

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC) : GROUP – I**  
**PAPER – 1: ACCOUNTING**

*Question No. 1 is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

*Wherever necessary suitable assumptions may be made and disclosed by way of a note.*

*Working Notes should form part of the answer.*

**(Time allowed: Three hours)**

**(Maximum marks: 100)**

1. (a) Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2015.

Particulars	Rs.
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of Rs. 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred Rs. 9,600)	84,000

- (b) Queen Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Queen Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

- (i) Decide whether the inventory of empty bottles is an asset of the company;
- (ii) If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

- (c) Entity A purchased an asset on 1<sup>st</sup> January 2013 for Rs. 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1<sup>st</sup> January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis in line with AS 10 on Property, Plant and Equipment.

- (d) In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs. 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average

method, closing inventory as on 31.03.2015 amounts to Rs. 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to ₹ 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1. **(5 x 4 = 20 Marks)**

2. On 31<sup>st</sup> December 2016, the Balance Sheet of A, B, and C who were sharing profits and losses in proportion to their capital stood as follows:

Liabilities	Rs.	Assets	Rs.	Rs.
Creditors	20,000	Cash at bank		16,000
Employees' provident fund	1,600	Debtors	20,000	
A's capital A/c	72,000	Less: Provision	<u>400</u>	19,600
B's capital A/c	48,000	Inventory		18,000
C's capital A/c	24,000	Machinery		48,000
Contingency reserve	30,000	Land & building		1,00,000
Workmen compensation reserve	6,000			
	<u>2,01,600</u>			<u>2,01,600</u>

B retires and the following adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable to B:

- Out of the amount of insurance which was debited entirely to Profit and Loss Account, Rs. 2,000 to be carried forward as an unexpired insurance.
- Land and building to be appreciated by 10%.
- Provision for doubtful debts to be brought up to 5% on debtors.
- Machinery to be depreciated by 5%.
- Provision of Rs.3,000 to be made in respect of an outstanding bill of repairs.
- Goodwill of the entire firm be fixed at Rs.36,000 and B's share of the same be adjusted into the accounts of A and C who are going to share future profits in the proportion of 3/4 and 1/4 respectively. (No Goodwill account being raised).
- The entire capital of the firm as newly constituted be fixed at Rs.1,20,000 between A and C in the proportion of 3/4 and 1/4 after passing entries in their accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.
- B to be paid Rs. 6,000 in cash and the balance to be transferred to his loan account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the firm of A and C after retirement. **(16 Marks)**

3. The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	Rs.	Assets	Rs.
<u>Share Capital</u>		<u>Fixed Assets</u>	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares Rs.10 each	4,00,000	Goodwill at cost	36,100

<u>Reserves and Surplus</u>		Freehold Land	1,20,000
Securities Premium Account	10,000	Freehold Premises	2,44,000
Profit and Loss Account	(1,38,400)	Plant and Equipment	3,20,000
<u>Secured Borrowings</u>		<u>Investment</u> (marked to market)	64,000
9% Debentures (Rs.100)	1,20,000	<u>Current Assets</u>	
Accrued Interest	<u>5,400</u>	Inventories:	
<u>Current liabilities</u>		Raw materials and packing materials 60,000	
Trade payables	1,20,000	Finished goods	<u>16,000</u>
Vat payable	50,000	Trade receivables	<u>1,20,000</u>
Temporary bank overdraft	<u>2,23,100</u>		<u>10,90,100</u>
	<u>10,90,100</u>		<u>10,90,100</u>

**Note:** Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

- (1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital of Rs.7 lakhs). Both classes of shares are of Rs.10 each.
- (2) The preference shares are to be reduced to Rs.5 each and equity shares reduced by Rs.3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.
- (3) Trade Investments are to be liquidated in open market.
- (4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).
- (5) Expenses for the scheme were Rs. 10,000.
- (6) The debenture holders took over freehold land at Rs.2,10,000 and settled the balance after adjusting their dues.
- (7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500.
- (8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.
- (9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.
- (10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose. **(16 Marks)**

4. The Income and Expenditure Account of Happy Sports Club for the year ended 31<sup>st</sup> March, 2017 was as follows:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	10,000
To Rent	12,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000

To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Depreciation on Sports equipment	6,000		
To Excess of Income over Expenditure	<u>12,000</u>		
	<u>2,10,000</u>		<u>2,10,000</u>

The above account had been prepared after the following adjustments:

	Rs.
Subscriptions outstanding on 31.03.2016	12,000
Subscriptions received in advance on 31.03.2016	9,000
Subscriptions received in advance on 31.03.2017	5,400
Subscriptions outstanding on 31.03.2017	15,000

Salaries outstanding at the beginning and at the end of the financial year were Rs. 8,000 and Rs. 10,000 respectively. Sundry expenses included prepaid insurance expenses of Rs. 1,200.

The Club owned a freehold ground valued Rs. 2,00,000. The Club has sports equipment on 01.04.2016 valued at Rs. 52,000. At the end of the year, after depreciation, the sports equipment amounted to Rs. 54,000. The Club raised a loan of Rs. 40,000 from a bank on 01.01.2016, which was unpaid till 31.03.2017. On 31.03.2017, cash in hand was Rs. 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31<sup>st</sup> March, 2017 and Balance Sheet as on that date. **(16 Marks)**

5. (a) ABC Ltd. took over a running business with effect from 1<sup>st</sup> April, 2016. The company was incorporated on 1<sup>st</sup> August, 2016. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2017:

	Rs.		Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		

To	Net profit	<u>87,600</u>	
		<u>3,20,000</u>	<u>3,20,000</u>

Additional information:

- Total sales for the year, which amounted to Rs.19,20,000 arose evenly upto the date of 30.9.2016. Thereafter they spurted to record an increase of two-third during the rest of the year.
- Rent of office building was paid @ Rs. 2,000 per month upto September, 2016 and thereafter it was increased by Rs.400 per month.
- Travelling expenses include Rs. 4,800 towards sales promotion.
- Depreciation include Rs.600 for assets acquired in the post incorporation period.
- Purchase consideration was discharged by the company on 30<sup>th</sup> September, 2016 by issuing equity shares of Rs.10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

- In 2015, Royal Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31<sup>st</sup> March of every accounting year.

On 1st December, 2016, M/s. Kumar purchased 10,000 of these debentures at Rs.101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2017 the firm sold all of these debentures at Rs.106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount. Prepare Investment Account in the books of M/s. Kumar for the period 1<sup>st</sup> December, 2016 to 1<sup>st</sup> March, 2017.

**(10 + 6 = 16 Marks)**

- The following information is extracted from a set of books of Mr. Laxminarayan for the year ended 31<sup>st</sup> December, 2016

	Rs.
Sales	11,26,000
Purchases	6,44,000
Returns outward	15,200
Cash received from debtors	3,68,400
Bills payable accepted	2,40,000
Returns inward	33,600
Cash paid to creditors	3,60,000
Bills receivable received	3,20,000
Discounts received	8,400
Bad debts written off	24,000
Discount allowed	21,600

The total of the sales ledger balances on 1<sup>st</sup> Jan, 2016 was Rs. 6,41,600 and that of the purchases ledger balances on the same date was Rs. 3,72,800.

Prepare Sales Ledger and Purchases Ledger Adjustment Accounts in the General Ledger from the above information.

- The premises of Vani Ltd. caught fire on 22<sup>nd</sup> January 2015, and the stock was damaged. The firm makes account up to 31<sup>st</sup> March each year. On 31<sup>st</sup> March, 2014 the stock at cost was Rs.13,27,200 as against Rs. 9,62,200 on 31<sup>st</sup> March, 2013.

Purchases from 1<sup>st</sup> April, 2013 to the date of fire were Rs.34,82,700 as against Rs.45,25,000 for the full year 2013-14 and the corresponding sales figures were Rs.49,17,000 and Rs.52,00,000 respectively. You are given the following further information:

- (i) In July, 2014, goods costing Rs.1,00,000 were given away for advertising purposes, no entries being made in the books.
- (ii) During 2014-15, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.2,000 per week from 1<sup>st</sup> April, 2014 until the clerk was dismissed on 18<sup>th</sup> August, 2014.
- (iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire. **(8 + 8 = 16 Marks)**

7 Answer any **four** of the following:

- (a) What are the advantages of outsourcing the accounting functions? Explain in brief.
- (b) M accepted the following bills drawn by S:  
On 8th March, 2016, Rs. 4,000 for 4 months.  
On 16th March, 2016, Rs.5,000 for 3 months.  
On 7th April, 2016, Rs. 6,000 for 5 months.  
On 17th May, 2016, Rs. 5,000 for 3 months.  
He wants to pay all the bills on a single day. Find out this date.
- (c) Full Ltd., has signed at 31<sup>st</sup> Dec., 2016, the Balance Sheet date, a contract where the total revenue is estimated at Rs.15 crores and total cost is estimated at Rs.20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended 31<sup>st</sup> December, 2016 in his accounts?
- (d) The Board of Directors of X Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1<sup>st</sup> January, 2015. As a result of this decision the company has to receive Rs.5 lakhs from its customers in respect of sales made from 1.1.2015 to 31.3.2015. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.
- (e) Bhavya Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	Rs.
<i>Materials</i>	16,00,000
<i>Direct Expenses</i>	3,00,000
<i>Total Direct Labour</i>	6,00,000
<i>(1/15th of the total labour time was chargeable to the construction)</i>	
<i>Total Office &amp; Administrative Expenses</i>	9,00,000
<i>(4% of office and administrative expenses are specifically attributable to construction of a fixed asset)</i>	
<i>Depreciation on assets used for the construction of this asset</i>	15,000

Calculate the cost of the fixed asset.

**(4 x 4 = 16 Marks)**

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 1: ACCOUNTING**  
**SUGGESTED ANSWERS/HINTS**

1. (a) **Cash Flow Statement from Investing Activities of**  
**M/s Creative Furnishings Limited for the year ended 31-03-2015**

<i>Cash generated from investing activities</i>	<i>Rs.</i>	<i>Rs.</i>
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	<u>74,400</u>	
Cash used in investing activities (before extra ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		<u>49,600</u>
Net cash used in investing activities (after extra ordinary item)		<u>(1,48,100)</u>

**Note:**

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
  2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.
- (b) (i) Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets. Queen Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. Therefore, empty bottles are assets for the company.
- (ii) As per AS 2 "Valuation of Inventories", inventories are assets held for sale in the ordinary course of business. Inventory of empty bottles existing on the Balance Sheet date is the inventory and Queen Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality. Hence inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.
- (c) The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (1,00,000/10 years).

On 1<sup>st</sup> January 2017, the asset's net book value is [1,00,000 – (10,000 x 4)] Rs. 60,000.

The remaining useful life is 4 years.

The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years.

Consequently, it should charge depreciation for the next 4 years at Rs. 15,000 per annum i.e. (60,000 / 4 years).

**Note:** Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

- (d) As per para 22 of AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by Rs. 16,000.

2.

#### Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Provision for doubtful debts	600	By Unexpired insurance	2,000
To Machinery	2,400	By Land and building	10,000
To Outstanding repairs	3,000		
To Profit t/f to:			
A's capital A/c	3,000		
B's capital A/c	2,000		
C's capital A/c	<u>1,000</u>		
	<u>12,000</u>		<u>12,000</u>

#### Capital Accounts of Partners

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To B's capital A/c	9,000	-	3,000	By Balance b/d	72,000	48,000	24,000
(for goodwill)				By Revaluation A/c	3,000	2,000	1,000
(W. N 2)							
To Bank A/c	-	6,000	-	By A's capital			
To B's loan A/c	-	68,000	-	A/c (for goodwill)			
To Balance c/d	90,000	-	30,000	(W.N. 2)	-	9,000	-
				By C's capital A/c			
				(for goodwill)	-	3,000	-
				(W.N 2)			
				By Contingency Reserve	15,000	10,000	5,000
				By Work Compensation Reserve	3,000	2,000	1,000
				By Bank A/c	6,000	-	2,000
				(Bal. fig)			
	99,000	74,000	33,000		99,000	74,000	33,000



**Balance Sheet of A and C at 31<sup>st</sup> December 2016**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Creditors	20,000	Cash at bank (W.N 1)		18,000
Employees' Provident Fund	1,600	Debtors	20,000	
Liability for repairs	3,000	Less: Provision	<u>(1,000)</u>	19,000
B's loan A/c	68,000	Stock		18,000
A's capital A/c	90,000	Machinery		45,600
C's capital A/c	30,000	(48,000- 2,400)		
		Land & building		1,10,000
		(1,00,000+10,000)		
		Unexpired insurance		<u>2,000</u>
	<u>2,12,600</u>			<u>2,12,600</u>

**Working Notes:**

**1. Bank Account**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Balance b/d	16,000	By B's capital A/c	6,000
To A's capital A/c	6,000	By Balance c/d	18,000
To C's capital A/c	<u>2,000</u>		
	<u>24,000</u>		<u>24,000</u>

**2. Adjustment of goodwill**

	<i>New ratio</i>	<i>Old ratio</i>	<i>Gaining ratio</i>
A	3/4	3/6	$\frac{18-12}{24} = \frac{6}{24}$
C	1/4	1/6	$\frac{6-4}{24} = \frac{2}{24}$

Therefore, gaining ratio of A & C = 3:1

B's share of goodwill of Rs.12,000 will be shared by A & C in 3:1 = Rs.9,000:  
Rs.3,000

**3. (i) In the books of Lili Ltd.**

**Journal Entries**

			<i>Dr.</i>	<i>Cr.</i>
	2017		<i>Rs.</i>	<i>Rs.</i>
1	March 31	Equity Share Capital A/c (Rs.10) Dr.	3,00,000	
		To Capital Reduction A/c		90,000
		To Equity Share Capital A/c (Rs.7)		2,10,000
		(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)		
2.		8% Cum. Preference Share Capital A/c (Rs. 10) Dr.	4,00,000	
		To Capital Reduction A/c		2,00,000

		To Preference Share Capital A/c (Rs. 5) (Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			2,00,000
3.		Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
		Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
		To Equity Share Capital A/c (21,000 x Rs. 10)			2,10,000
		To Preference Share Capital A/c (20,000 x Rs.10)			2,00,000
		(Being post reduction, both classes of shares re consolidated into Rs.10 each)			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 – 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000
		To Capital Reduction Account (2,10,000 – 1,20,000)			90,000
		(Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)			
9.		Capital Reduction Account	Dr.	54,000	
		To Cash Account			54,000
		(Being contingent liability of Rs. 54,000 paid)			
10.		Cash Account	Dr.	12,500	
		To Capital Reduction Account			12,500
		(Being pending insurance claim received)			
11.		Capital Reduction Account	Dr.	1,68,100	
		To Trademarks and Patents			1,10,000
		To Goodwill			36,100
		To Raw materials & Packing materials			10,000
		To Trade receivables			12,000

	(Being intangible assets written off along with raw materials and packing materials worth Rs. 10,000 and 10% of trade receivables)			
12.	Cash Account	Dr.	1,26,000	
	To Equity Share Capital Account			1,26,000
	(Being 12,600 shares issued to existing shareholders)			
13.	Bank Overdraft Account	Dr.	2,23,100	
	To Cash Account			2,23,100
	(Being cash balance utilized to pay off bank overdraft)			
14.	Capital Reduction Account	Dr.	1,28,400	
	To Capital reserve Account			1,28,400
	(Being balance of capital reduction account transferred to capital reserve account)			

(ii) **Capital Reduction Account**

Particulars	Rs.	Particulars	Rs.
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account			
	<u>1,28,400</u>		
	<u>3,92,500</u>		<u>3,92,500</u>

(iii) **Cash Account**

Particulars	Rs.	Particulars	Rs.
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses	10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft	
		- From available cash	
		(64,000+84,600+12,500	
		-54,000-10,000) 97,100	
To Equity share capital 12,600 shares @ Rs.10 each	<u>1,26,000</u>	- From proceeds of equity share capital (2,23,100-97,100)	
	<u>2,87,100</u>	<u>1,26,000</u>	<u>2,23,100</u>
			<u>2,87,100</u>

**Note:** Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

4.

