Based on above, answer the following questions:



- 10. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?
  - (1) She is establishing audit strategy
  - (2) She is conducting preliminary engagement activities
  - (3) She is designing audit plan
  - (4) She is checking her compliance of ethical requirements
- 11. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following-
  - (1) Developing audit plan
  - (2) Establishing overall audit strategy
  - (3) Designing audit programme
  - (4) Designing risk assessment procedures
- **12.** Taking into account description of planned inquiry and visit, which of the following statements is TRUE?
  - (1) Planned inquiry and visit fall in area of audit strategy
  - (2) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan
  - (3) The said description is not related to audit planning
  - (4) Planned inquiry and visit fall in scope of audit programme

#### **General MCOs**

- **13.** Which of the following is correct?
  - (1) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a Firm of Chartered Accountants only.
  - (2) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.
  - (3) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company; should be audited by a CAG Auditor only.
  - (4) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under Banking Law.

- **14.** Under what section of the Companies Act does the auditor assess material uncertainty?
  - (1) Section 143(11)
  - (2) Section 186
  - (3) Section 135(6)
  - (4) Section 192
- **15.** When does the ideal commencement of audit planning occur?
  - (1) During the audit engagement
  - (2) At the beginning of the current year
  - (3) At the conclusion of the previous year's audit
  - (4) Only when internal controls are weak



## Part – B Descriptive Questions

#### Question No. 1 is compulsory.

#### Attempt any four questions from the Rest.

- 1. (A) Rohit, undergoing practical training, is part of an engagement team conducting audit of a company engaged in manufacturing of paints. He has been provided with audit programme pertaining to sales. It lists out various items to be checked and verified by him including invoices, rate lists, posting in debtors accounts, correlation of invoices with e-way bills on sample basis etc.

  During varication, he notices that many e-way bills have been cancelled by the company within 24 hours of
  - During varication, he notices that many e-way bills have been cancelled by the company within 24 hours of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum. Is attitude of Rohit proper? (4 Marks)
  - (B) Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy. Explain. (4 Marks)
  - (C) While conducting the audit of Smart TV Ltd, engagement team of HTR and Co, has considered materiality and audit risk throughout the audit. Discuss explaining the meaning of audit risk. (3 Marks)
  - (**D**) Reporting on any other matter specified by Central Government as per section 143(11) and section 143(12) of the Companies Act, 2013 read with CARO. Explain. (3 Marks)
- 2. (A) According to 'Propriety audit', the auditors try to bring out cases of improper, avoidable, or ineffective expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Some general principles have been laid down in the Audit Code, which have for long been recognised as standards of financial propriety. Mention above stated principles. (4 Marks)
  - (B) Events occurring between the date of the financial statements and the date of the auditor's report and facts that become known to the auditor after the date of the auditor's report are known as subsequent events. Write any three examples of events providing evidence of conditions that existed at the date of the financial statements and of events providing evidence of conditions that arose after the date of the financial statements.

    (4 Marks)
  - (C) During course of audit of branch of a nationalized bank, you find that system has generated a report marking ten term loan accounts as SMA. Discuss, meaning of SMA accounts and significance of such a classification.

    (3 Marks)
  - (D) M/s T and Co. Chartered Accountants, a partnership firm, is appointed as an auditor of Treatment Hospital run by Smile Foundation, a charitable trust. Over and above the receipts of treatment of patients, during the year trust has received donations from various donors to treat COVID-19 patients and also incurred some capital expenditure for further development of the hospital. On some of the investment income, income tax has been deducted. What are the special points to be considered by M/s T and Co. while auditing such transactions of Treatment Hospital? (3 Marks)
- **3. (A)** An auditor tests the controls the entity has set up for the purchase cycle to determine whether they are effective or not. If the controls are effective, the auditor can reduce the extent of substantive testing. Explain

(4 Marks)

- (B) The auditor should examine the efficacy of various internal controls over advances to determine the nature, timing and extent of his substantive procedures. Explain this statement. (4 Marks)
- (C) The auditors of an NGO registered under the Societies Registration Act, 1860 (or under any law corresponding to this Act, in force in any part of India) or the Indian Trusts Act 1882 are normally appointed by the Management of the Society or Trust. What are the major points an auditor should keep in mind while planning the audit of NGO?

  (3 Marks)



- (D) HMB Limited's business has grown from one state of India to various countries of the world. Since the business has increased manifold, the management decided to appoint joint auditors for conducting the statutory audit of the company. They appointed three CA rms for it. For which audit work the joint auditors will be jointly and severally responsible?

  (3 Marks)
- **4.** (A) How can an auditor verify the existence of related party relationships and transactions? (4 Marks)
  - (B) The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. What points should be kept in mind for the purpose of programme construction? (4 Marks)
  - (C) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. (3 Marks)
  - (D) Companies are increasingly using data analytics for managing their operations. Auditors can also obtain good results by using data analytics. What are the tools and techniques used by auditors in applying the principles of Data Analytics and in which areas data analytics can be used by auditors? (3 Marks)
- **5. (A)** In terms of section 143(3) Auditor has to report whether to best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash ow for the year. Mention any 5 matters. **(4 Marks)** 
  - (B) Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse.

    (4 Marks)
  - (C) The auditor T of H and Fab Ltd is worried as to management of key resources to be employed to conduct audit. Required that how the audit strategy would be helpful to the auditor? (3 Marks)
  - (D) Mention examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. (3 Marks)
- **6. (A)** CA P is conducting a stock audit of a borrower availing cash credit facility of Rs 100 lacs from branch of a bank. The cash credit facility is against security of paid stocks and debtors for up to 90 days. Margin stipulated is 25% for stocks and 40% for debtors. Following further information is available as on 31.12.23:-

Value of stocks	Rs 125 lacs
Value of stocks (fully damaged) included in above	Rs 5 lacs
Value of debtors	Rs 50 lacs
Value of debtors exceeding 90 days included in above	Rs 10 lacs
Value of creditors for goods	Rs 50 lacs

Is Drawing Power computed by CA P for Rs 82.50 lacs proper?

(4 Marks)

(B1)CARD Ltd. is into the banking business and handles large amount of loans and advances of different kinds. Nonperforming assets are on the rise since last two quarters. The management is concerned with correct provisioning for the same. CA R is appointed to check whether correct provisioning of NPA's is being made by the bank or not. What are the aspects that will be verified by CA R for this purpose? (4 Marks)



- (B2)An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. Explain.

  (4 Marks)
- (C) When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in various circumstances. Explain them. (3 Marks)
- (D) Why Planning an audit is necessary? Explain the given statement with its benefits? (3 Marks)



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**Master Test Series - 04 Total Marks: 50** 

Total Time: 180 Min.

## 24/11/2024

#### Financial Management

#### **General Instructions**

- (1) The Question paper comprises two parts, FINANCIAL MANAGEMENT (50 MARKS) AND STRATEGIC MANAGEMENT (50 MARKS)
- (2) The paper comprises Case Scenario based Multiple Choice Questions (MCQs) + General MCQs (15 Marks) and Descriptive Questions (35 Marks) For FM and SM separately.
- (3) Total Marks is 50 for both the parts.
- (4) Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.
- (5) For Part A Multiple choice question (MCQ) + Case Study Based MCQs (15 Marks) (COMPULSORY).
- For Part B Question No. 1 is compulsory. Attempt any two questions out of the remaining three questions. (6)

#### Part - A

#### Multiple choice question (MCQ) + Case Study Based MCQs (15 Marks)

#### Case study MCQ (From A to E) (2 Marks $\times$ 5) 1. **= 10 Marks**

ArMore LLP is a newly established startup dealing in manufacture of a revolutionary product HDHMR which is a substitute to conventional wood and plywood. It is an economical substitute for manufacture of furniture and home furnishing. It has been asked by a venture capitalist for an estimated amount of funds required for setting up plant and also the amount of circulating capital required. A consultant hired by the entity has advised that the cost of setting up the plant would be ₹ 5 Crores and it will require 1 year to make the plant operational. The anticipated revenue and associated cost numbers are as follows:

Units to be sold = 3 lakh sq metres p.a.

Sale Price of each sq mtr =  $\ge 1000$ 

Raw Material cost = ₹ 200 per sq mtr

Labour cost = ₹ 50 per hour

Labour hours per sq mtr = 3 hours

Cash Manufacturing Overheads = ₹ 75 per machine hour

Machine hours per sq mtr = 2 hours

Selling and credit administration Overheads = ₹ 250 per sq mtr

Being a new product in the industry, the firm will have to give a longer credit period of 3 months to its customers. It will maintain a stock of raw material equal to 15% of annual consumption. Based on negotiation with the creditors, the payment period has been agreed to be 1 month from the date of purchase. The entity will hold finished goods equal to 2 months of units to be sold. All other expenses are to be paid one month in arrears. Cash and Bank balance to the tune of ₹ 25,00,000 is required to be maintained.

