

artificial partner = company
MoA → Memorandum of Association → स्मरणपत्र
stake holder = अधिकारी वाला.
Aeroplane = civil aviation authority

Mercantile Law

- Process of establishment of business organization.
- Regulation and operation of business organization.
- Process of desolution of " " " "
- also defines roles and responsibility of business organization and protects the right
- protects the law of stake holder.
- protects the right and interest of business community and provides security, facilities and incentive to the business organization.

Importance

- Protects the economic right of the citizen.
- Every citizen is responsible to establish any company
- regulate the business practises.
- settle the business dispute and provides justice
- ensures the good corporate governance.
- helps to develop the capital market and national economy
- It provides the favourable business environment.
- It protects the customer right.
- It ensures the facilities and concessions to the business organization.
- It helps to maintain peace and order in the country.

Partnership & it's essentials

a business organization, more than two natural person should be involved to carry on lawful business, sharing of risk & reward in profit & loss, base / foundation is → contract between bs that is called as partnership deed → main document / constitution, on the basis of agreement between them.

prorata = समान वंश
expressed = negotiation

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- The same family member can't establish partnership
- establish on the basis of agreement; if in written form = then called partnership deed. that agreement may either be expressed or implied - may be in written or oral form and profit or loss shall be shared - loss shall be shared accordⁿ to profit sharing ratio.
- If not mentioned in the deed then it should be allocated equally irrespective of their own investment.

Mutual agency relationship:

- Agent = Principal /- on the behalf of the other person; - mutual agency relationship betⁿ partners / loss \rightarrow outsider liability
loss shall be recovered by personal property but in case of company the liability is limited. there's no continuous life - perpetual. but company has perpetual succession / depends on the life of partner in partnership business.
- in company new share holder may come in case of retirement. Partnership business has no separate existence / existence depends on existence of partner. But company has separate existence.

Business Act 2020 / There is complete separation
Company Act 2063. / between ownership and management \rightarrow company control in partnership.

Types of partners

- ① Active partner :- The partner who is actively involved in the management of the business.

(ii) Sleeping partner :- no any voice in the management

(iii) Nominal partner :- who has not made any investment in the business and not involved in the management of the business but his/her name is listed in the list of partnership.

(iv) Partner by estoppel \rightarrow (Holding out partner) :- not invested in business, not involved in management; but by past practices in the eye of outsiders he is partner by conduct. But his name is not listed in the agreement.

(v) Minor Partner :- is incompetent to become a partner, because can't enter into the contract under the contract act like who aren't 16 years can't be a partner but the sake of the benefit of the minor person his/her family member can enter into that. on the behalf of the minor person.

Principle :-

- ① If the minor person becomes the major, now he shall be normal partner and has the right when he turns to 16.
- ② The obligation of minor partner is limited
- ③ Has not right to involve in any management of the business.

(vi) Sub partner :- actually he/she isn't partner, no risk and reward, no day to day management, not name in contract; partner of a partner is consider as sub partner - helps to give money or assists. then.

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Interest - in case of additional capital
↳ not exceeding 10%.

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(vii) Partner for benefit only :- partner who shares the profit only but no loss, there is investment also management but no loss.

Incoming partner: newly appointed in the partnership.

Partnership Deed

- It defines all the terms related to partnership & all matter regarding to operation, management of the business also the dissolution.
- Defines the right & duties of partner.

* → Partnership deed must contain the following particulars:-

- 1) Name of the firm (Partnership firm)
- 2) Name and address of partners
- 3) Nature of business.
- 4) Term and duration of partnership business
- 5) Objectives and main functions of partnership firm.
- 6) The amount of capital to be contributed by each partner.
- 7) Drawing that can be made by each partner
- 8) Interest to be allowed on capital and charge on drawing
- 9) Right and duties of partner.
- 10) Remuneration to the partners
- 11) The ratio in which profit and losses are to be shared among the partners.

Capital sharing ratio & profit sharing might not be same.
if not mentioned in deed, profit is shared equally.

→ monetary value the company has earned

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- 12) The basis for the calculation of goodwill at the time of admission, retirement and death of partner.
- 13) The keeping of proper books of account and preparation of financial statement.
- 14) Settlement of account on the case of dissolution of partner firm.
- 15) The procedures to be adopted in the case of dispute among the partners.
- 16) Arbitration among the partners (mediator) procedure.

Right of partners

• According to law sec 12 if not mentioned there it should be written in the partnership deed very clearly.

- If As mention in partnership Act 2020
- According to law are as follows:-

- 1) Right to participate in business - Sec. 17
- 2) Right to take part in the management
- 2) Right access to the books of account. - Sec 18
- 3) Right to receive remuneration. - sec. 19.
→ who has active involved
- 4) Right to receive interest on additional capital.

Registration

In the concern department; the format of the registration (application form) of partnership firm is mentioned in 1(a). With the form we need two more papers i.e a copy of partnership agreement also the registration fees should be paid & mentioned in 2(a).

When we apply then, name of the partnership shouldn't be resembled with other partnership form which are already registered. Name shouldn't match with the company established under Company Act.

asked Things that should be content or mention in the application form are:- FMBF ^{with name} as mention in section (6).

- Procedure/summary:
1. Concluding the partnership deed
 2. Applying to concern department (small, department of industry, or other within 6 mths with the 1(a) and 2(a)]
 3. Examine the certificate (document)
 4. If concerned department is satisfied then issues the registration certificate.
 5. It should be timely renewed.

Process of renewing:-
renewed within 35 days after the completion of the financial year. or it might be cancelled & fines are charged. For the renewal 1(b) for the fee payment according to 2(b).

For the ammendment of the registration/partnership:-
① Obtained the ^{ve} approval (clearly mentioned in sec. 10) If the documents are ~~not~~ provided then it should be provided according to the section 11(B) (1)]

Deregistration = cancellation.
Conditions of cancellation of ^{registration of a} partnership form
- Actⁿ to partnership act 2020.
- If partnership fail to renew the partnership form then the registration may be cancellation.

- If we apply for the cancellation then concern department shall cancel it.
- concern department asked for the information particular and if we fail to submit the information then it is cancelled.
- If the industry is closed down the industry then concern department cancels.
- if not renewed; and we can't give the progress report of the goods, industry, resource then it may cancel.
- if partnership came any provision against the law then it may cancel.

If cancelled then it can't be registered up to a ~~month~~ year/same nature of the partnership business of same nature.

Exercise (ICAN)

- a) False
- b) False (Mutual agency is the conclusive evidence of partnership)
- c) ~~True~~ False
- d) True
- e) True
- f) True
- g) True
- h) False
- i) False
- j) False
- k) False
- l) False

Test for partnership

- Mutual agency - main.
- Lawful business
- Duly registered
- Agreement ^{Expressed &} implied
- Sharing of profit

Pre approval - apply -

- ③ First go to the concern department for the ammendment / rights & duties
- ④ Conditions (29-33)
Proxy can participate.
- ⑤ For legal registration, otherwise liable to pay fine not exceeding 50. Procedure
- ⑥ implied authority participate in the mgmt
↳ sharing of profit

If there is fair business, duly use of experience, knowledge then good otherwise if willing negligence is done then the particular partner shall be liable.

- ⑧ Partnership is output of the agreement.
- ⑨ Good faith - partnership Bad faith - Individual
- ⑩ Partnership - isn't legal person, doesn't have legal / separate existence; liability of partner is unlimited to the extent of their property.
- ⑪ Whomever have signed deed / competent; natural
- ⑫ No,
- ⑬ agency - to carry business on the behalf of other.
- ⑮ Death → obligation transfers to legal heir.
- Insolvency → no assets and liabilities. so no any obligation.
- ⑰ When minor attend majority then they can enjoy right & also has got liability.
- ⑱ ii) Base of partnership is understanding, if loss by doing good by the individual the loss is beared by everyone!
- ⑳ →

- ① 2020 11/16 → Partnership Act
- ② Civil law
- ③ Public notice
- ④ collective name of the under which the
- ⑤

implied → to participate in the management of the business but on the behalf of the business can't enter in other firm →
Interest on capital → can't.

Rule frame Govt of Nepal.
↳ Under the delegated power of legislature

Co-ownership → owning by people not partnership acquiring the property.

Q no 24 in lieu of profit → there is profit sharing ratio. as in the case of Bijay. ∴ This is partnership business. - lawful business, mutual agency (one supervises other sees).

- ⑲ ⑳ iv) there is no mutual agency.
- 26 Only profit / loss doesn't determine the partnership; there should be mutual agent. Karshan is not the agent of Moti but moti is because he work. Moti can't claim for the dissolution

32 partnership & outsiders; the deliver; partnership is liable to pay the amount. Since done on the bad faith the one who did that shall be liable.

33) can't claim on the business transaction carried by Arjun. This is joint and other partners can't claim.

35) No.

36) Adhikari can but Bhandari can't because he's already invalid.

Law of contract

- Valid offer & valid acceptance/legally impossible
- All agreement are not contract but all contract are agreement.

Types of agreement on the basis of creation of contract
Expressed contract → formal valid offer and acceptance, all requirement by law is fulfilled, expressed usually in written form/may be in oral form as well.

Implied - there is formal offer and acceptance but due to the conduct of the parties it establishes the contractual right & obligation.

On the basis of execution of contract:

① Executed contract.

Performed at the time of entering into the contract. When the contract is concluded parties have performed. For example buying a washing machine; today paid today bought.

② Executory contract

Contract shall be performed in future. For ex:- agreed to deliver sugar within one month.

③ Partially executed & partially executory

For example:- half performed (executed) and half paid and rest paid in future.

On the basis of impossibility, law divides contract into 6 types.

① Valid contract → has fulfilled all the essentials of valid contract is considered.
→ All requirements are fulfilled
→ shall create the contractual right between the parties.

② Void contract → Contract which was void at the time of concluding the contract but became invalid at the time of performance.
For example:- A & B started business MOU done ready but A became insolvent later on.

③ Void agreement → which may not be impossible - that is agreement. / from the date of signing the agreement it wasn't possible. Example:- agreement with the minor, contract with the unauthorized person.

④ Voidable contract → that type of contract which is valid till the declaration that it is void.
For example:- contract without free consent.
Section 14. Ex:- Contract with undue influence
→ valid till the day that it is declared as invalid.

(Coercion / duress) → ^{threatening} ~~but~~ bodily harm, social prestige, property, ^{prosperity} ~~social prestige~~

Undue Influence - if one depends on the other teacher may make undue influence to student, employer - employees

creditor - debtor, dependent - guardian, Misrepresentation,

⑤ ## Illegal agreement

The agreement between the parties against the policy of law, policy of public interest, that is unenforceable against the legal provision.
For example:- Dealing foreign currency.

⑥ ##

Unenforceable contract:-

EX:- Deed is signed but not registered in the government of Nepal (due to the minor mistake).

Section 13 →

Competent party → one should be competent similarly other one also should be. Section 13 has defined for competent party:-

- ① Person who has complete 16 year of age is competent.
- ② Person of unsound mind is incompetent.
- ③ Person who is disqualified as per prevailing law.
- ④ To marry without consent of parents, individual should be 20.
- ⑤ If mentioned in the particular contract, then minor can participate also their guardian can enter into the contract.

In the case of minority necessities, to maintain his/her social status then it can be recovered with the property of the (personal) assets of the minor.

A contract in which minor person is beneficiary is valid.

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Minor

- Contract with minor is void. [Section 13]
- Contract which is particular and allowed to enter under other prevailing law; then
- can't be agent.

