

SAS Part-II

PAPER-V (DRAFTING AND COMPUTER KNOWLEDGE)

MODEL SOLUTION

**Note:** For Non Multiple Choice Questions – The questions may have more than one ways to attempt, which the expert paper checker may also find suitable/correct.

1.

A. Précis :

Human mind is constantly wavering between accepting and rejecting a thing. Any idea can be agreed or disagreed based on one's understanding or exposure. Surprisingly, any reality which is not within the range of comprehension may be denied, yet the same reality is often asserted. The reason behind this uncertainty of mind is lack of awareness about the true nature of reality. Every contemplation is based on some perception or experience, therefore, there is no perfect doctrine or principle. Rather, many times proven reality seems to be fake. So it is very difficult to find real purpose of our existence. On one hand we perceive facts as real, on the other hand same facts are questioned for authenticity. This is all due to the fact that there is no sure shot truth. Actually, anything that is tangible or objective in nature, is accepted as real, whereas that which is beyond our five senses is doubted. But a subjective idea is accepted after giving it an objective viewpoint. Physical science tries to study reality beyond subjectivity but in a systematic way that builds and organises knowledge in form of testable explanations and predictions about the universe.

Title:

'Physical Science – the study of reality'

B. Any four:

- i) Assertion / Pronouncement / Confirmation
- ii) Contradiction / Reversal
- iii) Space / Universe
- iv) Certainty / Assurance / Confidence
- v) Bodily / Physical

2.

**A) CORRECTION**

- i) The teacher will give us a test tomorrow.
- ii) I asked for the favour of your granting me leave.
- iii) There were no fewer than six hundred members in the Constituent Assembly.
- iv) I got my sister admitted to the college.

**B) MEANINGS OF PHRASES/IDIOMS AND SENTENCES**

- i) Turn a deaf ear - (disregard): He turned a deaf ear to my advice.
- ii) Flesh and blood - (human body or one's own kin or relatives): This cold weather is more than flesh and blood can stand.
- iii) Through thick and thin - (under all conditions, undaunted by anything): She stood by him through thick and thin.
- iv) Loaves and fishes - (materialistic gains/wealth): Today, every leader is concerned about his own loaves and fishes.

**C) CHANGING THE VOICE**

- i) People speak English all over the world.
- ii) Those who help themselves are helped by the God.
- iii) We feel the need to whitewash the house.
- iv) It was expected by the Romans that they would conquer Carthage. or Carthage was expected by the Romans to be conquered by them.

**D) PUNCTUATION**

One day, walking together up a hill, I said to Friday, "Do you not wish yourself to be in your own country again?" "Yes", he said. "What would you do there?" said I, "Would you turn wild and eat men's flesh again?" He looked full of concern and, shaking his head, said, "No!"

3.

Model Solution SAS-II S-2/2015 P-V

2/

- A) A D.O. letter can not be addressed to more than one person at a time. So CE/HRD will have to write individual DO letters to all the HODs.

DO Letter:

Er .....  
Chief Engineer/HRD

D.O. No. ....  
Punjab State Power Corporation Limited  
Regd. Office: PSEB Head Office,  
The Mall, Patiala - 147001  
Phone: .....  
Fax: .....  
Email: .....

Date: .....

**Sub: Distribution of the printed material for the vision, mission & core values' statements of PSPCL.**

My dear .....,

I take the pleasure in congratulating you on the event of adopting the Vision, Mission and Core Values by PSPCL. The statements of Vision, Mission & Core Values define and guide organisation's ability to create the future for itself.

For disseminating these statements all across the organisation, the printed material (wall hangers, leaflets etc.) has already been supplied to your office for distributing amongst all offices under your control. I sincerely hope that no stone would be left unturned by your wing in realizing the Vision, Mission & Core Values. For this purpose, I would suggest that all out efforts should be made to spread these to every nook and corner of your wing and a strong message may be permeated so as to motivate officers & employees under your control for adopting the core values in their personal as well as professional lives.

With best wishes,

Yours sincerely,

(Er .....)

Er .....  
Chief Engineer / .....  
.....  
.....

**B) Letter of Appreciation:**

Er .....  
Chief Engineer/DS South Zone, Patiala

D.O. No. ....  
Punjab State Power Corporation Limited  
Regd. Office: PSEB Head Office,  
The Mall, Patiala - 147001  
Phone: .....  
Fax: .....  
Email: .....

Date: .....

**Subject: Letter of Appreciation.**

My dear .....

PSPCL had decided to focus on reducing T&D losses so as to achieve a milestone in this direction at national level. For this purpose, all distribution zones had developed their respective action plans which were communicated and deliberated amongst all officers of the DS zones. On completion of the financial year, the losses have been reviewed. It has been gathered that PSPCL has achieved remarkable success in reducing T&D losses to all time low of -----%.

For achieving this challenging objective in an outstanding manner, some officers have toiled day and night and therefore their contribution deserves to be acknowledged. It has been noted that during this financial year, you have drastically reduced the T&D losses of Bhadson S/Divn. from ---- % to ---% which is very high in terms of achievement. Your contribution in this initiative has invigorated the optimistic environment within the organisation.

I feel pleasure to convey you appreciation on behalf of the corporation and wish you all the best for your future endeavours.

With best wishes,

Yours sincerely,

(Er .....)

Er .....  
Assistant Executive Engineer,  
DS Sub-Division,  
PSPCL, Bhadson.

**PUNJAB STATE POWER CORPORATION LIMITED**  
[Chief Engineer/HRD (Recruitment Section), Patiala]

AGENDA NO. -----

/ HRD / Rectt. Plan

DATED: -----

Agenda for  
consideration  
of BOD

**Sub: Approval of PSPCL's long term strategic recruitment plan for 3 years.**

**1.0 BRIEF HISTORY:**

Recruitment process for the 100 posts of AE(OT)/Electrical in PSPCL was initiated during the last year but only 73 candidates qualified the test and out of them only 64 joined the PSPCL. In the meantime, due to retirement of engineers, the no. of vacant posts of AEs in the PSPCL has risen to its historical high of 432 (Details attached as Annexure-A). Further, there is heavy retirement in the organisation within the next 4 years, which may further worsen the situation. To find a more permanent solution of such gaps, a three year recruitment plan for 15 nos. important cadres has been prepared for PSPCL, wherein tentative requirement has been proposed to be recruited in the next three years. The plan has been developed keeping in view the anticipated advantages detailed below:

- i) In the past, there has been absence of regular and systematic recruitment process. Due to such practice, the organisation does not get the best people available in the market as its employees whereas conducting regular recruitment by developing long term recruitment plan ensures best people in the organisation and availability of suitable people in the open market.
- ii) The irregular recruitment results in either very big batches or complete vacuum of various cadres. Such phenomenon result in frustration within the cadres and low motivation in the employees due to disabling impact on the self esteem within the organisation.

In view of above, it is essential that PSPCL should regularly recruit employees every year in a systematic pattern. Therefore, a long term recruitment plan for the organisation has been developed for the first time in history of organisation which needs to be adopted so as to boost up the morale and organizational citizenship within the organisation.

