

## ANSWERS

### A 1. (a) Précis: -

#### Character Building

Human character is something that is neither inborn nor built overnight but needs to be slowly nurtured over time. Persons born to wealthy and famous families are more in danger of being misled if not guided properly and extreme behavior of juveniles is but a consequence of lack of nurturing. At the same time, with proper guidance and supervision even the misguided can be brought back to the mainstream. Life in general is full of adversities and such trying situations if met with resolutely do end up molding the human character in the right shape. In general the society at large and the family in particular have a key role to play in building the human character and hence shaping the future of the nation as a whole.

#### (b) Word meanings-

1. Indulging – Involving.
2. Stewardship – Supervision.
3. Juvenile – Concerning Minor(s).
4. Abiding – Following.
5. Adversity – Difficult situations.

## A 2. (a) Change the Voice

1. The poor beggar was laughed at by everyone.
2. What is charged as the course fee by the company?
3. Was this letter forgotten to be posted by you yesterday?
4. It could not have been said by him.
5. The windows should be opened.

## (b) Change the Narration

1. They informed that they were leaving the town.
2. I was told not to worry about his saying anything to the police.
3. It was confirmed that the parcel had been opened at the customs.
4. He was asked about his parents having had an accident.
5. The shoe laces have not been tied by him.

## (c) Correct the sentences

1. I have not met my father for a long time.
2. Besides being thoroughly thrashed he was sent to jail.
3. He was stabbed in the back by an unknown person.
4. He is not ashamed the least of his failure in the exam.
5. The bus will arrive at the stand at the right time.

## (d) Idioms – meaning and use in sentences

1. Go the extra mile – To be accommodative. Being the bigger nation India is mostly willing to go the extra mile with its neighbours while discussing the border disputes.
2. Read between the lines – To look for implied meaning. Our politicians are often so politically correct that one has to read between the lines to really understand their message.
3. Hit below the belt – to be unfair. Some people are so ambitious that they sometimes do not refrain from hitting below the belt to silence their critics.
4. High and dry – To abandon midstream. All the promises apart in this cut throat world, at the first opportunity most people would not shy away from leaving their partners high and dry.
5. Level playing field – Equal opportunity for all. Our constitution calls for the state to provide a level playing field for the entire citizenry.

**A 3. Works/Purchase regulations.****3(a) RECEIPT OF TENDER AND EXTENTION OF TIME**

"Tenders shall be received in the office of the contracting/purchasing Agency upto the time and date specified in the Notice inviting tender/Tender specification and dated initials with the time of receipt be noted on the cover by the officers/officials authorized to received the tenders.

- i) Tender documents should not be issued and received by any official less than the rank of Supdt./Head Clerk in case of Divn.who would ensure that the names of the firms to whom tender documents have been issued are not revealed to any firm and total secrecy is maintained in this regard.
- ii) On receipt, the tenders shall be entered in the Register of Tenders as per Schedule 'F' and each allotted a Serial No. and kept in safe custody in a steel almirah or tender box by the following officers/officials:-
  - a) Board's Secretariat Central purchase  
Superintendents Organization Design Directorate  
 & Circle Offices
  - b) Divisions Divisional Supdt.  
Sub-Divisions Sub-Divisional  
Clerks

The tenders thus kept in safe custody will be taken out only at the time of opening of tenders.

- (iii) In the event of any tender being received with its envelope unsealed or in mutilated/torn condition or seals damaged, it shall be immediately, brought to the notice of Officer Inviting Tenders for orders to re-Seal such tenders in another envelope which shall be signed by the said officer and entrusted for safe custody as other tenders.
- (iv) Any tender received in an envelope not bearing clear indication on the outside and hence opened in routine shall also be immediately brought to the notice of the Officer Inviting Tenders for similar or orders for resealing and safe custody.
- (v) The Officer Inviting Tenders or an officer deputed by him, may extend the due date for submission tenders in case of:-

- a) Poor response defined by receipt of less than three quotations upto the fixed time.
- b) Any material change in the basic specification/quantities.
- c) Under any unforeseen situation.

Publicly to the extension of time limit for submission of tender shall be given in the same manner as given for first invitation of tenders.

### 3(b) ACCEPTANCE OF TENDERS

- (i) Acceptance of tender shall be accorded by the Competent Authority in writing in noting sheets in the case fiddle or in the minutes book, it the Competent Authority is the Baord/Whole-time Members.
- (ii) In emergent cases the Competent Authority may authorize advance action to be taken by the Purchasing Agency in anticipation of receipt of formal decision.
- (iii) In case of Proprietary/Patent items, the rates shall be accepted subject to the Supplier/Contractor certifying that the rates applicable are/would be same as for all Government /Semi Government Departments.
- (iv) The Competent Authority may distribute the quantities to be procured on more than one firm recording reasons thereof.
- (v) The order should be placed on one or two firms, if feasible otherwise order may be placed on as minimum number of firms as possible. It should in no case be placed on more than 50% of bidders.

However in case there are three bidders only then quantity may be distributed amongst two bidders, if necessary. " The present practice offering counter offers shall continue with the conditions that the rates for trial order should not be considered as counter offer rates."

### REJECTION OF TENDERS

The following type of tenders shall 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 setoff tendering documents/specifications as 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 as per Regulation 12(iv).

### **3(c) REINVITATION OF TENDERS**

Tenders may be re-invited after approval of the next higher authority to the authority competent to accept the Tenders in event of:-

- a) Inadequacy of number i.e. less than three
- b) Unsuitability of offers.
- c) Any subsequent change necessitated in technical specification.
- d) Any other compelling reasons to be recorded in writing.

In case falling under the competency of WTMs/Board, approval of Member incharge will be obtained.

### **PROCESSING OF TENDERS**

i) The scrutiny of tenders shall be done by officers/officials as below and comparative statements showing the quoted/equated rates/prices as per Notice Inviting Tender /Tender Specification shall be prepared and signed by them.

- |                                  |                        |                     |
|----------------------------------|------------------------|---------------------|
| a) /design Directorates/Projects | AEE/AE                 |                     |
| b) Circles                       | AEE/AE/Circle          | Head                |
|                                  | Draftsman              |                     |
| c) Divisions                     | AEE/AE/Divisional Head | Draftsman           |
| d) Sub Divisions                 | Junior                 | Engineers/Sectional |
|                                  | Officer                |                     |

ii) The comparative and other statements and proposals for acceptance of tender shall be made as per guidelines, if any, approved by the Board from time to time.

iii) The comparative statement shall be checked by another officer /officials of higher rank and countersigned by him in token of such

checking. The comparative statement shall also vbe checked/pre-audited by an officer of Accounts Organization wherever provided/nominated and duly signed by him as a token of such check/pre-audit(in case of Divisions, this work will be done by the Superintendent Divisional Accounts).

iv) The proposals for acceptance of tenders shall be submitted in noting sheets in single file system, where the competent authority is a Committee, the file shall be seen by the Members in circulation and the case shall be decided in a meeting. In urgent cases, decision can be taken in circulation.

v) Where Competent Authority is the Board/Whole time members a detailed Memorandum shall be submitted by the concerned CE. All such cases shall be scrutinized by the concerned Works Committee, before the recommendations are incorporated in the Memorandum.

## A4. Drafting. (a)

①

To

1. CE/DS \_\_\_\_\_, PSPCL.
2. CE/DS \_\_\_\_\_, PSPCL.
3. CE/DS \_\_\_\_\_, PSPCL.
4. CE/DS \_\_\_\_\_, PSPCL.
5. CE/DS \_\_\_\_\_, PSPCL.