Entity (Company) → it can hold, share property in its own name, entity & enter into the contract; has its own shield which act as its own signature. It can sue & can be sued.

A corporate can enter into the contract but only its agent/manager can enter into the contract.

Offer

If the offer is accepted with the condition then it is counter offer i.e. conditional acceptance is not contract until and unless it is accepted.

offeror → those who accepts.

offerer → that person who offers.

Offer

Presented by one person to another to do or not to do anything.

Express - written / oral

implied - by conduct of the contracting party.

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Acceptance

If the offer is accepted by the offeree in the same sense of offer then there is valid acceptance.

Acceptance can be cancelled by giving the notice of cancellation once it is accepted.

Rules regarding the valid acceptance

- Only by offeree (acceptance of offer)
- There must be notice of the offer.

(consideration (2b))

"Quid Pro Quo" - Return.

Derived from Latin word.

Section two has definition

return after fulfilling the contractual obligation. For example:- we require to go to court then money which comes after compensation is called as consideration.

Essential requirement of valid consideration

- Consideration must flow ^{move} in the favour of / on the desire of promiser.
- It can be paid by the promisee himself or other person who is related but it is not in offer. on the behalf 3rd party can consider settlement in case of consideration.
- It has certain value.

- Consideration may not be adequate.
i.e. Car sold in 19 lakh but the same car can be sold for 7 lakh to the another person.
- Consideration must be lawful, in legal term.
- it must ~~more~~ be real.

legal, settle by another party, as desire of promiser, may not be adequate, moved as a return of the promise, possible to perform.

If there is no consideration, there's no contract. But there are ~~certain~~ ~~exp~~ exceptional cases of this. i.e. ^{without} consideration also there is valid contract. (Page 56).

Void agreement and contract (Pg 57)

- Restriction to carry on the same ^{kind of} business after retirement of the partnership or after doing agreement along with the goodwill.
- Restriction is void but some of the restriction are as exceptional rule of this principle :-
- Accuction of business with goodwill
- employment - restriction to carry same employment / service to person / Norvic - doctor can't go to other hospital.
- Partnership
- Retirement after partnership.

- (ii) Marriage - for example :- You aren't allowed to get married while working on this company - this kind of contract is void. But law has rescited as in case of age. → this is valid. Only the unmarried girls are allowed to enter → this is valid.

Question Imp (Page 58) → Demand's 1st point.

- (1) What is privity of contract - Explain the exceptional rule of that principle.
 2B → only promisee can demand for performance.
- Beneficiary isn't contracting party but can claim for performance even if she isn't a contracting party.
 - legal heir can also claim for performance of the contract.
 - Contract relating to agency - agent signs on the behalf of principle. (Principle can also claim if she isn't contracting party.)
 - In the case of assignment of the contract → Contractual right is transferred. Assignee has right to claim for the performance. → we transfer both right & obligation and when rights transferred then
 - In case of joint jointly if one has joined the contract / signed in contract in that jointly, other people other than contract signer shall be can claim for the demand for the contract.
 - In case of joint promisee any of them can claim for the contract. demand for the performance.

Imp

↓

Promisee

- Subsequent change in the situation (Fundamental change in situation)
It was possible to perform but due to certain circumstances today it is impossible.
- ↳ Subsequent impossibility

Termination of Contract

- ① By performance - Actual performance, Tender of Performance
- ② By mutual consent - Novation, Alternation, Remission, Rescission, waiver and merger.
- ③ By Impossibility - As mentioned in Section 79.
- ④ By lapse of time.
- ⑤ By operational law - Death, insolvency, merger, material alternation.
- ⑥ By breach of contract
 - Actual breach
 - Anticipatory Breach

① By performance
Actual - both party perform their contractual obligation
Tender - offer to perform, one party ready to perform and another ready to perform by acceptance.

② Novation - replacement of one contract by another contract. Deemed that old contract is terminated and completely new is applied.
Alternation - Only the particular term and condition is terminated not the entire and new contract is made. Term and condition is amended.

Remission - partial waiver to the another contracting party / fulfilling contractual obligation by taking less amount than to be received.

Rescission - desolution / the parties agree not to perform the contract i.e cancellation of contract. Mentioned in Section 81 → if two parties agree then suspension (temporary before (postpone)) if can be done.

Waiver - if one party absolute (दंड) another party to perform the contract.

Merger - if the previous inferior right of the contracting party is replaced by superior right?

③ By impossibility
When the contract was concluded the term of the contract was possible but at the time of execution due to the fundamental change in the circumstance it becomes impossible that is called subsequent impossibility.

- Change in law
- Destroy of subject matter
- Personal impotency, death of the person
- Natural calamities
- war

But shortage of raw material, more effort and cost, 3rd party breach, subsequent loss it is not by impossibility

④ By lapse of time.
If there was the contract between two parties for 2 years and the contract shall be automatically terminated if it's not renewed.

⑤ By operation of law
- If party is dead
Section 76
- The contractual right should be transferred to the legal heir.
- The contractual obligation should be transferred to the legal heir to the extent of property received by him.
- But if the contractual obligation and right ~~is~~ is related with his personal efficiency then the contract shall be automatically terminated & not transferred.

Insolvency
need not to perform and after he becomes solvent then he can pay

If the material amendment in the subject matter then contract is terminated.

Breach of Contract.
non-performance due to intentional and unintentional thing then it is called breach of the contract. Section 82 (1) - Definition as told.

which are breach? 3 things in Sec 82
→ ① If party fail to perform the contract.
② Issued notice for non-performance of the contract.
③ By his conduct / activities / action it is indicated that he/she isn't going to perform the contract.

The other party shall be able to do following things after the breach of the contract.
- B is not compelled to perform the contract.
- B can cancel by issuing the notice.
- B may have the remedies; can claim for the loss and damage.
wait up to the due time

Section 82 }
- Actual Breach
- Anticipatory Breach - indication that he will not be performing the contract.

Remedies of Breach of Contract (Page 84).

1. Cancellation - Section 82 (2).
2. Restitution - Section 84
3. Loss and Damage - Section 83.
4. Specific performance - Section 86
5. Injunction - Sec 87
6. Quantum meruit - Sec 85.

Cancellation - Section 82, Subsection 2; if some party fail to perform then another party has no contractual obligation of contract & he/she can

cancel by giving the notice of cancellation to the breacher.

Restitution - go back towards the previous condition before concluding the contract.

all the transaction carried on by them shall be cancelled

→ A might have taken some advance for the goods of 10 tons and that advance can be taken back / partial transaction exist then then it will be cancelled.

Section 84 :- Due to any reason (not only breach) if contractual obligation is not be performed contracting party can return back to the previous condition and cancel and reverse the contract & settle / reverse the transaction.

③ loss and damage - agreed party can claim for loss and damages as mention in section 83.

How to determine the loss and damages? Law says three types

→ actual loss - amount of loss can be calculated actually then can be claimed

→ anticipated loss - can calculated expected loss and damages and claim for the loss

→ loss and damage is mention in the contract itself like we can maintain the line that "if this is not performed 10, 5, 2 amount shall be. (specified loss)

If you had paid compensation for

loss and damages then (A paid compensation) and if the contract is related to time then the party who has paid the compensation can claim the time (more time) for the performance of the contract. and A can say add 15 more days and i'll finish your work.

V. Imp

Specific performance - see contract breach gorna declare garcha vaye we can (court) can order to do the work according to the contract. Now the breacher is compelled to perform it. 1st condition agreed party can:-

If the cash compensation cannot fulfill the loss and damage due to the breach of the contract of the breacher.

ex → A agrees for the ~~or~~ working performance so cash is not enough but it can or it should be perform.

⇒ Court shall not give ^{order} specific performance under the following condition:

① If cash compensation is sufficient then.

② If court cannot supervise if the performance is done or order of specific performance is complied or not. (Court is in ktm, problem in dhangedi)

③ If the term of the contract is based on knowledge, personal skill then it cannot.

④ If the contract cannot be performed at the stipulated period of time.

⑤ If the breacher / himself herself demand for specific performance.

⑤ Injunction - Sec 87

An order issued by the court to stay where you are. If another party indicate that he/she is not going to perform contract due to activity of A then B can go to the court for injunction (stay order).

⑥ Quantum meruit - Section 85

Pay for the proportionate work done. If any party became free from contractual obligation (subsequent impossibility, waiver, agreement etc. it is terminated) then but they are liable to pay to the proportionate work done.

Time limit to go to the court (Sec - 89)

- Till when agreed party can go to the court. It is mentioned in the contract itself.
- In the case of void contract, the party can go to the court at any time (Sec-13) because it has to be considered and declared as void.
- if the time limit is set in case of normal contract then it is according to the time.
- in case of voidable contract, party can go to the court within 1 year from the date of notice that the contract is voidable.
- Chapter 7 (Contracting relating to sale of goods) within two years of emergence of situation.

Contract of Guarantee (Pg 100)



- C (Surety) confirms that if Principle debtor (B) cannot pay then C will pay for it.
- Contract related to guarantee must be in written form.
- C has obligation to pay loan if principle debtor fail to pay it.
- Primary obligation of payment of loan is principle debtor (B)
- Secondary obligation is of Surety (C).
- When debtor fail to pay the loan liability is transferred to C.
- Tripartite

Different type of guarantee (Book)

Discharge of Surety's obligation (Sec - 17)

- ① In the case of continue guarantee.
 - When the creditor issue the notice of cancellation then surety's obligation won't be there.
- ② In case of death of surety. (Continue guarantee)
 - Obligation shall be transferred to the legal heir upto the extent of property received. For the transaction came after the death of surety then after that the liability obligation won't be there.

Invalidation (Void)

③ If the contract is invalid then surety shall be discharged from his/her obligation.
[Invalid contract described in sec-20].
By misrepresentation or fraud if the contract is carried out then it is known as invalid

④ By concealment of fact.

⑤ If parties are agreed to agreed to take guarantee from 3rd party and all other agree but the main 3rd party denied to give the guarantee then surety shall be free from the obligation.
In addition

⑥ By the act of the creditor (conduct or action of creditor)

- Now Section 17 (This should be written)
→ This is the reason.

① - If the term of the contract is amended / change without the information of surety then surety will be free from the obligation. / Substantial
If term of the contract should be changed then pre-approval of surety is required.

② - If the debtor is released from his contractual obligation by creditor then surety is automatically free from contractual obligation.

③ If the debtor is free from the contractual obligation due to the ^{act} conduct, behaviour, action of creditor then surety shall be free from the contractual obligation.
(same as 2)

④ If the debtor become free from contractual obligation then surety itself become free from contractual obligation. - (A) 10M (B) → But A said only 9M
(C) → then loss 1M for him.

- Also if additional time is given by A to B the surety shall be free from i.e. agreed to give less time.

- If A agreed to settle the loan by not to case file in the court then obligation of surety shall be discharged.

⑤ Due to any adverse affect on surety's right then surety shall be free from the obligation now.

⑥ If the collateral received from debtor is damaged or destroyed by the ^{action} of creditors then surety's liability shall be to the extent of value of collateral surety shall be discharged.

⑦ If the loan is partially paid then surety shall be free from liability.

Imp Note ① By the action of creditor fail to put effort for the recovery of loan, creditor fail to case file on time / fail to for this reason only surety shall't be free from the obligation.

If proportion of guarantee is defined liability accordingly if not mentioned liable equally. (Sec 21)

2- In the case of co-surety, if the obligation is mentioned in the contract of proportionate and co-surety is discharged the next surety is not discharged and obligation remains same for C if D is discharged.

