SAP 3

Accounting

1.

Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 16,95,000.

Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS 3.

(5)

2.

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Goodwill	1,00,000	80,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Land & Building	4,50,000	3,40,000
8% Debentures	2,00,000	1,00,000	Furniture & Fittings	1,00,000	50,000
General Reserve	1,50,000	50,000	Plant & Machinery	6,20,000	4,50,000
Profit & Loss a/c	3,52,000	2,05,000	Debtors	3,25,000	1,50,000
Unsecured Loan	-	1,75,000	Stock	2,33,000	1,05,000
Creditors	88,000	1,60,000	Cash at bank	1,08,000	95,000
			Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books. (16 Marks)

3.

The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	₹	*Assets*	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.

(e) Gross profit as per last year's audited accounts was ₹ 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(10)

4.

A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2016:

	(₹)
Debit balances in Debtors Ledger on 01-04-2016	1,79,100
Credit balances in Debtors Ledger on 01-04-2016	4,700
Transactions during the month of April, 2016 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2016	4,900

(4)

ANSWERS

1.

Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

2.

Books of P Ltd.

Realization Account

		₹			₹
To	Goodwill	1,00,000	By	8% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade payables/ Creditors	88,000
To	Plant & Machinery	6,20,000	By	PQ Ltd.	16,02,100
To	Furniture & Fitting	1,00,000		(Purchase consideration)	
To	Trade receivables/Debtors	3,25,000	By	Equity Shareholders A/c	1,37,900
To	Inventory/ stock	2,33,000		(loss)	
To	Cash at Bank	1,08,000			
To	Cash in hand	54,000			
To	Preference shareholders				
	(excess payment)	38,000			
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

	₹		₹
To Preference Shares in PQ Ltd.	4,18,000	By Pref. Share capital	3,80,000
		By Realization A/c	38,000
	4,18,000		4,18,000

PQ Ltd. Account

	₹			₹
To Realization A/c	16,02,100	By Shares in PQ Ltd.		
		For Equity	10,82,400	
		" Pref.	4,18,000	15,00,400
		By Cash		1,01,700
	16,02,100			16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

	₹		₹
To Goodwill	80,000	By 8% Debentures	1,00,000
To Land & Building	3,40,000	By Trade payables/ Creditors	1,60,000
To Plant & Machinery	4,50,000	By Unsecured loan	1,75,000
To Furniture & Fittings	50,000	By PQ Ltd. (Purchase	
To Trade receivables/ Debtors	1,50,000	consideration)	7,92,250
To Inventory/ Stock	1,05,000	By Equity Shareholders A/c—	
To Cash at bank	95,000	Loss	90,750
To Cash in hand	20,000		
To Pref. shareholders	28,000		
	13,18,000		13,18,000

Equity Shareholders Account

		₹			₹
To	Equity shares in PQ Ltd.	4,22,400	By	Share Capital	3,20,000
To	Realization	90,750	By	Profit & Loss A/c	2,05,000
To	Cash	61,850	By	General Reserve	50,000
		5,75,000			5,75,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	3,08,000	By	Share capital	2,80,000
			By	Realization A/c	28,000
		3,08,000			3,08,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	7,92,250	By	Equity shares in PQ Ltd.		
				For Equity	4,22,400	
				Preference	3,08,000	7,30,400
			By	Cash		61,850
		7,92,250				7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	*Q Ltd.* ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

		P Ltd. ₹		Q Ltd. ₹
Goodwill		1,00,000		80,000
Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		1,08,000		95,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	–	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash		1,01,700		(61,850)

(iii)

	P	Q
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

3.

Trading and Profit and Loss Account
For the year ending on 31st March, 2016

Particulars		₹	Particulars	₹
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal.fig.);		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
		2,10,000		
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet as at 31st March, 2016

Liabilities		₹	Assets		₹
Capital Account:			Building	32,500	
Opening Balance	48,000		*Less:* Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		*Less:* Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	*Less:* Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		4,500
		1,20,325			1,20,325

Working Notes:

(i) **Total Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) **Total Creditors Account**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii) **Cash Book**

Particulars	Cash ₹	Bank ₹	Particulars	Cash ₹	Bank ₹
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹ 1,50,000= ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000

4.

General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	₹	Date	Particulars	₹
01.04.2016	To Balance b/d	4,700	1.4.2016	By Balance b/d	1,79,100
01.04.2016	To Debtors ledger		01.04.2016	By Debtors ledger	
to	adjustment A/c :		to	adjustment A/c :	
30.4.2016	Cash received	8,62,850	30.4.2016	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2016	By Balance c/d	4,900
30.04.2016	To Balance c/d (bal.fig)	2,48,850			
		11,88,450			11,88,450

Costing

1.

The following information has been provided by a company:

Number of units produced and sold	6,000
Standard labour rate per hour	₹ 8
Standard hours required for 6,000 units	-
Actual hours required	17,094 hours

Labour efficiency	105.3%
Labour rate variance	₹ 68,376 (A)

You are required to calculate:

(i) Actual labour rate per hour

(ii) Standard hours required for 6,000 units

(iii) Labour Efficiency variance

(iv) Standard labour cost per unit

(v) Actual labour cost per unit.

(8)

2.

XYZ Ltd. produces a product X by using two raw materials A and B. The following standards have been set for the production:

Material	Standard Mix	Standard Price (₹)
A	40%	40 per kg.
B	60%	30 per kg.

The standard loss in processing is 15%.

