

COMMERCE AND ACCOUNTANCY

Paper-I

Time Allowed : Three Hours

Full Marks : 300

*Candidates should attempt Question No. 1 from Section-A and Question No. 5 from Section-B which are compulsory, and any **three** of the remaining questions, selecting at least one from each Section.*

All questions carry equal marks.

SECTION—A

1. Answer any **THREE** of the following questions.
The answer of each question should not exceed
200 words :— 20×3
 - (a) "Accounting is a financial information system."
Explain this statement.
 - (b) Briefly explain the techniques used for segregating semi-variable costs into fixed and variable costs.
 - (c) Describe the incomes which are not included in total income and no income tax is payable on them.
 - (d) As auditor of a large company, how would you value and verify fixed assets ?

2. (a) The following is the Balance Sheet of XYZ Ltd., on 31-12-2008 :—

	Rs.		Rs.
Capital (2,000 shares of Rs. 100 each)	2,00,000	Buildings	1,50,000
General Reserve	50,000	Goodwill	50,000
Profit & Loss A/c	20,000	Plant & Machinery	83,000
Creditors	30,000	Stock	35,000
5% Debentures	1,00,000	Investments	4,500
		Debtors	27,500
		Cash at Bank	50,000
	<u>4,00,000</u>		<u>4,00,000</u>

XYZ Ltd. was absorbed by ABC Ltd. on the above-mentioned date on the following terms and conditions :

- ABC Ltd. agreed to acquire all assets (except Cash at Bank and Goodwill) at 10% less than the book value, to pay Rs. 75,000 for Goodwill, and to take over the Debentures.
- The purchase consideration was to be

discharged by the allotment to XYZ Ltd. of 1,500 shares of Rs. 100 each at premium of Rs. 10 per share and the balance in cash.

- Pay the cost of absorption Rs. 1,500.

Show the Realization Account, Bank Account and Shareholder's Account in the books of XYZ Ltd. 30

- Distinguish between cost control and cost reduction ? Explain briefly about the techniques of cost reduction. 30

3. (a) Hyderabad Industries Ltd. purchases 12,000 units p.a. of a spare part from another manufacturer @ Rs. 4 per unit. The production manager has put forward a proposal that the production of this part may be undertaken by the company in order to have full control over the supply of the spare part. He has submitted the following information along with his proposal :

- Material and Labour would cost Re. 0.60 and Re. 0.50 per unit respectively.
- Variable overhead will be 100% of Labour.
- A foreman will be employed at Rs. 1,000 per month.
- Machine needed would cost Rs. 50,000. It will have a production capacity of

15,000 units and its economic life will be 5 years.

(v) Funds needed for the above machine can be obtained at interest rate of 10% p.a.

(vi) Other fixed expenses are recovered @ 200% of wages.

You are required to advise the Management about the proposal of Production Manager. 30

(b) Explain the provisions of Income-tax Act, 1961 regarding carry forward and set-off of losses. 30

4. (a) What are the aspects to be considered while qualifying the audit report on the accounts of a company? Also explain the requirements relating to the directors' comments on the qualifications made by auditors. 30

(b) Explain in brief the special points in the audit of clubs and charitable societies. 30

SECTION—B

5. Answer any **THREE** of the following in not more than 200 words each :— 3×20=60

(a) Why wealth maximisation is superior to profit maximisation as a criterion of financial decision making ?

(b) Discuss the merits and limitations of financial ratio analysis.

(c) Discuss how management of working capital is a trade off between risk and return.

(d) Explain the steps involved in forecasting working capital needs.

6. (a) Define the concept of cost of capital. What is its significance in financial decision making ? 30

(b) On the basis of following information compute NPV and IRR of the project. Assume the marginal tax rate applicable is 20%. Should the project be accepted ?

<i>Profits before Depreciation and Taxes</i>	<i>Depreciation</i>
<i>Rs.</i>	<i>Rs.</i>
1,30,000	30,000
1,41,000	41,000
1,53,100	53,100

The project requires an investment of Rs. 3,00,000.

Note : The present value of Re. 1 at the discount rate of 10% is as follows :

<i>Year</i>	<i>1</i>	<i>2</i>	<i>3</i>
<i>Present value</i>	0.909	0.826	0.751

7. (a) Discuss the factors impacting the dividend policy of a company. 30

- (b) A joint stock company is considering the following debt capital options to fund its newly established subsidiary :

Option	1	2	3	4	5
Debt Capital (Rs. in lakh)	0	2	4	7	10
Expected cost of debt		8%	8.2%	9%	10.8%

The company's expected earnings before interest and tax amount to Rs. 2.5 lakh per annum. The capitalisation rate relevant for an all-equity firm is 12 pc. Determine the cost of equity capital and value of the firm for each of the above options on the basis of MM's hypothesis. What would have been the after-tax cost of capital for the option 4 ? (tax rate 30%). 30

8. (a) Discuss the impact of globalisation on industrial sickness and comment on the criteria adopted by BIFR for determining sickness of an industrial undertaking. 30

- (b) Examine the relationship between the monetary policy and economic development. 30