

Ans c.)

ii.) aim

Marks: 1x1=1

Q2. Answer the following:

a.) The authority which originally approved the case is competent to approve the amendment involving additional financial commitment.

Marks: 1x2=2

b.) The following types of tenders can be rejected:

- (i) Tenders from firms/contractors who are black listed or with whom business dealings are suspended.
- (ii) Tenders submitted by firms who did not purchase a set of tendering documents/specifications are required.
- (iii) Tender submitted by a person directly or indirectly connected with service under the Government, Board or Local Authority.
- (iv) Tenders not accompanied by the required amount of earnest money.

Marks: 1x4=4

c.) PUNJAB STATE POWER CORPORATION LTD.

From
Additional SE/Operation
Operation Division Samana

To
Er. Gurnam Singh AE (Code No. 107815)
City Sub Division Samana

Memo No.

Dated

Subject: High rate of damage of Distribution Transformers

It has come to the notice of this office that there is a high rate of damage of distribution transformers in your subdivision which is causing frequent inconvenience to the general public and also causing huge revenue loss to PSPCL. It seems that appropriate measures have not been taken by you to control the damage of

distribution transformers. You are required to explain your position within three days that why not a strict action should be initiated against you for not controlling the same.

-sd-
ASE/DS Samana

Marks: 1x4=4

d.) For Newspaper

PUNJAB STATE POWER CORPORATION LTD.	
Office: SE/IT PSPCL, The Mall, Patiala	
TENDER NOTICE	
Tender Enquiry No. XYZ/File No. dated 11.08.2014	
Tender Cost: Rs. 2500/-	
Description: Supply of Computer Hardware items for PSPCL	
The detailed NIT may be downloaded from PSPCL website. (https://pspcl.nprocure.com)	
The due date and time for the receipt and opening of tenders is as under: -	
Last date for downloading of Tender Specification	: 7.09.2014
For Receipt of Tenders	: 10.09.2014 11:00 AM
For Opening of Tenders	: 10.09.2014 11:30 AM
-sd- SE/IT PSPCL, Patiala	

For Press

NOTICE INVITING TENDER (through e-tendering)

1.	Address details of issuing authority	SE/IT, PSPCL, Patiala
2.	Tender Enquiry No.	XYZ/File No.
3.	Scope/Short Description	For Supply of Computer Hardware items for PSPCL
4.	Downloading of Specification/Tender Documents from website. https://pspcl.nprocure.com	Start Date 13.08.2014
		Last Date 07.09.2014

	<u>e.com</u>	
5.	Pre-Bid Conference	-----
6.	Last date for Bid Submission	10.09.2014 upto 11:00AM
7.	Date & time of opening of tenders	10.09.2014 at 11:30 AM
8.	Cost of Specification	Rs.2,500/- (Rupees two thousand five hundred only) in the form of demand draft in favour of AO/Cash, PSPCL, Patiala payable at Patiala.
9.	EMD	Rs. 10,00,000/- (Rupees ten lacs only) in the form of demand draft in favour of AO/Cash, PSPCL, Patiala payable at Patiala.
10.	Mode of tendering	e-tendering only
11.	Tender specification can only be downloaded from website https://pspcl.nprocure.com . Further details regarding e-tendering are available on website www.pspcl.in . Vendors are requested to get their digital signatures & complete the process of registration well in time.	

Marks: 1x7=7

e.)

Competent Authority	Limited Tenders	Single Tender
WTD's	Full Powers	Full Powers
CPC	Rs. 2 Crore	Rs. 1 Crore

Marks: 1x3=3

Q3.

a) Fill in the blanks of the following sentences with appropriate prepositions:

- Please come and sit on the chair.
- We should give him a call to wake him up.
- It is time to walk the talk.

Marks: 1x3= 3

b) Change the voice:

- He was seen driving the car by me.
- He was asked to start studying seriously by him.
- Her mistake was found out by her.

Marks: 1x3=3

c) Write the correct sentences to the given incorrect sentences:

- I parked my car **in** the parking lot.
- The children of India **are** very talented.

- iii.) I **was** playing the piano when the telephone bell rang
- iv.) He is **a** cousin of mine.
- v.) One of his many **traits** is that he is hard working.

Marks: 1x5=5

d) Change the narration:

- i.) He requested him politely to come with him
- ii.) The stranger asked me where I had my dinner. OR
The stranger asked him where he had his dinner. OR
The stranger asked her where she had her dinner.
- iii.) He asked me where I had been last night.
- iv.) She asked her what the meaning of life was.

Marks: 1x4=4

Q4.

a.) Answer the following questions (Attempt any 5): -

i.) Explain the various functions of a Computer System?

The various functions of a Computer System are:

- 1. **Input:** It can receive raw data for further processing.
- 2. **Processing:** To convert/transform the raw data into meaningful information
- 3. **Output:** To display the meaningful information to humans in a language/format that they can understand.

ii.) List any two output devices?

- a. Printer
- b. Monitor

iii.) SAP

iv.) Differentiate between Application and System Software using suitable examples.

- 1.) The programs that comprise the operating system are called system software. These include configuration files, system preferences, system services, libraries of functions and the drivers for the hardware installed on the computer. The computer

programs in system software include compilers, system utilities, assemblers, debuggers and file management tools. Whereas, the subclass of a computer program which utilizes the capabilities of computer is called application software. It allows the users to interact with the computer to perform various tasks. The example of application software programs includes media players, spreadsheets and word processors etc.

- 2.) System software gets installed when the operating system is installed on the computer while application software is installed according to the requirements of the user.
 - 3.) Generally, users do not interact with system software as it works in the background, whereas, users interact with application software while doing different activities.
 - 4.) A computer may not require more than one type of system software while there may be a number of application software programs installed on the computer at the same time.
 - 5.) System software can run independently of the application software while application software cannot run without the presence of the system software.
- v.) What are different types of ROM. Briefly explain each one.
- There are three different types of ROM briefly explained as follows:
1. **PROM:** PROM stands for Programmable Read Only Memory. This form of ROM is initially blank. The user or manufacturer can write data/program on it by using special devices. However, once the program or data is written in PROM chip, it cannot be changed. If there is an error in writing instructions or data in PROM, the error cannot be erased. PROM chip becomes unusable.
 2. **EPROM:** EPROM stands for Erasable Programmable Read Only Memory. This form of ROM is also initially blank. The user or manufacturer can write program or data on it by using special devices. Unlike PROM, the data written in EPROM chip can be erased by using special devices and ultraviolet rays. So program or data written in EPROM chip can be changed and new data can also be added. When EPROM is in use, its contents can only be read.

3. **EEPROM**:EEPROM stands for Electrically Erasable Programmable Read Only Memory. This kind of ROM can be written or changed with the help of electrical devices. So data stored in this type of ROM chip can be easily modified.

vi.)What is Hexadecimal number system? Give example.

The hexadecimal numeral system, also known as just hex, is a numeral system made up of 16 symbols (base 16). The standard numeral system is called decimal (base 10) and uses 10 symbols: 0,1,2,3,4,5,6,7,8,9. Hexadecimal uses the decimal numbers and includes six alphabets of English language. The hexadecimal number system allows representing 16 numbers of the decimal system from 0 to 15 using the digits (0 to 9) for the first 10 numbers and the alphabets A to F for the last 6.