**Happy Sports Club**

**Receipt and Payments Account for the year ended 31<sup>st</sup> March, 2017**

<i>Receipts</i>	<i>Amount (Rs.)</i>	<i>Payments</i>	<i>Amount (Rs.)</i>
To Balance b/d (Bal. Fig.)	27,800	By Salaries:	
To Subscription:		for 2015-2016	8,000
for 2015-2016	12,000	for 2016-2017	1,10,000
for 2016-2017 (W.N.3)	1,36,000	By Printing and Stationery	6,000
for 2017-2018	5,400	By Rent	12,000
To Entrance Fees	10,000	By Repairs	10,000
To Contribution for Annual Dinner	20,000	By Sundry Expenses (8,000 + 1,200)	9,200
To Profit on Annual Sports Meet	20,000*	By Annual Dinner Expenses	30,000
		By Interest to Bank	6,000
		By Sports Equipment (W.N.2)	8,000
		By Balance c/d	<u>32,000</u>
	<u>2,31,200</u>		<u>2,31,200</u>

**Balance Sheet as at 31<sup>st</sup> March, 2017**

<i>Liabilities</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>	<i>Assets</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
Capital Fund (W.N.1)	2,34,800		Freehold Ground		2,00,000
Add: Excess of income over expenditure	<u>12,000</u>	2,46,800	Sports Equipment	52,000	
			Add: Additions during the year (Bal. Fig.)	<u>8,000</u>	
Bank Loan		40,000		60,000	
Outstanding Salaries		10,000	Less: Depreciation	<u>(6,000)</u>	54,000
Subscription in Advance		5,400	Subscription in Arrear		15,000
			Prepaid Insurance		1,200
			Cash in hand		<u>32,000</u>
		<u>3,02,200</u>			<u>3,02,200</u>

**Working Notes:**

**(1) Opening Balance of Capital Fund:**

**Balance Sheet as at 31<sup>st</sup> March, 2016**

	<i>Rs.</i>		<i>Rs.</i>
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000
Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000

\* It is assumed that the profit on annual sports meet has been realized in cash.

Subscription in Advance	<u>9,000</u>	Cash in hand	<u>27,800</u>
	<u>2,91,800</u>		<u>2,91,800</u>

(2) **Sports Equipment Account**

	Rs.		Rs.
To Balance b/d	52,000	By Depreciation Account	6,000
To Bank Account	<u>8,000</u>	By Balance c/d	<u>54,000</u>
	<u>60,000</u>		<u>60,000</u>

(3) **Subscription received during 2016-17**

	Rs.	Rs.
Subscription for 2016-17		1,60,000
Less: Subscription outstanding as on 31.3.17	15,000	
Less: Subscription received in advance as on 31.3.16	<u>9,000</u>	<u>24,000</u>
		<u>1,36,000</u>

5. (a) **Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2017**

Particulars	Pre-incorporation period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,000	8,000
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest	-	3,000
Interest paid to vendor (2:1) (W.N.4)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	<u>3,000</u>	<u>6,600</u>
Capital reserve (Bal.Fig.)	12,800	-
Net profit (Bal.Fig.)	<u>-</u>	<u>74,800</u>

**Working Notes:****1. Time Ratio**

Pre incorporation period = 1<sup>st</sup> April, 2016 to 31<sup>st</sup> July, 2016

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

**2. Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.2016 to 30.09.16) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.16 to 31.3.2017) =  $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months =  $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000/16 = Rs.1,20,000

Total sales for pre-incorporation period = Rs.1,20,000 x 4 = Rs.4,80,000

Total sales for post incorporation period = Rs.19,20,000 – Rs.4,80,000 = Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

**3. Rent**

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2016& September,2016(Rs. 2,000 x 2)	4,000	
October,2016 to March,2017 (Rs. 2,400 x 6)	<u>14,400</u>	18,400 (post)

**4. Travelling expenses and sales promotion expenses**

	Pre Rs.	Post Rs.
Traveling expenses Rs. 12,000 (i.e. Rs.16,800- Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs. 4,800 distributed in 1:3 ratio	1,200	3,600

**5. Interest paid to vendor till 30<sup>th</sup> September, 2016**

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left( \frac{\text{₹ } 4,200}{6} \times 4 \right)$	2,800	
Interest for post incorporation period i.e. for		
August, 2016& September, 2016= $\left( \frac{\text{₹ } 4,200}{6} \times 2 \right)$		1,400

## 6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	<u>600</u>		600
	<u>9,000</u>		
Depreciation for pre-incorporation period $\left[ 9,000 \times \frac{4}{12} \right]$		3,000	
Depreciation for post incorporation period $\left[ 9,000 \times \frac{8}{12} \right]$		-	<u>6,000</u>
		<u>3,000</u>	<u>6,600</u>

(b)

In the books of M/s Kumar

Investment Account

for the period from 1<sup>st</sup> December 2016 to 1<sup>st</sup> March, 2017

(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)
1.12.2016	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2017	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2017	To Profit & loss A/c	-	30,000		1.3.2017	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

### Working Notes:

- (i) Cost of 12% debentures purchased on 1.12.2016 Rs.
- Cost Value (10,000 × Rs.101) = 10,10,000
- Add: Brokerage (1% of Rs.10,10,000) = 10,100
- Less: Cum Interest (10,000 × 100 × 12% × 2/12) = (20,000)
- Total = 10,00,100
- (ii) Sale proceeds of 12% debentures sold on 1st March, 2017 Rs.
- Sales Price (10,000 × Rs.106) = 10,60,000
- Less: Brokerage (1% of Rs.10,60,000) = (10,600)
- Less: Cum Interest (10,000 × 100 × 12% × 5/12) = (50,000)
- Total = 9,99,400

6. (a)

### Sales Ledger Adjustment Account

2016		Rs.	2016		Rs.
Jan. 1	To Balance b/d	6,41,600	June 30	By General ledger adjustment A/c-	
June 30	To General ledger adjustment A/c-	11,26,000		Cash	3,68,400
				Returns inward	33,600

	Sales			Bills receivable	3,20,000
				Bad debts	24,000
				Discounts allowed	21,600
			June 30	By Balance c/d	<u>10,00,000</u>
		<u>17,67,600</u>			<u>17,67,600</u>

#### Purchases Ledger Adjustment Account

2016		Rs.	2016		Rs.
June 30	To General ledger adjustment A/c:		Jan. 1	By Balance b/d	3,72,800
	Cash	3,60,000	June 30	By General ledger adjustment A/c:	
	Returns outward	15,200		Purchases	6,44,000
	Bills payable	2,40,000			
	Discounts received	8,400			
June 30	To Balance c/d	<u>3,93,200</u>			
		<u>10,16,800</u>			<u>10,16,800</u>

#### (b) Ascertainment of rate of gross profit for the year 2013-14

##### Trading A/c for the year ended 31-3-2014

	Rs.		Rs.
To Opening stock	9,62,200	By Sales	52,00,000
To Purchased	45,25,000	By Closing stock	13,27,200
To Gross profit	10,40,000		
	<u>65,27,200</u>		<u>65,27,200</u>

$$\text{Rate of gross profit} = \frac{\text{GP}}{\text{Sales}} \times 100$$

$$= \frac{10,40,000}{52,00,000} \times 100 = 20\%$$

##### Memorandum Trading A/c for the period from 1-4-2014 to 22-01-2015

	Rs.	Rs.		Rs.	Rs.
To Opening stock		13,27,000	By Sales	49,17,000	
To Purchases	34,82,700		Add: Unrecorded cashsales	<u>40,000</u>	49,57,000
Less: Goods used for advertisement	<u>(1,00,000)</u>	33,82,700	By Closing stock		7,44,100
To Gross profit (20% of Rs.49,57,000)		9,91,400			
		<u>57,01,100</u>			<u>57,01,100</u>

Estimated stock in hand on the date of fire= Rs.7,44,100.

#### Working Note:

##### Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2014 to 18.8.2014 = 140 days



Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs. 2,000 = Rs.40,000.

**7. (a) Following are the advantages of outsourcing the accounting functions:**

- (i) **Saving of Time:** The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
- (ii) **Expertise of the third party:** The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
- (iii) **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
- (iv) **Economical:** The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition often proves to be economically more sensible.

**(b) Calculation of number of days from base date**

Transaction date	Due date	Amount Rs.	No. of days from Base date (Base date 19.6.2016)	Product
8.3.2016	11.7.2016	4,000	22	88,000
16.3.2016	19.6.2016	5,000	0	0
7.4.2016	10.9.2016	6,000	83	4,98,000
17.5.2016	20.8.2016	<u>5,000</u>	62	<u>3,10,000</u>
		<u>20,000</u>		<u>8,96,000</u>

$$\begin{aligned}
 \text{Average due date} &= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}} \\
 &= 19.6.2016 + \text{Rs.}8,96,000 / \text{Rs.}20,000 \\
 &= 19.6.2016 + 45 \text{ days} = 3.8.2016
 \end{aligned}$$

- (c) As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Full Ltd. should recognize loss amounting Rs.5 crores for the year ended 31<sup>st</sup> December, 2016. The contract should be reviewed at the end of the each accounting period till completions for additional losses to be incurred, if any.

- (d) As per para 10 of AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of Rs. 5 lakhs to be recognised as income for financial year 2014-15, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

**(e) Calculation of cost of fixed asset**

	Rs.
Materials	16,00,000
Direct expenses	3,00,000
Direct labour (1/15 <sup>th</sup> of Rs.6,00,000)	40,000
Office and administrative expenses (4% Rs.9,00,000)	36,000
Depreciation on assets	<u>15,000</u>
Cost of fixed asset	<u>19,91,000</u>

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION**

*Question No.1 is compulsory*

*Attempt any **five** questions from the remaining **six** questions*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) The Articles of Impression Limited clearly stated that Mr. Swift will be the solicitor of the company. The company in its general meeting of the shareholders resolved unanimously to appoint Mr. Best in place of Mr. Swift as the solicitor of the company by altering the articles of association. Examine, whether the company can do so? State the reasons clearly. **(5 Marks)**  
(b) Vikas started “self service” system in his shop. Neha entered the shop, took a basket and after taking articles of her choice into the basket reached the cashier for payments. The cashier refuses to accept the price. Can Vikas be compelled to sell the said articles to Neha? Decide. **(5 Marks)**  
(c) Explain the fundamental principles relating to ethics. **(5 Marks)**  
(d) What is formal communication? Explain in brief its major advantages. **(5 Marks)**
2. (a) Pammy is working as a salesman in a company on salary basis. The following payments were made to him by the company during the previous financial year –
  - (i) overtime allowance,
  - (ii) dearness allowance
  - (iii) commission on sales
  - (iv) employer’s contribution towards pension fund
  - (v) value of food.Examine as to which of the above payments form part of “salary” of Pammy under the provisions of the Payment of Bonus Act, 1965 **(8 Marks)**  
(b) State the benefits of socially responsible corporate performance. **(4 Marks)**  
(c) What is meant by 'Critical thinking'? Suggest the measures to develop critical thinking. **(4 Marks)**
3. (a) A induced B by fraud to draw a cheque payable to C or order. A obtained the cheque, forged C's endorsement and collected proceeds to the cheque through his Bankers. B the drawer wants to recover the amount from C's Bankers. Decide in the light of the provisions of Negotiable Instruments Act, 1881-
  - (I) Whether B the drawer, can recover the amount of the cheque from C's Bankers?
  - (II) Whether C is the Fictitious Payee?
  - (III) Would your answer be still the same in case C is a fictitious person? **(8 Marks)**  
(b) Explain the following:
  - (i) There is no economic growth without ecological costs. **(4 Marks)**
  - (ii) Rumours and gossips are not synonymous. **(4 Marks)**

4. (a) What is the extent of liability of an expert, in relation to publication of prospectus, for any mis-statement in the report given by him? **(8 Marks)**
- (b) Which parameters are applicable in relation to Competition Law in India? **(4 Marks)**
- (c) Write short note on 'Corporate Culture'. **(4 Marks)**
5. (a) Apeksha 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? **(8 Marks)**
- (b) What is Corporate Social Responsibility? Why it is needed in Indian Business environment? **(8 Marks)**
6. (a) Prism Infotech Ltd. was incorporated on 1.4.2016. No General Meeting of the company has been held so far. Explain the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting. **(8 Marks)**
- (b) Which threats are existing in environment which adversely affect the fundamental principles of ethics? **(4 Marks)**
- (c) Draft a circular for employees insisting on punctuality. **(4 Marks)**
7. Answer any **Four** of the following:
  - (a) Satish retired from the services of PQR Limited, on 31st March, 2015. He had a sum of Rs. 5 lac in his Provident Fund Account. It has become due for payment to Satish on 30<sup>th</sup> April, 2015 but the company made the payment of the said amount after one year. Satish claimed for the payment of interest on due amount at the rate of 15% per-annum for one year. Decide, whether the claim of Satish is tenable under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. **(4 Marks)**
  - (b) Referring to the provisions of the Companies Act, 2013 state the matters relating to 'Ordinary Business' which may be transacted at the Annual General Meeting of a Company. **(4 Marks)**
  - (c) Sekhar, a shareholder, gives a notice for inspecting proxies, five days before the meeting is scheduled and approaches the company two days before the scheduled meeting for inspecting the same. What is the legal position relating to his actions (as per the provisions of the Companies Act, 2013)? **(4 Marks)**
  - (d) Explain the practices widely recognized as discriminatory in employment? **(4 Marks)**
  - (e) What is an Indemnity Bond? Draft a format for Indemnity Bond. **(4 Marks)**

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION**  
**SUGGESTED ANSWERS/HINTS**

1. (a) According to Section 10(1) of the Companies Act, 2013, the memorandum and articles shall, when registered, bind the company and the members thereof to the same extent as if they respectively had been signed by the company and by each member and contained covenants on its and his part to observe all the provisions of the memorandum and articles.

Further, under Section 14 (1) subject to the provisions of this Act and to the conditions contained in the Memorandum, a company may, by a special resolution, alter its Articles.

Moreover, under section 14 (2) the company will be required to file with the Registrar every alteration of the Articles and a copy of the order of the Tribunal approving the alteration, together with the printed copy of the altered Articles, within 15 days. On receipt of all documents the Registrar shall register the same.

Section 14 (3) further provides that any alterations in the Articles registered will be valid as if they were originally in the Articles.

In the present case, the company has altered the Articles by a unanimous resolution of the members passed at a general meeting. Hence, the alteration is valid and after registration of the altered Articles, the appointment of Mr. Best will stand and Mr. Swift will be terminated.

- (b) The offer should be distinguished from an invitation to offer. An offer is the final expression of willingness by the offeror to be bound by his offer should the party chooses to accept it. Where a party, without expressing his final willingness, proposes certain terms on which he is willing to negotiate, he does not make an offer, but invites only the other party to make an offer on those terms. This is the basic distinction between offer and invitation to offer.

The display of articles with a price in it in a self-service shop is merely an invitation to offer. It is in no sense an offer for sale, the acceptance of which constitutes a contract. In this case, Neha by selecting some articles and approaching the cashier for payment simply made an offer to buy the articles selected by her. If the cashier does not accept the price, the interested buyer cannot compel him to sell.

