

**SAS PART-II**

**PAPER-V (DRAFTING AND COMPUTER KNOWLEDGE)**

**ANSWERS:**

- Q.1 (A) To many people a stamp is merely something necessary for sending a letter. They regard stamp-collecting as a waste of time, effort and money. But there are many people who love buying stamps and find this hobby worthwhile and more profitable than other leisure pursuits. Collecting stamps helps to pass the time quickly and pleasantly.

Stamp-collecting is limitless and endless. Countries are always issuing stamps to celebrate important events. It is fascinating to receive letters from distant countries and to discover stamps in old books. A stamp itself has a charm. Stamps show us geographical and historical pictures, famous people and incidents. These small things contain vast knowledge.

Title: Stamp Collection.

- Q.1 B)
- |      |             |
|------|-------------|
| i)   | Empire      |
| ii)  | Incident    |
| iii) | Fascination |
| iv)  | Swiftly     |
| v)   | Vast        |
| vi)  | Track       |

Model Solution

SAS-II) S-2/2013/P-II

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Q.2 (A)

Public Notice

All people of the State are appealed to use Compact Fluorescent Lamps (CFLs) to save energy and bill amount. PSPCL has launched a scheme to distribute CFLs in exchange for incandescent bulbs @ Rs. 15 each.

For other details, contact AE/AEE, PSPCL of concerned Sub Division of your area to get CFLs.

Sd/-  
Chief Engineer/Commercial  
PSPCL, Patiala

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Model Solution - SAS-II / S-2 / 2013 / P-2

Q.2 (B)

Er. (Name of Officer).  
Superintending Engineer

D.O. No.....  
Distribution Circle,  
XYZ.

Date: .....

Sub: Maintenance of 11KV feeders and Recovery of defaulting amount.

My dear .....

During checking of various substations/complaint centres, the undersigned has observed that there are number of complaints of frequent breakdowns on 11KV feeders. It seems that the feeders are not maintained properly. To ensure uninterrupted power supply to the consumers, necessary steps should be taken to maintain the feeders and transformers. Adequate steps should also be taken to stop theft of energy. In this regard, a Task Force Cell be set up in each sub division under your control for surprise checking of load at the premises of the consumers, particularly during peak load hours/ paddy season. During checking, if any case of theft of energy is detected, the connection of that consumer be disconnected temporarily and recovered the amount as per rules/ instructions.

As a commercial organisation, it is imperative that every effort should be made by the field officers/officials to see that the consumers made the payments of their energy bills as soon as these become due for payment. Necessary steps should be taken by the staff concerned so that dues do not accumulate and the arrears do not become bad debts/time barred. Efforts should also be made to recover the outstanding defaulting amount from the consumers.

With best wishes.

Yours sincerely,

( Name of Officer)


Er. (Name of Officer)  
Sr. XEN/ DS Division,  
.....

Q.2 (C)

To: fa@pspcil.org

Cc:

Subject: Requirement of Funds.

 Attach Files:

Sir,

Funds to the tune of Rs. 4.15 Cr., as detailed below, are urgently required:

Sr. No	Name of Supplier	Invoice No.	Date	Amount (Rs.in Cr.)
i)	M/s abc Conductors (P) Ltd. ....	01802	01.10.12	1.05
ii)	M/s ppl Cables Pvt. Ltd. ....	31123	03.10.12	1.45
iii)	M/s nhb Steels (P) Ltd. ....	79570	17.11.12	0.30
iv)	M/s xyz Industries (P) Ltd. ....	01313	21.11.12	<u>1.35</u>
				Total <u>4.15</u>

Please release the funds immediately to clear the pending payments of suppliers.

Thanks.

Regards,  
(Sr.Xen)

## Model Solution - SAS-II/S-2/2013/P-V

- Q.3 (A)
- i) I shall be obliged to go.
  - ii) When will the file be returned?
  - iii) Promise should be kept.
  - iv) Somebody has stolen my pen.
  - v) People speak English all over the world.
- (B)
- i) The blind man said that eyes are a great blessing.
  - ii) He wished that I might succeed in the examination.
  - iii) He assured me that he would come to my help.
  - iv) My friend said to me. "Welcome!"
  - vi) He applauded him, saying that he had done well.
- (C)
- i) for
  - ii) for
  - iii) to
  - iv) of
  - v) of.

- Q.4 (A) i) E-tendering is an internet based process wherein the complete tendering process; from advertising to receiving and submitting tender-related information are done online. This enables firms to be more efficient as paper-based transactions are reduced or eliminated, facilitating for a more speedy exchange of information. In addition to this, it leads to transparency in department functioning

#### **e-tendering process**

- Designated Officer (person from whom the tender originates) fills online formats to advertise the tenders and includes important dates (date of publication, date of submission) and brief description or requirement.
  - The detailed specification/formats for the bidders are uploaded.
  - Interested parties/ bidders get themselves registered with the e-tendering vendor and download the requisite formats for filling up the tenders.
  - The bidder sends the bid digitally signed and encrypted.
  - On the day of bid opening the techno-economic bids are opened at the given time.
  - The officer concerned then evaluates the tenders in accordance with the requirements of bidding documents.
  - After the techno-economic bids, the price bids of suitable bidders are opened and on the basis of merit, the orders are placed.
- ii) a) The vendors will register for participating in e-tendering with M/s (n) Code Solutions, Ahmedabad by Paying Annual Registration Charges Rs. 2000/- + S.Taxes as applicable.
- b) The vendors are required to have Class III DSC. The vendors can obtain digital signatures from any digital signature issuing certifying authority. However vendors can purchase DSC from M/s (n)-Code Solutions, Ahmedabad Class III DSC @ Rs. 2000 One year validity and @ Rs. 3600 Two year validity
- c) USB Token (One time purchase) Rs.1500 (S.Tax and VAT as applicable)
- iii) M/s (n)-Code Solutions, Ahmedabad.  
www.nprocure.com

- Q.4 (B)
- i) Proprietary items means items of proprietary nature manufactured by single manufacturer and supplied by him or his authorised dealer or any other tailor made item or component to match with the manufacturers equipment.
  - ii) Competent Authority means the Corporation or a Committee appointed by the Corporation or an officer of the Corporation authorised by the Corporation to exercise the powers for acceptance of tenders for purchase of material, equipment and services as per Delegation of Powers in force from time to time.
  - iii) DGS&D means Director General of Supplies and Disposals, Government of India.
  - iv) Registered Suppliers means suppliers registered with the various Heads of Departments of the Corporation.
  - v) Standardised Firm means supplier/ manufacturer so approved by the Corporation for supply of different items directly or through or their sole authorised dealers from time to time.
  - vi) Contracting Agency/ Purchasing Agency means officer of the Corporation who invites tenders and or issues purchase orders for supply of material, equipment and services.

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## Model Solution SAS-III/S-2/2013/P-V

- Q.5 (A)
- i) Memory is usually a transient storage area that can keep all the necessary data and operations for a computer to function. The instructions of a program and its data need to be in a place where work can be done on them. The CPU continuously retrieves and stores data and instructions there as it works on the code of a program.
  - ii) Hard Disk drive is the main, and usually largest, data storage device in a computer. The operating system, software titles and most other files are stored in the hard disk drive.
  - iii) Printer is a device that accepts text and graphic output from a computer and transfers the information to paper, usually to standard size sheets of paper.
  - iv) Computer is an electronic device that accepts data given by the user (Input), process the data according to the given set of instructions (Processing), Store and give output according to the user's requirement.
  - v) Back Up is a process of recovering data, in case of damage or accidental loss. Occasionally, a hard disk may fail, resulting in the loss of all files stored on it, these can be restored from the back up storage devices.
  - vi) Motherboard serves to connect all of the parts of a computer together. The CPU, memory, hard drives, optical drives, video card, sound card and other ports and expansion cards all connect to the motherboard directly or via cables. The motherboard can be thought of as the "back bone" of the computer.
- Q.5 (B)
- i) Universal Serial Bus
  - ii) Hyper Text Transfer Protocol
  - iii) Portable Document Format
  - iv) Network Interface Card Controller
  - v) Local Area Network
  - vi) Gigabyte
  - vii) Hard Disk Drive



- Q.5 (C) i) Microsoft Excel is a spreadsheet application, typically used to display and manipulate numerical data. Microsoft Excel provides data organization and analysis tools that enables you to sort, extract and generate charts from spreadsheet data.