Marks: 2x5=10

b.) Convert the following numbers (Attempt any 5):-

i.) $(CAB)_{16}$ into Decimal Number

$$(12 \times 16^2) + (10 \times 16^1) + (11 \times 16^0) = (3072 + 160 + 11) = \mathbf{3243}$$

ii.) Decimal equivalent of $(1573)_8$

$$(1 \times 8^3) + (5 \times 8^2) + (7 \times 8^1) + (3 \times 8^0) = \mathbf{891}$$

iii.) Octal equivalent of HEX Number ABCD

$$(ABCD)_{16} = (1010101111001101)_2 = (\mathbf{125715})_8$$

[Method: First convert the hexno. to binary equivalent and then use 8421 code to derive the octal equivalent]

iv) 11100011100111 into Hexadecimal.

$$(11100011100111)_2 = (\mathbf{38E7})_{16}$$

v.) 569216 Decimal Number into Binary Number

model solution ⁻⁸⁻ S-8/14 SA-II P-V

(10001010111110000000)₂

vi.) 84321 Decimal Number to Octal equivalent.

(244541)₈

Marks:2x5=10

c.) Your reporting officer has emailed a document to you. You have to download, review and send back the document. Write the steps for the same.

1. Open your mailbox (inbox)
2. Find the specific mail from your boss.
3. Download and save the attached document/ file to a specific folder on your computer (say: *My Documents*)
4. Open and edit the file using a word processing software.
5. Reply to the mail opened in step 2 from your boss and attach the edited file reviewed by you.
6. Click on send.

Marks:5

d.) A colleague of yours wants your help in preparing results of his class. You have decided to use MS Excel spreadsheet for the same and entered the names of the students in the class in one column and marks in another column. Describe the steps to accomplish the following tasks within this document:

i.) Formula for computing Average marks of the class.

=**Average(Cell1:Celln)** where cell1= marks of first student and celln= marks of last student in the class (when sorted name wise or roll no. wise etc)

ii.) Formula for computing the Maximum marks among the class

=**MAX((Cell1:Celln)** where cell1= marks of first student and celln= marks of last student in the class (when sorted name wise or roll no. wise etc)

iii) Steps to print the marks of all the students in landscape mode on a single A4 sheet

- a) Select Page layout from the menu bar
- b) Click and set print area desired for printing the result
- c) Click on orientation and select landscape mode
- d) Press Ctrl+P and click on print icon

iv.) Top 5 students in the class using filters

- a) From the Menu bar select Home
- b) On the sort and filters tab apply filter to the marks column
- c) Click on the marks column and select number filters
- d) From the number filters select the Top 10 autofilter and change the value to top 5 only to display marks of top 5 students using filters

v.) Steps to apply filter to find all the students who have passed with distinction (60% and above)

- a) From the Menu bar select Home
- b) On the sort and filters tab apply filter to the marks column
- c) Click on the marks column and select number filters
- d) From the number filters the greater than or equal to filter and set the value = 60

Marks:2x5=10

Q5.

a.) What are the following shortcut keys used for in MS Word:

- i.) Ctrl+A : Select All
- ii.) Ctrl+R: Right align
- iii.) Ctrl+J: Justify text
- iv.) Ctrl+S: Save document
- v.) Ctrl+P: Print

Marks:5x1=5

b.) List various uses of Tally Accounting Software for journalizing and posting various business transactions.

Tally is an accounting and inventory management software which has many features for journalizing and posting various business transactions. Its uses are briefly outlined below:

1. Do all basic accounting functions.
2. Prepare financial statements, such as, balance sheet, profit and loss statement etc.
3. File your tax returns using VAT forms, TDS, returns, Service tax returns, e-TDS filing, Excise forms, FBT reports and forms
4. Manage your store and items.
5. Do Job costing.
6. Manage payroll.
7. Get many MIS reports which are useful for day today functions.
8. Maintain budgets, scenarios etc.
8. Calculate interest on pending amount.
9. Manage data over different locations and synchronize it and many more other features.

Marks: 1x5=5

- c.) What are the various slide show views available in MS Power point.
Briefly list the use of each.

PowerPoint gives you four views in which you create and organize your presentation. As you create a presentation, you can switch among the four views as you work. These are briefly described as follows:

1. **Slide View-** The Slide view shows a single slide. In Slide view, you work on one slide at a time. Here, you can type your slide title and body, add other text to the slide, draw shapes, add clip art, choose a colour scheme, make a graph, etc. In Slide view, you have access to all the tools on the Tool Palette as well as buttons on the Toolbar.
2. **OutlineView-** The Outline view shows all the titles and body text in your presentation. In Outline view, you can move slides around within your presentation and also edit your text.
3. **Slide Sorter view:** The Slide Sorter view shows you a miniature of each slide in your presentation. You can drag slides around on the screen to reposition them in this view. You can also select and copy multiple slides should you want to use them in other presentations.
4. **Notes View:** The Notes view lets you create speaker's notes. Each page corresponds to a slide in your presentation and includes a reduce image of the slide. You can draw and type in Notes view the way you can in Slide View.

Marks: 1x5=5

SAS-II _____

PAPER-VI (ACCOUNTS & AUDITING)

Q1

Working Notes:

- (i) Shares allotted to Mr. Sharma 700 shares
 Shares applied by Mr. Sharma (700/50*60) 840 shares
 Application money paid by him (840*5) Rs. 4200
 Application money adjusted (700*5) Rs. 3500
 Excess Money paid on application Rs. 700
 Money not paid on allotment by him (700*4)-700 Rs. 2100
- (ii) Money received on allotment
 $50000 \times 4 = 200000$
 Less: Excess Received on Application 50000
 Call in arrears from Mr. Sharma 2100
 Net Amount Received 147900

Journal Entries in the books of Blue Star Ltd.

Particulars	Dr	Cr
Bank a/c Dr	325000	
To Equity Share Application a/c Cr		325000
(Being Application money received on 65000 shares @ Rs. 5 each)		
Equity share application a/c Dr	325000	
To Share Capital a/c Cr (50000*3)		150000
To Share premium a/c Cr (50000*2)		100000
To Equity share allotment a/c Cr		50000
To Bank a/c Cr (5000*5)		25000
(Being application money for 50000 transferred to share capital and share premium and refunded for 5000 shares, rest adjusted against allotment)		
Equity share allotment a/c Dr	200000	
To share capital a/c Cr		200000
(Being allotment money due for 50000 @ Rs. 4 per share transferred to share capital)		
Bank a/c Dr	147900	
To share allotment a/c Cr		147900
(Allotment money received as per Note (ii))		
Equity Share First & Final Call a/c Dr	150000	
To share capital a/c Cr		150000
(Call money due transferred to share capital)		
Bank a/c Dr	147900	
To Equity Share First & Final Call a/c Cr		147900
(Calls money received apart from 700 shares of MR Sharma)		

-2-

model solution SAS-II 5-8/14 p-VI

Equity share capital a/c Dr	7000	
To share forfeited a/c Cr		2800
To Share allotment a/c Cr		2100
To Share first & Final Call a/c Cr		2100
(700 shares of Mr. Sharma forfeited due to non payment of allotment and call money)		
Bank a/c Dr (700*9)	6300	
Share forfeited a/c Dr	700	
To Share Capital a/c Cr (700*10)		7000
(Forfeited shares of Mr Sharma issued to Mr. Jatin)		
Share forfeited a/c Dr	2100	
To Capital Reserve a/c Cr		2100
(Profit on re-issue of shares transferred to capital reserve)		

Cash A/c

Receipts	Amount	Payments	Amount
To Equity share application	325000	By Share application	25000
To Equity share allotment	147900	By Balance c/d	602100
To Equity share first & final Call	147900		
To Share capital	6300		
Total	627100	Total	627100
To balance b/d	602100		

