SUGGESTED ANSWERS TO

THE QUESTIONS SET AT

CHARTERED ACCOUNTANCY PROFESSIONAL (CAP)-II LEVEL

JUNE 2023 EXAMINATIONS

Group-II

The Institute of Chartered Accountants of Nepal (ICAN)

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Paper 4 – Financial Management

Attempt all questions. Working notes should form part of the answer. Make assumptions wherever necessary.

1. Pokhara Valley Khanepani has invited to Fishtail Limited for applying project to detect underground water leakages in water supply around Pokhara Valley. To execute the project, Fishtail Limited is required to purchase the license for three years for a recently developed water leakage detection scanner that uses infra-red technology to detect underground leaks. The license will cost Rs. 7,000,000 to acquire at the outset plus a further Rs. 10,000 for each scanner unit purchased. Before each year commences, Fishtail Limited will purchase sufficient scanners to handle the indicative volume of business. A royalty is also payable of Rs. 50 for each day that a scanner is used. The likely number of clients will be:

Clients Projections

Year	Household Clients	Corporate Clients
1	5,900	320
2	8,520	580
3	10,200	800

Each household client will be charged the following flat rate fee per visit, to include travel costs:
Charge Per Household Client Visit:

	Year 1	Year 2	Year 3
Charge	Rs. 400	Rs. 300	Rs. 250

Each corporate client will take a full day to complete and will be charged the following fee per day:
Average Cost Per Corporate Client Day

	Year 1	Year 2	Year 3
Charge	Rs. 3,000	Rs. 3,500	Rs. 2,500

Before each year, Fishtail Limited will employ sufficient engineers each working 300 days per year to carry out the assessments. Each engineer will require one scanner. The average daily workload per engineer is expected to be:

Engineer Daily Workload

Year	Household Clients	Corporate Clients
1	5	1
2	6	1
3	6	1

Each engineer will be paid Rs. 600 per week (50 weeks per year/6 days per week) plus Rs. 50 per day travel expenses. Wages will uplift by 20% in year 3 and the daily travel allowance will increase each year by Rs. 5 commencing in year 2.

The cost of processing the paperwork for each client will be Rs. 20 per household client and Rs. 100 per corporate client.

Fishtail Limited expects investments to deliver a pre-tax Net Present Value of one quarter of the initial investment after three years. Fishtail Limited discounts proposals at 10%

Requirement: **(16+4=20)**

a) Calculate the three-year Net Present Value of the proposal (Ignore Taxation).

b) Assess three non-financial factors to be considered before making a final decision and make a final recommendation whether or not to apply in the proposal.

Answer

1 a) Appraisal of proposal:

Cash flow	Working Note	Year 0	Year 1	Year 2	Year 3
License Cost		(7,000,000)			
Scanner Purchase	1	(50,000)	(70,000)	(80,000)	
Annual Income	2		3,320,000	4,586,000	4,550,000
Royalty Costs	3		(75,000)	(100,000)	(125,000)
Engineer Costs	4		(150,000)	(210,000)	(288,000)
Travel Costs	5		(75,000)	(115,500)	(144,000)
Paperwork Cost	6		(150,000)	(228,400)	(284,000)
Net Annual Cash flows		(7,050,000)	2,800,000	3,852,100	3,709,000
Discount Factors @ 10%		1.00	0.91	0.83	0.75
Discounted Value		(7,050,000)	2,545,200	3,181,835	2,785,459
Net Present Value		**1,462,494**			

Working Notes:

WN-1 :Scanner Cost	**Year 1**	**Year 2**	**Year 3**
Corporate Customers	320	580	800
Household Customers (a)	5,900	8,520	10,200
Household Customers per day (b)	5	6	6
Household Days (a/b)	1,180	1,420	1,700
Total Days	1,500	2,000	2,500
Scanners Required in 300 days (rounded to)	5	7	8
Cost @ Rs. 10,000 each	50,000	70,000	80,000
To be Purchased at	Year 0	Year 1	Year 2

WN-2 :Annual Income	**Year 1**	**Year 2**	**Year 3**
Corporate Days	320	580	800
Charge Per Day	3,000	3,500	2,500
Corporate Income	960,000	2,030,000	2,000,000
Household Customer	5,900	8,520	10,200
Charge Per Customer	400	300	250
Household Income	2,360,000	2,556,000	2,550,000
Total Annual Income	3,320,000	4,586,000	4,550,000

WN-3: Royalty Cost	**Year 1**	**Year 2**	**Year 3**
Scanner(WN-1)	1,500	2,000	2,500
Royalty Cost At Rs.50 Per Day	75,000	100,000	125,000

WN-4: Engineer Cost	**Year 1**	**Year 2**	**Year 3**
Engineers Required	5	7	8

Weekly Cost	600	600	720
Annual Cost (50 weeks)	150,000	210,000	288,000

WN-5:Travel Cost	**Year 1**	**Year 2**	**Year 3**
Engineers	5	7	8
Days Worked (6 days Per Week)	1,500	2,100	2,400
Daily Cost	50	55	60
Annual Cost	75,000	115,500	144,000

WN-6 :Paperwork Cost	**Year 1**	**Year 2**	**Year 3**
Corporate Clients(WN-1)	320	580	800
Corporate Cost At Rs.100 Per Client	32,000	58,000	80,000
Household Clients(WN-1)	5,900	8,520	10,200
Household Cost At Rs.20 Per Client	118,000	170,400	204,000
Total Paperwork Cost	150,000	228,400	284,000

b.

Qualitative factors to consider:

- Has the technology been tried and tested to ensure it can efficiently detect leaks?
- Has the viability of the vendor of the technology been assessed?
- Can testimonials be given and/or site visits carried out?
- Can suitable qualified engineers be recruited at the wage and travel expenses budgeted?
- Can market research be carried out to verify the expected volume of business?
- Is the license exclusive or no-exclusive?
- Can early exit repayments be made if not successful?
- Is there an option to extend the license if successful?

Final recommendation:

Whilst the technology would certainly seem to meet with significant demand given the introduction of the water charges I am of the opinion that the proposal should be resisted for the following reasons:

- Rs. 7 Million is a very significant initial cash outflow representing front loaded risk.
- Major questions regarding customer demand, technology capability, vendor viability and exclusivity have to be answered.
- The investment does not meet the investment criterion set by Fishtail Limited.

2.

a) The Profit or Loss Account of Beta Ltd. for the year ended 31st March 2022 is given below:

Particulars	**Rs.**	**Rs.**
(A) Sales (Credit)		2,000,000
Less:		
(B) Cost of materials:		1,000,000
Add: Opening Stock:		
Raw Materials	180,000	
Work- in- progress	60,000	
Finished Goods	260,000	
Purchases on credit	1,100,000	
Less: Closing stock:		

Raw Materials	(200,000)	
Work-in-progress	(100,000)	
Finished Goods	(300,000)	
(C)Wages		300,000
(D) Production Expenses		200,000
Gross profit		**500,000**
Less:		
(E) Administration expenses		175,000
(F) Selling Expenses		75,000
Net profit		250,000

The opening and closing balances of debtors were Rs. 150,000 and Rs. 200,000 respectively whereas opening and closing creditors were Rs. 200,000 and Rs. 240,000 respectively.

Required: **(8+2=10)**

(i) You are required to ascertain the working capital requirement by operating cycle method.
(ii) Discuss on estimation of working capital requirement based on operating cycle method?

2. a) Answer:

(i) Computation of Operating Cycle

Raw Material Storage Period (R)

Raw Material Storage Period (R)
= Average Stock of Raw Material/Daily Average Consumption of Raw material
= (180,000 + 200,000) /2 ÷ 1,080,000 /360 = 63.33 Days

Raw Material Consumed
= Opening Stock + Purchases – Closing Stock
= 180,000 + 1,100,000 – 200,000 = Rs. 1,080,000

Conversion/Work-in-Process Period (W)

Conversion/Processing Period = Average Stock of WIP/ Daily Average Production cost
= (60,000 + 100,000)/2 ÷ 1,540,000 / 360 = 18.7 days

Production Cost:	**Rs.**
Opening Stock of WIP	= 60,000
Add: Raw Material Consumed	= 1,080,000
Add: Wages	= 300,000
Add: Production Expenses	= 200,000
	=1,640,000
Less: Closing Stock of WIP	=100,000
Production Cost	=1,540,000

Finished Goods Storage Period (F)

Finished Goods Storage Period
= Average Stock of Finished Goods/ Daily Average Cost of Good Sold
= (260,000 + 300,000) / 2 ÷ 1,500,000 / 360
= 67.19 Days

Cost of Goods Sold	**Rs.**
Opening Stock of Finished Goods	260,000
Add: Production Cost	1,540,000
	1,800,000

Less: Closing Stock of Finished Goods	300,000
	1,500,000

Debtors Collection Period (D)

Debtors Collection Period =Average Debtors/ Daily Average Sales

= (150,000 + 200,000)/2 ÷ 2,000,000/360 = 31.5 Days

Creditors Payment Period (C)

Creditors Payment Period =Average Creditors/ Daily Average Purchase
= (200,000 + 240,000)/2 ÷ 1,100,000/360
= 72 Days

Duration of Operating Cycle (O)
O = R + W + F + D – C
= 63.33 + 18.7 + 67.19 + 31.5 – 72
= 108.72 days

Computation of Working Capital
Number of Operating Cycles per Year
=360/Duration Operating Cycle = 360/108.72 = 3.311

Total Operating Expenses	Rs.
Total Cost of Production	1,500,000
Add: Administration Expenses	175,000
Selling Expenses	75,000
	1,750,000

Working Capital Required
Working Capital Required =Total Operating Expenses/ Number of Operating Cycles per year
= 1,750,000/3.311
= Rs. 528,541

[Note: For computational purposes, the above solution is based on 360 days a year. The solution can also be solved on the basis of 365 days a year. Work-in-process (W) can be computed alternatively taking Administration Expenses as part of Cost of Production. This would lead to further changes in figures of Finished Goods Storage Period, Duration of operating cycle, Number of operating cycles per year and amount of capital required]

(ii) Estimation of Working Capital Need based on Operating Cycle

One of the methods for forecasting working capital requirement is based on the concept of operating cycle. The determination of operating capital cycle helps in the forecast, control and management of working capital. The length of operating cycle is the indicator of performance of management. The net operating cycle represents the time interval for which the firm has to negotiate for Working Capital from its Bankers. It enables to determine accurately the amount of working capital needed for the continuous operation of business activities. The duration of working capital cycle may vary depending on the nature of the business.

In the form of an equation, the operating cycle process can be expressed as follows: Operating

Cycle = R + W + F +D – C

Where,

R = Raw material storage period.

W = Work-in-progress holding period.

F = Finished goods storage period.

D = Debtors collection period.

C = Credit period availed.

b) The ratios of two companies A and B are as follows: **(2+3=5)**

Ratios	**A**	**B**
Profit Margin	30%	18%
Assets Turnover	0.5	1.25
Equity Multiplier	3	2

Calculate Return on Assets and Return on Equity of both the companies. Comment on the results of both companies with Dupont analysis interpretation.

Answer:

Return on Equity = Net Profit Margin * Asset Turnover Ratio * Equity Multiplier

ROA of A = 30% x 0.50 = 15%

ROE of A = 30% x 0.50 x 3 = 45%

ROA of B = 18% x 1.25 = 22.50%

ROE of B = 18% x 1.25 x 2 = 45%

The Dupont analysis also called the Dupont model is a financial ratio based on the return on equity ratio that is used to analyze a company's ability to increase its return on equity. In other words, this model breaks down the return on equity ratio to explain how companies can increase their return for investors by maintaining high profit margin, increasing assets turnover or leveraging assets more effectively. It gives a broader view of the Return on Equity of the company.

Even though both companies have same ROE i.e. 45%, however, the operations of the companies are totally different. Company A is able to generate higher profit margin at a given level of sales. But company B has been able to generate higher sales per rupee of assets utilized i.e. 1.25 times as compared to Company A which is 0.50 times. Due to this, ROA of company B is higher (22.50%) as compared to ROA of Company A (15%). Similarly, Company A has higher leverage (3 times) as compared to Company B (2 times). This higher leverage of Company A has compensated its shortfall in ROA resulting ROE of both companies to be equal.

3.

a) A portfolio manager creates the following portfolio: **(2x4=8)**

Security	**Expected Return (%)**	**Expected St. Deviation (%)**
A	16	5
B	12	3

i) If the portfolio of the two securities has weighted average return of 15%, what is the proportion invested in Security A?

ii) If the correlation of returns between the two securities is 0.25, what will be the expected standard deviation of the portfolio with the weights as per (i) above?

iii) If the two securities are uncorrelated, what will be the expected standard deviation of the portfolio with the weights as per (i) above?

iv) If the two securities are perfectly positively correlated, what will be the expected standard deviation of the portfolio with the weights as per (i) above?

3 (a) Answer:

(i) Portfolio Return (R_p) = R_A x W_A + R_B x W_B

If proportion invested in Security A is W_A then proportion invested in security B will be 1-W_A

Therefore,

15% = 16% x W_A + 12% x (1- W_A)

W_A = 3%/4% = 0.75 i.e. 75%

2 marks

ii) Portfolio Risk (σ_P)

$$(\sigma_P) = \sqrt{\sigma A^2 . WA^2 + \sigma B^2 . WB^2 + 2.r.\sigma A. WA. \sigma B. WB}$$

$$\sigma_P = \sqrt{0.05^2 . 0.75^2 + 0.03^2 . 0.25^2 + 2x0.25x0.05x0.75x0.03x0.25}$$

σ_P = 4%

iii) Portfolio Risk (σ_P)

$$\sigma_P = \sqrt{\sigma A^2 . WA^2 + \sigma B^2 . WB^2}$$

$$\sigma_P = \sqrt{0.05^2 . 0.75^2 + 0.03^2 . 0.25^2}$$

σ_P = 3.82%

iv) Portfolio Risk (σ_P)

$$\sigma_P = \sqrt{\sigma A^2 . WA^2 + \sigma B^2 . WB^2 + 2.r.\sigma A. WA. \sigma B. WB}$$

$$\sigma_P = \sqrt{0.05^2 . 0.75^2 + 0.03^2 . 0.25^2 + 2x1x0.05x0.75x0.03x0.25}$$

σ_P = 4.50%

b) A garment trader is preparing cash forecast for first three months of calendar year 2023. His estimated sales for the forecasted periods are as below:

(Rs '000)

	January	**February**	**March**
Total Sales	600	600	800

i) The trader sells directly to public against cash payments and to other entities on credit. Credit sales are expected to be four times the value of direct sales to public. He expects 15% customers to pay in the month in which credit sales are made, 25% to pay in the next month and 58% to pay in the next to next month. The outstanding balance is expected to be written off.

ii) Purchases of goods are made in the month prior to sales and it amounts to 90% of sales and are made on credit. Payments of these occur in the month after the purchase. No inventories of goods are held.

iii) Cash balance as on 1st January, 2023 is Rs. 50,000.

iv) Actual sales for the last two months of calendar year 2022 are as below:

(Rs ‘000)

	November	December
Total Sales	640	880

You are required to prepare a monthly cash budget for the three months from January to March, 2023. **7**

3b) Answer :

Cash Budget

Rs’000

Particulars	November	December	January	February	March
Opening Balance (A)			**50**	**175**	**355.3**
Sales	640	880	600	600	800
Receipts:					
Cash Collection (Working note 1)			120	120	160
Credit Collections (Working note 2)			545	600.3	494.4
Total (B)			**665**	**720.3**	**654.4**
Purchases (90% of sales in the month prior to sales)		540	540	720	
Payments:					
Payment for purchases (next month)			540	540	720
Total (C)			**540**	**540**	**720**
Closing balance(D) = (A + B – C)			**175**	**355.3**	**289.7**

Working Notes

1. Calculation of Cash and Credit Sales

Rs’000

	November	December	January	February	March
Total Sales	640	880	600	600	800
Cash Sales (1/5th of total sales)	128	176	120	120	160
Credit Sales (4/5th of total sales)	512	704	480	480	640

