

Defence Audit - Model SAS Examination Questions

Question 1. The capital acquisition process as given in the Defence Acquisition Procedure-2020 for the categories under the 'Buy' and 'Buy & Make' schemes *inter alia* involve the following stages/processes: -

- (i) Formulation of Services Qualitative Requirements (SQRs).
- (ii) Request for Information (RFI).
- (iii) Acceptance of Necessity (AoN).
- (iv) Request For Proposal (RFP)
- (v) Evaluation of Technical offers.
- (vi) Contract negotiations by Contract Negotiation Committee (CNC).
- (vii) Staff Evaluation.
- (viii) Field Evaluation Trials (FET)

What is the correct sequence of these stages/processes?

- A) i, ii, iii, iv, v, viii, vii, vi
- B) ii, i, iii, iv, v, vi, vii, viii
- C) **ii, i, iii, iv, v, viii, vii, vi**
- D) iii, i, ii, iv, v, viii, vii, vi

Question 2. The aim of the Fast Track Procedure (FTP) as mentioned in the Defence Acquisition Procedure-2020, is to ensure expeditious procurement for urgent operational requirements of the Armed Forces, foreseen as imminent during war as well as peacetime time and for situations in which a crisis emerges without warning.

Which of the following procurements will normally NOT be allowed under Fast Track Procedure given in DAP 2020?

- A) Procurement of a weapon system from a company in Poland. The weapon system is in service of Polish Armed Forces.
- B) Procurement of a weapon system from a Swiss company. The weapon system is in service in Indian Armed Forces.
- C) **Procurement of a weapon system from an Indian company under MAKE-II category.**
- D) Procurement of a weapon system by invoking "Option Clause" with an Indian vendor whose equipment is already in service.

Question 3. A contract was placed to M/s XYZ for procurement of 10,000 x Water Bowser for an amount of Rs. 10,00,00,000/- on 01.07.2024. The delivery date as per the contract was 31.12.2024. Supplier delivered 7,000 quantities within the stipulated time and delivered the remaining quantities on 29.06.2025. The procurement officer decides to impose liquidated damages.

According to the DPM 2009, what is the maximum rate **and** amount of liquidated damages that can be imposed for delay in delivery of the goods in the above case?

- A) 10% of the total contract amount and Rs. 1,00,00,000.
- B) **10% of the amount of undelivered goods and Rs. 30,00,000.**
- C) 12% of the total contract amount and Rs. 1,20,00,000.
- D) 12% of the amount of undelivered goods and Rs. 36,00,000.

Question 4. The Indian Army plans to upgrade existing armoured vehicles with major refits and replacements of some capital components. According to DAP 2020, which procurement procedure should be followed for this case?

- A) Strategic Partnership Model (SPM)
- B) **Other Capital Procurement Procedure (OCPP)**
- C) Buy (Indian)
- D) Design and Development (D&D)

Question 5. A defense procurement officer is evaluating a proposal for acquiring new fighter jets. The jets will be purchased fully manufactured from an Indian company that designs and produces the entire aircraft domestically with 80% Indigenous Content. Under DAP 2020, which capital acquisition scheme and category would this procurement most likely fall under?

- A) **Buy (Indian - IDDM)**
- B) Buy and Make (Indian)
- C) Buy (Global - Manufacture in India)
- D) Buy (Indian)

Question 6. Firm X supplies communication devices to the Indian Army at ₹1,00,000 per unit under a contract. Later, Firm X offers the same devices to a private firm at ₹90,000 per unit during the contract period. According to the **Fall Clause**, what should Firm X do regarding the price charged to the Indian Army?

- A) Firm X can continue charging the Indian Army ₹1,00,000 per unit because the contract price is fixed.
- B) **Firm X must reduce the price to the Indian Army to ₹90,000 per unit or lower, matching the price offered to the private firm**
- C) Firm X can charge any price to the Indian Army as long as delivery timelines are met.
- D) Firm X can increase the price because now it has more customers

Question 7. The Indian Army wants to develop a long-range UAV system. It invites Indian companies to participate and agrees to fund 70% of the prototype cost. Two companies are selected, and prototype development begins with phased government funding. Which Make category does this project fall under?

- A) **Make-I**
- B) Make-II
- C) Make-III
- D) None of the above

Question 8. An Indian startup develops a special battery to increase range of UAVs. It funds the entire R&D and demonstrates the prototype to the Indian Army. No financial support was provided by the government during development. The prototype succeeds in trials and Indian Army moves ahead with the procurement. Which Make category does this project fall under?

- A) Make-I
- B) **Make-II**
- C) Make-III
- D) None of the above

Question 9. The Indian Army needs critical spares for a foreign-origin weapon system that is still in service. An Indian firm collaborates with the foreign OEM and starts manufacturing the required components in India under a technology transfer agreement. The parts are not indigenously designed, but they are made in India with 65% indigenous content. Which Make category does this project fall under?

- A) Make-I
- B) Make-II
- C) **Make-III**
- D) None of the above

Question 10. Defence Acquisition Procedure-2020 envisages to achieve the objective of self-reliance by involving greater participation of Indian industrial eco-system including private sector through classifying projects in three categories i.e 'Make I, Make II and Make III'. Please read the following and select the correct category described below:

"Projects involving design and development of equipment, systems, major platforms or upgrades thereof by the industry for which Ministry of Defence will provide financial support up to 70% of prototype development cost or maximum 250 crores per Development Agency (DA)."

- A) **Make I**
- B) Make II
- C) Make III
- D) None of the above

Question 11. The Government of India had established the Border Roads Organisation in 1960 with an aim to strengthen connectivity and bolster strategic infrastructure in border regions. The Integrated Financial Advice (IFA) Scheme was introduced in 1976 to expedite decision-making and to ensure that all expenditure proposals are subjected to financial scrutiny before the expenditure is sanctioned/committed.

Which of the following statements is inaccurate in the context of duties and responsibilities of the IFA in Border Roads Organisation?

- (a) When a case has to be processed with various CFAs for different stages of procurement, the concerned IFAs will not get involved in those stages according to the involvement of their respective CFAs.
- (b) No Supply orders under delegated powers are to be placed without having been vetted by IFA.
- (c) The necessity for spending so much money or on such a scale to secure a given object may not be challenged by IFA.
- (d) All queries / points of doubt relating to IFA matters should be addressed to Principal IFA in CGDA's office for clarification.

Options

- A) a and b
- B) **a and c**
- C) b and c
- D) c and d

Question 12. The Defence Procurement Manual-2009 mentions about a clause for price safety mechanism in rate contracts which provides that if the rate contract holder reduces its price or sells or even offers to sell the rate contracted goods following conditions of sale similar to those of the rate contract, at a price lower than the rate contract price, to any person or organization during the currency of the rate contract, then the rate contract price will be automatically reduced, effective from that date, for all subsequent supplies under the rate contract, and the rate contract will be amended accordingly.

The clause mentioned in this case is:

- A) Risk and expense clause.
- B) Option clause.
- C) **Fall clause.**
- D) Force Majeure clause.

Question 13. The Authority Holding Sealed Particulars (AHSP) is the authority responsible for collecting, collating, developing, amending, updating, holding and supplying sealed particulars of the defence items in accordance with the laid down procedure. AHSP may be the Director General of Quality Assurance (DGQA) or an authority in the Service Headquarters for service-specific items.

Which of the following stakeholders need to comply with the specification drawn by the AHSP?

- (i) Procurement officers (ii) Suppliers (iii) Inspection Agencies

- A) (i) & (ii)
- B) **(i), (ii), & (iii)**
- C) (i) & (iii)
- D) (i) only

Question 14. A Repeat order against a previous order may be placed at the same cost and terms and conditions as per the original order / contract, with the approval by the Competent Financial Authority and concurrence of integrated finance, wherever required as per the delegation of financial powers up to the defined quantity of the original Contract as given in the Defence Procurement Manual-2009.

- A) 25 per cent of the original quantity.
- B) **50 per cent of the original quantity.**
- C) 75 per cent of the original quantity.
- D) 100 per cent of the original quantity.

Question 15. Which of the following statements regarding Authority Holding Sealed Particulars (AHSP) are incorrect as per DPM 2009:

- A) AHSP is the authority responsible for collecting, collating, developing, amending, updating, holding and supplying sealed particulars of the defence items in accordance with the laid down procedure.
- B) AHSP may be DGQA or an authority in the Service Headquarters for service specific items. Responsibility for the Naval and Air Force equipment rests with respective service headquarters.

- C) **DGAQA is the AHSP for aviation stores of all the Services except the Coast Guard.**
- D) Ordnance Factories are the AHSP for certain types of 'B' vehicles and items issued to indentors, other than the defence services.

Question 16. Which of the following statements about Rate Contract are correct:

- a) Rate Contract is an agreement between the Purchaser and the Supplier to supply stores at specified prices during the period covered by the contract.
- b) RC is in the nature of a standing offer from the supplier guaranteeing a minimum drawal during the period of RC.
- c) A contract comes into being only when a formal order is placed by the CFA or the Direct Demanding Officers (DDOs) on the Supplier.
- d) DGS&D is the authority for concluding Rate Contracts for supply of general use items and service specific items of the different Services.

- A) a and b
- B) b and c
- C) **a and c**
- D) c and d

Question 17. Choose the type of contract appropriate for the description given below:

Contract suitable for complex buildings where entire engineering, procurement and execution is entrusted to the contractor. In these types of contracts, contractors will carry out the detailed engineering design of the project, procure all the equipment and materials necessary and then construct to deliver a fully functional facility to the department.

