IAS Mains Commerce 2002

Paper I

Section A

1. Answer any three of the following questions. The answer of each question should not exceed 200 words:

    a. Making the Accounting Standards mandatory is likely to improve the accounting reporting practice to the benefit of the investors. Do you agree? Explain (20).

    b. What is the logic behind the mergers and acquisitions which are increasingly taking place in Indian corporate sector in recent years (20)?

    c. Distinguish between Marginal Costing and Historical Costing. How do you apply Marginal Costing technique in decision-making relating to make or buy (20)?

    d. Give a list of incomes which are shown under the head Income from other sources (20).

2. Answer the following questions

    a. How does Standard Costing and Variance Analysis technique work as a cost reduction and cost control measure in any manufacturing firm? Explain clearly (30).

    b. As on 31st March 2002, the Balance Sheet of X Ltd. Stood as under X Ltd.

        - Balance Sheet as on 31st March, 2002
        - Rs. Rs. 300, 000 shares of Rs. 10 each Creditors 30, 00, 000 35, 00, 000
        - Patents
        - Plant & Machinery
        - Stock
        - Debtors
        - Cash Balances
        - Preliminary Expenses
        - Profit & Loss A/c
        - 30.00, 000
        - 10.00, 000 7, 50, 000 12, 50, 000 31, 250 1, 81.250 2, 87, 500 65, 00, 000 65, 00, 000

        The company has suffered losses in the past but has a promising future. Therefore, it has been resolved that the shareholders and creditors should make some sacrifice and the company be reconstructed for which the following scheme of reconstruction was drafted:

        i. The company will go into voluntary liquidation and a new company known as Y Ltd. Is to be formed with an authorised capital of Rs. 50, 00, 000 divided into Rs. 10 per shares to take over the undertaking of the existing company.

        ii. Creditors will be discharged by Y Ltd. By making a cash payment of Rs. 8, 75, 000 and issue of 10.5% debentures of Rs. 17, 50, 000 only.

iii. The shareholders of X Ltd. Will be issued 3, 00.000 shares of ft. 10 each credited as It. 5 paid up and the balance of Rs. 5 per share will be paid by them on allotment.

iv. Liquidation expenses amounting to ft. 43.750 will be paid by X Ltd.

The above scheme was approved by all the concerned parties.

Prepare necessary ledger accounts to close the books of X Ltd. And also show the Balance

Sheet as it would appear in the books of Y Ltd. Just after the implementation of the scheme of reconstruction (30)

3. Answer the following questions

a. Do you agree with the view that the Cost-Volume-Profit Analysis is not a very useful tool of profit planning? Give reasons in support of your answer (30).

b. Bright Star Ltd. Is operating at 60% of its installed capacity and producing 27, 000 units which are sold in the domestic market at a selling price of Rs. 15 per unit. The marginal cost per unit is Rs. 12 per unit and the fixed cost amounts to Rs. 15, 000. The company has received a foreign order for supply of 9, 000 units at a price of Rs. 13.50 per unit. If the company produces and sells 36, 000 units (27.000 + 9.000), it will have to spend nothing on additional fixed cost but its distribution cost in respect of foreign supplies will be@Rs.. 0.75 per unit.

You are required to suggest the management on the issue, whether or not the order for foreign supplies at the reduced rate of Rs. 13.50 be accepted. What will be your recommendation if the demand is from a local buyer (30)?

4. Answer the following questions

a. What do you mean by verification and valuation of assets? How should the goodwill be verified by an auditor? The goodwill has emerged on the absorption of an existing company (30).

b. What standard deductions and other exemptions are available to a salaried person in the computation of his taxable income? What are the tax rates for the salary income earned during the previous year 2001 – 2002 (30)?

Section B

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

a. What are the causes for increasing non-performing assets in Indian financial institutions? How can the level of NPAs be reduced (20)?

b. How do you identify a sick industrial unit? Examine the role of BEN in dealing with the cases under the relevant Act (20).

c. Debt is a cheaper but burdensome source of financing. Do you agree? Explain with example (20).

d. Highlight the existing monetary and credit policy of the Reserve Bank of India (2).

6. Answer the following questions

a. What should, in your opinion, be the objective of financial management? Briefly state the broad areas of financial management (30).

b. The cost of a product in a manufacturing company consists of the following components

- Material Rs. 4 per unit
- Labour Rs. 2 per unit
- Overheads Rs. 2 per unit
- Rs. 8 per unit
- Profit Rs. 2 per unit
- Total Rs. 10

Other Information:

i. The company proposes to produce and sell an output of 1, 50000 units.
ii. The material is expected to be held for an average period of one month.
iii. Raw material will remain in processing, on an average for 15 days (½ month).
iv. Finished goods remain in stock for an average period of one month.
v. Credit allowed to customers is two months.
vi. Credit allowed by suppliers is one month.
vii. Production and sales are regular throughout the year.

On the basis of the above information, forecast the working capital requirements of the company (30).

7. Answer the following questions

a. How will you handle risk and uncertainties in capital budgeting decisions? Explain clearly (30).

b. Projects A, B and C are mutually exclusive projects which cost Rs. 11, 600, Rs. 13, 750 and Rs. 15, 000 respectively. The cash inflows over their lives have been estimated as shown below. You are required to select one project as finance is a limiting factor assuming that the project should yield atleast 28% return (30).

- Project A Project B Project C
- Cash Outflow
- Cash Inflows: 11, 600 – 11, 600 – 15, 000 1st year 2nd year 3rd year 4th year 6, 000 5, 000 5, 000 4, 000 7, 000 6, 000 6, 000 6, 000 8, 000 7, 000 5, 000 5, 000

The present value of Re. 1 for different years at 28% is:

- Years Discount factor 1 0.7813 2 0.6104 3 0.4768 4 0.3725

8. Answer the following questions

a. Why should companies pay dividend to shareholders when it does not affect their valuation? Give your views on this issue (30).

b. XYZ Ltd. Required an amount of Rs. 2, 50, 000 to execute its expansion plan for which three alternative financing plans have emerged:

- Equity Debt Preference shares
- Plan I 100%--
- Plan II 50% 50%-
- Plan III 50% 50%

The cost of debt and preference shares is estimated to be 12%. The company is in a position to raise desired funds by issuing shares at a premium of Rs. 10 per share.

The expected Earnings before Interest and Taxes (EBIT) of the company is Rs. 80, 000 and the applicable tax rate is 35%. You are required to find out for each plan the EPS and the financial break-even level. Which plan should the company select (30)?