Test Series: September, 2015

MOCK TEST PAPER – 1

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) Full Ltd., has signed at 31st Dec., 2014, 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 31st December, 2014 in his accounts?

(b) A Limited company charged depreciation on its assets on the basis of W.D.V. method from the date of assets coming to use till date amounts to Rs. 32.23 lakhs. Now the company decides to switch over to Straight Line method of providing for depreciation. The amount of depreciation computed on the basis of S.L.M. from the date of assets coming to use till the date of change of method amounts to Rs. 20 lakhs.

Discuss as per AS-6, when such changes in method of can be adopted by the company and what would be the accounting treatment and disclosure requirement.

(c) Bell Co. Ltd. submits the following information pertaining to year 2015. Using the given data, you are required to prepare Cash Flow Statement for the year ended 31st March, 2015 by indirect method.

	(Rs. millions)
Opening balance of cash and cash equivalents	1.55
Additional shares issued	6.50
Capital expenditure	9.90
Proceeds from assets sold	1.60
Dividend paid	0.50
Loss from disposal of assets	1.20
Net profit for the year	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation and Amortization	0.75

(d) E Ltd. constructed a fixed asset and incurred the following expenses on its construction:

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

Calculate the cost of the fixed asset. *(4 x 5 = 20 Marks)*

2. The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2014 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 31.3.2014

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	
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
		Freehold Land	1,20,000
Reserves and Surplus		Freehold Premises	2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account	(1,38,400)	Investment (marked to market)	64,000
Secured Borrowings			
9% Debentures (Rs.100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Inventories:	
Current liabilities			
Trade payables	1,20,000	Raw materials and packing materials 60,000	

Vat payable	50,000	Finished goods	16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables		1,20,000
	10,90,100			10,90,100

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)*

3. (a) The following transactions of Patel took place during the year ended 31st March 2014:

1st April	Purchased Rs. 12,00,000, 8% bonds at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs. 10 each in L Ltd. for Rs. 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	L Ltd. made a bonus issue of three equity shares for every two

	held. Nidhi sold 1,25,000 bonus shares for Rs. 20 each.
1st October	Sold Rs. 3,00,000, 8% bonds at Rs. 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in L Ltd.

Prepare the relevant investment account in the books of Patel for the year ended 31st March, 2014.

(b) A firm M/s. Fame, which was carrying on business from 1st July, 2014 gets itself incorporated as a company on 1st November, 2014. The first accounts are drawn upto 31st March 2015. The gross profit for the period is Rs. 56,000. The general expenses are Rs. 14,220; Director's fee Rs. 12,000 p.a.; Incorporation expenses Rs. 1,500. Rent upto 31st December was Rs. 1,200 p.a. after which it is increased to Rs. 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is Rs. 6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.

Give statement showing pre and post incorporation profit. The net sales are Rs. 8,20,000, the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored. *(10+ 6 = 16 Marks)*

4. On 31st March, 2014, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account:		Land and Building	60,000
Mr. P	40,000	Plant and Machinery	40,000
Mr. Q	60,000	Inventory of goods	24,000
Mr. R	40,000	Sundry debtors	22,000
Sundry Creditors	20,000	Cash and Bank Balances	14,000
	1,60,000		1,60,000

On 1st April, 2014, A desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Inventory of goods to be valued at Rs. 20,000.

(iv) Old credit balances of Sundry creditors, Rs. 4,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained Rs. 15,100.

(vii) Goodwill of the entire firm is valued at Rs. 28,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2014. *(16 Marks)*

5. The Income and Expenditure Account of Happy Sports Club for the year ended 31st March, 2015 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	12,000		
	2,10,000		2,10,000

The above account had been prepared after the following adjustments:

	Rs.
Subscriptions outstanding on 31.03.2014	12,000
Subscriptions received in advance on 31.03.2014	9,000
Subscriptions received in advance on 31.03.2015	5,400
Subscriptions outstanding on 31.03.2015	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 01.04.2014 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 01.01.2014, which was unpaid till 31.03.2015. On 31.03.2015, cash in hand was Rs. 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2015 and Balance Sheet as on that date. *(16 Marks)*

6. (a) The following information is extracted from a set of books of Mr. Laxminarayan for the year ended 31st December, 2014

	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 1st Jan, 2014 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.

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

Purchases from 1st 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 1st April, 2014 until the clerk was dismissed on 18th 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) A trader allows his customers, credit for one week only beyond which he charges interest @ 12% per annum. Saket, a customer buys goods as follows:

Date of Sale/Purchase	Amount (Rs.)
January 2, 2015	6,000
January 28, 2015	5,500
February 17, 2015	7,000
March 3, 2015	4,600

Saket settles his account on 31st March, 2015. Calculate the amount of interest payable by Saket using average due date method.

(b) The Managing Director of Anil Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs. 25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, Anil Ltd. made net profit of Rs. 43,00,000 before charging MD's remuneration, but after charging provision for taxation of Rs. 17,20,000. Compute remuneration payable to the Managing Director.

(c) King Ltd. sells beer to customers; some of the customers consume the beer in the bars run by King 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'?

(d) Market is full of ready-made accounting softwares. What factors will you consider to choose one of them for your enterprise?

(e) The Board of Directors of Kumar Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1st 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.

(4 x 4 =16 Marks)

Test Series: September, 2015

MOCK TEST PAPER – 1

IPC: GROUP – I

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) With a view to issue shares to the general public a prospectus containing some false information was issued by a company. Mr. Partho received copy of the prospectus from the company, but did not apply for allotment of any shares. The allotment of shares to the general public was completed by the company within the stipulated period. A few months later, Mr. Partho bought 2000 shares through the stock exchange at a higher price which later on fell sharply. Mr. Partho sold these shares at a heavy loss. Mr. Partho claims damages from the company for the loss suffered on the ground the prospectus issued by the company contained a false statement. Referring to the provisions of the Companies Act, 2013 examine whether Partho's claim for damages is justified. *(5Marks)*

   (b) Comment on "To form a valid contract, consideration must be adequate''. *(5Marks)*

   (c) Explain in brief the measures to ensure ethics in the Work place. *(5Marks)*

   (d) What is meant by 'Critical thinking'? How shall you develop critical thinking?*(5Marks)*

2. (a) (i) During the financial year 2014-2015 Mr. Laxman who was a temporary employee in Sanjivini Products Limited and was drawing a salary of Rs. 6000/- per month. On the basis of charge of violent behavior within the premises of the company, he was prevented from working in the company for 60 days pending inquiry. Since there was no adverse conclusion against him, he was reinstated in the service with back salary. He worked for the remaining ten months in that financial year and thereafter resigned from the service. Afterwards, when bonus was paid to others employees, the company refused to pay bonus to Mr. Laxman. Decide, whether Mr. Laxman will be entitled to bonus under the provisions of the Payments of Bonus Act, 1965? *(4 Marks)*

   (ii) Mr. Joe was an employee of Mutual Developers Limited. He retired from the company after completing 30 years of continuous service. He applied to the company for the payment of gratuity within the prescribed time. The company refused to pay the gratuity and contended that due to stringent financial condition the company is unable to pay the gratuity. Mr. Joe applied to the Appropriate Authority for the recovery of the amount of gratuity.

Examine the validity of the contention of the company and also state the provisions of law to recover the gratuity under the Payment of Gratuity Act, 1972. *(4 Marks)*

(b) Describe the factors which influence the ethical behaviour at work in an organization. *(4 Marks)*

(c) What is meant by "Active listening"? State the importance of 'Active listening' in the business communication skills. *(4 Marks)*

3. (a) (i) A cheque payable to bearer is crossed generally and marked "not negotiable". The cheque is lost or stolen and comes into possession of Bobby who takes it in good faith and gives value for it. Bobby deposits the cheque into his own bank and his banker presents it and obtains payment for his customer from the bank upon which it is drawn. The true owner of the cheque claims refund of the amount of the cheque from Bobby. *(5 Marks)*

(ii) Referring to the provisions of the Negotiable Instruments Act, 1881, examine the validity of the following:

(a) A cheque marked 'Not Negotiable' is not transferable.

(b) A draws a cheque in favour of M,a minor. M endorses the same in favour of X. The cheque is dishonoured by the bank on grounds of inadequate funds. Discuss the rights of X. *(3 Marks)*

(b) The industries that are based on natural resources, like minerals, timber, fibre and foodstuffs, have some special responsibility for making "environment-friendly products". Examine this statement and also explain in brief the concept of Green Accounting System. *(4 Marks)*

(c) Suggest guidelines to handle communication ethics dilemmas. *(4 Marks)*

4. (a) When is an Allotment of Shares treated as an irregular allotment? State the effects of an irregular allotment. *(8 Marks)*

(b) What reasons force a marketing executive to adopt ethical practices in marketing? Explain. *(4 Marks)*

(c) Explain those elements which can be used to influence an "Organizational Culture".

(4Marks)

5. (a) The Articles of a Public Company clearly stated that Mr. Tulsian will be the solicitor of the company. The company in its general meeting of the shareholders resolved unanimously to appoint Mr. Ravi in place of Mr. Tulsian as the solicitor of the company by altering the articles of association. Examine, whether the company can do so? State the reasons clearly. *(8Marks)*

(b) Chawla Limited, decides to pay 2.5 percent of the value of debentures as underwriting commission to the underwriters but the Articles of the company authorize only 2.0 percent underwriting commission on debentures. The company further decides to pay the underwriting commission in the form of flats. Examine the validity of the above arrangements under the provisions of the Companies Act, 2013. *(4 Marks)*

(c) Explain Affidavit and its model format. *(4 Marks)*

6. (a) Explain the following with reference to transfer of shares in a company registered under the Companies Act,2013:

   (i) Blank Transfers

   (ii) Forged Transfers. *(8 Marks)*

   (b) Explain briefly the matters to be considered and the steps that may be taken by a Finance and Accounting professional when he is required to resolve an ethical conflict in the application of Fundamental principles. *(4 Marks)*

   (c) Draft a circular for employees insisting on punctuality. *(4Marks)*

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

   (a) Examine the provisions in respect of review of orders passed under Section 7 A of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. *(4Marks)*

   (b) Novice Company Limited served a notice of general meeting upon its shareholders. The notice stated that the issue of sweat equity shares would be considered at such meeting. Mr. Kaya, a shareholder of the Novice Company Limited complains that the issue of sweat equity shares was not specified fully in the notice. Is the notice issued by Novice Company Limited regarding issue of sweat equity shares valid according to the provisions of the Companies Act, 2013? Explain. *(4Marks)*

   (c) A Company wants to provide financial assistance to its employees to enable them to subscribe for fully paid shares of the company. Does it amount to purchase of its own shares. If, in the instant case, the company itself purchasing to redeem its preference shares, does it amount to acquisition of its own shares? *(4Marks)*

   (d) Differentiate between 'consumer interest' and 'public interest' *(4Marks)*

   (e) Raghunandan Limited was incorporated in September, 2015. Now the company wants to hold its first meeting of the Board of Directors. Draft a notice of the said meeting along with agenda. *(4Marks)*

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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.

*Question No. **1** is compulsory.*

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

Working notes should form part of the answer.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. Answer the following:

(a) The budgeted cost of a factory specializing in the production of a single product at the optimum capacity of 6,400 units per annum amounts to Rs.1,76,048 as detailed below:

	Rs.	Rs.
Fixed costs		20,688
Variable costs:		
Power	1,440	
Repairs, etc.	1,700	
Miscellaneous	540	
Direct Material	49,280	
Direct labour	1,02,400	1,55,360
		1,76,048

Taking note of the possible impact on sales turnover by market trends, the company decides to have a flexible budget with a production target of 3,200 and 4,800 units (the actual quantity proposed to be produced being left to a later date before commencement of the budget period). Prepare a flexible budget for production levels at 50% and 75%. Assuming the selling price per unit is maintained at Rs. 40 as at present, indicate the effect on net profit. Administration, selling and distribution expenses continue at Rs. 3,600.

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

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

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

(c) Find out the compound value of Rs. 10,000 with interest rate being 12 per cent per annum if compounded annually, semi-annually, quarterly and monthly for 2 years. What will be the compound value if continuous compounding is done (daily basis) ($e = 2.7183$, $e^{24} = 1.2713$).

(d) A Company issues Rs. 10,00,000, 12% debentures of Rs. 100 each. The debentures are redeemable after the expiry of a fixed period of 7 years. The Company is in 35% tax bracket.

Required:

(i) Calculate the cost of debt after tax, if debentures are issued at

(a) Par

(b) 10% Discount

(c) 10% Premium.

(ii) If brokerage is paid at 2%, what will be the cost of debentures, if issue is at par?

(4 × 5 = 20 Marks)

2. (a) The following data pertains to Process- A for March 2015 of Akash Limited :

Opening Work in Progress	1,500 units at	Rs. 15,000
Degree of completion :		
Materials 100%; Labour and Overheads $33\frac{1}{3}$%		
Input of Materials	18,500 units at	Rs. 52,000
Direct Labour		Rs. 14,000
Overheads		Rs. 28,000
Closing Work in Progress	5,000 units	

Degree of Completion Materials 90 and Labour and Overheads 30%

Normal Process Loss is 10% of total Input (opening work in progress units + units put in)

Scrap value Rs. 2.00 per unit

Units transferred to the next process 15,000 units.

Your are required to :–

(i) Compute equivalent units of production.

(ii) Compute cost per equivalent unit for each cost element i.e., materials, labour and overheads.

(iii) Compute the cost of finished output and closing work in progress.

(iv) Prepare the process and other Accounts.

Assume: - FIFO Method is used by the Company.

- The cost of opening work in progress is fully transferred to the next process.

(b) From the following, prepare Income Statement of Company A, B and C. Briefly comment on each company's performance:

Company	**A**	**B**	**C**
Financial leverage	3:1	4:1	2:1
Interest	Rs. 200	Rs. 300	Rs. 1,000
Operating leverage	4:1	5:1	3:1
Variable Cost as a Percentage to Sales	$66\frac{2}{3}\%$	75%	50%
Income tax Rate	45%	45%	45%

(2 × 8= 16 Marks)

3. (a) The following standards have been set to manufacture a product:

Direct materials:	Rs.
2 units of P at Rs. 4 per unit	8.00
3 units of Q at Rs. 3 per unit	9.00
15 units of R at Re. 1 per unit	15.00
	32.00
Direct labour 3 hours @ Rs. 8 per hour	24.00
Total standard prime cost	56.00

The company manufactured and sold 6,000 units of the product during the year.

