

COMMERCE AND ACCOUNTANCY

Mains 2015 (PI)

Time Allowed: Three Hours

Maximum marks: 250

QUESTION PAPER SPECIFIC INSTRUCTIONS

Please read each of the following instructions carefully before attempting questions:

*There are **EIGHT** questions divided in **Two Sections** and printed both in **HINDI** and in **ENGLISH**.*

*Candidate has to attempt **FIVE** questions in all.*

*Question Nos. **1** and **5** are compulsory and out of the remaining. Any **THREE** are to be attempted choosing at least **ONE** question from each Section.*

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Answers must be written in the medium authorized in the Admission Certificate which must be stated clearly on the cover of this Question-cum-Answer (QCA) Booklet in the space provided. No marks will be given for answers written in medium other than the authorized one.

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SECTION – A

Q1. Answer the following questions in about 150 words each **10 x 5 = 50**

- Explain in brief the concept of ‘Activity based Costing’. Give a numerical example.
- Cash from operations (CFO) is not the same as profit after tax (PAT).” Do you agree with this statement? Give reasons using the Accounting Standard – 3.
- What are the objectives and functions of Auditing and Assurance Standards Board (AASB)? Explain.
- Explain the accounting for VAT, with examples.
- What is inter-process profit? Show the treatment of inter-process profit with an example.

Q2.

- A Ltd. is considering the replacement of one of its machines. The existing machine is in good operating condition, but the company is looking for a bigger machine. The existing machine is 5 years old, and has remaining

depreciable life of 10 years. The machine was purchased for Rs. 1,50,000 and is being depreciated at Rs. 10,000 per year for tax purposes.

The new machine will cost Rs. 2,20,000 or Rs. 1,70,000 if exchanged with the existing machine. It will be depreciated on a straight line basis for 10 years with no salvage value. The management anticipates that with the increased operations, there will be a need for an additional net working capital of Rs. 30,000. The new machine will allow the company to expand current operations thereby increasing annual revenue by Rs. 60,000 and variable operating costs from Rs. 2,00,000 to Rs. 2,20,000.

The company's tax rate is 35% and its cost of capital is 10%.

Should the company replace its existing machine? Assume that the loss on exchange of existing machine can be claimed as short-term capital loss in the current year itself. **20**

(b) Cost and revenue information of A Ltd. is as follows:

Contribution to Sales ratio = 30%; variable cost = Rs. 7 per unit;

Break-even point is equal to 10,000 units. Find the following:

- Company reduces the selling price by 10%, reduces the variable cost to Rs. 6 and spends Rs. 4,000 on advertisement. Find sales to earn a profit of Rs. 6,000.
- Company increases the selling price by 20%; reduces the variable cost to Rs. 6 and spends Rs. 4,000 on advertisement. Find the break-even volume of sales. **15**

(c) Explain the provisions of the Income tax Act, 1961 with regard to set-off and carry forward of loss under the head Income from Business and Profession and Capital Gains. **15**

Q3.

(a) Mr. S is employed by A Ltd. at Delhi throughout the financial year ended on 31st March, 2015. He furnishes the following particulars for computation of his income for the assessment year 2015 – 16:

- (i) Basic Salary @ Rs. 50,000 per month
- (ii) Personal Pay @ Rs. 30,000 per month
- (iii) Conveyance Allowance @ Rs. 3,000 per month
- (iv) Uniform Allowance @ Rs. 2,000 per month
- (v) Knowledge update Allowance @ Rs. 2,500 per month
- (vi) Medical Allowance @ Rs. 5,000 per month
- (vii) Entertainment Allowance @ Rs. 1,000 per month
- (viii) He is provided with gift vouchers of @ Rs. 15,000 per year
- (ix) His employer contributes 15% of the basic salary to his recognized provident fund account. Similar amount is deducted from his salary as his contribution to the fund.