During July, 2016 the company produced 2,000 kg. of finished output.

The positions of stock and purchases for the month of July, 2016 are as under:

Material	Stock on 1st July 2016	Stock on 31st July 2016	Purchases during July 2016	
			Quantity	Amount (₹)
A	40 kg.	10 kg.	900 kg.	42.50
B	50 kg.	60 kg.	1,400 kg.	25.00

Calculate the following variances:

(i) Material Price Variance;

(ii) Material Usage Variance;

(iii) Material Mix Variance;

(iv) Material Yield Variance;

(v) Total Material Cost Variance.

The company follows FIFO method of stock valuation.

(10)

ANSWERS

1.

SR – Standard labour Rate per Hour

AR – Actual labour rate per hour

SH – Standard Hours

AH – Actual hours

(i) Actual labour rate per hour:

Labour rate Variance = AH (SR – AR)

= 17,094 (₹8 – AR) = 68,376 (A) = - 68,376

= ₹ 8 – AR = - 4

Or, AR = ₹ 12

(ii) Standard hour required for 6,000 units:

Labour Efficiency $= \frac{SH}{AH} \times 100 = 105.3$

$= SH = \frac{AH \times 105.3}{100} = \frac{17{,}094 \text{ hours} \times 105.3}{100}$

= 17,999.982 or, SH = 18,000 hours

(iii) Labour Efficiency Variance = SR (SH – AH)

= ₹ 8(18,000 – 17,094)

= 8 × 906 = ₹ 7,248 (F)

(iv) Standard Labour Cost per Unit $= \frac{18{,}000 \text{ hours} \times ₹ 8}{6{,}000 \text{ units}} = ₹ 24$

(v) Actual Labour Cost per Unit $= \frac{17{,}094 \text{ hours} \times ₹ 12}{6{,}000 \text{ units}} = ₹\ 34.19$

2.

1. Calculation of Actual Materials Consumed:

Particulars	Material A (kg.)	Material B (kg.)
Opening stock	40	50
Add: Purchases	900	1,400
Less: Closing Stock	(10)	(60)
Material Consumed	930	1,390

(i) Material Price Variance:

Actual Quantity (Std. Price – Actual Price) = AQ × SP – AQ × AP

Material A = (930 kg × ₹40) - {(40 kg × ₹40) + (890 kg × ₹42.50)}

= ₹37,200 – (₹1,600 + ₹37,825) = ₹2,225 (A)

Material B = (1,390 kg × ₹30) - {(50 kg × ₹30) + (1,340 kg × ₹25)}

= ₹41,700 – (₹1,500 + ₹33,500) = ₹6,700 (F)

(ii) Material Usage Variance = Std. Price (Std. Quantity - Actual Quantity)

Material A $= ₹40\ \{(\frac{40\% \text{ of } 2{,}000}{0.85}) - 930 \text{ kg}\}$

= ₹40 (941.18 kg. – 930 kg) = ₹447 (F)

Material B $= ₹30\ \{(\frac{60\% \text{ of } 2{,}000}{0.85}) - 1{,}390 \text{ kg}\}$

$= ₹30\ (1,411.76\ kg. – 1,390\ kg) = ₹653\ (F)$

(iii) Material Mix Variance = Std. Price (Revised Std. Quantity – Actual Quantity)

Material A = ₹40 {(40% of 2,320) - 930 kg} = ₹80 (A)

Material B = ₹30 { (60% of 2,320) - 1,390 kg} = ₹60 (F)

(iv) Material Yield Variance = Std. Price (Std. Quantity – Revised Std. Quantity)

Material A $= ₹40\ \{(\frac{40\%\ of\ 2,000}{0.85}) - (40\%\ of\ 2,320)\}$

= ₹40 { 941.18 kg. – 928 kg.} = 527 (F)

Material B $= ₹30\ \{(\frac{60\%\ of\ 2,000}{0.85}) - (60\%\ of\ 2,320)\}$

= ₹30 {1,411.76 kg. – 1,392 kg.} = 593 (F)

(v) Total Material Cost Variance = Std. Price × Std Qty. – Actual Price × Actual Qty.

Material A $= [\{₹40 \times (\frac{40\%\ of\ 2,000}{0.85})\} – \{(40\ kg \times ₹40) + (890\ kg \times ₹42.50)\}]$

= {₹40 × 941.18 kg.} – {₹1,600 + ₹37,825}

= ₹37,647 – ₹39,425 = ₹1,778 (A)

Material B $= [\{₹30 \times (\frac{60\%\ of\ 2,000}{0.85})\} - \{(50\ kg \times ₹30) + (1,340\ kg \times ₹25)\}]$

= {₹30 × 1,411.76 kg.} – {₹1,500 + ₹33,500}

= ₹42,353 – ₹35,000 = ₹7,353 (F)

FM

1.

Differentiate between Financial Lease and Operating Lease. (7)

2.

Zubair Electronics is considering the proposal of taking up a new project which requires an investment of Rs. 400 lakhs on machinery and other assets. The project is expected to yield the following earnings (before depreciation and taxes) over the next five years:

Year	*Earnings (Rs. in lakhs)*
1	160
2	160
3	180
4	180
5	150

The cost of raising the additional capital is 12% and assets have to be depreciated at 20% on 'Written Down Value' basis. The scrap value at the end of the five years' period may be taken as zero. Income-tax applicable to the company is 50%.