Direct material costs were as follows:

12,500 units of P at Rs. 4.40 per unit

18,000 units of Q at Rs. 2.80 per unit

88,500 units of R at Rs. 1.20 per unit

The company worked 17,500 direct labour hours during the year. For 2,500 of these hours the company paid at Rs. 12 per hour while for the remaining the wages were paid at the standard rate.

Calculate material price, usage variances, labour rate, and efficiency variances.

(b) Foods Ltd. is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase capacity utilisation in the coming year by $33\frac{1}{3}\%$ over the existing level of production.

The following data has been supplied:

(i) Unit cost structure of the product at current level:

	Rs.
Raw Material	4
Wages (Variable)	2
Overheads (Variable)	2
Fixed Overhead	1
Profit	3
Selling Price	12

(ii) Raw materials will remain in stores for 1 month before being issued for production. Material will remain in process for further 1 month. Suppliers grant 3 months credit to the company.

(iii) Finished goods remain in godown for 1 month.

(iv) Debtors are allowed credit for 2 months.

(v) Lag in wages and overhead payments is 1 month and these expenses accrue evenly throughout the production cycle.

(vi) No increase either in cost of inputs or selling price is envisaged.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of Rs. 19,500 has to be maintained. *(2 × 8 = 16 Marks)*

4. (a) A Company needs Rs. 31,25,000 for the construction of new plant. The following three plans are feasible:

Plan-I The Company may issue 3,12,500 equity shares at Rs. 10 per share.

Plan-II The Company may issue 1,56,250 ordinary equity shares at Rs. 10 per share and 15,625 debentures of Rs,. 100 denomination bearing a 8% rate of interest.

Plan-III The Company may issue 1,56,250 equity shares at Rs. 10 per share and 15,625 preference shares at Rs. 100 per share bearing a 8% rate of dividend.

(i) if the Company's earnings before interest and taxes are Rs. 62,500, Rs. 1,25,000, Rs. 2,50,000, Rs. 3,75,000 and Rs. 6,25,000, what are the earnings per share under each of three financial plans ? Assume a Corporate Income tax rate of 40%.

(ii) Which alternative would you recommend and why?

(iii) Determine the EBIT-EPS indifference points by formulae between Financing Plan I and Plan II and Plan I and Plan III.

(b) Get –Homes Constructions has undertaken three separate building contracts. Information relating to these contracts for the year 2014-15 are as under:

	Contract –I (Amount in Rs.'000)	**Contract –II (Amount in Rs.'000)**	**Contract –IIII (Amount in Rs.'000)**
Value of contract	17,500	14,500	24,500
Balance as on 01-04-2014:			
Work completed and certified	--	4,100	8,150
Materials at site	--	220	310
Plant & Machinery (WDV)	--	770	3,760
Wages outstanding	--	48	104
Profit transferred to Costing P/L A/c.	--	--	350
Transaction during the year:			
Materials issued to the sites	870	2,150	4,020
Wages paid to workers	450	1,160	2,180
Salary to site staffs	90	85	135
Travelling and other expenses	18	24	32
Plants issued to sites	910	240	680
Apportionment of Head office expenses	110	90	126
Balance as on 31-03-2015:			
Materials at site	215	152	12
Plant & Machinery (WDV)	728	808	3,552

Wages outstanding	52	98	146
Value of work certified	2,000	8,600	24,000
Cost of work not certified	800	452	560

As per the contract agreement 15% of the certified value of the contract is kept by the contractees as retention money. The Contact-III is scheduled to be completed in the coming months, however, this contract required a further estimated cost of Rs. 7,20,000 to get it completed.

Required:

(a) Prepare Contract Statement for each of the three contracts and calculate the notional/ estimated profit/ loss

(b) Calculate the profit/ loss to be transferred to Costing Profit & Loss Account for internal managerial purpose. *(2 × 8= 16 Marks)*

5. (a) Discuss the advantages and disadvantages of payback as a method of investment appraisal.

(b) Explain briefly the differences between fixed and flexible budgets.

(c) Explain the meaning of fixed overhead volume variance and its usefulness to management.

(d) "Financial Leverage is a double edged sword" Comment. *(4 × 4 = 16 Marks)*

6. (a) Arnav Ltd. has three production departments M, N and O and two service departments P and Q. The following particulars are available for the month of September, 2013:

	(Rs.)
Lease rental	35,000
Power & Fuel	4,20,000
Wages to factory supervisor	6,400
Electricity	5,600
Depreciation on machinery	16,100
Depreciation on building	18,000
Payroll expenses	21,000
Canteen expenses	28,000
ESI and Provident Fund Contribution	58,000

Followings are the further details available:

Particulars	M	N	O	P	Q
Floor space (square meter)	1,200	1,000	1,600	400	800
Light points (nos.)	42	52	32	18	16
Cost of machines (Rs.)	12,00,000	10,00,000	14,00,000	4,00,000	6,00,000
No. of employees (nos.)	48	52	45	15	25
Direct Wages (Rs.)	1,72,800	1,66,400	1,53,000	36,000	53,000
HP of Machines	150	180	120	-	-
Working hours (hours)	1,240	1,600	1,200	1,440	1,440

The expenses of service department are to be allocated in the following manner:

	M	N	O	P	Q
P	30%	35%	25%	-	10%
Q	40%	25%	20%	15%	-

You are required to calculate the overhead absorption rate per hour in respect of the three production departments.

(b) Balance Sheets of RIO Ltd. as on 31st March, 2014 and 2015 were as follows:

Liabilities	31.3.14 (Rs.)	31.3.15 (Rs.)	Assets	31.3.14 (Rs.)	31.3.15 (Rs.)
Equity Share Capital	10,00,000	10,00,000	Goodwill	1,00,000	80,000
8% Preference Share Capital	2,00,000	3,00,000	Land and Building	7,00,000	6,50,000
General Reserve	1,20,000	1,45,000	Plant & Machinery	6,00,000	6,60,000
Securities Premium	--	25,000	Investments (non-trading)	2,40,000	2,20,000
Profit and Loss A/c	2,10,000	3,00,000	Stock	4,00,000	3,85,000
11% Debentures	5,00,000	3,00,000	Debtors	2,88,000	4,15,000
Creditors	1,85,000	2,15,000	Cash and Bank	88,000	93,000
Provision for tax	80,000	1,05,000	Prepaid Expenses	15,000	11,000
Proposed Dividend	1,36,000	1,44,000	Premium on Redemption of Debentures	--	20,000
	24,31,000	25,34,000		24,31,000	25,34,000

Additional Information:

1. Investments were sold during the year at a profit of Rs. 15,000.
2. During the year an old machine costing Rs. 80,000 was sold for Rs. 36,000. Its written down value was Rs. 45,000.
3. Depreciation charged on Plants and Machinery @ 20 per cent on the opening balance.
4. There was no purchase or sale of Land and Building.
5. Provision for tax made during the year was Rs. 96,000.
6. Preference shares were issued for consideration of cash during the year.

You are required to prepare:

(i) Cash flow statement as per AS- 3.

(ii) Schedule of Changes in Working Capital. *(2 × 8= 16 Marks)*

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

(a) Explain the reasons why a system of budgetary control is often preferred to the use of standard costing in non-manufacturing environment.

(b) What is debt securitisation? Explain the basics of debt securitisation process.

(c) Explain the methods of venture capital financing.

(d) Distinguish between Cost control and Cost reduction.

(e) Discuss the step method and reciprocal service method of secondary distribution of overheads. *(4 × 4 = 16 Marks)*

Test Series : September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 4 : TAXATION

*Question **1** is compulsory.*

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

Time Allowed – 3 Hours **Maximum Marks – 100**

1. (a) Mr. Varun & Mr. Tarun are cousins and they earned the following incomes during the financial year 2014-15. Mr. Varun settled in the USA in the year 2001 and Mr. Tarun settled in Pune. Compute their total income for the A.Y.2015-16.

Sr. No.	Particulars	Mr. Varun (Rs.)	Mr. Tarun (Rs.)
1.	Interest on US Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from an US company received in New York	28,000	20,000
3.	Profit from a business in Pune, but managed directly from the USA	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Bangalore	80,000	70,000
6.	Fees for technical services rendered in India, but received in the USA	1,00,000	----
7.	Interest on savings bank deposit in SBI, Pune	7,000	12,000
8.	Agricultural income from a land situated in Maharashtra	55,000	45,000
9.	Rent received in respect of house property at Coimbatore	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

(10 Marks)

(b) Department of Posts provided following services to persons other than Government during the quarter ended 31.03.2015:-

Services rendered	Amount charged for such services (Rs. in lakh)
Basic mail services	100
Transfer of money through money orders	500
Rural postal life insurance services	200
Distribution of mutual funds, bonds and passport applications	500
Issuance of postal orders	300
Collection of telephone and electricity bills	100
Speed post services	500
Express parcel post services	200

Compute the service tax liability of Department of Posts for the quarter ended 31.03.2015.

Notes:

1. Point of taxation for all the aforesaid cases fall during the quarter ended 31.03.2015.
2. All the service charges stated above are exclusive of service tax, wherever applicable.
3. Small Service Providers' exemption need not be taken into account while solving the aforesaid question. *(10 Marks)*

2. (a) State, with brief reasons, whether the following are chargeable to tax and the amount liable to tax:

(i) Ankur received Rs. 35,000 as his share from the income of the HUF.

(ii) Mr. A, a 'Param Vir chakra' awardee formerly in the service of the Central Government, received a pension of Rs. 3,60,000 during the financial year 2014-15.

(iii) A political party registered under section 29A of the Representation of the People Act, 1951 earned rental income of Rs. 4,50,000 by renting out its premises.

(iv) Agricultural income of Rs. 2,25,000 earned by Mr. Harish, a resident of India, from a land situated in Sri Lanka. *(4 × 2 = 8 Marks)*

(b) Accent Export House exported some goods to Germany. Compute the export duty payable by it from the following information available:

(i) Assessable value Rs. 55,00,000.

(ii) Shipping bill presented electronically on 26.02.2015.

(iii) Proper officer passed order permitting clearance and loading of goods for export on 04.03.2015.

(iv) Rate of export duty are as under:

	Rate of export duty
On 26.02.2015	10%
On 04.03.2015	8%

. *(4 Marks)*

(c) Mr. P of Mumbai purchased declared goods (goods of special importance) from Nagpur by paying sales tax at @ 5%. Subsequently, the commodity is sold to a dealer at Chennai. The dealer P while collecting and remitting tax on the inter-State sale, wants refund of tax paid on sale within State (i.e. purchase from Nagpur). Is he correct? *(4 Marks)*

3. (a) Mr. Subash, employed as Assistant Manager in Gamma Ltd., furnishes you the following information for the year ended 31.03.2015:

(i) Basic salary upto 31.10.2014 Rs. 50,000 p.m.
Basic salary from 01.11.2014 Rs. 60,000 p.m.
Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in September 2014 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee@16% of basic salary.

(v) Profession tax paid Rs. 3,000 of which Rs. 2,000 was paid by the employer.

(vi) Facility of laptop and computer was provided to Subash for both official and personal use. Cost of laptop Rs. 70,000 and computer Rs. 60,000 were acquired by the company on 21.10.2014.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2014 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2014 to 31.03.2015, were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Subash is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Subash for the assessment year 2015-16. *(8 Marks)*

(b) Compute the CENVAT credit available with Sahu Motors Ltd., manufacturer of cars, in respect of the following services billed to it in the month of January, 2015:-

S.No.	**Services billed**	**Service tax paid* [Rs.]**
(i)	Sales promotion services	1,00,000
(ii)	Market research for the new car launched by Sahu Motors Ltd.	2,00,000
(iii)	Quality control services	1,00,000
(iv)	Routine maintenance of the cars manufactured by Sahu Motors Ltd.	50,000
(v)	Insurance of the cars manufactured	70,000
(vi)	Outdoor catering services provided to the employees	1,00,00

*including EC and SHEC *(5 Marks)*

(c) Shine Footwear is a leading manufacturer of shoes. Legal Metrology Act, 2009 requires declaration of retail sale price on the package of shoes and shoes are also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions).

Following information has been furnished by Shine Footwear:

Aabatement available on shoes	40% of retail sale price
MRP marked on the package	Rs. 2,000 per pair of shoes
Price at which Shine Footwear sells the shoes to their wholesalers	Rs. 1,300 per pair of shoes
Price at which wholesalers sell the shoes to retail shop owners	Rs. 1,500 per pair
Price at which shoes are sold by retailers to final consumers	Rs. 1,900 (Rs. 100 offered as discount on printed retail sale price
Excise duty	12%
Education cess	2%
Secondary and Higher Education Cess	1%

Calculate excise duty payable on a pair of shoes. *(3 Marks)*

4. (a) Mr. Ashish own five houses at Cochin, all of which are let out. Compute the income from house property of Mr. Ashish for A.Y.2015-16 from the information given below, if the municipal taxes@5% of municipal value of each house was paid during the year by Mr. Ashish:

(Rs.)

	House-I	House-II	House-III	House-IV	House-V
Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received / receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
Interest on housing loan	75,000	-	56,000	-	-

(8 Marks)

(b) Determine the point of taxation in the following cases with reference to Point of Taxation Rules, 2011:-

(i) X & Co. received advance of Rs. 1,12,360 from a client on 30.03.2015, for providing advertising services in the month of April, 2015. However, due to some unavoidable reasons, said services could not be provided and the advance money (including service tax) was returned to the client on 12.04.2015.

(ii) Safe Security Services Ltd. provided security services to M/s KP & Sons for the month of July, 2014. It completed providing said services on 31st July, 2014 and billed it for Rs. 1,20,000 on 10th August, 2014. However, it had received the payment for the same on 4th August, 2014 itself. *(4 Marks)*

(c) Determine net VAT liability of Rahim for the month of April, 2015 using invoice method of computation from the following data:

Purchase price of goods acquired from local market (including VAT)	Rs. 52 lakhs
VAT rate on input	4%
Transportation, insurance, warehousing and handling cost incurred by X	Rs. 20,000
Goods sold at a profit margin (% of cost of production)	14%
VAT rate on sales	12.50%

(4 Marks)

5. (a) State with reasons, the deductibility or otherwise of the following expenses/payments under the Income-tax Act, 1961, while computing income under the head "Profits and gains of business or profession" for the Assessment Year 2015-16:

(i) Rs. 70 crore and Rs. 30 crore invested in new plant & machinery by ABC Ltd., a manufacturing company, during P.Y. 2013-14 and 2014-15, respectively.

(ii) LMN Ltd. paid Rs. 2,50,000 as technical fees to a non-resident on which tax is deducted during the previous year 2014-15 but deposited on 31.8.2015.

