



INTER CA – MAY 2018

Sub: Accountancy & FM

Topics: Hire purchase & Instalment selling, Branch Accounts, Payment of Bonus Act, Payment of Gratuity Act, The Provident Fund Act

Test Code – M15

Branch: MULTIPLE

Date: 31.12.2017

(50 Marks)

Note: **All** questions are compulsory.

Question 1 (6 marks)

In the books of ABC Ltd.
New York Branch Trial Balance in (₹)
as on 31st March, 2015
(6 marks)

	Conversion (₹)	Dr.	Cr.
Stock on 1.4.14 (1 mark)	40	6,000	–
Purchases and sales (1 mark)	41	16,400	30,750
Sundry debtors and creditors (1 mark)	42	8,400	6,300
Bills of exchange (1 mark)	42	2,520	5,040
Sundry expenses (1/2 mark)	41	22,140	–
Bank balance (1 mark)	42	8,820	–
Delhi head office A/c (1/2 mark)	–	–	22,190
		64,280	64,280

Question 2 (4 Marks)

Statement showing differences between Hire Purchase and Installment System (1/2 mark for each point)

	Basis of Distinction	Hire Purchase	Installment System
1.	Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if	The seller can sue for price if the buyer is in

		hirer is in default.	default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hire purchaser and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Question 3 (6 Marks)

Machinery Account (3 marks)

		Rs.			Rs.
I Yr.	To Hire Vendor A/c	15,533	I Yr.	By Depreciation A/c	1,553
		<u>15,533</u>		By Balance c/d	<u>13,980</u>
II Yr.	To Balance b/d	13,980	II Yr.	By Depreciation A/c*	1,398
		<u>13,980</u>		By Balance c/d	<u>12,582</u>
III Yr.	To Balance b/d	12,582	III Yr.	By Depreciation A/c*	1,258
		<u>12,582</u>		By Hire Vendor	11,000
				By Profit & Loss A/c	324
				(Loss on Surrender)	<u>12,582</u>

Hire Vendor Account (3 marks)

		Rs.			Rs.
I Yr.	To Bank A/c	6,000	I Yr.	By Machinery A/c	15,533
	To Balance c/d	<u>12,639</u>		By Interest A/c	<u>3,106</u>
		<u>18,639</u>			<u>18,639</u>
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	<u>9,167</u>		By Interest A/c	<u>2,528</u>
		<u>15,167</u>			<u>15,167</u>
III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
		<u>11,000</u>		By Interest A/c	<u>1,833</u>
					<u>11,000</u>

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

*It has been assumed that depreciation has been written off on written down value method. Alternatively straight line method may be assumed.

Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Working Notes: (2 marks)

			Instalment Amount	Interest	Principal
4th Instalment			6,000	Rs.	Rs.
Interest	6,000 x	20	<u>1,000</u>	1,000	5,000
		120	5,000		
			<u>6,000</u>		
Add : 3rd Instalment			11,000		
Interest	11,000 x	20	<u>1,833</u>	1,833	4,167
		120	9,167		
			<u>6,000</u>		
Add : 2nd Instalment			15,167		
Interest	15,167 x	20	<u>2,528</u>	2,528	3,472
		120	12,639		
			<u>6,000</u>		
Add : 1st Instalment			18,639		
18369 x 20/120					
			<u>3,106</u>	<u>3,106</u>	<u>2,894</u>
			<u>15,533</u>	<u>8,467</u>	<u>15,533</u>

Question 4 (5 marks)

Section 7 F (1) of the Employees' Provident Funds and Miscellaneous Provisions Act , 1952 provides that the Presiding Officer of a Employees' Provident Funds Appellate Tribunal may by notice in writing under his hand addressed to the Central Government, resign his office provided that the Presiding Officer shall, unless he is permitted by the Central Government to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of his term of office, whichever is the earliest.(3 marks)

Hence, Ritesh's action is invalid as per above provisions. He is supposed to continue for three months unless he is relieved earlier by the Central Government or his successor appointed by the Central Government has taken up the office, whichever is earlier. (2 marks)

Question 5 (5 marks)

Payment of gratuity to employee who resigned (Section 4 of the Payment of Gratuity Act, 1972)

According to Section 4 (1) of the Payment of Gratuity Act, 1972 gratuity shall be payable to an 'employee' on the termination of his employment after he has rendered continuous service for not less than five years.

- a. On his superannuation, or
- b. On his retirement or resignation, or
- c. On his death or disablement due to accident or disease,

The payability of gratuity to the employee is his right as well as the obligation of the employer.

(3 marks)

In the present case, Mr. Y was working in ABC Limited for the last seven years as an Accounts Executive. He resigned from service but his resignation was not accepted by the company. The company refused to pay the gratuity amount on the ground that his resignation was not accepted.

The intention of the ABC Limited is not correct as an employee resigning from service is also entitled to gratuity (*Texmaco Ltd. v. Sri Ram Dhan*, 1992 LLR 369 (Del); and non-acceptance of resignation is no hurdle in the way of an employee to claim gratuity (*Mettur Spinning Mills v. Deputy Commissioner of Labour* (1983) II LLJ 188)

In view of the above Mr. X is entitled to gratuity. **(2 marks)**

Question 6 (5 marks)

In accordance with the provisions of Section 2(13) of the Payment of Bonus Act, 1965 any person other than an apprentice employed on a salary or wage not exceeding ` 21,000 per month in any industry to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work for hire or reward whether the terms of employment be express or implied is eligible for bonus.

