

IAS Mains Commerce 1993

Paper I

Section A

1. Answer any three of the following in about 200 words each:
 - a. Substantiate the statement that Inflation Accounting seeks to incorporate realism into financial statements by adjusting them, to the extent possible, to reflect in a true and fair manner the financial performance and position of an enterprise in a particular period.
 - b. Explain the significance of the cost-volume-profit relationship for managerial decision making.
 - c. Write a note on the powers of Income-Tax Authorities relating to search and seizure.
 - d. Enumerate the contents in the report of an auditor under Sec. 277 of the Companies Act, 1956. Under what circumstances does an auditor qualify his report?
2. Answer the following questions
 - a. What are the bases on which overhead costs are classified in cost accounting?
 - b. An expenditure of Rs. 1, 94, 000 has been incurred on a contract to the end of 31st March, 1993. The value of work certified is Rs. 2, 20, 000. The cost of work done but not yet certified is Rs. 6, 000. It is estimated that the contract will be completed by 30th June, 1993 and an additional expenditure of Rs. 40, 000 will have to be incurred to complete the contract. The total estimated expenditure on the contract is to include a provision of 2 per cent for contingencies. The contract price is Rs. 2, 80, 000 and Rs. 2, 00, 000 has been realised in cash upto 31st March, 1993. Calculate the proportion of profit that may be credited to Profit

Loss Account as on 31st March, 1993 under different methods.

3. Answer the following questions
 - a. Explain the usefulness of variance analysis for effective control of costs in a business enterprise
 - b. From the following particulars find the
 - i. Material cost variance
 - ii. Material usage variance
 - iii. Material price variance.

It includes:

- Quantity of materials purchased 3000 units
- Value of materials purchased Rs. 9, 000
- Standard quantity of materials required per tonne of finished product 25 units
- Standard rate of material Rs. 2 per unit
- Opening stock of material Nil

- Closing stock of material 500 units
- Finished production during the period 80 tonnes

4. Answer the following questions

- Write a brief note on incomes which are totally exempt from Income Tax under Section 10 of the Income-Tax Act.
- X, a college lecturer in Delhi, gets the following emoluments during the previous year ending

March 31, 1993. Basic Salary Rs. 2, 400 per month: Dearness allowance (part of salary): Rs. 200 per month. Additional dearness allowance (not forming part of salary): Rs. 450 per month: House rent allowance: Rs. 300 per month: Rent paid by him Rs. 730 per month and

Special allowance Rs. 100 per month. While his employer contributed Rs. 300 per month towards recognised provident fund, he himself contributed account is Rs. 600 per month. His income from other sources is Rs. 49, 000. Interest credited on September 10, 1992 at the rate of 8 percent in the provident fund account is Rs. 5, 000 During the year X pays insurance premium of Rs. 1, 000 on insurance policy on the life of his mother and Rs. 3, 000 on his own life insurance policy of Rs. 25, 000 premium of Rs. 3,000 on insurance policy on the life of his wife falls due on March 23, 1993. Though he pays the same on April 13, 1993. Determine the total income and tax liability of X for the assessment year I 903 – 94.

Section B

5. Answer any three of the following in not more than 200 words each:

- the goal of profit maximisation does not provide us with an operationally useful criterion. Critically evaluate the statement.
- Explain the circumstances under which the internal rate of return (IRR) and the Net Present Value (NPV) techniques of investment worthiness lead to conflicting results. How will you resolve the conflict between the two?
- Assess the role played by the Industrial Credit and Investment Corporation of India (ICICI) and the Industrial Development Bank of India (IDBI) in underwriting capital issues in the last decade.
- Explain the condition under which statutory protection is accorded to
 - a paying banker
 - a collecting banker against liability.

6. Corporate dividend policy is the residue of the corporate investment policy Critically examine the statement.

7. Answer the following questions

- Comment on the statement that there is nothing like an optimal capital structure for a firm.
- The earnings and dividends per share of the ABC Company are estimated at Rs. 2, 20 and Rs. 1, 80 respectively for the year 1994. Most investment analysis expect that the company is in a position of sustaining the existing growth rate of 8% in the next few year also. The market appears to require a 14% rate of return for the stocks of the

- i. the market value
- ii. the price earnings ratio
- iii. the dividend yield of the company stock.

8. Answer the following questions

- a. Trace the emerging trends in Indias capital market with regard to channelising of domestic savings into productive equity invests and the protection of small investors from malpractices in the capital market
- b. Within the broader context of the narasimham Committee, what major recommendations do you propose to improve operating performance of the commercial banking system in India.
- c. A Delhi based manufacturing company, is considering installation of a machine which costs Rs. 1, 00, 000 with an expected life of five years and no salvage value. The companys tax rate is 50% and no investment allowance is provided. The company used straight line depreciation. The estimated cash flows before tax from the proposed investment proposal are as follows:
 - Yr. Cash flow before tax lb. 1 20, 000 2 22, 000 3 28, 000 4 30, 000 5 50, 000

You are required to compute:

- i. Pay back period
- ii. Average rate of return
- iii. Net present value of 10% discount rate
- iv. Profitability Index

Yr. PV factor at 10%