INTERMEDIATE COURSE

(UNDER REVISED SCHEME OF EDUCATION AND TRAINING)

GROUP – I

REVISION TEST PAPERS

NOVEMBER, 2018

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REVISION TEST PAPER, NOVEMBER 2018 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

(i) Planning and preparing for examination

(ii) Subject-wise guidance – An overview

(iii) Updates applicable for a particular exam in the relevant subjects

(iv) Topic-wise questions and detailed answers thereof in respect of each paper

(v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website *www.icai.org* under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is in an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answers as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.

- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview

PAPER – 1 : ACCOUNTING

The Revisionary Test Paper (RTP) of Accounting is divided into two parts viz Part I - Relevant announcement stating Applicability and Non-Applicability for November, 2018examination and Part II –Questions and Answers.

It may be noted that the July, 2017 edition of the Study Material is relevant for November, 2018 Examination.

Part I of the Revisionary Test consists of the relevant Notifications and information applicable and not applicable for November, 2018 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November, 2018 examination. The brief summary of the same has been given as under:

A. Applicable for November, 2018 examination:

I Relevant Notified Sections of the Companies Act, 2013.

II Notification dated 13th June, 2017 to exempt start-up private companies from preparation of Cash Flow Statement

B. Not applicable for November, 2018 examination:

Ind ASs issued by the Ministry of Corporate Affairs.

Part II of the Revisionary Test Paper consists of twenty questions together with their answers. First fifteen questions are based on different topics discussed in the study material. Last five questions of this RTP are based on Accounting Standards. For easy reference the topic / accounting standard name and number on which the question is based has been quoted at the top of each question. The details of topics, on which questions in the RTP are based, are as under:

Question No.	Topic
1 and 2	Financial Statements of Companies
3	Profit or Loss prior to Incorporation
4	Accounting for Bonus Issue
5	Right Issue
6	Redemption of Preference Shares
7	Redemption of Debentures
8	Investment Accounts
9	Insurance Claim for Loss of Stock
10	Hire purchase Transactions
11	Departmental Accounts
12	Branch Accounting
13	Accounts from Incomplete Records
14	Partnership accounts: Dissolution of Partnership
15	Framework for Preparation and Presentation of Financial statements
16-20	Accounting Standards

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

PAPER – 2: CORPORATE AND OTHER LAWS

In the paper of Corporate and Other Laws, for the 'Company Law' portion the objective is 'To develop an understanding of the provisions of company law and acquire the ability to address application-oriented issues' and for 'Other Laws' the objective is 'To develop an understanding of the provisions of select legislations and acquire the ability to address application-oriented issues, and to develop an understanding of the rules for interpretation of statutes'. The students need to prepare on basis of the objective entrusted in the syllabus for the subject. Students should also give importance to the terms/definitions for proper conceptualization of the answers. Students have to focus their study based on the major legal provisions, case laws, if any, and understand their practical implications. Also, Language is an important point of concern. This problem among many of the candidates can be overcome by way of practice writing and also undertaking self-examination by going through Revisionary Test Papers (RTP).

RTP gives an idea to the student attempting law paper to give the answer of any practical oriented questions by pinpointing the legal points or issues involved in any statement, problem or situation given in the question, explaining the relevant legal provisions clearly, co-relating the legal provisions to the given statement or problem or situation and cite the relevant case law in support of their reasoning for reflecting on the quality of the answer. For the theoretical question, the answer should be laid down by highlighting the main points with brief description and explain the same with the help of an example.

Generally, the RTP is divided into two parts -

Part I: Containing the relevant legislative amendments which are applicable for November 2018 examinations.

It consists of the relevant Notifications and information applicable for November 2018 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November 2018 examinations.

Part II: Topic wise questions with detailed answers

It constitutes of 15 Questions broadly categorised into two portions- Company Law (covering 10 questions) and Other Laws (covering 5 questions), with their detailed answers. The questions here are arranged in the same sequence as prescribed in the Study Module to smoothen the progress of easy revision. The topics amongst which these questions fall, are as follows:

QUESTION NO.	ABOUT THE QUESTION
1 - 10	Based on the Companies Act, 2013
11 & 12	Deals with the Indian Contract Act, 1872.
13	Deals with the Negotiable Instruments Act,1881
14	Based on the General Clauses Act, 1897
15	Interpretation of Statutes, Deeds and Documents

Guidance on the citation of the Case Laws and Section

Students may kindly note that in view of various Acts covered under the subject, you may find it difficult to remember various sections of the law and related case laws on the matter. Case laws and citing of the Sections reflects on the quality of your preparation for the examination and making yourself set to become a perfect professional. The answers that are reflected here have reference to sections and case laws wherever applicable. It may kindly be noted that these are given for knowledge and to mainly inculcate such a habit. However, at this level it may not affect on the scoring of the marks.

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

The Revision Test Paper (RTP) of Cost and Management Accounting comprises of fifteen questions for full coverage of the syllabus. Theoretical questions alongwith computational problems have also been incorporated so that you are able to give emphasis to the theoretical portion of the syllabus as well. Since this paper's inclination is more towards numerical-oriented questions which involve mathematical calculations, therefore, it is very important that you have thoroughly studied the theoretical aspects of the subject and are also clear about the concepts and logic behind the mathematical workings and formulae.

A summary of the questions both theoretical and computational has been given for your reference:

Qs No.	Topic	About the Problem
1.	Material	Calculation of Economic Order Quantity (EOQ).
2.	Employee Cost	Calculation of hourly wage rate.
3.	Overheads	Estimation of the comprehensive machine hour rate.
4.	Activity Based Costing	Calculation the operating income and operating income as a % of revenues for product line through Activity Based Costing.
5.	Cost Sheet	Calculation of Cost of production
6.	Cost Accounting System	Preparation of statement to calculate profit as per financial records and cost accounting records. Reconciliation of profit calculated under both the system.
7.	Contract Costing	Preparation of contract Account.
8.	Job Costing	Determination of quote for the job.
9.	Process Costing	Preparation of Process Account.
10.	Joint Products & By Products	Preparation of statement of profitability
11.	Service Costing	Calculation of cost
12.	Standard Costing	Computation of variances.
13.	Marginal Costing	Calculation of BEP
14.	Budget and Budgetary Control	Preparation of production budget
15.(a)		Essential features of a good cost accounting system

15.(b)	Miscellaneous theory	Difference between Cost Control and Control Reduction
15.(c)		Definition of Controllable Cost and Uncontrollable Cost.
15(d)		Distinguish between job and batch costing.

PAPER – 4: TAXATION

Section A: Income-tax Law (60 Marks)

The Income-tax law, as amended by the Finance Act, 2017, and significant notifications, circulars and other legislative amendments upto 30.4.2018 are relevant for November, 2018 Examination. The relevant assessment year for November, 2018 examination is A.Y. 2018-19.

The July 2017 edition of the Study Material, comprising of three modules (Modules 1-3), is applicable for November, 2018 Examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines"** in the above Study Material. The same is also given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2018 – Intermediate (New) Examination" appended at the end of this Revision Test Paper.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2017 and latest notifications and circulars have been given in *italics/**bold italics***. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

Before you work out the questions in Part II of the RTP, do read the Statutory Update given in Part I. Students may refer to the January, 2018 & February, 2018 issue of the Students' Journal "The Chartered Accountant Student" for a quick recap of the income tax provisions discussed in the Study Material.

Section B: Indirect Taxes (40 Marks)

For Section B: Indirect Taxes of Paper 4: Taxation, provisions of CGST Act, 2017 and IGST Act, 2017, including significant circulars and notifications issued and other legislative amendments made upto 30th April, 2018 are applicable for November, 2018 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines for November 2018 Examination"**. The same is given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2018 Examination" appended at the end of this Revision Test Paper.

The July 2017 edition of the Study Material is applicable for New Intermediate Course Paper 4: Taxation, Section B: Indirect Taxes. The Study Material has been divided into two modules for ease of handling by students.

Study Material is based on the provisions of the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Act, 2017 as amended upto 31.07.2017.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your knowledge.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

It may be noted that the Statutory Update comprising of the significant legislative developments by way of notifications/circulars issued from 01.08.2017 to 30.04.2018 will be web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2018 EXAMINATION

A. Applicable for November, 2018 examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2018 will be applicable for November, 2018 Examination.

II. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013

As per the Amendment, under Chapter I, clause (40) of section 2, new exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

B. Not applicable for November, 2018 examination

Non-Applicability of Ind ASs for November, 2018 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2018 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

Preparation of Statement of Profit and Loss Statement and Balance Sheet

1. (a) You are required to prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000

Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000		
Loose Tools	2,00,000	Stores	16,00,000
General Reserve	62,00,000	Fixed Assets (WDV)	2,26,00,000
Capital Work-in- progress	8,00,000	Finished Goods	30,00,000

Additional Information:-

1. Share Capital consist of-
   (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
3. Depreciate Assets by ₹ 20,00,000.

(b) PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(₹ in lakhs)
Paid up equity share capital	180
Paid up preference share capital	30
Reserves (including Revaluation reserve ₹ 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

Cash flow statement

2. The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as follows:

	2018 (₹)	2017 (₹)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V) :		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000.
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000.

3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

You are required to prepare Cash Flow Statement as per AS-3 (revised) using indirect method.

Profit or Loss prior to Incorporation

3. Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2017 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2018 is as under:

Happy Ltd.

Profit & Loss Account for the year ending March 31, 2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees (Company Audit)	12,000		
To Net Profit	1,33,350		
Total	4,50,000	Total	4,50,000

You are required to prepare a Statement showing allocation of expenses and calculation of pre-incorporation and post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2014-15 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2017 for which rent was ₹ 2,400 per month.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	45,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to give necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue.

Right issue

5. Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value (cum-right) of the share is ₹ 360 and the company is offering one right share of ₹ 180 each to its existing shareholders. You are required to calculate the value of a right. What should be the ex-right value of a share?

Redemption of preference shares

6. The following are the extracts from the Balance Sheet of Meera Ltd. as on 31st December, 2017.

   Share capital: 60,000 Equity shares of ₹10 each fully paid – ₹ 6,00,000; 1,500 10% Redeemable preference shares of ₹ 100 each fully paid – ₹1,50,000.

   Reserve & Surplus: Capital reserve – ₹ 75,000; Securities premium – ₹ 75,000; General reserve – ₹ 1,12,500; Profit and Loss Account – ₹ 62,500

   On 1st January 2018, the Board of Directors decided to redeem the preference shares at premium of 10% by utilisation of reserve.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

Redemption of Debentures

7. The summarized Balance Sheet of Spices Ltd. as on 31st March, 2018 read as under:

	₹
Liabilities:	
Share Capital: 9,000 equity shares of ₹ 10 each, fully paid up	90,000
General Reserve	38,000
Debenture Redemption Reserve	35,000
12% Convertible Debentures : 1,200 Debentures of ₹ 50 each	60,000
Unsecured Loans	28,000
Short term borrowings	19,000
	2,70,000
Assets:	
Fixed Assets (at cost less depreciation)	72,000
Debenture Redemption Reserve Investments	34,000
Cash and Bank Balances	86,000
Other Current Assets	78,000
	2,70,000

The debentures are due for redemption on 1st April, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of ₹ 11 per share and the balance payment in cash.

Assuming that:

(i) Except for debentureholders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized ₹ 56,000 on sale,

(iii) All the transactions were taken place on 1st April, 2018

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

You are required to

(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.

(b) Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Investment Accounts

8. Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing shareholders.

   The terms of bonus and right issue were -

   (1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.

   (2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.

   (3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

   (4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

   (5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

   (6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of ₹ 4 per share.

   (7) The market price of share on 31.03.2018 was ₹ 13 per share.

   You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Insurance Claim for loss of stock

9. On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

   From the salvaged accounting records, the following information is available relating to the period from 1.4.2017 to 27.7.2017:

1.	Stock as per balance sheet as on 31.3.2017	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to	₹ 4,12,300

	₹ 40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

(i) While valuing the stock on 31.3.2017, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2017 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

You are required to compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items.

Hire Purchase Transactions

10. The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

Departmental Accounts

11. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A ₹	*Deptt. B* ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

12. Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:
    (i) Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
    (ii) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
    (iii) Branch assets accounts retained at head office, depreciation charged for the year ₹ 15,000 not recorded by Branch.
    (iv) Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.
    (v) Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.
    (vi) Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date of reconciliation.
    (vii) Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch.
    (viii) Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books.

Accounts from Incomplete Records

13. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

		in ₹
	1.4.2016	31.3.2017
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtors.

Partnership Accounts: Dissolution of Partnership

14. A, B and C are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2018 is as below:

Liabilities	₹	Assets	₹
A's Capital	1,20,000	Factory Building	1,93,280
B's Capital	80,000	Plant and Machinery	1,30,200
C's Capital	1,00,000	Trade Receivables	43,200
B's Loan	36,000	Inventories	99,120
Trade Payables	1,32,000	Cash at Bank	2,200
	4,68,000		4,68,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. The partners decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	1,49,200
Second instalment	1,38,602
Third instalment	80,000
Last instalment	56,000

Dissolution expenses were provided for estimated amount of	₹ 24,000
The trade payables were were settled finally for	₹ 1,27,200

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

Framework for Preparation and Presentation of Financial Statements

15. (a) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

(b) Mohan started a business on 1st April 2017 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost.

Accounting Standards

AS 2 Valuation of Inventories

16. (a) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	₹ Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(i) Net realizable value of Chemical Y is ₹ 800 per unit

(ii) Net realizable value of Chemical Y is ₹ 600 per unit

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

(b) While preparing its final accounts for the year ended 31st March, 2017, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2017 a debtor for ₹ 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2017? You are required to advise the company in line with AS 4.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Polices

17. (a) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS 5

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

AS 10 Property, Plant and Equipment

(b) ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	₹
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) (i) Classify the following items as monetary or non-monetary item:

Share Capital

Trade Receivables

Investment in Equity shares

Fixed Assets.

(ii)

	Exchange Rate per $
Goods purchased on 1.1.2017 for US $ 15,000	₹ 75
Exchange rate on 31.3.2017	₹ 74
Date of actual payment 7.7.2017	₹ 73

You are required to ascertain the loss/gain for financial years 2016-17 and 2017-18, also give their treatment as per AS 11.

AS 12 Government Grants

(b) A specific government grant of ₹ 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of ₹ 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 10.50 lakhs and written down value of plant was ₹ 66.50 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of ₹ 56 lakhs as on 1.4.2017?

You are required to explain in the line with provisions of AS 12.

AS 13 Accounting for Investments

19. (a) M/s Active Builders Ltd. invested in the shares of another company (with an intention to hold the shares for short term period)on 31st October, 2016 at a cost of ₹ 4,50,000. It also earlier purchased Gold of ₹ 5,00,000 and Silver of ₹ 2,25,000 on 31st March, 2014.

Market values as on 31st March, 2017 of the above investments are as follows:

Shares ₹ 3,75,000; Gold ₹ 7,50,000 and Silver ₹ 4,35,000

You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13?

AS 16 Borrowing costs

(b) A company incorporated in June 2017, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16.

AS 17 Segment Reporting

20 (a) Calculate the segment results of a manufacturing organization from the following information:

Segments	*A*	*B*	*C*	*Total*
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)				1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)				77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	
Transaction from C	6,000	40,000		
Transaction from A		18,000	82,000	

AS 22 Accounting for Taxes on Income

(b) Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is ₹ 1,000 lakhs and ₹ 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by ₹ 50 lakhs. Assuming tax rate of 40%, you are required to compute to the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

SUGGESTED ANSWERS

1. (a) Balance Sheet of Mehar Ltd. as at 31st March, 2018

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	98,64,424
(2)	**Non-current Liabilities**		
	Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables	-	45,80,000
	(b) Other current liabilities	3	20,03,576
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		**3,74,68,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Fixed Assets:		
	(i) Tangible Assets	4	2,06,00,000
	(ii) Capital WIP		8,00,000
	(b) Non- current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		**3,74,68,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of ₹ 100 each	1,20,00,000	

	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance -		
	Profit for the period 32,00,000		
	Less: Miscellaneous Expenditure		
	written off (2,32,000)		
	29,68,000		
	***Less*: Appropriations**		
	Dividend (10,00,000)		
	Dividend distribution tax (2,03,576)	17,64,424	98,64,424
3.	**Other current liabilities**		
	Loan from other parties	8,00,000	
	Dividend	10,00,000	
	Dividend Distribution tax [W.N]	2,03,576	20,03,576
4.	**Tangible assets**		
	Fixed Assets		
	Opening balance	2,26,00,000	
	Less: Depreciation	(20,00,000)	
	Closing balance		2,06,00,000
5.	**Inventories**		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	**Trade Receivables**		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	**Short term loans & Advances**		
	Staff Advances	2,20,000	
	Other Advances	14,88,000	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:

		₹
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	4,00,000	10,00,000
Add: Increase for the purpose of grossing up of dividend 10,00,000 x [15 /(100-15)]		1,76,470
Gross dividend		11,76,470

(ii) Dividend distribution tax @ 17.304% 2,03,576

(b) Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225-15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less: Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum*.

*If the effective capital is less then 5 Crore, limit of yearly remuneration payable should not exceed ₹ 60 lakhs as per Companies Act, 2013.

2. **Harry Ltd.**

Cash Flow Statement

for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. **Calculation of Income taxes paid**

	₹
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. **Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

3. Pre-incorporation period is for two months, from 1st April, 2017 to 31st May, 2017. 10 months' period (from 1st June, 2017 to 31st March, 2018) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

	Pre-Inc ₹	***Post-Inc*** ₹
Gross Profit	50,000	4,00,000
Bad debts Recovery	14,000	
	64,000	4,00,000
Less: Salaries	24,000	1,20,000
Audit fees	-	12,000
Depreciation	3,000	16,250
Sales commission	2,000	16,000
Bad Debts (49,000 + 14,000)	7,000	56,000

Interest on Debentures	–	36,000
Rent	4,000	34,400
Net Profit	24,000	1,09,350

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

Oct. to March = ₹ 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = ₹2,00,000

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of ₹ 18,000 divided in the ratio of 1:5 (time basis) and ₹ 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2014-15.

(viii) Rent

(₹ 38,400 – Additional rent for 6 months)		₹
[38,400- 14,400 (2,400 x 6)]	=	24,000
1/4/17 -31/5//17 (2,000 x 2)	=	4,000
1/6/17 -31/3/18 – [(2,000 x 10) +14,400]	=	34,400
		38,400

4. **Journal Entries in the books of Xeta Ltd.**

			₹	₹
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000

	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue)

	₹
Authorised Capital	
50,000 12% Preference shares of ₹10 each	5,00,000
4,00,000 Equity shares of ₹10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

5. Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + Number of Right shares)

= (₹ 360 x 2 Shares + ₹ 180 x 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 360 – ₹ 300 = ₹ 60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 180 will have to pay ₹ 120 (2 shares x ₹ 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

6. In the books of Meera Limited

Journal Entries

Date 2018	***Particulars***		***Dr. (₹)***	***Cr. (₹)***
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Pref. shares	Dr.	15,000	
	To Preference Shareholders A/c			1,65,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Pref. Shares			15,000
	(Being adjustment of premium on redemption)			
	General Reserve A/c	Dr.	1,12,500	
	Profit & Loss A/c	Dr.	37,500	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

7. **Spices Ltd.**

Balance Sheet as on 01.04.2018

Particulars	Note No.	Figures as at the end of current reporting period
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,10,000
(b) Reserves and Surplus	2	91,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		28,000
(3) Current Liabilities		
(a) Short-term borrowings		19,000
Total		2,48,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		72,000
(2) Current assets		
(a) Cash and cash equivalents		98,000
(b) Other current assets		78,000
Total		2,48,000

Notes to Accounts

			₹
1	**Share Capital**		
	11,000 Equity Shares of ₹ 10 each		1,10,000
	(Out of above, 2000 shares issued to debentures holders who opted for conversion into shares)		
2	**Reserve and Surplus**		
	General Reserve	38,000	
	Add: Debenture Redemption Reserve transfer	35,000	
		73,000	
	Add: Profit on sale of investments	22,000	
		95,000	

Less: Premium on redemption of debentures (1,200 x ₹ 5)	(6,000)	89,000
Securities Premium Account (2,000 x ₹ 1)		2,000
		91,000

Working Notes:

(i) Calculation of number of shares to be allotted ₹

Total number of debentures	1,200
Less: Number of debentures not opting for conversion	(200)
	1,000
40% of 1,000	400
Redemption value of 400 debentures (400 x ₹ 55)	₹ 22,000

Number of Equity Shares to be allotted 22,000/11 = 2,000 shares of ₹ 10 each.

(ii) Calculation of cash to be paid ₹

Number of debentures	1,200
Less: Number of debentures to be converted into equity shares	(400)
	800

Redemption value of 800 debentures (800 × ₹ 55) ₹ 44,000

(iii) Cash and Bank Balance ₹

Balance before redemption	86,000
Add: Proceeds of investments sold	56,000
	1,42,000
Less: Cash paid to debenture holders	(44,000)
	98,000

8. Investment Account-Equity Shares in X Ltd.

Date		*No. of shares*	*Dividend*	*Amount*	*Date*		*No. of shares*	*Dividend*	*Amount*
			₹	₹				₹	₹
2017					2018				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					

2018									
Feb. 1	To Profit & Loss A/c			13,750					
Mar.31	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold — Amount paid for 8,000 shares**

	₹
(₹ 60,000 + ₹ 14,000 + ₹ 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

   Closing balance will be valued based on lower of cost (₹ 42,250) or net realizable value (₹13 x 4,000). Thus investment will be valued at ₹ 42,250.

3. **Calculation of sale of right entitlement**

   1,000 shares x ₹ 8 per share = ₹ 8,000

   Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

4. **Dividend received on investment held as on 1st April, 2017**

   = 4,000 shares x ₹ 10 x 20%

   = ₹ 8,000 will be transferred to Profit and Loss A/c

   Dividend received on shares purchased on 1st Sep. 2017

   = 1,000 shares x ₹ 10 x 20% = ₹ 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017.

9. Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N. 3)	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N. 2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 27th July, 2017	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$$= \text{Loss x } \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 59,300 x (55,000/ 63,000) = ₹ 51,770 (rounded off)

Working Notes:

1. Calculation of Adjusted Purchases

	₹
Purchases	2,92,000

Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2. Calculation of Goods with Customers

Approval for sale has not been received = ₹ 40,000 X 1/4 = ₹ 10,000.

