

Ans. 1 (A) Precis

Fog is one of the most hindering factors while driving. It can be 20 to 30 meters thick and is formed during winter when days are warm and nights are very cold. As the aircrafts cannot land or take off, rescheduling of the flights has to be done. Generally, by mid-day fog usually disappears. Fog can reduce visibility to a bare 5-10 meters. In fog speed should be reduced to avoid obstacles that show up on the road without notice. Rear view mirror should be checked. If the driver behind you is not at safe distance and you feel unsafe, tap your brakes a couple of times to alert him. Put on your hazard flashers. Do not overtake. Indian drivers try to drive on wrong side which should be avoided. Lane driving is safe driving. Do not use full head lights or the white lights. Yellow fog lights are definitely a help.

Title: Driving in the fog

OR

Drive safely in fog.

- 1 B
- i) Blanket
 - ii) Dissipate
 - iii) Penetrating
 - iv) Hinders
- 1 C
- i) Do not attempt to overtake.
 - ii) Stay in your lane.
 - iii) Drive on low beam.
 - iv) Do have your wipers & wind screen washer functioning properly.

- Ans 2 (A)
- i). I am pleased at your good fortune.
 - ii) By whom will the chief guest have been thanked ?
 - iii) His movements were being watched very carefully (By the CID).
- 2B)
- i). The notice forbids the visitors to enter the garden.
 - ii). The old man exclaimed with sorrow that there was no one to look after him.
 - iii). Bingo, the clown said that that night would be his last night at the circus.
- 2C)
- i) in
 - ii) at
 - iii) in
 - iv) of
 - v) towards
 - vi) after
- 2D)
- i) A thing that seems bad, unpleasant etc. at the first but that has advantage in the end.
 - ii) Agree to forget past disagreements and be friends again.
 - iii) Be under pressure because you do not have as much money as you had before

Ans. 3 A)

- i) Processor- Processor is a hardware device, which executes the set of instructions given to the computer.
- ii) Task Bar- The Task Bar can be seen at the bottom of the screen. It has a start button on its left side. To the far right is the notification area. This contains the clock and icons for programs which usually run in the background.
- iii) Icons- Small pictures displayed on the desktop are called icons. Icons play a very important role in graphical user interface.
- iv) Server- A server refers to a host computer that store all the files and connect to all the computer. It transfer data, information and used for communication.
- v) Bluetooth- Blue tooth is a wireless technology used to interconnect mobile phones, computers, printers using short- range wireless connections.
- vi) Antivirus- Antivirus is a programme used to prevent virus from attaching the system or to detect and remove the virus. Some common anti-virus programmes are Norton, McAfee etc.

- 3B)
- i) PROM Programmable read only memory
 - ii) WWW World wide web
 - iii) RAM Random Access Memory
 - iv) GUI Graphical user Interface
 - v) DBMS Data Base Management system.
 - vi) DMP Dot Matrix Printer

- 3C) i) Windows is an operating system that acts as an interface between the user and the computer. It has been developed by Microsoft. The oldest version of windows was windows 95 and the latest version is windows 7.

ii) We can edit text in the MS word by-

- 1) Select the text you want to edit.
- 2) Click on edit and select the option that you want to apply to your text.
- iii) Auto format feature provides some built in table formats which can be used on a selected table.

Steps to apply auto format are-

- 1) Select the table.
- 2) Click on Table Autoformat button on Tables and Borders tool bar.

- 3) The dialog box appears with various formatted tables.
 - 4) Select any one format of your choice and click O.K.
- iv) Steps to insert a chart in a powerpoint slide:-
- 1) Click the placeholder.
 - 2) Click chart in the illustration group.
 - 3) In the insert chart, click chart and then click OK.
 - 4) Put in the data and chart will be formed.
- v) Transitions are used to add visual effects to the slides. To add Transition:-
- 1) Click on slide show , Slide Transition.
 - 2) Slide Transition task pane appears on the left side.
 - 3) Click any transition effect under Apply to selected slides.
 - 4) Choose the effects you want to apply.
 - 5) Click 'Apply to all slides' button.
- 3D) i) Formulaes
- Formulas are used to perform calculations involving addition, subtraction, division and multiplication.
- Functions:
- Functions are pre-designed formulas in excel to perform simple and complex calculations.
- ii) Print
- It is used to print the documents-.
- Print Preview
- This command allows us to see how the document will look after it is printed.
- iii) Workbook
- It is a collection of work sheets.
- Worksheet
- It is spread sheet consisting of rows and columns.
- iv) Folder
- It is a collections of files
- File
- All the information in a computer is in form of a file.

v) Hard Disk

It can hold a large amount of data and can be used to store data in particular computer.

Pen Drive

It can transfer data to other computers and stores limited amount of data.

3E) Write shortcut keys:-

- i) Press Escape key.
- ii) Ctrl + C
- iii) Ctrl + X
- iv) Ctrl + Z
- v) Ctrl + P
- vi) Ctrl + A
- vii) Ctrl + V
- viii) Ctrl + S

3F) Email:-

From: se-ds-jalandhar@pspcl.in

To: fa-patiala@pspcl.in

Subject: Special budget demand for a state level function

This refers to our telephonic conversation today regarding a state level function to be organized by PSPCL at Jalandhar on 1.10.11. CM Punjab will be Chief Guest in this function. CMD along with all Directors of the company will participate in this function. A gathering of about 50 thousand persons from all over state are expected in this function. After the function, light snacks are to be served. The estimated expense for this function is about Rs. 20 lacs. The approval of competent authority has been sought and same is expected soon. Since the time period for the function is short, it is requested that a special budget grant of Rs. 20 lacs be issued to this office immediately. Copy of the estimate and approval of competent authority will be sent separately through special messenger.

SE/DS, PSPCL, Jalandhar.

Dated: 25.09.11

3G) Official website:

- (a) Official website of PSPCL - www.pspcl.in
- (b) Main headings at the top of website:
 - i) ABOUT US
 - ii) INFORMATION CENTRE
 - iii) TENDERS
 - iv) GENERATION
 - v) TRANSMISSION
 - vi) DISTRIBUTION
 - vii) MEDIA CENTRE

4 A) DO letter:-

Chief Engineer/DS (South), PSPCL, Patiala

Do No. _____ dated _____

Dear _____,

As you are aware that paddy season will commence w.e.f. 10th June and distribution network works to its full capacity during this season. Since we have only about one month left before the onset of Paddy season, it is high time that we finish the important maintenance works. The following key areas may be given personal attention:-

1. Maintenance of all distribution transformers should be complete well before the start of paddy season.
2. Checking of earth resistance of all 11 KV feeders be complete and remedial measures where required should be taken.
3. Tree cutting be done near all HT/LT lines.
4. Sagging of HT/LT lines be checked.
5. 11 KV busbar maintenance should be done on all 66 KV substations under your circle.

A division wise report of all maintenance works done should be submitted by the first week of June. Further, we should have sufficient stock of spares to meet the exigencies of paddy season. The assessment of spares needed for distribution network and grid substations be prepared and supplied to this office within one week so that same can be arranged in time.

Compliance of the above instructions be done in letter and spirit.

With best regards,

Yours sincerely,

Sd/-

(Name)

Sh. _____

SE/DS _____

4 B) Public notice:-

Punjab State Power Corporation Limited

PUBLIC NOTICE

For the approaching summer season, PSPCL has made elaborate arrangements to meet the power requirement of farming community. The domestic and commercial load of

airconditioners will also build up in this season. Since the loading conditions largely depend on the timely onset of monsoon, its delay/failure can force PSPCL to impose regulatory measures like power cuts and off days for industry. PSPCL management appeals to all its valued customers to cooperate with it by following energy saving methods. Everyone's cooperation is essential so that PSPCL can give better service.

From:-

Chief Engineer/Commercial

PSPCL, Patiala.

4 C) EMD:-

- i) Full EMD amount for an open tender of value 50 Crores :-

$$2\% \text{ of } 50 \text{ Crores} = 1 \text{ Crore}$$

But max. EMD amount is restricted to 10 lacs. Therefore the answer is Rs. 10 lacs.

- ii) Minimum value of EMD

$$2\% \text{ of } 50 \text{ Crores} = 1 \text{ Crore}$$

$$25\% \text{ of above value i.e. min. value of EMD} = 25\% \text{ of } 1 \text{ Crore} = 25 \text{ lacs}$$

But minimum EMD amount is restricted to 10 lacs. Therefore the answer is Rs. 10 lacs.

- iii) Exemption from deposition of EMD

Following are exempted from deposition of EMD:-

- Public sector undertakings fully owned by Pb. Govt./Central Govt./Other State Govt.'s supplying material directly through units owned by them, provided that a certificate of Govt. ownership issued by the concerned Govt. department shall be submitted in the envelope of earnest money.
- Suppliers having permanent earnest money deposit of Rs. 10 lacs with the company provided that a certificate to this effect issued by the concerned Accounts officer shall be submitted in the envelope of earnest money.

5 A) NIT:-

NOTICE INVITING TENDER

1. Address/details of issuing authority:-
Chief Purchase Officer o/o CE/Material Management, PSPCL, Patiala.
2. Tender Enquiry No.:- Q-3819
3. Scope / Short Description : 11/0.433 KV, 200 KVA, 3 phase, 50 cycles,
Distribution Transformers
4. Quantity : 500 Nos.
5. Downloading of specification/tender documents from PSPCL website:
Start date : 3.9.11
Last date : 3.10.11 upto 5.00 PM
6. Date & time upto which tenders shall be received:
6.10.11 upto 11.00 AM
7. Date & time of opening of tenders:
6.10.11 upto 11.30 AM
8. Cost of specification: Rs. 2500/- in the form of demand draft in favour of
AO/CPC(M), PSPCL, Patiala payable at Patiala.
9. Tender specification can only be downloaded from PSPCL website
<https://pspcl.nprocure.com> and no hard copy of the same will be issued
by this office.
10. Mode of tendering: Through e-tendering only
11. Contact person: Chief Purchase Officer, PSPCL, Patiala.

Sd/-

Chief Purchase Officer,
Central Purchase Organisation,
PSPCL, Patiala.