Q2 (a) Solution:

a)	Net current assets	=	Current Assets – Current Liabilities
	200000	=	Current Assets – Current Liabilities
	Current Assets	=	200000 + Current Liabilities
b)	Current Ratio	=	<u>Current Assets</u>
		=	<u>Current Liabilities</u>
	1.8	=	<u>200000 + C. L.</u>
		=	C. L.
	1.8 C.L. – C.L.	=	200000
	C.L.	=	250000
	C.A.	=	200000 + 250000 = 450000
c)	Quick Ratio	=	<u>C.A. - Stock</u>
		=	<u>Current Liabilities</u>
	1.35	=	<u>450000 - Stock</u>
		=	250000
	Stock	=	450000 - 337500
		=	112500
d)	Stock turnover Ration	=	<u>Cost of Goods sold</u>
		=	<u>Stock</u>
	5	=	<u>COGS</u>
		=	112500
	COGS	=	562500
e)	Gross profit Ratio on sales	=	25% or 1/4
	then G.P. Ration of COGS	=	1/3
	G.P.	=	562500 * 1/3
		=	187500
f)	Sales	=	COGS + GP
		=	562500 + 187500
		=	750000
g)	Net Profit	=	600000 * 20/100
		=	120000
h)	Fixed Assets to	=	<u>Fixed Assets</u>
	Shareholders equity	=	<u>Shareholders Equity</u>
	.80	=	<u>F.A.</u>
		=	<u>F.A. + C.A. – C.L.</u>
	.80	=	<u>F.A.</u>
		=	<u>F.A. + 200000</u>
	.80 F.A. + 160000	=	<u>F.A.</u>
	.20 F.A.	=	160000
	Fixed Assets	=	800000
i)	Debtors Velocity	=	<u>Debtors * 365</u>
		=	<u>Sales</u>
	36.5	=	<u>Debtors * 365</u>
		=	750000
	Debtors	=	<u>36.5 x 750000</u> = 75000
		=	365

(Q)

model solution SAS-II S-8/14 P-VI

Trading and P & L a/c

Particulars	Amount	Particulars	Amount
To Cost of goods sold (as per 'd')	562500	By Sales (as per 'f')	750000
To Gross Profit (as per 'e')	187500		
Total	750000	Total	750000
To expenses (Bal Fig)	67500	By Profit	187500
To Net Profit (as per 'g')	120000		
Total	187500	Total	187500

Balance Sheet

Liabilities	Amount	Assets	Amount
Share Capital	600000	Fixed Assets (as per 'h')	800000
Reserves (P & L)	120000	Current Assets	
Loans or others (Bal Fig.)	280000	Stock (as per 'c')	112500
Current liabilities	250000	Debtors (as per 'i')	75000
		Bank (Bal Fig.)	262500
			450000
Total	1250000	Total	1250000

5

model solution SAS-II 5-8/14 P-VI

Q2 b)

Journal Entries in the books of Blue Star Ltd.

Particulars	Dr	Cr
Bank a/c Dr To Equity Share capital a/c Cr To Share premium a/c Cr (2000 equity shares of 100 each issued @ 20% premium)	240000	200000 40000
Share Issue Expense a/c Dr To Bank a/c Cr (Expenses of issue of shares paid)	10000	10000
6% Preference Share Capital a/c Dr Premium on redemption of Pre. Shares a/c Dr To Preference Shareholders a/c Cr (Amount due to shareholders on redemption of preference shares)	300000 15000	315000
Preference Shareholders a/c Dr To Bank a/c Cr (Payment to shareholders apart from 500 untraceable shares 315000- (500*105))	262500	262500
Share premium a/c Dr To Premium on redemption of Pre. Shares a/c Cr To Share Issue Expense a/c Cr (Redemption premium and share expense issue exp written off)	25000	15000 10000
General Reserve a/c Dr To Capital Redemption Reserve a/c Cr (Creation of capital redemption reserve for balance amount (300000- 200000))	100000	100000
Capital Redemption Reserve a/c Dr Share premium a/c Dr General Reserve a/c Dr To bonus to shareholders a/c Cr (Amount of bonus shares to be issued)	100000 15000 185000	300000
Bonus to shareholders a/c Dr To share capital a/c Cr (Fully paid bonus shares issued)	300000	300000

(6)

model solution SAS-II 5-8/14 P-VI

Q3 (a) The grant may be used:

- i) To reduce acquisition cost or
 ii) To treat the grant as deferred credit and transfer a portion of it to profit & loss a/c.

i) Treatment

Machine Cost	15,00,000
Less: Grant @ 10%	1,50,000
Less: Residual Value	1,50,000
	<u>-----</u>
Depreciable amount	12,00,000
	<u>=====</u>
Annual Depreciation	$\frac{12,00,000}{10} = 1,20,000$

Debit Rs. 1,20,000 in Profit & Loss a/c

Treatment in Balance Sheet

Machine Cost	15,00,000
Less: Grant @ 10%	1,50,000
Less: Depreciation	<u>1,20,000</u>
Net Value	<u>12,30,000</u>

ii) Treatment

Machine Cost	15,00,000
Less: Residual Value	1,50,000
	<u>-----</u>
Depreciable amount	13,50,000
	<u>=====</u>
Annual Depreciation	$\frac{13,50,000}{10} = 1,35,000$

10% Grant $\frac{1,50,000}{10} = 15,000$

Treatment in Profit & Loss

Profit and Loss will be debited with Depreciation of Rs. 135000 and credited with Grant of Rs. 15000

Treatment in Balance Sheet

Liabilities	Amount	Assets	Amount
Grant 150000-15000 (Deferred Credit)	135000	Machinery Cost less Dep. (1500000-135000)	1365000

As per AS-12, Treatment - II is preferable. Because, Government grant for a particular asset is not for first year itself. The benefit of that asset will be enjoyed in coming years also. Therefore it is best suited to defer the benefit of government in all those years till the asset will be used.

G

Model Solution SAS-II S-8/14 P-VI

(b)

Statement of Profit & Loss
For year ending 31st March 2010, 2011 and 2012

(Amount in Rs.)

Particulars	2010	2011	2012
a) Profit/(Loss) before adjustment	-100000	50000	60000
b) Adjustment of carry forward profit or loss	NIL	-50000	-50000
c) Loss carried forward	-100000	-50000	NIL
d) Net taxable Profit/(Loss) [a-b]	-100000	NIL	10000
e) Tax payable on Profit @ 40% on d	NIL	NIL	4000
Calculation of Deferred tax Asset/Liability			
Deferred Tax that could be saved in coming years due to adjustment of Loss @ 40% on loss of Rs. 100000	40000		
Reversal of Deferred tax asset due to realization of tax saving @ 40% on (b)		-20000	-20000

- Q4. (a) **Internal Check:** Internal check is an arrangement of the duties of members of staff in such a manner that the work performed by one is automatically and independently checked by the other.

The difference between internal check and internal audit is as follows:

1. **Meaning:** Internal check is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another. Internal audit is an independent appraisal of the options and records of the company.
2. **Object:** The purpose of internal audit is to detect the errors and frauds which have already been committed.

The purpose of internal check is to prevent or minimize the possibilities of errors, frauds or irregularities.

3. **Need for separate staff:** For carrying out internal audit, a separate staff of employees is engaged for purpose.
For internal check, no new appointment is made. It, in fact, represents only the arrangement of duties of the staff in a particular way.
4. **Nature of work:** The work involved in the internal audit is just like that of a watch-man. Internal auditors have to report, from time to time, to the management about the various inefficiencies and suggest improvements. It is also his duty to see that the internal check system does not become static.

5. **Timing of work:** Internal audit starts when the accounting process of different transactions is finished.

Internal check, on the other hand is in operation during the course is a device for doing the work.

6. Internal audit is a device for checking the work, whereas internal check is a device for doing the work.
7. In internal audit, errors and frauds are detected after the completion of work, whereas in internal check the errors and frauds are discovered during the course of work.
8. **Scope of work:** The Scope of internal check is very limited. The scope of internal audit is comparatively broad.
9. **Involvement:** A large number of employees are needed for the implementation of internal check system.

A much smaller number of persons are needed for its implementation.

