

**Paper – V (Drafting and computer Knowledge)****Answer in italic and Underline**

- Q1 A) Make a précis of the following paragraph using not more than 110 words. The passage contains 326 words. (Marks 9)**

There are basically three choices available to you when trying to influence people. The first is to ignore people and simply hope they will act in your best interest. You probably will agree that this is not a very practical option, since the results can be neither effective nor predictable. By ignoring other people, you are giving up any hope of influencing them and thus are surrendering yourself to the whims of fate. In effect you are saying to the world, "I will leave you alone and, in return, I want you to do what I want", a naive and unrealistic expectation. The second option is to use coercion and force to compel others to act in the specific way you desire. The use of threats and intimidation may produce results, at least in the short term. Fear-inducing tactics, however, never bring out best in the people, since people themselves must be the driving force behind their motivation if they are to be put their hearts and souls into what they are doing. Fear forces people to operate in a survival mode. They may follow your instructions and orders to letter, but seldom will they contribute any real energy or enthusiasm to their efforts. The third option is to persuade people to do what you want them to do simply because they really want to. People will do what you want them to do willingly in direct proportion to how they see their self interest being served. In other words, you must convince people that they will receive very real benefits and rewards if they follow the path you are suggesting. These benefits must be something the other party understands and inherently wants, for whatever reason. In effect, you are offering a reward that is valued by others in exchange for a reward that is valued by you. The highest reward you can offer people is to provide them opportunities to maximise their full potential.

We can try to influence people by three means. First, by ignoring people with hope that they will act in best interest. It is unrealistic and unpredictable solution. The use of compulsion and intimidation in our dealing as second option will produce only limited and short term results. Work done under compulsion or coercion tends to be marked by devoid of zeal and fervour. The third and best way is to convince people that they stand to gain. The highest reward we can offer is to work they do is to provide them opportunity to bring best in them out. The best mode is as such is to use persuasion.

- B) Give a suitable title to the above paragraph. (Mark 2)**

Tactics to influence people/ 3 ways to influence people/ influencing society.

- C) Choose the best answer to the following questions out of the four alternatives:**

- i) The phrase 'Fear inducing tactics' in the passage means  
 a) Steps aimed at arousing fear  
 b) Steps aimed at allaying fear

- c) Spreading fear
  - d) None of the above
- ii) The phrase 'to the letter' in the passage means
- a) Instinctively
  - b) Accurately
  - c) Enthusiastically
  - d) Effortlessly
- iii) The word 'inherently' in the passage means
- a) Objectively
  - b) Intrinsically
  - c) Whole-heartedly
  - d) Beyond a doubt
- iii) The word 'potential' in the passage means
- a) Basic abilities
  - b) Natural abilities capable of being developed
  - c) Power
  - d) Imagination

( Marks 1X 4)

Q2 A) Give the meaning of following idioms/phrases and use in sentences. Attempt any three.

- i) To rest one's laurels To retire from active life
- ii) To stick to one's guns To maintain one's own opinion
- iii) A wet blanket One who discourages others
- iv) Yeoman's service To help in need

B) Fill in the blanks in the following sentences with appropriate prepositions

- i) He was well versed in the ancient upanishadic hymns.
- ii) You must not indulge in verbosity.
- iii) He dislikes being talked about. ( Marks 1X 3)

C) Write the correct sentence to the given incorrect sentence.

- i) In India they have there are many curious customs.
- ii) Does alternative alternation imply keeping things the same?

- iii) One of our cats have been has disappeared.

D) Change the voice.

- i) Novels interest me. I am interested in novels
- ii) Everyone knows that he is rich man. It is known that he is rich man/ He is known to be a rich man
- iii) His performance surprised her She was surprised at his performance.

E) Change the narration.

- i) He said, "I must finish this book on Monday" He said that he would have to finish that book on Monday
- ii) The master said to the servant, "Post the letter at once". The master ordered the servant to post the letter at once
- iii) he said to me, "Good morning". He wished me good morning ( Marks 1X 3)

Q3

- A) Define the following (Attempt any five)
- Word processor : A Word Processor is a software application used to create, edit and print documents.
  - Page break : A Page Break is the point at which one page ends and a new page begins.
  - Indentation : An Indentation is the blank space between a margin and the beginning or end of an indented line.
  - Datasheet : Datasheet refers to data from a table, query or form that is displayed in a row and column format.
  - Index : Index is an internal table of values maintained by Access to store the order of records. It is used to make data retrieval faster.
  - Hot keys : Hot Keys are the keys which function by pressing ALT and the underline letter of the name in a menu.

(Marks 1X 5)

B) Give steps to perform following tasks (Attempt any five)

- Deepak wants to print salary details of the first six months of the year on the first page and those of remaining months on next page in MS Excel. Which feature should he use to divide the worksheet into two?

Deepak should use PAGE BREAK to divide the worksheet into two.

- Reena has created a slide about aircraft in MS Power point presentation. She wants to add a picture of an aircraft to the slide but she does not have one. What is the easiest solution?

The easiest solution for Reena is to use the Clip Art Gallery to insert the relevant picture.

- Harsimrat accidentally presses 'CTRL + H' while working in MS Word, and a dialog box is displayed. Which dialog box do you think it is?

When harsimrat accidentally presses 'CTRL + H', the Find and Replace dialog box is displayed.

- Jatinder has entered marks of class V in the column A to AE in the MS Excel. He wants to calculate the sum but wants to avoid entering the formula depicting all the columns. Suggest the easy way to find the sum by other method.

Jatinder should write formula (=sum(A:AE)) in the relevant column

- You have created an attractive power point presentation by using a design template. Ajit likes the design template you have used. He asks you for that name of the design template. How will you find it?

The name of the design template is displayed on the Status Bar.

- Neeta creates a time table in an Excel worksheet. However, after printing the time table, she feels that the printed

worksheet will look better if she changes the orientation to landscape. Which command on the file menu should she use?

Neeta should use Page Setup on the file menu.

( Marks 2 X 5)

C) How will you create files and folder in your PC. Write steps of copying and moving files and folder from your pen drive to the desktop.

To create a folder:

1 In a windows explorer, click local disc (C:) in the left pane.

The contents of drive C are displayed in the right pane.

2 On the file menu, point to New, and then click Folder.

A folder with the name New Folder is created. New folder is the default name for a newly created folder in Windows XP. In computer terminology, the term default refers to a predetermined value used by a program when the user does not specify the value. The default folder name is selected.

3 Type a name for the folder and press ENTER.

To retain the default name, simply press ENTER.

To create a file:

1 In Windows Explorer, click the folder.

When you click a folder in the left pane, its contents are displayed in the right pane. Since the folder you created is empty, nothing will be displayed.

2 On the File Menu, point to New and then click Microsoft Excel Worksheet.

A blank Microsoft Excel Worksheet file is created. Similarly, you can create a text file to type the notes or data or any information.

