

Answers/Solutions

Department Accounts Examination

SAS Part - 2

Session: 02/2023

Paper – 5 Drafting and Computer Knowledge

Time Allowed: 3 Hours

Maximum Marks: 100

Q.1 Read the following passage and answer the questions that follow:

Self-control is at the root of all virtues. Let a man give the rein to his impulses and passions and from that moment he yields up his moral freedom. He is carried along with the current of life and becomes a slave of his strongest desire for the time being. To be morally free and to be more than an animal, a man must be able to resist the instinctive impulse, and this can be done only by the exercise of self-control. Thus it is this power which constitutes the real distinction between physical and moral life, and forms the primary basis of individual character. In the Bible, praise is given, not to the strong man who "taketh a city" but to the stronger man who "ruleth his own spirit". This stronger man is he who, by discipline, exercises a control over his thoughts, his speech and his acts. Nine-tenths of the vicious desires that degrade society, and when indulged, swell into the crimes that disgrace it, would sink into insignificance before the advance of valiant self-discipline, self-respect and self-control. By the watchful exercise of those virtues, purity of heart and mind becomes habitual and the character is built up in chastity, virtue and temperance.

(202 Words)

- a) Make a précis of the passage in about one-third of its length.
The most important trait or quality of a person is Self-Control. A person without self-control gets carried away easily and becomes a slave of his/her desires for the time being. Thus maintaining Self-control forms the primary basis of an individual's character. A strong man is he who is disciplined and exercises control over his thoughts, speech and acts. By having Self-control the purity of heart and mind is reflected in one's behavior and a character with pure soul is built up.
- b) Suggest an appropriate title for the passage.
Self-Control
- c) Write the meaning of the following words used in the passage above:
- i) Virtue - **behavior showing high moral standards**
 - ii) Vicious - **Evil**
 - iii) Insignificance - **the quality of being too small or unimportant to be worth consideration.**
 - iv) Chastity – **Purity**

(Marks 1 x 10 + 1 x 1 + 1 x 4 = 15)

Answer the following:

- a) Prepare a public notice on behalf of CE/Commercial, PSPCL, Patiala to be published in leading newspapers informing general public regarding launch of ONE TIME SETTLEMENT SCHEME (for one year from the date of issue of commercial circular no. 25/2022 Dt. 26-05-2022) to resolve pending disputes and/or revive the electricity connections of permanently disconnected defaulting consumers of all categories (except AP).

PUNJAB STATE POWER CORPORATION LIMITED

(Regd. Office :PSEB Head Office, The Mall Patiala – 147001,
Corporate Identity Number : U40109PB2010SGC033813 Website:www.pspcl.in

PUBLIC NOTICE

To give an opportunity to the permanently disconnected defaulting consumers of all categories (except AP) for resolving the pending disputes and/or to revive the electricity connections of such consumers, the ONE TIME SETTLEMENT SCHEME has been launched by PSPCL for its esteemed consumers for a period of one year from the date of issue of CC No. 25/2022 Dt. 26-05-2022.

The detailed terms and conditions are listed in CC No. 25/2022 Dt. 26-05-2022 which may be downloaded from PSPCL website (<https://www.pspcl.in>).

<https://docs.pspcl.in/docs/cecommercial15151634998.PDF>

Dy. CE/Regulation,
CE/Commercial, PSPCL, Patiala.

Q. 2b) Prepare an office order mentioning that Er XYZ, Chief Engineer/Commercial, PSPCL, Patiala shall also be looking after the charge of CE/Planning, PSPCL, Patiala in addition to his present duties without any additional remuneration till further orders.

PUNJAB STATE POWER CORPORATION LIMITED
(Office of Joint Secreatry Services 1, HO, The Mall, Patiala)

Office Order No. _____/BEG-1

Dated: _____

Er. XYZ Chief Engineer/Commercial, PSPCL, Patiala (Employee ID 123456) will look after the work of Chief Engineer/Planning, PSPCL, Patiala in addition to his own duties without any additional pay/allowances/remuneration etc. with immediate effect till further orders.

This issues with the approval of competent authority.

Jt. Secretary/Services-1,
PSPCL, Patiala.

Endst. No.

Dated

Copy of the above is forwarded to the following for information & further necessary action please:

- 1) DGP/V&S, PSPCL, Patiala
- 2) CMD/PSTCL, Patiala
- 3) Chairman PSERC, Sector 34A
- 4) Chief Engineer/Commercial, PSPCL, Patiala
- 5) All EIC/GM/CEs in PSPCL
- 6) OSD to CMD, PSPCL, Patiala.

Jt. Secretary/Services-1,
PSPCL, Patiala.

- Q. 2c) Prepare a Notice Inviting Tender (E-tender) for procurement of grinding elements for XRP-803 Bowl mills installed at Stage-II and III at GGSSTP, Roopnagar on behalf of Procurement Cell, o/o CE/GGSSTP, Roopnagar

Punjab State Power Corporation Limited (Regd. Office :PSEB Head Office, The Mall Patiala – 147001, Corporate Identity Number : U40109PB2010SGC033813 Website:www.pspcl.in OFFICE OF THE CHIEF ENGINEER/GGSSTP, PROCUREMENT CELL-3, ROOPNAGAR NOTICE INVITING TENDER VIA E-TENDERING	
Department Name	GGSSTP, Ropar
Tender Specification No.	/P-3/EMP-11966 dated:
Tender Issuing Authority	C.E./GGSSTP, Roopnagar
Name & Complete Address of Office giving Tender	Chief Engineer /GGSSTP, Procurement Cell No.-3, VPO Ghanauli, Roopnagar – 140113 (Punjab) Phone No. 01881-275289
Place	GGSSTP, Roopnagar
Short Description	Qty.
Procurement of grinding elements for XRP-803 Bowl mills installed at stage-II & III.	As per NIT
Tender Publication	As per standard norms of the PSPCL in newspapers like Indian Express, Hindustan Times, The Tribune, National Herald , Times of India etc. Tender specification can only be downloaded from website https://eproc.punjab.gov.in. and no hard copy of the same will be issued by this office.
Eligibility Criteria	As specified in NIT
Start date for down loading of Specification/ tender documents from web site https://eproc.punjab.gov.in	Date of tender uploading
Last date for down loading of Specification/tender documents from PSPCL's web site https://eproc.punjab.gov.in	07.06.22 up to 11:00 A.M.
Last date for Bid Submission	07.06.22 up to 11.00 A.M.
Bid Opening date (Part I& II)	09.06.22 at 11.30 A.M.
Price bid opening date (Part-III)	Will be intimated later
EMD	Rs. 3, 80,000 /- (Rupees Three Lac Eighty Thousand only).
Payment mode	Online at https://eproc.punjab.gov.in
Contact person name	Er. XYZ, Dy.CE/Headquarters
Contact phone no.	01881 – 275289
Contact Email ID	Se-hq-ggsstp-ropar@pspcl.in