2. Calculation of Credit Sales Receipts

Rs’000

	November	December	January	February	March
Forecast Credit sales (Working note 1)	512	704	480	480	640
Receipts:					
15% in the month of sales			72	72	96
25% in next month			176	120	120

58% in next to next month			296.96	408.32	278.40
Total			**544.96**	**600.32**	**494.40**

4.

a) Prash Ltd is considering to engage a factor and provides you the following information:

i) Total Annual Sales: Rs. 450 Lakhs of which 80% on credit
ii) Variable Cost: 80% of sales
iii) Existing Average Collection Period: 80 days
iv) Existing Bad Debts: 2%
v) Credit Administration Cost: Rs. 9 Lakh of which one third is avoidable
vi) Existing Cost of Borrowing: 15% p.a.
vii) Factoring Commission: 2% of non recourse factoring
viii) Advance against receivable: Factor agrees to grant advance against receivables at an interest rate of 18% p.a. after with holding 10% as reserve
ix) Payment Period Guaranteed by Factor: 60 days

Required: Should the company engage a factor? (Assume 360 days in a year) **8**

4 a) Answer:

Computation of Factoring Commission, Interest Charges and Advance granted by Factor

Particulars	Rs. in Lakh
Average Level of Receivables [80% of Rs. 450 Lakhs x 60 days/360 days)	60
Less: Factoring Commission (2% of Rs. 60 Lakhs)	(1.2)
Less: Factoring Reserve (10% of Rs. 60 Lakhs)	(6)
Eligible Amount of Advance	52.80
Less: Interest Charges (Rs. 52.80 x 18% x 60/360)	(1.584)
Actual Advance granted	**51.216**

Computation of Interest saved due to the reduction in Average Collection Period

Particulars	Rs. in Lakh
Existing Average Level of Receivables [80% of Rs. 450 Lakhs x 80 days/360 days)	80
New Average Level of Receivables [80% of Rs. 450 Lakhs x 60 days/360 days)	60
Reduction in Debtors	20
Reduction in debtors at cost price (80% of 20 Lakh)	16
Interest saved due to reduction in Average Collection Period (15% of Rs. 16 Lakh)	2.4

Statement showing the evaluation of factoring arrangement

Particulars	Rs. in Lakh
Annual Benefits of Factoring of the Firm:	
Credit Administration Cost avoided (Rs. 9 Lakh x 1/3)	3
Bad Debts avoided (2% of Rs. 360 Lakh)	7.20
Interest saved due to reduction in Average Collection Period	2.40
Total (A)	12.60
Annual Cost of factoring to the firm:	
Factoring Commission (1.20 x 360/60 days)	7.2
Interest charged by factor on advance (1.584 x 360/60)	9.504
Total (B)	16.704
Annual cost of factoring to the firm (A-B)	4.104

Rate of Effective Cost of Factoring to the Firm = 4.104/51.216 x 100)	**8.013%**

Recommendation: The company should adopt the non-recourse factoring alternative since the rate of effective cost of factoring to the company (i.e. 8.013%) is less than the existing cost of borrowing (i.e. 15%)

b) You are the financial analyst of a FMCG company based in Hetauda. The company wishes to raise additional finance of NRs. 30 million to meet its investment plans. Ithas NRs. 6.3 million in the form of retained earnings available for investment purpose. Following further details are also available:

- Debt-equity mix to be maintained at 30:70.
- Cost of debt: Up to NRs. 6 million, 12 percent (before tax); Beyond NRs. 6 million, 15 per cent (before tax)
- Earnings per share: NRs. 80
- Dividend pay out, 50 percent of earnings
- Expected growth rate of dividends, 20 percent
- Current market price per share, NRs. 660
- Tax rate, 30 percent

On the basis of information given above, you are required to determine/compute the following:

i) Pattern of raising the additional finance, assuming the company intends to maintain the existing debt equity mix,
ii) Post tax average cost of additional debt,
iii) Cost of retained earnings and cost of equity,
iv) Overall weighted average after tax cost of additional finance. **(2+1.5+1.5+2=7 Marks)**

4b) Answer:

i) Pattern of raising additional finance

Debt = 0.30 X NRs. 30 million = NRs. 9 million

Equity Funds: 0.70 X NRs. 30 million = NRs. 21 million

<u>Statement of Debt- Equity Position</u>

Retained Earnings	NRs. 6,300,000	
Equity Share Capital (Additional-b/f)	<u>NRs. 14,700,000</u>	NRs. 21,000,000
Debt Funds (NRs. 9 million)		
12% Debt (Initial)	NRs. 6,000,000	
15% Debt (Remaining above 6 M)	<u>NRs. 3,000,000</u>	<u>NRs. 9,000,000</u>
		<u>NRs. 30,000,000</u>

ii) Post tax average cost of additional debt

Kd = Total Interest (1 – t)/9,000,000

= (NRs. 720,000 + NRs. 450,000) (1 – 0.30)/9,000,000

= 1,170,000 X 0.70/9,000,000

= 9.10 %

iii) Cost of retained earnings and cost of equity

a. Cost of equity (ke) = (D/P)+ g

= NRs. 80 (0.5) + 0.2

NRs. 660

= 26.06%

b. Cost of retained earning (kr) = Ke = 26.06 %

iv) Overall weighted average after tax cost of additional finance

Ko = (ke*0.70) +(kd*0.3)

= (0.2606*0.70)+ (0.091*0.3)

= 0.1824+0.0273

= 0.2097

= 20.97%

5.

a) Rapti Ltd. is considering two alternative financing plans as follows:

Particulars	**Plan – A (Rs.)**	**Plan – B (Rs.)**
Equity shares of Rs. 100 each	9,000,000	9,000,000
Preference Shares of Rs.100 each	-	2,000,000
9% Debentures	2,000,000	-
	11,000,000	**11,000,000**

The indifference point between the plans is Rs. 760,000. Assuming corporate tax rate is 25%, calculate the rate of dividend on preference shares. **5**

5 a) Answer:

Computation of Rate of Preference Dividend:

{(EBIT-Interest) (1 -t)}/{No. of Equity Shares}={(EBIT(1-t)-Preference Dividend}/{No. of Equity Shares}

{(760,000 - 180,000) x (1- 0.25)}/90,000 = {760,000 (1-0.25)-Preference Dividend}/ 90,000

Rs. 435,000 / 90,000 shares = (Rs. 570,000 - Preference Dividend) / 90,000 shares

Rs. 435,000 = 570,000 – Preference Dividend

Preference Dividend =Rs. 570,000 – Rs. 435,000 = Rs. 135,000

Rate of Dividend = Preference Dividend/Preference share capital ×100

=135,000/ 2,000,000 ×100=6.75 %

b) Consider the following information:

Equity share capital (Rs.100 each)	Rs. 5,000,000
Reserves and surplus	Rs.500,000
15% secured loans	Rs. 2,500,000
12.5% unsecured loans	Rs. 1,000,000
Fixed assets	Rs. 3,000,000

Investments	Rs.500,000
Operating profit	Rs. 2,500,000
Tax rate 25%	
PE ratio 12.5	

Required: Calculate the value of each equity share. **5**

5 b) Answer:

We have,
Value= EPS × PE Ratio
EPS calculation

	Rs.
Operating profit i.e. EBIT	2,500,000
Less: Interest on 15% secured loans	375,000
Interest on 12.5% unsecured loans	125,000
Profit before tax	2,000,000
Tax @ 25%	500,000
PAT	1,500,000
Number of equity shares = (Rs 5,000,000/100)	50,000

Therefore EPS = (Rs 1,500,000/50,000) = Rs. 30
P/E Ratio is given as 12.5
Therefore,
Value of equity share =EPS×PE Ratio= 30×12.5 =Rs.375

c) Mr. Ramesh will be needed Rs. 1.26 million on Jan 1, 2025 for admission fee of his college. His father has deposited Rs. 470,000 on Jan 1, 2022 in his bank account that pays compounded semiannual interest at the rate of 8% per annum. He is involved in part-time job and wanted to make six additional equal deposits in the same account at the end of every six months to reach the goal of admission fee in future. How large must each of the six payments be? **5**

5 c) Answer:

We need to find the future value of the original Rs. 470,000 deposit:

This means that on January 1, 2025, you will have Rs. 470,000 x FVIF$_{@4\% \text{ for 6 periods}}$
= Rs. 470,000 x 1.2653 = Rs. 594,691.

He needed an additional sum of Rs. 1,260,000 – Rs. 594,691 = Rs. 665,309.

This will be accumulated by making six equal payments (PMT) that earn 8 percent compounded semiannually, or 4 percent each six months:

PMT x FVIFA$_{@4\% \text{ for 6 periods}}$ = Rs. 665,309
PMT x 6.6330 = Rs. 665,309
PMT = Rs. 665,309/6.6330 = Rs. 100,303
His six additional equal payments will be Rs. 100,300.

6. Write short note on: **(4×2.5 =10)**
a) Factors affecting the dividend policy

Answer:

(i) **Dividend Payout ratio:** This involves the decision to pay out or to retain. The retention will be done when company requires funds which leads to growth of a company resulting maximization of shareholders wealth.

(ii) **Stability of Dividends:** Generally investors favor a stable dividend policy. The policy should be consistent and there should be a certain minimum dividend that should be paid regularly. This can take any form, namely, constant dividend per share; stable D/P ratio and constant dividend per share plus something extra.

(iii) **Legal, contractual and internal constraints and restriction:** Legal and Contractual requirements have to be followed. Such as requirements of Companies Act, SEBON guidelines, and other regulatory restrictions. For example only scrip dividend can be paid out of capital redemption reserve.

(iv) **Liquidity Position:** A company's dividend policy must consider the liquidity position of the company. The payment of dividends reduces the company's cash reserves of the company.

(v) **Capital market conditions and inflation:** Capital market conditions and rate of inflation also play a dominant role in determining the dividend policy. A firm having easy access to capital market will follow liberal dividend policy.

b) Angel Investors

Answer:
Angel investors invest in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.

Angel investors provide more favorable terms compared to other lenders, since they usually invest in the entrepreneur starting the business rather than the viability of the business. Angel investors are focused on helping startups take their first steps, rather than the possible profit they may get from the business. Essentially, angel investors are the opposite of venture capitalists.

Angel investors are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, and making use of their experience and networks on a less than full-time basis. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts. Because there are no public exchanges listing their securities, private companies meet angel investors in several ways, including referrals from the investors' trusted sources and other business contacts; at investor conferences and symposia; and at meetings organized by groups of angels where companies pitch directly to investor in face-to-face meetings.

c) Security Market Line

Answer:
Security market line (Beta function) is simply an index of Systematic Risk which cannot be reduced by Portfolio Diversification. The slope of the SML indicates the change in excess return of the stock over the change in excess return on the market portfolio. The Beta of the portfolio is simply a weighted average of the individual stock Betas of the portfolio. It shows the sensitivity of return on the stock to change in return on market portfolio.

Results of Beta Function:

- If Beta=1.0, this implies that the excess return for the stock varies proportionally with the excess return for the market portfolio.
- If Beta>1.0, this implies that the excess return for the stock varies more than proportionally with the excess return for the market portfolio. (Aggressive)
- If Beta<1.0, this implies that the excess return for the stock varies less than proportionally with the excess return for the market portfolio. (Defensive).

d) Repurchase agreements

Answer:

A repurchase agreement is an agreement to buy any securities from a seller on the understanding that they will be repurchased at some specified price and time in the future. However, since the length of any repurchase agreement (or ‗repo') is likely to be short, a matter of months at most, itis customary to think of repos as a form of short-term finance and therefore, logically, as beingan alternative to other money market transactions. The effect of the repo deal falls upon money market prices and yields, it is normal to regard such repos as money market deals.

In a repo, the seller is the equivalent of the borrower and the buyer is the lender. The repurchase price is higher than the initial sale price, and the difference in price constitutes the return to the lender. Deals are quoted on a yield basis.

Some repo deals are genuine sales. In these circumstances, the lender owns the securities and can sell them in the case of default. In some repo contracts, however, what is created is more strictlya collateralized loan with securities acting as collateral while remaining in the legal ownership ofthe borrower. In the case of default, the lender has only a general claim on the lender and so the margin is likely to be greater.

7. Distinguish between: **(4×2.5 =10)**

a) Investment Decision and Financing Decision

Answer:

Investment Decision	**Financing Decision**
The investment decision is concerned with the selection of assets in which funds will be invested by a firm.	The financing decision is concerned with capital mix, (financing – mix) or Capital Structure of a firm.
It is concerned with assets side of the statement of financial position of a firm.	It is concerned with liabilities side of statement of financial position of a firm.
It is concerned about selection and analysis of long term and short term requirements of assets/investments.	Its focus will be on mix of debt or equity in capital structure along with long term and short term sources of funds.
Investment appraisal techniques like NPV, IRR are used for long term investments and working capital management techniques are done for short term investments.	Long term and short terms sources are based on requirement of types of investment to be made from such funds. For example: long term sources are considered for investment in capital assets.
Operating income are analyzed in investment decisions.	Cost of capital are analyzed in financing decisions.
Operating risk, sales risk business risk are considered in investment decisions.	Financial risk (interest and dividends obligations) are considered in financing decisions.
Portfolio management theories are studied under investment decisions.	Capital Structure management theories are studied under financing decisions.

b) Clean packing credit and Packing credit against hypothecation of goods

Answer:

Packing Credit is an advance extended by banks to an exporter for the purpose of buying, manufacturing, processing, packing, shipping goods to overseas. If an exporter has a firm export order placed with him by his foreign customer (buyer) or all irrevocable Letter of Credit in his favour, he can approach a Bank for Packing Credit Facility.

Clean Packing Credit

- This facility is extended only on production of a firm export order or a letter of credit.
- There is no charge or control over raw material or finishes goods that constitute the supply.
- The bank takes into consideration trade requirements, credit worthiness of exporter and itsmargin.
- Export Credit Guarantee Corporation (ECGC) insurance cover should be obtained by thebank.

Packing credit against hypothecation of goods

- This facility is extended only on production of a firm export order or a letter of credit.
- The goods which constitute the supply are hypothecated to the Bank as security withstipulated margin.
- The goods shall be exported by the borrower. The Bank does not have any effectivepossession of the same.
- The exporter has to submit stock statements at the time of sanction and also periodically and for whenever there is any movement in stock.

c) William J Baumal and Miller- Orr cash management model

Answer:

According to William J Baumal's Economic order quantity model optimum cash level is that level of cash where the carrying costs and transactions costs are the minimum. The carrying costs refer to the cost of holding cash, namely, the interest foregone on marketable securities. The transaction cost refers to the cost involved in getting the marketable securities converted into cash. This happens when the firm falls short of cash and has to sell the securities resulting in clerical, brokerage, registration, and other costs.

The optimum cash balance according to this model will be that point where these two costs are equal. The formula for determining optimum cash balance is:

$$C = \sqrt{\frac{2U \times P}{S}},$$

Where,

C = Optimum cash balance

U = Annual cash disbursements

P = Fixed cost per transaction

S = Opportunity cost of one rupee p.a.

Miller-Orr cash management model is a net cash flow stochastic model. This model is designed to determine the time and size of transfers between an investment account and cash account. In this model control limits are set for cash balances. These limits may consist of h as upper limit, z as the return point, and zero as the lower limit.

When the cash balances reach the upper limit, the transfer of cash equal to h-z is invested in marketable securities account. When it touches the lower limit, a transfer from marketable securities account to cash account is made. During the period when cash balance stays between (h,z) and (z, o) i.e high and low limits no transactions between cash and marketable securities account is made. The high and low limits of cash balance are set up based on fixed cost associated with the securities transactions, the opportunity cost of holding cash and the degree of likely fluctuations in cash balances. These limits satisfy the demands for cash at the lowest possible total costs.

d) Growing firms and normal firms as per Walter's Model

Answer:

The firms having rate of return on investment (R) greater than cost of equity(K) is known as growth firms. The growth firms are assumed to have ample profitable investment opportunities. These firms naturally can earn a return which is more than what shareholders could earn on their own. So optimum payout ratio for growth firm is 0%.

