21COMDS501

Reg No : ......................

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Human Resource Development**

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Explain in brief the Human Resource Development in the Indian Context.

2) Explain the Process of Workforce Reduction.

3) Explain in brief about the On-the-Job and Off- the -Job Training.

4) Stan was hired to work in a branch office but reported directly to Margaret, who was located at the main office of your bank. Margaret would talk with Stan several times during the week to insure that he was comfortable at this job and that he was doing his job effectively.

After six months, a decrease in business required Stan to be relocated to the main office. Stan's duties and responsibilities remained the same. After one week, Margaret noticed that Stan was not performing his job responsibilities to company policy nor was he keeping up with his duties and responsibilities on a daily basis. When approached by Margaret, Stan objected to her concerns. His attitude changed. He would arrive to work moody. He would glare at Margaret, talk to her in a harsh manner, and stomp around the office. One morning when Margaret was talking to Stan about his lack of improvement, he pounded his fist on the desk and with an elevated tone told Margaret that she was talking down to him and he would not stand for it. Margaret has come to you, the HR specialist, for help with this problem. Outline your solution based on your company's policies.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Explain the Multiple Goals of HRD.

6) Explain the benefits of T-Group Training.

7) Explain any Five components of career development in an orgainsation.

8) Explain Counselling as an HRD Activity.

9) Explain the characteristics of an Expatriate.

10) Explain the process of HRD.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) Define HRD.

12) What is meant by E-learning?

13) State any two applications of Human Resource Development.

14) What is health promotion program?

15) Give the meaning of Expatriate.

16) Give any two examples of off-the-job training method.

17) What is meant by Employee Well Being?

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21COMDS502 **Reg No : ........................**

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Financial Institutions and Markets**

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Explain the Financial Concepts in detail.
2) What is Capital Market? Explain the importance and functions of Capital Markets.
3) Explain the functions of Stock Market.
4) Explain the various roles and importance of Non-Banking Financial Institutions.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Elaborate on Financial Sector Reforms.
6) Elaborate the structure of Captial Market.
7) State the objectives of SEBI.
8) Explain the various types of Issue.
9) Elaborate the functions of NABARD.
10) Narrate the effects of fluctuations in Foreign Exchange Rates.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What is Pradan Mantri Jan Dhan Yojna?
12) What is the full form of SEBI?
13) What are Treasury Bills?
14) What is Money Market?

15) What is EXIM Bank?

16) What is FOREX Market?

17) What are Depository and Custodial Sevices ?

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21COMDS503 Reg No : ........................

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Indian Accounting Standards 1**

**Duration:2 Hours** **Max Marks:60**

## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Contingent assets and contingent liabilities are two related accounting concepts that deal with potential future events or conditions, but they represent opposite sides of a company's financial position. Explain the relationship between them.

2) The following is the Trial Balance of Omega Limited as on 31.3.2022: (Figures in '000)

| | Debit | | Credit |
|---|---|---|---|
| Land at cost | 220 | Equity Capital (Shares of Rs 10 each | 300 |
| Plant & Machinery-cost | 770 | 10% Debentures | 200 |
| Trade Receivables | 96 | General Reserve | 130 |
| Inventories (31.3.22) | 86 | Profit & Loss A/c | 72 |
| Bank | 20 | Securities Premium | 40 |
| Adjusted Purchases | 320 | Sales | 700 |
| Factory Expenses | 60 | Trade Payables | 52 |
| Administration Expenses | 30 | Provision for Depreciation | 172 |
| Selling Expenses | 30 | Suspense Account | 4 |
| Debenture Interest | 20 | | |
| Interim Dividend Paid | 18 | | |
| | 1670 | | 1670 |

Additional Information:

i) The authorised share capital of the company is 40,000 shares of Rs 10 each.

ii) The company on the advice of independent valuer wish to revalue the land at Rs 3,60,000.

iii) Declared final dividend @ 10% on 2nd April, 2022.

iv) Suspense account of Rs 4,000 represents cash received for the sale of some of the machinery on 1.4.2021. The cost of the machinery was Rs 10,000 and the accumulated depreciation thereon being Rs 8,000.

v) Depreciation is to be provided on plant and machinery at 10% on cost.

vi) Profit for the year is Rs 1,66,000

Required: (show all the workings, wherever necessary)

a) How do you arrive at the total reserves and surplus as per Schedule III of the Companies Act, 2013? **(5 marks)**

b. What is the closing balance of Property, Plant and Equipment as of 31.03.22? **(4 marks)**

c. What is the formula for calculating total assets on the balance sheet? **(1 mark)**

d. If a company's Total Liabilities are Rs 5,00,000 and its Equity is Rs 2,00,000, what is the value of Total Assets? **(1 marks)**

e. What are the items a company shall disclose in the notes to the financial statements for property, plant, and equipment? **(4 marks)**

3) Explain: a) The objectives of Ind AS b) The benefits of Ind AS c) The limitations of Ind AS

4) The following is the trial balance of PK Limited as at 31st March, 2022.

| Items | Debit Rs | Items | Credit Rs |
|---|---|---|---|
| Opening stock in trade | 1,50,000 | Equity share capital | 5,00,000 |
| Purchases | 3,82,000 | Purchases return | 10,000 |
| Wages | 60,000 | Sales | 11,50,000 |
| Furniture | 25,000 | Discount | 6,300 |
| Salaries | 12,000 | Surplus i.e., Balance in the statement of profit and loss | 1,70,000 |
| Rent | 15,000 | Trade creditors | 33,700 |
| Trade expenses | 11,000 | General reserve | 82,000 |
| Trade debtors | 54,000 | Provision for doubtful debts | 3,000 |
| Plant and Machinery | 12,00,000 | Bills payable | 13,000 |
| Cash at bank | 21,500 | | |
| Computer software | 9,000 | | |
| Bills receivable | 14,000 | | |
| Bad debts | 6,500 | | |
| Discount allowed | 8,000 | | |
| | 19,68,000 | | 19,68,000 |

Additional information:

1. Stock in trade on 31st March, 2022 Rs 2,00,000

2. Depreciate plant and machinery at 12%, furniture at 10% ad computer software at 20%

3. Further bad debts amounted to Rs 4,000. Provide 5% on debtors for doubtful debts

4. Provide for income tax @ 35%

5. The Board of directors proposed dividend of 25% after the balance sheet date for the year ending 31.03.2022.

6. Equity share capital comprise of 50,000 equity shares of Rs 10 each, fully paid up. Authorised share capital consists of 60,000 equity shares of Rs 10 each.

7. Transfer 10% of the net profit to general reserve.

Required: (show all the workings, wherever necessary)

a. What are the total expenses for the year ended 31st March, 2022? **(7 marks)**

b. What is the current tax for the year ended 31st March, 2022, if the profit for the year is Rs 5,70,000? **(1 mark)**

c. What is the revenue from operations for the year ended 31st March, 2022? **(1 mark)**

d. ABC Ltd. is a manufacturing company. Prepare the Statement of Profit and Loss for the year ended March 31, 2023, with the following information: **(3 marks)**

Sales: Rs.1,500,000

Cost of Goods Sold: Rs.800,000

Operating Expenses: Rs.200,000

Other Income: Rs.50,000

Interest Expenses: Rs.30,000

Depreciation: Rs.40,000

Taxation: Rs.25,000

e. What is the formula for calculating profit in a business? **(1 mark)**

f. A company had total revenue of Rs 50,000 and total expenses of Rs 30,000. What is the company's profit? **(1 mark)**

g. How is a gross profit calculated? **(1 mark)**

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) J Ltd., purchased a machine from K Ltd. on 31.08.2012. Quoted price was Rs 275 lakhs. The vendor offers 2% trade discount. Sales tax on quoted price is 6%. J Ltd., spent Rs 60,000 for transportation and Rs 45,000 for architects' fees. They borrowed money from HDFC Bank of Rs 250 lakhs for acquisition of asset @ 15% p.a. They also spent Rs 15,000 for material, Rs 10,000 for labour and Rs 4,000 as overheads during trial run of the machine. The machine was ready for use on 15.01.2013 but it was put to use on 15.03.2013. Find out the original cost of the machine under Ind AS 16. Also suggest the accounting treatment for the cost

incurred during the period between the date the machine was ready for use and the date on which it was actually put to use.

6) Define Ind AS 108, Segment Reporting. State its objectives and any TWO provisions as per the accounting standards.

7) An enterprise ordered 16,000 kg of certain material at Rs 160 per unit. The purchase price includes GST of Rs 10 per kg in respect of which full GST credit is admissible. Freight incurred amounted to Rs 1,40,160. Normal transit loss is 2%. The enterprise actually received 15,500 kg and consumed 13,600 kg. Calculate cost of closing inventory under Ind AS 2.

8) Write a short note on the scope of Intangible Asset as per Ind AS 36.

9) Entity A owns 40% of the share capital of entity B and has the ability to exercise significant influence over it. Entity B holds the following investments.

- 70% of the share capital of its subsidiary entity C; and
- 30% of the share capital of entity D, with the ability to exercise significant influence

Entity A transacts with entities C and D. Should entity A disclose these transactions as related party transactions under Ind AS 24?

10) State the key benefits of convergence with International Financial Reporting Standards (IFRS).

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What is a gross profit?

12) Raja Ltd., has a chemical factory near Hyderabad. It contaminated the locality for several years and has not cleaned it up so far as it was not required by any statute. But as on 31st March 2017, based on the evidence available it is virtually certain that a law is going to be enacted shortly after the year end and based on that, the entity has to clean-up the locality which was already contaminated. Is there any requirement of any provision as on 31st March 2017 under Ind AS 37?

13) What is a provision?

14) How the Intangible Asset is disclosed as per Ind AS 36?

15) What are financing activities?

16) What does Ind AS 33 and Ind AS 103 stand for?

17) What is an income statement?

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21COMC501 Reg No : ........................

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Financial Management**

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Define Financial Management. Explain the scope of Financial Management under traditional approach and modern approach.

2) Suppose a firm has capital structure exclusively of ordinary shares amounting to Rs.10,00,000, the firm now wishes to raise additional Rs.10,00,000 for expansion. The firm has 4 alternative commercial plans.

   1. It can raise entire amount in the form of equity capital.
   2. It can raise 50% as equity capital and 50% as 5% debentures.
   3. It can raise the entire amount as 6% debentures.
   4. It can raise 50% as equity capital and 50% as 5% preference share capital.

   Further assume that the existing EBIT is Rs.1,20,000, the tax rate is 30%, outstanding ordinary shares is 10,000 and the market price per share is Rs.100 under all 4 alternatives.

   Which financial plan should the firm select?