(Marks 1 x 5 + 1 x 5 + 1 x 10 = 20)

Q.3 Answer the following questions:

a) Do as directed in the brackets:

- i) the dalai lama is the spiritual leader of tibetan people (Punctuate the sentence)
The Dalai Lama is the spiritual leader of the Tibetan people.
- ii) He was tired and fell asleep immediately. (fall, fell) (Use correct form of the verb)
- iii) They had hardly gone a few steps that they saw a lion. (Correct the sentence)
They had hardly gone a few steps when they saw a lion.
- v) Not only he but his father was also present. (Fill in the blank with appropriate Conjunction)
- vi) You might take a sweater in case it gets cold. Fill in the blank with the most suitable modal from bracket: (should, might)
- vii) Someone was knocking at the door. (Change the voice)
The door was being knocked by someone.
- viii) He said, "Were you present at the scene of the accident?" (Change from direct to indirect)
He told that you had been present at the scene of the accident.
- ix) I said to the teacher, "I am sorry". (Change from direct to indirect)
I told the teacher that I was sorry.

OR

I apologized to the teacher and said that I was sorry.

- x) The policeman caught the burglar. (Change into Passive voice)
The burglar was caught by the policeman.
- xi) Rahul went to school despite of having a fever. (Correct the sentence)
Rahul went to school despite having a fever.

b) Write the meaning of the following idioms/phrases:

- i) A piece of cake – **Something easily done**
- ii) Once in a blue moon - **Rarely**
- iii) Have butterflies in your stomach – **To feel very nervous**
- iv) On the ball – **Doing a good job**
- v) Beat around the bush – **To avoid getting to the point of an issue**

(Marks 1 x 10 + 1 x 5 = 15)

Q.4 Answer the following:

a) Write the values of the following:

- i) $(111001)_2$ in Decimal = 57
- ii) $(3B)_{16}$ in Decimal = 59
- iii) $(45)_8$ in Decimal = 37
- iv) $(21)_{10}$ in Binary = 10101

b) What function do the following keyboard shortcuts perform:

- i) Ctrl + PageDown in MS Excel - Move to the next sheet
- ii) F2 in MS Excel - Edit a cell
- iii) Alt + Enter in MS Excel - Create a new line in a cell
- iv) Ctrl + A in MS Word - Select all text
- v) Ctrl + F in MS Word - Open find box
- vi) Ctrl + Shift + A in MS Word - Set selected text to all capital letters
- vii) Ctrl + Shift + = in MS Word - Set selected text to superscript
- viii) Windows Key + L - Lock the computer and go to lock screen
- ix) Ctrl + Esc Key - Open Start Menu
- x) Windows Key + M - Minimize all windows

c) Give full form of the following abbreviations

- i) CPU - Central Processing Unit
- ii) BIOS - Basic Input Output System
- iii) GUI - Graphical User Interface
- iv) WWW - World Wide Web
- v) DRAM - Dynamic Random Access Memory
- vi) CD-ROM - Compact Disk Read Only Memory

(Marks 1 x 4 + 1 x 10 + 1 x 6 = 20)

Q.5 a) Write short notes on the following:

- i) What are Input and Output devices? Name any three input and three output devices.

Input Device: A piece of hardware/equipment that enable a user to enter data into a computer. Some of the input devices are Keyboard, Mouse, Scanner, Joystick

Output Device: The output devices retrieve the processed data from the computer and convert the data into a human-readable or understandable form. Some of the output devices are Monitor, Printer, Speaker, Projector

- ii) What is a spreadsheet? Name any two spreadsheet applications.

A spreadsheet is a computer application for computation, organization, analysis and storage of data in tabular form. Spreadsheets were developed as computerized analogs of paper accounting worksheets. The program operates on data entered in cells of a table. Some of the spreadsheet applications are MS Excel, Google Sheets, LibreOffice Calc.

- iii) Differentiate between Primary and Secondary storage with suitable examples.

Primary Storage	Secondary Storage
Primary storage devices store the inputted data and immediate calculation results. The data stored in primary storage is temporary and will be lost if they are disconnected from the power source. Random Access Memory is an example of primary storage.	Secondary storage devices are used to store the data permanently for future use. The data stored in the secondary storage devices is secure even if there is no power supply. Hard Disk Drive is the widely used secondary storage.

- iv) Differentiate between Application Software and System Software.

Application Software	System Software
Application software are customized software designed for personal use. These type of software help users for performing basic tasks such as online research, setting an alarm, designing, or even playing games. The application software runs in the frontend and mostly used by the end-users. Therefore, these are also called 'end-user programs'. Example: Word Processors, Multimedia Software, Web Browsers, Graphics Software, Photoshop Software etc.	System software connect the user and the hardware of the computer to interact with each other. System software provide the basic functionalities required to operate the computer system. These type of software provide an environment or platform for the other software to work on. System software run in the background. Example: Operating systems (e.g., Windows, Linux, Android etc.)

- v) What is a word processor software? Name any two word processor software.

It is a software application which is used to make professional-quality documents, letters, reports, etc. using various formatting features. Microsoft Word and LibreOffice Writer are some of the word processing software.

- b) Write in brief the purpose of following DOS commands.

DIR	List the contents of one or more directory
FORMAT	Command to erase and prepare a disk drive
RENAME	Renames a file or directory
COPY	Copy one or more files to an alternate location
ATTRIB	Display and change file attributes

- c) Explain briefly about the following in reference to MS Excel.

- i) What are cells? How can we prevent copying the cell from a worksheet?

The area which falls at the intersection of a column and a row where the information is to be inserted is known as a cell. To prevent the cell from copying

1. Select the cells that you want to protect
2. Open up the Font window from the Home tab
3. From the Protection pane, select Protection and then check the Hidden box
4. Click on Review tab present in the Ribbon, and then select Protect sheet option (Excel will not hide the required cells unless you do this)
5. Specify a password

- ii) What is the use of comment in a Cell? How can we add comments to a cell?

Comments are quite useful when you want to add some information about a cell/data point without changing the content of the cell. Cells that have an attached comment contain a small red triangle in the upper-right corner of the cell. To add comments to a cell, right click on the cell and Click on Insert Comment. Now add some text as comment and press Esc Key or click anywhere in the sheet. The comment will appear when you will hover your mouse on the cell.