3- If there is dispute between the debtor and creditor then surety shall not be free from the contractual obligation.

Right and Duties of Indemnity Holder

For one it is right and for other it is duty.

Right for indemnifier is duty for indemnified.

Repair →

Example of Bailment (in bailment there may or may not be consideration)

Safe - Jewellery kept in the bank

Custody - Deposit of cash in the bank is not bailment because that is saving, increase of the value and same 10 thousand won't be return by the bank

- If we say someone to stay in the house and stay for some time and take care of it house isn't bailment.

- return
- Safe custody
- Rental
- Repair

Covers only the movable goods → bailment.

- handed over the cow to relative/person to take care of that cow for some time then it is known as bailment.

For Rental purpose

- If car is given to us by someone and we pay for it / for rental purpose if something in return.

- If car is given along with the driver then it is not the bailment with the fair of payment

- If car is given without taking any money from us that is also bailment.

Servicing of car for few days is also bailment / repair and services

Temporary transfer of goods for rental purpose

- Sales or Dispatch
you don't own it and it is for sale purpose (consignment kind of).

- Transfer to the third party
We take someone's thing to give to the 3rd party

- Finder of lost goods

If we found the lost good that is also bailment.

- Transfer of one good to another person when by mistake then another person should return it and hence it is not bailment.

Contract may be written, oral (expressed), implied.

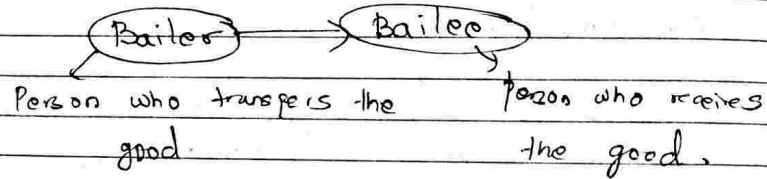
Bailment = बाँझो

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- If the value of bail property is more than 5000 (> 5001) ~~(> 5001)~~ there must be written contract.

- In the bailment contract



Essentials of valid essentials of contract of Bailment

- Delivery of movable goods. (but there's no transfer of the ownership).
- Transfer for the specific purpose ~~sale~~
- There may or may not be consideration.
- Good must be return or handed over to third party.
- There must be written contract if value of goods/property is exceeding 5000 Rs.

Rights and duties of bailor and bailee (book)

Right of bailor is duty for bailee & vice versa.

Bailor
→ Transfer good to the other party.

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Right of bailor

- * - Claim compensation for loss and damage.
- Can terminate the contract
- ① Enforce the duty of bailee
↳ do demand for compensation for loss & damage (loss and damages incurred due to negligence), claim loss and damages which was incurred due to

Duty the negligence of bailee

- * - Claim with the natural increment claim
→ Buffalo gives baby

→ due to the misuse of materials if some event happens then we can claim.

- If bailee failed to return goods on time then can claim.
- ② Claim the bailed property with natural increment
Buffalows give baby there claim with baby. i.e. along with natural increment.

③ Right to terminate the contract

If the term of the contract isn't fulfilled. If bar by bailee then bailor can terminate at any time or take back your property in case the time isn't complete.

④ Bailed property isn't used as in the term of the contract

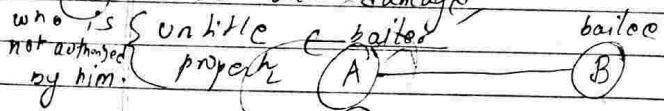
If consideration isn't involved in the contract can be terminated at any time.

Duty of bailee

- Bailee shall not mix the bailed property in his/her own property.
- (If it is mixed then) → separation cost (separation of bailor and bailee's good) cost should be paid by bailee. If goods can't be separated then bailor can claim for loss and damages.
- To return back the good in time.
- ① → To store the safe custody of the property as his own property.
- ② → Not to utilize the bailed property other than the what written in contract.
- ③ → With return good with natural increment.

Right of bailee

- enforce the duty of bailor
- ① Claim for extraordinary expenses, claim the consideration, claim if the defect isn't told by bailor.
- ② loss and damage



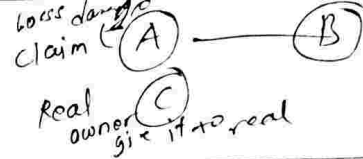
If the actual property owner is C and the A said has the owner and the loss and damage

B is compelled to return back the property to C.

If any expense is incurred by B then

A & B we should claim the property by A.

A is responsible. Expenses should be paid by A.



Exceptional cases:- Property is damaged due to natural calamities, beyond the control of bailee then we can't (bailor) claim for the loss and damage.

Duty of the bailor

- ① - To disclose the known defect about the property.
- ② - To pay compensation to the bailee if bailee suffer from ~~of~~ not disclosing the known defect to the bailee. pay for the extraordinary amount involved on the safe custody of the bailed property. should be paid by bailor.
- Receive back bailed property on time.

Contract of agency → Power delegate

Principal ^{do anything} _{represent him} → Agent - legal relationship.

Principal appoints Agent to do anything, to represent him/her, to do anything on his behalf and the person who appoints another is called principle; who has got the right, power is called agent; person delegates his power to another party to do anything on his behalf.

Essence Elements

- 1 - Principle is liable for the work done by agent under the jurisdiction ^{scope} of contract of agency.
- 2 - This contract establishes the legal relationship between principle and third party.



- 4 - In agency, may or may not be consideration.
- 5 - The principle person must be competent person because incompetent person can't but in case of agent (in few) but he might be incompetent sometimes.
- 6 - Contract of agency may be expressed or implied.
- 7 - relationship between the principle and agent is based on good faith and confidence.

Mode of creating agency (How agency is created?)

- By written agreement
- By implied agreement :- By estoppel, By holding out, By ratification, By necessity
- By operation of law.

Ⓐ # By written agreement
one person nominates another for work, there is written agreement; all terms is defined in the contract, agreed by both principle and agent.

Ⓑ # By implied agreement
There is no written agreement but due to relationship and conduct it creates principle and agent relation. and one party is liable for the work done by another person.
Ex:-

1 - By estoppel
Actually person is not estop principle but by estoppel (remains quiet when told to another person that he is agent (principle) then it is by conduct relationship of agency and principle is established. Remains quiet when said he/she say that he/she is agent. (By conduct)

2 - By holding out
Ⓑ → say to Ⓒ Ⓐ is my agent in the eye of Ⓒ, A is the agent of B. Carried on the transaction with A now B is liable to C to all the transaction. (By conduct)

3 - By necessity (Relationship).
Between the relationship for eg:- Partner; work done by one partner all of them will be liable. because of the relationship (Partner).
Husband is liable to pay for wife for the transactions done by wife.

Ⓒ # Agency by Ratification (अनुमति) → अनुमति

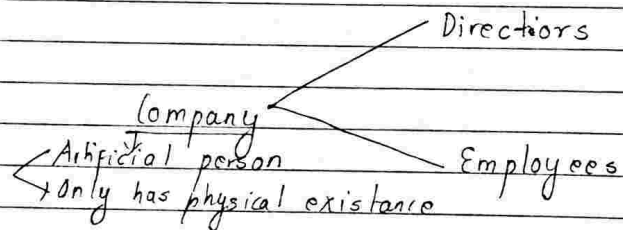
If someone is not agent but the work is done by agent in the good faith for the principle and later the principle accepts it then latter on principle will be liable for the transaction carried out by the agent. This is agency by ratification.

Example:-

→ Buffallow given as bailment to bailee and bailee is responsible to take care of it but it became sick and medical treatment should be done and for principles benefit expenses are done by bailee and now principle should be liable by agency of ratification.

- Also in sec-11 when things are found, then if we do safe custody of that thing then the owner shall be liable to pay for the expenses incurred in safe custody by principle of ratification.

(d) # By operation of law.



If some person sends letters by the staff of company, letterhead of the company then company shall be liable irrespective of either it is authentic or not. All the employees/directors are the agent of the company due to the operation of law.

- The work which requires your personal skill and efficiency, agent cannot be appointed for that. (cannot work or represent).



- If C is appointed by B as agent then C then C is sub-agent. And B can appoint C as an agent but there is condition.

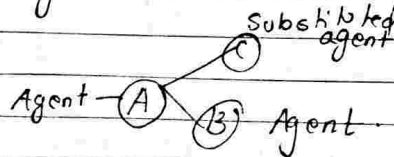
Agent and Subagent are equally liable to principle - pre-approval

- Pre consent of A is required for the sub agent.

- Information should be given to A that approval has been there. (Section - 58) → Subagent.

Sub agent and substituted agent

There is difference between sub and substituted agent because they are different.



- If one agent is replaced / substituted by other.
- replaced to perform the same task on the consent / recommendation of the agent itself. B is totally relieved from the responsibility.

Sub agent can be appointed accⁿ to

- Nature of transaction
Max volume of transaction. Eg:-
Authorized dealer one and it appoints the other sub agent.
- On the basis of term of the contract
If mentioned that sub agent can be appointed
- On the basis of sub-ag. Past practices.

Section 59

Duties or obligation of agent
↳ Responsibility

- ① To comply term of the contract and instruction given by principle person.
In some cases if no instruction is given and term of the contract isn't cleared then agent should perform in good faith and bonafied intension and also utilizing the skill and efficiency. If term of the contract is not specified.
- Also by following the prevailing law.

② Not to carry on the agency business after removal from the agency.

③ To submit the informations relating to transaction & required by the principle, and the account relating to agency business, accountable towards principle.

- ⑤ If there are any difficulties in conducting the agency business then properly inform principle person and comply the instruction given by principle person.

~~Imp~~ Personal obligation of Agent - 60 (as agent you are not liable)

- The principle person shall be liable for all the action / transaction caused by the agent.
- Agent himself / herself is personally liable for the work done by him.
beyond the jurisdiction
- Principle insolvent - Principle cannot be sued
- If by the nature of the contract hypothetical contract.

Book

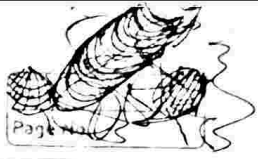
One can delegate power but not responsibility

Termination of agency (Section 61).
also 62 and 63 linked

- ① If agent himself / herself terminate the agency / contract.

⇒ Also section 63 says as a agent you have right to terminate if the contract of agency is concluded for particular venture / particular period of time then you aren't allowed to terminate contract without the consent of / approval of the principle.

Sec 63 ⇒ Also, If you are appointed in contract in other condition (where venue and time isn't



clear) then you can terminate the contract without the consent of principle.

If terminated without the consent of principle then you are liable to pay the compensation for the loss and damage you've created to the principle person.

(6) Now, Principle can also terminate contract.

Also 62 → Principle can remove the agent / can terminate the contract but

if the agent is appointed for specific period of time then can't terminate also need to give notice with reasonable cause, and agent can claim for loss and damages and principle is liable to pay.

(2) If the agency is appointed for specific period of time then after that particular period of time the contract gets terminated / or also if it is not renewed then it is terminated.

(4) If the contract is appointed for specific task then after doing the task the contract of agency is terminated. for ex:- If we appoint agency to sell our share then after sharing contract is terminated.

(5) Either of the party loses his sense. (Insane) then contract is terminated.

(6) If the principal person declare insolvent.

(7) - In the case of company or if the principal person is company or corporate body then / if that company is dissolved or liquidate then ^{also} the contract is terminated.

(8) - If the subject matter related to contract is destroyed then the contract is terminated.