- (c) The fundamental principles relating to ethics may be summarized as under:

1. **The Principle of Integrity:** It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.
2. **The Principle of Objectivity:** This principle requires accounting and finance professionals to stick to their professional and financial judgment.
3. **The Principle of Confidentiality:** This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
4. **The Principle of Professional Competence and due care:** Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.
5. **The Principle of Professional Behaviour:** This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.

- (d) **Formal Communication:** A formal communication flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow. Every organisation has a built-in hierarchical system that can be compared to a pyramid. It can, therefore, be understood that communication normally flows from top- downwards. But it is not always so. Communication in an organisation is multidimensional or multidirectional.

Following are the directions in which communications are sent:

- (i) Downward
- (ii) Upward
- (iii) Horizontal or Lateral
- (iv) Diagonal or Crosswise

**Advantages of Formal Communication:**

- (i) The formal channels account for most of the effectiveness of communication. A great care has to be taken in sending across any letter or report through the 'proper' formal channel.
- (ii) Formal channels cover an ever – widening distance as organizations grow. Through them, it is easier to reach out to the branches of an organisation spread far and wide.
- (iii) The formal channels, because of their tendency to filter information, keep the higher level managers from getting bogged down.
- (iv) Formal channels of communication consolidate the organisation and satisfy the people in managerial position.

2. (a) **Computation of Salary / Wages:** According to Section 2(21) of the Payment of Bonus Act, 1965 salary and wages means all remuneration other than remuneration in respect of overtime work, capable of being expressed in terms of money, which would if the terms of employment, express or implied, were fulfilled, be payable to an employee in respect of his employment, or of work done in such employment and includes dearness allowance, i.e. all cash payment by whatever name called, paid to an employee on account of a rise in the cost of living. But the term excludes:

- (i) Any other allowance which the employee is for the time being entitled to;
- (ii) The value of any house accommodation or of supply of light, water, medical attendance or other amenities of any service or of any concessional supply of food grains or other articles;
- (iii) Any traveling concession;
- (iv) Any bonus including incentive, production or attendance bonus;
- (v) Any contribution paid or payable by the employer to any pension fund or for benefit of the employee under any law for the time being in force.
- (vi) Any retrenchment compensation or any gratuity or other retirement benefit payable to the employee or any ex-gratia payment made to him; and
- (vii) Any commission payable to the employee.

It has been clarified in the explanation to the section that where an employee is given, in lieu of the whole or part of the salary or wage payable to him, free food allowance or free food by his employer, such food allowance or the value of such food shall be deemed to form part of the salary or wage for such employee.

In view of the provisions of Section 2(21) explained above, the payment of dearness allowance and value of free food by the employer forms part of salary of Pammy while remaining three

payments i.e. payment for overtime, commission on sales and employer's contribution towards pension funds shall not form part of his salary.

(b) **Socially Responsible Corporate Performance:** The benefits arising out of socially responsible corporate performance include the following:

1. Enhanced brand image and reputation.
2. Reduced Government regulations and controls.
3. Helps to minimize ecological damage.
4. Improved financial performance.
5. Reduced operating costs.
6. Increased sales and customer loyalty.
7. Increased productivity and quality of work life.
8. Increased ability to attract and retain employees.
9. Achievement of certain other objectives like easier access to capital including international capital.

(c) **Critical Thinking:** Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide one's decisions, actions and beliefs. Critical thinking refers to the act of question of every step of the thinking process e.g. Have you considered all the facts? Have you tested your assumptions? Is your reasoning sound? Can you be sure your judgment is unbiased? Is your thinking process logical, rational and complete?

**Developing Critical thinking:** To develop as a critical thinker, one must be motivated to develop the following attributes:

1. **Open-minded:** Readiness to accept and explore alternative approaches and ideas.
2. **Well informed:** Knowledge of the facts and what is happening on all fronts.
3. **Experimental:** Thinking through 'what if' scenarios to create probable options and then test the theories to determine what will work and what will not be acceptable.
4. **Contextual:** Keep in mind the appropriate context when thinking things through. Apply factors of analysis that are relevant or appropriate.
5. **Reserved in making conclusion:** Knowledge of when a conclusion is a 'fact' and when it is not. Only true conclusions support decisions.

3. (a) According to Section 42 of the Negotiable Instruments Act, 1881 an acceptor of a bill of exchange drawn in a fictitious name and payable to the drawer's order is not, by reason that such name is fictitious, relieved from liability to any holder in due course claiming under an instrument by the same hand as the drawer's signature, and purporting to be made by the drawer.

The word "fictitious payee" means a person who is not in existence or being in existence, was never intended by the drawer to have the payment. Where drawer intends the payee to have the payment, then he is not a fictitious payee and the forgery of his signature will affect the validity of the cheque.

Applying the above, answers to the questions asked can be as under:

- I. In this case B, the drawer can recover the amount of the cheque from C's bankers because C's title was derived through forged endorsement.
- II. Here C is not a fictitious payee because the drawer intended him to receive payment.

- III. The result would be different if C is not a real person or is a fictitious person or was not intended to have the payment.
- (b) (i) Economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. Industrialization and rapid development have affected the environment. Everybody should realize that such development is related to environmental damage and resource depletion.

Therefore, an element of resource regeneration and positive approach to environment has to be incorporated in development programs. Sustainable development refers to maintaining development over time. Sustainable development is development that meets the needs of the present without comprising the ability of future generations to meet their own needs. A nation or society should satisfy its social, economic and other requirement without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. Therefore, it is suggested that economic growth has to be environmentally sustainable because it is sure that there is no economic growth without ecological cost

- (ii) Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same network, there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people. Even though managers usually treat the information as “yet to be confirmed”, it may cloud judgments about the employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.
4. (a) An expert in terms of section 2 (38) of the Companies Act, 2013, includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.

Since, a prospectus is the key document based on which the prospective investors make their investment in the issue of securities of the company, it is very critical that statements made are authentic and correct.

The liability of an expert for mis statements made by him in the prospectus is covered in sections 34 and 35 of the Act. While section 34 lays down the criminal liability, section 35 provides for a civil liability. The liabilities apply to both the company and other persons.

**Section 34** of the Companies Act 2013 states that where a prospectus, issued, circulated or distributed under this Chapter, includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead the reader, then every person who authorises the issue of such prospectus shall be liable under section 447. Section 447 says that any person who is found to be guilty of fraud, shall be punishable with imprisonment for a term which shall not be less than six months (in case of public interest, the term of imprisonment shall not be less than three years) but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud.

Provided that nothing in this section shall apply to a person if he proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary.

Under section 35 where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, then the

company and every person defined in this section including an expert, shall, without prejudice to any punishment to which he may be liable under section 36, be further liable to pay compensation to every person who has sustained such loss or damage.

**(b) Parameter under Competition Law in India:**

- **Prohibition of certain agreements**, which are considered to be anti-competitive in nature. Such agreements namely tie in arrangements, exclusive dealings (supply and distribution), refusal to deal and resale price maintenance shall be presumed as anti-competitive if they cause or likely to cause an appreciable adverse effect on competition within India.
- **Abuse of dominant position** by imposing unfair or discriminatory conditions or limiting and restricting production of goods or services or indulging in practices resulting in denial of market excess or through in any other mode are prohibited.
- **Regulation of combinations** which cause or likely to cause an appreciable adverse affect on competition within the relevant market in India is also considered to be void.

**(c) Corporate Culture:** Corporate Culture is described as the personality of an organization, or simply as “how things are done around here.” It guides how employees think, act, and feel. Corporate culture is a broad term used to define the unique personality or character of an organization, and includes such elements as core values and beliefs, corporate ethics, and rules of behavioral norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization.

Organizational values are beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate principles of behaviour, organizational members should use to achieve these goals. From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behaviour by employees in particular towards one another.

5. (a) 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.

Further, Ministry Vide Notification G.S.R. 464 (E) dated 5th June 2015, directed that section 67 shall not apply to private companies-

- (i) in whose share capital no other body corporate has invested and money;
- (ii) if the borrowings of such company from banks/financial institutions. Anybody corporate is less than twice its paid up share capital/ 50 crore rupees, whichever is lower; and
- (iii) Such a company is not in default in repayment of such borrowings subsisting at the time of making transactions under this section.

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, Apeksha 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.

- (b) The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders' expectations and enhancing shareholders' values. Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment.

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Need for social responsibility:

1. The iron law of responsibility
  2. To fulfil long term self-interest
  3. To establish a better public image
  4. To avoid government regulation and control
  5. To avoid misuse of National Resources and Economic Power
  6. To convert Resistances into Resources
  7. To minimise Environmental damage.
6. (a) According to Section 96 of the Companies Act, 2013, every company (other than a One person company) shall be required to hold its first annual general meeting within a period of 9 months from the closing of its first financial year.

It is also provided that if a company holds its first annual general meeting as aforesaid, it shall not be necessary for the company to hold any annual general meeting in the year of its incorporation.

The section provides that the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.

According to section 2(41) of the Companies Act, 2013, "financial year", in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.

According to section 99, if any default is made in holding a meeting of the company in accordance with section 96 or section 97 or section 98 or in complying with any directions of the Tribunal, the company and every officer of the company who is in default shall be punishable with fine which may extend to one lakh rupees and in the case of a continuing default, with a further fine which may extend to five thousand rupees for every day during which such default continues.

Applying the above provisions of the Companies Act, 2013, the following can be derived:

1. The "Financial Year" of Prism Infotech Ltd. will be ending on 31.3.2017.
2. The first annual general meeting of Prism Infotech Ltd. should be held on or before 31st December, 2017.

3. Even though the Registrar of Companies is empowered to grant extension of time for a period not exceeding 3 months for holding the annual general meetings, such power does not apply in the case of the first annual general meeting.

Hence, the company and its directors will be liable under section 99 for the default if the annual general meeting was held after 31st December, 2017.

- (b) The dynamic environment in which businesses operate today may usher a broad range of circumstances because of which compliance with the fundamental principles may potentially be threatened. Such threats may be classified as follows :-

- (i) Self-interest threats, which may occur as a result of the financial or other interests of a finance and accounting professional or of an immediate or close family member:
- (ii) Self-review threats, which may occur when a previous judgement needs to be reevaluated by the finance and accounting professional responsible for that judgement:
- (iii) Advocacy threats occur when a professional promotes a position or opinion to the point that subsequent objectivity may be compromised :
- (iv) Familiarity threats occur when finance and accounting professional has close relationship in the work environment and such relationship impair his selfless attitude towards work.
- (v) Intimidation threats occur when a professional may be prohibited from acting objectively by threats, actual or perceived.

- (c) **Akash Furnitures Ltd.**  
**Civil Lines, Kanpur**

Circular No:     Date.....

To all employees

Recent surprise checks have revealed that there is considerable late coming and in some cases, even the standard instructions for ensuring punctual attendance are not followed. All employees are requested to strictly adhere to the arrival, departure and lunch timing of the office. Tendency to move around in the corridors and canteen would also be viewed seriously.

Cooperation of all employees is solicited.

Sd/-  
Akash Furniturewala  
Manager – H.R

7. (a) According Section 7Q of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 the employer shall be liable to pay simple interest @ of 12% per annum or at such higher rate as may be specified in the Scheme on any amount due from him under this Act from the date on which the amount has become so due till the date of its actual payment:

Provided that higher rate of interest specified in the Scheme shall not exceed the lending rate of interest charged by any scheduled bank.

As per above provision, Satish can claim for the payment of interest on due amount @ 12 percent per annum or at the rate specified in the Scheme, whichever is higher, for one year. Here, in the absence of specified rate Satish can claim only 12 percent per annum interest on the due amount.

Hence claim of Satish for interest rate of 15% is not tenable.

- (b) **Ordinary Business [Section 102 (2)]:** In accordance with the provision of Companies Act, 2013 as contained in Section 102 (2), the only ordinary business can be transacted at an AGM and comprises of the following business:

- (a) Consideration of financial statements and the reports of the Board of Directors and auditors.
  - (b) Declaration of dividend.
  - (c) Appointment of Directors in place of those retiring; and
  - (d) appointment of auditors and fixation of their remuneration.
- (c) Under section 105 (8) of the Companies Act, 2013 every member entitled to vote at a meeting of the company, or on any resolution to be moved thereat, shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the company, provided not less than three days' notice in writing of the intention so to inspect is given to the company.

In the given case, Sekhar has given proper notice.

However, such inspection can be undertaken only during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting. So, Sekhar can undertake the inspection only during the above mentioned period and not two days prior to the meeting.

- (d) **Discriminatory Practices in Employment:** Discrimination in employment is wrong because it violates the basic principle of justice by differentiating between people on the basis of characteristics (race or sex) that are not relevant to the tasks they must perform.

It is consequently understandable that the law has gradually been changed to conform to these moral requirements, and that there has been a growing recognition of the various ways in which discrimination in employment occurs. Among the practices now widely recognized as discriminatory are the following:

**Recruitment Practices:** Firms that rely solely on the word-of-mouth referrals of present employees to recruit new workers tend to recruit only from those racial and sexual groups that are already represented in their labor force. Also, when desirable job positions are only advertised in media that are not used by minorities or women or are classified as for men only, recruitment would also tend to be discriminatory.

**Screening Practices:** Job qualifications are discriminatory when they are not relevant to the job to be performed (e.g., requiring a high school diploma or a credential for an essentially manual task.). Job interviews are discriminatory if the interviewer routinely disqualifies certain class of people - for example assumptions about occupations "suitable for women" or the propriety of putting women in "male "environments.

**Promotion Practices:** Promotion, job progression, and transfer practices are discriminatory when employers place males on job tracks separate from those open to women and minorities. When promotions rely on the subjective recommendations of immediate supervisors.

**Conditions of Employment:** Many times wages and salaries are discriminatory to the extent that equal wages and salaries are not given to people who are doing essentially the same work. Another issue is related to fair wages and treatment to workers. Companies subcontracting manufacturing operations abroad are now aware of the ethical issues associated with supporting facilities like child labour that abuse and/or underpay their work forces. Such facilities have been termed "sweatshops."

**Dismissal:** Firing an employee on the basis of his or her race or sex is a clear form of discrimination. Less blatant but still discriminatory are layoff policies that rely on a seniority system, in which women and minorities have the lowest seniority because of past discrimination.

**(e) Indemnity Bond**

A contract of indemnity as defined under Section 124 of the Indian Contract Act, 1872 is a contract by which one party promises to save the other from loss caused to him by the conduct of the promissory himself or by the conduct of any other person. A person who gives the indemnity is called indemnifier and a person for whom protection is given is called the indemnity holder. The model form of indemnity bond is given below:

Name of the Assessee:

P.A.N. No. Assessment Year:

I. .... son/ wife/ daughter of ..... Resident of ..... do hereby agree to indemnify the Government of India for any loss that may occur on giving credit for the Certified Photostat copies of the TDS Certificates/ ...../ ...../ ..... for a sum of Rs. .... being ... % of my share in the total TDS of Rs. .... of ..... I further declare that the credit for consolidated TDS Certificate was not claimed in the hands of the Association of Persons, .....

Date:

Signature:

Place:

Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answers in Hindi will not be valued.

Attempt any **five** questions from the remaining **six** questions.

**Maximum Marks – 100**

- (4 × 5 = 20 Marks)**

- 1

Dee:

- (i) The Re-order quantity is 200 kg. less than the Economic Order Quantity (EOQ).
- (ii) Maximum consumption per day is 20 kg. more than the average consumption per day.
- (iii) There is an opening stock of 1,000 kg.
- (iv) Time required to get the raw materials from the suppliers is 4 to 8 days.
- (v) The purchase price is Rs.125 per kg.