- A) Piecework for Specific Job Contract
- B) Percentage Rate Contract
- C) **EPC Contract**
- D) Specialist Consultancy Services contract

Question 18. The Military Engineer Services (MES) operates under the Engineer-in-Chief at the Army Headquarters. The organization is structured into various levels, including Command Chief Engineers, Chief Engineers (CE), Command Works Engineers (CWE), and Garrison Engineers (GE), each with specific responsibilities and jurisdictions.

Which of the following correctly represents the hierarchical structure of MES?

- A) Engineer-in-Chief → Chief Engineers → Command Chief Engineers → Garrison Engineers → Command Works Engineers
- B) **Engineer-in-Chief → Command Chief Engineers → Chief Engineers → Command Works Engineers → Garrison Engineers**
- C) Command Chief Engineers → Engineer-in-Chief → Chief Engineers → Garrison Engineers → Command Works Engineers
- D) Engineer-in-Chief → Garrison Engineers → Command Chief Engineers → Chief Engineers → Command Works Engineers

Question 19. A contractor submits a bid for a project under the MES, providing an Earnest Money Deposit (EMD) as part of the tender process. As per the MES Manual on Contracts 2020, what is the primary purpose of the Earnest Money Deposit (EMD)?

- A) To cover administrative costs of the tender process.
- B) To serve as a performance guarantee.
- C) To offset potential losses in case of contract termination.
- D) **To ensure the contractor's commitment to the bid.**

Question 20. The funds for Canteen Stores Department (CSD) are provided in the Civil Estimates of the Ministry of Defence. The Controller General of Defence Accounts (CGDA) is responsible for provision of funds for CSD. Also, CGDA receives monthly Statements of receipts and charges, compiles monthly accounts, conducts internal audit including audit of commercial accounts.

Which of the following statements accurately describes the financial management structure of the CSD?

- i) The Financial Advisor (Defence Services) is the Chief Accounting Authority for all CSD transactions.
- ii) The Controller General of Defence Accounts (CGDA) functions as the Chief Accounting Officer for the CSD.
- iii) The funds for CSD are provided in the Civil Estimates of the Ministry of Defence.
- iv) Defence Secretary is the Chief Accounting Authority for all CSD transactions.

Options

- A) i-ii-iii
- B) ii-iii-iv
- C) **iii-iv**
- D) ii-iv

Postal Case Study 1**Functions of Auditee Units (DoP)**

For more than 150 years, the Department of Posts (DoP) has been the backbone of the country's communication and has played a crucial role in the country's social economic development. It touches the lives of Indian citizens in many ways: delivering mails, accepting deposits under Small Savings Schemes, providing life insurance cover and providing retail services like bill collection, sale of forms, etc. The DoP also acts as an agent for Government of India in discharging other services for citizens such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) wage disbursement and old age pension payments. With more than 1,55,000 post offices, the DoP has the most widely distributed postal network in the world.

1. Which of the following services/functions is offered/performed by the DoP?

- (i) Sale of mutual funds and bonds.
- (ii) Providing General Insurance in rural areas.
- (iii) Consumer Price Index (Rural) data collection

Choose the correct options regarding services/functions is offered/performed by the DoP?

- (a) (i), (ii) and (iii)
- (b) (i) and (ii)
- (c) (i) and (iii)
- (d) (ii) and (iii)

Ans: (c) (i) and (iii)

2. From the following identify the Government to Citizen (G2C) Services offered by the DoP

- (i) Pradhan Mantri Street Vendors Atmanirbhar Nidhi Yojana (PM SVANidhi)
- (ii) Pradhan Mantri Jan Arogya Yojana (Ayushman Bharat)
- (iii) Pradhan Mantri Shram Yogi Maan-dhan Yojana (PM-SYM)
- (iv) Pradhan Mantri Laghu Vyapari Maan-dhan Yojana (PM-LVM)

Based on the above choose the correct options regarding services/functions is offered/performed by the DoP?

- (a) (i), (ii) and (iii) only
- (b) (i), (iii) and (iv) only
- (c) (ii), (iii) and (iv) only
- (d) (i), (ii), (iii) and (iv)

Ans: (d) (i), (ii), (iii) and (iv)

Other MCQs (Postal)

1. Post Offices are being transformed into a one stop shop to provide a range of utility services to the customers in association with third partner. The Post Office network is used to sell third party products and services like sale of application forms of various educational institutions and recruiting agencies, sale of Railway Reservation Tickets, sale of Rakhi envelopes, address verification service etc. Retail Post leverages the vast network of more than 150,000 Post Offices across the country.

Consider the following statements

Statement I:

Through 'Retail Post', Department of Posts offers convenience to the general public by making third party products and services available in their vicinity through select Post Offices.

Statement II

Under Retail Post, a range of services are offered including the payment of electricity bills, collection of taxes, payment of other bills and fee for the Government etc.

Which of the statements given above is/are correct?

- (a) I only
- (b) II only
- (c) Both I and II
- (d) Neither I nor II

Ans. (c)

Authority: Rule 168 of Postal Financial Handbook-Vol. I 2022

2. On 1.10.1960 various Agency Systems were rationalized by introducing one common agency system both for urban and rural areas. The new agency system is called as "Standardised Agency System." The responsibility for appointment and renewal of small savings agents to promote the various small savings schemes issued by Government of India, vests with the State Governments. The Agent is allowed to canvass investment.

DIRECTIONS for the question: In the questions given below, there are two statements marked as Assertion (A) and Reason (R). Mark your answer as per the codes provided below:

A: An agent cannot purchase a certificate on behalf of an investor whose permanent address as given in the application is outside the jurisdiction of the issuing post office to which he is attached.

R: The authorized agents appointed by the State Government Authorities can canvass investment in Savings Certificates within the State and can purchase certificate on behalf of the investors from the post offices to which they are attached for this purpose.

Which of the following is correct in respect of the above statements?

- (a) Both A and R are correct, and R explains the A.
- (b) Both A and R are correct, but R does not explain the A.

- (c) A is correct, but R is incorrect.
- (d) A is incorrect, but R is correct.

Ans. (d)

Authority: Rule 147 (1)- Sale of Certificate through Authorized Agents of POSB (CBS) Manual

147. Sale of Certificate through Authorized Agents

(1) Appointment of authorized agents:-

(i) The authorized agents appointed by the State Government Authorities can canvass investment in Savings Certificates within the State and can purchase certificate on behalf of the investors from the post offices to which they are attached for this purpose. This will not, however, preclude an agent from purchasing a certificate on behalf of an investor whose permanent address as given in the application is outside the jurisdiction of the issuing post office to which he is attached.

3. Consider the following statements

Statement I:

Auditors shall actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.

Statement II:

Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information, being unable to put all findings in perspective, and failing to collect or address the most relevant arguments.

Which of the following is correct in respect of the above statements?

- (a) Both Statement-I and Statement-II are correct, and Statement-II completely explains the Statement-I.
- (b) Both Statement-I and Statement-II are correct but Statement-II does not completely explain the Statement-I.
- (c) Statement-I is correct, but Statement-II is incorrect.
- (d) Statement-I is incorrect, but Statement-II is correct.

Ans. (b)

Authority: CAG's Auditing Standards 2017

3.3.4 Audit Risk

Auditors shall actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users. Many topics in performance auditing are complex and sensitive. The risk that an audit will fail to add value ranges from the likelihood of not being able to provide new information or perspectives to the risk of neglecting important factors and consequently not being able to provide users of the audit report with knowledge or recommendations that would make a real contribution to better performance. (Since, the underlined sentence has not been included in Statement II, therefore the phrase '**failing to add value for users**' of Statement I remains

unexplained) Important aspects of risk may include not possessing the competence to conduct sufficiently broad or deep analysis, lacking access to quality information, obtaining inaccurate information (e.g. because of fraud or irregular practices), being unable to put all findings in perspective, and failing to collect or address the most relevant arguments. Auditors shall therefore actively manage risk. Dealing with audit risk is embedded in the whole process and methodology of performance audit.

4. Consider the following statements in the context of Compliance Auditing Guidelines.

Statement I:

Authorities are the source of the audit criteria.

Statement II:

Authorities form the basis of how the audit is to proceed under a specific constitutional arrangement.

Which of the following is correct in respect of the above statements?

- (e) Both Statement-I and Statement-II are correct, and Statement-II explains the Statement-I.
- (f) Both Statement-I and Statement-II are correct but Statement-II does not explain the Statement-I.
- (g) Statement-I is correct, but Statement-II is incorrect.
- (h) Statement-I is incorrect, but Statement-II is correct.

Ans. (a)

Authority: Compliance Auditing Guidelines

1.13 Authorities are the most fundamental element of compliance auditing, since the structure and content of authorities furnish the audit criteria and **therefore form the basis of how the audit is to proceed under a specific constitutional arrangement.** Authorities include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, PPP contracts, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials. Most authorities originate in the basic premises and decisions of the legislature, but they may be issued at a lower level in the organisational structure of the public sector.

1.14 Because of the variety of possible authorities, they may have mutually conflicting provisions and be subject to differing interpretations. In addition, subordinate authorities may not be consistent with the requirements or limits of the enabling legislation and there may be legislative gaps. As a result, to assess compliance with authorities in the public sector it is necessary to have sufficient knowledge of the structure and content of the authorities themselves. **Authorities are, typically the source of the criteria.**

5. Consider the following statements

Statement I:

Postal Life Insurance (PLI) was started as a welfare scheme for the benefit of postal employees and now covers professionals (such as doctors, engineers, chartered accountants, MBAs, lawyers etc.) and employees of companies listed with National Stock Exchange (NSE) / Bombay Stock Exchange (BSE).

Statement II:

Speed Post service is available in all the post offices functioning in the entire country excluding Branch Post Offices.