Subject- Regarding Slow progress of R-APDRP implementation in PSPCL.

My Dear \_\_\_\_\_,

It gives me sense of deep dismay to point out that despite of repeated assurances to the contrary, the progress of implementation of the R-APDRP scheme in DS Zone \_\_\_\_\_ remains abysmally poor. You would recall that the status of implementation was reviewed in detail in the last monthly review meeting at Patiala wherein all the issues highlighted from your side were deliberated upon and the revised targets against each were fixed. However, it is regretted that the issue is not being given the importance it deserves and it is apparent that you are not reviewing the progress on the ground at your own level. It is once again reiterated that the scheme is a centrally sponsored scheme which is being periodically reviewed by not only the state government but also the union ministry of Power.

As is known with successful implementation of this scheme, we would not only have a baseline data available for performance monitoring in place but it will also enhance the capability of the consumer service delivery mechanism thereby improving the image of PSPCL among the general public. Please be informed that the ministry has desired that henceforth the performance measurement as regards the implementation of the scheme in the area under the respective charge of an incumbent be made a part of the annual confidential report. It is therefore imperative that immediate steps be taken at your level to disseminate the information among all the officers under your charge about the significance this project has for PSPCL.

Here's wishing you best of luck in your endeavour.

With Regards,

Yours Truly,

Director/DS, PSPCL.

CC OSD to CMD PSPCL.

4(b)To

XYZ, Gurgaon.

Subject – Regarding slippage in delivery schedule – W.O. cum Contract Agreement dated \_\_\_\_\_.

Reference – This office memo no \_\_, dated \_\_, memo no \_\_, dated \_\_.

Dear Sir,

On the subject cited above, this is to remind you that as already reiterated on previous occasions (see reference above) you have failed to adhere the delivery schedule mandated by the work order. As is known the payments in the project are strictly milestone based and are tightly coupled to the milestones achieved. It is apparent that you have singularly failed to ramp up the manpower on the ground in the project and consequently the progress of field survey and the subsequent digitization of the acquired data is getting delayed. In the event therefore, we are not in a position to either derive any benefit out of already delivered systems nor are in a position to start the eventual user acceptance stage of the project. Please be informed that the poor performance on your part is also adversely affecting the morale of our workforce deployed in the project while at the same time leading to increased pressure on PSPCL from the sponsors of the project.

It is regretfully pointed out that in case you do not take immediate steps to significantly raise the level of resource deployment from your side, it may be too late for salvaging the project. As already pointed out, no further payments can be released to you at the moment in absence of the milestone achievement. Rather, it is added here for good measure that you may please refer to the penal provisions in the subject cited work order wherein for every weeks delay a deduction of .5% (subject to max of 5%) shall be made from the regular payments. Also any further delay on your part shall leave PSPCL with no alternative but to terminate the contract and get the pending work completed from outside at your risk and cost.

Treat it Urgent Please.



Regards,

ABC.

4(c)Subject: - Request for providing support to ITIA teams engaged in field survey.

Dear Sir,

As is known M/s \_\_\_\_\_ have been engaged by PSPCL as the ITIA for implementing the R-APDRP IT project vide W.O. \_\_\_\_\_ dated \_\_\_\_\_. The work of R-APDRP IT implementation is going on simultaneously in different states of the country and is being reviewed periodically at the state and national level. The entire implementation aims at setting up a system for defining the baseline parameters like AT & C loss level in the utility and monitoring of other consumer service parameters of PSPCL. Towards the same, the entire electrical network hierarchy of PSPCL is being mapped on to a geospatial database with subsequent indexing of all the PSPCL consumers to the mapped assets. This entire asset mapping and consumer indexing activity is being carried out through on field manpower provided by the GIS survey vendor. This manpower is criss-crossing the entire state and going from door to door for indexing the consumers.

In this regard, as field officers you are best equipped to support the field manpower of the GIS vendor in successfully completing the assigned task with accuracy and in time. It is reminded that besides the internal quality assurance by vendor (QA/QC), you are also required to validate the asset mapping and consumer indexing work carried out by the vendor towards its accuracy. As such it would be prudent on your part to motivate your own staff to work cohesively all along the vendor teams. It is requested that you may obtain the contact numbers of the team lead in your respective area from the GIS implementation coordinator of PSPCL whose team details are as below.

1. Er. ABC. Mb \_\_\_\_\_
2. Er. DEF. Mb \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

It is added that the above details are also available in the PSPCL website. [www.PSPCL.in](http://www.PSPCL.in).

Anticipating a favourable response,

with regards,

XYZ

**A 5.**

**A.(a)** DBMS stands for database management system. The famous DBMS software platforms available in the market like Oracle, MS SQL Server and IBM DB 2 all have following principal features.

1. It lets you store large amount of data in an organized manner in tables having rows and columns.
2. It provides tools for searching data (queries) for performing functions like add, insert, delete and update the existing data.
3. It allows you to define specific relationship (primary and foreign keys) between the different data tables for ease of operations on the data.
4. It follows the well defined features for maintaining data integrity and avoiding duplication of data.

(b) i) System Software - A system software is required to control the operations of a computer system. It helps to manage and run the computer hardware in an efficient manner. It controls all operations like reading data from input devices, transmitting processed information to output devices, checking system components, converting data/instructions to computer understandable form. It can be classified into three categories: -

1. Operating system – Example- MS Windows, Linux, SUN, Android etc.
2. Language processor – Ex – QBASIC.
3. Utility software – Norton, AVG, McAfee etc.

ii) Application Software – It is a set of programs designed to help users to perform specific tasks. You can choose application software as per your requirement. It can be generally divided into following two categories: -

2. General purpose application software like word processing software (MS Word), Spreadsheet software (MS Excel, Lotus 1-2-3, Calc etc), Database Management Systems (Oracle, SQL Server, DB2 etc), Desktop Publishing software (Adobe, QuarkXpress) and Graphics, Multimedia and Presentation software (MS PowerPoint, Impress).
3. Specific Purpose Application Software like accounting management software, Human Resource management system, Billing system and reservation system etc.

(c) Computer Terms: -

1. I/O – Input- output.
2. CPU – Central Processing Unit.
3. DOS – Disk Operating System.
4. GIGO – Garbage in, Garbage out.

## 5. HTML- Hyper Text Markup Language.

**5(B).** (a) CUT-COPY-PASTE in windows. Cut is basically deleting a selection of text/file, for the purpose of moving it to a different area. Copy is duplicating a selection of text/files for place in another section but while keeping the original file/ text in place. Paste is after you have cut/copied a file/text, it is placing it in a new area. Thesaurus - The Microsoft Word Thesaurus makes it possible to look up synonyms and antonyms to words as you type with a few clicks of your mouse. Once you learn to use the thesaurus, you'll be able to automatically replace words as you type to improve your writing.

(b) To save a document in windows, one needs to click on the save button in the menu bar or even if the file is just closed without saving MS word will prompt the user to save it, the keyboard shortcut for saving a file is ctrl+S.. The UNDO command can be used to undo the actions until the last save using the icon on the menu bar or with the keyboard shortcut ctrl + Z.

(c) The keyboard shortcut for making the selected text bold is Ctrl+B. If we use the Ctrl+A combination we will end up selecting the entire document. However Shift +A key combination will change the case of letter A being typed.

(d) Spelling and Grammar feature can be used to identify our mistakes committed during typing. The spelling mistakes are underlined by red wavy lines and grammatical mistakes with green wavy lines as you type text in a document. We can right click on the underlined word to open the Spelling and Grammar dialog box and can correct the mistakes. To enhance the look of your document further, you can add borders around the text, a paragraph, or a page. For adding borders around a page follow the steps below: -

1. Choose **Format> Borders and Shading** to open the Borders and Shading dialog box.
2. Click the **Page Border** tab in the dialog box.
3. Choose the desired border **Setting, Style, Color, and Width**.
4. Click **OK** to apply the settings.