3) XY Ltd wants to install a new machine in the place of an existing old one. The estimated life of the machine is 5 years.

| Machine | Cost | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| A | 25 | - | 5 | 20 | 14 | 6 |
| B | 40 | 10 | 14 | 16 | 17 | 8 |

   Cost of capital 16% required to make an appraisal of the 2 offers & advice the firm by using the following 1)Payback period 2)NPV 3) Profitability index 4)IRR (present value at16%,18% & 20%)

4) The cost sheet of a company shows the following particulars:

| Elements of cost | Amount per unit Rs. |
|---|---|
| Raw material | 70 |
| Direct labour | 30 |
| Overheads | 50 |
| Profit | 50 |
| Selling Price | 200 |

   The following particulars are available:

   1. Raw materials are in stock on an average for 2 months.

2. Materials are in process on an average for 1 month.

3. Finished goods are in stock on an average for 2 months.

4. Credit allowed to customers is 2 months

5. Credit allowed by creditors is 2 months.

6. Lag in payment of wages is 1 month.

7. Lag in payment of overhead expenses is 1 month.

8. 1/4th of the output is sold for cash.

9. Cash in hand and at bank is expected to Rs.30,000. You are required to prepare a statement showing the working capital required to finance a level of activity of 52,000 units of production.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Explain any five objectives of finance function.

6) Brandon retired from his firm with effect from April 1, 2009. His dues from the firm were calculated and amounted to Rs.3,00,000. The firm agreed to pay the amount in four equal instalments. The instalments included interest @ 7.5% p.a. Calculate the amount of each instalment.

7) Explain the determinants of capital structure.

8) A Co is considering which of these 2 mutually exclusive projects it should undertake. The finance director thinks that the project with higher NPV should be selected. The Co anticipates a cost of capital at 12%

| Year | 0 | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Cash flows<br>Project X | (200) | 35 | 80 | 90 | 75 | 20 |
| Project Y | (200) | 218 | 10 | 10 | 4 | 3 |

9) Given below is the data for a company:

| Particulars | 2022<br>(Rs. in thousands) |
|---|---|
| Stock of raw materials | 270 |
| Work in progress | 180 |
| Stock of finished goods | 240 |
| Purchases | 1350 |
| Cost of goods sold | 1800 |
| Sales | 2000 |
| Debtors | 500 |
| Creditors | 180 |

From the above compute net operating cycle

10) Write a note on Factoring.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What are the needs for Financial Planning?

12) Harish lent Rs.10,000 to his friend Suresh at a Compound interest of 11%p.a. Suresh paid half the principal with interest after 3 years and the remaining amount with interest after 5years. Calculate the total amount paid by Suresh to Harish.

13) Jack borrows money from his close friend Jill at an interest rate of 18%p.a. Jack can pay a maximum of Rs.36,000 as interest per year. Jill agrees that Jack need not repay the loan as long as Jill pays the interest per year. Calculate the amount of loan Jack can borrow.

14) The EBIT of A Ltd, was Rs.1,00,000 and the interest burden was Rs.50,000, with the applicable tax rate of 40%. Calculate the financial leverage.

15) Following are mutually exclusive Projects:

| Particulars | Project A | Project B |
|---|---|---|
| Present value of cash inflow | 20,000 | 8,000 |
| Initial outlay | 15,000 | 5,000 |

Calculate Profitability index for 2 Projects?

16) What is meant by inventory Management?

17) State any two significance of adequate working capital.

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21COMC502 Reg No : ........................

# CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

## B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023

## COMMERCE

### Income Tax Law and Practice-I

**Duration:2 Hours** **Max Marks:60**

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### SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Following are the particulars of Income of Mr. Vishal for the PY 2022-23. Compute the GTI if he is Resident, Not-ordinarily Resident and Non-resident.

1. Salary accrued and received in India Rs.20,000
2. Served for 3 months in the Indian Embassy in the US and salary received there Rs.30,000
3. Profit from business in New York Rs.25,000
4. Dividend declared in Perth but received in India Rs.10,000
5. Dividend received in Germany from an Indian Co. Rs.15,000
6. Income from a business in Sri Lanka, business controlled from London Rs.10,000
7. Interest on debentures of a company in France received in India Rs.8,000
8. Profit from business in Delhi, the business is controlled from Nepal, profit received there Rs.18,000
9. Income from business in New York controlled from Delhi Rs.30,000
10. Interest on POSB a/c Rs.5,000
11. Royalty received in Germany from Mr. Khan a resident of India for technical services provided for a business carried on in Germany Rs.20,000
12. Interest received from Mr. Liam a non-resident on the loan provided to him for a business carried on in India Rs.20,000
13. Interest received in London from Mr. Neil a non-resident on the loan provided to him for a business carried on in Sri Lanka Rs.15,000
14. Income from business in Mumbai the business being controlled from London Rs.10,000
15. Past untaxed foreign income brought to India Rs.10,000.

2) Mr. Ram, working in a Government Company in Bangalore furnishes the following particulars of income for the financial year:

Net salary (after deduction of Rs.3,000 employment tax, Rs.8,000 tax deducted at source) Rs.1,22,000

Dearness allowance (40% paid under terms of employment) Rs.60,000

H.R.A. Rs.8,000 p.m. (he pays a rent of Rs.5,000 per month for his house)

C.C.A. Rs.18,000

Servant allowance Rs.10,000 (he has employed a cook to whom he pays Rs.900 p.m.)

Conveyance allowance Rs.1,000 p.m.

Travelling allowance Rs.9,000 (of which Rs.4,000 is spent on his family tour)

Daily allowance Rs.12,000 (90% spent for official purposes)

Education allowance Rs.700 p.m. (3 daughters are studying)

Hostel allowance Rs.500 p.m. (eldest daughter stays in a hostel for her studies)

Entertainment allowance Rs.8,000 (he spent Rs.5000 on entertaining his employers' customers)

Turnover of Rs.20,00,000, He is in-charge of the sales also and is allowed a commission of 0.5% on the sales during the year he achieved.

He contributed Rs.56,400 to RPF and the company contributed Rs.54,400 for the same. The interest credited at 12% p.a. on the accumulated balance Rs.3,40,000.

Compute the taxable salary of Mr. Ram from for the AY.

3) Mr Ravi owns four houses. The details of which are as follows:

| Particulars | House I (Rs.) | House II (Rs.) | House III (Rs.) | House IV (Rs.) |
|---|---|---|---|---|
| AMV | 20,000 | 15,000 | 24,000 | 30,000 |
| Fair Rent Value | 24,000 | 30,000 | 20,000 | 24,000 |
| Rent received | 30,000 | 14,400 | Self | Self |
| Standard rent | 27,200 | 36,000 | 30,000 | 30,000 |
| Municipal Tax paid | 1,600 | 1,200 | Nil | 2,400 |
| Municipal Tax due | - | - | 2,000 | - |
| Repairs | - | 24,000 | 8,000 | 12,000 |

For the construction of fourth house, he had borrowed Rs.1,00,000 at 15% p.a. on 1.1.2019. The house was completed on 1.09.2021. As on 1.4.2022 Rs.80,000 was outstanding. During the year he recovered unrealized rent of Rs.2,000 which was claimed as deduction earlier. Compute the taxable income from house property for AY.

4) A) The GTI of Roshan is Rs.6,00,000.

He paid Rs. 8,000 as medical insurance premium, spent Rs. 2,000 for health checkup, spent Rs. 26,000 for the treatment of severely handicapped brother and Rs. 1,50,000 for the treatment of his father (aged 80 years) who suffers from cancer (specified disease). The insurance company paid Rs. 18,000 towards the treatment of his father. Compute the Total Income. **(5 Marks)**

B) Mr Kiran's GTI for the PY is Rs. 40,00,000. He makes the following donations during the PY

Prime Ministers National Relief Fund Rs. 1,00,000

National Defence Fund Rs. 2,00,000

Rs. 2,00,000 for repairs and renovation of notified Gurudwara

Rs. 1,00,000 to a local college for construction of commerce block

Rs. 10,000 given as aid to a poor student

Rs. 10,000 worth of books donated to an approved college

Rs. 1,00,000 to an approved charitable institution

Rs. 50,000 to a municipality duly approved for the purpose of family planning

Compute Deductions U/S 80G.**(10 Marks)**

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Describe the Canons of Taxation.

6) Explain the conditions to be fulfilled to prove an individual as a Resident and Ordinary Resident.

7) Sheethal retires from service after serving for 26 years and 7 months from XYZ Ltd., and received Rs.6,05,000 as gratuity. Her last drawn salary during February 2022 was Basic Rs.20,000, DA at 75% of Basic (80% is included for retirement benefits) and a commission of 1% on the turnover of Rs.12,50,000 achieved during the last 10 months. She received an annual increment of Rs.1,000 in August every year. Compute taxable Gratuity if Sheethal is Covered by the Payment of Gratuity Act of 1972.

8) From the following information calculate the annual value of property for AY.

| Particulars | House 1 | House 2 | House 3 |
|---|---|---|---|
| Fair Rent | 30,000 | 28,000 | …….. |
| Municipal Value | 25,000 | 29,000 | 25,000 |
| Rent received | 28,000 | 27,600 | 30,000 |
| Standard Rent | ………. | ……… | 24,000 |
| Municipal Tax Paid | 2,500 | 5,800<br>(paid by the tenants) | …….. |

9) Mr. Bhanu is working in Zebra Ltd. since last 25 years 9 months. Company allows 2 months leave for every completed year of service to its employees. During the

job, he had availed 20 months leave. At the time of retirement on 31-8-2022, he got Rs.1,50,000 as leave encashment. As on that date, his basic salary was Rs.5,000 p.m., D.A. was Rs.2,000 p.m.(forming part of retirement benefits) Commission was at 5% on turnover. Turnover effected by the assessee during last 12 months (evenly) 5,00,000. Bhanu got an increment of Rs.1,000 p.m. from 1-1-2022 in basic. Compute his taxable Leave Encashment Salary.

10) Compute the Deductions u/s 80 C

1. Contribution to RPF Rs.31,000 (Employer's contribution Rs.26,000)
2. PPF Deposit Rs.35,000 (interest accrued Rs.6,000)
3. Invested in NSC Rs.12,000
4. Interest accrued on NSC Rs.34,500
5. Repayment of Housing loan (including interest Rs.4,000) Rs.45,000

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What is Direct Tax?

12) From the following information compute the total income of Mr. B if he isNot Ordinarily Resident

a) Profit of a hotel business at Singapore Rs. 90,000

b) Dividend declared in Sydney but received in India Rs. 12,000

13) Mr. X a Non-Govt. employee commuted 2/3rd of his pension and received Rs.2,40,000 for the same. Compute the exempt amount of the commuted value of pension if he did not receive any gratuity.

14) What is Leave salary?

15) Mr. X is the owner of the house which is let out. From the following particulars find out GAV

| | Rs. |
|---|---|
| Municipal Value | 45,000 |
| Fair Rent | 40,000 |
| Standard Rent | 46,000 |
| Actual Rent | 42,000 |

16) Give the meaning of NAV.

17) What is Advance Tax?

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21COMC503

Reg No : ........................

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Principles and Practice of Auditing**

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Explain the classification of Auditing.

2) What are the objectives of Internal Control?

3) How do you verify the following: a) Plant and Machinery b) Goodwill c) Stock in trade?