**2.0 PROPOSED THREE YEAR RECRUITMENT PLAN**

The essential manpower required to be recruited during next three years has been calculated and the detailed calculations have been enclosed in a tabulated form, as Annexure-B. Summarising the table, following manpower is proposed for direct recruitment during the period 2015-2018:

Sr. No.	Post	Recruitment during			Total
		2015-16	2016-17	2017-18	
1	AE-OT (Electrical)	-	-	-	-
2	AE-OT (Mechanical)	-	-	-	-
.	-	-	-	-	-
.	-	-	-	-	-
15	-	-	-	-	-

### 3.0 VIEWS OF FINANCE SECTION

The Finance Section has given concurrence to the proposed recruitment plan with the condition that exact no. of recruitments shall be finalized at the time of recruitment in each year based on the actual vacancies of direct quota, subject to a limit of maximum recruitments as per proposed plan.

### 4.0 VIEWS OF LEGAL SECTION

Opinion of Legal Section is not required since the posts will be advertised for the direct recruitment after approval by the Punjab Govt.

### 5.0 COMPETENCY

Board of Directors is competent to approve the recruitment plan of the organisation.

### 6.0 DECLARATION BY HEAD OF DEPARTMENT

All material information likely to influence the decision has been truly and fairly brought out in the Agenda and that no such information has been withheld. Also, there is no willful default in compliance of applicable standard operating procedures (SOPs) and Laws.

### 7.0 OBSERVATION OF DIRECTOR/HR

Director/HR has seen the Agenda, being the Director-in-charge.

### 8.0 DECISION REQUIRED

Board of Directors is requested to pass the following resolution:

**"RESOLVED THAT the three year recruitment plan as detailed in para-2 of the agenda be and is hereby approved and may be sent for approval by the GOP."**

4.  
A. (i)

a) Steps for setting a password in a document are:

Option A: 1. Go into Microsoft Word, 2. Click Office Button > Prepare > Encrypt Document 3. Type your password and click OK 4. Retype your password and click OK 5. Before closing the file save first.  
**OR**

Option B: 1. Go to **Tool Bar** of document 2. In **Protect**, click Protect Document and **Insert Password**

b) Steps for removing a password protection from a document

1. Go into Microsoft Word
2. Click Office Button > Prepare > Encrypt Document.
3. Delete your password and click OK.
4. Before closing the file save first.

(ii) Hexadecimal conversion of decimal numbers

- |     |         |    |            |
|-----|---------|----|------------|
| (a) | 182.23  | is | B6.3A....  |
| (b) | 1662.27 | is | 67E.45.... |

(iii) Transition effect is the special effect between each slide which appears when we run the power point presentation, in order to give it a polished, professional look. Procedure is to click the Animations tab, then locate the suitable transition effect and assigning desired setting to the effect.

So as to keep track of time spent in running a presentation, using Rehearse Timings function, we can assign the time to be spent on each slide and the entire presentation, and then make the slides of presentation run automatically. Procedure is to click on the **Slide Show** tab, then click **Rehearse Timings** in the **Set Up** group. Immediately PowerPoint will change to **Slide Show** view and begin recording the time you spend on each slide with the **Rehearse Timings Control** window.

Custom Animation is a feature in Microsoft Office PowerPoint which contains a variety of effects that can be applied to various objects (text, photos, shapes etc.) to make these animate during the slide show. The procedure is click on the Animations tab, then click on Custom Animation tab, the selecting the object in the slide, then choosing the suitable animation effects and assigning the desired settings in the Custom Animations dialogue box appearing on right side of the slide.

(iv) A red triangle in the upper-right corner of a cell indicates that a comment is in the cell. Comments can help to make a worksheet easier to understand by providing additional context for the data it contains. For example, one can use a

comment as a note that provides information about data in an individual cell. One can also add a comment to a column heading to provide guidance on data that a user should enter.

**B. (i) Four differences in Manual Accounting and Computerised Accounting:**

**1 Speed**

The main difference between manual and computerized systems is speed. Accounting software processes data and creates reports much faster than manual systems. Calculations are done automatically in software programs, minimizing errors and increasing efficiency. Once data is input, one can create reports literally by pressing a button in a computerized system.

**2 Cost**

Another difference between manual and computerized systems is cost. Manual accounting with paper and pencil is much cheaper than a computerized system, which requires a machine and software. Other expenses associated with accounting software include training and program maintenance. Expenses can add up fast with costs for printers, paper, ink and other supplies.

**3 Backup**

A third difference between manual and computerized systems is the ease of backup of a computerized system. All transactions can be saved and backed up, in case of fire or other mishap. You cannot do this with paper records, unless you make copies of all pages—a long and inefficient process.

**4 Ease of Distribution**

In manual accounting, we create and distribute invoices, bills and other records by hand. With digital accounting, you can create the same set of documents in much less time, and print as many copies as we need. We can then send digital documents via email, allowing us to limit the amount of physical media. With computerised accounting software, it's easy to print, copy and send any documents needed by our business.

**(ii)**

A **trial balance** is a list of all the General ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account.

The name comes from the purpose of a trial balance which is to prove that the value of all the debit value balances equal the total of all the credit value balances. Trialbalng, by listing every nominal ledger balance, ensures accurate reporting of the nominal ledgers for use in financial reporting of a business's performance. If the total of the debit column does not equal the total value of the credit column then this would show that there is an error in the nominal ledger accounts. This error must be found before a profit and loss statement and balance sheet can be produced.



A trial balance only checks the sum of debits against the sum of credits. That is why it does not guarantee that there are no errors. The following are the main classes of errors that are not detected by the trial balance:

- An **error of original entry** is when both sides of a transaction include the wrong amount.
- An **error of omission** is when a transaction is completely omitted from the accounting records. As the debits and credits for the transaction would balance, omitting it would still leave the totals balanced
- An **error of reversal** is when entries are made to the correct amount, but with debits instead of credits, and vice versa. Such an error will not affect the totals.
- An **error of commission** is when the entries are made at the correct amount, and the appropriate side (debit or credit), but one or more entries are made to the wrong account of the correct type. This will not affect the totals.
- An **error of principle** is when the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but the *wrong* type of account is used. This will not affect the totals.
- **Compensating errors** are multiple unrelated errors that would individually lead to an imbalance, but together cancel each other out.
- A **Transposition Error** is an error caused by switching the position of two adjacent digits.

5. A.

- (i) b) 65536
- (ii) b) Sort command from Data menu
- (iii) b) There is a comment associated with the cell
- (iv) a) Freezing
- (v) a) Slide Master
- (vi) b) Ctrl + K
- (vii) c) 400%
- (viii) a) home
- (ix) Opening the File Open dialogue box: **Ctrl + O**  
Closing the current document: **Ctrl + W**

B.

- i) Sorting arranges the data within a table into Alphabetical or numerical order. eg. addresses can be sorted alphabetically from A-Z and quantity can be sorted in ascending or descending order.
- ii) To insert the date into the footer, first click on the insert tab. Next click on the Header & footer command which will open Header & Footer dialog box. Click on the Date & time check box. The date & time option will be activated.
- iii) A web site is a simply a group of file and folders which are stored on a WWW server and which can be freely accessed by people(s) "surfing the Web". For instance PSPCL has its own website.  
The address of a Web site is called its URL (Uniform Resource Locator)
- iv) Operating system is most important software that runs on a computer. It manages all of the software and hardware on the computer. It manages the computer's memory, processes, and all of its software and hardware. It also allows us to communicate with the computer without knowing how to speak the computer's language. Without an operating system, a computer is useless.  
  