- (x) He gets house rent allowance @ Rs. 20,000 per month against a rent of Rs. 25,000 per month paid by him for his residential accommodation.
- (xi) His employer paid electricity and telephone bills of his residential house amounting to Rs. 70,000 and Rs. 20,000 respectively for the whole year.
- (xii) During the year he made the following payments:
- (i) Life insurance premium Rs. 1,20,000 (sum assured is Rs. 10 Lacs)
 - (ii) Life insurance premium on the life of his major son Rs. 25,000
 - (iii) Mediciam policy premium paid in cash Rs. 30,000
 - (iv) Donation of Rs. 2,00,000 to an approved charitable trust
- Compute his taxable income for the assessment year 2015-16 **25**
- (b) What is the need and importance of sampling in audit? Briefly outline the analytical procedures to be adopted while conducting audit. **15**
- (c) Differentiate between 'Basic Earnings Per Share' and 'Diluted Earnings Per Share' with reference to Indian Accounting Standard. **10**

Q4. (a) Following table shows relevant financial items of X Ltd. as on 1st April, 2014:

Items	Rs.
Intangible Assets	50,000
Inventories at cost	1,00,000
Share Capital (Face Value = Rs. 2 per share)	50,000
Cash and Bank balances	1,50,000
10% Bonds	25,000
Receivables	30,000
Total Sources	3,60,000
Creditors	25,000
Plant (Net of depreciation)	30,000
Plant at cost	50,000

Transactions during the year are given below:

- (i) Sold 60% of the inventories on credit for Rs. 2,00,000
- (ii) Salary for the period paid fully Rs. 20,000
- (iii) Rent per year Rs. 10,000. Paid for rent for three years.
- (iv) Intangible assets amortized over next four years equally.
- (v) Plant is 4 years old. Depreciation is charged using the Straight line Method (SLM) (for both tax and accounting purposes).
- (vi) Purchased shares of Y Ltd. worth Rs. 50,000 by issuing shares at Rs. 20 per share.
- (vii) Redeemed Bonds on 31st March, 2014 (after the payment of interest) by issuing shares at the market price of Rs. 25 per share.
- (viii) Paid off 60% of the creditors.

(ix) Tax paid @ 30% of profits.

Prepare Balance Sheets as at 1st April, 2014 and 31st March, 2015 along with Profit & Loss a/c and Cash a/c for the year ended on 31st March, 2015. **30**

(b) Distinguish between Divisible profits and Dividends. **10**

(c) Discuss the mechanism of levy of Value Added Tax. **10**

SECTION – B

Q5. Answer the following questions in about 150 words each 10 x 5 = 50

(a) Examine with an example the relationship between leverage and profitability.

(b) Write a note on the relevance of credit-rating for a power sector company.

(c) Explain in brief the regulations of SEBI for Buy-back of shares by a company.

(d) Explain briefly the factors that determine the dividend policy of a company.

(e) “Retained earnings have no cost. Comment.

Q6.

(a) Calculate the degree of operating leverage, degree of financial leverage and degree of combined leverage for the following firms:

	N	S	D
Production (in units)	17,500	6,700	31,800
Fixed costs (Rs.)	4,00,000	3,50,000	2,50,000
Interest on long-term loan (Rs.)	1,25,000	75,000	NIL
Selling price per unit (Rs.)	85	130	37
Variable cost per unit (Rs.)	38	42.50	12

You are also required to interest the results of your calculation. **20**

(b) Explain the important ratios that will be used in each of the following situations:

(i) A bank is approached by a company for a working capital facility of Rs. 50 lacs.

(ii) A long-term creditor who is interested in knowing whether his claim is adequately secured.

(iii) A shareholder who is examining his portfolio to decide whether to hold or sell his holdings in the company.

(iv) A finance manager who is interested to know the effectiveness with which the available resources are utilized. **15**

(c) Describe the nature of the following debt instruments: **15**

(i) Deep Discount Bonds

(ii) Floating Rate Bonds

(iii) Extendable Notes

(iv) Junk Bonds

Q7. (a) The Balance Sheets of S Ltd. at 31st March, 2012 and 31st March, 2013 are as under:

Particulars	31-3-2012	31-3-2013
	Rs.	Rs.
I. Equity and Liabilities:		
Shareholder's Funds:		
Share Capital	50,000	70,000
General Reserve	5,000	8,000
Profit and Loss A/c	10,000	15,000
Current Liabilities:		
Creditors	15,000	19,000
Bills Payable	4,000	5,000
Outstanding Expenses	1,000	500
	<u>85,000</u>	<u>1,17,500</u>
II. Assets:		
Non-Current Assets:		
Building	50,000	80,000
Machinery	8,000	12,000
Current Liabilities:		
Stock in Trade	5,000	7,500
Debtors	20,000	15,000
Cash and Bank Balance	2,000	3,000
	<u>85,000</u>	<u>1,17,500</u>

Following further information is available:

- (i) Depreciation of Rs. 5,000 on building and Rs. 2,000 on machinery has been charged for the year 2012 – 2013.
- (ii) A machine costing Rs. 1,200 was sold on 1st April, 2012 for Rs. 800. Depreciation of Rs. 700 was provided on the same upto 31st March, 2012.

