

H/O Exam

Model Solution SAS Part-2 Session -2/2017

Paper-V



SOLUTION TO QUESTION NUMBER 1:-

Ascertain = Find out

Endure = Tolerate

Hierarchy = Ranking system, grading

Pursuit = Striving towards

Delineation = Trace the outline of, characterization

Organization Objective

The main aim of the organization is to fulfil the demand of the consumer. For this purpose organization conduct research so that to know the need of the consumer. Once it's known organizations create demand and in exchange earn profit. But this whole process success depends on how well organizations accomplish their objectives. Before the industrial revolution the whole management process was done by one man. But today due to advancement of technology and industrial growth it becomes necessary to involve more than one decision maker. Moreover there must be coordination between all decision makers in order to fulfil organization objective efficiently and effectively.

SOLUTION TO QUESTION NUMBER 2:-

- i. Chase your tail.

Meaning - Spending a lot of time and energy doing a lot of things but actually achieving too little.

Sentence - He's been chasing his tail all week collecting data but the report is still not ready

- ii. Deliver the goods

Meaning - Do what is expected or promised.

Sentence - I have given my car to a new mechanic for repair, hope he delivers the goods.

- iii. Shape up or ship out

Meaning - This expression is used to warn someone that if they do not improve their ways, they will have to leave their job.

Sentence - When Tom started neglecting the customers, he was told to shape up or ship out.

- iv. Separate sheep from goats

Meaning - Examining a group of people and deciding their suitability

Sentence - Audition test was conducted by the director to separate sheep from goats

- v. Think on your feet

Meaning - Adjusting quickly to changes and making fast decisions

Sentence - A good sales man must be able to think on his feet to close the deal

B.

- i. Bananas **are being eaten** by the child.

- ii. By whom **was this letter written?**

- iii. **May you be blessed** with happiness!

- iv. Meal **is cooked** by someone every day.

- v. The report **was sent** yesterday.

SOLUTION TO QUESTION NUMBER 3:-

(I)

**XYZ LIMITED, PATIALA
(FINANCE WING)**

To

All Head of departments

Sub: Data for rating exercise of XYZ Limited.

As already communicated with the earlier letter of this office, finance wing of XYZ Ltd. has been nominated as the nodal office for providing the data for rating exercise to the rating agency. In this context, please find attached the format in which the data has been required by the rating agency. This office has marked the name of the office to which the particular points is related. It is requested to provide the data marked to your office at the earliest please.

This is issued with the approval of head of finance wing XYZ Limited, Patiala.

Sd/-

**AO/Finance wing,
XYZ Limited, Patiala.**

DA: As above.

(II)

PSU LIMITED, PATIALA

(PAY & ACCOUNTS OFFICE)

To

All gazetted employees

Sub: Submission of Form no.12 BB under Income Tax Act for finalization of Income Tax for financial year 2016-17.

As CBDT has made it mandatory w.e.f. 1.6.2016 for every salaried employee to furnish details of evidence for deductions of Income Tax under section 192 to the person responsible for making payment of salary. For this purpose form 12BB has been introduced. As such you are requested to ensure submission of form 12BB duly filled along with tentative Income Statement for the financial year 2016-17 annexed with relevant documents complete in all aspects whose salary is being drawn by this office so as to reach latest by 31.12.2016. In case non submission or late submission of requisite documents Income Tax finalization will be made as per record available in the office and any short/excess deduction of Income Tax will be your own responsibility. Please find attached copy of form 12BB and Soft copy (MS excel format), if required, can be downloaded from the HR Portal.

Sd/-

AO/Pay & Accounts,

PSU Limited, Patiala.

Encl.: Performa Form 12BB.

SOLUTION TO QUESTION NUMBER 4:-

(I)

- i. **Ctrl+2**
- ii. **F3**
- iii. **Ctrl+J**
- iv. **Ctrl+H**
- v. **Ctrl+O**

(II)

- i. **10010111.11**
- ii. **5A**
- iii. **9.125**
- iv. **1911**
- v. **1476**

(III) The steps to launch Microsoft Office PowerPoint application in the computer system are as under:-

- i. Click START button on the desktop.
- ii. Click ALL PROGRAMS option from the menu.
- iii. Search for MICROSOFT OFFICE from the sub-menu and click it.
- iv. Search for MICROSOFT POWERPOINT 2010 from the sub-menu and click it.
- v. MICROSOFT POWERPOINT 2010 is launched.

SOLUTION TO QUESTION NUMBER 5:-

(I) The advantages of computerized accounting are:-

Automation: Since all the calculations are handled by the software, computerized accounting eliminates many of the mundane and time-consuming processes associated with manual accounting. For example, once issued, invoices are processed automatically making accounting less time-consuming.

· **Accuracy:** This accounting system is designed to be accurate to the minutest detail. Once the data is entered into the system, all the calculations, including additions and subtractions, are done automatically by software.

· **Data Access:** Using accounting software it becomes much easier for different individuals to access accounting data outside of the office, securely. This is particularly true if an online accounting solution is being used.

· **Reliability:** Because the calculations are so accurate, the financial statements prepared by computers are highly reliable.