- iii) What is the function of Freeze Cells and where does it appear?

Freeze Panes is a useful tool located in View Bar. In larger sheets, we have the data headers in the top rows and first columns. And on scrolling down or to the right, these headers do not appear.

The Excel Freeze Panes tool allows us to freeze the column/row or multiple columns/rows headings so that when we scroll down or move to the right to view the rest of the sheet, the rows/columns that are frozen remain on the screen. After freezing, below that row and column, a grey line appears to make the partition.

We can also Freeze Multiple Rows and Columns together as per requirement. The tool "Freeze Panes" will do the work for us. To freeze, we have to select the cell whose left columns need to be frozen and whose above rows need to be frozen and then click on "Freeze Panes" in the "View" Bar under "Window Group".

- iv) How would you format a cell? What are the various cell formatting options?

In order to format the cells, we can use the commands present in the Font group of the Home tab or by right clicking in a cell and choosing Format Cells option. The various options are Number, Alignment, Font, Border, Fill and Protection.

- v) What is the purpose of COUNT, COUNTA and COUNTBLANK functions?

COUNT counts how many cells in a range contain numeric data (numbers).

COUNTA counts how many populated cells in a range (i.e. not blank).

COUNTBLANK counts how many blank cells in a range.

(Marks 5 x 3 + 5 x 1 + 5 x 2 = 30)

Model Solution: SAS Part-II P-VI

Sol.1(a) :

Date	Particulars		Dr. Rs.	Cr. Rs.
1.	Scooter Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of Rs. 27,000, i.e. Rs. 30,000 less 10% depreciation)	Dr.	27,000	27,000
2.	Suspense Account To Profit and Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,00	1,00,00
3.	Profit and Loss Adjustment A/c To X's Account (Credit purchase from X Rs. 20,000 entered as sales last year, now rectified)	Dr.	40,000	40,000
4.	Bhaskar's Account To Anand's Account (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	10,000
5.	Suspense Account To Chandu's Account (Rs. 5,000 received from Chandu wrongly debited to his account; now rectified)	Dr.	10,000	10,000
6.	Trade receivables (Ramesh)/Ramesh To Suspense Account (Rs. 5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
7.	Ram's Account To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
8.	Suspense Account To Profit and Loss Adjustment A/c (Excess posting to purchase account last year, Rs. 25,930, instead of Rs. 23,950, now adjusted)	Dr.	1980	1980
9.	Profit and Loss Adjustment A/c To Ratan's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980
10.	Ratan's Capital Account To Suspense Account (Balance of Suspense Account transferred to Capital Account)	Dr.	1,06,980	1,06,980

(10)

Sol.1(b):

Journal Entries

Year	Particulars		Rs. in lakhs (Dr.)	Rs. in lakhs (Cr.)
2 nd	Fixed Asset Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	7.5	7.5
	Depreciation Account (W.N) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset Prospectively)	Dr.	5.5	5.5
	Profit & Loss Account To Depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	5.5	5.5

Depreciation for Year 2

	Rs. in lakhs
Cost of the Asset	30
Less: Government grant received	(12)
	18
Less: Depreciation for the first year $\frac{18-6}{4}$	3
	15
Add: Government grant refundable	7.5
	22.5
Depreciation for the second year $\frac{22.5-6}{3}$	5.5

(5)

Sol 1 (c) : As per As 16 Borrowing Costs "Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". On installation of the equipment, an evaluation has to be made to conclude whether substantially all the activities necessary to prepare the asset are complete. After and equipment has been installed it is usually tested and adjusted for commercial production before it is finally commissioned. The calibrations and adjustment required during this period are performed in order to bring the equipment up to the stage at which it is ready to commence commercial production. Until the asset reaches the stage when it is ready to support commercial levels of production, it is not appropriate to conclude that substantially all the activities necessary to prepare the asset are complete. Thus, the borrowing cost incurred during the normal period of test runs (after the installation) are required to be capitalized.

(5)

Journal Entries in the books of Rohan Ltd.

		Dr. Rs.	Cr. Rs.
Bank A/c Profit & Loss A/c (Loss on sale) To Investment A/c (Being sale of Investments and transfer of Loss to Profit and loss A/c)	Dr. Dr.	80,000 20,000	1,00,000
12% Preference Share Capital A/c Premium payable on Redemption A/C To Preference Shareholders Account (Being amount payable to Preference Shareholders on redemption of Preference Share at a premium of 10%)	Dr. Dr.	4,80,000 48,000	5,28,000
Bank Account To Equity Share Application & Allotment A/c (Being application money received on Equity Shares issued)	Dr.	3,82,800	3,82,800
Equity Share Application & Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being the allotment of 34,800 equity shares of Rs. 10 each at a premium of Rs. 1 per share)	Dr.	3,82,800	3,48,000 34,800
Profit & loss Account To Capital Redemption Reserve Account (Being creation of CRR to the extent of nominal value of Preference Share redeemed out of profits.)	Dr.	1,32,000	1,32,000
Profit & loss Account To Premium Payable on Redemption Account (Being Premium Payable on Redemption written off.)	Dr.	48,000	48,000
Preference Shareholders Account To Bank Account (Being amount paid to Preference Shareholder holding 4,800 preference shares on Redemption.)	Dr.	5,28,000	5,28,000

Balance Sheet of Rohan Ltd.As at 15th May 2021 (After Redemption of Preference Shares)

Sr.no	Particulars	Note no.	Amount (Rs.)
I	EQUITY AND LIABILITIES		
1.	Shareholder's funds		
	(a) Share Capital	1	9,64,000
	(b) Reserve and surplus	2	2,96,800
2.	Non-Current Liabilities		
	Long Term Borrowings (14% Debentures)		1,50,000
3	Current Liabilities		
	(a) Trade Payables		74,000
	Total		14,84,800
II	ASSETS		
1.	No-current Assets		
	(a) PPE		13,00,00
2.	Current Assets		
	(a) Inventories		50,000
	(b) Trade Receivables		20,000
	(c) Cash and Cash Equivalent (W.N-		1,14,800
4)	Total		14,84,800

Notes to Accounts

		Rs.	Rs.
1	Share Capital		
	Equity Share Capital		
	Issued Subscribed and paid up:		
	94,800 Equity Share of Rs. 10 each fully paid up		9,48,000
	12% Preference share Capital		
	200, 12% Preference Share fully called up	20,000	
	Less: Calls-in arrears (@ Rs. 20 per share)	<u>(4,000)</u>	16,000
	Total		9,64,000
2	Reserve and Surplus		
	(a) Capital redemption Reserve Account		1,32,000
	(Transfer from Profit and Loss A/c)		
	(b) Securities Premium Account		
	Opening Balance	30,000	
	Add: Received on Fresh Issue (34,800 Shares x	34,800	64,800
	Rs. 1 each).		
	(c) Profit and Loss A/c balance		<u>1,00,000</u>
	Total		<u>2,96,800</u>