To copy files or folders:

1 Insert Pendrive in USB port

2 In Windows Explorer, select relevant pendrive and click

3 Select the files or folders you want to copy and click the right button of mouse

4 On the displacey menu, click copy.

The files are copied to the clipboard. The clipboard is a location where the information you copy or cut is temporarily stored.

5 Click the Folder you want to go to in the right pane.

The folder to which you copy files is called destination folder.

6 In Windows Explorer, click Paste on the Edit menu.

The files are copied from the Clipboard to the folder you want.

Alternative

1. Right-click the selected files.

2. Click Copy on the shortcut menu.

3. Right-click the destination folder.
  4. Click Paste on the shortcut menu.
- The steps to copy a folder are the same.

(Marks 5)

D) Differentiate between ( Attempt any five)

i) Input and output devices

Input devices: Devices used to provide data and instructions to the computer are called input devices. Mouse, keyboard, scanner, microphone, web camera are all input devices.

Output devices: devices that are capable of representing information on a computer are called output devices. Monitor, printer speakers etc.

ii) RAM and ROM

RAM : Random access memory

Storage area used for temporarily holding programs and data for processing. Data stored is lost the moment power supply is turned off.

ROM : Read only memory

Storage area used for holding instructions needed for starting a computer. They cannot be erased or modified. Data stored is not lost even after the computer is turned off.

iii) Desk Top and laptop

Desktop are computers which are placed on desks or tables. They are immobile i.e they cannot be carried anywhere anytime. They require a keyboard and a mouse to be attached for working.

Laptops are computers which can be placed anywhere. They are mobile. Keyboard and a optical sensor (mpouse) is already inbuilt.

iv) Hardware and software

Hardware can touched i.e it is possible to approach hardware easily. CPU, mouse, modem etc all are hardwares.

Software is not approachable.

Windows, DOS, Ms Office etc all are softwares.

v) Pendrive and CD

Pendrives are small, easy carrying storage devices.

Pendrives can store data to large capacity example there are 4Gb 8Gb pendrives available.

CDs are large than pendrive. They do not store data in large capacity.

vii) DOS and Windows

DOS is software where user has to give commands their own. Dos is not used these days.

Windows is a software in which all the user commands are in built.

Windows are latest software used. ( Marks 2 X 5)

E What is modem? What are its uses?

A **modem** (modulator-demodulator) is a device that modulates an analog carrier signal to encode digital information, and also demodulates such a carrier signal to decode the transmitted information. The goal is to produce a signal that can be transmitted

easily and decoded to reproduce the original digital data. Modems can be used over any means of transmitting analog signals, from light emitting diodes to radio. The most familiar example is a voice band modem that turns the digital data of a personal computer into modulated electrical signals in the voice frequency range of a telephone channel. These signals can be transmitted over telephone lines and demodulated by another modem at the receiver side to recover the digital data.

Uses of modems:

Modems are used to transmit data.

Modems are used to connect to internet i.e to access email/informational sites etc.

Modems can be used to connect internet through wifi.

( Marks 5)

F Your brother residing in Bangalore has told you to send your recent photos through email. You didn't have an email account. What steps will you take to create an email account and send your photos to him?

( Marks 5)

I have to perform following steps

- 1 I will download my recent photos from camera to my computer.
- 2 I will then open internet using my internet connection with internet explorer (from any company).
- 3 Then I will open any website providing free email service (Yahoo, gmail etc) and will open an email account in my name following the steps given in the relevant website.
- 4 Using User id and password provided by the relevant website, I will open my email account in the relevant website.
- 5 I will then compose email using the compose button provided on the page.
- 6 I will write down the email address of my brother in the 'To' column.
- 7 I will attach my photos with this email by using 'Attach files' button provided on the page.
- 8 I will write small message and then send the email by using 'Send' button.

Q4

A) Write a DO letter from SE/ DS, Patiala to All Addl. SE/Sr. Xen's under Patiala circle showing his concern for sluggishness in the implementation of T & D loss reduction schemes in their division. Assume the names of officers.

Punjab State Power Corporation

Office of SE/DS, Patiala Circle,

66 KV Substation, Patiala,

0175-----

Er. Aaaaaaaa,

Do No. \_\_\_\_\_

dated \_\_\_\_\_

My Dear Er Bbbbbbbb,

Hope that you are in good spirits. I have approached you to show my concern for sluggish speed to various T & D reduction schemes being executed in your division through own staff/out sourcing. Against the target of shifting 20000 meters in last quarter outside the consumers' premises, your division has achieved only 7500. Similarly, against the target of replacing 100/200 KM HT/LT conductor in last quarter, division has achieved only 20/32 KM. Till today, 121 no. 63 KVA, 32 no. 100 KVA, and 9 no. 200 KVA transformers are still overloaded in your division.

Dear, you will appreciate that PSPCL is going in very bad phase and in case the T & D losses is not reduced as per target set by PSERC, there may be disallowance in ARR resulting in loss to company. It is advised to motivate your staff to achieve the targets set for the division. Any help in this matter is welcomed.

With regards,

( )

ER. Bbbbbbbb,

Sr. XEN/ DS,

Patiala

B) Prepare a work order to M/s ABC, Patiala for outsourcing of inspection vehicle for Sr.Xen/West Division indicating the term and conditions. Assume the rate of Rs 16500 PM with 800 KM and Rs. 3.50 per KM for usage above 800 KM.

Punjab State Power Corporation

Office of Sr. XEN/DS, West Division,

Patiala,

0175-----

To

M/S ABC,

Patiala

Memo No. \_\_\_\_\_ Dated \_\_\_\_\_

Subject: Out sourcing of inspection Vehicle

Ref: Your tender quotation no. 111 dated -----



In reference to your tender quotation referred above, you are hereby instructed to provide aaaaa vehicle form 1.4.2012 for two years as per following rates and conditions.

Rate Rs. 16500 Per month which include 800 KM journey in a month. Rs. 3.50 KM will be paid extra for journey over and above 800 KM included in the monthly rates.

Terms and Conditions:

- 1 Vehicle will be made available whole of the month. Deduction of Rs. 1000 per day will be deducted for any non availability.
- 2 The rate depicted above include all the propelling charges i.e diesel, insurance, Driver pay, etc.
- 3 You will provide the driver having the valid licence.
- 4 Vehicle should not be older than 3 years.
- 5 PSPCL in no way will be responsible for any accidental claims.
- 6 This work order can be cancelled at any time without any notice.
- 7 Vehicle should have valid registration for commercial running.
- 8 PSPCL standard terms and conditions will apply.

Sr. XEN/DS,  
West Division. Patiala.

CC	
1	The SE DS, PSPCL, Patiala.
2	The AO/Field, PSPCL, Patiala.

C) Write a public notice on behalf of CE/Commercial, PSPCL, Patiala to be published in leading English news papers informing the general public regarding the extension in the VDS scheme for DS consumers.