· **Scalable:** When your company grows, the amount of accounting necessary not only increases but becomes more complex. With computerized accounting, everything is kept straightforward because sifting through data using software is easier than sifting through a bunch of papers.

· **Speed:** Using accounting software, the entire process of preparing accounts becomes faster. Furthermore, statements and reports can be generated instantly at the click of a button. Managers do not have to wait for hours, even days, to lay their hands on an important report.

· **Security:** The latest data can be saved and stored in offsite locations so it is safe from natural and man-made disasters like earthquakes, fires, floods, arson and terrorist attacks. In case of disasters, the system can be quickly restored on other computers. This level of precaution is taken by Clever Accounting.

· **Cost-effective:** Since using computerized accounting is more efficient than paper-based accounting, than naturally, work will be done faster and time will be saved. When one considers that Clever Accounting, one of the latest online accounting solutions, starts at a low monthly subscription (check out pricing here), then computerized accounting really becomes a no-brainer.

· **Visuals:** Viewing your accounts using a computer allows you to take advantage of the option to view your data in different formats. You can view data in tables and using different types of charts.

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(II)

- i. Calculates the future value of an investment with periodic constant payments and a constant interest rate
- ii. Calculates the net present value of an investment, based on a supplied discount rate, and a series of future payments and income
- iii. Calculates the internal rate of return for a series of cash flows
- iv. Calculates the discount rate for a security
- v. Calculates the yield of a security that pays periodic interest

(III)

- i. Dynamic Hypertext Markup Language
- ii. Floppy Disk Drive
- iii. Synchronous Dynamic Random Access Memory
- iv. Uninterruptible Power Supply
- v. Power Supply Unit

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Model **Solution to Paper-6th (Accounts & Auditing)**
SAS-Part-2/Session 2/2017

Answer to Question No. 1

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
01.04.2016	8% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of Rs.5 each).	1,80,000 90,000	270,000
"	Profit And Loss A/cDr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against Profit And Loss A/c)	90,000	90,000
"	Profit & Loss A/cDr. To Capital Redemption Reserve A/c (Being amount transferred equal to the nominal value of shares redeemed and proceeds of new issue).	1,80,000	1,80,000
"	Capital Redemption Reserve A/c..Dr. To Bonus to Shareholders A/c (Being issue of 1 bonus share to every 4 equity shares held, 40,000x1/4xRs.10)	1,00,000	1,00,000
"	Bonus to Shareholders A/c .Dr. To Equity Share capital A/c (Being the amount capitalised by issue of	1,00,000	1,00,000

Answer to Question No. 1

	bonus shares)		
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid except 1500 share holders).	2,47,500	2,47,500

Balance sheet of Diamond Co. Ltd. as at 01.04.2016.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Issued & Subscribed Capital: 50,000 Equity shares of Rs.10 each fully paid (of the above shares, 10,000 shares have been allotted as fully paid bonus shares)	5,00,000	Fixed Assets	7,00,000
Reserves & Surplus: Capital Redemption Reserve Account (Rs.1,80,000-1,00,000)	80,000	Current Assets (Rs.4,00,000-2,47,500)	1,52,500
Profit & Loss Account (Rs.4,80,000-90,000-1,80,000)	2,10,000		
Current Liabilities: Sundry Creditors	40,000		
Outstanding claim (Preference Shareholders)	22,500		
	8,52,500		8,52,5000

Model **Solution to Paper-6th (Accounts & Auditing)**
SAS-Part-2/Session 2/2017

Answer to Question No.2(1)

Plant and Machinery Account

Dr.	(Rs.)	Cr.	(Rs.)
To Balance b/fd	11,40,000	By Fresh & Co. (parts taken over by M/s Fresh & Co.)	70,500
To M/s Fresh & Co. (New Plant)	22,50,000	By Bank	25,600
		By Depreciation Fund A/c	9,74,900
		By Profit & Loss A/c	69,000
		By Balance c/d	22,50,000
	33,90,000		33,90,000

Answer to Question No.2(2)

Depreciation Fund Account

Dr.	(Rs.)	Cr.	(Rs.)
To Plant and Machinery Account-transfer	9,74,900	By Balance b/fd	9,73,500
		By Depreciation Fund Investments Account (profit)	1,400
	9,74,900		9,74,900

Answer to Question No.2(3)

Depreciation Fund Investments Account

Dr.	(Rs.)	Cr.	(Rs.)
To Balance b/fd	9,73,500	By Bank (sale proceeds)	9,74,900
To Depreciation Fund Account – transfer of profit	1,400		
	9,74,900		9,74,900

Answer to Question No.2(4)

M/s Fresh & Co. Account

Dr.	(Rs.)	Cr.	(Rs.)
To Plant and Machinery Account (parts taken over)	70,500	By Plant and Machinery Account (cost of new Plant and Machinery)	22,50,000
To Bank (payment to settle the account)	21,79,500		
	22,50,000		22,50,000

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Solution to Paper-6th (Accounts & Auditing)
SAS-Part-2/Session 2/2017

Answer to Question No.3(a)