If return on investment (R) is equal to cost of equity(K), the firm is known as normal firm. These firms earn a rate of return which is equal to that of shareholders. In this case dividend policy will not have any influence on the price per share. So there is nothing like optimum payout ratio for a normal firm. All the payout ratios are optimum.

Paper 5 – Cost and Management Accounting

All questions are compulsory. Working notes should form part of the answer. Make assumptions wherever necessary.

1. Aggarwal Ltd. owns two factories, one at Bhairahawa and the other at Biratnagar. Both factories produce and sell same product with the same Selling Price of Rs. 200 Per Unit. The following are the other cost details:

	Bhairahawa Plant	Biratnagar Plant
Capacity Operated	75%	83-1/3%
Actual Sales (Rs.)	3,000,000	5,000,000
Total Fixed Cost (Rs.)	1,500,000	810,000
Depreciation (Rs.)	300,000	210,000
Profit/(loss) (Rs.)	(300,000)	190,000

Required: **(3+3+2+1.5+1.5+9=20)**

a) Calculate Break-Even-Point for each Plant both in unit and value
b) Calculate Cash Break-Even-Point for each Plant both in unit and value
c) Calculate Cost Indifference Point
d) In case Total Output is to be increased by 7,000 Units, how much output should be increased from which Plant and why?
e) In case Total Output is to be curtailed by 7,000 Units, from which Plant should it be curtailed and why?
f) Determine Combined BEP for the company as a whole adopting each of the following three approaches:
i) Constant Sales-Mix in the ratio of capacities of Plants.
ii) Variable Sales-Mix producing from more profitable Plant first.
iii) Using Actual Sales Ratio as the basis.

Answer

1 a)

	Bhairahawa Plant	Biratnagar Plant
BEP (Units) =Fixed Costs/Contribution Per unit	1,500,000/ 80 =18,750 units	810,000/ 40 =20,250 units
BEP (Rs.) =Fixed Costs/PV Ratio	1,500,000/ 40% =Rs. 3,750,000	810,000/ 20% =Rs. 4,050,000
b) Cash BEP (Units) =Cash FC/Contribution P.U	1,200,000/ 80 =15,000 units	600,000/ 40 =15,000 units
Cash BEP (Rs.) =Cash Fixed Costs/PV Ratio	1,200,000/ 40% =Rs. 3,000,000	600,000/ 20% =Rs. 3,000,000

c) Cost Indifference Point =Difference in Fixed Cost/Difference in Variable Cost Per unit
=1,500,000-810,000/ (160-120)
=17,250 units

At Cost Indifference Point of 17,250 units the management has choice either to produce at Bhairahawa Plant or Biratnagar Plant. Upto 17,250 units Biratnagar Plant is more economical than Bhairahawa Plant due to lower Fixed Cost and beyond 17,250 units Bhairahawa Plant is more economical than Biratnagar Plant due to lower Variable Cost.

d) If Total Output is to be increased by 7,000 Units, first 5,000 units should be produced from Bhairahawa Plant so as to use its capacity fully because per unit contribution of Rs. 80 from Bhairahawa Plant is higher than per unit contribution of Rs. 40 from Biratnagar Plant. Remaining 2,000 units should be produced from Biratnagar Plant.

e) In case output is to be curtailed by 7,000 units, entire curtailment should be from Biratnagar Plant because it has lower per unit contribution of Rs. 40 per unit as compared with Rs. 80 from Bhairahawa Plant.

f) (i) **Constant Sales-Mix in the Ratio of Capacities of Plants:**

$$\text{Combined P/V Ratio} = \frac{\text{Total Contribution from the two plants at Full Capacity}}{\text{Total sales of the two plants at full capacity}} \text{ X } 100\%$$

$$= \frac{[80 \text{ x } 20{,}000] + [40 \text{ x } 30{,}000]}{[(200 \text{ x } 20{,}000) + (200 \times 30{,}000)]} \times 100\%$$

$$= \frac{(16{,}00{,}000 + 12{,}00{,}000) \text{ x} 100}{(40{,}00{,}000 + 60{,}00{,}000)} = 28\%$$

$$\text{Combined BEP (Rs.)} = \frac{\text{Combined Fixed Cost}}{\text{Combined P/V Ratio}}$$

$$= \frac{15{,}00{,}000 + 8{,}10{,}000}{28\%}$$

$$= \text{Rs.}82{,}50{,}000$$

(ii) **Using Variable Sales-Mix producing from more profitable Plant first**:

Combined Fixed Cost is to be recovered first from more Profitable Plant (i.e. Bhairahawa) and then from Biratnagar

Plant Contribution from Full Capacity of Bhairahawa Plant = 20,000 Units x 80 =Rs.16,00,000

Contribution required from Biratnagar Plant = Combined Fixed Cost-Rs.16,00,000

=23,10,000-16,00,000

= Rs. 7,10,000

Units required from Biratnagar Plant to meet the balance Fixed Cost = 7,10,000/ 40 = 17,750 Unit

Combined BEP = Sales of Units at Full Capacity of Profitable Plant (i.e. Bhairahawa Plant) + Sales of Units required from Biratnagar Plant to meet the balance fixed cost

= (20,000 Units x 200) + (17,750 Units x 200) = Rs.75.50 Lacs

(iii) **Using Actual Sales Ratio as the basis**:

$$\text{Combined P/V Ratio} = \frac{\text{Total Contribution from the two plants at Actual Capacity}}{\text{Total sales of the two plants at actual capacity}} \times 100\%$$

$$= \underline{[80 \text{ x } 15{,}000] + [40 \text{ x } 25{,}000]} \times 100\%$$

[(200 x 15,000) + (200 × 25,000)]

$$= \frac{(12,00,000+ 10,00,000) \times 100}{(30,00,000+ 50,00,000)}$$

= 27.5%

$$\text{Combined BEP (Rs.)} = \frac{\text{Combined Fixed Cost}}{\text{Combined P/V Ratio}}$$

$$= \frac{15,00,000+8,10,000}{27.5\%}$$

=Rs.84,00,000

Working Notes 1

Particulars	Bhairahawa Plant	Biratnagar Plant
Actual Sales Unit	=Rs.30lacs/Rs.200 =15000 units	=Rs.50 lacs/Rs.200 =25000 units
Full capacity	=15000/75% =20000	=25000/83-1/3% =30000
Variable Cost (Sales-Fixed Cost-Profit)	=Rs. (30-15+3) lacs =Rs.18 lacs	=Rs. (50-8.1-1.9) lacs =Rs.40 lacs
Variable cost per unit	=Total Variable Costs/Sales units =Rs.18 lacs/15000 =Rs.120 per unit	=Total Variable Costs/Sales units =Rs.40 lacs/25000 =Rs.160 per unit

Cash fixed cost	=total fixed cost-Depreciation 1,500,000-300,000 Rs. 1,200,000	=Total fixed cost-Depreciation 810,000-210,000 Rs. 600,000
PV Ratio	contribution/sales price 80/200 = 40%	contribution/sales price 40/200 = 20%

contribution per unit	=sales price-variable cost Rs. 200-Rs.120 = Rs. 80	sales price-variable cost Rs. 200-Rs. 160=Rs. 40

2.

a) Delta Hotel Pvt. Ltd. is operating a star hotel with 180 rooms of different categories since Jan 01, 2002. During the period Jan 01, 2021 to December 31, 2021, average room rate (ARR) per occupied room was Rs. 10,000 throughout the year. Average variable cost per occupied room is Rs. 3,000 per room. Summary of category of room and the room occupancy during the period Jan 01, 2021 to Dec 31, 2021 (365 Days) is as under:

Room category	**Number of rooms**	**Occupancy %**
Standard	100	80%
Deluxe	50	70%

Club	30	50%
Total	**180**	

Average room rate of deluxe room is 1.5 times the room rate of Standard room and average room rate of club room is twice the average room rate of standard room and same ratio will continue for next 3 years.

During the year 2021, following data is also extracted from Hotel books of account.

i) In the hotel premise, hotel also owns restaurant and revenue earned from restaurant is Rs. 100,000,000/- with a variable cost of 70% of revenue.

ii) Total fixed cost for running the entire hotel operations is Rs. 270,000,000/-

For the next year 2022, hotel's management forecast is as under:

i) Restaurant revenue will be increased by 10% and no changes in the variable cost percentage.

ii) Fixed cost will go up by Rs. 30,000,000/-

iii) Variable cost per occupied room will be increased by Rs. 500 on average.

iv) Room occupancy will be same as year 2021 for all room categories and entire hotel.

Required: **10**

i) What is the average occupancy of the entire hotel throughout the year 2021 and also calculate the total room revenue earned by the hotel?

ii) What is the average room rate of each category of rooms during the year 2021?

iii) Draw out the hotel profitability statement for the year 2021.

iv) What should be the total revenue to be earned from room during the year 2022, in order to maintain same amount of profit as on 2021? What should be the average room rate of hotel for year 2022?

b) A company's plant processes 150,000 kg of raw material in a month to produce two products, viz 'P' and 'Q'. The cost of raw material is Rs. 12 per kg. The processing costs per month are:

Particulars	Amount (Rs.)
Direct Material	90,000
Direct wages	120,000
Variable Overheads	100,000
Fixed Overheads	100,000

The loss in process is 5% of input and the output ratio of 'P' and 'Q' which emerge simultaneously is 1:2. Joint cost is apportioned on the basis of market value at the point of separation. The selling prices of the two products at the point of spilt off are: 'P' Rs. 12 per kg and 'Q' Rs. 20 per kg. A proposal is available to process 'P' further by mixing it with other purchased materials. The entire current output of the plant can be so processed to obtain a new product 'S'. The price per kg of 'S' is Rs.15 and each kg of output of 'S' will require one kg of input of 'P'. The cost of processing of 'P' into 'S' (Including other materials) is Rs. 1,85,000 per month.

You are required to prepare a statement showing the monthly profitability based on both existing manufacturing operations and on further process. Will you recommend further processing? **10**

Answer

2 a)

i) **Calculation of average occupancy & total revenue**

Room	Number of rooms	Occupancy %	Available Room Night	Room Occupied
	A	**B**	**C = A*365**	**D= C*B**
Standard	100	80%	36,500	29,200

Deluxe	50	70%	18,250	12,775
Club	30	50%	10,950	5,475
Total	**180**		**65,700.00**	**47,450**

Total room occupied during the year = 47,450
Total Room available during the year = 65,700
Average Occupancy of entire hotel = 47,450/65,700*100 = 72.22%
Total room revenue earned by hotel = total room occupied * average room rate per occupied room of hotel
=47,450 * Rs.10,000 = Rs. 47,45,00,000

ii) Calculation of average room rate per category of rooms
Let X be the average room rate of Standard room per occupied room
Rate of deluxe room = 1.5X
Rate of club room = 2X

Total revenue = X*29200 +1.5X * 12775 + 2X * 5475
47,45,00,000 = 59,312.5 X
X= 8000
Hence, Average room rate of Standard room = Rs.8,000
Average room rate of Deluxe room = Rs.12,000
Average room rate of Club room = Rs. 16,000

iii) Statement of profitability
Delta Hotel Pvt. Ltd.

Description	**Amount (Rs.)**
Room Revenue	47,45,00,000
Revenue from Restaurant	10,00,00,000
Total Hotel Revenue	**57,45,00,000**
Less: Variable cost	
Room (47450*3000)	14,23,50,000
Restaurant (70%)	70,000,000
Total Variable cost	**21,23,50,000**
Contribution	36,21,50,000
Less: Fixed cost	27,00,00,000
Net profit	**9,21,50,000**

iv) Calculation of incremental revenue and cost

Incremental revenue	**Rs.**
Increase in Restaurant revenue (10% of 10 Crore)	1,00,00,000
Less: Incremental cost	
Increase in variable cost – restaurant (70% of incremental revenue)	70,00,000
Increase in variable cost of room sold (47,450 room * 500)	2,37,25,000
Increase in fixed cost	300,00,000
Total incremental cost	6,07,25,000
Net Incremental cost	**5,07,25,000**

Hence room revenue should be increased by Rs. 5,07,25,000/-
Total room revenue = 47,45,00,000 + 5,07,25,000 = Rs. 52,52,25,000
Number of occupied room = 47,450 Room
Average room rate for FY. 2022 = 52,52,25,000/ 47,450 = Rs. 11,069

2 b)

Statement showing Monthly Profitability

	Based on existing manufacturing operations			**Based on further processing of P in to S**		
	Products		**Total**	**Products**		**Total**
	P	**Q**		**S**	**Q**	
Sales Quantity (kg)	47,500	95,000	1,42,500	47,500	95,000	142,500
Sales Revenue	570,000	19,00,000	24,70,000	7,12,500	19,00,000	26,12,500
Less: Joint Costs	5,10,000	17,00,000	22,10,000	6,95,000	17,00,000	23,95,000
Profit	60,000	2,00,000	260,000	17,500	2,00,000	217,500

Recommendation: Further processing of P is not recommended as it results lower profit by Rs. 42,500

Working notes:

Material input	150,000 kg
Less: Loss of material (5% of 150,000 kg)	(7,500 kg)
Total Output	**142,500 kg**

Output of P = 142,500*1/3 = 47,500 kg

Output of Q = 1,42,500*2/3 = 95,000 kg.

Calculation of Joint Costs:

Particulars	**Rs.**
Material input (150,000 kg * Rs. 12)	18,00,000
Direct materials	90,000
Direct wages	1,20,000
Variable Overheads	1,00,000
Fixed Overheads	1,00,000
Total Joint Costs	**22,10,000**

Sales revenue of P, Q and S

P = 47,500 kg* Rs.12 = Rs. 5,70,000

Q = 95,000 kg* Rs. 20 = Rs. 19,00,000

S = 47,500 kg* Rs. 15 = Rs. 7,12,500

Apportionment of joints costs over P and Q in proportion of their sales value.

Particulars	**Total**	**P**	**Q**
Sales amount	24,70,000	5,70,000	19,00,000
Joint costs apportionment in the ratio of sales	22,10,000	5,10,000	17,00,000

Total cost of 47,500 kg of S = Joint cost of P and Cost of processing P into S

= Rs. 510,000+185,000

= Rs, 695,000

=Rs. 11,069.02

3.

a) Lumbini Shoes Ltd manufactures and sells a single product and has estimated sales revenue of Rs. 30,240,000 during the year based on 20% profit on selling price. Each unit of product requires 6 kg of material A and 3 kg of material B and processing time of 4 hours in machine shop and 2 hours in assembly shop. Factory overheads are absorbed at a blanket rate of 20% of direct Labour. Variable selling & distribution overheads are Rs. 60 per unit sold and fixed selling & distribution overheads are estimated to be Rs. 6,912,000.

The other relevant details are as under:

Purchase Price:	Material A =	Rs. 160 per Kg.
	Material B =	Rs. 100 per Kg
Labour Rate:	Machine Shop =	Rs. 140 per hour
	Assembly Shop =	Rs. 70 per hour

	Finished Goods	Material A	Material B
Opening Stock	2,500 units	7,500 kg	4,000 kg
Closing Stock	3,000 units	8,000 kg	5,500 kg

Required:

i) Calculate number of units of product proposed to be sold and selling price per unit, **6**
ii) Prepare Production Budget in units, and **1**
iii) Prepare Material Purchase Budget in units. **1**

b) A chemical company gives you the following standard and actual data of its Chemical No. 1357.