4) Explain the rights, duties and liabilities of an auditor of a company.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Briefly explain the scope and objectives of audit enagagement.

6) Explain the need for audit evidence.

7) What is Verification? Enumerate the objectives of Verification.

8) What is the procedure to be considered while auditing the financial statements of educational institutions and hospitals?

9) Explain the contents of Auditor's Report.

10) Explain the role of Professional Accountants in public practice.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What is meant by technical error?

12) Define Auditing.

13) State any four objectives of Internal Check.

14) What is meant by Criminal Liabilities?

15) What is meant by Routine Checking?

16) What is meant by Adverse Report?

17) Give the meaning of professional ethics of an auditor?

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21COMC511 Reg No : ........................

# CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

## B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER 2023

## COMMERCE

## Advanced Performance Management I

**Duration:2 Hours** **Max Marks:60**

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### Section A

**Answer any TWO of the following:** **(2×15= 30)**

1. Cuthbert is based in Ceeland and manufactures jackets for use in very cold environments by mountaineers and skiers. It also supplies the armed forces in several countries with variants of existing products, customised by the use of different coloured fabrics, labels and special fastenings for carrying equipment. Cuthbert incurs high costs on design and advertising in order to maintain the reputation of the brand.

   Each jacket is made up of different shaped pieces of fabric called 'components'. These components are purchased by Cuthbert from an external supplier. The external supplier is responsible for ensuring the quality of the components and the number of purchased components found to be defective is negligible. The cost of the components forms 80% of the direct cost of each jacket, and the prices charged by Cuthbert's supplier for the components are the lowest in the industry. There are three stages to the production process of each jacket, which are each located in different parts of the factory:

   Stage 1 – Sewing

   The fabric components are sewn together by a machinist. Any manufacturing defects occurring after sewing has begun cannot be rectified, and finished garments found to be defective are heavily discounted, or in the case of bespoke variants, destroyed.

   Stage 2 – Assembly

   The garments are filled with insulating material and sewn together for the final time.

   Stage 3 – Finishing

   Labels, fastenings and zips are sewn to the finished garments. Though the process for attaching each of these is similar, machinists prefer to work only on labels, fastenings or zips to maximise the quantity which they can sew each hour.

Jackets are produced in batches of a particular style in a range of sizes. Throughout production, the components required for each batch of jackets are accompanied by a paper batch card which records the production processes which each batch has undergone. The batch cards are input into a production spreadsheet so that the stage of completion of each batch can be monitored and the position of each batch in the factory is recorded.

There are 60 machinists working in the sewing department, and 40 in each of the assembly and finishing departments. All the machinists are managed by 10 supervisors whose duties include updating the batch cards for work done and inputting this into a spreadsheet, as well as checking the quality of work done by machinists. The supervisors report to the factory manager, who has overall responsibility for the production process.

Reward System: Machinists are paid an hourly wage and a bonus according to how many items they sew each week, which usually comprises 60% of their total weekly wages.

Supervisors receive an hourly wage and a bonus according to how many items their team sews each week. The factory manager receives the same monthly salary regardless of production output. All employees are awarded a 5% annual bonus if Cuthbert achieves its budgeted net profit for the year.

Production Process issues: Recently, a large emergency order of jackets for the Ceeland army was cancelled by the customer as it was not delivered on time due to the following quality problems and other issues in the production process:

- A supervisor had forgotten to input several batch cards and as a result batches of fabric components were lost in the factory and replacements had to be purchased.
- There were machinists available to sew buttons onto the jackets, but there was only one machinist available who had been trained to sew zips. This caused further delay to production of the batch.
- When the quality of the jackets was checked prior to despatch, many of them were found to be sewn incorrectly as the work had been rushed. By this time the agreed delivery date had already passed, and it was too late to produce a replacement batch.

Business Process Engineering: This was the latest in a series of problems in production at Cuthbert, and the directors have decided to use business process reengineering (BPR) in order to radically change the production process.The proposal being considered as an application of BPR is the adoption of 'team working' in the factory, the three main elements of which are as follows:

- Production lines would re-organise into teams, where all operations on a particular product type are performed in one place by a dedicated team of machinists.
- Each team of machinists would be responsible for the quality of the finished jacket, and for the first time, machinists would be encouraged to bring about improvements in the production process. There would no longer be the need to employ supervisors and the existing supervisors would join the teams of machinists.
- The number of batches in production would be automatically tracked by the use of radio frequency identification (RFID) tags attached to each jacket. This would eliminate the need for paper batch cards, which are currently input into a spreadsheet by the supervisors.
- You have been asked as a performance management consultant to advise the board on whether business process reengineering could help Cuthbert overcome the problems in its production process.

Advise how the proposed use of BPR would influence the operational performance of Cuthbert.

2. Exhibit 1 – Company background

   Sweet Cicely (SC) manufactures sweets and confectionery and has delivered stable but modest increases to the shareholder wealth for many years. Following a change in ownership, the new shareholders are keen to increase the long-term performance of the business and are prepared to accept a high level of risk to achieve this.

   SC is considering setting up a factory to manufacture chocolate bars. There are three options (1, 2 and 3) for the size and output capacity of the new chocolate factory. SC must choose a size most suited to the expected demand for its products.

   Exhibit 2 – External factors

   As well as the impact of the quality, branding and pricing of its products, demand for SC chocolate bars will be influenced by external factors such as consumer tastes for chocolate over other sweets, and even the suggested health benefits of certain types of chocolate.

A high-cost ingredient in chocolate bars is cocoa, a commodity traded on international markets. The market price of cocoa fluctuates with worldwide demand. Due to economic growth, chocolate consumption is rising in many countries, where it was once considered a luxury. In some countries, however, governments are considering introducing additional taxes on products containing sugar in order to reduce the consumption of chocolate and confectionery products. Being derived from an agricultural crop, the availability and price of cocoa is also influenced by climatic conditions, soil erosion, and disease. Conflicts and political instability in cocoa growing regions can also restrict its availability. Recent technological advances in the production of cocoa, such as the use of genetically modified crops, promise higher yields from cocoa plants in the near future.

The CEO has asked you to advise SC why decisions, such as what size of chocolate factory to build, must include consideration of risk and uncertainty, and evaluate the use of PEST analysis in managing the risk and uncertainty surrounding the project.

Exhibit 3 – Three options for new chocolate factory

SC will need to choose one of the three options for the new chocolate factory. One board member said: 'The board proposed expanding into cake manufacturing several years ago. With hindsight, our planning on that proposal was poor. We sold only slightly fewer cakes than expected, but hadn't realised how sensitive our operating profit would be to a small change in demand. The previous shareholders thought problems in the cake business would put their dividends at risk, so SC stopped manufacturing cakes, barely a year after it started. The board does not want to repeat these mistakes. We want to minimise the opportunity cost of making the wrong decision about the size of the new chocolate factory.'

Appendix 1 shows the net present values for the three options discounted at SC's current cost of capital and also includes a regret table showing the maximum regret for each option. The CEO has asked you to use the data in Appendix 1 to explain which of the three options for the new chocolate factory would be preferred by the board and the new shareholders according to their respective risk appetites.

Appendix 2 shows the expected operating profit generated by the three options in the first year of the project, according to the market price of cocoa, and assuming an annual demand of 70 million chocolate bars. It also shows the overall expected value for each option. Finally, the CEO has asked you to use the data in Appendix 2 to recommend which of the three options for the new chocolate factory a risk neutral investor would choose, and explain any problems with the approach used to make the choice.

It is now 1 September 20X5. Respond to the CEO of Sweet Cicely's request for work on the following areas:

a.consideration of risk and uncertainty and the use of PEST **(10 marks)**

b. option for the new factory preferred by a risk neutral investor and the problems of the approach used **(5 marks)**

Exhibit 4 – Appendix 1

Net present values for the three options discounted at SC's current cost of capital ($m)

| Annual demand for chocolate bars | Option1 | Option 2 | Option 3 |
|---|---|---|---|
| 50 million | 4.0 | (8.0) | (32.0) |
| 60 million | 6.0 | 16.0 | (24.0) |
| 70 million | 6.0 | 16.0 | 17.0 |
| Regret table | | | |
| | Option1 | Option2 | Option3 |
| 50 million | 0 | (12.0) | (36.0) |
| 60 million | (10.0) | 0 | (40.0) |
| 70 million | (11.0) | (1.0) | 0.0 |
| Maximum regret | (11.0) | (1.0) | (40.0) |

Exhibit 5 – Appendix 2: Expected value calculation

Expected operating profit generated by the three options in the first year of the project, assuming an annual demand of 70 million chocolate bars ($m)

Market price of cocoa

| Probability | ($ per ton) | Option 1 | Option 2 | Option 3 |
|---|---|---|---|---|
| 0.3 | 2,500 | 3.0 | 5.0 | 7.0 |
| 0.4 | 3,000 | 0.5 | 2.0 | 1.5 |
| 0.3 | 3,500 | (2.0) | (1.0) | (2.0) |

| | | |
|---|---|---|
| Expected values of each option | | |
| Option 1 – (0.3 × 3.0) + (0.4 × 0.5) + (0.3 × –2.0) | = | $0.5m |
| Option 2 – (0.3 × 5.0) + (0.4 × 2.0) + (0.3 × –1.0) | = | $2.0m |
| Option 3 – (0.3 × 7.0) + (0.4 × 1.5) + (0.5 × –2.0) | = | $2.1m |

3. Framiltone is a food manufacturer based in Ceeland, whose objective is to maximise shareholder wealth. Framiltone has two divisions: Dairy division and Luxury division. Framiltone began manufacturing dairy foods 20 years ago and Dairy division, representing 60% of total revenue, is still the larger of Framiltone's two divisions.

Dairy division

This division manufactures cheeses and milk-based desserts. The market in Ceeland for these products is saturated, with little opportunity for growth. Dairy division has, however, agreed profitable fixed price agreements to supply all the major supermarket chains in Ceeland for the next three years. The division has also agreed long-term fixed volume and price contracts with suppliers of milk, which is by far the most significant raw material used by the division.

In contrast to Luxury division, Dairy division does not operate its own fleet of delivery vehicles, but instead subcontracts this to a third party distribution company. The terms of the contract provide that the distribution company can pass on some increases in fuel costs to Framiltone. These increases are capped at 0.5% annually and are agreed prior to the finalisation of each year's budget.

Production volumes have shown less than 0.5% growth over the last five years. Dairy division managers have invested in modern production plant and its production is known to be the most efficient and consistent in the industry.

Luxury division

This division was set up two years ago to provide an opportunity for growth which is absent from the dairy foods sector. Luxury division produces high quality foods using unusual, rare and expensive ingredients, many of which are imported from neighbouring Veeland. The product range changes frequently according to consumer tastes and the availability and price of ingredients. All Luxury division's products are distributed using its own fleet of delivery vehicles.