(  
Marks 3 X 5)

### Punjab State Power Corporation

#### Notice

It is inform general public that due to the huge demand, PSPCL with the approval of PSERC is glad to inform the general Public that voluntary Disclosure scheme which was earlier valid up to 15.1.2012 has been extended to 31.1.2012 with the same term and conditions. The detail of same can be downloaded/ checked from PSPCL website i.e. pspcl.in.

CE/Commercial

Q5 A) The CPO has invited tenders for procurement of some material. At time of opening of tenders, tender submitted by M/S XYZ doesn't contain EMD. Explain the procedure to be followed in case

- i) Three valid tenders (other than the tender of M/s XYZ) are received and opened.

Tender of M/s XYZ shall be resealed with words 'Without Earnest money - invalid tender' and such tenders will be kept in safe custody. The Tender opening authority is competent authority to do so.

- ii) Two valid tenders (other than the tender of M/s XYZ) are received and opened.

Tender of M/s XYZ may be opened with the approval of CE concerned/Secretary in case value of purchase proposal is upto Rs. 2.5 lac and with the approval of Director/ finance and Director/ concerned in case purchase proposal is more than Rs. 2.5 lac.

Indicate the competent authorities in both cases. ( Marks 4)

B) Who is the competent authority to extend the delivery period of a Purchase order approved by the BOD in case

- i) It does not involve additional Financial commitment.

- ii) It does involve additional Financial commitment.

Indicate the conditions to be observed. ( Marks 4)

Cases of extension in delivery period of purchase order approved by BOD, where conditions of genuine delay are satisfied shall be approved by CE/concerned where no addl. financial liability is involved. The same should be pre-audited and the order for extension in delivery period shall be quantified and well reasoned. In case addl. financial commitment is involved, finance section shall be consulted before approving the delivery extension to be done by CE/concerned.

C) Calculate the EMD required to be deposited by the tenderer in following cases

- i) Tender value Rs. 4 lac. Firm wants to quote for 25 %.

Rs. 5000

- iii) Tender value Rs. 4 lac. Firm wants to quote for 100 %.

Rs. 8000

- iv) Tender value Rs. 10 crore. Firm wants to quote for 25 %.

Rs. 5,00,000 ( Marks 3)

- D) List the advantages/disadvantages of 3 part bid over 2

part bid.

Advantages: The part II containing technical and general conditions is opened without opening the quote. Any variation in these conditions can be documented and tenderer can be impressed upon to re-align the same to that of purchaser's specification. In case of refusal, purchaser has an option not to open the quote contained in part III. Any ambiguity can be avoided at later stage.

Disadvantage: As after opening of Part II purchaser have to go for correspondence in case of any variation in technical and general conditions and afterwards have to open the Part II, the award of order is likely to be delayed( Marks 4)

Solution: 1 (a)

**Adjusted Cash book (Bank Column only) as on 31<sup>st</sup> December 2008**

<b>Dr.</b>		<b>Cr.</b>	
Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d	5,380	By Insurance premium	960
To B/R (proceeds of a bill)	1,400	By Bank charges	30
		By customer's A/c (Dis-honoured cheque)	150
	<u>6,780</u>	By Balance c/d	<u>5,640</u>
			<u>6,780</u>
To Balance b/d	5,640		

**Bank re-conciliation Statement as on 31<sup>st</sup> December 2008**

	Rs.	Rs.
Balance as per Adjusted Cash Book (Dr.)		5,640
<b>Add:</b>		
Cheques issued but not presented for payment		850
<b>Less:</b>		
i) Cheques paid into bank but not credited	390	
ii) Cash collection entered in the cash book in the bank column but banked on 2 <sup>nd</sup> Jan. 2009	<u>610</u>	<u>1,000</u>
Balance as per Pass Book (Cr.)		<u>5,490</u>

Solution: 1 (b)

**Distinction between fixed instalment method and reducing instalment method**

Fixed instalment method	Reducing instalment method
<ol style="list-style-type: none"> <li>1) The rate and amount of depreciation remains the same each year.</li> <li>2) Depreciation rate percent is calculated on the original cost of asset.</li> <li>3) At the end of its life the value of asset is reduced to zero or scrap value.</li> <li>4) The older the asset, the larger the cost of repair but the amount of depreciation remains same each year. Hence the total of depreciation and repairs increases every year. This reduces annual profit gradually.</li> <li>5) Computation of depreciation is comparatively easy and simple.</li> </ol>	<ol style="list-style-type: none"> <li>1) The rate remains same but the amount of depreciation reduces each year.</li> <li>2) Depreciation rate is applied on the book value of asset each year.</li> <li>3) Value of asset never reduces to zero at the end of its life.</li> <li>4) The amount of depreciation decreases gradually, while the cost of repairs increases. So the total depreciation and repairs remains more or less the same each year. Hence, it causes little or no change in the annual profit or loss.</li> <li>5) Depreciation can be computed without any difficulty but it is not easy and simple.</li> </ol>

Solution: 2

(a) **Business Entity Concept**

According to this concept, the task of measuring income and wealth is undertaken by accounting, for an identifiable unit or entity. The unit or entity so identified is treated different and distinct from its owners or contributors. In law, the distinction between owners and the business is drawn only in case of joint stock companies but in accounting this distinction is made in the case of sole proprietor and partnership firm as well. For example, goods used from the stock of the business for business purposes are treated as business expenditure but similar goods used by the proprietor i.e. owner for his personal use are treated as his drawings.

(b) **Money Measurement Concept**

All the business transactions are measured and settled in monetary terms. Money is a common denominator. It is used to measure assets, liabilities, expenses, losses, Income etc. The money measurement concept holds that the transactions and events, howsoever important they may be, which cannot be measured in monetary terms are not recorded in accounting. The skill, experience and honesty of a chairman or a manager; employer and employee cordial relations; profit yielding sales promotion policy etc are not recorded in the books of accounts.

(c) **Going Concern Concept**

In the ordinary course, accounting assumes that the business will continue to exist and carry on its operations for an indefinite period in the future. The entity is assumed to remain in operation sufficiently long to carry out its objects and plans. The values attached to the assets will be on the basis of its current worth. The assumption is that the fixed assets are not intended for re-sale. Therefore, it may be contended that the balance sheet which is prepared on the basis of record of facts on historical costs can not show the true or real worth of the concern at a particular date. The underlying principle there is that the earning power and not the cost is the basis for valuing a continuing business.

(d) **Dual- Aspect Concept**

Dual concept may be stated as "for every debit, there is a credit". Every transaction should have two sided effect to the extent of same amount. This concept has resulted in accounting equation which states that at any point of time the assets of any entity must be equal ( in monetary terms) to the total of owner's equity and outsider's liabilities. This may be expressed in the form of equation:-

$$A \quad \quad L = P$$

Where

A stands for assets of the business.

L stands for liabilities (outsiders' claims) of the business; and

P stands for proprietors' claim (Capital) of the business.