The entity is also considering reducing the working capital requirement by either of the two options:

- (a) reducing the credit period to customers by a month which will lead to reduction in sales by
- (b) Engaging with a factor for managing the receivables, who will charge a commission of 2% of invoice value and will also advance 65% of receivables @ 12% p.a. This will lead to savings in administration and bad debts cost to the extent of ₹ 20 lakhs and ₹ 16 lakhs respectively.

The entity is also considering funding a part of working capital by bank loan. For this purpose, bank has stipulated that it will grant 75% of net current assets as advance against working capital. The bank has quoted 16.5% rate of interest with a condition of opening a current account with it, which will require 10% of loan amount to be minimum average balance.

You being an finance manager, has been asked the following questions:

The anticipated profit before tax per annum after the plant is operational is \_ (2 Marks)

- (1) 750 Lakhs
- (2) 570 Lakhs
- (3) 370 Lakhs
- (4) 525 Lakhs
- The estimated current assets requirement in the first year of operation (debtors calculated at cost) is \_\_\_\_\_. (2 Marks)
  - (1) 9,42,50,000
  - (2) 2,17,08,333
  - (3) 7,25,41,667
  - (4) 67,08,333



<b>(C)</b>	The net working capital requirement for the
	first year of operation is

(2 Marks)

- (1) 9,42,50,000
- (2) 2,17,08,333
- (3) 7,25,41,667
- (4) 67,08,333
- **(D)** The annualised % cost of two options for reducing the working capital is \_\_\_\_\_.

(2 Marks)

- (1) 18.18% and 16.92%
- (2) 18.33% and 19.92%
- (3) 18.59% and 18.33%
- (4) 16.92% and 19.05%
- (E) What will be the Maximum Permissible Bank Finance by the bank and annualised % cost of the same? (2 Marks)
  - (1) 4,55,03,630 and 18.33%
  - (2) 5,44,06,250 and 18.33%
  - (3) 4,45,86,025 and 18.59%
  - (4) 3,45,89,020 and 19.85%

#### **General MCQ**

- 2. Ranu and Co. has issued 10% debenture of face value 100 for ₹ 10 lakh. The debenture is expected to be sold at 5% discount. It will also involve floatation costs of ₹ 10 per debenture. The debentures are redeemable at a premium of 10% after 10 years. Calculate the cost of debenture if the tax rate is 30%. (2 Marks)
  - (1) 8.97%
  - (2) 9.56%
  - (3) 8.25%
  - (4) 10.12%

Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

#### Option 1:

Equity Shares 25,000 @ ₹ 100

#### **Option 2:**

Equity Shares 10,000 @ ₹ 100

12% Preference Shares 5,000 @ ₹ 100

10% Debentures 10,000 @ ₹ 100

What is the indifference point and EPS at that level of EBIT assuming corporate tax to be 35%.

(2 Marks)

- (1) ₹ 2,94,872; ₹ 11.80
- (2) ₹ 3,20,513; ₹ 8.33
- $(3) \notin 2,94,872; \notin 7.67$
- (4) ₹ 3,20513; ₹ 12.82
- **4.** Given Data: Sales is ₹ 10,00,000, Break even sales is ₹ 6,00,000. What is the Degree of operating leverage? (1 Mark)
  - (1) 3
- (2) 2
- (3) 2.5
- (4) 2.2



#### Part – B

## **Subjective Questions**

#### Question No. 1 is compulsory.

#### Attempt any two questions out of the remaining three questions.

- 1. (A) SK Company's Equity Share is quoted in the market at ₹ 25 per share currently. The company pays a dividend of ₹ 2 per share and the Investor's Market expects a growth rate of 6% per year. You are required to:
  - (a) Calculate the company's cost of equity capital.
  - (b) If the anticipated growth rate is 8% per annum, calculate the indicated market price per share.
  - (c) If the company issues 10% debentures of face value of ₹ 100 each and realizes ₹ 96 per debenture while the debentures are redeemable after 12 years at a premium of 12%. What will be the cost of debentures using YTM? [Tax = 50%]

You may use following discount factors:

(5 Marks)

Discount Rate	PVF (r, 12)	<b>PVAF</b> (r, 12)
5%	0.557	8.863
10%	0.319	6.814

**(B)** Following is the Balance Sheet of Gitashree Ltd. is given below:

(5 Marks)

Liabilities	Amount (₹)
Shareholder's Fund	
Equity Share Capital (₹ 10 each)	1,80,000
Reserve & Surplus	60,000
Non-Current Liabilities (10% Debentures)	2,40,000
Current Liabilities	1,20,000
Total	6,00,000
Non-Current Assets	4,50,000
Current Assets	1,50,000
Total	6,00,000

The company's total assets turnover ratio is 4. Its fixed operating cost is ₹ 2,00,000 and its variable operating cost ratio is 60%. The income tax rate is 30%. Calculate:

- (1) (a) Degree of operating leverage
  - (b) Degree of financial leverage
  - (c) Degree of combined leverage
- (2) Find out EBIT if EPS is
  - (a) ₹ 1,
  - (b) ₹ 2 and
  - (c)  $\mathbf{\xi}$  0.
- (C) Rounak Ltd. is an all equity financed company with a market value of ₹ 25,00,000 and cost of equity (Ke) 21%. The company wants to buyback equity shares worth ₹ 5,00,000 by issuing and raising 15% perpetual debt of the same amount. Rate of tax may be taken as 30%. After the capital restructuring and applying MM model (with taxes), you are required to COMPUTE
  - (a) Market value of the company
  - (b) Cost of equity
  - (c) Weighted average cost of capital (using market weights) and comment on it.

(5 Marks)

2. (A) SK Ltd. is a News broadcasting channel having its broadcasting Centre in Mumbai. There are total 200 employees in the organisation including top management. As a part of employee benefit expenses, the company serves tea or coffee to its employees, which is outsourced from a third party. The company offers tea or coffee three times a day to each of its employees. 120 employees prefer tea all three times, 40 employees prefer coffee all three times and remaining prefer tea only once in a day. The third party charges ₹ 10 for each cup of tea and ₹ 15 for each cup of coffee.

The company works for 200 days in a year. Looking at the substantial amount of expenditure on tea and coffee, the finance department has proposed to the management on installation of a master tea and coffee vending machine which will cost ₹ 10,00,000 with a useful life of five years. Upon purchasing the machine, the company will have to enter into an annual maintenance contract with the vendor, which will require a payment of ₹ 75,000 every year. The machine would require electricity consumption of 500 units p.m. and current incremental cost of electricity for the company is ₹ 12 per unit. Apart from these running costs, the company will have to incur the following consumables expenditure also:



- (a) Packets of coffee beans at a cost of ₹ 90 per packet
- (b) Packet of tea powder at a cost of ₹ 70 per packet
- (c) Sugar at a cost of ₹ 50 per kg
- (d) Milk at a cost of ₹ 50 per litre
- (e) Paper cup at a cost of 20 paise per cup.

Each packet of coffee beans would produce 200 cups of coffee and same goes for tea powder packet. Each cup of tea or coffee would consist of 10 g of sugar on an average and 100 ml of milk. The company anticipates that due to ready availability of tea and coffee through vending machines its employees would end up consuming more tea and coffee.

It estimates that the consumption will increase by on an average 20% for all class of employees. Also, the paper cups consumption will be 10% more than the actual cups swerved due to leakages in them. The company is in the 25% tax bracket and has a current cost of capital at 12% per annum. Straight line method of depreciation is allowed for the purpose of taxation. You as a financial consultant is required to advise on the feasibility of acquiring the vending machine. (8 Marks)

PV Factors @ 12%:

Year	1	2	3	4	5
PVF	0.8929	0.7972	0.7118	0.6355	0.5674

(B) Write a short note on optimum capital structure.

(2 Marks)

**3.** (A) MN Ltd. has a current turnover of ₹ 30,00,000 p.a. Cost of sales is 80% of turnover and Bad Debts are 2% of turnover, cost of sales includes 70% variable cost and 30% fixed cost, while company's required rate of return is 15%. MN Ltd. currently allows 15 days credit to its customer, but it is considering increase this to 45 days credit in order to increase turnover. It has been estimated that this change in policy will increase turnover by 20%, while Bad Debts will increase by 1%. It is not expected that the policy change will result in an increase in fixed cost and creditors and stock will be unchanged.