<u>Carrying amount as on 31.12.2016:</u>	<u>(Rs. in lakhs)</u>
➤ Original Cost	Rs.24,500
➤ Depreciation for 3 years on straight line basis [(24,500 – 500) X 3 / 8] =	Rs. 9,000
➤ Carrying amount as on 31.12.2016	<u>Rs.15,500</u>

Answer to Question No.3(b)

Value in Use as on 31.12.2016:

				(Rs. in lakhs)
Year	Cash Inflows	Discount 15%	as per	Discounted Flow
2017	2,000		0.870	1,740
2018	3,000		0.756	2,268
2019	3,000		0.658	1,974
2020	4,000		0.572	2,288
2021	2,000		0.497	994
2021	500		0.497	249
Value in Use				9,513

Answer to Question No.3(c)

Impairment loss as on 31.12.2016:

- Recoverable Amount is higher of Value in Use of Rs.9,513 lakhs and Net selling Price of Rs.10,000 lakhs i.e. Rs.10,000 lakhs.
- **Impairment Loss:**
Carrying amount minus Recoverable amount;
Rs.15,500 lakhs – Rs.10,000 lakhs = Rs.5,500 lakhs

Answer to Question No.3(d)

Depreciation charge for 2017:

- **Revised Carrying amount:**
Carrying amount minus Impairment loss
Rs.15,500 lakhs – Rs.5,500 lakhs = Rs.10,000 lakhs;
- **Depreciation charge for 2017:**
(Rs.10,000 lakhs - Rs.500 lakhs) / 5 = Rs.1,900 lakhs

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Model Solution to Paper-6th (Accounts & Auditing)
SAS-Part-2/Session 2/2017

Answer to Question No. 4(a)

What are the methods of Valuation of Assets?

Valuation of various assets can be made by using different methods. Some of the major methods are as follows:

1. Cost Method

In this method, valuation of assets is made on the basis of purchase price of the assets. It is very simple method of valuation of assets. Sometimes, existence of one assets depends on the existence of another. Then it is difficult to use this method.

2. Market Value Method

Valuation of assets can be made on the basis of market price of such assets. But if same nature of assets is not available in the market, it is very difficult to determine the value of such assets. So, there are two methods related to it. They are:

> Replacement Value Method

If same asset is to be purchased then on the basis of same value, valuation of assets can be done.

> Net Realizable Value

It refers to the price in which such asset can be sold in the market. But expenditure incurred at the sale of such asset should be deducted.

3. Base Stock Method

Under this method of valuation, company should maintain certain level of stock and valuation of stock is made on the basis of valuation of base stock.

4. Standard Cost Method

Some of the business organizations fix the standard cost on the basis of their past experience. On the basis of standard cost, they make valuation of assets and present in the balance sheet.

5. Average Cost Method

It is a simple method for the valuation of such assets which cannot be distinguished. Like petrol, petrol is kept in the tank but e cannot separate its stock on the basis of lot. So, valuation of stock is made adding to all the cost and dividing by the quantity.

Answer to Question No. 4(b)

Importance Of Verification And Valuation Of Assets And Liabilities

Assets and liabilities are very important aspects of business. Balance sheet is prepared on the basis of them and an auditor should prove the true and fairness of information provided by balance sheet. So it is very important for an auditor. Its importance can be highlighted as follows:

1. To Show The Actual Financial Position

Balance sheet is prepared to show the actual financial position of a business. If proper valuation is not made, such balance sheet does not provide true and fair information. So, to provide information about the real financial position, verification and valuation of assets are essential.

2. To Know The Real Position Of Profit And Loss

Depreciation and other expenses on assets will be incorrect if proper valuation of assets is not made. So, to calculate the actual amount of profit and loss, proper valuation of assets and liabilities is necessary.

3. To Increase Goodwill

Proper valuation gives fair information about profitability and financial position of a business. So, people can get information which creates positive attitude towards company. Positive attitude of public increases goodwill.

4. To Assure Shareholders

Valuation and verification provide actual information about assets and liabilities to the shareholders which assure the safety of their investment.

5 Easy For Sale

At the time of sale of the company, it can be sold at the price which is enlisted in the balance sheet, but the assets whose valuation is not made need valuation before selling the company.

6. Easy To Get Loan

Company discloses the balance sheet proved by auditor for public knowledge which increases the trust of the company. Financial institutes provide loan easily to such companies.

7. Easy To Get Compensation

Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

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Model **Solution to Paper-6th (Accounts & Auditing)**
SAS-Part-2/Session 2/2017

Answer to Question No. 5(a)

Discuss the Vouching of Cash Transactions.

In a business concern, Cash Book is maintained to account for receipts and payments of cash. It is an important financial book for business concern. Errors and frauds arise mostly in connection with receipts and payments of cash by making misappropriations wherever possible. Hence the auditor should see whether all receipts have been recorded in cash book and no fictitious payment appears on the payment side of cash book.

➤ General points to be considered while vouching cash transactions:-

- 1) Internal Check System;
- 2) Examination of Test Checking;
- 3) Comparison of Rough Cash Book with the cash Book;
- 4) Examine the method of Depositing Cash Receipts Daily;
- 5) Preparing of Bank Reconciliation Statement;
- 6) Verification of Cash in Hand;
- 7) Ensuring proper Control of Receipts Book.