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹ 8,000

3. Calculation of Actual Sales

Total Sales	₹ 4,12,300
Less: Approval for sale not received (1/4 X ₹ 40,000)	₹ 10,000
Actual Sales	₹ 4,02,300

4. Calculation of Wages

Total Wages	₹ 53,000
Less: Wages for installation of machinery	₹ 3,000
	₹ 50,000

5. Value of Opening Stock

Original cost of stock as on 31st March,2018

= ₹ 63,000 + 1,000 (Amount written off)

= ₹ 64,000.

10.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000

	Book value of car left with the hire purchaser		1,28,000
(iii)	Book value of one car as calculated in working note (ii) above		1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2		2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above		1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =		₹ 60,000
(iv)	Sale proceeds of cars repossessed		1,70,000
	Less: Value at which Cars were taken back	₹ 1,96,000	
	Repair	₹ 10,000	2,06,000
	Loss on resale		36,000

11. Departmental Trading and Profit and Loss Account of M/s Division

For the year ended 31st December, 2017

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional)		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the gross profit rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the gross profit rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

12. **Books of Branch**

Journal Entries

			Amounts ₹	
			Dr.	*Cr.*
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account			60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account			50,000
	(Being goods sent by Head Office still in-transit)			
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			10,000
	(Being expenditure incurred, wrongly recorded in books)			
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account			16,000
	(Being purchases booked)			

13. **Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017**

		₹		₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed –			(20,000 x 6/100 x ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		135,350

Balance Sheet as on 31st March, 2017

Liabilities	*Amount*		*Assets*		*Amount*
	₹	₹		₹	₹
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.) Additions during the	60,000	
Less: Drawings	(91,000)		year	10,000	
	97,000		*Less:* Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment (200 x 95)		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for		

			doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	₹	***Assets***	₹
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

(3) Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000

Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal. fig.)	72,750
	7,72,750		7,72,750

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[₹ 70,000 + ₹ 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c	6,000	By Outstanding expenses A/c	20,000
(on 1.4.2016)		(on 1.4.2016)	
To Bank A/c	95,000	By Profit and Loss A/c	92,000
		(Balancing figure)	

To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

14. Statement showing distribution of cash amongst the partners

		Trade Payable	*B's Loan*	*A (₹)*	*B (₹)*	*C (₹)*
Balance Due		1,32,000	36,000	1,20,000	80,000	1,00,000
Including 1st Instalment amount with the firm						
₹ (2,200 + 1,49,200)	1,51,400					
Less: Dissolution expenses provided for	(24,000)					
	1,27,400					
Less: C's remuneration of 1% on assets realized (1,49,200 x 1%)	(1,492)					
	1,25,908					
Less: Payment made to Trade Payables	1,25,908	1,25,908				
Balance due	NIL	6,092				
2nd instalment realised	1,38,602					
Less: C's remuneration of 1%	(1,386)					

on assets realized (1,38,602 x 1%)	1,37,216					
Less: Payment made to Trade Payables	(1,292)	(1,292)				
Transferred to P& L A/c		4,800				
	1,35,924					
Less: Payment for B's loan A/c	(36,000)		36,000			
Amount available for distribution to partners	99,924		NIL			
Less: C's remuneration of 10% of the amount distributed to partners (99,924 x 10/110)	(9,084)					
Balance to be distributed to partners on the basis of HRCM	90,840					
Less: Paid to C (W.N.)	(4,000)					(4,000)
	86,840					96,000
Less: Paid to A and C in 5:4 (W.N.)	(36,000)			(20,000)	____	(16,000)
Balance due	50,840			1,00,000	80,000	80,000
Less: Paid to A, B & C in 5:4:4	50,840			(19,554)	15,643	(15,643)
	Nil					
Amount of 3rd instalment	80,000			80,446	64,357	64,357
Less: C's remuneration of 1% on assets realized (80,000 x 1%)	(800)					
	79,200					
Less: C's remuneration of 10%						

of the amount distributed to partners (79,200 x 10/110)	(7,200)					
	72,000					
Less: Paid to A, B, C in 5:4:4 for (W.N.)	(72,000)			(27,692)	22,154	(22,154)
	Nil			52,754	42,203	42,203
Amount of 4th and last instalment	56,000					
Less: C's remuneration of 1% on assets realized (56,000 x 1%)	(560)					
	55,440					
Less: C's remuneration of 10% of the amount distributed to partners (55,440 x 10/110)	(5,040)					
Less: Paid to A, B and C in 5:4:4	50,400					
				(19,384)	15,508	(15,508)
Loss suffered by partners				33,370	26,695	26,695

Working Note:

(i) ₹ 2,200 added to the first instalment received on sale of assets represents the Cash in Bank

(ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹ 6,092. However, since the creditors were settled for ₹ 1,27,200 only the balance ₹ 1,292 were paid and the balance ₹ 4,800 was transferred to the Profit & Loss Account.

(iii) **Highest Relative Capital Basis**

	A ₹	***B*** ₹	***C*** ₹
Balance of Capital Accounts (1)	1,20,000	80,000	1,00,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	24,000	20,000	25,000

Capital in profit sharing ratio taking B's Capital as base (2)	1,00,000	80,000	80,000
Excess of A's Capital and C's Capital 1-2) =(3)	20,000	Nil	20,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	4,000		5,000
Capital in profit sharing ratio taking A's Capital as base (4)	20,000		16,000
Excess of C's Capital (3-4)=(5)	nil		4,000

Therefore, firstly ₹4,000 is to be paid to C, then A and C to be paid in proportion of 5:4 up to ₹ 36,000 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz A, B and C.

15. (a) The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. Historical Cost: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.

2. Current Cost: Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. Realizable (Settlement) Value: As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. Present Value: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(b)

Particulars	***Financial Capital Maintenance at Historical Cost (₹)***
Closing equity (₹ 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Thus, in order to maintain the capital intact Mohan can withdraw ₹ 6,00,000 as the maximum amount

16. (a) (i) When Net Realizable Value of the Chemical Y is ₹ 800 per unit

NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	***Rate (₹)***	***Amount (₹)***
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(ii) When Net Realizable Value of the Chemical Y is ₹ 600 per unit

NRV is less than the cost of Finished Goods Y i.e. ₹ 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	***Rate (₹)***	***Amount (₹)***
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	***₹***
Cost Price	380
Add: Freight Inward	40

Unloading charges	20
Cost	440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/20,000 units)	20
Cost	660

(b) As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹ 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹ 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹ 19,00,000 shall be made (20,00,000 x 95%) for the year ended 31st March, 2017.

17 (a) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy.

Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(b) According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

18. (a) (i)

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

(ii) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2017 and corresponding creditor would be recorded at ₹ 11,25,000 (i.e. $15,000 × ₹ 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $15,000 on 31.3.2017 will be reported at ₹ 11,10,000 (i.e. $15,000 × ₹ 74) and exchange profit of ₹ 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2016-17.

On 7.7.2017, creditors of $15,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2017-18.

(b) As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 15 lakhs and balance in deferred income is ₹ 10.50 lakhs, ₹ 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 15 lakhs. The increased cost of ₹ 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = ₹ 10.14 lakhs presuming the depreciation is charged on SLM.

19. (a) As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at ₹ 3,75,000 as on 31st March, 2017.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., ₹ 5,00,000 and ₹ 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,75,000, ₹ 5,00,000 and ₹ 2,25,000 respectively and hence, total investment will be valued at ₹ 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

(b) As per para 3.2 to AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

20. (a) **Calculation of segment result**

Segments	*A*	*B*	*C*	*Total*
	₹	₹	₹	₹
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Total segment revenue as per AS 17 (A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000

Total segment expenses as per AS 17 (B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

(b) As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of ₹ 1,000 lakhs depreciation, timing difference amounting ₹ 400 lakhs (₹ 50 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for ₹ 600 lakhs (₹ 1,000 lakhs – ₹ 400 lakhs), deferred tax liability will be recognized for ₹ 240 lakhs (40% of ₹ 600 lakhs) in first year. In the second year, the entire amount of timing difference of ₹ 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting ₹ 800 lakhs (40% of ₹ 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be ₹ 1,040 lakhs (240 lakhs + 800 lakhs).

PAPER – 2: CORPORATE AND OTHER LAWS

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR NOVEMBER, 2018 EXAMINATIONS

Applicability for November, 2018 examinations

The Study Material (July 2017 edition) is updated for all amendments till 30th April, 2017. Further, all relevant amendments/ circulars/ notifications etc. in the Company law part for the period 1st May 2017 to 30th April, 2018 are mentioned below:

Relevant Legislative amendments from 1st of May 2017 to 30th April, 2018				
The Companies Act, 2013/ Corporate Laws				
Sl. No.	**Amendments related to**	**Relevant Amendments**	**Pg no.***	**Earlier Law**
1.	Enforcement of the Companies (Acceptance of Deposits) Amendment Rules, 2017 Vide Notification G.S.R. 454 (E) dated 11th May, 2017 in exercise of powers conferred by section 73 and 73 read with 469(1) and 469(2).	In the Companies (Acceptance of Deposits) Rules, 2014, In rule 2, in sub-rule (1), in clause (c), in sub-clause (xviii), after the words “Domestic Venture Capital Funds” the words “Infrastructure Investment Trusts” shall be inserted.	5.4	- (The words have been newly inserted in the said sub- clause) (xviii) any amount received by a company from Alternate Investment Funds, Domestic Venture Capital Funds and Mutual Funds registered with the Securities and Exchange Board of India in accordance with regulations made by it.
2.	Exemptions to Government Companies Vide Notification G.S.R. 582(E) Dated 13th June, 2017	The Central Government amends the Notification G.S.R. 463(E), dated 5th June 2015, whereby Exceptions, Modifications and Adaptations were provided in case of Government companies. Following is the amendments: In sub-section (2) of section 96, for the words "such other place as the Central Government may	7.51	Such other place as the Central Government may approve in this behalf.

		approve in this behalf", the words "such other place within the city, town or village in which the registered office of the company is situate or such other place as the Central Government may approve in this behalf" shall be substituted.".		
		Insertion of Paragraph 2A in the principal notification G.S.R. 463(E), dated 5th June 2015: The aforesaid exceptions, modifications and adaptations (i.e. as given in Notification G.S.R. 463(E), dated 5th June 2015 and Notification G.S.R. 582(E) Dated 13th June, 2017) shall be applicable to a Government company which has not committed a default in filing of its financial statements under section 137 of the Companies Act or annual return under section 92 of the said Act with the Registrar.		
3.	Exemptions to Private Companies Vide Notification G.S.R. 583(E) Dated 13TH June, 2017	The Central Government amends the Notification G.S.R. 464(E), dated 5th June 2015 whereby Exceptions, Modifications and Adaptations were provided in case of Private companies. Following are the amendments:		
		(1) In Chapter I, **Clause (40) of section 2.** For the proviso, the following shall be substituted, namely:- Provided that the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement; Explanation. - For the purposes of this Act, the term "start-up" or "start-up company" means a private company incorporated under the Companies Act, 2013 or the Companies Act, 1956 and recognised as start-up in	1.9	Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement

		accordance with the notification issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.		
		(2) In Chapter V, clauses (a) to (e) of sub-section (2) of section 73, shall not apply to a private company- (A) which accepts from its members monies not exceeding one hundred per cent. of aggregate of the paid up share capital, free reserves and securities premium account; or (B) which is a start-up, for five years from the date of its incorporation; or (C) which fulfils all of the following conditions, namely:- (a) which is not an associate or a subsidiary company of any other company; (b) if the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is lower; and (c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under this section: Provided that the company referred to in clauses (A), (B) or (C) shall file the details of monies accepted to the Registrar in such manner as may be specified.	5.6	Clause (a) to (e) of Section 73 provides conditions for acceptance of deposits from members. Notification dated 5th June, 2015, provided that Clause (a) to (e) of Sub-section 2 of Section 73 shall not apply to private Companies which accepts from its members monies not exceeding one hundred per cent, of aggregate of the paid up share capital and free reserves, and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.
		(3) In Chapter VII, clause (g) of sub-section (1) of section 92, shall apply to private companies	7.11	clause (g) of sub-section (1) of section 92 is read as

		which are small companies, namely:- “(g) aggregate amount of remuneration drawn by directors;”		“remuneration of directors and key managerial personnel”
		(4) In Chapter VII, proviso to **sub-section (1) of section 92,** For the proviso, the following proviso shall be substituted, namely:- “Provided that in relation to One Person Company, small company and private company (if such private company is a start-up), the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.”.	7.12	(4) However, in relation to One Person Company and small company, the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.
		(5) **Section 143(3)(i),** shall not apply to a private company:- (i) which is a one person company or a small company; or (ii) which has turnover less than rupees fifty crores as per latest audited financial **statement or#** which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than rupees twenty five crore."	10.24	(5) Section 143(3)(i) provides- whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
		Insertion of Paragraph 2A in the principal notification G.S.R. 464(E), dated 5th June 2015: The aforesaid exceptions, modifications and adaptations shall be applicable to a Private company which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.		
#4.	Corrigendum vide Notification S.O. 2218(E)	Ministry of Corporate Affairs vide corrigendum stated that for the words “statement or” to read as	Refer point 3 above	In Section 143(3)(i)(ii) there were the words “statement or” which has been replaced with

	dated 13th July 2017 with respect to the Notification G.S.R. 583(E) Dated 13TH June, 2017	"statement and" under section 143(3)(i).		the word "statement and" through this notification.
5.	Enforcement of the Companies (Audit and Auditors) Second Amendment Rules, 2017 Vide Notification G.S.R. 621(E) dated 22nd June 2017 in exercise of powers conferred by section 139.	The Central Government hereby amends the Companies (Audit and Auditors) Rules, 2014. Through this amendment rule, in Rule 5(b), for the word "twenty", the word "fifty" shall be substituted.	10.6	Earlier Rule 5(b) stated that -all private limited companies having paid up share capital of rupees 20 crore or more;
6.	Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) vide circular no. 08/2017 dated 25th July 2017	Notification No. G.S.R. 583(E) dated 13th June, 2017 stated that requirements of reporting under section 143(3)(i) read Rule 10 A of the Companies (Audit and Auditors) Rules, 2014 of the Companies Act 2013 shall not apply to certain private companies. Through issue of this circular, it is hereby clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1st April, 2016, which are made on or after the date of the said notification.	-	For the purposes of clause (i) of sub-section (3) of section 143, for the financial years commencing on or after 1st April, 2015, the report of the auditor shall state about existence of adequate internal financial controls system and its operating effectiveness: Provided that auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or

				after 1st April, 2014 and ending on or before 31st March, 2015.
7.	Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) vide circular no. 08/2017 dated 25th July 2017	Notification No. G.S.R. 583(E) dated 13th June, 2017 stated that requirements of reporting under section 143(3)(i) read Rule 10 A of the Companies(Audit and Auditors) Rules, 2014 of the Companies Act 2013 shall not apply to certain private companies. Through issue of this circular, it is hereby clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1st April, 2016, which are made on or after the date of the said notification.	-	For the purposes of clause (i) of sub-section (3) of section 143, for the financial years commencing on or after 1st April, 2015, the report of the auditor shall state about existence of adequate internal financial controls system and its operating effectiveness: Provided that auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April, 2014 and ending on or before 31st March, 2015.
8.	Enforcement of the Companies (Acceptance of Deposits) Second Amendment Rules, 2017 Vide Notification G.S.R. 1172(E) dated 19th September, 2017 in exercise of powers conferred by	In the Companies (Acceptance of Deposits) Rules, 2014, in rule 3, in sub-rule (3), for the proviso, the following shall be substituted, namely:- "Provided that a Specified IFSC Public company and a private company may accept from its members monies not exceeding one hundred per cent. of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in Form DPT-3. *Explanation*.—For the purpose of this rule, a Specified IFSC Public	5.8	Provided that a private company may accept from its members monies not exceeding one hundred per cent of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

	section 73 and 73 read with 469(1) and 469(2).	company means an unlisted public company which is licensed to operate by the Reserve Bank of India or the Securities and Exchange Board of India or the Insurance Regulatory and Development Authority of India from the International Financial Services Centre located in an approved multi services Special Economic Zone set-up under the Special Economic Zones Act, 2005 read with the Special Economic Zones Rules, 2006: Provided further that the maximum limit in respect of deposits to be accepted from members shall not apply to following classes of private companies, namely:— (i) a private company which is a start-up, for five years from the date of its incorporation; (ii) a private company which fulfils all of the following conditions, namely:— (a) which is not an associate or a subsidiary company of any other company; (b) the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is less ; and (c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73: Provided also that all the companies accepting deposits shall file the details of monies so		

		accepted to the Registrar in Form DPT-3.”.		
9.	Vide notification S.O. 3086(E) dated 20th September 2017	The Central Government hereby appoints the 20th September, 2017 as the date on which proviso to clause (87) of section 2 of the said Act shall come into force. The proviso to section 2(87) shall be read as, “Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.”	1.20	- (The proviso is newly notified)
10.	Companies (Amendment) Act, 2017	Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2017 with effect from 26th January, 2018 [Notification S.O. 351 (E)] and from 9th February, 2018 [Notification S. O. 630 (E)]		
		1. In **section 2** of the Companies Act, 2013 (hereinafter referred to as the principal Act)- **Enforcement Date: 9th February, 2018**		
		(i) for **clause (28)**, the following clause shall be substituted, namely:— '(28) "Cost Accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act;	1.7	**Cost accountant means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959.**

		(ii) in **clause (30)**, the following proviso shall be inserted, namely: "Provided that- (a) the instruments referred to in Chapter III-D of the Reserve Bank of India Act, 1934; and (b) such other instrument, as may be prescribed by the Central Government in consultation with the Reserve Bank of India, issued by a company, shall not be treated as debenture;";	1.8	– (The proviso is newly inserted)
		(iii) in **clause (41)**, in the first proviso, after the word "subsidiary", the words "or associate company" shall be inserted;	1.9	- (The words are newly inserted) which is a holding company or a subsidiary of a company incorporated outside India
		(iv) in **clause (46)**, the following Explanation shall be inserted, namely:- '*Explanation*.—For the purposes of this clause, the expression "company" includes any body corporate;';	1.11	- (The Explanation is newly inserted)
		(v) clause (49) shall be omitted	1.11	**(49) Interested director means a director who is in any way, whether by himself or through any of his relatives or firm, body corporate or other association of individuals in which he or any of his relatives is a partner, director or a member, interested in a**

				contract or arrangement, or proposed contract or arrangement, entered into or to be entered into by or on behalf of a company; **This definition is relevant for section 174 relating to quorum for meetings of the Board of Directors, for section 184 relating to disclosure of interest by directors and also for section 188 relating to related party transactions of the Companies Act, 2013.**
		(vi) in **clause (51)**,- (a) in sub-clause (iv), the word "and" shall be omitted; (b) for sub-clause (v), the following sub-clauses shall be substituted, namely:- "(v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and (vi) such other officer as may be prescribed;"	1.11	(iii) the whole-time director; (iv) the Chief Financial Officer; **and** **(v) such other officer as may be prescribed;**
		(vii) in **clause (57)**, for the words "and securities premium account", the words ", securities premium account and debit or	1.12	……the aggregate value of the paid-up share capital and all reserves created out of the profits **and**

		credit balance of profit and loss account," shall be substituted		**securities premium account**, after deducting the aggregate…..
		(viii) in **clause (71)**, in sub-clause (a), after the word "company;", the word "and" shall be inserted;	1.15	– (The word is newly inserted)
		(ix) in **clause (72)**, in the proviso, in clause (A), after the words “State Act”, the words “other than this Act or the previous company law” shall be inserted;	1.16	- (The words are newly inserted)
		(x) in **clause (76)**, for sub-clause (viii), the following sub-clause shall be substituted, namely:— "(viii) any body corporate which is— (A) a holding, subsidiary or an associate company of such company; (B) a subsidiary of a holding company to which it is also a subsidiary; or (C) an investing company or the venturer of the company;"; *Explanation*.—For the purpose of this clause, “the investing company or the venturer of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.	1.17	**(viii) any company which is—** **(A) a holding, subsidiary or an associate company of such company; or** **(B) a subsidiary of a holding company to which it is also a subsidiary;**
		(xi) in **clause (85)-** **(a)** in sub-clause (i), for the words "five crore rupees", the words "ten crore rupees" shall be substituted;	1.20	For **(a)** paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than

				five crore rupees; or
		(b) in sub-clause (ii),- (A) for the words "as per its last profit and loss account", the words "as per profit and loss account for the immediately preceding financial year" shall be substituted; (B) for the words "twenty crore rupees", the words "one hundred crore rupees" shall be substituted;		For **(b)** turnover of which **as per its last profit and loss account** does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than **twenty crore rupees**:
		(xii) for **clause (91)**, the following clause shall be substituted, namely:- '(91) "turnover" means the gross amount of revenue recognised in the profit and loss account from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a financial year;'.	1.21	**(91) Turnover means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;** **Note: There is in ambiguity in definition. So, there is a need for amendment in this definition. Further, the change in definition is pending in the Companies (Amendment) Bill, 2016.**
		2. After section 3 of the principal Act, the following section shall be inserted, namely:- "**3A**. If at any time the number of members of a company is reduced, in the case of a public company, below seven, in the	2.4	- (The section is newly inserted)

		case of a private company, below two, and the company carries on business for more than six months while the number of members is so reduced, every person who is a member of the company during the time that it so carries on business after those six months and is cognisant of the fact that it is carrying on business with less than seven members or two members, as the case may be, shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.". **Enforcement Date: 9th February, 2018**		
		3. In **section 4** of the principal Act, in sub-section (5), for clause (i), the following shall be substituted, namely:- "(i) Upon receipt of an application under sub-section (4), the Registrar may, on the basis of information and documents furnished along with the application, reserve the name for a period of twenty days from the date of approval or such other period as may be prescribed: Provided that in case of an application for reservation of name or for change of its name by an existing company, the Registrar may reserve the name for a period of sixty days from the date of approval." **Enforcement Date: 26th January, 2018**	2.11	**Upon receipt of an application, the Registrar may, on the basis of information and documents furnished along with the application, reserve the name for a period of sixty days from the date of the application.**

