

MAINS 2014 PAPER I

COMMERCE AND ACCOUNTANCY

Section A

Q1. Answer the following in about 150 words each: $10 \times 5 = 50$

- (a) 'Accounting is a language of business.' Comment. 10
(b) Discuss Zero Base Budgeting as a tool of planning and controlling. 10
(c) Write a short note on the provisions of Indian Accounting Standard regarding Inventories. 10
(d) What are the main provisions of Companies Act, 2013 with respect to the audit related to Dividends? 10
(e) What are the various 'Heads of Income'? Explain briefly each head of income. 10

Q2. (a) Modern Toys Ltd. Had budgeted the following sales for the month of June:

Toy - A	9,000 units at Rs. 50 per unit
Toy - B	6,500 units at Rs. 100 per unit
Toy - C	12,000 units at Rs. 150 per unit

As against this, the actual sales were as under:

Toy - A	10,000 units at Rs. 55 per unit
Toy - B	7,000 units at Rs. 95 per unit
Toy - C	11,000 units at Rs. 156 per unit

The cost per unit of Toy A, B and C was Rs. 45, Rs. 85 and Rs. 130 respectively. Compute the different variances to explain the difference between the budgeted and actual profit. 20

(b) an analysis of costs of Namya Polymer Ltd. led to the following information:

Cost of Element	Variable Costs as % of Sales	Fixed Cost Rs.
Direct materials	32%	-----
Direct Labor	28%	-----
Factory Overheads	12%	1,89,900
Distribution Expenses	5%	58,400
Administration Expenses	2%	66,700

Budgeted Sales for the next year are Rs. 18,50,000. You are required to determine

- (i) The break-even sales volume.
(ii) The profit at the budgeted sales volume.
(iii) The profit, if actual sales drop by 10 percent of budgeted sales.
(iv) The profit, if actual sales increase by 5 percent of budgeted sales. 20

(c) Describe the salient features relating to 'Value Added Tax'. 10

Q3. (a) ABC Ltd. Invited applications for 1,00,000 equity shares of Rs. 100 each at a discount of 6% payable as under:

- On Application Rs. 25
On Allotment Rs. 34
On First and Final Call Rs. 35

The applications were received for 90,000 shares and all of these were accepted. All payments due were received except the first and final call on 1,000 shares, which were forfeited after doing all legal formalities. 500 shares out of them were re-issued at Rs. 90 each as fully paid-up. Pass entries in (i) the Cash Book and (ii) Journal Book of ABC Ltd. 20

(b) The following are the balances of Manohar Co. Ltd. As on 31st March 2014:

Debt	Rs.	Credit	Rs.
Premises	30,72,000	Share Capital	40,00,000
Plant	33,00,000	12% Debentures	30,00,000
Stock (1-4-2013)	7,50,000	Profit and loss A/c	2,62,500
Debtors	8,70,000	Bills Payable	3,70,000
Goodwill	2,50,000	Creditors	4,00,000
Cash and Bank	4,06,500	Sales	41,50,000
Calls in Arrear	75,000	General Reserve	2,50,000
Interim Dividend paid	3,92,500	Bad debts provision as on 1-4-2013	35,000
Purchases	18,50,000		
Preliminary Expenses	50,000		
Wages	9,79,800		
General Expenses	68,350		
Salaries	2,02,250		
Bad debts	21,100		
Debenture Interest paid	1,80,000		
	<u>1,24,67,500</u>		<u>1,24,67,500</u>

Additional Information:

- (i) Depreciate Plant by 15%
 - (ii) Write-off Rs. 5,000 from Preliminary Expenses.
 - (iii) Half year's Debenture interest due.
 - (iv) Create 5% provision on Debtors for doubtful debts.
 - (v) Provide for Income Tax @ 35%.
 - (vi) Stock on 31st March, 2014 was Rs. 9,50,000.
 - (vii) A claim of Rs. 25,000 for workmen's compensation is being disputed by the company.
- Prepare Final Accounts of the company 30

- Q4. (a)** Distinguish between Job Costing and Process Costing. 20
- (b)** State the basic conditions of Income-Tax Act to determine the residential status of an individual, a company and all other persons. 15
- (c)** Prepare a note on deductions from gross total income in respect of certain incomes and certain payments for individuals. 15