The rows & columns, depend on the version, are as under:

	<u>Excel 2003</u>	<u>Excel 2007</u>	<u>Excel 2010</u>
• Rows	65,536	1,048,576	1,048,576
• Column	256	16,384	16,384

- ii) To view a presentation in different formats such as Normal View, Slide Sorter View and Slide Show. MS Power Point Saves a file with an extension '.ppt'.
- iii) Auto Shapes is a tool to help to draw objects on a document. We can choose to have an Auto Shapes toolbar or use the Auto Shapes menu on the Draw toolbar. Once insert an Auto Shape, we can also put a Text Box inside it, or other shapes. We can move or resize them as we wish.
- iv) Subscript lettering emphasizes and differentiates letters and numbers from the rest of the text on a line. Most often used in chemical and mathematical formulas – like  $H_2O$  or  $x_a$  – the subscript text in PowerPoint can be entered as plain text or by using the Equation Editor tool. Microsoft Office includes the ability to enter mathematical equations with all the requisite symbols, superscripts and subscripts.
- v) There are three ways to insert a table in a document. These are:
- Insert Table
  - Insert Table Button.
  - Draw Table option

Insert Table: The simplest way to create table is to select the Insert Table tool on the Standard Bar.

Insert Table Button: Click on Insert tool on the Standard Bar. The Insert Table dialog box appears. Specify the number of columns and rows in the dialog box and click on ok.

Draw Table: Click on Insert tool on the Standard Bar and then on Table tool. The Draw Table dialog appears. Click on it to draw Table.

- vi) Back Up is a process of recovering data, in case of damage or accidental loss. Example: CD/DVD and Flash drive etc. When occasionally a hard disk fails, resulting in the loss of all files stored on it then the original files on back up storage devices can be restored at the time of such failures.

# Model Solution SAS-II/ S-2/2013/ P-II

Q.5 (D) Differentiate between the following:

- i) **SAVE** allows to save something saved before and corrected it.  
  
**SAVE AS** allows to save something with a new identity. Identity can be name, location, file type.
- ii) **SCANNER** transfers an image from a physical object such as photographs and letters into computer as a data file for storage or editing.  
  
**PRINTER** transfers an image from computer or memory card on to a physical object, transferring to paper or card etc using ink, basically transferring an image from computer data on to a physical object with ink.
- iii) **FIND** simply locates appearances of a given word or phrase in a text file.  
  
**REPLACE** replaces the appearances with an alternate of the user's choosing.
- iv) **MS WORD** is a simple window where we can type and modify text with some nice features like adding photos, table, it is mainly for documents use.  
  
**MS EXCEL** is a spreadsheet application with tables, charts, mathematical equations and usually used by accountants or form generators.
- v) **DESKTOP** computer is meant to be stationary. This usually results in a lower price and better options for upgrading. Desktops are intended for permanent workstations and generally have more power and storage capacity than laptops.  
  
**LAPTOP** is a computer which is designed to be portable. Usually this entails making sacrifices in terms of performance and utility. Laptops are intended for people who travel a lot and need a computer which can go with them.

- Q.5 (E)
- i) Ctrl+N
  - ii) Ctrl+U
  - iii) Ctrl+E
  - iv) Ctrl+F
  - vii) Ctrl+K

### Solutions

#### Q. No.1(a)

#### Journal Entries

	Dr.	Rs.	Rs
(i) Bank Account To 7.5% Cumulative preference share capital account To Share premium account ( Issue of 6,000 shares of Rs.100/- each at a premium of Rs.25/- per share)		7,50,000	6,00,000 1,50,000
(ii) Redeemable preference share capital account Premium on redemption of share account To Redeemable preference shareholder's account (Redemption of 12,000 redeemable preference shares of Rs. 100/- each at a premium of Rs. 10/- per share)	Dr. Dr.	12,00,000 1,20,000	13,20,000
(iii) Redeemable preference shareholder's account To Bank account (Payment to redeemable preference shareholders)	Dr.	13,20,000	13,20,000
(iv) Share premium account To Premium on redemption of shares account (Transfer of premium on redemption of shares account to share premium account)	Dr.	1,20,000	1,20,000
(v) General Reserve account To capital redemption reserve account (Transfer of divisible profits used for the redemption of preference shares to capital redemption reserve account)	Dr.	6,00,000	6,00,000
(vi) Equity share final call account To Equity share capital account (Final call at Rs.20/- per share due on 40,000 equity shares)	Dr.	8,00,000	8,00,000
(vii) Capital reserve account General reserve account To equity share-final call account (Capitalization of reserves by making the partly called equity shares fully paid shares)	Dr. Dr.	1,70,000 6,30,000	8,00,000
(viii) Capital redemption reserve account General reserve account To Bonus to share holders account (Declaration of fully paid bonus shares of Rs. 100/- each to equity shareholders in the ratio of one bonus share for every four shares)	Dr. Dr.	6,00,000 4,00,000	10,00,000
(ix) Bonus to shareholders account To Equity share capital account (Issue of equity share in payment of bonus to share holders)	Dr.	10,00,000	10,00,000

**Working Notes:-** (i) Redemption of redeemable preference shares is financed by the proceeds of fresh issue to extent of Rs.6,00,000, therefore, the remaining amount Rs.6,00,000 (Rs. 12,00,000--Rs.6,00,000) has been transferred to capital redemption reserve account.

*[Signature]*

(ii) Capitalization of profits by making the partly paid shares fully paid is not allowed out of capital redemption reserve account. Therefore, this has been done out of capital reserve and general reserve.

(iii) Capital redemption reserve account can be used only for issuing fully paid bonus shares. It has, therefore, been used for this purpose.

**Q.No.1.(b):**

	Particulars	Dr. Rs.	Cr. Rs.
i)	Suspense Account .....Dr. To Discount Account (Being discount received not yet credited To discount account, now credited)	300	300
ii)	Office furniture .....Dr. To Purchases Account (Being purchase of furniture wrongly treated As ordinary purchase, corrected)	4000	4000
iii)	Suspense Account .....Dr. To Mr. Jolly (Being credit sale of 2100/- wrongly Debited in Mr. Jolly's A/c as 1200/- now corrected)	900	900
iv)	Purchases Account .....Dr. To Mr. Sushil & Co. (Being credit purchases omitted from being Recorded in books, now recorded)	2500	2500
v)	Suspense Account .....Dr. To Mr. Butter & Co. (Being credit purchase of Rs. 1920/- wrongly Credited in Mr. Butter & Co. account as Rs. 1902/- now corrected)	18	18

*Ami*

**Q. No.2 (a): Verification of Liabilities.** Liabilities need verification like the assets. If liabilities are overstated or understated, they effect much on the final account of the concern. Liabilities are the statement of fact mostly. However, the contingent liability is against this as it is an estimate only and hence it is not taken under liabilities.

The auditor has to see that all such liabilities come under with right amount in the balance sheet. They can be overstated or under-stated and these should be avoided. At times, they are not given deliberately. As regards their correctness, he should get a certificate from authorized officer of the firm.