Since the company began, Framiltone has used a traditional incremental budgeting process. Annual budgets for each division are set by the company's head office after some consultation with divisional managers, who currently have little experience of setting their own budgets. Performance of each division, and of divisional managers, is appraised against these budgets. For many years, Framiltone managed to achieve the budgets set, but last year managers at Luxury division complained that they were unable to achieve their budget due to factors beyond their control. A wet growing season in Veeland had reduced the harvest of key ingredients in Luxury's products, significantly increasing their cost. As a result, revenue and gross margins fell sharply and the division failed to achieve its operating profit target for the year.

Framiltone has just appointed a new CEO at the end of Q1 of the current year. He has called you as a performance management expert for your advice.

'In my last job in the retail fashion industry, we used rolling budgets, where the annual budget was updated to reflect the results of every quarter's trading. That gives a more realistic target, providing a better basis on which to appraise divisional performance. Do you think we should use a similar system for all divisions at Framiltone?', he asked.

You have obtained the current year budget for Luxury division and the division's Q1 actual trading results (Appendix 1) and notes outlining expectations of divisional key costs and revenues for the rest of the year (Appendix 2).

Appendix 1

Luxury division current year budget

| C$000 | Q1 | Q2 | Q3 | Q4 | Total | Q1 Actual |
|---|---|---|---|---|---|---|
| Revenue | 10,000 | 12,000 | 11,000 | 7,000 | 40,000 | 10,400 |
| Cost of sales | (6,100) | (7,120) | (6,460) | (4,720) | (24,400) | (6,240) |
| Gross profit | 3,900 | 4,880 | 4,540 | 2,280 | 15,600 | 4,160 |
| Distribution costs | (600) | (720) | (660) | (420) | (2,400) | (624) |
| Administration costs | (2,300) | (2,300) | (2,300) | (2,300) | (9,200) | (2,296) |
| Operating profit | 1,000 | 1,860 | 1,580 | (440) | 4,000 | 1,240 |

Appendix 2

Expected key costs and revenues for remainder of the current year

1.Sales volumes are expected to be 2% higher each quarter than forecast in the current budget.

2.Average selling price per unit is expected to increase by 1.5% from the beginning of Q3.

3.The exchange rate between the Ceeland Dollar (C$) and the Veeland Dollar (V$) is predicted to change at the beginning of Q2 to C$1.00 buys V$1.50. For several years up to the end of Q1, C$1.00 has been equivalent to V$1.40 and this exchange rate has been used when producing the current year budget. Food produced in the Luxury division is despatched immediately upon production and Framiltone holds minimal inventory. The cost of ingredients imported from Veeland represents 50% of the division's cost of sales and suppliers invoice goods in V$.

4.The rate of tax levied by the Ceeland government on the cost of fuel which Luxury uses to power its fleet of delivery vehicles is due to increase from 60%, which it has been for many years, to 63% at the beginning of quarter 3. 70% of the division's distribution costs are represented by the cost of fuel for delivery vehicles.

5.The CEO has initiated a programme of overhead cost reductions and savings of 2.5% from the budgeted administration costs are expected from the beginning of Q2. Q3 administration costs are expected to be a further 2.5% lower than in Q2, with a further 2.5% saving in Q4 over the Q3 costs.

Respond to the CEO's request for work on a move from incremental to rolling budgets and critically evaluate Incremental Budgeting and Rolling Budgeting.

4. Quark Healthcare (Quark) runs a number of large hospitals which provide general medical care for the people of Veeland. Veeland is an advanced economy and healthcare is considered to be a high skill, high technology and high status industry. It is compulsory for the people of Veeland to purchase health insurance and then the insurance companies reimburse the healthcare providers for services delivered. The insurance companies audit the healthcare providers and grade them for value for money. As there are a number of hospital chains (such as Quark), the insurers will encourage their insured customers to use those which are most efficient. The ultimate sanction for a healthcare provider is for an insurance company to remove them from the list of acceptable providers.

Quark has large amounts of capital tied up in expensive medical equipment and a drug inventory. The existing systems for accounting for these items are traditional ones aimed at avoiding theft and obsolescence. Quark has an inventory system which requires regular (weekly) physical checks of the drugs in inventory in order to update it. It is important that the right drugs must be in easily accessible stores (located throughout the hospital) in order to act quickly in case of a medical emergency. Also, the accounting staff at Quark maintain a non-current asset register (NCAR) which logs the location of all major assets including medical equipment. The problem with the non-current asset register is that it is often out-of-date as doctors will take equipment in time of emergency and not properly log its new location. This often leads to equipment lying unused in one area of the hospital while being searched for in another area, to the detriment of patient care.

Quark has recently instituted a tagging project where radio-frequency identification devices (RFID) will be attached to the most valuable pieces of equipment used in treatment and also to batches of high-value drugs. The hospitals are fitted with WiFi networks which can pick up the RFID signal so that the RFID tags will be detectable throughout a hospital. The tags will identify the object which they are attached to by a unique identification number and will give its location. The identifier number will link to the inventory system which will identify the product, the quantity initially delivered in that batch and the date of delivery. The RFID information will be accessible through the computer terminals throughout the hospitals.

The chief financial officer (CFO) of Quark has asked you to advise him on the impact of this new system on performance management at Quark. He has suggested that you look at the costs and benefits which will be associated with producing the information from the RFID system, the impact of the nature of the information supplied, the changes to performance management reporting and how the new information could be used for improved control at the hospital. He is keen to be seen to be at the forefront of accounting and management developments and has been reading about cost control techniques. Recently, he has heard about 'lean' systems, so wants to know how the RFID system and its impact on the hospital fit with this concept. Given the importance of the medical staff in running the hospital, he also wants to know how their behaviour will be affected by the control information from the RFID system. There is a very strict social order among these staff (in increasing order of skills: nurses, general doctors and specialist doctors) which regularly causes friction when one group feels it is not given its due status. For example, recently, the general doctors agreed to a new method for nurses to record drugs administered to patients but this new system has not been fully implemented due to complaints by the nurses and specialist doctors who were not consulted on the change.

1.Assess the impact of the radio-frequency identification devices (RFID) system on the performance management at Quark as suggested by the CFO. **(10 marks)**

2.Evaluate how the medical staff's attitudes will influence the design and implementation of the RFID system and how it might be used to promote responsibility and accountability at the hospital. **(5 marks)**

## Section B

**Answer any TWO of the following:** **(2×10= 20)**

5. A parcel delivery service, such as DHL, may have a strategic objective to increase revenue by 4% year on year. The business will establish CSFs and KPIs which are aligned to the achievement of this strategic objective. Identify & Explain any two CSFs and KPIs for the firm.

6. A company is considering which one of three alternative courses of action, A, B and C, to take. The profit or loss from each choice depends on which one of four economic circumstances, I, II, III or IV, will apply. The possible profits and losses, in thousands of pounds, are given in the following payoff table. Losses are shown as negative figures.

| | | Action | | |
|---|---|---|---|---|
| | | A | B | C |
| | I | 70 | 60 | 70 |
| Circumstance | II | 10 | 20 | 5 |
| | III | 80 | 0 | 50 |
| | IV | 60 | 100 | 115 |

State which action would be selected using each of the maximax and maximin criteria.

7. Explain the weaknesses of traditional approaches to budgeting.

8. Background

Luvij manufactures high quality, luxury women's footwear. It sells its products on its own website and also to small independent retailers.

Data collection and use

In order to monitor performance and aid decision-making, Luvij collects sales data on all of its footwear ranges and feedback on its designs from customers and retailers. In addition, to ensure that prices remain competitive, Luvij has a team of staff to monitor the prices of similar products on competitors' websites and to identify design trends in the market, which change frequently, and from season to season. Generating new footwear designs consistent with changing market trends is a critical success factor for Luvij. The large volume of data collected is entered into a complex spreadsheet by one data entry clerk.

Luvij operates a functional structure with different departments for sales, production, purchasing and design. The spreadsheet is sent by email to the senior manager of each of these departments at the end of each quarter. The senior manager for the sales, production and buying departments are expected to generate the relevant sales, production and purchasing forecasts by analysing information contained in the spreadsheet. The senior manager of the design department uses the information to generate new footwear designs consistent with market trends.

Usefulness of external information and use of a unified corporate database

One recently appointed board member at Luvij has commented, 'I believe that the external information on market trends and competitors' prices compiled in the quarterly spreadsheet is of limited usefulness as I have heard complaints from managers that they have difficulty understanding the large volume of data given to them, and that they often receive this too late. The company I worked for in my previous job used a unified corporate database to share information in real time across all parts of the business. A similar unified corporate database may be useful for Luvij'.

Potential joint venture

Luvij has a strategic objective to become the market leader in the sale of high quality, children's footwear to small independent footwear retailers. It has already invested heavily in market research and developing innovative designs. To reduce the risks of not achieving this strategic objective, for example, by having insufficient capacity to produce a larger range of footwear styles, the board is considering entering into a joint venture with Shirville.

Shirville is a large manufacturer of exclusively children's footwear. Its advanced manufacturing machinery and production techniques mean that it can produce the high volumes required to supply supermarkets and chain stores* found on the main streets of most towns and cities. Shirville's objective for the joint venture is to utilise spare production capacity it has in a factory which it holds on a lease which expires in three years.

The recently appointed board member also commented, 'I am concerned about the potential problems of measuring and managing the performance of the joint venture with Shirville. The fact that the two businesses have different objectives is just one example of why these problems may occur, though there will also be other reasons.'

*Chain stores are large retailers with multiple stores based in different locations.

Advise the board on the potential problems with the measurement and management of the performance of the joint venture with Shirville.

## Section C

**Answer any TWO of the following:** **(2×5= 10)**

9. What are the prime sources of Critical Success Factors?

10. Hudson has a sales budget of 400,000 units for the coming year based on 20% of the total market. On each unit, Hudson makes a profit of $3. Actual sales for the year were 450,000, but industry reports showed that the total market volume had been 2.2 million.

    1.Find the traditional sales volume variance.

    2.Split this into planning and operational variances (market size and market share). Comment on your results.

11. Explain the characteristics of Big Data.

12. Explain the consequences of overloaded information in a performance report.

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21COMC512 Reg No : ........................

CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023

COMMERCE

Advanced Financial Management I

Duration:2 Hours Max Marks:60

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## Section A

**Answer any TWO of the following:** (2×15= 30)

1. Statement of financial position (Balance sheet) extract

| | Equity finance $m | Debt finance $m |
|---|---|---|
| Long term liabilities<br>Debentures (10%) | 0.0 | 10.0 |
| Capital<br>Share capital (50c)<br>Share premium<br>Reserves | <br>11.0<br>4.0<br>5.0 | <br>3.5<br>1.5<br>5.0 |
| | 20.0 | 10.0 |

Statement of profit or loss extract

| | $m |
|---|---|
| Revenue | 100.0 |
| Gross profit | 20.0 |
| Less expenses (excluding finance charges) | (15.0) |
| Operating profit | 5.0 |

Corporation tax is charged at 30%.

a) Calculate ROCE and return on equity (ROE) and compare the financial performance of the company under the two funding options. **(8 marks)**

b) What is the impact on the company's performance of financing by debt rather than equity? **(2 marks)**

c) Explain: Static trade-off theory **(5 marks)**

2. J is expecting revenues to grow to $80 million next year, which is an increase of 20% from the current year. The operating margin for next year is forecast to be the same as this year at 30%. In addition to these profits, J receives 75% of the post-tax profits from one of its overseas subsidiaries, P, as dividends. However, its other overseas subsidiary, K Co, does not pay dividends.