Should MN Ltd. introduce the proposed policy? (Assume a 360 days year)

(8 Marks)

**(B)** What is understand by tradeoff theory used in finance?

(2 Marks)

**4. (A)** Write a short-notes on stock dividend.

(2 Marks)

**(B)** How Gordon model is different from Earning modal?

(4 Marks)

(C) What is cash cost of working capital? And what are the effect of double shift on working capital. (4 Marks)



Master Test Series - 04

24/11/2024

Total Time: 180 Min.

**Total Marks: 50** 

#### Strategic Management

#### **General Instructions**

- (1) The question paper comprises two parts, Part A and Part B.
- (2) Part A comprises case scenario based multiple choice questions (MCQs)
- (3) Part B comprises questions which require descriptive type answers.

#### Part - A

#### Case Study Base MCQs + MCQ (15 Marks)

- 1. Case study MCQ (From A to E) (2 Marks  $\times$  5) = 10 Marks
  - InnovateTech Inc. is a leading technology company known for its advancements in artificial intelligence (AI) and machine learning (ML). Founded in 2005, the company has rapidly gained a reputation for its exceptional capabilities in developing sophisticated AI algorithms and integrating them into practical applications. Its core competencies include:
  - Advanced **Algorithm Development:** InnovateTech Inc. has a specialized team that excels in creating cutting-edge AI algorithms capable of processing and analyzing vast amounts of data efficiently.
  - Integration of ΑI into **Diverse Applications:** The company has a strong track record of applying its AI technology various industries, including across healthcare, finance, and automotive, enhancing their operations and customer experiences.
  - Global R and D Network: InnovateTech Inc. operates a global network of research and development (R and D) centers that facilitate continuous innovation integration of new technologies into their AI solutions.

InnovateTech Inc. has successfully used these core competencies to achieve a competitive edge in the technology market. However, the company faces increasing competition from new entrants in the AI industry and is considering expanding its core competencies into new areas such as quantum computing. Based on the given case study answer the following questions.

- (A) Which of the following strategies best aligns with InnovateTech Inc.'s core competencies and can help the company maintain its competitive advantage in the face of increasing competition?
  - (1) InnovateTech Inc. decides to focus solely on developing new marketing strategies to better promote its existing AI products.

- (2) InnovateTech Inc. partners with a specializing in quantum startup computing to leverage its advanced algorithms and integration skills in this emerging field.
- (3) InnovateTech Inc. reduces investment in global R and D centers and reallocates resources to enhancing its customer service division.
- (4) InnovateTech Inc. diversifies into unrelated sectors such as retail and real estate using its current technology without adapting it to these new markets.
- **(B)** Which core competency of InnovateTech Inc. is most likely to be critical in its expansion into quantum computing?
  - (1) Advanced Algorithm Development
  - (2) Customer Service Excellence
  - (3) Retail Management Expertise
  - (4) Real Estate Investment Knowledge
- (C) What would be the primary benefit for InnovateTech Inc. in partnering with a startup specializing in quantum computing?
  - (1) Immediate increase in market share in the retail sector
  - (2) Enhanced ability to apply AI algorithms to a new technology domain
  - need for (3) Reduced international expansion
  - (4) Diversification into sectors unrelated to its core competencies
- (**D**) If InnovateTech Inc. decided to reduce its investment in global R and D centers, what is the most likely negative impact on its core competencies?
  - (1) Improved customer satisfaction
  - (2) Decreased innovation and technology integration
  - (3) Increased market penetration
  - (4) Enhanced ability to enter new markets



- **(E)** Which of the following actions would likely best support InnovateTech Inc.'s core competencies while addressing competitive pressures in the AI industry?
  - (1) Developing new AI algorithms without integrating them into practical applications
  - (2) Expanding into new, unrelated industries such as food production
  - (3) Enhancing its global R and D network to foster more innovation and collaboration
  - (4) Focusing solely on marketing strategies to improve brand recognition

#### **General MCQ**

- 2. Which of the following companies is most likely to employ a low-cost competitive strategy to appeal to a broad mass market? (2 Marks)
  - (1) A high-end luxury car manufacturer focusing on premium materials and exclusive features.
  - (2) A fast-food chain that emphasizes affordability, standardized menu items, and high-volume production.
  - (3) A boutique clothing brand that offers limited edition, handcrafted garments with unique designs.
  - (4) A tech startup specializing in cutting-edge, niche software solutions for high-value clients

- 3. Which of the following scenarios best illustrates conglomerate diversification? (2 Marks)
  - (1) A technology company that starts offering new software solutions for its existing customer base.
  - (2) A consumer goods manufacturer that begins producing and selling health and wellness products within its existing product line.
  - (3) A traditional automobile manufacturer that ventures into the production of high-end luxury watches, targeting a completely new customer base.
  - (4) A retail chain that expands its product range to include a new line of clothing and accessories for its current customers.
- 4. Which of the following factors is least likely to be considered a part of the macro environment influencing an organization's strategic management process? (1 Mark)
  - (1) Technological advancements
  - (2) Socio-cultural trends
  - (3) Internal employee morale
  - (4) Economic conditions



#### Part – B

## **Subjective Questions**

#### Question No. 1 is compulsory.

#### Attempt any two questions out of the remaining three questions.

1. (A) Explain the Strategic Alliance. Describe the advantages of Strategic Alliance.

(5 Marks)

(B) Define strategic management. Also discuss the limitations of strategic management.

(5 Marks)

(C) Explain Porter's five forces model as to how businesses can deal with the competition.

(5 Marks)

**2. (A)** Examine the significance of KSFs (Key Success Factors) for competitive success.

(5 Marks)

- (B) Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions. Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique. (5 Marks)
- **3. (A)** Write a short note on SWOT analysis.

(5 Marks)

- (B) The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO. (5 Marks)
- **4. (A)** Write short note on Strategic Business Unit (SBU).

(5 Marks)

(B) Strategy formulation and strategy implementation are intertwined and linked with each other." Elucidate this statement with suitable arguments. (5 Marks)



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Feedback- https://forms.gle/tZpnxPhzQof2s4pn8



Total Marks: 100 Master Test Series – 05 11/12/2024 Total Time: 3 Hours

#### **Cost and Management Accounting**

#### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises Multiple Choice Questions and Case study (MCQs). Total Question is 7. Total Marks is 30.
- (3) Part-B comprises questions which require descriptive type answers. Total Questions is 6. Question 1 is compulsory. Attempt any four questions from the Rest. Total Marks is 70.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 180 minutes
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) Working is important to show wherever necessary.

#### Part - A

#### **CASE STUDY MCO**

- 1. The board of the J Ltd. has been appraised by the General Manager (HR) that the employee attrition rate in the company has increased. The following facts has been presented by the GM(HR):
  - (1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.
  - (2) 20% of the output during training period was defective. Cost of rectification of a defective unit was ₹ 25.
  - (3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.
  - (4) Selling price per unit is ₹ 180 and P/V ratio is 20%.
  - (5) Settlement cost of the workers leaving the organization was ₹ 1,83,480.
  - (6) Recruitment cost was ₹ 1,56,340
  - (7) Training cost was ₹ 1,13,180

You being an associate finance to GM(HR), has been asked the following questions:

#### $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$

- **(A)** How much quantity of output is lost due to labour turnover?
  - (1) 10,000 units
- (2) 8,000 units
- (3) 12,000 units
- (4) 12,600 units
- **(B)** How much loss in the form of contribution, the company incurred due to labour turnover?
  - (1) ₹ 4,32,000
- (2) ₹ 4,20,000
- (3) ₹4,36,000
- (4) ₹ 4,28,000

- (C) What is the cost repairing of defective units?
  - (1) ₹ 75,000
- (2) ₹ 15,000
- (3) ₹ 50,000
- (4) ₹ 25,000
- (**D**) Calculate the profit lost by the company due to increased labour turnover.
  - (1) ₹ 7,50,000
- (2) ₹ 15,00,000
- (3) ₹ 5,00,000
- (4) ₹ 9,00,000
- **(E)** How much quantity of output is lost due to inexperience of the new worker?
  - (1) 1,000 units
- (2) 2,600 units
- (3) 2,000 units
- (4) 12,600 units
- 2. Arnav Ltd. manufactures chemical solutions used in paint and adhesive products. Chemical solutions are produced in different processes. Some of the processes are hazardous in nature which may results in fire accidents.

At the end of the last month, one fire accident occurred in the factory. The fire destroyed some of the paper files containing records of the process operations for the month.