**Q. No.2 (b):**

**(i) Debentures:-**The auditor should note the following points while verifying debentures:

1. By examining the Memorandum of Association and the Articles of Association, he should acquire the knowledge of powers of the company. The debentures should not be issued beyond these powers to borrow money.
2. He should examine the Debenture Trust Deed and, with its help, the debentures account in the ledger.
3. If necessary, he can obtain a certificate from the debenture holders.
4. He should also see the arrangement made by the redemption of debentures. If a debenture redemption fund has been created for the purpose, he should examine the Articles of Association.
5. If debentures, have been issued at a discount or at a premium, he should check the entries made in the books of the accounts.
6. He should also see the details as given in the Register of Mortgages and charges.

**(ii) Trade Creditors:-**While verifying trade creditors, the auditor should note the following points:

1. He should vouch the Purchases Book and Purchases Return Book with the help of invoices, credit notes etc. and check the postings into the ledger.
2. He should obtain a schedule of creditors from the client and check it with reference to the balances of ledger accounts and statements of accounts received from creditors.

3. He should inspect the Goods Inward Book to ensure that goods purchased have actually been received.
4. He should check the outstanding bills payable in the Bills Payable Book at the date of the Balance Sheet.
5. He should check the purchase invoices pertaining to a few weeks at the close of the financial period.
6. The correctness of liabilities depends upon the correctness of purchases. Hence, he should compare the percentage of gross profits to purchases with that of the previous years to verify the correctness of purchases.

**(iii) Outstanding Expenses or Liabilities for Expenses:-**The auditor should keep in mind the following important points while verifying the outstanding expenses:

1. The auditor should see that all the outstanding expenses have been provided for. He should check receipts and other vouchers to ensure that provision has been duly made.
2. He should check the entries, sales and demand notes pertaining to a few weeks of the next financial year and ensure that they do not relate to the period under audit.
3. The expenses shown as unpaid during the current year should be compared with those of the last year and difference, if any, should be enquired into.
4. He should obtain a certificate for outstanding expenses duly signed by some responsible official.

**(iv) Loans:-**The auditor should take following points into consideration while verifying loans:

1. The auditor should verify the loans with the help of agreements entered into or the correspondence with the lenders.
2. If loans or the overdrafts have been taken from a bank, the agreements, with the bank and a certificate to the effect should be obtained and examined.
3. The auditor should see that the interest due on loans has been either paid to date recorded as unpaid in the books of accounts.
4. The auditor should also check the Register of Mortgages maintained by the company.
5. The auditor should also see that charges have been registered with registrar.



**Q. No.3 (a):** Sometimes inter check and internal control are often used indiscriminately. But both are different terms and convey different meanings. Internal control is best regarded as indicating the whole system of control, financial and otherwise established by the management in the conduct of the business including internal check, internal audit and other forms of control. Internal check is best regarded as indicating the checks on the day to day transactions which operate continuously as part of the routine system whereby the work of one person is carried independently or is complementary to the work of another. Thus internal control is a wider term and includes internal check.

Internal control involves all operational controls as:

- (i) Quality Control
- (ii) Budgetary Control
- (iii) Work Standards
- (iv) Periodic Reporting
- (v) Internal Check; and
- (vi) Internal Audit.

The system of internal control makes the work of audit very easy. As efficient system of internal control reduces the work of auditor. The scope of internal check is very limited. The object of internal check is to prevent errors and frauds during the course of work. In case of internal check, the work of recording and checking of entries is carried on simultaneously.

**Q. No.3 (b):**

Dr.			MACHINERY ACCOUNT			Cr.	
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)		
2011 April 1	To Balance b/d	4,05,000	2012 March 31	By Depreciation A/c adjustment for previous year On Rs. 1,50,000 For 6 months On Rs. 3,50,000 For 1 year By Cash Account By P&L A/c (Loss) By Balance c/d	5,000 7,500 35,000 84,000 28,500 2,45,000		
		4,05,000			4,05,000		
2012 April 1	To Balance b/d	2,45,000					

*Mr*

**Working Notes:**

Original cost of machinery as on 1<sup>st</sup> April, 2009 has been ascertained as under:

If the value of Plant on 1<sup>st</sup> April 2009 is Rs. 100, on 1<sup>st</sup> April, 2011 it is 100- depreciation of 2 years from 1.4.2009 to 31.3.2011 i.e.  $100 - (10 \times 9) = 81$ .

It the value of plant on 1<sup>st</sup> April, 2011 is Rs. 4,05,000, on 1.4.2009 its value =  $100/81 \times 4,05,000 = \text{Rs. } 5,00,000$

Depreciation charged under diminishing balance method in two year =  $5,00,000 - 4,05,000 = 95,000$

Depreciation for each year under straight line method =  $10/100 \times 5,00,000 = \text{Rs. } 50,000$

Depreciation for two years =  $50,000 \times 2 = \text{Rs. } 1,00,000$

Depreciation less charged under diminishing balance method in previous two years =  $1,00,000 - 95,000 = \text{Rs. } 5,000$

Original cost of Plant sold is ascertained as under

If the value of Plant on 1<sup>st</sup> April 2009 is Rs. 100, on 1<sup>st</sup> April, 2011 it is 100- depreciation of 2 years from 1.4.2009 to 31.3.2011 i.e.  $100 - (10 \times 9) = 81$ .

It the value of plant on 1<sup>st</sup> April, 2011 is Rs. 1,21,500, on 1.4.2009 its value =  $100/81 \times 1,21,500 = \text{Rs. } 1,50,000$

Loss on sale of machinery

Depreciation of 2 years @ 10% =  $1,50,000 \times 10/100 \times 2 = \text{Rs. } 30,000$

Depreciation of 6 months @ 10% =  $1,50,000 \times 10/100 \times \frac{1}{2} = \text{Rs. } 7,500$

$1,50,000 - (30,000 + 7,500) - 84,000 = \text{Rs. } 28,500$

*for*



**Q. No.4(a):**

**BANK RECONCILIATION STATEMENT OF MR.ALISTER COOK**

As on 31<sup>st</sup> March, 2012

Items	Plus Items (Amt. in Rs.)	Minus Items (Amt. in Rs.)
Balance as per cash Book	2,630	
Cheques deposited into bank but not yet collected:		
Devi Dayal                      Rs. 1400		
Atkinson                        Rs. 100		
Khanna & Co.                  Rs. 450		1,950
Dividend collected by bank but not yet entered in cash book	700	
Cheques issued but not yet presented in the bank:		
Mehta Bros.                    Rs. 1,900		
Dass Bros.                      Rs. 1,700	3,600	
Collection charges charged by Bank but not yet entered in cash book		4
Bank charges charged by bank but not yet entered in cash book		80
Balance as per Pass Book		4,896
Total	6,930	6,930

- Q. No.4(b):**
- (i) Improve
  - (ii) Improve
  - (iii) Reduce
  - (iv) No change
  - (v) No change

*me*

*me*

Model solution - SAS-II 5-2/2013/P VI

**Q. No.5: TRADING AND PROFIT AND LOSS ACCOUNT OF MR. SOURAV & CO.**

For the year ending 31<sup>st</sup> March, 2012

Dr.			Cr.		
Particulars	Details	Amount (Rs.)	Particulars	Details	Amount (Rs.)
To Opening stock		17,445	By Sales	27,914	
			Less returns	554	27,360
To Purchases	12,970		By Closing stock		8,500
Less returns	840	12,130			
To Carriage inward		1,240	By Goods lost by fire		1,500
To wages		754			
To Gross profit c/d		5,791			
		<b>37,360</b>			<b>37,360</b>
To Carriage outward		725	By Gross profit b/d		5,791
To Rent		820	By Interest received	25	
			Add accrued	25	50
To Advertisement	954				
Less prepaid	200	754			
To Bad Debts					
w/off during the year	400				
W/off now	600				
New provision for bad debts	340				
	1,340				
Less old provision	1,200	140			
To provision for discount on debtors		153			
To discount allowed		330			
To loss by fire		550			
To Managers Commission		215			
Net profit		2,154			
		<b>5,841</b>			<b>5,841</b>

dm

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Model Solution SAS-II / S-2 / 2013 / P-6