**5(C).** (a) Distinguish between the following: -

1. Tool Bar and Scroll Bar – Tool Bar has various icons which are commands to work on windows whereas Scroll Bars are used for moving information in window up or down (vertical scroll bar) and left or right (horizontal scroll bar).

2. Cell and Active Cell- A cell is the basic unit of the spreadsheet. It is allocation that can contain information and is most often defined by its column and row address. As against this an Active Cell is the cell which has dark border around it and it indicates where the insertion point is located.

3. Formulas and Functions - A formula is a sequence of values, cell references, names, functions or operators that produce new values from existing values. On the other hand a function is a piece of code designed to calculate specific values and is used inside formulas.

4. Worksheet and Workbook - In Excel, a workbook is simply an excel file that stores entered related data. A workbook is capable of storing an infinite number of worksheets depending upon the size and relevance of data.

( b ) In excel a label or text is something you type into a cell or copy that displays the same way you typed it in whereas a value entry is the value displayed by a formula. In Excel a formula can contain any or all of the following, namely a cell reference, operators, constants or functions.

( c ) By default, Excel creates three worksheets in the workbook you create. In theory we can add as many numbers of worksheets in an Excel workbook we want.

( d ) Under the sorting function, the data can be arranged in ascending or descending order in Excel. Rows and columns can be inserted in an excel worksheet using the menu insert function or by right clicking at the insertion point.

**5(D).** Do as Directed.

a) i) 2.

b) d) 1024.

c) iii) MS Windows.

d) i) Line Chart.

e) iii) =.

f) ii) &.

g) a) True.

h) a) True.

i) a) True.

j) b) False.

**Model Solution SAS-II**

Solution : 1(A)

**Bank Reconciliation Statement of Mr. Raj & Co. as on 31st Dec 2011**

| Items   | Amount<br>(Rs.) | Total<br>(Rs.) |
|---|-----------------|----------------|
| Balance as per pass book (overdraft)  |                 | 5000           |
| Add :-  |                 |                |
| (a) Cheques drawn but not presented for payment (950+600+1000)  | 2550            |                |
| (d) Amt credited by the bank being interest on securities collected and collected from customer on behalf of firm (700+800) | 1500            |                |
|   |                 | 4050           |
| Less :-   |                 | 9050           |
| (b) Cheques deposited but not collected by bank (1700-7000)   | 10000           |                |
| (c) Cheque recorded in cash book but not sent to bank for collection  | 900             |                |
| (e) Bank charges and interest debited by the  | 230             |                |

|                            |  |       |
|----------------------------|--|-------|
| bank (30+200)              |  | 11130 |
| Overdraft as per cash book |  | 2080  |

**Solution 1(B)**

**Journal Entries**

| Particulars   | L/F | Debit<br>(Rs.) | Credit<br>(Rs.) |
|---|-----|----------------|-----------------|
| (i) Purchases Account Dr<br><br>To Suspense A/c<br><br>(For Purchases book under cost by<br>Rs. 100, now correct)                           |     | 100            | 100             |
| (ii) Discount Account Dr<br><br>To Suspense<br><br>(For debit balance of discount a/c wrongly<br>posted to credit side now corrected)       |     | 40             | 40              |
| (iii) Motor repairs A/c Dr<br><br>To Motor Van Account<br><br>(For motor van repairs wrongly debited to<br>motor van account now corrected) |     | 76             | 76              |

|   |  |    |    |
|---|--|----|----|
| (iv) Suspense Account                      Dr<br><br>To Mr B. Account<br><br>(For cheque received from Mr B. not<br>credit to his account now credited) |  | 39 | 39 |
| (v) Purchases Returns Account              Dr<br><br>To Suspense Account<br><br>(For return outward book overcast<br>previously now corrected)          |  | 50 | 50 |

Solution (2) :-

Dr.

Cr.

| Particulars         | Detail | Rs.    | Particulars             | Detail | Rs.    |
|---------------------|--------|--------|-------------------------|--------|--------|
| To Stock            |        | 37000  | By Sales                | 249000 |        |
| To Purchases        |        | 123500 | Less sale on app. basis | 6000   | 243000 |
| To wages            |        | 28000  | By stock with customer  |        | 5000   |
| To Gross Profit c/d |        | 89500  | By Closing Stock        |        | 30000  |
|                     |        | 278000 |                         |        | 278000 |
| To Depreciation :-  |        |        | By Gross Profit b/d     |        | 89500  |
| Plant               | 2000   |        | By Discount on          |        | 4000   |



|                     |      |       |                      |  |       |
|---------------------|------|-------|----------------------|--|-------|
| Building            | 2500 | 4500  | Purchases            |  |       |
| To Repairs to Plant |      | 1600  | By Provision for bad |  | 760   |
| To Salaries         |      | 4000  | debts                |  |       |
| To Rent             |      | 1200  |                      |  |       |
| To Commission :-    |      |       |                      |  |       |
| General             | 7214 |       |                      |  |       |
| Manager             | 3607 | 10821 |                      |  |       |
| Works Manager       |      | 72139 |                      |  |       |
| To Net Profit       |      | 94260 |                      |  | 94260 |
|                     |      |       |                      |  |       |

**Balance Sheet of Mr. Greig as on 31st March, 2012**

| Liabilities        | Details | Amount | Assets           | Details | Amount |
|--------------------|---------|--------|------------------|---------|--------|
|                    |         | (Rs.)  |                  |         |        |
| Sundry Creditors   |         | 23300  | Cash in hand     |         | 2000   |
| Bills Payable      |         | 3000   | Bills Receivable |         | 10000  |
| Salary outstanding |         | 2000   | Debtors          | 24800   |        |
| Overdraft          |         | 3800   | Less. Prov. for  | 1240    | 23560  |
| Outstanding exp:-  |         |        | doubtful debts   |         |        |
| General Mgr        |         |        | Stock            |         | 30000  |

|                 |        |        |                 |       |        |
|-----------------|--------|--------|-----------------|-------|--------|
| Commission      | 7214   |        | Stock with      |       | 5000   |
| Works Mgr       |        |        | customer        |       |        |
| Commission      | 3607   | 10821  | Accrued income  |       | 1500   |
| Capital :-      | 50000  |        | Plant &         | 20000 |        |
| Add. Net Profit | 72139  |        | Machinery       |       |        |
|                 | 122139 |        | Less Dep.       | 2000  | 18000  |
| Less Drawings   | 500    | 121639 | Land & Building | 77000 |        |
|                 |        |        | Less. Dep.      | 2500  | 74500  |
|                 |        | 164560 |                 |       | 164560 |

Working Notes :-

1) Calculation of total debtors :-

|                                   |       |       |
|-----------------------------------|-------|-------|
| Debtors as per Trial Balance :    | 35000 |       |
| Less debtors on a/c of goods      |       |       |
| Sold on approval                  | 6000  |       |
| Bad debts                         | 3000  |       |
| Rent wrongly debited              | 1200  | 10200 |
|                                   |       | <hr/> |
| Sundry debtors to be shown in B/s |       | 24800 |

2) Calculation of sale price of goods sent on approval :-

Rate of Profit - 1/6 on sale or 1/5 on cost

|                      |             |
|----------------------|-------------|
| So :- cost of goods  | 5000        |
| + Profit 1/f on cost | 1000        |
| Sale Price           | <u>6000</u> |