(iii) Bus & Train Pvt. Ltd. incurred Rs. 1,80,000 towards CSR Expenditure during the previous year 2014-15.

(iv) Growth & Co. has set up a warehousing facility for storage of sugar. It commenced operations on 01.04.2013. In July 2014, Growth & Co. incurred capital expenditure of Rs. 72 lakhs on purchase of building.

Would your answer be different, if the company has set up a warehousing facility of food grain? *(4 × 2 = 8 Marks)*

(b) Shikshit, an Educational Trust, runs a play school, 'Tiny Tots' and a higher secondary school, 'Pinnacle Academy'. It also runs a coaching centre which provides coaching for IIT JEE entrance examinations to meritorious students of economically weak background. It also provides coaching classes for examinations of Certified Public Accountant, USA.

With reference to the provisions of Finance Act, 1994, examine the leviability of service tax in the above case. *(5 Marks)*

(c) Day and Night Consulting Group (DNCG), a management consultancy firm, has to file its first service tax return. The firm wants to know if any other information is also required to be furnished by it at the time of filing its first return. You are required to provide the necessary guidance to the firm. *(3 Marks)*

6. (a) The gross total income of Mr. Malik (New retail investor) for the Assessment Year 2015-16, was Rs. 9,00,000. He has made the following investment/payments during the year 2014-15:

	Particulars	Rs.
1.	L.I.C. premium paid (Policy value Rs. 2,00,000) (taken on 1.07.2012)	40,000
2.	Contribution to Public Provident Fund (PPF)	1,20,000
3.	Repayment of housing loan to HDFC	40,000
4.	Payment made to LIC pension fund	30,000
5.	Medical insurance premium for self, wife and dependent children.	22,000
6.	Mediclaim premium for parents (aged over 60 years), who are not dependent on Mr. Malik	32,000

7.	Invested in units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme, 2013	40,000
8.	Donation to BJP by crossed cheque	50,000

Compute eligible deduction under Chapter VI-A for the Assessment Year 2015-16.

(8 Marks)

(b) Achievers Academy, an IIT JEE coaching institution, has its centres in various cities across the country from where coaching is provided to students. Its Head Office is located at New Delhi. Achievers Academy wants to apply for service tax registration. In what ways can Achievers Academy obtain registration? Explain. *(4 Marks)*

(c) R purchases cloth and gives it to S, who is a tailor, to stitch a shirt as per measurements and requirements of R. S stitched the shirt and gave it to R. In the given case, who will be treated as manufacturer of the shirt for the purpose of levy of central excise duty? *(4 Marks)*

7. (a) Examine the applicability of the provisions for tax deduction at source in the following cases -

(i) The firm, M/s Delta, has two resident partners, Mr. Atul and Mr. Vipul. During the previous year, the firm paid Rs. 15,000 and Rs. 25,000 as interest on capital to Mr. Atul and Mr. Vipul, respectively.

(ii) Fee of Rs. 41,000 paid to Dr. Pawan Puri by Bhatia (HUF) for surgery performed on Master Vatsal Bhatia, son of the Karta of HUF.

(iii) Mr. Sunil, a resident, is due to receive Rs. 5.50 lakhs on 31.3.2015, towards maturity proceeds of LIC policy taken on 1.5.2012, for which the sum assured is Rs. 4.5 lakhs and the annual premium is Rs. 55,000. *(3 × 2 = 6 Marks)*

(b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) If an individual does not pay self-assessment tax before furnishing the return of income, the return furnished shall be deemed to be an invalid return.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family. *(2 × 1 = 2 Marks)*

(c) Mr. Sai is a money changer. He is finding it difficult to charge service tax @ 12% on the value of services provided by him. Can he pay service tax at a different rate? Explain. *(4 Marks)*

(d) Krishna Pvt. Ltd. manufactures beauty soap with the brand name 'Alwayz Young'. Krishna Pvt. Ltd. has organized a concert to promote its brand. Ms. Shilpi Kapoor, its brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert. The proceeds of the concert will be donated to a charitable organization.

Explain whether Ms. Shilpi Kapoor will be required to pay any service tax. *(4 Marks)*

Test Series : September, 2015

MOCK TEST PAPER - 1

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) 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 31st December, 2014. The contract should be reviewed at the end of the each accounting period till completions for additional losses to be incurred, if any.

(b) Paragraph 21 of Accounting Standard 6 on Depreciation Accounting says, "The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise."

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective re-computation should be adjusted in the profit and loss account in the year such change is affected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disclosed. In the question given, the surplus arising out of retrospective re-computation of depreciation as per the straight line method is Rs. 12.23 lakhs (Rs. 32.23 lakhs – Rs. 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly.

(c) **Bell Co. Ltd.**

Cash Flow Statement for the year ended 31st March, 2015

	Rs. in millions	*Rs. in millions*
Cash flows from operating activities		
Net profit	3.30	

Add: Depreciation and amortization	0.75	
Loss from disposal of assets	1.20	
Operating profit before working capital changes	5.25	
Less: Increase in accounts receivables	(1.50)	
Net cash generated from operating activities		3.75
Cash flows from investing activities		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	1.60	
Net cash used in investing activities		(8.30)
Cash flows from financing activities		
Proceeds from issue of additional shares	6.50	
Dividend paid	(0.50)	
Redemption of 4.5% debentures	(2.50)	
Net cash generated from financing activities		3.50
Net decrease in cash and cash equivalents		(1.05)
Cash and cash equivalents at beginning of the period		1.55
Cash and cash equivalents at end of the period (Balancing figure)		0.50

(d) Calculation of cost of fixed asset

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

2. (i) In the books of Lili Ltd.

Journal Entries

			Dr.	*Cr.*
	2014		*Rs.*	*Rs.*
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)			2,00,000
		(Being reduction of preference shares of Rs. 10 each to shares of Rs. 5 each as per reconstruction scheme)			
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 reconsolidated 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	1,28,400			
		3,92,500			3,92,500

(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	1,26,000		- From proceeds of equity share capital (2,23,100–97,100) 1,26,000	2,23,100
		2,87,100			2,87,100

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

3. (a) **In the books of Patel**

8% Bonds Account

[Interest Payable: 1st November & 1st May]

Date	*Particulars*	*Nominal Value (Rs.)*	*Interest (Rs.)*	*Cost (Rs.)*	*Date*	*Particulars*	*Nominal Value (Rs.)*	*Interest (Rs.)*	*Cost (Rs.)*
1.4.14	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.14	By Bank A/c	–	48,000	–
31.3.15	To Profit & Loss A/c (W.N 6)		84,000	11,500	1.10.14	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11.14	By Bank A/c (W.N 3)	–	36,000	–

					31.3.15	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in Equity Shares of L Ltd. Account

Date	*Particulars*	*No.*	*Dividend (Rs.)*	*Cost (Rs.)*	*Date*	*Particulars*	*No.*	*Dividend (Rs.)*	*Cost (Rs.)*
12.4.14	To Bank A/c	1,00,000		40,00,000	15.5.14	By Bank A/c	1,25,000		25,00,000
15.5.14	To Bonus	1,50,000			1.12.14	By Bank A/c		2,25,000	
31.3.15	To Profit & Loss A/c (W.N		2,25,000	5,00,000	31.3.15	By Balance c/d	1,25,000		20,00,000
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

Working Notes:

1. On 1st April, 2014, 12,000, 8% bonds were purchased @ Rs. 80.50 cum- interest. Total amount paid 12,000 bonds x Rs. 80.50 = 9,66,000 which includes accured interest for 5 months. i.e. 1st November, 2013 to 31st March, 2014. Accrued interest will be Rs. 12,00,000 x 8/100 x 5/12 = Rs. 40,000. Therefore, cost of investment purchased = Rs. 9,66,000 – 40,000 = Rs. 9,26,000.

2. On 1st October, 2014, 3,000 bonds were sold @ Rs. 81 ex-interest. Total amount received = 3,000 x 81 + accrued interest for 5 months = Rs. 2,43,000 + Rs.10,000 (3,00,000 x 8/100 x5/12)

3. On 1st November, 2014, interest will be received for 9,000 bonds @ 8% for 6 months, i.e., Rs. 9,00,000 x 8/100x1/2 = Rs. 36,000.

4. Cost of bonds on 31.3.2014 will be Rs. 9,26,000/12,000 x 9,000 = Rs. 6,94,500.

   Interest accrued on bonds on 31.3.2015 = 9,00,000 x 8% x 5/12 = Rs. 30,000

5. Profit on sale of bonus shares:

   Cost per share after bonus = Rs. 40,00,000/2,50,000 = Rs. 16

   Profit per share sold (Rs. 20 – Rs. 16) = Rs. 4.

   Therefore, total profit on sale of 1,25,000 shares = Rs. 4 x 1,25,000 = Rs. 5,00,000.

6. Profit on sale of bonds

		Rs.
Sale value	=	2,43,000
Cost of Rs. 3,00,000 8% bonds = 9,26,000/12,00,000 x 3,00,000	=	2,31,500
Profit	=	11,500

(b) **Statement showing pre and post-incorporation profits**

Particulars	*Basis*	*Pre – incorporation period*	*Post- incorporation period*	*Total*
		Rs.	*Rs.*	*Rs.*
Gross Profit	Sales ratio	16,000	40,000	56,000
Less: General expenses	Time ratio	6,320	7,900	14,220
Directors' fee	Actual	-	5,000	5,000
Incorporation expenses	Actual	-	1,500	1,500
Rent (600 + 750)	W.N. 2	400	950	1,350
Manager's salary	Actual	2,000	-	2,000
Net Profit transferred to:				
Capital Reserve		7,280	-	-
P & L A/c	-	-	24,650	31,930

Working Notes:

1. Calculation of sales ratio

Let the average monthly sales of first four months = 100

and next five months = 200

Total sales of first four months = 100 x 4 = 400 and

Total sales of next five months = 200 x 5 = 1,000

The ratio of sales = 400 : 1,000 = 2 : 5

2. Rent

Till 31st December, 2015, rent was Rs. 1,200 p.a. i.e. Rs. 100 p.m.

So, Pre-incorporation rent = Rs. 100 x 4 months = Rs. 400

Post-incorporation rent = (Rs.100 x 2 months) + (Rs.250 x 3 months) = Rs.950

4. (a) **Revaluation Account**

Date		*Particulars*	*Rs.*	*Date*		*Particulars*	*Rs.*
2014				*2014*			
April	To	Plant & Machinery	12,000	April	By	Land and building	12,000
	To	Inventory of goods	4,000		By	Sundry creditors	4,000
	To	Provision for bad and doubtful debts	1,100		By	Cash & Bank - Joint life Policy surrendered	15,100

	To	Capital accounts (profit on revaluation transferred)						
		Mr. P (2/7) 4,000						
		Mr. Q (3/7) 6,000						
		Mr. R (2/7) 4,000	14,000					
			31,100					31,100

(b) **Partners' Capital Accounts**

Particulars	*P*	*Q*	*R*	*Particulars*	*P*	*Q*	*R*
	(Rs.)	*(Rs.)*	*(Rs.)*		*(Rs.)*	*(Rs.)*	*(Rs.)*
To P's Capital A/c - goodwill	-	2,000	6,000	By Balance b/d	40,000	60,000	40,000
To Cash & bank A/c - (50% dues paid)	26,000	-	-	By Revaluation A/c	4,000	6,000	4,000
To P's Loan A/c - (50% transfer)	26,000	-	-	By Q & R's Capital A/cs - goodwill	8,000	-	-
To Balance c/d	-	70,000	70,000	By Cash & bank A/c-amount brought in (Balancing figures)	-	6,000	32,000
	52,000	72,000	76,000		52,000	72,000	76,000

(c) **Cash and Bank Account**

To	Balance b/d	14,000	By	P's Capital A/c - 50% dues paid	26,000
To	Revaluation A/c – surrender value of joint life policy	15,100	By	Balance b/d	41,100
To	Q's Capital A/c	6,000			
To	R's Capital A/c	32,000			
		67,100			67,100

(d) **Balance Sheet of M/s Q & R as on 01.04.2014**

Liabilities		*Rs.*	*Assets*		*Rs.*
Partners' Capital accounts			Land and Building	60,000	
Mr. Q	70,000		*Add*: Appreciation		
Mr. R	70,000	1,40,000	20%	12,000	72,000
Mr. P's Loan			Plant & Machinery	40,000	
Account		26,000	*Less*: Depreciation		
Sundry Creditors		16,000	30%	12,000	28,000
			Inventory of goods	24,000	
			Less: devalued	4,000	20,000
			Sundry Debtors	22,000	
			Less: Provision for bad debts 5%	1,100	20,900
			Cash & Bank balances		41,100
		1,82,000			1,82,000

Working Notes:

Adjustment for Goodwill:	*Rs.*
Goodwill of the firm	28,000
Mr. P's Share (2/7)	8,000
Gaining ratio of B & C;	
Q = 1/2 - 3/7 = 1/14	
R= 1/2 - 2/7 = 3/14	
B:C = 1:3	

Therefore, P will bear = 1/4 × 8,000 or Rs. 2,000

Q will bear = 3/4 × 8,000 or Rs. 6,000

5. **Happy Sports Club**

Receipt and Payments Account for the year ended 31st March, 2015

	Receipts	*Amount (Rs.)*		*Payments*	*Amount (Rs.)*
To	Balance b/d (Bal. Fig.)	27,800	By	Salaries:	
To	Subscription:			for 2013-2014	8,000

	for 2013-2014	12,000		for 2014-2015	1,10,000
	for 2014-2015 (W.N.3)	1,36,000	By	Printing and Stationery	6,000
	for 2015-2016	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	32,000
		2,31,200			2,31,200

Balance Sheet as at 31st March, 2015

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

Working Notes:

(1) Opening Balance of Capital Fund:

Balance Sheet as at 31st March, 2014

	Rs.		*Rs.*
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000

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

Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000
Subscription in Advance	9,000	Cash in hand	27,800
	2,91,800		2,91,800

(2) Sports Equipment Account

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

(3) Subscription received during 2014-15

	Rs.	*Rs.*
Subscription for 2014-15		1,60,000
Less: Subscription outstanding as on 31.3.15	15,000	
Less: Subscription received in advance as on 31.3.14	9,000	24,000
		1,36,000

6. (a) Sales Ledger Adjustment Account

2014			Rs.	2014			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- Sales	11,26,000			Cash	3,68,400
						Returns inward	33,600
						Bills receivable	3,20,000
						Bad debts	24,000
						Discounts allowed	21,600
				June 30	By	Balance c/d	10,00,000
			17,67,600				17,67,600

Purchases Ledger Adjustment Account

2014			Rs.	2014			Rs.
June 30	To	General ledger adjustment A/c: Cash	3,60,000	Jan. 1	By	Balance b/d	3,72,800
				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	3,93,200			
			10,16,800			10,16,800

(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		
	65,27,200		65,27,200

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 cash sales	40,000	49,57,000
Less: Goods used for advertisement	(1,00,000)	33,82,700	By Closing stock		7,44,100
To Gross profit (20% of Rs. 49,57,000)		9,91,400			
		57,01,100			57,01,100

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) Let us assume 9th January, 2015 to be the base date:

Date of Sale	Due date of payment	Amount (Rs.)	No. of days from 9th January, 2009	Product
Jan. 2	Jan. 9	6,000	0	0
Jan. 28	Feb. 4	5,500	26	1,43,000
Feb. 17	Feb. 24	7,000	46	3,22,000
March 3	March 10	4,600	60	2,76,000
		23,100		7,41,000

Average Due date = Base date + $\frac{\text{Sum of Product}}{\text{Sum of amount}}$

= 9th January, 2015 + $\frac{7,41,000}{23,100}$

= 9th January 2015 + 32 days

i.e. 32 days from 9th January, 2015 = 10th February, 2015

Thus, average due date = 10th February, 2015

No. of days from 10th February, 2015 to 31st March, 2015 = 49 days.