The form of presentation of equation  $A - L = P$  is consistent with the legal interpretation of financial position. Thus, it emphasizes that the proprietary claim is the balance after providing for outsiders' claim against the business from the total assets of the business.

(e) **Accrual Concept**

Accounting attempts to recognize non-cash events and circumstances as they occur. Accrual is concerned with expected future cash receipts and payments: it is the accounting process of recognizing assets, liabilities or income from amounts expected to be received or paid in future. Common examples of accruals include purchases and sales of goods or services on credit, interest, rent (not yet paid), wages and salaries outstanding, taxes outstanding. Thus, we make record of all expenses and incomes relating to the accounting period whether actual cash has been disbursed or received or not.

(f) **Cost Concept**

This concept is closely related to the going concern concept. According to this, an asset is ordinarily recorded in the books at the price at which it was acquired i.e. at its cost price. This 'cost' serves the basis for the accounting of this asset during the subsequent period. This 'cost' should not be confused with 'value'. It must be remembered that as the real worth of the assets changes from time to time, it does not mean that the value of such an asset is wrongly recorded in the books. The book value of the assets as recorded do not reflect their real value. Implication of this concept is to record the assets in the books of accounts only at the actual cost of acquisition. For example, if nothing has been paid for goodwill, it should not be shown in the books of account.

Solution- 3: Trading and Profit and Loss Account

For the year ended 31<sup>st</sup> December 2008

	Amount (Rs.)		Amount (Rs.)
To opening stock	17,445	By sales	27,914
To Purchases 12,970		Less: Returns Inwards	<u>554</u>
Less: Returns outwards <u>840</u>		By closing stock	27,360
12,130			18,792
Less: Goods lost by fire 1,500	10,630		
To wages	754		
To carriage inward	1,240		
To Gross Profit c/d	<u>16,083</u>		
	<u>46,152</u>		<u>46,152</u>
To carriage outward	725	By Gross Profit b/d	<u>16,083</u>
To rent	820	By interest on loan to Ashok 25	
To advertisement expenses 954		Add: Accrued interest <u>25</u>	50
Less: Amount carried forward (Prepaid) <u>200</u>	754	By Provision for Bad debts:	1,200
To discount allowed	330		
To Provision for Discount on Debtors	171		
(5% on Rs. 3420 i.e. Rs. 3,800-380)			
To loss by Fire 1,500			
Less: Claim admitted <u>950</u>	550		
To Bad Debts (400+200) 600			
Add: New provision <u>380</u>	980		
To Manager's Commission (13003x10/110)	1,182		
To net Profit	<u>11,821</u>		
	<u>17,333</u>		<u>17,333</u>

**Balance Sheet of Mr. Subhash Kumar as on 31.12.2008**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital:		Goodwill	1,730
Opening balance	15,000	Patents	500
Add Net Profit	<u>11,821</u>	Deposit with Anand	1,375
	26,821	Loan to Ashok	1,000
Less Drawings	<u>3,250</u>	Add Accrued Interest	<u>25</u>
	23,571		1,025
Creditors	3,000	Closing Stock	18,792
Rent Outstanding	130	Debtors	4,000
Commission to Manager	1,182	Less Bad debts	200
		Less Provision for doubtful debts	380
		Less Provision for discount on debtors	<u>171</u>
			3,249
		Insurance Claim	950
		Advertisement expenses	200
		Cash	<u>62</u>
	<u>27,883</u>		<u>27,833</u>



Solution: (4)

Principles of auditing must be complied whenever an audit is carried out. Following principles of auditing, govern, the professional responsibilities of an auditor:-

**1. Integrity, objectivity and Independence.**

Auditor should be straight forward, honest, sincere, fair and should maintain an impartial attitude.

**2. Confidentiality**

Information acquired in the course of work should not disclose to a third party except legal or professional requirement to disclose.

**3. Skills and Competence**

Requisite qualities are:-

General education.

Technical knowledge.

Practical experience.

**4. Work performed by others**

Auditor is entitled to rely on work performed by others.

**5. Documentation**

Documentation is material to provide the evidence

**6. Planning**

In addition to the nature, timing and extent of audit procedure, knowledge of clients business, degree of reliable of internal control and co-ordination of work are the essential pre-requisites of effective audit.

**7. Audit Evidence**

Sufficient and appropriate audit evidence should be obtained by performance of compliance and substantive procedure.

**8. Accounting system and Internal control**

Internal control may provide the assurance to an auditor that the accounting system is adequate and all the required accounting information have been recorded.

**9. Audit Conclusion and reporting**

The auditor should review and assess the conclusions drawn from the audit evidence and its audit report should contain a clear written expression of opinion on the financial information.

Solution: 5 (a):

Internal check means, "Arrangement of duties of staff in such a manner that the work of one person is automatically checked by another during the course of carrying out, recording and processing a transaction".

**General consideration in framing a system of internal check:-**

- 1) No independent control over important aspects.
- 2) Duties should be changed from time to time (without any previous notice)
- 3) Encouragement to go on leave at-least once in a year.
- 4) No permission to have access to books of account who have physical custody of assets.
- 5) Accounting control in respect of each important class of assets.
- 6) Mechanical devices should be introduced.
- 7) Other departments and section's employees should be employed for year end stock taking.
- 8) Financial and administrative powers should be reviewed periodically.
- 9) Accounting procedures should be reviewed periodically.

### **Answer 5(b)**

Auditor has a duty to verify all the assets appearing on the balance sheet and also a duty to verify that there are no other assets which ought to appear on the balance sheet.

Auditor should keep in mind the following general consideration:

**a) Existence:**

Auditor should confirm that all the assets of the concern physically exist on the date of the balance sheet.

**b) Possession:**

Auditor has to verify that all the assets belonging to the concern are its possession i.e. not asset is misappropriated or misused or used for personal purpose by the officer of the concern.

**c) Ownership:**

Auditor should confirm that an asset is legally owned by the concern.

**d) Encumbrance:**

Auditor should ascertain whether the assets of the concern are subject to any charge, lien or encumbrance.

**e) Non omission:**

Auditor should ascertain that there are no unrecorded assets. He has to ascertain that no asset is omitted from the books of the concern.

**f) Subsequent events:**

Auditor should ascertain whether any event after the date of the Balance sheet has affected any item of asset as at the year end.

**g) Report:**

Under CARO, 2003 the auditor has to report on whether management has conducted any physical verification of the fixed assets and stocks and major differences between such physical inventory and the book records.

**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 1 (a) (i)**

As per Section 4(1)(b) of The Employee's Compensation Act, 1923, the amount of compensation in case of permanent total disablement results from the injury is an amount equal to 60% of the monthly wages of the deceased employee multiplied by the relevant factor OR Rs. 1,40,000/- whichever is more.

