CSM – 20/17
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 any ***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) "Two main objectives of an audit are prevention and detection of errors and frauds." Discuss this statement.

   (b) Does a merger lead to increase in a firm's value ? What financial considerations should a firm keep in view while acquiring a target firm ?

(c) Differentiate between valuation and verification of assets. How would you verify the following assets ?

(i) Fixed Assets

(ii) Fictitious Assets

(d) What is Internal Check ? Differentiate between Internal Audit and Internal Check.

2. (a) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyer. Comment on the valuation of the stocks by the company. 30

(b) The Balance Sheet of Jupiter Ltd. as on 31st March, 2012 is as under :

(All figures are in lacs)

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each	3,000	Goodwill	744
Reserves (including provision for taxation of Rs. 300 lacs)	1,000	Premises and Land at cost	400
5% Debentures	2,000	Plant and Machinery	3,000
Secured Loans	200	Motor Vehicles (purchased on 01. 10. 11)	40
Sundry Creditors	300	Raw materials at cost	920
Profit & Loss A/c : Previous year B/S Rs. 32 Profit for the year Rs. 1,100 (After taxation)	1,132	Work-in-Progress at cost	130
		Finished Goods at cost	180
		Book Debts	400
		Investment (meant for replacement of Plant and Machinery)	1,600

Liabilities	Rs.	Assets	Rs.
		Cash at Bank and Cash in Hand	192
		Discount on Debentures	10
		Underwriting Commission	16
	7,632		**7,632**

The resale value of Premises and Land is Rs. 1,200 lacs and that of Plant and Machinery is Rs. 2,400 lacs. Depreciation @ 20% is applicable to Motor Vehicles. Applicable depreciation on Premises and Land is 2% and that on Plant and Machinery is 10%. Market value of the Investments is Rs. 1,500 lacs. 10% of book debts is bad. In a similar company the market value of equity shares of the same denomination is Rs. 25 per share and in such company dividend is consistently paid during last 5 years @ 20%. Contrary to this, Jupiter Ltd. is having a marked upward or downward trend in the case of dividend payment.

Past 5 years' profits of the company were as under :

2006 – 07	Rs. 67 lacs
2007 – 08	Rs. 1,305 lacs (loss)
2008 – 09	Rs. 469 lacs
2009 – 10	Rs. 546 lacs
2010 – 11	Rs. 405 lacs

The unusual negative profitability of the company during 2007-08 was due to the lock out in the major manufacturing unit of the company which happened in the beginning of the second quarter of the year 2006-07 and continued till the last quarter of 2007-08. Value the Goodwill of the Company on the basis of 4 years' purchase of the Super Profit. (Necessary assumption for adjustment of the Company's inconsistency in regard to the dividend payment, may be made by the examinee). 30

3. (a) Mr. Sanghai had sold a commercial property, which was a long term asset and invested the same in purchase and construction of a

flat in an apartment in Mumbai, within the one year of sale of asset and claimed deduction u/s 54F of Income Tax Act, but later the builder has not completed the possession of the apartment within 3 years and the apartment remained under construction even after 3 years. The period of 3 years is lapsed without any mistake of Mr. Sanghai now ? Will Mr. Sanghai be levied tax on the capital gains derived from the sale of the commercial property (or) Will Mr. Sanghai be freed from the capital gains tax ? 30

(b) Explain the concept of Reverse Mortgage and discuss its tax implications with suitable example. 30

4. (a) A manufacturing company purchase one of the components required for the manufacture of product from two sources, viz. Supplier M and Supplier N. The price quoted by Supplier M is Rs. 15.00 per hundred numbers of the component and it is found that on the average 3% of the total receipt from this

source is defective. The corresponding quotation from Supplier N is Rs. 14.50 but the defective would go up to 5% for the total supply. If the defectives are not detected, they are utilized in production causing a damage of Rs. 15.00 per hundred components. The company intends to introduce a system of inspection for the components on receipt which would cost Rs. 2.00 per hundred components. Such an inspection will, however, be able to detect only 90% of the defective components received. No payment will be made for components found to be defective in inspection.

Offer your opinion :

(i) Whether inspection at the point of reception is justified ?

(ii) Which of the two suppliers should be asked to supply ?

Assume total requirements of components to be 10,000 numbers. 30

(b) Discuss briefly the principles to be followed while taking credit for profit on incomplete contract. 30

SECTION – B

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

   (a) Mention, in brief, the main official foreign sources of finance.

   (b) Explain the 'Hedging Approach' to financing working capital requirements of a firm.

   (c) How does financial leverage increase the potential reward to the shareholders ?

   (d) What are the commonly employed measures of financial performance ?

6. (a) Comment on the emerging role of the Financial Manager in India. 30

   (b) A company has received three proposals for the acquisition of an asset on lease costing Rs. 1,50,000. 30

   Option – I : The terms of offer envisaged payment of lease rentals for 96 months. During the first 72 months, the lease rentals were to be paid @ Rs. 30 p. m. per Rs. 1,000 and during the remaining 24 months @ Rs. 5 p.m. per Rs. 1,000.

At the expiry of lease period, the lessor has offered to sale the assets at 5% of the original cost.

Option – II : Lease agreement for a period of 72 months during which lease rentals to be paid per month per Rs. 1,000 are Rs. 35, Rs. 30, Rs. 26, Rs. 24, Rs. 22 and Rs. 20 for next 6 years. At the end of lease period the asset is proposed to be abondoned.

Option – III : Under this offer a lease agreement is proposed to be signed for a period of 60 months wherein an initial lease deposit to the extent of 15% will be made at the time of signing of agreement. Lease rentals @ Rs. 35 per Rs. 1,000 per month will have to be paid for a period of 60 months on the expiry of leasing agreement, the assets shall be sold against the initial deposit and the asset is expected to last for a further period of three years.

You are required to evaluate the proposals keeping in view the following parameters :

(a) Depreciation @ 25%

(b) Discounting rate @ 5%

(c) Tax rate applicable @ 35%

The monthly and yearly discounting factors @ 15% discount rate are as follows :

Period	Monthly	Yearly
1	0.923	0.869
2	0.795	0.756
3	0.685	0.658
4	0.590	0.572
5	0.509	0.497
6	0.438	0.438
7	0.377	0.376
8	0.325	0.327

7. (a) Following is the EPS record of A Ltd. over the past 10 years :

Year	EPS(Rs.)	Year	EPS(Rs.)
10	20	5	12
9	19	4	6
8	16	3	9
7	15	2	– 2
6	18	1	1

(I) Determine the annual dividend paid each year in the following cases :

  (i) If the firm's dividend policy is based on a constant dividend payout ratio of 50% for all the years.

  (ii) If the firm pays dividend at Rs. 8 per share, and increases it to Rs. 10 per share when earnings exceed Rs. 14 per share for the previous two consecutive years.

  (iii) If the firm pays dividend at Rs. 7 per share each year except when EPS exceeds Rs. 14 per share, when an extra dividend equal to 80% of earnings beyond Rs. 14 would be paid.

(II) Which type of dividend policy will you recommend to the company and why? 30

(b) What do you understand by Capital Structure ? How does it differ from Financial Structure ? 30

8. (a) Discuss Miller-Orr Cash Management model (with suitable example). 30

(b) Differentiate between Factoring and Bills discounting (with suitable example). 30