Statement III:

All expenditure in connection with the Department of Posts is incurred against the grant sanctioned each year for the purpose under different specified heads in the Budget Estimates of the Department.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans. (b)

Authority:

Statement I: Orders/ Instructions issued by DoP

Statement II: Orders/ Instructions issued by DoP

Statement III

Postal Manual Volume-II, CHAPTER XII-BUDGET ESTIMATES AND CONTROL

General Principles

743. All expenditure in connection with the Indian Deptt. of Posts is incurred against the grant sanctioned each year for the purpose under different specified heads in the Budget Estimates of the Department.

Case study-1 (Telecom)

Syllabus – I (b) & (f)

Ref: (4) Performance Auditing guidelines

Government Ministries/ Departments/ Agencies had been assigned spectrum administratively in International Mobile Telecommunications (IMT) bands suitable for commercial use, as well as in non IMT bands. Hence, assessment of utilization of spectrum assigned on administrative basis to such entities is important. Additionally, Department of Telecommunication (DoT) requested CAG (October 2020) to audit Ministries/ Departments/ Agencies who had been allotted spectrum administratively. It stated that spectrum being scarce, it is vital that each Ministry/ Department/ Agency makes optimal use of the allotted/ assigned spectrum and hence desired an audit of the utilization of Spectrum allotted administratively to Government Departments and Agencies.

Q1. What type of audit may be best suitable for this assignment?

- a. **Performance Audit**
- b. Compliance Audit
- c. Financial Audit
- d. None of the above

Q2. While deciding the scope for audit sampling:

- a. Audit must be limited to Wireless Planning & Coordination (WPC) wing of DoT only
- b. **Audit can frame the scope and sample based on the key players involved (i.e. WPC wing & Government Ministries/ Departments/ Agencies who had been allotted spectrum administratively)**
- c. This issue requires immediate action by audit, so scope and sample may be avoided.
- d. None of the above.

Q3. During the audit it was noticed that “X” Department could not commission its planned networks for utilization of allocated IMT spectrum due to poor contract management. What should be the recommendations based on the audit finding:

- a. DoT may take early action for the auction of IMT spectrum lying idle with “X”.
- b. “X” may surrender all the spectrum allotted by DoT.
- c. **DoT may ensure that “X” use the assigned spectrum optimally and efficiently and surrender unutilised IMT spectrum.**
- d. None of the above

Case study-2 (Telecom)

Syllabus – I (b) & (f)

Ref: (22) Telecom Reforms in October 2021

Under the National Telecom Policy – 1994, private Telecom Service Providers were permitted to set up communication networks. The revenue share is assessed, collected, and accounted through the offices of the Controller of Communication Accounts (CCAs); Licensing Finance Assessment (LFA) Division of Department of Telecommunications (DoT). DoT introduced a web-based Revenue Management Software application SARAS (System for Assessment of License Fee Revenue and Spectrum Usage Charges) in 2021 to ease, automate and digitize the existing telecom revenue reporting, assessment, and payment mechanism. DoT introduced the Telecom Reforms in October 2021 and amended the provisions regarding Gross Revenue (GR)/Adjusted Gross Revenue (AGR) and introduced the concept of Applicable GR (ApGR) by prescribing certain revenue/income streams to be excluded from GR, before arriving at AGR by way of prescribed deductions.

Q1. Which of the following revenue/income streams not to be excluded from GR to arrive at Applicable Gross Revenue (ApGR):

- (a) Revenue from operations other than telecom activities/operations.
- (b) Revenue from activities under a license/permission issued by the Ministry of Information and Broadcasting.
- (c) Receipts from the USOF.
- (d) **Interest earned on refundable deposits from customers.**

Q2. To arrive at AGR, which of the following shall not be excluded from the ApGR/GR

- (a) PSTN/PLMN/GMPCS related call charges (Access Charges) actually paid to other eligible / entitled telecommunication service providers within India;
- (b) Roaming revenues actually passed on to other eligible/entitled telecommunication service providers, and
- (c) Goods and Service Tax (GST) paid to the Government, if the ApGR had included as component of GST.
- (d) **Commission actually paid to eligible / entitled distributors.**

Q3. The Revenue Share payable to Government by the Licensees is a stipulated percentage of their Adjusted Gross Revenue (AGR) which is:

- (a) 5 %
- (b) 6 %
- (c) **8 %**
- (d) 10%

Case study-3 (Telecom)

Syllabus – I (b) & (f)

Ref: (22) Government Resolution dated 22 October 2018

The Telecom Commission was set up by the Government of India vide the Resolution dated 11 April 1989 with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications. The Government, vide Resolution dated 22 October 2018, has re-designated the 'Telecom Commission' as the 'Digital Communications Commission'. The Digital Communications Commission consists of a Chairman, four full time members, and four part time members.

Q1. Which among the following is not the responsibility of Digital Communications Commission?

- (a) Formulating the policy of Department of Telecommunications for approval of the Government;
- (b) Approval of the budget for the Department of Telecommunications for each financial year.**
- (c) Implementation of Government's policy in all matters concerning telecommunication.
- (d) None of the above.

Q2. Ex-officio Chairman of the Digital Communications Commission is -

- (a) Minister of Communications, Government of India
- (b) Minister of State in the Ministry of Communications, Government of India
- (c) Secretary to the Government of India in the Department of Telecommunications**
- (d) None of the above

Q3. Who among the following is not the full-time Members of the Digital Communications Commission?

- (a) Chief Executive Officer, NITI (National Institution for Transforming India) Aayog**
- (b) Member (Finance),
- (c) Member (Services)
- (d) Member (Technology)

Case study-4 (Telecom)

Syllabus – I (b) & (f)

Ref: (7) GFR 2017

“X” PSU floated Tender on 5 May 2024 for procurement and installation of telecom equipment with tender value of Rs 100 crore, but no bid was received by the deadline of 18 May 2024. On 19 May 2024, M/s “Y” expressed interest via email. “X” PSU accepted the offer of M/s “Y” and selected M/s “Y”. Procurement manual of “X” PSU is in line with GFR.

Q1. This act of “X” PSU to accept the offer through email is -

- (a) Correct, as no bid was received till the deadline of 18 May 2022.
- (b) In violation of rule 161 of GFR**
- (c) In violation of rule 162 of GFR
- (d) None of the above

Q2. During the audit it was noticed that M/s “Y” was not eligible and qualified to perform the contract satisfactorily as per the terms and conditions incorporated in the bidding document. The selection of M/s “Y” is –

- (a) Correct, as no bid was received till the deadline of 18 May 2022.
- (b) In violation of rule 173 of GFR**
- (c) In violation of rule 170 of GFR
- (d) None of the above

Other questions (Telecom)

DIRECTIONS for the question 1 to 4: In each of the questions given below, there are two statements marked as Assertion (A) and Reason (R). Mark your answer as per the codes provided below:

1. Both A and R are true and R is the correct explanation of A.
2. Both A and R are true but R is not the correct explanation of A.
3. A is true but R is false.
4. A is false but R is true.
5. Both A and R are false.

TRAI ACT
SEC-11

Q1. Assertion (A): Telecom Regulatory Authority of India may request the Central Government to furnish such information or documents as may be necessary for the purpose of making recommendations.

Reason (R): Functions of the Telecom Regulatory Authority of India is to levy fees and other charges at such rates and in respect of such services as may be determined by regulations.

Telecomm
unication
ACT;
SEC-11

Q2. Assertion (A): Any person intending to use spectrum shall require an assignment from the Central Government.

Reason (R): The Central Government is not the owner of the spectrum.

TRAI ACT
SEC-11 &
12

Q3. Assertion (A): Service Providers are bound to produce all such books of account or other documents in his custody, call upon by before the Telecom Regulatory Authority of India.

Reason (R): Functions of the Telecom Regulatory Authority of India is to ensure compliance of terms and conditions of licence.

TRAI ACT
SEC-14

Q4. Assertion (A): Telecom Disputes Settlement and Appellate Tribunal (TDSAT) is Subordinate office of Department of Telecommunication(DoT).

Reason (R): TDSAT was set up to adjudicate disputes and dispose of appeals with a view to protect the interests of service providers and consumers of the telecom sector and to promote and ensure orderly growth of the telecom sector.

Answer Q1 -2; Q2 - 3; Q3 -1; Q4-4

Finance Accounts Case Study 1

Universal Service Obligation Fund (now Digital Bharat Nidhi)

The Universal Service Obligation (USO) Fund was set up in April 2002 for achieving universal service objectives by providing access to telephone services in rural and remote areas and creation of infrastructure for mobile services and broad band in these areas. The resources for meeting these obligations were to be raised through a 'Universal Access Levy' (UAL). The levy so collected is first credited to the CFI and subsequently, transferred, based on the appropriation approved by Parliament, to a non-lapsable Reserve Fund i.e. USO Fund.

During FY 2023-24, Parliament had approved the transfer of UAL amounting to ₹10,000 crore to the USO Fund in the Budgeted Expenditure. During the FY 2023-24, total collection of UAL during the year was ₹7,000 crore only, of which only ₹5,000 crore was transferred to the USO Reserve Fund through MH-5275.

Q1 Receipt of ₹7,000 crore towards UAL is booked under:

- a) Tax revenue.
- b) **Non-Tax revenue.**
- c) Internal Debt.
- d) None of the above.

(source: page (iii) of LMMHA)

Q2 Transfer of ₹5,000 crore into USO Reserve Fund is made from:

- a) **Major Head coming under Revenue Expenditure and minor head '797'.**
- b) Major Head coming under Capital Expenditure and minor head '797'.
- c) Major Head coming under Revenue Expenditure and minor head '902'.
- d) Major Head coming under Capital Expenditure and minor head '902'.