There is an opening stock of 900 units of the finished product Exe.

The rate of interest charged by bank on Cash Credit facility is 13.76%.

To place an order company has to incur Rs.720 on paper and documentation work.

From the above information, find out the followings in relation to raw material Dee:

- (i) Re-order Quantity
  - (ii) Maximum Stock level
  - (iii) Minimum Stock level
  - (iv) Calculate the impact on the profitability of the company by not ordering the EOQ.  
[Take 364 days for a year] **(8 Marks)**
- (b) A bank is analysing the receivables of J Ltd. in order to identify acceptable collateral for a short-term loan. The company's credit policy is 2/10 net 30. The bank lends 80 percent on accounts where customers are not currently overdue and where the average payment period does not exceed 10 days past the net period. A schedule of J Ltd.'s receivables has been prepared. How much will the bank lend on pledge of receivables, if the bank uses a 10 per cent allowance for cash discount and returns?

Account	Amount Rs.	Days Outstanding in days	Average Payment Period historically
74	25,000	15	20
91	9,000	45	60
107	11,500	22	24
108	2,300	9	10
114	18,000	50	45
116	29,000	16	10
123	<u>14,000</u>	27	48
	<u>1,08,800</u>		

**(8 Marks)**

3. (a) Following information have been extracted from the cost records of ABC Ltd.

Stores:	(Rs.)
Opening balance	1,08,000
Purchases	5,76,000
Transfer from WIP	2,88,000
Issue to WIP	5,76,000
Issue for repairs	72,000
Deficiency found in stock	21,600

<b>Work-in-progress:</b>	<b>(Rs.)</b>
Opening balance	2,16,000
Direct wages applied	2,16,000
Overheads charged	8,64,000
Closing balance	1,44,000
<b>Finished Production:</b>	<b>(Rs.)</b>
Entire production is sold at a profit of 15% on cost of WIP	
Wages paid	2,52,000
Overheads incurred	9,00,000

Draw the Stores Ledger Control Account, Work-in-Progress Control Account, Overheads Control Account and Costing Profit and Loss Account. **(8 Marks)**

- (b) X Ltd. is considering to select a machine out of two mutually exclusive machines. The company's cost of capital is 15 per cent and corporate tax rate is 30 per cent. Other information relating to both machines is as follows:

	<b>Machine – I</b>	<b>Machine – II</b>
Cost of Machine	Rs. 30,00,000	Rs. 40,00,000
Expected Life	10 years.	10 Years.
Annual Income (Before Tax and Depreciation)	Rs. 12,50,000	Rs. 17,50,000

Depreciation is to be charged on straight line basis:

You are required to calculate:

- Discounted Pay Back Period
- Net Present Value
- Profitability Index

The present value factors of Re.1 @ 15% are as follows:

Year	01	02	03	04	05
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497

**(8 Marks)**

4. (a) Happy Transport Service is a Delhi based national goods transport service provider, owning four trucks for this purpose. The cost of running and maintaining these trucks are as follows:

<b>Particulars</b>	<b>Amount</b>
Diesel cost	Rs.13.75 per km.
Engine oil	Rs. 4,200 for every 13,000 km.
Repair and maintenance	Rs. 12,000 for every 10,000 km.
Driver's salary	Rs. 18,000 per truck per month
Cleaner's salary	Rs. 7,500 per truck per month
Supervision and other general expenses	Rs. 12,000 per month
Cost of loading of goods	Rs.150 per Metric Ton (MT)

Each trucks were purchased for Rs. 20 lakhs with an estimated life of 7,20,000 km.

During the next month, it is expecting 6 bookings, the details are as follows:

Sl. No.	Journey	Distance in km	Weight- Up (in MT)	Weight- Down (in MT)
1.	Delhi to Kochi	2,700	14	6
2.	Delhi to Guwahati	1,890	12	0
3.	Delhi to Vijayawada	1,840	15	0
4.	Delhi to Varanasi	815	10	0
5.	Delhi to Asansol	1,280	12	4
6.	Delhi to Chennai	2,185	10	8
	Total	10,710	73	18

Required

- (i) Calculate the total absolute Ton-km for the vehicles.
  - (ii) Calculate the cost per ton-km. **(8 Marks)**
- (b) A Company earns a profit of Rs. 6,00,000 per annum after meeting its interest liability of Rs. 1,20,000 on 12% debentures. The Tax rate is 50%. The number of Equity Shares of Rs. 10 each are 80,000 and the retained earnings amount to Rs. 18,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 8,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

Required:

- (i) Compute the Earnings per Share (EPS), if:
    - The additional funds were raised as debt
    - The additional funds were raised by issue of equity shares.
  - (ii) Advise the company as to which source of finance is preferable. **(8 Marks)**
5. (a) Describe the salient features of a Budget Manual.
- (b) Explain equivalent units.
- (c) Differentiate between Business risk and Financial risk.
- (d) Explain the importance of trade credit and accruals as source of working capital. What is the cost of these sources? **(4 × 4 = 16 Marks)**
6. (a) A Ltd. manufacture and sales its product R-9. The following figures have been collected from cost records of last year for the product R-9:

Elements of Cost	Variable Cost portion	Fixed Cost
Direct Material	30% of Cost of Goods Sold	--
Direct Labour	15% of Cost of Goods Sold	--
Factory Overhead	10% of Cost of Goods Sold	Rs. 2,30,000
General & Administration Overhead	2% of Cost of Goods Sold	Rs. 71,000
Selling & Distribution Overhead	4% of Cost of Sales	Rs. 68,000

Last Year 5,000 units were sold at Rs.185 per unit. From the given data find the followings:

- (i) Break-even Sales (in rupees)
- (ii) Profit earned during last year
- (iii) Margin of safety (in %)



(iv) Profit if the sales were 10% less than the actual sales.

(Assume that General & Administration Overhead is related with production activity)

**(8 Marks)**

(b) X Ltd. has the following balances as on 1<sup>st</sup> April 20X7:

	(Rs.)
Plant and equipment	11,40,000
Less; Depreciation	3,99,000
Inventories and Trade receivables	4,75,000
Cash and cash equivalent	66,500
Trade payables	1,14,000
Bills payable	76,000
Equity share capital (Share of Rs.100 each)	5,70,000

The Company made the following estimates for financial year 20X7-X8:

- (i) The company will pay a free of tax dividend of 10%, the rate of dividend distribution tax being 25%.
- (ii) The company will acquire plant costing Rs. 1,90,000 after selling one machine for Rs. 38,000 costing Rs. 95,000 and on which depreciation provided amounted to Rs. 66,500.
- (iii) Inventories and trade receivables, Trade payables and Bills payables at the end of financial year are expected to be Rs. 5,60,500, Rs. 1,48,200 and Rs. 98,800 respectively.
- (iv) The profit would be Rs. 1,04,500 after depreciation of Rs. 1,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd. at the end of financial year 20X7-X8.

**(8 Marks)**

7. Answer any **four** of the following:

- (a) What is cost plus contract? State its advantages.
- (b) Define Explicit costs. How is it different from implicit costs?
- (c) Differentiate between Financial Management and Financial Accounting.
- (d) Discuss the dividend-price approach, and earnings price approach to estimate cost of equity capital.
- (e) (i) Write short note on Angle of Incidence.  
(ii) Write a short note on Concentration Banking.

**(4 × 4 =16 Marks)**

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT**  
**SUGGESTED ANSWERS/HINTS**

**1. (a) Labour turnover rate:**

It comprises of computation of labour turnover by using following methods:

(i) *Separation Method:*

$$= \frac{\text{No. of workers left} + \text{No. of workers discharged}}{\text{Average number of workers}} \times 100$$

$$= \frac{(80 + 320)}{(7,600 + 8,400) \div 2} \times 100 = \frac{400}{8,000} \times 100 = 5\%$$

(ii) *Replacement Method:*

$$= \frac{\text{No. of workers replaced}}{\text{Average number of workers}} \times 100 = \frac{300}{8,000} \times 100 = 3.75\%$$

(iii) *New Recruitment:*

$$= \frac{\text{No. of workers newly recruited}}{\text{Average number of workers}} \times 100$$

$$= \frac{\text{No. Recruitments} - \text{No. of Replacements}}{\text{Average number of workers}} \times 100$$

$$= \frac{1,200 - 300}{8,000} \times 100 = \frac{900}{8,000} \times 100 = 11.25\%$$

**Flux Method:**

$$= \frac{\text{No. of separations} + \text{No. of accessions}}{\text{Average number of workers}} \times 100$$

$$= \frac{(400 + 1,200)}{(7,600 + 8,400) \div 2} \times 100 = \frac{1,600}{8,000} \times 100 = 20\%$$

(b) (i) Optimum run size or Economic Batch Quantity (EBQ) =  $\sqrt{\frac{2 \times D \times S}{C}}$

Where, D = Annual demand i.e. 1.15% of 8,00,00,000 = 9,20,000 units

S = Set-up cost per run = Rs. 3,500

C = Inventory holding cost per unit per annum

= Rs.1.5 × 12 months = Rs. 18

$$\text{EBQ} = \sqrt{\frac{2 \times 9,20,000 \text{ units} \times \text{Rs.} 3,500}{\text{Rs.} 18}} = 18,915 \text{ units}$$

(ii) Calculation of Total Cost of set-up and inventory holding

	Batch size	No. of set-ups	Set-up Cost (Rs.)	Inventory holding cost (Rs.)	Total Cost (Rs.)
A	40,000 units	23 $\left(\frac{9,20,000}{40,000}\right)$	80,500 (23 × Rs. 3,500)	3,60,000 $\left(\frac{40,000 \times \text{Rs. } 18}{2}\right)$	4,40,500
B	18,915 units	49 $\left(\frac{9,20,000}{18,915}\right)$	1,71,500 (49 × Rs. 3,500)	1,70,235 $\left(\frac{18,915 \times \text{Rs. } 18}{2}\right)$	3,41,735
	Extra Cost (A – B)				98,765

(c) Computation of future value

Principal ( $P_0$ ) = Rs. 50,000

Rate of interest (i) = 12% p.a.

Time period (n) = 3 years

Amount if compounding is done:

(i) Annually

$$\begin{aligned}
 \text{Future Value} &= P(1+i)^n \\
 &= \text{Rs. } 50,000 (1 + 0.12)^3 \\
 &= \text{Rs. } 50,000 \times 1.405 \\
 &= \text{Rs. } 70,250
 \end{aligned}$$

(ii) Semi Annually

$$\begin{aligned}
 \text{Future Value} &= \text{Rs. } 50,000 \left(1 + \frac{12}{100 \times 2}\right)^{3 \times 2} \\
 &= \text{Rs. } 50,000 (1 + 0.06)^6 \\
 &= \text{Rs. } 50,000 \times 1.419 \\
 &= \text{Rs. } 70,950
 \end{aligned}$$

(iii) Quarterly

$$\begin{aligned}
 \text{Future Value} &= \text{Rs. } 50,000 \left(1 + \frac{12}{100 \times 4}\right)^{3 \times 4} \\
 &= \text{Rs. } 50,000 (1 + 0.03)^{12} \\
 &= \text{Rs. } 50,000 \times 1.426 \\
 &= \text{Rs. } 71,300
 \end{aligned}$$

(d) Workings:

$$\text{(i) Financial Leverage} = \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}} \quad \text{Or, } 2 = \frac{\text{EBIT}}{\text{EBIT} - \text{Rs. } 5,000}$$

$$\text{Or, EBIT} = \text{Rs. } 10,000$$

$$\text{(ii) Operating Leverage} = \frac{\text{Contribution}}{\text{EBIT}} \quad \text{Or, } 3 = \frac{\text{Contribution}}{\text{Rs. } 10,000}$$

$$\begin{aligned} \text{Or, Contribution} &= \text{Rs. 30,000} \\ \text{(iii) Sales} &= \frac{\text{Contribution}}{\text{P/V Ratio}} = \frac{\text{Rs. 30,000}}{25\%} = \text{Rs. 1,20,000} \\ \text{(iv) Fixed Cost} &= \text{Contribution} - \text{Fixed cost} = \text{EBIT} \\ &= \text{Rs. 30,000} - \text{Fixed cost} = \text{Rs. 10,000} \\ \text{Or, Fixed cost} &= \text{Rs. 20,000} \end{aligned}$$

**Income Statement for the year ended 31<sup>st</sup> December 2014**

Particulars	Amount (Rs.)
Sales	1,20,000
Less: Variable Cost (75% of Rs.1,20,000)	(90,000)
Contribution	30,000
Less: Fixed Cost (Contribution - EBIT)	(20,000)
Earnings Before Interest and Tax (EBIT)	10,000
Less: Interest	(5,000)
Earnings Before Tax (EBT)	5,000
Less: Income Tax @ 30%	(1,500)
Earnings After Tax (EAT or PAT)	3,500

**2. (a) Working Notes:**

**(1) Computation of Annual consumption & Annual Demand for raw material 'Dee':**

Sales forecast of the product 'Exe'	10,000 units
Less: Opening stock of 'Exe'	900 units
Fresh units of 'Exe' to be produced	9,100 units
Raw material required to produce 9,100 units of 'Exe' (9,100 units × 2 kg.)	18,200 kg.
Less: Opening Stock of 'Dee'	1,000 kg.
Annual demand for raw material 'Dee'	17,200 kg.

**(2) Computation of Economic Order Quantity (EOQ):**

$$\begin{aligned} \text{EOQ} &= \sqrt{\frac{2 \times \text{Annual demand of 'Dee'} \times \text{Ordering cost}}{\text{Carrying cost per unit per annum}}} \\ &= \sqrt{\frac{2 \times 17,200 \text{ kg.} \times \text{Rs. 720}}{\text{Rs. 125} \times 13.76\%}} = \sqrt{\frac{2 \times 17,200 \text{ kg.} \times \text{Rs. 720}}{\text{Rs. 17.2}}} = 1,200 \text{ kg.} \end{aligned}$$

**(3) Re- Order level:**

$$\begin{aligned} &= (\text{Maximum consumption per day} \times \text{Maximum lead time}) \\ &= \left\{ \left( \frac{\text{Annual Consumption of 'Dee'}}{364 \text{ days}} + 20 \text{ kg.} \right) \times 8 \text{ days} \right\} \\ &= \left\{ \left( \frac{18,200 \text{ kg.}}{364 \text{ days}} + 20 \text{ kg.} \right) \times 8 \text{ days} \right\} = 560 \text{ kg.} \end{aligned}$$

(4) **Minimum consumption per day of raw material 'Dee':**

Average Consumption per day = 50 Kg.

Hence, Maximum Consumption per day = 50 kg. + 20 kg. = 70 kg.