Standard Data

Qty (Kg)	Material	Amount (Rs.)
400	Kg. of Material P @ Rs 500 per kg.	200,000
200	Kg. of Material Q @ Rs 200 per kg.	40,000
100	Kg. of Material R @ Rs 150 per kg.	15,000
700	Sub-total	255,000
25	Less: Normal Loss	
675	Total	255,000

Actual Data

Qty (Kg)	Material	Amount (Rs.)
420	Kg. of Material P @ Rs 450 per kg.	189,000
240	Kg. of Material Q @ Rs 250 per kg.	60,000
90	Kg. of Material R @ 150 per kg.	13,500
750	Sub-total	262,500
75	Less: Normal Loss	
675	Total	262,500

You are required to calculate material variances. **8**

c) "Is reconciliation of cost accounts and financial accounts necessary in case of integrated accounting system?" Explain. **4**

Answer

3 a) Workings:

Statement Showing Total Variable Cost for the year

Particulars	**Amount (Rs.)**
Estimated Sales Revenue	3,02,40,000
Less: Desired Profit Margin on Sale @ 20%	60,48,000
Estimated Total Cost	2,41,92,000
Less: Fixed Selling and Distribution Overheads	69,12,000
Total Variable Cost	1,72,80,000

Statement Showing Variable Cost per unit

Particulars	**Variable Cost Per unit (Rs.)**
Direct Materials:	
A: 6 Kg. @ Rs. 160 per kg.	960
B: 3 Kg. @ Rs. 100 per kg.	300
Labour Cost:	
Machine Shop: 4 hrs. @ Rs.140 per hour	560
Assembly Shop: 2 hrs. @ Rs. 70 per hour	140
Factory Overheads: 20% of (`Rs. 560 + Rs. 140)	140
Variable Selling & Distribution Expenses	60
Total Variable Cost per unit	2,160

(i) Calculation of number of units of product proposed to be sold and selling price per unit:

Number of units sold = Total Variable Cost/Variable Cost Per unit
= Rs. 1,72,80,000/Rs. 2,160
= 8,000 units

Selling Price per unit = Total Sales/number of units sold
= Rs. 3,02,40,000/Rs. 8,000
= Rs. 3,780 per unit

(ii) Productions Budget in Units

Particulars	**Units**
Budgeted Sales	8,000
Add: Closing Stock	3,000
Total Requirements	11,000
Less: Opening Stock	(2,500)
Required Production	8,500

(iii)Materials Purchase Budget (Kg)

Particulars	**Material A**	**Material B**
Requirement of Production	51,000	25,500
	(8,500 units*6)	(8,500 units*3)
Add: Closing Stock	8,000	5,500
Less: Opening Stock	-7,500	-4,000
Quantity to be purchased	51,500	27,000

3 b) Computation of Material Variances

Material	SQSP (1)	RSQSP (2)	AQSP (3)	AQAP (4)
P	400 *500	428.57 * 500	420 * 500	420 * 450
	= 200,000	= 214,285	= 210,000	= 189,000
Q	200 * 200	214.29* 200	240 * 200	240 * 250
	= 40,000	= 42,858	= 48,000	= 60,000
R	100 * 150	107.14 * 150	90 * 150	90 * 150
	= 15,000	= 16,071	= 13,500	= 13,500
	255,000	273,214	271,500	262,500

Computation of Rs. SQ:
Rs. SQ = (SQ for that material/ SQ for all material) * AQ for all material
For A = (400/700) * 750 = 428.57
For B = (200/700) * 750 = 214.29
For C = (100/700) * 750 = 107.14

Computation of Required Material Variances:

a. Material Yield Variance = Standard Cost of Standard Material (SQSP) – Revised Standard Cost of Material (RSQSP)
= 255,000 – 273,214 = 18,214 (A)/18,350 (A)

b. Material Mix Variance = Revised Standard Cost of Material (RSQSP) – Standard Cost of Actual Material (AQSP)
= 273,214 – 271,500 = 1,714 (F) /1,850 (F)

c. Material Usage Variance = Standard Cost of Standard Material (SQSP) – Standard Cost of Actual Material (AQSP)
= 255,000 -271,500 = 16,500 (A)

d. Material Price Variance = Standard Cost of Actual Material (AQSP) – Actual Cost of Material (AQAP)
= 271,500 – 262,500 = 9,000 (F)

e. Material Cost Variance = Standard Cost of Standard Material (SQSP) – Actual Cost of Material (AQAP)
= 255,000 – 262,500 = 7,500 (A)

3 c) In the integrated accounting system cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for Costing as well as for Financial Accounts. In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation, or any other identifiable activity. It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact, all information that management requires from a system of Costing for doing its work properly is made available. The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.
Since, only one set of books are kept for both cost accounting and financial accounting purpose so there is no necessity of reconciliation of cost and financial accounts.

4.

a) A company manufactures a product from a raw material, which is purchased at Rs. 60 per Kg. The company incurs a handling cost of Rs. 360 plus Freight charge of Rs. 390 per order. The incremental carrying cost of inventory of raw material is Rs. 0.50 per kg per month. In addition, the cost of working capital finance on the investment in inventory of raw material is Rs. 9 per kg. per annum. The annual production of the product is 100,000 units and 2.5 units are obtained from one Kg of raw material.

Required **5**

i) Calculate the Economic order quantity of raw materials.

ii) Advise, how frequently should orders for procurement be placed.

iii) If the company proposes to rationalise placement of orders on quarterly basis, what percentage of discount in the price of raw materials should be negotiated.

b) Following details are available in respect of contract which is 90% complete:

Particulars	**Amount in Rs.**
Total expenditure to date	990,000
Estimated further expenditure to complete the contract (including contingencies)	55,000
Contract price	1,346,400
Work Certified	1,211,760
Work not certified	74,800
Cash received	969,408

Calculate the proportion of profit to be taken to Profit & Loss Account under any three methods. **5**

c) A machine shop has 10 identical drilling machines manned by 5 operators. The machine cannot be worked without an operator wholly engaged on it. The original cost of a machine works out to be Rs. 100,000. Quarterly particulars are furnished as below.

Normal available hours per month	108
Absenteeism (without pay) hours per month	8
Leave (with pay) hours per month	10
Normal idle time unavoidable hours per month	5
Average rate of wages per operator for 8 hours a day	Rs. 120
Production bonus estimated	20% of wages
Value of power consumed	Rs. 4,050
Supervision and indirect cost	Rs. 2,200
Lighting and electricity	Rs. 600
These particulars are for a year:	
Repair and maintenance including consumables	3% of value of machines
Insurance	Rs. 60,000
Depreciation	10% of original cost
Other sundry expenses	Rs. 9,000
General management expenses allocated	Rs. 54,000

You are required to work out a comprehensive machine hour rate for the machine shop. **5**

Answer

4 a) Annual requirement of raw materials in Kgs (A)= 1Kg X 1,00,000 Units / 2.5 unit= 40,000 Kg.

Handing and freight cost per order (O) : Rs. 360 + Rs. 390 = Rs.750 per order

Carrying cost ('C') = Carrying cost per unit per annum + investment cost per Kg. Per annum

= (0.5 *12 Month)+ Rs. 9 = Rs. 15 Per unit

i. EOQ = $\sqrt{2AO/C} = \sqrt{2 * 40{,}000\ Kgs * \frac{750}{Rs.15}}$ = 2000 Kgs.

ii. Frequency of Orders for procurement : = 365 Days/ Nos of Order

= 365/ (40,000/2000)

= 18 Days (Approx)

iii. Percentage of discount in the price of raw materials to be negotiated:

Quarterly Orders (40,000 Kg/ 4 orders) =10,000 Kgs. Per order

No. Of orders = 4

Total Cost (When order size is 10,000 units) = (4 Orders X Rs.750) +

Carrying cost (10,000/2 X 15) = Rs. 78,000

Total Cost (when order size is Equal to EOQ) = (20 Orders X Rs.750) + (2000/2 X 15)

= Rs. 30,000

Increase in cost to be compensated by Discount (Rs.78,000- Rs. 30,000) = Rs. 48,000

Reduction per kg in the purchase price of Raw Materials = Rs.48,000/Rs.40,000 Kgs

= Rs. 1.2 Per Kg.

% of Discount in the price of raw materials to be negotiated: = 1.2/60 X100

= 2% Discount.

4 b)

Computation of estimated profit	**Amount**
Contract Price	1,346,400
Less: Cost of work to date	(990,000)
Less: Further Cost	(55,000)
Estimated Profit	**301,400**

Completion of contract $= \frac{\textit{Work certified}}{\textit{contract price}}$

$= \frac{1,211,760}{1,346,410} \times 100\%$

= 90%

Profit to be taken using different methods

i) Estd. Profit x Work certified / contract price

=301400*1211760/1346400 271,260

ii) Estd. Profit x [Work certified/ contract price] x [cash received / work certified]

=301400*(1211760/1346400)*(969408/1211760) 217,008

iii) Estd. Profit x Cost of work to date / Estd. Total cost

=301400*990000/(990000+55000) 285,536

iv) EP$\times\frac{\textit{cost of work to date}}{\textit{Est.total cost}}\times\frac{\textit{Cash received}}{\textit{work certified}}$

$= 301400\times\frac{990000}{990000}\times\frac{969408}{1211700}$

$= 301400\times\frac{990000}{1045000}\times\frac{969408}{1211760}$

= 228429.47

v) Notional profit$\times\frac{\textit{work certified}}{\textit{contract price}}$

$= 296560\times\frac{1211760}{1346400}$

= 266904

Notional Profit= value of work certified – cash of work certified
= 1211760 – (990000-74800)
= 296560

4 c) **Computation of comprehensive machine hour rate of machine shop**

Particulars	**Rs.**
Operators wages (W.N. 2)	22,500
Production bonus (20% of wages)	4,500
Power consumed	4,050
Supervision and indirect cost	2,200
Lighting and electricity	600
Repairs and Maintenance (1,00,000×10×3%/12*3 months)	7,500
Insurance (60,000/12*3 months)	15,000
Depreciation (1,000,000*10%/12*3 months)	25,000
Other sundry expenses (9,000/12*3 months)	2,250
General Management Expenses (54,000/12 * 3 months)	13,500
	97,100
Total Machine hours of operation (W.N.1)	1,275
Machine hour rate	Rs. 76.33

Working Notes:

(i) Computation of hours, for which 5 operators are available for a quarter

Normal available hours p.m. per operator		108
Less: Absenteeism hours	8	
Less: Leave hours	10	
Less: Idle time hours	5	23
Utilizable hours per operator per month		85

Total utilizable hours of 5 operators for a quarter = 85*5*3 = 1,275 hours

As machine cannot be worked without an operator wholly engaged on them therefore, hours for which 5 operators are available for a quarter are the hours for which machines can be used. Hence, 1,275 hours represent total machine hours.

(ii) Computation of operator's wages

Average rate of wages = Rs. 120/8 hrs = Rs. 15 per hour

Hours per month for which wages are to be paid to a operator = (108 hours – 8 hours) =100 hours

Total wages paid to 5 operator for a quarter = 100 hours * 5 operator * Rs. 15 per hour* 3 months

= Rs. 22,500

5.

a) Following information are available from the cost records of BMR Limited, Calculate Labour turnover rate under different method including Labour flux rate:

No. of Employees as on 01.04.2078 = 9,400

No. of Employees as on 31.03.2079 = 10,600

During the year, 160 Employees left while 640 Employees were discharged and 1,500 Employees were recruited during the year; of these, 400 Employees were recruited because of exits and the rest were recruited in accordance with expansion plans. **7**

b) State the advantages of Zero-based budgeting. **4**

c) Enumerate the objectives of uniform costing? What are the limitations in the implementation of a scheme of Inter-firm Comparison **4**

Answer

5 a) **Employee turnover rate:**

It comprises of computation of Employee turnover by using following methods.

(i) Separate Method = $\frac{\text{Number of employees separated during the period}}{\text{Average number of employees during the period on roll}} \times 100$

OR = $\frac{\text{Number of employees left + Number of employees discharged}}{\text{Average number of employees during the period on roll}} \times 100$

$= \frac{(160+640)}{(9400+10,600) \div 2} \times 100$

= 10,000

$= \frac{800}{10,000} \times 100 = 8\%$

(ii) Replacement Method = $\frac{\text{Number of employees replaced during the period}}{\text{Average number of employees during the period on roll}} \times 100$

$= \frac{400}{10,000} \times 100 = 4\%$

(iii) New Recruitment = $\frac{\text{Number of employees joining in a period (excluding replacement)}}{\text{Average number of employees during the period on rol}} \times 100$

$= \frac{\text{Number of Recruitments - Number of Replacements}}{\text{Average number of employees during the period on roll}} \times 100$

$= \frac{1500 - 400}{10,000} \times 100$

$= \frac{1,100}{10,000} \times 100 = 11\%$

Flux method= $\frac{\text{Number of separation+Number of replacement+Number of new joining}}{\text{Average number of employees during the period on roll}} \times 100$

$= \frac{(800 + 400 + 1,100)}{(9,400 + 10,600) \div 2} \times 100$

$= \frac{2,300}{10,000} \times 100 = 23\%$

OR,

Flux Method = $\frac{Number\ of\ employees\ separated + number\ of\ employees\ replaced}{Average\ number\ of\ employees\ on\ rolls\ during\ the\ period} \times 100$

$= \frac{800+400}{10000}$

$$= \frac{1200}{10000} = 12\%$$

5 b) The advantages of zero-based budgeting are as follows:

- It provides a systematic approach for the evaluation of different activities and ranks them in order of preference for the allocation of scarce resources.
- It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way.
- It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.
- The areas of wasteful expenditure can be easily identified and eliminated.
- Departmental budgets are linked with corporation objectives.
- The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfilment of the objectives of traditional budgeting, but it can also be used for a variety of other purposes.

5 c) The main Objectives of Uniform Costing are as follows:

- **Facilitates Comparison:** To facilitate the comparison of cost and performances of different units the same industry; it provides objective basis.
- **Eliminates Unhealthy Competition:** To eliminate unhealthy competition among the different units of an industry.
- **Improves Efficiency:** To improve production capacity level and labour efficiency by comparing the production costs of different units with each other.
- **Provides Relevant Date:** To provide relevant cost information/data to the Government for fixing and regulating prices of the products.
- **Ensures Standardisation:** To bring standardization and uniformity in the operation of participating units.
- **Reduces Cost:** To reduce production, administration, selling and distribution cost, and to exercise control on fixed costs.

The following are the limitations in the implementation of a scheme of Inter-firm Comparison:

- There is a fear of losing secrecy of the production method or some peculiar process or method among the top management.
- Middle management is usually not convinced with the utility of such a comparison.
- In the absence of suitable cost accounting system, the figures supplied may not be reliable for the purpose of comparison.
- Suitable basis for comparison may not be available.

6. Write short notes on the followings: **(4×2.5=10)**

a) Imputed cost
b) Shut Down Cost & Sunk Costs
c) Scope of cost reduction
d) Batch Costing

Answer

6 a) **Imputed Costs:** Some costs are not incurred and are useful while taking decision pertaining to a particular situation. These costs are known as imputed or notional costs and they do not enter into

traditional accounting systems. Examples: Interest on internally generated funds, salaries of owners of proprietorship or partnership, notional rent etc.

6 b) Shut down costs includes such cost which continue to be incurred even when a plant is temporarily shut down, e.g. rent, rates, depreciation etc. These costs cannot be eliminated with the closure of the plant i.e. just by discontinuing business functions temporarily. In other words, all fixed costs which cannot be avoided during the temporary closure of a plant, will be known as shut down costs. Sunk costs are also known as irrelevant cost for current decision making. Historical costs or costs incurred in the past are known as sunk costs. They play no role in the current decision-making process and are termed as irrelevant costs. For example, in the case of a decision relating to the replacement of a machine, the written down value of the existing machine is sunk cost and therefore not considered.

6 c) Cost reduction can be defined as the real and permanent reduction in the unit costs of goods manufactured or services rendered without impairing their suitability for the use intended. Cost reduction is attainable in almost all areas of business activities. It covers a wide range like new layout, product design, production methods, materials and machines in factories as well as in offices, innovation in marketing etc. It also extends to specific activities like purchasing, handling, packaging, shipping, warehousing, marketing, use of administrative facilities and even utilization of financial resources. It is a continuous process of analysis by various methods of all the factors affecting costs. It is a corrective function, it operates even when an efficient cost control system exists. It assumes the existence of concealed potential savings in standards or norms.