(source: LMMHA para 3.4)

Q3 USO Reserve Fund is shown as a part of:

- a) Part-I Consolidated Fund.
- b) Part-II Contingency Fund.
- c) **Part-III Public Account.**
- d) None of the above.

(source: LMMHA page (xi and xii))

Finance Accounts Case Study 2

Finance Accounts: The Finance Accounts comprises of two parts- Part I and Part II. Part I presents the summarized statements in respect of Revenue, Capital, Debt, Deposit, Suspense and Remittances transactions and Contingency Fund. Part II has detailed statements in respect of these transactions, along with other related statements. Part II of the Finance Accounts is further sub- divided into two sections 'A' & 'B'. While section 'A' comprises of detailed accounts and statements relating to Receipts and Expenditure on Revenue and Capital accounts, section 'B' has detailed accounts and statements relating to Debt, Deposit, Suspense & Remittances and the Contingency Fund.

Q1 Which of the following is **not** one of the basic inputs for compilation of Finance Accounts are as follows:

- a) SCT.
- b) Journal Entries.
- c) **Income and Expenditure Account.**
- d) Disclosures relating to Guarantees.

(source: para 12.2 of CAM 2024)

Q2 Which of the following statements shows the Progressive figures up to the end of the previous year:

- a) Statement no.8 (Detailed Account of Revenue and Capital receipts)
- b) Statement no.9 (Detailed Account of Revenue Expenditure)
- c) **Statement no.10 (Detailed Account of Capital Expenditure)**
- d) All of the above.

(source: para 12.5.5 of CAM 2024)

Q3 The Finance Accounts of the Central Government presents:

- a) Government's expenditure in a financial year, compared against the amounts of voted grants and charged appropriations.
- b) Financial statements which are an aid for the Parliament and the Public Accounts Committee to ascertain the expenditure performance of Government against the budgeted provisions.
- c) **the accounts of receipts and outflows of the Central Government for the year together with the financial results disclosed through accounting data and statements.**
- d) All of the above.

(source: para 11.1.1 and 12.1.1 of CAM 2024)

Finance Accounts Case Study 3

IGAS-4 Prior Period Adjustments: The objective of this Standard is to prescribe the manner in which Prior Period Adjustments including errors once identified shall be presented and disclosed in the current period (the financial year) under the cash basis of accounting.

Q1 Indian Government Accounting Standard (IGAS-4) is applicable to:

- a) Union Government.
- b) State Government.
- c) Union Territory with Legislature.
- d) **All of the above.**

(source: IGAS-4 Prior Period Adjustments)

Q2 In Government Accounting, 'Heads closed to Government Accounts' are those heads:

- a) in which there are opening and closing balances since the balances are carried forward to the next financial year.
- b) in which there are omissions from, and mis-statements in, the entity's financial statements.
- c) **in which there are no opening balances carried forward from the closing balance of previous financial year.**

- d) None of the above.

(source: IGAS-4 Prior Period Adjustments)

Q3 "Prior period errors" are omissions from, and mis-statements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information and includes:

- a) transactions such as payment of arrears arising due to increase in salaries or revision of pension or increase in dearness allowance, etc.
- b) transactions relating to defaults of loans (IGAS-3) and Grants-in-Aid (IGAS-2).
- c) **information which was available when financial statements for those periods were authorised for issue.**
- d) All of the above.

(source: IGAS-4 Prior Period Adjustments)

Finance & Appropriation Accounts: Other Questions

Q1 Which of the following are Grants/Appropriations that are normally charged on the consolidated fund of India:

- a) Transfer to States and Ministry of Home Affairs
- b) Law and Justice and Election Commission
- c) Cabinet and Police
- d) **Interest Payments and Repayment of Debt**

(source: Union Govt. Appropriation Accounts)

Q2 As per Rule 4 (1) (c) of FRBM Act, 2003 the Central Government shall not give additional guarantees with respect to any loan on security of the CFI in excess of:

- a) 0.3% of GDP of that financial year.
- b) 0.4% of GDP of that financial year.
- c) **0.5% of GDP of that financial year.**
- d) 0.6% of GDP of that financial year.

(source: Govt. Guarantees Policy 2022 and IGAS-1)

Q3 As a part of the package scheme (financial relief) for CPSEs, the Government converts outstanding loans into equity investments or grants-in-aid. In such cases, approval of the Parliament is required. The details of such conversion of loans may be explained in the relevant Budget/Supplementary Demand documents and approval shall be obtained by including a:

- a) **Token provision in the relevant Demand for Grants.**
- b) Cash provision in the relevant Demand for Grants.
- c) Technical provision in the relevant Demand for Grants.
- d) Any of the above.

(source: Rule 103 GFR 2017)

Railway Traffic Revenue

(A) In one of the Rates Circular issued by the Railway Board (Circular No 74 dated 19 December 2005) it was provided that in case excessive congestion at any terminal/steel plant, Zonal Railway can increase the demurrage rates, subject to maximum six times of the prevalent rate.

The Railway Board, while clarifying (23 October 2008), stated that the rates can be increased by say, 2 times or 3 times or so on, and not necessarily six times at one go in all cases. Levy of six times rate should be resorted only when the situation becomes very alarming.

Accordingly, in one of the zones, Railway Administration had notified penal rate of demurrage charges in one steel siding as mentioned below:

Date	Period	Demurrage Hours	Demurrage Charges Rate
30.12.2019	01.01.2020 to 31.01.2020	00 to 02 hrs	Two times
		More than 02 hrs up to 04 hrs	Four times
		More than 04 hrs	Six times
01.02.2020	03.02.2020 to 04.03.2020	00 to 02 hrs	Two times
		More than 02 hrs up to 04 hrs	Four times
		More than 04 hrs	Six times
06.03.2020	08.03.2020 to 07.04.2020	00 to 02 hrs	Two times
		More than 02 hrs up to 04 hrs	Four times
		More than 04 hrs	Six times

Q1. What is demurrage charge?

- (a) the charge levied for the detention of any rolling stock for loading/unloading of consignment in a siding.
- (b) the charge levied for the detention of any rolling stock after the expiry of free time, if any, allowed for such detention.**
- (c) the charge levied for damage to any rolling stock inside a siding.
- (d) None of the above.

Q2. In this connection, demurrage should be charged

- (a) by dividing the total detention hours into slabs with charging of applicable slab rates.
- (b) at the rate applicable for total detention hours as the spirit of Railway Board's guidelines is to levy penal demurrage charges is to improve the utilisation of the rolling stock by minimising the detention period and improve the turnaround of wagons.**
- (c) Both (a) and (b)
- (d) None of the above.

(B) One container train left with loaded commodity from point A for point B. Enroute it was detected that the weight of the commodity exceeded the permissible carrying capacity of wagon by 3.9 tonne. It was also found that the aggregated pay load in a rake does not exceed the combined permissible carrying capacity of the rake.

Q3. Punitive charges leviable on the entire weight of commodity loaded in excess of permissible carrying capacity and loading tolerance of one tonne will be:

- (a) No punitive charge is leviable.
- (b) Two times of the freight rate applicable to that commodity.**
- (c) Two and half times of the freight rate applicable to that commodity.

- (e) Three times of the freight rate applicable to that commodity.
- (C) To garner additional revenue by a suitable pricing mechanism, whereby automatic rebate from the computerized FOIS system would become available to customers offering traffic in inter-zonal/intra-zonal Traditional Empty Flow Direction, Railway Board (RB) vide Rates Master Circular/FIS/2015/0 dated 16 June 2015 introduced a freight rebate scheme for loading of traffic in Traditional Empty Flow Direction (TEFD) which was effective from 25 June 2015. Under TEFD scheme, all goods sheds, sidings and Private Freight Terminals (PFTs) were considered as permitted terminals and movement of traffic in all types of wagons (covered, open, flat and mixed) was covered. RB vide Rates Circular No.29 of 2016 dated 29.12.2016 included Ports as permitted terminals. Besides the objective of garnering additional revenue, reduction in the Empty Running Ratio was also considered as objective of the scheme.

Para 1.8 (vi) of the circular provided for conducting monthly review and audit of the scheme by Chief Operations Manager (COM), Chief Commercial Manager (CCM) and Financial Advisor and Chief Accounts Officer (FA & CAO) of the concerned zonal railway to assess the efficacy of the scheme and submitting results of review to RB for information. After review of the TEFD scheme some zonal railways, in their report to RB stated that some of the notified empty flow streams were not the normal flow streams. It was also reported that in some cases like supply of empties to X port are planned movement and not traditional/directional movement.

Q4. Based on the reports of Zonal Railways, Railway Board may:

- (a) issue order for stopping of the freight rebate scheme for loading of traffic in Traditional Empty Flow Direction (TEFD) as rebate can only be granted if empties are moving in natural empty flow movement and not for planned movement..
 - (b) continue the freight rebate scheme for loading of traffic in Traditional Empty Flow Direction (TEFD).
 - (c) issue order for stopping of the freight rebate scheme for loading of traffic in Traditional Empty Flow Direction (TEFD) only in permitted terminals where empty flow streams were not the normal flow.**
 - (d) None of the above.
- (D) A wagon carrying consignment from Point Y to Z was detected overloaded and had undergone load adjustment After identification of rakes by PCCM in consultation with PCOM the wagon was randomly re-weighed and overloading was once again detected.

