IAS Mains Commerce 1997

Paper I

Time Allowed: Three Hours Maximum Marks: 300

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.

All questions carry equal marks.

Section-A

1. Answer any three of the following, each in about 200 words:
    a. Explain Accounting Standards. State main features of International Accounting Standards.
    b. What is ABC analysis Discuss its uses in cost accounting.
    c. Define residential status. Examine the incidence of taxes based on residential status.
    d. Elucidate the duties of a company auditor as given under Section 227 of the Companies Act.

2. Answer the following questions
    a. Briefly explain the problems of accountants for rationalising different accounting concepts. Also explain how these problems are resolved by them.
    b. From the following information, calculate the value of Goodwill by five years purchase of Super profit method (simple and weighted) for a partnership firm.
        i. Average capital employed in the business is Rs. 5, 00, 000.
        ii. Net trading profits of the firm for the past three years were Rs. 80, 000; Rs. 90, 000 and Rs. 1, 00, 000.
        iii. Rate of interest expected from capital having regard to the risk involved is 12 per cent.
        iv. Fair remuneration to the partners for their service are Rs. 12, 000 per annum, not charged to P. & L, A/c so fat.
        v. Assume anything if missing giving note thereof.

3. Answer the following questions
    a. Discuss motion study, time study and work study. Give their suitable examples of real business world for costing purpose.
    b. From the following particulars, compute a comprehensive machine hour rate:
        i. Cost of the machine Rs. 2, 00, 000.
        ii. Machine running hours 2040 hours per machine pre annum including idle time of 40 hours due to routine repairs and maintenance and 20 hours due to breakdown of machine.
        iii. Power consumption of the machine per hour: 20 units rate of power per 100 units is Rs. 120.

iv. There are two operators in the shop and wages, workmens compensation, insurance etc. Of an operator who is in charge of two machines is Rs. 24, 000 per annum.

v. Rent ad Taxes of the shop: Rs. 6, 000 per annum.

vi. Insurance Premium for the machine: Rs. 500 per quarter.

vii. General lighting of the shop per month: Rs. 600.

viii. Repairs and maintenance expenses per month: Rs. 400 per machine.

ix. Shop Supervisors salary per month: Rs. 2500.

x. Other factory overheads allocated to the shop: Rs. 10, 000per annum.

xi. Supervisor devotes one-fifth of his time for supervising a machine.

4. Answer the following questions

a. Discuss the main points kept in mind while auditing the accounts of a hospital.

b. Following information are given pertaining to a private limited company for the previous year ended on 31st March 1997:

i. Profit from business 20, 00, 000

ii. Dividend from Indian companies (Gross) 1, 00, 000

iii. Income from royalty for providing technical know-how to Indian companies 50, 000

iv. Business profit including the profit of newly established industrial udertaking which installed a new plant on 31st July, 1990 2, 00, 000

v. Export Promotion Expenses incurred 50, 000

vi. Accrued gratuity liability for staff 1, 25, 000

vii. Expenses incurred for conducting researches to develop a new product 1, 50, 000

viii. Expenditure incurred by the company elating to registration fee for increasing the share capital 5, 000

ix. Amount paid by the company to the state Electricity Board for providing service line to its factory. 15, 000

x. Sum received by the company from the

Sales Tax authorities towards refund, refund of excess Sales Tax paid which was allowed as an expenditure in the earlier Assessment

Year. 2, 00, 000

You are required to compute the taxable income of the company for the assessment year 1997 – 98.

Section-B

5. Answer any three of the following, in about 200 words each:

a. Discuss the functions of financial management

b. What is Accounts Receivable Explain the costs of Accounts Receivable.

c. Examine the various techniques of capital budgeting in the light of current economic scenario.

d. Appraise the functions of BIFR. Illustrate how far has it been successful in achieving its objectives.

6. Answer the following questions

a. What is Lease Financing. Discuss its essential features.

b. Following information of XYZ Co. Ltd. Are given for the year 1995 – 96.2, 00, 000 Equity Shares 40, 00, 000 10, 000 6% Preference Shares 10, 00, 000.6, 000 8% Debentures 30, 00, 000. The share is sold for Rs. 20 each. It is expected that company will pay next year a dividend of Rs. 2 per share which will grow at 7 percent forever. Assume a 50 percent tax rate. You are required to: Compute a weighted average cost of capital based on existing capital structure using both book value and market value weights. Compute the new weighted average cost of capital if the company raises an additional Rs. 20, 00, 000 debt by issuing 10 percent debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of share will fall to Rs. 15 per share. Compute the cost of capital if in a above growth rate increases to 10 percent.

7. Answer the following questions

a. What is stock dividend. Discuss its advantages and limitations.

b. The following is the Capital structure of Bharat Ltd as on 31st march 1997:

Equity Capital (1, 00, 000 shares) Rs. 10, 00, 000

Share Premium Rs. 15, 00, 000

Reserve and Surplus Rs. 5, 00, 000

On 1 April, 1997, the company made a bonus issue of two shares for every five held when the market price of the share was Rs. 40 per share.

Mr. Chudhary had 100 shares of the company purchased on April 1, 1994 at a market price of Rs. 30. He sold these shares on December 31, 1996 at Rs. 50 per share. The income tax rate was 20 percent and capital gains tax rate was 15 percent for him. If the company pays a regular dividend of 10 percent on par before transferring earnings to reserves and surplus, state whether Mr. Chaudhary was able to earn his required rate of return of 10 percent on his investment.

8. Answer the following questions

a. Discuss the existing inter-bank lending regulations. Suggest improvements, if any, in the existing regulations.

b. A companys credit sale is Rs. 20, 00, 000. The company is considering lowering its credit standards which will result in a slowing in the average collection period from one to two months. This relaxation is expected to increase sale by 20 percent. The companys required return on investment is 20 percent, At the existing level of sales the production and selling cost is 80 percent of sales. The variable production and selling cost of increased volume of sales will be 70 percent of the sales. Should the credit standards be relaxed.