You being an associate to the Chief Manager (Finance), are assigned to prepare the process accounts for the month during which the fire occurred. From the documents and files of other sources, following information could be retrieved: Opening work-in-process at the beginning of the month was 500 litres, 80% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹ 2,78,000. Closing work- in-process at the end of the month was 100 litres, 20% complete for labour and 10% complete for overheads.

Normal loss is 10% of input (fresh) and total losses during the month were 800 litres partly due to the fire damage.



Output transferred to finished goods was 3,400 litres.

Losses have a scrap value of ₹ 20 per litre.

All raw materials are added at the commencement of the process.

The cost per equivalent unit is ₹ 660 for the month made up as follows:

Raw Material ₹ 300

Labour ₹ 200

Overheads ₹ 160

The company uses FIFO method to value work-in-process and finished goods.

 $(5 \times 2 \text{ Marks} = 10 \text{ Marks})$ 

The following information are required for managerial decisions:

- (A) How much quantity of raw material introduced during the month?
  - (1) 4300 Litres
  - (2) 3500 Litres
  - (3) 4200 Litres
  - (4) 3800 Litres
- (B) The Quantity of normal loss and abnormal loss are
  - (1) Normal loss- 380 litres and Abnormal loss- 420 litres
  - (2) Normal loss- 350 litres and Abnormal loss 450 litres
  - (3) Normal loss- 430 litres and Abnormal loss 370 litres
  - (4) Normal loss- 420 litres and Abnormal loss 380 litres
- (C) Value of raw material added to the process during the month is:
  - (1) ₹ 10,10,000
  - (2) ₹ 10,33,600
  - (3) ₹ 10,18,400
  - (4) ₹ 10,20,000
- (**D**) Value of labour and overhead in closing Work-in- process are
  - (1) ₹ 4,000 and ₹ 1,600 respectively
  - (2) ₹ 20,000 and ₹ 16,000 respectively
  - (3) ₹ 16,000 and ₹ 9,000 respectively
  - (4) ₹ 13,200 and ₹ 6,600 respectively
- (E) Value of output transferred to finished goods is
  - (1) 22,57,200
  - (2) 20,06,400
  - (3) 22,44,000
  - (4) 19,27,200

#### General MCQs (10 Marks)

3. Prime cost = Rs 2,70,000,

Cost of production = Rs 3,50,000,

Cost of goods sold = Rs 3,15,000,

Units produced = 4000,

Units sold = 3600.

Calculate Cost per unit of goods produced.

(2 Marks)

(1) Rs 87.5

(2) Rs 78.5

(3) Rs 90

- (4) None of the above
- 4. If the amount of wages under Halsey plan is ₹ 420, total time allowed is 8 hours and the guaranteed time rate is ₹ 60 per hour. What is the total time saved by the worker? (2 Marks)
  - (1) 2 hours
- (2) 3 hours
- (3) 6 hours
- (4) 3.5 hours
- 5. SK Ltd. buys its annual requirement of 36,000 units in 6 instalments. Each unit costs ₹ 1 and the ordering cost is ₹ 25. The inventory carrying cost is estimated at 20% of unit value. Find the total annual cost of the existing inventory policy.

(2 Marks)

(1) Rs 750

(2) Rs 800

(3) Rs 900

(4) Rs 950

**6.** Calculate the employee hour rate of a worker S from the following data:

Basic pay

₹ 10,000 p.m.

D.A.

₹ 3,000 p.m.

Fringe benefits

₹ 1,000 p.m.

Number of working days in a year 300. 20 days are availed off as holidays on full pay in a year. Assume a day of 8 hours.

- (1) 80
- (2) 75
- (3) 90
- (4) 105
- **7.** SK company has established the following standards for factory overheads.

Variable overhead per unit = Rs 10

Fixed overheads per month = Rs 1,00,000

Capacity of the plant 20,000 units per month.

The actual data for the months are as follows:

Actual overheads incurred = Rs 3.00.000

Actual output (units) = 15,000 units

Calculate Production volume variance.

(2 Marks)

- (1) Rs 30,000
- (2) Rs 25,000
- (3) Rs 45,000
- (4) Rs 90,000



#### Part - R

- **1. (A)** SK ltd. produces and markets a very popular product called 'X'. The company is interest in presenting its budget for the second quarter of the year. The following information are made available for this purpose:
  - (i) It expects to sell 1,50,000 bags of 'X' during the second quarter at the selling price of ₹ 1,200 per bag.
  - (ii) Each bag of 'X' requires 2.5 mtr. Of raw-material 'Y' and 7.5 mtr. of raw-material 'Z'.
  - (iii) Stock levels are planned as follows:

Particulars	Beginning of Quarter	End of Quarter
Finished Bags of 'X' (Nos.)	45,000	33,000
Raw-material 'Y' (mtr.)	96,000	78,000
Raw-material 'Z' (mtr.)	1,71,000	1,41,000
Empty Bags (Nos.)	1,11,000	84,000

- (iv) 'Y' cost 160 per mtr., 'Z' costs 30 per mtr. and 'Empty Bag' costs ₹ 110 each.
- (v) It requires 9 minutes of direct labour to produce and fill one bag of 'X'. Labour cost is ₹ 70 per hour.
- (vi) Variable manufacturing costs are 60 per bag. Fixed manufacturing costs ₹ 40,00,000 per quarter.
- (vii) Variable selling and administration expenses are 5% of sales and fixed administration and selling expenses are ₹ 3,75,000 per quarter.

#### Required:

- (i) Prepare a production budget for the said quarter in quantity.
- (ii) Prepare a raw-material purchase budget for 'Y', 'Z' and 'Empty Bags' for the said quarter in quantity as well as in rupees.
- (iii) Compute the budgeted variable cost to produce one bag of 'X'.

(10 Marks)

**(B)** The following data relate to the manufacture of a product 'VD-100' during the month of October 2023:

Good units produced 12,600
Units sold 11,800
Direct wages ₹ 8,82,000
Administrative Overheads ₹ 4,72,000
Selling price per unit ₹ 416

Each unit produced requires 2 kg. of material 'Z'. Cost of material 'Z' is ₹ 72 per kg. 10% of the production has been scrapped as bad and fetches ₹ 45 per unit. Factory overheads are 80% of wages. Selling and distribution overheads are ₹ 54 per unit sold. There is no opening or closing stock of material and work in progress.

You are required to find out total cost of sales and profit for the month of October 2023. (4 Marks)

**2. (A)** In a manufacturing company the standard units of production for the year were fixed at 1,20,000 units and overhead expenditures were estimated to be as follows:

Particulars	₹
Fixed	12,00,000
Semi-variable (60% expenses are of fixed nature and 40% are of variable nature)	1,80,000
Variable	6,00,000

Actual production during the month of April, 2021 was 8,000 units. Each month has 20 working days. During the month there was one public holiday. The actual overheads were as follows:

Particulars	₹
Fixed	1,10,000
Semi-variable (60% expenses are of fixed nature and 40% are of variable nature)	19,200
Variable	48,000

You are required to calculate the following variances for the month of April 2021:

- (i) Overhead cost variance
- (ii) Fixed overhead cost variance
- (iii) Variable overhead cost variance
- (iv) Fixed overhead volume variance
- (v) Fixed overhead expenditure variance
- (vi) Calendar variance. (9 Marks)



(B) A worker took 60 hours to complete a job in a factory. The normal rate of wages is ₹ 80 per hour. The worker is entitled to receive bonus according to the Halsey Premium Plan. Factory overhead is recovered on the job at ₹ 60 per man hour actually worked. The factory cost of the job is ₹ 37,280 and material cost of the job is ₹ 28,400.

#### Required:

- (a) Calculate the standard time for completing the job and effective hourly rate under the Halsey Premium Plan.
- (b) Calculate the effective rate of earnings per hour if wages would have been paid under the Rowan Plan.

(5 Marks)

**3. (A)** Meta Company Ltd. is engaged in the production of product 'Trio' which passes through two different processes Process P and Process Q. Other information obtained from books of account for the year is as follows:

Particulars	Process P	Process Q
Raw material used	10,000	_
Raw material cost per unit	₹ 80	_
Direct wages	₹ 52,000	₹ 78,000
Direct expenses	₹ 8,600	₹ 78,000
Selling price per unit of output	₹ 130	₹ 190

Production overheads of ₹ 3,00,000 are recovered as percentage of direct wages.

Actual output of the two processes was:

P-9,200 units and Q- 6,400 units. 3/4<sup>th</sup> of the output of Process P was passed on to the Process Q and the balance was sold. The entire output of process Q was sold.