So, Minimum consumption per day will be

$$\text{Average Consumption} = \frac{\text{Min.consumption} + \text{Max.consumption}}{2}$$

$$\text{Or, 50 kg.} = \frac{\text{Min.consumption} + 70\text{kg.}}{2}$$

$$\text{Or, Min. consumption} = 100 \text{ kg} - 70 \text{ kg.} = 30 \text{ kg.}$$

(i) **Re-order Quantity:**

$$\text{EOQ} - 200 \text{ kg.} = 1,200 \text{ kg.} - 200 \text{ kg.} = 1,000 \text{ kg.}$$

(ii) **Maximum Stock level:**

$$= \text{Re-order level} + \text{Re-order Quantity} - (\text{Min. consumption per day} \times \text{Min. lead time})$$

$$= 560 \text{ kg.} + 1,000 \text{ kg.} - (30 \text{ kg.} \times 4 \text{ days}) = 1,560 \text{ kg.} - 120 \text{ kg.} = 1,440 \text{ kg.}$$

(iii) **Minimum Stock level:**

$$= \text{Re-order level} - (\text{Average consumption per day} \times \text{Average lead time})$$

$$= 560 \text{ kg.} - (50 \text{ kg.} \times 6 \text{ days}) = 260 \text{ kg.}$$

(iv) **Impact on the profitability of the company by not ordering the EOQ.**

		When purchasing the ROQ	When purchasing the EOQ
I	Order quantity	1,000 kg.	1,200 kg.
II	No. of orders a year	$\frac{17,200\text{kg.}}{1,000\text{kg.}} = 17.2$ or 18 orders	$\frac{17,200\text{kg.}}{1,200\text{kg.}} = 14.33$ or 15 orders
III	Ordering Cost	18 orders $\times$ Rs. 720 = Rs. 12,960	15 orders $\times$ Rs. 720 = Rs. 10,800
IV	Average Inventory	$\frac{1,000\text{kg.}}{2} = 500\text{kg.}$	$\frac{1,200\text{kg.}}{2} = 600\text{kg.}$
V	Carrying Cost	500 kg. $\times$ Rs. 17.2 = Rs. 8,600	600 kg. $\times$ Rs. 17.2 = Rs. 10,320
VI	Total Cost	Rs. 21,560	Rs. 21,120

Extra Cost incurred due to not ordering EOQ = Rs. 21,560 - Rs. 21,120 = Rs.440

(b) **Analysis of the receivables of J Ltd. by the bank in order to identify acceptable collateral for a short-term loan:**

(i) **The J Ltd.'s credit policy is 2/10 net 30.**

The bank lends 80 per cent on accounts where customers are not currently overdue and where the average payment period does not exceed 10 days past the net period i.e. thirty days. From the schedule of receivables of J Ltd. Account No. 91 and Account No. 114 are currently overdue and for Account No. 123 the average payment period exceeds 40 days. Hence Account Nos. 91, 114 and 123 are eliminated. Therefore, the selected Accounts are Account Nos. 74, 107, 108 and 116.

- (ii) Statement showing the calculation of the amount which the bank will lend on a pledge of receivables if the bank uses a 10 per cent allowances for cash discount and returns

Account No.	Amount (Rs.)	90 per cent of amount (Rs.)	80% of amount (Rs.)
	(a)	(b) = 90% of (a)	(c) = 80% of (b)
74	25,000	22,500	18,000
107	11,500	10,350	8280
108	2,300	2,070	1,656
116	29,000	26,100	<u>20,880</u>
	Total loan amount		<u>48,816</u>

3. (a)

**Stores Ledger Control A/c**

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	1,08,000	By Work in Process A/c	5,76,000
To General Ledger Adjustment A/c	5,76,000	By Overhead Control A/c	72,000
To Work in Process A/c	2,88,000	By Overhead Control A/c (Deficiency)	21,600*
		By Balance c/d	3,02,400
	9,72,000		9,72,000

\*Deficiency assumed as normal (alternatively can be treated as abnormal loss)

**Work in Progress Control A/c**

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	2,16,000	By Stores Ledger Control A/c	2,88,000
To Stores Ledger Control A/c	5,76,000	By Costing P/L A/c (Balancing figures being Cost of finished goods)	14,40,000
To Wages Control A/c	2,16,000	By Balance c/d	1,44,000
To Overheads Control a/c	8,64,000		
	18,72,000		18,72,000

**Overheads Control A/c**

Particulars	(Rs.)	Particulars	(Rs.)
To Stores Ledger Control A/c	72,000	By Work in Process A/c	8,64,000
To Stores Ledger Control A/c	21,600	By Balance c/d (Under absorption)	1,65,600
To Wages Control A/c (Rs.2,52,000- Rs.2,16,000)	36,000		
To Gen. Ledger Adjust. A/c	9,00,000		
	10,29,600		10,29,600

### Costing Profit & Loss A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Work in progress	14,40,000	By Gen. ledger Adjust. A/c (Sales) (Rs. 14,40,000 × 115%)	16,56,000
To Gen. Ledger Adjust. A/c (Profit)	2,16,000		
	16,56,000		16,56,000

**(b) Working Notes:**

$$\text{Depreciation on Machine – I} = \frac{30,00,000}{10} = \text{Rs. 3,00,000}$$

$$\text{Depreciation on Machine – II} = \frac{40,00,000}{10} = \text{Rs. 4,00,000}$$

Particulars	Machine-I (Rs.)	Machine – II (Rs.)
Annual Income (before Tax and Depreciation)	12,50,000	17,50,000
Less: Depreciation	3,00,000	4,00,000
Annual Income (before Tax)	9,50,000	13,50,000
Less: Tax @ 30%	2,85,000	4,05,000
Annual Income (after Tax)	6,65,000	9,45,000
Add: Depreciation	3,00,000	4,00,000
Annual Cash Inflows	9,65,000	13,45,000

	Machine – I				Machine - II		
Year	PV of Re 1 @ 15%	Cash flow	PV	Cumulative PV	Cash flow	PV	Cumulative PV
1	0.870	9,65,000	8,39,550	8,39,550	13,45,000	11,70,150	11,70,150
2	0.756	9,65,000	7,29,540	15,69,090	13,45,000	10,16,820	21,86,970
3	0.658	9,65,000	6,34,970	22,04,060	13,45,000	8,85,010	30,71,980
4	0.572	9,65,000	5,51,980	27,56,040	13,45,000	7,69,340	38,41,320
5	0.497	9,65,000	4,79,605	32,35,645	13,45,000	6,68,465	45,09,785

**(i) Discounted Payback Period**

Machine – I

$$\begin{aligned} \text{Discounted Payback Period} &= 4 + \frac{(30,00,000 - 27,56,040)}{4,79,605} \\ &= 4 + \frac{2,43,960}{4,79,605} = 4 + 0.5087 = 4.5087 \text{ years or 4 years 6.10 months} \end{aligned}$$

Machine – II

$$\text{Discounted Payback Period} = 4 + \frac{(40,00,000 - 38,41,320)}{6,68,465}$$

$$= 4 + \frac{1,58,680}{6,68,465} = 4 + 0.2374 = 4.2374 \text{ years or 4 years 2.85 months}$$

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

Machine – I

$$\text{NPV} = 32,35,645 - 30,00,000 = \text{Rs. } 2,35,645$$

Machine – II

$$\text{NPV} = 45,09,785 - 40,00,000 = \text{Rs. } 5,09,785$$

**(iii) Profitability Index**

Machine – I

$$\text{Profitability Index} = \frac{32,35,645}{30,00,000} = 1.08$$

Machine – II

$$\text{Profitability Index} = \frac{45,09,785}{40,00,000} = 1.13$$

**Conclusion:**

Method	Machine - I	Machine - II	Rank
Discounted Payback Period	4.51 years	4.24 years	II
Net Present Value	Rs.2,35,645	Rs.5,09,785	II
Profitability Index	1.08	1.13	II

**4. (a) (i) Calculation of Absolute Ton-km for the next month:**

Journey	Distance in km	Weight-Up (in MT)	Ton-km	Weight-Down (in MT)	Ton-km	Total
	(a)	(b)	(c)=(a)×(b)	(d)	(e)=(a)×(d)	(c) + (e)
Delhi to Kochi	2,700	14	37,800	6	16,200	54,000
Delhi to Guwahati	1,890	12	22,680	0	0	22,680
Delhi to Vijayawada	1,840	15	27,600	0	0	27,600
Delhi to Varanasi	815	10	8,150	0	0	8,150
Delhi to Asansol	1,280	12	15,360	4	5,120	20,480
Delhi to Chennai	2,185	10	21,850	8	17,480	39,330
Total	10,710	73	1,33,440	18	38,800	1,72,240

Total Ton-Km = 1,72,240 ton-km

**(ii) Calculation of cost per ton-km:**

Particulars	Amount (Rs.)	Amount (Rs.)
A. Running cost:		
- Diesel Cost {Rs.13.75 × (10,710 × 2)}	2,94,525.00	



- Engine oil cost $\left( \frac{\text{Rs.4,200}}{13,000\text{km}} \times 21,420\text{km} \right)$	6,920.31	
- Cost of loading of goods {Rs.150 × (73+18)}	13,650.00	
- Depreciation $\left( \frac{\text{Rs.20,00,000}}{7,20,000\text{km}} \times 21,420\text{km} \right)$	59,500.00	3,74,595.31
B. Repairs & Maintenance Cost $\left( \frac{\text{Rs.12,000}}{10,000\text{km}} \times 21,420\text{km} \right)$		25,704
C. Standing Charges		
- Drivers' salary (Rs.18,000 × 4 trucks)	72,000	
- Cleaners' salary (Rs.7,500 × 4 trucks)	30,000	
- Supervision and other general exp.	12,000	1,14,000
Total Cost (A + B + C)		5,14,299.31
Total ton-km		1,72,240
Cost per ton-km		2.99

**(b) Working Notes:**

**1. Capital employed before expansion plan:**

	(Rs.)
Equity shares (Rs.10 × 80,000 shares)	8,00,000
Debentures $\{(Rs.1,20,000/12) \times 100\}$	10,00,000
Retained earnings	18,00,000
Total capital employed	<u>36,00,000</u>

**2. Earnings before the payment of interest and tax (EBIT):**

	(Rs.)
Profit (EBT)	6,00,000
Add: Interest	<u>1,20,000</u>
EBIT	<u>7,20,000</u>

**3. Return on Capital Employed (ROCE):**

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital employed}} \times 100 = \frac{\text{Rs.7,20,000}}{\text{Rs.36,00,000}} \times 100 = 20\%$$

**4. Earnings before interest and tax (EBIT) after expansion scheme:**

$$\begin{aligned} \text{After expansion, capital employed} &= \text{Rs.36,00,000} + \text{Rs.8,00,000} \\ &= \text{Rs.44,00,000} \\ \text{Desired EBIT} &= 20\% \times \text{Rs.44,00,000} = \text{Rs.8,80,000} \end{aligned}$$

(i) **Computation of Earnings Per Share (EPS) under the following options:**

	Present situation	Expansion scheme Additional funds raised as	
		Debt	Equity
	(Rs.)	(Rs.)	(Rs.)
Earnings before Interest and Tax (EBIT)	7,20,000	8,80,000	8,80,000
Less: Interest - Old capital	1,20,000	1,20,000	1,20,000
- New capital	--	96,000 (Rs.8,00,000 × 12%)	--
Earnings before Tax (EBT)	6,00,000	6,64,000	7,60,000
Less: Tax (50% of EBT)	3,00,000	3,32,000	3,80,000
PAT	3,00,000	3,32,000	3,80,000
No. of shares outstanding	80,000	80,000	1,60,000
Earnings per Share (EPS)	3.75 $\left( \frac{\text{Rs.3,00,000}}{80,000} \right)$	4.15 $\left( \frac{\text{Rs.3,32,000}}{80,000} \right)$	2.38 $\left( \frac{\text{Rs.3,80,000}}{1,60,000} \right)$

(ii) **Advise to the Company:** When the expansion scheme is financed by additional debt, the EPS is higher. Hence, the company should finance the expansion scheme by raising debt.

5. (a) **Salient features of a Budget Manual**

- Budget manual contains many information which are required for effective budgetary planning.
- A budget manual is a collection of documents that contains key information for those involved in the planning process.
- An introductory explanation of the budgetary planning and control process, including a statement of the budgetary objective and desired results is included in Budget Manual
- Budget Manual contains a form of organisation chart to show who is responsible for the preparation of each functional budget and the way in which the budgets are interrelated.
- It contains a timetable for the preparation of each budget.
- Copies of all forms to be completed by those responsible for preparing budgets, with explanations concerning their completion is included in Budget Manual.

(b) When opening and closing stocks of work-in-process exist, unit costs cannot be computed by simply dividing the total cost by total number of units still in process. We can convert the work-in-process units into finished units called equivalent units so that the unit cost of these units can be obtained.

$$\text{Equivalent Completed Units} = \frac{\text{Actual number of units in the process of manufacture}}{\text{Percentage of work completed}}$$

It consists of balance of work done on opening work-in-process, current production done fully and part of work done on closing WIP with regard to different elements of costs viz., material, labour and overhead.

**(c) Business Risk and Financial Risk**

Business risk refers to the risk associated with the firm's operations. It is an unavoidable risk because of the environment in which the firm has to operate and the business risk is represented by the variability of earnings before interest and tax (EBIT). The variability in turn is influenced by revenues and expenses. Revenues and expenses are affected by demand of firm's products, variations in prices and proportion of fixed cost in total cost.

Whereas, Financial risk refers to the additional risk placed on firm's shareholders as a result of debt use in financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly by equity. Financial risk can be measured by ratios such as firm's financial leverage multiplier, total debt to assets ratio etc.

- (d)** Trade credit and accruals as source of working capital refers to credit facility given by suppliers of goods during the normal course of trade. It is a short term source of finance. Small firms in particular are heavily dependent on this source for financing their working capital needs. The major advantages of trade credit are – easy availability, flexibility and informality.

There can be an argument that trade credit is a cost free source of finance. But it is not. It involves implicit cost. The supplier extending trade credit incurs cost in the form of opportunity cost of funds invested in trade receivables. Generally, the supplier passes on these costs to the buyer by increasing the price of the goods or alternatively by not extending cash discount facility.