BALANCE SHEET OF MR. SOURAV & CO.  
as on 31<sup>st</sup> March, 2012

Liabilities	Details	Amount (Rs.)	Assets	Details	Amount (Rs.)
S. Creditors		3,000	Cash in hand		62
Outstanding expenses:			Deposit with Anand Gupta		1375
Rent	130		Loan to Ashok	1000	
Managers Commission	215	345	Add Accrued interest	25	1,025
Capital			S. Debtors	4,000	
Balance as per T/B	15,000		Less		
Add net profit	2,154		Bad Debts = 600		
	17,154		Provision for bad debts = 340		
Less drawings	3,250	13,904	Provision for Discount = 153	1,093	2,907
			Patents & Patterns		500
			Insurance claim		950
			Prepaid advt. expenses		200
			Closing stock		8,500
			Goodwill		1,730
		17,249			17,249

Working notes:-

- Provision for bad debts = 10% on (S.debtors-Bad debts w/off now) =  $4000 - 600 = 340/-$
- Provision for discount on debtors = 5% on [S. debtors- (Bad debts w/off+new provision for bad debts)] =  $4000 - (600 + 340) = 3060 \times 5/100 = 153/-$
- Manager's Commission

Credit side total – Debit side total (before commission = profit before commission

Profit before commission  $\times$  rate/100 + rate =  $5841 - 3472 = 2369/-$

=  $2369 \times 10/100 + 10$

=  $2369 \times 10/110 = 215/-$  app.

dmc

### ANSWER TO QUESTION NO. 1

Ans.1(a) **Agreements made on account of natural love and affection- conditions**

- (a) The agreement is made in writing.
- (b) The agreement must be registered.
- (c) The agreement must be made between the parties standing in immediate relation to each other.
- (d) There must be natural love and affection between the parties. However, mere nearness of relationship does not imply natural love and affection.

Rajlukhy Devi v Bhoothnath

- There were frequent quarrels between a husband and wife.
- One day the husband got fed up with his wife and agreed to pay a certain sum of money to his wife for maintenance.
- This agreement was made in writing and registered.
- It was held that the agreement was made without consideration.

Also, the agreement did not fall under the exception stated u/s(1), since the agreement was not made on account of natural love and affection.

**Compensation for past voluntary services- Conditions**

- (a) A party renders some services to the other party or performs the legal obligation of the other party.
- (b) The party acts voluntarily, i.e., the services are rendered without any desire of the other party, or the legal obligation of the other party is performed voluntarily.
- (c) The other party afterwards promises to compensate the former party for the services rendered to him or his legal obligation performed.
- (d) The other party must have been in existence when the services were rendered or his legal obligation was performed.

**Promise to pay a time-barred debt**

A creditor can sue the debtor for recovery of his money by going to the Court of law. However, if the creditor fails to institute the suit within 3 years of debt becoming due for payment, the debt is said to be time barred debt, i.e., the creditor cannot institute the suit after the expiry of said period of 3 years.

**General rule.**

The general rule is that an agreement to pay a time barred debt is void.

**Exception**

An agreement to pay a time barred debt is enforceable if the following conditions are satisfied:

- (a) The debt is a time barred debt.
- (b) The debtor promises to pay the time barred debt.
- (c) The promise is made in writing.
- (d) The promise is signed by the debtor.

**Completed gift**

- Agreement to make a gift is not enforceable.
- However, once a gift has actually been made, the donor cannot demand it back on the ground that there was no consideration.

**Remission**

No consideration is necessary for an agreement to receive less than what is due.

**Guarantee**

In a contract of guarantee, consideration received by the principal debtor shall be sufficient consideration for the surety.

**Bailment**

No consideration is necessary for bailment (such bailment is called as gratuitous bailment).

**Agency**

No consideration is necessary to create an agency (Sec. 185).

Ans.1(b) i. Since there is no intention to create legal relations, as it is a domestic or social agreement, so there is no contract between the father and son.

ii. Since the father does not receive any consideration, so the son cannot sue the father for recovery Rs. 1 lakh since there is no contract between the father and son.

Ans1( c),

B is entitled to recover only such amount as was intended to be paid by A since a holder to whom an inchoate instrument is delivered is entitled to receive only such amount as was intended to be paid by the person delivering an inchoate instrument (Sec. 20). C is entitled to recover the whole amount of cheque since a holder in due course is entitled to receive whole of the amount of the negotiable instrument (Sec. 20).

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**ANSWER TO QUESTION NO. 2****Ans:2(a) Sickness benefit**

It consists of periodical cash payments to an insured person in case of his sickness provided it is certified by a duly appointed medical practitioner or by any other person possessing such qualifications and experience as the Corporation may specify in this behalf (Section 46(1) (a)). An insured person is qualified to claim sickness benefit for sickness occurring during any benefit period if during the corresponding contribution period weekly contributions in respect of him were payable for not less than 13 weeks. But person shall be entitled to claim sickness benefit for sickness occurring during the first benefit period, if during the corresponding contribution period weekly contributions in respect of him were payable for not less than half the number of weeks of that contribution period, ending in that period (Section 47). A person entitled to claim sickness benefit shall receive such benefit at the rates specified in the First Schedule only for the period of sickness. The benefit cannot be given to any person for more than fifty-six days in any two consecutive benefit periods. An employee shall not be entitled to this benefit for the first two days of sickness except in case the spell of sickness occurs within a period of fifteen days of the last spell of sickness for which benefit was last paid (Section 49).

The daily rate of sickness benefit in respect of the insured person during any benefit period shall be the standard benefit rate corresponding to the average daily wages of that person during the corresponding contribution period (Schedule 1).

**2. Maternity Benefit**

This benefit consists of periodical payments to an insured woman in case of confinement, or miscarriage or sickness arising out of pregnancy, confinement, pre-mature birth of child or miscarriage. Such woman should be certified to be eligible for such payments by a specified authority [Section 46 (1) (b)]. An insured woman is qualified to claim maternity benefit for a confinement occurring or expected to occur during benefit period, if during the corresponding contribution period, weekly contributions in respect of her were payable for not less than thirteen weeks. She shall be qualified to claim such benefit for a confinement or expected confinement in the first benefit period, if during the corresponding contribution period weekly contributions in respect of her were payable for not less than half the number of weeks of that contribution period ending in that period. This insured woman is entitled to the benefit at the rate specified in the First Schedule for all days on which she does not work for remuneration during a period of twelve weeks. Out of these twelve weeks, not more than six must precede the expected date of confinement. But in case the insured woman dies during her confinement or during the period of six weeks immediately following her confinement for which she is entitled to maternity benefit, leaving behind in either case a child, maternity benefit shall be paid for the whole of that period. But if the child also dies during the said period, benefit shall be payable for the days upto and including the day of the death of the child. Such benefit shall be payable to her nominee or legal representative if there is no nominee.