Management and Selling expenses during the year were ₹ 1,70,000. These are not allocable to the processes. The normal loss of the two processes, calculated on the input of every process was:

Process P- 6% and Process Q- 10%

The Loss of Process P was sold at  $\stackrel{?}{\stackrel{?}{?}}$  5 per unit and that of Q at  $\stackrel{?}{\stackrel{?}{?}}$  8 per unit. Assume that Process P and Process Q are not the responsibility centres.

You are required to prepare:

- (i) Process P Account
- (ii) Process Q Account
- (iii) Abnormal Loss and Abnormal Gain Account
- (iv) Costing Profit and Loss Account

(8 Marks)

(B) Tesco cycles Ltd. used about 3,60,000 cycle locks per annum and the usage is fairly constant at 30,000 per month. The cycle lock costs ₹ 240 each at wholesale rate and carrying cost is estimated to be 10% of the annual average inventory value. The cost to place an order is ₹ 1200. It takes 45 days to receive delivery from the date of order. In order to avoid any kind of disruption in assembly line, safety stock of 6,500 cycle locks is always maintained by Tesco Cycles Ltd. (Assume 360 days in a year).

#### Compute:

- (a) E.O.Q.
- (b) The re-order level
- (c) The company has been offered a quantity discount of 2% on the purchase of cycle locks provided the order size is 30,000 units at a time. Advise whether quantity discount offer can be accepted?

(6 Marks)

**4. (A)** Royal Hotel offers three types of rooms to its guests - Deluxe Room, Executive Room and Suite Room. Other information is as follows:

	Deluxe Room	<b>Executive Room</b>	Suite Room
Room Tariff per day	₹ 1,500	₹ 2,400	₹ 3,800
No. of rooms	20	10	4
Average occupancy during the year	80%	60%	75%
Housekeeping expenses per day	₹ 280	₹ 320	₹ 425



The hotel provides complimentary breakfast facility to its executive room and suite room guests while swimming pool facility is provided free of cost only to suite room guests.

The restaurant and swimming pool is run by a contractor. The contractor recovers charges of ₹ 150 per person for breakfast and ₹ 200 per person for using swimming pool facility from Royal Hotel.

Besides the above-mentioned charges, annual fixed expenses are as follows:

Salaries to staff ₹ 57,60,000 Electricity Expenses ₹ 24,00,000

Salaries to staff are apportioned to Deluxe Room. Executive Room and Suite Room in the ratio of 25 : 35 : 40 and electricity expenses are to be apportioned in proportion to occupancy.

You are required to calculate the total profit of each room type on annual basis.

Note: Assume 360 days in a year and double occupancy in each category of room.

(8 Marks)

**(B)** A company produces two products A and B, through a joint production process. The total joint production cost incurred is as under:

Material	₹ 20,000
Labour	₹ 10,000
Variable overheads	₹ 6,000
Fixed overheads	₹ 24,000

Product A and B can be sold for ₹ 20 per unit and ₹ 15 per unit respectively at split off point. The produced quantities are Product A- 2,000 units and Product B- 4,000 units.

- (i) You are required to calculate the joint production cost allocation for each product using the:
  - (a) Physical unit method.
  - (b) Contribution margin method.
- (ii) Product B can be further processed by incurring expenditure of ₹ 12,000. Loss in further processing is 2%. It can be sold @₹18 per unit. Explain the impact on profitability if Product B is further processed.

(6 Marks)

**5. (A)** The profit and loss account of ABC Ltd. for the year ended 31<sup>st</sup> March, 2021 is given below:

# Profit and Loss Account (for the year ended 31st March, 2021)

To Direct Material	6,50,000	By Sales (15,000 units)	15,00,000
To Direct Wages	3,50,000	By Dividend received	9,000
To Factory overheads	2,60,000		
To Administrative overheads	1,05,000		
To Selling overheads	85,000		
To loss on sale of investments	2,000		
To Net Profit	57,000		
	15,09,000		15,09,000

- Factory overheads are 50% fixed and 50% variable
- Administrative overheads are 100% fixed
- Selling overheads are completely variable
- Normal production capacity of ABC Ltd. is 20,000 units
- Indirect expenses are absorbed in the cost accounts on the basis of normal production capacity.
- Notional rent of own premises charged in cost accounts is amounting to ₹ 12,000.

You are required to:

- (i) Prepare a cost sheet and ascertain the Profit as per cost Records for the year ended 31<sup>st</sup> March, 2021.
- (ii) Reconcile the profit as per Financial records with Profit as per Cost Records.

(9 Marks)



**(B)** ABC Ltd. is engaged in production of three types of Fruit Juices: Apple, Orange and Mixed Fruit. The following cost data for the month of March 2020 are as under:

Particulars	Apple	Orange	Mixed Fruit
Units produced and sold	10,000	15,000	20,000
Material per unit	8	6	5
Direct Labour per unit (₹)	5	4	3
No. of purchase orders	34	32	14
No. of Deliveries	110	64	52
Shelf Stocking Hours	110	160	170

Overheads incurred by the company during the month are as under:

	(₹)
Ordering costs	64,000
Delivery costs	1,58,200
Shelf Stocking costs	87,560

#### Required:

- (i) Calculate cost driver's rate
- (ii) Calculate total cost of each product using Activity Based Costing.

(5 Marks)

**6. (A)** Explain the usefulness and suitability of ABC?

(5 Marks)

**(B)** What are the treatment of material returned and shortage in stores ledger?

(5 Marks)

(C) What are the advantages and disadvantages of Halsey method?

(4 Marks)

OR

**(D)** What are the features of batch costing?

(4 Marks)



PW Web/App - https://smart.link/7wwosivoicgd4

Library- https://smart.link/sdfez8ejd80if

Feedback- https://forms.gle/tZpnxPhzQof2s4pn8



#### **Master Test Series - 05**

#### Time Allowed- 3 Hours

**Maximum Marks-100** 

#### **Audit and Ethics**

#### **General Instructions**

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 180 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

#### Part - A

**Multiple choice question (MCQ)** 

(Case Scenario I carries 10 Marks)

(Case Scenario II carries 8 Marks)

(Case Scenario III carries 6 Marks)

General MCQs (3 MCQs  $\times$  2 Mark each = 6 Marks)

#### Case Scenario - I

# Directions (1-5) Read the following passage and answer the given questions.

Pluto Limited is engaged in the manufacturing and distribution of furniture. After Covid, as the number of people working from home has gone up, this customisable range home office furniture has gained lot of importance. They were able to perform very well over the years and the same has been reflected in their financial statements.

During the year 2023-24, M/s Saha and Associates was reappointed as the auditor. The new engagement team has CA Saha (partner) and five article assistants. Given the large volume of transactions, the partner instructed the article assistants to review the financial statements and auditor's report from the previous year, 2022-23, to gain a thorough understanding. While reviewing the summary page, one of the article Kabir noticed that few points were under discussion with the partner before finalising the audit:

The team verified the following points with respect to employee benefit expenses:

- The employee benefit expenses recorded in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel have been accounted for.
- The expenses recognised during the period are pertaining to the current accounting period.

It was also noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023 and was recognised as liability in the year 2022-23.

Another article Krish noticed that debtors constitute a major component of the company's financial statements. As part of audit procedure, the auditor requested the client to obtain external confirmations from the parties. For this, a list of all the debtors were obtained and a random sampling was performed by the auditor. The client directly obtained the selected debtor confirmations from the customers on time.

Krish also observed addition in the assets amounting ₹ 50 lakhs during the year supported by sufficient audit evidence. However, upon scrutiny, it was found that some of the invoices were not in the name of the company. Further, Cash and cash equivalents were classified as balances with banks, cheques and drafts on hand, cash on hand and earmarked balances with banks (e.g. unpaid dividend)

## Based on above, answer the following questions:

- 1. Which among the following assertions are discussed with respect to the employee benefit expenses?
  - (i) Measurement
  - (ii) Occurrence
  - (iii) Cut-off
  - (iv) Completeness

Choose the correct combination from below:

- (1) (i), (ii) and (iv)
- (2) (ii), (iii) and (iv)
- (3) (i), (iii) and (iv)
- (4) (i), (ii) and (iii)



- **2.** Whether disclosure of dividend under the liability head during the year 2022-23 is appropriate?
  - (1) Yes. It should be recognised in the same year irrespective of the year of declaration as the amount of dividend belongs to year 2022-23.
  - (2) No. The amount should be recognised equally between two financial years.
  - (3) No. The amount should not be recognised as a liability. It should be disclosed in the notes to accounts.
  - (4) No. The amount should neither be recognised as liability nor disclosure is required in the financial statements.
- 3. Krish pointed out that that the method followed to obtain debtor confirmation in the previous year was not in accordance with SA 505. Therefore, M/s Saha and Associated should reperform the same in the correct manner.
  - (1) As per SA 505, confirmation should be directly obtained by the auditor. Further, for all significant account balances as on the Balance sheet date confirmations should necessarily be collected and for the smaller outstanding balances, random sampling could be performed.
  - (2) It is ok to obtain confirmation through clients as they are in constant contact with their customers. Also, many customers may not respond to auditor's external confirmation request mail. Random selection can be done for all debtors irrespective of the amount in accordance with SA 505.
  - (3) As per SA 505, confirmation should be directly obtained by the auditor. Whereas random selection can be done for all debtors irrespective of the amount.
  - (4) Either auditor or client can obtain confirmation based on time availability. However, it is necessary to obtain confirmation for all significant account balances as on the Balance sheet date and for the remaining random sampling could be performed in accordance with SA 505.
- **4.** Which assertion has been affected in the case of fixed assets?
  - (1) Existence
  - (2) Rights and obligation
  - (3) Completeness
  - (4) Measurement

- **5.** Cash and cash equivalents were not properly classified by the client. Which of the following is incorrect disclosure of the same?
  - (1) Balances with banks
  - (2) Cheques and drafts on hand
  - (3) Cash on hand
  - (4) Earmarked balances with banks (e.g.: unpaid dividend)

# Case Scenario – II Directions (6-9) Read the following passage and answer the given questions.

CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard.