Q5. Action to be taken by Railway:

- (a) No action to be taken.
 - (b) Only load adjustment required.
 - (c) Punitive charge of ₹ one lakh per wagon shall be levied.**
 - (d) None of the above.
- (E) A railway consignor booked rice giving misdeclaration and accordingly the consignment was booked from Point Y to Point Z on the scale of declaration of the customer. After delivery of consignment at Point Z it was ascertained that the passenger had given wrong declaration.

Q6. What action needs to be taken against the passenger?

- (a) He may be imposed a fine upto ₹5000/-
- (b) He may be imprisoned upto two years.

(c) He may be imposed a fine upto ₹5000/- and imprisonment upto two years.

(d) None of the above.

(F) Ministry of Railways had introduced a new policy in December 2020 on Premium indent by inserting an additional Para 201 (21) in the Chapter II of Goods Tariff No.41 Part I (Vol 1).

Important features of premium indents are:

(i) The scheme will be optional.

(ii) The scheme will be compulsory.

(iii) In the indent, the customer may indicate the date of supply and also mention whether he will load if the rake is supplied after due date on normal tariff.

(iv) The customer shall be required to pay 15% premium on normal freight which shall be deposited in advance.

Q7. Which of the following answer is correct.

(a) (i), (iii) and (iv)

(b) (ii), (iii) and (iv)

(c) (ii) and (iii)

(d) None of the above.

(G) As there was long term demand from Railway Freight Wagon users for better and timely availability of General Purpose Wagon (GPW), Ministry of Railways (MoR) decided to introduce a scheme of investment in General Purpose Wagon through General Purpose Wagon Investment Scheme (GPWIS). The scheme was applicable exclusively on the wagons inducted under this scheme. Wagons prior to the commencement of this scheme shall not under any circumstances be covered under this scheme.

The rakes inducted under GPW Scheme shall not be merged in IR's pool of wagons and will be distinctly indicated through a colour scheme. The rakes so inducted shall run on pre-approved circuits. The circuit on which the rakes are proposed to be deployed by end user would be approved by Traffic Transportation Directorate, Railway Board.

A rebate of 10% shall be given on the base freight on each loaded wagon. Such rebate shall, however, be ordinarily for a period of 15 years. No freight will be charged for movement of empty rakes to the next destination provided the distance travelled by empty rake is less or equal to the distance travelled by train before unloading. However, if the empty rake travels an additional distance over and above the loaded distance, empty freight rate shall be charged at 50% of loaded freight of public tariff on carrying capacity of the wagons.

Q8. One such loaded rake booked from Station A to Station B at a distance of 350 KM. After unloading, the empty rake was sent to the Station C at a distance of 500 KM.. The freight tariff of a loaded rake for 500 KM, 350 KM & 150 KM is ₹ 30 lakhs, ₹ 18 lakhs & ₹ 8 lakhs respectively. Here, for movement of the empty rake, the concerned Goods Clerk

a) Will not charge any freight .

b) Will charge freight ₹ 18 lakhs

c) Will charge freight ₹ 8 lakhs

d) Will charge freight ₹ 4 lakhs

Q9. The circuit of the GPWIS inducted rake is decided by

a) General Manager

b) Transportation Directorate

c) Traffic Directorate

d) Traffic Transportation Directorate.

(H) A consignment was booked on 1.1.2024 from station X to station Y and reached the destination on 3.1.2024. but the consignee failed to take delivery of the consignment. Action needed to be taken under Section 84 of Railway Act 1989 is/are

- (i) Such consignment may be treated as unclaimed.
- (ii) Keep it under its custody till consignee takes the delivery.
- (iii) In the case of an unclaimed consignment which is perishable in nature, sell such consignment in the manner provided in clause (a) of sub-section (2) of section 83.
- (iv) In the case of an unclaimed consignment which is not perishable in nature, cause a notice to be served upon the consignee if his name and address are known, and upon the consignor if the name and address of the consignee are not known, requiring him to remove the goods within a period of seven days from the receipt thereof and if such notice cannot be served or there is a failure to comply with the requisition in the notice, sell such consignment in the manner provided in clause (b) of sub-section (2) of section 83.

Q 10. Which of the following answer is correct.

- (a) (i) and (ii)
- (b) Only (ii)
- (c) (i), (iii) and (iv)**
- (d) None of the above

Railway Traffic Revenue

Q.1 Error in classification refers when a consignment specially classified in the I. R. C. A. Tariff is correctly described, but charged under the wrong classification. Overcharges are claimed in respect of goods not specifically mentioned in the Indian Railway Conference Association Goods Tariff and regarding which doubts exist as to the correct rate chargeable do not come under the heading "Error in classification".

- A. In the above cases no refund is allowed
 - B. Refund is allowed by Goods Shed concerned
 - C. Refunds can be allowed by the Claims Office concerned
 - D. Refund may be allowed by Divisional Commercial Manager
- I. Only (C) is correct, II. Either (B) or (C) is correct, III Only (D) is correct, IV None of the above is correct

Ans I

Q.2. From X siding to Y siding the shortest route is A-B-C for movement of goods traffic. But there was constraint in movement of traffic through this shortest route which is a highly busy suburban section and engine reversal was required twice to move the goods traffic. Therefore, the goods traffic is to be moved regularly through a longer route *via* D-E-F. However, Freight is being charged based on distance through the shortest route.

As an Auditor what will be your observation :

- A. Freight is to be collected based on longer route
- B. Freight is being correctly charged
- C. Rule 125 (iii) of IRCA empowers Railways to carry and charge goods by any specified route even if it is not the shortest route
- D. The constraints in the shortest route should be removed till the date no movement of traffic should be allowed

I.(B) is correct. II. (D) is correct, III. (A) is correct IV. (A) is correct subject to fulfilment of conditions mentioned in (C).

Ans IV

Q.3 X is a siding located at 15 kilometre from the main station Y which is the serving station of the siding X. From the siding X, goods is carried to a siding A located 200 km,. away. Freight is collected for distance 215 km. However, the distance slab for charging the freight in this case is 200-225 Km.

The audit check includes whether:

- A. the siding has been notified as public siding
- B. freight applied based on applicable distance slab
- C. Siding charges levied to and fro serving station Y and siding X

The audit finding will be :

- I. There was undercharge of freight for 15 Km. subject Audit Check (A), (B) & (C)
- II. There is overcharge of freight for extra 15 Km. distance subject to Audit Check (A)
- III. The applicable charge should be freight for 200 Km. plus siding charges for 15 Km. for the distance between siding and the main station subject to fulfilment of conditions as per Audit Check (A) & (B)
- IV. The applicable charge should be freight for 200 Km. plus sidings charge for round trip time to cover 30 Km. to and fro serving station and siding subject to Audit Check (A) and (C)

Ans. (IV)

Q.4 Passengers are allowed to carry limited luggage with them free of charge (free allowance). In X station you have checked the records pertaining to levy of luggage rate and found that passengers with luggage of weight more than the free allowance had been charged at Scale L.

What could be the Audit observation :

- I. The luggage rate was correctly levied
- II. There was overcharge of luggage rate
- III. There was undercharge of luggage rate as it should have been charged at two times scale L rate
- IV. There was undercharge of luggage rate as it should have been charged at 1.5 times scale L rate

Ans (IV)

Q.5 While auditing the records of X siding you noticed that siding charges were fixed as ₹ 10,000/- for 50 minutes required for round trip of the engines, the applicable engine hour cost being ₹ 12000. Is this objectionable to you as an auditor?

- I) No, because siding charges were collected for the actual time for round trip
- II) No impact as collection of siding charges is not dependent on time
- III) Yes, because siding charges are required to be calculated on distance basis
- IV) Yes, there was undercharge of ₹ 2000/- because siding charges are to be collected for minimum one hour

Ans IV

Q.6 Summary of Revenue Receipts of Indian Railways during 2018-19 and 2019-20 is as follows:

Details	Revenue Receipt (2018-19) (₹ in Crore)	Revenue Receipt (2019-20) (₹ in Crore)
Passenger Earnings	51,066.65	50,669.09
Other Coaching Earnings	4,474.46	4,640.79
Freight Earnings	1,27,432.72	1,13,487.89
Sundry Earnings	6,996.23	5,862.75
Total	1,89,970.06	1,74,660.52

The above table suggests that :

- A. Total Receipts decreased by 8.30 *per cent* during 2019-20
 - B. The decrease in 2019-20 was mainly due to decline in Freight Earnings (by 10.94 *per cent*) and Sundry Earnings (by 16.20 *per cent*) as compared to 2018-19.
 - C. There would be lesser fund flow on account of traffic earning into the Consolidated Fund of India in 2019-20 as compared to 2018-19
 - D. There would be no impact on the fund flow into the Consolidated Fund
- I) Only (C) is correct, II) (A), (B) & (C) are correct., III) (D) is correct IV) (B) is incorrect

Ans. (II)

Q.7 The Mini Rake Scheme, one of the freight incentive schemes to attract short-lead less-than standard trainload traffic, was introduced by Ministry of Railways in September 2001. The scheme with the exception of coal, ores and RMSP traffic, is offered for a minimum composition of 20 covered BCX or BRN or BCN wagons for which consignor will have to register indents accordingly. The benefit of trainload class rate instead of wagon load shall be granted to rakes booked under Mini Rake scheme. Test check of records of XYZ siding at revealed that against the indents of the siding owner of 21 or 31 wagons for cement traffic Railway authority offered on each occasion the rake with composition of 42 wagons and granted the concessional freight at the rate of train load.