Answer to Question No. 5(b)

Why are internal controls important?

The overall purpose of internal control is to help a department achieve its mission and accomplish certain goals and objectives. An effective internal control system helps a department to:

- Promote orderly, economical, efficient and effective operations.
- Produce quality products and services consistent with the department's mission.
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- Promote adherence to statutes, regulations, bulletins and procedures.
- Develop and maintain reliable financial and management data, and accurately report that data in a timely manner.

Answer to Question No. 5(c)

Discuss the difference between Verification and Valuation of Assets:

Verification and Valuation of assets are complementary to each other. Until and unless the valuation of assets is made, verification is impossible even though they have some differences which are as follows:

1. Verification is a final work but valuation is needed to the verification.
2. Verification is the work of auditor but valuation is the work of concerned authority or board.
3. Valuation checks the amount shown in accounts but verification checks the items shown in the balance sheet.
4. Valuation is made throughout the year but verification is made at the end of the year.
5. Valuation is based on evidence but verification is based on individual check.

Answer to Question No. 5(d)

Discuss the provisions regarding Maintenance of Cost Records...:

Pursuant to rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014, every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014 maintain cost records in Form CRA-1.

Pursuant to rule 5(2), the cost records referred above shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis.

Pursuant to rule 5(3), the cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilization of resources and these records shall also provide necessary data which is required to be furnished under these rules.

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SAS Part-II, Industrial, Commercial laws & Direct Taxes, Paper-VII

1 (a) Answer

Industrial plant' mean any plant used for any industrial or trade purposes and emitting any air pollutant into the atmosphere.

Occupier: In relation to any factory or premises, means the person who has control over the affairs of the factory or the premises, and includes, in relation to any substance, the person in possession of the substance.

1 (b) Answer

As per section 23 of the Factories Act 1948 (a) No young person shall be required or allowed to work on any machine to which this section applies unless.

- i) He has been fully instructed as to the dangers arising in connection with the machine and the precautions to be observed and
- ii) He has received sufficient training to work on the machine or is under adequate supervision by a person who has a thorough knowledge and experience of the machine.

Machines dangerous for young person's to be specified by the State Government. The State Government shall specify machines which in its opinion are of such a dangerous character that young person ought not to work at them unless the foregoing requirements are complied with.

1(c) Answer

Section 4 provides for amount of compensation as follows:-

An amount equal to 60% of the monthly wages of the injured employee multiplied by the relevant factor;

OR

Rs. 1,40,000, whichever is more.

Section 4 provides for amount of compensation as follows:-

- (i) in case of an injury specified in Part-II of Schedule-I, such percentage of the compensation which would have been payable in the case of

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permanent total disablement as is specified therein as being the percentage of the loss of earning capacity caused by that injury; and
(ii) 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 qualified medical practitioner) permanently caused by the injury.

SAS Part-II, Industrial, Commercial laws & Direct Taxes, Paper-VII

2(a) Answer

Duties of certifying surgeons: The certifying surgeon shall carry out such duties as may be prescribed in connection with----

- (a) the examination and certification of young persons;
- (b) the examination of persons engaged in factories in dangerous occupations or processes;
- (c) the exercising of such medical supervision as may be prescribed for any factory where
 - (i) cases of illness have occurred which it is reasonable to believe are due to the nature of the manufacturing process carried on, or other conditions of work prevailing, therein;
 - (ii) by reason of any change in the manufacturing process carried on is in the substance used therein, there is a likelihood of injury to the health of workers employed in that manufacturing process;
 - (iii) young person are, or are about to be, employed in any work which is likely to cause injury to their health.

2(b) Answer

Dishonor of cheque for insufficiency of funds in the accounts.

Sec 138, where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honor the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall without prejudice to any other provisions of this Act, be punished with imprisonment for a term which may extend to one year, or with fine which may extend to twice the amount of the cheque, or with both:

PROVIDED That nothing contained in this section shall apply unless

- (a) the cheque has been presented to the bank within a period of three months from the date on which it is drawn or within the period of its validity, whichever is earlier.
- (b) the payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice,

in writing, to the drawer of the cheque, within fifteen days of the receipt of information by him from the bank regarding the return of the cheque as unpaid, and

(c) the drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.

Explanation: For the purpose of this section, "debt or other liability" means a legally enforceable debt or other liability.