Q4. (b) No doubt, the objects of internal audit are substantially different from those of external audit. However, there are certain similarities in the areas of operations of both the auditors. These are:

- Both the groups are interested in ensuring the presence of an effective internal control system.
- Both of them apply similar techniques in evaluating the internal control system and in examine books of accounts and other documents.

But in spite of these similarities, there are certain fundamental difference in the scope of operations and responsibilities of the internal auditor and the statutory auditor. The former is the representative of the management and therefore his approach is to report on the matters which is significant from management point of view. The later, on other hand, is mainly concerned with the truth and fairness of the financial statement.

The role of the internal audit function within an entity is determined by management and its prime objective differs from that of the statutory auditor who is appointed to report independently on financial information. Nevertheless some of the means of achieving their respective objectives are often similar and thus of the work of the internal auditor may be useful to the statutory auditor in determining the nature, timing and extent of his procedures.

All this suggests that there are a number of areas in which both audit groups have a common interest. As regards the degree of reliance that statutory auditor can place on the work done by the internal auditor, is concerned, it depends upon the peculiar circumstances of each case. For instance, the statutory auditor may use the internal audit department as:

- a guide to the nature of internal control systems, existing in the organization;
- a guide to the nature of audit procedures which may be adopted by the external auditor.
- a source of general information concerning the nature of organization.

Thus, if statutory auditor finds that internal audit is adequate and effective in certain areas, he may apply the related procedures to a limited extent. But in no case he can take shelter under any pretext on the plea that he relied blindly on the work of the internal auditor.

- Q5. (a) According to Lord Justice Lindley, "He is not insurer, he does not guarantee that the books do correctly show the true position of company's affairs."

From the above reference, it can be made out that auditor is a watch-dog which means he has to look after the interests of those who are the owners of the business.

Duty of auditor is not as that of blood-hound. He is fully justified in believing the tried servants of the company and is entitled to rely upon their representation, provided he takes reasonable care.

However, the detection of errors and frauds is an important part of auditor's duties. Really such job is difficult for him, because such errors or frauds are committed by the officers who are presumed to be honest, responsible and sincere. There are discussed in detail as follows:

- **Detection of errors and frauds:** The auditor has to exercise a certain degree of skill and care for detecting errors and frauds, this can be accomplished through checking and vouching thoroughly books of accounts, ledger accounts vouchers.

Auditor himself has to decide the levels of checks and scrutiny he is to apply for detection of errors and frauds. If he certifies the accounts as correct, to the best of his knowledge and belief, he can't be held responsible for an error or fraud which is still there in the accounts.

- **Prevention of errors and frauds:** The auditor cannot do anything directly for the prevention of errors and frauds. After completing the audit work, the auditor can advise his client by making some suggestions regarding way to prevent frauds in future. The suggestions can be:
 - Changes in accounting systems.
 - Improvement in internal control system.

To conclude we can say that auditor should take reasonable care while auditing the accounting records. But by signing the auditor's report does not guarantee that no fraud exists. If he has conducted audit with due care and skill as per professional standards expected from him, the auditor can't be held responsible for not detecting a fraud.

model solution SAS-II 5-8/14 P VII (11)

Q5. (b)

While vouching the credit side or payment side of cash book auditor should see that:

- (1) Payment is made to right person.
- (2) Payment is for the purpose of business.
- (3) Amount recorded in the cash book is the amount appearing in the voucher.
- (4) Payment is duly sanctioned by the authorized officer.
- (5) Proper account has been debited with the payment.
- (6) Provision of Companies Act and income tax act (TDS) has been complied with while recording the payment.
- (7) Rough Cash Book should be compared with the Cash Book to locate the fictitious payments.
- (8) Payments should be made mainly through banker cheque and cash payments should be avoided for better internal control. Cash payments should be used in emergency cases or minor payments only.
- (9) All cash payment should be supported by valid voucher like original invoice issued by supplier or Expense bills etc.
- (10) For checking contra entries special care is required to be taken. It needs to be compared with pay in slip book and certified copy of bank statement.

Answer of question No.1 (a)

Computation of Taxable Income from Salary for the Assessment Year 2014-15

1. Salary (Rs.3,60,000 + 48,000)		4,08,000
2. D.A.(under terms of employment)		42,000
3. Education allowance	15,700	
Less: Exempt Rs.100 p.m. for two children	<u>2,400</u>	13,300
4. Medical Allowance (fully taxable)		37,200
5. Rent free house Rs.96,000 or 15% of Rs.4,08,000+42,000+13,300+ 37,200 whichever is less	75,075	
Add: Rent of furniture	25,050	1,00,125
6. Servants (Rs.1,250x3 x12)		45,000
7. Refresher course -Exempt		-
8. Contribution to R.P.F.Rs.31,000 does not exceed 12% of salary Rs.4,50,000		-
9. Telephone- Exempt.		-
Taxable Income from salary		6,45,625

Answer of question No.1 (b)(i) **Let-out house:**

Interest for the P.Y.2013-14	30,000	
Interest for 3 years prior to the current previous year (during which the construction of the house is completed)	<u>18,000</u>	48,000
(Rs.90,000 deductible in 5 equal instalments)		

(ii) **Self-occupied house:**

Note: The loan is taken after 01.04.1999. Hence interest is deductible up to Rs.1,50,000/-

The deduction shall be allowed to the extent of Rs.48,000

Answer of question No.1 (c)

Invoice Method of Tax Credit Method or Voucher Method i.e. VAT payable = VAT on sales - VAT on inputs

Under this method, VAT is imposed at each stage of sales on the total sale-value or sale price. The amount of VAT is charged separately in the invoice and the total amount of VAT due on sales is recovered from the buyer. The amount of VAT paid at earlier stage is allowed as credit/set-

off/deduction from the amount of VAT payable on sales. In other words, VAT payable = VAT due on sales - VAT paid on inputs. Thus, at each stage, seller pays VAT only on the amount of value addition made at that stage.

Merits: The following are the merits of this method:-

1. Government gets the tax on ultimate sale price to consumer i.e. the tax paid by the consumer gets into Government Exchequer. The Revenue is collected at various stages on the amount of value addition made at the respective stages. Thus there is no revenue leakage.
2. This method checks evasion of tax. In order to avail credit to tax paid on purchases, the dealer will have to maintain purchase invoices. If the purchase invoices are not maintained, no credit will be available and the dealer will have to pay tax on the total sales value, thereby, leading to higher sale price or lower profits. A dealer not maintaining purchase invoices will loose either way. Thus the possibility of the evasion is minimum.
3. If the profit margin is kept at constant level, then the credit/self-off provided under this method would eliminate cascading effect of taxation and would result in reduction of ultimate sale price. Thus the industry and the trade would benefit.

Answer of question No.2 (a)

The provisions regarding the health of workers are contained in Sections 11 to 20.

The purpose of these provisions is to ensure that the conditions under which work is carried in factories do not affect the health of the workers adversely. These provisions are as under:-

1. Cleanliness (Sec.11) :

Every factory shall be kept clean and free from outflow of bad smelling gases from any drain, privy or other nuisance. It requires to adopt the following measures:-

- (I) Accumulation of dirt and refuse shall be removed daily from the floor and benches of work rooms, passage and staircases;
- (II) The floor of every workroom shall be cleaned at least once in every week or washing, using disinfectants etc;
- (III) Where the floor is liable to become wet, means of draining shall be properly maintained;
- (IV) (a) Where the inside walls, partitions and ceilings etc. are painted with washable water paints shall be repainted or revarnished at least once in every five years.
(b) Where the walls, partitions and ceilings have smooth imperious surface they must be cleared at least once in 14 months. In any other they shall be white washed or colour washed at least once in 14 months.
- (V) Where they are painted with washable water paints, be repainted with a one coat of such paint at least once in every period of three years and wash at least once in every period of six months.
- (VI) All door and windows frames and other wooden or metallic frames and shutters shall be kept painted or varnished and the painting or varnishing be carried out at least once in every period of five years.
Where the nature of the operation of a factory is such that it is not possible for the occupier to comply grant exemption and specify alternative methods for keeping the factory clean.

