



Phase 1 Paper 2 Solutions - 2024

Commerce & Accountancy

Q.1) (b)

Explanation:

IAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use).

Q.2) (b)

Explanation:

Fund flow statements often treat non-cash expenses like depreciation as sources of funds because they reduce profit without reducing cash. However, this treatment can be misleading because depreciation does not generate actual funds — it merely reflects allocation of past expenditures. This distorts the true picture of fund generation, making it a limitation.

Q.3) (c)

Explanation:

A holding company (also known as a parent entity) is mandatorily required to prepare consolidated financial statements (CFS) if it has one or more subsidiaries. These statements present the financials of the parent and its subsidiaries as a single economic entity. The goal is to provide a true and fair view of the group's overall financial position and performance.

Q.4) (e)

Explanation:

Double-entry bookkeeping is the foundational system of modern accounting that ensures every financial transaction affects at least two accounts — one with a debit and another with a credit of equal amounts. This method maintains the integrity of the accounting equation (Assets = Liabilities + Equity) and ensures both accuracy and completeness in financial records.

Q.5) (b)

Explanation:

Investing activities include the acquisition and disposal of long-term assets and other investments not included in cash equivalents. The purchase of machinery represents an outflow of cash for acquiring a long-term asset, and is thus classified under investing activities.

[A] Payment of dividends to shareholders – This is a financing activity because it relates to the return of capital to owners.

[C] Issue of equity shares – This is also a financing activity, as it involves raising funds for the business.

[D] Repayment of long-term borrowings – This is a financing activity, as it pertains to settling financial obligations.

[E] Payment of salaries and wages – This is an operating activity, since it relates to day-to-day business operations.

Q.6) (d)

Explanation:

Direct expenses are costs that can be directly attributed to a specific cost object, such as a product or a service. Royalties paid based on the production quantity are directly tied to the production process.

Q.7) (c)

Explanation:

Step 1: Calculate Quick Assets

Quick Assets = Current Assets – Inventory

= ₹900,000 – ₹200,000

= ₹700,000

Step 2: Apply the Quick Ratio formula

$$\begin{aligned}\text{Quick Ratio} &= \text{Quick Assets} / \text{Current Liabilities} \\ &= ₹700,000 / ₹500,000 \\ &= 1.4 : 1\end{aligned}$$

Management

Q.8) (e)

Explanation:

While all the options describe important outcomes of HRD, the most tangible benefit that directly impacts the bottom line (i.e., financial performance of the organization) is improved or boosted performance. The other options, while valuable, are more intangible or indirect in their impact.

Q.9) (d)

Explanation:

Transformational Leadership Theories focus on how leaders inspire, energize, and intellectually stimulate their followers by appealing to higher ideals and moral values. These leaders work to create a vision, encourage innovation, and help followers see the greater purpose in their work — which goes beyond basic transactions or rewards. They aim to transform the mindset and performance of individuals and the organization by fostering motivation, engagement, and alignment with meaningful goals.

Q.10) (b)

Explanation:

Functional compliance refers to the job-specific skills, knowledge, behaviors, and competencies that are essential for performing a particular role effectively. It includes the technical and professional capabilities needed to meet the functional demands of a job and contribute to performance excellence.

Intelligence compliance is a general cognitive ability, not specific to job-related performance.

Q.11) (b)

Explanation:

The Contemporary School of Thought in management focuses on modern and emerging trends in the field, including the impact of globalization, technology, diversity, sustainability, and innovation on business practices. It emphasizes dynamic environments and prepares managers to adapt to complex, global business challenges.

This school builds upon traditional theories but incorporates modern insights from various disciplines and real-world global practices, making it highly relevant in today's business context.

Q.12) (a)

Explanation:

- Performance Appraisal – Focuses on how well an employee has performed in their current role, not their future potential.
- Quality Circle – Refers to a group of workers who voluntarily meet to identify and solve workplace problems — not related to evaluating individual growth.
- Organisational Development – A broader term involving planned efforts to increase organizational effectiveness — not specific to individual assessments.
- Groupthink – A psychological phenomenon where the desire for harmony leads to poor decision-making — not an appraisal process.