- A. The train load benefit under Mini Rake Scheme should be granted in the above case
- B. Benefit may be granted if indent of wagons booked for Mini Rake,
- C. iii) Railway should not offer 42 wagons if indent booked for Mini Rake to avoid incurrence of extra operational cost involved in hauling empty rakes run,
- D. By granting train load benefit Railway also suffered freight on account of the difference in freight under wagon load and train load

I) (A) is correct, II) (B) is correct, III) (D) is correct, IV) (B), (C) & (D) are correct

Ans. IV

Q.8 In a siding record it was noticed that shunting operations in the siding were done by diesel train engines for loading/unloading of the goods. A Railway Receipt generated for outward traffic for full load rake in the siding revealed that train load benefit has been granted and shunting charge was levied as per the rate applicable for shunting engine.

Which among the following is correct observation

- I) The party was correctly charged the freight including other charges,
- II) The benefit of train load was irregular,
- III) The shunting charge was incorrectly levied,
- IV) None of the above.

Ans. III

Q.9 In order to improve utilization of rolling stock and help the customers in prompt clearance of freight trains from the sidings/terminals, Ministry of Railways (MoR) introduced Engine-On-Load (EOL) scheme. Under the EOL scheme, train engine will remain available during loading or unloading operations in the siding and wait on Railways' account so as to work the train immediately after loading/unloading operation is completed. The siding owners will be required to opt for the EOL operations under an agreement with the Zonal Railway Administration. When reviewing the records of five sidings under EOL scheme of XYZ division you have noticed that :

- The siding owners have opted for EOL duly executing agreements with the Railways.
- Train engines were detached and removed from the rakes after placement of rakes in the sidings.
- The engines were sent to serving stations or other stations.
- The rakes after loading/unloading detained for a substantial period ranging between 7 to 34 hours.
- On checking of the RR it was noticed that no detention charges were levied from the siding owner.

What could be the Audit Observation :

- A. The siding owner should have been charged detention charge beyond free time
- B. The siding owner should have been debarred from the EOL scheme
- C. The intended benefit of the EOL scheme defeated
- D. The Railways had to suffer loss of potential earning of the wagons detained for substantial period

I) All of the above, II) (A) & (B), III) (C) & (D), IV) Only (A)

Ans. (III)

Workshop and Stores

- (I) One LHB Coach No. ABCD was sent by XYZ Coaching Depot on 12 April 2022 for POH. The coach passed through different shops for repairing before it reached the bogie shop on 19 April 2022. Out of 14 must change items pertaining to the bogie shop, three must change items (traction centre elastic joint, lateral bump stop, and safety wire rope pin) were replaced by second-hand serviceable materials. The repaired coach was sent back to XYZ coaching depot on 27 April 2022.

The coach was, however, reported sick in the XYZ depot twice on 29 May 2022 and 19 July 2022, within 100 days of POH. On the first occasion, the coach failed due to the defect “L1 L2 R1 secondary spring rubber bump stop displaced rubbing with inner bolster spring”. Records revealed that the must change rubber items were replaced by second-hand serviceable materials by the Bogie Repair Shop during POH. The coach was repaired at XYZ depot by replacing the cracked rubber spring. In the second instance of failure, the defect was a repetition of the earlier failure. The coach was again repaired and declared fit on 27 July 2022.

Q11. This indicates

- a) Poor workmanship
- b) Deficiencies in identification of defects during inspection**
- c) Proper workmanship
- d) Both (a) & (b)

- (J) Para 201 and 204 of Indian Railways Finance Code Volume I provides that the expenditure incurred on new assets or for improvement of existing assets should be financially justified and investment decisions are to be made by keeping long term perspective in mind.

Workshop ABCD augmented (March 2016) the POH capacity of the workshop for outturn of 150 coaches per month at an estimated cost of ₹ 38.62 crore (₹ 25.8 crore for ICF coaches and ₹ 12.82 crore for LHB coaches). The augmentation work was justified with 17.61 per cent Rate of Return (ROR) projecting that additional overhauling of 60 coaches per month would result in net saving of ₹ 11.55 crore per year.

Audit observed that despite having infrastructure for 150 coaches, the outturn of the workshop ranged between 97 and 113 coaches per month during 2016-17 to 2022-23.

Q12. This indicates

- a) Proper utilisation of Plant Capacity
- b) Underutilisation of plant capacity**
- c) Reasonable utilisation of plant capacity
- d) Very Good utilisation of plant capacity

- (K) Para 602 of Indian Railway Finance Code, Volume-I stipulates that it is a primary duty of the officers authorised to enter contracts to obtain the best value for the money spent and the tender system should be given very careful and serious consideration in all cases as one of the most effective methods of securing competitive rates.

During the review of records of office of Deputy Chief Engineer (Electrical) Workshop, ABC Railway, it was observed that an open tender was invited for procurement of LED lights at an estimated cost of ₹ 9.00 crore. In response, a single bid was received. The work was awarded (August 2019) to the single bidder M/s. XYZ Pvt. Ltd. Mumbai at a cost of ₹

9.24 crore with completion period of eight months. The work started with effect from October 2019 and completed in March 2021.

It was noticed in audit that rates of similar items were available with CDE Administration. Similar items with same specification were procured by the Chief Material Manager (CMM) GHI Railway in the immediate past (October 2018) at much lower prices. Further, lower rates of branded LEDs supplied by the M/s. XYZ itself in KLM Railway (May 2018) were also available in the records of ABC Railway.

Q13. The action of Railway is not acceptable to audit due to

- a) Acceptance of single bid at unreasonably higher rates
- b) Available Rates awarded in the recent past was not considered
- c) Action of Railway is acceptable.
- d) Both (a) & (b)**

Workshop and Stores Audit

Q1. Five items having book value of ₹1,00,00,000/- remained surplus since 2019 in X depot. The competent authority of X Depot only in September 2024 issued a circular over Indian Railways seeking advice for the requirement of the said surplus materials. Ultimately, the materials were to be disposed off as scrap fetching ₹ five lakh. Finding the fact you have raised an Audit Memo asking for the reason for delayed circulation. The competent authority stated that they were waiting for the probable utilization of the materials.

As an Auditor what is your observation and conclusion.

- A. Since the depot authority were waiting for the probable utilization of the materials there was no lapse on their part.
- B. Though utilization of the materials was to be explored in the next two years post declaration of surplus, the time lag was more than five years and no response was received compelling the authority to sell the materials as scrap
- C. iii)The idling of the valuable materials for more than five years impacted the revenue largely as the materials were to be sold as scrap by more than 1/20th of the book value of the item.
- D. iv)Failure of management of surplus materials resulted in fetching lesser revenue for the Railways.

I)Only (D) is correct, II) (B) and (C) are correct, III) (B), (C) & (D) are correct, IV) only (A) is correct.

Ans, (III)

Q2. Stores items received at X Scrap Depot from Y Workshop were reduced in weight than actual, citing the reasons therefor as items being contaminated with unsaleable materials such as rust, mud etc. When you were checking the records some correspondences were noticed which highlighted that the Y Workshop authority objected the reduction in weight authority. The contention of Workshop authority was rebutted by Depot authority stating that since the materials did not comply with codal provisions and were mixed with unsaleable materials the reduction in weight was justified.

As an Auditor what would be your opinion based on the codal mandates.

- A. There was gap in the system in the Workshop to sort out the stock according to the correct nomenclature of the Price List before it is actually despatched.
- B. No audit opinion could be built as there seems no possibility of revenue leakage
- C. There is possibility of revenue leakage as Workshop authority does not maintain the system of sorting out the materials required under codal mandate
- D. The depot authority managed the scrap disposal by sorting out the stock on condition basis to fetch more revenue.

I) (A), (C) & (D) are correct II) (D) & (B) are not correct, III) Only (A) is correct, IV) (C) & (D) are correct

Ans. (I)

Q3. During the course of audit of the records of ABC Locomotive Works you have noticed that there was substantial procurement of 1800 V BK Single Core Cable in each year on the basis of the indents placed by M Shop. But at the end of March 2025 huge accumulation of 60000 meters worth ₹ 10 Crore of the item was found at stock. The reason for such huge

accumulation when sought from the Workshop Administration they stated that during 2021-22, 2022-23 and 2023-24 the utilization of items was very meagre and that in 2024-25 there was no utilization at all because the item has been completely replaced by another superior type of cable.

As an Auditor what will be your observation and recommendation.

- A. As the old stock item was replaced by new one there seems no lapse of the Workshop Administration
- B. The M shop should restrict the indents of the materials
- C. The stores department should bypass the indents placed by the shop
- D. This is a case of failure of inventory management due to lack of internal control resulting in idling of substantial material costing ₹ 10 Crore. The Administration should strengthen their inventory management system and also explore the utilization of the materials in any other Zonal Railways or Production units to avoid loss in the event of scrapping the item.

I) Only (C) is correct, II) Only (A) is correct III) (C) & (D) are correct, IV) (B), (C) & (D) are correct

Ans. (IV)

Q4. The labour cost consists of significant portion of debit to workshop Manufacture suspense account. Labour Suspense Head should be operated in case payment of wages of Workshop Artisan Staff for a particular month (especially of March) is done in the following month. Audit check revealed that in XYZ Railway 'Labour Suspense' head was not operated in any workshop.

Audit found the Job costing to be irregular as :

- A. To ascertain the cost incurred on a job in a month, it is essential that the value of the labour employed in the shops is charged in the same month to the specific jobs on which the workshop staff had been engaged.
- B. Non-maintenance of 'Labour Suspense' head in the workshops was a gross violation of codal provision by the Railway Management
- C. Maintenance of this particular head was necessary to ascertain the value of the labour charged to the specific job on which workshop staff had been engaged.
- D. Labour is an important component for costing of manufacturing/repair activities in railway workshops.