Working Notes:

1. 200 preference shares having calls in arrears, will not be redeemed. The amount of fresh issue under section 55 of the Companies Act has been calculated taking into consideration the redemption of 4,800 Preference shares, which are fully paid-up.
2. Calculation of Profits Available for Redemption

Balance given in the Question	3,00,000
Less: Loss on sale of Investment (1,00,00 - 80,000)	(20,000)
Less: Minimum balance to be maintained in P&L A/c	(1,00,000)
Less: Premium on redemption of Preference shares	(48,000)
Closing Balance	1,32,000

3. No. of share to be issued

Total Nominal Value of Preference Share	4,80,000
Less: Amount of profit available for redemption of Preference shares	(1,32,000)
Amount required out of fresh issue	3,48,000

$$\begin{aligned}\text{No. of shares to be issued} &= \frac{\text{Amount required out of proceeds of fresh issue of shares}}{\text{Par value per share (proposed issue)}} \\ &= \frac{3,48,000}{10} = 34,800 \text{ shares of Rs. 10 each}\end{aligned}$$

4. Determination of closing bank balance

Opening bank balance	1,80,000
Add: Proceeds from sale of Investment	80,000
Add: Proceeds from fresh issue of 34,800 equity shares @ rs.11	3,82,800
less: Paid to Preference Shareholders on Redemption (4,800 x Rs. 110)	(5,28,000)
Closing Balance	1,14,800

(20)

Sol . 3(a)

In the Books of M/s Dayal Transport Co. Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.1.19	To Balance b/d		1.10.19	By Depreciation a/c T1 - 50,00,000 x20%x9/12	7,50,000
	T1 35,00,000				
	T2 3,15,00,000	3,50,00,000			
1.10.19	To P/L a/c	7,50,000		By Bank (Insurance Claim)	35,00,000
1.10.19	To Bank a/c (T3)	60,00,000	31.12.19	By Depreciation a/c	
				T2 90,00,000	
				T3 3,00,000	93,00,000
			31.12.19	By Balance c/d	
				T2 2,25,00,000	
				T3 57,00,000	2,82,00,000
		41,75,00,000			41,75,00,000
1.1.20	To Balance b/d		31.12.20	By Depreciation a/c	
	T2 2,25,00,000			T2 90,00,000	
	T3 57,00,000	2,82,00,000		T3 12,00,000	1,02,00,000
			31.12.20	By Balance c/d	
				T2 1,35,00,000	
				T3 45,00,000	1,80,00,000
		2,82,00,000			2,82,00,000
1.1.21	To Bal. b/d				
	T2 1,35,00,000				
	T3 45,00,000	1,80,00,000			

Working Note:

Calculation of WDV of Motor Truck as 1.1.2019.

	T1 (One Truck)	T2 (Nine Truck)
Cost as on 1.7.2017	50,00,000	4,50,00,000
(-) Dep. (31.12.2017) @ 20%	(5,00,000)	(45,00,000)
W.D.V. (1.1.2018)	45,00,000	4,05,00,000
(-) Dep. (31.12.2018) @ 20%	(10,00,000)	(90,00,000)
W.D.V. (1.1.2019)	35,00,000	3,15,00,000

(10)

Sol. 3(b) RULES FOR POSTING IN TO LEDGER

- Entries must be posted from the day books or journal only.
- Posting of the entries must be date wise.
- Date of entry in day books must be the date of entry in ledger.
- All amounts shown in debit side in journal must be posted in debit side of a particular account.

(5)

Sol. 3 (c)

As per AS-22, the difference in tax as per accounting records & income tax rules is temporary shown as deferred tax asset or deferred tax liability (Net Amount). The tax expenses to be shown in P&L a/c will be current tax + differed tax liability – differed tax asset

(i) Calculation of differed tax asset/liability

Tax as per accounts	-	(6,00,000 x20%)	=1,20,000
Tax as per income tax	-	(60,000 x20%)	= <u>12,000</u>
Deferred Tax liability			<u>1,08,000</u>

(ii) Tax expenses to be shown in P& L a/c.

Current Tax (3,50,000x7.50%)	= 26250
+ Deferred Tax liability	= <u>108000</u>
	<u>134250</u>

(5)

Sol 4(a)

The auditor can exercise his lien on client's books and records subject to the following conditions:

- (a) Document retained must belong to the client who owes the money.
- (b) Documents must have come into possession of the auditor on the authority of the client. They must not have been received through irregular or illegal means. In case of a company client, they must be received on the authority of the Board of Directors.
- (c) The auditor can retain the documents only if he has done work on the documents assigned to him.
- (d) Such of the documents can be retained which are connected with the work on which fees have not been paid.

(5)

Sol 4 (b)

The director's plea that the present amount of cash is not within purview of the audit is not acceptable because the verification of cash even on a date beyond the accounting period under review is an accepted auditing procedure. The contention of the directors that keeping such a heavy balance is a matter of policy is also not tenable. While it cannot be argued the companies should not have huge cash in hand, particularly at outlying places where banking facilities are not available, the amount of cash held should have relation to the current needs of the business.

(5)

Sol 4 (c)

A proper understanding of the internal control system enables the auditor to decide upon the nature, extent and timing of the audit procedures. The mere fact that the controls have been developed by a chartered accountant is not important. In any case, the auditor should independently gain an understanding of the accounting system and related internal controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures. Where the auditor concludes that he can rely on certain internal controls, his substantive procedures would normally be less extensive. In cases where internal control is weak, the auditor might extend tests to cover a large number of transactions. Accordingly, just because the internal control was developed by a chartered accountant who had also authored a book on internal control is of no consequence. The auditor must understand and evaluate internal controls to develop a proper audit programme.

(5)

Sol 4 (d) :

Classification of liabilities for valuation purpose :

Current liabilities : Current liabilities are those liabilities of the business, which are short-term liabilities. They are to be settled within a period of one year. Examples are trade creditors, bills payable, outstanding expenses.

Fixed liabilities : These are of long-term nature. Examples are long term loans borrowed, long term deposit received.

Contingent liability : It is not an actual liability. It may become a liability on the happening or nonhappening of certain events in future. In short it is a liability which may or may not arise in the future for payment. Examples are liabilities in respect of bills discounted, guarantee given, compensation pending.