6 d) Batch cost is the cluster of costs incurred when a group of products or services are produced, and which cannot be identified to specific products or services within the group. For cost accounting purposes, it may be considered necessary to assign the batch cost to individual units within a batch. Batch costing is a cost accounting method used by companies that manufacture or produce goods in batches. The production process is divided into batches, and the costs incurred during the production of each batch are recorded separately.
When the batch is completed cost per unit is computed by dividing total cost by the number of units in each batch.

Paper 6 – Business Communication and Marketing

All questions are compulsory.

Section -'A'

1. Read this case and analyze it in detail, using the questions given below. (4×5=20)

Fran Jefferson began her job as the supervisor of the Training Department of Metro Bank and Trust Company almost four years ago. She was generally pleased with the four trainers and one secretary in her unit. Indeed, Fran took pride in her ability to create a high morale and high-performance unit. This was particularly pleasing to Fran because they were constantly busy and barely able to keep up with the volume of training expected from them.

Then, early on Wednesday morning, Fran's secretary, Judy Martin, knocked on Fran's door and asked to see her. Fran liked Judy and considered the secretary to be one of her "stars." Indeed, in an effort to develop Judy's talents and abilities, Fran had gone out of her way to give Judy special assignments, including her in all the major planning activities of the department and entrusting her with the administration of certain departmental programs, such as tuition assistance and evaluation follow-through. By now, Judy functioned more as an administrative aide than as a secretary.

It was clear that Judy was upset about something as she seated herself in the chair next to Fran's desk. Slowly, Judy placed a job-posting application form in front of Fran. She would not look her supervisor in the eyes.

Fran was surprised, to say the least. As far as Fran knew, Judy liked both her job and working in the Training Department. In tum, everyone else in the department liked and respected Judy.

Fran looked over the form and said casually, "So you want to post for the executive secretary job in the Branch Management Division." She paused. "Could I ask you for some additional information, Judy? I'm kind of surprised."

Judy looked at her clasped hands, thinking. Fran waited.

Finally, Judy looked up and said: "I noticed in last week's job posting that the executive secretary position is graded as a 14. Now that's two grades higher than my job!"

She caught her breath. "You know my friend Mary Johnson works over there. She told me that half the time the secretary sits around doing nothing."

Judy continued, gathering some anger in her look and resentment in her voice. "Look, Fran, you know how hard I work, how hard we all work, around here. I mean, I'm always busy. I don't see why I should work in a job graded at a 12 and work twice as hard and yet not be paid the same as that secretary. The job requirements for the job are just a little higher than mine, and the merit raise you gave me last month hardly helped at all."

Fran listened; then she replied: "It sounds to me, Judy, that you're feeling angry because you think you should be paid more for the work you do and that you want to switch jobs rather than put up with things as they are. Am I right?"

Judy nodded her head in agreement.

Fran knew, though, that the Metro job evaluation system was up to date and that the executive secretary position to which Judy referred did require additional background experience, skills, and responsibilities beyond what was needed in Judy's current job. Because her secretary was such a good employee and a nice person, Fran was quite concerned. She felt strongly that moving to the executive secretary job would not be what Judy really wanted, and she hated to lose Judy, especially if her decision was based on faulty reasoning and the move would not be good for her.

Fran tried to figure out what to do.

Questions

a) What are the reasons given by Judy Martin for wanting to post for a position in another department? State them critically.

b) How should Fran respond to Judy's request to transfer? State your position.

c) How should Fran respond to Judy's salary complaints? Illustrate.

d) If you were Judy, how would you handle your dissatisfaction in your organization? Explain.

<u>Answer</u>

1 a) Judy's line of reasoning is as follows:

i. Her recent merit increase was not adequate reward for her hard work. This is Judy's opinion, and for her, it is true.

ii. There is an open position that would pay much more than what she is making now. It is true that this open position would pay her more than she is making now.

iii. She has heard that the job in question is easier to do than the one she has now. Unfortunately, this point is misleading and probably wrong. Her information is based on hearsay. In fact, grade differences of three levels mean these jobs require higher levels of talent, initiative, and responsibility. Judy has confused being busy with working at a higher level of difficulty.

iv. Therefore, she wants to get an easier, higher paying job by moving to that new position. She might get a higher paying job, but it would not likely be an easier job.

b) In many job-posting systems, the posting employee is required to notify his or her supervisor of the intention to post for a position. However, the employee is not required to obtain the supervisor's permission. To the extent that this rule applies here, Fran cannot do anything but pass along the posting application. However, Fran as a mentor of Judy can take some initiation, too.

It is likely that Judy is motivated in part by her anger and resentment over what she sees as an inadequate recognition of her hard work. Fran should work to communicate her appreciation for Judy's contributions. In addition, Fran needs to note that Judy is performing a job that is higher than the job for which she was hired. Judy should institute a job reevaluation request.

c) Fran needs to convince Judy about her motive for service and dedication to job, rather than money or salary. However, it would be prudent of Fran to help Judy make the best career decision in this matter. While agreeing to move the job-posting application along, Fran should also counsel Judy about service and earning. First, she should encourage Judy to do some career and job informational interviewing with a focus on salary matter. For example, Judy should be encouraged to meet with people in the other departments to learn what they really do and how much they earn. Second, she needs to think about what she wants in a job. Finally, Fran should explain to Judy that the jobs are graded differently because there are real and significant differences in the jobs. She should caution Judy that hearsay can be misleading and that she should look at the executive secretary position in terms of levels of skills and accountability, not just in terms of dollar differences.

d) If I were Judy I would initiate the negotiation talk but put my ideas one by one peacefully with Fran. I would first inform her about my points for argument and then I would discuss each with sufficient data and information from other departments, too. I would not respond to Fran at once as Judy in this case has done. Fran, the supervisor of the company does not know indeed the problems faced by her own secretary. I would point out this weakness that she should improve as a leader of the large company. Then, according to the cool talk and negotiation, I would take my decision.

2. As a Chartered Accountant, you understand the significance of presenting your skills and experience in the most effective way possible to potential employers. With this in mind, describe in detail the various types of resumes that are typically used by Chartered Accountants, and discuss the importance of crafting a well-structured and professional resume. (10)

Answer

As a Chartered Accountant, there are different types of resumes that one can utilize to highlight his/her skills and experience, including chronological, functional, combination, and targeted resumes. A chronological resume lists our work experience in reverse chronological order, starting with our most recent job. A functional resume emphasizes our skills and achievements, rather than our work history. A combination resume incorporates both chronological and functional formats. Lastly, a targeted resume is tailored to a specific job or company.

Having a well-crafted resume is important for Chartered Accountants as it is often the first impression that potential employers will have of us. A well-structured and professional resume can showcase our qualifications, experience, and achievements, highlighting how we can add value to the organization. A poorly constructed resume, on the other hand, can make us seem unprofessional and unqualified for the position.

Therefore, it is important to take the time to create a customized and targeted resume that effectively presents our skills, experience, and qualifications. We should tailor our resume to the job we are applying for and ensure that it is easy to read and visually appealing. A well-crafted resume can increase our chances of landing a job interview, and ultimately help us secure your desired position. As a Chartered Accountant, our resume should not only highlight our educational qualifications and work experience, but also showcase our technical skills, such as proficiency in accounting software, tax laws, and financial analysis. We may want to consider adding a technical skills section to our resume to showcase our expertise in these areas.

Furthermore, when crafting your resume, one should keep in mind that hiring managers often scan resumes for relevant keywords and phrases. Therefore, it is important to customize the resume for each job you apply to, using keywords and phrases that match the job description. This can help your resume get noticed and increase your chances of landing an interview.

In addition to the various types of resumes, there are also different resume formats, such as PDF, Microsoft Word, or plain text. It is important to choose a format that is compatible.
Finally, we may want to consider including a summary or objective statement at the top of your resume. This statement should highlight our qualifications and what we bring to the table as a Chartered Accountants. It can also help set the tone for the rest of our resume and make a strong first impression.

Overall, crafting a well-structured and professional resume that effectively showcases our skills, experience, and qualifications is crucial for Chartered Accountants. By customizing our resume to each job we apply to, using relevant keywords and phrases, and choosing a compatible format, we can increase our chances of landing an interview and ultimately securing our desired position.

3. Answer the following questions briefly. (5+5=10)

a) What is the role of a buffer paragraph in drafting a bad-news letter?

Answer

The role of a buffer paragraph in drafting a bad-news letter is to soften the impact of the negative news that is about to be delivered. The buffer paragraph typically starts with a neutral or positive statement that acknowledges the recipient's situation, expresses appreciation or empathy, and sets a more congenial tone for the rest of the letter.
By using a buffer paragraph, the writer can establish a rapport with the recipient and create a more positive atmosphere for the rest of the communication. This can help to mitigate the negative feelings that the recipient may have upon receiving the bad news, and make it more likely that they will continue reading and engage with the letter.

Overall, a buffer paragraph serves as a transitional element that helps to bridge the gap between the opening of the letter and the delivery of the bad news, while also showing respect for the recipient's feelings and concerns.

b) How are informational and analytical reports different. Give examples.

Answer

An informational report carries objective information from one area of an organization to another. An analytical report presents suggested solutions to problems. Company annual reports, monthly financial statements, reports of sales volume, and reports of employee or personnel absenteeism and turnover are informational reports. Reports of scientific research, real estate appraisal reports, and feasibility reports by consulting firms are analytical reports.

4. Write short notes on: (4×2.5=10)

a) Techniques of closing the interview

Answer

Once the interview nears the conclusion, start thinking about how to end on a positive note. It is easy to become flustered after a challenging interview, so be sure to practice the questions that you plan to ask. Also, focus on how to leave a lasting positive impression.

- **Asking your own questions:** Be prepared with meaningful, thoughtful questions to help you determine whether this job is right for you.
- **Ending the interview positively:** Summarize your strongest qualifications, show your enthusiasm for the job, and thank the interviewer. Ask for the interviewer's business card. Shake hands, and acknowledge anyone else on the way out.

b) Purposes of group discussion

Answer

Group discussions may serve various purposes. Some of them are:

- To reach a solution on an issue of concern
- To generate new ideas or new approaches to solving a problem
- For selecting candidates after the written test for employment or for admission to educational institutes
- For providing us with an avenue to train ourselves in various interpersonal skills.

c) Ethical guidelines for email communication in a business setting

Answer

Email communication is an important aspect of business communication, and it is crucial to adhere to ethical guidelines to maintain a positive and professional image of the organization. Some ethical guidelines for email communication in a business setting are — accuracy, respect, privacy, professionalism, legal compliance, consent, clarity, and timeliness.

d) Persuasion and purpose of a business proposal

Answer

Persuasion lies at the heart of proposal writing. You seek to get your reader to do something, to accept your written plan for completing a task. It matters little whether your proposal is a memo or a full document. What matters is the structure you apply to write good proposals. You may write internal proposals, suggesting that your department can do a good job of completing a project of accomplishing a task for another department. You and your company may also go outside, submitting a bid that you are qualified to do something for someone else—for a fee.

All questions are compulsory.

Section -'B'

1) Read the case given below and answer the questions that followed.

HPL is one of the largest food products companies in India, with a very well-known and respectable brand name of its products, consisting of milk, butter, ghee, cheese, milk-powder, ice-cream, chocolates, tea-coffee whitener, and curd. Some products like milk and curd are sold locally, but some other products such as butter, milk powder, and chocolates are not only marketed nationally all over India but internationally to the USA, Singapore, and Gulf countries.

The company has 50 sales depots with over 5000 distributors, who are supplying the company's products to over 1.2 million retail outlets in India. The right kind of distributor selection is essential because the distributors must invest at least Two hundred thousand in infrastructure like cold storage and carry out critical activities like selling to retailers, inventory carrying, warehousing, and transportation. The main criteria used for the distributor selection are financial strength, market reputation, availability of necessary infrastructure, and previous experience in handling FMCG. The distributor is responsible for appointing as many retailers as possible so that the company products are available at arm's length to household consumers. The distributors and the retailers are not exclusive and, therefore, can deal with the competing products. The trade discounts given to distributors and retailers are 5 and 8 per cent, respectively. At the end of the year, there is also a 3 per cent volume discount and a one per cent incentive to distributors to achieve the sales quotas. There is no question of cash discount, as no credit is given to any distributor. However, the dispatches are made on receipt of local cheques or demand drafts to the extent of the value of the bank guarantee provided by the company's distributor. Conflicts between distributors and retailers are solved through mediation by the company's sales force.

The company is planning to launch its products in Nepal also from 2017. To distribute the products in the major cities of Nepal, they will appoint some distributors very soon. They have already decided to implement the same successful policies and strategies in India.

Questions:

a. Critically evaluate the distribution strategy used by the HPL.
b. Based on the above case, are they using product line or product mix strategies? Give your opinion.
c. Comment on the criteria used by the company to select distributors.
d. Do you think policies and strategies which are successful in India will also be successful in Nepal? Give your arguments.

Answer:

1 a) Distribution covers distribution channels and physical distribution related to fulfilling the gap between the point of production and the end of consumption. It facilitates the right product to the right customer at a reasonable price. In marketing, there are mainly three types of distribution strategies. They are intensive distribution, selective distribution, and exclusive distribution strategies. In the given case, the company has used 50 sales depots with over 5000 distributors, supplying the company's products to over 1.2 million retail outlets in India. If any company uses a maximum number of intermediaries to cover larger geographical areas to satisfy innumerable customers, it is called an intensive distribution strategy appropriate for convenience products. Dairy products are also consumer products and fall under the convenience product categories. Thus, based on the nature of the product, use of maximum middlemen, and larger geographical area, it is clear that HPL has used intensive distribution, which is an appropriate strategy. Selective and exclusive strategies are unsuitable for dairy products like milk, butter, and ghee in national and international markets.

b) If any producer produces more than one product item which is closely related is called product line strategy. Similarly, if any producer has more than one product line or a variety of unrelated product items, which are unrelated is called a product mix strategy. In the given case, the products offered by the company are milk, butter, ghee, cheese, milk powder, ice cream, chocolates, tea-coffee whitener, and curd. All products offered by them are closely related products. All products are closely related because of their nature, target market, production process, distribution channel, price range, customer needs, etc. Thus, the product strategies they use are product line strategies & not product mix strategies.

c) It seems clear that the criteria used by the company for the distributor selection are appropriate because, in the given case, the main criteria used for the passage of the distributor are: financial strength, market reputation, availability of necessary infrastructure, and previous experience in handling FMCG. Without financial stability, no marketer can invest in infrastructure like storage, transportation, etc. Further, market reputation is equally important. Similarly, without infrastructure, no marketer can create and deliver value to its customers. Experienced distributors with sufficient infrastructure, financial strength, and a good reputation can work effectively and efficiently in the supply chain to provide customer value. In this way, the criteria used by the company for distributor selection are appropriate to a large extent.

d) All marketing policies and strategies must be consistent with the changing marketing environment for successful marketing. Nepal and India's socio-cultural and economic backgrounds are similar to some extent. But to a large extent, there are dissimilarities in the marketing environment between India and Nepal. So, we cannot blindly adopt successful marketing policies and strategies, which are booming in India because of the unique characteristics of the Nepalese market. Thus, modifying their successful policies and techniques from the Nepalese perspective is better. We must learn from the Indian context and should design and implement marketing policies and procedures as per the Nepalese marketing environment and Nepalese consumer behaviour. If there is a change in the background, marketing policies and strategies must be changed. In conclusion, marketing policies and procedures in India will not be successful in Nepal.

2) What is holistic marketing concept? Explain the components of holistic marketing concept. (2+8)

Answer:

Holistic marketing concept refers to the doing business activities by considering the environmental trends and forces, globalization, conditions of competitors etc. Holistic marketing concept is the new and emerging philosophy which focuses in the design, development, implementation of marketing programs, processes and activities that recognizes the breadth and interdependencies. It also recognizes the broad integrated perspective is necessary to get success in marketing. Holistic marketing concept incorporates social responsibility marketing and understanding broader concerns and ethical, environmental, legal and social context beyond the company and the customers to society as whole. It is more complete and cohesive approach which provides guideline for the marketer. It focuses on integrated marketing, internal marketing, relationship marketing and performance marketing.