Application software is a program designed to carry out operations for a specific application. Examples of application software include MS Word, MS Excel, a console game, a library management system, a spreadsheet system etc.
- v) In MS Excel, default text alignment is LEFT and default number alignment is RIGHT.
- vi) Charts present data in a visual way that makes it easier to see the meaning behind the numbers. Examples: Column chart, Line chart and Pie chart.
- vii) It is a window that displays thumbnail versions of all slides of a power point presentation, arranged in horizontal rows/grids.
- viii) HTTP: Hyper Text Transfer Protocol  
FTP: File Transfer Protocol  
WWW: World Wide Web

SAS Part-II

Paper 6th

Accounts and Auditing

Question No 1

a) Explain the principles of Accounting on which these comments are based:-

i) Going Concern Concept assumed that a business unit has a reasonable expectation of continuing business at a profit for an indefinite period of time.

ii) Money Measurement Concept states that accounting records only those transactions which can be expressed in terms of money.

iii) Cost Concept which means that an asset is recorded in the books at the price paid to acquire it. Since no profit is involved in the transaction it is adjusted against purchase instead of treating the same as sales by following this concept.

iv) Realisation Concept states that revenue is considered as being earned on the date at which it is realised.

v) Matching Concept is based on accounting period concept i.e. determination of profit of a particular accounting period by matching revenue/income with expenses.

b) Pass necessary entries to make the following adjustments at 31<sup>st</sup> March, 2014.

Particulars	Amount-Dr.	Rs.	Amount Cr.
i) Depreciation A/C	Dr.	2675000	
To Depreciation Reserve A/C			2675000
Depreciation charged on asset for the year 2013-14.			
ii) Prepaid Insurance premium A/C	Dr.	1125000	
To Insurance Premium A/C			1125000
Insurance premium paid on 31.12.2013 for one year adjusted being prepaid for 9 months.			
iii) Unused Stationery stock	Dr.	50000	
To Stationery A/C			50000
Unused stationery as on 31.03.2014 adjusted.			
iv) Interest A/C	Dr.	5000000	
To Outstanding Interest A/C			5000000

Interest accrued but not due from 16.01.2014 to 31.03.2014 adjusted

2

v) Machinery A/C	Dr.	450000	
Loss on exchange of Machinery A/C	Dr.	25000	
	To supplier's A/C		475000

Exchange of old machinery with new one adjusted.

c) Particulars Amount-Dr. Rs. Amount-Cr.

i Profit & Loss Adjustment A/C	Dr.	24375	
	To Furniture A/C		24375

Stationery purchased wrongly debited to Furniture A/C rectified.

ii Machinery A/C	Dr.	15550/	
	To Profit & Loss Adjustment A/C		15550

Octrio on machinery debited to Octrio a/c instead of machinery a/c now rectified.

iii Sundry debtors for Sale of power A/C	Dr.	260000	
	To Sundry Debtors for Electricity Duty A/C		260000

Misclassification of electricity duty realised corrected.

iv R' A/C	Dr.	72000	
Profit & Loss Adjustment A/C	Dr.	3000	
	To P' A/c		73000
	To Profit & Loss Adjustment A/C		<u>2000</u>

Debtor's cheque endorsed in favour of creditor dishonoured adjusted.

v) Bank A/c	Dr.	500000	
	To stale Cheque A/C		500000

Entry for stale cheque recorded.

vi) Work Concerned A/C	Dr.	50000	
	To security deposit from contractor A/C		50000

Security recovered from Contractor bill adjusted

Vii Profit & Loss Adjustment A/C Dr. 50000

To Profit & Loss Adjustment A/C 50000

Entry for Allowances on account of interest on consumers security deposit adjusted through bills for sale of power recorded.

Viii Profit & Loss Adjustment A/C Dr. 15000

To advance pay of employee A/C 15000

Recovery of advance pay from employee credited to salary a/c now rectified.

(5+5+10)

Question No 2

a)

Adjusted Cash Book Balance

Cash Book Bank Column

Debit	Rs.	Credit	Rs.
		By Balance b/d	80000
To Cheque deposited	3000	By Short Casting	10000
		By Premium A/C	5000
To Bank Charges Recorded twice	100	By Return of Customer Ch.	4000
To Cheque issued dishonoured	3000		
To Bills Collected by bank	20000	By Bank Charges	20
To Balance c/d	77920	By cheque entered twice	5000
	104020		104020

Bank Reconciliation Statement

Particulars	Amount-Rs	Amount-Rs
Cr. Balance as per cash book		77920
Add		
Cheque deposited but not sent to bank	10000	10000
Dr. (overdraft) as per pass book		87920

b) Depreciation is total amount to be spread over the life of an asset calculated simply as cost less scrap value. Depreciation is looked at from the point of view that most of fixed assets are used up over a period of time and task is to determine how these costs should be apportioned to each accounting period that the asset is in use. Even fluctuations in value of a fixed asset are ignored in depreciation provision calculations.

Even though depreciation provisions are now regarded as apportioning cost to each accounting period, it does not follow that there is any true method of performing this task. The followings are the main difficulties:

i It is difficult to assess the useful life of an asset.

ii It is difficult to measure the use of the asset.

iii Generally repairs and maintenance of the fixed asset are not taken while calculating the provisions for depreciation but actually it also affects the calculation of depreciation.

iv It is very difficult to estimate the residual or break up or scrap value of the asset when the asset is put out of use.

c) What are the disclosures required under AS 27?

As 27 should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors, regardless of the structures or forms under which the joint venture activities take place. The requirements relating to accounting for joint ventures in consolidated financial statements, contained in AS-27, are applicable only where consolidated financial statements are prepared and presented by the venturer. AS27 comes into effect in respect of accounting periods commencing on or after 01.04.2002. AS-27 primarily relates to display and disclosure requirements for accounting for the investment in the stand alone and consolidated financial statements of the ventureres.

(10+5+5)

(6)  
Model solution SAS Part-2 S-2/2015 Paper-VI

Question No 3

a)

Journal

Date	Particulars	Amount Dr.	Amount Cr.
	Buildings A/c Dr.	400000	
	To Share Capital A/C		400000
	Being 4000 shares issued fully paid of Rs. 100 each for the purchase of building.		
	Bank A/C Dr.	160000	
	To Share Application A/C		160000
	Application money received on 8000 shares @ Rs. 20/ each		
	Share Application A/C Dr.	160000	
	To Share Capital A/C		160000
	Share Application money transferred to Share capital a/c on allotment.		
	Share Allotment A/C Dr.	80000	
	To Share Capital A/C		80000
	Allotment money due on 8000 share Rs. 10 per share.		
	Bank A/C Dr.	77500	
	To Share Allotment A/C		77500
	Allotment money received from 7750 shares.		
	Share First Call A/C Dr.	80000	
	To Share Capital A/C		80000
	First call money due on 8000 shares @ Rs. 10 per share		
	Bank A/C Dr.	72500	
	To Share First Call A/C		72500
	Share first call money received from 7250 shares.		