You are required to calculate the net present value of the project and advise the management to take appropriate decision. Also calculate the Internal Rate of Return of the Project.

Note: Present value of Re. 1 at different rates of interest is as follows:

Year	*10%*	*12%*	*14%*	*16%*
1	0.91	0.89	0.88	0.86
2	0.83	0.80	0.77	0.74
3	0.75	0.71	0.67	0.64
4	0.68	0.64	0.59	0.55
5	0.62	0.57	0.52	0.48

(10)

ANSWERS

1.

	Financial Lease	Operating Lease
1.	The risk and reward incident to ownership are passed on to the lessee. The lessor only remains the legal owner of the asset.	The lessee is only provided the use of the asset for a certain time. Risk incident to ownership belongs wholly to the lessor.
2.	The lessee bears the risk of obsolescence.	The lessee is only provided the use of asset for a certain time. Risks incidental to ownership belongs wholly to the lessor.
3.	The lessor is interested in his rentals and not in the asset. He must get his principal back along with interest. Therefore, the lease is non-cancellable by either party.	As the lessor does not have difficulty in leasing the same asset to other willing lessee, the lease is kept cancellable by the lessor.
4.	The lessor enters into the transaction only as financier. He does not bear the cost of repairs, maintenance or operations.	Usually, the lessor bears the cost of repairs, maintenance or operations.
5.	The lease is usually fully paid out, that is, the single lease repays the cost of the asset together with the interest.	The lease is usually non-payout, since the lessor expects to lease the same asset over and over again to several users.

2.

(i) Calculation of Net Cash Flow

(Rs. in lakhs)

Year	*Profit before dep. and tax*	*Depreciation (20% on WDV)*	*PBT*	*PAT*	*Net cash flow*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(3) + (5)*
1	160	$400 \times 20\% = 80$	80	40	120
2	160	$(400 - 80) \times 20\% = 64$	96	48	112
3	180	$(320 - 64) \times 20\% = 51.2$	128.8	64.4	115.6
4	180	$(256 - 51.2) \times 20\% = 40.96$	139.04	69.52	110.48
5	150	$(204.8 - 40.96) = 163.84$*	−13.84	−6.92	156.92

*including depreciation and loss on disposal of assets.

(ii) **Calculation of Net Present Value (NPV)**

(Rs. in lakhs)

Year	*Net Cash Flow*	*12%*		*14%*		*16%*	
		D.F	*P.V*	*D.F*	*P.V*	*D.F*	*P.V*
1	120	.89	106.8	.88	105.60	.86	103.2
2	112	.80	89.6	.77	86.24	.74	82.88
3	115.6	.71	82.08	.67	77.45	.64	73.98
4	110.48	.64	70.70	.59	65.18	.55	60.76
5	156.92	.57	89.44	.52	81.60	.48	75.32
			438.62		416.07		396.14

Less: Initial Investment	400.00	400.00	400.00
NPV	38.62	16.07	(3.86)

(iii) ***Advise:*** Since Net Present Value of the project is maximum at 12% = 38.62 lakhs, therefore the project should be implemented.

(iv) **Calculation of Internal Rate of Return (IRR)**

$$\text{IRR} = 14\% + \frac{16.07 \times 2\%}{16.07 - (-3.86)}$$

$$= 14\% + \frac{32.14}{19.93}$$

= 14% + 1.61% = 15.61%.

CUSTOMS DUTY

1. **Distinguish between Pilferage and Loss or Destruction of goods. (4)**
2. **Shubh Nivesh (P) Ltd. imported a machinery from London for the purpose of providing a taxable service.The assessable value of imported machinery as per Custom law is ₹ 5,00,000. Basic Customs Duty is payable @ 10% and Education cess and secondary and Higher Education cess of customs, are applicable. If the imported machinery is manufactured in India, the excise duty is leviable on the machinery @ 12.5 %. Special CVD on machinery at 4%. You are required to:**

i) **Calculate the total customs duty payable.**

ii) **Examine whether Shubh Nivesh (P) Ltd. can avail any CENVAT credit of the customs duties paid ? If so, how much ? (4)**

3. **What does one mean by taxable event in case of import of goods into India or export of goods from India? (4)**

CAPITAL GAINS

1.

Mr. Yuthistra bought a vacant Land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mr. Yuthistra received ₹ 20 lakhs as advance in cash by executing an agreement.

The sale deed was executed and registered on 14-1-2017 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence the value of property for stamp duty purposes was ₹ 770 lakhs. Mr. Yuthistra, paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Yuthistra made following investments :

(i) Acquired a residential house at Delhi for ₹ 110 lakhs.

(ii) Acquired a residential house at London for ₹ 190 lakhs.

(iii) Subscribed to NHAI capital gains bond (approved under section 54 EC) for ₹ 45 lakhs on 29-3-2017 and for ₹ 50 lakhs on 12-5-2017.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index : F.Y. 2004-05 = 480
F.Y. 2006-07 = 519
F.Y. 2016-17 = 1125

(8)

2. A) D acquired a property by way of gift from his father in 1999-2000. The father had acquired the property for Rs. 2,00,000 in 1991-92. This was introduced as capital in a firm where D joined as partner. The market value was Rs.10,00,000 but was recorded in the books at Rs.7,00,000. Comment. [(1991-92)-199, (1999-2000)-389]

B) What if the asset introduced by D was his very own car ? (4)

3. DV Ltd. purchased a building for an industrial undertaking on January 1 2015 for Rs.4,00,000. Prior to this the company had taken this building on rent for the last two years and was using it for its industrial activities. There is no other building in the block. This property was compulsorily acquired by State Govt. On 14th August 2016 and a compensation of Rs.5,00,000 was given to DV Ltd. On March 21 2017. The company purchased another building for shifting its undertaking for Rs.3,00,000 on September 15 2017. Compute Capital Gains for AY 17-18. Depreciation rate can be assumed at 15%. (4)

4. K is in possession of an agricultural land situated within urban limits, which is used for agricultural purposes during previous 3 years by his father. On April 4,2016 the land is acquired by Central Government for a compensation of Rs. 8 lakhs. Advise K as to the tax consequences, assuming that entire amount is invested in purchase of shares.