An insured woman shall, in case of miscarriage, be entitled to maternity benefit if she produces sufficient proof of miscarriage. The benefit would be payable at the rates specified in the First Schedule for all days on which she does not work during a period of six weeks immediately

following the date of her miscarriage. In case of sickness arising out of pregnancy, confinement, premature birth of child or miscarriage, an insured woman shall be entitled to maternity benefit for an additional period not exceeding one month (Section 50). The daily rate of maternity benefit payable in respect of confinement occurring or expected to occur during any benefit period shall be equal to twice the standard benefit rate corresponding to the average daily wages in respect of the insured woman during the corresponding contribution period (Schedule 1).

**Employer not to dismiss or punish or punish employee during period of sickness etc. (Section 73).** It forbids an employer to dismiss, discharge, reduce or otherwise punish an employee while the employee is in receipt of sickness benefit or maternity benefit. Similarly where an employee is in receipt of temporary disablement benefit or is undergoing medical treatment for sickness or is absent from work as a result of illness duly certified in accordance with the regulations, he or she shall not be punished as aforesaid except as provided by the regulations. Thus this section puts a ban against all punitive actions during the pendency of the employee's illness.

**Ans2.(b)(i):** If the injury suffered by the worker produces a disease, which aggravates a pre-existing disease thereby causing a death or disability, it is still compensable (i.e. compensation can be paid.) The employer cannot defend himself by saying that the worker already had an existing disease,

**Ans2(b)(ii):-** As such, the amount of compensation payable to his dependants will be arrived at in the following way:

(i) 50% of Rs. 2,500 = 1,250

(ii) 1,250 x relevant factor (i.e. 197.06) =

Rs. 2,46,325.00/- (total compensation payable)

**Ans.2( c )**

**Invoice value to be charged**

Purchase price of goods	1,20,000
Add: Expenses	10,000
Add: Profit margin	<u>15,000</u>
Amount to be billed	1,45,000
Add: VAT @ 12.5%	<u>18,125</u>
Total invoice value	<u>1,63,125</u>

**VAT to be paid**

VAT charged in the invoice	Rs. 18,125
Less: VAT credit on input 12.5% of Rs. 1,20,000	<u>15,000</u>
Balance VAT payable	<u>3,125</u>

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**ANSWER TO QUESTION NO 3**

**Ans3 (a)** Under section 8, the court has the power to appoint an arbitrator or umpire in the following cases.

- (i) Where the arbitrator or arbitrators have to be appointed by the consent of the parties, but the parties do not after differences have arisen, concur in the appointment. The powers of the court do not arise until differences have arisen, and it is for the court to decide whether in fact the difference have arisen or not.
- (ii) If any appointed arbitrator or umpire neglects or refuses to act or is incapable of acting or dies and the arbitration agreement does not show that the vacancy should not be supplied and the parties do not fill up the vacancy.

A refusal on the part of an arbitrator to act can be implied from his conduct e.g., where he fails to submit the award within the fixed time. An arbitrator becomes incapable of acting if for any reason he cannot discharge the duties of an arbitrator. In capacity to act may be caused by the illness of the arbitrator, prolonged absence from the country or when his whereabouts is not known. The contingency of being incapable of acting will never arise in the case of an arbitrator who is appointed by office.

- (iii) Where the parties or the arbitrators are required to appoint an umpire and do not appoint him.

Any party may serve the other parties, or the arbitrators as the case may be, with a written notice to concur in the appointment or appointments or in supplying the vacancy. If the appointment is not made within 15 clear days after the service of the said notice, the court may on the application of the party who gave the notice, and after giving the other parties an opportunity of being heard, appoint an arbitrator or arbitrators or umpire as the case may be. The arbitrator or umpire appointed under the provisions of this section by the court has the same power to act on the reference and to make an award as if he or they had been appointed by the consent of the parties.

**Ans3 (b)** As per section 192(2B), the disbursing officer can deduct more than what is warranted on the salary income at the request of the employee. An employee incurring loss from any house property, including a self-occupied house property may furnish, the particulars of such loss in a statement duly verified by him in a manner prescribed and thereupon such employer shall take the loss into account for the purpose of TDS.

**Ans3(c)** Gross Annual value higher of the following two:

(a) Expected rent	Rs. 100,000	
(b) Actual rent received or receivable	Rs. 120,000	
Therefore, gross annual value		Rs. 120,000
Less:- Municipal taxes paid		<u>Rs. 150,000</u>
Net Annual value	(-)	Rs. 30,000
Less:- Deductions under section 24		
(a) Statutory deduction @ 30%	Rs. NIL	
(b) Interest	<u>Rs. 11,000</u>	(-) <u>Rs. 11,000</u>
Income from House Property	(-)	<u>Rs. 41,000</u>

As per the opinion, if the net annual value of the house property is negative, the assessee is not allowed statutory deduction u/s 24(a) which is proportionate to net annual value but the other deductions should be allowed.

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ANSWER TO QUESTION - 4Computation of Taxable income of Mr. Singh for the assessment year 2013-14

PARTICULARS		AMOUNT(Rs.)
<b>I. INCOME FROM SALARY</b>		
Salary		360,000
ADA		200,000
Perquisite:-Electricity concession( 155 X5X12)		9,300
Honorarium		5,350
Fixed Medical Allowance		6,000
House Rent Allowance(see note-1)		
HRA received	72,000	
Less: Exempted	40,000	32,000
LODA (see note -2)		--
Child Education Allowance (400X 12X3)	14,400	
Less: Exempted(100 X 12 X 2)	2,400	12,000
<b>Gross Salary</b>		<b>624650</b>
<b>Income from Interest and fixed deposits</b>		<b>19,000</b>
<b>Gross Total Income</b>		<b>643650</b>
Deduction under 80C(See note -3 & 4)		97,000
Deduction under 80G(see note- 5)		10,000
<b>Total Income</b>		<b>536,650</b>
Tax on Rs. 527,650		
Upto Rs.200,000	NIL	
Between Rs. 200,001 to 5,00,000 (10%)	30,000	
Between Rs. 500,001 to 536,650 (20%)	7,330	
Tax due	37,330	37,330
Add Education Cess(2% of tax)		747
Secondary and Higher Education Cess(SHEC)(1% of tax)		373
<b>TOTAL TAX DUE</b>		<b>38,450</b>

Note -1.

**House Rent Allowance**

Least of following 3 amounts shall be exempted:-

- |   |                   |
|---|-------------------|
| i) Actual HRA received                            | Rs. 72,000        |
| ii) Rent paid – 10% of salary(3,60,000 + 200,000) | Rs. 40,000        |
| iii) 40 % of Salary                               | Rs. 224,000       |
| <b>Exempted HRA</b>                               | <b>Rs. 40,000</b> |

Note -2

Since actual expenditure incurred is equal to the Local Outdoor Travelling Allowance granted, so it is exempted from tax.

Note-3

**Qualifying amount under section 80C**

General Provident Fund(5000 X 12)	60,000
Life Insurance Premium paid for brother	NIL
Life Insurance Premium paid for Married daughter	10,000
Life Insurance Premium paid for father	NIL

Tuition Fee of 2 Children(Rs.14,000 + Rs.13,000)	27,000
<b>TOTAL</b>	<b>97,000</b>

- Note-4 Life insurance premium paid for father and brother are not eligible for deduction
- Note-5 Donation made to Indira Gandhi Memorial Trust is eligible for 50% Deduction without any qualifying limit.

**ANSWER TO QUESTION NO 5****Ans5(a) Partial disablement [Section 2(1) (g)]**

A disablement may be partial or total. A partial disablement only reduces the earning capacity of a workman, while a total disablement incapacitates a workman from all work which he was capable of performing at the time of the accident. Partial disablement may be of temporary or permanent nature. A temporary partial disablement means any disablement, which temporarily reduces the earning capacity of a workman in any employment in which he was engaged at the time of the accident causing the disablement. A permanent partial disablement means such a disablement as permanently reduces the earning capacity of workman in every employment which he was capable of undertaking at the time of accident causing the disablement. But, every injury specified in part II of schedule I of this Act shall be deemed to result in permanent partial disablement.