I. All of the above are correct., II. Only (A) is correct, III. Only (C) is correct, IV. (A), (C) & (D) are correct

Ans. I

Q5. During the course of audit of records of XYZ workshop it was noticed that financial appraisal of the following works/projects was not undertaken :

- A. Repair / Replacement of Covered shed.
- B. Replacement of Floors/Roofing.
- C. Renewal of Old Pit line.
- D. increase in ROH outturn of wagon depots

Audit found irregularity, if any, in case of :

I) Replacement of Floors/Roofing being the cost of the project funded from DRF should be financially appraised

II) No irregularity

III) Renewal of Old Pit line being charged from Capital should be financially appraised

IV) Increase in ROH outturn of wagon depots being sourced from Capital should be financially appraised

Ans. (IV)

1. During the audit of XYZ Workshop in the estimates of Incidence Of Cost Of Works Done For Other Departments / Ministries Audit noticed that the cost involved in the work order for manufacture of postal vans for Posts and Telegraphs Department was correctly framed and the cost included an amount of ₹ 50 lakh on account of interest and depreciation to be borne on the account of Railways for the 50 number of vans which were also used by Railways.

Whether conclusion of Audit is correct?

I) Yes

II) No, the estimate is absence of other relevant charges

III) No, the interest and deprecation charges are to be borne by Postal Department

IV) No, interest and maintenance charges will not be involved.

Ans. (III)

Q6. Audit while checking the records of Incentive Bonus in ABC workshop noticed that a Junior Engineer supervising the direct workers of an Incentive Section has earned incentive bonus of ₹ 20,000/- in a month against the average *percentage* of profit earned by the direct workers of the said Section amounting to ₹ 25000/-.

Audit observation should be :

I. The Junior Engineer being a supervisory staff is not entitled for Incentive Bonus.

II. The incentive Bonus wrongly calculated as it is to be paid with the restriction to ₹ 15,000/- at a rate of 60 *per cent* of the average *percentage* of profit

III. The incentive Bonus has been correctly calculated being the maximum ceiling of ₹ 20,000/- for Junior Engineer

IV. The incentive Bonus has been correctly calculated as for the Junior Engineer the maximum amount of incentive bonus restricted to 80 *per cent* of average percentage of profit earned by the direct workers

Ans IV

Q7. Audit during scrutiny of records of XYZ workshop noticed that stores amounting to ₹ 20 lakh drawn against Standing Work orders were used for different works. Nothing was done on record subsequently.

What should be Audit findings :

A. It should not be done as it resulted in an incorrect allocation

B. It should have been made good by issuing a write back order in the same month

C. The incorrect allocation should have been regularized by debiting to the correct work order and minus debits to work orders from which the charges are written back

D. The transaction should be allowed by given debit to the different works with a minus debit to the work order to which it was allocated.

I) (D) is correct, II) (A), (B) & (C) are correct, III) (A) is correct IV) only (C) is correct

Ans. (II)

Advance Accounting

Questions

1. How do the accounting concepts of going concern and accrual basis influence the preparation of financial statements? Can these concepts conflict in practice?
2. Discuss the relevance and limitations of the Prudence (Conservatism) convention in modern financial reporting under Ind AS.
3. Discuss the implications of dishonor of a bill by non-acceptance and by non-payment. How should such dishonor be recorded in the books of drawer and drawee?
4. A company changes its method of inventory valuation from FIFO to Weighted Average due to changes in economic conditions. Discuss the implications under AS 2 and relevant disclosure requirements.
5. Explain the methodology for calculating insurance claims for loss of stock due to fire. What role does the Average Clause play in determining the claim amount?
6. A lessee pays two separate sets of rentals—one based on output (units produced) and another fixed annual lease rent. Analyze and explain the recognition principles, timing and impact on profit/loss under AS/FAS.
7. A machine becomes idle but not disposed. Should depreciation continue? Explain with reference to AS and Ind AS.
8. After 1 year of joint venture, a new partner is admitted, bringing new capital. Walk through the effect on goodwill and profit sharing under proportionate capital method.

Case Studies

Q 1-The following balances are extracted from the books of ABC Ltd. as on 31st March 2025:

Particulars	Amount (₹)
Equity Share Capital (₹10 each, fully paid)	30,00,000
12% Preference Share Capital (Redeemable)	10,00,000
General Reserve	8,00,000
Profit and Loss A/c (Cr.)	6,50,000
Plant and Machinery	25,00,000
Furniture	3,00,000
Debtors	12,00,000

Particulars	Amount (₹)
Inventory (01-04-2024)	10,00,000
Bank	6,00,000
Creditors	5,00,000
Sales	50,00,000
Purchases	35,00,000
Administrative Expenses	3,50,000
Selling Expenses	2,00,000

Adjustments:

1. Closing stock is valued at ₹12,00,000 (Cost ₹11,50,000; NRV ₹12,00,000).
2. Provide for doubtful debts @ 5%.
3. Depreciation: Plant and Machinery @10%, Furniture @15% (WDV).
4. Declare dividend @15% on Equity Shares. Provide DDT @17%.
5. Redeem preference shares at a premium of 10% out of profits.
6. Provide for corporate tax @30%.
7. Transfer 10% of current year's profit to General Reserve.

Required: Prepare:

- **Statement of Profit and Loss**
- **Balance Sheet as per Schedule III (Revised)**

Q2 -XYZ Ltd. provides you with the following Balance Sheets as on 31st March 2024 and 31st March 2025:

Balance Sheet (₹ in lakhs)

Particulars	31.03.2025	31.03.2024
Equity & Liabilities		
Equity Share Capital	2,000	1,600
10% Preference Share Capital	400	600
Reserves and Surplus	1,800	1,200
12% Debentures	1,000	800
Deferred Tax Liability	100	80
Trade Payables	600	500
Outstanding Expenses	150	100
Provision for Taxation	250	200
Total	6,300	5,080

Particulars	31.03.2025	31.03.2024
Assets		
Fixed Assets (Net)	3,200	2,800
Investments (Long-term)	800	500
Inventory	1,000	900
Trade Receivables	700	580

Particulars	31.03.2025	31.03.2024
Cash and Cash Equivalents	600	300
Total	6,300	5,080

Additional Information:

1. Depreciation charged during the year was ₹400 lakhs.
2. A piece of machinery with WDV ₹200 lakhs was sold for ₹250 lakhs.
3. Investment costing ₹100 lakhs was sold for ₹120 lakhs.
4. A new building was purchased for ₹1,000 lakhs.
5. Equity shares were issued at a premium of 25%.
6. ₹200 lakhs of preference shares were redeemed at par.
7. ₹100 lakhs of debentures were issued at par.
8. Dividend paid during the year was ₹150 lakhs.
9. Tax paid during the year ₹180 lakhs.
10. Operating expenses include amortization of goodwill ₹40 lakhs.

Requirement:

Prepare a Cash Flow Statement for the year ended 31st March 2025 in accordance with AS 3 (Revised) / Ind AS 7 using the Indirect Method.

Q 3 – Ratio-Based Business Decision

Scenario:

XYZ Ltd. is evaluating the financial health of two potential joint venture partners: PQR Ltd. and LMN Ltd. Both are in the same industry, but management is unsure which company has better financial and operational performance.

Financial Data for FY 2024–25 (₹ in Lakhs):

Particulars	PQR Ltd.	LMN Ltd.
Revenue from Operations	5,000	5,500
Cost of Goods Sold	3,200	3,800
Operating Expenses	1,000	900
EBIT	800	800
Interest	200	100
Net Profit Before Tax	600	700
Tax (30%)	180	210
Net Profit After Tax	420	490
Equity Share Capital	1,200	1,000
Reserves and Surplus	800	1,200
Non-Current Assets	2,000	2,200
Inventory	500	600
Debtors	700	600
Cash & Cash Equivalents	300	400
Current Liabilities	900	700
Long-term Borrowings	1,000	500

Required:

A. Calculate the following ratios for both companies:

- 1. Current Ratio**
- 2. Quick Ratio**

3. Gross Profit Ratio
4. Net Profit Ratio
5. ROCE (Return on Capital Employed)
6. Debt to Equity Ratio
7. Interest Coverage Ratio
8. EPS (Assume no preference shares)
9. Asset Turnover Ratio (Revenue/Total Assets)

B. Recommendation Report:

- Analyze and interpret the strengths and weaknesses of both companies.
- Based on the ratios, recommend which company is a better candidate for JV and why, from the perspective of:
 - Liquidity
 - Solvency
 - Profitability
 - Operational Efficiency
 - Return on Investment

Q 4- You are provided the following Receipts and Payments Account of xyz, for the year ended 31st March 2025:

Receipts and Payments Account

For the Year Ended 31st March, 2025

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (Cash in Hand)	25,000	By Salaries	2,40,000
To Balance b/d (Bank Balance)	1,50,000	By Stationery	35,000
To Subscriptions	3,80,000	By Medicines	70,000
To Donations (General)	1,20,000	By Honorarium to Doctors	90,000

Receipts	Amount (₹)	Payments	Amount (₹)
To Entrance Fees	80,000	By Electricity	30,000
To Life Membership Fees	1,50,000	By Furniture Purchased	1,00,000
To Grant from Government	2,00,000	By Books Purchased	50,000
To Interest on Investments	25,000	By Investments (made on 1.10.2024)	2,00,000
To Sale of Old Newspapers	5,000	By Repairs and Maintenance	15,000
		By Balance c/d (Cash in Hand)	20,000
		By Balance c/d (Bank Balance)	3,85,000
Total	11,15,000	Total	11,15,000

Additional Information:

- Subscriptions Outstanding:**
 - 1st April 2024: ₹20,000
 - 31st March 2025: ₹25,000
 - Subscriptions received in advance as on 31st March 2025: ₹10,000
- Entrance Fees:** To be capitalised to the extent of 50%.
- Life Membership Fees:** To be capitalised.
- Books** to be depreciated @ 10% p.a. (on closing balance); Furniture @ 10% p.a. (on written down value).
- Investments made on 1.10.2024** carry 10% p.a. interest (received for full year).
- Outstanding Salaries** as on 31st March 2025: ₹20,000
- The Capital Fund as on 1st April 2024 was ₹6,00,000 and there were Furniture of ₹1,20,000 and Books of ₹80,000 on that date.

