

IAS Mains Commerce 1995

Paper I

Section A

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

- a. Accounting is a broad information system catering to the needs of a wide variety of people. Elucidate this statement bringing out the main divisions of Accounting.
- b. What is semi-variable cost? Discuss the methods of segregating it into fixed and variable components.
- c. Explain the different kinds of errors and frauds in accounts that an auditor may have to deal with:
- d. What is agricultural income? How is the income treated for income tax purposes?

2. Answer the following questions

- a. Distinguish between budgets and budgetary control and discuss the objectives of the latter.
- b. The following particulars relate to a company which sells two products A and B in the same market

- Product Units Sold Unit Price Contribution (Rs.)
- Sales Values (Rs.) Per Re of
- Sale (Rs.)
- Per unit
- Materials used per unit (kg)
- Machine hours per 100 units (Hrs.)
- A
- B 1000 750 30
- 33.33 30, 000 25, 000 0.33 0.48 10 16 2 4
- 1.25
- 1.00

- i. Assuming that there are no limitations on production and sale, which of the two products should be sold to maximize profits?
- ii. Assuming that the company can have the maximum sale value of Rs. 55, 000, which of the two products should be sold?
- iii. What would be the optimum sales-mix if both the products are sold and the market demand is not likely to exceed 2500 units of either or both the products?
- iv. Suppose the availability of raw materials is restricted to 3, 000 kg, which product should be manufactured and sold?

- v. If the availability of machine time is limited to 8 hours per day only, which of the two products should be preferred?

3. Answer the following questions

- a. Discuss briefly the powers of the Income-Tax Officer.
- b. The following are the particulars of salary income of Shri Ram Prakash who is employed at Kanpur.
- i. Salary Rs. 2000 p. m.
 - ii. D A@ 40% of salary
 - iii. C. CA. Rs. 200 p. m.
 - iv. H R. A. Rs. 400 p. m. And he pays rent of Rs. 500 p. m.
 - v. A compensation of Rs. 8000 received from the previous employer for termination of employment.
 - vi. He contributes Rs. 250 p. m. Towards Recognised Provident Fund. His employer also contributed the same amount.
 - vii. Professional tax paid during the year Rs. 200.
 - viii. He owns a car which he uses for official as well as personal work.

Compute his taxable income and the qualifying amount for rebate of tax U/S 88.

4. Answer the following questions

- a. Discuss fully a company auditors liability for negligence under the Law of Agency. Would it make any difference if the audit work is done free of charge?
- b. The paid-up share capital of a company consists of 1, 000, 5% preference shares of Rs. 100 each and 20, 000 equity shares of Rs. 10 each. In addition to the fixed dividend of 5%, the preference shareholders are also entitled to participate in the profits upto 4% after payment of a dividend of 10% on the equity shares. Any surplus profits are to be distributed among the equity shareholders. The average annual profits of the company are Rs. 50, 000 after providing for depreciation and taxation. The company deems it necessary to transfer Rs. 3, 000 every year to reserve funds. The normal return expected on preference shares is 8% and that on equity shares is 10%.

You are required to work out the value of each preference share and equity share of the company.

Section B

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

- a. The central decision in the evaluation of credit management involves balancing of bad debt losses against sales losses. Amplify this statement and discuss the criteria that you would adopt to evaluate credit management.
- b. Critically examine Walters approach to dividend policy.
- c. Examine the role of all-India term financing institutions in the development of the Indian capital market.

- d. State the circumstances in which a banker may and when he must, refuse to honour a customers cheques.

6. Answer the following questions

- a. Discuss briefly the Net Income, Net Operation Income and Traditional approaches to capital structure.
- b. A company's current earnings per share are Rs. 4, dividend pay out is 5% of earnings, expected growth rate is 10%, market price per share is Rs. 44 and tax rate is 50%. The company wishes to raise additional capital of Rs. 10 lakh including debt of Rs. 3 lakh. The cost of debt (before tax) is estimated to be 10% upto Rs. 2 lakh and 16% beyond that. Compute the after tax costs of debt and equity and the weighted average cost of capital.

7. Discuss the objectives of nationalisation of commercial Banks in 1969. How far have these been achieved?

8. Answer the following questions

- a. Write a critical note on the working of the IDBI. Do you agree with the view that the Bank should gradually phase out its lending operations and pay greater attention to its promotional role?
- b. Should the following be included in the total amount of investment to be made in a new machine?
- i. Rs. 5, 00, 000 paid as the price of the machine and Rs. 5, 000 as carriage inwards.
 - ii. Rs. 2, 000 paid to a consultant for his advice on whether the new machine should be purchased.
 - iii. Cash salvage value of the old machine is Rs. 5, 000.
 - iv. Loss on the sale of the old machine is Rs. 6, 000.
 - v. The cost of removing the old machine is Rs. 1, 000.
 - vi. Installation charges of the new machine are Rs. 2, 000.
 - vii. The cost of training workers to handle the new machine is Rs. 2, 000.
 - viii. Additional working capital required for the new machine is Rs. 20, 000.
 - ix. Interest at the rate 10% is to be paid on the loan taken to buy the new machine.
 - x. The new machine would save floor space the rental value of which is Rs. 500 per month.