

Commerce & Accountancy Paper I

Mains 2018 held on 7th October 2018

SECTION 'A'

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

- 1.(a) Explain the concept and nature of accounting standards. Why are these needed? 10
1.(b) What are the costs used in managerial decision-making? Explain, in brief, their characteristics. 10
1.(c) In what way does the liability of tax of a “not ordinarily resident” person differ from that of a “resident” person under the Income Tax Act? 10
1.(d) Explain the major provisions of compulsory tax audit for claiming deduction under section 35D and 35E. 10
1.(e) Explain, in brief, the functions of cost accounting. 10

2.(a) The following is the Balance Sheet of XYZ Ltd. as at 31st March 2017.

Liabilities	Rs.	Assets	Rs.
20,000 Equity shares of Rs. 100 each	20,00,000	Goodwill	25,000
12% Debentures	5,00,000	Land & Buildings	1,50,000
Outstanding debentures interest	1,20,000	Plant & Machinery	3,00,000
Creditors	3,00,000	Furniture	80,000
		Stock	2,70,000
		Debtors	60,000
		Cash at Bank	35,000
		Preliminary expenses	20,000
		Profit & Loss A/c.	19,80,000
	29,20,000		29,20,000

The following is the schemes of reconstructions:

- (i) Equity shares are reduced by Rs. 95 per share. They are, then, consolidated into 10,000 equity shares of Rs. 10 each.
(ii) Debenture holders agree to forego outstanding debenture interest. As a compensation, 12% debentures are converted into 14% debentures, the amount remaining Rs. 5,00,000.
(iii) Creditors are given the option to either accept 50% of their claims in cash in full settlement or to convert their claim into equity shares of Rs. 10 each. Creditors for Rs. 2,00,000 opt for shares in satisfaction of their claims.
(iv) To make payment to creditors opting for cash payment and to augment working capital, the company issues 50,000 equity shares of Rs. 10 each at par, the entire amount being payable along with applications. The issue was fully subscribed.
(v) Land and Buildings are revalued at Rs. 2,00,000 whereas plant and machinery is to be written down to Rs. 2,10,000. A provision amounting to Rs. 5,000 is to be made for doubtful debts.

Pass necessary journal entries and prepare the company's balance sheet immediately after the reconstruction. 20

2.(b) The product of a company passes through three distinct processes to completion. From past experience, it is ascertained that the normal wastage in each process is as under:

Process	Wastage	Sale value of wastage
A	2%	25 paise per unit
B	4%	50 paise per unit
C	2.5%	60 paise per unit

The expenses were as follows:

Particulars	Process A	Process B	Process C
Materials	12,000	10,000	9,000
Direct labor	16,000	5,000	4,900
Manufacturing expenses	2,000	3,400	3,590
Other factory expenses	3,500	2,005	2,004

4,000 units were initially introduced in process A at a cost of Rs. 13,560. The output of each process was as under:

Process	Output
A	3,850 units
B	3,600 units
C	3,500 units

Prepare process accounts and also work out the sale price per unit of finished stock so as to realize 20% profit on selling price. 15

2.(c) What are the provisions of inclusions of the income of a minor child and the wife of an assessee in his income? 15

3.(a) Compute the taxable income of X (40 years) for the assessment year 2018-19

	Rs.
Net income from trading business	8,00,000
Long-term capital gain on transfer of debentures (if computed without indexation)	6,00,000
Long-term capital gain on transfer of listed debentures (computed after indexation) (X wants to pay tax at the rate of 20% of Rs. 2,50,000 and not at the rate of 10% of Rs. 6,00,000)	2,50,000
Share of income from HUF in which he is a member	82,000
Winning from horse races (net of TDS of 30 per cent)	70,000
Interest on bank fixed deposits:	
- Deposit in his own name	1,17,000
- In the name of minor son	1,450
- In the name of minor daughter	8,000
- In the name of major unmarried daughter	70,000
Expenditure incurred for medical treatment of his 67 years old elder brother (dependent of X, being a person with disability)	8,000
Repayment of loan taken for part-time studies of major daughter for graduate course in management (loan is taken from a notified charitable institute)	6,90,000
Payment of interest from the aforesaid loan	76,000
Donation to the aforesaid notified charitable institute	5,000
Brought forward loss of a discontinued business pertaining to the assessment year 2014-15	26,000
Purchase of a work of art on November 10, 2017 from a friend for Rs. 1,15,000 (market value is, however, Rs. 1,70,000)	1,15,000
Deposit in Public Provident Fund account and purchase of NSC IX issue.	1,63,000

25 Marks

3.(b) State the points to be considered while determining divisible profits in case of a company. What are the auditor's duties in regard to payment of dividends by a company? 15

3. (c) Explain, in brief the main provisions of Indian Accounting Standards regarding cash flow statement. 10

4. (a) The following are the balances of Bhushan Co. Ltd. as on 31st March, 2016:

