

IAS Mains Commerce Papers 1981

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Paper I

Part I

Question No. 1 is compulsory

1. Answer any three of the following in not more than 200 words each:
 - a. Why should firms furnish trade credits to enterprises that are clearly marginal risks (20)
 - b. Under what circumstances is the acid test ratio more important than the current ratio (20)
 - c. The rate of profit on sales is much less important than the rate of return on assets. Show how (20)
 - d. There are reasons why, in practice, there may be deviations from the theoretically estimated economic order quantity; however many of these deviations do not significantly effect the inventory cost Emmerate some of the reasons for these deviations and show the validity of the second part of the statement (20).
2. Analyse the important factors influencing capitalization structure and examine the influence on-it, if any, of the policies and practices of financial institutions and govern mental regulations in India (20).
3. The management of X Co. Ltd. Is considering the replacement of a machine which has a book value of Rs. 25, 000 and a present sale value of Rs. 8, 000. The machine has been depreciated on straightline method at Ks. 5, 000 per annum and is still usable for 5 years but will have no scrap value at the end of five years. A new machine, having a useful life of 5 years and a scrap value of Rs. 10, 000 at the end of five years, is available for Rs. 1, 00, 000, installation of the new machine, it. Is estimated, would result in a saving of Ks. 20, 000 per annum in operating costs at the present level of production. The capacity of the new machine is more than that of the old and since sales are no problem, utilization of the additional capacity would bring an additional contribution of Rs. 25, 000 per annum (after meeting incremental costs of production and sale). The machine, if installed, would be depreciated on straight-line method. Current income-tax rate is 55 per cent. Considering the firms estimated cost of capital, it will not pay to purchase the new

machine unless the net savings are 20 per cent or more on the added investment. The present value of Re. I received annually for N years is as follows: Years 1 2 3 4 5 Present value 0.835 1.528 2.106 2.589 2.991

- a. Is it profitable to buy the new machine Show clearly the calculations on which your decision would be based.
- b. What factors would have entered into the estimation of company's cost of capital Explain briefly (20).

4. Answer the following questions

- a. Discuss the nature and purpose of Funds Flow statement (20).
 - b. From the Balance Sheets of a company as on 31 - 12 - 79 and 31 - 12 - 80, prepare a Funds Flow statement for the year ended 31 - 12 - 80 Show the necessary calculations indicating funds flow from operations, changes in working capital and other sources (40).
- Balance Sheet as on 31 - 12 - 79
 - Liabilities Rs. Assets Rs.
 - 1. Authorised Capital: 20, 000 Shares Rs. 100/-each 20, 00, 000
 - 1. Building 7, 50, 000 Less Depreciation 50, 000 7, 00, 000
 - 2. Paid-up Capital 20, 000 Shares @
 - Rs. 60/-each 12, 00, 000
 - 2. Plant and Machinery 2, 00, 000
 - Less Depreciation 50, 000 1, 50, 000
 - 3. General Reserve 1, 00, 000 3. Fixtures 8, 000
 - Less Depreciation 500 7.500 4 Profit and Loss
 - Appropriation A/c 35, 000
 - 4. Stock 2, 65, 000
 - 5. Provision for Dividend 75, 000 5. Sundry Debtors 1, 11, 000
 - 6. Sundry Creditors 1, 35, 000 6. Bills Receivables 25, 000
 - 7. Bank Overdraft 55, 000 7. Investments 90, 000
 - 8. Bills Payable 20, 000 8. Prepayments 6, 000
 - 9. Preliminary Expenses 2, 000

- Less Written off 2, 000 10, 000
- 10. Goodwill 2, 40, 000
- 11. Cash in hand and at
- Bank 16, 500 16, 20, 000 16, 20, 000
- Balance Sheet as on 31 – 12 – 80
- Liabilities Rs. Assets Rs.
- 1. Authorised Capital: 20, 000 Shares
- Rs. 100/-each 20, 00, 000
- 1. Building 7, 00, 000
- Less: Depreciation 50, 000 6, 50, 000
- Add: New Building purchased 2, 80, 000 9, 30, 000
- 2. Paid-up Capital 20, 000 Shares @
- 2. Plant and Machinery 1, 50, 000
- Rs. 70/-each 14, 00, 000 Less Depreciation 50, 000 1, 00, 000
- Add: New Machine purchased 3, 00, 000 4, 00, 000
- 3. General Reserve Less: Goodwill written off 40, 000 1, 00, 000 60, 000
- 3. Fixtures 7, 500
- Less Depreciation 500 7, 000 4 Loan on Mortgage of Building 4, 50, 000 4. Sundry Debtors 1, 40, 000
- Less: Provision for
- Bad Debts 4, 800 1, 35, 200
- 5. Profit and Loss Appropriation A/c after adjustment of interim
- Dividend (Rs. 60, 000) and proposed Dividend 40, 000
- 5. Bill Receivables 30, 000
- 6. Provision for final dividend proposed 80, 000
- 6. Stock 2, 90, 000
- 7. Sundry Creditors 1, 17, 000
- 8. Bank Overdraft 90, 000

