CSM : 16

COMMERCE & ACCOUNTANCY

PAPER - I

Time Allowed : 3 hours | Full Marks : 100

Marks for each question is indicated against it.

Attempt <u>any 5 (five)</u> questions taking not more than 3 (three) questions from each Part.

<u>PART - A</u>

1. A limited company issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

On application ₹2; on allotment ₹5 (including premium); on 1^{st} call ₹3 and on 2^{nd} call ₹2

Applications were received for 2,200 shares but allotment was made for 2,000 shares and the remaining applications were refused and money refunded. Mr. X, to whom 80 shares were alloted, failed to pay allotment money and on his subsequent failure to pay the 1^{st} call, his shares were forfeited. Mr. Y, the holder of 40 shares failed to pay the two calls, and his shares were forfeited after the 2^{nd} call had been made.

Of the shares forfeited, 100 shares were reissued to Mr. Z at ₹9 per share fully paid. These 100 shares include the whole of Mr. X's shares.

Show journal entries in the books of the company. **(20)**

2. A factory produces a standard product. The following information is given to you from which you are required to prepare a Cost Sheet for the period ended 30^{th} June, 2016. **(20)**

Materials:

Opening stock	₹10,000
Purchases	₹85,000
Closing stock	₹4,000
Direct wages	₹20,000
Other direct expenses	₹10,000
Factory overheads	100% of direct labour
Office overheads	10% of works cost
Selling and distribution expenses	₹2 per unit sold

Units of finished product:

In hand at the beginning of the period 1,000 units (value ₹16,000)

Produced during the period 10,000 units

In hand at the end of the period 2,000 units

There was no work-in-progress either at the beginning or at the end of the period. Profit is 20% on the selling price.

3. (a) Explain the following in the context of income chargeable to tax under the head "Salaries"- **(3×2=6)**

(i) Employer and employee relationship

(ii) Application of salary.

(iii) Receipt of tax free salary by the employee.

(b) Mr. R.Gomes furnishes the following details of his salary income for the financial year 2015-16.

		₹
1	Salary	10,000 p.m.
2	Dearness Allowance	1,000 p.m.
3	Entertainment Allowance	1,000 p.m.
4	Employer's and his own contribution to the recognised provided fund is 10% of basic salary.	
5	Interest on the accumulated balance of recognised provident fund @ 13% p.a.	
6	City Compensatory Allowances @ ₹800 p.m.	
7	Medical Allowances @ ₹100 p.m. (the entire amount was spent on his medical treatment)	
8	Children Education allowance for 3 children @ ₹90 per child.	
9	Mr. Gomes is provided a Hyundai i20 (1200 c.c.). Its expenses excluding drivers salary are met by him. The car is used for both official and private purpose.	
10	He is provided a furnished accommodation in Delhi, for which the employer charges him ₹500 p.m. The fair rental value of the house is ₹6,500 p.m. The house is owned by the employer. The cost of furniture provided was ₹15,000.	
11	He has also taken loan of ₹1,00,000 from his employer @ 7% p.a. on 01-05-2015 for construction of his house. The SBI rate for such loan as on 01-04-2015 is 12% p.a.	

Compute his taxable income from salary for assessment year 2016-17. **(14)**

4. (a) What is internal audit? Distinguish between external audit and internal audit. **(4)**

(b) "The modern concept of internal audit envisages scope of internal audit much beyond financial audit". In the light of the above statement describe the scope of reliance by the external auditor upon the work of an internal auditor. **(8+8=16)**

PART - B

5. (a) United Industries Ltd. has an investment budget of ₹100 lakh for 2016-17. It has shortlisted two projects A and B after completing the market and technical appraisals. The management wants to complete the financial appraisal before making the investment. Further particulars regarding the two projects are given below:

	A	B
Investment required (₹ in lakh)	100	90
Average annual cash inflow before depreciation and tax (estimated) (₹ in lakh)	28	24

Salvage value - Nil for both projects. Estimated life - 10 years for both projects

The company follows straight line method of charging depreciation. Its tax rate is 50%.

Calculate Pay-back period for each project. **(4)**

(b) Orient Enterprises Ltd. has under consideration two projects X and Y. At present it wants to take up only one project. The details relating to the two projects are:

Particulars	Project X	Project Y
Investment required	₹95,000	₹2,00,000
Estimated net cash flow (PAT+ Depreciation) at the end of year 1	₹40,000	₹80,000
Estimated net cash flow (PAT+ Depreciation) at the end of year 2	₹40,000	₹80,000
Estimated net cash flow (PAT+ Depreciation) at the end of year 3	₹45,000	₹1,20,000

The cost of capital of the company is 12%. Using net present value method, which project would you recommend? **(6)**

(c) The management of ABC Ltd. has two alternative projects under consideration. Project M requires a capital outlay of ₹3,60,000 but project N requires ₹5,40,000. Both the projects are estimated to provide a cash flow for 5 years: M - ₹1,20,000 per year and N - ₹1,74,000 per year. The cost of capital is 10%.

Which project is preferable from the viewpoint of Internal Rate of Return (IRR)? **(10)**

6. (a) Companies A and B are identical in all respects including risk factor except in the way they are financed. A have issued 10% debentures of ₹18 lakh, while B has issued only equity. Both the companies earn 20% before interest and taxes on their total assets of ₹30 lakhs. Assuming a tax rate of 50% and capitalisation rate of 15% for an all-equity company, compute the value of companies A and B using (i) Net Income Approach and (ii) Net-Operating Income Approach. **(14)**

(b) State the principal propositions of Modigliani and Miller (MM) Approach with regard to irrelevance of leverage on the value of the firm. **(6)**

7. What is capital market? Explain the features of capital markets and highlight the role of SEBI in regulating capital market. **(2+10+8=20)**

8. Trace the growth of non-banking finance companies in India. Highlight their contribution in industrial growth. **(10+10=20)**

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