		4. In **section 21** of the principal Act, for the words "an officer of the company", the words "an officer or employee of the company" shall be substituted **Enforcement Date: 9th February, 2018**	2.35	(ii) **an officer of the company** duly authorised by the Board in this behalf.
		5. In **section 35** of the principal Act, in sub-section (2), after clause (b), the following clause shall be inserted, namely:- "(c) that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by sub-section (5) of section 26 to the issue of the prospectus and had not withdrawn that consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge, before allotment thereunder.". **Enforcement Date: 9th February, 2018**	3.22	- (The clause is newly inserted) To be inserted in Point (2) after point (b)
		6. In **section 47**, in sub-section (1), for the words, figures and brackets "provisions of section 43 and sub-section (2) of section 50", the words, figures and	4.6	In Point (i), the following may be added, "Subject to the provisions of

		brackets "provisions of section 43, sub-section (2) of section 50 and sub-section (1) of section 188" shall be substituted. **Enforcement Date: 9th February, 2018**		section 43, sub-section (2) of section 50 and sub-section (1) of section 188,"
		7. In **section 53** of the principal Act,- **(i)** in sub-section (2), for the words "discounted price", the word "discount" shall be substituted; **Enforcement Date: 9th February, 2018**	4.10	**For (i)** Any share issued by a company at a **discounted price** shall be void.
		7. In **section 53** of the principal Act,- **(ii)** after sub-section (2), the following sub-section shall be inserted, namely:- "(2A) Notwithstanding anything contained in sub-sections (1) and (2), a company may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India under the Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949.". **Enforcement Date: 9th February, 2018**	4.10	**For (ii): -** (The sub- section is newly inserted)
		8. In **section 62** of the principal Act,- **(i)** in sub-section (1), in clause (c), for the words "of a registered valuer subject to such conditions as may be prescribed", the words	4.22	For **(i)** (c) to any persons, if it is authorised by a special resolution, ….. is determined by the valuation report **of a**

		and figures "of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed" shall be substituted; **Enforcement Date: 9th February, 2018**		**registered valuer** subject to such conditions as prescribed ………
		8. In **section 62** of the principal Act,- **(ii)** for sub-section (2), the following sub-section shall be substituted, namely:- "(2) The notice referred to in sub-clause (i) of clause (a) of sub-section (1) shall be dispatched through registered post or speed post or through electronic mode or courier or any other mode having proof of delivery to all the existing shareholders at least three days before the opening of the issue.". **Enforcement Date: 9th February, 2018**	4.22	For **(ii)** **The notice of offer of shares shall be despatched through registered post or speed post or through electronic mode to all the existing shareholders at least three days before the opening of the issue.**
		9. In **section 76A** of the principal Act,- **(a)** in clause (a), for the words, "one crore rupees", the words "one crore rupees or twice the amount of deposit accepted by the company, whichever is lower" shall be substituted; **Enforcement Date: 9th February, 2018**	**(a)** 5.14	For **(a)** the company …..shall not be less than **one crore rupees** but which may extend to ten crore rupees; and

		9. In **section 76A** of the principal Act,- **(b)** in clause (b),- (i) for the words "seven years or with fine", the words "seven years and with fine" shall be substituted; (ii) the words "or with both" shall be omitted **Enforcement Date: 9th February, 2018**	5.15	For **(b)** every officer …….with imprisonment which may extend to **seven years or with fine** which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, **or with both**
		10. In **section 100** of the principal Act, in sub-section (1), the following proviso shall be inserted, namely:- "Provided that an extraordinary general meeting of the company, other than of the wholly owned subsidiary of a company incorporated outside India, shall be held at a place within India.". **Enforcement Date: 9th February, 2018**	7.52	- (The proviso is newly inserted)
		11. In **section 101** of the principal Act, in sub-section (1), for the proviso, the following proviso shall be substituted, namely:- "Provided that a general meeting may be called after giving shorter notice than that specified in this sub-section if consent, in writing or by electronic mode, is accorded thereto- (i) in the case of an annual general meeting, by not less than ninty-five per cent. of the members entitled to vote thereat; and	7.19	**The proviso to section 101(1) also states that a shorter notice may also be given with the consent of 95 per cent of the members entitled to vote. Generally meetings need to be called by giving a notice of 21 clear days. However, they can be called on a shorter notice if, 95 per cent of the members entitled to vote in that meeting**

		(ii) in the case of any other general meeting, by members of the company- (a) holding, if the company has a share capital, majority in number of members entitled to vote and who represent not less than ninety-five per cent. of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or (b) having, if the company has no share capital, not less than ninety-five per cent. of the total voting power exercisable at that meeting: Provided further that where any member of a company is entitled to vote only on some resolution or resolutions to be moved at a meeting and not on the others, those members shall be taken into account for the purposes of this sub-section in respect of the former resolution or resolutions and not in respect of the latter.". **Enforcement Date: 9th February, 2018**		**give their consent in writing or by electronic mode.** **It is also important to note that only the requirement as regards the length of the notice being 21 days, is dispensed with by such consent of not less than 95 per cent of the members entitled to vote at such meeting and not the necessity to call and hold such meeting.**
		12. In **section 110** of the principal Act, in sub-section (1), the following proviso shall be inserted, namely:- "Provided that any item of business required to be transacted by means of postal ballot under clause (a), may be transacted at a general meeting by a company which is required to provide the facility to members to vote by electronic means under section 108, in the manner provided in that section."	7.34	- (The proviso is newly inserted)

		Enforcement Date: 9th February, 2018		
		13. In **section 123** of the principal Act,- **(a)** in sub-section (1)- **(i)** in clause (a),- **(A)** for the words "both; or", the word "both:" shall be substituted; **(B)** the following proviso shall be inserted, namely:- "Provided that in computing profits any amount representing unrealised gains, notional gains or revaluation of assets and any change in carrying amount of an asset or of a liability on measurement of the asset or the liability at fair value shall be excluded; or"; **Enforcement Date: 9th February, 2018**	8.4	(i) For point **(A)** (c) out of **both (a) and (b); or** For point **(B): -** (The proviso is newly inserted)
		13. In **section 123** of the principal Act,- **(ii)** in the second proviso, for the words "transferred by the company to the reserves", the words "transferred by the company to the free reserves" shall be substituted; **Enforcement Date: 9th February, 2018**	8.4	For **(ii)** Where a company, ……. it in previous years and **transferred by the company** to the reserves, such declaration of dividend …… with prescribed rules. [Second Proviso to section 123(1)]
		13. In **section 123** of the principal Act,- **(b)** for sub-section (3), the following sub-section shall be substituted, namely:-	8.6	According to section 123(3), **the Board of Directors of a company may declare interim dividend during any financial**

		"(3) The Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend: Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during immediately preceding three financial years.". **Enforcement Date: 9th February, 2018**		**year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.** **However, in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during immediately preceding three financial years.**
		14. In **section 130** of the principal Act,- **(i)** in sub-section (1), in the proviso,- (a) after the words "regulatory body or authorities concerned", the words "or any other person concerned" shall be inserted; (b) after the words "the body or authority concerned", the words	9.13	For **(i)** - (The words are newly inserted)

		"or the other person concerned" shall be inserted; **Enforcement Date: 9th February, 2018**		
		14. In **section 130** of the principal Act,- **(ii)** after sub-section (2), the following sub-section shall be inserted, namely:- "(3) No order shall be made under sub-section (1) in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year: Provided that where a direction has been issued by the Central Government under the proviso to sub-section (5) of section 128 for keeping of books of account for a period longer than eight years, the books of account may be ordered to be re-opened within such longer period." **Enforcement Date: 9th February, 2018**	9.13	For **(ii)** – (This sub- section is newly inserted)
		15. In **section 136** of the principal Act,- **(i)** in sub-section (1),- **(a)** the words and figures "Without prejudice to the provisions of section 101," shall be omitted; **Enforcement Date: 9th February, 2018**	9.30	As per the amendment the word Without prejudice to the provisions of section 101," shall be omitted
		15. In **section 136** of the principal Act,- **(i)** in sub-section (1),-	9.31	- (The proviso is newly inserted)

		(b) in the first proviso, for the words "Provided that", the following shall be substituted, namely:- "Provided that if the copies of the documents are sent less than twenty-one days before the date of the meeting, they shall, notwithstanding that fact, be deemed to have been duly sent if it is so agreed by members- (a) holding, if the company has a share capital, majority in number entitled to vote and who represent not less than ninety-five per cent. of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or (b) having, if the company has no share capital, not less than ninety five per cent. of the total voting power exercisable at the meeting: Provided further that"; **Enforcement Date: 9th February, 2018**		
		15. In **section 136** of the principal Act,- **(i)** in sub-section (1),- **(c)** in the second proviso, for the words "Provided further", the words, "Provided also" shall be substituted; **Enforcement Date: 9th February, 2018**	9.31	Related to point (ii) on Page 9.31
		15. In **section 136** of the principal Act,- **(i)** in sub-section (1),-	9.31	(iii) Subsidiary Companies:

		(d) for the fourth proviso, the following provisos shall be substituted, namely:— 'Provided also that every listed company having a subsidiary or subsidiaries shall place separate audited accounts in respect of each of subsidiary on its website, if any: Provided also that a listed company which has a subsidiary incorporated outside India (herein referred to as "foreign subsidiary")- (a) where such foreign subsidiary is statutorily required to prepare consolidated financial statement under any law of the country of its incorporation, the requirement of this proviso shall be met if consolidated financial statement of such foreign subsidiary is placed on the website of the listed company; (b) where such foreign subsidiary is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the holding Indian listed company may place such unaudited financial statement on its website and where such financial statement is in a language other than English, a translated copy of the financial statement in English shall also be placed on the website.'; **Enforcement Date: 9th February, 2018**		**Every company having a subsidiary or subsidiaries shall,—** **(1) place separate audited accounts in respect of each of its subsidiary on its website, if any;** **(2) provide a copy of separate audited financial statements in respect of each of its subsidiary, to any shareholder of the company who asks for it.**

		15. In **section 136** of the principal Act,- **(ii)** in sub-section (2), the following proviso shall be inserted, namely:- "Provided that every company having a subsidiary or subsidiaries shall provide a copy of separate audited or unaudited financial statements, as the case may be, as prepared in respect of each of its subsidiary to any member of the company who asks for it." **Enforcement Date: 9th February, 2018**	9.32	- (The proviso is newly inserted) Add the proviso in point (iv)
		16. In **section 140** of the principal Act, in sub-section (3), for the words "fifty thousand rupees", the words "fifty thousand rupees or the remuneration of the auditor, whichever is less," shall be substituted. **Enforcement Date: 9th February, 2018**	10.15	(d) If the auditor does not ……. with fine which shall not be less than ` **50,000** but which may extend to ` 5 Lacs.
		17. In **section 141** of the principal Act, in sub-section (3), for clause (i), the following clause shall be substituted, namely:- '(i) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company. *Explanation*.—For the purposes of this clause, the term "directly or indirectly" shall have the	10.22	(9) **any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144**

		meaning assigned to it in the Explanation to section 144.'. **Enforcement Date: 9th February, 2018**		
		18. In **section 143** of the principal Act,- **(i)** in sub-section (1), in the proviso, for the words "its subsidiaries", at both the places, the words "its subsidiaries and associate companies" shall be substituted; **Enforcement Date: 9th February, 2018**	10.23	(c) Access to record of all its subsidiaries: The auditor of a ……. the records of all **its subsidiaries** in so far as it relates to the consolidation of its financial statements with that of **its subsidiaries**.
		18. In **section 143** of the principal Act,- **(ii)** in sub-section (3), in clause (i), for the words "internal financial controls system", the words "internal financial controls with reference to financial statements" shall be substituted; **Enforcement Date: 9th February, 2018**	10.24	(9) whether the company has adequate **internal financial controls system** in place and the operating effectiveness of such controls;
		18. In **section 143** of the principal Act,- **(iii)** in sub-section (14), in clause (a), for the words "cost accountant in practice", the words "cost accountant" shall be substituted **Enforcement Date: 9th February, 2018**	10.36	The provisions of section 143 shall mutatis mutandis apply to the **cost accountant in practice** conducting cost audit under section 148.
		19. In **section 147** of the principal Act,- **(i)** in sub-section (2),-	10.33	- The words shall be inserted in point (iii) (a)

		(a) after the words "five lakh rupees", the words "or four times the remuneration of the auditor, whichever is less" shall be inserted; **Enforcement Date: 9th February, 2018**		
		19. In **section 147** of the principal Act,- **(i)** in sub-section (2),- (b) in the proviso, for the words "and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees", the words "and with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less" shall be substituted; **Enforcement Date: 9th February, 2018**	10.33	**and** (2) **Fine which shall not be less than Rs. 1 lac but which may extend to Rs. 25 Lacs**
		19. In **section 147** of the principal Act,- **(ii)** in sub-section (3), in clause (ii), for the words "or to any other persons", the words "or to members or creditors of the company" shall be substituted; **Enforcement Date: 9th February, 2018**	10.33	(2) pay for damages to the company, statutory bodies or authorities **or to any other persons** for loss arising out of incorrect …. audit report.
		19. In **section 147** of the principal Act,- **(iii)** in sub-section (5), the following proviso shall be inserted, namely:-	10.33	- (The proviso is newly inserted)

		"Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.". **Enforcement Date: 9th February, 2018**		
		20. In **section 148** of the principal Act,- **(i)** in sub-section (3),- (a) for the words "Cost Accountant in practice", the words "cost accountant" shall be substituted; **Enforcement Date: 9th February, 2018**	10.34	(iv) The cost audit shall be conducted by a **Cost Accountant in practice** who shall be …… by the members in such manner as may be prescribed.
		20. In **section 148** of the principal Act,- **(i)** in sub-section (3),- (b) in the *Explanation*, for the words "Institute of Cost and Works Accountants of India", the words "Institute of Cost Accountants of India" shall be substituted; **Enforcement Date: 9th February, 2018**	10.35	Here, the expression "cost auditing standards" mean such standards as are issued by the **Institute of Cost and Works Accountants of India**, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.
		20. In **section 148** of the principal Act,- **(ii)** in sub-section (5), in the proviso, for the words "cost accountant in practice", the words "cost accountant" shall be substituted	10.35	(x) The report on the audit of cost records shall be submitted by the **cost accountant in practice** to the Board of Directors (BoD) of the company.

		Enforcement Date: 9th February, 2018		
11.	Amendment in the notification number G.S.R. 463(E) dated the 5th June, 2015 vide Notification no. S.O. 802(E) dated 23rd February, 2018	In exercise of the powers conferred by clauses (a) and (b) of sub-section (1) and subsection (2) of section 462 of the Companies Act, 2013, the Central Government, in the interest of public amends the notification of the Government of India in the Ministry of Corporate Affairs number G.S.R. 463(E) dated the 5th June, 2015 namely:— In the said notification, in the Table, for serial number 8 and entries relating thereto, the following serial number and entries shall be respectively substituted, namely:- "In Chapter IX, Section 129- Shall not apply to the companies engaged in defence production to the extent of application of relevant Accounting Standard on segment reporting".	9.7	Replace the footnote 'Section 129 shall not apply to the Government companies **to the extent of application of Accounting Standard 17 (Segment Reporting) to the companies engaged in defence production**.
12.	Enforcement of sub-section (3) and (11) of Section 132 of the Companies Act, 2013 vide Notification No. S.O. 1316(E) dated 21st March, 2018	The Central Government appoints the 21st March, 2018 as the date on which the provisions of sub- sections (3) and (11) of section 132 of the said Act shall come into force. "**132 (3):** The National Financial Reporting Authority shall consist of a chairperson, who shall be a person of eminence and having expertise in accountancy, auditing, finance or law to be appointed by the Central Government and such other members not exceeding fifteen consisting of part-time and full-	9.14	- (The said sub – sections have been notified)

		time members as may be prescribed: Provided that the terms and conditions and the manner of appointment of the chairperson and members shall be such as may be prescribed: Provided further that the chairperson and members shall make a declaration to the Central Government in the prescribed form regarding no conflict of interest or lack of independence in respect of his or their appointment: Provided also that the chairperson and members, who are in full-time employment with National Financial Reporting Authority shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment **132 (11):** The Central Government may appoint a secretary and such other employees as it may consider necessary for the efficient performance of functions by the National Financial Reporting Authority under this Act and the terms and conditions of service of the secretary and employees shall be such as may be prescribed."		
13.	'Reservation of Name of Company' Notification G.S.R. 284(E)	Rule 9: **Reservation of name** An application for reservation of name shall be made through the web service available at www.mca.gov.in by using [form RUN](Reserve Unique Name)	2.11	- (This Rule may be read with respect to point (iv) Requirement for reservation of the name of the company)

	dated 23rd March, 2018	along with fee as provided in the Companies (Registration offices and fees) Rules, 2014, which may either be approved or rejected, as the case may be, by the Registrar, Central Registration Centre after allowing re--submission of such application within fifteen days for rectification of the defects, if any.		

***Page No. of the Study material (New study material) with reference of relevant provisions**

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

COMPANY LAW

The Companies Act, 2013

1. Prakhar Ltd. intends to raise share capital by issuing Equity Shares in different stages over a certain period of time. However, the company does not wish to issue prospectus each and every time of issue of shares. Considering the provisions of the Companies Act, 2013, discuss what formalities Prakhar Ltd. should follow to avoid repeated issuance of prospectus?
2. Earth Ltd., a Public Company offer the new shares (further issue of shares) to persons other than the existing shareholders of the Company. Explain the conditions when shares can be issued to persons other than existing shareholders. Discuss whether these shares can be offered to the Preference Shareholders?
3. Examine the validity of the following with reference to the relevant provisions of the Companies Act, 2013:
   (i) The Board of Directors of Shrey Ltd. called an extraordinary general meeting upon the requisition of members. However, the meeting was adjourned on the ground that the quorum was not present at the meeting. Advise the company.
   (ii) Mary Ltd is a listed company having turnover of ₹ 1200 crores during the financial year 2016-17. The CSR committee of the Board formulated and recommended a CSR project which was approved by the Board. The company finalised the project under its CSR initiatives which require funds @ 5 % of average net profit of the company for last three financial years. Will such excess expense be counted in subsequent financial years as a part of CSR expenditure? Advise the company.

4. Examine the validity of the following decisions of the Board of Directors with reference of the provisions of the Companies Act, 2013.
   (i) In an Annual General Meeting of Vrinda Ltd. having share capital, 80 members present in person or by proxy, holding more than $1/10^{th}$ of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll.
   (ii) In an annual general meeting, during the process of poll, the members who earlier demanded for poll want to withdraw it. The chairman of the meeting rejected the request on the ground that once poll started, it cannot be withdrawn.
5. Growmore Limited's share capital is divided into different classes. Now, Growmore Limited intends to vary the rights attached to a particular class of shares. Explain the provisions of the Companies Act, 2013 to Growmore Limited as to obtaining consent from the shareholders in relation to variation of rights.
6. Heavy Metals Limited wants to provide financial assistance to its employees, to enable them to subscribe for certain number of fully paid shares. Considering the provision of the Companies Act, 2013, what advice would you give to the company in this regard?
7. Lemon & Company, Chartered Accountants a Limited Liability Partnership firm with CA. L, CA. M and CA. N as partners, is the statutory auditor of a listed company M/s Big Limited for past 6 years as on 01.04.2014.

   CA.M is also a partner in other Chartered Accountant firm Dew & Company, Chartered Accountants. Advise under the provisions of the Companies Act, 2013 :
   (1) Upto how many years can Lemon & Company continue as statutory auditors of M/s Big Limited?
   (2) What shall be the cooling-off period for Lemon & Company with respect to M/s Big Limited?
   (3) Can Dew & Company be appointed as statutory auditors of M/s Big Limited during such cooling-off period?
   (4) Can Lemon & Company be appointed as internal auditors of M/s Big Limited and it's another listed subsidiary M/s Dark Limited, during such cooling-off period?
8. Mrs. Sita, wife of CA. 'Arjun' the statutory auditor of Stellar Builders Limited, acquired shares in the company for a face value of ₹75000/- on 15^{th} March, 2018. CA. 'Arjun', issued his audit report on 25^{th} April, 2018. Examine the validity of this transaction under the Companies Act, 2013. Would your answer be different if face value of the shares have been ₹ 150000/- (market value ₹ 95000/-)?
9. The Board of Directors of Sindhu Limited wants to make some changes and to alter some Clauses of the Articles of Association which are to be urgently carried out, which include the increase in Authorized Capital of the company, issue of shares, increase in borrowing limits and increase in the number of directors.

Discuss about the provisions of the Companies Act, 2013 to be followed for alteration of Articles of Association.

10. The directors of Element Ltd. want to voluntary revise the Financial statements of the company. They have approached you to state to them the provisions of the Companies Act, 2013 regarding voluntary revision of financial statements.

OTHER LAWS

The Indian Contract Act, 1872

11. Explaining the provisions of the Indian Contract Act, 1872, answer the following:

    (i) A contracts with B for a fixed price to construct a house for B within a stipulated time. B would supply the necessary material to be used in the construction. C guarantees A's performance of the contract. B does not supply the material as per the agreement. Is C discharged from his liability?

    (ii) C, the holder of an over due bill of exchange drawn by A as surety for B, and accepted by B, contracts with X to give time to B. Is A discharged from his liability?

12. Mr. Avinash wanted a loan for expanding his business, from ABC Bank. Mr. Avinash has pledged the stock of his business to obtain the loan from bank. However, the expansion of business did not reap the desired results and Mr. Avinash was not able to repay the loan. Now, ABC bank wants to retain the stock for adjustment of their loan. Advise, ABC Bank whether they can retain the stock for the adjustment of their loan and also for payment of interest. Give your answer as per the provisions of the Contract Act, 1872.

The Negotiable Instruments Act, 1881

13. A bill of exchange has been dishonoured by non- payment. Now, Mr. Sandip, the holder wants a certificate of protest for such a dishonoured bill. Advise, Mr. Sandip whether he can get the certificate of protest. Also, advise him regarding the provisions of Protest for better security.

The General Clauses Act, 1897

14. Mr. Ram, an advocate has fraudulently deceived his client Mr. Shyam, who was taking his expert advise on taxation matters. Now, Mr. Ram is liable to a fine for acting fraudulently both under the Advocates Act, 1961 as well as the Income Tax Act, 1961. State the provision as to whether his offence is punishable under the both the Acts, as per the General Clauses Act, 1897.

Interpretation of Statutes, Deeds and Documents

15. The 'Statute should be read as a Whole'. Explain the statement.

SUGGESTED ANSWERS/HINTS

1. Shelf prospectus means a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus

(1) According to Section 31 of the Company Act, 2013 any class or classes of companies, as the Securities and Exchange Board may provide by regulations in this behalf, may file a shelf prospectus with the Registrar at the stage—

(A) of the first offer of securities included therein which shall indicate a period not exceeding one year as the period of validity of such prospectus which shall commence from the date of opening of the first offer of securities under that prospectus, and

(B) in respect of a second or subsequent offer of such securities issued during the period of validity of that prospectus, no further prospectus is required.