⑦

Model solution SAS Part-II S-2/2015 P-VI

2

Share Second Call A/C	Dr.	80000
To Share Capital A/C		80000

Second call money due on 8000 shares @ Rs. 10 per share

Bank A/C	Dr.	60000
To Share Second Call A/C		60000

Share second call money received from 6000 shares.

Share Capital A/C	Dr.	37500
To Share Allotment A/C		2500
To Share First Call A/C		7500
To Share Second Call A/c		7500
To Share Forfeited A/C		20000

Forfeiture of 750 shares on which less than Rs. 40 had been received

Capital as it will appear in the Balance Sheet

Rs.

Capital and Liabilities

Authorised Capital

25000 shares of Rs. 100 each	2500000
------------------------------	---------

Issued and Subscribed capital A/c

4000 shares of Rs. 100 each issued as fully paid up for the purchase	400000
--	--------

Of building

7250 shares of Rs. 100 each. Rs. 50 per share called up	362500
Less Calls in arrear Second call on 1250 shares @ Rs. 10	12500
Add Share forfeited Account	20000 370000
	770000

b I Proprietors' funds

Cost of Goods Sold/ Proprietors' Fund= 2/1

Proprietors' Funds= Rs. 480000/2=Rs.240000

ii Fixed Asset Cost of Goods Sold/ Fixed Asset=4/1

Fixed Asset= Rs. 480000/4= 120000

iii Closing debtors

Debtors at the end are outstanding for 2 months of sales i.e. Rs. 600000

Debtors= Rs. 100000

iv Closing Creditors

Closing creditors are for 73 days i.e.  $1/5^{\text{th}}$  of annual purchase i.e. Rs. 490000

Creditors=98,000

V Closing Stock

Inventory Turnover= Cost of goods sold/Avg. inventory=6=480000/avg. inventory=6

Average Inventory=Rs.80000

Let opening stock be Rs. a

Closing stock= $a+10000$  Average inventory= $(a+a+10000)/2=80000$   $2a+10000=160000$

$2a=150000$   $a=75000$

Opening Stock Rs.75000

Closing Stock= $75000+10000=85000$

Vi Share Capital

Proprietors' funds=share capital+ reserve & Surplus=240000=share capital+40000

Share capital=240000-40000=200000

Vii Cash and Bank Balance

Proprietors' fund+ Creditors=Fixed Assets+ Inventory+ debtors+ cash and Bank Balance

$240000+98000=120000+85000+100000$ + cash and Bank Balance

cash and Bank Balance= $338000-305000=33000$  /

(9)

Model solution SAS Part II S-2015 Paper VI

Working Notes

(1) Sales  $= \text{Gross Profit} / \text{Gross Profit Ratio} = 120000 / 20 = 600000$

(2) Cost of Goods Sold  $= \text{Sales} - \text{Gross Profit} = 600000 - 120000 = 480000$

(3) Purchases  $= \text{Cost of goods sold} + \text{excess of closing stock over opening}$

$= 480000 + 10000 = 490000$

(10+10)

Question No 4

a) i) The pass collected by the gate man can be checked against total sales of tickets as per the counterfoils of ticket books. Any presentation of unauthorised tickets will be known. Also the patrons will carry with them the evidence of their authorised entry into the exhibition hall by retaining the stub.

ii) It provides an independent record with the Accounts Department about daily issue and actual forwarding of cheques.

iii) The quality inspector should not know the supplying party in the interest of an objective quality inspection.

iv) It records actual attendance to the work and also helps to keep check on wastage of time in reaching his work spot.

v) It avoids conflict of interest.

b) The issue requires the auditor to examine whether term loans were applied for the purpose for which these loans were obtained. First of all, the auditor should ascertain whether the company has taken any term loans. Term loans are generally provided by banks and financial institutions for acquisition of capital assets which then become the security for the loan, i.e. end use of funds is normally fixed.

The auditor should examine the terms and conditions subject to which the company has obtained the term loans. The auditor should compare the purpose for which term loans were sanctioned with the actual utilisation of the loans.

It is not necessary to establish a one to one relationship with the amount of term loan and its utilisation. It is quite often found that the amount of term loan disbursed by the bank is deposited in the common account of the company from which subsequently the utilisation is made. In such cases it should not be construed that the amount has not been utilised for the purpose it was raised.

During construction phase companies generally temporarily invest the surplus funds to reduce the cost of capital or for other business reasons. However subsequently the same are utilised for the stated objectives. In such cases the auditor should mention the fact that pending utilisation of the term loan for the stated purpose, the funds were temporarily used for the purpose other than for which the loan was sanctioned but were ultimately utilised for the stated purpose.

It may so happen that the term loans taken during the year might not have been applied for the stated purpose during the year. In such a case the auditor should mention on his audit report that the term loan obtained during the year has not been utilised. This also implies that the auditor while making inquiry in respect of this clause should also consider the term loans which although were taken in the previous accounting period but have been actually utilised during the current accounting period.

Question No 5

a) Vouching proves the accuracy of book entries but the worth of the Balance Sheet can be certified only on verification of assets and liabilities shown therein. This means that a clear line of demarcation can be drawn between the two. While vouching is to examine the correctness and authenticity of the transactions recorded in books of prime entry, verification is to confirm the value of assets and liabilities as shown in the balance sheet.

Following points distinguish the two:

1 Vouching examines the entries relating to transactions recorded in the account books while verification examines the assets and liabilities appearing in the balance sheet.

2 Vouching is done throughout the year while verification is done at the end of the year when the balance sheet is prepared.

3 Vouching is based only on documentary examination while verification is based on personal as well as documentary examination.

4 Vouching does not include valuation while verification includes valuation.

5 Vouching is done by juniors like Article or Audit Clerks whereas verification is done by auditor himself.

b) Provisions of Cost Accounting Record Rules provides maintenance of records for Interest and finance charges as under:-

a) Interest and finance charges are costs incurred by an enterprise in connection with the borrowing of fund or other costs which in effect represent payment for the use of non-equity fund.

b) Interest and financing charges incurred shall be identified for

i acquisition or construction or production of qualifying assets including fixed assets and

ii other finance costs for production of goods or operations or services rendered which cannot be classified as qualifying assets.

c) Interest and financing charges directly attributable to the acquisition or construction or production of a qualifying asset shall be included in the cost of the asset.

d) Interest and financing charges shall not include imputed costs.

e) Subsidy or grant or incentive or amount of similar nature received or receivable with respect to interest and finance charges, if any, shall be reduced to ascertain the net interest and financing charges.

f) Penal interest for delayed payment, fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the interest and financing charges. In case the company delays the payment of statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

g) Interest paid for or received on investment shall not form part of the other financing charges for production of goods or operations or services rendered.

h) Assignment of interest and financing charges to the cost objects shall be based on either of the following two principles, i.e.

I Cause and effect-Cause is the process or operation or activity and effect is the incurrence of cost and

II Benefits received- to be apportioned to the various cost objects in proportion to the benefits received by them.