Q.13) (b)

Explanation:

The organising function of management is primarily concerned with:

- Identifying tasks/activities that need to be accomplished.
- Grouping similar activities into departments or sections.
- Assigning duties and responsibilities to individuals.
- Establishing relationships among roles and resources to ensure smooth coordination.

It focuses on creating a structured framework that facilitates efficient resource allocation and effective functioning of the organization.

Q.14) (a)

Explanation:

As a decision maker, a leader evaluates various alternatives and makes informed choices that align with the organization's goals, using critical thinking, analysis, and judgment.

Coach/Guide – This role focuses on supporting and developing others, not directly on decision-making.

Communicator – This role emphasizes the exchange of information rather than making decisions.

Mentor – A mentor helps in guiding and advising others, but does not focus primarily on decision-making.

Innovator – Innovators are responsible for creating new ideas or solutions, but not necessarily for making decisions based on gathered information.

Q.15 (e)

Explanation:

Attitudinal Barrier – Refers to negative attitudes, biases, or perceptions that hinder communication, but it is not specifically related to the background or experience.

Linguistic Barrier – Arises from differences in language or vocabulary, not necessarily the background or experience.

Physical Barrier – Involves external factors such as noise, distance, or technological issues that prevent effective communication.

Emotional Barrier – Occurs when emotions such as fear, anger, or stress prevent clear communication, not related to background or experience.

Finance

Q.16) (e)

Explanation:

Call Money refers to the borrowing or lending of funds for one day. When money is borrowed or lent for a period between 2 days and 14 days, it is known as 'Notice Money'.

Q.17) (e)

Explanation:

RBI, in consultation with State Governments, announces the indicative quantum of borrowing on a quarterly basis. Market borrowings are raised by the RBI on behalf of the State Governments as approved by the Ministry of Finance in consultation with the Planning Commission (On 1 January 2015, a Cabinet resolution was passed to replace the Planning Commission with the newly formed NITI Aayog (National Institution for Transforming India)).

Q.18) (d)

Explanation:

The RBI has the authority to regulate and supervise all financial institutions operating in the country. Microfinance institutions (MFIs) are considered Non-Banking Financial Companies (NBFCs) and are regulated by the RBI under the regulatory framework for NBFCs.

Q.19) (c)

Explanation:

A Forward Rate Agreement (FRA) is a financial contract where two parties agree to exchange interest payments on a notional amount at a future date. One party agrees to pay a fixed interest rate while receiving a floating rate, or vice versa. The difference between the agreed rates is settled periodically, typically on a quarterly basis, until the contract's maturity.

Q.20) (a)

Explanation:

Section 35(6) of the Banking Regulation Act, 1949, empowers NABARD to conduct inspections of State Cooperative Banks (St CBs), District Central Cooperative Banks (DCCBs), and Regional Rural Banks (RRBs) (collectively called NABARD's Supervised Entities).

Q.21) (b)

Explanation:

In the Indian bond market, the primary day count convention used is 30/360 for Government securities. This convention assumes each month has 30 days and the year has 360 days.

Q.22) (d)

Explanation:

The issuance of G-Secs is facilitated through India's central bank, i.e. RBI. The term "gilt" is used because these securities carry no default risk.

Q.23) (a)

Explanation:

IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for financial markets regulation. They develop, implement and promote adherence to internationally recognized standards for financial markets regulation and work closely with other international organizations on the global regulatory reform agenda.

Q.24) (e)

Explanation:

Commercial Paper or CP in market parlance refers to a short-term debt instrument issued by companies to garner funds, generally for a time period up to one year.

A company shall be eligible to issue CP provided that the tangible net worth of the company is not less than Rs. 4 crore.

Q.25) (b)

Explanation:

Current yield = $\text{Coupon} / \text{Market price}$

In this case: Annual Coupon Payment = 10% of face value = $0.10 \times 100 = \text{Rs } 10$

Current Market Price = Rs 80

Current Yield = $(10/80) \times 100 = 12.5\%$

Costing

Q.26) (c)

Explanation:

These are groups of individual costs that are aggregated for assignment to cost objects. In ABC, cost pools are used to collect costs that are then allocated to services or procedures based on activities.