Comment: As the signature in the cheque is admitted to be that of the accused, the presumption envisaged in Section 118 of the Act can legally be inferred that the cheque was made or drawn for consideration on the date which the cheque bears. Section 139 of the Act enjoins on the Court to presume that the holder of the cheque received it for the discharge of any debt or liability. The burden was on the accused to rebut the aforesaid presumption. K. Bhaskaran, Appellant v, Sankaran Vaidhyan Balan, AIR-1999

2(c) Answer

Appointment of arbitrators (Section 11)

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

(i) A person of any nationality may be an arbitrator, unless otherwise agreed by the parties. (Section 11 (1))

(ii) The parties are free to agree on a procedure for appointment of an arbitrator or arbitrators (Section 11 (2))

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

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

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

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SAS Part-II, Industrial, Commercial laws & Direct Taxes, Paper-VII

3(a) Answer

ESSENTIALS OF A VALID CONTRACT

According to Section 10, "All agreements are contracts if they are made by the free consent of the parties competent to contract, for a lawful consideration and with a lawful object and are not hereby expressly declared to be void,"

The analysis of the provisions of Section 10 shows that a valid contract must have the following essential elements:

1. **Proper offer and Acceptance:** There must be at least two parties- one making the offer and the other accepting it, Such offer any acceptance must be valid. An offer to be valid must fulfill certain conditions, such as it must intend to create legal relations, its term, must be certain and unambiguous, it must be communicated to the person to whom it is made, etc. An acceptance to be valid must folds certain conditions, such as it must be absolute and unqualified, it must be made in the prescribed manner, it must be communicated by an authorised person before the offer lapses.
2. **Intention to Create Legal Relationship:** There must be an intention among the parties to create a legal relationship. In case of social or domestic agreements, the usual presumption is that the parties do not intend to create legal relationship but in commercial or business agreements, the usual presumption is that the parties intend to create legal relationship unless otherwise agreed upon.
3. **Capacity of Parties:** The parties to an agreements must be competent to contract. In other words, they must be capable of entering into a contract. According to Section 11 of Indian Contract Act, 1872. "every person is competent to contract who is of the age of majority according to the law to which he is subject and who is of sound mind and is not disqualified from contracting by any law to which he is subject."
4. **Lawful Consideration:** An agreement must be supported by lawful consideration. Consideration means something in return. According to Section 23 of the Indian Contract Act, 1872, " the consideration is considered lawful unless it is forbidden by law or is fraudulent or involves or implies injury to the person or property of another or is immoral or is opposed to public policy."
5. **Free Consent:** There must be free consent of the parties to the contract. According to Section 14, " Consent is said to be free when it is not caused by (i) coercion, (ii) undue influence, (iii) fraud, (iv) misrepresentation, or (v) mistake". If the consent of the parties is not free, then no valid contract comes into existence.

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6. **Lawful Object:** The object of an agreement must be lawful. According to Section 23 of the Indian Contract Act, 1872, "the object is considered lawful unless it is forbidden by law or is fraudulent or involves or implies injury to the person or property of another or is immoral or is opposed to public policy."

7. **Agreement not Expressly Declared Void:** The agreement must not have been expressly declared void under the provisions of Section 24 to 30 of Indian Contract Act, 1872. Under these provisions, agreements in restraint of marriage, agreement in restraint of legal proceedings, agreement in restraint of trade and agreement by way of wager have been expressly declared void.

8. **Certainty of Meaning:** The terms of the agreements must be certain and unambiguous. According to Section 29 of the Indian Contract Act, 1872, "agreements the meaning of which is not certain or capable of being made certain are void." Example: X a dealer in different types of oils agreed to sell 100 tonnes of oil to Y. This agreement is void on the ground of uncertainty because it is not clear what kind of oil is intended to be sold. If, however, the meaning of the agreements could be made certain from the circumstances of the case, it will be treated as valid contract.

9. **Possibility of Performance:** The terms of the agreements must be such as are capable of performance. According to Section 56, "an agreement to do an impossible act is void."

10. **Legal Formalities:** The agreement must comply with the necessary formalities as to writing, registration, stamping etc. If any required in order to make it enforceable by law.

3(b) Answer

The Ministry of Corporate affair, Government of India replaced the Companies Act 1956 with Companies Act 2013 by notification in the Official Gazette, in the Sixty-fourth Year of the Republic of India.

Appointment of directors.—

(1) Where no provision is made in the articles of a company for the appointment of the first director, the subscribers to the memorandum who are individuals shall be deemed to be the first directors of the company until the directors are duly appointed and in case of a One Person Company an individual being member shall be deemed to be its first director until the director or directors are duly appointed by the member in accordance with the provisions of this section.

(2) Save as otherwise expressly provided in this Act, every director shall be appointed by the company in general meeting.

(3) No person shall be appointed as a director of a company unless he has been allotted the Director Identification Number under section 154.

(4) Every person proposed to be appointed as a director by the company in general meeting or otherwise, shall furnish his Director Identification Number and a declaration that he is not disqualified to become a director under this Act.

(5) A person appointed as a director shall not act as a director unless he gives his consent to hold the office as director and such consent has been filed with the Registrar within thirty days of his appointment in such manner as may be prescribed: Provided that in the case of appointment of an independent director in the general meeting, an explanatory statement for such appointment, annexed to the notice for the general meeting, shall include a statement that in the opinion of the Board, he fulfills the conditions specified in this Act for such an appointment.

Removal of directors.—

A company may, by ordinary resolution, remove a director, not being a director appointed by the Tribunal under section 242, before the expiry of the period of his office after giving him a reasonable opportunity of being heard:

Provided that nothing contained in this sub-section shall apply where the company has availed itself of the option given to it under section 163 to appoint not less than two-thirds of the total number of directors according to the principle of proportional representation.