~~(10+10)~~

Solution to Qn 1(a)

	Amount(Rs)
Salary	867,800
Bonus	2,200
Salary in lieu of leave	2,000
Entertainment allowance	3,000
Free gas and water	4,000
Free domestic servant	18,000
Concessional education facility (as the cost of education does not exceed Rs.1000 per month per child, it is not chargeable to tax)	-
Free meal facility (Rs.117-50)x250)	16,750
Free holiday home facility	8,000
Salary of cook	9,000
Gross Salary	930,750
Less: exemption	-
Taxable salary	930,750
Less: deduction under Section 80C	92,000
Net Income	838,750
Tax liability	
Income Tax	97,750
Add: Surcharge	-
Total	97,750
Add: Education Cess	1,955
Add: Secondary & Higher Edu. Cess (1% tax & surcharge)	978
Tax liability (rounded off)	100,690

\*All perqs are covered under section 17 of Income tax Act 1961.

\*\*Income tax slabs, in case of individual, for the AY 2014-15 are as follows:

Upto Rs 2,00,000	Nil
2,00,001 to 5,00,000	10%
5,00,001 to 10,00,000	20%
Above Rs 10,00,000	30%

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Solution to Qn 1(b)

	Amount(Rs )
Municipal valuation (MV)	164,000
Fair rent (FR)	216,000
Standard rent (SR)	180,000
Actual rent	140,000
Gross annual value	
<i>Step-1</i>	
Reasonable expected rent (MV or FR, whichever is higher subject to max. of SR)	180,000
<i>Step-2</i>	
Rent received	140,000
Amount computed in Step-I & Step-II whichever is higher	180,000
Less due to vacancy	-
Gross annual value	180,000
Less Municipal tax	6,000
Net Annual value	174,000
Less Standard deduction under Section-24(30% of net annual value i.e. 174,000)	52,200
Interest on borrowed capital	123,000
Income from property	(1,200)
Other income	-
Net Income	-1200



**ANS 2(a): Appointment of directors:**

- a) By the articles as first directors (sec 254): The first directors are usually named in the articles and names shall be determined in writing. In case of silence of article the subscribers to the memorandum shall be deemed to be first directors.
- b) By the company in general meeting (section 255 to 257, 263, 264)  
Appointment of subsequent directors is made at every AGM of the company. As per section-255 not less than  $\frac{2}{3}^{\text{rd}}$  of total directors must be appointed in general meeting. Consent of every director is essential under section-264.
- c) By the directors (section 260, 262, 313)
  - i. The additional directors may be appointed by the Board of directors from time to time if the articles so authorized and they shall hold office upto the date of next AGM.
  - ii. The Board of Directors may appoint the alternative director in place of a Director who is absent for more than three months from the State in which Board meeting are held.
  - iii. Where the office of any Director appointed by the company in general meeting falls vacant before the expiry of his term. The Director may fill up the vacancy at the meeting of Board.
- d) By third parties (section 255)  
The articles may give right to debenture holders, financial corporations or banking companies who have advances loans to the company to nominate directors and these directors should not exceed  $\frac{1}{3}^{\text{rd}}$  of the total strength.
- e) by the principle of proportional representation (section 265)  
An opportunity to protect the interest of minority shareholders is given under section-265 to place their nominees.

The Companies Act provides for Removal of Directors in the following ways:

- Removal by Shareholders: As per section 284 of the companies act 1956 right of a shareholder to remove a director in the general meeting through the ordinary resolution is a legal right. This right can not be damage by Memorandum or article of association. A single member is enough to give notice for removal of director irrespective of number of shares or voting rights he holds.

- Removal by the Central Government:

Under section 388B to 388E, the CLB/ Tribunal (power delegated to them) is empowered to remove a director after enquiry.

- Removal by the National Company Law Tribunal:

In case of oppression or mismanagement under section 397 and 398 the CLB/Tribunal has the power to reconstitute the board of a company by removal of director.

Ans to Qn 2 b)

**Corporation's power to promote measures for health, etc., of insured persons.** — The Corporation may, in addition to the scheme of benefits specified in this Act, promote measures for the improvement of the health and welfare of insured persons and for the rehabilitation and reemployment of insured persons who have been disabled or injured and may incur in respect of such measures expenditure from the funds of the Corporation within such limits as may be prescribed by the Central Government.

**ANS2 (c):** E-Governance or Electronic Governance is basically proper and efficient utilization of the technologies of the information technology and telecommunications, for performing various functions and activities by an organization. Such use of Information and Communication Technologies [ICTs] can preferably be made at all levels of a business corporation also, in order to obtain faster and more efficient business activities, greater customer satisfaction, more accountable and transparent corporate administration and management, better profits and satisfaction of the shareholders, and the best possible progress and growth of the corporation. As India is one of the major, fast-progressing, and highly influential economies of the world, this e-governance is absolutely essential and beneficial to Indian corporate world, especially in present-day world of cutthroat corporate competition, and ever-increasing need for greater transparency and accountability in the corporate sector. Considering these highly significant facts and business scenarios, the Government of India has rightly promulgated the provisions for e-governance in the corporate sector of the country, in its latest Companies Act of 2013.

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ANS 3(a):

According to Section 13 (a) of the Act, "Negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer, whether the word "order" or "bearer" appear on the instrument or not." Although the Act mentions only these three instruments (such as a promissory note, a bill of exchange and cheque), it does not exclude the possibility of adding any other instrument which satisfies the following two conditions of negotiability:

1. the instrument should be freely transferable (by delivery or by endorsement and delivery) by the custom of the trade; and
2. the person who obtains it in good faith and for value should get it free from all defects, and be entitled to recover the money of the instrument in his own name.

**CHARACTERISTICS OF A NEGOTIABLE INSTRUMENT**

A negotiable instrument has the following characteristics:

1. **Property:** The Possessor of the negotiable instrument is presumed to be the owner of the property contained therein. In the case of bearer instrument, the property passes by mere delivery to the transferee. In the case of an order instrument, endorsement and delivery are required for the transfer of property.
2. **Title:** The transferee of a negotiable instrument is known as 'holder in due course.' A bona fide transferee for value is not affected by any defect of title on the part of the transferor or of any of the previous holders of the instrument.
3. **Rights:** The transferee of the negotiable instrument can sue in his own name, in case of dishonor. The holder of the instrument need not give notice of transfer to the party liable on the instrument to pay.
4. **Presumptions:** Certain presumptions apply to all negotiable instruments e.g., a presumption that consideration has been paid under it. It is not necessary to write in a promissory note the words 'for value received' or similar expressions because the payment of consideration is presumed.
5. **Prompt payment:** A negotiable instrument enables the holder to expect prompt payment because a dishonour means the ruin of the credit of all persons who are parties to the instrument.

**ANS 3(b). 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 and his turnover exceeds taxable quantum. For registration as a registered person for TOT taxable quantum is Rs. 5 lakh.

Cont to P 2

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**ANS 3(c) (i): Annual general meetings (AGMs)**

The AGM is a formal part of a company financial year. Its purpose is to allow the board to present the year's results, discuss the outlook for the coming year, present the formal, audited accounts and to have the final dividend and directors' emoluments approved by shareholders. Shareholder approval is signaled by the passing of resolutions in which shareholders vote in proportion to their holdings. It is usual for the board to make a recommendation and then seek approval of that recommendation by shareholders. The dividend per share, for example, is recommended by the board but only paid after approval by the shareholders at the AGM. Institutional shareholders may employ proxy voting if they are unable to attend in person.