(5)

Sol 5 (a)

It is the duty of the auditor not only to verify the physical existence and ownership of the asset, but also its valuation as shown in the Balance Sheet. He should not only check the arithmetical accuracy of the assets appearing in the Balance Sheet but should also make inquiries through information and explanation to know the correct state of affairs.

An auditor may rely on the directors of the company or on the certificates of other professional in respect of valuation of the assets, provided he uses reasonable care and skill. In matters relating to valuation of assets the auditor must adhere to the generally accepted principles of valuation, commercial practices and accounting standards.

Methods of Valuation of Assets**1. Cost Method**

The cost method is the easiest way of asset valuation. It is done by basing the value on the historical price for which the asset was bought.

2. Market Value Method

The market value method bases the value of the asset on its market price or its projected price when sold in the open market. In the absence of similar assets in the open market, the replacement value method or the net realizable value method is used.

3. Value-based Method

This is a method by which an asset is valued with consideration to its ability to generate a cash flow.

4. Standard Cost Method

The standard cost method uses expected costs instead of actual costs, often based on the company's past experience. The costs are obtained by recording differences between expected and actual costs.

(10)

Sol 5 (b)**Verification of application and allotment money received on shares issued for cash.**

At application stage, application money is received along with application. The auditor should proceed to audit in the following manner:

1. The auditor should examine the original application sent by the investors and vouch the entries made in the Application and Allotment Book with these applications.
2. He should also compare entries in the Application and Allotment Book with those in the cash book.
3. He should ensure that the application moneys received were deposited into a Scheduled Bank until the certificate of commencement of business is obtained /are returned as per the provisions of Section 69(5).
4. He should see whether the amount received on application is not less than five percent of the nominal value of shares issued.
5. He should vouch the amounts refunded to applicants to whom shares are not allotted with copies of letters of regret sent to them.
6. If the prospectus specifies that application shall be made for quoting shares on a Stock Exchange, he should see whether the permission to deal has been granted by the Stock Exchange. In case the permission has been refused, he should see that the application money have been returned to the applicants as per the provisions of the Companies Act.
7. He should check the totals in the Application and Allotment Book and see whether appropriate journal entry is duly passed by debiting Share Application Account and crediting Share Capital Account.

Allotment Stage:

In order to verify the share allotment, the auditor should follow the audit procedure:

1. The auditor should examine the Director's Minute Book and verify whether they approved the allotment.
2. He should vouch the entries made in the Application and Allotment Book with copies of letters of allotment and letters of regret.
3. He should check the money received on allotment by comparing the entries in the Application and Allotment Book with the Cash Book /Bank Statement.
4. He should check the postings made as to the amount received on application and allotment in the Share Register.

(10)

Model Solution to Question-1st:-

- (a) Under Factory Act "**occupier**" of a factory means the person who has ultimate control over the affairs of the factory,

As per section 7A of Factory Act general duties of the occupier are as under:-

(1) Every occupier shall ensure, so far as is reasonably practicable, the health, safety and welfare of all workers while they are at work in the factory.

(2) Without prejudice to the generality of the provisions of sub- section (1), the matters to which such duty extends, shall include:-

(a) the provision and maintenance of plant and systems of work in the factory that are safe and without risk to health;

(b) the arrangements in the factory for ensuring safety and absence of risks to health in connection with the use, handling, storage and transport of articles and substances;

(c) the provisions of such information, instruction, training and supervision as are necessary to ensure the health and safety of all workers at work;

(d) the maintenance of all places of work in the factory in a condition that is safe and without risks to health and the provision and maintenance of such means of access to, and egress from, such places as are safe and without such risks;

(e) the provision, or maintenance or monitoring of such working environment in the factory for the workers that is safe, without risk to health and adequate as regards facilities and arrangements for their welfare at work.

(3) Except in such cases as may be prescribed, every occupier shall prepare, and, as often as may be appropriate, revise, a written statement of his general policy with respect to the health and safety of the workers at work and the organisation and arrangements for the time being in force for carrying out that policy, and to bring the statement and any revision thereof to the notice of all the workers in such manner as may be prescribed.

- (b) **Power of entry and inspection :-**Under section 24 of Air pollution Act:-

(1) Subject to the provisions of this section, any person empowered by a State Board in this behalf shall have a right to enter, at all reasonable times with such assistance as he considers necessary, any place—

(a) for the purpose of performing any of the functions of the State Board entrusted to him.

(b) for the purpose of determining whether, any such functions are to be performed or whether any provisions of this Act or the rules made thereunder or any notice,

order, direction or authorisation served, made, given or granted under this .
being or has been complied with.

(c) for the purpose of examining and testing any control equipment, industrial plant, record, register, document or any other material object or for conducting a search of any place in which he has reason to believe that an offence under this Act or the rules made thereunder has been or is being or is about to be committed and for seizing any such control equipment, industrial plant, record, register, document or other material object if he has reasons to believe that it may furnish evidence of the commission of an offence punishable under this Act or the rules made thereunder.

The expression 'arising out of employment' means that there must be casual relationship between the accident and the employment. If the accident has occurred on account of the risk which is an incident of employment, it has to be held that the accident has arisen out of employment.

Section 3 in The Workmen's Compensation Act, 1923 provide the Employer's liability for compensation.-

(1) If personal injury is caused to a workman by accident arising out of and in the course of his employment, his employer shall be liable to pay compensation in accordance with the provisions of this act, Provided that the employer shall not be so liable--

(a) in respect of any injury which does not result in the total or partial disablement of the workman for a period exceeding three days.

(b) in respect of any injury, not resulting in death or permanent total disablement caused by an accident which is directly attributable to--

(i) the workman having been at the time thereof under the influence of drink or drugs, or

(ii) the wilful disobedience of the workman to an order expressly given, or to a rule expressly framed, for the purpose of securing the safety of workmen, or

(iii) the wilful removal or disregard by the workman of any safety guard or other device which he knew to have been provided for the purpose of securing the safety of workmen.