For ex:- If I want to sell my car to someone and the car gets broken or damaged.

In case of death there may be transfer of obligation.

Contract related to Sales of goods

Difference between agreement to sales and sales.

Sales	Agreement to sales
(1) It is executed contract. (in future)	(1) It is executory contract. (time of concluding the contract)
(2) It deals with the present goods. (covers only present goods)	(2) Both present and future goods.
(3) Ownership shall be transferred immediately.	(3) Ownership shall be transferred in future.
(4) Risk associated is transferred.	(4) Risk isn't transferred.

Sales

In credit sale

- Right of seller is to receive consideration.
- Obligation of buyer is to pay consideration.
- If seller become insolvent.
- Nothing happens next.

If buyer become insolvent

- No any claim

Sales doesn't cover

Agreement to sales

In agreement to sale.

- Buyer has right to claim for the goods.
- If seller become insolvent.
- Now the contract can't be performed and buyer may claim the advance amount paid by him.
- If buyer insolvent
- Seller isn't liable to perform the contract.

consignment.

How price is determined on sales on good and how the price is settled?
→ Mentioned in section 42 & 43.

- The price should be determined on the basis of term of the contract. (negotiation)
- If the price can be determined on the basis of other measurement criteria then ^{on the basis} weight, quantity or other measurable criteria.
- If none of the above then - pay the reasonable amount of money.

How the price is settled?

→ Price should be settled on the basis of ~~pi~~ cash or cash equivalents.

when? → Price should be paid at that time as mentioned in the contract.

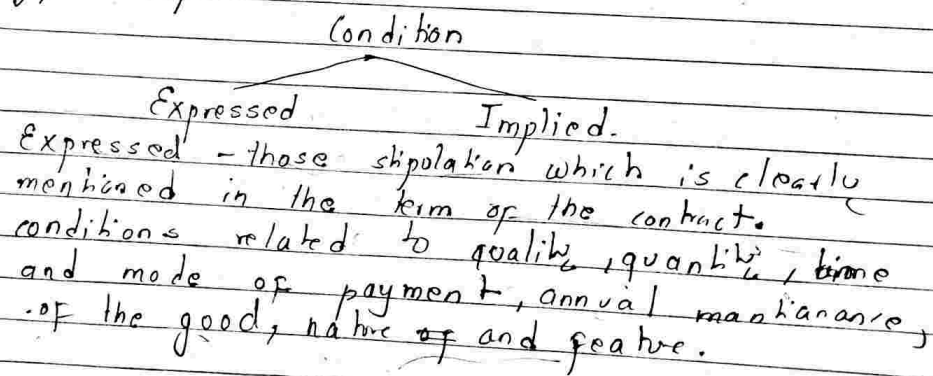
If nothing is mentioned then - Price is to be settled at the time of delivery of goods. - Section - 43.

Conditions and Warranties

Condition ⇒ Stipulation, terms which is clearly defined in the contract. related to mode of delivery, payment, annual maintenance.

Warranty → is one part of stipulation. which assure the quality of goods / free maintenance or change of the good
→ warranty.

Types of condition



Implied

- on the basis of conduct & past practices.

(a) Condition as to title of goods :- (Ownership)

- Title of the goods must not be defective the one from whom we are buying should have their own title of the good.

But if the title is defective Sec (45)

defective title - (A) → (B) buyer.

owner (C)
B can refund it then.

(b) Condition in a sell by description.
Sec (44)

If the ^{seller} buyer has described about nature and feature of good, whatever described by seller is true it is implied.

(c) Condition in a sale by sample :- (Sec 47).

(Caveat in turn principal is not applied - buyer must be awarded is not applied.)

⇒ Goods should be as per the sample shown.

(d) Condition as to merchantable quality :- (Sec 46).

↳ goods must be allowed to buy and seller, should be good to use.

(e) Conditions as quality or fitness of goods. (Section 50)

Requirement is not fit then it should be exchanged later.

(Caveat Emptor) → is applied here, it is implied that seller gives guarantee as to quality and fitness.

005

(f) Condition as to price → (wholesomeness)
price should be reasonable and comparable with the other same kind of the good.

(g) Condition as to wholesomeness :-
Goods should be useable, should not be harmful to the person, fit for consumption.

✓ (Q) Who is unpaid seller? Explain the right of unpaid seller.

→ The seller who hasn't received the price but already transferred the ownership. The cheque or draft is issue, bill of exchange is bounced, not discount by bank, is dishonoured.

Rights of unpaid sellers are :-

- Right against defaulter → ^{Debtor} Right to sue against buyer.
- Right to claim the loss and damages. →

(2) → Right to claim the interest.

- Right against goods →
→ Lease # or return back goods.

→ Right to auction it. (resell) / return back.

→ Right to lean (To take the cheque with our seller / saman nadinaz until paid by buyer.)

→ Right to stoppage in transit.

(*) → Case for specific performance.

as sample

♥ - Ensure safe custody of goods.

Duty of the common carrier.

- If valuable and not disclosed & goods lost then pay 100%
- Fair treatment without discrimination
- Comply term of the contract.
- pay for loss and damage.

Duty of consignor

- Disclose regarding the nature of the good.
- To disclose know defect regarding the goods.
- Goods should be deliver the goods with paper title.
- Duty to give the instruction to special circumstances.

What is the right of common carriage.

- Right to receive the fare (consideration).
- Right to ~~lien~~ take the good along with him when consideration is not enough.
- If the consignee is not found, if consideration isn't enough then we can auction / sale the goods.
- Right to claim the loss and damages due to the defective title.

(Contract document related to common carrier.

1. Charter Party ^{invoice} / Bills issue by the common carrier to the consignor.
2. Bills of Lading
3. The airway Bills

1. Charter Party
Charter Party and Bills of lading is related to Marine transportation (Transportation through ship. When consignor makes shipper (manager of the ship) gives the document to them after ^{shipper} handing over the good to them they issue the invoice and it is known as charter party (Bills of lading.

When air cargo receives the documents / goods to the customer then it issues the invoice it is called the airway Bills.

In these documents => define all the terms and condition for transporting the goods from one place to the other.

=> Specific difference betⁿ Charter Party and Bill of Lading

Based on the nature of the shipment - it is different.

If we have to transfer huge amount of goods are to be transferred then the ship is taken for rent or we lent the ship for particular voyage; in that case there is temporary transfer of ownership from shipper to us for certain time and that type of contract is called Charter Party.



In case of Charter Party, all the crew are your staff because we have hold for the temporary period of time - all risk and responsibility is yours.

→ Bills of lading ⇒ not for single our purpose, we don't take in lease/beam but we have to send just small or just few things.

There are two type of Charter Party:-
 → Voyage Charter
 → Time Charter

→ If the contract of shipment is concluded between carrier and consignor for the particular voyage.

→ If the contract is concluded for the particular time is called time charter. After the time period is over then it's over.

Diff betⁿ Charter Party & Bill of lading

Size of consignment -	small	large
Risk -	consignor	shipper

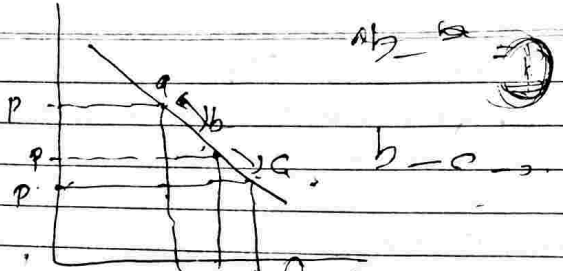
①# What is an offer? Differentiate between public offer and invitation to offer.
 * Meaning of offer ⇒ (3 sentence)

Public offer ⇒ sentence and the meaning of it.

- ② When an offer is terminated?
- ③ Explain the rules regarding the "consideration"?
- ④ Who is incompetent to enter into the contract?
- ⑤ What is the legal obligation implication if the contract is concluded with the incompetent party?
- ⑥ What is consent? Explain the factors affecting the free consent.
- ⑦ What is Quasi contract? Explain the legal provision regarding Quasi contract according to Contract Act 2056?
- ⑧ Differentiate betⁿ void and voidable contract?

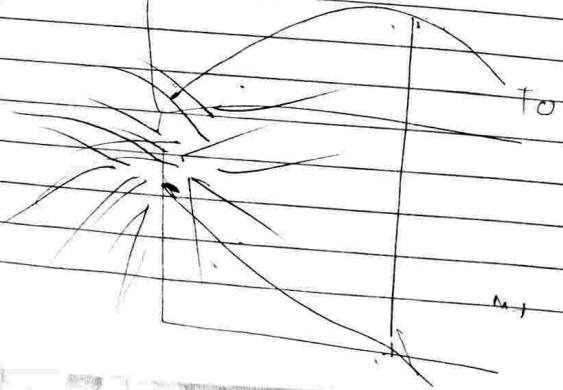
- Major difference between

⑨ Define contingent contract. Explain the rules regarding contingent contract as mentioned in contract act 2064.



- 1) To determine government tax policy.
- 2) To differentiate between value of use and value of exchange.
- 3) For cost benefit analysis.
- 4) Price.

Q	TU	AU	MU
0	10	10	10
1	18	9	8
2	24	8	6
3	28	7	4
4	30	6	2
5	30	5	0
6	28	4	-2
7			
8			



Factor input	TP	AP	MP
0	0	0	0
1	10	10	10
2	30	15	20
3	60	20	30
4	80	20	30
5	90	18	10
6	90	15	0
7	80	11.4	-10

$MC = \Delta TC / \Delta Q$
 $TC = TFC + TVC$
 $MC = \Delta(TFC + TVC) / \Delta Q$
 $MC = \Delta TFC / \Delta Q + \Delta TVC / \Delta Q$
 $MC = AFC + AVC$

$TC - TFC = TVC$
 $AC = AFC + AVC$
 $MC = \Delta TVC / \Delta Q$

$TFC = 100$
 $IP = 100$
 $IP = 20$

Q	TFC	TC
0	100	0
1	100	18
2	100	24
3	100	52
4	100	50
5	100	50
6	100	22
7	100	124
8	100	180
9	100	260

$TC = TFC + TVC$
 $AC = AFC + AVC$
 $AC = TC / Q$
 $AVC = TVC / Q$

State of nature	Strategy		
	S ₁	S ₂	S ₃
A	4	-2	7
B	0	6	3
C	-5	9	2
D	3	1	4
Max	4	9	7

(i) Maximax criteria

Under maximax criteria,
Strategy S₂ is to be selected.

(ii) Maximin criteria

Min -5 -2 2

Under maximin criteria,
Strategy S₃ is to be selected.

Q no 1

Types of shampoos	Estimated level of sales			Min	Max
	15,000	10,000	5,000		
Egg shampoos	30	10	10	10	30
Clinic shampoos	40	15	5	5	40
Delux shampoo	55	20	3	3	55

(a) Maximin Criteria

Under maximin criteria; Egg shampoo is to be selected.

(b) Maximax Criteria

Under maximax criteria; delux shampoo is to be selected.

Minimax Regret criteria :-

Regret = Maximum pay off - Actual pay off
for a state of nature

Types of shampoo	Estimated level of sales			Max
	15,000	10,000	5,000	
Egg shampoo	55 - 30 = 25	20 - 10 = 10	10 - 10 = 0	25
Clinic shampoo	55 - 40 = 15	20 - 15 = 5	10 - 5 = 5	15
Delux shampoo	55 - 55 = 0	20 - 20 = 0	10 - 3 = 7	7

① Minimax regret criteria :-

Under this criteria, Delux shampoo is to be selected.