Interest payable by Anil on Rs. 23,200 for 49 days @ 12% per annum

= Rs. 23,200 $\times \frac{49}{365} \times \frac{12}{100} =$ ₹ 373.74

(b)

Calculation of remuneration of the Managing Director	*Rs. in Lacs*
Net profit as per books	43.00
Add: Provision for taxation	17.20
Annual profit for the purpose of managerial remuneration	60.20
Managing Director's Remuneration @ 5% of above	3.01
Minimum remuneration to be paid to the Managing Director	
= Rs. 25,000 per month $\times$ 12	3.00

Hence, in this case, remuneration to be paid to the Managing Director of Anil Ltd.
= Rs. 3,01,000 in the year.

(c) (i) Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets. King 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 King 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.

(d) While choosing the accounting software, the following points should be considered:

1. *Fulfilment of business requirements*: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. *Completeness of reports*: Some packages might provide extra reports or the reports match the requirement more than the others.
3. *Ease of use*: Some packages could be very detailed and cumbersome compare to the others.
4. *Cost*: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. *Reputation of the vendor*: Vendor support is essential for any software. A stable vendor with reputation and good track records will always be preferred.
6. *Regular updates*: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(e) 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 Kumar 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.

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

SUGGESTED ANSWERS/HINTS

1. **(a)** Under section 2 (70) of the Companies Act, 2013, "prospectus" means any document described or issued as a prospectus and includes a red herring prospectus referred to in section 32 or shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

A prospectus is a document inviting offers from the public. The prospectus and any statement therein has no legal binding either on the company or its directors, promoters or experts to a person who has not purchased securities in response to it.

Since Mr. Partho purchased shares through the stock exchange (open market) which cannot be said to have bought shares on the basis of prospectus. Mr. Partho cannot bring action for deceit against the directors. Mr. Partho will not succeed. It was held in the case of *Peek Vs. Gurney* that the above-mentioned remedy by way of damage will not be available to a person if he has not purchased the shares on the basis of prospectus.

(b) The law provides that a contract should be supported by consideration. So long as consideration exists, the Courts are not concerned to its adequacy, provided it is of some value. The adequacy of the consideration is for the parties to consider at the time of making the agreement, not for the Court when it is sought to be enforced (*Bolton v. Modden*). Consideration must however, be something to which the law attaches value though it need not be a equivalent in value to the promise made.

According to Explanation 2 to Section 25 of the Indian Contract Act, 1872, an agreement to which the consent of the promisor is freely given is not void merely because the consideration is inadequate but the inadequacy of the consideration may be taken into account by the Court in determining the question whether the consent of the promisor was freely given.

(c) **Managing ethics and preventing whistle-blowing:**The focus on core values and sound ethics, the hall mark of ethical management, is being recognized as an important way to ensure the long term effectiveness of governance structures and procedures and to avoid the need for whistle blowing.

Employers, who understand the importance of work place ethics, provide their work force with an effective framework and guiding principles of identity and address ethical issues as they arise. These guidelines for managing ethics and to avoid the need for whistle-blowing in the work place may be summarized as follows:-

(a) Have a Code of Conduct and ethics.

(b) Establishment open communication.

(c) Make ethical decisions in group and make decision public whenever appropriate.

(d) Integrate ethics with other management practices.

(e) Use of cross functional teams when developing and implementing the ethics management programme.

(f) Appointing an ombudsman.

(g) Creating an atmosphere of trust.

(h) Regularly updating of policies and procedures.

(i) Include a grievance policy for employees.

(j) Set an example from the top.

(d) 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. (i) 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:** Keeping in mind the appropriate context in the course of analyses. Apply factors of analysis is 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.

2. (a) (i) As per Section 9 of the Payment of Bonus Act, 1965, an employee shall be disqualified from receiving bonus under this Act, if he is dismissed from service for -

(a) fraud; or

(b) riotous or violent behavior while on the premises of the establishment; or

(c) theft, misappropriation or sabotage of any property of the establishment.

The above provision involves the following legal process:

(i) When an employee is charged for any of the above acts, an inquiry is essential;

(ii) The allegedly guilty employee is suspended for the period of the inquiry till submission of the inquiry report. In case he is found guilty, he may be dismissed or reinstated after warning but without wages for the period of suspension. On the other hand if he is found innocent, he will have to be reinstated with back wages as per the various labour laws including the Industrial Disputes Act.

(iii) It makes no difference whether the employee is temporary or permanent

It is clear from the above provision that if an employee is reinstated with back wages, it means he did not commit the disqualifying act and hence his disqualification does not arise. Therefore, he is entitled to receive bonus for the full year.*[Gammon India Ltd. Vs. Niranjan Das (1984)].*

Therefore, refusal of company is not valid and Mr. Laxman will be entitled to the bonus under the Payment of Bonus Act, 1965.

(ii) (i) Gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years on his superannuation or on his retirement or resignation or on his death or disablement due to accident or disease under Section 4(1) of the Payment of Gratuity Act,1972. Further, section 7(2) provides that as soon as gratuity becomes payable, the employer shall, whether the application for the payment of gratuity has been given or not by the employee, determine the amount of gratuity and give notice in writing to the person to whom the gratuity is payable and also to the controlling authority specifying the amount of gratuity so determined.

The employer shall arrange to pay the amount of gratuity within 30 days for the date of its becoming due/payable to the person to whom it is payable [Section 7(3)], along with simple interest (at rates specified) if it is not paid within the period specified except where the delay in the payment is due to the fault of the employee and the employer has obtained permission thereon from the Controlling Authority [Section 7(3A)].

(ii) If the gratuity payable under the Act is not paid by the employer within the prescribed time to the person entitled thereto, the Controlling Authority shall issue a certificate for the amount to the Collector to recover the same along with compound interest at such rate as prescribed by the Central Government from the date of expiry of the prescribed time as land revenue arrears, to enable the person entitled to get the amount, after receiving the application from the aggrieved person (Section 8).

Before issuing the certificate for such recovery the Controlling Authority shall give the employer a reasonable opportunity of showing cause against the issue of such certificate. The amount of interest payable under the Section shall not exceed the amount of gratuity payable under this Act in no case (Section 8).

In the given case the facts are commensurate with provisions of law as stated above under Sections 7 and 8 of the Payment of Gratuity Act, 1972. Therefore, Mr. Joe is entitled to recover gratuity as he has completed the service of 30 years. The company cannot take the plea of stringent financial conditions for not paying the gratuity to Mr. Joe. On the refusal by the company, Mr. Joe can apply to the appropriate authority and the company will be liable to pay the gratuity along with interest as decided by such authority.

(b) Factors which influence the ethical behaviour at work: Ethical decisions in an organization are influenced by three key factors:

1. Individual moral standards: One may have great control over personal ethics outside workplace.
2. The influence of managers and co-workers: The activities and examples set by co-workers along with rules and policies established by the firm are critical in gaining consistent ethical compliance in an organization.
3. The opportunity to engage in misconduct: If a company fails to provide good examples and direction for appropriate conduct; confusion and conflict will develop and result in the opportunity for unethical behavior.

(c) Active Listening: Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is-"we hear but do not listen". Hearing is through ears and listening is by mind. Listening happens when we understand and message as intended by sender. Many managers are so used to helping people solve problems that their first cause of action is transforming solutions and giving advice instead of listening with full attention directed towards understanding what the co-worker or staff member needs. Therefore, every employer and worker needs a listening ear.

If one does not learn how to listen, a great deal of what people are trying to tell you would be missed. In addition, appropriate response would not be possible. Active listening is important for several reasons.

(i) It aids the organization in carrying out its missions.

(ii) It helps individuals to advance in their careers.

(iii) It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well.

(iv) It also helps in building strong personal relationships.

3. (a) (i) The cheque in the given case was crossed generally and marked 'Not Negotiable'. Thereafter, the cheque was lost or stolen and came into the possession of B, who takes it in good faith and gives value for it. Section 130 of the Negotiable Instruments Act, 1881 provides that a person taking a cheque crossed generally or specially, bearing in either case the words 'not negotiable', shall not have, and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had. In view of these provisions, Bobby, even though he was a holder in due course, did not acquire any title to the cheque as against its true owner. The addition of the words 'not negotiable' entirely takes away the main feature of negotiability, which is, that a holder with a defective title can give a good title to a subsequent holder in due course. Bobby did not obtain any better title than his immediate transferor, who had either stolen or found the cheque and was not the true owner of the cheque. Therefore, as regards the true owner, Bobby was in no better position than the transferor. Bobby is also liable to repay the amount of the cheque to the true owner. He can, however, proceed against the person from whom he took the cheque.

In the given case, both the collecting banker and the paying bankers would be exonerated. Since the collecting banker, in good faith and without negligence, had received payment for Bobby, who was its customer of the cheque which was crossed generally, the banker would not be liable, in case the title proved to be defective, to the true owner by reason only of having received the payment of the cheque for his customer (Section 131). Since the paying banker on whom the crossed cheque was drawn, had paid the same in due course, the banker would also not be liable to the true owner. (Section 128).

(ii) (a) It is wrong statement. A cheque marked "not negotiable" is a transferable instrument. The inclusion of the words 'not negotiable' however makes a significant difference in the transferability of the cheques. The holder of such a cheque cannot acquire title better than that of the transferor.

(b) As per Section 26, a minor may draw, endorse, deliver and negotiate the instrument so as to bind all parties except himself. Therefore, M is not liable. X can, thus, proceed against A.

(b) Sustainable Development: Literally sustainable development refers to maintaining development over time. It may be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interests of future generations.

Special responsibilities of industries based on natural resources: Industries that are based on natural resources, like minerals, timber, fibre, and foodstuffs etc. have a special responsibility for :

(1) adopting practices that have built-in environmental consideration.

(2) introducing processes that minimize the use of natural resources and energy, reduce waste, and prevent pollution.

(3) making products that are 'environment-friendly', with minimum adverse impact on people and ecosystem.

Green accounting systems: Conventional accounts may result in policy decisions which are non-sustainable for the country. Green accounting on the other hand is, focused on addressing such deficiencies in conventional accounts with respect to environment. If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Such measures would facilitate the approach of 'polluter pays principle'. Removing subsidies that encourage environmental damage is another measure.

There is no doubt, that with the public opinion moving towards accountable socio-economic structures, ethical and eco-friendly business practices would be standard corporate norms.

(c) Guidelines to handle communication ethics dilemmas:

(a) **Maintain candour:**Candour refers to truthfulness, honesty, frankness and one should stick to these elements while communicating with others.

(b) **Keep message accurate:** At the time of relaying information from one source to another, communicate the original message as accurately as possible.

(c) **Secrecy:** One has to maintain secrecy and confidence in communication. So one should not divulge such information to others.

(d) **Ensure timeliness of communication:** The timing of messages can be critical. Delay in sending messages can be assumed unethical.

(e) **Avoid deception:** Ethical communicators are always vigilant in their quest to avoid deception, fabrication, intentional distortion or withholding of information in their communication.

(f) **Confront unethical behaviour:** One must confront an unethical behaviour in order to ensure a consistent ethical view point.

4. (a) Irregular allotment: The Companies Act, 2013 does not separately provide for the term "Irregular Allotment" of securities. Hence, one will have to examine the requirements of a proper issue of securities and consider the consequences of non fulfilment of those requirements.

In broad terms an allotment of shares is deemed to be irregular when it has been made by a company in violation of Sections 23, 26, 39 and 40. Irregular allotment therefore arises in the following instances:

1. Where a company does not issue a prospectus in a public issue as required by section 23; or
2. Where the prospectus issued by the company does not include any of the matters required to be included therein under section 26 (1), or the information given is misleading, faulty and incorrect; or
3. Where the prospectus has not been filed with the Registrar for registration under section 26 (4);
4. The minimum subscription as specified in the prospectus has not been received in terms of section 39; or
5. The minimum amount receivable on application is less than 5% of the nominal value of the securities offered or lower than the amount prescribed by SEBI in this behalf; or
6. In case of a public issue, approval for listing has not been obtained from one or more of the recognized stock exchanges under section 40 of the Companies Act, 2013.

Effects of irregular allotment: The consequences of an irregular allotment depend on the nature of irregularity. However, the Companies Act, 2013 does not specifically mention that in case of an irregular allotment the contract is voidable at the option of the allottee.

Under section 26 (9) of the Companies Act, 2013, if a prospectus is issued in contravention of the provisions of section 26, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees and every person who is knowingly a party to the issue of such prospectus shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees, or with both.

Similarly in case the company has not received the minimum subscription amount within 30 days of the date of issue of the prospectus, it must refund the application money received by it within the stipulated time. Any allotment made in violation of this will be void and the defaulting company and officers will be liable to further punishment as provided in section 39 (5).

Under section 40 (5) any default made in respect of getting the approval to listing of securities in one or more recognized stock exchange in case of a public issue, will render the company punishable with a fine which shall not be less than five lakh rupees but which may extend to fifty lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees, or with both.

Hence, under various provisions of the Companies Act, 2013 stringent punishment has been provided for against irregular allotment of securities but the option of going ahead with such allotment even if desired by the allottee is not specifically permitted.