Q.27) (a)

Explanation:

Scheduling is deciding the timing of activities, including when they should start and when they should end. It is a crucial part of production planning and control.

[b] Planning – Involves setting goals and deciding in advance what to do, but not the specific timing of tasks.

[c] Follow-up – Refers to checking whether the planned activities are being carried out as scheduled.

[d] Routing – Refers to deciding the path or sequence of operations to be followed.

[e] Timing – While related to time, it's a vague term and not specifically used in operations management for scheduling tasks.

Q.28) (c)

Explanation:

TPM (Total Productive Maintenance) is a holistic approach to equipment maintenance that strives to achieve perfect production. The objective is to eliminate the losses.

- No Breakdowns
- No Small Stops or Slow Running
- No Defects

Q.29) (b)

Explanation:

Waste elimination is a core tenet of Lean methodology, focusing on enhancing process efficiency and overall business optimization.

Q.30) (b)

Explanation:

Cellular Manufacturing is a type of manufacturing system that applies the principles of group technology, where similar products or components are grouped and processed in dedicated work cells.

Cellular manufacturing supports the goals of Lean and JIT by minimizing movement, reducing setup times, and enhancing flexibility in production. By streamlining workflows and grouping similar processes, it helps achieve higher productivity and smoother operations with less waste.

Q.31) (a)

Explanation:

These are costs calculated before production starts and are used for budgeting and performance evaluation. They help in setting financial goals and standards for efficiency.

Q.32) (b)

Explanation:

$PV \text{ Ratio} = [\text{Contribution}/\text{Sales}] \times 100\%$

PV ratio ascertains the percentage of contribution. If 30% of the sales revenue is the contribution margin, then the remaining 70% of the sales revenue accounts for the variable costs.

$\text{Sales} = \text{Contribution} + \text{Variable Costs}$

Q.33) (b)

Explanation:

In Activity-Based Costing (ABC), costs are allocated based on cost drivers. Cost drivers are the factors or activities that cause changes in the cost of an activity.

Companies Act

Q.34) (c)

Explanation:

Section 124 of the Companies Act 2013 seeks to provide that where the dividend is not paid or claimed within thirty days, the company shall, within seven days, transfer the total unpaid or unclaimed amount to the Unpaid Dividend Account.

Q.35) (e)

Explanation:

Section 186(4) of the Companies Act, 2013 requires every company to disclose in its financial statement the full particulars of loans given, guarantees given, securities provided, and investments made along with the purpose for which the loan or investment is proposed to be used by the recipient.

However, director's remuneration is not covered under this section. Instead, it is governed by Section 197 and Section 198 of the Companies Act, which deal specifically with managerial remuneration and its limits. Hence, disclosure of director's payment is irrelevant to Section 186(4).

Q.36) (c)

Explanation:

Under Section 140(1) (read with Section 139) of the Companies Act, 2013, an auditor appointed under Section 139 can only be removed before the completion of their term by:

1. Passing a special resolution by the company; and
2. Obtaining prior approval from the Central Government.

This provision applies to both government and non-government companies, ensuring that auditors cannot be arbitrarily removed without proper justification and regulatory oversight. This safeguard enhances auditor independence and accountability.

Q.37) (b)

Explanation:

Under Section 173(3) of the Companies Act, 2013, a notice of every Board Meeting must be given in writing to every director at least seven days before the meeting. This notice can be delivered by hand, sent by post, or sent electronically to the director's registered address.

This provision ensures that directors are given adequate time to prepare for the meeting and to participate effectively in the decision-making process.

Q.38) (d)

Explanation:

Under Section 413(4) of the Companies Act, 2013, the Chairperson of the National Company Law Appellate Tribunal (NCLAT) shall hold office until they attain the age of 70 years.