**6. (a) Working Notes:**

**(1) Calculation of Cost of Goods Sold (COGS):**

$$\text{COGS} = \{(DM- 0.3 \text{ COGS}) + (DL- 0.15 \text{ COGS}) + (FOH- 0.10 \text{ COGS} + \text{Rs. } 2,30,000) + (G\&AOH- 0.02 \text{ COGS} + \text{Rs. } 71,000)\}$$

$$\text{Or COGS} = 0.57 \text{ COGS} + \text{Rs. } 3,01,000$$

$$\text{Or COGS} = \frac{\text{Rs. } 3,01,000}{0.43} = \text{Rs. } 7,00,000$$

**(2) Calculation of Cost of Sales (COS):**

$$\text{COS} = \text{COGS} + (\text{S\&DOH}- 0.04 \text{ COS} + \text{Rs. } 68,000)$$

$$\text{Or COS} = \text{Rs. } 7,00,000 + (0.04 \text{ COS} + \text{Rs. } 68,000)$$

$$\text{Or COS} = \frac{\text{Rs. } 7,68,000}{0.96} = \text{Rs. } 8,00,000$$

**(3) Calculation of Variable Costs:**

Direct Material-	(0.30 × Rs. 7,00,000)	Rs. 2,10,000
Direct Labour-	(0.15 × Rs. 7,00,000)	Rs. 1,05,000
Factory Overhead-	(0.10 × Rs. 7,00,000)	Rs. 70,000
General & Administration OH-	(0.02 × Rs. 7,00,000)	Rs. 14,000
Selling & Distribution OH	(0.04 × Rs. 8,00,000)	Rs. 32,000
		<hr/> Rs. 4,31,000

**(4) Calculation of total Fixed Costs:**

Factory Overhead-	Rs. 2,30,000
General & Administration OH-	Rs. 71,000
Selling & Distribution OH	Rs. 68,000
	<hr/> Rs. 3,69,000

**(5) Calculation of P/V Ratio:**

$$\begin{aligned} \text{P/V Ratio} &= \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}} \times 100 \\ &= \frac{(\text{Rs.}185 \times 5,000 \text{ units}) - \text{Rs.}4,31,000}{\text{Rs.}185 \times 5,000 \text{ units}} \times 100 = 53.41\% \end{aligned}$$

$$(i) \text{ Break-Even Sales} = \frac{\text{Fixed Costs}}{\text{P/V Ratio}} = \frac{\text{Rs.}3,69,000}{53.41\%} = \text{Rs.}6,90,882$$

$$\begin{aligned} (ii) \text{ Profit earned during the last year} \\ &= (\text{Sales} - \text{Total Variable Costs}) - \text{Total Fixed Costs} \\ &= (\text{Rs.}9,25,000 - \text{Rs.}4,31,000) - \text{Rs.}3,69,000 \\ &= \text{Rs.}1,25,000 \end{aligned}$$

$$\begin{aligned} (iii) \text{ Margin of Safety (\%)} &= \frac{\text{Sales} - \text{Break-even sales}}{\text{Sales}} \times 100 \\ &= \frac{\text{Rs.}9,25,000 - \text{Rs.}6,90,882}{\text{Rs.}9,25,000} \times 100 = 25.31\% \end{aligned}$$

$$\begin{aligned} (iv) \text{ Profit if the sales were 10\% less than the actual sales:} \\ \text{Profit} &= 90\% (\text{Rs.}9,25,000 - \text{Rs.}4,31,000) - \text{Rs.}3,69,000 \\ &= \text{Rs.}4,44,600 - \text{Rs.}3,69,000 = \text{Rs.}75,600 \end{aligned}$$

**(b) Projected Statement of Cash Flow for the year ended 31<sup>st</sup> March 20X8**

	(Rs.)
<b>Cash flow from Operating Activities</b>	
Profit before taxation	1,04,500
Adjustments:	
Less: Profit on sale of machine {Rs. 38,000 – (Rs. 95,000 – Rs.66,500)}	(9,500)
Add: Depreciation	1,14,000
<i>Operating profit before working capital changes</i>	2,09,000
Increase in Inventories & Trade receivable (Rs.5,60,500 – Rs.4,75,000)	(85,500)
Increase in Trade payables (Rs.1,48,200 – Rs.1,14,000)	34,200
Increase in Bills payable (Rs. 98,800 – Rs. 76,000)	22,800
<i>Cash generated from operations</i>	1,80,500
Less: Income tax paid*	Nil
<i>Net Cash from Operating activities (A)</i>	1,80,500
<b>Cash flow from Investing Activities</b>	
Purchase of plant	(1,90,000)
Sale of machine	38,000
<i>Net cash from Investing activities (B)</i>	(1,52,000)
<b>Cash Flow from Financing Activities</b>	
Dividend paid	(57,000)

Dividend distribution tax (Working note)	(19,000)
Net cash from Financing activities (C)	(76,000)
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(47,500)
Cash and cash equivalent at the beginning of the year	66,500
<b>Cash and cash equivalent at the end of the year</b>	<b>19,000</b>

\* No information is given on corporate tax.

#### Working note:

Dividend distribution tax is paid on the gross amount of dividend paid. The gross dividend is calculated as :  $\frac{\text{Dividend Payable}}{(1 - \text{tax rate})}$

$$\text{Gross Amount of Dividend} = \frac{\text{Rs. } 57,000}{(1 - 0.25)} = \text{Rs. } 76,000$$

$$\text{Dividend Distribution Tax} = \text{Rs. } 76,000 \times 25\% = \text{Rs. } 19,000$$

7. (a) **Cost plus contract:** Under cost plus contract, the contract price is ascertained by adding a percentage of profit to the total cost of the work. Such types of contracts are entered into when it is not possible to estimate the contract cost with reasonable accuracy due to unstable condition of material, labour services etc.

Following are the advantages of cost plus contract:

- The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.
- It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.
- Contractee can ensure himself about the 'cost of contract' as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of contract.

- (b) **Explicit costs:** These costs are also known as out of pocket costs. It refers to those costs which involves immediate payment of cash. Salaries, wages, postage and telegram, interest on loan etc. are some examples of explicit costs because they involve immediate cash payment. These payments are recorded in the books of account and can be easily measured.

*Main points of difference:* The following are the main points of difference between Explicit and Implicit costs.

- Implicit costs do not involve any immediate cash payment. As such they are also known as imputed costs or economic costs.
- Implicit costs are not recorded in the books of account but yet, they are important for certain types of managerial decisions such as equipment replacement and relative profitability of two alternative courses of action.

- (c) **Differentiation between Financial Management and Financial Accounting:** Though financial management and financial accounting are closely related, still they differ in the treatment of funds and also with regards to decision - making.

*Treatment of Funds:* In accounting, the measurement of funds is based on the accrual principle. The accrual based accounting data do not reflect fully the financial conditions of the organisation. An organisation which has earned profit (sales less expenses) may said to be profitable in the accounting sense but it may not be able to meet its current obligations due to

shortage of liquidity as a result of say, uncollectible receivables. Whereas, the treatment of funds, in financial management is based on cash flows. The revenues are recognised only when cash is actually received (i.e. cash inflow) and expenses are recognised on actual payment (i.e. cash outflow). Thus, cash flow based returns help financial managers to avoid insolvency and achieve desired financial goals.

*Decision-making:* The chief focus of an accountant is to collect data and present the data while the financial manager's primary responsibility relates to financial planning, controlling and decision-making. Thus, in a way it can be stated that financial management begins where financial accounting ends.

- (d) In dividend price approach, cost of equity capital is computed by dividing the expected dividend by market price per share. This ratio expresses the cost of equity capital in relation to what yield the company should pay to attract investors. It is computed as:

$$K_e = \frac{D_1}{P_0}$$

Where,

$D_1$  = Dividend per share in period 1

$P_0$  = Market price per share today

Whereas, on the other hand, the advocates of earnings price approach co-relate the earnings of the company with the market price of its share. Accordingly, the cost of ordinary share capital would be based upon the expected rate of earnings of a company. This approach is similar to dividend price approach, only it seeks to nullify the effect of changes in dividend policy.

- (e) (i) **Angle of Incidence:** This angle is formed by the intersection of sales line and total cost line at the break- even point. This angle shows the rate at which profits are being earned once the break-even point has been reached. The wider the angle the greater is the rate of earning profits. A large angle of incidence with a high margin of safety indicates extremely favourable position.
- (ii) **Concentration Banking:** In concentration banking the company establishes a number of strategic collection centres in different regions instead of a single collection centre at the head office. This system reduces the period between the time a customer mails in his remittances and the time when they become spendable funds with the company. Payments received by the different collection centers are deposited with their respective local banks which in turn transfer all surplus funds to the concentration bank of head office.

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC): GROUP – I**  
**PAPER – 4: TAXATION**

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) Mr. Raja, working as Manager in ABC Ltd., Mumbai, retired from the company on 31.10.2016 at the age of 60. The following amounts were received from the employer from 1st April, 2016 to 31st October, 2016:

Basic Salary	Rs. 30,000 p.m.
Dearness Allowance	Rs. 20,000 p.m. (40% reckoned for superannuation benefits)
Bonus	Rs. 15,000

In addition to the above –

- (i) The company had taken on lease a residential house at Mumbai, paying a lease rent of Rs. 9,000 p.m. Mr. Raja, who was paying to the company Rs. 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2016.
- (ii) Mr. Raja has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2016-17. The education facility was provided free of cost. The cost of such education in a similar school is Rs. 1,800 p.m.
- (iii) The employer-company was contributing Rs. 7,000 p.m. to Central Government Pension Scheme. Mr. Raja contributed an equal amount.
- (iv) Subsequent to his retirement, Mr. Raja started his own business on 15-11-2016. He incurred a loss of Rs. 90,000 from the said business for the period 15.11.2016 to 31.3.2017.
- (v) Mr. Raja won a prize in a TV game show. He received a sum of Rs. 2,10,000 after deduction of tax at source to the tune of Rs. 90,000.
- (vi) Mr. Raja furnishes the under-mentioned data relating to savings, investments and out-goings:
  - A. Life insurance premium, with a private insurance company Rs. 30,000 for his son and Rs. 20,000 for his married daughter.
  - B. Medical insurance premium of Rs. 22,000 for himself and Rs. 26,000 for his mother, paid by credit card. His mother is however not dependent on him.

You are required to compute the total income of Mr. Raja (showing clearly the computation under various heads of income) for the assessment year 2017-18. **(10 Marks)**

- (b) Ms. Vaanya has provided you the following details in respect of various services received/availed by her during December, 2016:-
- (i) Deposited Rs. 15,00,000 in her Savings Bank A/c. Interest of Rs. 90,000 was credited in her account on 31.12.2016.
  - (ii) Availed services of a mobile network operator and received a monthly bill for Rs. 3,000.
  - (iii) Visited an Orthopaedician (MBBS, MS) as she had severe backache and paid consultancy fee of Rs. 1,500.
  - (iv) Availed beauty treatment services from a salon for Rs. 8,000.

Notes:

1. All the amounts given above, are exclusive of service tax and cesses, wherever applicable.
2. All the service providers who have provided services to Ms. Vaanya are not eligible for small service provider's exemption, wherever service tax is applicable.
3. Wherever applicable, service tax is to be recovered from the service receiver.

Compute the amount of service tax payable on services availed/received by Ms. Vaanya.

**(6 Marks)**

(c) Examine whether the following amount to inter-State sales under CST:-

- (i) A of Aurangabad sends goods by air to his branch office at Italy. Subsequently, he transfers the documents of title of such goods to a buyer in Scotland after said goods have crossed the customs frontiers of India.
- (ii) X of Chennai comes to Delhi, purchases certain chemicals from Y and transports them in his own name to Chennai.

**(4 Marks)**

2. (a) For the Assessment year 2017-18, the Gross Total Income of Mr. Sajjan, a resident in India, was Rs. 8,18,240 which includes long-term capital gain of Rs. 2,45,000 and Short-term capital gain of Rs. 98,000. The Gross Total Income also includes interest income of Rs. 15,000 from savings bank deposits with banks. Mr. Sajjan has invested in PPF Rs. 1,40,000 and also paid a medical insurance premium Rs. 31,000. Mr. Sajjan also contributed Rs. 40,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Sajjan, who is 65 years old as on 31.3.2017.

**(8 Marks)**

(b) M/s. Snips Industries (not an SSI unit) are in production of corrugated paper cartons. It provides the following details for the month of June, 2016:

It sold waste and scrap generated in the course of manufacture. Besides, it also manufactured and sold prohibited goods. On the basis of such information, answer the following questions:

(A) Whether excise duty payable on the following items?

(i) Waste	Rs. 1,60,000
(ii) Scrap sale	Rs. 12,50,000
(iii) Manufacture of prohibited goods	Rs. 2,40,000

(B) When and how?

- (i) payment of excise duty to be made.
- (ii) return of excise duty to be filed.

**(8 Marks)**

3. (a) Ms. Shetal, acquired a residential house in March, 2000 for Rs. 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of Rs. 2,00,000 in September, 2004. She sold the house property in August, 2016 for Rs. 72,00,000. The value of property was adopted as Rs. 80,00,000 by the State stamp valuation authority for registration purpose. She acquired a residential house in February, 2016 for Rs. 25,00,000. She deposited Rs. 22,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2017.

Compute the capital gain chargeable to tax for the assessment year 2017-18.

Cost inflation index: F.Y.1999-00 : 389



F.Y. 2004-05 : 480

F.Y. 2016-17 : 1125

(4 Marks)

(b) Mr. Shiv provides the following details for the previous year ending 31-3-2017

- (i) Salary from XYZ Ltd. Rs. 50,000 per month
- (ii) Interest on FD with SBI for the financial year 2016-17 Rs. 72,000 (Net of TDS)
- (iii) Determined short term capital loss of A.Y 2014-15 Rs. 99,000  
(to be carried forward)
- (iv) Long term capital gain Rs. 70,000
- (v) Loss from house property in the hands of his minor son Rs. 90,000 computed in accordance with the provisions of Income- tax Act, 1961. Mr. Shiv transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
- (vi) Loss of his wife's business Rs. (2,50,000)  
She carried business with funds which Mr. Shiv gifted to her.

You are required to compute taxable income of Mr. Shiv for the AY 2017-18. (4 Marks)

(c) Compute the CENVAT credit available with Gurpreet Motors Ltd., a manufacturer of cars, in respect of the following services availed by it in the month of July, 2016:-

S. No.	Services availed	Service tax paid (including SBC & KKC) (Rs.)
(i)	Sales promotion services	3,00,000
(ii)	Market research for the new car launched by Gurpreet Motors Ltd.	1,50,000
(iii)	Quality control services	75,000
(iv)	Routine maintenance of the cars manufactured by Gurpreet Motors Ltd.	1,50,000
(v)	Insurance of the cars manufactured	1,05,000
(vi)	Outdoor catering services provided to its employees	4,50,000

(5 Marks)

(d) A Hongkong manufacturer is exporting magnets to India. He is selling the magnets in Hongkong @ Rs. 100 per piece, but exports same magnets to India @ Rs. 60 per piece. Due to availability of cheap imported magnets, Indian manufacturers of the magnets are suffering. What action can be taken by the Government in this regard? (3 Marks)

4. (a) Mr. Om, a retail trader gives the following Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2017:

**Trading and Profit and Loss Account for the year ended 31.03.2017**

Particulars	Rs.	Particulars	Rs.
To Opening stock	1,40,000	By Sales	1,17,11,500
To Purchases	1,14,04,000	By Closing stock	1,86,100
To Gross Profit	<u>3,53,600</u>		<u>-</u>
	<u>1,18,97,600</u>		<u>1,18,97,600</u>

To Salary	90,000	By Gross profit b/d	3,53,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	35,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (hold for 10 months)	8,100		
To Other general expenses	7,060		
To Net Profit	<u>50,000</u>		
	<u>3,06,000</u>		<u>3,56,000</u>

**Additional Information:**

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock Rs. 9,000

Closing stock Rs. 18,000

- (ii) Salary includes Rs. 15,000 paid to his brother, which is unreasonable to the extent of Rs. 2,000.

- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment.

- (iv) The depreciation provided in the Profit and Loss Account Rs. 1,05,000 was based on the following information:

The written down value of plant and machinery is Rs. 4,20,000 as on 01.04.2016. A new plant falling under the same block of depreciation was bought on 1.7.2016 for Rs. 70,000. Two old plants were sold on 1.10.2016 for Rs. 50,000.

- (v) Rent and rates includes sales tax liability of Rs. 9,400 paid on 7.4.2017.

- (vi) Other general expenses include Rs. 2,000 paid as donation to a Public Charitable Trust.

You are required to advise Mr. Om whether he can opt for presumptive taxation under section 44AD and if so, whether it would be beneficial for him to declare income as per section 44AD. Assume that he has not opted for presumptive taxation scheme in any earlier previous year.

**(8 Marks)**

- (b) Amar Enterprises, a dealer in consumer goods, submits the following information pertaining to the month of December, 2016:

- (i) Exempt goods 'X' purchased for Rs. 1,75,000 and sold for Rs. 3,50,000.

- (ii) Goods 'Y' purchased for Rs. 2,25,000 (including VAT) and sold at a margin of 20% profit on purchases (VAT rate for purchases and sales 12.5%)

- (iii) Goods 'Z' purchased for Rs. 2,00,000 (excluding VAT) and sold for Rs. 2,50,000 (VAT rate for purchases and sales 4%);

- (iv) His unutilized balance of input VAT credit on 1.12.2016 was Rs. 2,000.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Amar Enterprises.

**(8 Marks)**

5. (a) Mr. Naveen owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs. 96,000, Rs. 1,15,000 and Rs.1,08,000 (per annum), respectively.

During the Financial Year 2016-17, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs. 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year.

The construction of the house began in June, 2009 and was completed on 31-5-2012.