- 9. Bills Payable 30, 000
- C. O 22, 67, 000 C. O 17, 92, 000
- B. F 22, 67, 000 B. F 17, 92, 200
- 7. Investments in Shares 2, 50, 000
- Less: Divided received on profits prior to purchase 10, 000 2, 40, 000
- 8. Prepayments 5, 000 16, 20, 000
- 9. Goodwill (after writing off of a part of it) 2, 00, 000
- 10. Preliminary Expenses (after write off) 8, 000
- 11. Cash in hand and at
- Bank 21, 800 22, 67, 000 22, 67, 000

Part II

Question No. 5 is compulsory

1. Answer any three of the following in not more than 200 words each:
 - a. How would you assess the viability of a branch of a commercial bank (20)
 - b. Banks exist primarily for the attainment of certain social objectives and not profit. Discuss (20).
 - c. In devising the asset structure, banks aim at securing a judicious balance between liquidity, profitability and safety. Show how do banks achieve this balance (20).
 - d. Elucidate the concept and significance of margin money (20).
2. Banks and financial institutions are both competitive and cooperative in term lending. Discuss this statement and explain how have the institutional (financial) developments in the country tended to aid term lending process (60).
3. Evaluate the achievements of nationalized banks in meeting the credit needs of small farmers and educated unemployed entrepreneurs and highlight the problems faced by lenders and by borrowers in this sphere (60).
4. An appropriate interest rate policy for growth with stability would be to implement differential rates of interest for trading and productive purposes with further differentiation on the basis of industrytype, location, size, technology and capacity utilization. Examine this statement (60). Part III Question No. 9 is compulsory
5. Answer any three of the following in not more than 200 words each:

- a. What is the meaning and scope of propriety audit
 - b. Application of accounting concepts and conventions is greatly influenced by the personal judgement of the accountant. Illustrate with reference to any important accounting concept, how and why the same may be modified by the personal judgement of the accountant (20).
 - c. Discuss the meaning and significance of human resource accounting (20).
 - d. In selective verification using statistical sampling techniques, an auditor may usefully relate level of accuracy to materiality and level of confidence to the reasonableness on the basis of his opinion. Elucidate (20).
6. Discuss the special features of audit of government companies (60).
7. The following is the summarised Balance Sheet of ABC Co. Ltd. As on 31.12. 1980.
- Liabilities Rs. Assets Rs.
 - Authotised Share Capital 20, 000 shares of Rs. 100 each 20, 00, 000
 - Building 12, 50, 000
 - Paid-up Capital 10, 000 shares of
 - Rs. 100 each, Rs. 50 called up 5, 00, 000
 - Plant and Machinery 8, 80, 000
 - Debentures (Holding first charge on Building, Plant & Machinery) 18, 50, 000
 - Sundry Debtors 4, 00, 000
 - Trade Creditors and Bills payable
 - Outstanding Salaries 75, 000 5, 00, 000 Cash 20, 000
 - Outstanding Salaries 75, 000
 - Directors
 - Fee 25, 000 1, 00, 000 Profit & Loss A/c 4, 00, 000 29, 50, 000 29, 50, 000

The company has just come through a very difficult period of slack business and heavy losses.

However, if appropriately reconstructed and if working capital to the tune of Rs. 5, 00, 000 could be provided, it is expected to make a success and earn good profits in future. It is contemplated that as a going concern its assets could be expected to realise Building Rs. 8, 00, 000. Plant and Machinery Rs. 6, 0, 000 and Sundry Debtors Rs. 2, 80, 000.

- a. Prepare a Statement of Affairs in relation to creditors (15).
 - b. Formulate a scheme of internal reconstruction which would be fair to all concerned (25).
 - c. Assuming that your scheme has been accepted and legal formalities have been gone through, give journal entries in the books of the company, implementing the scheme (20).
8. Discuss the methods and problems of valuation of the real worth of a business from the viewpoint of a prospective buyer (60). Time Allowed: 3 hours Maximum Marks: 300 Candidates should attempt Questions I and 5 which are compulsory, and any three of the remaining questions selecting at least one question from each Section.

Paper II

Section A

1. Write notes on any three of the following in not more than 200 words each:
 - a. Pricing Policy of public enterprises in India
 - b. Committee management.
 - c. Methods of remunerating personnel.
 - d. Leadership styles.
2. Discuss critically the Webers theory of location of industrial units. How far do you consider Sargant Florences theory as an improvement over it
3. Explain the basic principles of delegation of responsibility and state factors which hinder the process of delegation.
4. Give a critical estimate of the state of industrial relations in public enterprises in this country. Suggest measures to improve them.

Section B

1. Write notes on any three of the following in not more than 200 words each:
 - a. Budgetary Control.
 - b. ROI and Management Control.
 - c. Fixed and Variable Costs.
 - d. Internal Audit
2. Examine critically the various uses of breakeven analysis for managerial decision-making.

3. The trading results of Mohan Ltd. For two years are as follows:

- Rs. Rs.
- Material consumed 50, 000 66, 000
- Wages 30, 000 33, 000
- Variable overheads 6, 000 7, 000
- Net profit 4, 000 8, 500
- Sales 1, 00, 000 1, 26, 500

Material prices and wage rates increased in the year 1980 by 10%. Sale price also increased by 10%.

What are the general factors which have caused increase in net profit Prepare a statement showing how much each factor has contributed to the variance of profit.

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