5 B) i) Delegation of power:-

	<u>Open tender</u>	<u>Single tender</u>
a) Central purchase committee	2 Crores	50 Lacs
b) WTDs	Full Power	Full Power
ii) Cost of tender documents if estimated cost of supply is Rs. 2.0 Crores:-	Rs. 2000/-	

- 5 C) The request for extension of delivery period where condition of genuine delay are satisfied, shall be approved by Chief Engineer concerned after getting the same preaudited. In case additional financial commitment is involved, finance section shall be consulted before approving the delivery extension.

Solution to Q:-1

6% DEBENTURES ACCOUNT

2002		2002			
Sept.30	To Debenture Trustees	12090	April,1	Balance b/d	1,00,000
	Cash A/c (1)				
Sept.30	To Debenture Trustees				
	Fund A/c (2)				
	(Profit on cancellation)	910			
2003					
March,31	To Debenture Trustees				
	Cash A/c	7,000			
March,31	To Balance c/d	80,000			
		1,00,000			1,00,000

DEBENTURE TRUSTEES FUND ACCOUNT					
2002			2002		
Sept.30	To Debenture Trustees		April,1	By Balance b/d	16,900
	Investment A/c (3)	250	Sept.,30	By 6% Debentures A/c	910
Sept.30	To General Reserve	13,000	Sept.,30	By Debentures Trustees	
2003				Cash A/c	
March,31	To General Reserve	7,000		(Rs.12,750x5/100x6/12)	319
March,31	To Balance c/d	10,092		(Interest on Investments)	
			2003	By Debenture Trustees	
			Mar.31	Cash A/c (Rs.,4,250x5%)	213
				(Interest on Investments)	
			Mar.31	By Profit & Loss	12,000
				appropriation a/c	
		30,342			30,342
				By Balance b/d	10,092

model Solution SAS-T 15-872011, P-VI

		DEBENTURE TRUSTEES INVESTMENT ACCOUNT					
		Face value	Cost			Face value	Cost
2002		Rs.	Rs.	2002			
April,1	To Balance b/d	17,000	16,000	Sept.,30	By Debenture Trustees Cash A/c	12,750	11,750
2003							
Mar.31	To Debenture Trustees Cash A/c	6,000	6,092	Sept.30	By Debenture Trustees Fund A/c		
					(Loss on sale of Investment transferred)		250
				2003			
				March,31	By Balance c/d	10,250	10,092
		23,000	22,092			23,000	22,092
April,1	To Balance b/d	10,250	10,092				

		DEBENTURE TRUSTEES CASH ACCOUNT					
		Rs.	2002			Rs.	
2002							
April,1	To Balance b/d	900	Sept.30	By 6% Debentures A/c	12,090		
Sept.,30	To Debenture Trustees Investment A/c	11,750	2003				
			March,31				
Sept.,30	To Debenture Trustees Fund A/c (interest on Investments)		March,31	By 6% Debentures A/c	7,000		
	(5/100xRs.12,750x6/12)	319					
2003				By Debentures Trustees Investment A/c	6,092		
March,31	To Debenture Trustees Fund A/c (interest on Rs.,4,250)						
	Investment for one year @ 5%)	213					
March,31	To Bank A/c						
	(Annual Instalment)	12,000					
		25,182			25,182		

DEBENTURE INTEREST ACCOUNT					
2002		Rs.	2003		Rs.
Sept., 30	To Bank A/c		March, 31	By Profit & Loss A/c	5,610
	(13,000x6/100x6/12)	390			
2003	To Bank A/c				
March, 31	(87,000x6/100)	5,220			
		5,610			5,610

Working Notes:

(1) Calculation of price paid for Rs.13,000 Debentures Purchased on 30.9.2002

Price paid @ Rs.96 cum-interest (Rs.13,000x96/100)

Less: Interest included therein for 6 months from April 1, 2002
to September 30, 2002 @ 6% (Rs.13,000x6/100x6/12)

Amount paid for purchase of debentures

12,480

390

12,090

(2) Calculation of profit on Cancellation of Debentures

face Value of debentures cancelled

13,000

Less: Amount Paid for debentures as per working note (1)

12,090

Profit on cancellation of debentures

910

(3) Loss on Sale of Investments

Cost of investments sold (Rs.16,000 cost x Rs.12,750 Face Value)

12,000

Rs.17,000 Face Value

11,750

Less: Amount realised on sale of investments

Loss on sale of investments having face value Rs.12,750

250

(4) As per SEBI's guidelines, Debenture Redemption Reserve (i.e. balance in Debenture Trustees Fund A/c) should be at least equal to 50% of the amount of the debentures outstanding before commencing redemption. In the present case balance in Debenture Trustees Fund A/c should have been Rs.50,000 (i.e. 50% of Rs.1,00,000). This fact has been ignored.

Ans to Ques. (2)(a):

Solution:

- (i) If the Books are not closed on 31st Dec., 1995

BANK RECONCILIATION STATEMENT OF Mr. X

as on 31st Dec. 1995

Particulars	Plus Items Rs.	Minus Items Rs.
A Balance as per Cash Book	8,464	
B Add: Mistake in bringing forward as credit balance on 18 th Dec.,	3152	
Cheques issued but not presented	3,799	
Dividends directly collected by Bank but not yet entered in the cash book	350	
Cheque issued recorded twice	450	
Deposit not recorded in the Bank Column	250	200
C.Less: Wrong Casting in the Cash Book in 15 th Dec.		231
Cheques issued but not entered in the Bank Pass Book		
Subscription paid by the bank directly not yet recorded in the Cash Book		200
	16,465	631
D. Balance as per Pass Book	15,834	

- (ii) If the Books are closed on 31st

Dr/ X's Cash Book with amended bank column

Cr.

Date	Particular	Rs.	Date	Particulars	Rs.
31.12.95	To Balance b/d	8,464	31.12.95	By Wrong casting	200
	To Mistake in bringing forward	3,152		By Cheques issued	231
	To Dividend collected	350		By subscription	200
	To Cheques recorded twice	450		By Balance c/d	12,035
	To Deposit not recorded	250			
		<u>12,666</u>			<u>12,666</u>

BANK RECONCILIATION STATEMENT as on 31st December, 1995

A. Corrected Balance as per Cash Book	12,035
B. Add: Cheques issued but not yet presented	<u>3,799</u>
C. Balance as per Pass Book	<u>15,834</u>

Solution to Q-2 (b)

Arrangement of assets and liabilities

The assets and liabilities should be arranged in balance sheet in some specific order. Arrangement of assets and liabilities in the balance sheet is called "Marshalling". There are two systems of arranging the assets and liabilities:

- (a) Order of liquidity
- (b) Order of Permanence.

In case of liquidity order most easily realizable assets are shown first and are followed by assets which are less easily realizable, so that the asset most difficult of realization will be shown last. In case of liabilities, these will be shown in the order in which they are payable, the most pressing liabilities being placed first. The balance sheet will appear as under:-

Liabilities	Rs.	Assets	Rs.
Bills Payable		Cash in hand	
Loans		Cash at bank	
Sundry Creditors		Investments	
Outstanding Expenses		Sundry debtors	
Reserves		Bills receivable	
Capital		Stock-in-trade	
		Loose tools	
		Fixtures and fittings	
		Plant and machinery	
		Building	
		Land	
		Goodwill	

The other order of marshalling the assets and liabilities is exactly the reverse of the above, so that the fixed and permanent assets and liabilities appear first and will be followed by floating assets and liabilities. Following is the specimen of arrangement of assets and liabilities according to this order.

Liabilities	Rs.	Assets	Rs.
Capital		Goodwill	
Reserves		Land	
Outstanding expenses		Building	
Sundry creditors		Plant & machinery	
Loans		Fixtures and fittings	
Bills Payable		Loose Tools	
		Stock in trade	
		Bills receivable	
		Sundry debtors	
		Investments	
		Cash at bank	
		Cash in hand	

Solution to Q :3(a)

$$\text{✓ (a) Equity Ratio} = \frac{\text{Shareholders Funds}}{\text{Total Assets}}$$

Shareholders Funds = Equity capital+Pref.Capital+Reserve Funds+
P/L A/c+ Share premium- Preliminary Expenses-
Discount on Issue of Debenture

$$= \text{Rs.3,00,000} + \text{Rs.1,50,000} + \text{Rs.50,000} + \text{Rs.20,000} + \text{Rs.10,000} \\ - \text{Rs.2,000} - \text{Rs.1,000} = \text{Rs.5,27,000}$$

Total Assets = Total Assets – Preliminary Expenses-
Discount on Issue of Debentures- Depreciation Fund

$$= \text{Rs.9,40,000} - \text{Rs.2,000} - \text{Rs.1,000} - \text{Rs.50,000} = \text{Rs.8,87,000}$$

Note: Preliminary Expenses and Discount on Issue of
Debentures are deferred expenses and not assets.

$$\text{Equity Ratio} = \frac{\text{Rs.5,27,000}}{\text{Rs.8,87,000}} = 0.59$$

$$\text{✓ (b) Debt-Equity Ratio} = \frac{\text{Outsiders Funds}}{\text{Shareholders' Funds}}$$

Outsiders Funds= 8% Debentures + 6% Mortgage Loan + Sundry Creditors

$$+ \text{Income Tax Provision} \\ = \text{Rs.2,00,000} + \text{Rs.60,000} + \text{Rs.80,000} + \text{Rs.20,000} \\ = \text{Rs.3,60,000}$$

$$\text{Debt-Equity Ratio} = \frac{\text{Rs.3,60,000}}{\text{Rs.5,27,000}} = 0.68$$

$$\text{✓ (c) Funded Debt to Total Capitalisation Ratio} \\ = \frac{\text{Funded Debt}}{\text{Total Capitalisation}}$$

$$\text{Funded Debt} = \text{Long term Loans} \\ = 8\% \text{ Debentures} + 6\% \text{ Mortgage Loan} \\ = \text{Rs.2,00,000} + \text{Rs.60,000} = \text{Rs.2,60,000}$$

$$\text{Total Capitalisation} = \text{Shareholders Funds} + \text{Long-term loans} \\ = 5,27,000 + \text{Rs.2,60,000} = \text{Rs.7,87,000}$$

$$\begin{aligned} \text{✓ (d) Fixed Assets to Net Worth Ratio} \\ &= \frac{\text{Net Fixed Assets}}{\text{Net Worth}} \end{aligned}$$

