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COMMERCE AND ACCOUNTANCY

PAPER—I

Time Allowed : Three hours

Maximum Marks : 300

The figures in the margin indicate full marks for the questions

Candidates should answer Question Nos. **1** and **5** which are compulsory and **three** of the remaining questions, selecting at least **one** from each Section

Assume suitable data if considered necessary and indicate the same clearly

SECTION—A

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

(a) Discuss the mandate of accounting standards AS-2 of inventories.

(b) Discuss the essential features of process costing.

(c) Discuss the incomes which do not form part of total income as per the Income-tax Act.

(d) State the mechanism of auditing 'purchase and sale transactions' of a business entity.

2. (a) Why is cost accounting necessary? Discuss the functions of cost accounting. 30

(b) Supra Lake Ltd. issued 60000 equity shares of Rs 10 each at par payable as to Rs 2 per share on application; Rs 5 per share on allotment; and the balance on the first and final call. Applications totalled 165000 shares. The board rejected applications for 5000 shares; accepted in full applications for 10000 shares; and allotted 50000 shares to the applicants for 150000 shares on a pro rata basis. Call money on 1000 shares was not received. These shares were forfeited. All the forfeited shares were subsequently reissued at Rs 10 per share.

Pass Journal entries for the above mentioned transactions. 30

3. (a) State the meaning of marginal costing. Describe the use and application of marginal costing in decision-making areas. 30

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- (b) Draw up a flexible budget for overhead expenses on the basis of the following data :

	<i>At 80% capacity</i> (Rs)
Variable Overheads :	
Indirect Labour	12,000
Store including spares	4,000
Semi-variable Overheads :	
Electric Power (30% fixed, 70% variable)	20,000
Repairs (60% fixed, 40% variable)	2,000
Fixed Overheads :	
Depreciation	12,000
Insurance	2,000
Salaries	10,000
Total Overheads :	<u>62,000</u>

Estimated direct labour hours—124000 hours.

Further determine the overhead rates at 70%, 80% and 90% plant capacity.

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4. (a) Discuss various kinds of deductions allowed in computing total income as per the Income-tax Act.

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- (b) Following are the particulars of income of Mr. Madhumangal, a retired government servant of 62 years of age, for the year ending on 31-03-2011 :

	Rs
Profits of trading business	4,80,000
Rental value of house property Rs 5,100 per month (Municipal taxes being Rs 1,200 per annum)	61,200
Dividends from cooperative societies	2,600
Interest on investment in government securities (gross)	4,900
Dividends from Indian companies	4,700
Interest on deposit with cooperative societies	4,500
Interest on bank deposit	9,000

He had taken up a life insurance policy for Rs 50,000 and paid an insurance premium of Rs 5,000.

He paid annual tuition fee of Rs 7,000 for his son who is studying in a school.

Compute his total income for tax purpose for the assessment year 2011-12.

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SECTION—B

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

20×3=60

- (a) Discuss the theory of capital structure with special reference to Modigliani and Miller approach.
- (b) Discuss the functions of International Monetary Fund in redressing the balance of payment (BOP) crisis of member nations.
- (c) State the meaning of financial risk. Examine the risk and return relationship in the context of financial management.
- (d) Discuss the meaning of dividend. Elaborate any two dividend theories with their policy implications.

6. (a) Describe the factors to be considered in respect of valuation of fixed income securities and common stocks. 30

- (b) AZHN Fus planning to instal a captive generator set at its plant. The management of the entity asks you to evaluate the alternatives—either to purchase or to take the generators on lease basis. The following particulars are furnished :

Buying = initial cost—Rs 5,00,000; residual value—Rs 1,60,000

Leasing for 5 years = residual value—Rs 90,000 returned
annual lease rentals—Rs 1,50,000; to lessee in 5 years time

Depreciation—@ 20% p.a. on written-down value

Corporate tax rate—40%

After tax cost of debt—14%

The time gap between the claiming of the tax allowance
and receiving the benefit—one year

Evaluate the base or buy decision lease on the above information. 30

7. (a) State the factors to be considered while determining the working capital requirement of a manufacturing enterprise. 30

- (b) Jiribam Limestone Company has the following book value capital structure on 31st March, 2010 :

<i>Sources of finance</i>	<i>Amount in (Rs)</i>	<i>Proportion (%)</i>
Share Capital	4,50,000	45
Reserve and Surplus	1,50,000	15
Preference Share Capital	1,00,000	10
Debt	3,00,000	30
	<u>10,00,000</u>	<u>100</u>

The expected after-tax component costs of various sources of finance for the aforesaid company are as follows :

<i>Sources</i>	<i>Cost (%)</i>
Equity	18.0
Reserve and Surplus	18.0
Preference Share Capital	11.0
Debt	8.0

Compute the weighted average cost of capital of the Jiribam Limestone Company based on the existing capital structure. Give your comment on the same. 30

8. (a) Describe the role of the Reserve Bank of India in regulating the money market and credit supply in the economy. 30
- (b) Elaborate the steps generally followed by business entities for raising long-term and short-term finance for business needs. State briefly the norms of bank finance prescribed in this regard. 30