**Answer to Question No. 1 (a) (ii)**

1. As per Section 4(1)(c) of The Employee's Compensation Act, 1923, the amount of compensation in the case of permanent partial disablement results from injury specified in Schedule-I, will be such percentage of the compensation which would have been payable in the case of permanent total disablement as is specified therein as being the percentage of the loss of earning capacity caused by that injury; and
2. The amount of compensation in the case of injury not specified in Schedule-I, such percentage of the compensation payable in the case of permanent total disablement as is proportionate to the loss of earning capacity (as assessed by the qualified medical practitioner) permanently caused by the injury.

**Answer to Question No. 1 (b) (i)**

As per Section 2 (13) of The Employees' State Insurance Act, 1948, "immediate employer" in relation to employees employed by or through him, means a person who has undertaken the execution, on the premises of a factory or an establishment to which this Act applies or under the supervision of the principal employer or his agent, of the whole or any part of any work which is ordinarily part of the work of the factory or establishment of the principal employer or is preliminary to the work carried on in, or incidental to the purpose of, any such factory or establishment, and includes a person by whom the services of an employee who has entered into a contract of service with him are temporarily lent or let on hire to the principal employer and includes a contractor.

**Answer to Question No. 1 (b) (ii)**

As per Section 2 (17) of The Employees' State Insurance Act, 1948, "principal employer" means-

1. In a factory, the owner or occupier of the factory and includes the managing agent of such owner or occupier, the legal representative of a deceased owner or occupier, and where a person has been named as the manager of the factory under the Factories Act, 1948, the person so named;
2. In any establishment under the control of any department of any Government in India, the authority appointed by such Government in this behalf or where no authority is so appointed, the head of the Department;
3. In any other establishment, any person responsible for the supervision and control of the establishment.

**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 2 (a)**

**As per Chapter IV of The Factories Act, 1948**, safety provisions are as follows:

**Section 21** states 'Fencing of machinery' in every factory the following, namely:-

- i) every moving part of a prime mover and every flywheel connected to a prime mover, whether the prime mover or flywheel is in the engine house or not;
- ii) the headrace and tailrace of every water-wheel and water turbine;
- iii) any part of a stock-bar which projects beyond the head stock of a lathe; and
- iv) the following, namely:-
  - (a) every part of an electric generator, a motor or rotary converter;
  - (b) every part of transmission machinery; and
  - (c) every dangerous part of any other machinery;

shall be securely fenced by safeguards of substantial construction which shall be constantly maintained and kept in position while the parts of machinery they are fencing are in motion or in use;

**Section 22** states that, where in any factory it becomes necessary to examine any part of machinery, while the machinery is in motion, or, as a result of examination, to carry out lubrication or other adjusting operation; or any mounting or shipping of belts or lubrication or other adjusting operation, is required, such examination or operation shall be made or carried out only by a specially trained adult male worker wearing tight fitting clothing (which shall be supplied by the occupier) whose name has been recorded in the register prescribed in this behalf and who has been furnished with a certificate of his appointment.

**Section 23** states that, no young person shall be required or allowed to work at any dangerous machine, unless that person has been fully instructed as to the dangers arising in connection with the machine and the precautions to be observed and has received sufficient training in work at the machine, or is under adequate supervision by a person who has knowledge and experience of the machine.

**Section 24** states that, in every suitable striking gear or other efficient mechanical appliance shall be provided and maintained and used to move driving belts to and from fast and loose pulleys which form part of the transmission machinery, and such gear or appliances shall be so constructed, placed and maintained as to prevent the belt from creeping back on to the fast pulley; and driving belts when not in use shall not be allowed to rest or ride upon shafting in motion.

**Section 26** states that, in all machinery driven by power and every screw, bolt or key on any revolving shaft, spindle, wheel or pinion shall be so sunk, encased or otherwise effectively guarded as to prevent danger; and all spur, worm and other toothed or friction gearing which does not require frequent adjustment while in motion shall be completely encased, unless it is so situated as to be as safe as it would be if it were completely encased.

**Section 27** states that, no woman or child shall be employed in any part of a factory for pressing cotton in which a cotton opener is at work.

**Section 28** states that, in every factory; every hoist and lift shall be of good mechanical construction, sound material and adequate strength and shall be sufficiently protected by an enclosure with gates.

**Section 31** states that, if in any factory any plant or machinery or any part is operated at a pressure above atmospheric pressure, effective measures shall be taken to ensure that the safe working pressure of such plant or machinery or part is not exceeded.

**Section 32** states that, in every factory all floors, steps, stairs, passages and gangways shall be of sound construction and properly maintained and shall be kept free from obstructions and substances likely to cause persons to slip and where it is necessary to ensure safety, steps, stairs, passages and gangways shall be provided with substantial handrails.

**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 2 (b)**

Contracts on the basis of performance may be classified as follows:-

1. **Executed contract:**

'Executed' means that which is done. An executed contract is one in which both the parties to the contract have performed their respective obligations.

Example:- A agrees to paint a picture for B for Rs. 100. When A paints the picture and B pays the price i.e. when both the parties perform their obligations, the contract is said to be executed.

2. **Executory Contract:**

'Executory' means that which remains to be carried into effect. An executory contract is one in which both the parties have yet to perform their obligations.

Example:- In the above example, the contract is said to be executory if A has not yet painted the picture and B has not paid the price.

**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 3 (a)**

**Forged instruments:** Forgery is the fraudulent making or alteration of a negotiable instrument to the prejudice of another man's right. If any of the signatures on the instrument is forged, the signature in question is wholly in-operative and no person, even if acting in good faith, can acquire rights under the instrument.

**Answer to Question No. 3 (b)**

**Unilateral Contract:** A unilateral contract is one in which only one party has to fulfil his obligation at the time of the formation of the contract, the other party having fulfilled his obligation at the time of the contract or before the contract comes into existence.

**Answer to Question No. 3 (c)**

Any person is a 'holder in due course', if he fulfils the following conditions:

1. That, for consideration, he became (i) the possessor of the negotiable instrument, if payable to bearer, or (ii) the payee or indorsee thereof, if payable to order.
2. That he became the holder of the instrument before its maturity. If the instrument is taken after it is due, the person taking it has, as against the other parties, only the rights of his immediate transferor.
3. That he became the holder of the instrument in good faith, i.e., without sufficient cause to believe that any infirmity in the instrument or defect existed in the title of the person from whom he derived his title.