Net Worth = Net worth is the same as shareholders' funds.

$$\text{Fixed Assets to Net Worth Ratio} = \frac{\text{Rs.5,30,000}}{\text{Rs.5,27,000}} = 1.01$$

$$\text{✓ (e) Solvency Ratio} = \frac{\text{Total Liabilities to Outsiders}}{\text{Total Assets}}$$

$$\begin{aligned} \text{Total Liabilities to Outsiders} &= 8\% \text{ Debentures} + 6\% \text{ Mortgage Loan} + \\ &\quad \text{Sundry Creditors} + \text{Income Tax Provision} \\ &= \text{Rs.2,00,000} + \text{Rs.60,000} + \text{Rs.80,000} + \text{Rs.20,000} \\ &= \text{Rs.3,60,000} \\ &= \frac{\text{Rs.3,60,000}}{\text{Rs.8,87,000}} = 0.41 \end{aligned}$$

Solvency Ratio

$$\text{✓ (f) Current Assets to Proprietors' Funds Ratio} = \frac{\text{Current Assets}}{\text{Proprietors' Funds}}$$

$$\begin{aligned} \text{Current Assets} &= \text{Sundry Debtors} + \text{B/R} + \text{Stock in trade} + \\ &\quad \text{Cash Balance} + \text{Prepaid Insurance} \end{aligned}$$

$$\begin{aligned} &= \text{Rs.90,000} + \text{Rs.1,00,000} + 1,20,000 + 45,500 + 1,500 \\ &= \text{Rs.3,57,000} \end{aligned}$$

$$\begin{aligned} \text{Proprietors' Funds} &= \text{Shareholders' Funds} \\ \text{Current Assets to Proprietors' Funds} \\ &= \frac{\text{Rs.3,57,000}}{\text{Rs.5,27,000}} = 0.68 \end{aligned}$$

$$\text{✓ (g) Fixed Asset Ratio} = \frac{\text{Net Fixed Assets}}{\text{Total Long-term Funds}}$$

$$\begin{aligned} \text{Total Long-term Funds} &= \text{Shareholders' Funds} + \text{Long-term borrowings} \\ &\quad (\text{Funded debt}) \end{aligned}$$

$$\text{Rs.5,27,000} + \text{Rs.2,60,000} = 7,87,000$$

$$\text{Fixed Assets Ratio} = \frac{\text{Rs.5,30,000}}{\text{Rs.7,87,000}} = 0.67$$

Ans to Ques (3)(b)

The following important provisions regarding the redemption of preference shares are given under section 80 of the Companies Act.

(i) Such shares cannot be redeemed unless they are fully paid up. In other words partly paid up shares cannot be redeemed. This provision is made in order to protect the interest of the creditors.

ii) Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company as it will lead to erosion of available security to the creditors. Capital profits such as shares forfeited account, development rebate account, capital redemption reserve account, securities premium account, profit prior to incorporation, capital reserve are not available for dividend. If shares are to be redeemed at premium, then such premium must be provided either out of the accumulated profits of the company or out of the company's securities premium account. The word 'proceed' implies the amount received excluding the amount of securities premium if the shares are issued at premium but the net amount if the shares are issued either at a par or at a discount. This clause is inserted in order to protect the interest of the creditors.

(iii) When shares are redeemed out of profits available for distribution as dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called 'Capital Redemption Reserve Account'. This provision is made in order to immobilize profits from being used for any other purpose such as declaration of dividend, redemption of debentures, etc.

(iv) Such reserve can be used for issuing fully paid bonus shares to the shareholders. This account cannot be reduced except in accordance with the sanction of the court relating to reduction of share capital.

(v) Redemption of preference share should not be regarded as a reduction of the authorized capital of the company and as such the reduced shares should remain part of the authorized capital and must be shown in the Balance Sheet.

The purpose of all the legal restrictions on redemption of preference shares is not to allow redemption of preference shares which may adversely affect the security available to the creditors of company. The purpose is to keep the security intact which is available to the creditors even after the preference shares are redeemed. Section 80 of the Companies Act provides that redemption of preference shares can be made either out of the profits of the company which would be available for dividend or out of the proceeds of a fresh issue of shares. If redemption is carried out in any other manner such as out of borrowing or by sale of available assets, it will reduce the amount of available security to the creditors. It is not the case when redemption is made out of profits because creditors are not affected as the increase in profit would result in an increase in the available assets of the company. Similarly, when redemption is carried out of fresh issue of shares it results in an increase in the available assets and amount of security available to the creditors will not be affected after the redemption of shares is made.

Another objectives of legal restrictions on redemption of preference shares is that there should be no reduction of share capital. It has been ensured by the following provisions of Section 80 of the Companies Act.

(a) Preference shares can be redeemed either out of the proceeds of the fresh issue of shares or out of profits available for dividend purposes. If preference shares are redeemed out of the proceeds of fresh issue of shares, capital provided by fresh issue of shares will be substituted by the capital which will be reduced by redemption of preference shares.

(b) If preference shares are redeemed out of revenue profits available for dividend purposes, nominal value of shares so redeemed must be transferred to Capital Redemption Reserve Account. Capital Redemption Reserve Account is just like capital because it can only be used for issue of fully paid-up bonus shares. Hence, redemption of preference shares will not amount to reduction of capital.

Nominal value of preference shares to be redeemed must be equal to or less than the paid up value (deducting discount on issue of fresh shares if any) of fresh issue of shares and Capital Redemption Reserve Account i.e. total paid up value of fresh issue of shares and capital redemption reserve account (if redemption is carried out of profits available for dividend purposes) must not be in any case less than the nominal value of preference shares to be redeemed.

Solution to Q-4(a)

The following system of Internal Check may be adopted to have a check on losses of cash sale proceeds---

Aspect	Control Points
Division of Work	<ol style="list-style-type: none"> 1. There should be a separate sales man for each section, counter or department 2. Every Salesman should be assigned a staff code number. 3. There must be complete segregation of responsibilities of salesman, the cashier and the Accountant. 4. Salesmen should not – (a) handle cash or)b) have access to Cash Book 5. Similarly, Cashier should not handle any sales.
Sales Procedure initiation	<ol style="list-style-type: none"> 1. Salesman dealing with customer should issue cash bill in triplicate, indicating his staff code. 2. Original plus one copy shall be handed over to the customer. 3. One copy shall be retained by the Salesman or may be sent alongwith the goods, directly to the delivery counter.
Cash Payment at Counter	<ol style="list-style-type: none"> 1. All payments by customer shall be made only at the Cash Counter. 2. Salesmen should not be allowed to receive any payment from customers. 3. There should be a clear and visible notice in the showroom, which reads "Pay at Cash Counter only". 4. Customer should present both copies of the cash bill to the cashier along with the payment. 5. The cashier should check the bills, receive the payment, and stamp the same as "Paid". The Original Bill-cum-Receipt should be handed over to customer. 6. No payment (e.g. for Petty Cash Expenses etc.) shall be made by the Cashier directly from the cash collections of the day.
Delivery of goods	<ol style="list-style-type: none"> 1. Goods shall be delivered only at the Delivery Counter. 2. The customer shall present the original cash bill marked :PAID" to the clerk at the delivery counter. 3. Upon actual delivery of the goods, delivery clerk shall stamp the bill as "DELIVERED". 4. The Gate- Keeper or Security In-charge shall check whether the goods taken out have been paid for.
MIS Reporting	<ol style="list-style-type: none"> 1. Each Salesman shall report the total daily sales made by him, based on the chit book maintained or based on the carbon copy of cash bills issued to the customer. 2. The Cashier shall prepare a scroll of receipts based on carbon copies of bills retained by him. 3. At the end of the day, the Accountant shall trace all sales into the Cashier's Receipt Book thus reconciling the cash collected for the day. 4. A report reconciling the sales of each Salesman and cash collections shall be given to the General manger or Officer-in-Charge.

Ans to Ques (4) (b):

Solution

MACHINERY ACCOUNT

1999		Rs.	1999		Rs.
Jan 1	To Balance b/d	9,72,000	July 1	By Bank a/c	45,000
July 1	To Bank a/c	1,50,000	July 1	By depreciation	3,240
"	To Bank a/c	80,000		By Profit & loss a/c	16,560
			Dec. 31	By profit & loss a/c (due to change method)	11,200
			"	By Depreciation @ 10% on Rs. 11,20,000	1,12,000
			"	By depreciation @10% on Rs. 2,30,000 for 6 months	11,500
			"	By Balance c/d	10,02,500
		<u>12,02,000</u>			<u>12,02,000</u>

Working Notes:

Calculation of cost of Machinery on 1st January 1997

$$= \text{Rs. } 9,72,000 \times \frac{100 \times 100}{90 \times 90} = 12,00,000$$

$$\begin{aligned} &\text{Less cost of Machinery Sold} = 80,000 \\ &\text{Remaining machinery} = \underline{11,20,000} \end{aligned}$$

$$\text{Depreciation charged as per Diminishing Balance Method} = \underline{11,20,000}$$

$$\text{Less Depreciation for 1997 (10\%)} = \underline{1,12,000}$$

$$\text{W.D.V} = 10,08,000$$

$$\text{Less Dept. for 1998} = \underline{1,00,800}$$

$$9,07,200$$

$$\text{Total Dep.} = \text{Rs. } 1,12,000 + \text{Rs. } 1,00,800 = \text{Rs. } 2,12,800$$

$$\text{Dep. according to straight line for two years: } 1,12,000 \times 2 = \text{Rs. } 2,24,000$$

$$\text{Excess Dep. to be charged} = \text{Rs. } 2,24,800 - 2,12,800 = \text{Rs. } 11,200$$

