(b) What are the different types of dividend policy ? Critically examine Walter model of dividend decision. 30

7. (a) What were the main objectives of nationalisation of banks ? Examine the achievements of nationalisation of banks. 30

(b) Write a note on the investment policy of Life Insurance Corporation of India. 30

8. (a) Distinguish between promissory notes and bills of exchange. What are the obligations of an issuer of a promissory note ? 30

(b) Explain the main provisions of Banking Regulation Act, 1949 with regard to regulation of commercial banks. 30

Roll No. .... **Total No. of Pages : 6**

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Commerce and Accountancy

(07)

Paper—I

Time : Three Hours] [Maximum Marks : 300

Note :— (i) Answers must be written in English.

(ii) The number of marks carried by each question are indicated at the end of the question.

(iii) Part/Parts of the same question must be answered together and should not be interposed between answers to other questions.

(iv) The answer to each question or Part thereof should begin on a fresh page.

(v) Your answers should be precise and coherent.

(vi) Candidates should attempt Question No. **1** and **5** which are compulsory and any **one** in Section A and any **two** in Section B out of the remaining questions.

(vii) Assume suitable data if considered necessary and indicate the same clearly.

(viii) If you encounter any typographical error, please read it as it appears in the text-book.

SECTION–A

1. (a) ABC Ltd., manufactures a simple product, the standard mix of which is :

Material A 60% at Rs. 20 per kg

Material B 40% at Rs. 10 per kg

Normal loss in production is 20% of input Due to shortage of Material A, the standard mix was changed. Actual results for

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March, 2010 were :

Material A	105 kgs	at Rs. 20 per kg
Material B	95 kgs	at Rs. 9 per kg
Input	200 kgs	
Loss	35 kgs	
Output	165 kgs	

Calculate :

(i) Material price variance

(ii) Material usage variance

(iii) Material mix variance

(iv) Material yield variance. 30

(b) What are the assumptions of marginal costing ? Explain the practical applications of marginal costing giving suitable examples. 30

2. (a) Mr. X owns two houses, which are occupied by him for his own residence. The detailed particulars of houses and his other incomes for the previous year 2009-10 are :

Particulars	House A Rs.	House B Rs.
Fair Rent	5,00,000	6,00,000
Municipal value	4,20,000	5,50,000
Standard Rent	4,50,000	6,20,000
Municipal Taxes Paid	50,000	60,000
Interest on loan of the year 2009-10	1,60,000	2,20,000
Date of Loan	1-12-2000	1-04-2003
Date of completion	31-03-2003	31-03-2004
Certificate of interest attached with Return of Income	No	Yes

X earns income from other sources Rs. 3,00,000

Compute his total income and advise him which house should be opted for self occupation. 30

The cost of capital is 10% and the tax applicable to the company is 40%. Suggest whether the old machine should be replaced. 30

(b) Is the Modigliani and Miller theory realistic with respect to capital structure and the value of a firm ? If not, what are its main weaknesses ? 15

(c) Explain the following :

(i) Optimal capital structure

(ii) Working capital cycle

(iii) Credit Policy. 15

6. (a) A proforma cost sheet of a company provides the following particulars :

Material	40% of Sales
Wages	20% of Sales
Overhead	20% of Sales

The following other information is available :

(i) A level of activity of 1,00,000 units is proposed to be maintained in the next year.

(ii) Selling price per unit is Rs. 24.

(iii) Raw materials are expected to remain in stores for an average period of two months.

(iv) Materials remains in process on average half a month.

(v) Finished goods are expected to be in store for an average period of one month.

(vi) Credit allowed to debtors is one month.

(vii) Credit allowed by suppliers is for half a month.

Assuming that sales and production follow a consistent pattern, prepare a statement of working capital for the company. 30

(b) What do you mean by exempted incomes ? Explain any five exempted incomes. 15

(c) Who is an assessing officer ? Explain his powers and functions. 15

3. Following are the balance sheets of H Ltd. and S Ltd. as on 31st March, 2010 :

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital (Rs. 10)	7,00,000	1,00,000	Land and Building	3,00,000	1,00,000
General Reserve	50,000	30,000	Plant and Machinery	2,80,000	50,000
Profit and Loss A/c	1,00,000	30,000	Investments	1,00,000	—
Sundry creditors	50,000	50,000	(7,000 shares of S Ltd)		
Bills Payable	50,000	50,000	Stock	70,000	50,000
Liability for Expenses	5,000	—	Sundry Debtors	1,50,000	40,000
			Bills Receivable	10,000	—
			Cash and Bank	45,000	20,000
	9,55,000	2,60,000		9,55,000	2,60,000

Additional information :

(i) All the bills receivables of H Ltd. including those discounted were accepted by S Ltd.

(ii) When 6,000 shares were acquired by H Ltd. in S Ltd., S Ltd. had Rs. 20,000 General Reserve and Rs. 5,000 credit balance in Profit and Loss Account.

(iii) At the time of acquisition of further 1,000 shares by H Ltd. in S Ltd., S Ltd. had Rs. 25,000 General Reserve and Rs. 28,000 credit balance in Profit and Loss Account from which 20% dividend was paid by S Ltd. and was received by H Ltd. on these shares and credited to Profit and Loss Account.

(iv) Stock of S Ltd. includes Rs. 20,000 purchased from H Ltd. which has made 25% Profit on Cost.

(v) Both the companies have proposed dividend –H Ltd. 10% and S Ltd. 20% but no effect has been given in the above Balance Sheets.

Prepare consolidated balance sheet as at 31st March, 2010. 60

4. (a) The following particulars are available in relation to X Ltd :

(i) Capital : 450, 6% Preference shares of Rs. 100 each fully paid and 4,500 equity shares of Rs. 10 each fully paid.

(ii) External Liabilities : Rs. 7,500.

(iii) Reserve and surplus : Rs. 3,500.

(iv) The average expected profit (after taxation) earned by the company : Rs. 8,500.

(v) The normal profit earned on the market value of equity shares (fully paid) of the same type of companies is 9%.

(vi) 10% of the profits after tax is transferred to reserves.

Calculate the intrinsic value per equity share and the value per equity share according to dividend yield basis. Assume that out of total assets, assets worth Rs. 350 are fictitious. 30

(b) Who can be appointed as a company auditor ? Explain his powers, duties and liabilities. 30

SECTION—B

5. (a) A company is considering replacing an existing machine with one costing Rs. 5,00,000. The existing machine was purchased six years ago for Rs. 3,00,000 and is being depreciated by the straight line method over its 15 years life period. It can currently be sold for Rs. 1,00,000. The new machine will be depreciated on straight line basis over 9 years life with Rs. 50,000 salvage value and will result into reduced operating cost of Rs. 60,000 per year throughout its life.