

**PRIME ACADEMY  
32ND SESSION PROGRESS TEST  
COST ACCOUNTING & FINANCIAL MANAGEMENT**

**No. of Pages: 7**

**Total Marks: 75**

**Time Allowed: 2Hrs**

**PART- A**

1. The wages earned under Halsey and Rowan plan will be the same when a worker finishes the work in
  - a. Half the time fixed for it
  - b. More than half the time fixed for it
  - c. Less than half the time fixed for it
  - d. None of the above
  
2. The system of wage payment is suitable for unskilled workers or beginners or trainers
  - a. Halsey plan
  - b. Rowan plan
  - c. Haynes Mani system
  - d. Barth sharing plan
  
3. A labour turnover ratio that takes into account only number of employees left during a period is
  - a. Replacement method
  - b. Flux method
  - c. Separation method
  - d. None of the above.
  
4. HIFO method of valuation is mainly used by.
  - a. All Industries
  - b. Process industries
  - c. Packing industries
  - d. Monopoly products or cost plus contracts
  
5. A method of valuation which overstates profits in inflationary market conditions
  - a. Weighted average method
  - b. FIFO method
  - c. LIFO method
  - d. HIFO method

6. Which is not true about BIN card among
  - a. It is maintained by the store keeper
  - b. Entries are first made in this record
  - c. It records only physical movement of stock
  - d. It discloses the units as well as the value of closing stock
  
7. The most widely used method of valuation of stock
  - a. FIFO method
  - b. LIFO method
  - c. HIFO method
  - d. Weighted Average method
  
8. Bin card is kept at
  - a. Stores
  - b. Stores and Accounts department
  - c. Accounts department
  - d. None of the above
  
9. Re order level calculation considers
  - a. Maximum lead time and maximum usage
  - b. Maximum lead time and minimum consumption
  - c. Maximum lead time and average consumption
  - d. Minimum consumption and minimum lead time
  
10. Danger level is calculated as below
  - a. Average consumption X Emergency lead time
  - b. Maximum consumption X Minimum lead time
  - c. Minimum consumption X Average lead time
  - d. Average consumption x Minimum lead time
  
11. EOQ is known as
  - a. Enlarged order quantity
  - b. Effective order quantity
  - c. Economic order quantity
  - d. Engineered order quantity
  
12. The item not considered in Cost statement is
  - a. Material
  - b. Labour
  - c. Factory expenses
  - d. Donations

13. Pareto analysis is also known as
- 80:20 analysis
  - 60:40 analysis
  - 70:30 analysis
  - 50:50 analysis
14. Two bin system is used for
- To store more items
  - To occupy more space
  - To reorder to replenish the first bin
  - None of the above
15. If the overhead to be absorbed was the foreman's salary the most likely appropriate basis for absorption would be
- Weight of material
  - Direct labour hours
  - Selling price
  - Prime cost
16. Holiday pay for factory workers should be charged to
- Work in process inventory
  - Direct labour
  - Administrative expenses
  - Factory overhead
17. When the under or over absorption is not too significant in relation to the total overheads the treatment is
- Carry forward to next accounting period
  - Use of supplementary rates
  - Write off to Costing and Profit and loss Account
  - None of the above
18. The following wage payment system does not guarantee minimum day wages
- Barth Premium system
  - Halsey Premium system
  - Rowan system of premium bonus
  - Gantt task bonus wage system
19. Conversion cost is equal to the total of
- Material cost and direct wages
  - Material cost and indirect wages
  - Direct wages and factory overhead
  - Material cost and factory overhead

20. A labour payment system follows a below

Efficiency	Payment
Upto 83-1/3%	Ordinary piece rate
83-1/3% to 100%	110% of ordinary piece rate
Above 100 %	120% of ordinary piece rate

Identify the above labour payment system

- a. Halsey premium bonus plan
  - b. Rowan premium bonus plan
  - c. Taylor differential piece work system
  - d. Merrick differential piece rate system
21. Bill of materials is an itemized list of
- a. Materials available in the stores
  - b. Materials not available in the stores
  - c. Materials required for a job or process or service
  - d. None of the above
22. ----- method of pricing of issues is used to determine efficiency of material purchase
- a. FIFO method
  - b. LIFO method
  - c. HIFO method
  - d. Standard cost method
23. Which of the following is usually classified as stepped cost?
- a. Supervisor's wages
  - b. Raw materials
  - c. Rates
  - d. Telephone
24. Following is not a method to separate semi-variable overhead into fixed and variable components
- a. High and low method
  - b. Scatter graph method
  - c. Analytical method
  - d. Best square method
25. Primary packing is treated as
- a. Distribution cost
  - b. Advertising expense
  - c. Manufacturing overhead
  - d. Selling overhead

**(25x1=25Marks)**

**Part B**  
**Answer all questions**

1. (a) After inviting tenders, two quotations are received as under:  
Supplier A - ₹2.20 per unit  
Supplier B - ₹2.10 per unit + ₹2,000 fixed charges irrespective of units ordered

- (i) Calculate the order quantity for which purchase price per unit will be the same
- (ii) Select the supplier if the purchase officer wants to place an order for 15000 units

**(5Marks)**

- b) Base Ltd manufactures a product and the following particulars are collected for the year ended March 2010

Monthly demand (units) – 1000  
Cost of placing an order - ₹100  
Annual Carrying cost Rs.15 per unit  
Normal usage (units per week) - 50  
Minimum usage (units per week) - 25  
Maximum usage (units per week) - 75  
Re order period (weeks) - 4 – 6

Calculate

- (i) Reorder quantity
- (ii) Reorder level
- (iii) Minimum level
- (iv) Maximum level
- (v) Average stock level

**(12 Marks)**

2. A company has 3 production departments A, B and C and two service departments X and Y. The following data are extracted from the records of the company for a particular given period:

	₹
Rent and rates	25,000
General lighting	3,000
Indirect wages	7,500
Power	7,500
Depreciation on machinery	50,000
Sundries	50,000