Q no 8

CP = Rs 3.50

SP = Rs 4.00

MP = SP - CP = 4.00 - 3.50 = 0.5

ML = CP - SV + HC
= 3.50 - 0 + 0
= 3.50

Different levels of demand are :-

D₁ = 45, D₂ = 46, D₃ = 47, D₄ = 48, D₅ = 49, D₆ = 50

Different level of stocks are :-

S₁ = 45, S₂ = 46, S₃ = 47, S₄ = 48, S₅ = 49, S₆ = 50

Pay off = MP × S if S ≤ D.
= MP × D - ML(S - D) if S > D

Pay off table :-

Stocks	Demands					
	D ₁ = 45	D ₂ = 46	D ₃ = 47	D ₄ = 48	D ₅ = 49	D ₆ = 50
S ₁ = 45	0.5 × 45 = 22.5	22.5	22.5	22.5	22.5	22.5
S ₂ = 46	22.5 - 3.5 = 19	0.6 × 46 = 23	23	23	23	23
S ₃ = 47	22.5 - 7 = 15.5	19.5	0.5 × 47 = 23.5	23.5	23.5	23.5
S ₄ = 48	12	16	20	0.5 × 48 = 24	24	24
S ₅ = 49	8.5	12.5	16.5	20.5	0.5 × 49 = 24.5	24.5
S ₆ = 50	5	9	13	17	21	0.5 × 50 = 25

Regret table (Regret = Max pay off - Actual pay off)

Stocks	Demand					
	D ₁ = 45	D ₂ = 46	D ₃ = 47	D ₄ = 48	D ₅ = 49	D ₆ = 50
S ₁ = 45	22.5 - 22.5 = 0					
S ₂ = 46	22.5 - 19 = 3.5	0				
S ₃ = 47	22.5 - 15.5 = 6		0			
S ₄ = 48	22.5 - 12 = 10.5			0		
S ₅ = 49	22.5 - 8.5 = 14				0	
S ₆ = 50	22.5 - 5 = 17.5					0

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(8)

Income Statement

of Triyuga Co. Ltd.
for the year ended 2069

Particulars	S.N	Details (Rs)	Total (Rs)
Sales revenue	-	-	70,000
less:- Cost of goods sold		30,000	
Opening stock		8,000	
Add:- Purchase		40,000	
less:- Closing stock		(6,000)	(45,000)
Gross profit (G.P)			25,000
less:- Operating expenses:-			
Rent		14,000	
Insurance expenses		2,000	
Depreciation		3,000	(19,000)
			6,000
less:- Provision for tax		-	(3,000)
Net profit for the year			Rs. 3,000

(3)

Statement of Retained Earning (RE)

of Triyuga Company Ltd.
for the year ended Chaitra 2069.

Particulars	S.N	Details	Total
Opening balance of RE (1.1.2069)		20,000	
Add:- Net Profit (C/d)		3,000	
Total distributable Profit			23,000
less:- Transfer to G.R		8,000	
Provision for dividend		4,000	(12,000)
Closing balance of RE (C/d)			11,000
31.12.2069			

Balance sheet of
TriYoga Co. Ltd
as on 31st Chaitra 2069.

Account Head / Description	S.N	Details	Detail	Total
Liabilities / Sources of Fund				
Shareholders Fund				
Share Capital	-	-	65,000	
General Reserve	-	-	8,000	
Retained earning balance (old)	-	-	11,000	
			-	84,000
Total Shareholder's Fund (A)				
Long term & mid term loan (B)				
Debentures	-	-	-	20,000
Capital employe (C.E) or Total C.	-	-	-	100,000
Assets / Uses of Fund:-				
Fixed Assets				
Machinery			98,000	
Less - Accumulated dep ⁿ			(4,000)	94,000
Investment	-	-	-	Nil
Current Assets, Loan and Advances & Deposits				
Debtors		2,000		
Closing Stock		3,000		
Total Current Assets			23,000	
Current liabilities				
Creditors		5,000		
S/S expenses		1,000		
Provision for tax		3,000		
Provision for dividend		4,000		
Total Current liability (C)			13,000	
Working Capital (A) - (C)				10,000
Un amortized expenses	-	-		
Net assets				

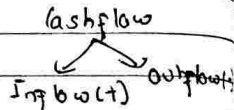
(10)

Particulars.	S.N	Details	Debit	Total
Sales revenue				
Less :- sales return				
Sales revenue (Net)				

4) Cash flow statement :-

- (a) Cash flow from operating activities → sales, purchase, rent, salary, etc.
- (b) Cash flow from investing activities.
- (c) Cash flow from financing activities. → cash financed from buying fixed assets. → long term more than one year (purchasing fixed assets).

Cash flow pattern :-



- Assets (+) ⇒ Cash (-)
- A (-) ⇒ Cash (+)
- L (+) ⇒ Cash (+)
- Liability (-) ⇒ Cash (-)

Cash flow Statement (under direct method)
of Company
for the year ----

Particular	Detail (Rs)	Total (Rs)
<u>Operating activities:</u>		
(A) Cash sales and collection from customers :-		
Net sales revenue		
(Cash sales + Credit sales - S.R)	(xxx)	
Increase in debts (AR) / BR.	(xxx)	
Decrease in " " "	xxx	
Discount allowed	xxx	
Bad debt	xxx	
(B) Cash paid to suppliers:		
COGS	(xxx)	
Incl/Dec in stock.	(xxx)	
	xxx	

Particulars	Details	Total
Increase in credits (A/P/B/P)	xxx	
Dec in credits (A/P/B/P)	(xxx)	xxx
Discount received		
(C) Cash paid to employee and other cash operating expenses:		
Wages expenses.	(xxx)	
Salary expenses.	(xxx)	
Factory & mgg expenses	(xxx)	
Office and administrative expenses	(xxx)	
Selling and distribution exp.	(xxx)	
Increase in O/S, payable due	xxx	
Decrease in O/S, payable due	(xxx)	
Increase in prepaid expenses	(xxx)	
Decrease in prepaid expenses	xxx	(xxx)
(d) Cash paid for financial expenses:		
Interest paid	(xxx)	(xxx)
(e) Cash paid to government		
Tax paid	(xxx)	(xxx)
(f) Cash flow from extraordinary items		
Incl/Dec in bank overdraft	xxx / (xxx)	
Incl/Dec in short term loan	xxx / (xxx)	
Incl/Dec in marketable securities	(xxx) / xxx	xxx / (xxx)
(g) Cash flow from other business record		
Interest, Dividend, rent received	xxx	
Other business received	xxx	xxx

① Cash from operating activities
 (A) + (B) + (C) + (D) + (E) + (F) + (G) xxx

Investing activities:

Purchase of Fixed Assets (xxx)
 Sold of fixed assets xxx
 Purchase of long term investment (xxx)
 Sold / Decrease " " xxx
 Increase in Intangible assets. (xxx) (xxx)

② Net Cash flow from investing activities (xxx) / xxx

Financing activities:-

Issue of share or Inc in share capital
 Increase in share premium.
 Issue of debenture / Bond / Notes
 Redemption of debenture / Bond / Notes
 Increase / Dec in other long term loan

③ Net cash flow from financing activities xxx / (xxx)

④ Net change in cash and cash equivalent activity (1) + (2) + (3) xxx

Add: Opening cash and bank balance. xxx

Closing cash balance. xxx

⑩ Income statement of the company
 For the year ended

Particulars	S.N	Details	Total
Sales revenue	-	...	1,75,000
Less: Sales return	-	-	(5,000)
Sales revenue (net)			1,70,000
Less cost of goods sold.			
Opening stock		10,000	
Add:- Purchase		1,00,000	
Less:- Closing stock			
Add:- Carriage inward.		5,000	(115,000)
Gross profit			55,000
Less:- operating expenses			
Interest on loan		(5,000)	
Sundry Bad debt		(5,000)	
Office rent		(15,000) - 3000	(52,000)
Salaries.		(10,000) + (5,000)	(15,000)
Depn		(15,000)	
Add:- Other business income			3000 (5200)
Dividend received		5,000	5,000
			8,000

Balance sheet

Particulars	S N	Details	Details	Total
<u>Liabilities</u>				
<u>Source of fund</u>				
Shareholders fund				
Share capital			200,000	
Net profit			8,000	208,000
<u>Long term and mid term loan</u>				
10% loan			50,000	

16 ①

Income statement

Particulars	Details (Rs)	Total (Rs)
Net Sales	-	4,00,000
Less:- Cost of goods sold:-		
Purchase	2,00,000	
Less:- Closing stock	(50,000)	(1,50,000)
Gross Profit		2,50,000
Add:- Discount received		10,000
Less:- Operating expenses		
Discount allowed	5,000	
Salaries and wages	50,000	
Rent, rank & insurance 50,000		
Less:- Prepaid rent (5,000)	45,000	
Depn on P/M	15,000	(1,15,000)
Operating income		14,500
Less:- Interest on debenture	5,000	
Add O/S Interest	5,000	(10,000)
		135,000

Balance sheet

Particulars	S.N.	Details	Details	Total
<u>Assets / Uses of fund</u>				
<u>Fixed Assets:-</u>				
Plant and Machinery	1	1,50,000		
Less depn	2	(15,000)		1,35,000
<u>Current Assets, loans and Advance deposits:-</u>				
Account receivables		1,00,000		
Closing stock		50,000		
Prepaid rent		5,000		
Marketable securities		300,000		
Cash at Bank		2,00,000		
(A) Current Assets				6,55,000
<u>Current liabilities</u>				
Account Payable			50,000	
O/S interest on debenture			5,000	(65,000)
(B) Current liabilities				(55,000)
Working Capital (A-B)				6,00,000
Unamortised expenses				Nil
Net assets				7,35,000

②

Balance Sheet

Particulars:	S.N	Details	Details	Total
<u>Liabilities / Sources of fund:-</u>				
<u>Shareholder's fund:-</u>				
Capital			5,00,000	
Net profit (b/d)			1,35,000	6,35,000
<u>Long term and mid term debt</u>				
10% debentures				1,00,000
Capital employed or Total Capital				Rs 7,35,000

Cash Flow Statement (Direct method)

Particulars	Rs	Total (Rs)
A. Cash sales and collection from customers:		
Net Sales	4,00,000	
Inc in A/R	(1,00,000)	
Discount Allowed	(5,000)	2,95,000
B. Cash paid to suppliers		
Purchase (Net)	(2,00,000)	
Inc in A/P	50,000	
Discount received	10,000	1,40,000
(C) Cash Paid to employee and other cash operating expenses -		
Salaries & wages	(50,000)	
Rent rates & income expenses	(45,000)	
Inc in prepaid rent	(5,000)	1,00,000
(d) Interest paid		
Interest on debenture (exp)	(10,000)	
Inc in 10% interest on debenture	5,000	(5,000)
(1) Net cash flow from operating activities		50,000
Purchase on Machinery	(1,50,000)	(1,50,000)
(2) Net cash flow from investing activities		(1,50,000)
Inc in capital	5,00,000	
Inc in 10% debenture	1,00,000	6,00,000
Net cash flow from financing activities		6,00,000
(4) Net change in cash & bank account		5,00,000

Income statement

(17)

Particulars	Debits	Total
Net Sales	36,000	36,000
Less:- Cost of goods sold:-		
Purchase	16,000	
Less:- Closing stock	(8,000)	(8,000)
Gross Profit		28,000
Add:- Commission	1,800	1,800
Less:- Operating expenses		
Electricity	20,000	
Rent expenses	4,000	
Salaries + Outstanding	5,000	
Telephone charges	2,000	
Prepaid insurance	2,000	8,000
(Less) (4,000)	4,000	
Dep'n	2,000	(31,000)
		2,800