(b) Pragmatic reasons for maintaining ethical behaviour: Marketing executives should practice ethical behaviour because it is morally correct. To maintain ethical behaviour in marketing, the following positive reasons may be useful to the marketing executives:

1. **To reverse declining public confidence in marketing:** Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers' reputation. To reverse this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfill it. Companies must set high ethical standards and enforce them. Moreover, it is in management's interest to be concerned with the wellbeing of consumers, since they are the lifeblood of a business.

2. **To avoid increase in government regulation:** Business apathy, resistance or token responses to unethical behaviour increase the probability of more governmental regulation. The governmental limitations may also result from management's failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.

3. **To retain power granted by society:** Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.

4. **To protect the image of the organisation:** Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Sometimes a single sales clerk may pervert the market opinion in relation to that company which he represents.

Therefore, the ethical behaviour in marketing may be strengthened only through the behaviour of the marketing executives.

(c) A number of elements that can be used to describe or influence Organizational Culture and they are :-

- The Paradigm: What the organization is about; what it does; its mission; its values.
- Control Systems: The processes in place to monitor what is going on
- Organizational Structures: Reporting lines, hierarchies, and the way that work flows through the business.
- Power Structures: Who makes the decisions and how power is distributed across the organization.
- Symbols: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.
- Rituals and Routines: Management meetings, board reports and so on may become more habitual than necessary.
- Stories and Myths: build up about people and events, and convey a message about what is valued within the organization.

Communicating the corporate culture effectively is paramount. For example, at General Electric (GE), corporate values are so important to the company that Jack Welch, the former legendary CEO of the company, had them inscribed and distributed to all GE employees at every level of the Company.

5. (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 within fifteen days the altered Articles with the Registrar along with necessary documents, such as the copy of the special resolution etc, and in such manner as may be prescribed. On receipt of all documents the Registrar shall register the same.

Section 14 (3) further provides that any alterations in the Articles on registered will be valid as if they were in the original 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.Ravi will stand and Mr. Tulsian will be terminated.

(b) Section 40 (6) of the Companies Act, 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to a number of conditions which are prescribed under Companies (Prospectus and Allotment of Securities) Rules, 2014. In relation to the case given, the conditions applicable under the above Rules are as under:

(a) The payment of such commission shall be authorized in the company's articles of association;

(b) The commission may be paid out of proceeds of the issue or the profit of the company or both;

(c) The rate of commission paid or agreed to bepaid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates.

Thus, Chawla Ltd. can pay maximum commission of 2.5% of value of debentures (as provided in the Rules) or 2% (as provided in the Articles), whichever is less.

In view of the above Chawla Ltd. can pay underwriting commission not exceeding 2% as prescribed in the Articles.

The company may pay the underwriting commission in the form of flats as both the Companies Act and the Rules do not impose any restriction on the mode of payment though the source has been restricted to either the proceeds of the issue or profits of the company.

(c) **Affidavit:** An affidavit is a written statement used mainly to support certain applications and in some circumstances as evidence in court proceedings. A person who makes the affidavit is called the Deponent and must swear or affirm that the contents are true before a person who has the authority to administer oaths in respects of the particular kind of affidavit. The model form of affidavit is given below:

I..................son of.................aged.................years, residing at ...., hereby declare an oath as follows: "..Sworn on this the day of ....

Date:.......................   Signature

Place:.....................

6. (a) (i) Blank Transfers: A blank transfer is an instrument of transfer signed by the transferor in which the name of the transferee and the date of the transfer are not filled. The ownership of the shares in a company is generally transferred from one person to another by the execution of a document by the seller and the buyer. This document is variously described as a "transfer instrument" or "transfer deed" or simply "transfer". But in a blank transfer, the seller fills in his name and signs it. Neither the buyers' name nor his signature and the date of sale is filled in the transfer. This practice enables the buyer to sell it again and the subsequent buyer also can sell these shares again by the same transfer deed. This process can be used for a number of times. For such ultimate transfer and registration the first seller will be treated as the transferor.

However, under section 56 (1) of the Companies Act, 2013 a company shall not register a transfer of securities of the company, or the transfer of interest of a member in the company in the case of a company having no share capital, unless a proper instrument of transfer, in such form as may be prescribed, duly stamped, dated and executed by or on behalf of the transferor and the transferee and specifying the name, address and occupation, if any, of the transferee has been delivered to the company by the transferor or the transferee within a period of sixty days from the date of execution, along with the certificate relating to the securities, or if no such certificate is in existence, along with the letter of allotment of securities.

Therefore, blank transfers are no longer valid and no company will register such transfers.

(ii) Forged Transfers: According to Section 46(1) of the Companies Act, 2013, a share certificate once issued under the common seal of the company, specifying the shares held by any person shall be prima facie evidence of the title of the person to such shares. Therefore, in the normal course the person named in the share certificate is for all practical purposes the legal owner of the shares therein and the company cannot deny his title to the shares.

A Forged transfer is a nullity. It does not give the transferee concerned any title to the shares. If the company acts on a forged transfer and removes the name of the real owner from the Register of Members, then it is bound to restore the name of the real owner on the register as the holder of the shares and to pay him dividends which he ought to have received.

(b) Conflict Resolution: While evaluating compliance with the fundamental principles, a finance and accounting professional may be required to resolve a conflict on the application of fundamental principles. The following need to be considered, either individually or together with others, during a conflict resolution process:

(a) Relevant facts

(b) Ethical issues involved

(c) Fundamental principles related to the matter in question

(d) Established internal proceedings and

(e) Alternative course of action

Having considered these issues, the professional should determine the appropriate course of action that is consistent with the fundamental principles identified. The professional should weigh the consequences of each possible course of action. If the matter remains unresolved, the professional should consult other appropriate persons within the firm or employing organization for help in obtaining resolution. During times where a matter involves a conflict with or within an organization, the finance and accounting professional should also consider consulting those charged with governance of the organisation, such as the Board of Directors.

It may be in the best interests of the professional to document the substance of the issues and details of any discussions held or decisions taken, concerning that issue.

If a significant conflict cannot be resolved, a professional may also obtain professional advice from the relevant professional body or legal advisors and thereby obtain guidance on ethical issues without breaching confidentiality.

If, after adopting all strategies, the ethical conflict still remains unresolved, a professional should try to disassociate from the matter causing the conflict or even from the organization, if need be.

(c) **Jaipee Electronics 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/-
J.P.Dutta
Manager – H.R

7. (a) Review of orders – According to section 7B of the EPF & Miscellenous Provisions Act, 1952**,** an order passed under section 7A can be reviewed as follows:

1. Any person aggrieved by an order made under sub-section (1) of section 7A but from which no appeal has been preferred under this Act, and who, from the discovery of new and important matter or evidence which, after the exercise of

due diligence was not within his knowledge or could not be produced by him at the time when the order was made, or on account of some mistake or error apparent on the face of the record or for any other sufficient reason, desires to obtain a review of such order, may apply for a review of that order to the officer who passed the order.

2. Such officer may also on his own motion review his order if he is satisfied that it is necessary so to do on any such ground.
3. Every application for the aforesaid review shall be filed in such form and manner and within such time as may be specified in the Scheme; and
4. Where it appears to the officer receiving an application for review that there is no sufficient ground for a review, he shall reject the application.
5. Where the officer is of opinion that the application for review should be granted, he shall grant the same.
6. No appeal shall lie against the order of the officer rejecting an application for review but an appeal under this Act shall lie against an order passed under review as if the order passed under review were the original order passed by him under section 7A.

(b) Under section 102 (2) (b) in the case of any meeting other than an Annual General Meeting (AGM), all business transacted thereat shall be deemed to be special business.

Further under section 102 (1) a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting:

(a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of every director and the manager, if any or every other key managerial personnel and relatives of such persons; and

(b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the member is valid since the complete details about the issue of sweat equity should be sent with the notice. The notice is, therefore, not a valid notice under Section 102 of the Companies Act, 2013.

(c) Yes, the financial assistance to its employees by the company to enable them to subscribe for the shares of the company will amount to the company purchasing its own shares. However, section 67 (3) permits a company to the give loans to its 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.

Section 68 of the Companies Act, 2013 however, allows a company to buy back its own shares under certain circumstances and subject to fulfilment of prescribed conditions.

Purchasing in order to redemption of its preference shares, does amount to acquisition or purchase of its own shares. But this is allowed in terms of section 68 of the Companies Act, 2013 subject to the fulfilment of prescribed conditions, and upto specified limits and only after following the prescribed procedure.

(d) Apparently it seems that public interest and consumer interest are synonymous, but it is not so. They may be differentiated as under:

(i) In the name of public interest, many Governmental policies are formulated which manifest themselves in anti-competitive behaviour. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.

(ii) Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.

Public interest is something in which the society as a whole has some interest, and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and introduced which may not be in the ultimate interest of the consumers. In fact in such situations, there is the possibility that a conflict could arise between public interest and consumer interest.

(e) Notice of the First Meeting of the Board of Directors

Raghunandan Limited

To, Date

(Director)

Dear Sir/Madam,

This is to inform you that the first meeting of the Board of Directors will be held at the Registered Office of the company on 15th September, 2015 at 3 p.m. to transact the business as per the enclosed agenda.

You are requested to please attend the meeting.

Yours faithfully,

Secretary

For and on behalf of the Board of Directors

Place:

Date:

Agenda:

(i) Election of the Chairman of the Meeting.

(ii) To produce the Certificate of Incorporation, the Memorandum and the Articles of Association.

(iii) Election of the Chairman of the Company.

(iv) Appointment of Managing Director.

(v) Appointment of Secretary.

(vi) Appointment of Auditors.

(vii) Appointment of Bankers and approval of the opening of a Bank Account and its operation.

(viii) Adoption of the company's seal.

(ix) Approval of the statement of preliminary expenses by the promoters and adoption of the preliminary contracts and underwriting contracts.

(x) Any other business with the permission of the chairman.

Test Series: September, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

Suggested Answers/ Hints

1. (a) **Flexible Budget**

Activity level	**50%**	**75%**	**100%**
Production (units)	**3,200**	**4,800**	**6,400**
	Rs.	**Rs.**	**Rs.**
Sales @ Rs. 40 per unit	1,28,000	1,92,000	2,56,000
Variable costs:			
-Direct materials	24,640	36,960	49,280
-Direct Labour	51,200	76,800	1,02,400
-Power	720	1,080	1,440
-Repairs etc.	850	1,275	1,700
-Miscellaneous	270	405	540
Total variable cost	77,680	1,16,520	1,55,360
Fixed Costs:			
-Manufacturing	20,688	20,688	20,688
-Administration, selling and distribution	3,600	3,600	3,600
Total costs	1,01,968	1,40,808	1,79,648
Profit	26,032	51,192	76,352

(b) **Working notes:**

1. Time saved and wages:

Workmen	A	B
Standard time (hrs.)	40	40
Actual time taken (hrs.)	<u>32</u>	<u>30</u>
Time saved (hrs.)	<u>08</u>	<u>10</u>
Wages paid @ Rs. x per hr. (Rs.)	32x	30x

2. Bonus Plan:

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

3. Total wages:

Workman A: 32x + 4x = Rs. 36x

Workman B: 30x + 7.5x = Rs. 37.5x

Statement of factory cost of the job

Workmen	*A*	*B*
	Rs.	*Rs.*
Material cost	y	y
Wages	36x	37.5x
(Refer to working note 3)		
Works overhead	240	225
Factory cost	2,600	2,600

The above relations can be written as follows:

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

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

Subtracting (i) from (ii) we get

1.5x – 15 = 0

or 1.5 x = 15

or x = Rs. 10 per hour

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

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

(c) (i) Annual compounding

$$F_2 = 10,000 \times (1.12)^2 = 10,000 \times 1.254 = \text{Rs.}12,540$$

(ii) Half-yearly compounding

$$F_2 = 10,000 \times \left[1 + \frac{0.12}{2}\right]^{2\times 2} = 10,000 \times (1.06)^4$$

$$= 10,000 \times 1.262 \ = \text{Rs.}12,620$$

(iii) Quarterly compounding

$$F_2 = 10,000 \times \left[1 + \frac{0.12}{4}\right]^{2\times 4} = 10,000 \times (1.03)^8$$

$$= 10,000 \times 1.267 = \text{Rs.}12,670$$

(iv) Monthly compounding

$$F_2 = 10,000 \times \left[1 + \frac{0.12}{12}\right]^{2\times 12} = 10,000 \times (1.01)^{24}$$

$$= 10,000 \times 1.270 = \text{Rs.}12.700$$

(v) Continuous compounding

$$F_2 = 10,000 \times e^{(0.12)(2)} = 10,000 \times e^{0.24}$$

$$= 10,000 \times 1.2713 = \text{Rs.}12,713$$

(d) $$K_d = \frac{I(1 - T_c) + \dfrac{(RV - NP)}{N}}{\left(\dfrac{RV + NP}{2}\right)}$$

Where,

I = Annual Interest Payment

NP = Net proceeds of debentures

RV = Redemption value of debentures

T_c = Income tax rate

N = Life of debentures

(i) (a) Cost of debentures issued at par.

$$= \frac{1{,}20{,}000 \times (1-0.35) + \frac{(10{,}00{,}000 - 10{,}00{,}000)}{7}}{\left(\frac{10{,}00{,}000 + 10{,}00{,}000}{2}\right)}$$

$$= \frac{78{,}000}{10{,}00{,}000} = 7.8\%$$

(b) Cost of debentures issued at 10% discount

$$= \frac{1{,}20{,}000 \times (1-0.35) + \frac{(10{,}00{,}000 - 9{,}00{,}000)}{7}}{\left(\frac{10{,}00{,}000 + 9{,}00{,}000}{2}\right)}$$

$$= \frac{78{,}000 + 14{,}286}{9{,}50{,}000} = 9.71\%$$

(c) Cost of debentures issued at 10% Premium

$$K_d = \frac{1{,}20{,}000 \times (1-0.35) + \frac{(10{,}00{,}000 - 11{,}00{,}000)}{7}}{\left(\frac{10{,}00{,}000 + 11{,}00{,}000}{2}\right)}$$

$$= \frac{78{,}000 - 14{,}286}{10{,}50{,}000} = 6.07\%$$

(ii) Cost of debentures, if brokerage is paid at 2% and debentures are issued at par

$$K_d = \frac{1{,}20{,}000 \times (1-0.35) + \frac{(10{,}00{,}000 - 9{,}80{,}000)}{7}}{\left(\frac{(10{,}00{,}000 - 20{,}000) + 10{,}00{,}000}{2}\right)}$$

$$= \frac{80{,}857}{9{,}90{,}000} = 8.17\%$$

2. (a) (i) **Statement of Equivalent Units of Production**

INPUT			OUTPUT	EQUIVALENT Material		PRODUCTION Labour & Overhead	
Particulars	**Units**	**Particulars**	**Units**	**%**	**Units**	**%**	**Units**
Op. WIP	1,500	Work on Op. WIP	1,500	—	—	$66\frac{2}{3}$	1,000
Introduced	18,500	Introduced and completed in the period	13,500	100	13,500	100	13,500
		Transferred to next process	15,000				
		Normal Loss	2,000	—	—	—	—
		Closing WIP	5,000	90	4,500	30	1,500
			22,000		18,000		16,000
		Less: Abnormal Gain	2,000	100	2,000	100	2,000
	20,000		20,000		16,000		14,000