For the coming year it is expected that J will require the following reinvestment:

1. An investment equivalent to the amount of depreciation to keep its non- current asset base at the present productive capacity. Depreciation is 25% straight-line on its non-current assets of $15million.

2. A 25% investment in additional non-current assets for every $1 increase in sales revenue.

3. $4.5 million additional investment in non-current assets for a special project.

4. 15% investment in working capital for every $1 increase in sales revenue.

K produces components for P to assemble into finished goods. K will produce 300,000 specialist components at $12 variable cost per unit and incur fixed costs of $2.1 million for the coming year. It will then transfer the components at full cost to P, where they will be assembled at a cost of $8 per unit and sold for $50 per unit. P will incur additional fixed costs of $1.5 million in the assembly process.

Other information

1. J has outstanding non-current liabilities of $35 million, on which it pays interest of 8% per year.

2. J's, K's and P's profits are taxed at 28%, 42% and 22% respectively. The tax authorities where Jalfrezi is based charge tax on profits made by subsidiary companies but give full credit for tax already paid by overseas subsidiaries.

Required:

Forecast J's dividend capacity for the coming year. **(8 marks)**

b) In subsequent years J Inc's revenues will grow at 5% per annum. All other data as before except no further special projects are planned and half of the firm's debt will be redeemed at the end of the second subsequent year.

Required:

Forecast J's dividend capacity for the following three years. **(7 marks)**

3. Compare and contrast the roles of the treasury and financial control departments with respect to a proposed investment.

4. Wire Construction has suffered from losses in the last three years. Its statement of financial position (balance sheet) as at 31st December, 20X1 shows:

| | $ |
|---|---|
| Non-current assets | |
| Land and Buildings | 193,246 |
| Equipment | 60,754 |
| Investment | 27,000 |
| | 281,000 |
| Current assets | |
| Inventory | 120,247 |
| Receivables | 70,692 |
| | 190,939 |
| Total assets | 471,939 |
| Equity and Liabilities | |
| Ordinary shares $1 | 200,000 |
| 5% Cumulative preference shares-$1 | 70,000 |
| Profit and loss | (39,821) |
| | 230,179 |
| Non-current liabilities | |
| 8% Debenture 20X4 | 80,000 |
| Current liabilities | |
| Trade payables | 112,247 |
| Interest payable | 12,800 |
| Overdraft | 36,713 |
| | 161760 |
| | 471,939 |

Sales have been particularly difficult to achieve in the current year and inventory levels are very high. Interest has not been paid for two years. The debenture holders have demanded a scheme of reconstruction or the liquidation of the company.

Assume that

1. The investment is to be sold at the current market price of $60,000.
2. 10% of the receivables are to be written off.
3. The remaining assets were professionally valued as follows:

Land $80,000

Building $80,000

Equipment $30,000

Inventory and work-in-progress $50,000.

During a meeting of shareholders and directors, it was decided to carry out a scheme of internal reconstruction. The following scheme has been proposed:

a. Each ordinary share is to be re-designated as a share of 25c.

b. The existing 70,000 preference shares are to be exchanged for a new issue of 35,000 8% cumulative preference shares of $1 each and 140,000 ordinary shares of 25c each.

c. The ordinary shareholders are to accept a reduction in the nominal value of their shares from $1 to 25c, and subscribe for a new issue on the basis of 1 for 1 at a price of 30c per share.

d. The debenture holders are to accept 20,000 ordinary shares of 25c each in lieu of the interest payable. It is agreed that the value of the interest liability is equivalent to the nominal value of the shares issued. The interest rate is to be increased to 9.5% and the repayment date deferred for three years. A further $9,000 of this 9.5% debenture is to be issued and taken up by the existing holders.

e.The profit and loss account balance is to be written off.

f. The bank overdraft is to be repaid.

g. It is expected that, due to the refinancing, operating profits will be earned at the rate of $50,000 per year after depreciation but before interest and tax.

h. Corporation tax is 21%.

Required:

Prepare the statement of financial position (balance sheet) of the company, assuming that the proposed reconstruction has just been undertaken.

## Section B

**Answer any TWO of the following:** **(2×10= 20)**

5. a) Suppose that the risk-free rate is 5% and the standard deviation of the return on the share in the past has been estimated as 35%. Estimate the value of a six-month call option at an exercise price of $1.48 (current share price = $1.64). **(8 marks)**

   b) Calculate the value of the corresponding put option. **(2 marks)**

6. Chassagne Co is considering making a bid for Butler Co, a rival company.

   The following information should be used to value Butler Co.

   Statement of profit or loss for the most recent accounting period

| | $m |
|---|---|
| Revenue | 285.10 |
| Cost of sales | (120.90) |
| Gross profit | 164.20 |
| Operating expenses (inc depreciation $12.3m) | (66.90) |
| Profit from operations | 97.30 |
| Finance costs | (10.00) |
| Profit before tax | 87.30 |
| Taxation | (21.60) |
| Profit after tax | 65.70 |

Other information

i) Selling prices are expected to rise at 3% per year for the next 3 years and then stay constant thereafter.

ii) Sales volumes are expected to rise at 5% per year for the next 3 years and then stay constant thereafter.

iii) Assume that cost of sales is a completely variable cost, and that other operating expenses (including depreciation) are expected to stay constant.

iv) Butler Co invested $15m in non-current assets and $2m in working capital last year. These annual amounts are expected to stay constant in future.

v) Butler Co's financing costs are expected to stay constant each year in the future.

vi) The marginal rate of tax is 28%, payable in the year in which the liability arises.

vii) Assume that book depreciation equals tax depreciation.

viii) Butler Co has 500 million shares in issue.

ix) The WACC of Butler Co is 9% and its cost of equity is 12%.

Required:

Calculate the value of the equity in Butler Co (in total and per share) by forecasting future free cash flow to equity and discounting to present value using the cost of equity.

7. Williams Co is the manufacturer of cosmetics, soaps and shower gels. It also markets its products using its own highly successful sales and marketing department. It is seen as an employer of choice and as such has a talented and loyal work-force with a history of developing new and exciting products which have sold well. It is now considering extending its range, however it has currently a build-up of unfulfilled orders due to a lack of capacity.

GSL is a well-known herbal remedy for skin problems. GSL Co was founded by three brothers in the 1950s and until the death of the remaining brother in 2004 has performed well – however the new Chairman has limited experience and the company has not performed well over recent years. GSL has a dedicated team of herbalists who have developed products, which would find a ready market – however, there is insufficient funds and expertise to correctly market these products and market share is low.

Williams' products and GSL's products are made using similar production technologies and their financial and administrative systems are similar and it is hoped savings can be made here.

Required:

Identify any potential synergy gains that would emerge from a merger of Williams and GSL.

8. The following shows the balance sheet (statement of financial position) and statement of profit or loss for Zed Manufacturing for the years ended 31 December 20X7 and 31 December 20X8.

Summarised statement of profit or loss ($m):

| | 20X7 | 20X8 |
|---|---|---|
| Sales revenue | 840 | 830 |
| Cost of sales | 554 | 591 |
| Gross profit | 286 | 239 |
| Selling, distribution and administration expenses | 186 | 182 |
| Profit before interest | 100 | 57 |
| Interest | 6 | 8 |
| Profit before tax | 94 | 49 |
| Tax (standard rate 50%) | 45 | 23 |
| Profit for the year | 49 | 26 |

Summarised statement of financial position (balance sheet) ($m)

| | 20X7 | 20X8 |
|---|---|---|
| Non-current assets | | |
| intangible assets | 36 | 32 |
| Tangible assets at net book value | 176 | 222 |
| | 212 | 254 |
| Current assets: | | |
| Inventory | 237 | 265 |

| | | |
|---|---|---|
| Receivables | 105 | 132 |
| Bank | 52 | 13 |
| | 394 | 410 |
| Total assets | 606 | 664 |
| Equity | | |
| Share capital (ordinary 50c shares) | 100 | 100 |
| Retained earnings | 299 | 348 |
| | 399 | 448 |
| Non-current liabilities | | |
| Long term loans | 74 | 94 |
| | 473 | 542 |
| Current liabilities | | |
| Payables | 133 | 122 |
| Total equity and liabilities | 606 | 664 |

The current share price is $0.80 (it was $1.60 at the end of 20X7).

Required:

Summarise the performance of Zed manufacturing in 20X8 compared with 20X7 by calculating the following ratios:

a. Profitability ratios with interpretation

b. Liquidity ratios with interpretation

## Section C

**Answer any TWO of the following:** **(2×5= 10)**

9. The share price of Madrid plc is currently $2.00.

   Johnson holds a call option with an exercise price of $1.80, exercisable in 3 months time.

   What will Johnson do if the share price in 3 months time is:

   a) $2.50

   b) $1.50

10. Dark pools are a type of alternative trading system. Explain.

11. What are the benefits and drawbacks of a Management Buy Out relative to a Management Buy In?

12. a) The summarised balance sheet (statement of financial position) of Owen at 31 December 20X7 is as follows:

| Assets | $000 |
|---|---|
| Non-current assets | 23,600 |
| Current assets | 8,400 |
| | 32,000 |
| Equity and Liabilities | |
| Capital and reserves | |
| $1 Ordinary shares | 8,000 |
| Retained earnings | 11,200 |
| | 19,200 |
| Non-current liabilities: | |
| 6% unsecured bond | 8,000 |
| Current liabilities | 4,800 |
| | 32,000 |

Calculate the value of one ordinary share in Owen, using an asset based valuation method. **(3 marks)**

b) Fowler is planning to make a bid for Owen (see details for Owen above). It has estimated that the replacement cost of Owen's non-current assets is $40 million. Calculate the value of a share in Owen from Fowler's perspective. **(2 marks)**

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21COMC513 Reg No : ......................

# CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

## B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/ DECEMBER 2023

## COMMERCE

### Strategic Business Reporting I

**Duration:2 Hours** **Max Marks:60**

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### Section A

**Answer any TWO of the following:** **(2×15= 30)**

1. (a) What is an investment ptoperty? Give examples of what can be recognized and what cannot be recognized as investment property.

   (b) Lavender owns a property, which it rents out to some of its employees. The property was purchased for \$30 million on 1 January 20X2 and had a useful life of 30 years at that date. On 1 January 20X7 it had a market value of \$50 million and its remaining useful life remained unchanged. Management wish to measure properties at fair value where this is allowed by accounting standards.

   Required: How should the property be treated in the financial statements of Lavender for the year ended 31 December 20X7.