The followings are the components of marketing:

a) Relationship marketing: One of the major component of holistic marketing is the relationship marketing. Relationship marketing aims to develop long term relationship with customers and other stakeholders who have direct or indirect impact in the success of firm’s marketing activities. Relationship marketing is a practice of developing long term satisfying relationship with all stakeholders. Relationship marketing is the process of creating, maintaining and enhancing strong value laden relationship with customers and other stakeholders. Relationship marketing is the process of building mutually satisfying long-term relationship with key parties in order to retain their business. The key parties refer to the customers, employees, marketing partner and members of financial community. Customers refer to the individual, groups, institutions and organizations employees. Employees refer to the executives, middle level of staff, and lower level of staff. Marketing partners refers to the channels, suppliers, distributors, dealers, agencies. Members of financial community refer to the stakeholders and investors.

b) **Integrated marketing:** Other component of holistic marketing concept is integrated marketing. Integrated marketing refers to the full integration and co-ordination of marketing activities or marketing efforts which are also called marketing mixes such as product, price, distribution and promotion within the organization. Organization should satisfy their customers through the integration of all marketing activities that allows the organization to satisfy and achieving the organizational goals. There are many departments within the organization and all the activities of that organization must be integrated and coordinated to achieve the organizational goals. The coordination and integration of all activities allows improving the work efficiency and helps in the reduction of cost. Therefore, all the acclivities of the organization such as purchase, sales, pricing, distribution, promotion, inventory management etc. must be integrated and coordinated within the organization to achieve the organizational goal.

c) **Internal marketing:** Internal marketing is also another important factor of holistic marketing concept. Internal marketing refers to the activities of hiring, training and motivating the employees working within the organization. It focuses on the on the investment in human resources to train and motivate employees for better service for the customers. Even today, many organizations are delivering the services through the employees and in this particular situation if employees who are working within the organization are satisfied and well motivated then they can provide the better service to their customers. If they are not satisfied and not well motivated they cannot provide the better services to their customers. Therefore, organization should try to make satisfy them and should motivate to them for better performance of employees. The success of the organization depends upon the effective services of the employees. It must gear its activities in terms of satisfaction of the customers' needs. There are different financial as well as non-financial facilities must be provided to employees. Financial benefits refers to the incentives, bonus and commission, salary etc. and non-financial benefits refers to the promotion, training, seminar to enhance the capacity building of employees.

d) **Performance marketing:** Performance marketing is also other important component of holistic marketing concept. It focuses on the value of marketing effort. Performance marketing requires the understanding the financial and no-financial return to business and society from marketing activities. Marketing manager must consider in the financial factors such as sales revenue. For sales revenues marketer must consider the about market share, customer loss rate, product quality, customer satisfaction etc. There are another factor that must be considered is the non-financial factor such as legal, ethical, social environmental factors which influence to the marketing activities of the organization because these factors cannot be ignored during the marketing activities. Other factor also must be considered is the social responsibility of the organization. Organization must responsible towards the society because the organization must conduct their business in the society. Organization cannot violate the norms, values, culture of the society. Holistic marketing always concerns about the environment of the society, ethical values of the society, and legal factors of the society.

3) Answer the following questions.

a) What are external factors affecting price determination? **[5]**

Answer:

Price is the exchange value that the buyers get and the seller receives. Determining price is a technical as well as difficult job for any producer. Generally, it is specified on the base of the total cost. In this global competition, price is affected by both internal and external factors. External factors are explained below:

- **Competition:**
While fixing the product's price, the firm needs to study the degree of competition in the market. If there is high competition, the prices may be kept low to face the competition effectively, and if competition is low, the prices may be kept high.
- **Consumers:**
The marketer should consider various consumer factors while fixing the prices. The consumer factors that must be considered include the buyer's price sensitivity, purchasing power, and so on.
- **Government control:**
Government rules and regulations must be considered while fixing the prices. In certain products, the government may announce administered prices, and therefore the marketer has to consider such regulation while fixing the prices.
- **Economic conditions:**
The marketer may also have to consider the economic condition prevailing in the market while fixing the prices. During a recession, the consumer may have less money to spend, so the marketer may reduce the prices to influence the consumers' buying decisions.
- **Channel intermediaries:**
The marketer must consider several channel intermediaries and their expectations. The longer the chain of intermediaries, the higher the prices of the goods would be.

b) Describe the reasons for developing new products in Nepal. **5**

Answer:

There are several reasons why businesses may want to develop new products in Nepal. A few of them are as follows:

- **Meeting customer needs:** One of the primary reasons for developing new products is to meet the needs of customers in Nepal. By developing products that address their needs, businesses can attract and retain customers, increase sales, and ultimately grow their business.
- **Staying competitive:** As the Nepalese market becomes increasingly competitive, businesses must continuously innovate to stay ahead of their rivals. Developing new products can help businesses differentiate themselves from their competitors, and gain a competitive edge.
- **Expanding market share:** Developing new products in Nepal can also help businesses expand their market share. By offering a wider range of products, businesses can appeal to a broader range of customers, and increase their customer base.
- **Capitalizing on emerging trends:** Developing new products can also help businesses capitalize on emerging trends in Nepal. By identifying emerging trends and developing products that meet the needs of customers in these areas, businesses can establish themselves as industry leaders and gain a foothold in new markets.

- **Diversification:** Developing new products can help businesses diversify their offerings and reduce their reliance on a single product or service. This can help mitigate risk and ensure the long-term sustainability of the business.

  Overall, there are many compelling reasons for businesses to develop new products in Nepal, ranging from meeting customer needs to stay competitive and expanding market share.

4) Write short notes on: **(5×2=10)**

a) Marketing Mix

The marketing mix is a set of controllable factors that a company can use to influence customer response and achieve marketing objectives. These factors are commonly known as the four Ps of marketing: Product, Price, Place, and Promotion. By adjusting these elements, a company can create a marketing strategy that meets the needs of its target customers and achieves its goals.

b) Marketing Research Process

The market research process involves defining the problem, developing a research plan, collecting data, analyzing the data, drawing conclusions, presenting findings, and taking action. It's an iterative process that may involve revising earlier steps as new information is discovered.

c) Stages of the Consumer buying process

The consumer buying process consists of five stages: problem recognition, information search, and evaluation of alternatives, purchase decision, and post-purchase evaluation. The consumer recognizes a need, seeks information, evaluates options, makes a purchase decision, and then evaluates their experience with the product or service.

d) Fundamental principles of new marketing concept

Following are the fundamental principles of new marketing concept

- Target market focus
- Customer orientation
- Integrated marketing
- Profitability or objective achievement

e) Green marketing

Green marketing can be defined as, "All activities designed to generate and facilitate any exchange intended to satisfy human needs or wants such that satisfying of these needs and wants occur with minimal detrimental input on the national environment."

Paper 7 – Income Tax and VAT

Attempt all questions. Working note should form part of the answer.

1. Kohalpur Cement Pvt. Ltd. is a cement manufacturing industry registered with Department of Industries for production of cement in Nepal. Calculate of Income Tax of the company for FY 2078/79 based on the following information:

Particular	**Amount**
Revenue from sales of cement	40,000,000
Recovery of bad debts previously written off	1,300,000
Purchase of clinkers (raw material)	19,375,000
Loading expenses (freight inwards)	750,000
Direct wages	1,125,000
Manufacturing expenses	2,750,000
Indirect income	2,937,500
Administrative expenses	1,000,000
Repair and improvement expenses	2,350,000
Depreciation and amortization expenses	5,200,000
Entertainment expenses	200,000
Audit fee	300,000
Opening inventory of cement	4,375,000
Miscellaneous expenses	100,000
Finance cost	1,000,000
Donation	300,000

You have come across the following information:

a) Opening stock of cement was 35,000 kg and closing stock was 15,000 kg. Value of the opening stock including repair and maintenance at Rs. 10 per kg (related to plant and machinery at factory). During the current year, the company manufacture 240,000 kg of cement.
The company does not maintain stock of clinkers at the begging or at the end of the financial year. The management claims that all the purchased clinkers were consumed for production of cement. (You are not required to consider process loss)

b) Miscellaneous expenses include penalty of Rs. 5,000 paid to Inland Revenue Office for delay of VAT Return filing.

c) Donation include Rs. 100,000 donated to Prime Minister Covid relief fund and Rs. 200,000 donated to other tax – exempt organizations.

d) Opening written down value of fixed assets for Income Tax

Block A	Rs. 46,875,000
Block B	Rs. 1,562,500
Block C	Rs. 4,687,500
Block D	Rs. 12,500,000

Land with the historical value of Rs. 20,000,000 was revalued last year to Rs. 50,000,000 with the surplus balance parked in revaluations surplus.

e) Machinery of Rs. 1,000,000 was purchase in Ashwin, 2078. A car purchase 3 years ago costing Rs. 4,000,000 and WDV of Rs. 2,400,000 as per books of accounts was disposed off for Rs. 2,500,000 in the month of Baishakh, 2079. Profit in such sale was yet to be recognized in the books of account.

f) Repair and improvement cost include Rs. 1,250,000 for building. Rs. 200,000 for computers, Rs. 900,000 for machinery and Rs.250,000 for vehicles.

g) You noted that administrative expenses include cash payment of Rs. 75,000 made to the Municipality office for business tax. Additionally, administrative expenses include payment to 40 temporary workers@ Rs.3500 per day and out of which 20 workers do not have PAN. However TDS has been deducted.

h) 25% of the bad debts recovered was allowed to be expensed off for the income tax purpose in FY 2077/78.

i) Entertainment expenses relates to the Directors & their spouses travelling cost to Bankok during holidays.

The management shows you the data of an average of 450 Nepalese citizens employed in the company throughout the year.

Calculation of income tax liability of Kohalpur Cement Pvt. Ltd. **20**

Answer

1.

M/S Kohalpur Cement Pvt. Ltd.
Statement of Tax Liability
For FY 2078/79

Particular	**Amount (Rs.)**
Inclusions	
Revenue from sale of cement	40,000,000
Other income	2,937,500
Bad debts recovered	325,000
Total Inclusion	**43,262,500**
Less: Allowance Deductions	
Interest u/s 14	1,000,000
Cost of trading stock u/s 15	26,525,000
Repair and improvement u/s 16	2,412,500
Deprecation u/s 19	6,930,750
General Deduction u/s 20	
Administrative expenses	930,000
Entertainment expense	-
Miscellaneous expense	95,000
Audit fee	300,000
Total Deduction	**38,193,250**
Assessable income before PCC, R&D, Donation	**5,069,250**
Less: Pollution Control Expense u/s 17	-
Less: Research and Development Expense u/s 18	-
Assessable income from Business	**5,069,250**
Reductions: Donation	100,000
Taxable income	4,969,250
Effective Tax rate	16%
Income Tax Liability	**795,080**

W.N.1 Bad Debt Recovered

25% of Bad Debts was allowed previously, therefore, on recovery only 25% of the recovery is to be included under income for income tax purpose.

Particulars	**Amount (Rs.)**
Recovery of bad debts	1,300,000
Inclusion of Bad Debt Recovery (25%)	**325,000**

W.N.2 Calculation of Cost of goods sold

Particulars	Amount (Rs.)
Opening Stock of finished goods	4,375,000
Less: Adjustment for repair & improvement expenses (10*35,000)	350,000
Adjusted value of Opening Stock (A)	**4,025,000**
Add: Cost of production	
Raw materials purchased	19,375,000
Freight inwards	750,000
Direct wages	1,125,000
Manufacturing expenses	2,750,000
Total Manufacturing Cost (B)	**24,000,000**
Production Units	240,000
Production Cost per Unit	**100**
Value of Closing Stock (15,000*100) (C) (FIFO BASIS)	**1,500,000**
Cost of Goods sold (A+B-C)	**26,525,000**

W.N.3 Calculation of Depreciation

Particulars	Pool A	Pool B	Pool C	Pool D
Normal Deprecation Rate	5%	25%	20%	15%
Add: 1/3rd or Normal Depreciation	1.67%	8.33%	6.67%	5.00%
Total	**6.67%**	**33.33%**	**26.67%**	**20%**
Opening Depreciation Base	46,875,000	1,562,500	4,687,500	12,500,000
Adsorbed Additions	-	-	-	1,000,000
Disposals	-	-	-2,500,000	-
Depreciation Base	**46,875,000**	**1,562,500**	**2,187,500**	**13,500,000**
Depreciation Expenses	**3,126,563**	**520,781**	**583,406**	**2,700,000**
Total Depreciation Allowed				**6,930,750**

Note:

1. Land is not a depreciable asset nor revaluation is considered as income as per Income Tax Act, 2058.
2. Additional 1/3rd depreciation is allowed for special industry. M/S Kohalpur Cement Pvt. Ltd. is a manufacturing industry and has been in operation for entire fiscal year, therefore it is a special industry.

W.N.4 Calculation of Eligible Repair & Improvement Cost

Particulars	Pool A	Pool B	Pool C	Pool D
Depreciation Base	46,875,000	1,562,500	2,187,500	13,500,000
7% of Deprecation Base	3,281,250	109,375	153,125	945,000
Actual Repair & and Improvement Cost	1,250,000	200,000	250,000	900,000
Eligible Repair Expenses	**1,250,000**	**109,375**	**153,125**	**900,000**
Total Repair Expenses Allowed				**2,412,500**

W.N. 5. Administrative Expenses

Particulars	Amount (Rs.)
Balance as per books of account	1,000,000
Note: Cash paid to Municipality office for business tax is allowed.	-
Less: Disallowed Expenses	
Cash paid to a worker without PAN more than Rs. 3,000 at a time is not allowed (3,500 * 20)	70,000
Allowed Administrative Expenses	**930,000**

W.N.6. Entertainment Expenses

Entertainment expenses are related to directors and their spouses. Therefore, this expense is of personal nature and are not allowed under Section 21.

W.N. 7 Miscellaneous Expenses

Particulars	Amount (Rs.)
Miscellaneous expenses	100,000
Less: Disallowed Expenses	
VAT Fine paid	5,000
Allowed Expenses	**95,000**

Note: Any fine paid to the government of any country for non-compliance of the prevailing law is not allowed for deduction.

W.N.8 Donation u/s 12Kha

Particulars	Amount (Rs.)
Donation to Tax Exempt Entity u/s 12	
Taxable income without giving effects of sec 12,14(2), 17, 18	5,069,250
Adjusted Taxable Income (ATI) for Sec 12	**5,069,250**
Actual Donation (300,000 – 100,000)	200,000
5% of ATI	253,463
Maximum allowed amount	100,000
Allowable Donation u/s 12	**100,000**
Donation made to PM Disaster Relief Fund u/s 12Kha	
Note: Donation made to PM Disaster Relief Fund is fully allowable however in given statement, the donation is provided to PM Covid Relief Fund which is different than the fund mentioned in sec 12Kha. Therefore, this donation is not allowed.	-
Total Donation Allowed	**100,000**

W.N.9 Effective Tax Rate

Particulars	Concession I
Normal Tax rate for Entity	25%
Rebate for Special Industry (20% of Normal Tax Rate) u/s 11(2Kha)	5%
Applicable Tax Rate	**20%**
Facility I: Tax liability for special industry employing 300 or more employees is 80% of Applicable Tax u/s 11(3)(ka)	80%
Effective Tax Rate	**16%**

2. Mrs. Anna, an unmarried woman is working as a Deputy Manager in a telecommunication company. The following are the details available for income of Mrs. Anna for the income year 2079-80.

a) Basic Salary Rs. 50,000 per month
b) Grade Salary Rs 10,000 per month
c) Monthly Allowance Rs 16,000 per month
d) Provident fund contributed by employer 10% of Basic Salary and Grade. An equal amount was contributed by employee.

e) Contributory Pension Fund @ 10% of Basic Salary and Grade deposited at Employee Provident Fund. An equal amount was contributed by employee as well.
f) Uniform Allowance Rs. 15,000
g) Conveyance Allowance Rs 4,500 per month
h) Tiffin Allowance Rs 3,000 per month
i) Anniversary allowance of 1 month equal to Basic Salary and Grade is deposited in account maintained at Citizen Investment Trust and Anniversary cash allowance Rs 10,000 paid to the employee.
j) The company has insured benefits scheme on which 90% of the life insurance premium is paid by the employer. The total insurance paid is Rs. 25,000.
k) She was availing the concessional employee loan of Rs. 20,00,000 since 5 years for which an equivalent amount of life insurance Policy of employee has been purchased. 3% interest on employee loan was charged upfront. The company deduct premium amount from her salary. The prevailing market rate of interest is 7.5% p.a.
l) The company nominate in leadership training at Bangkok, and for which she has been provided per day allowance of USD 150 and Rs.15,000 for Visa Fee during the trip.
m) Bonus and Telecom Allowance for IY 2077-78 of amount Rs. 250,000 received during the year.
n) She has attended the 5 working committee meeting of the company and received Rs. 20,000 per meeting.