Debit	Rs.	Credit	Rs.
Land & Building	30,72,000	Share Capital	40,00,00
Plant & Machinery	33,00,00	4,00,000 shares @ Rs. 10 each	
Stock	7,50,000	12% Debentures	30,00,000
Sundry Debtors	8,70,000	P/L A/c.	2,62,500
Goodwill	2,50,000	Bill Payable	3,70,000
Cash at Bank	4,06,500	Creditors	4,00,000
Calls in arrear	75,000	Sales	41,50,000
Interim Dividend paid	3,92,000	General reserve	2,50,000
Purchases	18,50,000	Bad Debt	35,000
Preliminary Expenses	50,000	(Provision on 01.04.2015)	
Wages	9,79,800		
General Expenses	68,350		
Salaries	2,02,250		
Bad debts	21,100		
Debentures interest paid	1,80,000		

The following additional information is available:

- Depreciate Plant & Machinery by 15%
 - Write off Rs. 5,000 from Preliminary Expenses
 - Half-year's Debenture interest due
 - Credit 5% provision on Debtors for doubtful debts
 - Provide for Income Tax @ 50%
 - Stock on 31st March 2016 was Rs. 9,50,000
 - A claim of Rs. 25,000 for workmen's compensation is being disputed by the company.
- Prepare Final Accounts of the company. 20

4.(b) "The audit of banks is the audit of balance sheet and advances." Explain, Distinguish between performing and non-performing assets. 20

4.(c) "Standard costing is universally accepted as an effective instrument for controlling costs in industries." In the light of this statement, explain the objectives of standard costing. 10

SECTION 'B'

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

5.(a) Critically examine the relationship between the key financial decision, return, risk and market value. 10

5.(b) "ABC Analysis, FSN Analysis and Inventory Turnover Ratio are the most commonly used tools of inventory management." Explain each tool in brief and state the reasons for their popularity. 10

5.(c) Discuss the following ways of incorporating risk in the investment decision making process: The Risk-Adjusted Discount Method and The Certainty Equivalent Method. 10

5.(d) “Financial market can be classified based on types of financial claims, maturity of claims, claims representing new issues or outstanding issues, timing of delivery and nature of its organisation structure.” Summarise the classification in brief. 10

5.(e) Explain the rating methodology used by CRISIL in debt rating. What symbols are used by CRISIL for determining the risk level of a debt instrument? 10

6.(a) ABC Ltd. is considering the following credit policy alternatives:

Particulars	Existing Policy	Option - A	Option -B
(A) Credit Sales (Rs. in lakhs)	10.00	9.60	12.00
(B) Credit Period (days)	30	45	60
(C) Bad Debt (% of sales)	5	4	6
(D) Cost of Credit Administration (Rs. in lakhs)	0.40	0.25	0.50
(E) Average Collection Period (days)	45	50	70

The company expects to achieve a contribution of 40% on sales. It has the required rate of return on investment of 20% p.a. Assume 365 days in a year. You are required to suggest which credit period option is more suitable to the company. 30

6.(b) The following information is available for JRISHIV Corporation:

- Earning per share : Rs. 4.00
- Rate of return on investments : 18 per cent
- Rate of return required by shareholders : 15 per cent

What will be the price per share as per the Walter Model if the payout ratio is 40 percent? 50 per cent? 60 per cent? 15

6.(c) “The Weighted Average Cost of Capital (WACC) of a firm, depends on many factors which are beyond the control on the investment and financing policies of a firm.” Explain in brief. 15

7.(a) Namya Ltd. wants to prepare the feasibility of manufacturing one of the components needed for its finished product. It has two options of purchasing from its present supplier or to manufacturer it in-house.

Its present supplier has shown the willingness to provide at Rs. 125 per unit for the company’s requirement of 6000 units per year.

If the component is manufactured in-house, it requires equipments costing Rs. 10 lakh and is expected to have salvage value of Rs. 2 lakh after the expiry of five years. Additional fixed cost (excluding depreciation) are estimated to increase by Rs. 1 lakh per year. The variable cost of manufacturing each component will be Rs. 30 per unit. The company is subject to a 35 per cent tax rate. Its cost of capital is 15 per cent for this project. The company’s projected annual need is at 7500 units per year for 5 years. The tax relevant rate of depreciation is 25 per cent based on WDV method.

Advise the company, whether it should buying from outside supplier or start its own manufacturing. Will your answer be different if the requirement of the company is only 6000 units per year?

Year	1	2	3	4	5
The present value of Rs. 1 at 15%	0.870	0.756	0.658	0.572	0.497
The present value of an Annuity of Rs. 1 at 15%	0.870	1.626	2.283	2.855	3.352

7.(b) Mayur Manufacturing Ltd. has equity share capital of Rs. 5,00,000 (face value Rs. 10). To meet the requirement of expansion plan, the company wishes to raise Rs. 3,00,000. The company is considering the following four alternative sources to raise the funds:

Plan A: To have full money from the equity shares.

Plan B: To raise Rs. 1 lakh from equity and Rs. 2 lakhs by borrowing from financial institution @ 10% rate interest per annum.