Naveen took a loan of Rs. 1,00,000 on 1-7-2009 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Naveen for the Assessment Year 2017-18.

**(4 Marks)**

- (b) Mr. Rakesh gifted a sum of Rs. 5 lacs to his brother's minor daughter on 16-4-2016. On 18-4-2016, his brother gifted debentures worth Rs. 6 lacs to the wife of Mr. Rakesh. Daughter of Mr. Rakesh's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Rakesh received interest of Rs. 45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961.

**(4 Marks)**

- (c) Mr. A, a Delhi resident, submits a cab request to Safe Cabs for travelling from Delhi to Noida. Safe Cabs is a mobile application owned and managed by Safe Technologies Ltd. located in India. The application facilitates a potential customer to connect with persons providing cab service under the brand name of Safe Cabs. After Mr. A pays the cab charges using his debit card, he gets details of the driver, Mr. B and the cab's registration number.

With reference to the Service Tax Rules, 1994, discuss who is liable to pay service tax in this case. Will your answer be different, if Safe Technologies Ltd. is located in New York and does not have a representative in India?

**(5 Marks)**

- (d) "Not all the services provided by an employee to the employers are outside the ambit of service". Explain the statement with reference to service tax law.

**(3 Marks)**

6. (a) Mr. Harish, a property dealer, sold a building in the course of his business to his friend Mr. Rajan, who is a dealer in automobile spare parts, for Rs. 90 lakh on 1.1.2017, when the stamp duty value was Rs. 150 lakh. The agreement was, however, entered into on 1.9.2016 when the stamp duty value was Rs. 140 lakh. Mr. Harish had received a down payment of Rs. 15 lakh by a crossed cheque from Rajan on the date of agreement. Discuss the tax implications in the hands of Harish and Rajan, assuming that Mr. Harish has purchased the building for Rs. 75 lakh on 12<sup>th</sup> July, 2015.

Would your answer be different if Harish was a share broker instead of a property dealer?

**(8 Marks)**

- (b) Compute service tax liability of Mr. Shambhu Nath, a selling agent of lottery for the month of July, 2016, using the following details.

- |       |  |              |
|-------|--|--------------|
| (i)   | Lucky Star - a Jackpot organized for Kerala Government where guaranteed prize payout is                      | > 80%        |
|       | Aggregate face value of lottery tickets sold   | Rs.37,00,000 |
| (ii)  | Magic Winner - another Jackpot organized for Kerala Government where guaranteed prize payout is              | < 80%        |
|       | Aggregate face value of lottery tickets sold   | Rs.55,00,000 |
| (iii) | Commission received from the sale of above tickets, was 10% of aggregate face value of lottery tickets sold. |              |

Will there be any difference in the service tax liability of Mr. Shambhu Nath if he opts for special provision for payment of service tax as provided under rule 6 of Service Tax Rules, 1994 instead of paying service tax at 15% (including cesses)?

Note: Mr. Shambhu Nath is not eligible for SSP exemption and the lottery tickets sold by him are the lottery tickets printed by the Kerala Government. **(8 Marks)**

7. (a) Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **(4 Marks)**
- (b) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2016-17:
- (i) Payment made by a firm to sub-contractor Rs. 3,00,000 with outstanding balance of Rs. 1,20,000 shown in the books as on 31-03-2017.
- (ii) Payment made to Glenn McGrath, an Australian cricketer, by a newspaper agency for contribution of articles Rs. 25,000. **(4 Marks)**
- (c) Examine the following independent services provided in the month of August, 2016 and determine the amount of service tax payable, if any, in each of these cases:

S. No.	Particulars	(Rs.)
1.	Services by way of waxing of apples to provide it an artificial sheen for increasing its marketability	1,60,000
2.	Admission to a Railway Museum	70,000
3.	Transportation of patients to ABC Nursing Home and Bheem Multispecialty Hospital, in an ambulance owned by XYZ Ltd.	1,30,000
4.	Admission to a Corporate Award Function [Value per ticket per person is Rs. 520]	5,20,000
5.	Transportation of milk by a goods transport agency	1,40,000

Note: Ignore small service providers' exemption. Wherever applicable, service tax and cesses have been charged separately. **(4 Marks)**

- (d) Mr. Davis, who was the recipient of services, which are notified under section 68(2) of the Finance Act, 1994 provides the following data. He requests you to explain the (i) point of taxation and (ii) due date of payment of service tax as per the service tax law and procedures.

**Dates of invoice**

**Dates of payment**

(i) 15-10-2016

10-11-2016

(ii) 20-10-2016

15-02-2017

Note: Invoice has been issued within 30 days of completion of service in each of the two above cases. **(4 Marks)**

**MOCK TEST PAPER**  
**INTERMEDIATE (IPC) – GROUP – I**  
**PAPER – 4: TAXATION**

**SUGGESTED ANSWERS/HINTS**

1. (a) **Computation of total income of Mr. Raja for A.Y. 2017-18**

Particulars	Rs.	Rs.
Basic salary (Rs. 30,000 x 7)	2,10,000	
Dearness Allowance (Rs. 20,000 x 7)	1,40,000	
Bonus	15,000	
Employers' contribution to Central Government Pension Scheme (Rs. 7,000 x 7)	49,000	
Concessional accommodation (See Note 1)	150	
Value of concessional educational facility (Rs. 1,800 x 7) (See Note 2)	<u>12,600</u>	
<b>Gross salary</b>	4,26,750	4,26,750
<b>Income from business or profession</b>		
Business Loss (See Note 3) (Carry forward to A.Y. 2018-19)	90,000	Nil
<b>Income from other sources</b>		
Winning from TV Game Show (Rs. 2,10,000 + Rs. 90,000)		<u>3,00,000</u>
<b>Gross Total Income</b>		<b>7,26,750</b>
<b>Less: Deductions under Chapter VI-A</b>		
80C Life insurance premium (Rs. 30,000 + Rs. 20,000)	50,000	
80CCD(1) (See Note 4)		
Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of Rs. 2,66,000 (Rs. 30,000+Rs. 8,000) x 7]	<u>26,600</u>	
<b>Total deduction under section 80C &amp; 80CCD(1)</b>	<b>76,600</b>	
80CCD(1B) Additional employee's contribution to pension scheme [49,000 – 26,600]	22,400	
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2)] [See Note 4]	26,600	
80D Medical Insurance Premium (Rs. 22,000 + Rs. 26,000) (See Note 5)	<u>48,000</u>	<u>1,73,600</u>
<b>Total Income</b>		<b><u>5,53,150</u></b>

**Notes:**

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. Rs. 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be Rs. 2,81,000 [i.e., (Rs. 30,000 + Rs. 8,000) x 7 + 15,000].

In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. Rs. 63,000, being 9,000 x 7] and 15% of salary [i.e., Rs. 42,150, being 15% of Rs. 2,81,000]. This value (i.e. Rs. 42,150) would be reduced by the rent paid by the employee (i.e., Rs. 42,000, being 6,000 x 7).

The value of concessional accommodation is Rs. 150 [i.e. Rs. 42,150 – Rs. 42,000].

- (2) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 12,600 (i.e. Rs. 1,800 x 7).

**Note** – An alternate view possible is that only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 5,600. The gross salary in that case shall be Rs. 4,19,750. The total income shall accordingly vary.

- (3) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head “Profits and gains of business or profession” is a loss and the assessee has income chargeable under the head “Salaries”, the assessee shall not be entitled to have such loss set-off against such income. Therefore, business loss cannot be set-off against salary income.

Further, winnings from TV game show is chargeable at a flat rate of 30% under section 115BB, no loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.

- (4) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of Rs. 1,50,000 stipulated under section 80CCE. Also, the deduction under section 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. The balance Rs. 22,400 (Rs. 49,000 – 26,600) can be claimed as deduction under section 80CCD(1B).
- (5) The deduction for medical insurance premium of Rs. 26,000 paid for mother is allowable in full under section 80D, as the maximum limit is Rs. 30,000, since his mother is a senior citizen. Therefore, the total deduction under section 80D would be Rs. 22,000 (for self) + Rs. 26,000 (for mother) = Rs. 48,000.
- (6) Deduction under section 80GG has not been provided in respect of rent paid by Mr. Raja to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

**(b) Computation of service tax payable on services received/availed by Ms. Vaanya**

Particulars	Value of services received (Rs.)	Service tax @ 15% (including SBC & KKC) (Rs.)
Amount deposited in the saving bank account and interest earned (Note-1)	-	-
Services of mobile network operator (Note-2)	3,000	450

Visit to an orthopaedician on complaint of severe backache (Note-3)	-	-
Beauty treatment services (Note-2)	8,000	<u>1,200</u>
<b>Service tax payable on services availed/received (including SBC &amp; KKC)</b>		<b><u>1,650</u></b>

**Notes:**

- Amount of Rs. 15,00,000 deposited in Savings Bank Account is a transaction in money which is specifically excluded from the definition of service under section 65B(44) of the Finance Act, 1994. Further, Rs. 90,000 received by Ms. Vaanya as interest on deposits will not be liable to service tax as services by way of extending deposits in so far as the consideration is represented by way of interest are covered in the negative list of services [Section 66D of the Finance Act, 1994].
  - Service tax is leviable on services of a mobile network operator and beauty treatment services received from a beauty salon as such services are neither covered under negative list of services nor under any exemption notification.
  - Health care service provided, *inter alia*, by an authorized medical practitioner is exempt vide mega exemption *Notification No. 25/2012 ST dated 20.06.2012*. Health care service means any service by way of diagnosis or treatment or care for *inter alia* any illness in any recognized system of medicines in India. Allopathy is a recognized system of medicine in India and a MBBS, MS doctor is an authorized medical practitioner. So, visit to an orthopaedician on complaint of severe backache is not taxable.
- (c) (i) Since in the given case, sale is effected by transfer of documents of title to the goods after the goods have crossed the customs frontiers of India, it is not an inter-State sale, but a sale in the course of export.
- (ii) The sale is completed at Delhi itself. Therefore, the sale does not occasion the movement of goods from one State to another. Hence, sale of goods by Y to X is not an inter-State sale.

**2. (a) Computation of total income and tax payable by Mr. Sajjan for the A.Y. 2017-18**

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		<u>2,45,000</u>
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,40,000	
Under section 80D (it is assumed that premium of Rs. 31,000 is paid by otherwise than by cash. The deduction would be restricted to Rs. 30,000, since Mr. Sajjan is a senior citizen)	30,000	
Under section 80G (See Notes 1 & 2 below)	19,662	
Under section 80TTA (See Note 3 below)	<u>10,000</u>	<u>1,99,662</u>
<b>Total income (excluding long term capital gains)</b>		<b><u>3,73,578</u></b>
<b>Total income (including long term capital gains)</b>		<b>6,18,578</b>
<b>Total income (rounded off)</b>		<b>6,18,580</b>
Tax on total income (including long-term capital gains of Rs. 2,45,000)		

LTCG Rs. 2,45,000 x 20%	49,000
Balance total income Rs. 3,73,580	<u>7,358</u>
	56,358
Add: Education cess @2% and Secondary and higher education cess @1%	<u>1,691</u>
<b>Total tax liability</b>	<b><u>58,049</u></b>
<b>Total tax liability (rounded off)</b>	<b>58,050</b>

**Notes:**

**1. Computation of deduction under section 80G:**

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTA	1,80,000
	3,93,240
10% of the above	39,324
Contribution made	40,000
Lower of the two eligible for deduction under section 80G	39,324
<b>Deduction under section 80G – 50% of Rs. 39,324</b>	<b>19,662</b>

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs. 10,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of upto Rs. 10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.

**(b) Excise duty is leviable on waste and scrap if –**

- (i) the waste/scrap is 'excisable goods' i.e., they are specified in Central Excise Tariff and are marketable, and
- (ii) the waste and scrap is generated in the course of manufacture.

In the given case, waste and scrap is generated in the course of manufacture and is marketable. Therefore, excise duty will be leviable on the waste and scrap if the same are mentioned in the Central Excise Tariff.

Excise duty will also be leviable on manufacture of prohibited goods, if such goods find place in Tariff. Excise duty is leviable on manufacture of excisable goods irrespective of whether such excisable goods are prohibited or not.

Duty will be payable on waste and scrap and prohibited goods at the effective rate of duty mentioned in Central Excise Tariff (after considering exemptions, if any).

M/s. Snips Industries should pay the excise duty by 06.07.2016. Duty may be paid in cash or by utilizing CENVAT credit or both [Rule 8 of the Central Excise Rules, 2002 (CER)]. Monthly ER-1 return will have to be filed electronically by 10.07.2016 [Rule 12 of CER].



3. (a) **Computation of Capital Gains Chargeable to tax for A.Y. 2017-18**

Particulars	Rs.	Rs.
Sale consideration (i.e. Stamp Duty Value) (Note 1)		80,00,000
Less: Indexed Cost of Acquisition Rs. 10,00,000 × 1125/389	28,92,031	
Indexed Cost of Improvement Rs. 2,00,000 × 1125/480	<u>4,68,750</u>	<u>33,60,781</u>
		46,39,219
Less: Exemption under section 54 (Note 2)		<u>25,00,000</u>
<b>Taxable Capital Gains</b>		<b><u>21,39,219</u></b>

**Notes:**

- As per the provisions of section 50C, in case the stamp duty value adopted by the stamp valuation authority is higher than the actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.
- Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of six months after the date of such transfer. In this case, since the investment is made after six months, exemption under section 54EC would not be available.

(b) **Computation of Taxable Income of Mr. Shiv for the A.Y. 2017-18**

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from Salary (Rs. 50,000 × 12)	6,00,000	
Less: Loss from house property in respect of which Mr. Shiv is the deemed owner to be set off against his salary income as per section 71(1) [See Note 1]	<u>90,000</u>	5,10,000
<b>Capital Gains</b>		
Long term capital gain	70,000	
Less: Brought forward short term capital loss of A.Y. 2014-15 set off against current year long-term capital gain as per section 74(1) & (2) [See Note 2]	<u>70,000</u>	Nil
Balance short -term capital loss of Rs. 29,000 (Rs. 99,000 – Rs. 70,000) of A.Y.2014-15 to be carried forward to A.Y. 2018-19 [See Note 2]		
<b>Income from Other Sources</b>		
Interest on fixed deposit with SBI (Rs. 72,000 × 100/90)	80,000	
Less: Business loss incurred by wife includible in Mr. Shiv's hands set off against interest income as per section 71(1) [See Notes 3 & 4]	<u>80,000</u>	Nil

Balance business loss of Rs. 1,70,000 (Rs. 2,50,000 – Rs. 80,000) to be carried forward to A.Y. 2018-19		
<b>Taxable Income</b>		<b>5,10,000</b>

**Notes:**

- (1) As per section 27(i), Mr. Shiv is the deemed owner of the house transferred to his minor son without adequate consideration. Hence, the income from house property would be assessable in Mr. Shiv's hands. Since there is a loss from house property transferred to minor son without adequate consideration, Mr. Shiv can set-off the same against salary income, since he is the deemed owner of such property.
- (2) As per section 74(1) and 74(2), brought forward short-term capital loss can be set-off against long-term capital gains. Unabsorbed short-term capital loss can be carried forward for a maximum of eight assessment years (upto A.Y.2022-23, in this case) for set-off against capital gains.
- (3) As per section 64(1)(iv), income from funds gifted to spouse by an individual and invested in business by the spouse is includible in the hands of the individual. As per *Explanation 2* to section 64, income includes "loss". Hence, in the given case, loss arising out of the business carried on by Mr. Shiv's wife is to be included in the income of Mr. Shiv, as she has carried on business with the funds gifted to her by Mr. Shiv.
- (4) As per section 71(2A), business loss cannot be set-off against salary income. However, the same can be set-off against income from other sources (consisting of interest on fixed deposit).