**Additional data, department-wise:**

	<b>Total ₹</b>	<b>A ₹</b>	<b>B ₹</b>	<b>C ₹</b>	<b>X ₹</b>	<b>Y ₹</b>
Direct wages	50,000	15,000	10,000	15,000	7,500	2,500
HP of machines used	150	60	30	50	10	
Cost of machinery	12,50,000	3,00,000	4,00,000	5,00,000	25,000	25,000
Production hours worked		6,226	4,028	4,066		
Floor space used (sq.mtr)	10,000	2,000	2,500	3,000	2,000	500
Lighting points (Nos)	60	10	15	20	10	5

**Service Departments expenses allocation**

	<b>A</b>	<b>B</b>	<b>C</b>	<b>X</b>	<b>Y</b>
<b>X</b>	20%	30%	40%		10%
<b>Y</b>	40%	20%	30%	10%	

Compute the overhead rate of production department-wise using the repeated distribution method

**(17 Marks)**

3. A fire occurred in the factory premises on October 31,2005. The accounting records have been destroyed. Certain accounting records were kept in another building. They reveal the following for the period for the period September 1,2005 to October 31,2005:

	₹
(i) Direct materials purchased	2,50,000
(ii) Work in process inventory, 1.9.2005	40,000
(iii) Direct materials inventory, 1.9.2005	20,000
(iv) Finished goods inventory, 1.9.2005	37,750
(v) Indirect manufacturing costs	50% of conversion cost
(vi) Sales revenues	7,50,000
(vii) Direct manufacturing labour	1,85,000
(viii) Prime costs	225% of direct materials
(ix) Gross margin percentage is 50% on cost of goods sold	
(x) Cost of goods available for sale	5,55,775

The loss is fully covered by the insurance company. The insurance company wants to know the historical cost of the inventories as a basis for negotiating a settlement, although the settlement is actually to be based on replacement cost, not on historical cost.

Required:

- (i) Finished goods inventory, 31.10.2005
- (ii) Work in process inventory, 31.10.2005
- (iii) Direct material inventory, 31.10.2005

**(16 Marks)**

**PRIME ACADEMY**  
**32ND SESSION PROGRESS TEST – COST ACCOUNTING & FINANCIAL**  
**MANAGEMENT**  
**SUGGESTED ANSWERS**

**PART A**

<b>Sl. No</b>	<b>Answers</b>
1	a
2	a
3	a
4	a
5	a
6	a
7	a
8	a
9	a
10	a
11	a
12	a
13	a
14	a
15	b
16	a
17	a
18	a
19	a
20	a
21	a
22	d
23	a
24	a
25	a

## PART B

1. (a)

(i) Let the required order quantity be "a"

Cost of goods from supplier A = Cost of goods from supplier B

$$2.20 \times a = 2.1 \times a + 2000$$

$$a = 20,000 \text{ units}$$

(ii) Cost of procuring 15000 units from Supplier A = ₹2.2x 15000 = ₹33,000

$$\text{Cost of procuring 15000 units from supplier B} = \text{Rs.} 2.1 \times 15000 + 2000 = \text{₹}33,500$$

Supplier A should be selected. If order is less than 20,000 units, supplier A should be selected, otherwise supplier B should be selected.

(b)

i) Reorder quantity

$$\text{Annual purchase} = A = 50 \text{ units} \times 52 \text{ weeks} = 2,600 \text{ units}$$

$$\text{Reorder quantity} = \sqrt{2AO/CC} = \sqrt{2 \times 2600 \times 100/15} = 186 \text{ units}$$

ii) Reorder level

$$= \text{Maximum reorder period} \times \text{maximum usage} = 6 \text{ weeks} \times 75 = 450 \text{ units}$$

iii) Minimum level

$$= \text{Reorder level} - (\text{Normal usage} \times \text{Normal reorder period})$$

$$= 450 \text{ units} - (50 \text{ units} \times 5 \text{ weeks}) = 200 \text{ units}$$

iv) Maximum level

$$= (\text{Reorder level} + \text{Re order quantity}) - (\text{Minimum usage} \times \text{Min. re order period})$$

$$= (450 + 186) - (25 \text{ units} \times 4 \text{ weeks}) = 536 \text{ units}$$

v) Average stock level

$$= (\text{Max stock} + \text{Min stock})/2 = (536 + 200)/2 = 368 \text{ units}$$

**2. Statement of apportionment of the total cost to 5 departments:**

Particulars	Basis	Total ₹	A ₹	B ₹	C ₹	X ₹	Y ₹
Direct wages	Direct	10,000				7,500	2,500
Rent & Rates	Floor space	25,000	5,000	6,250	7,500	5,000	1,250
Gen.lighting	Light. Points	3,000	500	750	1,000	500	250
Indirect Wages	Direct wages	7,500	2,250	1,500	2,250	1,125	375
Power	HP	7,500	3,000	1,500	2,500	500	
Depreciation	Value of Asset	50,000	12,000	16,000	20,000	1,000	1,000
Sundries	Direct wages	50,000	15,000	10,000	15,000	7,500	2,500
<b>Total</b>		<b>1,53,000</b>	<b>37,750</b>	<b>36,000</b>	<b>48,250</b>	<b>23,125</b>	<b>7,875</b>

**Computation of overhead rate of production departments using repeated distribution method:**

	Total ₹	A ₹	B ₹	C ₹	X ₹	Y ₹
Total Overheads	1,53,000	37,750	36,000	48,250	23,125	7,875
Dept X overheads 20:30:40:--:10	23,125	4,625	6,938	9,250	(23,125)	2,312
Dept Y Overheads 40:20:30:10:-	10,187	4,075	2,037	3,056	1,019	(10,187)
Dept X overheads 20:30:40:--:10	1,019	204	306	407	(1,019)	102
Dept Y Overheads 40:20:30:10:-	102	41	20	31	10	(102)
Dept X overheads 20:30:40:--:10	10	2	3	5		

Total Overhead of prodn.depts	46,697	45,604	61,000
Production hours	6,226	4,028	4,066
Overhead rate of prodn.deptt	7.50	11.24	15.00