(2)

ANSWERS

Customs Duty

1.

Basis	Pilferage S.13	Loss or Destruction of Goods
Meaning	Steal in small quantities.	Loss is forever and beyond recovery.
Duty	Not leviable	Shall be remitted to the importer.
Subsequent restoration	Possible	Not possible
Warehoused Goods	Not Applicable	Applicable
Onus to prove loss of goods	Not on the importer	Importer has to prove to the satisfaction of the Deputy Commissioner of Customs.
Time of occurence	Must have been occurred after unloading but before proper office has given clearance for home consumption or warehousing.	Before clearance for home consumption.

2.

Particulars	Amount
Assessable Value for computing basic custom duty	5,00,000
Basic custom duty (5,00,000 X 10%)	50,000
Total value for computation of additional custom duty u/s 3(1)	5,50,000
Additional custom duty u/s 3(1) [5,50,000 X 12.5%]	68,750
Total duty amount for EC and SHEC [50,000+68,750]	1,18,750
Education cess@ 2%	2,375
Secondary and higher education cess@1%	1,187.5
Total duty payable before additional custom duty u/s 3(5)	1,22,312.5
Total value for computation of additional custom duty u/s 3(5)	6,22,312.5
Additional custom duty u/s 3(5) [6,22,312.5 X 4%]	24,892.5
Total Duty Payable	1,47,205

(ii) Yes, Shubh Nivesh can avail CENVAT credit of custom duties paid u/s 3(1) and 3(5). Total credit can be taken is 93,642.5/- (68750+24892.5).

3.

Territorial water of India extends to 12nautical miles into the sea from appropriate base line. Goods are deemed to have been imported if the vessels enter the imaginary line on the sea at the 12th nautical mile i.e if the vessel enters the territorial water of India.

a) <u>TAXABLE EVENT IN CASE OF IMPORTS:</u> Import will commence as soon as the goods enters territorial waters but liability to pay import duty will arise when the goods reached the customs barrier and the Bill of entry for home consumption is filed.

Note:

i) Customs Barrier – depends upon mode of transport

ii) If the goods are cleared from port itself customs barrier will be the notified area in the port.

iii) If the goods are cleared from the warehouse then customs barrier will be warehouse and when the goods are removed from the warehouse liable to customs duty.

b) <u>TAXABLE EVENT IN CASE OF EXPORTS:</u> Export of goods is complete when the goods cross the territorial waters of India but export duty is payable before loading of goods on a conveyance. If ship sinks within the territorial waters, export is not complete.

CAPITAL GAINS

1.

Period of Holding = More than 36 months, hence, it is a long term Capital Asset.

Particulars	Amount (Lakhs)	Amount (Lakhs)
Sale Consideration (Note-1)	770	
Less: Brokerage incurred in connection with such transfer (1% of 700 lakhs)	7	
Net Sale Consideration		763
Less: Indexed cost of acquisition of Land (88 X 1125/480) (Note-2)	206.25	
Less: Indexed cost of acquisition of building (100 X 1125/519)	216.76	
Total cost of acquisition of land and building		423.01
Long term capital Gain		339.99
Less: Exemption under section 54 (Note-3)		(110)
Less: Exemption under section 54 EC for investment made in NHAI		(50)
Taxable Long term capital Gain		179.99

Notes-

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. So the value will be 770 lakhs instead of 700 lakhs. Stamp value on the date of agreement will not be taken as no consideration in cheque was received.
2. Cost of land shall be inclusive of registration charges and other expense incurred for acquisition of such land. So the cost of land will be 88 lakhs (80+10% of 80).
3. Exemption under section 54 is available if one new residential house is purchased in India within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs.110 lakh, is exempt under section 54.
4. There will be no exemption available in respect of investment made in acquisition of residential house at London for Rs.190 lakhs.
    1. As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the NHAI redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The maximum amount can be invested in the
    2. P.Y. of transfer and in the subsequent year (Within 6 months from transfer) is 50 lakhs. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less.
5. In this case, the maximum deduction available is 50lakh in aggregate of F.Y. 2016-17 and 2017-18 investment. Therefore, Mr Yuthistra can claim exemption for 50 lakhs.

2. Computation of Capital Gains in the hands of D for AY 2017-18

Sale consideration	*7,00,000*
Less: indexed cost of acquisition (2,00,000x1125/389)	*5,78,406*
LTCG	*1,21,594*

No capital gain. Since it is a personal car.