Other information

i) She has purchased the life insurance policy of herself and the actual premium paid was Rs. 30,000 during the year.
ii) She has deposited Rs.5000 pm in CIT as a tax planning.
iii) She has done the insurance of house owned by himself and the actual premium paid was Rs. 10,000.

Based on the above information, you are required to calculate the tax liability of Mrs. Anna for the income year 2079-80. **10**

Answer

2.

Calculation of Tax Liability of Mrs. Anna for Income Year 2079.80

Particulars	Amount	Remarks
Basic Salary	600,000	12 months @50,000
Grade	120,000	12 months @10,000
Monthly Allowance	192,000	12 months @16,000
Contribution to Provident Fund	72,000	10% of Basic salary plus grade
Contribution to Pension Fund	72,000	10% of Basic salary plus grade
Uniform Allowance	15,000	
Tiffin Allowance	36,000	12 months @3,000
Conveyance Allowance	54,000	12 months @4,500
Anniversary allowance - CIT Deposit	60,000	1 month Basic salary plus grade
Anniversary allowance - Cash	10,000	Cash Anniversary allowance
Life Insurance	22,500	90% of total insurance premium paid Rs.25,000
Loan interest less than market rate	90,000	20 lacs @ 4.5% (7.5%-3%) for 12 months
DA including VISA fee	-	DA including VISA Fee not to be included in remuneration income that is provided for business purpose

Meeting Fee	-	Meeting fee up to Rs. 20,000 per meeting is final withholding tax income, therefore not included in Assessable Income
Bonus and Telecom Allowance	250,000	Taxable under cash basis receipt
Assessable Income	**1,593,500**	
Reduction: Contribution to Retirement Fund		
a. Actual Contribution to Retirement Fund	408,000	Provident Fund (72,000 + 72,000) Contributory Pension Fund (72,000 +72,000) CIT (Anniversary allowance deposited 60,000 + Self contribution 60,000)
b. 1/3rd of Assessable Income	531,167	(1/3*Rs.1,653,500= 551167)
c. Maximum Limit	300,000	
Allowed Reduction (minimum of a, b or c)	**300,000**	
Taxable Income	**1,293,500**	
Reduction of Life insurance	40,000	lower of Rs 40,000 or actual premium Actual Rs.55,000 (25000+30000)
Reduction of Personal Residence Insurance	5,000	Lower of Rs 5,000 or actual premium Actual Rs.10,000
Tax Applicable income	**1,248,500**	
Tax Calculations		
Up to 500,000	-	1% SST not required for person depositing in contributory pension scheme
Next 200,000 @10%	20,000	
Next 300,000 @20%	60,000	
Remaining Rs 248,500 @30%	74,550	
Total tax liability	**154,550**	
Less: Women Tax Rebate @ 10%	15,455	
Net Tax Liability	**139,095**	

3.

a) M/s MG Digital Pvt. Ltd. having registered office at Kathmandu, exclusively deals in Laptop wholesale business. The Company imports Laptop for wholesale business at Rs. 100,000 per Laptop and sell it at Rs. 120,000 per piece. It has established an office in all the seven province of country. On Baisakh 1, 2079, the company has sent the imported Laptop for its office use one piece to each Province Office.
You are required to find out the tax implication for the above transaction, if any, in Income Year 2078/79 as per the provision of Income Tax Act, 2058 **5**

b) Specify the TDS rate and state whether it is advance or final TDS according to Income Tax Act, 2058. **5**

i) A Ltd. is making payment of Rs 30,000 as board meeting fee to Mr. Govinda, Chairman of the company.

ii) B Ltd. is making payment of Rs 50,000 for carriage services.

iii) C Ltd. is giving donation of Rs 100,000 to an orphanage to buy foods for children. The orphanage is a tax exempt entity.

iv) D Casino Pvt. Ltd. making payment of Rs 50,000 to a gambler for winning in a gamble.

v) E Bank Ltd. is a bank issuing VISA credit card. E Bank Ltd. is making payment of Rs 1,000,000 to VISA International as interchange fees.

Answer

3 a) Deemed Disposal:

As per Sec. 40 (3) (Gha), when an asset of one form is used in another form, the previous form of asset is deemed to be disposed just before it is used in new form.

In the given case, the computer that was imported as trading stock has been used as depreciable asset. Therefore, trading stock is deemed to be disposed and depreciable asset is deemed to be purchased.

The tax implication would be:

a. The market value of seven laptops shall be treated as incoming and included in assessable income from business i.e. Rs. 840,000 (7 X Rs. 120,000) as inclusion for receipt from disposal of trading stock u/s 7(2).

b. The cost of laptops is the amount of outgoing. Therefore, the cost shall be the amount of cost of disposal of trading stock u/s 15 i.e. Rs. 700,000 (7 X Rs. 100,000) which shall be claimed as deduction.

c. The market value of seven laptops is included in cost of Depreciable Assets in Group B, and depreciation expense is claimed as deduction u/s 19 of the Act. As the event is occurred on Basiakh 1, 2079, one-third of addition will be added to opening depreciation base of Block B i.e. Rs. 280,000 (1/3 of 840,000).

3 b)

S. No.	TDS Rate	Advance/Final TDS
i)	15%	Advance
ii)	2.50%	Advance
iii)	No TDS	NA
iv)	25%	Final
v)	No TDS	NA

4.

a) A Tea company operating in Sri Lanka is engaged in tea production. It conducted its annual general meeting at Colombo and elected its board member. The majority of elected board members are from Nepal. During IY 2078-79, most of the Board meeting took place at Kathmandu. The company has earned Rs.10 lacs from Nepal, Rs.20 lacs from Sri Lanka and Rs.15 lacs from India. Determine the residential status and taxable income of the company for the income year 2078-79 citing the relevant provisions of Income Tax Act, 2058. **5**

b) Quantify the value of perquisite as per the provision of Income Tax Act, 2058 provided by A resident company to its employees and others in the following cases:

i) Vehicle facility is provided to Mr. R, an employee for official purpose having Basic salary and grade amounting to Rs.40,000 per month and Rs.5,000 per month respectively. WDV of vehicle is Rs 15 lacs.

ii) Vehicle facility is provided to Mr. S, a Manager for both official and personal purpose having Basic salary and grade amounting to Rs.60,000 and Rs.15,000 respectively. Cost of vehicle is Rs 40 lacs. In addition, Drivers Allowances of Rs. 18,000 per month is paid.

iii) Accommodation facility is provided to Mr. Y, technical incharge having annual remuneration of Rs. 15 lacs. The company paid rent of Rs 5,000 per month for the building.

iv) Subsidised term loan is provided to Mr. X, an employee @3% p.a. The market rate of interest is 7.5%% p.a. The average outstanding loan amount for the year is Rs. 10 lacs.

v) Accommodation Facility is provided to Mrs Z, a consultant hired for consultant charges of Rs. 10 lacs for 6 months. The company paid rent of Rs 30,000 per month for the building.

c) Bishnubhakta Mathema has received a notice from Tax officer on 1st Jestha 2079 for submission of Income Tax Return for income year 2078/79 by 1st Asar 2079. He has been planning to migrate to USA. Mr. Mathema insist that he need not have to submit tax return since he has income from employment only, and due date of filing income tax return is also end of Asoj. Stating the relevant provisions of Income Tax Act, 2058, please advise Mr. Mathema on the above matter. **5**

d) Mr. Man Bahadur Paudel, a resident person, has a source of income in Nepal as well as foreign countries. His net income and tax paid in each foreign country during the income year 2078/79 is given below:

Name of the Country	Net Income	Tax Paid
Canada	500,000	50,000
USA	600,000	180,000
Australia	400,000	80,000
Nepal	500,000	

Mr. Paudel has opted couple status for income tax purpose. He decided to elect to get benefit of foreign tax credit.

Calculate his tax liability for the income year 2078/79. **5**

Answer

4 a) A company is resident of Nepal, if any of the following two conditions is satisfied:

i. In case it is incorporated under prevailing law of Nepal, or

ii. In case the effective management of the company is in Nepal during any Income Year.

The major decision of the company is taken in Board meeting as the supreme body. The control and management of company is usually situated where the directing powers are situated. So, effective management of the ABC Tea company is in Nepal during the income year 2079-80 and the ABC Tea company is resident in Nepal.

As per sec 6, the global income of resident person from business, employment, investment and windfall gain is subject to taxation. For non-resident person income having source in Nepal is taxable.

In the given case, since the Company is resident, its global income (10+20+15=Rs. 45 lacs) shall be taxable as per the provisions of Income Tax Act, 2058 in Nepal.

4 b) Quantification of perquisite/benefits as per the provision of Income Tax Act, 2058 are as follows:

i) As per Sec. 27 (1) (Kha) (1) read together with Rule 13 (1) (Ka), vehicle facility provided to the employees is quantified 0.5% of remuneration provided to the employee if the vehicle is fully or partially used for personal purpose.

ii) Therefore, vehicle facility provided for official purpose shall not be quantified and included in taxable income of employee.

iii) As per Sec. 27 (1) (Kha) (1) read together with Rule 13 (1) (Ka), vehicle facility provided to the employees is quantified 0.5% of remuneration provided to the employee if the vehicle is used fully or partially for personal purpose. Salary being drawn has been interpreted by Income Tax Directive issued by Inland Revenue Department as sum of basic salary and grade drawn by an individual for the income year from the employer providing such facility.

Rs. 375 being 0.5% of basic salary plus grade of Mr. S [(60000+15000)*0.5%)]

Driver Allowance of Rs. 216,000 (18000*12) provided in addition shall also be included in income.

As per Sec. 27 (1) (kha) (2) read together with Rule 13 (2) (ka), building facility provided to the employees is quantified at 2% of remuneration provided to the employee for personal purpose, in full or in part.

The amount required to be quantified in inclusion is Rs 30,000 being 2% of Rs. 1,500,000 total annual remuneration.

iv) As per Sec. 27 (1) (gha) the interest paid by the payee in an income year for loan be less than the interest on prevailing market interest rate, the shortfall amount shall be quantified and included in taxable income of employee.

Rs. 45,000 being interest less than market rate. (7.5%-3% =4.5% on 10 lacs)

v) As per Sec. 27 (1) (kha) (2) read together with Rule 13 (2) (kha), building facility provided to other than employees is quantified 25% of amount paid for rent and included in taxable income of employee.

Rs 45,000 (Rs 30,000*6*25%) i.e. 25% of rent paid.

4 c) As per Income Tax Act, 2058, Section 96 (5), a written notice may be served upon a person by IRD requiring submission of income return before the due date of filing return for a full Income Year or part of Income year by the date specified in the notice, in any of the following four conditions subject to section 100 of the Act:

(a) If that person becomes bankrupt, insolvent or is dissolved,

(b) If that person is to leave Nepal for an indefinite period of time,

(c) If that person is leaving the act being carried out by him in Nepal, or

(d) If the Department otherwise thinks it proper.

When such condition arises, IRD has the right to demand income return for full or part of Income Year. Further, IRD may also conduct jeopardy assessment for full or part the income year or u/s. 100(2).

In the given case, Mr. Mathema is leaving Nepal for indefinite period of time, which meets the condition mentioned in sec 96(5)(b). Therefore, IRD may either issue a notice to submit income tax return for specific period u/s 96(5) or assess the income tax liability of Mr. Mathema by itself u/s 100(2) of the Act. In this case, it has issued notice to submit income tax return to Mr. Mathema on Jestha 1, 2079.

Further, provisions of Sec. 97 of Income Tax Act, 2058 are not blanket exemption for relief in filing income return but are conditional. If IRD summons a notice in writing requiring a person to file return, every person is required to file income return regardless of whether conditions of Sec. 97 (1) are satisfied.

In view of above, Mr. Mathema has to submit tax return as he has already been notified by the Tax Department to submit income tax return for the income year 2078/79 by Ashadh 1, 2079.

4 d)

Calculation of Taxable Income, Tax Liability and Average Tax Rate For IY 2078/79

Particulars	**Amount Rs.**
Net Income from Nepal	500,000
Net Income from Canada	500,000
Net Income from USA	600,000
Net Income from Australia	400,000
Total Taxable Income	**2,000,000**

Statement of Tax Liability for IY 2078/79

Slab	**Taxable Income**	**Tax Rate**	**Tax Liability**
1st Rs. 450,000	450,000	1%	4,500
Next Rs. 100,000	100,000	10%	10,000
Next Rs. 200,000	200,000	20%	40,000
Next Up to Rs. 2,000,000	1,250,000	30%	375,000
Tax Liability before Foreign Tax Credit	**2,000,000**		**429,500**
Average Tax Rate	429,500/2,000,000		**21.48%**

Tax credit for the IY 2078/79 shall be available for

Country	**Income**	**Tax Paid**	**Tax at Average Tax Rate**	**Allowed Tax Credit**	**Unabsorbed Tax Credit Carried Forward (A-C)**
		(A)	**(B)**	**(Min of A or B) (C)**	
Canada	500,000	50,000	107,375	50,000	-
USA	600,000	180,000	128,850	128,850	51,150
Australia	400,000	80,000	85,900	80,000	-
Total	**1,500,000**	**310,000**	**322,125**	**258,850**	**51,150**

The tax payable during the year comes to Rs. 429,500 – Rs. 258,850 = Rs. 170,650.