He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

Further, during the course of audit, he has noticed as under:-

- As required by the management, bank reconciliation is required to be performed monthly. However, the same is not carried out as stipulated due to time constraints faced by accountant.
- The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.
- Wage sheets are not verified by a responsible official as required by
- Staff of the entity is responsible for bringing cash from centers in nearby areas to entity's premises from where it is deposited into entity's bank account. However, concerned officer has not renewed insurance for cash in

## Based on above description, answer the following questions:

- 6. The auditor has performed procedures to obtain audit evidence about design and implementation of Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?
  - (1) Observing application of control
  - (2) Inspecting documentation pertaining to control
  - (3) Inquiry about application of control
  - (4) Studying design of control



- **7.** Examination and evaluation of internal control is indispensable for CA M. Raja. It provides him necessary comfort relating to completeness of accounting information.
  - However, review of internal controls of the entity will not enable him to know
  - (1) whether errors or frauds are likely to be located in ordinary course of operations of business
  - (2) whether an effective internal audit department is operating
  - (3) whether his opinion needs modification
  - (4) whether any administrative control has bearing on his work
- **8.** As regards weaknesses identified by the auditor in control system, which of the following represent(s) significant deficiencies in internal control?
  - (1) Not performing bank reconciliation timely and not verifying wage sheets by responsible official only
  - (2) Not performing bank reconciliation timely and lack of proper sequence in purchase orders only
  - (3) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit
  - (4) Lack of insurance for cash in transit only
- **9.** Which of the following is most appropriate regarding auditor's responsibility in accordance with SA 265?
  - (1) To communicate significant deficiencies in internal control to management
  - (2) To communicate significant deficiencies in internal control along with explanation of their potential effects to management
  - (3) To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control
  - (4) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management

## Case Scenario – III Directions (10-12) Read the following passage and answer the given questions.

CA M is conducting statutory audit of branch of MMC Bank. During the course of audit, it is noticed as under:-

- (i) Loans under "Kisan credit card" are given by Bank to farmers to meet their short-term credit needs for cultivation of crops.

  In respect of one agricultural advance classified under "Kisan Credit Card" having an outstanding balance of ₹ 20 lacs as at year end, there is no transaction in account since last 90 days. The said loan has been granted for cultivation of paddy which is harvested in a period of 3-4 months from sowing. The branch has classified the said advance as "Standard asset".
- (ii) It is also observed that account of one borrower availing cash credit limit of ₹ 50 lacs was taken over from another bank. The proposal was sanctioned by branch manager instead of immediate next higher authority as required in "Manual of Delegation of Powers" of Bank.
- (iii) It is noticed that head office of bank has flagged a savings account maintained in branch in which interest was wrongly paid at higher rate due to wrong data feeding entry. Now, situation has been rectified by debiting excess interest paid in the account. Since there was little balance in savings account, a debit balance of ₹ 1.50 lac was created in the said savings account due to above reversal. The matter immediately informed to account holder. However, he has not turned up for payment since matter was informed to him about six months ago.

## Based on above, answer the following questions: -

- **10.** Regarding taken over account from another bank, which of following statements is most appropriate?
  - (1) It is an internal issue of Bank and auditor is not concerned with it.
  - (2) It is an internal issue of Bank. However, the auditor may, at his discretion, report it.
  - (3) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.
  - (4) There is no issue involved as credit facility was properly sanctioned.



- 11. As regards debit balance of Rs. 1.50 lacs in Savings account, which of the following is correct from point of view of an auditor?
  - (1) The situation does not attract RBI norms on asset classification.
  - (2) The debit balance of Rs.1.50 lacs should be classified as NPA.
  - (3) The situation does not attract RBI norms on asset classification as no credit facility was granted.
  - (4) The bank cannot demand excess interest paid to account holder.
- **12.** Which of the following statements is not true about "drawing power" (DP)?
  - (1) Drawing Power refers to the amount calculated based on primary security less margin as on particular date.
  - (2) It is always less than sanctioned limit.
  - (3) It can be different from sanctioned limit.
  - (4) Creditors for goods are reduced for purpose of calculating Drawing Power.

## **General MCQs**

- **13.** Any amount due to the bank under any credit facility is 'overdue' if:
  - (1) It is not paid on the due date fixed by the
  - (2) it is not paid within 30 days of due date fixed by the bank
  - (3) it is not paid within 60 days of due date fixed by the bank
  - (4) it is not paid within 90 days of due date fixed by the bank

- **14.** In the audit of a partnership rm, what is specifically checked to ensure the interest of partners is not prejudiced?
  - (1) Provision for taxes
  - (2) Extraordinary contracts
  - (3) Audited statements
  - (4) Borrowing capacity
- **15.** What does SA-200 dene detection risk as?
  - (1) The risk that audit procedures will not be performed adequately.
  - (2) The risk that audit evidence obtained may not be reliable.
  - (3) The risk that procedures to reduce audit risk may not detect existing misstatements.
  - (4) The risk that auditors may overlook external factors affecting financial statements.



## Part – B Descriptive Questions

### Question No. 1 is compulsory.

## Attempt any four questions from the Rest.

- 1. (A) CA Pinnu is appointed as a auditor of Finly Bank Ltd. Mr. assistant is facing issue in auditing reversal of income under bank. How can CA Pinnu guide him for audit approaches and procedures for reversal of income? (4 Marks)
  - (B) Companies are increasingly using data analytics for managing their operations. Auditors can also obtain good results by using data analytics. What are the tools and techniques used by auditors in applying the principles of Data Analytics and in which areas data analytics can be used by auditors? (4 Marks)
  - (C) ABC and Associates, an audit firm, has been approached by a prospective company client that has been in business for about 10 years to conduct an audit of its financial statements. Before accepting the audit engagement, the firm wants to access the integrity of prospective client. With regard to the assessment of integrity, which matters should be considered by the audit firm? (3 Marks)
  - (**D**) What is meant by sufficiency of Audit Evidence? Explain the factors affecting the auditor's judgement as to the sufficiency of audit evidence. (3 Marks)
- 2. (A) What is the disclosure requirement in relation to ratios under other information as per requirement of Part I, Schedule III, as Additional Regulatory Information? (4 Marks)
  - (B) Satranga Foods Private Limited is engaged in manufacturing of pickles. The auditors of the company have planned audit procedures in respect of recognition of revenues of the company. Despite that, there is a possibility that misstatements in revenue recognition are not identified by planned audit procedures. Identify and explain that particular risk in detail. (4 Marks)
  - (C) The C and AG has power to conduct a supplementary or test audit of the company's accounts by such person as he may authorise in this behalf and for the purposes of such audit require information or additional information to be furnished to any person or persons so authorised on such matters by such person or persons and in such form as the C and AG may by general or special order, direct. Explain the role of statutory auditor.

    (3 Marks)
  - (D) While conducting the audit of AB Ltd, the auditor K of KLM and Associates, Chartered Accountants observes that there are large number of Trade payables and receivables standing in the books of accounts as on 31st March. The auditor wanted to send confirmation request to few trade receivables, but the management refused the auditor to send confirmation request.

## Required

How would the auditor proceed?