Further, in accordance with the provisions of Section 8 of the Payment of Bonus Act, 1965 every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment for not less than thirty working days in the year. **(1 mark)**

The problem as asked is based on the above provisions of the Act and the answer may be given as follows: **(3 marks)**

- (a) **As regards the employees who resigned:** The employees who have resigned are not entitled to bonus because they worked only for 28 days in an accounting year although they are drawing salary less than ` 21,000 per month.
- (b) **As regards full time remaining employees:** These employees are entitled to get the bonus as they fulfil both the requirements as stated under Sections 2 (13) and 8 of the Act. Although the employees in this case have been reduced to 10, once the Act is applicable, it continues to apply even if number of employees fall below 20.
- (c) **As regards part time employees:** Even a part time employee is entitled to bonus on the basis of total number of days worked by him in an accounting year. The definition of an employee under the Act does not exclude part time employees from the definition of employee. Therefore, if such employees work for over 30 days in the accounting year and have drawn salary of less than ` 21,000 per month, they shall be entitled to receive bonus for that accounting year. The Payment of Bonus Act, 1965 does not prohibit such employees as long as they fulfill all the requirements stated above [*Automobile Karmachari Sangh vs. Industrial Tribunal* (1971)].

Question 7 (5 marks)

- a. Where, in respect of any accounting year referred to in Section 10 of the Payment of Bonus

Act, 1965, the allocable surplus exceeds the amount of minimum bonus payable to the employees under that section, the employer shall, in lieu of such minimum bonus, be bound to pay to every employee in respect of that accounting year bonus which shall be an amount in proportion to the salary or wage earned by the employee during the accounting year subject to a maximum 20% of such salary or wage. **(4 marks)**

- b. In the given case therefore, the company will be free to give bonus at any rate exceeding 8.33% upto a maximum of 20% of the salary or wage earned by the employees during the accounting year. From the facts given, it may be presumed that the bonus at 20% may be payable during the Financial Year 2015 - 2016. **(2 marks)**
- c. However, in relation to the maximum bonus payable the most important term to understand is "allocable surplus". The eligibility for maximum bonus arises from the "allocable surplus" but is not limited by it, as the allocable surplus may justify a bonus at a rate higher than 20% but bonus will still be limited to 20%. **(2 marks)**

(8 marks)

Question 8 (6 marks)

Forfeiture of Gratuity:

- a. In accordance with the provisions of Section 4(6) of the Payment of Gratuity Act, 1972, if the services of any employee have been terminated for any act, willful omission, or negligence causing any damage or loss to or destruction of, property belonging to the employer, the gratuity shall be forfeited to the extent of the damage or loss so caused. **(1/2 mark)**
- b. Further, if the services of such an employee have been terminated for any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment, the gratuity payable to the employee may be wholly or partially forfeited. **(1/2 mark)**
- c. Under section 4(1) of the Payment of Gratuity Act, 1972 gratuity is payable to an employee on termination of employment provided he completes five years of continuous service with the employer. The condition of the completion of five years' continuous service is not essential in case of the termination of the employment of any employee due to death or disablement. **(1/2 mark)**
- d. The gratuity payable is an obligation of the employer and any forfeiture in full or part of the gratuity payable to an employee can be made only in terms of section 4(6). **(1/2 mark)**

The correctness of the decision taken by Peacock Ltd. in the given case, regarding forfeiture of the gratuity to its employees X and Y may be tested in the light of Section 4(6) of the Payment of Gratuity Act, 1972 as referred above.

- (i) The offence of theft committed by X, under law involves moral turpitude and his gratuity stands wholly forfeited in view of Section 4(6) of the Act. It is presumed that such theft is committed by X in the course of his employment. **(2 Marks)**
- (ii) Y had wrongfully occupied the company's quarter after the termination of his employment for six months. Y may have caused a deliberate loss to the company by his wrongful occupation for 6 months as the quarter could not be given to another employee and the company may have incurred the cost of rent in such case. Hence, the company is entitled to charge the rent from him and after adjusting other dues the remaining amount of gratuity may be paid. **(2 Marks)**

Question 9 (6 marks)

- a. The Provident Fund "claims" complete in all respects submitted along with the requisite documents are required to be settled and the benefit amount to be paid to the beneficiaries within 30 days from the date of its receipt of the complete "claims" by the Commissioner. **(2 Marks)**
- b. If there is any deficiency in the claim, the same shall be recorded in writing and communicated to the applicant within 30 days from the date of receipt of such application. **(2 Marks)**
- c. In case the Commissioner fails without sufficient cause to settle a claim complete in all respects within 30 days, the Commissioner shall be liable for the delay beyond the said period and penal

interest at the rate of 12% per annum may be charged on the benefit amount and the same may be deducted from the salary of the Commissioner. **(2 Marks)**