**Extraordinary General Meetings (EGMs)**

Extraordinary meetings are called when issues need to be discussed and approved that cannot wait until the next AGM. A full year can be a very long time. In some business environments when events necessitate substantial change or a major threat, an EGM is sometimes called. Management may want a shareholder mandate for a particular strategic move, such as for a merger or acquisition. Other major issues that might threaten shareholder value may also lead to an EGM such as a 'whistleblower' disclosing information that might undermine shareholders' confidence in the board of directors.

**ANS 3 (c) (ii): Inspection under Section 209A**

Inspection can be carried out by

- The Registrar
- Officer of the Government as may be authorized by the Central Government in its behalf.
- Officers of SEBI

The information brought out in the inspection reports, is used for considering action under the provisions of the Companies Act. Prosecutions are launched on the basis of findings in the inspection reports. Besides, cases involving non-compliance of the Companies Act, 1956 including inadequate maintenance of statutory records noticed during such inspection are taken up with the companies for necessary remedial action

**Investigation under Section 235:-**

Investigation is the act of determining whether criminal matters such as employee theft, securities fraud (including falsification of financial statements), identity theft, and insurance fraud have occurred.

- The Central Govt. may, where a report has been made by the registrar under sub-section (6) of section 234 or under sub-section (7) of that section, read with sub-section (6) thereof, appoint one or more competent persons to investigate the affairs of the company and to report thereon in such a manner as the Central Government may direct.
- Where —(a) In the case of a company having a share capital an application has been received from not less than two hundred members or from members holding not less than one-tenth of the total voting power therein, and (b) in the case of the company having no share capital, an application received from not less than one-fifth of the person's on the company's register of members.

ANS:4(a)(i)

Despite the similarity between an illegal and a void agreement that in either case the agreement is void ab-initio and cannot be enforced by law, the two differ from each other in the following two respects:

(i) An illegal agreement is narrower in scope than a void agreement. 'All illegal agreements are void but all void agreements are not necessarily illegal.' The object or consideration of an agreement may not be contrary to law but may still be void. For example, an agreement with a minor is void as against him but not illegal. Again, an agreement the terms of which are uncertain is void but such an agreement is not illegal.

(ii) An illegal agreement is wider in effect in relation to collateral transactions than a void agreement. When an agreement is illegal, other agreements which are incidental or collateral to it are also tainted with illegality, hence void, provided the third parties have the knowledge of the illegal or immoral design of the main transaction. The reason underlying this rule is that no person shall be allowed to invoke the aid of the court if he is himself implicated in the illegality. On the other hand, when an agreement is void (but not illegal), agreements which are collateral to it are not invalidated and remain valid.

ANS: 4(a)(ii)

**a) Fraud**

As defined under Sec. 17, Fraud means a misrepresentation made with an intention to cheat. The distinction between fraud and misrepresentation is solely on intention. In case of fraud, the aggrieved party can avoid the contract even if the means to discover the truth were available. In case of fraud not only the agreement is voidable but also the aggrieved party can claim damages.

**b) Misrepresentation**

As defined under Sec. <sup>18</sup> 18, Misrepresentation means a misstatement made innocently. In case of misrepresentation misstatement is made innocently. In case of misrepresentation if the aggrieved party has the means to discover the truth, it cannot avoid the contract. In case of misrepresentation no damages can be claimed, the aggrieved party can only avoid the contract.

Ans to Qn No 4 b):

As per Section 2 of workmen's compensation act the types of disablement are:

- i) **Permanent partial disablement** means such disablement of a permanent nature, as reduces the earning capacity of an employee in every employment which he was capable of undertaking at the time of the accident resulting in the disablement: Provided that every injury specified in Part II of the Second Schedule shall be deemed to result in permanent partial disablement.
- ii) **permanent total disablement** means such disablement of a permanent nature as incapacitates an employee for all work which he was capable of performing at the time of the accident in such disablement: Provided that permanent total disablement shall be deemed to result from every injury specified in Part I of the Second Schedule or from any combination of injuries specified in Part II thereof where the aggregate percentage of the loss of earning capacity, as specified in the said Part II against those injuries, amounts to one hundred per cent. or more.
- iii) **temporary disablement** means a condition resulting from an employment injury which requires medical treatment and renders an employee, as a result of such injury, temporarily incapable of doing the work which he was doing prior to or at the time of the injury.

ANS: 4(c)

#### 1. Preparation and Arbitrator's Opening Statement

The opening statement includes a brief description of the role of the arbitrator and participants, the arbitration process and any ground rules.

#### 2. Parties' Statements

Each party or their representative provides a statement about the dispute from their perspective. Emerging interests, needs and options for resolution are acknowledged for use later in the arbitration.

#### 3. Joint Exploratory Session and Discussion

The arbitrator will take an active role, summarizing views and options and may also discuss with the parties the strength and weaknesses of their case.

#### 4. Private Meetings

The arbitrator may hold private meetings with each of the parties. The arbitrator may reality test alternatives and options and comment about potential outcomes and the strengths and weaknesses of each party's case.

#### 5. Concluding Joint Session

There may be a need for additional joint sessions. The arbitrator will assist the parties to narrow the issues in dispute.

The arbitrator facilitates final negotiations and fine-tuning of the agreement.

6. **Award: An arbitration award (or arbitral award)** is a determination on the merits by an arbitration tribunal in an arbitration, and is analogous to a judgment in a court of law. It is referred to as an 'award' even where all of the claimant's claims fail (and thus no money needs to be paid by either party), or the award is of a non-monetary nature

Ans 5 (a): Every factory must take the following measures as per the provisions of the Act to ensure safety of the workers:

- to fence certain machinery;
- to protect workers repairing machinery in motion;
- to protect young persons working on dangerous machines;
- to ensure hoists and lifts and pressure vessels are of sound construction and maintained in good working conditions;
- Floors, stairs and means of access in every factory shall be of sound construction and properly maintained to ensure safety of the workers.
- to protect workers from injury to their eyes;
- to protect workers from dangerous dust, gas, fumes and vapours;
- to protect workers from fire, explosives or flammable dust or gas, etc.

ANS 5(b)(i):

Inter State Sale:- When a sale or purchase of goods takes place (traded) between two states. As per the section 3 in following circumstances the transaction should be treated as inter state sale: -

1. When it occasion the movement of goods from one state to another.
2. Transfer of documents of title of goods during a movement of goods from one state to another state.

ANS 5(b)(ii): **Input tax credit u/s 13** : - Input tax credit is very vital concept of VAT. It is available only to the taxable person and can be claimed on the basis of original VAT invoice received from the seller. In other words, a taxable person can claim input tax credit on the purchases made by him from a taxable person within a state. (Including capital goods)

ANS: 5(b)(iii) **Section 67 of the Act** has made provision for valuation of taxable service for charging service tax. According to Section 67(1)(a) of the Act where there is a monetary consideration paid to provide taxable service, the assessable value for levy of service tax is 'gross amount' charged by the Service provider for the taxable service provided. Sub-section (2) of the said section has made provision to include the amount of service tax to the gross value of consideration where taxable service provided is inclusive of service tax. The term 'consideration' for the valuation of taxable service is defined by explanation appearing under Section 67 meaning that consideration includes any amount that is payable for the taxable service provided or to be provided.