3. Computation of Capital Gains in the hands of DV Ltd. For AY 2017-18

Consideration	5,00,000
(-)Opening WDV - 1.4.16. (WN-1)	(3,14,500)
(-) Cost of Additions	-
Gross ST CG's	1,85,500
(-) Exemption u/s 54D	(1,85,500)
Invst. 3,00,000 (or) C.Gs' 1,85,500 ↓)	
Net taxable capital gains	0

Note-1: It was given that there is only one asset in that Block. The same was sold during the previous year 2016-17. Therefore it can be concluded that there was no single asset in that block as on the date of previous year. ∴ Sec.32 fails and Sec 50 is applicable.

WN-1: Sec 43 (6)

Cost of the Asset	4,00,000
(-) Dep. [1.1.2015 to 31.03.15] (4,00,000 ×15%× ½)	30,000
Closing WDV as on 31.03.15	3,70,000
(-) Dep. [1.4.15 to 31.03.16] (3,70,000 × 15%)	(55,500)
WDV as on 31.03.16	3,14,500

Note-2: Usage as a tenant will also be Considered for the purpose of claiming exemption U/s 54D.

Total period of usage = 2 years (Tenant) + 1 year 8 months (as a owner) = 3 years 8 months.

Note-3: By application of Sec.54H. The asset can be acquired / constructed within three years from the date of receipt of compensation instead of the date of transfer.

4. **Section 10(37) exempts the capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition, or a transfer, the consideration for which is determined or approved by RBI or Central Government.**

So K is entitled to exemption under S. 10(37) of the entire capital gains arising on sale of agricultural land.

ADVANCED ACCOUNTING

1. Show Adjustment Journal Entry alongwith working notes in the books of head office at the end of April, 2017 for incorporation of interbranch transactions assuming that only head office maintains different branch account in its books :

(A) Delhi Branch :

(i) Received goods from Mumbai ₹ 1,40,000 and ₹ 60,000 from Kolkata.

(ii) Sent goods to Chennai ₹ 1,00,000, Kolkata ₹ 80,000

(iii) Bill receivable received ₹ 80,000 from Chennai

(iv) Acceptances sent to Mumbai ₹ 1,00,000, Kolkata ₹ 40,000

(B) Mumbai Branch (Apart from the above) :

(i) Received goods from Kolkata ₹ 60,000, Delhi ₹ 80,000

(ii) Cash sent to Delhi ₹ 60,000, Kolkata ₹ 28,000

(C) Chennai Branch (Apart from the above) :

(i) Received goods from Kolkata ₹ 1,20,000

(ii) Acceptances and cash sent to Kolkata ₹ 80,000 and ₹ 40,000 respectively.

(D) Kolkata Branch (Apart from the above)

(i) Sent goods to Chennai ₹ 1,40,000

(ii) Paid cash to Chennai ₹ 60,000

(iii) Acceptances sent to Chennai ₹ 60,000

(8)

2. L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. The Pune branch makes a profit of 33-1/3% on cost which the Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of each of the branches and find out the profit or loss made by each of them after taking into account the reserve for unrealised profits:

Particulars	*Pune Branch ₹*	*Goa Branch ₹*
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Adm. Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

(i) Opening stock at Pune Branch includes goods of ₹ 10,000 taken from Goa Branch, (ii) Opening stock at Goa Branch includes goods of ₹ 17,000 taken from Pune Branch at cost to receiving branch, (iii) The Pune Branch sales includes transfer of goods to Goa Branch at selling price ₹ 20,000 (iv) The sales of Goa Branch include transfer of goods to Pune Branch at selling price ₹ 15,000. (v) Closing stock at Pune Branch includes goods received from Goa Branch ₹ 5,000. (iv) Closing stock at Goa Branch includes goods of ₹ 4,000 received from Pune Branch.

(8)

3. Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

	Dr.($)	*Cr.($)*
Stock on 1st April, 2015	300	–
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2015 @ ₹40 per US $
- on 31.3.2016@ ₹42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 44,380 on 31.3.2016 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in ₹ in the books of Ganesh Ltd.

(6)

4. A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

(5)

5. Calculate Weighted Number of Shares.

Date	Particulars	No. of Shares	Face Value	Paid up Value
1st April	Balance at beginning of year	1,800	₹ 10	₹ 10
31st Jan.	Issue of Shares	600	₹ 10	₹ 5

(3)

6. "While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS.

Also calculate the diluted EPS from the following information :

Net Profit for the current year (After Tax)	₹ 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹ 100 each (Each Debentures is compulsorily & fully convertible into 10 equity shares)	1,00,000
Debenture interest expense for the current year	₹ 5,00,000
Assume applicable Income Tax rate @ 30%	

(5)

ANSWERS

1.

1. Statement of Inter Branch Transaction Effects

Particulars	Delhi	Mumbai	Chennai	Kolkata
Delhi				
Received Goods	2,00,000	(1,40,000)	–	(60,000)
Sent Goods	(1,80,000)	–	1,00,000	80,000
Received Bills Receivable	80,000	–	(80,000)	–
Sent Acceptance	(1,40,000)	1,00,000	–	40,000
Mumbai				
Received Goods	(80,000)	1,40,000	–	(60,000)
Sent Cash	60,000	(88,000)	–	28,000
Chennai				
Received Goods	–	–	1,20,000	(1,20,000)
Sent Cash and Acceptance	–	–	(1,20,000)	1,20,000
Kolkata				
Sent Goods			1,40,000	(1,40,000)
Sent Cash			60,000	(60,000)
Sent Acceptances			60,000	(60,000)
Total	**(60,000)**	**12,000**	**2,80,000**	**(2,32,000)**

2. Journal Entry in the Books of Head Office

Particulars		Dr. (₹)	Cr. (₹)
Mumbai Branch A/c	Dr.	12,000	
Chennai Branch A/c	Dr.	2,80,000	
To Delhi Branch A/c			60,000
To Kolkata Branch A/c			2,32,000
(Being adjustment entry passed by HO for Inter Branch Transaction for April)			

2.