Section B

- Q5.** Answer the following in about 150 words each: 10 x 5 = 50
- (a) "Internal Rate of Return Method of Capital budgeting is considered to be superior to Payback Period Method." – Critically evaluate. 10
 - (b) What is the relationship between leverage and cost of capital as per the (i) net income approach and (ii) net operating income approach of theories of capital structure? 10
 - (c) Banks are permitted to enter the insurance sector. Critically evaluate the current scenario of Bancassurance in India. 10
 - (d) Write a note on two important issues of (i) the ratio of current assets to sales (relative asset liquidity) and (ii) the ratio of short-term financing to long-term financing (relative financing liquidity) in formulating working capital policy. 10
 - (e) What is the justification for the goal of maximizing the wealth of shareholders? 10

Q6. (a) From the following Balance Sheets as on December, 2012 and 2013, you are required to prepare a Statement of Funds Flow and Schedule of Changes in Working Capital:

Liabilities	2012 Rs.	2013 Rs.
Share Capital	2,00,000	2,50,000
General Reserve	50,000	60,000
Profit and Loss	30,500	30,600
Long Term Loan	70,000	---
Sundry Creditors	1,50,000	1,35,200
Provision for Tax	30,000	35,000
	5,30,500	5,10,800

Assets	2012 Rs.	2013 Rs.
Land and Building	2,00,000	1,90,000
Machinery	1,50,000	1,69,000
Stock	1,00,000	74,000
Sundry Debtors	80,000	64,200
Cash	500	600
Bank	----	8,000
Goodwill	----	5,000
	5,30,500	5,10,800

Additional information during the year ended 2013 is as under:

- Dividend of Rs. 23,000 was paid.
- Assets of other company were purchased for Rs. 50,000 payable in shares. Assets purchased were Stock of Rs. 20,000, machinery Rs. 25,000 and Goodwill Rs. 5,000.
- Machinery was further purchased for Rs. 8,000.
- Depreciation written off on machinery Rs. 12,000.
- Income Tax provided during the year Rs. 33,000.
- Loss on sale of machine Rs. 200 was written off to General Reserve. 20

(b) Calculate the explicit cost of debenture for each of the following situations, assuming (i) tax rate of 35%, (ii) coupon rate of interest 10%, (iii) face value of debenture Rs. 1,000, (iv) maturity – 20 years:

- If debentures are sold at a premium of 10% and floatation costs are 2%.
- If debentures are sold at a discount of 5% and floatation costs are 3%. 20

The present value factor of an annuity of Rs. 1 for 20 years and present value factor of Rs. 1 for the 20th year are as under:

For Rs. 1	9%	10%	11%
PV factor of Annuity for years 1 – 20	9.129	8.514	7.963
PV factor for the year : 20 th	0.178	0.149	0.124

(c) What is Corporate Restructuring with special reference to Mergers and Acquisitions?

10

Q7. (a) Rudra Ltd.'s Balance Sheet as on 31-12-2013 is as under:

Balance Sheet (As on 31-12-2013)

Liabilities	Rs.	Assets	Rs.
Equity Capital (Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% Long-term Loan	80,000	Current Assets	50,000

Retained Earnings	20,000		
Current Liabilities	<u>40,000</u>		
	2,00,000		<u>2,00,000</u>

The company's total assets turnover ratio is 3.0. Its fixed operating costs are Rs. 1,00,000. Its variable operating costs to sales ratio is 40%. The income tax rate is 35%.

- (i) Calculate the Degree of operating leverage, financial leverage and combined leverage.
(ii) Determine the likely level of EBIT if EPS is (a) Rs. 3 and (b) Rs. 0 (zero). 20

(b) Earnings per share of Shree Laxmi Textile Ltd. is Rs. 20 per share. The company has an internal rate of return of 12 percent and the capitalization rate is 10 percent. Determine the following using Walter's Dividend Model:

- (i) Optimum payout ratio of the firm.
(ii) The price of the share at this payout. 10

(c) Using the following information, complete the Balance Sheet given below:

Balance Sheet

Capital and Liabilities	Rs.	Assets	Rs.
Equity Capital	2,00,000	Plant and Equipments	?
Retained Earnings	3,00,000	Inventory	?
Creditors and Bills Payable	?	Debtors	?
		Cash	?
Total	<u> </u>	Total	<u> </u>

Other Information:

- (i) Total debt to Net worth Ratio is : 0.5 : 1.0
(ii) Turnover on Total Assets: 2
(iii) Gross Profit margin : 30%
(iv) Average Collection Period (based on 360 days year) : 40 Days
(v) Inventory Turnover (based on cost of goods sold and year end inventory) : 3 times
(vi) Acid Test Ratio : 0.75 : 1.0 20

Q8.