(2) A special notice shall be required of any resolution, to remove a director under this section, or to appoint somebody in place of a director so removed, at the meeting at which he is removed.

(3) On receipt of notice of a resolution to remove a director under this section, the company shall forthwith send a copy thereof to the director concerned, and

the director, whether or not he is a member of the company, shall be entitled to be heard on the resolution at the meeting.

(4) Where notice has been given of a resolution to remove a director under this section and the director concerned makes with respect thereto representation in writing to the company and requests its notification to members of the company, the company shall, if the time permits it to do so,—

(a) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and

(b) send a copy of the representation to every member of the company to whom notice of the meeting is sent (whether before or after receipt of the representation by the company),

and if a copy of the representation is not sent as aforesaid due to insufficient time or for the company's default, the director may without prejudice to his right to be heard orally require that the representation shall be read out at the meeting:

Provided that copy of the representation need not be sent out and the representation need not be read out at the meeting if, on the application either of the company or of any other person who claims to be aggrieved, the Tribunal is satisfied that the rights conferred by this sub-section are being abused to secure needless publicity for defamatory matter; and the Tribunal may order the company's costs on the application to be paid in whole or in part by the director notwithstanding that he is not a party to it.

SAS Part-II, Industrial, Commercial laws & Direct Taxes, Paper-VII

4(a) Answer

Computation of Taxable Income and Tax Liability of Mr X for the Previous Year
2015-16 Assessment Year 2016-17

Particulars	Taxable Amount
<u>Salary Income</u>	
Salary	1050000
Salary in lieu of leave	20000
Free Gas & Water	10000
Concessional Education Facility (As the cost of education does not exceed Rs.1000 per month per child It is not chargeable to Tax (16000-5000=11000)	Nil
Employer Contribution to Recognised Provident Fund (Not taxable being less than 12% of Salary)	Nil
Total Salary Income	1080000
<u>Income from House Property</u>	
Interest on housing loan	(-)75000
Gross Taxable Income	1005000
<u>Deduction under section 80 C</u>	
Recognised Provident Fund 90000	
Principal Repayment of Housing Loan 75000	
Subject to maximum	150000
Taxable Income	855000
<u>Tax Liability</u>	
Income Tax	96000
Add : Educational Cess 3%(2%+1%)	2880
Total Tax Liability	98880

4(b) Answer

1. Winding UP is first stage where assets/liabilities are realized/paid-off; Dissolution is final stage where company ceases to exist.
2. Winding up is carried on by liquidator appointed by company/court; Order for dissolution is given by court only.
3. Liquidator can represent company during winding up till dissolution; After dissolution liquidator don't represent company.
4. Creditors can prove their debts in winding up but not on dissolution.
5. Winding up always don't lead to dissolution.

4(c) Answer

The act has been enacted to formulate the principles regarding the following:

- i. To formulate principles for determining when a sale or purchase of goods takes place:
 - in the course of Inter-State trade or commerce or
 - outside a State or
 - in the course of import into or export from India.
- ii. To provide for levy and distribution of taxes on sale of goods in the course of Inter State trade or commerce.
- iii. To declare certain goods to be of a special importance in Inter-State trade or Commerce.
- iv. To specify the restriction and condition to which state laws imposing taxes on sale or purchase of goods of special importance in the course of Inter-State trade and commerce shall be subjected to.

Model Solution
session 2/2017

SAS Part-II, Industrial, Commercial laws & Direct Taxes, Paper-VII

5(a) Answer

Negative list of services.

In terms of section 66B of Act, service tax will be leviable on all services provided in the taxable territory by a person to another for a consideration other than the services specified in the negative list. The services specified in the negative list therefore go out the ambit of chargeability of service tax. The negative list of service is specified in the act itself in section 66D. In all there are seventeen heads of services that have been specified in the negative list.

Various services under negative list: (Any five required as per question)

- (a) Services by Government or a local authority.
- (b) Services by the Reserve Bank of India.
- (c) Services by a foreign diplomatic mission located in India.
- (d) Services relating to agriculture or agriculture produce.
- (e) Trading of goods.
- (f) Any process amounting to manufacture or production of goods.
- (g) Selling of Space or times slots for advertisements.
- (h) Service by way of access to a road or a bridge on payment of toll charges.
- (i) Betting, gambling or lottery.
- (j) Admission to entertainment events or access to amusement facilities.
- (k) Transmission or distribution of electricity by an electricity transmission or distribution utility.
- (l) Services by way of education.
- (m) Services by way of renting of residential dwelling.
- (n) Services by way of extending deposits loans etc.
- (o) Services of transportation of passengers, with or without accompanied belongings.
- (p) Services by way of transportation of goods.
- (q) Funeral burial crematorium or mortuary services including transportation of the deceased.

5(b) Answer

VAT incidence under section-6:- Every person except the casual dealer and a trader who deals in tax free goods shall be liable to pay the tax under this act, if his turnover exceeds the taxable quantum. The taxable

quantum means the maximum sale which is exempted from tax under VAT and for which no registration is necessary. In other words, the liability to pay tax under VAT arises only when turnover of the dealer exceeds a particular limit and that limit is called taxable quantum.