3) Calculation of Commission :-

Let : General Mgr. Commission      x

Works Mgr. Commission      y

equation will be :-

$$x = \frac{1}{11}(82960 - y)$$

$$y = \frac{1}{21}(82960 - x)$$

$$x = \text{Rs. } 7214 \text{ (approx.)}$$

$$y = \text{Rs. } 3607 \text{ (approx.)}$$

4) Provision for doubtful debt a/c

|                          |             |            |             |
|--------------------------|-------------|------------|-------------|
| To Bad debts             | 1000        | By bal b/d | 6000        |
| To Bad debts<br>(adj)    | 3000        |            |             |
| To P & C A/c<br>(B.F.)   | 760         |            |             |
| To bal c/d<br>(24800×5%) | 1240        |            |             |
|                          | <u>6000</u> |            | <u>6000</u> |

**Solution :3**

Verification means the procedure normally carried out at the year end, to confirm the ownership, valuation and existence of items at the balance sheet date. It also involves confirming that presentation in the financial statement is in accordance with legislation. The Institute of CA of India has laid down that verification of assets should be aimed at establishing their :- existence, ownership, possession, proper recording & valuation.

So objectives of verification of assets are :-

- 1) Evidence of the existence of the assets as at the date of the B/s and this is generally done by physical examination of the assets.
- 2) Evidence of ownership of the assets and this is done by examination of legal and official document.
- 3) Evidence as to possession of the assets and to see whether or not they are free from any charge or lies.
- 4) Evidence with regard to proper valuation and accounting of assets.

**Goodwill** :- Goodwill arises from business connection, Trade name or reputation of an enterprise. Goodwill should be recorded in the books only when some

consideration in money or money's worth has been paid for it. To verify the

Goodwill :-

1) Examine the vendors agreement on the basis of which assets of the running business have been acquired by the company as per the books of account or a specific amount has been paid or the goodwill.

2) Ensure that whenever business is acquired at a price, payable in cash or otherwise which is in excess of the value of net assets taken over, such excess amount in the goodwill.

3) Excise that only the amount paid to the vendor not represented by tangible or intangible assets, the value of which can be measured reliably has been debited to goodwill a/c.

4) Excise that goodwill not yet written off has been properly disclosed.

5) See that goodwill is being amortised as per financial prudence over a reasonable period.

(2) Patent :- A Patent Right is an official right to investor to make, use or sell his invention. To verify this asset, Auditor should :-

- 1) Obtain the schedule containing particulars of the patent owned by the client as on the balance sheet date.
- 2) See that the total of the value of the patent right shown in each list agree with the values shown in the respective ledger account.
- 3) Examine the cost of patent rights
- 4) See that renewal fees in respect of patent rights have been paid and the same has been treated as a revenue charge.

**3) Cash-in-hand :-** The auditor should verify the cash-in-hand by actually counting it on the date of the balance sheet. A fundamental aspect of the verification of it is the time. It should be made at the close of the business or on the date of balance sheet. Postage and other stamps are often grouped with the cash in B/s. In case the auditor finds I.O.U. slips etc. for temporary advances made to employees, he should verify them carefully. In case there is unusually heavy cash balance at the end of the year, the auditor must draw the attention of the mgt. to the dangers which may arise therefore. He should also check the system of making payments and safety arrangements provided for the protection of cash-in-hand. As far as the cash-in-transit is concerned, the auditor should verify this with the help of proper documentary evidences and correspondence.

4) **Trade Mark :-** A trade is a distinctive mark attached to goods offered for sale in the market so as to distinguish the same from similar goods.

The existence of a trademark is verified by an inspection of the certificate as regard grant of the trademark. Where it has been purchased, the agreement surrendering it in favour of the client should be examined. It must be observed that the rights are alive and legally enforceable. The auditor should obtain schedule of trademark and verify that renewal fee has been paid and charged to revenue. It is generally revalued at cost less amortization charges till date. If it is purchased, the cost includes purchase price and registration charges. If it has been developed by the client, the cost should include cost of developing outlays and other associated direct cost. The cost of trademark should be amortized over the period of legal validity or useful commercial life whichever is shorter.

**(5) Fictitious Assets :-**

**(i) Preliminary Expenses :-** It is the amount spent on the creation and of location of the company. Since this expenditure is of a capital nature, it is shown in B/s. This asset should be written off as early as possible. The auditor should verify that the balance of preliminary expenses which has not been written off is shown in the balance sheet under the heading "Miscellaneous Expenditure."

- (ii) Discount on issue of shares/desentises:- This should be shown separately under the heady 'Discount on Issue of shares/Desentses. Being a fictitious assets, it should be written off as early as possible. The auditor should verify that the balance of 'Discounting on' which has not been written off, is shown in the B/s.



Solution 4 (A) :-

Model solution SAS-II | 2-8/12 | P.6

25

According is the language of business used to display an entity's (person or company) financial status through various financial statements and analysis reports. Auditing is the evaluation of the above mentioned statements and reports in order to ensure that they are fair and no overstatements have been made. Therefore accounting is necessary because it is the only way to exhibit the financial status of a company on the other hand, auditing is 'luxury' because it is only a 'double check' of sorts, making sure that the accounting has been done correctly and fairly. That's why it is not necessary and would consume way too much time and money if it audited. To complete audit, too many formalities attached and it create difficulties for an average businessman. But the above arguments are based upon he limited knowledge about the utility and importance of auditing. It is true that it is a luxury for a very small business having few transactions. In a large business auditing is necessary. Considering the need of

auditing, the Government have made it compulsory for these organizations to get their account audited every year.

4(B) Internal check is an arrangement of staff duties whereby no one person is allowed to carry through and record every aspect of transactions so that without collations between two or more persons, fraud is prevented and at the same time the possibilities of errors are reduced to the minimum.

Its main objective is to prevent and to bring about a speedy detection of frauds, wastes and errors. The system is based on the principle that when the performance of each individual in an organization is checked by another, the chances of occurrences of errors or their remaining undetected are greatly reduced. For Ex :- In trading concern, it would have a cashier to receive cash. There would be separate person to write the cash book and ledgers and so on there would be thus a large number of functionaries. Such a division of responsibility is made on the broad principle that person having physical custody of assets should not have access to the book of account. Also apart from accounting control, periodically the physical and financial records of important assets should be reconciled. So main objectives of Internal check are :-

1) To have an accurate record of all business transactions.

- 2) To detect a fraud or an error quickly and easily.
- 3) To throw responsibility on a particular clerk when the fraud or mistake is detected.
- 4) To prevent the commission of any error or fraud by a clerk.
- 5) To prevent misappropriation of cash or goods by any clerk by keeping a check on the receipt and payment of cash and receipt and delivery of goods.
- 6) To exercise moral pressure over staff.

**Solution 4 (c) :-** Liquidity is the ability of the firm to meet its debts when they become due. This means that the firm must have sufficient cash to meet its current liabilities. These Liabilities include account payable, operating loans and the current portion of notes and mortgages. The cash to pay these debts comes from current assets. Current assets includes items such as cash, cash equivalents, inventory and receivables. There must be enough of these, as cash, to pay the bills. If there is, the firm is liquid. If there is insufficient of cash, the firm is illiquid and must raise cash by selling assets or borrowing to meet the current liabilities. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds

will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The most common ratio which can assess the liquidity of a firm are :-

(1) Current ratio (2) quick ratio (3) cash ratio or acid test ratio.