Model Solution SAS-D/S-8/2011, P-II

Calculation of loss on Sale of Asset

Cost Price of Asset Sold on 1.1.97		Rs. 80,000
Less Dep. 10%		(-) <u>8,000</u>
W.D.V.		72,000
Less Dep. for 1998 $72,000 \times 10\% =$		(-) <u>7,200</u>
100	W.D.V	64,800
Less Dep. for 6 months for 1999 $64,800 \times 10\% \times 6$		(-) <u>3,240</u>
10 x 12		
W.D.V on 1.7.99		61,560
Less Sale Price	(-)	<u>45,000</u>
Loss on Sale		16,560

Solution to Q:-5(a)

The Internal Audit Programme in connection with Plant and Machinery and Tools and dies may be on the following lines:-

- i. **Internal Control Aspects:-** The following may be incorporated in the audit programme to check the internal control aspects:-
 - a. Maintaining separate register for hired assets, leased asset and jointly owned assets.
 - b. Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.
 - c. All movements of assets are accurately recorded
 - d. Authorisation be obtained for- (1) a declaring a fixed asset scrapped
(2) selling a fixed asset
 - e. Check whether additions to fixed asset register are verified and checked by authorized person.
 - f. Proper recording of all additions and disposal
 - g. Examining procedure for the purchase of new fixed assets.. including written authority, work order, voucher and other relevant evidence.
 - h. Regular review of adequate security arrangements.
 - i. Periodic inspection of assets is done or not.
 - j. Regular review of insurance cover requirements over fixed assets.
- ii **Assets Register:-** To review the registers and records of plant, Machinery etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged etc.
- iii **Cost Report and Journal Register:-** To review the cost relating to each plant and machinery and to verify items which have been capitalized.
- iv. **Code Register:-** To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of code, Register.
- v. **Physical Verification:** To see physical verification has been conducted at frequent intervals.
- vi. **Movement Register:-** To verify (a) whether a Movement Register for movable equipments and (b) log books in case of vehicles etc. are being maintained properly.
- vii. **Assets Disposal Register:-** To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorization, sales memos or other appropriate documents.
- viii **Spare Parts Register:-** To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.
- ix. **Review of Maintenance:-** To scrutinize the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilization of maintenance department services.
- x. **Review of Obsolescence:-** To scrutinize whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.
- xi. **Review of R&D:-** To review R&D activity and ascertain the extent of its relevance to the operations of the organization, maintenance of machinery

Solution to Q:- 5(b)

Obtaining Audit Evidence : In performing compliance and substantive procedures, the auditor may obtain audit evidence by following methods:-

1. **Inspection:** It consists of examining various records, documents and tangible assets. Examination of these records and assets provided evidence of varying degree of reliability depending upon their nature, source and effectiveness of internal control over their processing. Inspection of tangible assets provides reliable evidence regarding their existence. Four major categories of documentary evidence, which provide different degree of reliability are:

- (a) documentary evidence originating from and held by third parties;
- (b) documentary evidence originating from third party and held by entity;
- (c) documentary evidence originating from the entity and held by third parties;
- (d) documentary evidence originating from and held by the entity.

Inspection of tangible assets is one of the methods of obtain reliable evidence with respect to their existence but not necessarily as to their ownership or value.

2. **Observation:** It consists of witnessing a process or procedure being performed by others. Observation of physical verification of inventories by the auditor will help in gathering reliable evidence as to their existence, physical condition and control.

3. **Inquiry and confirmation:** Inquiry consists of seeking appropriate information from knowledgeable persons inside or outside the entity. Inquiries may range from formal written inquiries addressed to third parties to informal oral inquiries addressed to persons inside the entity. Responses to inquiries may provide the auditor with information which he did not previously possess or may provide him with corroborative evidence.

Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records. For e.g. the auditor requests confirmation of receivables by direct communication with debtors.

4. **Computation:** It consists of checking the arithmetical accuracy of source documents and accounting records and along calculation to arrive at facts and figures.
5. **Analytical review:** It consists of studying significant ratios and trends and investigating unusual fluctuations in results.

Solution to Q 5 (C)

Distinguish between Principles & Techniques of Auditing:-

Particulars	Principles of Auditing	Techniques of Auditing
1. Meaning	It refers to the fundamental considerations that sustain the function of auditing and direct its activities.	It refers to the methods and means adopted by the Auditor for collection and evaluation of audit evidence in different auditing situations.
2. Examples	As listed in AAS-1, these are- (a) integrity, Objectivity & Independence, (b) Confidentiality (c) Skills and Competence (d) Work performed by others (e) Documentation Planning (f) Audit Evidence (g) Accounting System & Internal Control (h) Audit Conclusions and Reporting	These are not listed exhaustively. Some examples are- (a) Physical Inspection (of Fixed Assets) (b) Confirmation (of Debtors Balances) (c) Inquiry (on Accounting Systems) (d) Calculation of Ratios (GP Ratio, NP Ratio)
3. Variability based on Nature	The principles are not liable to change frequently.	Audit techniques may vary according to the nature of propositions to be tested.
4. Effect of Time	They do not vary with time.	The techniques to be adopted vary with the time/ period of auditing.
5. Variability based on Audit	Principles of auditing remain the same irrespective of the nature of the Firm.	They may vary Firm to Firm depending upon the nature of business, number of transactions etc.

Solution to Q 5 (d)

Semi Finished Goods may be lying with the third parties for further processing. The Auditor's responsibility in relation to such goods can be summarized as under :-

Document to be seen	Aspect to be verified/Auditor's Duties
Delivery Challan and Excise Records	Verify the quantity of the goods dispatched to the third party to know the value of the goods sent at the time of dispatch.
GRN of Contractor	Confirm whether the goods dispatched have been actually received by them.
Confirmation from processor	<ul style="list-style-type: none"> • Verify the quantity lying with the processor at the year end, by obtaining a confirmation showing quantity of materials and date of receipt. • Confirm whether goods sent have been received back within reasonable time and are in accordance with the agreed specifications.
Valuation and Disclosure	<ul style="list-style-type: none"> • Ensure that the goods are valued properly at each stage of completion in respect of WIP, inclusive of expenses incurred in sending the goods for processing. • Where the amount is material, disclose the same separately as "Stock in hands of Processors or Contractors".

Solution to Paper –VII (Industrial, Commercial Laws & Direct Taxes) SAS Part-II Examination

Solution to Question .No 1 (i)

		Expenses exempt upto Rs. 15000	Expenses Taxable Rs.
i)	Treatment of X	4,200	
ii)	Treatment of Mrs. X	3,600	
iii)	Treatment of X's mother	1,200	
iv)	Treatment of X's brother		400
v)	Treatment of X's grandfather		1,500
		9,000	1,900

Hence only 1,900 shall be taxable perquisite.

- (b) Payment of insurance premium on the health of the employee is a tax-free perquisite. Hence nothing is taxable.
- (c) The expenses of medical treatment of the employee and his family members in a hospital maintained by the employer are tax-free. Therefore, expenses on treatment of X, X's major son, X's widowed sister and Mrs. X are not taxable. Only the following expenses are taxable:
- | | | |
|------|--------------------------------------|--------------|
| (i) | Treatment of X's uncle. | Rs. 4,600 |
| (ii) | Treatment of X's handicapped nephew. | 2,500 |
| | Taxable perquisite | <u>7,100</u> |
- (d) Expenses on medical treatment of the employee/family members in respect of prescribed diseases in any hospital approved by the Chief commissioner of Income-tax, are tax free. In this case as cancer is a prescribed disease and Tata Memorial Hospital, Bombay is approved by Chief Commissioner of Income-tax, there is no tax able perquisite. Further, reimbursement of expenses of his medical treatment shall be exempt to the extent of Rs.15,000, Rs. 5,000, therefore, shall be taxable perquisite in this case.
- (e) In respect of medical treatment outside India, expenses on actual treatment and on stay abroad(of the patient and one attendant) are exempt from tax to the extent permitted by R.B.I i.e. upto Rs. 60,000 and Rs. 45,000, respectively. Therefore, balance Rs. 15000 and Rs. 20,000 shall be taxable perquisites. Expenses of travel are exempt only if the gross total income of the employee is upto Rs. 2,00,000. In case (a), the gross total income shall be Rs.1,85,000(1,50,000+15,000+20,000) hence the entire expenditure on travel is tax free perquisites. In case (b) his gross total income shall be Rs. 2,15,000(1,80,000+15,000+20,000), hence the entire expenditure on travel amounting to Rs. 1,20,000 shall be taxable perquisites, Rs. 15000+Rs. 20,000

included above are on account of taxable amount of medical perquisites as these are in excess of amount permitted by RBI.

Answer to Question No (i) (ii)

Calculation of perquisite in respect of loan at concessional rate.

Month ending	Maximum monthly outstanding balance
April 2010	5,88,000
May 2010	5,76,000
June 2010	5,64,000
July 2010	5,52,000
August 2010	5,40,000
September 2010	5,28,000
October 2010	5,16,000
November 2010	5,04,000
December 2010	4,92,000
January 2011	4,80,000
February 2011	4,68,000
March 2011	4,56,000
	62,64,000

Interest on Rs. 62,64,000 @ 4% p.a. for one month.
 $62,64,000 \times 4/100 \times 1/12 = \text{Rs. } 20,880$

Calculation of perquisite value on sale of air conditioners

Original cost of air conditioner	2,00,000
Less: Depreciation for 4 years on straight line method @ 10% i.e. 40%	80,000
Less: Amount recovered	1,20,000
Perquisite value	90,000
	30,000

Hence, the total perquisite value shall be
 Rs. 20,880 + Rs. 30,000 = Rs. 50,880

Answer to Question No (i) (iii) (a)

In the following cases credit of tax paid on inputs shall not be allowed.

- Where final product is exempt-Credit of tax paid on inputs is available only if tax is paid on final products. When final product is exempt from tax credit will not be allowed. If credit was availed, it will have to be reversed on prorata basis.
- No credit if input lost/damaged/stolen before use- Where the inputs have been lost or damaged or stolen before these have been used, credit of tax paid on such input shall not be allowed, If credit was availed, it will have to be reversed.

