

# IAS Mains Commerce 1988

## Paper I

### Section A

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

- a. Accounting, essentially, is toe financial information system. Explain.
- b. Current Purchasing Power (CPP) Accounting, basically consists in translating the Historic Cost figures, either through consumer price indices or wholesale price indices. Explain.
- c. The three broad functions of Controllership are those of property control, legal control and management control. Explain.
- d. Distinguish between amalgamation, absorption and reconstruction of companies.

2. Answer the following questions

- a. Give the hierarchy of Appellate Authorities, and the powers of Appellate Assistant Commissioner in disposing of an appeal under Section 251.
- b. Shri Govind Narain Chettiar, a small business man, has prepared the following Profit and Loss Account for the year ending on March 31, 1988:

- Rs. Rs.
- Salary
- Advertisement
- Sundry expenses interest on capital
- Fire Insurance (Rs. 1, 000 relate to house property) income tax and wealth tax
- Household expenses
- Bad debts
- Provision for bad debts
- Repairs of house property
- Municipal taxes of house property
- Insurance premium on own life (sum assured) Rs. 70, 000
- Donation to Prime
- Ministers Drought
- Relief Fund
- Depreciation (allow able)
- Net profit 8, 000 4, 000 4, 500 2, 000 3, 000 7, 000 2, 500 1, 000 500 1, 000 3, 600 6, 000 2, 000 3, 700 26, 000
- Gross profit
- Rental income (50 per cent portion for 11 months at Rs. 1, 500 per month)

- Dividends from an Indian company (gross)
- Winnings from Lottery gross
- Interest on nongovernment securities 32, 300 16, 500 4, 000 20, 000 2, 000 74, 800 74, 800

Shri Chattiar owns a house property (erection of which was completed on December 31, 1972) which is being used by him for the following purposes

- 25% carpet area for own business purposes.
- 25% carpet area for lb purpose of self-residence
- 50% carpet area is let out for residential purposes (this portion, however, remains vacant for 1 month during which it is self-occupied).

Compute-the net income of Shri Govind Narain Chettiar for the assessment year 1988 – 89, assuming that the standard rent of the--property according to the Rent Control Act is Rs. 30, 000.

### 3. Answer the following

- Describe the different techniques for segregating the semi-variable costs into fixed and variable components, and Illustrate any one of them
- Maple Company Ltd. Manufactures many products. Each product passes through two production, departments, which have the following overhead cost structures.

- Department A Department B
- Normal monthly volume 5000 direct 10000 kg. Labour hours of material
- Monthly fixed overhead costs at normal volume Rs. 10, 000 Rs. 40, 000
- Monthly-variable overhead costs at normal volume Rs. 15, 000 Rs. 20, 000
- Two of the job orders that went through the factory last month had the following months
- Job I (Product X) Job2 (Product Y)
- Quantity Cost Quantity Cost
- Direct inputs:
- Direct materials (kg) 480 Rs. 2, 400 1500 Rs. 4, 800
- Direct labour
- Department A (hours) 180 Rs. 1, 620 100 Rs. 900
- Department B (hours) 60 Rs. 420 40 Rs. 280
- Output (units) 600 1000

Required:

- Calculate the unit cost of each of these jobs on a full or absorption costing basis
- Recalculate unit costs on a variable costing basis

- iii. Why are the relative variable costs of these two products so different from their full costs?
4. The atleast function is no longer confined to the statutory audit but has been extended into the areas of performance audit, internal audit and the management audit. Explain the difference and interrelationships amongst them. Draft a statutory audit report for a limited company, with at least five points of qualification.

## Section B

5. Answer any three of the following is not more than 200 words each:
- Distinguish clearly between a holder and a holder in due course.
  - Discuss in detail the statutory protection granted to a collecting banker under Section 131 of the Negotiable instruments Act.
  - Discuss the norms and guidelines regarding debt equity ratios.
  - Give a critical accounts of achievements of the regional rural banks India.
6. Answer the following questions
- What are the three propositions of Modigliani and Miller regarding the relationship between the capital structure, cost of capital and valuation of the firm?
  - Outline the formulae with regard to the optimum dividend policy as propounded by James E. Walter, and Myron J. Gotdon, and suitably illustrate them.
7. The Indian Financial System<sup>1</sup> comprising the Money market and Capital market, has grown both in breadth and depth. Comment, enumerating and explaining the respective constituents of its two segments, and their overall operational efficiency.
8. Answer the following questions
- Briefly explain the Risk Adjusted Discount Factor, and the Certainty Equivalent Coefficient methods of incorporating risk and uncertainty in capital budgeting decisions.
  - Kamti Falls Ltd. Are expanding their operations, and will need Rs. 4, 20, 00, 000 during the next year. The funds are targeted to be raised as follows:

- Rs.
- Debt 1, 00, 00, 000
- Preference Shares 50, 00, 000
- Equity Shares 2.00, 00, 000
- Retained Earnings 7, 00, 000
- Debt: 15 year maturity, and 14 per cent coupon rate.
- Preference shares: Dividend Rs. 6 per share.
- Equity shares: Current market price Rs. 85, and dividend Rs. 8 per share expected to grow

- Assume a tax rate of 40 per cent.

You are required to calculate the Weighted Average Cost of Capital of the Company.