2. Disposal of wastes and effluents (Sec.12):

Effective arrangements shall be made in every factory for the treatment of wastes and effluents due to the manufacturing process carried on there in so as to render them innocuous and for their disposal. The arrangement must be approved by the authority under the rules.

The State Government may make rules prescribing the arrangements to be made in this regard.

3. Ventilation and temperature (Sec.13) :

Effective and suitable steps taken in every factory:

- (i) To maintain adequate ventilation by circulation of fresh air in every work room; and
- (ii) To keep the temperature at comfortable level in every work room.

The walls and roof must be of such material and such design as to keep the temperature low. The process which produces high temperatures shall be separated from the work rooms by insulating the hot parts or by other effective means.

The State Government may make rules providing for the keeping of thermometer on specified places and adoption of methods which will keep the temperature low.

4. Dust and fumes (Sec.14):

Where dust fumes or impurity of such a nature as is likely to be injurious to the workers is given off as a result of the manufacturing process being carried on in a factory, the effective steps should be taken to:

- (i) to prevent their inhalation, or
- (ii) to prevent accumulation of dust and fumes in work rooms.

If for such a purpose any exhaust appliance is necessary, it shall be applied as near as possible to the point of origin of the dust, fume or other impurity. A stationary internal combustion engine shall not be operated unless the exhaust is conducted into the open air.

5. Artificial humidification:

In respect of all factories in which the humidity of the air is artificially increased, the State Government may make rules regarding the following:-

- (i) The standards of humidification;
- (ii) The methods used for artificially increasing humidity;
- (iii) Tests for determining the humidity;
- (iv) The methods to be adopted for securing adequate ventilation and cooling of the air in the work rooms.

The water used for humidification shall be taken from a public supply or other sources of drinking water and must be effectively purified

before use. The inspector of the factory may specify the measures necessary for purifying the water.

6. Overcrowding (Sec.16):

No room in the factory shall be overcrowded to an extent injurious to the health of the workers. In order to prevent overcrowding:

- (i) there shall be at least 9-9 cubic meters for every worker for the factories in existence before the commencement of the Act. and
- (ii) there shall be at least 14-2 cubic meters for every worker for the factories which are built after the commencement of the Act.

For calculating the volume of the space, no account shall be taken for any space such as more than 4-2 meters above the level of the room.

7. Lighting (Sec.17):

Every part of the factory shall be provided with suitable lighting, natural or artificial means. Effective provision shall also be made for the prevention of:

- (i) glare, either directly from a source of light or by reflection; and
- (ii) the information of the shadows to such an extent as to cause eye strain or the risk of accident to any worker.

The State Government may prescribed standards of sufficient and suitable lighting.

8. Drinking Water (Sec.18) :

In every factory, effective arrangements shall be made to provide drinking water to the workers. The following rules are to be observed in this regard:

- (i) To maintain at suitable points conveniently situated for all workers for supply of wholesome drinking water.
- (ii) All such points shall be clearly marked 'drinking water' in the language understood by majority of workers.
- (iii) No such points shall be situated within 6 meters of any working place from latrine, spittoon, open drain etc.
- (iv) Arrangement should be made for providing cool drinking water where number of employed workers are more than 250.

9. Latrines and Urinals (Sec.19):

In every factory:

- (i) sufficient latrine and urinal accommodation of prescribed type shall be provided.
- (ii) separate enclosed accommodation shall be provided for male and female workers;
- (iii) such accommodation shall be adequately lighted and ventilated;
- (iv) these should be accessible to workers;

- (v) adequate number of sweepers should be employed to keep the urinals and latrines clean.

Where more than 250 workers are ordinarily employed:

- (i) all latrine and urinal accommodation shall be prescribed sanitary types.
- (ii) the floors and internal walls up to a height of ninety centimeters of the latrine and urinals and the sanitary blocks shall be laid in glazed tiles to provide a smooth polished impervious surface.

The State Government may prescribe the number of latrines and urinals to be provided in any factory in proportion to the number of male and female workers. It may further provide for rules regarding sanitation, including the obligation of the workers in this regard.

10. Spittoons (Sec.20) :

In every factory, there shall be provided a sufficient number of spittoons at convenient places and they shall be maintained in a clean and hygienic conditions. No person shall spit anywhere else except the spittoons. A notice containing the spittoons shall be prominently displayed at suitable places in the premises. If a worker violates the provision, he may be punished with fine not exceeding Rs.5.

Answer of question No.2 (b)

Employer's Liability for Compensation:

An employer is liable to pay compensation if personal injury is caused to any employee by accident arising out of and in the course of his employment.

However an employer is not liable in the following case:

1. Injury which results in total or partial disablement of employee up to 3 days;
2. Injury caused by an accident directly attributable to the following:
 - a. Employee working under the influence of drinks or drugs.
 - b. Will full disobedience of express orders of safety.
 - c. Will full removal of safety guards or devices.

However even in such cases, if the employee dies or suffers permanent total disablement the employer will be liable.

Further, an employer is liable to an employee, if an employee contracts any specified occupational disease while he is in the service of the employer for at least 6 months.

It may be noted that compensation is payable even when there is no fault of the employer, except the aforesaid cases where the compensation is not payable. The compensation is payable even if it is found that the employee did not take proper precautions or he was careless or negligent in the performance of his work.

Amount of compensation payable.

Compensation is payable to employee in case of partial or total disablement. It is payable to dependants of employee in case of death.

It may be noted that compensation must be paid through the Commissioner of Employees' Compensation, appointment by the Government, in case of death and total disablement.

In case of death, compensation payable is an amount equal to 50% of monthly wages of deceased employee multiplied by a factor depending on the age of the employee (more the age, lower the compensation), subject to a minimum compensation of Rs.80,000/-. In addition to this funeral expenses of Rs.2,500/- are also paid.

In case of permanent total disablement, compensation payable is an amount equal to 60% of monthly wages of disabled employee multiplied by a factor depending on the age of the employee (more the age, lower the compensation), subject to a minimum compensation of Rs.90,000/-

In case of permanent partial disablement, compensation is paid based on percentage of loss of earning capacity.

Answer of question No.2 (c)

2 (c) (i) Immediate employer and Principal Employer.

"Immediate Employer", in relation to employees employed by or through him, means a person who has undertaken the execution on the premises of a factory or an establishment to which this Act applies or under the supervision of principal employer or his agent, of the whole or any part of any work which is ordinarily part of the work of the factory or establishment of the principal employer or is preliminary to the work carried on, in or incidental to the purpose of any such factory or establishment.

2 (c) (ii) "Principal Employer" means the following:

- (i) in a factory, owner or occupier of the factory and includes the managing agent of such owner or occupier, the legal representative of a deceased owner or occupier and where a person has been

named as the manager of the factory under the Factories Act, 1948, the person so named;

- (ii) In any establishment under the control of any department of any Government in India, the authority appointed by such Government in the behalf or where no authority is so appointed the head of the Department.
- (iii) In any other establishment, any person responsible for the supervision and control of the establishment.

Answer of question No.3 (a)

Definition of consideration.

It is a 'quid pro quo' i.e. something in return. In simple words this 'something' is known as consideration. According to Pollock-

"Consideration is the price for which the promise of the other is bought, and the promise thus given for value is enforceable"

In other words it is a price of promise.

Example: X agrees to sell his TV set to Y for Rs.8,000/- TV set is the consideration of Y and Rs.8,000/- is the consideration of X.

Essential of valid consideration of rules governing consideration.