   (c) ABC owns a building that it used as its head office. On 1 January 20X1, the building, which was measured under the cost model, had a carrying amount of \$500,000. On this date, when the fair value of the building was \$600,000, ABC vacated the premises. However, the directors decided to keep the building in order to rent it out to tenants and to potentially benefit from increases in property prices. ABC measures investment properties at fair value. On 31 December 20X1, the property has a fair value of \$625,000.

   Required: Discuss the accounting treatment of the building in the financial statements of ABC for the year ended 31 December 20X1.

2. (a) Vache leases machinery to Toro. The lease is for four years at an annual cost of \$2,000 payable annually in arrears. The present value of the lease payments is \$5,710. The implicit rate of interest is 15%.

   Required: How should Vache account for their net investment in the lease?

   (b) Oroc hires out industrial plant on long-term operating leases. On 1 January 20X1, it entered into a seven-year lease on a mobile crane. The terms of the lease are \$175,000 payable on 1 January 20X1, followed by six rentals of \$70,000 payable on 1 January 20X2 – 20X7. The crane will be returned to Oroc on 31

December 20X7. The crane originally cost $880,000 and has a 25-year useful life with no residual value.

Required: Discuss the accounting treatment of the above in the year ended 31 December 20X1.

3.

TC has a defined benefit pension plan and prepares financial statements to 31 March each year. The following information is relevant for the year ended 31 March 20X3:

- The net pension obligation at 31 March 20X3 was $55 million. At 31 March 20X2, the net obligation was $48 million, comprising the present value of the plan obligation stated at $100 million, together with plan assets stated at fair value of $52 million.
- The discount rate relevant to the net obligation was 6.25% and the actual return on plan assets for the year was $4 million.
- The current service cost was $12 million.
- At 31 March 20X3, TC granted additional benefits to those currently receiving benefits that are due to vest over the next four years and which have a present value of $4 million at that date. They were not allowed for in the original actuarial assumptions.
- During the year, TC made pension contributions of $8 million into the scheme and the scheme paid pension benefits in the year amounting to $3 million.

Required: Explain the accounting treatment of the TC pension scheme for the year to 31 March 20X3, together with supporting calculations.

4. On 1 January 20X1 Daniels issued a $50m three-year convertible bond at par.

- There were no issue costs.
- The coupon rate is 10%, payable annually in arrears on 31 December.
- The bond is redeemable at par on 1 January 20X4.
- Bondholders may opt for conversion in the form of shares. Theterms of conversion are two 25-cent equity shares for every $1 owed to each bondholder on 1 January 20X4.
- Bonds issued by similar entities without any conversion rights currently bear interest at 15%.
- Assume that all bondholders opt for conversion in shares.

Required: How will this be accounted for by Daniels?

## Section B

**Answer any TWO of the following:** **(2×10= 20)**

5. Explain in detail the various factors to be considered while determining the transaction price of a revenue contract according to IFRS 15 Revenue from Contracts with Customers.

6. (a) An entity has a policy of only carrying out work to rectify damage caused to the environment when it is required to do so by local law. For several years the entity has been operating an overseas oil rig which causes environmental damage. The country in which the oil rig is located has not had legislation in place that required this damage to be rectified.

   A new government has recently been elected in the country. At the reporting date, it is virtually certain that legislation will be enacted that will require damage rectification. This legislation will have retrospective effect.

   (b) Under a licence granted by a local government, an entity has constructed a rock-crushing plant to process material mined from the surrounding area. Mining activities have already started. Under the terms of the licence, the entity must remove the rockcrushing plant when mining activities have been completed and must landscape the mined area, so as to create a national park.

   Required: For each of the situations, explain whether a provision should be recognised.

7. Highlight is an entity whose functional currency is the dollar ($) and has an annual reporting date of 31 December.

   On 1 July 20X3, Highlight purchased an item of plant and equipment on credit for Dn400,000. On 1 November 20X3, Highlight made a payment of Dn180,000 to the supplier. The balance of the invoice remains outstanding.

   Highlight has a policy of applying historical cost accounting and depreciating plant and equipment at the rate of 20% per annum. The item of plant and equipment is not expected to have any residual value at the end of its useful life.

   Relevant exchange rates to $1 are as follows:

| | Dn |
|---|---|
| 1 July 20X3 | 10.0 |
| 1 November 20X3 | 7.2 |
| 1 December 20X3 | 9.0 |
| 31 December 20X3 | 8.0 |

   Required: Prepare relevant extracts from Highlight's financial statements for the year ended 31 December 20X3 to illustrate the impact of the above transactions.

8. On 1 January 20X4 an entity grants rights to 20 employees. If still employed on 31 December 20X6, the employees can elect to receive either 800 options or cash to the value, on that date, of 700 shares. The fair value of the options is $19 at the grant date. The reporting date is 31 December.

The following information is available:

| | Share price $ | Expected vesters |
|---|---|---|
| 1 January 20X4 | 21 | 20 |
| 31 December 20X4 | 27 | 20 |
| 31 December 20X5 | 33 | 18 |
| 31 December 20X6 | 42 | 17 |

Required: Calculate and explain the impact of the share-based payment on the financial statements for each of the three years.

## Section C

**Answer any TWO of the following: (2×5= 10)**

9. Baklava has an investment property that is measured at fair value. This property is rented out on short-term leases.

The directors wish to fair value the property by estimating the present value of the net cash flows that the property will generate for Baklava. They argue that this best reflects the way in which the building will generate economic benefits for Baklava.

The building is unique, although there have been many sales of similar buildings in the local area.

Required: Discuss whether the valuation technique suggested by the directors complies with International Financial Reporting Standards.

10. Discuss the relationship between ethics and profits of a company.

11. What is the criteria for an asset to be recognized IFRS 5 Non-current Assets Held for Sale and Discontinued Operations?

12. Discuss the composition of 'Cost of purchase' and 'Cost of conversion'. Mention the costs to be excluded while calculating the cost of inventory as per IAS 2 Inventories.

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21COMC521 Reg No : ........................

CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023

COMMERCE

Management Accounting I

Duration:2 Hours Max Marks:60

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Section- A(compulsory)

I. Answer The Following Question : 1×20= 20

1. A product passes through three processes – A, B and C. The details of expenses incurred on the three processes during the year 1992 were as under:

| Particulars | Process A | Process B | Process C |
|---|---|---|---|
| Units issued | 10000 units at Rs. 100/unit | | |
| Sundry materials | 10000 | 15000 | 5000 |
| Direct expenses | 6000 | 18150 | 27200 |
| Labour | 30000 | 80000 | 65000 |
| Selling price | 10 | 165 | 250 |

Management expenses during the year were Rs. 80,000 and selling expenses were Rs. 50,000 These are not allocable to the processes. Actual output of the three processes was: A – 9,300 units, B-5, 400 units and C-2, 100 units. Two third of the output of Process A and one half of the output of Process B was passed on to the next process and the balance was sold. The entire output of process C was sold. The normal loss of the three processes, calculated on the input of every process was: Process A-5%; B-15% and C-20% The Loss of Process A was sold at Rs. 2 per unit, that of B at Rs. 5 per unit and of Process C at Rs. 10 per unit. Prepare the Three Processes Accounts and the Profit and Loss Account.

Section- B

II. Answer any Four of the following : 4×10= 40

2. a) Always Confectioners (AC) owns a bakery which is used to make bakery items like pastries, cakes and muffins. AC used to bake at least 50 units of any item at a time. A customer has given an order for 600 muffins. To process a batch of 50 muffins, the following cost would be incurred

Direct Materials Rs. 500

Direct Wages Rs. 50

Oven set-up cost Rs. 150

AC absorbs production overheads at a rate of 25% of direct wages cost. 10% is added to the total production cost of each batch to allow for selling, distribution and administration overheads. AC requires a profit margin of 25% of sales value. Determine the selling price for 600 muffins.

b) M/s. LKG Bearings Limited is committed to supply 48,000 bearings per annum to M/s. KMR Fans on a steady daily basis. It is estimated that it costs Rs.1.5 as inventory holding cost per bearing per month and that the set up cost per run of bearing manufacture is Rs.3,200.

i. What would be the optimum run size of bearing manufacture?

ii. What would be the interval between two consecutive optimum runs?

iii. Find out the minimum inventory cost

c) Surprise Limited has a capacity of 1,20,000 units per annum as its optimum capacity. The production costs are as under:

- Direct Material – Rs.90 per unit
- Direct Labour – Rs.60 per unit
- Overheads

o Fixed – Rs.30,00,000 per annum

o Variable – Rs.110 per unit

- Semi-variable: Rs.20,00,000 per annum upto 50% capacity and an extra amount of Rs.4,00,000 for every 25% increase in capacity of part thereof

The production is made to order and not for stocks. If the production programme of the factory is as indicated below and the management desires a profit of Rs.20,00,000 for the year work out the average selling price at which each unit should be quoted.

First 3 months: 50% capacity; Remaining 9 months : 80% capacity

Ignore administration, selling and distribution overheads

3. In a factory following the Job Costing Method, an abstract from the work- in-progress as on 30th September was prepared as under.

| Job No. | Materials (Rs.) | Direct hrs. | Labour (Rs.) | Factory Overheads applied (Rs.) |
|---|---|---|---|---|
| 115 | 1325 | 400 hrs. | 800 | 640 |
| 118 | 810 | 250 hrs. | 500 | 400 |
| 120 | 765 | 300 hrs. | 475 | 380 |
| | 2,900 | | 1,775 | 1,420 |

Materials used in October were as follows:

| Materials Requisition No. | Job No. | Cost (Rs.) |
|---|---|---|
| 54 | 118 | 300 |
| 55 | 118 | 425 |
| 56 | 118 | 515 |
| 57 | 120 | 665 |
| 58 | 121 | 910 |
| 59 | 124 | 720 |
| | | 3,535 |

A summary for labour hours deployed during October is as under:

| Job No | Number of Hours | |
|---|---|---|
| | Shop A | Shop B |

| | | |
|---|---|---|
| 115 | 25 | 25 |
| 118 | 90 | 30 |
| 120 | 75 | 10 |
| 121 | 65 | - |
| 124 | 25 | 10 |
| | 275 | 75 |
| Indirect Labour: Waiting of material | 20 | 10 |
| Machine breakdown | 10 | 5 |
| Idle time | 5 | 6 |
| Overtime premium | 6 | 5 |
| | 316 | 101 |

A shop credit slip was issued in October, that material issued under Requisition No. 54 was returned back to stores as being not suitable. A material transfer note issued in October indicated that material issued under Requisition No. 55 for Job 118 was directed to Job 124.

The hourly rate in shop A per labour hour is Rs. 3 per hour while at shop B, it is Rs.2 per hour. The factory overhead is applied at the same rate as in September. Job 115, 118 and 120 were completed in October.

You are asked to COMPUTE the factory cost of the completed jobs. It is the practice of the management to put a 10% on the factory cost to cover administration and selling overheads and invoice the job to the customer on a total cost plus 20% basis. DETERMINE the invoice price of these three jobs?