Pune Branch Trading and Profit and Loss Account

	Particulars	₹		*Particulars*	₹
To	Opening Stock (including ₹10,000 from Goa Branch)	40,000	By	Sales (including ₹20,000 to Goa Branch)	2,80,000
To	Purchases	2,00,000	By	Closing Stock (including ₹5,000 from Goa Branch)	30,000
To	Chargeable Expenses	15,000			
To	Gross Profit c/d (before making adjustment for unrealised profit)	55,000			
		3,10,000			3,10,000
To	Stock Reserve (for unrealised profit in Closing Stock lying at Goa Branch). (₹4,000 x 25/100)	1,000	By	Gross Profit b/d	55,000
To	Office & Adm. Expenses	13,250	By	Stock Reserve (for unrealised profit in Opening Stock lying at Goa Branch) (₹ 17,000 x 25/100)	4,250
To	Selling & Distribution Expenses	15,000			
	To Net Profit	30,000			
		59,250			59,250

Goa Branch Trading and Profit and Loss Account
For the year ending on ....

	Particulars	₹		*Particulars*	₹
To	Opening Stock (including ₹17,000 from Pune Branch)	30,000	By	Sales (including ₹15,000 to Pune Branch)	2,95,625
To	Purchases	2,50,000	By	Closing Stock (including ₹ 4,000 from Goa Branch)	43,500
To	Chargeable Expenses	27,500			
To	Gross Profit c/d (before making adjustment for unrealised profit)	31,625			
		3,39,125			3,39,125
To	Stock Reserve (for unrealised profit on Closing Stock lying at Pune Branch). (₹5,000 x 20/100)	1,000	By	Gross Profit b/d	31,625
To	Office & Adm. Expenses	7,000	By	Stock Reserve (for unrealised profit on Opening Stock at Pune Branch) (₹10,000 x 20/100)	2,000
To	Selling & Distribution Expenses	10,000			
To	Net Profit	15,625			
		33,625			33,625

3.

In the books of Ganesh Ltd.

New York Branch Trial Balance in (₹)
as on 31st March, 2016

	Conversion rate per US $ (₹)	*Dr.* ₹	*Cr.* ₹
Stock on 1.4.15	40	12,000	
Purchases and sales	41	32,800	61,500
Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank balance	42	17,640	
Delhi office A/c	–		44,380
		1,28,560	1,28,560

4. Even if the cheques bear the date 31st March or before, the cheques received after 31st March do not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4 "Contingencies and Events Occurring after the Balance Sheet Date". Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise on the balance sheet date, so no disclosure is necessary.

5. Assuming that partly paid shares are entitled to participate in the dividend to the extent of amount paid, number of partly paid equity shares would be taken as 300 for the purpose of calculation of earnings per share.

Computation of weighted average would be as follows:

(1,800 x 12/12) + (300 x 2/12) = 1,850 shares.

In case of a bonus issue or a share split, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. The number of equity shares outstanding before the event is adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported.

6. As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for calculation of diluted earnings per share. Hence, "in calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period."

   Computation of diluted earnings per share= $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

   Adjusted net profit for the current year

	₹
Net profit for the current year (after tax)	1,00,00,000
Add: Interest expense for the current year	5,00,000
Less: Tax relating to interest expense (30% of ₹5,00,000)	(1,50,000)
Adjusted net profit for the current year	1,03,50,000

   Weighted average number of equity shares

   Number of equity shares resulting from conversion of debentures

   $= \frac{1,00,000 \times 100}{10}$ = 10,00,000 Equity shares

   Weighted average number of equity shares used to compute diluted earnings per share

   = [(10,00,000 x 12) + (10,00,000 x 6)]/12 = 15,00,000 equity shares

   Diluted earnings per share = ₹ 1,03,50,000 / 15,00,000 shares = ₹ 6.90 per share

   Note: Interest on debentures for full year amounts to ₹ 10,00,000 (i.e. 10% of ₹ 1,00,00,000). However, interest expense amounting ₹5,00,000 has been given in the question. It may be concluded that debentures have been issued at the mid of the year and interest has been provided for 6 months.

AUDITING SAP 3

1. **Explain the Director Responsibility Statement in brief. (6)**
2. **What are the special points to be considered for verification of allotment of shares when issued for cash? (4)**
3. **Brief the circumstances when buy back of securities by a company is prohibited? (4)**
4. **Define Financial Statements (3)**
5. **State significant difficulties encountered during audit with reference to SA 260. (5)**
6. **What are the evidences to be obtained and audit procedures to be performed while verifying opening balances? (3)**
7. **What are the indicators of non compliance of laws and regulations by management? (4)**
8. **What are misstatements and to whom must the auditor communicate to about them?(2)**
9. **Discuss in brief about TYPE 1 Report and Type 2 Report as per SA 402. (2)**
10. **True or false:**
    SA 265 deals with management's responsibility of communicating misstatements to those charged with governance. (2)

ANSWERS:

1. **DIRECTOR'S RESPONSIBILITY STATEMENT [Sec 134(5)]:**

The board's report shall also include a director's responsibility statement, which states the following:

1. Accounting standards are being followed while preparation of annual accounts along with explanation for material departures, if any
2. Accounting policies applied consistently.
3. Reasonable and prudent judgments, estimates made to give true and fair view of state of affairs and statement of profit & loss of the Company.
4. Proper and sufficient care taken to maintain adequate accounting records for safeguarding assets of the Company, preventing fraud and other irregularities.
5. Prepared annual accounts on Going concern basis.
6. In case of listed Company director has laid internal financial control to be followed by the Company and such controls are adequate and operating effectively.
7. Director had devised proper systems to ensure compliances with provisions of all applicable laws and such systems are adequate and operating effectively.