Model Solution to Question-2nd:-

(a) **As per ESI Act (6A) "dependant"** means any of the following relatives of a deceased insured person namely:-

- (i) a widow, a minor legitimate or adopted son, an unmarried legitimate or adopted daughter, a widowed mother
- (ii) if wholly dependent on the earnings of the insured person at the time of his death, a legitimate or adopted son or daughter who has attained the age of eighteen years and is infirm;
- (iii) if wholly or in part dependent on the earnings of the insured person at the time of his death,-

- (a) a parent other than a widowed mother,
- (b) a minor illegitimate son, an unmarried illegitimate daughter or a daughter legitimate or adopted or illegitimate if married and a minor or if widowed and a minor,
- (c) a minor brother or an unmarried sister or a widowed sister if a minor,
- (d) a widowed daughter-in-law,
- (e) a minor child of a pre-deceased son,
- (f) a minor child of a pre-deceased daughter where no parent of the child is alive,
- (g) a paternal grand-parent if no parent of the insured person is and no parent of the insured person is alive

(b) As per section 14 of Arbitration Act:-

14. Failure or impossibility to act. -

(1) The mandate of an arbitrator shall terminate if-

- (a) He becomes de jure or de facto unable to perform his functions or for other reasons fails to act without undue delay; and
- (b) He withdraws from his office or the parties agree to the termination of his mandate.

(2) If a controversy remains concerning any of the grounds referred to in clause (a) of sub-section (1), a party may, unless otherwise agreed by the parties, apply to the court to decide on the termination of the mandate.

(3) If, under this section or sub-section (3) of section 13, an arbitrator withdraws from his office or a party agrees to the termination of the mandate of an arbitrator, it shall not imply acceptance of the validity of any ground referred to in this section or sub-section (3) of section 12.

(C) **Section 45A of Negotiable Instrument Act**

Holders right to duplicate of lost Bill:- Where a bill of exchange has been lost before it is overdue, the person who was holder of it, may apply to the drawer to give him another bill of the same tenor, giving security to the drawer, if required to indemnify him against all persons, whatever in case the bill alleged to have been lost shall be found again.

If the drawer on request as aforesaid refused to give such duplicate bill, he may be compelled to do so.

Model Solution to Question-3rd:-

(a) **An agreement without consideration is void:-**

Section 25 of Indian Contract Act provide that an Agreement without consideration, void, unless it is in writing and registered or is a promise to compensate for something done or is a promise to pay a debt barred by limitation law. An agreement made without consideration is void, unless—

(1) it is expressed in writing and registered under the law for the time being in force for the registration of documents, and is made on account of natural love and affection between parties standing in a near relation to each other

(2) it is a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, or something which the promisor was legally compellable to do

(3) it is a promise, made in writing and signed by the person to be charged therewith, or by his agent generally or specially authorized in that behalf, to pay wholly or in part a debt of which the creditor might have enforced payment but for the law for the limitation of suits. In any of these cases, such an agreement is a contract.

(b) **Marginal Relief:-**

According to Income Tax Act 1961, a person whose income is higher than the income tax brackets that is 30% he or she is chargeable for a surcharge on the income tax. Surcharge on income tax is an additional amount paid by taxpayers. The objective behind the surcharge is financial rich people should pay to contribute a higher amount to the government in form of taxes rather than financially poor people.

The rate of surcharges generally ranges from 2% to 37%.

As per the Income-tax Act provisions, a relief from paying a surcharge if facilitated to individuals and companies that relief is called **marginal relief**. Marginal Relief reduces the burden of surcharge for many individuals and companies.

Marginal relief for individuals

Marginal relief is provided to certain taxpayers up to the amount of the difference between the excess tax payable (including surcharge) on the income above Rs.50 lakhs and the amount of income that exceeds Rs.50 Lakhs.

Marginal relief for companies

Marginal relief will only be provided to such companies having a total income of more than Rs.1 crore but less than Rs.10 crores i.e., the income tax payable (including surcharge) on the higher income should not exceed the income tax payable on Rs.1 Crore by more than the amount of income that exceeds Rs.1 crore.

Model Solution to Question-4th:-

(a)

Section 76. PENALTY FOR FAILURE TO PAY SERVICE TAX

Any person, liable to pay service tax in accordance with the provisions of section 68 or the rules made under this Chapter, who fails to pay such tax, shall pay, in addition to such tax and the interest on that tax in accordance with the provisions of section 75, a **penalty which shall not be less than two hundred rupees for every day during which such failure continues or at the rate of two per cent of such tax, per month, whichever is higher**, starting with the first day after the due date till the date of actual payment of the outstanding amount of service tax: **Provided** that the total amount of the penalty payable in terms of this section shall not exceed the service tax payable.

(b) **Taxable Quantum:-** Incidence and levy of tax under VAT Tax Act section 6.

Every person, except a casual trader and one dealing exclusively in goods declared tax free under section 16, whose gross turnover during the year immediately preceding the commencement of this Act or during any year subsequent thereto, exceeded the **taxable quantum**, as provided in clause (a) of sub-section (3), shall be liable to pay tax under this Act by way of VAT on the taxable turnover and as provided in clause (b) of sub-section (3), shall be liable to pay tax under this Act by way of TOT on the taxable turnover.

For the purpose of this section, **the expression 'taxable quantum' means-**

3(a) for registration as a taxable person for VAT -

- (i) in relation to any person, who imports taxable goods for sale or use in manufacturing or processing any goods in the State, **rupee one;**
- (ii) in relation to a person, who receives goods on consignment/branch transfer basis from within or outside the State on which no tax has been paid under this Act, **rupee one;**
- (iii) in relation to a person, liable to pay purchase tax under section 19, **rupee one;**
- (iv) in relation to a person, who is a manufacturer, **rupees one lac;**
- (v) in relation to a person, who is running a hotel/restaurant, **rupees five lac;**
- (vi) in relation to a person, who is running a bakery, **rupees ten lac**
- (vii) in relation to voluntary registration, **rupees five lac;** and
- (viii) in relation to any other person, **rupees fifty lac.**

3(b) for registration as a registered person for TOT - in relation to a person other than those specified in clause (a) whose turnover during the preceding year is more than **rupees five lac, but below rupees fifty lac.**

STRIKE OFF NAME OF PRODUCER COMPANY

(1) Where a Producer Company fails to commence business within one year of its registration or ceases to transact business with the Members or if the Registrar is satisfied, after making such inquiry as he thinks fit, that the Producer Company is no longer carrying on any of its objects specified in section 581B, he shall make an order striking off the name of the Producer Company, which shall thereupon cease to exist forthwith :

Provided that no such order cancelling the registration as aforesaid shall be passed until a notice to show cause has been given by the Registrar to the Producer Company with a copy to all its directors on the proposed action and reasonable opportunity to represent its case has been given.

(2) Where the Registrar has reasonable cause to believe that a Producer Company is not maintaining any of the mutual assistance principles specified, he shall strike its name off the register in accordance with the provisions contained in section 560 of this Act.

(3) Any Member of a Producer Company, who is aggrieved by an order made under sub-section (1), may appeal to the Company Law Board/Tribunal within sixty days of the order.