3. No credit on certain purchase-Generally, in following cases, credit is not available-
- (a) Purchase of automobiles.
 - (b) Fuel, however some States are allowing input credit for the same.

Answer to Question No (i)(iii)(b)

Income Variant

In case of Income Variant, tax is levied on all sales but deductions towards purchases of raw materials and components (i. e. inputs) as well as depreciation on capital goods are allowed. Those following this variant of VAT hold incentives by classifying purchases as current expenditure to claim set-off. In this variant, gross investment minus depreciation i.e. net investment is taxed. The depreciation to be provided is dependent on the life of an asset as well as on the rate of inflation, therefore there are many difficulties connected with the variant in measuring depreciation.

Answer to Question No 2 (i)

FINANCE AND AUDIT

Employees' State Insurance Fund (Section 26)

This section provides for the creation of an Employees' State Insurance Fund. All contributions paid and all other moneys received on behalf of the Corporation shall be paid into this fund. It shall be held and administered by the Corporation for the purposes of this Act. Section 26 permits the Corporation to accept grants, donations and gifts from the Government, local authority or any individual or body for the purposes of the Act.

All money accruing or payable to the Fund shall be paid into the Reserve Bank of India or such other bank as may be approved by the Central Government. The amount shall be credited to an account styled the account of Employees' State Insurance Fund. Such account shall be operated on by such officers as may be authorized by the Standing Committee with the approval of the corporation.

Purposes for which the fund may be expended (Section 28)

Section 28 gives a list of purposes on which the Fund may be spent. The Fund of the Corporation cannot be used for any other purpose except those enumerated below:

1. Payment of benefits and provisions of medical treatment and attendance to insured persons and to their families in accordance with the provisions of this Act and defraying the charges and costs in connection therewith.
2. Payment of fees and allowances to the members of the Corporation, the Standing Committee and the Medical Benefit Council, the Regional Boards, Local Committees and Regional and Local Medical Benefit Councils.
3. Payment of salaries, leave and joining time allowances, travelling & compensatory allowances, gratuities and compassionate allowances, pensions, contributions to provident fund or other benefit fund of officers and servants of the corporation.
4. Establishment and maintenance of hospitals, dispensaries and other institutions and the provision of medical and other ancillary services, for the benefit of the insured persons and their families if extended.
5. Payment of contributions to any State Government, local authority or any private body or individual towards the cost of medical treatment and attendance provided to insured persons and to their families, if extended including the cost of any building and equipment.
6. Defraying the cost (including all expenses), the Employees insurance court set up under this act..
7. Defraying the cost (including all expenses) of auditing the accounts of the corporation and of the valuation of its assets and liabilities.

8. Payment of any sums under any contract entered into for the purpose of this Act by the Corporation or the Standing committee or by any officer,, duly authorized by the Corporation or the Committee in this behalf.
9. Payment of sums under any decree, order or award of any Court or Tribunal against the Corporation or any of its officers or servants for any act done in execution of his duty.
10. Defraying the cost and other charges of instituting or defending any civil or criminal proceedings arising out of any action taken under this Act.
11. Defraying expenditure on measures for the improvement of the health and welfare of insured persons and for the rehabilitation and re-employment of insured persons who have been disables or injured.
12. Such other purposes as may be authorized by the Corporation with the previous approval of the Central Government.

Answer to Question No 2 (ii)

Arising out of and in the course of the employment

Accident alone does not give a workman a right to compensation. To entitle him to compensation, the accident must arise out of and in the course of his employment. An accident must not only occur in the course of actual employment, but in addition, must arise out of it. Proof of the one without the other will not make the employer liable to pay compensation. The expression in the course of his employment suggests the point of time, that is to say the injury must be caused by accident taking place during the employment. The words arising out of his employment suggest both the time as well as the place of employment. The expression out of conveys the idea that there must be some sort of connection between employment and the injury caused to a workman as a result of the accident. If there is no relationship between the two, the accident cannot be called to have arisen out of and in the course of employment.

Answer to Question No 2 (iii)

ANNUAL LEAVE WITH WAGES

Provisions relating to annual leave with wages are contained in sections 78 to 84 of Chapter VIII of the Act, Section 78 provides that the provisions of Chapter VIII shall not operate to the prejudice of any right to which a worker may be entitled under any other law, or under the terms of any award, agreement (including settlement) or contract of service. But when such award, agreement (including settlement) or contract of service provides for longer annual leave with wages than provided in this Chapter, the worker shall be entitled to such longer annual leave. This provision is intended to give better terms of service to the workers engaged in the factories. The provisions of this chapter shall not apply to workers in any factory of any railway administered by Government.

RULES REGARDING ANNUAL LEAVE WITH WAGES⁹SECTION (79)

Following are the rules regarding annual Leave with wages under the Factories Act, 1948:

(1) Number of working days

Every worker who has worked for a period of 240 days or more in a factory during a calendar year shall be allowed during the subsequent calendar year, annual leave with wages calculated as follows:

- (i) In case of an adult worker, one day for every 20 days worked during the previous calendar year.
- (ii) In case of a child worker, one day for every 15 days worked during the previous calendar year.

While calculating the leave period, fraction of leave of half a day or more shall be treated as one full day's leave, and fraction of less than half shall not be considered.

(2) Computation of number of days

- (i) While counting 240 days, the following days are included in the days worked:
 - (a) Days of Lay-off;
 - (b) Maternity Leave up to 12 weeks granted to female worker;
 - (c) Leave Earned in the previous year.

But he shall not earn leave for these days while calculating the number of leave days for that year.

- (ii) Where a worker has started his service on a day other than 1st. day of January. he shall be entitled to leave with wages only if he has worked for TWO-THIRD number of days in the remaining days of that year.
- (iii) Where a worker was wrongfully suspended, his days of suspension shall be counted towards computing 240 days.

(3) Discharge, Dismissal, Termination or Leaving of employment

Where a worker is discharged or dismissed from service or leaves his employment or retires or dies in service, he or his heir shall be entitled to wages in lieu of annual leave to which he was entitled, even if he had not worked for the 240 days required to make him eligible.

The payment shall be made:

- (i) Before the expiry of the SECOND WORKING DAY:

- (ii) Where the worker is discharged or dismissed or quits employment.
Before the expiry of TWO MONTHS:
Where the worker is retired or dies in service.

(4) Carry forward of leaves

Where a worker does not avail his whole of the annual leave earned by him, can carry forward his un-availed leave to the following year which shall be added in the leave of the following year subject to the following limits:

- (i) 30 days in case of the Adult workers, and
- (ii) 40 days in case of the Child workers.

But a worker can carry forward his leave without any limit, if he is not allowed to avail his leave due to operation of any scheme.

(5) Procedure to avail Annual Leave.

When a worker want to avail his annual leave, he should give an application in writing to the manager, not less than 15 days before the date of commencement of leave. In the case of public utility services, he should apply 30 days before commencement of leave.

A worker can not avail this leave more than three times in a year.

But where a worker becomes ill and want to avail his annual leave with wages during his illness, leave shall be granted even if the application is not made within such period.

(6) Scheme for Annual Leave

Due to continuity of work, the manager of a factory may, in agreement with the representatives of the workers, formulate a scheme for regulating the grant of annual leave to his workers in a planned manner to ensure continuing work on one hand and welfare of the workers on the other hand. A copy of the scheme shall be displayed at the notice board of the workers and a copy shall be submitted with the Chief Inspector.

Where a scheme is in operation, the leave application of the worker according to the agreed scheme shall not be refused.

The scheme shall remain in operation for a period of 12 months from the date of the day it comes into operation.

(7) Payment in the lieu of leave

If the employment of a worker, who is entitled to leave, is terminated by the occupier before he has taken the entire leave to which he is entitled, or if having applied for and having not been granted such leave, the worker quits his employment before he has taken the leave, the occupier of the factory shall pay him the amount payable in respect of leave not taken. Such payment shall be made where the employment of the worker is terminated by the occupier, before

the expiry of the second working day after such termination. Where a worker who quits his employment, such payment shall be made on or before the next pay day.

(8) Unavailed leave and notice of discharge and dismissal

In computing the period of any notice required to be given before discharge or dismissal the unavailed leave of the worker shall not be taken into consideration.

(9) Wages during leave period(Section80)

Section 80 lays down the method according to which a worker shall be entitled to wages for the leave allowed to him under section 78 or 79 of the Act. Wages for the leave period are payable at a rate equal of the daily average of his total full-time earnings for days on which he actually worked during the months immediately preceding his leave. For the purpose of calculation, wages will exclude any overtime and bonus but include any dearness allowance and the cash equivalent of the advantage accruing through the concessional sale to the worker of foodgrains and other articles.

Provided that in the case of a worker who has not worked on any day during the calendar month immediately preceding his leave, he shall be paid at a rate equal to the daily average of his total full time earnings for the days on which he actually worked during the last calendar month preceding his leave in which he actually worked exclusive of any overtime and bonus but inclusive of dearness allowances and the cash equivalent of the advantage accruing through the concessional sale to the workers of foodgrains and other articles.

Answer to Question No 3 (a)

An agreement seeking to restrain a person from exercising a lawful profession, trade or business of any kind is void to that extent. (Section 27) Public policy requires that every person should be at liberty to work for himself and should not be at liberty to deprive himself or the state of his labour, skill or talent by any contract that he enters into.

The early law declared all agreements which placed any restrictions upon a man's right to his trade or profession as void being against public policy. However the partial restraint or a restraint confined to a limited space and time is valid and enforceable.

Slowly the test of reasonableness was substituted, i.e. whether the restraint is reasonable in the interests of the parties and is consistent with the interests of the public.

Exceptions: There are two kinds of exceptions to the rule, those created by statutes and those arising from judicial interpretation of section 27.

I. Statutory Exceptions

1. Sale of goodwill (Section 27 of Contract Act)

On the sale of the goodwill of a business, the seller may agree not to carry on similar business within specified local limits so long as the buyer carries on like business therein, provided that such limits appear to the court as reasonable.

2. Under Partnership Act. 1932. There are four exceptions:

(a) Partner's competing business. A partner of a firm may be restrained from carrying on a similar business, so long as he remains a partner (Sec. 11(2) of Partnership Act).