This age limit ensures that the Chairperson possesses substantial judicial experience, often having served as a judge of the Supreme Court or as a Chief Justice of a High Court, thereby bringing significant expertise to the tribunal.

Q.39) (c)

Explanation:

According to Section 151 of the Companies Act, 2013, a listed company may appoint one director elected by small shareholders, upon notice of not less than one thousand small shareholders or one-tenth of the total number of such shareholders, whichever is lower.

Small shareholders are defined as shareholders holding shares of nominal value of not more than ₹20,000. This provision is aimed at giving voice and representation to minority stakeholders in the governance of the company.

Q.40) (e)

Explanation:

As per Section 421 of the Companies Act, 2013, any person aggrieved by an order of the Tribunal may prefer an appeal to the Appellate Tribunal within a period of 45 days from the date on which a copy of the order of the Tribunal is made available to the person.

Q.41) (a)

Explanation:

Under Section 62 of the Companies Act, 2013, when a company makes a rights issue (i.e., an offer of shares to existing shareholders in proportion to their shareholding), the offer must remain open for a minimum of 15 days and a maximum of 30 days from the date of the offer.

This time window allows shareholders adequate opportunity to decide whether to accept the offer, fully or partially, or to renounce it in favor of someone else.

Q.42) (c)

Explanation:

The lock-in period is imposed to ensure that the recipient (often an employee or director) remains committed to the company and cannot immediately sell or transfer the benefit received. Sweat equity shares are typically issued in recognition of providing technical know-how, intellectual property rights, or other value additions to the company.

Q.43) (c)

Explanation:

While the Companies Act, 2013 governs the issue and allotment of securities, when it comes to the issuance of securities in dematerialized form, companies must comply with the provisions of the Depositories Act, 1996.

The Depositories Act facilitates the electronic maintenance and transfer of securities, thus enabling dematerialization (demat) of shares. It works in conjunction with SEBI regulations and mandates companies, especially listed and public companies, to issue and transfer securities in electronic form only for greater transparency, safety, and efficiency.

Economics

Q.44) (a)

Explanation:

Gross Domestic Product (GDP) is the total monetary value of all final goods and services produced within a country's borders during a specified time period, usually a quarter or a year. It is a key economic indicator used to assess the overall health and size of a country's economy.

- It does not include intermediate goods to avoid double counting.
- It reflects economic activity, not necessarily well-being or environmental impact.

Q.45) (d)

Explanation:

A perfectly competitive market is an idealized market structure characterized by:

- Many buyers and sellers, none of whom can influence the market price individually.
- Homogeneous (identical) products, ensuring no brand preference.
- Free entry and exit in the market.
- Perfect information among participants.
- No price discrimination — a single market price prevails.

Other options describe features of imperfect markets like monopoly or monopolistic competition.

Q.46) (e)

Explanation:

Per Capita Income (PCI) is a commonly used economic indicator that measures the average income earned per person in a given area (country, state, etc.) during a specified period, usually a year. This helps in comparing the standard of living and economic well-being of people across different regions or over time. It does not reflect income distribution (i.e., inequality). It is often used as a component in development indices like HDI.

Q.47) (d)

Explanation:

The IS-LM model, which stands for “investment-saving” (IS) and “liquidity preference-money supply” (LM), is a Keynesian macroeconomic model that shows how the market for economic goods interacts with the money market.

Q.48) (d)

Explanation:

Stagflation is a rare and troubling economic condition characterized by the combination of stagnant economic growth, high unemployment, and high inflation.

This contradicts the traditional economic theory that inflation and unemployment have an inverse relationship (as per the Phillips Curve).

Q.49) (b)

Explanation:

In economics, demand refers to the relationship between the price of a good or service and the quantity consumers are willing and able to purchase at various prices over a given period. This relationship is typically illustrated by a demand curve, which slopes downward, indicating an inverse relationship — as price decreases, quantity demanded increases, and vice versa.

Q.50) (b)

Explanation:

Structural unemployment is a longer-lasting form of unemployment caused by fundamental shifts in an economy and exacerbated by extraneous factors such as technology, competition, and government policy.