

CSM – 20 / 15
Commerce and Accountancy
Paper – I

Time : 3 hours

Full Marks : 300

The figures in the right-hand margin indicate marks.

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

Section – A

1. Answer any **three** of the following questions. The answer of each question should not exceed **200** words : **20×3 = 60**

(a) Discuss the procedure of "Reduction of Share Capital" as per the Section 100-103 of Companies Act.

- (b) What do you understand by cost accounts ?
In what way are they helpful to a manufacturer or a contractor ?
- (c) What are the deductions allowable under Section of the Income Tax Act, 1961 in respect of "Income from other sources" ?
- (d) What provisions under Companies Act ensure independence of auditor ?

2. (a) The following is the Balance Sheet of Sweet Mithu Ltd. as on 31.12.2015 :

Liabilities	Rs.	Assets	Rs.
Share Capital :		Land and Building	55,000
10,000 shares of		Plant at cost less	
Rs. 10 each	1,00,000	Depreciation	65,000
General Reserve	20,000	Trade-marks	10,000
Taxation Reserve	30,000	Stocks	24,000
Workmen's		Debtors	44,000
Savings A/c	15,000	Cash at Bank	26,000
Profit & Loss A/c	16,000	Preliminary	
Sundry Creditors	49,000	Expenses	6,000
	2,30,000		2,30,000

The Plant is worth Rs. 60,000 and Land and Building have been valued at Rs. 1,20,000. Debtors include Rs. 4,000 as bad. The profits of the company have been Rs. 40,000 in 1998 ; Rs. 45,000 in 1999 and Rs. 53,000 in 2000. It is the company's practice to transfer 25% of profit to Reserve.

Similar companies give a yield of 10% on the market value of shares. Value of Goodwill is Rs. 80,000. Ignore Income Tax. Find out the Fair Value of the Equity Share.

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- (b) Define Process Costing and explain its working. For which kinds of business is process costing suitable ?

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3. (a) Vinak Ltd. produces an article by blending two basic raw materials. It operates a standard costing system and the following standards have been set for raw materials :

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Material	Standard Mix	Standard Price Per Kg
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A	40%	Rs. 4.00
B	60%	Rs. 3.00

The standard loss in processing is 15%.

During April 1990, the company produced 1,700 kg of finished output.

The position of stock and purchases for the month of April, 1990 is under :

Material	Stock on 01.04.2016	Stock on 30.04.2016	Purchased during April, 2016	Cost
A	35kg	5kg	800kg	Rs. 3,400
B	40kg	50kg	1,200kg	Rs. 3,000

Calculate the following variances :

- (i) Material Price Variance
- (ii) Material Usage Variance
- (iii) Material Yield Variance
- (iv) Material Mix Variance
- (v) Total Material Cost Variance

- (b) What do you understand by "Composite Rent" ? What is the Tax treatment of Composite rent under Income Tax Act, 1961 ?

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4. (a) What is the difference between the position of auditor appointed under statute and by private individuals and firms ?

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- (b) Elucidate the importance of establishing basic principles of valuation and verification stock in trade.

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Section – B

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

20×3 = 60

- (a) Comment on the emerging role of finance manager in India.
- (b) Explain the CAPM approach for computing the cost of equity. Discuss the merits and demerits of the approach.
- (c) How will a firm go about determining its capital structure ?

- (d) Explain the sub-market operating in a typical money market.

6. (a) Why it is important to evaluate capital budgeting projects on the basis of after-tax cash incremental flows ? Why not use accounting data instead of cash flow ? 30

- (b) X and Y Ltd. is desirous to purchase a business and has consulted you, and one point on which you are asked to advice them, is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10 per cent to your computed figure to allow for contingencies.

Particulars	Amount for the year (Rs.)
(i) Average amount backed up for stocks :	
Stocks of finished product	5,000
Stocks of stores and materials	8,000
(ii) Average credit given :	
Inland sales, 6 weeks' credit	3,12,000
Export sales, 1.5 weeks' credit	78,000

Particulars	Amount for the year (Rs.)
(iii) Average time lag in payment of wages and other outgoings :	
Wages, 1.5 weeks	2,60,000
Stocks and Materials, 1.5 months	48,000
Rent and Royalties, 6 months	10,000
Clerical Staff, 0.5 month	62,400
Manager, 0.5 month	4,800
Miscellaneous Expenses, 1.5 months	48,000
(iv) Payment in Advance :	
Sundry expenses (paid quarterly in advance)	8,000
Undrawn profits on an average throughout the year	11,000
Set up your calculations for the average amount of working capital required.	30
7. (a) Explain briefly a view of traditional writers on the relationship between capital structures and the value of the firm.	30

(b) The following are the abridged Balance Sheets of P Ltd. and S Ltd. as on 31st December, 2015 :

Liabilities	P Ltd. Rs.	S Ltd. Rs.	Assets	P Ltd. Rs.	S Ltd. Rs.
Share Capital	4,00,000	1,50,000	Sundry Assets	5,60,000	2,00,000
Profit & Loss A/c	75,000	-----	Goodwill	40,000	50,000
Creditors	1,25,000	1,25,000	Profit & Loss A/c	-----	25,000
	6,00,000	2,75,000		6,00,000	2,75,000

P Ltd. holds 1,000 shares in S Ltd. at a cost of Rs. 25,000 and S Ltd. holds 500 shares in P Ltd. at a cost of Rs. 70,000 in each case included in the Sundry Assets.

The shares of P. Ltd. are of Rs. 100 each fully paid, the shares of S. Ltd. are of Rs. 50 each, Rs. 30 paid.

The two companies agree to amalgamate and to form a new company PS Ltd. on the basis that :

- (i) The shares which each company holds in the other are to be valued at book value having regard to the Goodwill valuation as given in (ii).

- (ii) The Goodwill values are P Ltd. of Rs. 1,50,000 and S Ltd. of Rs. 25,000.
- (iii) The new shares are to be of a nominal value of Rs. 50 each, credited as Rs. 25 paid.

Show the distribution of shares in the new company to the number of the merged companies and prepare a Balance Sheet resulting from the merger. 30

8. (a) What are the reasons for "London" to become world's leading financial centre ? 30
- (b) State the guidelines issued by the RBI for trading in government securities by the bank. 30