2. **Allotment:**

a) Check whether the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on such application have been received by the company.

b) Consequences of not obtaining minimum subscription

- If the stated minimum amount has not been subscribed and the sum payable on subscription is not received within a period of 30 days from the date of issue of the prospectus or such period as my be specified by the SEBI,
- check that the amount received above is returned within a period of fifteen days from the closure of the issue and
- if in case the amount is not repaid within such period, the directors in default shall jointly and severally be liable to repay that amount with interest at the rate of fifteen percent per annum.

c) Verify whether directors has passed resolution for allotment of shares

d) Compare copies of letters of allotment with entries in the Application and Allotment Book.

e) Trace entries in the Cash book into the Allotment Book for the verification of amounts collected on allotment.

f) Trace the amount collected on application as well as those on allotment from the Allotment Book into the Share Register.

g) Check totals of amounts payable on allotment and verify the journal entry debiting Share Allotment Account and crediting Share Capital Account.

3. PROHIBITION FOR BUY - BACK [Sec. 70]:

As per provisions of Section 70 of the Companies Act 2013-

1. No company shall directly or indirectly purchase its own shares or other specified securities

- **a)** through any subsidiary company including its own subsidiary companies; or
- **b)** through any investment company or group of investment companies; or
- **c)** if a default, by the company, in
  - **i)** repayment of deposit or interest payable thereon,
  - **ii)** redemption of debentures or preference shares or
  - **iii)** Payment of dividend to any shareholder or
  - **iv)** repayment of any term loan or interest payable thereon to any financial institutions or bank,

  and such default is subsisting i.e., continuing.

Provided that the buy - back is not prohibited if the default is remedied and a period of three years has elapsed after the default ceased to exists.

2. No company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92, 123, 127 and 129.

- **a)** Section 92 relates to the filing of Annual Return,
- **b)** Section 123 and 127 to declaration and payment of dividend and
- **c)** Section 129 to the financial statement of the company.

4. According to Sec. 2(40) of the Companies Act, 2013, **"Financial Statement"** in relation to a company, includes—

a) a balance sheet as at the end of the financial year;

b) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

c) cash flow statement for the financial year;

d) a statement of changes in equity, if applicable; and

e) Any explanatory notes annexed to, or forming part of, any document referred above.

Exclusion of Cash flow statement in certain cases: the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

5. Significant Difficulties Encountered During the Audit: As per SA 260 "Communication with Those Charged with Governance", significant difficulties encountered during the audit may include such matters as:

♦ Significant delays in management providing required information.

♦ An unnecessarily brief time within which to complete the audit.

♦ Extensive unexpected effort required to obtain sufficient appropriate audit evidence.

♦ The unavailability of expected information.

♦ Restrictions imposed on the auditor by management.

♦ Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

OPENING BALANCES:

6. 1. **Evidence to be obtained:** The auditor shall obtain sufficient appropriate audit evidence about the opening balances to ensure that they

a) have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss.

b) reflect the application of appropriate accounting policies in the earlier years; and

2. **Audit procedures to be performed:**

a) Where the prior year financial statements were audited, verify the copies of the audited financial statements and Audit report there on.

b) Performing any other appropriate audit procedures to obtain evidence regarding the opening balances.

7. 1. Investigations by regulatory organizations and government departments or
   2. Payment of fines or penalties.
   3. Payments for unspecified services or loans to consultants or to government employees.
   4. Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity.
   5. Purchasing at prices significantly above or below market price.
   6. Unusual payments in cash.
   7. Unusual payments towards legal and retainership fees.
   8. Unusual transactions with companies registered in tax havens.
   9. Payments for goods or services made other than to the country from which the goods or services originated.
   10. Adverse media comment.

8. **Misstatement:** A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Communication with Those Charged with Governance

9.

TYPE 1 Report	TYPE 2 Report
Report on description & design of controls at S.O	**Report on description & design**
1. Description of S.O.'s systems	**1.** T1 report and
2. Opinion by S.O's auditor about	**2.** Opinion on operating Effectiveness
	3. Test of controls performed by Service auditor

10. **FALSE**. SA 265 deals with the Auditor's responsibility to communicate the internal deficiencies to those charged with governance and management.

IT-SAP 3

1. Discuss in brief the steps that are involved in implementing Business Process Automation (6)
2. Explain: (4)
   a) Tally
   b) SAP R/3
3. What are the major control objectives in Business Process Automation ?(4)

SM-SAP3

1. 'Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation'. Discuss. (4)
2. What are the different methods used for promotion? Explain any 2. (4)
3. What are the areas to be examined while developing a Logistics Strategy? (4)
4. Explain: (4)
   a) Relationship Marketing
   b) Person Marketing

ANSWERS-IT

1. The steps involved in implementing Business Process Automation (BPA) are as follows:

Step 1: **Define why we plan to implement a BPA**: The primary purpose for which an enterprise implements automation may vary from enterprise to enterprise. A list of generic reasons for going for BPA may include Errors in manual processes leading to higher costs; Payment processes not streamlined; Paying for goods and services not received; Poor debtor management leading to high invoice aging and poor cash flow; Lengthy or incomplete new employee or new account on-boarding; Unable to recruit and train new employees, but where employees; Lack of management understanding of business processes; and Poor customer service.