3. Let material cost be x

Prime costs = Direct material + Direct labour

$$2.25x = x + 1,85,000$$

$$1.25x = 1,85,000$$

$$\text{Direct material cost } x = 1,85,000/1.25 = ₹1,48,000$$

$$\text{Prime cost} = 2.25 \times 1,48,000 = ₹3,33,000$$

Direct material cost = Opening inventory + purchases – closing inventory

$$1,48,000 = 20,000 + 2,50,000 - \text{Closing inventory}$$

$$\text{Closing inventory} = 2,70,000 - 1,48,000 = ₹1,22,000$$

Sales revenue = ₹7,50,000

Cost of goods sold = Sales revenue – Gross margin

$$x = ₹7,50,000 - 0.5x$$

$$1.5x = ₹7,50,000$$

$$x = ₹5,00,000$$

Cost of goods sold = ₹5,00,000

Finished goods inventory, 31.10.2005 = Cost of goods available for sale – Cost of goods sold

$$= ₹5,55,775 - 5,00,000$$

$$= ₹55,775$$

Conversion cost = Direct manufacturing cost + Indirect manufacturing cost

Given Indirect manufacturing cost = 50 % of conversion cost

Conversion cost = Direct manufacturing cost + 0.5 conversion cost

0.5 conversion cost = Direct manufacturing cost

Conversion cost = Direct manufacturing cost / 0.5 = ₹1,85,000 / 0.5

$$= ₹3,70,000$$

Indirect manufacturing cost = Conversion cost – Direct manufacturing cost

$$= ₹3,70,000 - ₹1,85,000 = ₹1,85,000$$

Gross factory cost = Prime cost + Indirect manufacturing cost

$$= ₹3,33,000 + ₹1,85,000 = ₹5,18,000$$

Cost of goods sold = Opening cost of finished goods + Cost of goods manufactured – Closing stock of goods sold

$$5,00,000 = 37,750 + \text{Cost of goods manufactured} - 55,775$$

Cost of goods manufactured = ₹5,00,000 – ₹37,750 + ₹55,775

$$= ₹5,18,025$$

Opening Work in process + Gross Factory cost – Closing work in process

$$= \text{Cost of goods manufactured}$$

$$₹40,000 + ₹5,18,000 - \text{Closing work in process} = ₹5,18,025$$

$$\text{Closing work in process} = ₹5,58,000 - ₹5,18,025 = ₹39,975$$

**PRIME ACADEMY**  
**32ND SESSION PROGRESS TEST - INCOME TAX, SERVICE TAX & VAT**

No. of Pages: 6

Total Marks: 75  
Time Allowed: 2Hrs

**Working notes should form part of the answer**

**Wherever necessary suitable assumptions may be made by the Candidates**

**PART - A**

**1. (A) Fill in the blanks:**

6. \_\_\_\_\_ is the previous year for the Income Received or Accrued during April 1, 2011 to 31st March, 2012?
7. Method of accounting is relevant for income chargeable to tax in case of Income from \_\_\_\_\_ & \_\_\_\_\_
8. Where the total income of a Domestic Company exceeds Rs. One Crore, surcharge is payable at the rate of \_\_\_\_\_.
9. Interest payable on Housing Loan is allowed to the extent of Rs. \_\_\_\_\_ in case of a Self Occupied Property.
10. Receipt of Gratuity is exempt u/s \_\_\_\_\_.

**(5x1=5 Marks)**

**(B) Match the following:**

1. House Rent Allowance	A. Exempt u/s. 10(1) of Income Tax Act
2. Income from Land appurtenant to Building	B. Exempt u/s. 10(34) of Income Tax Act
3. Income of Political Party	C. Income from Salary
4. Agricultural Income	D. Income from House Property
5. Dividend Income from Indian Company	E. Exempt under Sec.13A of Income Tax Act

**(5x1=5 Marks)**

**(C) State whether the statement is Correct or Incorrect :**

1. Income derived from devaluation of currency is taxable under Income Tax Act, 1961.
2. Receipt on account of *dharmada, Gaushala & Pathshala* is Income & Liable to tax.
3. Income Tax is an Annual Tax on Income.
4. Income of a non- resident, who owns a house in Delhi which is given on rent to foreign embassy is deemed to accrue or arise in India, if the rent is payable outside India in foreign currency.
5. Income of the Central Electricity Regulatory Commission is exempt u/s 10(23BBG) of the Income Tax Act.

**(5x1=5 Marks)**

**(D) Choose the correct answer from the choices given:**

- a. When Income of PY not taxable in the immediately following AY?
  - a) Income of Resident from shipping business
  - b) Income of Person leaving India either permanently or for long period
  - c) Income of Continuing Business
  - d) None the Above
  
- b. Maximum limit for exemption of amount received under section 10(10C) towards Voluntary Contribution:
  - a) ₹3,00,000
  - b) ₹4,00,000
  - c) ₹5,00,000
  - d) ₹10,00,000
  
- c. The term "Profits in lieu of Salary" includes:
  - a) House Rent Allowance
  - b) Performance Bonus
  - c) Keyman Insurance Policy Proceeds
  - d) Food Coupons given to Employee
  
- d. The following is not a venture capital undertaking for the purposes of section 10(23F), if engaged in business of :
  - a) Generation of power;
  - b) Telecommunications;
  - c) Providing infrastructural facility;
  - d) Dairy farming whose shares are not listed in a recognized stock exchange.

- e. Mr. Jodha an Indian citizen is appointed as senior tax officer by Government of Nigeria. He leaves India for first time on 25<sup>th</sup>September'2009 for joining his duties in Nigeria. He is a
- a) Resident and Ordinarily Resident of India
  - b) Resident and Not Ordinarily Resident of India
  - c) Non Resident
  - d) None of the above.

**(5x1=5 Marks)**

**(E) Explain the following terms in brief with reference to Income Tax Act, 1961:**

- 1. Specified Employee.
- 2. Unrealized Rent.
- 3. Previous Year.