(2) The other formalities related to such repeated/subsequent issue of shares- A company filing a shelf prospectus shall be required to file an information memorandum containing all material facts relating to new charges created, changes in the financial position of the company as have occurred between the first or previous offer of securities and the succeeding offer of securities and such other changes as may be prescribed, with the Registrar within the prescribed time, prior to the issue of a second or subsequent offer of securities under the shelf prospectus.

Thus, Prakhar Ltd. can follow the above provisions and can issue a shelf prospectus.

2. **Issue of Further Shares:** Section 62 (1) (a) of the Companies Act, 2013 provides that if, at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares should be offered to the existing equity shareholders of the company as at the date of the offer, in proportion to the capital paid up on those shares.

However, certain exceptions have been provided in the Companies Act, 2013 when such further shares of a company may-be offered to other persons as well. These are as under-

(a) Under section 62 (1) (b) issue of further shares may be offered to employees under a scheme of employees' stock option subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

(b) Under section 62 (1) (c) such shares may be offered to any persons, if it is authorised by a special resolution, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

(c) if any equity shareholder to whom the shares are offered in terms of section 62 (1) (a) as described above, declines such offer, the Board of Directors may dispose of the shares in such manner as is not disadvantageous to the shareholders or to the company.

Preference Shareholders: From the wordings of Section 62 (1) (c), it is quite clear that these shares can be issued to any persons who may be preference shareholders as well provided such issue is authorized by a special resolution of the company and are issued on such conditions as may be prescribed.

3. **(i)** According to section 100 (2) of the Companies Act 2013, the Board of directors must convene a general meeting upon requisition by the stipulated minimum number of members.

As per Section 103 (2) (b) of the Companies Act, 2013, if the quorum is not present within half an hour from the appointed time for holding a meeting of the company, the meeting, if called on the requisition of members, shall stand cancelled. Therefore, the meeting stands cancelled and the stand taken by the Board of Directors to adjourn it, is not proper.

(ii) As per section 135 of the Companies Act, 2013, every company having a turnover of rupees 1,000 crores or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board. Hence, Mary Ltd. has to constitute a Corporate Social Responsibility Committee of the Board, as it is having turnover of rupees 1200 crores.

In terms of Section 135(5) of the Companies Act, 2013, the Board of every company to which section 135 is applicable, shall ensure that the company spends, in every Financial year at least 2 per cent of average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR policy. There is no provision for carry forward of excess expenditure to the next year(s). The words used in the section are 'at least'. Therefore, any expenditure over 2% would be considered as voluntary higher spending. Hence, such excess expense will not be counted in subsequent financial years as a part of CSR expenditure.

4. Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly law says that:-

Order of demand for poll by the chairman of meeting: Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:-

(a) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and

(b) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

Withdrawal of the demand: The demand for a poll may be withdrawn at any time by the persons who made the demand.

Hence, on the basis on the above provisions of the Companies Act, 2013:

(i) In the given case, the poll is demanded by members (including proxies) holding more than 1/10th of the total voting power. Hence, the chairman cannot reject the demand for poll as poll can be demanded by the members present in person or by proxy. subject to provision in the articles of company.

(ii) The chairman cannot reject the request of the members for withdrawing the demand of the Poll.

5. According to section 48 of the Companies Act, 2013-

(1) **Variation in rights of shareholders with consent**: Where a share capital of the company is divided into different classes of shares, the rights attached to the shares of any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class,—

(a) if provision with respect to such variation is contained in the memorandum or articles of the company; or

(b) in the absence of any such provision in the memorandum or articles, if such variation is not prohibited by the terms of issue of the shares of that class:

Provided that if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of this section shall apply to such variation.

(2) **No consent for variation:** Where the holders of not less than ten per cent of the issued shares of a class did not consent to such variation or vote in favour of the special resolution for the variation, they may apply to the Tribunal to have the variation cancelled, and where any such application is made, the variation shall not have effect unless and until it is confirmed by the Tribunal:

Provided that an application under this section shall be made within twenty-one days after the date on which the consent was given or the resolution was passed, as the case may be, and may be made on behalf of the shareholders entitled to make the application by such one or more of their number as they may appoint in writing for the purpose.

6. Under section 67 (2) of the Companies Act, 2013 no public company is allowed to give, directly or indirectly and whether by means of a loan, guarantee, or security, any financial assistance for the purpose of, or in connection with, a purchase or subscription, by any person of any shares in it or in its holding company.

However, section 67 (3) makes an exception by allowing companies to give loans to their employees other than its directors or key managerial personnel, for an amount not exceeding their salary or wages for a period of six months with a view to enabling them to purchase or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership.

It is further provided that disclosures in respect of voting rights not exercised directly by the employees in respect of shares to which the scheme relates shall be made in the Board's report in such manner as may be prescribed.

Hence, Heavy Metals Ltd can provide financial assistance upto the specified limit to its employees to enable them to subscribe for the shares in the company provided the shares are purchased by the employees to be held for beneficial ownership by them.

However, the directors or key managerial personnel will not be eligible for such assistance.

7. According to Section 139 (2) of the Companies Act, 2013,

I. Listed companies and other prescribed class or classes of companies (except one person companies and small companies) shall not appoint or re-appoint an audit firm as auditor for more than two terms of 5 consecutive years.

II. An audit firm which has completed its term (i.e. two terms of five consecutive years) shall not be eligible for re- appointment as auditor in the same company for five years from the completion of such term.

III. Further, as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as an auditor of the same company for a period of five years.

IV. For the purpose of the rotation of auditors, in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of 5 consecutive years or 10 consecutive years, as the case may be.

Applying the above provisions,

(1) Lemon & Company can continue as statutory auditors of M/s Big Limited for 4 more years from 1.4.2014, i.e. they can continue in office only till 31.3.2018.

(2) The cooling- off period shall be of 5 years.

(3) Dew & Company cannot be appointed as a statutory auditor of M/s Big Limited during the cooling – off period of Lemon & Company, as CA. M is the common partner in both Lemon & Company and Dew & Company.

(4) As per Section 138 (1) of the Companies Act, 2013, every listed company and other prescribed class of companies, shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional (which may be either an individual or a partnership firm or a body corporate) as may

be decided by the Board to conduct internal audit of the functions and activities of the company.

Accordingly, M/s Lemon & Company can be appointed as an internal auditors of M/s Big Limited and in its subsidiary M/S Dark Limited (a listed company). The provision of cooling off period as given under Section 139 of the Companies Act, 2013, shall not be applicable on the Internal auditors.

8. As per Section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, shall not be appointed as an auditor of the company.

However, Rule 10 of the *Companies (Audit and Auditors) Rules, 2014,* states that a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh.

In the given case Mrs. Sita, wife of CA. Arjun acquired shares in Stellar Builders Limited, in which he was a statutory auditor on 15th March, 2018. Since, the securities held by Mrs. Sita is within the prescribed limit of ₹ 1 lakh, such a transaction is valid.

Yes, the answer will be different in case where the face value of acquired shares is ₹ 1,50,000. Then in that case:

(i) Corrective action to maintain the limit specified (i.e., 1 lac) shall be taken by the auditor within 60 days of such acquisition, or

(ii) Auditor has to vacate his office.

9. **Alteration in Articles of Association:** Section 14 of the Companies Act, 2013, vests companies with power to alter or add to its articles. The law with respect to alteration of articles is as follows:

(1) **Alteration by special resolution:** Subject to the provisions of this Act and the conditions contained in its memorandum, if any, a company may, by a special resolution alter its articles.

(2) **Filing of alteration with the registrar:** Every alteration of the articles and a copy of the order of the Tribunal approving the alteration, shall be filed with the Registrar, together with a printed copy of the altered articles, within a period of fifteen days in such manner as may be prescribed, who shall register the same.

(3) **Any alteration made shall be valid:** Any alteration of the articles registered as above shall, subject to the provisions of this Act, be valid as if it were originally contained in the articles.

(4) **Alteration noted in every copy:** Every alteration made in articles of a company shall be noted in every copy of the articles, as the case may be. If a company makes any default in complying with the stated provisions, the company and every officer who is

in default shall be liable to a penalty of one thousand rupees for every copy of the articles issued without such alteration**. [Section 15]**

10. (1) Preparation of revised financial statement or revised report on the approval of Tribunal: If it appears to the directors of a company that—

(a) the financial statement of the company; or

(b) the report of the Board,

do not comply with the provisions of section 129 or section 134, they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar:

Tribunal to serve the notice: Provided that the Tribunal shall give notice to the Central Government and the Income tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:

Number of times of revision and recast: Provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:

Reason for revision to be disclosed: Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.

(2) Limits of revisions: Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to—

(a) the correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134; and

(b) the making of any necessary consequential alternation.

(3) Framing of rules by the Central Government in relation to revised financial statement or director's report: The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular—

(a) make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;

(b) make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;

(c) require the directors to take such steps as may be prescribed.

11. (i) According to Section 134 of the Indian Contract Act, 1872, the surety is discharged by any contract between the creditor and the principal debtor, by which the principal debtor is released or by any act or omission of the creditor, the legal consequence of which is the discharge of the principal debtor.

In the given case, B does not supply the necessary material as per the agreement. Hence, C is discharged from his liability.

(ii) According to Section 136 of the Indian Contract Act, 1872, where a contract to give time to the principal debtor is made by the creditor with a third person and not with the principal debtor, the surety is not discharged.

In the given question the contract to give time to the principal debtor is made by the creditor with X who is a third person. X is not the principal debtor. Hence, A is not discharged.

12. According to section 173 of the Indian Contract Act, 1872, the pawnee may retain the goods pledged, not only for payment of the debt or the performance of the promise, but for the interest, of the debt, and all necessary expenses incurred by him in respect of the possession or for the preservation of the goods pledged.

Hence, ABC Bank can retain the stock of business of Mr. Avinash, not only for adjustment of the loan but also for payment of interest.

13. Protest: According to section 100 of the Negotiable Instruments Act,1881, when a promissory note or bill of exchange has been dishonored by non-acceptance or non-payment, the holder may, within a reasonable time, cause such dishonor to be noted and certified by a notary public. Such certificate is called a protest.

Protest for better security: When the acceptor of a bill of exchange has become insolvent, or his credit has been publicly impeached, before the maturity of the bill, the holder may, within a reasonable time, cause a notary public to demand better security of the acceptor, and on its being refused may, with a reasonable time, cause such facts to be noted and certified as aforesaid. Such certificate is called a protest for better security.

Thus, Mr. Sandip can get the certificate of protest by following the above provisions.

14. "Provision as to offence punishable under two or more enactments" [Section 26]: Where an act or omission constitutes an offence under two or more enactments, then the offender shall be liable to be prosecuted and punished under either or any of those enactments, but shall not be punished twice for the same offence.

Thus, Mr. Ram shall be liable to punished under the Advocates Act, 1961 or the Income Tax Act, 1961, but shall not be punished twice for the same offence.

15. **'Read the Statute as a Whole':** It is the elementary principle that construction of a statute is to be made of all its parts taken together and not of one part only. The deed/ statute must be read as a whole in order to ascertain the true meaning of its several clauses, and the words of each clause should be so interpreted as to bring them into harmony with other provisions – if that interpretation does no violence to the meaning of which they are naturally susceptible. And the same approach would apply with equal force with regard to Acts and Rules passed by the legislature.

    One of the safest guides to the construction of sweeping general words is to examine other words of like import in the same enactment or instrument to see what limitations must be imposed on them. If we find that a number of such expressions have to be subjected to limitations and qualifications and that such limitations and qualifications are of the same nature, that circumstance forms a strong argument for subjecting the expression in dispute to a similar limitation and qualification.

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

QUESTIONS

Material Cost

1. Rounak Ltd. is the manufacturer of monitors for PCs. A monitor requires 4 units of Part-M. The following are the details of its operation during 20X8:

Average monthly market demand	2,000 Monitors
Ordering cost	₹ 1,000 per order
Inventory carrying cost	20% per annum
Cost of Part	₹ 350 per part
Normal usage	425 parts per week
Minimum usage	140 parts per week
Maximum usage	710 parts per week
Lead time to supply	3-5 weeks

COMPUTE from the above:

(i) Economic Order Quantity (EOQ). If the supplier is willing to supply quarterly 30,000 units of Part-M at a discount of 5%, is it worth accepting?

(ii) Reorder level

(iii) Maximum level of stock

(iv) Minimum level of stock.

Employee Cost

2. A job can be executed either through workman A or B. A takes 32 hours to complete the job while B finishes it in 30 hours. The standard time to finish the job is 40 hours.

The hourly wage rate is same for both the workers. In addition workman A is entitled to receive bonus according to Halsey plan (50%) sharing while B is paid bonus as per Rowan plan. The works overheads are absorbed on the job at ₹ 7.50 per labour hour worked. The factory cost of the job comes to ₹ 2,600 irrespective of the workman engaged.

INTERPRET the hourly wage rate and cost of raw materials input. Also show cost against each element of cost included in factory cost.

Overheads: Absorption Costing Method

3. Sree Ajeet Ltd. having fifteen different types of automatic machines furnishes information as under for 20X8-20X9

(i) Overhead expenses: Factory rent ₹ 1,80,000 (Floor area 1,00,000 sq. ft.), Heat and gas ₹ 60,000 and supervision ₹ 1,50,000.

(ii) Wages of the operator are ₹ 200 per day of 8 hours. Operator attends to one machine when it is under set up and two machines while they are under operation.

In respect of machine B (one of the above machines) the following particulars are furnished:

(i) Cost of machine ₹1,80,000, Life of machine- 10 years and scrap value at the end of its life ₹ 10,000

(ii) Annual expenses on special equipment attached to the machine are estimated as ₹ 12,000

(iii) Estimated operation time of the machine is 3,600 hours while set up time is 400 hours per annum

(iv) The machine occupies 5,000 sq. ft. of floor area.

(v) Power costs ₹ 5 per hour while machine is in operation.

ESTIMATE the comprehensive machine hour rate of machine B. Also find out machine costs to be absorbed in respect of use of machine B on the following two work orders

	Work order- 1	Work order-2
Machine set up time (Hours)	15	30
Machine operation time (Hours)	100	190

Activity Based Costing

4. Family Store wants information about the profitability of individual product lines: Soft drinks, Fresh produce and Packaged food. Family store provides the following data for the year 20X7-X8 for each product line:

	Soft drinks	Fresh produce	Packaged food
Revenues	₹ 39,67,500	₹ 1,05,03,000	₹ 60,49,500
Cost of goods sold	₹ 30,00,000	₹ 75,00,000	₹ 45,00,000
Cost of bottles returned	₹ 60,000	₹ 0	₹ 0
Number of purchase orders placed	360	840	360
Number of deliveries received	300	2,190	660
Hours of shelf-stocking time	540	5,400	2,700
Items sold	1,26,000	11,04,000	3,06,000

Family store also provides the following information for the year 20X7-X8:

Activity	Description of activity	Total Cost	Cost-allocation base
Bottles returns	Returning of empty bottles	₹ 60,000	Direct tracing to soft drink line

Ordering	Placing of orders for purchases	₹ 7,80,000	1,560 purchase orders
Delivery	Physical delivery and receipt of goods	₹ 12,60,000	3,150 deliveries
Shelf stocking	Stocking of goods on store shelves and on-going restocking	₹ 8,64,000	8,640 hours of shelf-stocking time
Customer Support	Assistance provided to customers including check-out	₹ 15,36,000	15,36,000 items sold

Required:

(i) Family store currently allocates support cost (all cost other than cost of goods sold) to product lines on the basis of cost of goods sold of each product line. CALCULATE the operating income and operating income as a % of revenues for each product line.

(ii) If Family Store allocates support costs (all costs other than cost of goods sold) to product lines using and activity based costing system, CALCULATE the operating income and operating income as a % of revenues for each product line.

Cost Sheet

5. From the following data of Arnav Metallic Ltd., CALCULATE Cost of production:

		Amount (₹)
(i)	Repair & maintenance paid for plant & machinery	9,80,500
(ii)	Insurance premium paid for inventories	26,000
(iii)	Insurance premium paid for plant & machinery	96,000
(iv)	Raw materials purchased	64,00,000
(v)	Opening stock of raw materials	2,88,000
(vi)	Closing stock of raw materials	4,46,000
(vii)	Wages paid	23,20,000
(viii)	Value of opening Work-in-process	4,06,000
(ix)	Value of closing Work-in-process	6,02,100
(x)	Quality control cost for the products in manufacturing process	86,000
(xi)	Research & development cost for improvement in production process	92,600
(xii)	Administrative cost for:	
	- Factory & production	9,00,000

	- Others	11,60,000
(xiii)	Amount realised by selling scrap generated during the manufacturing process	9,200
(xiv)	Packing cost necessary to preserve the goods for further processing	10,200
(xv)	Salary paid to Director (Technical)	8,90,000

Cost Accounting System

6. The financial books of a company reveal the following data for the year ended 31st March, 20X8:

Opening Stock:	(₹)
Finished goods 625 units	53,125
Work-in-process	46,000
01.04.20X7 to 31.03.20X8	
Raw materials consumed	8,40,000
Direct Labour	6,10,000
Factory overheads	4,22,000
Administration overheads (Production related)	1,98,000
Dividend paid	1,22,000
Bad Debts	18,000
Selling and Distribution Overheads	72,000
Interest received	38,000
Rent received	46,000
Sales 12,615 units	22,80,000
Closing Stock: Finished goods 415 units	45,650
Work-in-process	41,200

The cost records provide as under:

- Factory overheads are absorbed at 70% of direct wages.
- Administration overheads are recovered at 15% of factory cost.
- Selling and distribution overheads are charged at ₹ 3 per unit sold.
- Opening Stock of finished goods is valued at ₹ 120 per unit.
- The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

Required:

(i) PREPARE a statements for the year ended 31st March, 20X8. Show

- the profit as per financial records
- the profit as per costing records.

(ii) PREPARE a statement reconciling the profit as per costing records with the profit as per Financial Records.

Contract Costing

7. A construction company undertook a contract at an estimated price of ₹ 108 lakhs, which includes a budgeted profit of ₹ 18 lakhs. The relevant data for the year ended 31.03.20X8 are as under:

	(₹ '000)
Materials issued to site	5,000
Direct wages paid	3,800
Plant hired	700
Site office costs	270
Materials returned from site	100
Direct expenses	500
Work certified	10,000
Work not certified	230
Progress payment received	7,200

A special plant was purchased specifically for this contract at ₹ 8,00,000 and after use on this contract till the end of 31.02.20X*8*, it was valued at ₹ 5,00,000. This cost of materials at site at the end of the year was estimated at ₹ 18,00,000 Direct wages accrued as on 31.03.20X8 was ₹ 1,10,000.

Required

PREPARE the Contract Account for the year ended 31st March, 20X8.

Job Costing

8. A company has been asked to quote for a job. The company aims to make a net profit of 30% on sales. The estimated cost for the job is as follows:

Direct materials 10 kg @₹10 per kg

Direct labour 20 hours @ ₹5 per hour

Variable production overheads are recovered at the rate of ₹ 2 per labour hour.

Fixed production overheads for the company are budgeted to be ₹1,00,000 each year and are recovered on the basis of labour hours.

There are 10,000 budgeted labour hours each year. Other costs in relation to selling, distribution and administration are recovered at the rate of ₹50 per job.

DETERMINE quote for the job by the Company.

Process Costing

9. From the following information for the month of January, 20X9, PREPARE Process-III cost accounts.

Opening WIP in Process-III	1,600 units at ₹ 24,000
Transfer from Process-II	55,400 units at ₹ 6,23,250
Transferred to warehouse	52,200 units
Closing WIP of Process-III	4,200 units
Units Scrapped	600 units
Direct material added in Process-III	₹ 2,12,400
Direct wages	₹ 96,420
Production overheads	₹ 56,400

Degree of completion:

	Opening Stock	Closing Stock	Scrap
Material	80%	70%	100%
Labour	60%	50%	70%
Overheads	60%	50%	70%

The normal loss in the process was 5% of the production and scrap was sold @ ₹ 5 per unit.

(Students may treat material transferred from Process – II as Material – A and fresh material used in Process – III as Material B)

Joint Products & By Products

10. In an Oil Mill four products emerge from a refining process. The total cost of input during the quarter ending March 20X8 is ₹1,48,000. The output, sales and additional processing costs are as under:

Products	Output in Litres	Additional processing cost after split off (₹)	Sales value (₹)
ACH	8,000	43,000	1,72,500

BCH	4,000	9,000	15,000
CSH	2,000	–	6,000
DSH	4,000	1,500	45,000

In case these products were disposed-off at the split off point that is before further processing, the selling price per litre would have been:

ACH (₹)	BCH (₹)	CSH (₹)	DSH (₹)
15.00	6.00	3.00	7.50

PRODUCE a statement of profitability based on:

(i) If the products are sold after further processing is carried out in the mill.

(ii) If they are sold at the split off point.

Service Costing

11. Sanziet Lifecare Ltd. operates in life insurance business. Last year it has launched a new term insurance policy for practicing professionals 'Professionals Protection Plus'. The company has incurred the following expenditures during the last year for the policy:

Policy development cost	₹11,25,000
Cost of marketing of the policy	₹45,20,000
Sales support expenses	₹11,45,000
Policy issuance cost	₹10,05,900
Policy servicing cost	₹35,20,700
Claims management cost	₹1,25,600
IT cost	₹74,32,000
Postage and logistics	₹10,25,000
Facilities cost	₹15,24,000
Employees cost	₹ 5,60,000
Office administration cost	₹16,20,400

Number of policy sold- 528

Total insured value of policies- ₹1,320 crore

Required:

(i) CALCULATE total cost for Professionals Protection Plus' policy segregating the costs into four main activities namely (a) Marketing and Sales support, (b) Operations, (c) IT and (d) Support functions.

(ii) CALCULATE cost per policy.

(iii) CACULATE cost per rupee of insured value.

Standard Costing

12. Aaradhya Ltd.manufactures a commercial product for which the standard cost per unit is as follows:

	(₹)
Material:	
5 kg. @ ₹ 4 per kg.	20.00
Labour:	
3 hours @ ₹10 per hour	30.00
Overhead	
Variable: 3 hours @ ₹1	3.00
Fixed: 3 hours @ ₹0.50	1.50
Total	54.50

During Jan. 20X8, 600 units of the product were manufactured at the cost shown below:

	(₹)
Materials purchased:	
5,000 kg. @ ₹4.10 per kg.	20,500
Materials used:	
3,500 kg.	
Direct Labour:	
1,700 hours @ ₹ 9	15,300
Variable overhead	1,900
Fixed overhead	900
Total	38,600

The flexible budget required 1,800 direct labour hours for operation at the monthly activity level used to set the fixed overhead rate.