As per analysis of definition of consideration, the rules governing consideration are as follows:

1. It must move at the desire of the promisor:

An act or abstinence or promise which forms the consideration for the promise must have been done at the desire of the promisor. The desire of the promisor may be express or implied. An act or abstinence voluntarily or at the instance of third party by a promisor does not constitute a valid consideration.

Examples:

X's house catches fire and Y helps in extinguishing it without being requested to do so by X. Y cannot demand any payment for his voluntary service since he has helped X voluntarily.

It is not necessary that the consideration should benefit the promisor. It may result in benefit to the third party and still it would be a valid consideration if it is moved at the desire of the promisor.

Y requests X to sell and deliver to him goods on credit. X agrees to do, provided Z will guarantee the payment of the price of the goods. Z promises to guarantee the payment. The contract between X and Z is a 'contract of guarantee' and is valid though the benefit which X confers in return of Z's guarantee is conferred not on Z but on Y. X's promise to deliver the goods is the considerations of Z's promise of guarantee.

2. It may move from promisee or any other person:

According to Section 2 (d) consideration may move from "the promisee" or any other person. It implies that consideration be furnished by the third party i.e. a stranger. So the requirement of a valid promise is that it must be supported by a consideration. It is immaterial who furnishes it. It means that stranger to consideration can sue, provided

he is a party to a contract. It is also known as 'Doctrine Constructive Consideration'.

Examples:

X pays Rs.5000/- to Y directing him to build a house for Z Y agreed to do so. Hence Z is a party to a contract but stranger to consideration and he can enforce the contract.

3. It may be past, present or future:

The definition of consideration given in section 2 (s) contains the words "..... has done or abstained from doing or does or abstains from doing or promises to do or abstain from doing". which indicate that consideration is of three types i.e, past (done or abstained from doing), present (does or abstains from doing) or future (promise to or abstain from doing).

(i) Past consideration:

A consideration for the act completed in past is known as the past consideration. Thus it is a promise to pay something in return of the act already done by a person.

A past consideration is no consideration under the English Law. A man says, " It is a mere sentiment of gratitude or honour prompting a return for benefit received".

(ii) Present consideration:

When the consideration for a promise is moved at the time of the promise, then such a consideration is called as present consideration. It is also termed as executed consideration. Cash sales is a good example of present consideration where the customer makes the payment and seller delivers the goods simultaneously.

(iii) Future Consideration:

It is a consideration, which consists of a promise made to the promisor to do or abstain from doing something in future. Such a consideration move from one party to the other after making the contract. It is also known as an executor consideration.

4. It need not be adequate:

A consideration is 'something' to which law attaches some value. It need not be equivalent in value to the promise made. Law only requires the presence of consideration and not the adequacy of it. So, the people are free to made their bargain and the court cannot interfere in it. Anybody having bad bargains cannot seek the assistance of the court.

Example: X agrees to sell his car worth Rs.75,000 for Rs.5,000 only to Y and his consent is free. Such an agreement is a valid contract though the consideration is inadequate.

5. It must be real:

Though the consideration need not be adequate, but it must be competent and real, not illusory. It must have some value in the eyes of law. It should not be physically or legally impossible, uncertain and illusory.

Example:

- (a) Physically Impossible: X promises to Y to make his dead mother alive if he pays him Rs.1,000/-. It is not a good consideration as it is physically impossible to perform.
- (b) Legally impossible: X files a suit against Y for non-payment of a debt. Y feels disturbed and approaches X's brother Z who promises to withdraw the suit for a consideration of Rs.500. Here with Z is promising is legally impossible, because suit can be withdrawn only by X and not by Z.
- (c) Uncertain considerations: X agrees to pay Y an adequate amount for a certain work. Here the consideration 'adequate amount' is uncertain and hence the agreement is unenforceable.
- (d) Illusory Consideration: The plaintiff an advocate accepted the Vakalatnama to appear on behalf of the defendant in a certain suit. Subsequently, the defendant agreed to pay the plaintiff a certain sum in addition to his fees, if the suit was successful. The defendant failed to pay the amount and the plaintiff brought an action for recovery. It was held that plaintiff having accepted a Vakalatnama was already bound to render his best service as a pleader. So the additional fee for the same work is an illusory consideration.

6. It may be an act abstinence or a return promise:

Consideration may be an act i.e. to do something abstinence i.e. not to do something or a return promise i.e. promise of promisor and promise of promisee is a consideration for each other.

7. It must be lawful:

The consideration for an agreement must be lawful otherwise it will become void and hence unenforceable. The consideration of an agreement is unlawful if-

- (i) it is forbidden by law or
- (ii) it is of such a nature that, if permitted it would defeat the provision of any law or
- (iii) it is forbidden or

- (iv) it involves or implies injury to the person or property of another or
- (v) the court regards it as immoral or opposed to public policy.

Example: X.Y and Z enter into agreement for the division among them of the goods smuggled by them. The agreement is unenforceable because consideration is unlawful.

8. It must be something which the promisor is not already bound to do:

Consideration should not be more than what the promisee is bound to do either according to law or on the basis of a contract. In other words, where a person, who by his official status or by operation of law is under a public duty to act, the discharging of that duty cannot be regarded as consideration. However, doing or agreeing to do more than that which a person is legally bound, will constitute good consideration even it may be an act of the some kind which he is legally bound to do.

Answer of question No.3 (b) (Any six required out of below)

Difference between Promissory Note and bill of exchange

Basic of difference	Bill of Exchange	Promissory Note
1. Drawer	It is drawn by a creditor.	It is drawn by a debtor.
2. Parties.	There are three parties i.e. drawer, drawee and payee.	There are two parties i.e. maker and payee.
3. Acceptance	It requires acceptance of drawer before it is presented for the payment.	It requires no acceptance.
4. Conditional.	It may be accepted conditionally by drawee.	It cannot be made conditional by maker.
5. Copies	Foreign bills are drawn in sets, normally three copies are prepared.	Only one copy of the foreign promissory note is prepared.
6. Relationship	The drawer stands in immediate relationship with the acceptor and not the payee.	The maker stands in the immediate relationship with the payee.
7. Nature of liability.	The liability of the drawer is conditional and secondary.	The liabilities of the maker is absolute and primary.
8. Notice of	Notice of dishonour must	Notice of dishonour is

Dishonour	be given by the holder to the drawee and to all the previous indorsees.	not necessary to be given to the maker.
9. Noting and Protesting	Dishonour of bill requires 'noting' and 'protesting'	Dishonour of promissory note does not require any 'noting' and 'protesting'.
10. Drawer and Payee.	Drawer and Payee may be same persons in case of bill of exchange.	A maker cannot pay to himself in case of promissory note.
11. Payable to bearer	A bill of exchange may be payable to bearer provided it is not payable on demand.	A promissory note is not payable to the bearer.

Answer of question No.3 (c)

Modes of negotiation

Negotiation may be effected in the following two ways:

- 1. Negotiation by delivery (Sec. 47):** Where a promissory note or a bill of exchange or a cheque is payable to a bearer, it may be negotiated by delivery thereof.

Example: A, the holder of a negotiable instrument payable to bearer, delivers it to B's agent to keep it for B. The instrument has been negotiated.

- 2. Negotiation by endorsement and delivery (Sec. 48):** A promissory note, a cheque or a bill of exchange payable to order can be negotiated only by endorsement and delivery. Unless the holder signs his endorsement on the instrument and delivers it, the transferee does not become a holder. If there are more payees than one, all must endorse it.