Prepare classified cash flow statement for the year ended on 31st March, 2013. **20**

- (b) Explain briefly the factors influencing the working capital requirement. **15**
- (c) Discuss the utility and limitations of Internal Rate of Return (IRR) method of appraising a capital investment decision. **15**

Q8.

- (a) Explain the role of IRDA in regulating insurance business in India. **15**
- (b) Give a critical appraisal of the Modigliani-Miller (MM) approach to the theory of capital structure. **20**
- (c) What is corporate restructuring? State the major forms in which it can be carried out. **15**

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SECTION – A

Q1. Explain the following (each in about 150 words): 10 x 5 = 50

- | | |
|--------------------------------------|----|
| (a) Balance Score Card | 10 |
| (b) VUCA World | 10 |
| (c) Force Field Analysis | 10 |
| (d) Psychological Contract | 10 |
| (e) Accountability Vs Responsibility | 10 |

Q2.

- (a) “Competitiveness of Indian industry is directly linked with digitization initiatives.” Identify the issues involved and implication of this statement. 20
- (b) “Since liberalization there has been continuous pressure on the functioning of regulatory agencies which monitor India business organizations.” Evaluate this statement and suggest remedial measures to enhance their effectiveness. 20
- (c) What is meant by empowered organisations? Suggest steps to foster an empowered organization. 10

Q3.

- (a) According to Hendry Mintzberg, how does the power dynamics between various parts of the organization, result in different structural forms of organization? What are these structural forms, and how do they affect organizational effectiveness? 20
- (b) “Organisation culture is the long term phenomenon that decides the success or failure of the mission and vision of the organization and ultimately its survival in the current global scenario.” Explain this statement and also identify the cultural problems of modern business organizations. 20
- (c) In post modern-organisations, are traditional concepts like line and staff functions irrelevant? Do you think so? Give arguments in support of your answer. 10

Q4.

- (a) “S-O-B-C model gives only a bare bones sketch of organization behavior rather than a full blown explanation. However it can serve as a conceptual framework for organizational behavior.” What do you mean by this statement? Give suggestions to enrich this model. 20
- (b) What is positive psychology? How can Indian companies use the concepts of the same to foster entrepreneurial thinking in their workforce? Explain. 20
- (c) “Organisational citizenship behavior enhances the effectiveness of quality circles.” Comment 10

SECTION - B

Q5. Explain the following (each in about 150 words): 10 x 5 = 50

- (a) Behavior Anchored Rating Scale. 10
- (b) Human Resource Accounting. 10
- (c) Conciliation Vs mediation in Disputes Resolution. 10
- (d) Pen down strike Vs Tool down strike. 10
- (e) Banning Lockouts. 10

Q6.

- (a) “Cafeteria Scheme allows individual employees to decide, with certain limits, on the makeup of their Fringe Benefits Package.” Discuss, Also examine the implications of this statement. 20
- (b) “Compared to factory workers, it is more difficult to attempt job analysis, job description, and job specification for the Scientists and Engineers working in research and Development Departments.” Comment, how does the HR Department help management to address these challenges effectively? 20
- (c) What is the impact of ‘Halo Effect’ on Performance Appraisal? Explain. 10

Q7.

- (a) "360° feedback system is gaining popularity." Comment. Also examine the barriers to its effective implementation in India. 20
- (b) "I.T. Companies in India seek special concessions in the Factories Act of 1948, for their establishments." What are these concessions? Do you agree that these should be granted? Give arguments in support of your answer. 20
- (c) "Constitutional provisions are in favour of Workers Participation in Management, but its implementation requires effective strategies." Discuss. 10

Q8.

- (a) "Majority of I.T. Companies are keen to reduce their labor turnover." What are the reasons for it? How could exit interviews and post exit questionnaires enable them to do so? Comment. 20
- (b) "Collective bargaining requires mutual trust among key stakeholders within an industry." Comment. What considerations are to be taken into account in managing collective bargaining arrangements? 20
- (c) "Changing Indian labor legislations is the last unfinished agenda since 1991." Assess its rationale. 10

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