COMPUTE:

(a) Material price variance, (b) Material Usage variance; (c) Labour rate variance; (d) Labour efficiency variance; (e) Variable overhead expenditure variance; (f) Variable overhead efficiency variance; (g) Fixed overhead expenditure variance; (h) Fixed overhead volume variance; (i) Fixed overhead capacity variance; and (j) Fixed overhead efficiency variance.

Also RECONCILE the standard and actual cost of production.

Marginal Costing

13. A company sells its product at ₹ 15 per unit. In a period, if it produces and sells 8,000 units, it incurs a loss of ₹ 5 per unit. If the volume is raised to 20,000 units, it earns a profit of ₹ 4 per unit. CALCULATE break-even point both in terms of rupees as well as in units.

Budget and Budgetary Control

14. Gaurav Ltd. is drawing a production plan for its two products Minimax (MM) and Heavyhigh (HH) for the year 20X8-X9. The company's policy is to hold closing stock of finished goods at 25% of the anticipated volume of sales of the succeeding month. The following are the estimated data for two products:

	Minimax (MM)	**Heavyhigh (HH)**
Budgeted Production units	1,80,000	1,20,000
	(₹)	**(₹)**
Direct material cost per unit	220	280
Direct labour cost per unit	130	120
Manufacturing overhead	4,00,000	5,00,000

The estimated units to be sold in the first four months of the year 20X8-X9 are as under

	April	**May**	**June**	**July**
Minimax	8,000	10,000	12,000	16,000
Heavyhigh	6,000	8,000	9,000	14,000

PREPARE production budget for the first quarter in month-wise

Miscellaneous

15. (a) DISCUSS the essential features of a good cost accounting system.
    (b) EXPLAIN the difference between Cost Control and Control Reduction.
    (c) DEFINE Controllable Cost and Uncontrollable Cost.
    (d) DISTIGUISH between job and batch costing.

SUGGESTED HINTS/ANSWERS

1. (1) A = Annual usage of parts = Monthly demand for monitors × 4 parts × 12 months

= 2,000monitors × 4 parts × 12 months = 96,000units

O = Ordering cost per order = ₹ 1,000/- per order

C_1 = Cost per part =₹ 350/-

$_iC_1$ = Inventory carrying cost per unit per annum

= 20% × ₹ 350 = ₹ 70/- per unit, per annum

Economic order quantity (EOQ):

$$\text{E.O.Q} = \sqrt{\frac{2AO}{_iC_1}} = \sqrt{\frac{2 \times 96{,}000 \text{ units} \times ₹1{,}000}{₹70}}$$

= 1,656 parts (approx.)

The supplier is willing to supply 30,000 units at a discount of 5%, therefore cost of each part shall be ₹350 – 5% of 350 = ₹332.5

Total cost (when order size is 30,000 units):

= Cost of 96,000 units + Ordering cost + Carrying cost.

$$= (96{,}000 \text{ units} \times ₹\ 332.50) + \left(\frac{96{,}000 \text{ units}}{30{,}000 \text{ units}} \times ₹\ 1{,}000\right) + \frac{1}{2}(30{,}000 \text{ units} \times 20\% \times ₹\ 332.50)$$

= ₹3,19,20,000 + ₹3,200* + ₹9,97,500= ₹3,29,20,700

Total cost (when order size is 1,656 units):

$$= (96{,}000 \text{ units} \times ₹350) + \left(\frac{96{,}000 \text{ units}}{1{,}656 \text{ units}} \times ₹\ 1{,}000\right) + \frac{1}{2}(1{,}656 \text{ units} \times 20\% \times ₹350)$$

= ₹3,36,00,000 + ₹57,970* + ₹57,960 = ₹3,37,15,930

Since, the total cost under the supply of 30,000 units with 5% discount is lower than that when order size is 1,656 units, therefore the offer should be accepted.

Note: While accepting this offer consideration of capital blocked on order size of 30,000 units has been ignored.

**Order size can also be taken in absolute figure.*

(2) Reorder level

= Maximum consumption × Maximum re-order period

= 710 units × 5 weeks = 3,550 units

(3) Maximum level of stock

= Re-order level + Reorder quantity – (Min. usage × Min. reorder period)

= 3,550 units + 1,656 units – (140 units × 3 weeks) = 4,786 units.

(4) Minimum level of stock

= Re-order level – Normal usage × Average reorder period

= 3,550 units – (425 units × 4 weeks) = 1,850 units.

2. Calculation of :

1. Time saved and wages:

Workmen	A	B
Standard time (hrs.)	40	40
Actual time taken (hrs.)	32	30
Time saved (hrs.)	8	10
Wages paid @ ₹ x per hr. (₹)	32x	30x

2. Bonus Plan:

	Halsey	Rowan
Time saved (hrs.)	8	10
Bonus (₹)	4x $\left[\frac{8 \text{ hrs} \times ₹\ x}{2}\right]$	7.5x $\left[\frac{10 \text{ hrs}}{40 \text{ hrs}} \times 30\text{hrs} \times ₹\ x\right]$

3. Total wages:

Workman A: 32x + 4x = ₹ 36x

Workman B: 30x + 7.5x = ₹ 37.5x

Statement of factory cost of the job

Workmen	A (₹)	B (₹)
Material cost (assumed)	y	y
Wages (shown above)	36x	37.5x
Works overhead	240	225
Factory cost (given)	2,600	2,600

The above relations can be written as follows:

36x + y + 240 = 2,600 (i)

37.5x+ y+ 225 = 2,600 (ii)

Subtracting (i) from (ii) we get

1.5x – 15 = 0

Or, 1.5 x = 15

Or, x = ₹ 10 per hour

On substituting the value of x in (i) we get y = ₹ 2,000

Hence the wage rate per hour is ₹ 10 and the cost of raw material is ₹ 2,000 on the job.

3. **Sree Ajeet Ltd.**

Statement showing comprehensive machine hour rate of Machine B

	(₹)
Standing Charges:	
Factory rent {(₹ 1,80,000/1,00,000 sq. ft.) × 5,000 Sq. ft.}	9,000
Heat and Gas (₹ 60,000/15 machines)	4,000
Supervision (₹ 1,50,000/ 15 machines)	10,000
Depreciation [(₹ 1,80,000 – ₹ 10,000)/ 10 years]	17,000
Annual expenses on special equipment	12,000
	52,000
Fixed cost per hour (₹ 52,000/ 4,000 hrs.)	13/-

	Set up rate Per hour (₹)	Operational rate Per hour (₹)
Fixed cost	13.00	13.00
Power	--	5.00
Wages	25.00	12.50
Comprehensive machine hour rate per hr.	38.00	30.50

Statement of 'B' machine costs

to be absorbed on the two work orders

	Work order-1			Work order-2		
	Hours	Rate	Amount	Hours	Rate	Amount
		₹	₹	₹	₹	₹
Set up time cost	15	38	570	30	38	1,140
Operation time cost	100	30.5	3,050	190	30.5	5,795
Total cost			3,620			6,935

4. (i) Statement of Operating income and Operating income as a percentage of revenues for each product line

(When support costs are allocated to product lines on the basis of cost of goods sold of each product)

	Soft Drinks (₹)	Fresh Produce (₹)	Packaged Foods (₹)	Total (₹)
Revenues: (A)	39,67,500	1,05,03,000	60,49,500	2,05,20,000
Cost of Goods sold (COGS): (B)	30,00,000	75,00,000	45,00,000	1,50,00,000
Support cost (30% of COGS): (C) (Refer working notes)	9,00,000	22,50,000	13,50,000	45,00,000
Total cost: (D) = {(B) + (C)}	39,00,000	97,50,000	58,50,000	1,95,00,000
Operating income: E= {(A)-(D)}	67,500	7,53,000	1,99,500	10,20,000
Operating income as a percentage of revenues: (E/A) × 100)	1.70%	7.17%	3.30%	4.97%

Working notes:

1. Total support cost:

	(₹)
Bottles returns	60,000
Ordering	7,80,000
Delivery	12,60,000
Shelf stocking	8,64,000
Customer support	15,36,000
Total support cost	45,00,000

2. Percentage of support cost to cost of goods sold (COGS):

$$= \frac{\text{Total support cost}}{\text{Total cost of goods sold}} \times 100$$

$$= \frac{₹45,00,000}{₹1,50,00,000} \times 100 = 30\%$$

3. Cost for each activity cost driver:

Activity (1)	Total cost (₹) (2)	Cost allocation base (3)	Cost driver rate (4) = [(2) ÷ (3)]
Ordering	7,80,000	1,560 purchase orders	₹500 per purchase order

Delivery	12,60,000	3,150 deliveries	₹400 per delivery
Shelf-stocking	8,64,000	8,640 hours	₹100 per stocking hour
Customer support	15,36,000	15,36,000 items sold	₹1 per item sold

(ii) Statement of Operating income and Operating income as a percentage of revenues for each product line

(When support costs are allocated to product lines using an activity-based costing system)

	Soft drinks (₹)	**Fresh Produce (₹)**	**Packaged Food (₹)**	**Total (₹)**
Revenues: (A)	39,67,500	1,05,03,000	60,49,500	2,05,20,000
Cost & Goods sold	30,00,000	75,00,000	45,00,000	1,50,00,000
Bottle return costs	60,000	0	0	60,000
Ordering cost* (360:840:360)	1,80,000	4,20,000	1,80,000	7,80,000
Delivery cost* (300:2190:660)	1,20,000	8,76,000	2,64,000	12,60,000
Shelf stocking cost* (540:5400:2700)	54,000	5,40,000	2,70,000	8,64,000
Customer Support cost* (1,26,000:11,04,000:3,06,000)	1,26,000	11,04,000	3,06,000	15,36,000
Total cost: (B)	35,40,000	1,04,40,000	55,20,000	1,95,00,000
Operating income C: {(A)- (B)}	4,27,500	63,000	5,29,500	10,20,000
Operating income as a % of revenues	10.78%	0.60%	8.75%	4.97%

* Refer to working note 3

5. Calculation of Cost of Production of Arnav Metallic for the period…..

Particulars	**Amount (₹)**
Raw materials purchased	64,00,000
Add: Opening stock	2,88,000
Less: Closing stock	(4,46,000)
Material consumed	62,42,000
Wages paid	23,20,000

Prime cost	85,62,000
Repair and maintenance cost of plant & machinery	9,80,500
Insurance premium paid for inventories	26,000
Insurance premium paid for plant & machinery	96,000
Quality control cost	86,000
Research & development cost	92,600
Administrative overheads related with factory and production	9,00,000
	1,07,43,100
Add: Opening value of W-I-P	4,06,000
Less: Closing value of W-I-P	(6,02,100)
	1,05,47,000
Less: Amount realised by selling scrap	(9,200)
Add: Primary packing cost	10,200
Cost of Production	1,05,48,000

Notes:

(i) Other administrative overhead does not form part of cost of production.

(ii) Salary paid to Director (Technical) is an administrative cost.

6. (i) Statement of Profit as per Financial records

(for the year ended March 31, 20X8)

	(₹)		**(₹)**
To Opening stock of Finished Goods	53,125	By Sales	22,80,000
To Work-in-process	46,000	By Closing stock of finished Goods	45,650
To Raw materials consumed	8,40,000	By Work-in-Process	41,200
To Direct labour	6,10,000	By Rent received	46,000
To Factory overheads	4,22,000	By Interest received	38,000
To Administration overheads	1,98,000		
To Selling & distribution overheads	72,000		
To Dividend paid	1,22,000		

To Bad debts	18,000		
To Profit	69,725		
	24,50,850		24,50,850

Statement of Profit as per Costing records
(for the year ended March 31,20X8)

	(₹)
Sales revenue (A) (12,615 units)	22,80,000
Cost of sales:	
Opening stock (625 units ×₹ 120)	75,000
Add: Cost of production of 12,405 units (Refer to working note 2)	21,63,350
Less: Closing stock (₹174.39 × 415 units)	(72,372)
Cost of goods sold (12,615 units)	21,65,978
Selling & distribution overheads (12,615 units ×₹ 3)	37,845
Cost of sales: (B)	22,03,823
Profit: {(A) – (B)}	76,177

(ii) Statement of Reconciliation

(Reconciling the profit as per costing records with the profit as per financial records)

	(₹)	(₹)
Profit as per Cost Accounts		76,177
Add: Administration overheads over absorbed (₹2,81,550 – ₹1,98,000)	83,550	
Opening stock overvalued (₹75,000 – ₹53,125)	21,875	
Interest received	38,000	
Rent received	46,000	

Factory overheads over recovered (₹4,27,000 – ₹4,22,000)	5,000	1,94,425
		2,70,602
Less: Selling & distribution overheads under recovery (₹72,000 – ₹37,845)	34,155	
Closing stock overvalued (₹72,372 – ₹45,650)	26,722	
Dividend	1,22,000	
Bad debts	18,000	(2,00,877)
Profit as per financial accounts		69,725

Working notes:

1. Number of units produced

	Units
Sales	12,615
Add: Closing stock	415
Total	13,030
Less: Opening stock	(625)
Number of units produced	12,405

2. Cost Sheet

	(₹)
Raw materials consumed	8,40,000
Direct labour	6,10,000
Prime cost	14,50,000
Factory overheads (70% of direct wages)	4,27,000
Factory cost	18,77,000
Add: Opening work-in-process	46,000
Less: Closing work-in-process	41,200
Factory cost of goods produced	18,81,800
Administration overheads (15% of factory cost)	2,81,550
Cost of production of 12,405 units (Refer to working note 1)	21,63,350

Cost of production per unit: $= \frac{\text{Total Cost of Production}}{\text{No. of units produced}} = \frac{₹\ 21,63,350}{12,405\ \text{units}} = ₹174.39$	

7. Contract Account for the year ended 31st March, 20X8

	(₹'000)		(₹' 000)
To Material issued to site	5,000	By Material at site	1,800
To Direct wages 3,800		By Material returned	100
Add: Outstanding wages 110	3,910	By Work-in-progress:	
To Plant hire	700	- Value of work certified	10,000
To Site office cost	270	- Work uncertified	230
To Direct expenses	500		
To Depreciation (special plant)	300		
To Notional profit c/d	1,450		
	12,130		12,130

8. Determination of quotation price for the job

Cost	(₹)
Direct Material (10kg × ₹10)	100
Direct Labour (20hrs × ₹5)	100
Variable production overhead (20hrs × ₹2)	40
Fixed Overhead $\left(\frac{₹1,00,000}{10,000\ \text{budgeted hours}} \times 20\ \text{hours}\right)$	200
Other costs	50
Total costs	490

Net profit is 30% of sales, therefore total costs represent 70% (₹ 490 × 100) ÷ 70 = ₹ 700 price to quote for job.

To check answer is correct; profit achieved will be ₹ 210 (₹ 700 - ₹ 490)

= ₹ 210 ÷ ₹ 700 = 30%

9. Statement of Equivalent Production

Process III

Input Details	Units	Output Particulars	Units	Equivalent Production					
				Material-A		Material-B		Labour & Overhead	
				%	Units	%	Units	%	Units
Opening WIP	1,600	Work on Op. WIP	1,600	-	-	20	320	40	640
Process-II Transfer	55,400	Introduced & completed during the month	50,600	100	50,600	100	50,600	100	50,600
		Normal loss (5% of 52,800 units)	2,640	-	-	-	-	-	-
		Closing WIP	4,200	100	4,200	70	2,940	50	2,100
		Abnormal Gain	(2,040)	100	(2,040)	100	(2,040)	100	(2,040)
	57,000		57,000		52,760		51,820		51,300

Working note:

Production units = Opening units + Units transferred from Process-II – Closing Units

= 1,600 units + 55,400 units – 4,200 units

= 52,800 units

Statement of Cost

	Cost (₹)	Equivalent units	Cost per equivalent units (₹)
Material A (Transferred from previous process)	6,23,250		
Less: Scrap value of normal loss (2,640 units × ₹ 5)	(13,200)		
	6,10,050	52,760	11.5627
Material B	2,12,400	51,820	4.0988
Labour	96,420	51,300	1.8795
Overheads	56,400	51,300	1.0994
	9,75,270		18.6404

Statement of apportionment of Process Cost

		Amount (₹)	Amount (₹)
Opening WIP	Material A		24,000
Completed opening WIP units-1600	Material B (320 units × ₹ 4.0988)	1311.62	
	Wages (640 units × ₹ 1.8795)	1202.88	
	Overheads (640 units × ₹ 1.0994)	703.62	3,218.12
Introduced & Completed- 50,600 units	50,600 units × ₹ 18.6404		9,43,204.24
Total cost of 52,200 finished goods units			9,70,422.36
Closing WIP units- 4,200	Material A (4,200 units × ₹ 11.5627)		48,563.34
	Material B (2,940 units × ₹ 4.0988)		12,050.47
	Wages (2,100 units × ₹ 1.8795)		3,946.95
	Overheads (2,100 units × ₹ 1.0994)		2,308.74
			66,869.50
Abnormal gain units - 2,040	(2,040 units × ₹ 18.6404)		38026.42

Process III A/c

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Balance b/d	1,600	24,000	By Normal loss	2,640	13,200
To Process II A/c	55,400	6,23,250	By Finished goods	52,200	9,70,422.36
To Direct material		2,12,400	By Closing WIP	4,200	66,874.06*
To Direct wages		96,420			
To Production overheads		56,400			
To Abnormal gain	2,040	38,026.42			
	59,040	10,50,496.42		59,040	10,50,496.42

* Difference in figure due to rounding off has been adjusted with closing WIP

10. (i) Statement of profitability of the Oil Mill (after carrying out further processing) for the quarter ending 31st March 20X8.

Products	Sales Value after further processing	Share of Joint cost	Additional processing cost	Total cost after processing	Profit (loss)
ACH	1,72,500	98,667	43,000	1,41,667	30,833
BCH	15,000	19,733	9,000	28,733	(13,733)
CSH	6,000	4,933	--	4,933	1,067
DSH	45,000	24,667	1,500	26,167	18,833
	2,38,500	1,48,000	53,500	2,01,500	37,000

(ii) Statement of profitability at the split off point

Products	Selling price of split off	Output in units	Sales value at split off point	share of joint cost	profit at split off point
ACH	15.00	8,000	1,20,000	98,667	21,333
BCH	6.00	4,000	24,000	19,733	4,267
CSH	3.00	2,000	6,000	4,933	1,067
DSH	7.50	4,000	30,000	24,667	5,333
			1,80,000	1,48,000	32,000

Note: Share of Joint Cost has been arrived at by considering the sales value at split off point.

11. (i) Calculation of total cost for 'Professionals Protect Plus' policy

	Particulars	Amount (₹)	Amount (₹)
1.	**Marketing and Sales support:**		
	- Policy development cost	11,25,000	
	- Cost of marketing	45,20,000	
	- Sales support expenses	11,45,000	67,90,000
2.	**Operations:**		
	- Policy issuance cost	10,05,900	
	- Policy servicing cost	35,20,700	
	- Claims management cost	1,25,600	46,52,200
3.	**IT Cost**		74,32,000
4.	**Support functions**		
	- Postage and logistics	10,25,000	
	- Facilities cost	15,24,000	

	- Employees cost	5,60,000	
	- Office administration cost	16,20,400	47,29,400
	Total Cost		**2,36,03,600**

(ii) **Calculation of cost per policy** = $\frac{\text{Total cost}}{\text{No. of policies}} = \frac{₹2,36,03,600}{528}$ = ₹44,703.79

(iii) **Cost per rupee of insured value** = $\frac{\text{Total cost}}{\text{Total insured value}} = \frac{₹\,2.36\text{ crore}}{₹\,1,320\text{ crore}}$ = ₹ 0.0018

12. (a) **Material price variance:**

= (Standard price – Actual Price) × Actual quantity

= (₹ 4 – ₹ 4.10) × 5,000 = ₹ 500 Adv.

(b) **Material usage variance:**

= (Std. quantity for actual output – Actual qtty.) × Std. price

= (600 × 5 – 3,500) × 4 = ₹ 2,000 Adv.

(c) **Labour Rate Variance:**

= (Standard rate – Actual rate) × Actual hours

= (₹10 – ₹9) × 1,700 = ₹ 1,700 Fav.

(d) **Labour Efficiency Variance:**

= (Standard hours for actual output – Actual hours) × Standard rate

= (600 × 3 – 1,700) × ₹10

= ₹ 1,000 Fav.

(e) **Variable Overhead Expenditure Variance**

= (Actual Hours × Standard Rate) – Actual Overhead

= (1,700 ×₹ 1) – ₹ 1,900

= ₹ 200 Adv.

(f) **Variable Overhead Efficiency Variance:**

= Std. hours for actual output – Actual hours) × Std. rate

= (600 × 3 – 1,700) × ₹1 = ₹100 Fav.

(g) **Fixed Overhead Expenditure Variance:**

= (Budgeted overhead – Actual overhead)

= (1,800 × 0.50 – 900) = Nil

(h) Fixed Overhead Volume Variance:

= (Std. hours for actual output – Budgeted hours) × Std. rate

= (600 × 3 – 1,800) × ₹ 0.50 = Nil

(i) Fixed Overhead Capacity Variance:

= (Budgeted hours – Actual Hours) × Standard rate

= (1,800 – 1,700) × ₹ 0.50 = ₹ 50 Adv.

(j) Fixed Overhead Efficiency Variance:

= (Std. hours for actual output – Actual hours) × Standard rate

= (600 × 3 – 1,700) × ₹ 0.50 = ₹ 50 Fav.

Verification:	**(₹)**	**(₹)**
Overhead recovered: 600 units @ ₹4.50		2,700
Actual Overhead:		
Variable	1,900	
Fixed	900	2,800
		100 Adv.
Variable expenditure variance		200 Adv
Variable Efficiency variance		100 Fav.
Fixed expenditure variance		Nil
Fixed overhead volume variance		Nil
		100 Adv.

Reconciliation Statement

Standard Cost: 600 units @ ₹54.50		32,700	
Actual Cost:	38,600		
Less: Material Stock at standard cost: (1,500 × ₹4)	6,000	(32,600)	100 Fav.
Variances:	Adv. (₹)	Fav. (₹)	
Material price	500		
Material usage	2,000		
Labour rate		1,700	
Labour efficiency		1,000	
Variable expenditure	200		

Variable efficiency		100	
Total	2,700	2,800	100 Fav.

13. We know that S – V = F + P (S - Sales, V - Variable cost, F - Fixed cost and P - Profit/loss)

$\therefore$ Suppose variable cost = x per unit

Fixed Cost = y

When sales is 8,000 units, then

$15 \times 8,000 - 8,000\,x = y - 40,000$.................... (1)

When sales volume raised to 20,000 units, then

$15 \times 20,000 - 20,000\,x = y + 80,000$............. (2)

Or, $1,20,000 - 8,000\,x = y - 40,000$............. (3)

And $3,00,000 - 20,000\,x = y + 80,000$............. (4)

From (3) & (4) we get x = ₹ 5.