4. Apple Ltd. produces product 'AXE' which passes through two processes before it is completed and transferred to finished stock. The following data relate for the month of October:

| | Process- I (Rs.) | Process- II (Rs.) | Finished Stock (Rs.) |
|---|---|---|---|
| Opening stock | 7,500 | 9,000 | 22,500 |
| Direct materials | 15,000 | 15,750 | -- |
| Direct wages | 11,200 | 11,250 | -- |
| Factory overheads | 10,500 | 4,500 | -- |
| Closing stock | 3,700 | 4,500 | 11,250 |
| Inter-process profit included in opening stock | -- | 1,500 | 8,250 |

Output of Process- I is transferred to Process- II at 25% profit on the transfer price.

Output of Process- II is transferred to finished stock at 20% profit on the transfer price. Stock in processes is valued at prime cost. Finished stock is valued at the price at which it is received from process II. Sales during the period are Rs. 1,40,000.

PREPARE Process cost accounts and finished goods account showing the profit element at each stage.

5. Sun-moon Ltd. produces and sells the following products:

| Products | Units | Selling price at split-off point (Rs.) | Selling price after further processing (Rs.) |
|---|---|---|---|
| A | 2,00,000 | 17 | 25 |
| B | 30,000 | 13 | 17 |
| C | 25,000 | 8 | 12 |
| D | 20,000 | 10 | - |
| E | 75,000 | 14 | 20 |

Raw material costs Rs.35,90,000 and other manufacturing expenses cost Rs.5,47,000 in the manufacturing process which are absorbed on the products on the basis of their 'Net realisable value'. The further processing costs of A, B, C and E are Rs.12,50,000; Rs.1,50,000; Rs.50,000 and Rs.1,50,000 respectively. Fixed costs are Rs.4,73,000.

You are required to PREPARE the following in respect of the coming year:

1. Statement showing income forecast of the company assuming that none of its products are to be further processed.

2. Statement showing income forecast of the company assuming that products A, B, C and E are to be processed further.

Can you suggest any other production plan whereby the company can maximise its profits? If yes, then submit a statement showing income forecast arising out of adoption of that plan.

6. A) Buttery Butter' is engaged in the production of Buttermilk, Butter and Ghee. It purchases processed cream and let it through the process of churning until it separates into buttermilk and butter. For the month of January, 'Buttery Butter' purchased 50 Kilolitre processed cream @ Rs. 100 per 1000 ml. Conversion cost of Rs.1,00,000 were incurred up-to the split off point, where two saleable products were produced i.e. buttermilk and butter. Butter can be further processed into Ghee.

The January production and sales information is as follows:

| Products | Production (in Kilolitre/tonne) | Sales Quantity (in Kilolitre/tonne) | Selling price per Litre/Kg (Rs.) |
|---|---|---|---|
| Buttermilk | 28 | 28 | 30 |
| Butter | 20 | - | - |
| Ghee | 16 | 16 | 480 |

All 20 tonne of butter were further processed at an incremental cost of Rs.1,20,000 to yield 16 Kilolitre of Ghee. There was no opening or closing inventories of buttermilk, butter or ghee in the month of January.

Required:

1. SHOW how joint cost would be apportioned between Buttermilk and Butter under Estimated Net Realisable Value method.

2. 'Healthy Bones' offers to purchase 20 tonne of butter in February at Rs.360 per kg. In case 'Buttery Butter' accepts this offer, no Ghee would be produced in February. SUGGEST whether 'Buttery Butter' shall accept the offer affecting its operating income or further process butter to make Ghee itself?

B) NN Manufacturing company uses joint production process that produces three products at the split off point. Joint productions costs during September were Rs.8,40,000. Product information for September was as follows:

| Particulars | Product A | Product B | Product C |
|---|---|---|---|
| Units produced | 1,500 | 3,000 | 4,500 |
| Units sold | 2,000 | 6,000 | 7,500 |
| Sales prices: | | | |
| At the split-off | Rs.100 | | |
| After further processing | Rs.150 | Rs.175 | Rs.50 |
| Costs to process after split-off | Rs.1,50,000 | Rs.1,50,000 | Rs.1,50,000 |

Assume that product C is treated as a by-product and the company accounts for the by-product at net realizable value as a reduction of joint cost. Assume also that Product B&C must be processed further before they can be sold. FIND OUT the total cost of Product A in September if joint cost allocation is based on net realizable values?

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21COMC522 Reg No : ........................

# CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

## B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023

## COMMERCE

## Principles and Practice of Auditing I

**Duration:2 Hours** **Max Marks:60**

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### Section- A(compulsory)

**I . Answer The Following Question :** **1×20= 20**

1. (a) State with reasons whether the following statement is correct or incorrect:

   1. There is direct relationship between materiality and the degree of audit risk. **(2 marks)**

   2. Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls. **(2 marks)**

   3. Tests of control are performed to obtain audit evidence about the effectiveness of Internal Controls Systems. **(2 marks)**

   4. Maintenance of Internal Control System is the responsibility of the Statutory Auditor. **(2 marks)**

   (b) As per, SA 330 what are the substantive procedures to be performed to assess the risk of material misstatement? **(12 marks)**

### Section- B

**II. Answer any Four of the following :** **4×10= 40**

2. (a) Explain advantages of getting financial statements audited. **(5 marks)**

   (b) Explain the objectives of audit. **(5marks)**

3. (a) Describe how the process of establishing the overall audit strategy assists the auditor in marshalling his human resources. **(5 marks)**

   (b) Write a note on documentation of overall audit strategy and audit plan. **(5 marks)**

4. (a) Explain the risks arising from use of IT systems. **(5 Marks)**

   (b)Explain stating the points that an auditor should consider, to obtain an understanding of the company's automated environment . **(5 Marks)**

5. Explain the meaning of sufficient and appropriate audit evidence. What are the factors affecting auditor's judgement as to sufficiency of audit evidence?

6. How will you vouch/verify the following:

   (a) Goods sent on consignment. **(5 marks)**

   (b) Foreign travel expenses. **(5 marks)**

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CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023

COMMERCE

**Strategic Financial Management**

**Duration:2 Hours** **Max Marks:60**

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**Section- A(compulsory)**

**I . Answer The Following Question :** **1×20= 20**

1. (a) Samreen Enterprises has been operating its manufacturing facilities till 31.3.2020 on a single shift working with the following cost structure:

| Particulars | Per unit (Rs) |
|---|---|
| Cost of Materials | 6.00 |
| Wages (out of which 40% fixed) | 5.00 |
| Overheads (out of which 80% fixed) | 5.00 |
| Profit | 2.00 |
| Selling Price | 18.00 |

Sales during 2019-20 – Rs.4,32,000.

As at 31.3.2020 the company held:

| Particulars | (Rs) |
|---|---|
| Stock of raw materials (at cost) | 36,000 |
| Work-in-progress (valued at prime cost) | 22,000 |
| Finished goods (valued at total cost) | 72,000 |
| Sundry debtors | 1,08,000 |

In view of increased market demand, it is proposed to double production by working an extra shift. It is expected that a 10% discount will be available from suppliers of raw materials in view of increased volume of business. Selling price will remain the same. The credit period allowed to customers will remain unaltered. Credit availed of from suppliers will continue to remain at the present level i.e., 2 months. Lag in payment of wages and expenses will continue to remain half a month.

You are required to PREPARE the additional working capital requirements, if the policy to increase output is implemented. **(12 Marks)**

(b)Marvel Limited uses a large quantity of salt in its production process. Annual consumption is 60,000 tonnes over a 50-week working year. It costs Rs.100 to initiate and process an order and delivery follow two weeks later. Storage costs for the salt are estimated at Rs.0.10 per tonne per annum. The current practice is to order twice a year when the stock falls to 10,000 tonnes. IDENTIFY an appropriate ordering policy for Marvel Limited, and contrast it with the cost of the current policy. **(8 Marks)**

## Section- B

**II. Answer any Four of the following : 4×10= 40**

2. Slow Payers are regular customers of Goods Dealers Ltd. and have approached the sellers for extension of credit facility for enabling them to purchase goods. On an analysis of past performance and on the basis of information supplied, the following pattern of payment schedule emerges in regard to Slow Payers:

| Pattern of Payment Schedule | |
|---|---|
| At the end of 30 days | 15% of the bill |
| At the end of 60 days | 34% of the bill. |
| At the end of 90 days | 30% of the bill. |
| At the end of 100 days | 20% of the bill. |
| Non-recovery | 1% of the bill. |

Slow Payers want to enter into a firm commitment for purchase of goods of 15 lakhs in 2020, deliveries to be made in equal quantities on the first day of each quarter in the calendar year. The price per unit of commodity is Rs.150 on which a profit of Rs.5 per unit is expected to be made. It is anticipated by Goods Dealers Ltd., that taking up of this contract would mean an extra recurring expenditure of Rs.5,000 per annum. If the opportunity cost of funds in the hands of Goods Dealers is 24% per annum, would you as the finance manager of the seller recommend the grant of credit to Slow Payers? ANALYSE. Workings should form part of your answer. Assume year of 360 days.

3. The following information is available in respect of Sai trading company:

1. On an average, debtors are collected after 45 days; inventories have an average holding period of 95 days and creditor 's payment period on an average is 60 days.
2. The firm spends a total of 21 lakhs (including Depreciation of Rs 210000) annually at a constant rate.
3. It can earn 10 per cent on investments.

From the above information, you are required to CALCULATE:

a.The cash cycle & Cash Turnover

b.No of Operating Cycles in a year.

c.Savings by reducing the average inventory holding period by 30 days.

d.Amount of Working Capital required for the company on a cash cost basis.

e.The Company is a market leader in its product, there is virtually no competitor in the market. Based on a Market Research, it is planning to discontinue sales on credit and deliver products based on pre-payments. Thereby, it can reduce its working capital requirement substantially. What would be the reduction in working capital requirement due to such decision?

4. PREPARE monthly cash budget for six months beginning from April 2020 on the basis of the following information: -

1. Estimated monthly sales are as follows: -

| | Rs | | Rs |
|---|---|---|---|
| January | 1,00,000 | June | 80,000 |
| February | 1,20,000 | July | 1,00,000 |
| March | 1,40,000 | August | 80,000 |
| April | 80,000 | September | 60,000 |
| May | 60,000 | October | 1,00,000 |

2. Wages and salaries are estimated to be payable as follows: -

| | Rs | | Rs |
|---|---|---|---|
| April | 9,000 | July | 10,000 |
| May | 8,000 | August | 9,000 |
| June | 10,000 | September | 9,000 |

a. Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month after sale and the balance in two months after sale. There are no bad debt losses.

b.Purchases amount to 80% of sales and are made on credit and paid for in the month preceding the sales

c.The firm has 10% debentures of Rs.1,20,000. Interest on these has to be paid quarterly in January, April and soon.

d.The firm is to make an advance payment of tax of Rs.5,000 in July, 2020.

e.The firm had a cash balance of Rs.20,000 on April 1, 2020, which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investments/liquidation of temporary investments or temporary borrowings at the end of each month (interest on these to be ignored).

5. a) What is Venture Capital Financing. Explain the different methods of Venture Capital Financing.