Answer of question No.4 (a)

Power of Directors

1. GENERAL POWERS.

General powers of a company is discussed as under:-

1. **Powers of Board of Directors:** (By virtue of section 291). Board is empowered to exercise all such powers, and to do all such acts and things as the company is authorised to exercise and do. This section however imposes two restrictions on the powers of Board of Directors:-
 - (a) The Board shall exercise its powers subject to the provisions of companies Act, or the memorandum or articles of association or in any regulations made by the company in the general meeting.
 - (b) The Board of Directors cannot exercise, those powers which are authorised by the Act, memorandum and articles to be exercised by shareholders in general meeting.

2. SPECIFIC POWERS OR POWERS EXERCISABLE BY RESOLUTION AT BOARD MEETINGS.

Section 292 specifies the specific powers that the Board of directors of a company is to exercise on behalf of the company and also the mode in which it must do it. Section 292 states that the powers specified therein shall be exercised by the Board only by means of resolutions passed at meeting of the Board. The powers are:-

- (i) to make calls.
- (ii) to issue debentures
- (iii) to borrow moneys otherwise than on debentures.
- (iv) to invest funds of the company and
- (v) to make loans.

The Board may delegate the Powers specified in clauses (iii), (iv) and (v) as aforesaid to any committee of directors, the managing director, the manager or any other principal officer of the company or in the case of a branch office of the company a principal officer of the branch office.

But the powers so delegated cannot be absolute and unlimited in their extent. The resolution delegating the power under clause (iii) must specify the total amount outstanding at any one time up to which moneys may be borrowed by the delegate, the one delegating the power under clause (iv) must specify the total amount up to which the funds may be invested and the nature of the investment, and the one delegating the power under clause (v) must specify the total amount up to which loans may be made by the delegation, the

purpose for which they may be made and the maximum amount of loans which may be made for each such purpose in individual cases.

Though the section thus requires the Board of exercise specific powers in the manner therein stated it still leaves it open to the company to impose in general meeting such restrictions and conditions upon the exercise of any of these powers by the Board.

3) Power subject to consent of general meeting.

The Board of Directors can exercise its powers in the following cases only after obtaining the necessary consent of the company in general meeting, if the company is a public company or a private company which is a subsidiary of the public company.

- (a) To sell, lease out or otherwise dispose of the whole or part of the undertaking of the company (sec 293 (1) (a))
- (b) To remit or give time for the repayment of any debt due by a director except in the case of renewal of an advance made by a banking company to its director in the usual course of business (sec 293 (1) (b))
- (c) To invest amount of compensation received in compulsory acquisition of its properties. (sec 293 (1) (c))
- (d) To borrow money in excess of the aggregate of the paid up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose.(sec 293(1) (d))
- (e) To contribute to charities other than for political purpose or to political parties. (sec 293 (1) (e))
- (f) Power to appoint sole selling agents (sec. 294 (2))

Consent of the general meeting to exercise any of above powers may be obtained through an ordinary resolution a company of which must be filed with the Registrar within 30days of their passing.

However, if the directors sell or lease out of company's undertaking without obtaining company's consent, the title of the buyer or the lessee will not be affected if he acts in good faith and with due care and caution (section 293 (2). Where the director incur debt in excess or the permissible limit the debt cannot be imposed on the company by the lender unless he proves that he advanced the loan in good faith and without knowledge that the permissible limit had been exceeded. (sec.293 (5)

4. Powers subject to the approval of the Central Government.

The Board of Directors of a company can exercise following powers with the consent of the Central Government.

- (i) Change of name by company.(sec 21 and 22)

- (ii) To declare dividend out of accumulated profits transferred to reserves if such declaration is not in accordance with the rules framed by the Central Government (sec 205 A)
- (iii) To amend any provision relating to managing whole time of non-rotational directors.(sec 268)
- (iv) Appointment or re-appointment of managing or whole time director in certain cases (sec 269)
- (v) Appointment of sole-selling buying agents in certain cases. (sec. 294)
- (vi) Loans to directors (sec 295)
- (vii) To increase remuneration of managing or whole time director (sec 198 (4) 310 and 311)
- (viii) Granting loans etc. to another company exceeding certain limits (second provision to sec 370 (1)
- (ix) To investing in shares or debentures of other companies beyond certain specified limit (sec 372 (4)

5. Contribution to National Defence Fund must be declared in Profits and loss account.

By virtue of section 293 B the Board of Directors of any company may contribute any amount to the National Defence Fund or any other Fund approved by the Central Government for the purpose of national defence. The amount so contributed must be declared in profits and loss account for every financial year.

Answer of question No.4 (b)

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 31.03.2014 and profit and loss account for the year ended 31.03.2014 and auditor's report thereon be and the same are hereby received, considered and adopted.

Answer of question No.5 (a)

State Whether following Statements are True/False

- (i) Dividend is payable to Shareholders only when there is Profit in Company. (True)
- (ii) Articles of Association Does Not empower companies to declare Interim Dividend. (False)
- (iii) Interest to Debenture holders is paid after payment of Dividend to Shareholders. (False)
- (iv) Dividend must be paid within 6 months after its declaration. (False)
- (v) Unpaid Dividend for more than 7 years is transferred to "Investor Education and Protection Fund". (True)
- (vi) Inadequate provision of safety measures in factories gives rise to increase in number of accident. (True)
- (vii) Safety measures are concerned only with the physical efficiency of workers. (False)
- (viii) Child means a person who has not Completed his 15 years of his age. (True)
- (ix) Saw Mill is not covered under Factories Act 1948.(False)
- (x) State Government is not empowered to appoint inspecting staff under Factories Act 1948.(False)

Answer of question No.5 (b)

Negative list of services.

In terms of section 66B of the 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 of 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 time 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) Service 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.

Answer of question No.5 (c) (i)

Void contract:

Void contract is one which was a valid contract when it was made but subsequently it becomes void due to change of circumstances. A void contract is defined in sec.2 (J) thus:

"A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable"

Example: X agrees to sell his horse to Y for Rs.5,000/- But, the horse died in an accident. It becomes impossible to perform the contract due to the destruction of the subject. Thus, a valid contract changes into void contract because of subsequent impossibility of performance.

When a contract becomes void, then the party who has received any benefit or advantage under the contract is liable to restore it or compensate it to the other party from whom the advantage has been received.

Answer of question No.5 (c) (ii)

Voidable contract:

Section 2(i) defines voidable contract as:

"An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract"

In other words an agreement which is enforceable at the option of one or more aggrieved parties is termed as voidable contract. Such a contract comes into existence where the consent of one or more of the parties is not free. It infers that the consent of the party to a contract has been procured

by coercion, undue influence, fraud and misrepresentation. In a consequence, the aggrieved party may affirm the contract or set aside it. A voidable contract is as good as any other contract till it is avoided or rescinded by the aggrieved party.

Example A: X promises to sell his scooter to Y for Rs.500/-. However the consent of X has been procured by Y at a gun point. X is an aggrieved party and the contract is voidable at his option. He may opt to continue with the contract or rescind it.

Answer to Question No. 1(a)

$$\text{Inventory Turnover Ratio} = \frac{\text{Material Consumed during the period}}{\text{Average Stock}} = \frac{400}{102} = 3.92$$

Average stock is calculated as given below:

Stock Units (a)	No. of Days (Units remained in stores) (b)	Product (a) x (b)
200	17 (From 01.04.2013 to 17.04.2013)	3,400
100	267 (From 18.04.2013 to 09.01.2014)	26,700
50	65 (From 10.01.2014 to 15.03.2014)	3,250
250	15 (From 16.03.2014 to 30.03.2014)	3,750
0	1 (From 31.03.2014 to 31.03.2014)	0
	365 Days	37,100

$$\text{Average Stock} = 37,100 / 365 = \text{Approx. } 102 \text{ units}$$

Answer to Question No. 1(b)

This ratio is used to judge the efficiency in the usage of material. This ratio indicates the relation between the units of material put in for production and the units of finished product.

Formula for calculation of Input-Output is as under:

Units of Input / Units of Output X 100.