(4) Where an appeal is filed under sub-section (3), the order striking off the name shall not take effect until the appeal is disposed of.

Model Solution to Question-5th:-

(a) Model Board resolution draft for opening of a company bank account

CERTIFIED TRUE COPY OF THE RESOLUTION PASSED AT THE MEETING OF THE BOARD OF DIRECTORS OF (COMPANY NAME) HELD AT THE REGISTERED OFFICE OF THE COMPANY AT (ADDRESS) ON (DATE) AT (TIME)

A proposal to open a current Account with the (Bank Name and Address) was placed before the Board for conducting its day-to-day financial transactions. After discussions, the Board unanimously:

"RESOLVED THAT Current Account in the name & style of '(COMPANY NAME)' be opened with the (Bank Name and Address), for the operations of the activities of the Company and that the following Authorized Signatory(ies) of the Company be and are hereby authorized to open and operate the said account:

INDIVIDUALLY

JOINTLY

1. Authorized Signatory
2. Authorized Signatory

Authorized Signatory
Authorized Signatory

AND

1. THAT the said Bank be instructed to accept and act upon any instructions relating to the account kept in the name of the Company or relating to any transactions of the Company with the Bank, provided the instructions are signed by the authorized signatory(ies) of the Company in the manner mentioned as above.
2. THAT the said Bank be instructed to accept receipts for money, deeds, securities or other documents or papers or property or any indemnities given on behalf of the Company provided they are signed by the authorized signatory(ies) of the Company in the manner as mentioned above.
3. THAT the bank be furnished with a list of the names of Directors of the Company and a copy of the Memorandum & Articles of Association and be from time to time informed by notice in writing under the hand of the Directors/Authorized Signatory of the Company of any changes which may take place therein and be entitled to act upon any such notice until the receipt of further notice.....
4. THAT the resolution be communicated to the Bank and remain in force until duly rescinded and notice thereof in writing be given to the Bank by any of the Directors of the Company."

"RESOLVED FURTHER THAT the aforesaid power entrusted to the said official shall be valid and effective unless revoked earlier by the Board or shall be exercisable by him so long as he is in the concerned to the Company."

"RESOLVED FURTHER THAT all acts, deeds, things, matters, etc. as aforesaid shall be deemed to be valid and enforceable only if they are consistent with the instant resolution as may be relevant in this case and that the Board shall not be responsible for any acts beyond the scope of the aforesaid powers done by (Name of the authorized person(s) and such invalid, illegal acts, and acts done beyond the scope of powers granted in this Resolution shall not bind the Company against any third parties or before any authorities in any manner and that the Board shall not be answerable in that behalf."

For

(COMPANY NAME)

(Director Name)

(b)

394. PROVISIONS FOR FACILITATING RECONSTRUCTION AND AMALGAMATION OF COMPANIES

Where an application is made to the *Tribunal* under section 391 for the sanctioning of a compromise or arrangement proposed between a company and any such persons as are mentioned in that section, and it is shown to the *Tribunal* -

(a) that the compromise or arrangement has been proposed for the purposes of, or in connection with, a scheme for the reconstruction of any company or companies, or the amalgamation of any two or more companies ; and

(b) that under the scheme the whole or any part of the undertaking, property or liabilities of any company concerned in the scheme is to be transferred to another company the *Tribunal* may, either by the order sanctioning the compromise or arrangement or by a subsequent order, **make provision for all or any of the following matters:**

(i) the transfer to the transferee-company of the whole or any part of the undertaking, property or liabilities of any transferor-company ;

(ii) the allotment or appropriation by the transferee-company of any shares, debentures, policies, or other like interests in that company which, under the compromise or arrangement, are to be allotted or appropriated by that company to or for any person ;

(iii) the continuation by or against the transferee-company of any legal proceedings pending by or against any transferor-company ;

(iv) the dissolution, without winding up, of any transferor-company ;

(v) the provision to be made for any persons who, within such time and in such manner as the *Tribunal* directs, dissent from the compromise or arrangement ; and

(vi) such incidental, consequential and supplemental matters as are necessary to secure that the reconstruction or amalgamation shall be fully and effectively carried out

Ans of Q. No. 1: Capital budgeting is the process a business undertakes to evaluate potential major projects or investments. Construction of a new plant or a big investment in an outside venture are examples of projects that would require capital budgeting before they are approved or rejected.

As part of capital budgeting, a company might assess a prospective project's lifetime cash inflows and outflows to determine whether the potential returns that would be generated meet a sufficient target benchmark. The capital budgeting process is also known as investment appraisal.

Techniques/Methods of Capital Budgeting

1. Payback Period Method

As the name suggests, this method refers to the period in which the proposal will generate cash to recover the initial investment made. It purely emphasizes on the cash inflows, economic life of the project and the investment made in the project, with no consideration to time value of money. However, as the method is based on thumb rule, it does not consider the importance of time value of money and so the relevant dimensions of profitability.

Formula:

Payback Period =	Initial Cash Investment
	Annual Cash Flow

2. Accounting rate of return method (ARR)

This method helps to overcome the disadvantages of the payback period method. Accounting Rate of Return (ARR) is the average net income an asset is expected to generate divided by its average capital cost, expressed as an annual percentage. The ARR is a formula used to make capital budgeting decisions. These typically include situations where companies are deciding on whether to proceed with a specific investment (a project, an acquisition, etc.) based on the future net earnings expected compared to the capital cost.

Paper-VIII (SAS II) - Model solution
(Works and management Accounting)

However, this method also ignores time value of money and doesn't consider the length of life of the projects. Also it is not consistent with the firm's objective of maximizing the market value of shares.

ARR= Average income/Average Investment

3. Discounted cash flow method:

The discounted cash flow technique calculates the cash inflow and outflow through the life of an asset. These are then discounted through a discounting factor. The discounted cash inflows and outflows are then compared. This technique considers the interest factor and the return after the payback period.

4. Net Present Value Method (NPV)

This is one of the widely used methods for evaluating capital investment proposals. In this technique the cash inflow that is expected at different periods of time is discounted at a particular rate. The present values of the cash inflow are compared to the original investment. If the difference between them is positive (+) then it is accepted or otherwise rejected.

5. Internal Rate of Return (IRR):

This is defined as the rate at which the net present value of the investment is zero. The discounted cash inflow is equal to the discounted cash outflow. This method also considers time value of money. It tries to arrive to a rate of interest at which funds invested in the project could be repaid out of the cash inflows.

6. Profitability Index (PI):

It is the ratio of the present value of future cash benefits, at the required rate of return to the initial cash outflow of the investment. It may be gross or net, net being simply gross minus one. The formula to calculate profitability index (PI) or benefit cost (BC) ratio is as follows.