Variable cost per unit = ₹ 5

Putting this value in 3rd equation:

$1,20,000 - (8,000 \times 5) = y\ 40,000$

or y = ₹ 1,20,000

Fixed Cost = ₹ 1,20,000

P/V ratio = $\frac{S - V}{S} = \frac{15 - 5}{15} \times 100 = \frac{200}{3} = 66\frac{2}{3}\%$.

Suppose break-even sales = x

15x – 5x = 1,20,000 (at BEP, contribution will be equal to fixed cost)

x = 12,000 units.

Or Break-even sales in units = 12,000

Break-even sales in rupees = 12,000 ×₹ 15 = ₹ 1,80,000

14. Production budget of Product Minimax and Heavyhigh (in units)

	April		May		June		Total	
	MM	HH	MM	HH	MM	HH	MM	HH
Sales	8,000	6,000	10,000	8,000	12,000	9,000	30,000	23,000

Add: Closing Stock (25% of next month's sale	2,500	2,000	3,000	2,250	4,000	3,500	9,500	7,750
Less: Opening Stock	2,000*	1,500*	2,500	2,000	3,000	2,250	7,500	5,750
Production units	8,500	6,500	10,500	8,250	13,000	10,250	32,000	25,000

*Opening stock of April is the closing stock of March, which is as per company's policy 25% of next months sale.

Production Cost Budget

Element of cost	**Rate (₹)**		**Amount (₹)**	
	MM (32,000 units)	**HH (25,000 units)**	**MM**	**HH**
Direct Material	220	280	70,40,000	70,00,000
Direct Labour	130	120	41,60,000	30,00,000
Manufacturing Overhead				
(4,00,000/ 1,80,000 × 32,000)			71,111	
(5,00,000/ 1,20,000 × 25,000)				1,04,167
			1,12,71,111	1,01,04,167

15. (a) The essential features, which a good cost and management accounting system should possess, are as follows:

(i) Informative and simple: Cost and management accounting system should be tailor-made, practical, simple and capable of meeting the requirements of a business concern. The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.

(ii) Accurate and authentic: The data to be used by the cost and management accounting system should be accurate and authenticated; otherwise it may distort the output of the system and a wrong decision may be taken.

(iii) Uniformity and consistency: There should be uniformity and consistency in classification, treatment and reporting of cost data and related information. This is required for benchmarking and comparability of the results of the system for both horizontal and vertical analysis.

(iv) Integrated and inclusive: The cost and management accounting system should be integrated with other systems like financial accounting, taxation, statistics and operational research etc. to have a complete overview and clarity in results.

(v) **Flexible and adaptive:** The cost and management accounting system should be flexible enough to make necessary amendments and modification in the system to incorporate changes in technological, reporting, regulatory and other requirements.

(vi) **Trust on the system:** Management should have trust on the system and its output. For this, an active role of management is required for the development of such a system that reflect a strong conviction in using information for decision making

(b)

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of cost control, emphasis is on past and present	3. In case of cost reduction, it is on present and future.
4. Cost control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end.

(c) **(i)** **Controllable Costs**: - Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management.

(ii) **Uncontrollable Costs** - Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in-charge of that section but the share of the tool-room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman.

(d) Distinction between Job and Batch Costing:

Sr. No	Job Costing	Batch Costing
1	Method of costing used for non-standard and non- repetitive products produced as per customer specifications and against specific orders.	Homogeneous products produced in a continuous production flow in lots.
2	Cost determined for each Job	Cost determined in aggregate for the entire Batch and then arrived at on per unit basis.
3	Jobs are different from each other and independent of each other. Each Job is unique.	Products produced in a batch are homogeneous and lack of individuality

PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2017, including significant notifications/ circulars issued upto 30th April, 2018, are applicable for November, 2018 examination. The relevant assessment year for November, 2018 examination is A.Y.2018-19. The significant notifications/circulars issued upto 30.04.2018, relevant for November, 2018 examination, but not covered in the July 2017 edition of the Study Material, are given hereunder:

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on-board foreign ships, is being subjected to tax in India for the reason that the salary has been received by the seafarer into the NRE bank account maintained in India by the seafarer. On receiving representations in this regard, the CBDT has examined the matter. It noted that section 5(2)(a) of the Income-tax Act, 1961 provides that only such income of a non-resident shall be subjected to tax in India that is either received or is deemed to be received in India.

Accordingly, the CBDT has, vide this circular, clarified that that salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) shall not be included in the total income merely because the said salary has been credited in the NRE account maintained with an Indian bank by the seafarer.

CHAPTER 4: HEADS OF INCOME
UNIT IV: CAPITAL GAINS

Long-term specified asset notified for the purpose of claiming exemption under section 54EC [Notification No. 47/2017, dated 08.06.2017 and Notification No. 79/2017, dated 08.08.2017]

Section 54EC provides exemption from chargeability of capital gain from the transfer of a long-term capital asset where the assessee has invested the whole or any part of the capital gain in a long-term specified asset. As per clause (ba) of *Explanation* to section 54EC "long term specified asset" means any bond redeemable after three years and issued on or after 01.04.07 by the National Highways Authority of India (NHAI) or by the Rural Electrification Corporation Limited (RECL) or any other bond notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide these notifications, notified any bond redeemable after three years and issued by the **Power Finance Corporation Limited** on or after 15.06.17 or by the **Indian Railway Finance Corporation Limited** on or after 08.08.17 as 'long-term specified asset'.

CHAPTER 4: HEADS OF INCOME
UNIT V: INCOME FROM OTHER SOURCES

Clarification regarding trade advance not to be treated as deemed dividend under section 2(22)(e) – [Circular No. 19/2017, dated 12.06.2017]

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(22)(e) and therefore, the same would not to be treated as deemed dividend.

CHAPTER 7: DEDUCTIONS FROM GROSS TOTAL INCOME

Contributory Health Service Scheme notified for the purpose of section 80D [Notification No. 9 /2018 dated 16-2-2018]

Under section 80D, a deduction to the extent of ₹ 25,000 (₹ 30,000, in case of resident senior citizens) is allowed in respect of premium paid to effect or keep in force an insurance on the health of self, spouse and dependent children or any contribution made to the Central Government Health Scheme or such other health scheme as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified the Contributory Health Service Scheme of the Department of Atomic Energy, contribution to which would qualify for deduction under section 80D.

CHAPTER 9: ADVANCE TAX, TAX DEDUCTION AT SOURCE AND INTRODUCTION TO TAX COLLECTION AT SOURCE

Deduction of tax at source on interest income accrued to minor child, where both the parents have deceased [Notification No. 05/2017, dated 29.05.2017]

Under Rule 31A(5) of the Income-tax Rules, 1962, the Director General of Income-tax (Systems) is authorized to specify the procedures, formats and standards for the purposes of furnishing and verification of, *inter alia*, the statements and shall be responsible for the day-to-day administration in relation to furnishing and verification of the statements in the manner so specified.

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), specified that in case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

Deduction of tax at source on interest on deposits made under Capital Gains Accounts Scheme, 1988 where depositor has deceased - Notification No. 08/2017, dated 13.09.2017

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), vide this notification, specified that in case of deposits under the Capital Gains Accounts Scheme, 1988 where the depositor has deceased:

(i) TDS on the interest income accrued for and upto the period of death of the depositor is required to be deducted and reported against PAN of the depositor, and

(ii) TDS on the interest income accrued for the period after death of the depositor is required to be deducted and reported against PAN of the legal heir,

unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator [Circular No. 21/2017, dated 12.06.2017]

Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. *Explanation* to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; (e) plant; (f) equipment (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

The primary requirement of any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I.

Accordingly, the CBDT has, *vide* this circular, clarified that the provisions of section 194-I shall **not** be applicable on payment of PSF by an airline to Airport Operator.

Clarification regarding TDS on Goods and Services Tax (GST) component comprised in payments made to residents [Circular No. 23/2017 dated 19.07.2017]

The CBDT had, vide Circular No. 1/2014 dated 13.01.2014, clarified that wherever in terms of the agreement or contract between the payer and the payee, the service tax component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such service tax component.

In order to harmonize the same treatment with the new system for taxation of services under the GST regime w.e.f. 01.07.2017, the CBDT has, vide this circular, clarified that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component.

GST shall include Integrated Goods and Services Tax, Central Goods and Services Tax, State Goods and Services Tax and Union Territory Goods and Services Tax.

Further, for the purposes of this Circular, any reference to "service tax" in an existing agreement or contract which was entered into prior to 01.07.2017 shall be treated as "GST on services" with respect to the period from 01.07.2017 onward till the expiry of such agreement or contract.

Guidance on income-tax deduction from salaries under section 192 during the financial year 2017-18 [Circular No. 29/2017, dated 05-12-2017]

This CBDT Circular contains the rates for deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2017-18 and explains certain provisions of the Income-tax Act, 1961 and Income-tax Rules, 1962, including the broad scheme of TDS from Salaries, persons responsible for deducting tax at source from Salaries and their duties, computation of income under the head "Salaries" etc.

Students may read/download this circular by using the following link - https://www.incometaxindia.gov.in/communications/circular/circular29_2017.pdf

CHAPTER 10: PROVISIONS FOR FILING RETURN OF INCOME AND SELF ASSESSMENT

Persons who are not required to quote Aadhar Number or Enrolment ID in application form for allotment of PAN and in return of income [Notification No. 37/2017 dated 11.05.2017]

Section 139AA requires every person who is eligible to obtain Aadhar Number to mandatorily quote Aadhar Number or Enrolment ID of Aadhar application form, on or after 1st July, 2017 in the application form for allotment of PAN and in the return of income. However, this provision shall not applicable to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

Income Tax Return Forms notified for Assessment Year 2018-19 [Notification No. 16/2018, dated 3-4-2018]

The CBDT has notified Income-tax Return Forms (ITR Forms) for the Assessment Year 2018-19 *vide* this Notification. The ITR Forms and its applicability have been detailed below:

ITR Form No	Applicability
1	A one page simplified ITR 1 (SAHAJ) can be filed by an individual who **is resident other than not ordinarily resident**, having income from salaries, one house property, income from other sources (interest etc.). and having total income upto ₹ 50 lakh.
2	Individuals and HUFs having not having income from business or profession shall be eligible to file ITR 2.
3	Individuals and HUFs having income under the head "Profits and gains of business or profession" have to file ITR 3.
4	ITR 4 (SUGAM) can be used by eligible assessees having presumptive income from business or profession. Thus, eligible assessees having only presumptive income under section 44AD, 44ADA or 44AE, under the head "Profits and gains of business or profession" have to file return in ITR 4. In addition, they may have salary income, income from house property and income from other sources (excluding winnings from lottery and income from race horses, income taxable under section 115BBDA and income of the nature referred to in section 115BBE). Any person having agricultural income in excess of ₹ 5,000 cannot use ITR 4. Further, a person claiming relief of foreign tax paid under section 90, 90A or 91 cannot use this form. Also, this form cannot be used by a resident having any asset (including financial interest in any entity) located outside India or signing authority in any account located outside India and by a resident having income from any source outside India.
5	ITR 5 can be used by persons other than individual, HUF, company and person filing Form ITR 7.
6	ITR 6 can be used by companies other than companies claiming exemption under section 11.
7	ITR 7 can be used by persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F).

All these ITR Forms are to be filed electronically. However, where return is furnished in ITR Form-1 (SAHAJ) or ITR-4 (SUGAM), the following persons have an option to file return in paper form:

(i) an Individual of the age of 80 years or more at any time during the previous year; or

(ii) an Individual or HUF whose income does not exceed five lakh rupees and who has not claimed any refund in the Return of Income.

Amendments to the Tax Return Preparer Scheme, 2006 as notified u/s 139B [Notification No. 4/2018, dated 19-01-2018]

Section 139B provides that for the purpose of enabling any specified class or classes of persons in preparing and furnishing returns of income, the CBDT may, without prejudice to the provisions of section 139, frame a Scheme, by notification in the Official Gazette, providing that such persons may furnish their returns of income through a Tax Return Preparer (TRP) authorised to act as such under the Scheme.

Accordingly, *vide Notification No 358/2006 dated 28.11.2006*, the CBDT had notified the "Tax Return Preparer Scheme, 2006". Later on, the said scheme was amended vide Notification No 84/2010 dated 22.11.2010. Vide this notification, the said scheme is further amended so as to widen the scope of the Scheme. The amended portion is given in ***bold italics*** in the second column below:

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family.
Tax Return Preparer	Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme. However, the following person are not entitled to act as TRP: (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. (ii) any legal practitioner who is entitled to practice in any civil court in India. (iii) an accountant.
Educational qualification for Tax Return Preparers	***An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as TRP.***
Preparation of and furnishing the Return of Income by the TRP	An eligible person may, at his option, furnish his return of income u/s 139 for any assessment year after getting it prepared through a TRP:

	However, the following eligible persons (an individual or a HUF) cannot furnish a return of income for an assessment year through a TRP: (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or (ii) who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a TRP unless he has furnished the original return of income for that assessment year through such or any other TRP. Further, a return of income which is required to be furnished in response to a notice under section 142(1)(i) or under section 148 or under section 153A cannot be prepared or furnished through a TRP.

Note *- The limit for gratuity notified under the Payment of Gratuity Act, 1972 has been increased from ₹ 10 lakh to ₹ 20 lakh with effect from 29.3.2018.*

PART II: QUESTIONS AND ANSWERS

QUESTIONS

1. Mr. Sahil, a citizen of India, serving in the Ministry of Human Resources in India, was transferred to Indian Embassy in Germany on 15th March 2017. His income during the financial year 2017-18 is given here under:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	4,80,000
Interest accrued on National Saving Certificate	25,600
Interest on Post office savings bank account	3,200
Salary from Government of India	8,15,000
Foreign Allowances from Government of India	9,00,000

Mr. Sahil did not come to India during the financial year 2017-18. Compute his Gross Total Income for the Assessment year 2018-19.

2. Mr. Charan grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for the financial year 2017-18:

   - Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
   - Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹ 28,60,000.
   - Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy. The rice was sold for ₹ 38,00,000.

   Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2018-19.

3. You are required to compute the income chargeable under the head Salaries in the hands of Mr. Narayan for the assessment year 2018-19 from the following details pertaining to the financial year 2017-18:

Particulars	₹
Basic salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Narayan paid by employer	42,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

4. Mr. Ranjan owns a shop whose construction got completed in August 2016. He took a loan of ₹ 22 lakhs from Bank of Baroda on 1-8-2015 and had been paying interest calculated at 9% per annum.

   During the financial year 2017-18, the shop was let out at a monthly rent of ₹ 45,000. He paid municipal tax of ₹ 18,000 each for the financial year 2016-17 and 2017-18 on 25-5-2017 and 15-4-2018, respectively.

Compute income under the head 'House Property' of Mr. Ranjan for the Assessment year 2018-19, assuming that the entire amount of loan is outstanding on the last day of the current previous year.

5. Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2017-18 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	**2,71,00,000**	**Total**	**2,71,00,000**
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	**20,50,000**	**Total**	**20,50,000**

Other information:

(i) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2017 to M/s Décor World.

(ii) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.

(iii) No deduction of tax at source on payment of interest on bank loan has been made.

(iv) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2018-19.

6. Mr. Sahu entered into an agreement with Mr. Devansh to sell his residential house located at New Delhi on 27.07.2017 for ₹ 82,00,000. Mr. Devansh was handed over the possession of the property on 16.12.2017 and the registration process was completed on 24.02.2018.

   Mr. Devansh had paid the sale proceeds in the following manner;

   (i) 25% through account payee bank draft on the date of agreement.

   (ii) 50% on the date of the possession of the property.

   (iii) Balance after the completion of the registration of the title of the property.

   The value determined by the Stamp Duty Authority on 27.07.2017 was ₹ 92,00,000 whereas on 24.02.2018 it was ₹ 94,50,000.

   Mr. Sahu had acquired the property on 01.04.2002 for ₹ 21,00,000. After recovering the sale proceeds from Devansh, he purchased another residential house property in Navi Mumbai for ₹ 35,00,000.

   Cost Inflation Index for Financial Year(s)

2001-02	-	100
2002-03	-	105
2017-18	-	272

   Compute the total income of Mr. Sahu for the Assessment Year 2018-19 and his net tax liability/refund due for that year, assuming that he has earned income of ₹ 12,000 from Savings Bank A/c and received income of ₹ 84,000 (Net of TDS) from lotteries. Assume that the tax deductible at source, if any, on consideration for sale of residential house has been deducted.

7. (a) Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP(P) Ltd.

   Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.

   (b) Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

   (i) MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).

   (ii) Mr. Arun received an advance of ₹ 56,000 on 11-09-2017 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.

   (iii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.

(iv) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000.

8. Saharsh gifted ₹ 12 lakhs to his wife, Sandhya on her birthday on, 1st February, 2017. Sandhya lent ₹ 6,00,000 out of the gifted amount to Karuna on 1st April, 2017 for six months on which she received interest of ₹ 60,000. The said sum of ₹ 60,000 was invested in shares of a listed company on 3rd October, 2017, which were sold for ₹ 85,000 on 30th March, 2018. Securities transactions tax was paid on such sale. The balance amount of gift was invested on 1st April 2017, as capital by Sandhya in her new business. She suffered loss of ₹ 25,000 in the business in Financial Year 2017-18.

   In whose hands the above income and loss shall be included in Assessment Year 2018-19, assume that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

9. From following information furnished for the year ended 31-03-2018, compute the total income of Mr. Arihant for A.Y. 2018-19 and show the items eligible for carry forward and upto which assessment year:

Particulars	Amount (₹)
Long-term capital gain from sale of urban land	2,30,000
Long-term capital loss on sale of shares (STT not paid)	85,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered under section 35AD	40,000
Income from salary	3,50,000
Loss from house property	2,20,000
Income from trading business	75,000

   Following are details of unabsorbed depreciation and the brought forward losses:

   (1) Unabsorbed depreciation of ₹ 11,000 pertaining to A.Y 2017-18.

   (2) Losses from owning and maintaining of race horses pertaining to A.Y. 2017-18 ₹ 5,000.

   (3) Brought forward loss from trading business ₹ 8,000 relating to A.Y.2014-15.

10. Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2018-19 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore.

On 1st April 2017, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2017-18 comprises of:

(a) 15 casual employees employed on 15th April 2017 till 31st January 2018 on monthly emolument of ₹ 22,000 per month

(b) 40 regular employees employed on 1st May, 2017 on monthly emolument of ₹ 22,000 per month

(c) 25 contractual employees employed on 1st July 2017 for 2 years on monthly emolument of ₹ 15,000 per month

(d) 35 regular employees employed on 1st August, 2017 on monthly emolument of ₹ 30,000 per month

(e) 25 regular employees employed on 1st October, 2017 on monthly emolument of ₹ 22,000 per month

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2018-19, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

*[**Note** - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2018-19]*

11. You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2018-19 from the following information shown in his Profit and Loss Account for the year ended 31st March 2018:

    (i) The net profit was ₹ 8,40,000.

    (ii) Depreciation debited in the books of account was ₹ 1,05,000.

    (iii) The following incomes were credited in the Profit & Loss Account:

        (a) Interest on notified government securities ₹ 32,000

        (b) Dividend from a foreign company ₹ 28,000.

        (c) Gold chain worth ₹ 78,000 received as gift from his mother.

    (iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2018.

    (v) General expenses included:

        (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.

(b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information:

(1) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

(2) He contributed the following amounts by cheque:

(a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.

(b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.

(c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.

(d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

12. Shurya Bank Ltd., a banking company to which the Banking Regulations Act, 1949 applies, has paid interest of ₹ 7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch and ₹ 8,000 from Kanpur branch. If the bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31-3-2018? Examine the provisions of the Income-tax Act, 1961 in this regard.

Will your answer be different if the bank has adopted core banking solutions?

13. Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2017-18.

Estimated tax liability for the financial year 2017-18	₹ 85,000
Tax deducted at source for this year	₹ 15,000

(i) Would your answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?

(ii) What would be your answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE?

14. When and at what rate, a seller is required to collect tax source on sale of motor vehicle. Also, discuss whether tax is required to be collected at source on sale of motor vehicle by manufacturers to dealers.

15. Mr. Atharv filed his return of income on 30th September, 2018 related to Assessment Year 2018-19. In the month of October 2018, his tax consultant found that the interest on fixed deposit was omitted in the tax return. Can Mr. Atharv file a revised return?

Assume that the due date for furnishing return of income in his case, was 31st July, 2018 and the assessment was not completed till the month of October 2018.

SUGGESTED ANSWERS

1. Mr. Sahil is a non-resident for the A.Y.2018-19, since he was not present in India at any time during the previous year 2017-18 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Gross Total Income of Mr. Sahil for A.Y. 2018-19

Particulars	₹
Salaries	
Salary from Government of India	8,15,000
(Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sahil, a citizen of India, even though he is a non-resident and rendering services outside India)	
Foreign Allowances from Government of India	Nil
[Any allowances or perquisites paid or allowed as such outside India by the Government of India to a citizen of India for rendering service outside India is exempt under section 10(7)].	
Income from House Property	
Rent from a house situated at Australia, received in Australia	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it is neither accruing or arising in India nor is it deeming to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest accrued on National Savings Certificate is taxable[1]	25,600
Interest on Post office savings bank account – exempt upto ₹ 3,500	Nil
Gross Total Income	**8,40,600**

[1] *It is assumed that Mr. Sahil follows mercantile system of accounting.*

2. **Computation of Business Income and Agriculture Income of Mr. Charan for A.Y. 2018-19**

Particulars	Business Income	Agricultural Income	
	₹	₹	₹
Sale of Rice			
Business income			
Sale Proceeds of Rice	38,00,000		
Less: Market Value of paddy (60%)	28,60,000		
Less: Manufacturing expenses	3,60,000		
	5,80,000		
Agricultural Income			
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		14,40,000	
			14,20,000
Sale of Paddy			
Agricultural Income			
Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		9,00,000	
			9,50,000
			23,70,000

3. **Computation of income chargeable under the head "Salaries" of Mr. Narayan for A.Y. 2018-19**

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is an exempt perquisite to the extent of ₹ 15,000 [Clause (v) of proviso to section 17(2)]. Therefore, ₹ 10,000, being the reimbursement in excess of ₹ 15,000 is a taxable perquisite.	10,000

Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Narayan's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv) **[See Note below]**	15,000
Life insurance premium of Mr. Narayan paid by employer is a taxable perquisite as per section 17(2)(v)	42,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹ 21,600 [₹1,800 ×12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	**12,42,600**
Less: **Deductions under section 16**	
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	**12,39,600**

Note: *As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday.*

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view *possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 10,000.*

In such case, the gross salary and net salary would be, ₹ 12,37,600 and ₹ 12,34,600, respectively.

