CSM – 20/16

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 : $20\times3=60$

   (a) Explain the general techniques useful in dealing with 'Risk' in capital budgeting.

(b) State the various determinants of working capital of a concern.

(c) Discuss briefly the deductions that are allowed from annual value while computing income from house property.

(d) "Limitations of Financial Accounting have made the management to realize the importance of Cost Accounting." Comment.

2. (a) MN Integrated Ltd. is considering a proposal for which the following relevant information is provided : 30

Cost of the projet Rs. 30,000

Life of the project 5 years

Annual Sales @ Rs. 30 each

Variable Cost per unit Rs. 20

Fixed Cost Rs. 3,000

Depreciation Rs. 2,000

It is estimated that following variables may take the values given hereunder for different economic situations :

	Pessimistic	Optimistic
No. of units sold	800	1,800
Selling price	Rs. 20	Rs. 20
Variable cost per unit	Rs. 15	Rs. 4

Given the tax rate 50% and cost of capital 10%, analyse the sensitivity of the NPV of the proposal with respect to :

(i) Number of units sold

(ii) Selling price

(iii) Variable cost

(b) Discuss the preliminary steps involved in establishing a system of standard costing.

30

3. (a) Prepare a working capital forecast from the following information : 30

Issued Share Capital – Rs. 4,00,000

12% debentures – Rs. 1,50,000

The fixed assets are valued at Rs. 3 lakhs. Production during the previous years is 1 lakh units. The same level of activity is intended to be maintained during the current year.

The expected ratios of cost to selling price are :

Raw materials	50%
Direct wages	10%
Overheads	25%

The raw materials ordinarily remain in stores for 2 months before production. Every unit of production remains in process for 2 months. Finished goods remain in the warehouse for 4 months. Credit allowed by creditors is 3 months from the date of delivery of raw materials and credit given to debtors is 3 months from the date of despatch. Selling price is Rs. 6 per unit. Both production and sales are in a regular cycle.

(b) What are the rules regarding the exemption of capital gains under I. T. Act ? 30

4. (a) Audit working papers are property of Auditor. Discuss. 30

(b) Mention any five special points which you as an auditor would look into while auditing the books of Charitable Societies. 30

SECTION – B

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

(a) How important is the money market to a financial system of a country ? Elaborate.

(b) If debt is cheaper source of finance, then why every firm is not a 99% debt firm ? Enumerate the legal provisions in this respect.

(c) "The contention that dividends have an impact on the share price has been characterized as the bird-in-hand argument." Explain the essentials of this argument.

(d) What do you mean by financial break even ? How is it calculated ?

6. (a) How the inflation can be incorporated in the capital budgeting decision process ? Explain the difference between real and nominal rate of discount. 30

(b) The estimated materials cost details for a production level of 4,80,000 are as follows : 30

Estimated materials consumption per 10,000 pieces = 16 units

Price Rs. 100 per unit

The actual production was 4,50,000 units. Materials consumed was 765 units. The materials were purchased at Rs. 105 per unit. You are required to work out the usage and price variances.

7. (a) Average capital employed in Kaushik Ltd. is Rs. 35,00,000 whereas net trading profits before tax for the last three years have been Rs. 14,75,000; Rs. 14,55,000 and Rs. 15,25,000. In these years, the managing director was paid a salary of Rs. 10,000 p. m. But now he would be paid as salary of Rs. 12,000 p. m. Normal rate of return expected in the industry of Kaushik Ltd. is engaged is 18%. Rate of tax is 50%. Calculate the goodwill on the basis of three years purchase of the super profits. 30

(b) Develop and explain the Capital Assets Pricing Model. 30

8. (a) "Operating leverage is determined by firm's cost structure and financial leverage by the mix of debt and equity funds to finance the fixed assets. These two leverages when combined provide a risk profile of the firm." Explain. 30

(b) Explain, in detail, the recent trends in respect of institutional development and financial instruments in capital market and the impact of these developments on the growth of it. 30