**(5 Marks)**

## PART – B

**Question 1 is Compulsory. Answer any two from the rest.**

1. (A) Mrs. Ramya aged about 66 years is a finance manager of M/s Ramya & Co. Pvt Ltd. Based at Kolkata. She is in continuous service since 1954 and receives the following salary and perquisites from the company during the year ending 31.03.2010.
- i) Basic Salary (50000 x 12) = ₹600,000/-
  - ii) D.A. (20000 x 12) = ₹240,000/-
  - iii) Bonus – 2 Months of Basic Pay
  - iv) Commission – 0.1% of turnover of the company. The turnover of the F.Y. 2009-10 was Rs.15 Crores.
  - v) Contribution of the Employer and Employee to the PF Account ₹300,000 each.
  - vi) Interest Credited to P.F. Account @ 9.5% - ₹60,000/-
  - vii) Rent Free unfurnished accommodation provided by the company for which company pays a rent of ₹70,000/- per annum.
  - viii) Entertainment Allowance – ₹30,000/-
  - ix) Children's Education Allowance to meet the Hostel Expenditure of three children – ₹5,000/- each.

Assuming investments made ₹1,00,000 eligible for deduction u/s 80C, calculate the Income From Salary and Tax Liability for A.Y. 2010-11.

**(16 Marks)**

- (B) In the following situations, determine whether the Income is deemed to accrue or arise in India with reasons.
- i) Income from Salary if Service rendered outside India, the employer is Government of India and the employee is a citizen of India.
  - ii) Dividend paid by an Indian Company
  - iii) Interest paid by a person resident in India, for the borrowed capital which was used by the payer of Interest for carrying on Business/Profession outside India.
  - iv) Royalty or fees for technical services paid by Government of India
  - v) Income from a Business Connection in India.

**(10 Marks)**

2. (i) Mr. Ramesh commenced construction of a residential house intended exclusively for his residence on 1.11.2004. He raised a loan of ₹500,000/- at 16% interest for the purpose of construction on 1.11.2004. Finding that there was a over-run in the cost of construction, he raised a further loan of ₹800,000 at the same rate of interest on 1-10-2006. What is the interest allowable under Sec.24, assuming that the construction was completed by 31-3-2010?

**(8 Marks)**

- (ii) Mr.A is provided with two cars, to be used for official and personal work by his employer XYZ Ltd. The following information is available from the company records:

	<b>CAR 1</b> ₹	<b>CAR 2</b> ₹
Cost of the Car	600,000/-	400,000/-
Running and Maintenance(Borne by the company)	40,800/-	28,000/-
Salary of Driver(Borne by the Company)	24,000/-	24,000/-

The taxable monetary emoluments of Mr.A are ₹90,000. Compute the taxable perquisites value in respect of the Cars on the assumption that Car 2 is exclusively used by A.

**(4 Marks)**

3. (i) Mr.Ram owns one residential hosue in Mumbai. The house is having two units. First Unit of the house is self-occupied by Mr.Ram and another unit is rented for ₹8,000/- p.m. The rented unit was vacant for two months during the year. The particulars of house for the previous year 2009-10 are as under.

<b>Particulars</b>	<b>Amount</b> ₹
Standard Rent p.a.	162,000
Municipal Valuation p.a.	190,000
Fair Rent p.a.	185,000
Municipal Tax	15% of municipal Valuation
Light and Water Charges p.m.	500
Interest on borrowed Capital	1,500
Lease Money	1,200
Insurance Charges	3,000
Repairs	12,000

Compute Income from House Property of Mr.Ram for A.Y. 2010-11

**(8 Marks)**

- (ii) Explain the provision of Sec.10AA of the Income Tax Act towards Income of newly established units in Special Economic Zones.

**(4 Marks)**

4. (i) Determine the residential status for following:

a. M X is a foreign Citizen. Since 1981, he comes to India every year in the month of April for 105 days. Find out the residential status of X for the AY 2010-2011.

If a) X is not a person of Indian Origin, b) X was born in Lahore on March 8, 1941.

b. C (HUF), a Hindu undivided family, whose karta C is a person of Indian origin. During the previous year 2010-11, C is nonresident (as he is in India only for 25 days during April 2010). The Family's Business is controlled by a team of professionals in India under the guidance of C. Every year comes to India generally for 25 to 100 days. Determine the residential status for the AY 2011-12.

**(2x4=8 Marks)**

(ii) Explain the provisions of Exemptions available for Encashment of Leave Salary u/s 10(10AA)

**(4 Marks)**

**PRIME ACADEMY**  
**32ND SESSION PROGRESS TEST - INCOME TAX, SERVICE TAX & VAT**  
**SUGGESTED ANSWERS**

PART - A

1. A

1. 2011-2012
2. Profits & Gains from business or Profession & Income from other source
3. 7.5%
4. ₹150,000/- Per Annum
5. Sec.10(10)

B

1. House Rent Allowance	C. Income from Salary
2. Income from Land appurtenant to Building	D. Income from House Property
3. Income of Political Party	E. Exempt under Sec.13A of Income Tax Act
4. Agricultural Income	A. Exempt u/s. 10(1) of Income Tax Act
5. Dividend Income from Indian Company	B. Exempt u/s. 10(34) of Income Tax Act

C

1. Correct
2. Incorrect
3. Correct
4. Correct
5. Correct

D

- a. Option (b)
- b. Option (C)
- c. Option (C)
- d. Option (d)
- e. Option (c)

E

1. Specified Employee : A 'Specified employee' is the one who satisfies any of the following cases:
  - he is a director of the company,
  - he has a substantial interest in the company, ie he is the beneficial owner of equity shares carrying 20% of voting power in the employer company.
  - his monetary income under the head "Salaries" for the year exceeds Rs.50,000. The amount considered here includes amounts due from, paid or allowed by one or more employers. It excludes all non-monetary benefits.
2. Unrealized Rent: It denotes the amount of Rent receivable from House Property which could not be realized due to various reasons such as tenants absconding or insolvent etc. It is taxable in the year of receipt.
3. Maximum Marginal Rate: It is defined u/s 2(29c) as the rate of tax(including surcharge) applicable in relation to the highest slab of income in case of individual as specified by the relevant Finance Act.

**PART - B**

1.