4. Computation of income under the head "House Property" of Mr. Ranjan for A.Y.2018-19

Particulars	₹	₹
[2]Gross Annual Value (₹ 45,000 x 12)		5,40,000
Less: Municipal taxes **(See Working Note 1)**		18,000
Net Annual Value (NAV)		5,22,000
Less: Deductions under section 24		
(i) 30% of NAV	1,56,600	
(ii) Interest on housing loan **(See Working Note 2)**	2,24,400	
		3,81,000
Income chargeable under the head "House Property"		**1,41,000**

Working Notes:

(1)	**Municipal taxes deductible from Gross Annual Value**	
	As per proviso to section 23(1), municipal taxes **actually paid by the owner during the previous year** is allowed to be deducted from Gross Annual Value. Accordingly, only ₹ 18,000 paid on 25.05.2017 is allowed to be deducted from Gross Annual Value, while computing income from house property of the previous year 2017-18.[3]	
(2)	**Interest on housing loan allowable as deduction under section 24**	
	As per section 24(b), interest for the current year (₹ 22,00,000 x 9%)	₹ 1,98,000
	Pre-construction interest	
	For the period 01.08.2015 to 31.03.2016	
	(₹ 22,00,000 x 9% x 8/12) = ₹ 1,32,000	
	₹ 1,32,000 allowed in 5 equal installments (₹ 1,32,000/5) from P.Y. 2016-17 to P.Y. 2020-21	₹ 26,400
		₹ 2,24,400
3.	Deduction under section 24(b), in respect of interest on housing loan for let out property, fully allowed without any limit.	

[2] *In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the Gross Annual Value*

[3] *The municipal tax of ₹ 18,000 paid on 15.4.2018 would be allowed as deduction while computing income from house property of the previous year 2018-19.*

5. **Computation of Business Income of Mr. Chauhan for the A.Y. 2018-19**

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
***Add*: Expenses not deductible**		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
		14,75,000
***Less*: Expense allowed**		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
		14,35,000
***Add*: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		25,000
Business Income		**14,60,000**

Notes:-

(1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.

(2) Provisions for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.

(3) Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.

(4) Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).

(5) Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2018-19.

(6) As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.

(7) Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.

(8) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

6. Computation of income chargeable under the head "Capital Gains" for A.Y. 2018-19

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 82 lakhs	
Value adopted by Stamp Valuation Authority	₹ 92 lakhs	
Full value of sale consideration [Higher of the above]		92,00,000
[As per section 50C, in case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 25% of ₹ 82 lakhs was paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]		
***Less:* Indexed cost of acquisition of residential house**		
[₹ 21 lakhs x 272/105]		54,40,000

Long-term capital gains [Since the residential house property was held by Mr. Sahu for more than 24 months immediately preceding the date of its transfer]		**37,60,000**
Less: Exemption under section 54		35,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.		
Long-term capital gains chargeable to tax		**2,60,000**
Income from Other Sources		
- Interest on Savings Bank A/c	12,000	
- Income from lotteries [₹ 84,000 x 100/70]	1,20,000	
[Under section 194B, tax @ 30% is required to be deducted at source on lottery income at the time of payment, if the amount exceeds ₹ 10,000]		1,32,000
Gross Total Income		**3,92,000**
Less: Deduction under Chapter VI-A: Under section 80TTA, in respect of interest on Savings bank a/c, restricted to		10,000
Total Income		**3,82,000**
Tax Liability		
Tax on total income of ₹ 2,000 i.e., excluding LTCG & lotteries income		Nil
Tax on long-term capital gains @ 20% ₹ 12,000 (₹ 2,60,000 less unexhausted basic exemption limit of ₹ 2,48,000 [₹ 2,50,000 - ₹ 2,000, being total income excluding LTCG & income from lotteries]		2,400
Tax on income from lotteries @ 30%		36,000
		38,400
Add: Education cess @ 2%		768
Add: Secondary and higher education cess @ 1%		384
Tax liability		**39,552**
Less: Tax deducted at source		
- under section 194B on income from lotteries		36,000
- under section 194-IA on transfer of residential house (1% of ₹ 82,00,000)		82,000
Tax refundable		**78,448**

7. (a) Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern)

is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

(b)

S. No.	Taxable / Not Taxable	Reason
(i)	**Taxable**	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head “Income from other sources”. Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 – ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head “Income from other sources”.
(ii)	**Taxable**	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head “Income from other sources”, if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head “Income from other sources”, since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

(iii)	**Not Taxable**	As per section 56(2)(x), immovable property received without consideration by any person from his relative is **not** taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	**Not Taxable**	Refrigerator is **not** included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of a her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

8. In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 60,000, being the amount of interest on loan received by Mrs. Sandhya, wife of Mr. Saharsh, would be includible in the total income of Mr. Saharsh, since such loan was given by her out of the sum of money received as gift from her husband.

Loss from business: As per *Explanation 2* to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 25,000 from the business carried on by Mrs. Sandhya would be includible in the total income of Mr. Saharsh, since as on 1st April 2017, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: The short-term capital gain of ₹ 25,000 (₹ 85,000, being the sale consideration ***less*** ₹ 60,000, being the cost of acquisition) arising in the hands of Mrs. Sandhya from sale of shares acquired by investing the interest income of ₹ 60,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Saharsh. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15%

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, such income is taxable in the hands of Mrs. Sandhya.

9. **Computation of total income of Mr. Arihant for the A.Y. 2018-19**

Particulars	₹	₹
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	2,00,000	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	
Less: Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted has not expired.	8,000	
	67,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	15,000	
Loss from speculative business X to be carried forward to A.Y.2019-20 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	85,000	1,45,000
Long-term capital loss of ₹ 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source.		
Total Income		**3,51,000**

Items eligible for carried forward to A.Y.2019-20

Particulars	₹
Loss from House Property As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	20,000

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2026-27, in this case.	
<u>Loss from speculative business X</u> Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y. 2022-23, in this case, as specified under section 73(4).	10,000
<u>Loss from specified business under section 35AD</u> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	40,000
<u>Loss from the activity of owning and maintaining race horses</u> Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case as specified under section 74A(3).	5,000

10.

Computation of deduction under section 80JJAA
Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds ₹ 1 crore and he has employed "additional employees" during the P.Y.2017-18. Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees] = ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000 Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2017-18

Particulars	No. of additional employees	
Total number of additional employees employed during the year		140
Less: Casual workmen employed on 15th April 2017, who do not participate in the recognised provident fund	15	
Regular employees employed on 1st August 2017, since their total monthly emoluments exceed ₹ 25,000	35	
Regular employees employed on 1st October 2017, for a period of less than 240 days during the P.Y.2017-18	25	75
Total number of additional employees employed during the P.Y.2017-18		65

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2017 would also qualify for deduction under section 80JJAA for A.Y. 2018-19.

Additional employee cost = ₹ 1,30,55,000 + ₹ 33,00,000 (₹ 22,000 x 6 x 25)

= ₹ 1,63,55,000

Deduction under section 80JJAA = 30% of ₹ 1,63,55,000 = ₹ 49,06,500

11. Computation of total income of Mr. Anoop for the Assessment Year 2018-19

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: **Income credited to profit and loss account but not taxable under this head**			
Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	1,38,000	
		7,02,000	
Add: Depreciation debited in the books of account		1,05,000	
		8,07,000	

Add: **Expenses debited to profit and loss account but not allowable as deduction**			
Interest on capital borrowed for purchase of plant & machinery	82,000		
[As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2018 not allowable as deduction. The said amount has to be added to the cost of the asset[4]. Since the amount has been debited to profit and loss account, it has to be added back].			
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-	1,00,500	
		9,07,500	
Less: Depreciation allowable under the Income-tax Act, 1961		1,16,000	7,91,500
[Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2017-18]			
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34)]		28,000	
Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]		-	28,000
Gross Total Income			**8,19,500**

[4] No depreciation is allowable on such amount since the asset was not put to use during the P.Y. 2017-18.

***Less*: Deductions under Chapter VI-A**			
Under section 80C			
Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health check up, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to	30,000	55,000	
Under section 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	1,26,000
Total Income			**6,93,500**
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 *less* ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,93,500 (in excess of ₹ 5,00,000)			51,200
Add: Education cess @2%			1024
Add: Secondary and higher education cess @1%			512
Tax Payable			**52,736**
Tax Payable (rounded off)			**52,740**

12. Tax is deductible @10% under section 194A in respect of interest credited or paid by a banking company, if the same exceeds ₹ 10,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of ₹ 10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ₹ 7,000 and ₹ 8,000 paid by its Lucknow Branch and Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed ₹ 10,000.

However, if Shurya Bank Ltd. has adopted core banking solutions, it has to deduct tax at source@10% on ₹ 15,000 (₹ 7,000 + ₹ 8,000) under section 194A, since the aggregate interest paid by its Lucknow and Kanpur branches exceed ₹ 10,000.

13. **Determination of Advance Tax Liability of Mr. Shikhar**

Particulars	₹
Estimated tax liability for the financial year 2017-18	85,000
Less: Tax deducted at source	15,000
Tax payable	**70,000**

Due Date of installment	Amount payable	₹
On or before 15th June, 2017	Not less than 15% of advance tax liability	10,500
On or before 15th September, 2017	Not less than 45% of advance tax liability *less* amount paid in earlier installment	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15th December, 2017	Not less than 75% of advance tax liability *less* amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15th March, 2018	Whole of the advance tax liability *less* amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire advance tax liability in one installment on or before 15.3.2018, without attracting interest under section 243C.

This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.

14. As per section 206(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall collect tax from the buyer@1% of the sale consideration.

In case of sale of a motor vehicle, tax shall be collected at the time of receipt of such amount.

The CBDT has, vide *Circular No. 22/2016 dated 8.6.2016* and *Circular No.23/2016 dated 24.6.2016*, clarified that tax is required to be collected at source on all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

15. As per section 139(5), if any person, having furnished a return under section 139(1), within the due date or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

(a) before the end of the relevant assessment year or

(b) before the completion of assessment,

whichever is earlier.

For assessment year 2018-19, the belated return has to be **furnished before 31st March 2019 or before completion of assessment**, whichever is earlier.

Since Mr. Atharv has filed **his return after 31.7.2018**, being the due date of filing return of income under section 139(1) in his case, **but before 31.3.2019/completion of assessment**, the said return is a **belated return**.

Thus, in the present case, Mr. Atharv **can file a revised return**, since he has found an omission in the belated return filed by him for A.Y.2018-19 and assessment is yet to be completed[5] and 31.3.2019, being the end of A.Y.2018-19 has not elapsed.

[5] As of October 2018

SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 30.04.2018.

(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. M/s. Shri Durga Corporation Pvt. Ltd. is a supplier of goods and services at Kolkata. It has furnished the following information for the month of February, 20XX:

	Particulars	**Amount (₹)**
(i)	Intra-State sale of taxable goods including ₹ 1,00,000 received as advance in January, 20XX, the invoice for the entire sale value is issued on 15th February, 20XX	4,00,000
(ii)	Goods purchased from unregistered dealer on 20th February, 20XX (Inter-State purchases are worth ₹ 30,000 and balance purchases are intra-State)	1,00,000
(iii)	Services provided by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex (It is an intra-State transaction)	1,00,000
(iv)	Goods transport services received from a GTA. GTA is paying tax @12% (It is an inter-State transaction)	2,00,000

Compute net GST liability (CGST, SGST or IGST, as the case may be) of M/s Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX.

Assume the rates of GST, unless otherwise specified, as under:

CGST	9%
SGST	9%
IGST	18%

Note:-

(i) The turnover of M/s. Shri Durga Corporation Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.

(ii) All the amounts given above are exclusive of taxes.

2. Cloud Seven Private Limited, a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of February, 20XX :

	Particulars	GST paid (₹)
(i)	Trucks used for the transport of raw material	1,20,000
(ii)	Foods and beverages for consumption of employees working in the factory	40,000
(iii)	Inputs are to be received in five lots, out of which third lot was received during the month	80,000
(iv)	Membership of a club availed for employees working in the factory	1,50,000
(v)	Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000)	4,00,000
(vi)	Raw material (to be received in March, 20XX)	1,50,000

Determine the amount of input tax credit available with Cloud Seven Private Limited for the month of February, 20XX by giving necessary explanations for treatment of various items. All the conditions necessary for availing the input tax credit have been fulfilled.

3. M/s. Handsome and Likemi Company, a partnership firm at Mumbai is running a mobile phone showroom. Along with mobile phone showroom, it is also engaged in providing health and fitness services.

Turnover of the mobile phone showroom was ₹ 78 lakh and receipts of the health and fitness service was ₹ 26 lakh in the preceding financial year.

(i) With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme,

(ii) Will your answer change, if the turnover of the mobile phone showroom was ₹ 74 lakh and receipts of the health and fitness service was ₹ 18 lakh in the preceding financial year?

(iii) If M/s. Handsome and Likemi Company obtain separate registration for their mobile phone showroom & for health fitness centre, can it opt for composition scheme only for mobile phone showroom?

4. Luv & Kush Pvt. Ltd. of Srinagar, Jammu & Kashmir engaged in the supply of gifts items provides you the following details:-

S.No.	Particulars	Date
1.	Commencement of the business of supplying goods	01.08.20XX
2.	Turnover exceeds ₹ 10,00,000 on	15.08.20XX

3.	Turnover exceeds ₹ 20,00,000 on	05.09.20XX
4.	Application for registration made on	28.09.20XX
5.	Registration certificate granted on	06.10.20XX

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain.

5. Red Pepper Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details of taxable inter-State supply made by it for the month of March, 20XX.

Particulars	**Amount in (₹)**
List price of goods supplied inter-state (exclusive of taxes)	15,00,000
Subsidy received from Central Government for supply of taxable goods to Government School.	2,10,000
Subsidy received from a NGO for supply of taxable goods to an old age home	50,000
Tax levied by Municipal Authority	20,000
Packing charges	15,000
Late fee paid by the recipient of supply for delayed payment of invoice	6,000

The list price of the goods takes into account the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the value of taxable supply made by M/s Red Pepper Ltd. for the month of March, 20XX. Rate of IGST is 18%.

6. (i) Explain the meaning of the term "date of receipt of payment" as per section 13 of the CGST Act, 2017.

   (ii) List any four activities which shall be neither treated as supply of goods nor a supply of services under the GST law.

7. Examine whether GST is payable in the following independent supply of services:

   (i) Indiana Engineering College, a recognised educational institution, has conducted an entrance test examination for various courses run by it and charged entrance fees from the applicants.

   (ii) Ramfal Lalaji, an agriculturist, has stored sugarcane in a warehouse. He has taken fumigation services in the said warehouse from Gupta Pest Control Co. for which he paid the consideration of ₹ 6,000.

8. (i) With reference to the provisions of GST law, briefly answer the following questions:-

(a) Income is received by Maharashtra Government from renting of immovable property to Ganpati Morya Pvt. Ltd., registered in Maharashtra (Turnover of the company was ₹ 18 lakh in the preceding financial year). Is GST payable in the present case? If yes, who is liable to pay the same?

(b) Mr. Vivek Goyal, director of A2Z Pvt. Ltd. Company has received sitting fee amounting to ₹ 1 lakh from A2Z Pvt. Ltd for attending the Board meetings.

(ii) Explain the meaning of the term "input tax" under section 2(62) of CGST Act, 2017.

9. (i) Discuss the circumstances where registration is liable to be cancelled.

(ii) Explain the order in which liability of taxable person has to be discharged under GST laws.

10. Examine whether the activity of import of service in the following independent cases would amount to supply under section 7 of the CGST Act, 2017?

(i) Miss Shriniti Kaushik received vaastu consultancy services for her residence located at Bandra, Mumbai from Mr. Racheal of Sydney (Australia). The amount paid for the said service is 5,000 Australian dollar.

(ii) Miss Shriniti Kaushik received vaastu consultancy services for her residence located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia). Further, Miss Shriniti did not pay any consideration for the said service.

(iii) Miss Shriniti Kaushik received vaastu consultancy services for her business premises located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia). Further, Miss Shriniti did not pay any consideration for the said service.

SUGGESTED ANSWERS/HINTS

1. Computation of GST liability of M/s. Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX

Particulars	Value of Supply	CGST (₹)	SGST (₹)	IGST (₹)
Intra -State sale of taxable goods [Note-1]	4,00,000	36,000	36,000	
Goods purchased from unregistered dealer on 20th February, 20XX [Note-2]	Nil	Nil	Nil	
Services rendered by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex [Note-3]	1,00,000	9,000	9,000	
Goods transport services received from GTA [Note-4]	2,00,000			Nil

Total GST liability for the month of February, 20XX	45,000	45,000	Nil
Less: Input tax credit available [Note-5] (₹ 2,00,000 x 12%)	24,000		
Net GST liability for the month of February, 20XX	21,000	45,000	Nil

Notes:

1. Section 12 of CGST Act, 2017 read with *Notification No. 66/2017 CT dated 15.11.2017* provides that the time of supply for all suppliers of goods (excluding composition suppliers) is the time of issue of invoice, without any turnover limit. Thus, liability to pay tax on the advance received in January, 20XX will also arise in the month of February, when the invoice for the supply is issued.
2. All intra-State and inter-State procurements made by a registered person from unregistered person have been exempted from reverse charge liability, without any upper limit for daily procurements upto 30.06.2018*[1]. [*Notification No. 8/2017 CT (R) dated 28.06.2017 as amended and Notification No. 32/2017 IT(R) dated 13.10.2017 as amended]*
3. Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt vide *Notification No. 12/2017 CT(R) dated 28.06.2017*. Labour contracts **for repairing** are thus, taxable.
4. As per *Notification No. 13/2017 CT(R) dated 28.06.2017*, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA) provided such GTA has **not** paid GST @ 12%. Since in the given case, services have been received from a GTA who has paid GST @ 12%, reverse charge provisions will not be applicable.
5. Input tax credit is available for the services received from GTA. The input tax credit of IGST can be used against IGST, CGST and SGST in the respective order vide section 49(5) of CGST Act, 2017.

2. Computation of input tax credit (ITC) available with Cloud Seven Private Limited for the month of February, 20XX

Particulars	₹
Trucks used for the transport of raw material [Note-1]	1,20,000
Foods and beverages for consumption of employees working in the factory [Note-2]	Nil
Inputs are to be received in five lots, out of which third lot was received during the month [Note-3]	Nil

* The above exemptions have been extended till 30.09.2018 vide *Notification No. 12/2018 CT(R) dated 29.06.2018* and *Notification No. 13/2018 IT(R) dated 29.06.2018.*

Membership of a club availed for employees working in the factory [Note-4]	Nil
Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000) [Note-5]	3,50,000
Raw material to be received in March, 20XX [Note-6]	Nil
Total ITC	**4,70,000**

Notes:-

1. ITC on motor vehicles is disallowed in terms of section 17(5) of the CGST Act, 2017, except when they are used *inter alia*, for transportation of goods.
2. ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply- [Section 17(5)].
3. When inputs are received in instalments, ITC can be availed only on receipt of last instalment- [Section 16(2)].
4. Membership of a club is specifically disallowed under section 17(5) of the CGST Act, 2017.
5. ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC [Section 16(2) of CGST Act, 2017] .
6. Input tax credit is available only upon the receipt of goods in terms of section 16(2) of CGST Act, 2017.

3. A registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore [₹ 75 lakh in case of special category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme vide section 10 of CGST Act, 2017.

However, he shall not be eligible to opt for composition scheme if, *inter alia,* he is engaged in the supply of services other than restaurant services.

(i) In the given case, since M/s Handsome and Likemi Company is engaged in supply of health and fitness service, it is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.

(ii) The answer will remain the same i.e., M/s. Handsome & Likemi Company will not be eligible to opt for composition scheme even with the change in the turnovers.

(iii) Where more than one registered persons are having the same Permanent Account Number, the registered person shall not be eligible to opt for composition scheme unless all such registered persons opt to pay tax under composition scheme.

Therefore, M/s. Handsome and Likemi Company will not be able to opt for composition scheme only for mobile phone showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of health and fitness service is ineligible for composition scheme, supply of mobile phones too becomes ineligible for composition scheme.

4. A supplier whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in special category states except Jammu & Kashmir and Uttarakhand] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) vide section 22 of CGST Act, 2017.

Where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices in respect of taxable supplies effected during this period within 1 month from the date of issuance of registration certificate.

In the given case, Luv & Kush Pvt. Ltd is located in Jammu & Kashmir, a special category state. Though the turnover limit for special category states is ₹ 10 lakh, Jammu & Kashmir has opted for turnover limit of ₹ 20 lakh for the purpose of registration. Thus, since Luv & Kush Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 05.09.20XX.

Thus, Luv & Kush Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (05.09.20XX) and the date of issuance of registration certificate (06.10.20XX), within 1 month from 06.10.20XX.

Further, Luv & Kush Pvt. Ltd may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter-State supplies made to unregistered dealers, a consolidated revised tax invoice cannot be issued if the value of a supply exceeds ₹ 2,50,000.

5. **Computation of value of taxable supply made by Red Pepper Ltd. for the month of March, 20XX**

Particulars	**₹**
List price of the goods	15,00,000
Add: Subsidy amounting to ₹ 2,10,000 received from Central Government	NIL
[Since subsidy is received from Government, the same is not includible in the value in terms of section 15 of the CGST Act, 2017]	
Subsidy received from NGO	50,000

[Since subsidy is received from a non-Government body, the same is includible in the value in terms of section 15 of the CGST Act, 2017]	
Tax levied by the Municipal Authority	20,000
[Includible in the value as per section 15 of the CGST Act, 2017]	
Packing charges	15,000
[Being incidental expenses, the same are includible in the value as per section 15 of the CGST Act, 2017]	
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15 of the CGST Act, 2017] (assumed to be inclusive of taxes) [₹ 6,000 x 100/118] rounded off	5,085
Value of taxable supply	**15,90,085**

6. (i) "Date of receipt of payment" in terms of section 13 of CGST Act, 2017 refers to the

(a) date on which the payment is recorded in the books of account of the entity (supplier of service) that receives the payment, or

(b) the date on which the payment is credited to the entity's bank account,

whichever is earlier.

(ii) Section 7(2)(a) of CGST Act, 2017 read with Schedule III specifies the activities or transactions which shall be treated neither as a supply of goods nor a supply of services:

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;

   (b) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or

   (c) Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

5. Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building.