Ans: 5(c) **"factory"** means any premises including the precincts thereof—

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(i) whereon ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on, or

(ii) whereon twenty or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on,— but does not include a mine.

**"worker"** means a person [employed, directly or by or through any agency (including a contractor) with or without the knowledge of the principal employer, whether for remuneration or not], in any manufacturing process, or in cleaning any part of the machinery or premises used for a manufacturing process, or in any other kind of work incidental to, or connected with, the manufacturing process, or the subject of the manufacturing process but it does not include any member of the armed forces of the Union.

Ans: 5 c (ii) No adult worker shall be required to allow to work in a factory for more than 48 hours in any week.

No adult worker shall be required to allow to work in a factory For more than 9 hours in any day. The period of work of adult workers in a factory shall be so fixed that no period shall exceed 5 hours.

Ans to 5 (d): Objectives:-

- To plan a comprehensive programme for the prevention, control or abatement of air pollution and to secure the execution thereof.
- To advise the State Government on any matter concerning the prevention, control or abatement of air pollution.
- To collect and disseminate information relating to air pollution.
- To collaborate with Central Board in organizing the training of persons engaged or to be engaged in programmes relating to prevention, control or abatement of air pollution and to organize mass education programme relating thereto.
- To inspect, at all reasonable times, any control equipment, industrial plant or manufacturing and to give, by order, such directions to such persons as it may consider necessary to take steps for the prevention, control or abatement of air pollution.



<b>Ques.1 (a)</b>	Detail the procedure in respect of running of PSPCL's vehicles for calculating rate per kilometer.
<b>Ans.:</b>	<p>An annual estimate for running of vehicles should be prepared for all vehicles of same description operated in a sub division but separate estimate should be prepared for:-</p> <p>(i) Vehicles which have completed their normal life (for which depreciation is not to be charged) &amp;</p> <p>(ii) Vehicle of different descriptions.</p> <p>The estimate should provided for:-</p> <p><b>(A) Direct Charges:</b></p> <p>(i) Pay of driver/ cleaner whether regular, work charge or daily wages (A/C 75)</p> <p>(ii) Repair &amp; Maintenance of Parts-overhaul-painting of tyres etc. (A/C 74)</p> <p>(iii) Maintenance &amp; repairs of shed/ garage rent (A/C 74/76)</p> <p>(iv) Registration Charges.</p> <p><b>(B) Indirect Charges:</b></p> <p>(v) Depreciation of 90% value divided by life in years.</p> <p>(vi) Interest @13.50%.</p> <p>(vii) Supervision charges @10% on item (iv) when issued from stock.</p> <p>(viii) Departmental charges @27.50% on item(s) (i), (ii) &amp; (iii).</p> <p>The annual estimate shall cover item no. (i) to (v) &amp; per kilometer rate shall be calculated by dividing total of item (i) to (v) by no. of kilometer likely to be run during the year. Item no. (vi) to (viii) to be taken into account only for calculating the rate to be charged for private use of the vehicle.</p>
<b>Ques.1 (b)</b>	Explain the importance Flexible Budget.
<b>Ans.:</b>	<p>The main importance of flexible budget is that it reflects the expenditure appropriate to various levels of budget. The expenditure established through a flexible budget is suitable for comparison of the actual expenditure incurred with the budgeted level applicable for that particular level of activity attained. Following points show the importance of flexible budget:-</p> <ol style="list-style-type: none"> <li>1) Flexible budget provides a logical comparison of budgeted allowances with the actual cost.</li> <li>2) Flexible budget recognizes concept of variability and provides logical comparison of expenditure with actual expenditure as a means of control.</li> <li>3) It is helpful in assessing the performance of departmental heads because their performance can be judged in relation to the level of activity attained by the organization.</li> <li>4) Cost ascertainment at different levels of activity is possible because a flexible budget is prepared for various levels of activity.</li> <li>5) It is helpful in price fixation and for sending quotations.</li> </ol>
<b>Ques.1 (c)</b>	Write short note on O&M material-in-transit a/c.
<b>Ans.:</b>	<p><b><u>Account Code 22.690-O&amp;M Materials-in-transit A/c:</u></b></p> <p>This account is created only at the year end to value the O&amp;M materials in transit in cases where in terms of the Purchase Order the property in the goods has already passed on to the Board/Powercom. This account will be closed at the beginning of the next year since such material will be accepted and accounted for in the normal way during the year.</p>

<b>Ques. 2 (a)</b>	<b>Explain Capital Materials Purchase by classifying account code as per Chart of Accounts.</b>
<b>Ans.:</b>	<p>Account Code: 22.201 to 22.219 explains the Capital Material Purchase A/c by Material Group as under:</p> <p>22.201----Capital Material Purchase-Steel                  22.202----Capital Material Purchase -Cement                  22.203----Capital Material Purchase -Transformers                  22.204----Capital Material Purchase -Metering Equipments                  22.205----Capital Material Purchase -Cables &amp; Conductors                  22.206----Capital Material Purchase -Poles                  22.207----Capital Material Purchase -Electric Light Fittings                  22.208----Capital Material Purchase -Spares                  22.209----Capital Material Purchase -Timber                  22.210----Capital Material Purchase -Steel Pipes                  22.219----Capital Material Purchase -Others</p> <p>This account would identify materials purchases under capital account to specific Materials Group.</p> <p>The basis of selecting materials groups are:</p> <ul style="list-style-type: none"> <li>-major consumption and</li> <li>-capital jobs requirements.</li> </ul> <p>This account would correspond to physical materials receipts of specific category.</p>
<b>Ques. 2 (b)</b>	<b>Define the objectives of Budgetary Control.</b>
<b>Ans.:</b>	<p>The main objective of budgetary control is to plan, monitor, control and adapt resources to meet agreed business objectives whilst remaining within notified limits. The general objectives of budgetary control are as follows:-</p> <ol style="list-style-type: none"> <li>1) <b>Planning:</b> A budget is a plan of the policy to be pursued during the defined period of time to attain a given objective. The budgetary control will force management at all levels to plan in time all the activities to be done during the future periods.</li> <li>2) <b>Co-ordination:</b> The budgetary control co-ordinates the various activities of the firm and secures co-operation of all concerned so that the common objective of the firm may be successfully achieved. It forces executives to think and think as a group. It co-ordinates the broader economic trends and the economic position of an undertaking.</li> <li>3) <b>Control:</b> Control consists of the action necessary to ensure that the performance of the organization conforms to the plans and objectives. Control of performance is possible with pre-determined standards which are laid down in a budget.</li> </ol>
<b>Ques. 2 (c)</b>	
<b>Ans.:</b>	<p>The pay back period is 3.214 ( i.e. Rs. 36,000 / Rs. 11,200)</p> <p>Present value of an annuity closest to 3.214 for 5 years are 3.274 @16% and 3.199 @17%. The actual value of Internal Rate of Return (IRR) which lies between 16% and 17% can be determined using equations as follows:</p> $IRR = 16\% + \frac{(3.274 - 3.214)}{(3.274 - 3.199)} = 16.80\% \quad \text{OR}$ $IRR = 17\% - \frac{(3.214 - 3.199)}{(3.274 - 3.199)} = 16.80\%$

Ques.  
3 (a)

Ans.:

(i) Economic Order Quantity:

$$EOQ = \sqrt{\frac{2 \times \text{Annual Demand} \times \text{Ordering cost per order}}{\text{Carrying cost per annum of one unit}}}$$

$$EOQ = \sqrt{\frac{2 \times 2400 \times 4}{2.40 \times 0.12}} = 258 \text{ units}$$

(ii) Total Annual Inventory Cost:

(Rs.)