Requirements:

- Prepare Income and Expenditure Account** for the year ended 31st March, 2025.
- Prepare Balance Sheet** as at 31st March, 2025.

Q 5. Joint Venture with Separate Books

Scenario:

M/s A Ltd. and M/s B Ltd. entered into a joint venture to construct a flyover. A joint bank account is opened, and both parties agree to share profits and losses in the ratio of **3:2**. The following transactions took place:

Initial Capital Contributions:

- A Ltd. contributed ₹10,00,000
- B Ltd. contributed ₹8,00,000

Transactions through Joint Bank Account:

- Purchase of materials: ₹9,00,000
- Labour charges: ₹4,00,000
- Site overheads paid: ₹1,00,000
- Plant purchased: ₹3,00,000 (estimated life 3 years, used for 6 months on this project)

Other Transactions:

- B Ltd. paid ₹1,00,000 directly for consultancy services.
- A Ltd. supplied materials from its stock worth ₹1,50,000.
- Contract completed and ₹22,00,000 received from government and deposited in joint bank.
- At the end of the venture:
 - Unsold material worth ₹1,00,000 was taken over by B Ltd.
 - The plant was taken over by A Ltd. at a mutually agreed value of ₹2,50,000.

Requirements:

1. Prepare **Joint Venture Account**
2. Prepare **Joint Bank Account**
3. Prepare **Co-Ventures' Personal Accounts** (A Ltd & B Ltd)

Cost and Management Accounting

Advanced Theory Questions – Cost Accounting

- Define *cost control* and *cost reduction*. How are they different in terms of scope and objective?
- Explain the concept of *opportunity cost* with suitable examples. In which types of decision-making is it most relevant?
- Discuss the relevance of *activity-based costing* (ABC) in a multi-product manufacturing environment.
- Why is *variance analysis* important in performance evaluation? Discuss with reference to material and labour variances.
- Discuss the role of *contribution per unit of key factor* in product mix decisions under limited resources.
- Discuss the importance of *flexible budgets* in a dynamic business environment. How are they different from fixed budgets?
- What are the bases for apportionment of service department costs? Describe the *reciprocal method* with an example.
- How is *capacity utilization* related to *overhead absorption*? Discuss the impact of under- or over-absorption.
- What is the role of a cost auditor under Section 148 of the Companies Act, 2013?
- What is *life cycle costing*? How does it influence strategic decision-making?

Case Study-1

ABC Ltd. is a manufacturing company that produces a single product, **ZX-9**. The company uses **standard costing system** for cost control and variance analysis. Below are the standard cost details per unit of ZX 9:

Standard Cost Per Unit of ZX-9:

Cost Component	Quantity	Rate (₹)	Amount (₹)
Direct Material A	4 kg	₹50/kg	₹200
Direct Material B	2 kg	₹80/kg	₹160
Direct Labour	5 hours	₹60/hour	₹300

Cost Component	Quantity	Rate (₹)	Amount (₹)
Variable Overhead	5 hours	₹20/hour	₹100
Total Standard Cost			₹760

Actual Production and Cost Data for April 2025:

- Units produced: 2,000 units
- Material A used: 8,500 kg costing ₹4,42,000
- Material B used: 3,800 kg costing ₹3,00,400
- Direct labour hours: 10,500 hours paid at ₹65/hour
- Variable overhead incurred: ₹2,10,000

Additional Information:

1. There was no opening or closing inventory of raw materials or finished goods.
 2. The standard loss is **nil**.
 3. Assume all overheads are based on labour hours.
-

Required:

1. **Calculate the following variances:**
 - Material Cost Variance (MCV), Price Variance, Usage Variance for both A and B
 - Labour Cost Variance, Rate Variance, Efficiency Variance
 - Variable Overhead Variance: Expenditure and Efficiency
2. **Reconcile** the standard cost with the actual cost using variances.
3. Based on your analysis, **advise management** on the likely causes and suggest **corrective actions**.

Case Study-2

ABC Ltd. is engaged in the manufacturing of industrial chemicals. The production process involves three sequential processes: Process 1, Process 2, and Process 3.

For the month of April 2025, the following data relates to each process:

INPUT to Process 1:

- Raw Material: 12,000 units at ₹25 per unit

- Direct Wages: ₹1,50,000
- Overheads: 80% of Direct Wages

Additional Costs:

Particulars	Process 1	Process 2	Process 3
Direct Material	₹60,000	₹40,000	₹30,000
Direct Wages	₹90,000	₹70,000	₹60,000
Overheads	75% of Wages	60% of Wages	50% of Wages

Output & Loss Data:

Particulars	Process 1	Process 2	Process 3
Normal Loss (% of input)	5%	10%	5%
Scrap value/unit of loss	₹5	₹10	₹20
Actual output (units)	11,200	10,000	9,300

- There is no stock at the beginning or end in any process.

Additional Notes:

1. Transfer of output from one process to the next is at cost.
2. Abnormal loss/gain is to be valued at cost.
3. Final output is transferred to Finished Goods A/c from Process 3.

Required:

Part A: Process Accounts

1. Prepare Process 1, Process 2, and Process 3 Accounts for April 2025.
2. Show calculation of:
 - Normal Loss
 - Abnormal Loss/Gain (if any)
 - Cost per unit in each process

Part B: Analysis & Application

3. Calculate the overall cost per unit of finished goods.

4. If the selling price per unit is ₹120, compute the profit or loss for the month.
5. As a Cost Accountant, provide two recommendations to improve process efficiency and reduce cost.

Case Study- 3:

XYZ Ltd. manufactures high-precision CNC machine components. The factory operates under a job-order costing system. The company applies factory overheads based on machine hours and administrative and selling overheads based on a percentage of works cost.

You are provided the following data for **Job No. X-54**:

Particulars	Amount (₹)
Direct Materials	2,40,000
Direct Wages	1,60,000
Machine Hours Used	800 hours

Additional Information:

1. Factory Overheads are absorbed @ ₹150 per machine hour.
2. Administrative Overheads are 10% of Works Cost.
3. Selling and Distribution Overheads are 15% of Cost of Production.
4. The company applies a markup of 25% on Total Cost to arrive at the selling price.
5. There was an **under-absorption** of factory overheads by ₹20,000 during the year due to idle time and machine breakdown, which the company wants to apportion over all jobs based on actual machine hours used.

Required:

1. **Compute the total cost and selling price** of Job No. X-54 **before and after adjusting** for under-absorption.
2. Show all **working notes clearly**.
3. Provide **analytical comments** on:
 - Effect of under-absorption on costing.
 - Whether the current absorption base (machine hours) is appropriate for factory overheads.

Case Study- 4

XYZ Travels Pvt. Ltd. operates a fleet of luxury AC buses between Delhi and Jaipur (a distance of 270 km). The company runs **6 buses** on a daily round trip. Each bus has a capacity of **40 passengers** (excluding the driver and conductor). The buses operate **25 days a month**.

The company incurs the following monthly costs:

Particulars	Amount (₹)
Driver's Salary per bus per month	28,000
Conductor's Salary per bus per month	22,000
Diesel consumption per km	4 litres
Cost of diesel per litre	₹ 85
Maintenance cost per bus per month	₹ 24,000
Permit and road tax per bus per month	₹ 10,000
Insurance and admin overhead (monthly)	₹ 2,00,000 (Total for all buses)

Other Information:

- **Depreciation** on each bus is ₹ 30,000 per month.
- On average, the buses operate at **80% capacity**.
- There are **2 staff (driver + conductor)** per bus, and they get ₹ 500 per trip as **daily allowance**.
- The company aims to earn a **profit margin of 20%** on the **operating cost**.

Requirements:

1. Compute the cost per passenger km.
2. Determine the fare per passenger per trip (to ensure the desired profit).
3. Calculate the monthly profit if the fare is ₹ 850 per passenger per trip.

Case Study 5:

ABC Ltd. is currently manufacturing and selling a single product. The following information relates to the current operations:

Particulars	Amount (₹) per unit
Selling Price	₹ 200
Direct Material	₹ 50
Direct Labour	₹ 40
Variable Overhead	₹.30
Fixed Overheads (Total)	₹ 6,00,000 per month
Monthly Production Capacity	15,000 units
Current Sales Volume	10,000 units

The company has received a **special export order** for 4,000 units at ₹ 160 per unit. The order would not affect existing domestic sales. The customer will bear the delivery cost. The company has idle capacity and no additional fixed costs would be incurred.

Additionally, the marketing team has suggested a strategy:

- **Reduce selling price to ₹ 180 per unit** to boost **domestic sales** to 14,000 units.
- The marketing budget will increase by ₹ 1,00,000 for the month if the strategy is adopted.

Required:

(a) Calculate the current monthly **Profit** using marginal costing.

(b) Perform a **differential cost analysis** to assess whether the company should accept the **special export order**.

(c) Evaluate the **marketing strategy** using CVP analysis. Should the company reduce the price and increase sales to 14,000 units?

(d) What is the **break-even point** in units and in sales value under:

(i) Current scenario

(ii) Proposed price reduction strategy

(e) Suggest the best course of action based on your analysis in parts (a) to (d). Justify your answer with relevant figures.