**Ans5 ( b) Value of taxable service provided**

Service provided to PBN, Delhi	5,80,000
Service provided to clients	8,70,000
Service provided to J&K bank in Srinagar	<u>Not taxable</u>
Total:	<u>14,50,000</u>
Service tax payable – Rs. 14,50,000x12.36%	1,79,220

**Ans5( c):- In the following circumstances purchases are not eligible for input tax credit:-**

- i. Purchases from unregistered dealers;
- ii. Purchases from registered dealer who opt for composition scheme under the provisions of the Act;
- iii. Purchases of goods as may be notified by the State Government;
- iv. Goods where purchase invoice is not available;
- v. Purchase of goods where invoice does not show the amount of tax separately;
- vi. Purchase of goods, which are utilized in the manufacture of exempted goods;
- vii. Purchase of goods used for personal use/consumption or provided free of charge as gifts;
- viii. Goods imported from outside the territory of India;
- ix. Goods purchased from other States viz. inter-State purchases;
- x. Goods purchased are given away as free samples;
- xi. Goods purchased are destroyed by fire or are stolen or lost;
- xii. Goods purchased on consignment sale or on stock transfer from other States;
- xiii. Goods purchased and returned within the specified period;
- xiv. Purchase of automobile and its spare parts and accessories by a person other than a dealer.

**Ans5(d): WELFARE**

The need for adoption of welfare measures as a means to increase the workers productive efficiency, to keep up their morale and for the maintenance of industrial peace has been raised by all sections of the society. Provisions relating to welfare of the factory workers have been made in Sections 42-50 in Chapter V of the Factories Act, 1948, which are as under –

**1. Washing facilities [Section 42]**

In every factory-

- (a) adequate and suitable facilities for washing shall be provided and maintained for the use of workers;
- (b) separate and adequately screened facilities shall be provided for the use of male and female workers;
- (c) such facilities shall be easily accessible and shall be kept clean.

**2. Facilities for storing and drying clothing [Section 43]**

In every factory facilities must be provided for the storage of clothing not worn during working hours and for the drying of wet clothing.

**3. Facilities for sitting [Section 44]**

In every factory where workers are obliged to work in a standing position, suitable arrangements for sitting should be made so that such workers may take advantage of an opportunity for rest which may occur in the course of their work. Where the Chief Inspector is of the opinion that workers in a particular manufacturing process or room are able to do their work efficiently in a sitting position, he may by an order in writing require the occupier of the factory to provide seating arrangements before a specified date.

**4. First-aid appliance [Section 45]**

The act has made the provision of first-aid appliances obligatory. Every factory must have first-aid boxes or cupboards equipped with the prescribed contents so as to be readily accessible during all working hours. The number of such boxes or cupboards to be provided and maintained must not be less than one for every one hundred and fifty workers ordinarily employed at any one time in the factory. Each first-aid box or cupboard shall be kept in the charge of a separate responsible person who holds a certificate in first-aid treatment recognised by the State Government and who shall always be readily available during the working hours of the factory.

In every factory where more than 500 workers are ordinarily employed there shall be provided and maintained an ambulance room of the prescribed size containing the prescribed equipment. The ambulance room shall be in the charge of properly qualified nursing staff. These facilities shall always be made readily available during the working hours of the factory.

**5. Canteen [Section 46]**

In every factory employing more than 250 workers the State Government is given the right to require such factories to maintain a canteen for the use of the workers.

This section authorizes the State Government to make rules in respect of canteens providing for –

- (a) the date by which the canteen shall be provided;
- (b) the standards in respect of construction, accommodation, furniture and other equipment of the canteen;
- (c) the foodstuffs to be served therein and the charges which may be made thereof;
- (d) the constitution of a managing committee for the canteens and representation of the workers in the management of the canteen;
- (e) the items of expenditure in the running of the canteen which are not to be taken into account in fixing the cost of foodstuffs and which shall be borne by the employer;
- (f) the delegation to the Chief Inspector, of the power to make rules under clause (c).

**6. Shelters, rest rooms and lunch room [Section 47]**

In every factory where more than 150 workers are employed, adequate and suitable shelters or rest rooms and a suitable lunch room shall be provided and maintained for the use of the workers. But there is no need to provide and maintain a lunch room, where any canteen is

maintained in accordance with the provisions of Section 46. The section further provides that where a lunch room exists, no worker shall eat any food in the work room. Such shelters or rest rooms or lunch rooms shall be sufficiently lighted and ventilated and shall be maintained in a cool and clean condition.

7. In every factory wherein more than 30 women workers are ordinarily employed there shall be provided and maintained a suitable room or rooms for the use of children under the age of six years of such women. Such rooms must have adequate accommodation and shall be adequately lighted and ventilated. They shall be maintained in a clean and sanitary condition. Such rooms shall be under the charge of women trained in the care of children and infants. Suitable provision must be made in such creches for washing and changing the clothing of the children and for the supply of free milk or refreshments or both. Facilities must also be provided to mothers to feed their children at necessary intervals.

**8. Welfare Officers [ Section 49]**

In every factory wherein five hundred or more workers are ordinarily employed the occupier shall employ in the factory such number of welfare officers as may be prescribed. The State Government may prescribe the duties, qualifications and conditions of service of such officers.

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Ans. 1 a)

Carrying costs means the costs for holding the inventories. These costs will not be incurred if inventories are not carried. These costs include:

- (1) The cost of capital invested in inventories. An interest will be paid on the amount of capital locked up in inventories.
- (2) Cost of storage which could have been used for other purposes.
- (3) The loss of materials due to deterioration and obsolescence. The material may deteriorate with passage of time. The loss of obsolescence arises when the materials in stock are not usable because of change in process or product.
- (4) Insurance cost.
- (5) Cost of spoilage in handling of materials.

Ans. 1 b)

(i) Economic Order Quantity =  $\sqrt{2DO/C}$

Where D = Annual Demand or Consumption

O = Ordering Cost (per order)

C = Carrying cost

$$EOQ (Q) = \sqrt{2 \times 300000 \times 50 / 120 \times .10}$$

$$= \sqrt{2 \times 300000 \times 50 / 12} = \sqrt{3000000 / 12} = \sqrt{250000} = 500 \text{ kgs.}$$

$$EOQ = 500 \text{ kgs.}$$

(ii) No. of orders (per annum) = Annual Consumption/EOQ =  $300000 / 500 = 60$

Ans. 1 c)

1. Lack of enthusiasm and support from top management because they are fully convinced about the benefits of such system.
2. Resistance from production staff and people at different levels in other departments because they fear getting subjected to additional controls.
3. Resistance from accounting staff as they believe that their work would increase.
4. Shortage of trained and well qualified staff.
5. Over enthusiasm to have an unnecessarily detailed costing structure or keeping it too simple due to too much concern for cost.
6. High cost of installing the system.
7. Failing to keep the system up-to-date.

Ans. 1 d)

The following assumptions will be considered while computing EOQ:

1. Annual consumption or demand for an item is known. Consumption is uniform and evenly distributed through the year.
2. EOQ analysis assumes that as soon as the order is placed the goods are received immediately. EOQ technique assumes that lead time is not existent. Hence, there is no need of safety stock.
3. Full inventory is consumed when the replenishment comes.
4. Ordering costs and carrying costs can be estimated.
5. Quantity discounts are non existent.