**1) Current Ratio :-** It is calculated by dividing current assets by current liabilities :

$$\text{C. Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets include cash and those assets which can be converted into cash within a year such as marketable securities, debtors and inventories. Prepaid exp. are also included in current assets as they represent the payments that will not be made by the firm in the future. All obligations maturing within a year are included in current liabilities. So it includes creditors, bill payable, accrued expenses, short term bank loan, income tax liability and long term debt maturing in current year. The current ratio is a measure of the firm's short term solvency. A ratio of greater than one means that the firm has more current assets than the current claims against them. This ratio represents a margin of safety for creditors. As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. But it should not be blindly followed. Firm with less than 2 to 1 current ratio may

be doing well while firms with 2 to 1 or even higher current ratio may be struggling to meet their obligations. because current ratio is a test of quantity not quality. If the firms current assets consists of doubtful and slow paying debtors or slow moving and obsolete stock of goods then the firm's ability to pay bills is impaired. Thus too much reliance should not be placed on current ratio.

**(2) Quick Ratio :-** This ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relative liquid and included in quick assets are book debts and marketable securities. Inventories are considered to be less liquid because it requires some time for realising into cash So

$$\text{Q. Ratio} = \frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$$

Generally a quick ratio of 1 : 1 is considered to represent a satisfactory current financial condition. but sometime ratio of 1:1 or more may be doubtful. As this ratio include book debts, this book debt may or may not be liquid and cash may be immediately needed to pay operating expenses. Thus a company with high level of quick ratio can suffer from shortage of funds. On the other hand, a

company with a low level of quick ratio may really be prospering and paying its current liabilities in time.

**(3) Cash Ratio/Acid Test/Liquidity Ratio :-** Since cash is the most liquid asset, a financial analyst may examine the ratio of cash and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash, therefore included to compute this ratio.

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Solution

5.

In the books of A Company

JOURNAL ENTRIES

|   |     | Rs.          | Rs.      |
|---|-----|--------------|----------|
| Bank A/c  | Dr. | 1,20,000     |          |
| To Equity Share Application A/c   |     |              | 1,20,000 |
| (Being the application money received on 60,000 equity shares @ Rs. 2 per share)  |     |              |          |
| Equity Share Application A/c  | Dr. | 1,20,000     |          |
| To Share Capital A/c  |     |              | 80,000   |
| " Equity Share Allotment A/c  |     |              | 16,000   |
| " Bank  |     |              | 24,000   |
| (Being application money transferred to capital account, returned to applicants and balance transferred to share allotment account) |     |              |          |
| Equity Share Allotment A/c  | Dr. | 2,00,000     |          |
| To Share Premium A/c  |     |              | 80,000   |
| " Share Capital A/c   |     |              | 1,20,000 |
| (Being the allotment money due on 20,000 equity shares @ Rs. 5 including share premium)   |     |              |          |
| Bank A/c  | Dr. | (1) 1,76,640 |          |
| To Equity Share Allotment A/c   |     |              | 1,76,640 |
| (Being receipt of allotment money)  |     |              |          |
| Equity Share First Call A/c   | Dr. | 80,000       |          |
| To Share Capital A/c  |     |              | 80,000   |
| (Being the share first call money due on 40,000 equity shares @ Rs. 2 per share)  |     |              |          |
| Bank A/c  | Dr. | 72,800       |          |
| To Equity Share First Call A/c  |     |              | 72,800   |
| (Being receipt of share first call money)   |     |              |          |

|   |     |          |          |
|---|-----|----------|----------|
| Equity Share Second & Final Call A/c  | Dr. | 1,20,000 |          |
| To Share Capital A/c  |     |          | 1,20,000 |
| (Being the share second & final call money due on 40,000 equity shares @ Rs. 3 per share)   |     |          |          |
| Bank A/c  | Dr. | 1,09,200 |          |
| To Equity Share Second & Final Call A/c   |     |          | 1,09,200 |
| (Being the receipt of share second & final call)  |     |          |          |
| Equity Share Capital A/c  | Dr. | 36,000   |          |
| Share Premium A/c   | Dr. | 3,200    |          |
| To Equity Share Allotment A/c   |     |          | 7,360    |
| " Equity Share First Call A/c   |     |          | 7,200    |
| " Equity Share Second & Final Call A/c  |     |          | 10,800   |
| " Share Forfeited A/c   |     |          | 13,840   |
| (Being the forfeiture of 3,600 shares for the non-payment of allotment on 1,600 shares first and second call money on 1,800 shares) |     |          |          |
| Bank A/c  | Dr. | 28,800   |          |
| Share Forfeited A/c   | Dr. | 10,400   |          |
| To Equity Share Capital A/c   |     |          | 36,000   |
| To Share Premium A/c  |     |          | 3,200    |
| (Being the issue of forfeited shares as fully paid @ Rs. 8 per share)   |     |          |          |
| Share Forfeited A/c   | Dr. | 3,440    |          |
| To Capital Reserve  |     |          | 3,440    |

**BALANCE SHEET**  
as at .....

| Liabilities                  | Rs.             | Assets       | Rs.             |
|------------------------------|-----------------|--------------|-----------------|
| Share Capital                |                 | Cash at Bank | 4,83,440        |
| 40,000 shares of Rs. 10 each |                 |              |                 |
| fully paid                   | 4,00,000        |              |                 |
| Share Premium                | 80,000          |              |                 |
| Capital Reserve              | 3,440           |              |                 |
|                              | <u>4,83,440</u> |              | <u>4,83,440</u> |

**Working Note :**

*Calculation of amount received on allotment*

|   |                           |                 |
|---|---------------------------|-----------------|
| Amount due on allotment                         |                           | Rs.             |
| Less : already received                         |                           | 2,00,000        |
|   |                           | <u>16,000</u>   |
| Less : Amount not received on 1600 shares       |                           | 1,84,000        |
| If allotted 5 shares applied 6                  |                           |                 |
| if allotted 1600 shares applied 1920            |                           |                 |
| Surplus money on application $(320 \times 2) =$ | 640                       |                 |
| Amount of allotment due                         | $= 1600 \times 5 = 8,000$ |                 |
| Less : already received                         | <u>640</u>                |                 |
|   |                           | 7,360           |
|   |                           | <u>1,76,640</u> |



**1) a**

**"Factory" means any premises including the precincts thereof-**

(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 subject to the operation of the Mines Act, 1952 or a mobile unit belonging to the armed forces of the Union, a railway running shed or a hotel, restaurant or eating place.

**For computing the number of workers for the purposes of this clause all the workers in different groups and relays in a day shall be taken into account.**

**"Occupier" of a factory** means the person who has ultimate control over the affairs of the factory

Provided that-

(i) in the case of a firm or other association of individuals, any one of the individual partners or members thereof shall be deemed to be the occupier;

(ii) in the case of a company, any one of the directors shall be deemed to be the occupier;

(iii) in the case of a factory owned or controlled by the Central Government or any State Government, or any local authority, the person or persons appointed to manage the affairs of the factory by the Central Government, the State government or the local authority, as the case may be, shall be deemed to be the occupier.

**b) WELFARE PROVISIONS**

1. Washing facilities.
2. Facilities for storing and drying clothing.
3. Facilities for sitting.
4. First-aid appliances.
5. Canteens.
6. Shelters, rest rooms and lunch rooms.
7. Creches.
8. Welfare officers.
9. Power to make rules to supplement the welfare provisions

## 2) a) ACCIDENT ARISING OUT OF AND IN THE COURSE OF EMPLOYMENT

An accident arising out of employment implies a casual connection between the injury and the accident and the work done in the course of employment. Employment should be the distinctive and the proximate cause of the injury. The three tests for determining whether an accident arose out of employment are:

- At the time of injury workman must have been engaged in the business of the employer and must not be doing something for his personal benefit;
- That accident occurred at the place where he is performing his duties; and
- Injury must have resulted from some risk incidental to the duties of the service, or inherent in the nature condition of employment.