TOT incidence:- Every person except a casual trader or any trader who deals in tax free goods shall be liable to pay tax under TOT if he is registered under TOT his turnover exceeds taxable quantum. For registration as a registered person for TOT taxable quantum is Rs. 5 Lakh.

5(c) Answer

Subject:- Adoption of Annual Accounts

Kind of Meeting: Annual General Meeting (AGM)

Type of Resolution: Ordinary Resolution

"RESOLVED that the director's report, audited balance sheet as on 31.03.2016 and profit and loss account for the year ended 31.03.2016 and auditor's report thereon be and the same are hereby received, considered and adopted."

5(d) Answer

- i) True
- ii) False
- iii) False
- iv) False
- v) True

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MODEL SOLUTION
SAS Part-2
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Works and Management Accounting

Question no. 1.

- a) The action of the Executive Engineer is not correct. According to Para 37.8 of Capital Expenditure & Fixed Assets Manual, when check measurements recorded by a SDO reveals the difference exceeding 2 percent in the case of original work, the whole work should be measured by the SDO himself and payment made thereon. The case should be referred to the higher authority for action against the subordinate.
- b) The action of the Executive Engineer is correct and in accordance with the Clause 3.28 of Capital Expenditure & Fixed Assets Manual which interalia provide that the acceptance by a competent authority of a budget estimate which includes specific provision for expenditure on a work which is in progress may be regarded as reviving the sanction to the estimate for the year in which the provision is made.
- c) The action of the Executive Engineer is not correct. According to Para 11.6 (b) of Capital Expenditure & Fixed Assets Manual, if at any time subsequent to the execution of a contract on through rate basis, the contractor desires the issue to him, for use on a work, of materials which exist in the Board's/Corporation's stocks but the supply whereof by the Board/corporation was not provided for in the contract, the material should not be issued without the authority of the Divisional officer. The rate charged in such a case should be the market rate prevailing at the time of the supply or the issue rate whichever may be greater and should include the storage charges.
- d) The action of SE is not in order. According to Para 9.1 of Capital Expenditure and Fixed Assets Manual, any anticipated or actual savings on a sanctioned estimate for a definite project or work should not, without the sanction of the competent authority, be applied to carry out additional work not contemplated in the original project or work.

MODEL SOLUTION
SAS Part-2
PAPER-VIII Session 2/2017
Works and Management Accounting

Question no. 2 (A)

As a rule, every endeavor should be made to maintain a system under which no payments are made except for works actually done and measured. Exceptions are permitted in the following cases:

1. Cases in which a contractor, whose contract is for finished work, requires an advance on the security of the material brought to site. The Divisional Officer may sanction advances up to an amount not exceeding 75 % of the values (as assessed by himself) of such material, which should not of perishable in nature. In such cases, a formal agreement is drawn up with the contractor under which the corporation secures a lien on the materials and is safeguarded against losses due to the contractor postponing the execution of work or to the shortage or misuse of the materials and against the expenses entailed for their proper watch and safe custody. Payment of such advances should be made only on the certificate of an officer not below the rank of sub divisional Officer:

- a. That the quantities of material upon which the advances are made have actually been brought to site;
- b. That the contractor has not previously received any advance on that security and
- c. That the materials are those required by the contractor for use on items of work for which rates for finished work have been agreed upon.

Recoveries of secured advance should made from the bills for work done as the material are used and the necessary deductions are made from the items of work in which they are used.

2. An advance payment i.e. a payment on a running account to a contract for work actually executed but not measured, may be made on the certificate of an Officer (not below the rank of sub divisional officer) to the effect that not less than the quantity of work paid for has actually been done. Final payments may however in no case be made without detailed measurements.
 3. Cases in which in the interest of works, it is absolutely necessary to make petty advances. In such cases advances up to Rs. 50/- may be allowed by Sub divisional Officers.
 4. In all other cases, the sanction of the Board must be obtained, which will be accorded if indispensable and provided that the necessary precautions are taken for securing the Corporation against loss. Such a system will not be allowed to become general or to continue longer than is absolutely essential.
- ’) It is a fundamental rule that no work shall be commenced unless a properly detailed design and estimate have been sanctioned, allotment of funds made and order for its commenced issued by competent authority.

MODEL SOLUTION
SAS Part-2
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Works and Management Accounting

Question no. 3

(a) Before a work is given on contract, the Divisional Officer prepares "Contract Documents" to include:

1. A complete set of drawings showing the general dimensions of the proposed work, and details of the various parts.
2. A complete specification of the work to be done and of materials to be used, unless reference can be made to some standard specification.
3. A schedule of quantities of the various description of work.
4. A set of conditions of contract to be complied with by the person whose tender may be accepted.

(b) The Disbursing Officer should perform the following checks while signing the cashbook.