**Ans. 2. Statement of Actual cost and profit for the year 1997**

Materials	(120000 units at Rs. 2.20)		264000
Wages	(120000 units at Rs. 1.80)		<u>216000</u>
<b>Prime cost</b>	<b>(120000 x 4)</b>		<b>480000</b>
Add: Factory Overheads:			
Plant Maintenance		25000	
Depreciation on plant		8100	
Rates and Taxes for works		3900	
Power		10600	
Rental for leasehold equipments		9600	
Indirect wages		37100	
Rectification costs of Defectives (Normal)		8400	
Consumable Stores		<u>17600</u>	
		120300	
Less: Sale proceeds from Scrap		<u>(4200)</u>	<u>116100</u>
<b>WORK COST</b>			<b>596100</b>
Add: Administrative Overheads:			
Office Lighting		6300	
Staff Salaries		32000	
Management Salaries		22000	
General Charges		<u>15600</u>	<u>75900</u>
Cost of Production			672000
Selling Expenses			<u>30000</u>
<b>Total Cost (Actual Cost)</b>			<b>702000</b>
Sales	(120000 x 6.75)		<u>810000</u>
<b>Profit for the year 1997</b>			<b>108000</b>

**Assumptions:** For the purpose of estimation of cost of 1998, the following expenses have been assumed as variable: Plant Maintenance, Power, Rectification cost of Defectives (Normal), Consumable Stores and Sale Proceeds from Scrap(Income)

**Statement of Actual cost and profit for the year 1998**

Materials	(160000 units at Rs. 2.20)		352000
Wages	(160000 units at Rs. 1.80)		<u>288000</u>
<b>Prime cost</b>	<b>(160000 x 4)</b>		<b>640000</b>
Add: Factory Overheads:			
Plant Maintenance	(25000 + 1/3)	33333	
Depreciation on plant	( 8100 + 1/3)	10800	
Rates and Taxes for works		3900	
Power	(10600 + 1/3)	14133	
Rental for leasehold equipments		9600	
Indirect wages		37100	
Rectification costs of Defectives (Normal)	( 8400 + 1/3)	11200	
Consumable Stores	(17600 + 1/3)	<u>23467</u>	
		143533	
Less: Sale proceeds from Scrap	(4200 + 1/3)	<u>(5600)</u>	<u>137933</u>
<b>WORK COST</b>			<b>777933</b>
Add: Administrative Overheads:			
Office Lighting		6300	
Staff Salaries		32000	
Management Salaries		22000	
General Charges		<u>15600</u>	<u>75900</u>
Cost of Production			853833
Selling Expenses			<u>30000</u>
<b>Total Cost (Actual Cost)</b>			<b>883833</b>
Sales	(160000 x 6.40)		<u>1024000</u>
<b>Profit for the year 1998</b>			<b>140167</b>

Ans. 3 a)

## Cost Sheet of Job No. 8237

	Rs.	Rs.
Materials: 10 units @ Rs. 5 each		50
Wages 2 hours @ Rs. 1 per hour (to make ready)	2	
8 hours @ Rs. 1 per hour (running)	<u>8</u>	<u>10</u>
<b>Prime Cost</b>		60
Factory Expenses		
2 hours @ Rs. 2 per hour (to make ready)	4	
8 hours @ Rs. 5.75 per hour (running)	<u>46</u>	<u>50</u>
<b>Total Cost</b>		<b>110</b>

## Working Notes: Machine hour rate

- (1) Computation of Fixed expenses per hour :

Total number of hours	1000
Total fixed expenses	Rs. 2000
Fixed expenses per hour (2000/1000)	Rs. 2

- (2) Computation of Variable expenses per hour :

Total number of running hours	800
Total variable expenses	Rs. 3000
Variable expenses per hour (3000/800)	Rs. 3.75

Fixed expenses per hour are used for the time the machine is being made ready. The aggregate of fixed and variable expenses, i.e. Rs. 2+3.75 = Rs. 5.75 per hour is the rate for running time.

Ans. 3 b)

- 1 Ensuring that fixed costs incurred on provision of services are fully utilized.
- 2 Ascertaining that the maintenance of facilities is neither neglected nor excess cost is incurred on maintenance.
- 3 Keeping operating cost at the optimum level.
- 4 Comparing cost of providing service during a period with the cost incurred in the same organization during the previous period, or by other organisations in the same period. This enables cost control.
- 5 Ascertaining the most economic input for providing a particular service, i.e., generation of power with petrol, diesel or gas, etc.
- 6 Evaluating alternatives, e.g. carry freight by tempo, truck or railway.
- 7 In case of production of service for sale to outsiders, the cost per unit service needs to be ascertained for determining selling price and profitability of services.



Ans. 3 c)

S.V. Construction Ltd.

Contract Account

To Materials		Rs. 336000	By Work-in-progress		
To Wages paid	340000		Work Certified(W. Note 1)	750000	
Add: Accrued	<u>2800</u>	342800	Work Uncertified	<u>14000</u>	Rs. 764000
To Direct Expenses	8000		By Plant at site		48000
Add: Accrued	<u>1200</u>	9200	By Materials at site		4000
To Plant purchased		60000			
To General Overheads		32000			
To P & L A/C (working Note 2)		19200			
To Work in progress (Reserve)		<u>16800</u>			
		816000			<u>816000</u>

Working Notes:

- (1) Value of work certified ---- Cash received is Rs. 600000 representing 80% of the work certified, hence the value of work certified would be Rs. 750000 (i.e.  $600000 \times 100/80$ ).
- (2) The amount of profit taken to P & L account has been calculated as follows: Total profit made to date = Rs. 36000. Since the value of work certified is more than half of the contract price,  $2/3^{rd}$  of profit made to date as reduced on cash basis been taken to P & L account as shown below=  $Rs. 36000 \times 2/3 \times 80/100 = Rs. 19200$ .

Ans. 3 d)

The flexible budget means a budget which, by recognizing the difference between the fixed, semi-variable and variable costs is designed to change in relation to the level of the activity attained. It is assumed that fixed costs will remain fixed only up to a certain level of activity and after a certain level they may tend to vary, though not like variable costs. Extra efforts are made in analyzing semi variable items of expenditure in fixed and variable elements.

A flexible budget is a budget which, by recognizing different cost behavior patterns, is designed to change as volume of output changes. Flexible budget is also known as variable or sliding scale budget. The main characteristic of flexible budget is that it shows the expenditure appropriate to various levels of output. If the volume changes, the expenditure appropriate to it can be established from the flexible budget for comparison with actual expenditure as a means of control. It provides a logical comparison of budget allowances and actual costs, i.e., a comparison with a like basis.

Ans. 4

Balance Sheet

Liabilities	31.3.2006	31.3.2007	Assets	31.3.2006	31.3.2007
Equity share capital (Rs. 10 each fully paid)	20,00,000	20,00,000	Fixed Assets (Rs. 18,90,000 – 90,000)	18,00,000	15,39,000
Reserves and surplus(bal.)	1,30,000	1,30,000	Long term investments	----	2,96,600
Profit & loss A/C (15% of sales)	2,70,000	6,15,600			
<b>Current Liabilities</b>			<b>Current Assets</b>		
Bank Overdraft	1,00,000	-----	Total = 10,00,000		
Creditors	<u>3,00,000</u>	<u>4,15,000</u>	Stocks	4,00,000	5,20,000
			Sundry Debtors	3,00,000	4,95,000
			Cash at Bank (bal. fig.)	<u>3,00,000</u>	<u>3,10,000</u>
<b>Total</b>	<b>28,00,000</b>	<b>31,60,600</b>	<b>Total</b>	<b>28,00,000</b>	<b>31,60,600</b>

