

# IAS Mains Commerce 1992

## Paper I

### Section A

1. Answer any three of the following is not more than 200 words each:
  - a. Inflating Accounting aims at correcting the distortions in the reported results caused by price level changes. Explain the statement.
  - b. Throw light on the importance of Cost-volume-profit Analysis in financial decision-making and explain the impact of a change in fixed costs and in selling price on
    - i. Break-even Point
    - ii. P/V Ratio
    - iii. Margin of Safety.
  - c. Explain the role of Standard Costing and Variance Analysis in Management by Exception.
  - d. Define Secret Reserves. How are they created? What is the role of a Company's Auditor in regard to secret reserves?
2. Answer the following questions
  - a. Budgeting is a pre-requisite for Standard Costing. In the light of the statement, explain briefly the role of Budgeting as a managerial tool for control.
  - b. The Expense Budget for production of 10000 units in a factory is furnished below
    - Per unit Rs.
    - Material 70
    - Labour 25
    - Variable overheads 20
    - Fixed overheads 10
    - Variable expenses (Direct) 5
    - Selling expenses (10% fixed) 13
    - Distribution expenses (20% fixed) 7
    - Administrative expenses 5
    - Total cost of sales per unit 155

Prepare a Production Budget of

- i. 8000 units
- ii. 6000 unit

Assume that administrative expenses are fixed for all levels of production.

### 3. Answer the following questions

- a. What are Contingent Liabilities and Unrealised Profits and how are they treated while preparing consolidated Balance Sheet?
- b. During the month of August, 4000 units were introduced in Process 1. The normal loss was estimated at 5% on input. At the end of the month 2800 units had been produced and transferred to the next process 920 units were uncompleted and 280 units had been scrapped.

It was estimated that the uncompleted units had reached a stage in production as follows

Materials 75% completed.

Labour 50% completed

Overhead 50% completed

The cost of the 4000 units was Rs. 11600. Direct material introduced during the process amounted to

Rs. 2,880. Direct wages were Rs. 6,680. Production overheads incurred were Rs. 3,340. Units scrapped realised Rs. 1 each. The units scrapped had passed through the complete process, so were 100% completed as regards material, labour and overhead. Show Process I Account.

### 4. Answer the following questions

- a. The Income-tax Act gives absolute exemptions in respect of certain incomes while some incomes are included in the total income for determining the rate only. Explain the statement with appropriate examples.
- b. Gopal is a College lecturer in Delhi University. During the year 1991 – 1992 he gets basic salary of Rs. 2,300 upto June 30, 1991 and Rs. 2,350 afterwards. Besides, he gets 15% of basic salary as house rent allowance. He also gets Rs. 430 per month as dearness allowance (not forming part of his salary). He is member of a recognised provident fund to which both the employer and employee contribute 8 percent of basic salary. Apart from the minimum contribution, he makes an additional contribution of Rs. 300 per month to the provident fund.

During the previous year 1991 – 1992 he has received Rs. 9,450 for checking answer sheets of different universities. Determine the taxable income and tax liability of Gopal for the assessment year 1992 – 93 on the assumption that he resides in his father's house without incurring any expenditure in the nature of rent.

## Section B

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

- a. How is the objective of wealth maximisation a superior economic goal as against the goal of profit maximisation?
- b. Of the various methods available for estimating the cost of external equity capital, which do you prefer and why?
- c. Briefly give an account of the main recommendations of the Tandon Study Group and the Chore Committee for the effective management of inventory items in business firms.

d. Distinguish between General and Special Crossing and explain the importance of Account

Payee Only and Not Negotiable crossing of cheque to a banker.

6. Capital Structure does not matter. Critically evaluate the statement in the broader context of the contribution of Modigliani and Miller to the theory of capital structure.

7. Answer the following questions

- a. Discuss the importance of stable dividend policy and explain how John Lintner asserts that corporations adjust their dividend policy only partially to changes in their current earnings.
- b. XYZ Co. Ltd. is currently selling 400 units per year. If the selling price per unit is Rs. 1,000, variable cost per unit is Rs. 600 and fixed costs are Rs. 1,00,000. Calculate its Degree of Operating Leverage (DOL) at its current level of operations. What would be its DOL, if the quantity manufactured and sold increases to 600 units?

8. Answer the following questions

- a. It is often held that efficiency and productivity of commercial banking system after its nationalisation in our country have gone down considerably. How do you react to this statement?
- b. Now that the working of stock exchanges in India has come under great criticism in view of the recent security scam, what safeguards do you recommend to insure the stock market against fraud and excessive speculation?
- c. Calculate the Pay-Back period, average rate of return and net present value for a project which requires an initial outlay of Rs. 10,000 and generates the following cash inflows of Rs. 6,000, Rs. 3,000, Rs. 2,000, Rs. 5,000 and Rs. 5,000 from the end of the first year to the end of fifth year. The required rate of return is 10% and the Company pays tax at 50% rate. The project has a life of five years and is depreciated on straight line basis, with the residual value assumed at zero.
  - Year Discounting factor at 10% 1 0.909 2 0.826 3 0.751 4 0.683 5 0.621