1. Compare each entry of payment with the gross amount chargeable as shown in the connected voucher seeing at the same time that it bears (i) a payment order recorded by himself or by some authorized officer and (ii) the certificate of disbursement signed by himself or an authorized officer, and ticking off each voucher as it is passed.
2. While examining the posting of vouchers on the payment side, see that all deductions shown in the vouchers are posted in adjustment column on the receipt side of the cashbook.
3. Verify the total of the posting in the Bank column on the payment side by reference to the total recorded on reverse of the counterfoils of cheques.

(c)

- Portfolio direction – seeks to ensure that all an organization's projects are identified within one portfolio. Projects should be evaluated and directed mindful of the organization's strategic aims and constraints.
- Project sponsorship – seeks to ensure an effective link between the senior executive body and the management of the project. The sponsoring role has decision making, directing and representational accountability.
- Project management effectiveness and efficiency – seeks to ensure that the teams responsible for the project are capable of achieving the objectives that are defined at project approval points.
- Disclosure and reporting – seeks to ensure that the content of project reports will provide timely, relevant and reliable information that supports the organization's decision making processes. It is important to distinguish between key drivers for success and key indicators of success. An effective reporting process will therefore include measures of both.

MODEL SOLUTION
SAS Part-2
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Works and Management Accounting

Question no. 4

- A. Budgetary control is not a fool-proof tool and it has following limitations.
1. Since an effective budgetary programme reveals the performance of employees, there may not be wholehearted co-operation from inefficient employees for budgetary programmes.
 2. Budgets are based on estimates and hence the effectiveness of budgetary control depends on the accuracy with which the estimates are made about the future.
 3. Conditions and circumstances under which an enterprise functions are not static and hence, budgetary control to be effective must be so flexible as to suit the requirements of any change in the circumstances. But it is very difficult to attain flexibility in budget making.
 4. Budgetary control will not be effective if no arrangements are made for proper supervision and administration.
 5. Budgeting is only one of the tools of management. But often budgeting is taken as a substitute for management rather than as a tool of management. This may result in harmful consequences for the business.
 6. Budgetary control programme is very cumbersome and time consuming process.
 7. The manager is discouraged from undertaking activities for which provision was not been made in the budget, but which are otherwise useful for the enterprise. Thus, the managers are discouraged from taking initiative.
- B. Carrying costs are the total costs of holding inventories. These costs will not be included if inventories are not carried. These costs include:
1. The costs 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 material in stock are not useable because of change in process of product.
 4. Insurance cost.
 5. Cost of spoilage in handling of materials.
- C. 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 throughout 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.
- D. The following are the difficulties in installing Cost Accounting System
1. Lack of enthusiasm and support from top management because they are not 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 falling it keep the system up to date.

MODEL SOLUTION**SAS Part-2****PAPER-VIII Session 2/2017****Works and Management Accounting****5 (A) COMPONENTS OF TARIFF FOR DISTRIBUTION BUSINESS**

The tariff for sale of electricity by distribution licensee for its distribution business shall comprise of two parts:

- A. Wheeling Charges;
- B. Retail Supply Charges.

The ARR of the wheeling and retail supply shall comprise the following components:

For Wheeling Charges :

- a). Interest and finance charges
- b) Depreciation
- c) Operation and Maintenance Expenses
- d) Return on Equity
- e) Interest on Working Capital
- f) Statutory levies and taxes, if any

Less

- i. Non-Tariff income
- ii. Income from other business, to the extent specified for wheeling tariff

For Retail Supply Charges

- a) Interest and finance charges
- b) Depreciation
- c) Operation and Maintenance Expenses
- d) Return on Equity
- e) Interest on Working Capital
- f) Cost of Power Purchase
- g) Transmission charges
- h) Wheeling Charges
- i) Bad and doubtful debts
- j) Statutory levies and taxes, if any

Less

- i. Non-Tariff income
- ii. Income from other business
- iii. Any grant/subvention, other subsidy provided by the Government

MODEL SOLUTION
SAS Part-2
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Works and Management Accounting

5 (B)

i. Auxiliary Energy Consumption:

In relation to a Generating plant means the quantum of energy consumed by auxiliary equipment of the generating plant and transformer losses within the generating plant, and is expressed as a percentage of the sum of gross energy generated at the generator terminals of all the units of the generating plant; and

In relation to a Transmission system means quantum of energy consumed in the AC sub-station or HVDC substation for the purpose of air-conditioning, lighting, etc.;

ii. Beneficiary :

In relation to Transmission licensee means the person who has availed of the transmission system on payment of transmission charges. This includes a distribution licensee, a transmission licensee, a person who has set up a captive generating plant or a generating company including merchant power plant or a consumer availing open access, utilising transmission system of a transmission licensee. Medium term and short term open access customers shall not be treated as beneficiaries;

In relation to Generating plant means the person purchasing electricity generated at such a generating plant whose tariff is determined under these regulations.

iii. Plant Availability Factor :

In relation to a generating plant for any period means the average of the daily declared capacities (DCs) for all the days during that period expressed as a percentage of the installed capacity in MW less the normative auxiliary energy consumption.

iv. Scheduled Generation :

The ex-bus quantum of energy scheduled in MW by the State Load Despatch Centre to be injected into the grid by a generating plant.