Plan C: To raise full money of Rs. 3 lakhs from bank at 10% rate of interest per annum.

Plan D: Rs. 1 lakh in equity and Rs. 2 lakhs issue of preference shares at 8% per annum dividend.

The company is expected to have earnings of Rs. 1,50,000 after the expansion programme. The tax rate applicable is 35%. Suggest the suitable plan. 15

7.(C) Define and evaluate the following used for analysis of financial statements:

(i) Acid-test ratio

(ii) Interest coverage ratio

(iii) Average collection period

(iv) Return on capital employed

(v) Price-earning ratio

15

8.(a) What are the different bases for establishing the exchange ratio in case of a merger? How the boundaries for exchange rate is determined from the view point of acquiring, acquired and combined firm? 20

8.(b) Discuss the state of the venture capital industry in India. 15

8.(c) State the assumptions made in Modigliani and Miller Proposition-I that the capital structure is independent of capital mix. Explain with an example that how arbitrage process justifies the theory, using the following data.

Shyam Ltd. and Ram Ltd. belong to same risk class. Ram Ltd. has no debt capital. Shyam Ltd. has both debt and equity capital. Other details are as under:

Particulars	Ram Ltd.	Shyam Ltd.
Net operating income (Rs.)	10,00,000	10,00,000
Debt Interest (Rs.)	--	3,00,000
Debt Capitalisation Rate	--	10%
Equity Capitalisation Rate	14%	18%
Average Cost of Capital	14%	14.52%

One investor is holding Rs. 1,00,000 worth of equity shares of Ram limited. What arbitrage will he resort to? 15

Commerce & Accountancy Paper II

Mains 2018 held on 7th October 2018

SECTION 'A'

- Q1.** Explain the following in about 150 words each: $10 \times 5 = 50$
- (a) Benchmarking 10
 - (b) Organisational Re-engineering 10
 - (c) Halo Effect 10
 - (d) Adaptive Coping Cycle 10
 - (e) Red-tapism 10
- Q2.(a)** How does a learning organisation differ from a traditional organisation? What impact do these differences have on the way people are managed? 20
- (b)** “The political power game is very real in modern organisation.” Comment on this statement. Also examine its postulates of power in organisations that help focus on the political realities. 20
- (c)** What is meant by impression management? Also distinguish between impression motivation and impression construction. 10
- Q3.(a)** “There are a number of misconceptions that people have about the glass ceiling.” What are some of these? Also, what can organisation do to help break the glass ceiling? 20
- (b)** What are the major contributions of Herzberg’s theory of motivation? Do you think it makes a contribution to the better understanding of motivation in the workplace? Comment and give arguments in support of your answer. 20
- (c)** What is the nature of ‘selfs’ in the Johari Window? What implications does each have for interpersonal conflict? 10
- Q4.(a)** “The overriding purpose of Quality of Work Life (QWL) is to change the climate at work so that the human-technological-organisational interface leads to a better quality of work life.” Examine this statement. How do gaps create problems for this interface? 20
- (b)** What are some styles of charismatic leadership? Critically examine the Robert House theory of charismatic leadership in the context of Indian scenario. 20
- (c)** Examine the attributes of virtual organisation. Also assess their implications in the Indian corporate sector. 10

SECTION 'B'

- Q5.** Explain the following in about 150 words each: $10 \times 5 = 50$
- (a) OCTAPAC Culture 10
 - (b) Repertory Grid 10
 - (c) Golden Handshake 10
 - (d) Standing Orders 10
 - (e) Dissolution of Trade Union 10
- Q6. (a)** “Merit-based promotion leads to dissatisfaction of all except one, hence the resulting effect is negative; seniority-based promotion has the distinctive advantage of satisfying

all in due course of time.” Critically evaluate this system. Also suggest a suitable promotion policy for Indian enterprises. 20

(b) “Demand forecasting of human resource is the process of estimating the future quantity and quality of people required.” In the light of this statement, evaluate various techniques specially applicable to the service industry. 20

(c) What is meant by attribution rate? Why and how are Indian information technology and marketing companies facing this growing attribution rate? 10

Q7.(a) How is performance management system different from performance appraisal system? Also explain how customized performance appraisals can be used as a strategic tool for performance management system. 20

(b) “Collective bargaining is important to both employers and employees but there are certain snags.” Do you agree with this statement? Suggest measures to make the process more effective. 20

(c) “The basic aim of talent management is to develop and maintain a talent pool consisting of a skilled, engaged and committed workforce.” Do you agree with this comment? Assess its implications in the context of recent government initiatives for the development of talent management in the country. 10

Q8.(a) “In India, workers’ participation in management is a farce and an ineffective mechanism but it can be reinforced with suitable legal initiatives.” Comment and offer your suggestions to make the legal framework more effective and viable. 20

(b) Discuss the objective and functions of International Labor Organisation (ILO). Also critically examine its pattern of structure and contribution in the field of Indian labor market. 20

(c) “It is often argued that reward systems should be adjusted in line with changing organisational strategic objectives—yet in the real world, this is not often the case.” Comment on this statement.