(3 Marks)

- 3. (A) The auditor A of ABC and Co.- firm of auditors is conducting the audit of XYZ Ltd and while performing testing of additions wanted to verify that all PPE (Property Plant and Equipment) purchase invoices are in the name of the entity he is auditing. For all additions to land, building in particular, the auditor desires to have concrete evidence about ownership. The auditor is worried about whether the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor. (4 Marks)
  - (B) The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats. Explain the guiding principles in the above context. (4 Marks)
  - (C) The U.N. Handbook on Government Auditing and Developing Countries defines government auditing. Explain (3 Marks)
  - (**D**) Explain other Income comprising interest income, dividend income, Gain/Loss on sale of investments.

(3 Marks)



- **4. (A)** Explain application of a systematic and disciplined approach. Also explain factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach. **(4 Marks)** 
  - (B) While auditing books of accounts of SOLAR Ltd., you observed that an amount due from a debtor for invoice issued on 31.03.2023 has not been recognized in the books of accounts. As an auditor, you want to ensure that all trade receivable balances that are supposed to be recorded have been recognized in the financial statements. How will you achieve the stated objective? (4 Marks)
  - (C) You are verifying interest on deposits paid by branch of a nationalized bank. Discuss, any two "analytical procedures", to verify interest on deposits paid by branch. (3 Marks)
  - (**D**) The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers. Explain any 4 duties of C and AG. (3 Marks)
- **5. (A)** Relationship Between Audit Strategy and Audit Plan. Explain

(4 Marks)

- (B) What will be the audit procedure generally required to be undertaken while auditing sales for occurrence of recorded sales performed during the period? (4 Marks)
- (C) The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 defines functions and powers. Explain Powers of C and AG. (3 Marks)
- (D) While auditing the books of accounts of Heavy Material Limited for the financial year 2022-23, a team member of the auditor of Heavy Material Limited showed no inclination towards understanding the business and the business environment of the above mentioned company. Is the approach of team member of the auditor of Heavy Material Limited correct or incorrect? Also give reason for your answer. (3 Marks)
- **6. (A)** The audit of government expenditure is one of the major components of government audit. Explain Audit against Rules and Orders. **(4 Marks)** 
  - (B1) How can an auditor verify the existence of related party relationships and transactions? (4 Marks)

OR

- (B2) The auditors of an NGO registered under the Societies Registration Act, 1860 (or under any law corresponding to this Act, in force in any part of India) or the Indian Trusts Act 1882 are normally appointed by the Management of the Society or Trust. What are the major points an auditor should keep in mind while planning the audit of NGO?

  (4 Marks)
- (C) An auditor tests the controls the entity has set up for the purchase cycle to determine whether they are effective or not. If the controls are effective, the auditor can reduce the extent of substantive testing. Explain

(3 Marks)

(D) On perusing financial statements of Jo Jo Limited put up for audit, it is observed by the auditor that current ratio has improved from 1.20:1 (in preceding year) to 1.75:1 (in current year). Identify what kind of risk assessment procedures are being performed by auditor? Has it any relation with listing of the company next year on Bombay Stock Exchange?

(3 Marks)



PW Web/App - https://smart.link/7wwosivoicgd4

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Total Marks: 50 Master Test Series - 05 17/12/2024

## Total Time: 180 Min.

## **Financial Management**

#### **General Instructions**

- (1) The Question paper comprises two parts, FINANCIAL MANAGEMENT (50 MARKS) AND STRATEGIC MANAGEMENT (50 MARKS)
- (2) The paper comprises Case Scenario based Multiple Choice Questions (MCQs) + General MCQs (15 Marks) and Descriptive Questions (35 Marks) For FM and SM separately.
- (3) Total Marks is 50 for both the parts.
- (4) Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.
- (5) For Part A Multiple choice question (MCQ) + Case Study Based MCQs (15 Marks) (COMPULSORY).
- (6) For Part B Question No. 1 is compulsory. Attempt any two questions out of the remaining three questions.

#### Part - A

## Multiple choice question (MCQ) + Case Study Based MCQs (15 Marks)

## 1. Case study MCQ (From A to E) (2 Marks × 5) = 10 Marks

NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables.

Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are: (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

- (A) What is average level of receivables of the company? (2 Marks)
  - (1) ₹53,33,333
  - (2) ₹ 35,55,556
  - (3) ₹ 44,44,444
  - (4) ₹71,11,111
- (B) How much advance factor will pay against receivables? (2 Marks)
  - (1) ₹31,28,889
  - (2) ₹ 39,11,111
  - (3) ₹ 30,03,733
  - (4) ₹ 46,93,333
- (C) What is the annual cost of factoring to the company? (2 Marks)
  - (1) ₹ 8,83,200
  - (2) ₹ 4,26,667
  - (3) ₹ 5,51,823
  - (4) ₹4,00,000
- (D) What is the net cost to the company on taking factoring service? (2 Marks)
  - (1) ₹4,00,000
  - (2) ₹ 4,26,667
  - (3) ₹ 3,50,000
  - (4) ₹ 4,83,200
- (E) What is the effective cost of factoring on advance received? (2 Marks)
  - (1) 16.09%
  - (2) 13.31%
  - (3) 12.78%
  - (4) 15.89%



## **General MCQ**

- 2. Calculate the cost of equity capital of SK Ltd., whose risk-free rate of return equals 10%. The firm's beta equals 1.75 and the return on market portfolio equals to 15%. (2 Marks)
  - (1) 18.75%
- (2) 20%
- (3) 19.87%
- (4) 56%
- **3.** Following information has been extracted from the accounts of newly incorporated Textyl Pvt. Ltd. for the financial year 2020-21:

Sales ₹15,00,000

P/V Ratio 70%

Operating Leverage 1.4 times

Financial Leverage 1.25 times

Using the concept of leverage, find out and verify in each case:

- (i) The percentage change in taxable income if sales increase by 15%. (2 Marks)
- (1) 26.25%
- (2) 28%
- (3) 30.43%
- (4) 28%

4. X Co. has made plans for the next year. It is estimated that the company will employ total assets of ₹8,00,000; 50 percent of the assets being financed by borrowed capital at an interest cost of 8 percent per year. The direct costs for the year are estimated at ₹4,80,000 and all other operating expenses are estimated at ₹80,000. The goods will be sold to customers at 150 percent of the direct costs. Tax rate is assumed to be 50 percent.

You are required to calculate:

(i) Operating profit margin (before tax)

(1 Mark)

- (1) 24%
- (2) 22.22%
- (3) 27%
- (4) 28%



#### Part – B

## **Subjective Questions**

## Question No. 1 is compulsory.

## Attempt any two questions out of the remaining three questions.

**1. (A)** Following information relates to SK ltd:

Debtors velocity 3 months

Creditors velocity 2 months

Stock turnover ratio 1.5

Gross profit ratio 25%

Bills receivables ₹ 25,000

Bills payable ₹ 10,000

Gross profit ₹ 4,00,000

Fixed assets turnover ratio 4

Closing stock of the period is ₹ 10,000 above the opening stock. Calculate:

- (i) Sales and cost of goods sold
- (ii) Sundry debtors
- (iii) Sundry creditors
- (iv) Closing stock

(v) Fixed assets (5 Marks)

- (B) SK Ltd. wishes to raise additional finance of ₹ 10 lakhs for meeting its investment plans. It has ₹ 2,10,000 in the form of retained earnings available for investment purposes. Further details are as follows:
  - (1) Debt/Equity mix 3:7
  - (2) Cost of debt

Up to ₹ 1,80,000 10% (before tax)

Beyond ₹ 1,80,000 16% (before tax)

- (3) Earnings per share ₹ 4
- (4) Dividend pay out 50% of earnings
- (5) Expected growth rate of dividend 10%
- (6) Current market price per share ₹ 44
- (7) Tax rate 50%

You are required to:

- (a) Determine the pattern for raising the additional finance
- (b) Determine the post-tax average cost of additional debt
- (c) Determine the cost of retained earnings and cost of equity
- (d) Compute the overall weighted average after tax cost of additional finance.

(C) The following data have been extracted from the books of SK Ltd:

Sales – ₹ 100 lakhs

Interest payable per annum – ₹ 10 lakhs

Operating leverage – 1.2

Combined leverage – 2.16

You are required to calculate:

- (a) The financial leverage
- (b) Fixed cost
- (c) PV Ratio (5 Marks)

2. (A) A hospital is considering to purchase a diagnostic machine costing ₹80,000. The projected life of the machine is 8 years and has an expected salvage value of ₹6,000 at the end of 8 years. The annual operating cost of the machine is ₹7,500. It is expected to generate revenues of ₹40,000 per year for eight years. Presently, the hospital is outsourcing the diagnostic work and is earning commission income of ₹12,000 per annum. Consider tax rate of 30% Discounting Rate as 10%.