Balance Sheet

Particulars	Amt	Total
Liabilities / Source of funds:-		
Share holder's fund		
Capital	90,000	
Net profit (b/d)	2,800	92,800
Long term mid term loan		
Capital employed or Total capital		92,800

Particulars	Amt	Amt	Total
Assets / uses of fund.			
Fixed Assets			
Furniture 40,000			
Less dep ⁿ 2,000.			38,000.
Current assets less and current deposits			
Account receivables.			
Closing stock.	8,000.		
Cash in hand	36,000.		
Debts ^{repaid} insurance	24,000		
(A) Current Assets	8,000		76,000.
			68,000
Current liabilities			
A/C payable credits	16,000		
OS salary	1,000.		
Unearned commission	4,200		2,200.
Asset - Liabilities.			54,800.
			1,92,800

Cash flow statement

Particulars	Rs	Total
A. Cash sales and collection from customers:-		
Net Sales 36,000.	36,000	
Inc in A/R	(24,000)	12,000.
B. Cash paid to suppliers.		
Purchase (Net)	(16,000)	
Inc in A/P.	16,000.	0
C. Cash paid to employee and other cash operating expenses:-		
Electricity	(10,000)	
Rent expenses	(4,000)	
Salaries expenses (4,000)	(5,000)	
+ Outstanding (1,000)	1,000	
Telephone charges	(2,000).	(20,000)
D. Insurance expenses	(4,000)	
Inc in prepaid expenses	(8,000)	(12,000).
E. Comm. earned	1,800	
Inc in unearned A/c Cash.	4,200	6,000
(1) Net cash flow ^{paid to} _{from} operating activities		(26,000)
(2) Furniture		(40,000)
(3) Cash flow from financing activities		
Share capital		90,000
		36,000

Opening balor 80,000 By depⁿ 10,000
 To Bank 1,80,000 By closing 2,50,000
 Purchas 2,50,000

(u) Cash Flow Statement (Direct Method)

Particulars	Rs	Total
(A) Cash sales and collectn from customers:-		
Sales revenue	2,40,000	
Dec in AIR	20,000	2,60,000
(B) Cash paid to suppliers (CGS)	(1,00,000)	
Inc in stock } Purchase	(20,000)	
Dec in sundry credits	(4,000)	
Inc in A/P	20,000	(1,04,000)
(C) Cash paid to employees and other cash oper. exps.		
Operating expenses (50,000 - 10,000)	(40,000)	(40,000)
(1) Net cash flow from operating activities (A) + (B) + (C)	-	1,16,000
Purchase of P/M (Inc + Dep ⁿ)	(1,80,000)	
Sale of furniture (Dec + Profit/Loss)	40,000	
Sale of investm (50,000 - 10,000)	50,000	
(2) Net cash flow from investing activities		(90,000)
Issue of share	40,000	
Inc in share premium	4,000	
Redemtion of debenture	(20,000)	
Dividend paid	(79,000)	(46,000)

R-E A/C R-E → 40,000
 opening 90,000
 Ad N/P - 1,30,000
 less closing dividend 70,000
 8,000 5,000-

Particulars	Rs	Total
(3) Net cash flow from financing activities	-	(46,000)
(u) Net change in cash and cash equivalents (A) + (B) + (3)	-	(20,000)
Add opening cash		40,000
Closing cash		20,000

(6) Cash Flow Statement Direct Method

Particulars	Rs	Total
(A) Cash sales and collectn from customers		
Sales revenue	2,02,000	
Inc in AIR	(40,000)	1,62,000
(B) Cash paid to suppliers (CGS)	(80,000)	
Dec in stock	20,000	
Inc in B/P	50,000	(10,000)
(C) Cash paid to employees and other cash operating expenses		
Rent	(30,000)	
Salary	(20,000)	
Selling expenses	(10,000)	(60,000)
(c) Tax paid		(7,000)
(1) Net cash flow from operating activities (A) + (B) + (C)		85,000

Dr Fixed assets
 To open (130,000 - 20,000) ₹ 1,08,000
 To Bank (Purchase) ₹ 25,000

By dep'n for year 500
 By closing bal. (355,000 - 25,000) 330,000

Date: _____
 Page No. _____

To open balance
 To Bank ₹ 25,000

By Acc dep'n 0
 By closing bal 355,000

To Fixed Dep'n on sold part
 To closing balance 25,000

By opening bal 20,000
 By Dep'n for year 500

Date: _____
 Page No. _____

Particulars	Rs	Total
Purchase of fixed assets		(25,000)
(2) Net cash flow from investing		(25,000)
(3) Net cash flow from financing activities -		
Receivable share capital	50,000	
Equity share capital (Increase)	200,000	
Dividend paid	(20,000)	
		2,70,000
(4) Net change in cash and cash equivalents (A) + (B) - (C)		1,39,000

(8) Cash flow statement -

Particulars	Rs	Total
(A) Cash sales and collection from customers:-		
Sales revenue	2,00,000	
Increase in A/R	(20,000)	
		1,80,000
(B) Cash paid to suppliers -		
COGS	(100,000)	
Increase in Inventory	(40,000)	
Increase in account payable	68,000	
		(72,000)

Particulars	Rs	Total
(C) Cash paid to employees and other operating expenses - wages and salary expenses	(36,000)	(15,000)
Increase in wages and salaries payable	21,000	
(D) Cash paid for financial expenses - Interest paid	(4,000)	
(E) Cash paid to government - Tax paid	(24,000)	(24,000)
(1) Net cash flow from operating activities		69,000
(2) Purchase of fixed assets -		(277,000)
Net cash flow from investing		(277,000)
(3) Net cash flow from financing activities -		
Increase in share capital	250,000	198,000
Add: 0		
		198,000

Fixed Assets A/c

Acc dep ⁿ A/c	
To FA A/c	26,000 By open balance 1,10,000
By closing bal	1,04,000 By dep ⁿ for year 17,000

FA a/c (Contd.)			
To opening	330,000	By dep ⁿ	26,000
To Bank	2,00,000	By closing	5,81,000
	2,77,000		

14 P & M. Cnet

To open	250,000	By dep ⁿ	30,000
To P/L A/c	20,000 (gain)	By bank	20,000 + 20,000 bank gain
To Bank	1,00,000	By closing	3,09,000
	3,70,000		3,70,000

Tax	0 + 30,000	40,000
Add: - Provision for current year		70,000
Total		1,10,000
Less: - closing		70,000
Tax paid		40,000

Cash flow statement (Direct Method)

Particulars	Rs	Total
(A) Cash sales & collection from customers	4,00,000 22,000	4,22,000
(B) Cash paid to Suppliers:		
COGS (except wages)	(1,60,000)	
Dec in inventories	10,000	
Dec in A/P	(30,000)	(1,80,000)
(C) Cash paid to employee and other cash operating expenses:-		
Wages paid	(90,000)	
Operating expenses (80,000 - 30,000 - 10,000)	(40,000)	
Inc in prepaid expenses	(2,000)	(1,37,000)
Interest paid Dec in I/S expenses	(50,000)	(1,87,000)
(d) Tax paid	-	(30,000)
(e) Extra item:-		
(f) Inc. in Bank overdraft		20,000
(1) Net cash flow from operating expenses.		85,000
(2) Cash flow from investing activities:		
Purchase of Machinery	(1,00,000)	
Sales of Plant & Machinery	40,000	
Purchase of investment	(50,000)	(1,10,000)
Net cash flow from investy activities.		(1,10,000)

Particulars	Rs	Total
Issue of share capital	1,00,000	
Inc in share premium	5,000	
Redemption of debenture premium. (50,000 + 10,000)	(60,000)	
Dividend paid (150,000 - 100,000)	(40,000)	50,000
(3) Net cash flow from financing activities		45,000
Net cash flow from financing activities		50,000
(4) Net change in cash & cash equivalents		(20,000)
Add :- Open cash balance closing cash balance	90,000	70,000

Acc dep'n A/C	
To P/M A/C 1500	By opening 45,000
To closing (cl) 82,500	By dep'n for year 39,000 (24,000 + 15,000)
84,000	84,000

P and M (Gross)	
Opening balance 105,000	By am't dep'n 1500
By bank 52,500	By bank A/C 4500
(Purchase) 30,500	By P/L (Loss) 1500
52,500	By closing balance 1,50,000

Land B

(15) Cash flow statement		
Particulars	Rs	Total
(A) Cash sales and collection from customers		
Sales revenue	1,80,000	
Increase in debtors	(6,000)	1,74,000
(B) Cash paid to suppliers		
COGS	(1,01,100)	
Inc in stock	(7,500)	
Inc in creditor	7,500	
Inc in B/P	7,500	(93,600)
(C) Cash paid to employee		
Cash operating expenses	(30,000)	
(1) Net income from operating activities		50,400
Purchase of land and build	(20,000)	
Purchase of plant and machin	(52,600)	
Sale of P/M	4,500	
Sale of Investm	12,000	
+ Cash on sale of investm	3,000	
(2) Net ^{Cash flow} income from investing activity		(1,52,400)
Issue of share capital	45,000	
Dividend paid	(40,000)	
Long term liabilities	75,000	
Inc in premium	16,500	
(3) Net cash flow from financing		12,7800
Add :- Open cash balance		1,00,500

16	Particulars	Amt	Rs
(A)	Cash collection from sales and customers		
	Sales revenue	280,000	
	Inc in A/R	(14,000)	2,66,000
(B)	Cash paid to suppliers		
	COGS	(70,000)	
	Inc in inventories	(42,000)	(4,20,000)
	Inc in Account payable	28,000	(84,000)
(C)	Cash paid to employee and other		
	Office expenses	(4,200)	
	Interest on debenture	(7,000)	
	Wages	(42,000)	(84,000)
(d)	Tax paid	2	(2,000)
(e)	Interest paid		
	Interest on investment	14,000	
	Interest on debenture	(7,000)	7,000
(A)	Net cash flow from operating activities		77,000
	Purchase of Plant & Mach	(1,12,000)	
	Purchase of land & building	(56,000)	
	Increase on investment	(14,000)	
	Sales of Plant & Mach	25,200	(1,56,800)
(B)	Net cash flow from investing activities		1,56,800
	Equity share capital	14,000	
	Share premium	14,000	
	Redemption of debenture	(92,000)	
	Dividend paid	(14,000)	93,800
(C)	Net cash flow from financing activities		93,800
	Net Cash & cash equivalents (A+B+C)		14,000

Cash flow Statement (Indirect Method)		
Particulars	Details (Rs)	Total
Net Profit for the year		
Add: Non operating and non-cash expenses:-		
Dep'n on Fixed Assets	xxx	
Intangible Assets written off (Goodwill etc)	xxx	
Fictitious Assets " "(Provisioning exp etc)	xxx	
Provision for tax (Current year)	xxx	
Premium on redemption of debenture, bond and profit-shared	xxx	
Loss on sold of P.A	xxx	
Other non operating I/Os	xxx	xxx
		xxx
Less: Non operating & cash income and gain		
Gain on sold on F.A	xxx	
Appreciation or revaluation	xxx	
Gain on F.A	xxx	
Revd of tax	xxx	
Discount on redemption of debenture, prof. share etc	xxx	(xxx)
Funds from operations (FFO)		
Add: Inc in C.A and	xxx	
Inc in C.L except cash and bank		
Less: Increase in current asset and dec in current liabilities	(xxx)	xxx
Net cash flow from operating activities before Tax		xxx