(ii) **Statement of Cost per Equivalent Unit for Each Cost Element**

		Cost	Equivalent Units	Cost per Equivalent Unit
	Rs.	**Rs.**		**Rs.**
Material	52,000			
Less: Scrap Value	4,000	48,000	16,000	3
Labour		14,000	14,000	1
Overheads		28,000	14,000	2

(iii) **Statement of Cost of Finished Output and Closing Work in Progress**

Particulars	Elements	Equivalent Units	Cost per Units	Cost of Equivalent Units	Total
			Rs.	**Rs.**	**Rs.**
Opening WIP *(1,500 units)*		—	—	—	15,000
Opening WIP	Material	NIL	—	—	
Opening WIP	Labour	1,000	1	1,000	
Opening WIP	Overhead	1,000	2	2,000	3,000
Units introduced and completed during the period	Material	13,500	3	40,500	

"	Labour	13,500	1	13,500	
"	Overhead	13,500	2	27,000	81,000

Total Cost of 15,000 Units of finished output 99,000

Closing WIP *(5,000 units)*	Material	4,500	3	13,500
	Labour	1,500	1	1,500
	Overhead	1,500	2	3,000
Total cost of closing WIP (5,000 units)				18,000

(iv) **Process Account – I**

	Units	Rs.		Units	Rs.
To Opening WIP	1,500	15,000	By Normal Loss	2,000	4,000
To Units introduced (Direct Material)	18,500	52,000	By Transfer to next process	15,000	99,000
To Direct Labour	—	14,000	By Closing WIP	5,000	18,000
To Overhead	—	28,000			
To Abnormal Gain *(See working note)*	2,000	12,000			
	22,000	1,21,000		22,000	1,21,000

Abnormal Gain Account

	Units	Rs.		Units	Rs.
To Process A/c I	2,000	4,000	By Process I	2,000	12,000
To Costing P & L A/c	—	8,000			
		12,000			12,000

Working Note

Total cost of Abnormal Gain: (2,000 Units) @ Rs. 6/- p.u. = Rs. 12,000

(b) Working Notes:

Company A

Financial leverage $= \dfrac{\text{EBIT}}{\text{EBT}} = \dfrac{3}{1}$ or, EBIT = 3 × EBT (1)

Again EBIT – Interest = EBT

Or, EBIT-200 = EBT …… .(2)

Taking (1) and (2) we get 3EBT- 200 = EBT

or 2 EBT = 200 or, EBT = Rs. 100

Hence EBIT = 3 EBT = Rs. 300

Again we have operating leverage = $\frac{\text{Contribution}}{\text{EBIT}} = \frac{4}{1}$

EBIT = Rs. 300, hence we get

Contribution = 4 x EBIT = Rs. 1,200

Now variable cost = $66\frac{2}{3}\%$ on sales

Contribution = $100 - 66\frac{2}{3}\%$ i.e. $33\frac{1}{3}\%$ on sales

Hence sales = $\frac{1200}{33\frac{1}{3}\%}$ = Rs. 3,600

Same way EBIT, EBT, contribution and sales for company B and C can be worked out.

Company B

Financial leverage = $\frac{\text{EBIT}}{\text{EBT}} = \frac{4}{1}$ or, EBIT = 4 EBT …….(3)

Again EBIT – Interest = EBT or EBIT – 300 = EBT …….(4)

Taking (3) and (4) we get, 4EBT- 300 = EBT

Or, 3EBT = 300 or, EBT=100

Hence EBIT = 4 x EBT=400

Again we have operating leverage = $\frac{\text{Contribution}}{\text{EBIT}} = \frac{5}{1}$

EBIT= 400 ; Hence we get contribution = 5 × EBIT =2,000

Now variable cost = 75% on sales

Contribution = 100- 75% i.e. 25% on sales

Hence Sales = $\frac{2,000}{25\%}$ = Rs. 8,000

Company C

Financial leverage = $\frac{\text{EBIT}}{\text{EBT}} = \frac{2}{1}$ = or, EBIT = 2EBT ……….. (5)

Again EBIT- Interest = EBT or EBIT– 1,000=EBT ……….. (6)

Taking (5) and (6) we get, 2EBT-1,000 = EBT or EBT =1,000

Hence EBIT = 2 x EBT = 2 x 1,000= 2,000

Again we have operating leverage = $\frac{\text{Contribution}}{\text{EBIT}} = \frac{3}{1}$

EBIT=2,000, Hence we get contribution = 3 x EBIT = 6,000

Now variable cost = 50% on sales

Contribution = 100-50 = 50% on sales

Hence sales = $\frac{6,000}{50\%}$ = Rs. 12,000

Income Statement

	A	B	C
	Rs.	**Rs.**	**Rs.**
Sales	3,600	8,000	12,000
Less: Variable cost	2,400	6,000	6,000
Contribution	1,200	2,000	6,000
Less: Fixed cost	900	1,600	4,000
EBIT	300	400	2,000
Less: Interest	200	300	1,000
EBT	100	100	1,000
Less: Tax 45%	45	45	450
EAT	55	55	550

Comments on Company's Performance:

The financial position of company C can be regarded better than that of other Companies A & B because of the following reasons:

(i) Financial leverage is the measure of financial risk. Company C has the least financial risk as it has minimum degree of financial leverage. No doubt it is true that there will be a more magnified impact on earnings per share on A and B companies than that of C due to change in EBIT but their EBIT level due to low sales is very low suggesting that such an advantage is not great.

(ii) Degree of combined leverage is maximum in company B - 20, for Company A - 12 and for Company C – 6. Clearly, the total risk (business and financial) complexion of Company C is the lowest, while that of the other firms are very high.

(iii) The ability of Company C to meet interest liability is better than that of Companies A and B.

EBIT/ Interest ratio for three companies:

$$C = \frac{2,000}{1,000} = 2\ ;\ B = \frac{400}{300} = 1.33\ ;\ A = \frac{300}{200} = 1.5$$

3. (a) Standard Quantity of materials for actual output:

P	6,000 2	12,000 units
Q	6,000 3	18,000 units
R	6,000 15	90,000 units

Standard hours for actual output:

	6,000 3	18,000 hours

Material price variance:

	$(\text{Standard price - Actual price}) \times \text{Actual quantity}$:	Rs
P	$(\text{Rs.}4.00 - \text{Rs.}4.40) \times 12,500$	5,000 (Adverse)
Q	$(\text{Rs.}3.00 - \text{Rs.}2.80) \times 18,000$	3,600 (Favourable
R	$(\text{Re.}1.00 - \text{Rs.}1.20) \times 88,500$	17,700 (Adverse)
		19,1000 (Adverse)

Material usage variance :

	$(\text{Standard usage - Actual price}) \times \text{Actual quantity}$:	Rs.
P	$(12,000 - 12,500) \times \text{Rs.}\ 4.00$	2,000 (Adverse)
Q	$(18,000 - 18,000) \times \text{Rs.}\ 3.00$	Nil
R	$(90,000 - 88,500) \times \text{Re.}1.00$	1,500 (Favourable
		500 (Adverse)

Laboure rate variance:

$(\text{Standard rate - Actual rate}) \times \text{Actual hours}$	
$(\text{Rs.}8.00 - \text{Rs.}12.00) \times 2,500$	10,000 (Adverse)
$(\text{Rs.}\ 8.00 - \text{Rs.}\ 8.00) \times 15,000$	Nil
	10,000 (Adverse)

Labour efficiency variance:

$(\text{Standard hours - Actual hours}) \times \text{Standard rate}$	
$(18,000 - 17,500) \times \text{Rs.}\ 8.00$	4,000 (Favourable)

(b) **FOODS LIMITED**

Projected Profitability Statement at 80% capacity

Units to be produced (36,000/60 × 80) = 48,000 packets

A.	Cost of Sales:			*(Rs.)*
	Raw material	Rs. 4 × 48,000	=	1,92,000
	Wages	Rs. 2 × 48,000	=	96,000
	Overheads (Variable)	Rs. 2 × 48,000	=	96,000
	Overheads (Fixed)	Re. 1 × 36,000	=	36,000
				4,20,000
B.	Profit	Rs. 3.25 × 48,000	=	1,56,000
C.	Sale value	Rs. 12 × 48,000	=	5,76,000

Alternatively:

If we assume the movement in stock levels, because of increase in capacity, i.e., from 60% to 80%, the profitability statement will be as follows:

Units to be produced (36,000/60 × 80) 48,000 packets

A. Cost of goods sold:

		Rs.
Raw Material	(4 × 48,000)	1,92,000
Wages	(2 × 48,000)	96,000
Overheads (Variable)	(2 × 48,000)	96,000
Overheads (Fixed)	(1 × 36,000)	36,000
		4,20,000
Less: Increase in stock of Materials + WIP + Finished goods *(Refer to working note)*		18,000
Adjusted cost of sales		4,02,000
B. Profit		1,62,000
C. Sales	(12 × 47,000)*	5,64,000

* Opening Stock + production – closing stock = 3,000 + 48,000-4,000= 47,000

Working Note:

Capacity		*60%*		*80%*
Number of units of production		36,000		48,000

	Cost/Unit	Rs.		Rs.
Raw material stock (1 month)	4	12,000		16,000
WIP Stock:				
Material (1 month)	4	12,000		16,000
Wages (1/2 month)	2	3,000		4,000
Variable overheads (1/2 month)	2	3,000		4,000
Fixed overheads (1/2 month)	1	1,500	(0.75)	1,500
Finished goods (1 month)	9	27,000	(8.75)	35,000
		58,500		76,500
Increase in Stock				18,000

Working Notes:

Cost of Sales-average per month

	Per annum	Per month
Raw material	1,92,000	16,000
Wages	96,000	8,000
Overheads (Variable)	96,000	8,000
Overheads (Fixed)	36,000	3,000
	4,20,000	35,000
Profit	1,56,000	13,000
Sale value	5,76,000	48,000

Projected Statement of Working Capital at 80% capacity

Current Assets			
Raw material (48,000/12 × 4)		16,000	
Work in process		25,500	
Materials (48,000 × 4 × 1/12)	16,000		
Wages (48,000 × 2 × 1/24)	4,000		
Variable overheads (48,000 × 2 × 1/24)	4,000		
Fixed overheads (48,000 × 0.75 × 1/24)	1,500		
Finished goods (48,000 × 8.75 × 1/12)		35,000	
		76,500	
Sundry debtors		96,000	
		1,72,500	
Cash balance		19,500	(A) 1,92,000
Less: Current Liabilities:			

Creditors for goods (48,000 x 4 x 3/12)	48,000	
Creditors from expenses (48,000 x 4.75 x 1/12)	19,000	(B) 67,000
Net working capital (A)–(B)		1,25,000

Note: (i) Since wages and overheads payments accrue evenly, it is assumed that they will be in process for half a month in average.

(ii) Fixed overheads per unit = Rs. 36,000/ 48,000 = Rs. 0.75

(iii) Sundry debtors may be calculated on the basis of cost of sales without considering profit element.

4. (a) Computation of EPS under three-financial plans.

Plan I: Equity Financing

	Rs.	Rs.	Rs.	Rs.	Rs.
EBIT	62,500	1,25,000	2,50,000	3,75,000	6,25,000
Interest	0	0	0	0	0
EBT	62,500	1,25,000	2,50,000	3,75,000	6,25,000
Less: Taxes 40%	25,000	50,000	1,00,000	1,50,000	2,50,000
PAT	37,500	75,000	1,50,000	2,25,000	3,75,000
No. of equity shares	3,12,500	3,12,500	3,12,500	3,12,500	3,12,500
EPS	0.12	0.24	0.48	0.72	1.20

Plan II: Debt – Equity Mix

	Rs.	Rs.	Rs.	Rs.	Rs.
EBIT	62,500	1,25,000	2,50,000	3,75,000	6,25,000
Less: Interest	1,25,000	1,25,000	1,25,000	1,25,000	1,25,000
EBT	(62,500)	0	1,25,000	2,50,000	5,00,000
Less: Taxes 40%	25,000*	0	50,000	1,00,000	2,00,000
PAT	(37,500)	0	75,000	1,50,000	3,00,000
No. of equity shares	1,56,250	1,56,250	1,56,250	1,56,250	1,56,250
EPS	(0.24)	0	0.48	0.96	1.92

* The Company will be able to set off losses against other profits. If the Company has no profits from operations, losses will be carried forward.

Plan III : Preference Shares – Equity Mix

	Rs.	Rs	Rs.	Rs.	Rs.
EBIT	62,500	1,25,000	2,50,000	3,75,000	6,25,000
Less: Interest	0	0	0	0	0

EBT	62,500	1,25,000	2,50,000	3,75,000	6,25,000
Less: Taxes (40%)	25,000	50,000	1,00,000	1,50,000	2,50,000
PAT	37,500	75,000	1,50,000	2,25,000	3,75,000
Less: Pref. dividend	1,25,000	1,25,000	1,25,000	1,25,000	1,25,000
PAT for ordinary shareholders	(87,500)	(50,000)	25,000	1,00,000	2,50,000
No. of Equity shares	1,56,250	1,56,250	1,56,250	1,56,250	1,56,250
EPS	(0.56)	(0.32)	0.16	0.64	1.60

(ii) The choice of the financing plan will depend on the state of economic conditions. If the company's sales are increasing, the EPS will be maximum under Plan II: Debt – Equity Mix. Under favourable economic conditions, debt financing gives more benefit due to tax shield availability than equity or preference financing.