Privileges of a holder in due course are as follows:-

1. **Inchoate stamped instrument:** A person, who has signed and delivered to another a stamped but otherwise inchoate instrument, is precluded from asserting, as against a holder in due course, that the instrument has not been filled in accordance with the authority given by him, the stamp being sufficient to cover the amount. (Section 20)
2. **Liability to prior parties:** Every prior party to a negotiable instrument is liable thereon to a holder in due course until the instrument is duly satisfied. (Section 36)
3. **Conditional delivery:** If a bill or note is negotiated to a holder in due course, the other parties to the instrument cannot avoid liability on the ground that the delivery of the instrument was conditional or for a special purpose only. (Section 46)
4. **Instrument cleansed of all defects:** Any defect in the title of the transferor will not affect the rights of the holder in due course even if he had knowledge of the prior defect provided he himself is not a party to the fraud. (Section 53)
5. **Instrument obtained by unlawful means or for unlawful consideration:** The defences on the part of a person liable on a negotiable instrument that it has been lost, or obtained from him by means of an offence or fraud or unlawful consideration, cannot be set up against a holder in due course. (section 58)
6. **Every holder is a holder in due course:** The law presumes that every holder is a holder in due course, although the presumption is rebuttable. (Section 118)
7. **Estoppel against denying original validity of instrument:** In a suit on a negotiable instrument by a holder in due course, the validity of the instrument as originally made or drawn cannot be denied. (Section 120)
8. **Estoppel against denying capacity of payee to indorse:** No indorser of a negotiable instrument is, in a suit thereon by a subsequent holder, permitted to deny the signature or capacity to contract of any prior party to the instrument. (Section 121)

**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 4 (a)**

If a person from the State of Jammu & Kashmir provides taxable services outside its State to any part of India, the services so provided will be liable to service tax, as the service tax is applicable on the destination principle.

'Yes', The Company is liable for service tax.

**Answer to Question No. 4 (b)**

As per Rule 4(2) where a person, liable to pay service tax on a taxable service-

- i) provides such service from more than one premises or office; or
- ii) receives such service in more than one premises or offices (applicable when service tax is payable by service recipient); or
- iii) is having more than one premises or offices, which are engaged in relation to such service in any other manner, making such person liable for paying service tax.

AND

has centralized billing system or centralized accounting system in respect of such service, and such centralized billing or centralized accounting systems are located in one or more premises, that person may, at its option, register such premises or offices from where centralized billing or centralized accounting systems are located.

**Answer to Question No. 4 (c)**

Advantages of VAT are as follows:-

- (i) Easy to Administer & Transparent: This system of charging tax is easy to administer because of its simplicity. It is transparent also, as tax is to be charged in every bill and there will be no local statutory forms.
- (ii) Less Litigation: There will be no litigation with respect to allowability of items, as under VAT, no items will be specified in the registration certificate of the dealer. The dealer will be allowed to purchase any of the items of his choice in which he intends to deal.
- (iii) Tax Credit on purchase of Capital Goods: The dealer will be allowed to purchase capital goods for manufacturing after paying sales tax and will be entitled to get set off sales tax paid on such purchases from his sales tax liability, which will arise on the sales made by him.
- (iv) Abolition of Statutory Forms: There are no forms under VAT.
- (v) Self- Assessment: Dealers are not required to appear before the Assessing Authority for their yearly assessments, as under VAT, there is provision for self-assessment.
- (vi) Deterrent against Tax Avoidance: It will act as deterrent against tax avoidance.
- (vii) No Cascading Effect: It does not have cascading (tax on tax) effect due to system of deduction or credit mechanism.
- (viii) Effective Audit & Enforcement Strategies: The input credit method encourages better compliance since the purchaser seeks an invoice to get input tax credit.
- (ix) Removal of Anomaly of First Point Taxation: VAT eliminates the limitations of single point tax either at first point or last point.
- (x) Competitiveness of Exports: Export can be freed from domestic trade taxes in real sense.
- (xi) Economic Advantage: Buoyant Revenue, Efficient tax collection and interference in market forces is minimum.



**Solution to Paper 7<sup>th</sup> (Industrial, Commercial Laws & Direct Taxes)**  
**SAS-2 Examination Session-2/2012**

**Answer to Question No. 5 (a)**

Computation of Tax Liability of Mrs. X for the previous year 2011-12 as under:

		(in Rs.)
Income from Salary	(A)	6,00,000
Loss under the Head House Property	(B)	(-) 1,00,000
Income from Other Sources	(C)	1,00,000
<b>Gross Total Income</b>	<b>(A plus B plus C) = D</b>	<b>6,00,000</b>
Deduction: Under Section 80-C	-Contribution to PPF Rs. 70,000 -Repayment of loan taken from Bank for purchase of a residential house Rs. 50,000 Total Rs. 1,20,000 restricted to (E) Rs. 1,00,000	1,00,000
<b>Taxable Income</b>	<b>(D minus E)</b>	<b>5,00,000</b>
Tax on above income:		
Upto 1,90,000	Nil	
1,90,001 to 5,00,000 @ 10%	Rs. 31,000	
Tax	Rs. 31,000	
Add: Education Cess and Secondary Higher Education Cess @ 3%	Rs. 930	
<b>Total Tax Liability</b>	<b>Rs. 31,930</b>	<b>31,930</b>

**Answer to Question No. 5 (b) (i)**

FDS under section 194C of the Income Tax Act, 1961 is to be deducted @ 1%, if payment be made to individual contractor.

In the following cases tax is not required to be deducted at source:

No deduction shall be made from the amount of any sum credit or paid or likely to be credited or paid to the account of, or to, the contractor, if such sum does not exceed Rs. 30,000, and where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year do not exceed Rs. 75,000.

**Answer to Question No. 5 (b) (ii)**

FDS under section 194C of the Income Tax Act, 1961 is to be deducted @ 2%, if payment be made to any other entity.

In the following cases tax is not required to be deducted at source:

No deduction shall be made from the amount of any sum credit or paid or likely to be credited or paid to the account of, or to, the contractor, if such sum does not exceed Rs. 30,000, and where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year do not exceed Rs. 75,000.

Q.No.1(a) NOTES TO ACCOUNT:

Notes to account are an important requirement in providing a true and 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 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 sections, 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 Revenue Account. Net Revenue and Appropriation Account. Balance Sheet or any of the other Statements or Schedules. Similarly, relevant Schedule number/statement number should also be stated against the note.

The matters included in the attached list must be disclosed in 'Note to Accounts' by every Board of Directors except in cases where any of item are not applicable to a Board. This list, however, is not intended to be an exhaustive list and, therefore, a Board would have to select other matters for which a note would be essential in the Annual Accounts.

## Q.No.1(b)

Supply cum erection works (Turn Key jobs) for which a lump-sum contract is given is defined as a contract for complete work, which a contractor agrees to execute with all its contingencies in accordance with drawing & specification for a fixed sum subject to such conditions as may be laid down by the Board. These refer to those contracts which include erection/installation of the equipment supplied.

The procedure for the passing of supplier's bill for running payments will be similar to that described in Chapter XIV 'Work undertaken by Contractors' with the only differences being that:-

- (i) instead of the relevant work being debited, the contract in progress account (Account code 15.1) will be debited and;
- (ii) The measurement Book (Form CE-23) will be substituted by a certificate issued by a responsible officer (not below the rank of SDO) certifying that by a superficial or general measurement or by some other suitable method laid down by the Board (which should be specified), that he has satisfied himself that the value of the work done is not less than a specified amount in conformity with the contract agreement and that with the exception of authorized additions and alterations, work has been done according to the prescribed drawing and specifications. Detailed measurements must invariably be taken in respect of additions and alterations.