**A. Computation of Income From Salaries and Tax Thereon for A.Y.2010-11**

Particulars	Amount ₹
Basic Salary	600,000
Dearness Allowance	240,000
Bonus (600,000 x 2/12)	100,000
Commission (15 Crores x 0.1%)	150,000
Entertainment Allowance	30,000
Education Allowance Received : 15,000 Less: Exempt for Edu. All(100x2x12) : 2,400 Less: Exempt for Host.All(300x2x12) : 7,200	5,400
Rent Free Unfurnished House (15% of Salary or Rs.140,000 whichever is less)	140,000
Employer's Contribution towards PF (12% of (600,000+2,40,000+1,50,000)- 3,00,000)	181,200
<b>Income from Salary</b>	<b>1,375,600</b>
Add: Any Other Income	NIL
<b>Gross Total Income</b>	<b>1,375,600</b>
Less: Deductions u/s 80C(RPF Contribution): 100,000 (max. limit)	100,000
<b>Net Income</b>	<b>1,275,600</b>
<b>Tax on Income (A.Y. 2010-11 Rates)</b>	<b>287041</b>
Tax (6000+40000+232680) = 278,680	
Surcharge = NIL	
Cess @ 3% = 8,361	

**Note 1:**

It is assumed that D.A. is part of Salary and Provident Fund is a recognized provident fund.

B.

i) **Income from Salary if Service rendered outside India, the employer is Government of India and the employee is a citizen of India :**

Yes it is deemed to accrue or arise in India as per Sec.9(1)(iii) of the Income Tax Act, 1961. By virtue of Sec.10(7), any allowances or perquisites paid abroad is however exempt from Tax.

ii) **Dividend paid by an Indian Company:**

Yes. It is deemed to accrue or arise in India u/s 9(1)(iv).

iii) **Interest paid by a person resident in India, for the borrowed capital which was used by the payer of Interest for carrying on Business/Profession outside India.**

No. It is not deemed to accrue or arise in India as per Sec.9(1)(v) when the Borrowed funds are used for business outside India.

iv) **Royalty or fees for technical services paid by Government of India:**

Yes. It is deemed to accrue or arise in India as per the provisions of Sec.9(1)(vi).

v) **Income from a Business Connection in India:**

Yes. As per Sec.9(1)(i), the income is deemed to accrue or arise in India in case of a business connection in India even if the Income is received outside India.

2.

1. Amount of Interest deductible under Section 24 in the case of Self Occupied Residential House subject to the limit of Section 24(b) is as follows:

<b>Particulars</b>	<b>First Loan (i.e. raised on 1.11.2004)</b>	<b>Second Loan (i.e. raised on 1.12.2006)</b>
Amount of Loan	₹ 500,000	₹ 800,000
Rate of Interest	16%	16%
Date of Completion of Construction	March 31, 2010	March 31, 2010
Pre-Construction Period (It expires on March 31 immediately before his date of completion of construction; as the construction of house is completed on March 31, 2010, Preconstruction period ends on March 31, 2009)	Nov 1, 2004 to March 31, 2009	October 1, 2006 to March 31, 2009
Pre-construction period in days	1611	912
Interest on Pre-construction period	353,096	319,825
Interest on Pre-construction period deductible in Previous Year 2009-10 till 2013-14 in five annual instalments	70,620	63,965

Interest of the P.Y. 2009-10	80,000	1,28,000
Total Interest to be eligible from P.Y. 2009-10 till P.Y 2013-14	1,50,620	1,91,965

**Amount of deduction of various previous years:**

Assessment Years	First Loan ₹	Second Loan ₹	Maximum Ceiling ₹	Deductible Amount ₹
2010 -11 to 2014-15	150,620	191,965	30,000**	30,000
2012-13 onwards (upto the repayment of loan)	80,000	128,000	30,000**	30,000

\*\*As the loan is borrowed after 1.4.99, construction should be completed within three years from date of borrowing to avail the higher ceiling of 150,000. As the construction takes more time, the ceiling is restricted to Rs.30,000.

2. If two cars are provided by the employer for official and personal purposes, only one of the Cars (at the option of the employee) shall be valued as if the car is used partly for official purposes and partly for personal purposes. Taxable value of perks in respect of the other car shall be computed as if it is used for only personal purpose.

CAR	Taxability	Perquisites Value
Car 1	Assuming it is more than 1600 CC, Rs.2400/- per month and Rs.900 per month for chauffeur salary is taxable	Rs.39,600/-
Car 2	As fully used for personal, the perks include 10% of cost of vehicle+actual expenses on Driver Salary and Maintenance	Rs.92,000/-
<b>Total Perquisites</b>		<b>Rs.131,600/-</b>

3.

1. The following assumptions are made :

- House owned by Mr.Ram has two independent units of equal size.
- Rented unit was vacant for 2 months during the previous year and Mr.Ram did not use it for his residential purpose.
- Capital was borrowed by Mr.Ram for the purpose of purchase, construction, repair etc. house property.
- Municipal Tax of the two units is paid by Mr.Ram during the previous year.
- Expenditure in respect of light and water is incurred by Mr.Ram and not by tenant.

Particulars	Unit I Self Occupied ₹	Unit II Let Out ₹
Municipal Value (MV)	95,000	95,000
Fair Rent (FR)	92,500	92,500
Standard Rent (SR)	81,000	81,000
Annual Rent	Nil	96,000
Loss due to Vacancy	Nil	16,000
<b>Computation of Gross Annual Value</b>		
Reasonable Expected Rent of the property (MV or FR whichever is higher subject to max. of SR) (1)	81,000	81,000
Rent received or receivable after deducting unrealized rent but before adjusting loss due to vacancy (2)	Nil	96,000
Amount in (1) or (2) whichever is higher (a)	81,000	96,000
Loss due to Vacancy (b)	Nil	16,000
<b>Gross Annual Value (a-b) (u/s 23(2) annual value of one self occupied unit is Nil)</b>	<b>Nil</b>	<b>80,000</b>
Less : Municipal Tax (15% of 95,000)	Nil	14,250
<b>Net Annual Value</b>	<b>Nil</b>	<b>65,750</b>
Less : Deduction u/s 24		
Standard Deduction (30% of NAV)	Nil	19,725
Interest on Borrowed Capital (1500 x 12) (1/2 is deductible for let out unit and 1/2 deductible for self occupied unit)	9,000	9,000
<b>NET INCOME</b>	<b>(9,000)</b>	<b>37,025</b>