(b) Rights of outgoing partner. A partner may agree with his partners that on ceasing to be a partner he will not carry on a similar business within a specified period or within specified local limits.

The agreement shall be valid if the restrictions are reasonable (Sec.36 (2) of the Partnership Act)

Thus an agreement between an outgoing partner not to carry on similar business on the land owned by him adjoining the factory of the partnership firm was regarded as reasonable and therefore binding (Hukam Chand vs Jaipur Ice & Oil Mills, AIR Raj. 155)

(c) *Partner's similar business on dissolution.* Partners may, in anticipation of the dissolution of the firm, agree that all or some of them shall not carry on similar business within a specified period or within specified local limits. (Sec. 54 of the Partnership Act).

(d) *Agreement in restraint of trade.* A partner upon the sale of the goodwill of a firm, may make an agreement with the buyer that such partner will not carry on any business similar to that of the firm within a specified period or within specified local limits. Such agreement shall be valid only if the restrictions imposed are reasonable (Sec. 55(3) of the Partnership Act).

II. Exceptions under the common law

- (a) **Service agreements.** During employment, Agreements of service often contain a clause by which the employee is prohibited from working anywhere else during the term of the agreement. A contract of service by which an employee binds himself during the term of his agreement not to compete with his employer directly by carrying on similar business, or accepting any other employment during the term of his agreement is not in restraint of trade. The employer can prevent the employees from working elsewhere during the period covered by the agreement.
- (b) **Trade combinations.** An agreement between different firms in the nature of a trade combination in order to maintain a price level and avoid underselling is not illegal. Further an agreement between manufacturers not to sell their goods below a certain price to pool profits and to divide the business and profits in a certain proportion is perfectly valid. Thus, an agreement between certain ice manufacturers not to sell the ice below a certain minimum price has been held to be valid. But if mutual benefit is not the purpose, but an out and out monopoly is sought to be created, then section 27 hits at it, and the agreement as void.
- (c) **Agreement in restraint of legal proceedings (Section 28).** An agreement which purports to oust the jurisdiction of the courts is contrary to public policy and void. Section 28 as amended by the Indian Contract (Amendment) Act 1997 states that every agreement by which a party is restrained absolutely from enforcing his rights under contract by ordinary legal proceedings in the ordinary tribunals, or which limits the time within which he can enforce his rights, is void to that extent. Thus where a servant agrees not to sue for wrongful dismissal is void under this section. The exceptions to this rule are:
- (a) An agreement to refer all future disputes in connection with a contract to arbitration.
- (b) An agreement to refer all present disputes with regard to a contract to arbitration.
- (c) An agreement restricting the right of either party to sue in a particular court.

Example: A in Jalandhar enters into a contract with B in Bangalore that all the disputes will be subject to Bangalore jurisdiction. This limits the right of A to sue only in Bangalore Court in case of dispute. Such terms are usually printed in invoices. These terms are valid.

Answer to Question No 3 (b) (i)

Emergency measures in case of pollution of stream or well

Section 32 provides for certain emergency measures. Accordingly where it appears to the State Board that any poisonous, noxious or polluting matter is present in any stream or well or on land by reason of the discharge of such matter in such stream or well or on land, or has entered into that stream or well due to any accident or other unforeseen act or event, and the Board is of the opinion that it is necessary or expedient to take immediate action, then it may for reasons to be recorded in writing carry out such operations as it may consider, necessary for all or any of the following:

- (a) Removing that mater from stream or well or on land and disposing of it in such manner as the Board considers appropriate.
- (b) remedying or mitigating any pollution caused by its presence in the stream or well.
- (c) Issuing orders immediately restraining or prohibiting the persons concerned from discharging any poisonous, noxious or polluting matter into the stream or well or on land or from making insanitary use of the stream or well.

The power conferred above does not include the power to construct any works other than works of a temporary character which are removed on or before the completion of the operations.

State Board means a State Pollution Control Board constituted under section 4. {Section 2(h)} Since the State Board deals with both water and air pollution control, the 1988 Amendment Act had renamed the State Board as State Pollution Control Board.

Answer to Question No 3 (b) (ii)

Constitution of State Boards

Under section 4 of the Act, the State Governments shall also by notification in the Official Gazette constitute a State Pollution Control Board. The State Boards shall consist of the following members.

- (a) a chairman, being a person having special knowledge or practical experience in respect of matters relating to environmental protection or a person having knowledge and experience in administering institutions dealing with the matters aforesaid, to be nominated by the State Government.

- (b) such number of officials not exceeding five to be nominated by the State Government to represent that Government.
- (c) such number of persons not exceeding five to be nominated by the State Government from amongst the members of the local authorities functioning within the State.
- (d) such number of non-official not exceeding three to be nominated by the State Government to represent the interest of agriculture, fishery, or industry or trade or any other interest which, in the opinion of the State Government, ought to be represented;
- (e) two persons to represent the companies or corporations owned, controlled or managed by the State Government, to be nominated by that Government;
- (f) a full time member secretary possessing qualifications, knowledge and experience of scientific, engineering or management aspects of pollution control, to be appointed by the State Government.

Every State Board shall be a body corporate having perpetual succession and a common seal. It shall have the powers to acquire, hold and dispose of property and enter into contract. It can sue or be sued in its own name.

No State Board shall be constituted for a union territory. In relation to a union territory. In relation to a union territory, the Central Board shall exercise the powers and perform the functions of a State Board for that Union territory. The Central Board may delegate all or any of its powers and functions to such persons as it may specify.

Answer to Question No 4 (a)

According to Section 2(1)(d), an "Arbital Tribunal" means a sole arbitrator or a panel of arbitrators.

An arbitrator is a person selected by mutual consent of the parties to settle the matters in controversy between them. A person appointed to adjudicate the difference between two or more parties is called an arbitrator. It is not enough that the parties appoint an arbitrator. The person who is so appointed must also give his consent to act as an arbitrator.

Law does not prescribe any qualifications for an arbitrator. It is open to the parties to appoint any person who is of age and of sound mind as an arbitrator. They may even choose an incompetent or unfit person to be an arbitrator. But parties should be careful in the matter of appointment of arbitrators. Normally such persons who are impartial and in whom the parties have complete confidence must be selected to act as arbitrators.

Number of arbitrators (Section 10)

The parties are free to determine the number of arbitrators provided that such number shall not be an even number. If the parties fail to make the determination, the arbitral tribunal shall consist of a sole arbitrator.

Under the old and new law, the mode of appointment of arbitrators and their number is left to the agreement by the parties. But unlike old law, the new law envisages only odd number of arbitrators. This will do away with the system of having two arbitrators and one umpire prevalent under the old law. Section 10 of the new Act provides that there shall be only a sole arbitrator, where the parties do not specify the number of arbitrators.

Appointment of arbitrators (Section 11)

Section 11 contains provisions regarding the appointment of arbitrators. It provides as under:

- (1) A person of any nationality may be an arbitrator, unless otherwise agreed by the parties. {Section 11(1) }
- (2) The parties are free to agree on a procedure for appointment of an arbitrator or arbitrators {Section 11(2) }

Generally the parties to the dispute select the arbitrator or arbitrators by mutual consent. If either of the appointed arbitrators neglects or refuses to act, or is incapable of acting, or dies, the parties may, by mutual consent, appoint a new arbitrator in his place. The parties to an arbitration agreement may also agree to the appointment of arbitrator or arbitrators by some third party designated in the agreement.

- (3) **Presiding arbitrator.** Failing any agreement on a procedure, in an arbitration with three arbitrators, each party shall appoint one arbitrator, and the two appointed arbitrators shall appoint the third arbitrator who shall act as the presiding arbitrator {Sec.11(3)}.

It may be noted that the presiding arbitrator has not been given any special power and he acts as arbitrator like any other arbitrator.

- (4) **If the appointment procedure agreed on by the parties applies and:-**

- (a) a party fails to appoint an arbitrator within thirty days from the receipt of a request to do so from the other party; or
- (b) the two appointed arbitrators fail to agree on the third arbitrator within thirty days from the date of their appointment.

the appointment shall be made, upon request of a party, by the Chief Justice or any person or institution designated by him {Sec.11(4)}.

- (5) **Failure of Parties to agree on procedure:** In an arbitration with a sole arbitrator, if the parties fail to agree on the arbitrator within thirty days from receipt of a request by one party from the other party to so agree, the appointment shall be made, upon request of a party, by the Chief Justice or any person or institution designated by him {Sec.11(5)}.

- (6) **Sometimes, under an appointment procedure agreed upon by the parties:-**

- (a) a party fails to act as required under that procedure; or
- (b) the parties, or the two appointed arbitrators, fail to reach an agreement expected of them under that procedure; or
- (c) a person, including an institution, fails to perform any function entrusted to him or it under that procedure.

In such a case, a party may request the Chief Justice or any person or institution designated by him to take the necessary measure, unless the agreement on the appointment procedure provides other means for securing the appointment. {Sec.11(6)}.

- (7) The decision of the Chief Justice or the person or institution designated by him is final in all matters referred above {Sec.11(7)}. However, the Chief Justice or his designate, in appointing an arbitrator, shall have due regard to the qualifications of arbitrators agreed between the parties and other considerations as are likely to secure the appointment of an independent and impartial arbitrator. {Sec. 11(8)}.

- (8) In the case of appointment of sole arbitrator or third arbitrator in an international commercial arbitration, the Chief Justice of India or the person or institution designated by him may appoint an arbitrator of a nationality other than the nationalities of the parties, where the parties belong to different nationalities {See 11(9)}.
- (9) The reference to "Chief Justice" in all matters referred above shall be construed as a reference of the "Chief Justice of India" in case of international commercial arbitrations, and to the "Chief Justice of State High Court" in case of domestic arbitrations.