Advise: Whether it would be profitable for the hospital to purchase the machine?

Give your recommendation as per Net Present Value method and Present Value Index method under below mentioned two situations:

- (i) If Commission income of ₹ 12,000 p.a. is before taxes.
- (ii) If Commission income of ₹ 12,000 p.a. is net of taxes.

(6 Marks)

(5 Marks)



**(B)** SK Ltd. has the following book value capital structure:

Equity capital (in share of ₹ 10 each fully paid up at par)	₹ 15 crores
11% Preference capital (in shares of ₹ 100 each fully paid up at par)	₹ 1 crores
Retained Earnings	₹ 20 crores
13.5% Debentures (of ₹ 100 each)	₹ 10 crores
15% Term loans	₹ 12.5 crores

The next expected dividend on equity shares per share is ₹ 3.60. The dividend per share is expected to grow at the rate of 7%. The market price per share is ₹ 40. Preference stock, redeemable after 10 years, is currently selling at ₹ 75 per share. Debentures, redeemable after six years, are selling at ₹ 80 per debenture. The income tax rate for the company is 40%.

You are required to determine the weighted average cost of capital (K<sub>0</sub>) of the XYZ Ltd. using:

(a) Book value weights

(b) Market value weights

(4 Marks)

**3. (A)** The following information is provided by MNP Ltd. for the year ending 31<sup>st</sup> March, 2020:

<u></u>	
Raw Material Storage Period	45 days
Work-in-Progress conversion period	20 days
Finished Goods storage period	25 days
Debt Collection period	30 days
Creditors' payment period	60 days
Annual Operating Cost	₹ 25,00,000
(Including Depreciation of ₹ 2,50,000)	

Assume 360 days in a year.

You are required to calculate:

- (i) Operating Cycle period
- (ii) Number of Operating Cycle in a year
- (iii) Amount of working capital required for the company on cash a cost basis.
- (iv) The company is a market leader in its product and it has no competitor in the market. Based on a market survey it is planning to discontinue sales on credit and deliver products based on pre-payments in order to reduce its working capital requirement substantially You are required to compute the reduction in working capital requirement in such a scenario. (6 Marks)
- (B) K Ltd. has a Quarterly cash outflow of ₹ 9,00,000 arising uniformly during the Quarter. The company has an Investment portfolio of Marketable Securities. It plans to meet the demands for cash by periodically selling marketable securities. The marketable securities are generating a return of 12% p.a. Transaction cost of converting investments to cash is ₹ 60. The company uses Baumol model to find out the optimal transaction size for converting marketable securities into cash. Consider 360 days in a year.

You are required to calculate:

- (a) Company's average cash balance
- (b) Number of conversions each year and

(c) Time interval between two conversions

(4 Marks)

**4. (A)** What is the effect of double shift on working capital.

(4 Marks)

**(B)** What are the limitations of Baumol's model?

(2 Marks)

**(C)** What is difference between capital structure and financial structure.

(4 Marks)



**Master Test Series - 05** 

17/12/2024

Total Marks: 50 Total Time: 180 Min.

## Strategic Management

### **General Instructions**

- (1) The question paper comprises two parts, Part A and Part B.
- (2) Part A comprises case scenario based multiple choice questions (MCQs)
- (3) Part B comprises questions which require descriptive type answers.

#### Part - A

## Case Study Base MCQs + MCQ (15 Marks)

## 1. Case study MCQ (From A to E) (2 Marks × 5) = 10 Marks

The global automotive industry is highly competitive, with numerous players ranging from established giants like Toyota, General Motors, and Ford to new entrants such as electric vehicle startups like Tesla. Over the years, companies substantial have gained experience manufacturing, designing, and distributing vehicles, which has led to efficiency improvements, cost reductions, and innovation.

In this context, the concept of the experience curve plays a significant role in shaping the strategic decisions of firms. The automotive industry's attractiveness is heavily influenced by factors such as technological advancements (especially electric vehicle technology), competitive intensity, market demand, and the ability of companies to capitalize on their accumulated experience.

As automotive companies grow, they benefit from economies of scale, enhanced operational efficiencies, and a deeper understanding of customer preferences, which strengthens their competitive positions. However, new entrants, especially those in the electric vehicle sector, pose potential challenges to established players. Furthermore, changing consumer preferences toward environmentally friendly vehicles and government regulations concerning emissions play a major role in shaping the future of the industry.

This case focuses on assessing the attractiveness of the automotive industry in light of the experience curve, the competitive landscape, and external factors such as technological changes and government regulations.

- (A) Which of the following factors is most likely to contribute to the attractiveness of the automotive industry in the long term?
  - (1) The high level of competition between large, well-established firms
  - (2) Significant advancements in electric vehicle (EV) technology and the growing demand for sustainable mobility
  - (3) A slow decline in global demand for vehicles due to increased public transportation adoption
  - (4) A lack of government regulations regarding emissions and safety standards
- **(B)** How does the experience curve impact the competitive position of established automotive companies?
  - (1) It has no effect on their competitive position.
  - (2) It enables them to reduce costs and increase profitability as production volumes rise.
  - (3) It only benefits new entrants who are innovating in new technologies.
  - (4) It leads to greater market entry barriers, making it harder for new companies to succeed.
- **(C)** What is the potential impact of the experience curve on new entrants in the automotive industry?
  - (1) The experience curve does not affect new entrants as they have no prior experience.
  - (2) New entrants can easily replicate the experience curve advantages of established companies by adopting the same technologies.
  - (3) The experience curve serves as a significant barrier to entry because established players have already gained efficiency advantages.
  - (4) The experience curve makes the automotive industry unattractive to all firms, new and established.



- **(D)** Which factor could lead to an unattractive automotive industry, according to the industry's growth potential?
  - (1) Rising consumer demand for electric vehicles and autonomous driving technologies.
  - (2) A significant increase in government regulations and taxes on traditional vehicle emissions.
  - (3) Advancements in production technologies that decrease costs and increase efficiency.
  - (4) Reduced competition among major players due to mergers and acquisitions.
- **(E)** What strategic approach might a company take to capitalize on the weaknesses of competitors in the automotive industry?
  - (1) Increasing production volume without regard to technological advancements.
  - (2) Innovating in low-cost, sustainable vehicle designs to attract environmentally-conscious consumers.
  - (3) Maintaining high prices to compete with established luxury brands.
  - (4) Reducing marketing efforts to save costs and increase profitability.

### **General MCQ**

- **2.** Differentiation strategy can be achieved by following measures:
  - (i) Match products with tastes and preferences of customers
  - (ii) Elevate the performance of the product
  - (iii) Rapid product innovation

Which of the above is true: (2 Marks)

- (1) (i) and (ii)
- (2) (i) and (iii)
- (3) (ii) and (iii)
- (4) (i), (ii) and (iii)
- **3.** Stability strategy is a \_\_\_\_\_ strategy.

(2 Marks)

- (1) SBU level
- (2) Corporate level
- (3) Business level
- (4) Functional level
- **4.** Which one is NOT a type of strategic control?

(1 Mark)

- (1) Operational control
- (2) Strategic surveillance
- (3) Special alert control
- (4) Premise control



#### Part – B

## **Subjective Questions**

## Question No. 1 is compulsory.

## Attempt any two questions out of the remaining three questions.

- 1. (A) Ramesh, is owner of a popular brand of Breads. Yashpal, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different. While Ramesh preferred to use authority and having a formal system of defining goals and motivation with explicitly rewards and punishments, Yashpal believed in involving employees and generating enthusiasm to inspire people to deliver in the organization. Discuss the difference in leadership style of father and son. (5 Marks)
  - (B) Define strategic management. Also discuss the limitations of strategic management? (5 Marks)
  - (C) "There are certain conditions or indicators which point out that a turnaround is needed if the company has to survive". Discuss.

    (5 Marks)
- 2. (A) What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy? (5 Marks)
  - (B) Gautam and Siddhartha, two brothers, are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markets, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments.

    Discuss the nature of strategic choices being suggested by the two brothers with reference to the payoffs and the risks involved.

    (5 Marks)
- 3. (A) Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies. Explain these four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. (5 Marks)
  - (B) Rohit Patel is having a small chemist shop in the central part of Ahmedabad. What king of competencies Rohit can build to gain competitive advantage over online medicine sellers? (5 Marks)
- **4.** (A) Explain the Strategic Alliance. Describe the advantages of Strategic Alliance. (5 Marks)
  - (B) Sharma Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assured that he would ensure the implementation of policies and strategies to the best of his capacity buy have never involved him in decisions making of the company.

Do you thing this is the right approach? Validate your answer with logical reasoning around management levels and decision making. (5 Marks)



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