**The onus is upon the applicant to show that it was the work and the resulting strain which contributed to or aggravated the injury;**

- b) **The Workmen's Compensation Act.** aims to provide workmen and/or their dependents some relief in case of accidents arising out of and in the course of employment and causing either death or disablement of workmen.

This act is a central legislation which provides for payment of compensation for injuries suffered by a workman in the course of and arising out of his employment according to the nature of injuries suffered and disability incurred, where death results from the injury, the amount of compensation is payable to the dependants of the workmen.

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

### **Essential Elements of a Valid Contract are:**

1. Proper offer and proper acceptance.
2. Lawful consideration:
3. Competent to contract or capacity:

The person has reached the age of maturity.

The person is of sound mind.

The person is not disqualified from contracting by any law.

4. Free Consent:
5. Lawful Object and Agreement:
6. Agreement not declared void or illegal
7. Intention to Create Legal Relationships
8. Certainty, Possibility of Performance
9. Completion of all Legal Formalities

3) a)

**Dishonour of Cheque for Insufficiency of Funds in Accounts**

Section 138 to 142 of Chapter XVII, of Negotiable Instrument Act, 1881, deals with dishonour of cheque. The main object is to introduce financial discipline in business dealings. Prior to insertion of 138 of NI, a dishonored cheque's left the person aggrieved with the only remedy of filing a claim. The remedy available in civil court is a long drawn matter and an unscrupulous drawer normally takes various pleas to defeat the genuine claim of the payee. In 1988, Chapter XVII inserted and added Section 138 to 142. Object of the amendment is to hold person criminally responsible for his acts in Commercial transactions Trade and Business dealings with people carried out carelessly or without sense of responsibility.

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

Provided that nothing contained in this section shall apply unless-

- (a) the cheque has been presented to the bank within a period of three months from the date on which it is drawn or within the period of its validity, whichever is earlier;
- (b) the payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice in writing, to the drawer of the cheque within thirty days of the receipt of information by him from the bank regarding the return of the cheque as unpaid; and
- (c) the drawer of such cheque fails to make the payment of the said amount of money to the payee or as the case may be, to the holder in due course of the cheque within 30 days of the receipt of the said notice.

b)

### Arbitration agreement

- (1) 'Arbitration agreement' means an agreement by the parties to submit to arbitration all or certain disputes which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not.
- (2) An arbitration agreement may be in the form of an arbitration clause in a contract or in the form of a separate agreement.
- (3) An arbitration agreement shall be in writing.
- (4) An arbitration agreement is in writing if it is contained in –
  - (a) a document signed by the parties;
  - (b) an exchange of letters, telex, telegrams or other means of telecommunication which provide a record of the agreement; or
  - (c) an exchange of statements of claim and defence in which the existence of the agreement is alleged by one party and not denied by the other.
- (5) The reference in a contract to a document containing an arbitration clause constitutes an arbitration agreement if the contract is in writing and the reference is such as to make that arbitration clause part of the contract.

4)

a)

## i) Inter state sale, intra-state sale and stock transfer

|  |   |
|--|---|
| <b>Inter state sale</b>                        | In case of <b>inter state sale</b> u/s 3(a), sale is inter state if it occasions movement of goods from one State to other. There should be express or implied stipulation for movement of goods outside the State.                           |
|  | In inter-state sale, property in goods can pass to buyer in either State. Sale can be inter-state even if buyer takes delivery of goods within the State, if he is required to take the goods outside the State.                              |
|  | Sale can be inter state even if both buyer and seller are in same State if goods are moving out of State on account of sale.  |
|  | The movement of goods commences as soon as goods are handed over to transporter. The 'movement' is deemed to be continuing till delivery of goods is taken at other end.  |
| <b>Stock transfer/Branch transfer of goods</b> | In stock/branch transfer, goods move from one State to another, but there is no 'sale'. Goods are sent to branch or depot or consignment agent in other State. Stock transfer/branch transfer is not subject to tax since there is no 'sale'. |
|  | Stock transfer can be only of standard goods. Stock transfer of tailor made goods for a specific customer is a bogus stock transfer. It can be held as inter-state sale and sales tax may be payable.   |
|  | If buyer is identifiable before goods are dispatched, it is 'Inter State' sale and not a 'stock transfer'.  |
|  | Form F is required to be submitted to establish stock transfer. Sales Tax Officer can make enquiry regarding truth of contents in form F.   |
|  | After stock transfer, sale in that other State is first sale and State sales tax (Vat) will be payable.   |
| <b>Intra state sale</b>                        | If a sale is inside one State, it is outside all other States and is <b>intra state sale</b> .  |

## ii) Rate of CST

CST is payable on inter-State sales @ 2%, if C form is obtained. No CST if form H or I is obtained from purchaser. Otherwise, CST rate is same as applicable for sale within the State.

## b) Input Tax Credit (ITC)

1. Input Tax Credit is very vital to the concept of Value Added Tax system. Input tax is the tax that a taxable person has paid on his business purchases.
2. Section 13 of the Punjab VAT Act, 2005 deals with Input Tax Credit. The system of credit on input tax paid is tax-based. It is a major check on leakage of tax.
3. Input Tax includes tax paid on :
  - (i) Purchases of raw material; (ii) Goods purchased for resale; (iii) Purchase of capital goods such as machinery or equipment for use in business; (iv) Tools and accessories used in business; and (v) Packing material for resale and use in manufacture.
4. Input Tax Credit is available only on purchases made from taxable persons holding VAT registration number, in the State.
5. Input Tax Credit can be claimed only by a taxable person holding VAT registration number on the basis of ORIGINAL VAT INVOICE received from seller.
6. Taxable persons can not claim Input Tax Credit for the following goods unless they are in the business of dealing in these goods:
  - i) Automobiles including commercial vehicles, three wheelers and two wheelers and spare parts thereof;
  - ii) Food, beverages and tobacco products;
  - iii) Petroleum products;
  - iv) Goods used for personal consumption or gifts;
  - v) Goods used in manufacture, processing and packing of tax free goods;
  - vi) Office equipment and building material;
  - vii) Air-conditioning units except where air-conditioning is essential in the manufacturing process of taxable goods;
  - viii) Weigh bridge except when installed inside the manufacturing premises for use in the process of manufacturing;
  - ix) Goods used in manufacture, processing or packing of tax free goods;
  - x) Goods used in generation and distribution of electrical energy; and
  - xi) Goods which remain unsold at the time of closure of business.
7. If a taxable person is making taxable and tax free sales, he would be entitled to claim input tax proportionate to his taxable sales.

8. A taxable person can claim input tax credit with return for each tax period. If the claim for input tax credit exceeds the amount of output tax in that return, input tax credit shall be carried forward to next return period. (29)

9. The net tax payable by a VAT dealer claiming input tax credit shall be:

Output tax - input tax = net tax.

Input tax shall include the input tax credit carried forward from previous return period.

10. Input tax credit is non-transferable i.e. it cannot be transferred from one taxable person to another.

11. ITC is not available for exempted units. Instead an exempted unit is entitled to refund of tax paid or payable by it on purchases made from a taxable person within the State, for use in manufacturing, processing or packing of taxable goods. This refund is available only if the dealer having Exemption has filed correct returns as per provision of the rules of 1991. The unit shall make an application for refund

**5) a) i)**

Service Tax rate is 12%. Education cess is 2%. SHE cess is 1%. Effective rate is 12.36%.