Dr Retained Earnings A/c
 To profit on dividend 70,000
 To closing bal 176,000
 (C/d) 246,000

By opening balance (b/d) 140,000
 By net profit for the year 106,000
 Date 1/4/00
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Provision for dividend
 To dividend paid 50,000
 To closing balance 70,000
 120,000

By opening balance (b/d) 50,000
 By P/L Appn (Provision for the year) (bal) 70,000
 (balancing fig)

Particulars	Details (CRs)	Total
less: Tax paid		(XXX)
(A) Net cash flow from operating activities		XXX
Investing activities		
Financing activities	Same as direct method	

Particulars	Details	Total
Purchase of machinery	(340,000)	
Sold of inventories	80,000	(260,000)
Net cash flow from financing activities		(269,000)
Inc in share capital	2,00,000	
Inc in share premium	20,000	
Dec in debenture	(50,000)	
Premium on redemption	(5,000)	
Dividend paid	(50,000)	
		15,000

(B) Cash Flow Statement (Indirect Method)

Particulars	Rs	Total (CRs)
-------------	----	-------------

Net profit for the year		
Add: Non-operating and Non-cash expenses		
Depn on P/M	70,000	
Premium on redemption of debenture	5,000	
[100,000 - 50,000 x 10%]		
Provision for tax for the year	60,000	135,000
		275,000

less: Non operating & Non cash income :-		
Gain on sold of inventories	-	(40,000)
(80,000 - 40,000)		
Income from operation (IFO)		235,000
Adjustment of W.C expect cash and Bank :-		
Inc in AIR	(50,000)	
Inc in bank overdraft	50,000	
Dec in A/P	(20,000)	
Net cash flow from operating activities before tax paid		2,15,000
less: Tax paid		(50,000)
Net cash flow from operating activities		Rs 1,65,000

Provision for tax	
Tax paid 50,000	By opening 50,000
To closing 60,000	By P/L appn for the year 60,000
360,000	70,000
By (340,000)	630,000

Capital Budgeting Decision

Types of Capital Budgeting Projects or Assets:-

- ① New project :-
- ② Replacement project :-
- ③ Mutually exclusive projects :-
- ④ Independent projects :-
- ⑤ Expansion project :-
- ⑥ Diversified Portfolio project :-

Capital Budgeting Tools, Techniques or Criteria:-

① Pay Back Period (PBP).

Year	Annual CFAT Project X	Annual CFAT Project Y	Cumulative CFAT (Y)
0	(1,00,000)	(1,00,000)	(1,00,000)
1	30,000	40,000	(60,000)
2	30,000	25,000	(35,000)
3	30,000	30,000	(5,000)
4	30,000	20,000	15,000
5	30,000	15,000	30,000

Equal amount of cash flow \Rightarrow Even cashflow projects
 Unequal amount of cash flow \Rightarrow Uneven cashflow projects

Calculation of Pay back period

For Even cash flow projects (Project X)

$$PBP_x = \frac{\text{Initial investment (NCO, } I_0)}{\text{Annual CFAT}}$$

$$= \frac{1,00,000}{30,000} = 3.34 \text{ year.}$$

For uneven project (Y).

$$PBP_y = \text{Min year} + \frac{\text{Amount to be recovered in min. year}}{\text{Next year CFAT}}$$

$$= 3 \text{ year} + \frac{5,000}{20,000}$$

$$= 3.25 \text{ year.}$$

Decision making:

- ① Mutually exclusive projects
 Project with lower PBP is accepted.
 Projects with high " are rejected.
- ② Independent project
 If pay back period is less than standard time
 \Rightarrow All the projects are selected.
 * $PBP > S. \text{ time} \Rightarrow$ all rejected

Capital Budgeting:-

② Net Present Value Technique (NPV)

NPV = P.V of future expected cashing flow -
 P.V of cash output.

For even cash flow project (X)

$$NPV = [\text{Annual CFAT} \times PVIFA_{i,n}] - NCO$$

PVIFA = Present value interest factor annu.

$$PVIFA = \left[\text{Annual CFAT} \times \left[\frac{1 - \frac{1}{(1+i)^n}}{i} \right] - NCO \right]$$

i = rate of return or cost of capital or disc. rate.

Year	CFAT	PV
0	(100,000)	(100,000)
1-5	30,000	113721

$39000 \times 3.7908 - 100,000 = NPV = Rs 13724$
 or
 $TPV = 113721$

Less NCO = (100,000)
 $NPV = Rs 13724$

For uneven cash flow (Y)

$$NPV = \frac{CF_1}{(1+i)^1} + \frac{CF_2}{(1+i)^2} + \frac{CF_3}{(1+i)^3} + \dots + \frac{CF_n}{(1+i)^n} - NCO$$

or $\frac{1}{(1+i)^n} = PVIF$

Year	CFAT (Rs)	PV @ 10%	PV
0	100,000	1	(100,000)
1	40,000	0.9091	36364
2	25,000	0.8264	20660
3	30,000	0.7513	22539
4	20,000	0.6830	13660
5	15,000	0.6209	9314

$NPV = 2537$

Decision making:-

Mutually exclusive projects:-
 Project with high positive or low negative project is selected.

Independent Project.

* Projects with positive NPV are selected and vice versa:-

Advantage

- Considers time value of money.
- Consider all year cash flow.
- Focus on value maximization of company / stakeholder.

(3) Internal rate return (IRR)

$NVP = 0$

$PV \text{ of cash inflow} - NCO = 0$

$P.V \text{ of cash inflow} = P.V \text{ of cash output.}$

Calculation of IRR

For project X (Even):-

Required Factor = $\frac{NCO}{\text{Annual CFAT or Avg CFAT}}$

$= \frac{100,000}{30,000} = 3.34$

$PV \text{ of cash inflow} = P.V \text{ of outflow.}$
 or, $CFAT \times PVIFA_{i,n} = NCO$
 $PVIFA_{i,n} = \frac{NCO}{\text{Annual CFAT}}$

In PVIFA table the factor 3.334 at 5 yrs lies betn 15% (3.3522) and 16% (3.2743)

Year	Annual CFAT (Rs)	PV @ 15%	PV	PV @ 16%	PV
0	(100,000)	1	(100,000)	1	(100,000)
1-5	30,000	3.3522	100566	3.2743	98200

$PV_{15\%} = 100566$
 $PV_{16\%} = 98200$

By financial interpolation)

Actual IRR

$$= IR + \frac{NPV_{LR}}{(NPV_{LR} - NPV_{HR})} \times (HR - LR)$$

$$= 15\% + \frac{566}{(566 - 1777)} \times (16 - 15)\%$$

15.24

15.24

	P.V at 15.24%	PV
1	1	100,000
30,000		
		= 0

(calculation of IRR

For uneven project (X)

Approximate factor = $\frac{NCO}{\text{Average CFAT}}$

$$= \frac{100,000}{\frac{40,000 + 25,000 + 30,000 + 20,000 + 15,000}{5}}$$

$$= \frac{100,000}{26,000} = 3.846$$

1.1524
0.8774
0.152245

In PVIFA table the factor 3.846 at 5 years lies between around 10%.

Year	CFAT	PV@12%	PV
0	100,000	1	100,000
1	40,000	0.8929	35716
2	25,000	0.7972	19930
3	30,000	0.7118	21354
4	20,000	0.6355	12710
5	15,000	0.5674	8511

iPV_{12%} = (1775)

Year	CFAT	PV@10%	PV
0	100,000	1	100,000
1	40,000	0.9091	36364
2	25,000	0.8264	20660
3	30,000	0.7513	22539
4	20,000	0.6830	13660
5	15,000	0.6209	9313.5

NPV Rs 2536.5

Financial interpolation

Actual IRR

$$= IR + \frac{NPV_{LR}}{(NPV_{LR} - NPV_{HR})} \times (HR - LR)$$

$$= 10 + \frac{2536.5}{2536.5 + 1779} \times (12 - 10)\%$$

$$= 11.17\%$$

4315.5

Decision :-

Mutually exclusive :-

Project with greater IRR is accepted

Independent project :-

IF, IRR > Cost of Capital.
⇒ All the projects are accepted.

Arg CFAT = 26,000

1st year CFAT = 40,000

IF 1st year CFAT > Arg CFAT

Try above to approximate range (IRR lies above the approximate range).

Profitability Index (PI) :-

→ Cost Benefit ratio :-

$$PI = \frac{P.V \text{ of cash inflow}}{P.V \text{ of cash outflow}}$$

Decision

Mutually exclusive -
* greater PI is accepted.

Independent project

If $PI > 1 \Rightarrow$ All accepted

If $PI < 1 \Rightarrow$ All rejected

$$PI_x = \frac{113724}{100000}$$

$$= 1.1372 > 1$$

$$PI_y = \frac{102537}{100000}$$

$$= 1.02537 > 1$$

⑤ Average rate of return (ARR) :-

$$ARR = \frac{\text{Average NPAT}}{\text{Avg investment}} \times 100 = \text{---} \%$$

$$\text{Average Investment} = \frac{B.V \text{ today} + B.V \text{ end}}{2}$$

Year	Project X	Project Y
1	5,000	60,000
2	4,000	13,000
3	25,000	30,000
4	35,000	45,000
5	20,000	20,000

Investment on Project X & Y are equal to 1,00,000.

$$\text{For project X} = \frac{50000 + 40000 + 25000 + 35000 + 20000}{5} \times 100$$

$$= \frac{109000 + 0}{2}$$

$$= 0.68 \times 100$$

$$= 68 \%$$

$$\text{For project Y} = \frac{60000 + 13000 + 30000 + 45000 + 20000}{5} \times 100$$

$$= \frac{100000 + 0}{2}$$

$$\text{Decision} = 68 \%$$

M.E

\Rightarrow greater ARR is suitable project
I.P

If $ARR > \text{cost of capital (K or } i) \Rightarrow$ All are suitable.

Estimation of cash flows of Projects :-

- ① Net cash outlay or Initial investment (NCO or I_0)
- ② Calculation of Depreciation.
- ③ Annual CFAT.
- ④ Final year CFAT.

① Net cash outlay or Initial investment (NCO or I_0)
For New project Rs

For new project :-

Purchase price	Rs (xxx)
All other purchase related expenses (Carriage, installation, Custom, Layout)	(xxx)
Working capital tied-up	(xxx.)
Investment tax credit (Purchase price \times ITC Rate / 100)	xxx
Net cash outlay or IO	<u>xxx.</u>

For replacement project

	Rs
Purchase price and other direct cost of New Assets	(xxx)
In case of new assets be released \leftarrow Working capital tied-up/released	(xxx) (xxx)
ITC	xxx
Cash salvage value of old assets (today)	xxx
Net (C.S.V) \leftarrow Tax saving / Outstanding net (C.S.V) (Capital gain tax and gain tax)	xxx. <u>(xxx)</u>

Tax adjustment

C.S.V = B.S.V = No Gain / Loss
 C.S.V < B.S.V \rightarrow Loss \Rightarrow Tax Saving
 C.S.V > B.S.V \Rightarrow Gain \Rightarrow Tax O/S.

(L) Normal gain | Book salvage value =
 O.C - Total depⁿ
 If C.S.V > O.C | C.S.V = Sale value.