Income from House Property : 9,000 + 37,025 = ₹28,025

2. Section 10AA was inserted in the Income-tax Act, 1961 ("the Act") by the Special Economic Zones Act, 2005 ("the SEZ Act") with effect from 10-2-2006. The section was enacted specially with respect to provide tax exemption to the newly established units in the Special Economic Zone ("the SEZ"). For claiming deduction under section 10AA of the Act following conditions are to be satisfied:
  - a. The assessee being an entrepreneur as defined under section 2(j) of the SEZ Act has to set up a unit in the SEZ;
  - b. The unit so set up by the assessee should commence to manufacture or produce articles or things or provide any service during the previous year commencing after 1-4-2006;

- c. The undertaking should not be formed:
  - a. by splitting up, or by the reconstruction, of a business already in existence; or (b) by a transfer to new business of machinery and plant previously used for any purpose by the assessee;
- d. The assessee has exported goods or provided services out of India from the SEZ, whether physically or otherwise;
- e. The books of account are audited and audit report is filed along with the return of income and the assessee claims the deduction in its return of income;

If the assessee satisfies the above conditions then hundred per cent (100%) of the profit or gains derived from export of goods or from services is deductible for a period of 5 (five) consecutive assessment years and thereafter, fifty per cent (50%) of the profit or gains derived from export of goods or from services is deductible for the next 5 (five) years. Profits derived from the export of articles or things or services would be the amount which bears to the profits of the business of the undertaking, being the unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the assessee.

4.

1. (a) For the years 2005-06, 2006-07, 2007-08 and 2008-09 – Total stay in India –  $105 \times 4 = 420$  Days

**Conditions as per Sec. 6(1)**

- a) Stay in India for 182 days or more during previous year – Not Satisfied
- b) Stay in India for 60 days or more during Previous Year and 365 days or more during 4 years immediately preceding the Previous Year – Satisfied

Hence Mr.X is a resident under Income Tax Act.

To find out whether he is Ordinarily Resident or Not Ordinarily Resident following additional conditions to be satisfied:

- Resident in India in at least two out of ten previous years immediately preceding the relevant previous year - **Yes it is Satisfied by Sec.6(1)**
- Stay in India for 730 Days or more during 7 years immediately preceding the relevant Previous Year – **Yes it is Satisfied as he stays in India for  $105 \times 7 = 735$  Days**

Hence Mr.X is Resident and Ordinarily Resident u/s 6(6) of Income Tax Act.

The above test is applied considering Mr.X is not a person of Indian Origin. However if Mr.X is known to a person of Indian origin then the 2nd Condition of Sec.6(1) needs to be tested as below:

In case of Indian Citizen or a person of Indian Origin who comes on a visit to India, an exception to Sec.6(1) applies where the requirement of 60 days stay in

previous year is substituted with 182 Days. Accordingly Mr.X will be a Non-Resident if he happens to be a person of Indian Origin.

In light of above:

If Mr.X was born in Lahore – He becomes a person of Indian Origin and hence will be a **NON RESIDENT**

- a. As per Sec.6(2), a Hindu Undivided Family is deemed as a resident in India only if the Management and Control of the HUF is wholly or partly situated in India.

In the present case the business is controlled from India with the guidance of Karta. Accordingly HUF is a resident under Sec.6(2).

In order to test whether HUF is Resident and Ordinarily Resident, the following conditions are to be satisfied:

- Karta is resident in India in at least two out of ten previous years immediately preceding the relevant previous year - **No it is not satisfied by Sec.6(1)**
- Stay in India for 730 Days or more during 7 years immediately preceding the relevant Previous Year – **No.**

**Accordingly HUF C, is Resident but not ordinarily Resident in India.**

## 2. **Unutilised Leave Encashment : [Section 10(10AA)]**

It provides exemption in respect of amount received by way of encashment of unutilized earned leave by an employee at the time of his retirement whether on superannuation or otherwise. The provisions of this clause are mentioned below:

- a. Government employees: Leave salary received at the time of retirement is fully exempt from tax.
- b. Non-government employees: Leave salary received at the time of retirement is exempt from tax to the extent of least of the following :
- (i) ₹3,00,000
  - (ii) Leave salary actually received
  - (iii) 10 months' salary (on the basis of average salary of last 10 months)
  - (iv) Cash equivalent of leave (based on last 10 months' average salary immediately preceding the date of retirement) to the credit of the employee at the time of retirement or death (calculated at 30 days' credit for each completed year of service).

**Note:**

1. Leave salary received during the period of service is fully taxable.
2. Where leave salary is received from two or more employers in the same year, then the aggregate amount of leave salary exempt from tax cannot exceed ₹3,00,000.
3. Where leave salary is received in any earlier year from a former employer and again received from another employer in a later year, the limit of ₹3,00,000 will be reduced by the amount of leave salary exempt earlier.
4. Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and commission which is expressed as a fixed percentage of turnover.
5. 'Average salary' will be determined on the basis of the salary drawn during the period of ten months immediately preceding the date of his retirement whether on superannuation or otherwise.

**PRIME ACADEMY  
32ND SESSION PROGRESS TEST  
INFORMATION TECHNOLOGY & STRATEGIC MANAGEMENT**

**No. of Pages: 5**

**Total Marks: 75  
Time Allowed: 2Hrs**

**PART- A**

1. Port is a
  - a. Software
  - b. System device
  - c. Hardware device
  - d. All of the above
  
2. A perfect integer
  - a. Is a positive integer
  - b. Is an even
  - c. Equals the sum of its proper divisors
  - d. All of the above
  
3. SWOT analysis has ----- environmental influences
  - a. Five
  - b. Four
  - c. Six
  - d. Two
  
4. Macro Environment includes
  - a. Organization
  - b. Suppliers
  - c. Government
  - d. Competitor
  
5. A set of magnetic concentric circles created when formatted is known as
  - a. Magnetic disk
  - b. Diskette
  - c. FAT
  - d. Tracks
  
6. Flow charts are tools used in the ----- stage of SDLC
  - a. Analysis
  - b. Design
  - c. Coding
  - d. All of the above
  
7. The group that influence an Organization are
  - a. Owners
  - b. Board of Directors
  - c. Employees
  - d. All of the above


