IAS Mains Commerce 2000

Paper-I

Time Allowed: Three Hours Maximum Marks: 300

Instructions

Each Question is printed both in Hindi and in English.

The The answers must be written in the medium specified in the Admission Certificate issued to you, which must be stated clearly on the cover of the answer-book in the space provided for the purpose. No mark will be given for answers written in a medium other than that specified in the Admission Certificate.

Candidates should attempt questions 1 and 5 which are compulsory, and any THREE of the remaining questions selecting at least ONE question from each Section.

Assume suitable data if considered necessary and indicate the same clearly.

All question carry equal marks.

Section A

1. Answer any three of the following (the answer should not exceed 200 words in each case)

    a. A company has indulged in massive advertising campaign spending a huge sum of Rs. 1 (one) crore during the current year against its usual yearly expenditure of Rs. 20, 00, 000. How would you deal with this type of expenditure in the annual accounts of the company

    b. Segregation of semi-variable cost into fixed and variable components is not possible. Do you agree If not, how do you solve the problem

    c. State the provision of the law relating to set off and carry forward of losses.

    d. What are the distinguishing features of the audit of non-profit organizations like hospital or university

2. Answer the following

    a. Explain the methods to calculate the consideration payable to a company which is absorbed by an existing company.

    b. A Co. Ltd. Agreed to be absorbed by the B Co. Ltd. On that date the Balance Sheet of A Co. Ltd. Stood as under:

    - Rs. Rs.
    - Paid up capital
    - 50, 000 shares of
    - Rs. 10 each
    - 12% Debentures
    - Creditors
    - Reserves and Surplus

- 2, 50, 000
- 75, 000
- 1, 75, 000
- 10, 00, 000
- Fixed Assets
- Goodwill
- Current Assets
- Cash balance
- 4, 12, 500
- 1, 00, 000
- 2, 37, 500
- 2, 50, 000
- 10, 00, 000

B Co. Ltd. Agreed to take over the assets (exclusive of cash and goodwill) at the book values and pay Rs. 2, 50, 000 for goodwill. The purchase price was to be discharged by the allotment to A Co. Ltd. Of 30, 000 shares of Rs. 10 each in the capital of B Co. Ltd. At Rs. 12.50 per share and the balance in cash.

The A Co. Ltd. Went into voluntary liquidation. Liquidation expenses amounted to Rs. 7, 500.

Prepare the

i. Realisation Account
ii. Cash Account
iii. B Co. Ltd. Account
iv. Shareholders Account in the books of A Co. Ltd. Also show the opening journal entries in the books of B Co. Ltd.

3. Answer the following

   a. A manufacturing company produces three products viz. A, B and C in its three divisions. The production of C has shown loss continuously for the last three years. Management of the company is contemplating to close down the production of product C but before closing they seek your expert opinion. What would be your recommendations Should the production of C be suspended or continued You may make necessary assumption.
   b. How are the standards for Labour Rate and Labour Efficiency fixed Explain clearly.

4. Answer the following

   a. Prepare an auditors report with four qualifications.
   b. Following are the particulars given by Mr. A of Delhi working in some private organisation for the previous year ended on 31 st March, 2000. Compute the taxable

i. Basic salary Rs. 5, 000 per month.

ii. D A at rate of Rs. 1, 000 p. m. Which forms part of salary.

iii. House Rent Allowance @ 30% of basic salary out of which he spent Rs. 1, 000 p. m. On account of rental accommodation.

iv. Contribution to recognised provident fund @ 10% of salary.

v. Leave travel allowance received Rs. 12, 000 but he spend Rs. 10, 000 on travel to his home.

vi. His other incomes are: Interest on deposits Rs. 10, 000 (gross), Dividend from UTI Rs. 16, 000 Rent received from lot out house property Rs. 9, 600 (local tax paid during the year were Rs. 2, 000).

Section B

5. Answer any three of the following using about 200 words in each case

   a. Precautions to be taken in the interpretation of accounting ratios.

   b. Optimum credit policy for a trading firm

   c. Discounted cash flow technique for appraisal of capital expenditure proposals.

   d. Role of RBI in credit control.

6. Answer the following

   a. A manufacturing company provides you the following data and other information and asks you to estimate working capital requirements based on operating cycle method.

      - Raw material cost per unit, Rs. 15
      - Labour cost per unit, Rs. 8
      - Overheads, Rs. 1, 20, 000
      - Annual production and sales = 20, 000 units

      Other Information:

      i. Raw material remains in store on an average for 15 days.

      ii. Finished goods holding period is 10 days.

      iii. Suppliers provide 30 days credit.

      iv. Firm supplies goods to its customers for 15 days credit only.

      v. Raw material remains in production process for 8 days.

      Working capital based on above calculations may be raised by 10% to meet contingencies.

   b. The annual consumption of raw material of a firm is 48, 000 units. The firm buys raw material every month. The usage rate has been fairly uniform. The lead time is usually 15 days.

The firm wishes to hold inventory equal to 5 days consumption as safety stock as it perceives some unexpected changes in usage rate and lead time.

You are required to calculate Re-Order Point and state as to when should the firm place the order to ensure smooth production schedule.

7. Answer the following

   a. What do you mean by an appropriate dividend policy What factors govern the formulation of a dividend policy Explain.

   b. Do you perceive any relationship between book value and market value of a share What can be the possible reasons for the difference between the two

8. Answer the following

   a. Critically examine the role of IFCI in financing large industry. What has the valuations of this institution gone down in the recent years

   b. What are the approaches of the determination of a firms capital structure Suggest the best means of financing in the following case. A company is presently working with all-equity. To finance the expansion plan of the company, three alternative means of financing are available as under

      i. All equity

      ii. 9% preference shares

      iii. 10% debentures

The present capital of the company consists of 1, 50, 000 equity shares of Rs. 10 each. Additional funds to the tune of Rs. 4, 50, 000 is to be raised to meet the expansion programme. The earnings of the company after expansion are likely to be upto Rs. 5, 25, 000. Corporate tax is 45%.