**(c) Computation of CENVAT credit available with Gurpreet Motors Ltd.:**

Particulars	Service tax @ 14% (Rs.)
Sales promotion services [Note 1]	2,80,000
Market research for the new car launched by Gurpreet Motors Ltd. [Note 1]	1,40,000
Quality control services [Note 1]	70,000
Routine maintenance of the cars manufactured by Gurpreet Motors Ltd. [Note 2]	1,40,000
Insurance of the cars manufactured [Note 2]	98,000
Outdoor catering services provided to its employees [Note 3]	Nil
<b>Total CENVAT credit available</b>	<b><u>7,28,000</u></b>

**Notes:**

1. As per the definition of the input services, there is a specific inclusion with regard to the following services:-
  - (a) Sales promotion services
  - (b) Market research services
  - (c) Quality control services

Hence, the CENVAT credit of the service tax paid on the aforesaid services is available.
2. Service of general insurance business and repair and maintenance, in so far as they relate to a motor vehicle which is not a capital goods, is excluded from the definition of the input service except when used by a manufacturer of a motor vehicle in respect of a

motor vehicle manufactured by such person.

Thus, credit of the service tax paid on the insurance and maintenance of cars manufactured by Gurpreet Motors Ltd. is available.

3. Outdoor catering services to the employees are specifically excluded from the definition of the input services. Hence, CENVAT credit of service tax paid on such services is not available.
  4. Credit of Swachh Bharat Cess is not available since it is not CENVATable. Further, since Gurpreet Motors Ltd. is a manufacturer, credit of KrishiKalyan Cess will also not be available. So, credit of only service tax @ 14% is allowed.
- (d) Government can impose anti dumping duty on such imported magnets to protect the domestic producers. The anti-dumping duty is equal to difference between normal value (i.e. his sale price in his country) and export price (price at which he is exporting the goods).

4. (a) **Computation of business income of Mr. Om for the A.Y. 2017-18**

Particulars	Rs.	Rs.
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses / losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery paid in cash [Section 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	<u>2,000</u>	<u>1,58,300</u>
		2,08,300
Less: Deductions items:		
Under valuation of opening stock	9,000	
Income from UTI [Exempt under section 10(35)]	<u>2,400</u>	<u>11,400</u>
		1,96,900
Less: Depreciation (See Note 1)		<u>66,000</u>
<b>Profits or Gains from business or profession</b>		<b><u>1,30,900</u></b>

**Computation of business income as per section 44AD -**

As per section 44AD, the business income would be 8% of turnover i.e.,  $1,17,11,500 \times 8 / 100 = \text{Rs. } 9,36,920$

The business income under section 44AD is **Rs. 9,36,920.**

In this case, Mr. Om is eligible to opt for presumptive taxation under section 44AD, since his turnover does not exceed Rs. 2 crore in the P.Y.2016-17. However, in his case, business income as per the normal provisions of the Act is lower than the presumptive income of Rs. 9,36,920 computed under section 44AD. Therefore, it is beneficial for him to compute business income as per the normal provisions of the Act. However, since his turnover exceeds Rs. 1 crore, he has to get his books of accounts audited under section 44AB, if he does not opt to declare his income as per the presumptive tax provisions of section 44AD.

Further, if he declares income as per presumptive tax provisions of section 44AD this year i.e., P.Y.2016-17, and he does not opt for presumptive taxation in any of the five succeeding previous years (i.e., from P.Y.2017-18 to P.Y.2021-22), say, for instance, in P.Y.2017-18, then he will not be eligible to opt for presumptive taxation for five assessment years succeeding the A.Y. 2018-19 relevant to the P.Y. 2017-18.

**Notes:**

**1. Calculation of depreciation**

Particulars	Rs.
WDV of the block of plant & machinery as on 1.4.2016	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2017	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since sales-tax liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

**(b) Computation of Turnover, Input VAT and Output VAT**

Goods	Purchases [A]	Input VAT rate [B]	Input VAT credit [C] = [A] x [B]	Sales (Turnover) [D]	Output VAT rate [E]	Output VAT [F] = [D] x [E]
	Rs.	%	Rs.	Rs.	%	Rs.
X	1,75,000	-	-	3,50,000	-	-
Y (See Note)	2,00,000	12.5	25,000	2,40,000	12.5	30,000
Z	<u>2,00,000</u>	4	<u>8,000</u>	<u>2,50,000</u>	4	<u>10,000</u>
Total	5,75,000		<b>33,000</b>	<b>8,40,000</b>		<b>40,000</b>

**Computation of Net VAT payable by Amar Enterprises**

	(Rs.)
Opening balance of input VAT credit	2,000
Add: Input VAT credit for December, 2016[C]	<u>33,000</u>
Total Input VAT credit available	35,000
Less: Output VAT payable on taxable turnover [F]	<u>40,000</u>
<b>Net VAT payable</b>	<b>5,000</b>

**Note:**

	(Rs.)
Purchase value of goods Y (including VAT)	2,25,000

Less: VAT included in above $2,25,000 \times \frac{12.5}{112.5}$	25,000
Purchase price excluding VAT	2,00,000

5. (a) **Computation of income from house property of Mr. Naveen for the A.Y. 2017-18**

Particulars	Rs.	Rs.
<b>Income from house property</b>		
<b>I. Self-occupied portion (Two third)</b>		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (Rs. 18,600 x 2/3)		<u>12,400</u>
Loss from self-occupied property		<b>(12,400)</b>
<b>II. Let-out portion (One third)</b>		
Gross Annual Value		
(a) Actual rent received (Rs. 5,000 x 12)	Rs. 60,000	
(b) Expected rent	Rs. 36,000	
[higher of municipal valuation (i.e., Rs. 96,000) and fair rent (i.e., Rs. 1,15,000) but restricted to standard rent (i.e., Rs. 1,08,000)] = Rs. 1,08,000 x 1/3		
Higher of (a) or (b)	60,000	
Less: Municipal taxes (Rs. 96,000 x 11% x 1/3)	<u>3,520</u>	
<b>Net Annual Value</b>	<b>56,480</b>	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	
(b) Interest on loan (See Note below) (Rs. 18,600 x 1/3)	<u>6,200</u>	
<b>Income from house property</b>		<b><u>33,336</u></b>
		<b><u>20,936</u></b>

**Note:** Interest on loan taken for construction of building

Interest for the year (1.4.2016 to 31.3.2017) = 12% of Rs. 1,00,000 = Rs. 12,000

Pre-construction period interest = 12% of Rs. 1,00,000 for 33 months (from 1.07.2009 to 31.3.2012) = Rs. 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs. 6,600 from the year of completion of construction i.e. from F.Y. 2012-13 till F.Y. 2016-17.

Therefore, total interest deduction under section 24 = Rs. 12,000 + Rs. 6,600 = Rs. 18,600.

- (b) In the given case, Mr. Rakesh gifted a sum of Rs. 5 lacs to his brother's minor daughter on 16.4.2016 and simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Rakesh's wife on 18.4.2016. Mr. Rakesh's brother's minor daughter invested the gifted amount of Rs. 5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted<sup>1</sup>.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Rakesh's brother's daughter from fixed deposits would be included in the total income of Mr. Rakesh's brother, assuming that Mr. Rakesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Rakesh's brother can claim exemption of Rs. 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Rakesh would be taxable in the hands of Mr. Rakesh as per section 64(1)(iv).

This is because both Mr. Rakesh and his brother are the indirect transferors of the income to their spouse and minor daughter, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Rakesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included and not the entire interest income on the debentures of Rs. 6 lacs, since the cross transfer is only to the extent of Rs. 5 lacs.

Hence, only proportional interest (i.e.,  $\frac{5}{6}$ th of interest on debentures received) Rs. 37,500 would be includible in the hands of Mr. Rakesh.

The provisions of section 56(2)(vii) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

- (c) Aggregator means a person, who owns and manages a web based software application, and by means of the application and a communication device, enables a potential customer to connect with persons providing service of a particular kind under the brand name or trade name of the aggregator. In relation to service provided by a person involving an aggregator in any manner, the aggregator of the service is the person liable for paying service tax.

Since in the given case, Safe Technologies Ltd. fulfills all the conditions of being an aggregator, it will be liable to pay service tax under reverse charge.

However, where the aggregator neither has a physical presence nor does it have a representative for any purpose in the taxable territory, it will have to appoint a person in the taxable territory for the purpose of paying service tax and such person will be the person liable for paying service tax. Therefore, Safe Technologies Ltd. will have to appoint a person in India for the purpose of paying service tax if Safe Technologies Ltd. is located in New York and does not have a representative in India.

- (d) "Not all the services provided by an employee to the employer are outside the ambit of services". The significance of this statement is that services that are provided by the employee to the employer in the course of employment are only outside the ambit of definition of service as per section 65B(44) of the Finance Act, 1994. Services provided outside the ambit of employment for a consideration would be a service.

#### 6. (a) Case 1: Tax implications if Mr. Harish is a property dealer

In the hands of Mr. Harish	In the hands of Mr. Rajan
In the hands of Harish, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade	Since Mr. Rajan is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section

<sup>1</sup> It was so held by the Apex Court in *CIT vs. Keshavji Morarji* (1967) 66 ITR 142.

and he has transferred the same for a consideration less than the stamp duty value on the date of agreement. Therefore, <b>Rs. 65 lakh</b> , being the difference between the stamp duty value on the date of agreement (i.e., Rs. 140 lakh) and the purchase price (i.e., Rs. 75 lakh), would be chargeable as <b>business income</b> in the hands of Mr. Harish.	56(2)(vii) would be attracted in the hands of Mr. Rajan who has received immovable property, being a capital asset, for inadequate consideration. Therefore, <b>Rs. 50 lakh</b> , being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs. 140 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(vii) in the hands of <b>Mr. Rajan</b> .
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**Case 2: Tax implications if Mr. Harish is a stock broker**

In the hands of Mr. Harish	In the hands of Mr. Rajan
<p>In case Mr. Harish is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Harish and <b>Rs. 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 75 lakh) would be chargeable as short-term capital gains.</b></p> <p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account on or before the date of agreement. In this case, since the payment is made by crossed cheque, the option cannot be exercised.</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajan, whether Mr. Harish is a property dealer or a stock broker.</p> <p>Therefore, the provisions of section 56(2)(vii) would be attracted in the hands of Mr. Rajan who has received immovable property, being a capital asset, for inadequate consideration. Therefore, <b>Rs. 50 lakh</b>, being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs. 140 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(vii) in the hands of Mr. Rajan</p>

**(b) Computation of service tax liability of Mr. Shambhu Nath for the month of July, 2016:**

Particulars	Rs.
Commission received from sale of lottery tickets [10% of Rs. 92,00,000 (Rs. 37,00,000 + Rs. 55,00,000)]	9,20,000
Value of taxable service = $\text{Rs. } \left( 9,20,000 \times \frac{100}{115} \right)$ (rounded off)	8,00,000
Service tax (Rs. 8,00,000 x 14%)	1,12,000
Add: SBC @ 0.5% (Rs. 8,00,000 x 0.5%)	4,000
KKC @ 0.5% (Rs. 8,00,000 x 0.5%)	<u>4,000</u>
<b>Service tax payable (including SBC &amp; KKC)</b>	<b>1,20,000</b>

If Mr. Shambhu Nath opts for the special provision for payment of service tax as provided under rule 6 of the Service Tax Rules, 1994, service tax liability would be as under:

Particulars	Rs.
Amount payable as service tax where the guaranteed lottery prize payout is > 80% [Note 1]	32,800
Amount payable as service tax where the guaranteed lottery prize payout is < 80% [Note 2]	<u>76,800</u>
Service tax	1,09,600
Add: SBC @ 0.5% (Rs. 1,09,600 x 0.5/14) (rounded off)	3,914
KKC @ 0.5% (Rs. 1,09,600 x 0.5/14) (rounded off)	<u>3,914</u>
<b>Service tax payable (including SBC &amp; KKC)</b>	<b><u>1,17,428</u></b>

**Notes:**

- Where the guaranteed lottery prize payout is > 80%, Rs. 8,200/- on every Rs. 10 Lakh (or part of Rs. 10 Lakh) of aggregate face value of lottery tickets can be paid instead of paying service tax @ 15% (including cesses) viz. Rs. 32,800 [4 × Rs. 8,200].
- Where the guaranteed lottery prize payout is < 80%, Rs. 12,800/- on every Rs. 10 Lakh (or part of Rs. 10 Lakh) of aggregate face value of lottery tickets can be paid instead of paying service tax @ 15% (including cesses) viz. Rs. 76,800 [6 × Rs. 12,800].

If Mr. Shambhu Nath opts for payment of service tax in accordance with special provisions provided under rule 6 of Service Tax Rules, 1994, his service tax liability would be reduced by Rs. 2,572.

7. (a) A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3).

- (b) (i) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.

Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is Rs. 4,20,000, tax is deductible @ 1% on Rs. 4,20,000.



Therefore, tax to be deducted = Rs. 4,20,000 x 1% = Rs. 4,200

- (ii) Under section 194E, the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @ 20%. Further, since Glenn McGrath is a non-resident, education cess @2% and secondary and higher education cess @ 1% on TDS would also be added.

Therefore, tax to be deducted = Rs. 25,000 x 20.60% = Rs. 5,150.

**(c) Computation of service tax payable**

S. No.	Particulars	Value of taxable services (Rs.)	Service tax liability (including SBC & KKC) (Rs.)
1.	Services by way of waxing of apples to provide it an artificial sheen for increasing its marketability [Note 1]	Nil	
2.	Admission to a Railway Museum [Note 2]	Nil	
3.	Transportation of patients to ABC Nursing Home and Bheem Multispecialty Hospital, in an ambulance owned by XYZ Ltd. [Note 3]	Nil	
4.	Admission to a Corporate Award Function [Note 4]	5,20,000	5,20,000 × 15% = 78,000
5.	Transportation of milk by a goods transport agency [Note 5]	Nil	

**Notes:**

As per mega exemption *Notification No. 25/2012 ST dated 20.06.2012*:

- services by way of waxing of fruits which do not change/alter the essential characteristics of the said fruits are exempt from service tax.
- services provided by way of admission to a museum are exempt from service tax.
- ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax.
- service by way of admission to award functions is exempt from service tax if the amount charged is upto Rs. 500 per person for right to admission to such event. In case the amount charged per person exceeds Rs. 500, entire consideration would be liable to service tax.
- services of transportation of milk, salt and food grain including flours, pulses and rice by a goods carriage are exempt from service tax.

**(d) Point of taxation and due date of payment of service tax**

S. No	Date of invoice	Date of payment	Point of taxation	Due date of payment
(i)	15-10-2016	10-11-2016	<b>10-11-2016</b> (Note 1)	<b>06-01-2017</b> (Note 2)
(ii)	20-10-2016	15-02-2017	<b>21-01-2017</b> (Note 1)	<b>31-03-2017</b> (Note 2)

**Notes:**

1. Rule 7 of Point of Taxation Rules, 2011 *inter alia* provides that in respect of services taxed on reverse charge basis, point of taxation is the date of making payment or the first day occurring immediately after 3 months from the date of invoice, whichever is earlier.
2. All assesses are mandatorily required to pay service tax electronically. In case of an individual assessee, due date for e-payment of service tax for a quarter in which service is deemed to be provided is the 6th day of the month immediately following said quarter. However, in case service is deemed to be provided in the quarter ending in March, the due date is 31st March [Rule 6 of the Service Tax Rules, 1994].