8. Population size matters in
  - a. Microenvironment
  - b. Macro environment
  - c. Demographic environment
  - d. Geographic environment
  
9. Primary memory holds two kinds of information viz., Data and -----
  - a. Storage
  - b. Instructions
  - c. Logic Unit
  - d. All of the above
  
10. -----Memory requires constant power
  - a. Volatile memory
  - b. Non-Volatile Memory
  - c. Dynamic Memory
  - d. All of the above
  
11. Terminals that have storage and micro processor are called as
  - a. Smart terminals
  - b. Dumb Terminals
  - c. Remote terminals
  - d. None of the above
  
12. CPS is a measure of speed of
  - a. Serial Printers
  - b. Line Printers
  - c. Inkjet Printers
  - d. Computers
  
13. Pre-packaged software are called
  - a. ERP
  - b. Commercial software
  - c. General purpose software
  - d. All of the above
  
14. Strategic management refers to the managerial process of
  - a. Strategic vision formation
  - b. Setting objectives
  - c. Crafting and implementing a strategy
  - d. All of the above
  
15. Strategic vision is
  - a. A road map of a company's future
  - b. Purpose statement
  - c. Policy statement
  - d. All of the above

16. Open ended attributes of organization's future performance targets are called as
- Objectives
  - Goals
  - Vision
  - All of the above
17. Customers are part of ----- of strategic analysis
- Internal environment analysis
  - External environment analysis
  - Marketing analysis
  - Situational analysis
18. Unfavourable conditions in a firm's environment are called as
- Risk
  - Damage
  - Threats
  - Competition
19. Narrow Product lines of rivals is an example of
- Strength
  - Weakness
  - Opportunity
  - Monopoly
20. TOWS matrix is helpful
- In analysing Business model
  - In strategic planning process
  - In portfolio analysis
  - In analysing competitive strength
21. MMX stands for
- Media Multiplexes
  - Multi Media Extractor
  - Multi Media Extensions
  - None of the above
22. EEPROM stands for
- Electronic Programmable Read Only memory
  - Electrically Erasable programmable Read Only Memory
  - Electronically Executable Programmable Read Only memory
  - Easily Executable Programmable Read Only memory

23.  refers to -----

- a. Off-line Storage
- b. Floppy Diskette
- c. Document
- d. None of the above

24.

 Refers to

- a. An operation
- b. A document
- c. An execution of an operation
- d. An Output

25. A file, which contains the permanent data, is called

- a. A System File
- b. A Master File
- c. A transaction file
- d. None of the above

**(25X 1 = 25 Marks)**

## PART – B

**Question No. 1& 4 are compulsory; Answer any three from the rest**

1. Draw a program flow chart for finding the sum of first 100 odd numbers
2. Explain the elements of Micro Environment
3. Distinguish between
  - a. System Software and Application Software
  - b. Efficiency And Effectiveness
4. The Tata Group is one of India' largest business conglomerates established by Jamshedji Tata in the second half of the 19<sup>th</sup> century. Jamshedji's vision for the Group was in line with nationalist goals and ideals then, and envisaged to make India self-reliant. After Jamshedji, Jehangir Ratanji Dadabhoy Tata (JRD Tata) became the Chairman of the Tata Group and played a significant role in continuing the vision of the group. Tata's assets climbed from INR 620 million in 1939 to INR 670 billion in 2005. Tata's Motors had increased its sales from INR 1 million in the year 1991 to 20 billion in 2010.

Ratan Naval Tata (Ratan Tata/Ratan) took over the Chairmanship from JRD Tata. Although he was initially criticized for his poor performance, over the years, Ratan Tata disproved his critics. He restructured Tata Group's business operations and made the Group compete globally. Under Ratan Tata's chairmanship, Tata Consultancy Services went public and Tata Motors was listed in the New York Stock Exchange. Starting from the late 1990s, Ratan revamped the operations of Tata Steel and made it one of the lowest-cost steel producers in the world. However, as the Tatas lacks an heir who can succeed Ratan, the group is at cross-roads to decide who will be the next chairman. After Ratan Tata's retirement who would succeed him and carry the vision of the Group is a dilemma.

1. What is Vision?
  2. Describe the vision that has driven the Tata group till Ratan Tata joined.
  3. What are the three elements of strategic vision?
  4. How to develop a strategic vision?
5. Give brief answers:
- a. Bench marking
  - b. Six Sigma
  - c. Macro environment
  - d. Backup
  - e. Client Server Technology
- 6.
- a. What are the advantages of a computer? What are the components of CPU?
  - b. What is a kieretsus?

**(5x10=50 Marks)**

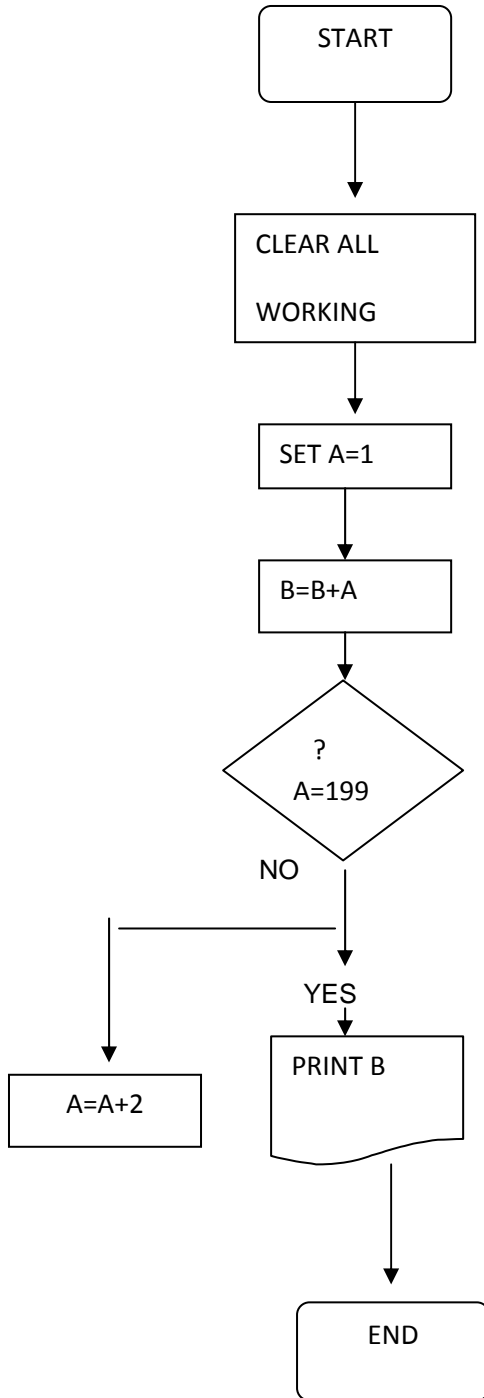
**PRIME ACADEMY  
32ND SESSION PROGRESS TEST  
INFORMATION TECHNOLOGY & STRATEGIC MANAGEMENT  
SUGGESTED ANSWERS**

