

# IAS Mains Commerce 1994

## Paper I

### Section A

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

- a. Discuss the controllership functions in a business.
- b. State the important types of material variances and discuss their probable causes.
- c. What is previous year under the Income Tax Act? What are the exceptions to the general rule that income earned during the previous year is charged to tax in the financial year next following it?
- d. An auditor is a watch-dog, not a blood-hound. Explain fully the implications of his statement.

2. Answer the following questions

- a. What is responsibility accounting? Discuss its principal elements.
- b. The following information relates to the budget of a company:
  - Fixed Rs.
  - Variable Rs.
  - Rs. Budget Sales (2, 00, 000 unit at Rs. 25 each) 50, 50, 000
  - Budgeted Costs:
  - Direct Materials
  - Direct Labour
  - Factory Overhead
  - Administrative Expenses
  - Selling Expenses 7, 00, 000 6, 00, 000 5, 00, 000 9, 00, 000 10, 00, 000 3, 00, 000 1, 00, 000 3, 00, 000 18, 00, 000 26, 00, 000 44, 00, 000
  - Budgeted Profit 6, 00, 000

Compute the break-even point in rupees and units if there is

- i. a 10% increase in fixed costs.
- ii. a 10% increase in variable costs.
- iii. a 10% increase in fixed cost and a 10% decrease in variable costs

3. Answer the following questions

- a. State the payments that are
  - i. included
  - ii. not included under profits in lieu of salary.

b. Dr. Rajkumar is a director of ABC Ltd. He furnishes the following particulars of his income for the assessment year 1993 – 94

- i. Salary Rs. 5, 000 p. m.
- ii. Bonus Rs. 7, 500 p. m.
- iii. House Rent Allowance Rs. 900 p. m. He resides in house belonging to his H. U. F. And pays rent at the rate of Rs. 900 pm.
- iv. The company has provided him with a car but recovers Rs. 100 p. m. From him for possible personal use.
- v. Medical reimbursement for treatment in a government hospital Rs. 16, 000.
- vi. Car purchased from the company on 1.9. 92 at a book value of R. s. 20, 000 he sold the car after 3 months for Rs. 32, 000.
- vii. 500 shares of Rs. 14 each given to him by the company in appreciation of his loyal services.
- viii. The company has taken a personal accident policy for him, the annual premium being 1, 200.
- ix. He contributes premium of R. s. 5, 000 to the L. I. C. And pays provident fund Rs. 8, 400. He also contributes R. s. 1, 200 as a premium on a policy with Peerless General

Insurance.

c. You are required to compute Dr. Rajkumar's income from salary and the amount on which he is entitled to rebate of income-tax u/s 88 for 1993 – 94.

4. Answer the following questions

- a. Explain the terms amalgamation, absorption and reconstruction of companies. Why do these become necessary?
- b. Discuss the liability of a company auditor towards third parties for negligence in auditing the books accounts.

## Section B

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

- a. The objection to profit-maximization objective is both ideological and operational. How far is the wealth maximization objective free from these objections?
- b. Discuss the assumptions underlying the computation of Internal Rate of Return and Net Present Value. How do these assumptions affect the acceptability of investment projects?
- c. Critically examine the main recommendations of the Tandon Study Group on bank credit.
- d. State the important provisions of Banking Regulation Act, 1949 with regard to supervision and regulation of banks.

6. Answer the following questions

- a. Discuss briefly the different methods of incorporating risk in investment decisions.
- b. From the following figures, compute the operating, financial and combined leverages for A Ltd. And B Ltd.

- A Ltd. B Ltd (Rs. Lakhs). (Rs. Iakhs)
- Sales 500 1000
- Variable Costs 200 300
- Contribution 300 700
- Fixed Costs 150 400
- EBIT 150 300
- Interest 50 100
- Profit before tax 100 200

7. It is relatively easy to judge the performance of the Credit Manager . If he is performing perfectly, credit losses are zero, and the higher the credit loss (as a percentage to sales), the worse his performance. Do you agree with this view? Give reasons in support of your answer.

8. Answer the following questions

- a. Discuss briefly the various types of financial and promotional assistance that development banks have been extending to Indian industries.
- b. Account for the decline in the efficiency of commercial banks in India in the recent past. What suggestions would you offer to make these banks more competitive?
- c. A company is considering an investment of Rs. 1, 00, 000 in a machine which will have a life of seven years with a salvage value of Rs. 2, 000. The company follows straight line depreciation and is subject to a tax of 50%. The machine is expected to give annual returns as follows
- Year Profit after tax (Rs.) 1 25, 000 2 20, 000 3 20, 000 4 15, 000 5 15, 000 6 10, 000 7 5, 000

Find payback period of the annual return means

- i. Profit before tax
- ii. Profit after tax
- iii. Profit before tax plus depreciation
- iv. Profit after tax plus depreciation