

IAS Mains Commerce 1996

Paper I

Section A

1. Answer any three of the following, each in about 200 words:
 - a. Cost is a crucial leg in the tripod of pricing decision as having the character of internal control. Elucidate.
 - b. Examine the significance of audit note book and audit working papers as a proof of defence against the negligence of auditors.
 - c. Once bearer instrument is always a bearer instrument. Explain. What are the protections available against paying banker in case of bearer instruments?
 - d. Write a note on responsibility accounting.
2. Answer the following questions
 - a. Explain the provisions of the Income Tax Act relating to taxation of agricultural income.
 - b. Mr. Y is a resident and ordinary resident employed as a Manager in a private sector company working in Patna. The following particulars are furnished by him for the previous year ending 31st March, 1995:
 - Salary received Rs. 86, 000
 - Dearness allowance Rs. 88, 500
 - House rent allowance Rs. 22, 500

Mr. Y owns a house in Delhi consisting of two portions. The fair rental value of the house is Rs. 60, 000 per annum.

One portion of the house is let out to his friend on a monthly rent of Rs. 4, 000 and another portion is kept for his self occupation in which his son studying in IIT Delhi is residing. He paid municipal taxes amounting to Rs. 10, 500 and incurred Rs. 8, 000 on repairs during the previous year.

However he resides in a rented house in Patna by paying a monthly rent of Rs. 3, 000. The company advanced him an amount of Rs. 1, 00, 000 free of interest which he invested in shares. The company had paid Rs. 6, 000 as interest on the loan. The dividends received from these shares during the previous year were Rs. 14, 500. He paid Rs. 1.5000 towards life insurance premium on a life policy of Rs. 1, 00, 000. During the previous year he received Rs. 16, 000 being $\frac{1}{3}$ share from a registered firm. Compute the total income of Mr. Y for the assessment year 1995 – 96.

3. Answer the following questions
 - a. Distinguish between cost control and cost reduction. Examine flexible budgetary control as a control technique.
 - b. The following details relate to a manufacturing company:

Contribution margin of a product is Rs. 6 which is 30 % of sales price. The annual fixed costs

break even point. Calculate number of units required to be sold to earn a net income of 10% of sales.

4. Answer the following questions

- a. Evaluate the role of life Insurance Corporation of India as a premier investment agency to Government of India.
- b. Write a note on SEBI guidelines relating to trading and settlement procedures in stock exchanges.

Section B

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

- a. Impact of inflation is more pronounced in fixed investment resources. Discuss.
- b. Commercial expediency determines the charge of expenses and losses in computing profits and gains of business and profession. Explain.
- c. Segregation of overheads into fixed and variable is however critical, it is needed for efficient cost control management. Discuss.
- d. Is auditor liable for misstatement in prospectus? Discuss the nature and extent of auditors liability in this regard.

6. Answer the following questions

- a. Examine the significance of shut down point in managerial decision making. What are the applications of differential costing in this regard?
- b. X Y Z Ltd. Is engaged in the production of a commodity which is produced by 3 distinct processes. The process costs for the year ending 31st. March. 1996 are as follows:
 - Materials Rs. 1, 60, 000
 - Labour Rs. 1, 24, 800
 - Overheads Rs. 62, 400
 - The opening and closing work in progress is as follows:
 - Opening work in progress
 - Amount
 - Rs.
 - Closing work in progress
 - Degree of completion
 - Degree of completion
 - Materials
 - Labour
 - Overhead 100% 60% 50% 8, 000 3, 000 9, 000 75% 50% 40%

There are 3, 000 units of opening work in progress. 7, 000 units are introduced in the process

Prepare statement of equivalent production and statement of cost using FIFO method of valuation of inventory.

7. Optimum capital structure aims at profit maximisation rather than wealth maximisation, but it is a mythical proposition. Discuss.

8. Answer the following questions

- a. Write a note on working capital problems of Indian industries.
- b. Explain the disclosure norms of banking companies. What are the protections available against non-disclosure of assets and liabilities?
- c. During a certain period, the production plant of Nova Company Ltd worked for 9, 926 hours against the allowed hours of 10, 032. The normal capacity is 10, 560 hours. The actual fixed overhead rate is Rs. 2 and fixed and variable expenses at normal capacity are Rs. 8, 000

Rs. 11, 200 respectively. Actual factory overhead expenses are Rs. 18, 540. Calculate overhead variances.