(L) Capital gain,
 Capital gain = C.S.V - O.C

$$\text{Total gain} = C.S.V - B.S.V$$

$$\text{Normal gain} = \text{Total gain} - \text{Capital gain}$$

$$\text{Annual depreciation} = \frac{O.C - B.S.V \text{ end}}{\text{Total life}}$$

If, B.S.V today & B.S.V end is given,

$$\text{Annual dep}^n = \frac{B.S.V \text{ today} - B.S.V \text{ end}}{\text{Remaining life of Assets}}$$

$$\text{Annual dep}^n (New) = \frac{\text{Original cost (New)} - B.S.V \text{ end (New)}}{\text{Life of New assets}}$$

$$\text{Diff. dep}^n = \text{New} - \text{Old}$$

(3) Cash of Annual CFAT (1-nth year)
 For new project

	Rs
Sales revenue	xxx
Less:- Operating cost	(xxx)
Earning before Dep ⁿ and tax (EDDT)	xxx
Less:- Dep ⁿ	(xxx)
Earning before tax (EBT)	xxx
Less:- Tax (%)	(xxx)
Earning after tax (EAT)	xxx
Add:- Dep ⁿ	xxx
Annual CFAT	<u>xxxx</u>

For replacement project

(I) If replacement project maximizing the sales and cost both.

	New	old	Differential (CRs)
Sales revenue	7,00,000	5,00,000	xxx.
Less:- operating cost	3,00,000	2,00,000	(xxx)
Differential EDDT			
Less:- Differential dep ⁿ	-	-	(xxx)
Diff EBT			xxx.
Less Tax (%)			(xxx)
Diff EAT			xxx
Add:- Diff dep ⁿ			xxx
Diff CFAT			xxx.

(II) Increase in Sales or Dec. in operating cost.

	Differential (CRs)
Diff. EBDT (Inc. in sales or Dec. in cost)	xxx
Less:- Diff dep ⁿ	(xxx)
Diff EBT	xxx
Less Tax	

(III) Inc in sales & dec in cost

	Differential (CRs)
Increase in sales	xxx
Add:- Decrease in cost	xxx
Diff EBDT (saving)	xxx
Less:- Diff Dep ⁿ	(xxx)

Final year CFAT (nth year).

For new project:-

	B
Annual CFAT (Step-3)	xxx
Working capital released	xxx
C.S.V at the end	xxx
Tax saving / OIS	xxx / (xxx)
Final year CFAT (nth)	xxx

For Replacement Project

	Rs
Diff CFAT (Step 3)	xxx
W.C released/w.c tied-up	xxx / (xxx)
Differential cash salvage value (C.S.V) at the end (New-old)	xxx
Tax saving / OIS on Diff gain or loss	xxx / (xxx)
Final year CFAT	xxx

Q no 3 (a) Calculation of Net Cash Outlay (NCO)

	Rs.
Purchase price of Plant	(10,00,000)
Installation	(1,00,000)
w.c required	(40,000)
NCO	11,40,000
Annual dep ⁿ = OC - B.S.V end	
Total line	
= (10,00,000 + 1,00,000) - 1,00,000	
5 years	
= Rs 20,00,000	

(b)	Annual CFAT.	Rs
	Sales revenue	5,00,000
Less:-	Operating cost	(2,20,000)
	EBDT	3,00,000
Less:-	Dep ⁿ	(2,00,000)
	EBT	1,00,000
Less:-	Tax (40%)	(40,000)
	EAT	60,000
Add:-	Dep ⁿ	2,00,000
	Annual CFAT	2,60,000

(c) Final year CFAT (5th year).

	Rs
Annual CFAT (5th year)	2,60,000
w/c related Annual CFAT (step-b)	40,000
C.S.V. end	80,000
Tax saving on 125 (20,000 x 40%)	8,000
	88,000
Final year (5th) CFAT	<u>Rs 3,88,000</u>

(d) Decision making

Year	CFAT (Rs)	PV@10%	PV
0	1,140,000	1	1,140,000
1-4	2,60,000	3.1699	8,24,174
5	3,88,000	0.6209	2,40,909.2
			NPV = Rs (74,917)

The assets should not be installed due to the negative NPV.

(4) (a) Calculation of Net Cash Outlay (NCO)

	Rs.
Purchase price of plant	(6,00,000)
Installation	(80,000)
W.C. required	(6,80,000)
NCO	<u>(13,60,000)</u>
Annual dep ⁿ = $\frac{(6,00,000 + 80,000)}{5}$	= 80,000
	= 1,20,000

(b) Annual CFAT

	Rs -
Sales revenue	1,20,000
EBDT	(1,20,000)
Less:- Dep ⁿ	(1,20,000)
less:- Tax (30%)	
EBT	1,20,000
less Tax (30%)	(36,000)
EAT	84,000
Add Dep ⁿ	1,20,000
	<u>2,04,000</u>

(c) Final year CFAT (5th year).

Annual CFAT (5th year)	2,60,000	2,04,000
w/c related Annual CFAT (step-b)	36,000	
C.S.V. end	1,00,000	
Tax saving paid (30% of 20,000)	(6,000)	
Final year CFAT	<u>2,98,000</u>	

(d) Decision making

Year	CFAT (Rs)	PV@12%	PV
0	6,80,000	1	(6,80,000)
1-4	2,04,000	3.0373	6,19,609.2
5	2,98,000	0.5674	1,69,085.2
			<u>(1,08,694.4)</u>

Not installed

5 Replacement project

	New	Old
Original cost	6,00,000	-
Remaining life	5 years	5 year.
B.S.V life	-	3,00,000
C.S.V today	-	2,50,000
less depn	-	60,000
Annual depn	$\frac{6,50,000}{5} = 1,30,000$	0
B.S.V & C.S.V at	0	0

6a Net cash outlay

	Rs
Purchase price of new machine	6,00,000
lay out expenses	50,000
C.S.V today of old machine	2,50,000
Tax saving $(50,000 \times 45\%)$	22,500
N.C.O	Rs. 3,77,500

6b Annual Diff. CFAT

	New	Old	Diff (Rs)
Sales revenue	7,50,000	5,00,000	2,50,000
less:- Operating expenses	(4,50,000)	(3,00,000)	(1,50,000)
less:- Diff. depn	1,30,000	60,000	(70,000)
EBT.			30,000
less Tax (45%) $(30,000 \times 45\%)$			(13,500)
EAT			16,500
Add:- Depn			70,000
Diff CFAT			Rs 86,500

6c Decision making

Year	CFAT (Rs)	PV @ 10%	PV
0	3,77,500	1	(3,77,500)
1-5	86,500	3.7908	3,27,904.2
			NPV = (49,596)

∴ It is not suitable.

7

	New	Old
Cost	2,50,000	
Remaining life	4 years	4 years
B.S.V today (today)		50,000
B.S.V today (today)		60,000
W.C required	50,000	
B.S.V end	40,000	0
C.S.V end	40,000	2,000
Depn	$\frac{SL.M}{4} = \frac{250,000 - 40,000}{4} = 52,500$	$\frac{SL.M}{4} = \frac{60,000 - 50,000}{4} = 2,500$

7a Net cash outlay (NCO)

	Rs	Rs
Cost of outlay	(2,50,000)	
W.C required	(50,000)	
C.S.V (old today)	60,000	
Tax payable on gain $(60,000 - 50,000) \times 50\%$	(5,000)	
NCO	Rs. 355,000	Rs 12,500

7b

	Diff annual CFAT	Diff annual (Rs)
Net saving (Diff EDDT)	(90,000 - 20,000)	70,000
less Diff Depn $(52,500 - 15,000)$		(40,000)
Diff EBT		30,000

	New	old	DIF
s.v end	40,000	—	40,000
c.s.v end	40,000	20,000	38,000
Diff loss	0	2,000	(2,000) → Loss

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Diff annual CFAT	Differential (Rs)
Net saving (Diff. EBDT) (90,000 - 20,000)	70,000
Less: - Diff dep ⁿ (52500 - 12500)	(110,000)
	30,000
Less Tax (50%)	(15,000)
Diff. EAT	15,000
Add: - Dep ⁿ	40,000
Diff CFAT	55,000

(c) Final year (4th) CFAT:- Rs.

Diff CFAT (5th - 4th)	55,000
W.C released	50,000
Diff C.S.V (40,000 - 20,000)	38,000
Tax saving on diff. loss (2000 x 50%)	1,000
Final year (4th) CFAT	Rs 1,44,000

(d) Decision making

Year	CFAT (Ks)	PV @ 10%	PV
0	2,45,000	1	2,45,000
1-3	55,000	2.4869	1,36,779.5
4th	1,44,000	0.6830	98,352
NPV: (9868.50)			

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(b)

Cost	New	Old
Remaining year	5 year	5 year
B.S.V today (today)		40,000
C.S.V today		50,000
W.C. required	20,000	
B.S.V end	20,000	10,000
C.S.V end	23,000	12,000
Dep ⁿ	S.L.M = $\frac{120,000 - 20,000}{5}$	S.L.M. today = $\frac{B.S.V \text{ old} - B.S.V \text{ end}}{\text{Remain life}}$ = $\frac{40,000 - 10,000}{5}$ = 6,000

(a) Net cash outlay. Rs.

Cost of outlay	(1,20,000)
C.S.V (old to day)	(50,000)
Tax payable (50,000 - 40,000) x 50%	(5,000)
NCO	75,000

(b) Diff annual CFAT Differential (Rs)

Net saving (Diff EBDT)	40,000
Less Diff Dep ⁿ (20,000 - 6,000)	(14,000)
	26,000
Diff annual CFAT	Differential (Rs)
EBDT	40,000
Less Tax (50%)	(13,000)
Diff EAT	13,000
Add Dep ⁿ	14,000
	27,000

	New	Old	Diff
B.S.V end	20,000	10,000	10,000
C.S.V end	23,000	12,000	11,000

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(c) Final year (5th year)

DIFE CFAT	27,000
W.C related	11,000.
Diff (S.V. C gain)	10,000
Tax (1000 x 50%)	(500)
Final year CFAT	38500 37500

Decision matrix

Year	CFAT	PV @ 12%	PV
0	75,000	1	75,000
1-4	27,000	3.0373	8587.3
5	38500	0.6209	23904.6
	57500	0.5674	82007.1
			21277.5
			<u>28284.6</u>

(8)

	New	Old
Cost	15,00,000	8,00,000
Total life	-	15 yrs.
Remaining life	10 yrs	10 yrs.
B.S.V today	-	5,40,000.
C.S.V today	-	500,000
B.S.V end	-	20,000
C.S.V end	-	20,000
W.C requirement	3,00,000	
ITC	20%	
Annual saving (EBIT)	300,000	

New Annual depⁿ = $\frac{15,00,000 - 200,000}{10}$

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Old Annual depⁿ = $\frac{800,000 - 200,000}{15 \text{ yrs}}$ = Rs 52,000.

B.S.V today (Ending of 5th year)
= OC - Total depⁿ pr 5yr.
= 800,000 - (52,000 x 5)
= Rs 549,000.

(a)

	Rs
NCO Cost	(15,00,000)
W.C (lied up)	(2,00,000)
ITC (15,00,000 x 20%)	300,000
C.S.V. today of old	5,00,000
Tax saving on b.s.s (540,000 - 5,00,000) x 40%	1,60,000
NCO	<u>Rs 984,000</u>

(b) Differential annual CFAT.

Sales revenue (EBDT)	3,00,000.
Diff dep ⁿ (139,000 - 52,000)	(1,30,000) (78,000)
Less tax (40%)	1,70,000. 22,2000
	<u>(880,000)</u>