5. Write short notes of the following with reference to Income Tax Act, 2058. **(4×2.5=10)**

a) Non-business Chargeable Asset
b) Tax Exempted Income
c) Jeopardy Assessment
d) Permanent Account Number

Answer

5.

a) Non-business Chargeable Asset

Non-business chargeable assets mean any land, building and interest or security in any entity or securities except the following assets:

a. Business assets, depreciable assets or stocks-in-trade,
b. A private building of a natural person in the following situation:
- Being under ownership for a continuous period of ten years or more, and
- lived there in for a total period of ten or more years continuously or intermittently by the person,

Explanation: For the purpose of this clause, "private building" means building and the land occupied by the building or one Ropani of land whichever is lesser.

c. Any interest of a beneficiary in a retirement fund,
d. land, land with building and private residence of natural person which have been disposed of by any individual at a price of less than one million rupees, or
e. An asset disposed of by way of transfer in any means other than sale and purchase within three generations.

b) Tax Exempted Income

Tax exempted income is income from any source that is not taxed by the tax law. In context of Income Tax Act, 2058, section 10 has a list of exempted income. Those incomes are tax exempted income and are not required to include in assessable income of the taxpayer. Following are the tax exempted income defined by Income Tax Act, 2058 section 10.

a. Amount granted to any person entitled to tax exemption facility as provided in bilateral or multilateral treaty concluded between Government of Nepal and foreign country or international organization.
b. Amount received by any individual for doing employment in the governmental service of a foreign country, provided that the person has to be a resident or non-resident person only because of doing employment, and such amounts have to be paid from the governmental fund of that country.
c. Amount received by an individual referred to in clause (b) who is not a citizen of Nepal or by his nearest family member from the governmental fund of a foreign country,
d. Amount received by a non-Nepalese citizen appointed in the service of The Government of Nepal under the term and condition of tax exemption,
e. All kinds of allowances provided by the Government of Nepal, Provincial Government or Local Level as social security.
f. Amounts received as gift, inheritance or scholarship except the amounts required to be included in computing income pursuant to Section 7, 8 or 9,
g. Amounts received by an organization entitled to exemption for the following: Donation, gift, other contributions directly related with an organization entitled to tax exemption without having consideration or without hoping for such contribution,
h. Amount received for pension by a Nepalese citizen having retired from the military or police service of a foreign country from the governmental fund of that country,
i. Any type of income of the Government of Nepal, Provincial Government or Local Level,
j. Amounts earned by Nepal Rastra Bank in pursuance of its objective.
k. Income earned as per its objectives by mutual funds approved from SEBON.

c) Jeopardy Assessment

Under jeopardy Assessment, a written notice may be served upon a person by IRD requiring submission of income return before the due date of filing return for a full Income Year or part of Income year by the date specified in the notice, in any of the following four conditions:

- Where the person becomes bankrupt, is wound-up, or goes into liquidation,
- Where the person is about to leave Nepal for indefinite period of time,
- Where the person is otherwise about to cease the activity in Nepal, or
- Where IRD otherwise considers it appropriate for any other reason

Where a written notice is served upon a person to submit income return for an Income Year in the conditions as above, the person shall make self-assessment of tax pursuant to Sec. 99 and submit income return by the date specified in the notice.

In the circumstances giving rise to jeopardy assessment, instead of requiring a person to

file a return of income, the IRD may, according to the IRD's best judgment, make an assessment of income for a full Income year or part of income year.
The department shall provide a time limit of 7 days to provide the proof in own defense before the issuance of jeopardy assessment order.

d) Permanent Account Number:

Inland Revenue Department (IRD) can issue a unique identification number to identify a taxpayer under the power conferred by Sec. 78 (1) of the Act.
Besides IRD, the PAN can also be issued by entity authorized by Department to issue such number. The authorized entity shall issue permanent account number by abiding the provisions of Income Tax Act. Taxpayer obtaining PAN number from other authorized entity cannot conduct import or export transaction for particular period after obtaining PAN.
The department may order any person to mention his PAN in nay return or other particulars, statements or other documents used for the purpose of the Act.
A person carrying out transactions after obtaining PAN shall update information relating to registration as specified by department in the Departments Biometric Registration System. No one shall be released from the liability of tax just by the reason that he has not obtained the PAN.

6. IBIZ Impex Pvt. Ltd. is engaged in import and sales of various types of goods from India, China, and Singapore. During Income Year 2078/79, it had imported following goods from various countries:

From India INR 200,000 (1 INR = 1.6 NPR)
From China CNY 75,000 (1 CNY = 18 NPR)
From Singapore SGD 25,000 (1 SGD = 100 NPR)

- All goods are imported through Birgunj Customs via Kolkata Port.
- Custom charged on goods by Birgunj Custom is 15%, and VAT is imposed at normal rate except for some goods imported from China which are 40% VAT exempted goods.
- IBIZ Impex Pvt. Ltd. sells the goods to a wholesaler, who in turn sales it to a distributor and who in turn sales it to the final consumer.

There is following value additions at each level:

- **IBIZ Impex Pvt. Ltd.:** Rs. 300,000 administrative expenses and 10% mark up on sales
- **Wholesaler:** Rs. 200,000 administrative expense and 10% profit on cost
- **Distributor:** Rs. 150,000 administrative expenses and 20% mark up on sales

Required:

a) VAT paid and Net VAT payable by each business at each stage of sales channel
b) Final Cost to consumer for the goods of VAT attractive goods and VAT exempted goods.

Answer

6) Calculation for First Chain of Business (IBIZ Impex Pvt. Ltd.) FY 2078/79

Imported From	Amount in FCY	Rate of exchange	Amount (Rs.)		
			Taxable	Tax Exempt	Total
From India	200,000	1.6	320,000	-	**320,000**
From Singapore	25,000	100	2,500,000	-	**2,500,000**
From China	75,000	18	810,000	540,000	**1,350,000**
Total			**3,630,000**	**540,000**	**4,170,000**

Add: 15% Custom	544,500	81,000	**625,500**
Total Base of VAT Calculation on Import	**4,174,500**	**621,000**	**4,795,500**
VAT 13 % paid on import	542,685	Exempt	**542,685**
Add: Administrative expenses (Rs 300,000 distributed in the ratio of Total Cost of Import)	261,151	38,849	**300,000**
Cost of sales (Excluding VAT)	**4,435,651**	**659,849**	**5,095,500**
Value Addition (10% margin on sales) (The margin is 10% on sales price, the cost is 90% of sales)	492,850	73,317	**566,167**
Sales Price Excluding VAT	**4,928,501**	**733,166**	**5,661,667**
VAT on Sales	640,705	Exempt	**640,705**
Less: VAT paid on Import	542,685	-	**542,685**
Net VAT Payable	**98,020**	**-**	**98,020**

Note 1: Administrative expenses distributed in the ratio of total cost for taxable and tax-exempt goods, as per question the total administrative expense is for sales of total of goods)

Calculation for Second Chain of Business (Wholesaler)	**Taxable**	**Tax Exempt**	**Total**
Purchase Cost	4,928,501	733,166	**5,661,667**
VAT on purchase	640,705	Exempt	**640,705**
Add: Administrative expenses (200,000 distributed in the ratio of purchase cost)	174,101	25,899	**200,000**
Total Cost Excluding VAT	**5,102,602**	**759,065**	**5,861,667**
Add: Value Addition (10% margin on cost)	510,260	75,907	**586,167**
Sales Price Excluding VAT	**5,612,862**	**834,972**	**6,447,834**
Add: 13% VAT on sales	729,672	-	**729,672**
Less: VAT paid on purchase	640,705	-	**640,705**
Net VAT Payable	**88,967**	**-**	**88,967**

Calculation for Third Chain of Business (Distributor)	**Taxable**	**Tax Exempt**	**Total**
Purchase Cost Excluding VAT	5,612,862	834,972	**6,447,834**
VAT on purchase	729,672	-	**729,672**
Add: Administrative expenses (150,000 distributed in the ratio of purchase cost)	130,576	19,424	**150,000**
Total Cost Excluding VAT	**5,743,438**	**854,396**	**6,597,833**
Add: Value Addition (20% margin on sales)	1,435,859	213,599	**1,649,458**
Sales Price Excluding VAT	**7,179,297**	**1,067,995**	**8,247,291**
Add: 13% VAT on sales	933,309	Exempt	**933,309**
Less: VAT paid on purchase	729,672		**729,672**
Net VAT Payable	**203,637**		**203,637**

Calculation for Final Consumer (Final Chain on business)	**Taxable**	**Tax Exempt**	**Total**
Purchase Cost	7,179,297	1,067,995	**8,247,291**
VAT on purchase	933,309	Exempt	**933,309**
Total Cost to Consumer	**8,112,606**	**1,067,995**	**9,180,600**

7.

a) Rajshree international traders Pvt. Ltd. does Trading business of different nature of goods. During the Month of Kartik 2079 Following sale and purchase (VAT to be Adjusted) made.

Item Name	Purchase	Sales
Hill T Screw	40,000/-	25,000/-
Glass	40,000/-	20,000/-
Agricultural Tools	50,000/-	40,000/-
Paint Roller	50,000/-	35,000/-
Black Screw	25,000/-	20,000/-
Printing Expenses	20,000/-	
Fixed Assets Purchase	30,000/-	

Calculate VAT Receivable at the end of above transactions if opening VAT Credit was NRs. 20,000/-. **5**

b) Specify the penalty for the following offences as per the VAT Act 2052. **(5x1=5)**

(i) C Ltd. could not provide up to date accounts of transaction to the tax officer during inspection.

(ii) B Ltd. Is not registered in VAT. However, was found collecting VAT from customers.

(iii) A Ltd. Did not display the registration certificate at principal place of transaction.

(iv) D Ltd. Is registered in VAT. However, did not issue invoice to the customer.

(v) E Ltd. Obstructed tax officer who had a reasonable doubt that E Ltd. Has been involved in a taxable transaction without being registered.

Answer

7 a) **Statement of Purchase and Sales**

Item Name	Purchase	Sales	VAT On Purchase	VAT On Sales
Hill T Screw	40,000	25,000	5,200	3,250
Glass	40,000	20,000	5,200	2,600
Agricultural Tool	50,000	40,000	Exempt	Exempt
Paint Roller	50,000	35,000	6,500	4,550
Black Screw	25,000	20,000	3,250	2,600
Printing Expenses	20,000		2,600	-
Fixed Assets	30,000		3,900	-
Total	**255,000**	**140,000**	**26,650**	**13,000**

Calculation of VAT on Sales and Purchases

Particulars	Taxable	Exempt	Total
Sales	100,000	40,000	**140,000**
VAT 13%	13,000	-	**13,000**
Ratio of Taxable and Exempt Sales	71.43%	28.57%	
Purchase	155,000	50,000	**205,000**
VAT 13%	20,150	-	**20,150**
Printing Expenses	20,000	-	**20,000**
Fixed Assets Purchase	30,000	-	**30,000**
VAT 13% on Printing and Fixed Asset	6,500	-	**6,500**
Proportionate VAT Claim on Printing and Fixed Assets	**4,643** (6,500 x 71.43%)	**-**	**4,643**

Note: Output is both VAT attractive and VAT exempt transactions. Therefore, VAT claim is proportionate based on ratio of sales and purchase.

Statement of VAT for Kartik 2079

Particulars	Amount	VAT
Opening VAT Credit (A)		20,000
Taxable Purchase (B)	190,715	24,793 (20,150+4,643)
Exempt Purchase	64,285	
Taxable Sales (C)	100,000	13,000
Exempt Sales	40,000	
VAT Receivable (A+B-C)		**31,793**

7 b)

Offence	Reference Section	Penalty
C Ltd. Could not provide up to date accounts of transaction to the tax officer during inspection.	Section 16(1)	Rs. 10,000
B Ltd. Is not registered in VAT. However, was found collecting VAT from customers.	Section 15	100% of the amount collected as VAT from customers
A Ltd. Did not display the registration certificate at principal place of transaction.	Section 10(5)	Rs. 1,000 for each time of breach
D Ltd. Is registered in VAT. However, did not issue invoice to the customer.	Section 14(1)	Rs. 10,000 for each time of breach.
E Ltd. Obstructed tax officer who had a reasonable doubt that E Ltd. Has been involved in a taxable transaction without being registered.	Section 23	Rs. 5,000 for each time of obstruction

8. Write short notes on VAT Act, 2052: **(4×2.5=10)**

a) Abbreviated Tax Invoice
b) Taxable Value of Used Goods
c) Debit and Credit Note
d) Reverse charging of VAT

Answer

8.

a) Abbreviated Tax Invoice

In case a registered person selling in retail requests tax officer to issue Abbreviated Tax Invoice and if tax officer allows, the retailer can issue such abbreviated tax invoice according to rule 18 in the form prescribed in schedule 6 .In case, registered retailer authorized to issue Abbreviated Tax Invoice, it shall not be issued for amount more than Rs 10,000 including VAT and other duties. In Abbreviated Tax Invoice, name of each goods needs to be shown. Input tax cannot be claimed by use of Abbreviated Tax Invoice In case buyer requires tax invoice, the retailer has to issue the tax invoice as required by the buyer.

b) Taxable Value of Used Goods

According to Rule 33, taxable value for dealers in secondhand or used goods is the difference of sales amount and VAT included cost of sales, i.e.

Taxable Value for used goods = Selling Value of the goods-Purchase price including VAT

A registered person dealing in second-hand goods has to maintain separate record of purchase and sales of each goods. If separate record is not maintained at satisfactory level, tax officer may order to file return by collecting VAT on total sales amount.

c) Debit and Credit Note

According to rule 20, any change in matters of issued invoice due to any reason, the person has to issue debit note or credit note for such changes in the value of the goods. Debit or credit note include following information:

i. Serial number of debit or credit note
ii. Date of issue
iii. Name, address and PAN of the supplier
iv. Recipient's name, address and PAN, if registered person
v. Serial number and date of the tax invoice concerned
vi. Particulars of the goods or services and reason of issuing credit or debit note
vii. Amount credited or debited
viii. Tax amount credited or debited

d) Reverse charging of VAT

General principles of VAT require a registered person to collect VAT on sales and deposit the VAT, into tax office after setting off the VAT paid on purchases. There are some exceptions to this general principle, whereby a person, registered or not, shall collect VAT by himself/herself and deposit it into the Tax Department on purchase of goods and services, which is called Reverse Charging of VAT.

As per Section 8(2), any person, whether registered or not, in Nepal receiving service from person outside Nepal shall pay VAT for that service. In this case, the person receiving the service shall declare and pay applicable VAT to the Department at the time of receiving service or making payment for the service whichever is earlier. If the person is registered person, it can claim VAT credit on such payment.

As per Section 8(3), any person, registered or not, in Nepal is engaged in constructing commercial buildings, apartments, shopping Malls or similar constructions for commercial purpose, if the cost of construction is more than Rs 50 lakhs, shall compute VAT on the construction cost (except on amount VAT is already paid) and deposit it to the Department in case the construction work is not carried out through a registered person.

Examiner's Commentary on Students' Performance in June 2023 Examinations

Paper 4 – Financial Management

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Poor performance. Majority of students failed to solved the question.
Question no. 2	Students calculated working capital based on tabular format. However question was asked on the basis of holding period.
Question no. 3	Most of the students have solved question of portfolio management but limited students completed monthly cash budget in current manner.
Question no. 4	a. Calculations were not correct. Basic understanding of factoring is missing. b. Calculation of cost of equity is based on future dividend, which is not correct.
Question no. 5	Satisfactory performance.
Question no. 6	Lack of conceptual knowledge.
Question no. 7	Lack of conceptual knowledge.

Paper 5 – Cost and Management Accounting

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Most of the students are unable to solve the question. Marginal cost concept is weak.
Question no. 2	Only few students correctly answered. Most of the students can not figure out requirement of the question.
Question no. 3	a. Majority of students tried and done well. b. Mix and Yield variance not computed by most of the students. c. Seems lack of concept.
Question no. 4	Satisfactory. Machine hour rate is not correctly calculated by most of the students.
Question no. 5	Not well prepared in theoretical part of the question.
Question no. 6	Majority of students were found having very little knowledge on imputed cost, shut down cost and scope of cost reduction.

Paper 6 – Business Communication and Marketing

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Almost all students have very poorly answered the case study. They have failed to observe the case critically or logically.
Question no. 2	Students did not understand the question well.
Question no. 3	Many students are found to have no knowledge about what buffer is. And have written the answers based on their assumption.
Question no. 4	Except the techniques of closing the interview rest of the issues are handled to some extent well.
Question no. 5	Most of the students are unable to understand the requirement of question and answer general not specific.
Question no. 6	Students are not clear about Holistic Marketing Components.
Question no. 7	Students should link the answers of the question with concept.
Question no. 8	Weak performance.

Paper 7 – Income Tax and VAT

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Most of the students are unknown regarding the provision of donation.

Question no. 2	Students are confused that contribution to pension fund will be eligible for non deduction of social security tax.
Question no. 3	Knowledge on TDS is poor and deemed disposal is very poor.
Question no. 4	Most of the students did not calculate the average tax rate and could not properly calculate foreign tax credit.
Question no. 5	Students generally answered short notes however notes should be specific to tax laws.
Question no. 6	Students have not segregated administrative expenses for taxable and exempt goods in most cases. Some students added VAT in admin. expenses during calculation.
Question no. 7	Concept of VAT is very poor.
Question no. 8	Students are weak in knowledge of debit and credit note.