PI = PV cash inflows/Initial cash outlay A

20 Marks

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(Works and management Accounting)

Ans of Q. No . 2:

STATEMENT SHOWING ADDITIONAL CLAM DUE TO ESCALATION CLAUSE						
Material	Std. Qty.	Std. Rate	Actual Rate	Variation in Rate (Rs.)	Escalation Claim (Rs.)	
	(a)	(b)	(c)	(d) = (c-b)	(e) = (a X d)	
A	3,000	1,000	1,100	+100	+3,00,000	
B	2,400	800	700	-100	-2,40,000	
C	500	4,000	3,900	-100	-50,000	
D	100	30,000	31,500	+1,500	+1,50,000	
Labour:	Material Escalation Claim					1,60,000
	L1	60,000	15	18	+3	+1,80,000
	L2	40,000	30	35	+5	+2,00,000
	Labour Escalation Claim					3,80,000

STATMENT SHOWING FINAL CONTRACT PRICE		
Agreed Contract price		Rs. 1,50,00,000
Add : Agreed Escalation Claim:		
Material Cost	Rs. 1,60,000	
Labour Cost	3,80,000	
		5,40,000
Final Contract Price		1,55,40,000

20 Marks

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(Works and management Accounting)

Ans of Q. No. 3:

1. EOQ- Economic order quantity (EOQ) is the ideal quantity of units a company should purchase to meet demand while minimizing inventory costs such as holding costs, shortage costs, and order costs.

$$EOQ = \sqrt{\frac{2 * \text{annual consumption} * \text{Buying cost per order}}{\text{Cost of carrying one unit of inventory for one year}}}$$

Cost of carrying one unit of inventory for one year

2. Maximum Level - The maximum stock level is the largest number of goods a company can store to provide its customers with service at the lowest possible cost. It's vital to keep inventory control in line with demand.
Maximum Level = Reorder level + EOQ - Min. Consumption during the period required to obtain delivery
3. Reorder level - The reorder level of stock is the fixed stock level that lies between the maximum and minimum stock levels. At the reorder stock level, an order for the replenishment of stock should be placed. In other words, the reorder stock level is the level of inventory at which a new purchase order should be placed. The reorder level of stock is generally higher than the minimum level to cover any emergencies that may arise as a result of abnormal usage of materials or unexpected delay in obtaining fresh supplies.
Reorder level = Maximum Reorder Level * Maximum Usage
4. Minimum level - Minimum inventory levels are the lowest amount of a product that you can have in stock and still be able to meet customer demand. This number is important because it helps you avoid running out of a product, which could lead to lost sales and unhappy customers.
Minimum level = Reorder level - (Normal usage per period * Average delivery time)

5*4=20 Marks

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(Works and management Accounting)

As 6000
P 24000
24000
24000
24000

S.P. 10
V.C. 6

Start year
86000

Model Solution

Ans of Q. No. 4 :a)

Statement of Break Even Point (FIFO)

Nature	Quantity(unit)	Contribution Per Unit (Rs.)	Total Contribution Rs.
opening stock	6,000	5 (10-5)	30,000
Current production	14,000	4(10-6)	56,000 (B.F.)
Break-event point	20,000 unit	Fixed cost	86,000

Hence, under FIFO system, it is covered by selling of 20000 units. Therefore. The sale of 20,000 units is the Break-Even point.

10 Marks

Ans of Q. No. 4 b)

As the name says "Zero-based budgeting" is an approach to plan and prepare the budget from the scratch. Zero-based budgeting starts from zero, rather than a traditional budget that is based on previous budgets. With this budgeting approach, you need to justify each and every expense before adding it to the actual budget. The primary objective of zero-based budgeting is the reduction of unnecessary costs by looking at where costs can be cut.

To create a zero-base budget involvement of the employees is required. You can ask your employees what kind of expenses the business will have to bear and figure out where you can control such expenses. If a particular expense fails to benefit the business, the same should be axed from the budget.

- **Efficiency:** Zero-based Budgeting helps a business in the allocation of resources efficiently (department-wise) as it does not look at the previous budget numbers, instead looks at the actual numbers

Paper-VIII (SAS II) - Model solution
(Works and management Accounting)

- **Accuracy:** Against the traditional budgeting method that involves mere some arbitrary changes to the earlier budget, this budgeting approach makes all departments relook every item of the cash flow and compute their operation costs. This methodology helps in cost reduction to a certain extent as it gives a true picture of costs against the desired performance.
- **Budget inflation:** As mentioned above every expense is to be justified. Zero-based budget compensates for the weakness of incremental budgeting of budget inflation.
- **Coordination and Communication:** Zero-based budgeting provides better coordination and communication within the department and motivation to employees by involving them in decision-making.
- **Reduction in redundant activities:** This approach leads to identifying optimum opportunities and more cost-efficient ways of doing things by eliminating all the redundant or unproductive activities.

10 Marks

Paper-VIII (SAS II) - Model solution
(Works and management Accounting)

Ans of Q. No. 5: The following data are obtained from the records of a company:

(a) P/V ratio = Change in profit/change in sales*
 Or P/V ratio = $\frac{(4000 - 10000)}{\text{Sales} \quad \text{Profit}} \times 100 = 40\%$

**Second year	Rs.90,000	Rs.14,000
First year	<u>80,000</u>	<u>10,000</u>
	10,000	4,000

(b) Break even point

$$S \times \text{P/V ratio} = F + P$$

Or $\text{Rs.} 80,000 \times 40/100 = F + \text{Rs.} 10,000$ or $F = \text{Rs.} 22,000$.

Now it is possible to find out sales at which contribution will be just equal to fixed cost.

$$\text{BES} \times \text{P/V ratio} = F$$

Or $\text{BES} \times 40/100 = \text{Rs.} 22,000$

(c) Profit, when sales is Rs. 50,000.

We know that : $S(S-V)/S = F + P$

Or $\text{Rs.} 50,000 \times 40/100 = \text{Rs.} 22,000 + P$

Or $P = (-) \text{Rs.} 2,000$

When sales are Rs.50,000 loss would be Rs. 2000.

(d) Sales required to earn a profit of Rs.19,000.

We know that $S \times \text{P/V ratio} = P + F$

Or $S \times 40\% = \text{Rs.} 22,000 + \text{Rs.} 19,000$

Or $S = \text{Rs.} 1,02,500$

(e) Margin of safety.

~~MOS = Sales at activity level - B.E Sales~~

~~= Rs. 60,000 - Rs. 55,000 or Rs. 5,000~~

5x42

20 Marks