Calculation for 31 March,2006

- (i) Calculation of Current Liabilities

Suppose that current liabilities = x, then current assets will be 2.5 x

Working Capital = Current Assets – Current Liabilities

$$600000 = 2.5x - x$$

$$X = 600000/1.5 = \text{Rs. } 400000 \text{ (C.L.)}$$

Other Current Liabilities = Current Liabilities – Bank Overdraft

$$= 400000 - 100000 = \text{Rs. } 300000$$

$$\text{Current Assets} = 2.5 \times 400000 = \text{Rs. } 1000000$$

- (ii) Liquid Ratio = Liquid Assets/ Current Liabilities or 1.5 = Liquid Assets/400000

$$\text{Liquid Assets} = \text{Rs. } 600000$$

$$\text{Liquid Assets} = \text{Current Assets} - \text{Stock}$$

$$600000 = 1000000 - \text{Stock}$$

$$\text{So, Stock} = \text{Rs. } 400000$$

- (iii) Calculation of fixed assets = Fixed assets to proprietary fund is 0.75, working capital is therefore 0.25 of proprietary fund. So, fixed assets =  $600000/0.25 \times 0.75$  Rs. 1800000

- (iv) Sales =  $(1440000 / 80) \times 100 = \text{Rs. } 1800000$

- (v) Debtors =  $2/12 \times \text{sales}$

$$2/12 \times 1800000 = \text{Rs. } 300000$$

- (vi) Net profit = 15% of Rs. 1800000 = Rs. 270000

Calculation for the year 31 March,2007

- (vii) Sales =  $1800000 + (1800000 \times 0.2) = \text{Rs. } 2160000$

- (viii) Calculation of fixed assets

Opening Fixed assets – (Bank(Sale) + Loss on sale of Fixed Assets + P & L (Dep.)(5% as in previous year))

$$1800000 - (90000 + 90000 + 81000) = \text{Rs. } 1539000$$

- (ix) Net profit for the year 2007, 16% x 2160000 = Rs. 345600

Calculation of fund from operation

Net profit for the year 2007 Rs. 345600

Add: Depreciation 81000

Loss on sale of asset 90000 171000

FFO 516600

Fund flow Statement

Sources	Amount	Uses	Amount
Fund from operation	516600	Increase in WC	310000
Sale of fixed assets	<u>90000</u>	Purchase of investment	<u>296600</u>
	606600		606600

Schedule of Changing Working Capital

Particulars	31.3.06	31.3.07	Increase	Decrease
<b>A. Current Assets</b>				
Stocks	400000	520000	120000	
Sundry Debtors	300000	495000	195000	
Cash at bank	<u>300000</u>	<u>310000</u>	10000	
	<u>1000000</u>	<u>1325000</u>		
<b>B. Current Liabilities</b>				
Bank Overdraft	100000	---	100000	
Sundry Creditors	<u>300000</u>	<u>415000</u>		115000
	<u>400000</u>	<u>415000</u>		
Working Capital	600000	910000		
Increase in working capital	<u>310000</u>	<u>-----</u>		<u>310000</u>
	910000	<u>910000</u>	425000	<u>425000</u>

Ans. 5(a)

i) **Material Cost Variance Account Head - 79.1**

This accounting head deals with the basis of valuation receipts, issue and stocks of materials prescribed would result in certain debits and credits to materials cost variance accounts. In case the balance at the year end is a credit balance and same shall be credited to the "Reserve for materials cost variance". On the other hand, if there is debit balance the same will be debited to the Reserve materials cost variance.

ii) **Grants towards Cost of Capital Assets Account Head- 55.3**

Capital receipts will be credited to appropriate accounts only if the under-mentioned conditions are satisfied:-

- 1) The amount is not subject to any conditions to be fulfilled by the Board (now Corporation) or the conditions attached to the amount have been fulfilled by the Board (now Corporation).
- 2) No part of the amount is refundable nor is likely to become refundable by the Board (now Corporation).

Such receipts towards cost of capital assets shall not be treated as a reduction in the cost but as a capital receipt to be credited to the capital Reserve Account.

Certain amounts receivable by the Board/Corporation may be computed with reference to the cost of capital assets or progress on a capital project but in fact are actually in the nature of interest of loans. Such amounts shall not be treated as grants or subsidy towards cost of capital assets.

iii) **Grant-in-aid receivable for Research & Development Schemes Account Head 28.615**

The employee cost, General administration expenses and material cost relating to Research and Development shall be booked to account heads opened under Account Group 75, 76 & 79. At the end of year, the aggregate expenditure reimbursable by Govt. of India shall be debited to this head per contra credit to 63.120 - Grant for Research and Development Expenses. The amount of Grant in-aid received from GOI shall be credited to this account code.

iv) **Expenditure on Survey/Feasibility Studies of Projects Account Head 17.3**

The expenditure of this type should be accounted under this account. If the project is ultimately approved, such expenses should be capitalised and transferred to account code 15.233. If, however, the project is finally rejected the expenditure should be written off as infructuous Capital Expenditure A/C - 79.533 in the year of rejection of the project.

v) **Provision for completed work Account Head 15.5**

At the year end, there may be some work which is completed on capital works but for which either contractors' bill are not received, or Contractors' bill are received but not passed. At the year-end, Accounts Department shall make a provision for such work;

On the basis of contractors' bill as certified by the engineers, or on the basis of engineers' certificate for physical parameters of work as valued at work order rates wherever the bills are not received.

The amount of such capital work provided shall be debited to this account. In the subsequent year, such provision shall be reversed so that contractor's bills get accounted for in normal course.

**Ans. 5(b)**

i) The Divisional officer as the primary disbursing officer of the Division, is responsible not only for the financial regularity of the transactions of the whole division but also for the maintenance of the accounts of the transactions correctly and in accordance with the rules in force.

He is further required to submit his accounts and other accounts returns to Chief Accounts Officer prescribed by the Board/Corporation from time to time. The CAO can however, call the Additional accounts, books, papers and writings having relation thereto should consider them necessary for the elucidation thereof.

The Divisional Officer should review from time to time the several registers, books and accounts as are maintained in the Divisional and Sub Divisional offices even though under the prescribed instructions he may have scrutinised and initialled the individual entries or sets of entries therein. To this end he may require these records to be laid before him through the Divisional Accountant monthly or at such other intervals as may be fixed by him. The fact of such review should be placed on record in all cases.

The Divisional officer is responsible that the accounts of his division are not allowed to fall into arrears but if arrears or confusion arise which in his opinion cannot be cleared without the assistance of the CAO, he should at once seek such assistance.

ii) Capitalisation of Interest on Funds Utilised on Construction Stage

The amount of interest on funds utilised for construction works shall be worked out every year and capitalised. The amount of interest so capitalised shall be included in the cost of assets and the same shall alongwith the basic cost of assets be depreciated in normal course over the expected useful life of the assets.

The accounting policies in regard to capitalisation of interest on funds utilised at construction stage as laid down in para 2.93 to 2.93 of Basic Accounting Policies are stated below:

- i) No capitalisation of an imputed interest cost (notional interest) on the Board's own funds and interest free finance shall be permitted.
- ii) Every year, a portion of the interest payable on the interest bearing borrowings which relate to financing of capital assets at construction stage i.e. till the point of commissioning of assets shall be computed in the manner prescribed in para 1.42 and 1.43 of Annexure V of the Electricity (Supply) (Annual Accounts) Rules-1985 and be capitalised.
- iii) The amount of interest so computed and capitalised shall be reduced from the amount of interest for the year and only the balance amount shall be charged to the Revenue Account for the year.
- iv) The element of interest to be capitalised in case of construction projects/works will be allocated over the work in progress on the basis of average of expenditure incurred at the beginning of the year and at the end of the year.
- v) The amount of interest capitalised shall be included in the cost of the assets which involve significant time periods at construction stage and the same shall alongwith the basic cost of assets, be depreciated in normal course, over the expected useful life of the assets.