6. Actionable claims, other than lottery, betting and gambling.

[Note:- Any four points may be mentioned.]

7. (i) Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended.

Since in the given case, services provided by Indiana Engineering College, an educational institution are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.

(ii) Services by way of fumigation in a warehouse of agricultural produce are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended. In the present case, since Gupta Pest Control Co. provides services by way of fumigation in the warehouse of sugarcane [being an agricultural produce], said services are exempt and GST is not payable on the same.

8. (i) (a) *Notification No. 12/2017 CT (R) dated 28.06.2017* has *inter alia* exempted the services provided by the State Government to a business entity with an aggregate turnover of up to ₹ 20 lakh (₹ 10 lakh in case of a Special Category States) in the preceding FY. However, the same shall not apply to services by way of renting of immovable property.

In the given case, services by way of renting of immovable property is provided by Maharashtra Government to Ganpati Morya Pvt. Ltd, registered in Maharashtra. Therefore, the above exemption will not apply in this case even though the turnover of the company was less than ₹ 20 lakh in the preceding financial year. Thus, GST is payable in the given case.

Notification No. 13/2017 CT (R) dated 28.06.2017 as amended *inter alia* provides that reverse charge is applicable in case of services supplied by the State Government by way of renting of immovable property to a person registered under the Central Goods and Services Tax Act, 2017. Thus, GST is payable by Ganpati Morya Pvt. Ltd., being a registered person in the present case.

(b) *Notification No. 13/2017 CT (R) dated 28.06.2017 inter alia* provides that GST on supply of services by director of a company to the said company located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., A2Z Pvt. Ltd. Company.

(ii) As per section 2(62) of CGST Act, 2017, "**input tax**" in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes—

(a) the integrated goods and services tax charged on import of goods;

(b) the tax payable under the provisions of sub-sections (3) and (4) of section 9;

(c) the tax payable under the provisions of sub-section (3) and (4) of section 5 of the IGST Act;

(d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective SGST Act; or

(e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the UTGST Act,

but does not include the tax paid under the composition levy.

9. **(i)** Section 29(1) of the CGST Act, 2017 provides that the proper officer may, either on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration, in such manner and within such period as may be prescribed, having regard to the circumstances where:

(a) the business has been discontinued, transferred fully for any reason including death of the proprietor, amalgamated with other legal entity, demerged or otherwise disposed of; or

(b) there is any change in the constitution of the business; or

(c) the taxable person, other than the person registered under sub-section (3) of section 25, is no longer liable to be registered under section 22 or section 24

Further, section 29(2) of the CGST Act, 2017 provides that the proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,—

(a) a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or

(b) a person paying tax under section 10 has not furnished returns for three consecutive tax periods; or

(c) any registered person, other than a person specified in clause (b), has not furnished returns for a continuous period of six months; or

(d) any person who has taken voluntary registration under sub-section (3) of section 25 has not commenced business within six months from the date of registration;

or

(e) registration has been obtained by means of fraud, wilful misstatement or suppression of facts

Further, the proper officer shall not cancel the registration without giving the person an opportunity of being heard.

(ii) Section 49(8) of CGST Act, 2017 prescribes the chronological order in which the liability of a taxable person has to be discharged:

(a) self -assessed tax and other dues for the previous tax periods have to be discharged first.

(b) self -assessed tax and other dues for the current tax period have to be discharged next.

(c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 is to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last. This sequence has to be mandatorily followed.

The expression "other dues" referred above mean interest, penalty, fee or any other amount payable under the Act or the rules made thereunder.

10. (i) Supply, under section 7 of the CGST Act, 2017, *inter alia,*

- includes import of services for a consideration
- even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Miss. Shriniti Kaushik is not in course or furtherance of business, as the vaastu consultancy service has been availed in respect of residence, it would amount to supply.

(ii) Section 7 of the CGST Act, 2017 read with Schedule I provides that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

In the given case, import of service without consideration by Miss Shriniti from her brother – Mr. Varun [brother, being member of the same family, is a related person] will not be treated as supply as it is not in course or furtherance of business.

(iii) Section 7 of the CGST Act, 2017 read with Schedule I provides that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

Thus, import of service without consideration by Miss Shriniti from her brother – Mr. Varun (brother, being member of the same family, is a related person) will be treated as supply as she receives vaastu consultancy service for her business premises, i.e. in course or furtherance of business.

Note: **GST law has been subject to frequent changes since its inception. Although many clarifications have been issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.**

Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November 2018 Examination

Intermediate Level (New Course)

Paper 1: Accounting

List of Applicable Accounting Standards

AS 1	:	Disclosure of Accounting Policies
AS 2	:	Valuation of Inventories
AS 3	:	Cash Flow Statements
AS 4	:	Contingencies and Events occurring after the Balance Sheet Date
AS 5	:	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 10	:	Property, Plant and Equipment
AS 11	:	The Effects of Changes in Foreign Exchange Rates
AS 12	:	Accounting for Government Grants
AS 13	:	Accounting for Investments
AS 16	:	Borrowing Costs
AS 17	:	Segment Reporting
AS 22	:	Accounting for Taxes on Income

Applicability of the Companies Act, 2013 and other Legislative Amendments for November 2018 Examination

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authorities up to 30th April, 2018 will be applicable for November, 2018 Examination.

Non-Applicability of Ind AS

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS do not form part of the syllabus and hence are not applicable.

Paper 2: Corporate and Other Laws

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the other laws, as amended by concerned authority, including significant notifications and circulars issued up to 30th April 2018, are applicable for November, 2018 examination.

Paper 4: Taxation

Section A: Income-tax Law

Applicability of the Finance Act, Assessment Year etc. for November, 2018 Examination

The provisions of income-tax law, as amended by the **Finance Act, 2017**, including significant circulars and notifications issued and other legislative amendments made upto **30th April, 2018**, are applicable for November, 2018 examination. The relevant assessment year for income-tax is **A.Y. 2018-19**. The Study Guidelines containing the list of topic-wise exclusions from the syllabus is attached as **Annexure I.**

Section B: Indirect Taxes

Applicability of the provisions of GST law for November, 2018 Examination

The provisions of **CGST Act, 2017 and IGST Act, 2017**, including significant circulars and notifications issued and other legislative amendments made upto **30th April, 2018**, are applicable for November, 2018 examination. The Study Guidelines containing the list of topic-wise exclusions from the syllabus is attached as **Annexure II.**

Annexure I

Study Guidelines

Intermediate Paper 4: Taxation Section A: Income-tax Law

List of topic-wise exclusions from the syllabus

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<tr><td rowspan="3">3.</td><td rowspan="3">Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)</td><td>Clause of section 10</td><td>Particulars</td></tr>
<tr><td>6A</td><td>Tax on royalty or fees for technical services derived by foreign companies</td></tr>
<tr><td>6B</td><td>Tax paid on behalf of non-resident deriving income from Government or an Indian concern in pursuance of an agreement entered into with the Government of a foreign State or an international organization</td></tr>
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			6BB	Tax paid on behalf of foreign state or foreign enterprise on amount paid as consideration of acquiring aircraft, etc. on lease	
			6C	Income from projects connected with the security of India arising to a notified foreign company	
			8 & 9	Remuneration and certain income of individuals who are assigned duties in India in connection with any co-operative technical assistance programmes and income of any member of the family of such individual accompanying them to India.	
			8A & 8B	Any remuneration or fee received by a consultant, directly or indirectly, out of the funds made available to an international organisation (agency) under a technical assistance grant agreement with the agency and Government of a foreign State Any remuneration received by an individual who is assigned to duties in India in connection with any technical assistance program from such consultant	
			15A	Any payment made by an Indian company engaged in the business of operation of aircraft to acquire an aircraft on lease from the government of a foreign State or a foreign enterprise	
			19A	Annual value of palaces of former rulers	
			20 to 25A	• Income of local authorities [Section 10(20)] • Income of research associations approved under section 35(1)(ii)/(iii) [Section 10(21)] • Income of news agency [Section 10(22B)] • Income of professional associations [Section 10(23A)] • Income received on behalf of any Regimental Fund or Non-Public Fund	

				established by armed forces [Section 10(23AA)] • Income of Funds established for welfare of employees of which such employees are members [Section 10(23AAA)] • Income of Fund set up by Life Insurance Corporation or any other insurer under pension scheme [Section 10(23AAB)] • Income of institution established for development of Khadi and Village Industries [Section 10(23B)] • Income of authorities set up under State or Provincial Act for promotion of Khadi and Village Industries [Section 10(23BB)] • Income of any body or authority set up to administer religious or charitable trusts [Section 10(23BBA) • Income of European Economic Community (EEC) [Section 10(23BBB)] • Income derived by the SAARC Fund for Regional Projects [Section 10(23BBC)] • Income of the IRDA [Section 10(23BBE)] • Income of Central Electricity Regulatory Commission [Section 10(23BBG)] • Income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)] • Income of certain funds or institutions [Section 10(23C)] • Income of Mutual Fund [Section 10(23D)] • Income of a securitization trust from the activity of securitization [Section 10(23DA)] • Income of Investor Protection Funds [Section 10(23EA)] • Specified income of Investor Protection Fund set up by commodity exchanges [Section 10(23EC)]	

				• Income of Investor Protection Fund set up by depositories [Section 10(23ED)] • Specified income of Core Settlement Guarantee Fund (SGF) set up by a recognized Clearing Corporation [Section 10(23EE)] • Income of Investment Fund [Section 10(23FBA)] • Income of unit holder of an Investment Fund [Section 10(23FBB)] • Certain incomes of Business trust [Section 10(23FC)/(23FCA)] • Distributed income of unit holder of a business trust [Section 10(23FD)] • Income of trade unions [Section 10(24)] • Income of provident funds, superannuation funds, gratuity funds etc. [Section 10(25)] • Income of Employees State Insurance (ESI) Fund [Section 10(25A)]	
			26AAB to 29A	• Income of an Agricultural Produce Market Committee or Board [Section 10(26AAB)] • Income of a corporation etc. for the promotion of interests of members of Scheduled Castes or Scheduled Tribes or both [Section 10(26B)] • Income of corporations established to protect interests of minority community [Section 10(26BB)] • Income of corporation established by a Central, State or Provincial Act for welfare of ex-servicemen [Section 10(26BBB)] • Income of a co-operative society formed for promoting the interests of Scheduled Castes or Schedules Tribes or both [Section 10(27)]	

				• Incomes of certain bodies like Coffee Board, Rubber Board etc. [Section 10(29A)]
			36	Long term capital gains on transfer of listed equity shares purchased on or after 1.3.2003 but before 1.3.2004, and held for a period of 12 months or more
			37A	Any income chargeable under the head capital gains in respect of transfer of specified capital asset to an asseesee, being an individual or HUF under Land Pooling Scheme
			39 to 42	• Specified income arising from any international sporting event in India [Section 10(39)] • Certain grants etc. received by a subsidiary from its Indian holding company engaged in the business of generation or transmission or distribution of power [Section 10(40)] • Specified income of certain notified bodies or authorities which have been established under a treaty or an agreement [Section 10(42)]
			44	Income received by any person on behalf of NPS Trust [Section 10(44)]
			46 to 50	• Specified income of notified entities not engaged in commercial activity [Section 10(46)] • Income of notified infrastructure debt funds [Section 10(47)] • Income received by certain foreign companies in India in Indian currency from sale of crude oil to any person in India [Section 10(48)] • Income arising to a foreign company on account of storage of crude oil [Section 10(48A)] • Income arising to a foreign company on account of sale of leftover stock of crude oil [Section 10(48B)]

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• Income arising from any specified service chargeable to equalization levy [Section 10(50)].</td></tr>
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<tr><td>35DD</td><td>Amortisation of expenditure in case of amalgamation or demerger</td></tr>
<tr><td>35E

36(1)/ (viia)/ (viii)/ (xii) / (xiii)/ (xiv)/ (xvii)</td><td>Deduction of expenditure on prospecting and development of certain minerals

• Special provision for bad and doubtful debts made by Banks, Public Financial Institution, State Financial Corporation, State Industrial Investment Corporation [Section 36(1)(viia)]
• Deduction for Special Reserve created and maintained by Specified Entities engaged in eligible business [Section 36(1)(viii)]</td></tr>
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			• Deduction for expenditure incurred by entities established under any Central, State or Provincial Act [Section 36(1)(xii)] • Deduction in respect of banking cash transaction tax [Section 36(1)(xiii)] • Deduction of contribution by a public financial institution to Credit guarantee fund trust for small industries [Section 36(1)(xiv)] • Deduction of expenditure incurred by a co-operative society for purchase of sugarcane at price fixed by the Government [Section 36(1)(xvii)]
		40(a)(ib)	Consideration paid or payable to a non-resident for specified service on which equalization levy is deductible under Chapter VIII of the Finance Act, 2016 and such levy has not deducted or after deduction has not been paid on or before the due date of filing return of Income.
		42	Special provisions for deduction in case of business for prospecting etc. for mineral oil
		43C	Special Provision for Computation of Cost of Acquisition of Certain Assets
		43D	Special Provision in case of income of Public Financial Institutions, public companies etc.
		44	Insurance Business
		44A	Special provision for deduction in the case of trade, professional or similar association
		44B to 44DB	• Special provision for computing the profits and gains of shipping business in case of non-residents [Section 44B] • Special provision for computing profits and gains in connection with the business of exploration etc., of mineral oils [Section 44BB] • Special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents [Section 44BBA]

			• Special provision for computing profits and gains of foreign companies engaged in the business of civil construction etc. in certain turnkey power projects [Section 44BBB] • Deduction of head office expenditure in the case of non-residents [Section 44C] • Special provisions for computing income by way of royalties etc. in case of non-residents [Section 44DA] • Special provision for computing deductions in the case of business reorganisation of co-operative banks [Section 44DB]
	Capital gains	**Section**	**Particulars**
		47(via)/ (viaa)/ (viab)/ (vic)/(vica)/ (vicb)/ (vicc)/(viia)/ (xa)/(xii)/ (xiii)/(xiiia)/ (xiiib)/(xiv)/ (xv)/(xvii)	• Any transfer of a capital asset in a scheme of amalgamation by amalgamating foreign company to the amalgamated foreign company [Section 47(via)] • Any transfer of a capital asset, in a scheme of amalgamation of a banking company with a banking institution [Section 47(viaa)] • any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company [Section 47(viab)] • Any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerger foreign company to the resulting foreign company [Section 47(vic)] • any transfer in a business reorganisation, of a capital asset by the predecessor co-operative bank to the successor co-operative bank [Section 47(vica)] • any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by

				him in the predecessor co-operative bank if the transfer is made in consideration of the allotment to him of any share or shares in the successor co-operative bank [Section 47(vicb)] • any transfer in case of a demerger of a capital asset, being a share of a foreign company [Section 47(vicc)] • Any transfer of bonds of an Indian company or Global Depository Receipts purchased in foreign currency [referred to in section 115AC(1)] [Section 47(viia)] • Any transfer by way of conversion of Foreign Currency Exchangeable Bonds into shares or debentures of a company [Section 47(xa)]. • Any transfer of land under a scheme prepared and sanctioned under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985, by a sick industrial company which is managed by its workers' co-operative [Section 47(xii)] • Any transfer of a capital asset or intangible asset by a firm to a company, where a firm is succeeded by a company, or any transfer of a capital asset where an AOP or BOI is succeeded by a company consequent to demutualisation or corporatisation of a recognised stock exchange in India [Section 47(xiii)] • any transfer of a membership right by a member of recognised stock exchange in India for acquisition of shares and trading or clearing rights in accordance with a scheme for demutualization or corporatisation approved by SEBI [Section 47(xiiia)] • any transfer of a capital asset or intangible asset by a private company

			or unlisted public company to a LLP [Section 47(xiiib)] • Any transfer of a capital asset or intangible asset where a sole proprietary concern is succeeded by a company [Section 47(xiv)] • Any transfer in a scheme for lending of any securities under an agreement or arrangement which is subject to SEBI guidelines [Section 47(xv)]. • Any transfer of a capital asset being share of a SPV to a business trust in exchange of units allotted by the trust to the transferor [Section 47(xvii)]
		47A	Withdrawal of exemption in certain cases
		49	Sub-sections consequent to excluded clauses of section 47 and sub-section (2ABB) cost of acquisition of share/s of a company on redemption of GDRs referred under section 115AC(1)(b) Sub-section (5) of section 49, cost of acquisition of an asset declared under the Income Declaration Scheme, 2016.
		54G	Exemption of Capital gains on transfer of assets in cases of shifting of industrial undertaking from urban area
		54GA	Exemption of capital gains on transfer of certain capital assets in case of shifting of an industrial undertaking from an urban area to any SEZ
		54GB	Exemption of capital gains on transfer of residential property if the sale consideration is used for subscription in equity of an eligible start-up to be used for purchase of new plant and machinery
		55(2)(ab)	Cost of acquisition in respect of capital asset, being equity share or shares allotted to a shareholder of a recognised stock exchange of India under a scheme for demutualization or corporatization.

	Income from Other Sources	-
5.	Income of other persons included in assessee's total income	Section 65 : Liability of person in respect of income included in the income of another person
6.	Aggregation of income; Set-off, or carry forward and set-off of losses	**Section** / **Particulars** 67A – Method of computing a member's share in income of association of persons or body of individuals 72A – Carry forward and set-off of accumulated business losses and unabsorbed depreciation in certain cases of Amalgamation/ Demerger, etc. 72AA – Provisions relating to carry forward and set-off of accumulated losses and unabsorbed depreciation of a banking company against the profit of a banking institution under a scheme of amalgamation 72AB – Provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation in business reorganisation of co-operative banks 75 – Losses of Firms 78 – Carry forward and set-off of losses in case of change in constitution of firm or succession 79 – Carry forward and set-off of losses in case of certain companies
7.	Deductions from gross total income	**Deductions in respect of certain income:** **Section** / **Particulars** 80-IA to 80-IE – Profit-linked deductions under Chapter VI-A 80JJA – Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste. 80LA – Deduction in respect of certain incomes of Offshore Banking units and International Financial Services Centers

		80P	Deduction in respect of income of co-operative societies
8.	Computation of total income and tax liability of Individuals	**Section 5A** – Apportionment of income between spouses governed by Portuguese Civil Code **Provisions relating to Alternate Minimum Tax**	
9.	Advance tax, tax deduction at source and introduction to tax collection at source	**Section**	**Particulars**
		194LB to 194LD	• Income from Infrastructure Debt Fund [Section 194LB] • Income from units of business trust [Section 194LBA] • Income in respect of units of investment fund [Section 194LBB] • Income in respect of investment in securitization trust [Section 194LBC] • Income by way of interest payable to non-residents by Indian company [Section 194LC] • Income by way of interest on certain bonds and government securities payable to a Foreign Institutional Investor or a Qualified Foreign Investor [Section 194LD]
		195	Other sums (payable to non-residents)
		196A to 196D	• Income in respect of units of non-residents [Section 196A] • Income from units referred to in section 115AB [Section 196B] • Income from foreign currency bonds or shares of Indian company [Section 196C] • Income of Foreign Institutional Investors from securities [Section 196D]
10.	Provisions for filing return of income and self-assessment	Sections 139(4A) to 139(4F) dealing with provisions for filing of return of charitable or religious trusts, research institutions, political party, university, college or other institution, business trust, investment fund.	

Annexure II

Study Guidelines

Intermediate New Course Paper 4: Taxation Section B: Indirect Taxes

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S.No. in the syllabus	**Topics of the syllabus**	**Exclusions** **(Provisions which are excluded from the corresponding topic of the syllabus)**
2(ii)(c)	Charge of tax	**CGST Act, 2017** (i) Rate of tax prescribed for supply of **goods*** (ii) Rate of tax prescribed for supply of **services*** **IGST Act, 2017** (iii) Rate of tax prescribed for supply of **goods** (iv) Rate of tax prescribed for supply of **services** (v) Determination of nature of supply – Inter-State supply; Intra-State supply; Supplies in territorial waters (vi) Special provision for payment of tax by a supplier of online information and database access or retrieval [OIDAR] services
2(ii)(d)	Exemption from tax	**CGST Act, 2017 & IGST Act, 2017** (i) Exemptions for supply of **goods**
2(iii)	Basic concepts of time and value of supply	**CGST Act, 2017 & CGST Rules, 2017** (i) Provisions relating to change in rate of tax in respect of supply of goods or services (ii) Chapter IV: Determination of Value of Supply [Rules 27-35] of CGST Rules, 2017
2(iv)	Input tax credit	**CGST Act, 2017 read with CGST Rules, 2017** (i) Input tax credit provisions in respect of inputs and capital goods sent for job work (ii) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD]

		(iii) Manner of recovery of credit distributed in excess (iv) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
2(viii)	Returns	**CGST Act, 2017 read with CGST Rules, 2017** (i) Furnishing of GSTR-2, GSTR-1A, GSTR-3 (ii) Claim of input tax credit and provisional acceptance thereof (iii) Matching, reversal & reclaim of input tax credit (iv) Matching, reversal & reclaim of reduction in output tax liability
2(ix)	Payment of tax including reverse charge	**CGST Act, 2017** (i) Tax deduction at source (ii) Collection of tax at source (iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) **IGST Act, 2017** (iv) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)

***Rates specified for computing the amount payable under composition levy are included in the syllabus.**

Notes:

(1) The syllabus includes select provisions of the CGST Act, 2017 and IGST Act, 2017 and not the entire CGST Act, 2017 and the IGST Act, 2017. The provisions covered in any topic(s) of the syllabus which are related to or correspond to the topics not covered in the syllabus shall also be excluded.

(2) In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded. For example, since provisions relating to ISD and tax collection at source are excluded from the topics "Input tax credit" and "Payment of tax including reverse charge" respectively, the provisions relating to (i) registration of ISD and person required to collect tax at source and (ii) filing of returns by an ISD and submission of TCS statement by an electronic commerce operator required to collect tax at source are also excluded from the topics "Registration" and "Returns" respectively.

(3) July 2017 edition of the Study Material is relevant for May, 2018 and November, 2018 examinations. The amendments - made after the issuance of this Study Material - to the extent covered in the Statutory Updates for November, 2018 examination alone shall be relevant for the said examination. The Statutory Updates shall be hosted on the BoS Knowledge Portal.

(4) The provisions of CGST Act, 2017 and the rules issued thereunder and IGST Act, 2017 and the rules issued thereunder, to the extent included in the July 2017 edition of the Study Material, **except** the exclusions mentioned in the table above, and the Statutory Updates for November, 2018 examination shall alone be relevant for the said examination.