**(4Marks)**

b) From the following information, prepare Income Statement of Company A &B:

| Particulars | Company A | Company B |
|---|---|---|
| Margin of safety | 0.20 | 0.25 |

| | | |
|---|---|---|
| Interest | Rs. 3000 | Rs. 2000 |
| Profit volume ratio | 25% | 33.33% |
| Financial Leverage | 4 | 3 |
| Tax rate | 45% | 45% |

**(6 Marks)**

6. CALCULATE the operating leverage, financial leverage, and combined leverage from the following data under Situation I and II and Financial Plan A and B:

| | |
|---|---|
| Installed Capacity | 4,000 units |
| Actual Production and Sales | 75% of the Capacity |
| Selling Price | Rs.30 Per Unit |
| Variable Cost | Rs.15 Per Unit |

Fixed Cost:

| | |
|---|---|
| Under Situation I | Rs.15,000 |
| Under Situation-II | Rs.20,000 |

Capital Structure:

| | Financial Plan | |
|---|---|---|
| | A (Rs) | B (Rs) |
| Equity | 10,000 | 15,000 |
| Debt (Rate of Interest at 20%) | 10,000 | 5,000 |
| | 20,000 | 20,000 |

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21COMC531

Reg No : ........................

**CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME**

**B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/DECEMBER 2023**

**COMMERCE**

**Capital Markets**

**Duration:2 Hours** **Max Marks:60**

## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) What is meant by Derivatives? Briefly explain its types.
2) What is meant by Investment Bank? Explain the functions of Investment Banking.
3) What are Mutual Funds? Explain types, merits and demerits of Mutual Funds.
4) What is meant by Risk? Explain the types of risks faced by Financial Services Industry.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Write a note on parameters used to gauge the performance of an Investment Product.
6) What is Trade Life Cycle? Explain its stages.
7) What are the different types of Corporate Actions?
8) Explain the entities or parties involved in Mutual Funds.
9) Write a note on different types of risks faced by Banks.
10) Elucidate the functions of SEBI.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) Give the meaning of Equity and mention its types.
12) State any two types of Debt Instruments.
13) Explain the functions performed by Clearing Houses.
14) Write a short note on Private Equity Funds.
15) State any two functions of Asset Management Company.
16) Write a short note on Hedging Risk.
17) What is meant by Warrants?

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21COMVC51 Reg No : .........................

CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/ DECEMBER 2023

COMMERCE

GST - Law and Practice

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) The Goods and Services Tax (GST) is a value-added tax system that has been adopted by India, to replace multiple indirect taxes with a unified tax structure. Explain its salient features.

2) Holla and Co imported a machine from USA for furtherance of sale in India. Firm furnishes the following information. Compute assessable value and duty payable.

   - Cost of machine 10,000 US $
   - Cost of materials sent by importer for manufacturing the machine 1000 US $
   - Design and development charges incurred outside India 500 US $
   - Technical fees paid to exporter after import of machine 100 US $
   - Installation charges of machine in India 100 US $
   - Paid to the broker who arranged the deal in USA @ 2% FOB price.
   - Cost of material and labour for packing 50 US $
   - Cost of transport from the factory of exporter to port 30 US $
   - Cost of design work which is done in India supplied by importer to exporter in connection with the machine Rs.2000
   - Amount paid to an importer for assembling Rs.1000
   - Cost of further development work done in India Rs.2500
   - Freight changes 200 US $
   - Cost of transit insurance 50 US $
   - Rate of exchange as per CBIC Rs. 75/US $
   - Rate of BCD @15%, IGST @12%, Compensation cess @ 20%.

3) Udham Singh Agro products Ltd furnishes the following details of various services provided by it in the month of August, 2022

   a. Rearing of Silkworm and horticulture - Rs 2,50,000

   b. Plantation of tea and coffee - Rs 2,00,000

   c. Renting of vacant land for performing marriage ceremony - Rs 4,50,000

   d. Sale of wheat on commission basis - Rs 50,000

   e. Sale of rice on commission basis - Rs 2,00,000

   f. Renting of Agro-machinery - Rs 5,00,000

   g. Cultivation of ornamental flowers - Rs 2,50,000

   h. Processing of Tomato Ketchup under the brand name of Y Ltd - Rs 3,00,000

i. Plantation of Rubber - Rs 3,50,000

j. Processing of Potato chips on job work basis - Rs 1,50,000

k. Sale of Millets on commission basis - Rs 2,00,000

l. Sale of rice (star brand) on commission basis - Rs 3,00,000

m. Services rendered by supply of labour for agricultural purposes - Rs 80,700

n. Vacant land used for agricultural purposes - Rs 10,00,000

o.Rented a building for residential purpose - Rs 15,000

Assume that rate of GST @18% and 5%. Compute the value of taxable supply of services and the GST liability of Udham Singh Agro Products Ltd for the month of August 2022.

4) Sriram Cloth stores, Bengaluru provides the following information for August 2022.

| Particulars | Rate | Purchases | Sales |
|---|---|---|---|
| a. Intra state supply of goods | 5% | 3,00,000 | 5,00,000 |
| b. Intra state supply of goods | 12% | 5,00,000 | 7,00,000 |
| c. Interstate supply of goods (goods returned during Sept, 2018 Rs 25,000) | 12% | 1,10,000 | |
| d. Raw cotton from Belgaum | 5% | 50,000 | |
| e. Silk Yarn from Mysore | 5% | 25,000 | |
| f. Rent paid for business premises | 18% | 20,000 | |
| g. Stock insurance | 18% | 40,000 | |
| h. Bank charges for loan renewal | 18% | 25,000 | |
| i. Personal car service charges | 18% | 10,000 | |
| j. Security charges-Shakthi security services who has failed to file the GST returns | 18% | 15,000 | |
| k. Consultancy service received from unregistered person | 18% | 5,000 | |
| l. Interstate purchases of goods | 12% | 70,000 | |

Compute output tax, Input tax credit, and GST liability.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Determine the Transaction Value and the GST payable from the following details:

Contracted sale price at the buyer's premises - Rs.10,00,000

Sale price includes the following elements of cost:

Cost of primary packing - Rs.3,500

Cost of packing at buyer's request for safety during transport - Rs.7,500

Cost of drawings & designs - Rs.4,000

IGST at 12% - Rs.1,20,000

Freight & insurance charges paid from factory to place of delivery - Rs.20,000

Durable and returnable container charges included - Rs.10,000

Discount allowed as per trade practice and shown in the invoice - Rs.20,000

6) GST is destination based tax. Explain in brief.

7) B provides computer maintenance service since 2002 in Odisha. During the month ending March 31, 2023, he provides computer maintenance service in Puri to A Ltd. B receives Rs 25,000 from A Ltd and Rs 16,40,000 from holding company of A Ltd. A Ltd is of the view that only Rs 25,000 is chargeable to tax (GST on Rs 25,000 at the rate of 18 percent will be paid by A Ltd). Find out GST liability on this case on the assumption that any additional liability will be borne by B (and not by A Ltd., or its holding company)

8) From the following, calculate customs duty payable:

- Assessable value of imported goods Rs. 34,00,000
- BCD at 10%
- IGST at 18%
- Anti-dumping duty at 10%

9) Write a note on Assessment under GST.

10) Sunitha, a small manufacturer in Shimoga furnishes the following details for the year 2022-23.

a. Manufactured product A for Rs 9,00,000
b. Produced commodity X for Rs 13,00,000
c. Manufactured product Y for Rs 18,00,000
d. Supplied commodity Z for Rs 15,00,000
e. Produced agricultural crops worth Rs 8,00,000

Compute aggregate turnover for 2022-23.

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) Classify the following supply into composite supply and mixed supply:

a. supply of cement and paint
b. air transport and food on board

12) Who is an Agriculturist under CGST Act, 2017?

13) R Ltd, Nasik, is a wholesale dealer in piston rings. GST rate for supply is 28%. The following data is noted from the records of the company for December 2022:

| Date of supply | Recipient of supply | Place of supply | Quantity | Rate (in Rs per unit) | Discount |
|---|---|---|---|---|---|
| December 28,2022 | E Ltd | Andaman | 4 | 59,000 | 6% |

No other supply is made by R Ltd during December 2022. Calculate GST liability for December 2022. Assume that input tax credit for December 2022 is nil

14) Ramesh of Punjab provides the following information for the year ending 31 March,2023:

| Particulars | Amount (Rs) |
|---|---|
| Value of taxable supply of goods | 25,00,000 |
| Value of exempt supply | 13,00,000 |
| Export of goods | 5,00,000 |

Whether, Ramesh require registration?

15) Find out the place of supply in the cases given below:

a. X Ltd has GST registration from New Delhi. On December 1, 2022, it purchases Dubai-Delhi air ticket from Air India for one of its chief executive officers for Rs 1,10,000 + applicable GST.

b. Further, on January 1, 2023, X Ltd., purchases New York-Mumbai air ticket from Air France for USD 4,000. Air France is not a registered person in GST.

16) Determine the Time of supply in each of the following independent cases in accordance with provisions of Section 12 of the CGT Act, 2017 in case supply involve movement of goods.

| Sl no | Date of Removal | Date of Invoice | Date when goods made available to recipient | Date of receipt of payment |
|---|---|---|---|---|
| 1 | 01.10.2022 | 02.10.2022 | 03.10.2022 | 15.11.2022 |
| 2 | 03.10.2022 | 01.10.2022 | 04.10.2022 | 25.11.2022 |

17) What is an Exempt Supply?

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21COMVC52 Reg No : ........................

CHOICE BASED CREDIT SYSTEM SEMESTER SCHEME

B.Com. FIFTH SEMESTER DEGREE EXAMINATION NOVEMBER/ DECEMBER 2023

COMMERCE

Digital Marketing

**Duration:2 Hours** **Max Marks:60**

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## SECTION – A

**Answer any TWO questions:** **(15×2= 30)**

1) Explain steps involved in planning a long-term content strategy.

2) a) Explain Off Page Optimization with examples. **(5 Marks)**
b) Describe the Kinds of Traffic. **(10 Marks)**

3) a) Describe the Google Adwords Account Structure. **( 5 Marks)**
b) Explain the Ad Approval Process. **(10 Marks)**

4) Define Web Analytics? Explain the importance of Web Analytics.

## SECTION – B

**Answer any FOUR questions :** **(5×4= 20)**

5) Describe the factors involved in Email deliverability.

6) Write a note on Quick Sprout.

7) How to create an Google Adwords Account? Describe.

8) Describe the common mistakes analysts make in web analytics.

9) Briefly explain the steps involved in setting up conversion tracking.

10) Explain the importance of Search Engine Optimization in digital marketing

## SECTION – C

**Answer any FIVE questions :** **(2×5= 10)**

11) What is meant by Tracking Email?

12) What is Search Engine Optimization?

13) What is Ad Campaign?

14) What is LinkedIn Marketing?

15) What is View Through Conversion?

16) What is Rich Ad?

17) State any two methods of analysing conversion data.

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