Purchase price of 2400 units @ Rs. 2.40 per unit	5,760.00
ADD: Carrying cost ( $\frac{1}{2} \times 258 \text{ units} \times \text{Rs. } 2.40 \times 12\%$ )	37.15
ADD: Ordering cost of 10 orders @ Rs. 4.00 per order	40.00
No. of orders: Annual Demand / EOQ = 2400 / 258 = 9.3 say 10	
<b>Total Annual Inventory Cost</b>	<b>5,837.15</b>

Ques.  
3 (b)

Ans.:

CONTRACT A/C NO. 100

Particulars	(Rs.)	Particulars	(Rs.)
To Materials ( 1,20,000 – 4,000)	1,16,000	By Work Certified	3,00,000
" Wages ( 1,64,000 – 3,500)	1,60,500	(Rs. 2,40,000 x 100 / 80 )	
" General Expenses ( 8,600 – 2,500)	6,100	By Material at Site	10,000
" Depreciation (20000 x 10%)	2,000		
" Notional Profit	25,400		
	<b>3,10,000</b>		<b>3,10,000</b>
To Profit & Loss A/c	13,547	By Notional Profit	25,400
( Rs. 25400 x 2/3 x 80/100 )			
" Work-in-progress A/c (Reserve)	11,853		
	<b>25,400</b>		<b>25,400</b>

Ques. 4																	
Ans.:	<p>(i) <b>Fixed:</b> Depreciation &amp; Insurance</p> <p><b>Variable:</b> Wages = (Rs. 1,200 / 600 Units) &amp; (Rs. 2,000 / 1,000 Units) = <b>Rs. 2 per unit</b></p> <p>Consumable = (Rs. 900 / 600 Units) &amp; (Rs. 1,500 / 1,000 Units) = <b>Rs. 1.50 per unit</b></p> <p><b>Semi-variable: Maintenance</b> = (Rs. 1,500 - Rs. 1,100) / (1,000 Units - 600 Units) Rs. 400 / 400 = <b>Variable cost per unit Re. 1.</b></p> <p>Fixed at 600 units (Rs. 1,100 - 600 x Re. 1 variable cost) = <b>Rs. 500 OR</b> Fixed at 1,000 units (Rs. 1,500 - 1,000 x Re. 1 variable cost) = <b>Rs. 500</b></p> <p><b>Power and fuel</b> = (Rs. 2,000 - 1,600) / (1,000 Units - 600 Units) Rs. 400 / 400 = <b>Variable cost per unit Re. 1</b></p> <p>Fixed at 600 units (Rs. 1,600 - 600 x Re. 1 variable cost) = <b>Rs. 1,000 OR</b> Fixed at 1,000 units (Rs. 2,000 - 1,000 x Re. 1 variable cost) = <b>Rs. 1,000</b></p> <p>(ii) <b>Budget for 80% Capacity (Output 800 units)</b> <span style="float: right;">(Rs.)</span></p> <table border="1" data-bbox="228 726 946 967"> <thead> <tr> <th>Capacity</th><th>80% (Output 800 Units)</th></tr> </thead> <tbody> <tr> <td>Wages @ 2 per unit</td><td>1,600</td></tr> <tr> <td>Consumable stores @ 1.50 per unit</td><td>1,200</td></tr> <tr> <td>Maintenance: Rs. 500 + Re. 1 per unit for 800 units</td><td>1,300</td></tr> <tr> <td>Power and Fuel: Rs. 1,000 + Re. 1 per unit for 800 units</td><td>1,800</td></tr> <tr> <td>Depreciation</td><td>4,000</td></tr> <tr> <td>Insurance</td><td>1,000</td></tr> <tr> <td><b>Total Cost</b></td><td><b>10,900</b></td></tr> </tbody> </table>	Capacity	80% (Output 800 Units)	Wages @ 2 per unit	1,600	Consumable stores @ 1.50 per unit	1,200	Maintenance: Rs. 500 + Re. 1 per unit for 800 units	1,300	Power and Fuel: Rs. 1,000 + Re. 1 per unit for 800 units	1,800	Depreciation	4,000	Insurance	1,000	<b>Total Cost</b>	<b>10,900</b>
Capacity	80% (Output 800 Units)																
Wages @ 2 per unit	1,600																
Consumable stores @ 1.50 per unit	1,200																
Maintenance: Rs. 500 + Re. 1 per unit for 800 units	1,300																
Power and Fuel: Rs. 1,000 + Re. 1 per unit for 800 units	1,800																
Depreciation	4,000																
Insurance	1,000																
<b>Total Cost</b>	<b>10,900</b>																

Ques. 5							
Ans.	(i) Cash Flows After Tax (CFAT):						
	Year	Cash flows before depreciation & tax	Depreciation (50,000 / 5)	Profits before taxes (Col. 2 - Col. 3)	Taxes @35%	Earnings after taxes (Col. 4 - Col. 5)	Cash flows after taxes (Col. 6 + Col. 7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	1	10,000	10,000	Nil	Nil	Nil	10,000
	2	10,692	10,000	692	242	450	10,450
	3	12,769	10,000	2,769	969	1,800	11,800
	4	13,462	10,000	3,462	1,212	2,250	12,250
	5	20,385	10,000	10,385	3,635	6,750	16,750
	<b>Cash flows after tax (CFAT)</b>						<b>61,250</b>

5 (ii) Pay Back Period:

Year	CFAT	Cumulative CFAT
1	10,000	10,000
2	10,450	20,450
3	11,800	32,250
4	12,250	44,500
5	16,750	61,250

The recovery of the investment falls between the 4<sup>th</sup> and 5<sup>th</sup> years. Therefore, the pay back period is 4 years plus a fraction of the 5<sup>th</sup> year.

The fractional value = Rs. 5,500 / Rs. 16,750 = 0.328.

Thus, Pay Back period is 4.328 years.

5 (iii) Net Present Value (NPV):

Year	CFAT (Rs.)	PV factor @10%	Total Present Value (Rs.)
1	10,000	0.909	9,090
2	10,450	0.826	8,632
3	11,800	0.751	8,862
4	12,250	0.683	8,367
5	16,750	0.621	10,402
Total Present Value			45,353
Less: Initial Outlay			50,000
Net Present Value			(-) 4,647

5 (iv) Profitability Index:

$$\frac{\text{Present value of cash inflows}}{\text{Present value of cash outflows}} = \frac{\text{Rs. 45,353}}{\text{Rs. 50,000}} = 0.907$$