- (a) Critically evaluate the functioning of primary and secondary markets in relation to (i) money market and (ii) capital market instruments. 20
(b) How is venture capital different from traditional financing? What are the different types of venture capital funds? 10
(c) Critically evaluate Reserve Bank of India and (i) its monetary policy and (ii) its credit policy. 20

Commerce (Mains) 2014

Paper II

1. Explain the following (Each in about 150 words): 10 x 5 = 50 Marks

- (a) Cybernetic aspects of system theory
- (b) Scope of impression management
- (c) Fishnet organization
- (d) Problems in matrix organization structure
- (e) Managerial grid

2.

- (a) "Organization is the human group deliberately and consciously created for the attainment of certain goals with rational coordination of closely relevant activities". In the light of this statement, discuss the distinguishing features of an organization. 20 Marks
- (b) "Quality circles are getting popularity for academic purpose, but they tend to show little or no effect on employee satisfaction and productivity." Comment. How can these quality circles be made more effective and viable in their approach? 20 Marks
- (c) What is virtual organization? Do you visualize it in Indian scenario? Examine its merits and limitations. 10 Marks

3.

- (a) "Most of the theories of motivation are complementary but not competitive to each other. Hence there is need to understand their interrelationship & integrate them." Discuss the statement and suggest action plan for integration. 20 Marks
- (b) "There is a positive relationship between organizational environment and its structural design." Make an analysis of this statement and in the light of the same, suggest steps to design an organization. 20 Marks
- (c) What is charismatic leadership? Are charismatic leaders born or made? How do they influence followers? Discuss. 10 Marks

4.

- (a) "Conflict in an organization is not always problematic, but it paves the way for development." Elucidate. What are the possible implication of this statement? Develop a suggestive framework to make the conflict management more responsive and effective. 20 Marks
- (b) "Organizational politics refers to intentional behaviors that are designed to enhance or protect a persons influence and self interest." Analyse the statement and discuss the reasons contributing to the political behavior and the way-outs to avoid organizational politics. 20 Marks
- (c) "Organisational culture emphasizes building on employees' strength and rewards more than punishments. It emphasizes individual vitality and growth." Elucidate. 10 Marks

5. Explain the following (Each in about 150 words): 10 x 5 = 50 Marks
- (a) Ethical Training
 - (b) Stock Option Scheme
 - (c) HR Outsourcing
 - (d) Induction vs. Orientation Programme
 - (e) E-Recruitment
- 6.
- (a) Why are workers not more proactive in job analysis programmes, though it is more helpful in their possible development in comparison to managers? Identify the reasons and offer suggestions to make the job analysis more relevant and effective. 20 Marks
 - (b) “Indian trade union movement is plagued by intraunion rivalry, outside leadership and political patronage, and has failed to serve the purpose of its own formation.” Elucidate and develop a suggestive framework to improve the functioning of trade unions in India. 20 Marks
 - (c) Examine the influence of ILO on labor policy, labor legislation and trade union movement in India. 10 Marks
- 7.
- (a) “Disinvestment programme has adversely affected the IR climate in public enterprises.” Assess the implications of this statement. In this context, make out a viable plan to protect the interest of employees. 20 Marks
 - (b) “There is need for a balanced exit policy for the mutual benefit of employer and employees.” Keeping this in your mind, outline the salient features of exit policy statement. 20 Marks
 - (c) There are two approaches of managing industrial dispute in an organization, viz, preventive and curative. Discuss these two approaches. 10 Marks
- 8.
- (a) “Skill development programme fits into recruitment policy of Indian employers and Government is also proactive to it.” Comment on the statement and identify the issues as to why this programme is not successful in India so far.” 20 Marks
 - (b) “Workers have not been empowered to participate in worker participation management programmes, though it is a popular instrument of industrial democracy.” In the light of the statement, analyze the factors responsible for it and offer suggestions to make the worker participation more viable and effective. 20 Marks
 - (c) Examine the reasons and impact of growing labor turnover in Indian IT companies, though their compensation package is better and more competitive. Prepare a plan of action to improve their retention. 10 Marks