**ii)** There is paradigm shift in the way services to be taxed with effect from 01.07.2012. Taxation is based on what is popularly known as "Negative List of Services". In simple words, it means that if an activity meets the characteristics of a "service" it is taxable unless specified in the Negative list, comprising defined heads listed in the Section 66D, or otherwise exempted by a Notification issued under Section 93 of the Act. With the introduction of negative list, the assessee are not anymore required to classify their services.

Various services under negative list :-

- (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



b) i)

**Assessment year [Sec. 2(9)]**

Assessment year means the period of twelve months starting from April 1 of every year and ending on March 31 of the next year. For instance, the assessment year 2012-13, which commenced on April 1, 2012 will end on March 31, 2013. The period of assessment year is fixed by statute.

**Previous year [Sec.3]**

Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year. In other words, it can be said that income earned during the previous year 2011-12 is taxable in the immediately following assessment year (i.e. 2012-13).

**ii) Difference between exemption and deduction**

If an income is exempt from tax, it is not included in the computation of income. Exemption can never exceed the amount of income. Deduction is generally given from income chargeable to tax. Deduction can be less than or equal to or more than amount of income. If amount deductible is more than the amount of income, the resulting amount may be taken as loss.

**iii) Capital receipts vs. Revenue receipts**

Receipts are of two types, viz, capital receipts and revenue receipts.

The distinction between the two is vital because capital receipts are exempt from tax unless they are expressly taxable (for instance, capital gains are taxable under section 45, even if they are capital receipts). On the other hand revenue receipts are taxable unless they are expressly exempt from tax. For instance, incomes exempt under Section 10.

As the Act does not define the terms "capital receipts" and "revenue receipts" one has to depend upon natural meaning of the concepts as well as the decided cases.

According to the *Shorter oxford English Dictionary* while the word "capital" means "accumulated wealth employed reproductively", the word "revenue" means "the return, yield, or profit."

The essential difference between capital and revenue is that capital is a fund; revenue is a flow.

**Question No.1**

(a) When a foreign currency transaction is being first recorded in the books of accounts, the assets, liabilities, incomes or expenses arising from the foreign currency transaction shall be translated at the official exchange rate in force on the transaction date.

All amounts owed to the company or owed by the company in foreign currency outstanding at the Balance Sheet date shall be translated at the official exchange rate in force as on the Balance Sheet date. If the amount derived on such transaction is different from the amount at which the receivable or liability is appearing in the books of account, the difference shall be recorded in the books as under

(i) Increase in the amount of receivable or decrease in the amount of liability shall be treated as a gain and be credited to exchange variance reserve.

(ii) Decrease in the amount of receivable or increase in the amount of liability shall be treated as a loss and shall be debited to exchange variance reserve. If as a result of such debit the net balance in reserve account is debit balance, the amount of debit balance shall be charged to revenue account for the year as loss on exchange rate variation.

(b) Retrospective reworking of accumulated depreciation owing to change in the amount of cost of an asset shall be made where the increase /decrease in the amount is more than

Rs. 50000/ for an asset and

20% of the cost booked earlier

In other cases the depreciation in the balance life of the asset should be increased or decreased proportionately so that 90% of full cost or 100% in case of lease hold asset is depreciated over the estimated useful life of the asset.

(c)

(i) Assets Received as Donation/Grant

An asset received as donation shall be accounted for at its fair market value. The fair market value shall be debited as the cost of the asset and credited to Donated Capital Assets Account, which shall be included under a Reserve and be treated in the same manner as contributions, grants and subsidies towards cost of capital assets. Donated assets which are subject to certain conditions shall nevertheless be treated as fixed asset but be disclosed by way of foot note indicating value of such assets. Assets received as grant shall also be accounted for in the same manner as donated assets.

-2-

(ii) Exchange of Assets

Where an asset is exchanged for another asset, the asset surrendered shall be deemed to have been disposed of at its fair market value. Gain or loss based on the fair market value shall be accounted for in the normal course. The cost of the asset acquired in exchange shall be deemed to be the fair market value of the asset surrendered plus any additional consideration given or minus any additional consideration received.

(iii) Lease Hold Assets

Lease premium payable on acquiring lease rights for assets shall be treated as the cost of leasehold assets. Periodic rentals payable on leasehold assets shall be charged to Revenue in the year in which the rentals accrue. If the company acquires leasehold rights for an asset with no or negligible lease premium, the fair market value of the asset shall be determined and the amount acquired to state the asset at its fair market value shall be debited to the asset and credited to an account Liability for Leasehold Assets. The fair market value of the leasehold assets shall be depreciated over the lease period.

(d) Assets belonging to the company may be hired to other Governments Departments, local Bodies and bonafide private individuals by the officer in charge on the following conditions

- (i) That reasonable hire is charged in all cases.
- (ii) That the period of hire is fixed in advance & shall in no case exceed three months.
- (iii) That in the case of private individuals, ample precautions are taken for the due return of the articles in good conditions.
- (iv) A loan of an asset of a value exceeding Rs. 10,000/ shall be reported at once to the Superintending Engineer.
- (v) That proper accounts are kept in the respective offices of all such transactions, duly supported by acknowledgements of borrowers. The hire to be charged will be fixed by the officer in charge and will be recovered in advance.
- (vi) Ordinary assets such as Phaurahs, pick-axes, hammers etc. should not be lent to a contractors.

-1-

**Question No 2**

(a)

Optimum Production =  $\sqrt{2AB/C} = \sqrt{2 \times 1000 \times \text{Rs.} 200 / 80} = 707$  Units

(b):

|                            |   |
|----------------------------|---|
| i) Economic Order Quantity | $= \frac{\sqrt{2 \times 5200 \times 150}}{100} = 125$ |
| ii) Maximum Level          | $= 1600 + 125 (50 \times 6) = 1425$                   |
| iii) Minimum Level         | $= 1600 - (100 \times 7) = 900$                       |
| iv) Re-order Level         | $= 200 \times 8 = 1600$                               |

(c)

Cost centre means a location, person, or item of equipment for which costs may be ascertained and used for the purpose of cost control. Cost centres can be classified into (i) Productive, unproductive/service and mixed (ii) Personnel and impersonnel and (iii) Operation and process Pole manufacturing workshop is an example of cost centre in PSPCL.

Cost Unit is a unit of quantity of product, service or time in relation to which costs may be ascertained/expressed. The cost units are not uniform. Pole is a cost unit for PCC pole manufacturing workshop in PSPCL.

(d)

Product Cost is directly/indirectly identifiable with the product and include direct materials, direct labour and factory overhead. The product costs are recorded as expense after sale of the product. Cost of coal in thermal station is example of product cost in PSPCL.

Period costs are not at all related to production. These costs are charged to revenue immediately as there is no relationship between cost and revenue. Expenses on Head office administration is period costs in PSPCL.

-1-

**Question 3**

(a)

**Consumption of raw material**

| <b><u>Particulars</u></b>                           | <b><u>Amount Rs.</u></b> |
|---|--------------------------|
| Cost of Sales                                       | 56,00,000                |
| Less Selling Expenses                               | 3,40,000                 |
| Cost of Goods Sold                                  | 52,60,000                |
| Closing stock of Finished goods                     | 18,00,000                |
| Less Opening stock of Finished Goods                | 14,00,000                |
| Cost of Production                                  | 56,60,000                |
| General & Administrative Expenses                   | 2,60,000                 |
| Factory Cost  | 54,00,000                |
| Closing stock of W.I.P.                             | 12,00,000                |
| Less Opening Stock of W.I.P.                        | 8,00,000                 |
| Gross Factory Cost                                  | 58,00,000                |
| Less factory Overhead( $16,00,000/160 \times 100$ ) | 10,00,000                |
| Prime Cost  | 48,00,000                |
| Less Direct Labour                                  | 16,00,000                |
| Raw Material Consumed                               | 32,00,000                |
| Closing Stock of Raw Materials                      | 8,60,000                 |
| Less Opening Stock of Raw Materials                 | 8,00,000                 |
| Raw Materials Purchased                             | 32,60,000                |

\* Misprint as Rs. 5,60,000/- in the question paper.