Step 2: **Understand the rules / regulation under which enterprise needs to comply with**: One most important steps in automating any business process is to understand the rules of engagement, which include following the rules, adhering to regulations and following document retention requirements. This governance is established by a combination of internal corporate policies, external industry regulations and local, state, and central laws.

Step 3: **Document the process, we wish to automate**: At this step, all the documents that are currently being used need to be documented. The aspects that need to be kept in mind while documenting the present process could be:

♦ What documents need to be captured?

♦ Where do they come from?

♦ What format are they in: Paper, FAX, email, PDF etc.?;

♦ Who is involved in processing of the documents?;

♦ What is the impact of regulations on processing of these documents?;

♦ Can there be a better way to do the same job?; and

♦ How are exceptions in the process handled?

Step 4**: Define the objectives/goals to be achieved by implementing BPA**: Once the above steps have been completed, entity needs to determine the key objectives of the process improvement activities. When determining goals, remember that goals need to be SMART –

Specific: Clearly defined;

Measurable: Easily quantifiable in monetary terms;

Attainable: Achievable through best efforts;

Relevant: Entity must need these, and

Timely: Achieved within a given time frame.

Step 5: **Engage the business process consultant**: This is again a critical step to achieve BPA. To decide as to which company/ consultant to partner with, depends upon the following:

♦ Objectivity of consultant in understanding/evaluating entity situation.

♦ Does the consultant have experience with entity business process?

♦ Is the consultant experienced in resolving critical business issues?

♦ Whether the consultant can recommend and implementing a combination of hardware, software and services as appropriate to meeting enterprise BPA requirements?

♦ Does the consultant have the required expertise to clearly articulate the business value of every aspect of the proposed solution?

Step 6**: Calculate the RoI for project**: The right stakeholders need to be engaged and involved to ensure that the benefits of BPA are clearly communicated and implementation becomes successful. Hence, the required business process owners must be convinced to justify the benefits of BPA and get approval from senior management.

Step 7**: Developing the BPA**: Once the requirements have been document, ROI has been computed and top management approval to go ahead has been received, the consultant develops the requisite BPA. The developed BPA needs to meet the objectives for which the same is being developed.

Step 8: **Testing the BPA**: Once developed, it is important to test the new process to determine how well it works and identify where additional "exception processing" steps need to be included. The process of testing is an iterative process, the objective being to remove all problems during this phase. Testing allows room for improvements prior to the official launch of the new process, increases user adoption and decreases resistance to change.

2. **TALLY:**

i) It is an accounting application that helps entity to automate processes relating to accounting of transactions.

ii) It also helps to achieve automation of few processes in inventory management.

iii) *It has features such as Remote Access Capabilities, Tax Audit and Statutory Compliance, Payroll, Excise for Manufacturers, Multilingual Support, VAT Composition Returns, TDS etc.*

SAP R/3:

i) SAP R/3 is ERP software, which allows an entity to integrate its business processes.

ii) ERP stands for Enterprise Resource Planning, which aims at better utilization of the resources and helps entity achieve better business performance.

iii) *It has the features such as time management, reporting and analysis, budget monitoring, workflow approval, sales management, team management, leave management, travel management, recruitment management and demand planning.*

3. A) Authorization
   B) Completeness
   C) Accuracy
   D) Validity
   E) Physical Safeguards and Security
   F) Error Handling
   G) Segregation of Duties

SM

1. Successful strategy implementation often require additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.
   The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

2. **a. Personal Selling**- **Old method, face to face, developing a relationship with potential customer and not a cost effective way**
   b. Advertising - non personal, highly flexible and dynamic, effective, different media and expenditure cannot be directly measured
   c. Publicity- non personal, similar to advertisement but no payment made, negligible cost but effective, examples like press releases and press conference
   d. Sales Promotion- activities not included in personal selling, ad,publicity but which comes under promotion, done to get larger market share, examples like discounts,rebates kiosks.

3.

Following are different areas that should be examined while developing a logistic strategy for each company:

1. **Transportation:** Does the current transportation strategies help service levels required by the organisation?
2. **Outsourcing:** Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation shall also be examined.
3. **Competitors:** Review the procedures adopted by the competitors. It shall also be judged whether adopting the procedures followed by the competitors will be beneficial to the organisation or not. This will also help in identifying the areas that may be avoided.
4. **Availability Of Information:** The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
5. **Strategic Uniformity:** The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

4.

Relationship Marketing: It is the process of creating, maintaining and enhancing strong, value-laden relationship with customers & other shareholders. This results in provision of special benefits to select customers, in order to strengthen bonds and build lasting customer relationships. **Eg:** *British Airways offers special lounges with showers at 199 airports for frequent flyers.*

Person Marketing: Person marketing consists of activities undertaken to create, maintain or change attitudes or behaviour towards particular people. **For example**, politicians, sports, stars, film stars, etc. market themselves to get votes, or to promote their careers and income.