Grounds for Challenge of the Appointment (Section 12)

When a person is approached in connection with his possible appointment as an arbitrator, he shall disclose in writing any circumstances likely to give rise to justifiable doubts as to his independence or impartiality. (Sec.12(1))

Further, an arbitrator, from the time of his appointment and throughout the arbitral proceedings, shall, without delay, disclose to the parties in writing any circumstances referred to above unless they have already been informed by him {Sec.12(2)}. Thus, under the new Act, an arbitrator before accepting his appointment, is required to disclose to the parties in writing about such matter which may create doubts about his impartiality or independence.

The appointment of an arbitrator may be challenged by a party to the reference only if-

- (a) circumstances exist that give rise to justifiable doubts as to his independence or impartiality, or
- (b) he does not possess the qualifications agreed to by the parties {Sec. 12(3)}.

Where above mentioned doubts exist, his appointment can be challenged. Similarly, where the arbitrator does not possess the required or the agreed qualification for the appointment, his appointment can be challenged as per sections 12 and 13 of the new Act.

Answer to Question No 4 (b)(i)

When an offence under section 138 is constituted. To constitute an offence under section 138, the following ingredients must be satisfied.

- 1) The cheque should have been issued by the drawer to the payee in the discharge of any enforceable legally debt or liability. Where the payment by way of cheque is made as gift or charity, it is not the payment for legally enforceable debt or liability and the dishonour of such a cheque does not attract the provisions of section 138 of Negotiable Instrument Act.

- 2) The cheque should be presented to the paying banker in time i.e. within 6 months or its specific validity period, whichever is earlier. Generally, a cheque remains valid for six months from the date of the being drawn. Sometimes, the drawer mentions a period of less than 6 months for which the cheque remains valid. For instance, it may be mentioned that it is valid for 2 months from the date of its issue. Such a cheque becomes invalid after two months of its issue.

In the case of a post-dated cheque, the period of validity is reckoned from the date which has been put on the cheque, and not the date when the cheque was delivered..

- (3) The cheque must have been returned by the bank unpaid.
- (i) either because the balance standing to the credit of the account of the drawer is insufficient to honour the cheque, or
 - (ii) because it exceeds the amount arranged to be paid from that account by an agreement made with the bank

A cheque may be returned by the bank for a variety of reasons. But section 138 is attracted only where there is insufficiency of funds in the drawer's account to honour the cheque. Where a cheque is issued to a person and he has presented the same to the bank concerned, if any instructions are issued by the drawer of the cheque to the bank for non-payment or stop payment and the bank returns the cheque to the payee, it would amount to dishonouring the cheque and would be covered by the penal provisions of Section 138 of the Negotiable Instrument Act.

Similarly, the return of cheque by the bank unpaid on the ground that the account of the drawer has been closed attracts prosecution under section 138.

- (4) The payee or the holder in due course of the cheque should have been given notice demanding payment within 30 days from the drawer on the receipt of information of dishonour of cheque from the bank. The notice must be in writing.

The object of notice is to give a chance to the drawer of the cheque to rectify his mistake and thereby safeguard his honour.

Giving the notice by the payee or holder in due course means dispatch of notice to the drawer at his correct address. Notice could be given by telegram or fax.

- (5) The drawer of the said cheque should have failed to make payment within fifteen days of the said notice given by the payee or the holder.

If all the above mentioned ingredients are satisfied, then the person who has drawn the cheque shall be deemed to have committed an offence.

The non-payment by the drawer within a period of 15 days gives a cause of action to the payee or holder in due course to file a complaint against the drawer within a period of one month from such cause of action, if he is to be prosecuted, with a competent court having jurisdiction/

Section 142 of the Act lays down the procedure available to a payee or a holder in due course to seek redressal of his grievance caused by dishonour of cheque under section 138. It is provided that the payee or holder should make a complaint within a period of one month of cause of action arising under section 138.

However, in the following cases it is not an offence.

- (i) A cheque is ~~not~~ given in gift.
- (ii) A cheque not presented within validity period.
- (iii) The payee or holder has not given notice demanding payment within 15 days of dishonour in case of insufficiency of funds.
- (iv) The payee has paid the same within 15 days of receipt of notice
- (v) The complaint was made after a month of cause of action (Section 142)

Answer to Question No 4 (b)(ii)(a)

(c) Facultative endorsement: An endorsement where the endorser extends his liability or abandons some right under a negotiable instrument, is called facultative endorsement. "Pay A or order, Notice of dishonour waived" is an example of facultative endorsement.

Answer to Question No 4 (b)(ii)(b)

1. Shah Jog Hundi: This is a hundi payable only to a shah i.e. a respectable person or a person of worth in the market. This is the most widely used hundi in the country. Such a hundi is not payable to bearer but only to a respectable bearer. It is necessary for the payer to satisfy himself as to the respectability of the holder before he can safely make the payment. A Shah jog Hundi may pass from hand to hand till it reaches a shah who, after making due enquiries to secure himself presents it to the drawee for acceptance or payment: then its negotiability ceases. It will not be paid unless the name of the shah by whom it is presented is endorsed on it. A shah jog hundi is similar to a crossed cheque.

A shah jog hundi differs from a bill of exchange in two respects:

- (1) The acceptance of the drawee is not generally written across it, but the particulars are entered in the drawer's book.
- (2) It is not usually presented for acceptance before due date.

A shah jog hundi may be either darshani or muddati. It has all the characteristics of a negotiable instrument. It passes by mere delivery. But it is payable only to respectable person. A minor may be the holder of a shah jog hundi and a payment to whom may be a good payment.

Answer to Question No 5 (i)

Section 192(1)

Any person responsible for paying any income chargeable under the head "salaries" shall, at the time of payment, deduct income tax on the amount payable at the average rate of income tax computed on the basis of the rates in force for the financial year in which the payment is made, on the estimated income of the assessee under this head for that financial year.

Therefore, in the given problem tax is deductible only at the time of payment of salary and not when salary is credited to the account of an employee in the books of account of employer.

Section(194C)

Any person responsible for paying any sum to any resident(hereafter in this section referred to as the contractor) for carrying out any work(including supply of labour for carrying out any work)in pursuance of a contract between the contractor and a specified person shall, at the time of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to:-

- (i) 1%where the payment is being made or credit is being given to an individual or a Hindu Undivided family.

Answer to Question No 5 (ii)

- (ii) 2%where the payment is being made or credit is being given to a person other than an individual or a Hindu Undivided Family.

Of such sum as income-tax on income comprised therein. (on gross amount of receipt)

No individual or a Hindu undivided family shall be liable to deduct income tax on the sum credited or paid to the account of the contractor where such sum of credited or paid exclusively for personal purposes of such individual or any member of Hindu undivided family.

An individual is required to deduct tax at source if he was subjected to tax audit in the preceding financial year. In the given problem, since Mr. Y was subjected to tax audit in Financial Year 31.03.2010, he is required to deduct tax at source on payment made to contractor i.e on Rs 9.00 lacs.

Answer to Question No 5 (iii)

iii) Section 194J:

Any person, not being an individual or a Hindu undivided family, who is responsible for paying to a resident any sum by way of

- (a) fees for professional services, or
- (b) fees for technical services, or
- (c) royalty, or
- (d) any sum referred to in clause (va) of section 28

shall, at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to 10% of such sum as income tax on income comprised therein.

However, no deduction shall be made under this section where the amount of such sum or, as the case may be, the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year by the aforesaid person to the account of or to, the payee, does not exceed.

- (i) Rs. 30,000 (Rs. 20,000 upto 30th June, 2010), in the case of fees for professional services referred to in clause (a), or
- (ii) Rs. 30,000 (Rs. 20,000 upto 30th June, 2010), in the case of fees for technical services referred to in clause (b), or
- (iii) Rs. 30,000 (Rs. 20,000 upto 30th June, 2010) in the case of royalty referred to in clause (c), or
- (iv) Rs. 30,000 (Rs. 20,000 upto 30th June, 2010) in the case of sum referred to in clause (d)

X Ltd. is not liable to deduct tax at source as payment to HG in each of the two categories, i.e. professional services and technical services does not exceed Rs. 30,000 (Rs. 20,000 upto 30th June, 2010), even though the aggregate amount credited with respect to rendering both category of services exceeds Rs. 30,000 (Rs. 20,000 upto 30th June, 2010).

Answer to Question No 5 (iv)

Rs. 45,000 per month paid is in the nature of service charges under a contract. Therefore, P. Ltd. is required to deduct TDS under section 194 C of the income tax Act.

Answer to Question No 5 (v)

(i) A foreign agent of an Indian exporter operates in his own country and no part of his income arises in India. His commission is usually remitted directly to him and is therefore, not received by him or on his behalf in India. Such an agent is not liable to income tax in India on Commission. This has been clarified by the Circular No. 23 dated 23.7.1969. In view of the specific circular, the commission paid to the non-resident agent of the Indian exporter for services rendered outside India is not chargeable to tax in India.

(ii) Section 40(a)(i) requires deduction of tax at source in respect of any interest, royalty, fees for technical services or other sum chargeable under the Act, which is payable outside India or in India to a non-resident. However, in this case, the commission payable to the non-resident agent is not chargeable to income tax in view of the clarification given by Circular 23 dated 23.7.1969 explained in (i) above. No tax is required to be deducted at source under section 195. Hence disallowance under section 40(a) (i) would not be attracted, and commission payment would be deductible in the assessment of R. Ltd.

Ans 1 (a)

GENERAL LEDGER	
Debit	Credit
i) Capital work-in-progress (cost group for tangible assets (GH-14)	Revenue expenses reclassified pending allocation over capital works Account GH-15.2
ii) Construction Facilities (GH 15.6)	Materials issue (capital) (GH 22.3)
iii) WDV of assets lost (GH-28)	Fixed assets (GH-10)
iv) Cash/Bank (GH 24)	Claims for loss/damage to capital assets (GH-28)
v) Inter unit a/c (capital expenditure and fixed assets) written down value (GH-32)	Fixed assets (Original Cost) (GH-10)
vi) Fixed Asset (GH-10)	i) Provision for depreciation (accumulated depreciation) (GH-12). ii) 37,000 IUA
vii) Depreciation (GH-77)	Provision for depreciation (GH-12)
viii) WDV of retired assets GH 16.2 - Provision for depreciation of fixed assets (GH-12) WDV of obsolete/ scrapped assets (GH 16.1) - Provision for depreciation on fixed assets (GH-12)	Fixed assets (GH-10)
ix) Fixed assets (each assets at rupee one GH-10)	Excess found on physical verification of fixed assets (GH-62)
x) Fixed assets (GH-10)	Capital work in progress (GH-14)

Ans 1(b)

When there is an addition in the scope of work and such addition was not included in the original estimate, supplementary estimate will be prepared to execute the additional work. Revised estimate is however prepared when the expenditure on a work is likely to increase by more than 5% of the sanctioned estimate. The increase in the expenditure may be due to increase in the rates or any other cause. A revised estimate is also become necessary. If it is found during the execution that the original estimate was excessive due to the reason other than abandonment.