**PART A**

<b>Q.No</b>	<b>Answers</b>
1	c
2	c
3	b
4	c
5	d.
6	b
7	d
8	d
9	b
10	a
11	a
12	a
13	b
14	d
15	a
16	a
17	b
18	c
19	a
20	b
21	c
22	b.
23	b
24	b.
25	b

PART – B

1.



2. Microenvironment also known as task environment and affects business and marketing the daily operating level. Organizations have to closely analyze and monitor all the elements of microenvironment in order to stay competitive.

**Consumers/Customers:** The aim of business to create and retain customers according to Peter Drucker. Customers are the persons who pay money to acquire the products of the organization. Customers may or may not be a consumer. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyze changes in consumer tastes and preferences and their buying habits.

**Competitors:** are the other business entities that compete for resources as well as markets. Competition shapes the business .It may be direct or indirect.

**Organization:** Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside, they have different and varied interests in microenvironment analysis, nothing is important as self-analysis by the organization itself. Understanding its own strengths and capabilities should be the goal of firm's internal analysis. The objectives, goals and resource availabilities of a firm occupy a critical position in the microenvironment. Owners, Board of directors and employees consists of the specific groups that influence an organization.

**Market:** It is large than customers. The market needs to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The trend and development, the key success factors of the market should also be considered.

**Suppliers:** form an important component of the microenvironment. They provide raw materials, equipment, and services and with their bargaining power affect the cost structure of the industry. They are a major force, which shapes the competition in the industry. Decision on outsourcing or in-house production is made depending on the supplier environment.

3. a) **System software and Application software**

- a) System Software comprises of those programs , which directs the computer; Application Software is the software developed for solving business problems
- b) System Software varies from computer to computer; Application software varies from organization to organization
- c) System software is written in low level language; Application software are usually written in High level language
- d) Detailed knowledge of hardware is required; Application software requires detailed knowledge of organization
- e) System software is used to improve the performance and maximum utilization of system resources; Whereas application software programs are used to improve the speed and quality of a business activity
- f) System software is usually supplied by the manufacturers whereas application software is developed by individuals or supplied by software vendors as generalized application software

**b) Efficiency and effectiveness**

	<b>Efficiency</b>	<b>Effectiveness</b>
1	To be efficient means to do the things right	To be effective means to do the right things
2	Focuses on relationship between inputs and outputs	Focus on relationship between means and ends
3	Short run horizon	Long-run horizon
4	Introspective effect i.e., within the Firm	Highlights linkages between Firm and its external environment
5	Operational phenomenon	Strategic phenomenon
6	Strategy implementation viewpoint	Strategy formulation viewpoint

4.

1. A strategic vision is a road map of a company's future, providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.
2. Jamshedji's vision for the Group was in line with nationalist goals and ideals. He wanted to make India self-reliant. Due to this he restructured the group's business operations and enabled global competition possible.
3. The three elements of strategic vision are":
  - i. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "who we are and where we are now?"
  - ii. Using the mission statement as basis for deciding on a long term course making choices about "where we are going?"
  - iii. Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

**4. Developing strategic vision:**

- i. The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- ii. Forming a strategic vision is an exercise in intelligent entrepreneurship
- iii. Many successful organizations need to change direction not in order to survive but in order to maintain their success.

- iv. A well – articulated strategic vision creates enthusiasm for the course management has chartered and engages members of the organization
- v. The best-worded vision statement clearly and crisply illuminate the direction in which organization is headed.

5.

a) **Bench Marking**

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. It measures company's products, services and practices against those of its competitors or other acknowledged leaders in the industry.

b) **Six Sigma**

Means maintenance of the desired quality in processes and end products by taking systematic and integrated efforts in that direction

c) **Macro Environment**

Constitutes the general environment, which affects the working of all Firms. It is largely external to the firm and thus beyond the direct influence and control of the firm, but which the organization comes into frequent contact in the course of its functioning. It consists of individuals, group's agencies, organizations, events, conditions and forces with which the organization comes into frequent contact in the course of its functioning.

d) **Backup:** It is a process, which is very essential to take a copy of all the files in a tape or other storage device to be able to retrieve in case of loss of data due to power failure or under any other unforeseen circumstances.

e) **Client Server Technology:** Client/Server Technology refers to computing technologies in which the hardware and software components (i.e., client and servers) are distributed through network. Client/Server is defined as the provision of information that is required by a user, which is easily accessed despite the physical location of data within the organization.

6.

a) **Advantages of a Computer:**

The advantages of computers are fast, accurate and reliable.

- **Speed:** Computer operations are measured in milliseconds, microseconds, nanoseconds and Pico seconds.
- **Accuracy:** It is called garbage in , garbage out. If the input is done correctly, output is also most accurate
- **Reliability:** Computer systems are particularly adept at repetitive tasks. Proper back up will ensure continuity.
- **Memory capability:** Computer systems have total and instant recall of data and an almost unlimited capacity to store these data.

b) Large cooperative networks of business are known as **KIERETSUS**. These are formed by companies in related industries, in order to enhance the abilities of individual member business to compete in their respective industries.

Kieretsus members are peers and may own significant amounts of each other's capital and may have board members in common.

In Kieretsus, members remain independent companies in their own right. The only strategy they have in common, is to prefer to do business with other Kieretsus members, both when buying and when selling.

Kieretsus are different from conglomerates where in all members are lineated through ownership pattern.