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Answer to Question No. 2(a)

(i) **Commercial Tonne-Kms.:** Load x Distance x No. of days x Capacity Utilized

$$= (4 \times 100 \times 25) + (2 \times 100 \times 25) = 15,000 \text{ Tonne-Kms.}$$

Cost per commercial tonne km. = Rs. 27,000 / 15,000 = Rs. 1.80.

(ii) **Rate to be charged:**

Cost per commercial tonne km.

Rs. 1.80

Add: Profit (20% on the freightage or 25% of cost)

Rs. 0.45

Rs. 2.25

Therefore for 100kms. = Rs. 2.25 x 100 kms.

Rs. 225

Answer to Question No. 2(b)

Advantages of Cost Accounting.

- Price fixation, Floating tenders, Quotations etc.:** Cost records play a vital role in fixing the price of a product, service or process. Cost accounting facilitates such task.
- Makes estimates:** Proper cost-accounting records provide the basis to prepare estimates and tenders.
- Eliminates wastages:** Cost of the article or process at each and every stage can be determined with the help of cost records, thereby minimizing wastages that occur.
- Maximizes profit:** Cost accounting helps in maximizing profit, choosing apt approach for its production. Non-profitable lines may be avoided.
- Facilitates comparison:** Cost records provide data to compare different periods, which in turn helps the management to take future course of action promptly.
- Inventory control:** Costing helps to a great extent with respect to control of stock of raw materials, work-in-progress and finished goods.
- Enhancing efficiency:** As costs are determined at each stage, wastages can be detected and remedial measures can be taken without delay; efficiency of an organization is enhanced, which in turn maximizes the profitability.
- Boon to creditors:** Costing records serve as a reliable and authentic document by which creditors (investors, banks and money-lending institutions etc.) can repose faith on business organizations and extend advances without any hesitation and with confidence.
- Beneficial to employees:** Costing records are easily accessible and transparent to employees because of which they are benefitted monetarily by way of incentive, bonus etc. This strengthens the cordial relationship between the employer and employee, and industrial peace environment prevails.
- Boost to national economy:** Prosperity in industrial sector will reflect in the general economy of any nation by way of increased revenue to the government. Better system of cost accounting paves the way to achieve higher GDP growth of the nation.

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Answer to Question No. 3(a)

Project A

Year	Cash Flows	PV Factor	Total Present Value
0	(10,000)	1.000	(10,000)
1	8,000	0.909	7,272
2	7,000	0.826	5,257
Net Present Value			2,529

Project B

Year	Cash Flows	PV Factor	Total Present Value
0	(20,000)	1.000	(20,000)
1	8,000	0.909	7,272
2	9,000	0.826	7,434
3	7,000	0.751	5,257
4	6,000	0.683	4,098
Net Present Value			4,061

Projects have Unequal lives, therefore **Equivalent Annual Net Present Value (EANPV)** is determined by dividing the NPV of cash flows of the project by the annuity factor corresponding to the life of the project at the given cost of capital.

EANPV of Project A = Rs. 2,529 / 1.735 = Rs. 1,458

EANPV of Project B = Rs. 4,061 / 3.169 = Rs. 1,281

On the basis of EANPV, Project A should be selected.

Answer to Question No. 3(b)

Financial or cash budget:

This budget gives an estimate of the anticipated receipts and payments of cash during the budget period. Therefore, this budget is divided into two parts, one showing the estimated cash receipts on account of cash sales, credit collections and miscellaneous receipts and the other showing the estimated disbursement on account of cash purchases, amount payable to creditors, wages payable to workers, indirect expenses payable, income tax payable, dividend payable, budgeted capital expenditure etc. In short, every factor which affects the receipts and payments of cash is taken into account in the preparation of budget.

This budget is prepared by the Chief Accountant for the guidance of management so that arrangements may be made for the requirements of the organization.

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Answer to Question No. 4

--Sales of Second Half year is 90% of the First Half year i.e. $4,50,000 / 5,00,000 \times 100$

--Change in Total Cost i.e. Rs. 4,30,000 – Rs. 4,00,000 = Rs. 30,000

--Change in Total Cost is due to Variable Cost as Sales reduced by 10% (100% – 90%)

--Therefore Total Variable Cost of the year is $30,000 / 10\% \times 190\% = \text{Rs. } 5,70,000$

--Variable Cost to Sales Ratio = $5,70,000 / 9,50,000 \times 100 = 60\%$

--Contribution for the whole year 2013 = Total Sales – Total Variable Cost

--Contribution for the whole year 2013 is: $9,50,000 - 5,70,000 = \text{Rs. } 3,80,000$.

i) Profit Volume Ratio:

Contribution / Total Sales $\times 100$ i.e. $3,80,000 / 9,50,000 \times 100 = 40\%$. **OR**

Total Sales = Variable Cost + Contribution

So, 100% (i.e. Total Sales) (-) 60% (i.e. Variable Cost Ratio) : Contribution to Sales Ratio = 40%

ii) Fixed Expenses:

First half year Total Cost (4,30,000) – Variable Cost of the First half year ($30,000 / 10\% \times 100\%$) i.e. 1,30,000 (4,30,000 – 3,00,000)

So Total Fixed Cost is Rs. 2,60,000 (i.e. $1,30,000 \times 2$)

iii) Break Even Sales:

Fixed Expenses / Profit Volume Ratio.

$2,60,000 / 40\%$ i.e. Rs. 6,50,000

iv) Percentage of Margin of Safety:

(Total Sales – Break Even Sales) / Total Sales $\times 100$.

$(9,50,000 - 6,50,000) / 9,50,000 \times 100 = 31.58\%$

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Answer to Question No. 5(a)

Addition may bring into existence a new asset or increase the physical size of an asset through expansion / extension etc. Expenditure on additions is capitalized.

An expenditure having the effect of extending the useful life of an asset or increasing output or capacity or efficiency of asset or decreasing its operating costs is **improvement**. Expenditure on improvement shall be capitalized. Improvement may or may not involve replacement of an asset.

Answer to Question No. 5(b)

Replacement can be defined as substitution of one fixed asset by another or an old asset by a new asset or of old part by a new part. **Expenditure on minor replacements is charged to Revenue as Repair & Maintenance while major replacement expenditure is charged to Capital.**

Expenditure incurred on restoring an asset to its original level of performance at which when it was first put to use (irrespective of quantum) is charged to repair & maintenance (Revenue Expenditure).

Answer to Question No. 5(c)

i) 37.000 U-Cheque Blank Code

The amount of U-Cheques drawn and received shall be recorded under this account code.

ii) 24.110 Cash Accounts

This will be debited and credited for all cash receipts and payments respectively (through the Cash Abstracts). The balance will be tallied every month-end with Cash balance on hand. Cheques, drafts and postal orders received (awaiting depositing in bank) will also be treated as cash on hand for this purpose until they are deposited.

iii) 24.501 Remittances to HO in Transit Accounts

This account will be debited for booking debit advices raised by Division. On actually receiving the remittances in its collection bank account, the HO will credit this account. The balance in this account will represent the remittance-in transit from Division to HO, as the case may be.

iv) 46.300 Electricity duty and other levies payable to State Govt.

The electricity duty assessed as recoverable from the consumers shall be credited to this account per contra debit to 23.201 to 23.210. The amount released to the State Govt. on account of collection of duty shall be booked to this account code.

v) 46.941 Credits awaiting IUT Bills

The amount of cash received from other accounting units/ recoveries made on behalf of other accounting units and cost of material received against SR, store challan/SRWs shall be credited to this account code. For cash received and material against SR, store/SRW the IUT bill shall be verified from the initial records and U-Cheque issued by debiting to this account. For recoveries made on behalf of other accounting units, the U-Challan shall be issued by debit to this account head.

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