The increase in the expenditure should be anticipated during the execution of the work for the purpose of preparing revised estimate. If the work is in advance stage of construction the excess expenditure if any can be explained in the completion report because the preparation of revised estimate at such a stage will be purposeless.

Ans 1(c)

Various types of work are executed by the Board and estimates therefore are sanctioned. The sanctioned to the estimate lapses after certain period as explained below:-

- 1) Sanction to an estimate for a capital work is valid for 5 years. However regarding distribution & RE work the estimate remain valid for only 1 year.
- 2) Sanctioned to an estimate for the repair & Mtc. Work lapses on the last day of the financial year. If however the work remain in complete the exp. incurred on leftover work will be charge in the estimate of the next year.
- 3) As regards the work of special repair the estimate will remain current till the work is completed but it will cease to operate after five years.

Ans 1 (d)

- 1) An estimate can be prepared on actual basis if the estimate for the work could not be prepared/sanctioned while the work was in progress.
- 2) When it is proposed to revised the estimate due to extra ordinary excesses over the original estimate.

Ans. 2 (a)

- i) Statement of accounting policies (Statement No.4) is a statement given by Board regarding compliance with the provision of Electricity Act, 2003 to be read with relevant provisions of Electricity (Supply) Act, 1948 and the Rules made there under and any departure from the basic accounting Principles and Accounting Policies (as permitted under the Rules) have been made for the reasons stated there against also it is to be stated

The Accounting Policies adopted by Board have been consistently followed during the year, except for the changes

For each change in accounting policy, state

-Policy followed hitherto

-Policy adopted during the year.

- The amount, if material, by which any item in the Revenue Account, Net Revenue and Appropriation Account or Balance Sheet, has been affected by the change.

- ii) Notes to account are an important requirement in providing a true & fair view. Notes must be as clearly worded as possible and be able to fully convey the matter without any ambiguity. Amounts involved must be given wherever relevant.

Notes should be split into 2 sections:

(A) Notes to Revenue Account and Net Revenue & Appropriation Account and

(B) Notes to Balance Sheet.

Wherever a note relates to items in both the section, the note should be given in the Section for Revenue Account.

Cross reference of note number should be given against the relevant items in the financial statements and vice versa.

The matters included in the specified list must be disclosed in 'Note to Accounts' by every Board except in cases where any of them are not applicable to a Board.

- iii) Extra ordinary items are defined as "Those items which arise from events or transactions outside the ordinary activities of the Board and which are both material and expected not to recur frequently or regularly. They do not include items which though exception in terms of amount and occurrence (and which may, therefore, require separate disclosure), arise from the events or transactions within the ordinary activities of the Board. Similarly, prior period items are not extra ordinary items merely because they relate to a prior year."

- iv) Prior period items are defined as those items which arise

-from retrospective change in the basis of accounting.

-on correction of fundamental error in accounts of prior periods.

-on account of short or excess provision made in the previous years.

Waiver of any liability relating to revenue expenses of past years (such as waiver of interest for past years by State Govt. in view of the Board's weak financial position) would be treated as prior period income.

Ans.2 b

- (i) Sale proceeds realized on sale of decommissioned asset or scrap and debris will not be credited to this account but shall be taken into account for computing profit or loss on sale of assets.

- (ii) To open a separate GP Fund account (with SBOP, Mall Road Branch) in the name of "PSEB GPF A/C" of Employees in which new contribution w.e.f. 1.1.07 could be credited every month.

AO Cash PSEB Patiala has been authorized to deposit the amount of GPF of Employees in this A/C.

- iii) The objective of such write off is to avoid accounting work on capitalization, depreciation and adjustment on sale, transfer scrapping etc. of items which are not material in value. Full cost of such items will be debited to the accounts under this main head.

Ans. 3(a)

The main objectives of introduction of a Cost Accounting System in a manufacturing organization are as follows:

- (i) Ascertainment of cost
- (ii) Determination of selling price
- (iii) Cost control and cost reduction
- (iv) Ascertainment of profit of each activity
- (v) Assisting in managerial decision making.

Ans.3 (b)

The problem of unnecessary locking up of the funds in raw materials and work-in- progress can be solved by adopting the following methods:-

1. **Budgeting materials requirements:** To control investment in raw material it is necessary to know in advance about the materials requirement during a specific period, usually a year. Based on this materials requirement budget can be prepared. Such a budget will discourage the unnecessary investment in raw materials.
2. **ABC analysis:** The technique of ABC analysis also helps in a big way. The costliest items are placed under A Category. These items are controlled by top executive. This classification helps in ensuring that unnecessary funds are not blocked in raw materials particularly in A category items because of their high value.
3. **Fixation of raw material levels:** To avoid unnecessary locking up of funds in raw materials, it is desirable to fix up various levels like re-order level, maximum level, minimum level. This method of stock control, besides avoiding unnecessary locking up of capital in raw materials, reduces total inventory costs.
4. **Control over slow-moving items:** Sometimes, due to high value of slow moving and non moving raw materials, it appears that the concern has blocked huge sum of money unnecessarily in raw materials. To overcome this problem, it is necessary to dispose-off as early as possible the non-moving items or make arrangements for their exchange with the raw materials required by the concern.
5. **Codification of materials:** It has been observed that the same material used by different departments is also named differently by them. Due to this, for the same material, the purchase department places different orders. Such a practice results in the unnecessary locking up of funds. The excessive investment in raw materials can be reduced by resorting to the technique known as "Codification of materials".
6. **Control of work-in-progress:** A system of efficient production planning and scheduling would assist in maintaining an uninterrupted flow of work and reducing the length of the production cycle. It will ultimately avoid unnecessary locking up of the funds in WIP inventory.

Ans.3 (c)

When a contract is likely to take long time to complete or even to commence and the price is fixed, the contractor would like to protect his interest against a high rise in the prices of materials, wage rates etc. This he does through what is called an "escalation clause" which states the increase in the contract price for a given increase in the price of inputs. For example, it may state that if the price of steel goes up by 10%, the contract price will increase by 1.5%.

Ans.4(a)

Passenger Kms per week.

	Total Seats Available Per week	Capacity utilized % Seats	Km. per trip	Passenger KMs. per week
Bathinda to Chandigarh & back (50 Seats x 2 Trips x 5 days)	500	90 450	220	450x220=99,000

Ans.4 (b)

Method of costing

Unit of cost

- | | | |
|------|-------------------|-----------------------------|
| i) | Operating costing | Per Bed per week or per day |
| ii) | Job costing | Each job |
| iii) | Operating costing | Per Kwh |
| iv) | Contract costing | Per contract |

Ans.4 (c)

	Alternative Proposals		
	I	II	III
	Use of Concern's Cars Rs.	Use of own Car Rs.	Use of hire Car Rs.
Re-imbursement of hire charges(A) (40000/20000)		3.20	2.00
Fixed Cost (B) (per Car Per Km.)			
Taxes (P.a)	1600	-	0.08
Depreciation	32000	-	1600/20000)
<u>(Rs. 2,00,000-Rs.40,000)/5</u>			
Insurance	2400	0.12 (2400/20000 Km)	-
Total (Rs. 36,000/20000 Km)	36000 1.80	3.32	2.08
Running & Maintenance Cost Per car per Km.(C)			
Petrol	1.20	-	1.20
Repair & Maintenance	.40	-	-
Tyre	0.24	-	0.24
Total cost per km.(A+B+C)	3.64	3.32	3.52
Cost for 20,000 KMs	Rs.72,800	66400	70400
	(20,000xRs.3.64)	(20,000xRs.3.32)	(20,000xRs.3.52)

Ranking of alternative proposals

III

I

II

Advice:- Use of own car by field officers will be the most economical proposal from concern's point of view.

Ans 5(a)

Machine	X	Y
Purchase cost (Rs.) (i)	1,50,000	1,00,000
Life of machines(years)	3	2
Running cost of machine per year(Rs.:(ii)	40,000	60,000
Cumulative present value factor for 1-3 years @ 10% (iii)	2.49	-
Cumulative present value factor for 1-2 year @ 10%:(iv)	-	1.74
Present value of running cost of machines (Rs.): (v)	99,600 {(ii)x(iii)}	1,04,400 {(ii)x(iv)}
Cash outflow of machines (Rs.) (vi)=(i)+(v)	2,49,600	2,04,400
Equivalent present value of annual cash outflow	1,00,241 {(vi) ÷ (iii)}	1,17,471 {(vi) ÷ (iv)}

Decision: Genco should buy machine 'X' since its equivalent cash outflow is less than machine 'Y'

Ans 5 (b)

The IRR of the investment can be found as follows:

$$NPV = -Rs.3,60,000 + Rs.1,09,400 (PVA_{F_5}r) = 0$$

$$\text{Or } PVA_{F_5}r (\text{Cumulative factor}) = \frac{Rs.3,60,000}{Rs.1,09,400} = 3.29$$

Computation of Internal rate of return

Discounting rate	15%	16%
Cumulative factor	3.35	3.27
Total NPV (Rs.)	3,66,490 (Rs.1,09,400x3.35)	3,57,738 Rs.1,09,400x3.27)
Internal outlay (Rs.)	3,60,000	3,60,000
Surplus (Deficit) Rs.	6,490	(2262)

$$IRR = 15 + \left[\frac{6,490}{6490+2,262} \right] = 15+0.74$$

$$= 15.74\%$$