(iii) EBIT – EPS Indifference Point : Plan I and Plan II

$$\frac{(\text{EBIT*}) \times (1 - T_C)}{N_1} = \frac{(\text{EBIT * –Interest}) \times (1 - T_C)}{N_2}$$

$$\frac{\text{EBIT * } (1 - 0.40)}{3,12,500} = \frac{(\text{EBIT * } - 1,25,000) \times (1 - 0.40)}{1,56,250}$$

$$\text{EBIT* } = \frac{3,12,500}{3,12,500 - 1,56,250} \times 1,25,000$$

= Rs. 2,50,000

EBIT – EPS Indifference Point: Plan I and Plan III

$$\frac{\text{EBIT * } (1 - T_c)}{N_1} = \frac{\text{EBIT * } (1 - T_c) - \text{Pref. Div.}}{N_2}$$

$$\text{EBIT* } = \frac{N_1}{N_1 - N_2} \times \frac{\text{Pref. Div.}}{1 - T_C}$$

$$= \frac{3,12,500}{3,12,500 - 1,56,250} \times \frac{1,25,000}{1 - 0.4}$$

= Rs. 4,16,666.67

(b) **Contract Statement** **(Amount in Rs.'000)**

	Contract-I (Rs.)	Contract-II (Rs.)	Contract-III (Rs.)
Balance as on 01-04-2014:			
- Work completed and certified	--	4,100	8,150
- Materials at site	--	220	310
- Plant & Machinery	--	770	3,760
Transaction during the year:			
Materials issued	870	2,150	4,020
Wages paid to workers	450	1,160	2,180
Less: Outstanding at beginning	--	(48)	(104)
Add: Outstanding at closing	52	98	146
Salary to site staffs	90	85	135
Travelling and other expenses	18	24	32
Plant issued to sites	910	240	680
Apportionment of Head office expenses	110	90	126
Total (A)	2,500	8,889	19,435
Balance as on 31-03-2015			
- Materials at site	215	152	12
- Plant & Machinery	728	808	3,552
- Work in progress:			
- Value of work certified	2,000	8,600	24,000
- Cost of work not certified	800	452	560
Estimated additional cost	--	--	720
Total (B)	3,743	10,012	28,844
Notional/ estimated profit {(B) – (A)}	1,243	1,123	9,409

(b) **Profit to be transferred to Costing Profit and Loss Account for internal purpose:**

	Contract-I	Contract-II	Contract-III
Value of Contract	17,500	14,500	24,500
Value of work certified	2,000	8,600	24,000
Percentage of completion (%)	11.43	59.31	97.96

$\left(\frac{\text{Work certified}}{\text{Value of contract}}\times 100\right)$			
Notional/ Estimated profit	1,243	1,123	9,409
Profit to be transferred to Costing Profit & loss A/c	Nil	636.37 $\left(\frac{2}{3}\times ₹1,123\times 85\%\right)$	7,484.50 {(9,409 × 97.96% × 85%) - 350}

5. (a) Advantage and Disadvantages of payback as a method of investment appraisal.

(i) Payback is a simple evaluation method and is easy to understand. However its simplicity is also one of the main criticisms of payback in that it does not take account of the time value of money. This means that cash flows that occur in Year 1 are assumed to have the same money value as the same cash flows occurring in Year 2. This problem however can be overcome by calculating the payback using discounted cash flow.

(ii) The method favours projects that pay back early thus recognising the importance of liquidity for a company. Early payback of cash flow means that the funds can be reinvested in other profitable projects sooner thus leading to increased company growth. It does however ignore cash flows, both positive and negative, after the payback point.

(iii) The method recognises the uncertainty involved with forecasting future cash flows, particularly in a rapidly changing environment. It therefore minimises the risk associated with long time horizons as projects that pay back early are selected in preference to those projects that have a long payback period that may have been acceptable using net present value. However not all risks are related to time and payback may result in many profitable investment opportunities being overlooked because the payback period is too long. It therefore should not be used on its own but in combination with other investment appraisal methods such as NPV and IRR.

(b) Difference between Fixed and Flexible Budgets

	Fixed Budget	Flexible Budget
1.	It does not change with actual volume of activity achieved. Thus it is rigid	It can be re-casted on the basis of activity level to be achieved. Thus it is not rigid.
2.	It operates on one level of activity and under one set of conditions	It consists of various budgets for different level of activity.

3.	If the budgeted and actual activity levels differ significantly, then cost ascertainment and price fixation do not give a correct picture.	It facilitates the cost ascertainment and price fixation at different levels of activity.
4.	Comparisons of actual and budgeted targets are meaningless particularly when there is difference between two levels.	It provided meaningful basis of comparison of actual and budgeted targets.

(c) The fixed overhead volume variance measures the over or under absorption of fixed production overhead cost caused by production activity being, respectively, greater than or less than that which was budgeted. A favourable variance can therefore be interpreted as measure of the effectiveness of the production effort, in showing that output objectives have been more than met, but the value assigned to this variance has little significance in the short term. The variance, moreover, has to be interpreted in context, as exceeding production targets without a matching increase in sales may be a recipe for disaster-albeit that the costing system will record increasing profits resulting from the build up of unsold stock which results from this policy. A marginal costing system does not record this variance.

(d) On one hand when cost of 'fixed cost fund' is less than the return on investment financial leverage will help to increase return on equity and EPS. The firm will also benefit from the saving of tax on interest on debts etc. However, when cost of debt will be more than the return it will affect return of equity and EPS unfavourably and as a result firm can be under financial distress. This is why financial leverage is known as "double edged sword".

Effect on EPS and ROE:

When	Effect	Result
ROI > Interest	Favourable	Advantage
ROI < Interest	Unfavourable	Disadvantage
ROI = Interest	Neutral	Neither advantage nor disadvantage

6. (a) Primary Distribution Summary

Item of cost	Basis of apportionment	Total	Production Dept.			Service Dept.	
		(Rs.)	M (Rs.)	N (Rs.)	O (Rs.)	P (Rs.)	Q (Rs.)
Lease rental	Floor space (6 : 5 : 8 : 2 : 4)	35,000	8,400	7,000	11,200	2,800	5,600
Power & Fuel	HP of Machines × Working hours (93: 144 : 72)	4,20,000	1,26,408	1,95,728	97,864	-	-

Supervisor's wages*	Working hours (31 : 40 : 30)	6,400	1,964	2,535	1,901	-	-
Electricity	Light points (21: 26: 16 : 9 : 8)	5,600	1,470	1,820	1,120	630	560
Depreciation on machinery	Value of machinery (6 : 5 : 7 : 2 : 3)	16,100	4,200	3,500	4,900	1,400	2,100
Depreciation on building	Floor space (6 : 5 : 8 : 2 : 4)	18,000	4,320	3,600	5,760	1,440	2,880
Payroll expenses	No. of employees (48: 52: 45: 15: 25)	21,000	5,448	5,903	5,108	1,703	2,838
Canteen expenses	No. of employees (48: 52: 45: 15: 25)	28,000	7,265	7,870	6,811	2,270	3,784
ESI and PF contribution	Direct wages (864: 832: 765: 180: 265)	58,000	17,244	16,606	15,268	3,593	5,289
		6,08,100	**1,76,719**	**2,44,562**	**1,49,932**	**13,836**	**23,051**

* Wages to supervisor is to be distributed to production departments only.

Let 'P' be the overhead of service department P and 'Q' be the overhead of service department Q.

$P = 13,836 + 0.15\ Q$

$Q = 23,051 + 0.10\ P$

Substituting the value of Q in P we get

$P = 13,836 + 0.15\ (23,051 + 0.10\ P)$

$P = 13,836 + 3,457.65 + 0.015\ P$

$0.985\ P = 17,293.65$

$\therefore P = \text{Rs. } 17,557$

$\therefore Q = 23,051 + 0.10 \times 17,557$

$= \text{Rs. } 24,806.70 \text{ or Rs. } 24,807$

Secondary Distribution Summary

Particulars	Total (Rs.)	M (Rs.)	N (Rs.)	O (Rs.)
Allocated and Apportioned over-heads as per primary distribution	5,71,213	1,76,719	2,44,562	1,49,932

P (90% of Rs.17,557)	15,801	5,267	6,145	4,389
Q (85% of Rs.24,807)	21,086	9,923	6,202	4,961
		1,91,909	2,56,909	1,59,282

Overhead rate per hour

	M	N	O
Total overheads cost (Rs.)	1,91,909	2,56,909	1,59,282
Working hours	1,240	1,600	1,200
Rate per hour (Rs.)	154.77	160.57	132.74

(b) (i) Cash Flow Statement

for the year ending 31st Mach, 2015

	(Rs.)	(Rs.)
A. Cash flow from Operating Activities		
Profit and Loss A/c as on 31.3.2015		3,00,000
Less: Profit and Loss A/c as on 31.3.2014		2,10,000
		90,000
Add: Transfer to General Reserve	25,000	
Provision for Tax	96,000	
Proposed Dividend	1,44,000	2,65,000
Profit before Tax		3,55,000
Adjustment for Depreciation:		
Land and Building (on building)	50,000	
Plant and Machinery	1,20,000	1,70,000
Profit on Sale of Investments		(15,000)
Loss on Sale of Plant and Machinery		9,000
Goodwill written off		20,000
Interest on 11% Debentures (see the note)		33,000
Operating Profit before Working Capital Changes		5,72,000
Adjustment for Working Capital Changes:		
Decrease in Prepaid Expenses		4,000
Decrease in Stock		15,000
Increase in Debtors		(1,27,000)

Increase in Creditors		30,000
Cash generated from Operations		4,94,000
Income tax paid		(71,000)
Net Cash Inflow from Operating Activities (a)		4,23,000
B. Cash flow from Investing Activities		
Sale of Investment		35,000
Sale of Plant and Machinery		36,000
Purchase of Plant and Machinery		(2,25,000)
Net Cash Outflow from Investing Activities (b)		(1,54,000)
C. Cash Flow from Financing Activities		
Issue of Preference Shares		1,00,000
Securities Premium received on Issue of Pref. Shares		25,000
Redemption of Debentures at premium		(2,20,000)
Dividend paid		(1,36,000)
Interest paid to Debenture holders		(33,000)
Net Cash Outflow from Financing Activities (c)		(2,64,000)
Net increase in Cash and Cash Equivalents during the year **(a + b + c)**		5,000
Cash and Cash Equivalents at the beginning of the year		88,000
Cash and Cash Equivalents at the end of the year		93,000

Working Notes:

1. **Provision for the Tax Account**

	(Rs.)		**(Rs.)**
To Bank (paid)	71,000	By Balance b/d	80,000
To Balance c/d	1,05,000	By Profit and Loss A/c	96,000
	1,76,000		1,76,000

2. **Investment Account**

	(Rs.)		**(Rs.)**
To Balance b/d	2,40,000	By Bank A/c (bal. figure)	35,000

To Profit and Loss (Profit on sale)	15,000	By Balance c/d	2,20,000
	2,55,000		2,55,000

3. **Plant and Machinery Account**

	(Rs.)		**(Rs.)**
To Balance b/d	6,00,000	By Bank (sale)	36,000
To Bank A/c (Purchase bal. figure)	2,25,000	By Profit and Loss A/c (Loss on sale)	9,000
		By Depreciation	1,20,000
		By Balance c/d	6,60,000
	8,25,000		8,25,000

Note: It is assumed that the debentures are redeemed at the beginning of the year.

(ii) Schedule of Changes in Working Capital

Particulars	**31st March**		**Change in Working Capital**	
	2014 (Rs.)	**2015 (Rs.)**	**Increase (Rs.)**	**Decrease (Rs.)**
Current Assets				
Stock	4,00,000	3,85,000	--	15,000
Debtors	2,88,000	4,15,000	1,27,000	--
Prepaid Expenses	15,000	11,000	--	4,000
Cash and Bank	88,000	93,000	5,000	--
Total (A)	7,91,000	9,04,000		
Current Liabilities				
Creditors	1,85,000	2,15,000	--	30,000
Total (B)	1,85,000	2,15,000		
Working Capital **(A – B)**	6,06,000	6,89,000		
Increase in Working Capital	83,000	--	--	83,000
	6,89,000	6,89,000	1,32,000	1,32,000

7. (a) Standard costing is a cost accounting system whose main purpose is to aid the control of costs in an environment in which operations are carried out using methods and materials which do not vary much over time, on products which will be produced over a sufficiently long time period to make work and method study and the detailed monitoring of material costs worthwhile. It is a system which controls costs at a unit level, thus each product will have its costs broken down into material, labour etc and price and efficiency variances are calculated in considerable detail.

In non-manufacturing environments, the routine and easily measurable operations on tangible units of output, which characterize many manufacturing operations, are often absent. Therefore, without a convenient cost unit whose output can be exercised by other means. One of these is budgetary control which, in less detail than in a standard costing system, nevertheless develops budgets for the various functions or departments, concerned, thereafter monitoring the costs accumulated by these much more aggregated cost units, and reporting the variance produced.

By this means, control of discretionary costs such as advertising can be achieved as well as the costs of departments such as accounting, where a wide range of quantitative and qualitative services are produced. Although control of non-manufacturing costs may be achieved by this means, it should be recognized that without a reliable measure of output, control can only ensure economy, not efficiency. Many service companies are now considering the use of work measurement techniques in order to be able to monitor employee output and therefore efficiency, which brings their control systems closer to traditional standard costing.

(b) **Debt Securitisation:** It is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this asset pool, market securities can be issued, e.g. housing finance, auto loans, and credit card receivables.

Process of Debt Securitisation

(i) *The origination function* – A borrower seeks a loan from a finance company, bank, HDFC. The credit worthiness of borrower is evaluated and contract is entered into with repayment schedule structured over the life of the loan.

(ii) *The pooling function* – Similar loans on receivables are clubbed together to create an underlying pool of assets. The pool is transferred in favour of Special purpose Vehicle (SPV), which acts as a trustee for investors.

(iii) *The securitisation function* – SPV will structure and issue securities on the basis of asset pool. The securities carry a coupon and expected maturity which can be asset-based/mortgage based. These are generally sold to investors through merchant bankers. Investors are – pension funds, mutual funds, insurance funds.

The process of securitization is generally without recourse i.e. investors bear the credit risk and issuer is under an obligation to pay to investors only if the cash flows are received by him from the collateral. The benefits to the originator are that assets are shifted off the balance sheet, thus giving the originator recourse to off-balance sheet funding.

(c) Some Common Methods of Venture Capital Financing

(i) *Equity financing*: The venture capital undertaking requires long-term funds but is unable to provide returns in initial stage so equity capital is the best option.

(ii) *Conditional Loan*: A conditional loan is repayable in the form of a royalty after the venture is able to generate sales. No interest is paid on such loans.

(iii) *Income note*: It is hybrid security; the entrepreneur has to pay both interest and royalty on sales but at substantially low rates.

(iv) *Participating debenture*: Such security carries charges in three phases - in the start-up phase, no interest is charged, next stage a low rate of interest up to a particular level of operation is charged, after that, high rate of interest is required to be paid.

