

# IAS Mains Commerce 2005

## Paper-I

### Section-A

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

- a. A medium size firm is making large profits and they do not have a Cost Accounting Department. There is a proposal to employ a Cost Accountant. What would you consider to be his functions and how can he make himself useful to the management 20
- b. What are preference shares How are they redeemed 20
- c. Define audit. What special points will you keep in mind in the audit of a banking company 20
- d. How will you compute taxable income from house property Give example. 20

2. Answer the following questions

- a. What is the significance of Contribution in marginal costing Discuss the role played by Contribution in profit maximization decisions. 30
- b. A manufacturer uses 200 units of a component every month and he buys them entirely from an outside supplier. The order placing and receiving cost is Rs. 100 and annual carrying cost per unit is Rs. 12. From the given set of data, calculate the economic order quantity. P Ltd. Uses. Three types of materials A, B and C for production of X, the final product. The relevant monthly data for components are as given below:

- A B Normal usage (units) 200 150 180
- Minimum usage (units) 100 100 90
- Maximum usage (units) 300 250 270
- Reorder quantity (units) 750 900 720
- Reorder period (months) 2 to 3 3 to 4 2 to 3

Calculate for each component:

- i. reorder level
- ii. maximum level
- iii. minimum level
- iv. average stock level. 30

3. Answer the following questions

- a. Explain the meaning, utility and limitations of cost-volume-profit analysis. 30
- b. The sales of a company's products are slacking and budget sales of 1, 50, 000 units per year can only be met if the trade discount is raised from 25% to 30%.

In case the discount is raised to 35%, the sales will increase by 20% over the budget for which production capacity exists. Indicate which of the Two alternatives is more profitable. The real

price of the product is Rs. 10 each. The cost of product is Rs. 6 of which Rs. 4 is variable. 30

4. Answer the following questions

- a. What is cost audit? Distinguish between Cost Audit and Financial Audit. 30
- b. X, a regular employee of A Ltd. Gets the following emoluments during the previous year 2001 – 02:

Basic Salary: Rs. 6, 000 per month (which has been increased to Rs. 7, 000 per month from January 1, 2002); dearness allowance Rs. 4, 000 p. m (72% of which is part of salary for computing retirement benefits). education allowance Rs. 550 per month per child for 4 children; medical allowance Rs. 400 p. m. transport allowance

Rs. 1, 150 p. m (out of which Rs. 900 p. m. Is used for covering the journey between office and residence and Rs. 250 p. m. Is used for other purposes).

Besides, he gets Rs. 4, 500 p. m. As house rent allowance up to November 30, 2001 (Rent paid at Ghaziabad, Rs. 5, 500 p. m.). With effect from December I, 2001, he has been provided a furnished flat by the Employer at Delhi (rent paid by employer Rs. 7, 500 p. m. rent of furniture provided Rs. 500; rent recovered from X Rs. 900 p. m.)

Find out the salary chargeable to tax for the assessment year 2002 – 03, Ignore standard deduction on the assumption that with effect from January I, 2002 he joins a part-time employment with B Ltd (Salary Rs. 2, 000 p. m.). with the permission of A Ltd. Without leaving the job of A Ltd. 30

## Section-B

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

- a. What is under Capitalization 20
- b. Discuss the relevance of cost of capital in capital budgeting. 20
- c. Describe the organisation, growth and weaknesses of stock exchanges in India. 20
- d. In what ways dividend policy and retention of earnings related to financing of firms business 20

6. Answer the following questions

- a. Critically examine the functions of a Financial Manager in a large scale industrial establishment. 30
- b. Each of the three projects A, B, C requires an investment of Rs. 20, 000. Their life is 5 years and cash inflows are as under:
  - Year Cash Inflows
  - A B C
  - Rs. Rs. Rs. 1 4, 000 5, 000 6, 500 2 4, 000 5, 000 5, 000 3 5, 000 5, 000 4, 500 4 6, 500 5, 000 4, 000 5 5, 000 5, 000 5, 000
- c. Using the Pay Back and Net Present Value methods, determine the ranking of the projects. The discount rate is 10%. Note: The present value of Re. 1 at the discount rate of 10% is as follows:
  - Year 1 2 3 4 5

- Present value. 909.826. 751.683. 621 (30 marks)

7. Answer the following questions

- “Ratio-analysis is a tool to examine the health of a firm.” Elucidate. 30
- A proforma cost sheet of a company provides the following particulars:

Elements of cost: Material 40%, Direct Labour 20%, Overheads 20%.

The following further particulars are available:

- It is proposed to maintain a level of activity of 2, 00, 000 units.
- Selling price is Rs. 12 per unit.
- Raw materials are expected to remain in stores for an average period of one month.
- Materials will be in process on averages half a month.
- Finished goods are required to be in stock for an average period of one month.
- Credit allowed to debtors is two months.
- Credit allowed by suppliers is one month. You may assume that sales and production follow a consistent pattern. You are required to prepare a statement of working capital requirements, a forecast profit and loss account and a balance sheet of the company, assuming that:
  - Share Capital Rs. 15, 00, 000 8% Debentures RS. 2, 00, 000
  - Fixed Assets Rs. 13, 000, 000

8. Answer the following questions

- Explain with the help of a suitable example Walters approach to dividend policy. 30
- Give a critical assessment of the monetary and credit policies of the Reserve Bank of India in recent years. 30