(Marks:10+10=20)

Q.No.2 (A)

STATEMENT OF COST AND PROFIT  
FOR THE YEAR ENDED 31.12.2011

	Rs.	Rs.
Opening stock of Raw materials	40,000	
Add: Purchase of Raw materials	4,00,000	
	4,40,000	
<u>Less: Closing stock of Raw materials</u>	<u>50,000</u>	
Cost of Raw Materials Consumed		3,90,000
Direct labour		<u>3,00,000</u>
Prime Cost		6,90,000
Factory Overheads:		
Indirect Labour	50,000	
Lubricants	10,000	
Insurance on Plant	3,000	
Power	30,000	
Depreciation on Machinery	50,000	
Factory Rent	60,000	
Property Tax on Factory Building	<u>11,000</u>	2,14,000
Total Manufacturing Cost		9,04,000
Add: Opening work-in-progress		10,000
		9,14,000
<u>Less: Closing Work-in-Progress</u>		<u>14,000</u>
Factory (manufacturing) Cost		9,00,000
Administration Expenses		1,00,000
Cost of production		10,00,000
Add: Opening Stock of Finished Goods		1,00,000
		11,00,000
<u>Less: Closing stock of Finished Goods</u>		<u>1,50,000</u>
Cost of Goods sold		9,50,000
<u>Selling Overheads:</u>		
Sale Commission	60,000	
Salaries of Salesmen	1,00,000	
Carriage Outward	20,000	1,80,000
Cost of Sales		11,30,000
profit		70,000
Sales		12,00,000

Q.No.2(b)(i)

Direct Cost is the cost which is incurred directly for production/manufacturing such as Material, Labour etc, whereas Indirect cost is the cost incurred on supporting services such as rent of building, management salaries, machinery depreciation etc. The nature of the business and the cost unit chosen will determine which costs are direct and which are indirect. For example, the hire of a mobile crane for use by a contractor at site would be regarded a direct cost, but if the crane is used as a part of the services of a factory, the hire charges would be regarded as indirect cost because it will probably benefit more than one cost centre.

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

Fixed costs are commonly described as those which remain fixed in total amount with increase or decrease in the volume of output or productive activity for a given period of time. These fixed costs are constant in total amount but fluctuate per unit as production changes. These costs are known as period costs because these are dependent on time rather than on output. Variable costs are those which vary in total in direct proportion to the volume of output.

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

(i) Controllable costs are those which can be influenced by the action of a specified member of an undertaking, that is to say, costs which are at least partly within the control of management. An organization is divided into a number of responsibility centres and controllable costs incurred in a particular cost centre can be influenced by the action of the manager responsible for the centre.

(ii) uncontrollable costs are those which cannot be influenced by the action of a specified member of an undertaking, that is to say, which are not within the control of management. Most of the fixed costs are uncontrollable.

Q.No.2(C)(i)

Break Even Point:

Break Even Point is that point of sales where there is no profit or loss to a business Unit. A business is said to break even when its total sales are equal to its total costs. At this point, contribution is equal to fixed cost.

Q.No.2(C)(ii)

Margin of Safety:

Margin of safety is the difference between the actual sales and the sales at break even point. One of the assumptions of marginal costing is that output will coincide sales, so margin of safety is also the excess production over the break even point's output. Sales or output beyond break even point is known as margin of safety because it gives profit, whereas at break even point only fixed expenses are recovered.

(Marks:9+6+5=20)



Q.No.3(b)

Contract no.747 A/C

	To Material	1,70,000	By Work in Progress
To Wages	1,80,000	Work Certified	4,80,000
To Expenses	47,000	Work Un-certified	15,000
To depreciation of Plant( 5000+15000)	20,000	By P&L A/c	
To notional Profit c/d	88,000	(Loss of material by Accident)	6,000
		By Material at Site	4,000
	-----		-----
	5,05,000		5,05,000
To P&L A/c (88,000X $\frac{3}{4}$ X $\frac{3}{4}$ )	44,000	By Notional profit b/d	88,000
To Work in progress (Reserve)	44,000		
	-----		-----
	<u>88,000</u>		<u>88,000</u>

**Balance Sheet**

Liabilities	Rs.	Assets	Rs.
Capital A/c	5,00,000	Building	1,60,000
<u>P&amp;L A/c</u>			
Profit from contract	44,000	Plant in Store	1,80,000
Less: (loss by accident)	<u>6,000</u>	Material in Store	30,000
	38,000	Work in progress;	
Less depreciation:		Certified	4,80,000
on Plant	<u>5,000</u>	uncertified	<u>15,000</u>
in Stores	33,000		
Creditors	12,000		4,95,000
		Less profit (Reserve)	<u>44,000</u>
			4,51,000
		Less Contractor's A/c.	3,60,000
		Material at Site	91,000
		Plant at Site	4,000
		Bank Balance	45,000
	-----		-----
	<u>5,45,000</u>		<u>5,45,000</u>

(Marks 10+10)

Q.No.4(a)

Present variable cost per unit:

Material	=16
Conversion cost	=12
Dealer's margin	= 4
	-----
	=32
Contribution per unit	
selling price	=40
less: Variable cost	=32
	-----
Contribution per unit	= 8

Total contribution on 90,000 units @ Rs.8/-per unit	=7,20,000
Less: Fixed cost	=5,00,000
	-----
Profit	=2,20,000

In both the suggested courses for increasing Sales, The fixed Cost remain unchanged. So, the present profit of Rs.2,20,000/- can be maintained by maintaining the Total contribution at the present level of 7,20,000/-.

In case of :-

- (i) The new sales price will be  $\text{Rs. } 40 - \frac{5}{100} \times 40 = \text{Rs. } 38$

The present dealers margin is Rs.4 and selling price is Rs.40, So it is 10% of selling price. The new dealers margin will also be 10%. So, it will be Rs.3.80 (i.e. 10% of Rs.38).

	New Selling Price	Rs.38
Less:	New variable cost:	
	Material	=16
	Conversion cost	=12
	Dealer's margin	=3.80
		Rs.31.80

New contribution per unit Rs. 6.20

Sales (in units) required to maintain present level of profit:

= Total contribution required

New contribution per unit

$\frac{7,20,000}{6.20} = 1,16,129 \text{ units}$

Suggestion (ii) i.e. Increasing dealers margin by 25%

Present rate of dealers margin 10% of sale

Add: 25% increase  $\left(\frac{10 \times 25}{100}\right) = 2.5\% \text{ of sales}$



Hence New dealers margin = 12.5% of sale

Therefore, new dealers margin is 12.5% of Rs.40 = Rs.5

Selling price = Rs.40

Less: Variable cost

Material = 16

Conversion cost = 12

Dealers margin = 5 = Rs.33

Contribution per unit = Rs. 7

Sales (in units) required to maintain present level of profit:

= Total contribution required

Contribution per unit

= 7,20,000 = Rs.1,02,857

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After making an analysis of the two suggested courses, we come to the conclusion and suggest that second proposal of increasing the dealers margin should be adopted due to the following reasons:-

- (i) Contribution per unit is higher at Rs.7.00 in the second proposal as compared to Rs.6.20 in the first proposal.
- (ii) Sales (in units) required to earn the same level of profit at 1,02,857 in the second proposal as against 1,16,129 units in the first proposal. Lower sales will require lower sale efforts and lesser finance.