**Statement of Cost & Profit**

| <b><u>Particulars</u></b>      | <b><u>Amount Rs.</u></b> |
|--------------------------------|--------------------------|
| Opening Stock of Raw Materials | 8,00,000                 |

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|                                   |           |
|-----------------------------------|-----------|
| Raw Materials Purchased           | 32,60,000 |
| Closing Stock of Raw Materials    | 8,60,000  |
| Raw Material Consumed             | 32,00,000 |
| Direct Labour cost                | 16,00,000 |
| Prime Cost                        | 48,00,000 |
| Factory Overhead                  | 10,00,000 |
| Gross Factory Cost                | 58,00,000 |
| Opening Stock Work-in-Progress    | 8,00,000  |
| Closing Stock Work-in-Progress    | 12,00,000 |
| Net Factory Cost                  | 54,00,000 |
| General & Administrative Expenses | 2,60,000  |
| Cost of Production                | 56,60,000 |
| Opening Stock Finished Goods      | 14,00,000 |
| Closing Stock Finished Goods      | 18,00,000 |
| Cost of Goods Sold                | 52,60,000 |
| Selling Expenses                  | 3,40,000  |
| Cost of Sales                     | 56,00,000 |
| Selling Price                     | 75,00,000 |
| Profit                            | 19,00,000 |

Due to printing mistake the cost of sales has been shown as Rs. 5,60,000/ which gives misleading results. As such full credit may be given to candidates who attempted all steps and marks may be reduced proportionately in case of incomplete solution.

(b)

**(i) Interest Accrued but not due and interest accrued & due on loan liability**

All accrued interest on loans for which the due dates fall after close of the financial year are accounted for as Interest accrued but not due. At the beginning of next financial year the provision is reversed'

On due date for payment of interest, accounting adjustment is made by crediting the amount to interest accrued and due by contra debit to interest charges. As and when the amount is paid the account head/code is debited to clear the amount already credited.

(ii) The expenditure on survey/feasibility study of a project is accounted for under this account head/code. If the project is ultimately approved, such expenses should be capitalised and transferred to account code 15.233. If, however, the project is finally rejected the expenditure should be written off as infructuous Capital Expenditure A/C 79.533 in the year of rejection of the project.

Amount paid for acquiring rights to purchase power from other bodies shall be debited to this account. If such right is for a specific period, the payment made shall be amortised over that period by charging every year a proportionate amount to the Account Code 70.3. However, if the right acquired entitles to perpetual purchase of power no such amortisation shall be done.

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

|                      |  |
|----------------------|--|
| i) P/V ratio         | = $\frac{\text{Fixed Cost}}{\text{P/V ratio}} = \text{B.E.P}$ P/V ratio = $\frac{4,00,000 \times 100}{20,00,000} = 20\%$ |
| ii) Sales            | = $\frac{\text{Variable Cost} \times 100}{80} = \frac{32,00,000 \times 100}{80} = \text{Rs. } 40,00,000/-$               |
| iii) Net Profit      | = Rs. 40,00,000 - Rs. 32,00,000 - Rs. 4,00,000 = Rs. 4,00,000/-<br>i.e. Sales - Variable Cost - Fixed Cost = Profit      |
| iv) Margin of Safety | = Rs. 40,00,000 - 20,00,000 = Rs. 20,00,000/-<br>i.e. Sales - B.E.P. Sales   |

(b)

**Power House Cost Statement**

|                                  | <u>Per Annum</u> | <u>Per Kwh</u> |
|----------------------------------|------------------|----------------|
| <b><u>A.Fixed Cost</u></b>       | Rs.              | Paise          |
| Plant Supervision                | 30,000           | 3.00           |
| Administrative overheads         | 20,000           | 2.00           |
| Depreciation(5% of Rs.20,00,000) | 1,00,000         | 10.00          |
| <b>Total Fixed Costs</b>         | <b>1,50,000</b>  | <b>15.00</b>   |
| <b><u>B. Running Cost:</u></b>   |                  |                |
| Operating Labour                 | 50,000           | 5.00           |
| Lubricants, spares and stores    | 40,000           | 4.00           |
| Repairs & Maintenance            | 50,000           | 5.00           |
| Coal Cost (10,00,000*.75*1.90)   | 14,25,000        | 142.50         |
| <b>Total Running Costs</b>       | <b>15,65,000</b> | <b>156.50</b>  |
| <b>Total Cost (A+B)</b>          | <b>17,15,000</b> | <b>171.50</b>  |



Question No.5

(a)

|   | Hrs.          |
|---|---------------|
| A 500 unitsx10  | 5,000         |
| B 300 Unitsx20  | 6,000         |
| <b>Total</b>  | <b>11,000</b> |
| Budgeted Hours  | 8,500         |
| Activity = $\frac{\text{Standard hours for actual production} \times 100}{\text{Budgeted hours}}$<br>$= \frac{11,000 \times 100}{8,500} = 129\%$              |               |
| Capacity Ratio = $\frac{\text{Actual hours worked} \times 100}{\text{Budgeted hours}}$<br>$= \frac{12,000 \times 100}{8,500} = 141\%$                         |               |
| Efficiency Ratio = $\frac{\text{Standard hours for actual production} \times 100}{\text{Actual hours worked}}$<br>$= \frac{11,000 \times 100}{12,000} = 92\%$ |               |

Note: Actual Hours worked =  $25 \times 8 \times 60 = 12,000$

(b)

**CALCULATIONS OF ANNUAL CASH IN FLOW**

|      |   |                 |
|------|---|-----------------|
|      | Annual profit after Tax   | Rs. 20,00,000   |
| Add: | Depreciation being no-cash charge i.e. profit reduced earlier by depreciation increased to find out cash in flow: |                 |
|      | Cost of the project   | Rs. 2,00,00,000 |
| Less | Scrap value   | Rs. 15,00,000   |
|      | Cost to be written off  | Rs. 1,85,00,000 |

|  |  |               |
|--|--|---------------|
|  | Life   | 10 years      |
|  | Depreciation per year (i.e. $\frac{1,85,00,000}{10}$ ) | Rs. 18,50,000 |
|  | Net cash inflow per year                               | Rs. 38,50,000 |

### CALCULATION OF PRESENT VALUE OF THE PROJECT

| The present value of one rupee received annually for 10 years | Annual Cash inflow each year for 10 years   | Present Value   |
|---|---|-----------------|
| Rs. 5.650   | Rs. 38,50,000   | Rs. 2,17,52,500 |
| Present value of annual cash inflows                          |   | Rs. 2,17,52,500 |
| Add:  | Present value of the scrap value of the project @ Rs.0.322 for every rupee: Rs. 15,00,000x0.322 | Rs.4,83,000     |
| Total present value of the project                            |   | Rs. 2,22,35,500 |
| Less  | Initial cost of the project   | Rs.2,00,00,000  |
| Net Present Value   |   | Rs. 22,35,500   |

We should go for the project because it is estimated to give a positive figure of Rs. 22,35,500 of net present value.