Q.No.4(b):

- (i) P/V Ratio  $= \frac{\text{Change in profit in two period}}{\text{Change in Sales in two period}}$   
(Since, fixed expenses remain constant).

$$= \frac{1,25,000 - 1,20,000}{11,70,000 - 11,50,000} = \frac{5000}{20,000} = \frac{1}{4} \text{ i.e. } 25\%$$

- (ii) To calculate break-even point, it is necessary to find out fixed expenses.  
Contribution in the year 2010 when Sales are Rs.11,50,000  
and PV ratio is 25%.

$$\text{Contribution} = \frac{11,50,000 \times 25}{100} = 2,87,500$$

We knew that:-

$$\text{Fixed expenses} = \text{Contribution} - \text{profit} \\ = 2,87,500 - 1,20,000 = 1,67,500$$

$$\text{Break even point:} = \frac{\text{Fixed Expenses}}{\text{PV ratio}} = 6,70,000$$

- (iii) Sales required to earn a profit of Rs.2,40,000

$$\text{Contribution required} = \text{Fixed Expenses} + \text{Profit} \\ = 1,67,500 + 2,40,000 \\ = 4,07,500$$

Sales required to earn contribution of Rs.4,07,500

$$= \frac{\text{contribution}}{\text{PV ratio}} = 16,30,000$$

- (iv) Profit when sales are Rs.21,50,000

$$\text{Contribution:} = \text{Sales} \times \text{PV ratio} \\ = 21,50,000 \times \frac{1}{4} = 5,37,500$$

$$\text{Profit :} = \text{Contribution} - \text{fixed expenses} \\ = 5,37,500 - 1,67,500 = 3,70,000$$

- (v) Variable Cost of two periods;

$$\text{Variable Cost} = \text{Sale} - \text{Profit} - \text{fixed expenses}$$

Variable cost for the

$$\text{Year 2010} = 11,50,000 - 1,20,000 - 1,67,500 = 8,62,500$$

Variable cost for the

$$\text{Year 2011} = 11,70,000 - 1,25,000 - 1,67,500 = 8,77,500$$

(Marks:12+8=20)

**Q.No.5**

(i) Original Monthly Budget for 2012

	Products			Total
	A	B	C	
1) Sales per month in units	8000	4000	6000	
2) Selling price per unit	Rs. 50	Rs. 80	Rs. 100	
3) Sale value (1)X(2)	4,00,000	3,20,000	6,00,000	13,20,000
Direct material	1,60,000 (8000x20)	1,92,000 (4000x48)	2,40,000 (6000x40)	5,92,000
Direct labour Dept-1	40,000	40,000	1,20,000	2,00,000
Dept-2	64,000	16,000	72,000	1,52,000
Variable overheads	24,000	12,000	42,000	78,000
(4) Margin of Cost	2,88,000	2,60,000	4,74,000	10,22,000
(5) Contribution (3-4)	1,12,000	60,000	1,26,000	2,98,000
Less: Fixed overhead				1,50,000
<b>Profit</b>				<b>1,48,000</b>

(ii)	Product-A	product-B	product-C
	Rs.	Rs.	Rs.
Original selling price	50	80	100
Less: Proposed Reduction	2	6	5
	(4% of 50)	(7½% of 80)	5% of 100)
<b>New Selling Price</b>	<b>48</b>	<b>74</b>	<b>95</b>
<b>Direct Material Cost</b>	<b>20</b>	<b>48</b>	<b>40</b>
<b>Direct Labour Cost</b>	<b>5</b>	<b>10</b>	<b>20</b>
Dept-1 @ Rs.5/-per hr. (1hrx5)		(2hrx5)	(4hrx5)
Dept-2 @ Rs.4/-per hr. 8		4	12
	(2hrx4)	(1hrx4)	(3hrx4)
<b>Variable Overheads</b>	<b>3</b>	<b>3</b>	<b>7</b>
<b>Marginal Cost per Unit (2)</b>	<b>36</b>	<b>65</b>	<b>79</b>
<b>Contribution per unit (1)-(2)</b>	<b>12</b>	<b>9</b>	<b>16</b>
<b>Direct labour hours in Dept-2</b>	<b>2 hr</b>	<b>1 hr</b>	<b>3 hr</b>
<b>Contribution per labour hour in Dept-2</b>	<b>6</b>	<b>9</b>	<b>5.33</b>
(Labour being limited in Dept-2)			

Calculation of Maximum Labour Hours available in dept-2

Product	Original Budgeted Sales	Direct Labour Hours/Unit Dept-1	Direct Labour Hours/Unit Dept-2
1	2	3	4
A	8000	2	16,000
B	4000	1	4,000
C	6000	3	18,000
			38,000
		Additional hours to be made available	15,000
		Total revised capacity in hours in Dept-1	53,000

Calculation of Optimal Product Mix:

Since availability of labour hours in Dept-2 is limiting factor optimal product mix will be calculated in relation to labour hours in that department.

Maximum Labour hours available in Dept-2 = 53000

Less: Used for Production of 6000 units of B(max.

sales potential of B) getting 1<sup>st</sup> rank @ 1 hour = 6000

Balance hours available for Product A&C = 47000

Less: used for production of 12000 units of A(max.

Sale potential of A) getting 2<sup>nd</sup> rank @ 2 hr per unit = 24000

Balance hour available in Dept-2 use is for 7666 units = 23000

of C @ 3 hours per unit.

Hence optimal product mix is as follows:-

A = 12000 Units

B = 6000"

C = 7666"

Calculation of Optimal Monthly Profit:

Products	Units	Contribution per unit	Total contribution
A	12000	12	1,44,000
B	6000	9	54,000
C	7666	16	1,22,656
			3,20,656
Less: Fixed Overheads	=150000	:	
Additional Overheads	=100000	:	
Advertisement Cost	=120000		=3,70,000
		Loss :	=49,344

(iii) Calculation of Overtime required in Deptt-2:

Product	Units	Labour hours required Per unit in Deptt-2	Total labour hours required in Deptt-2
A	12,000	2	24,000
B	6,000	1	6,000
C	7666	3	22,998
			<u>52,998</u>
	Less: Normal rates upto		<u>40,000</u>
	Double Rate applicable for		12,998 hours
Effect of Overtime working on optimal profit:			
Loss as calculated above			49,344
Add: Overtime premium i.e. excess payment for 12998 hours in Deptt-2 @ Rs.4/- per hour			51,992
	Revised Loss		<u>1,01,336</u>

(Marks:20)