(d) Cost Control and Cost Reduction:

Cost control is operated through setting standards or targets and comparing actual performance therewith, with a view to identify deviation from standards or norms and taking corrective action in order to ensure that future performance conforms to standards or norms.

Cost reduction is a continuous process of critical cost examination, analysis and discharge of standards. Each subject of business viz products, process, procedures, methods, origin, personnel etc is critically examined and reviewed with a view of improving the efficiency & effectiveness and reducing the costs. Even in an organization where efficient cost control is in operation, there is always room for cost reduction.

(e) Step method and Reciprocal Service method of secondary distribution of overheads

Step method: This method gives cognisance to the service rendered by service department to another service dep't, thus sequence of apportionments has to be selected. The sequence here begins with the dep't that renders service to the max number of other service dep't. After this, the cost of service dep't serving the next largest number of dep't is apportioned.

Reciprocal service method : This method recognises the fact that where there are two or more service dep't, they may render service to each other and, therefore, these inter dep't services are to be given due weight while re-distributing the expense of service dep't. The methods available for dealing with reciprocal servicing are:

- Simultaneous equation method
- Repeated distribution method
- Trial and error method.

Test Series: September, 2015

MOCK TEST – 1

INTERMEDIATE (IPC) – GROUP – I

PAPER – 4: TAXATION

SUGGESTED ANSWERS/HINTS

1. (a) Computation of total income of Mr. Varun& Mr. Tarun for the A.Y. 2015-16

S. No.	Particulars	Mr. Varun (Non-Resident) (Rs.)	Mr. Tarun (Resident) (Rs.)
1.	Interest on US Development Bond **(See Note 2)**	17,500	40,000
2.	Dividend from US Company received in New York **(See Note 3)**	-	20,000
3.	Profit from a business in Pune but managed directly from the US **(See Note 2)**	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India **(See Note 2)**	60,000	90,000
5.	Income from a business in Bangalore **(See Note 2)**	80,000	70,000
6.	Fees for technical services rendered in India, but received in the USA **(See Note 2)**	1,00,000	-
7.	Interest on savings bank deposit in SBI, Pune **(See Note 2)**	7,000	12,000
8.	Agricultural income from a land in Maharashtra **(See Note 4)**	-	-
9.	Income from house property at Coimbatore **(See Note 5)**	70,000	42,000
	Gross Total income	**4,34,500**	**4,14,000**
	Less: Deduction under Chapter VIA		
	Section 80C [Life insurance premium paid]	-	30,000
	Section 80TTA **(See Note 6)**	7,000	10,000
	Total Income	**4,27,500**	**3,74,000**

Notes:

1. Mr. Varun is a non-resident since he has been living in the USA since 2001 Mr. Tarun, who is settled in Pune, is a resident.
2. In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

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

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

   Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Varun, even though he is a non-resident.

   The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Varun and Mr. Tarun since they accrue or arise in India.

   Interest on US Development Bond would be fully taxable in the hands of Mr. Tarun, whereas only 50% which is received in India is taxable in the hands of Mr. Varun.
3. Dividend received from a US company in New York by Mr. Varun is not taxable since it accrues and is received outside India. However, dividend received by Mr. Tarun is taxable, since he is a resident. Exemption under section 10(34) would not be available in respect of dividend received from a foreign company.
4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
5. Income from house property-

	Mr. Varun (Rs.)	**Mr. Tarun (Rs.)**
Rent received	1,00,000	60,000
Less: Deduction under section 24 @ 30%	30,000	18,000
Net income from house property	**70,000**	**42,000**

   The net income from house property in India would be taxable in the hands of both Mr. Varun and Mr. Tarun, since the accrual and receipt of the same are in India.

6. In case of an individual, interest upto Rs. 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA.

(b) Services provided by the Government or a local authority are not chargeable to service tax as they are included in the negative list. However, following services provided to a person other than Government, by the Department of Posts are excluded from the negative list:-

(i) Speed post

(ii) Express parcel post

(iii) Rural postal Life Insurance

(iii) Agency services which include distribution of mutual funds, bonds, passport applications, collection of telephone and electricity bills, etc.

Hence, the aforesaid services are taxable.

Thus, the amount of service tax payable by the Department of Posts for the quarter ended 31.03.2015 would be as follows:-

Particulars	**Amount (Rs. in lakh)**
Basic mail services	Nil
Transfer of money through money orders	Nil
Rural postal life insurance services	200
Distribution of mutual funds, bonds and passport applications	500
Issuance of postal orders	Nil
Collection of telephone and electricity bills	100
Speed post services	500
Express parcel post	200
Value of taxable service	1,500
Service tax @ 12% [15,00,00,000×12%]	180
Education cess @ 2% [1,80,00,000×2%]	3.6
Secondary and higher education cess @ 1% [1,80,00,000×1%]	1.8
Service tax liability	185.40

2. (a) Taxability of the different types of income received

S.No.	**Taxable/Not Taxable**	**Amount liable to tax (Rs.)**	**Reason**
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).

(ii)	Not Taxable	-	Pension received by Mr. A, a former Central Government employee, who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Not Taxable	-	Any income of a political party registered under section 29A of the Representation of the People Act, 1951 which is chargeable, *inter alia*, under the head "Income from house property" is exempt under section 13A provided the political party maintains such books of account as would enable the Assessing Officer to properly deduce its income therefrom and the accounts are audited by a chartered accountant.
(iv)	Taxable	2,25,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.

(b) Computation of export duty

Particulars	Amount (Rs.)
Assessable value of the export goods	55,00,000
Export duty @ 8% [Refer Note below]	4,40,000

Note: In case of goods entered for export, the rate of duty shall be the rate in force on the date on which the proper officer makes an order permitting clearance and loading of the goods for exportation.

(c) If a tax has been levied on sale or purchase of any declared goods inside a State and the same goods are subsequently sold in the course of inter-state trade or commerce and is subjected to tax under the CST Act, sales tax paid has to be reimbursed to the dealer. However, sales tax paid within the state can be reimbursed only when the CST has been paid subsequently and not otherwise.

Hence, in this case, Mr. P can claim refund of tax paid within the State after payment of central sales tax in respect of such declared goods.

3. (a) Computation of Taxable Salary of Mr. Subash for A.Y. 2015-16

Particulars	Rs.
Basic salary [(Rs. 50,000 × 7) + (Rs. 60,000 × 5)]	6,50,000

Dearness Allowance (40% of basic salary)	2,60,000
Bonus (Rs. 50,000 + 40% of Rs. 50,000) (**See Note 1**)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs. 6,50,000 (**See Note 4**)	26,000
Professional tax paid by employer	2,000
Perquisite of motor car (Rs. 2,400 for 5 months) (**See Note 5**)	12,000
Gross Salary	**10,20,000**
Less: **Deduction under section 16**	
Professional tax (**See Note 6**)	3,000
Taxable Salary	**10,17,000**

Notes:

1. Since bonus was paid in the month of September, the basic salary of Rs. 50,000 for the month of September is considered for its calculation.
2. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
3. Mr. Subash can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

   It is assumed that the Leave Travel Concession was availed for journey within India.
4. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
5. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2014, therefore the perquisite value has been calculated for 5 months.
6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Subash. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs. 3,000 is provided from salary.

(b) Computation of CENVAT credit available with Sahu Motors Ltd.:

Particulars	**Amount [Rs.]**
Sales promotion services [Note 1]	1,00,000
Market research for the new car launched by Sahu Motors Ltd. [Note 1]	2,00,000
Quality control services [Note 1]	1,00,000
Routine maintenance of the cars manufactured by Sahu Motors Ltd. [Note 2]	50,000
Insurance of the cars manufactured [Note 2]	70,000
Outdoor catering services provided to the employees [Note 3]	Nil
Total CENVAT credit available	5,20,000

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 Sahu 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.

(c) Since Legal Metrology Act, 2009 requires declaration of retail sale price on the package of shoes and shoes are also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of RSP less abatement.

Particulars	**Rs.**
MRP marked on the package of a pair of shoes	2,000
Less: Abatement @ 40% of RSP [40% of Rs. 2,000]	800
Value for purpose of excise duty	1,200
Excise duty @ 12% [12% of Rs. 1,200]	144
Education cess @ 2% [2% of Rs. 144]	2.88
Secondary and Higher Education Cess @ 1% [1% of Rs. 144]	1.44
Total excise duty payable (rounded off)	**148**

4. (a) Computation of income from each house property owned by Mr. Ashish

(Rs.)

	Particulars	House I	House II	House III	House IV	House V
(i)	Municipal Value	1,20,000	2,40,000	1,10,000	90,000	75,000
(ii)	Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
(iii)	**Higher of (i) & (ii)**	**1,50,000**	**2,40,000**	**1,14,000**	**90,000**	**80,000**
(iv)	Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
(v)	**Expected rent [Lower of (iii) & (iv)]**	**1,08,000**	**2,40,000**	**1,14,000**	**90,000**	**78,000**
(vi)	Actual rent received / receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
GAV [Higher of (v) & (vi)]		**1,80,000**	**2,40,000**	**1,20,000**	**1,08,000**	**78,000**
Less: Municipal taxes paid		6,000	12,000	5,500	4,500	3,750
Net Annual Value (NAV)		**1,74,000**	**2,28,000**	**1,14,500**	**1,03,500**	**74,250**
Less: 30% of NAV		52,200	68,400	34,350	31,050	22,275
Interest on loan		75,000	-	56,000	-	-
Income from house property		**46,800**	**1,59,600**	**24,150**	**72,450**	**51,975**

Income from house property of Mr. Ashish for the A.Y.2015-16 = Rs. 3,54,975 (i.e., Rs. 46,800 + Rs. 1,59,600 + Rs. 24,150 +Rs. 72,450 + Rs. 51,975)

Note - As per section 23(1) Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

(b) **(i)** As per rule 3 of the Point of Taxation Rules, 2011, advances received are taxable at the time of receipt of such advances. Thus, the point of taxation of the advance received by X & Co. from the client is 30.03.2015. It is immaterial that services have not been provided subsequently and the money was returned on 12.04.2015.

Further, the amount of service tax included in the amount refunded (Rs. 12,360) in the next month i.e. April, 2015 would be adjusted against service tax liability of subsequent periods.

(ii) Rule 3 of the Point of Taxation Rules, 2011 provides that in case invoice has been issued within 30 days of completion of service, point of taxation is date of invoice or date of receipt of payment whichever is earlier. In this case, provision of services has been completed on 31st July, 2014 and invoice has been issued on 10.08.2014 (within 30 days of completion of service). Thus, point of taxation, in the given case, is date of invoice (10.08.2014) or date of receipt of payment (04.08.2014) whichever is earlier, i.e., 4th August, 2014.

(c) **Computation of Net VAT liability**

Particulars	**Rs.**
Purchase price of goods acquired from local market excluding VAT (input tax credit does not form part of cost of production) Rs. $\left[52,00,000 \times \frac{100}{104}\right]$	50,00,000
Transportation, insurance etc.	20,000
Cost of production	50,20,000
Profit @ 14% on cost of production	7,02,800
Total Sales	57,22,800
Output VAT payable @ 12.5%	7,15,350
Less: Input tax credit [VAT paid on goods acquired from local market is eligible for input tax credit]	2,00,000
Net VAT payable	**5,15,350**

5. **(a)** **(i)** As per section 32AC(1), manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15, if the same exceeds Rs. 100 crore.

Further, sub-section (1A) to section 32AC provides that deduction @15% would be available to a manufacturing company which acquired and installed new plant and machinery for a sum exceeding Rs. 25 crore in the F.Y. 2014-15.

In this case, ABC Ltd. is not entitled for deduction under section 32AC(1), since the aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15 does not exceed Rs. 100 crore. However, it would be entitled for deduction of Rs. 4.5 crore (15% of Rs. 30 crore) under section 32AC(1A), in respect of the new plant and machinery acquired and installed during the financial year 2014-15, since the amount of investment made during the previous year 2014-15 exceeds Rs. 25 crore.

The deduction under section 32AC would be in addition to the deduction under section 32 in respect of depreciation and additional depreciation.

Computation of depreciation and additional depreciation under section 32

Particulars	Rs. (in crores)
Written down value as on 01.04.2014 **(See Note below)**	45.50
Add: Plant and Machinery acquired during the previous year 2014-15	30.00
Written down value as on 31.03.2015	**75.50**
Less: Normal Depreciation @ 15%	11.33
Less: Additional Depreciation (20% of Rs. 30 crore)	6.00
WDV as on 01.04.2015	**58.17**
Total deduction under section 32 (Rs.11.33 crore + Rs. 6.0 crore)	**17.33**

Notes:

1. **Computation of written down value as on 1st April 2014**

Cost of the machinery acquired	70.00 crore
Less: Normal Depreciation @ 15%	10.50 crore
Less: Additional Depreciation@ 20%	14.00 crore
Written Down Value as on 01st April 2014	**45.50 crore**

2. It has been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2013-14 and P.Y 2014-15.

3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.

(ii) As per section 40(a)(i), interest, royalty, fee for technical services or other sum chargeable under the Act which is payable to a non-resident is not allowable as deduction while computing business income if tax on such payment has not been deducted during the previous year or after deduction, is not paid on or before the due date specified for filing of return under section 139(1).

In the present case, LMN Ltd deducted tax at source on payment made to a non-resident in the previous year 2014-15 and deposited such amount on 31.08.2015, before the due date under section 139(1) i.e., 30th September 2015. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

(iii) Under section 37(1), only expenditure, not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Explanation 2 to section 37 provides that any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of Rs.1,80,000 incurred by Bus & Train Pvt. Ltd. towards CSR expenditure referred to in section 135 of the Companies Act, 2013 shall not be allowed as deduction under section 37.

However, the *Explanatory Memorandum* to the Finance (No.2) Bill, 2014 clarifies that CSR expenditure, which is of the nature described in sections 30 to 36, shall be allowed as deduction under these sections subject to fulfilment of conditions, if any, specified therein.

Therefore, if the CSR expenditure incurred by Bus & Train Pvt. Ltd. is of the nature described in sections 30 to 36, the same would be allowed as deduction under the respective section, subject to fulfilment of the conditions prescribed thereunder.

(iv) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined thereunder. 100% of the capital expenditure is available in respect specified business *inter alia* business of warehousing facility for storage of sugar. Therefore, in this case, Growth & Co. would be eligible for deduction of Rs. 72,00,000 (100% of Rs. 72 lakhs), in the P.Y. 2014-15. No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

Yes, the answer would be different, if the company has set up a warehousing facility of food grain. As per section 35AD(1A), a weighted deduction of 150% of the capital expenditure is available in respect of certain specified businesses which include *inter alia* business of warehousing facility for storage of agricultural produce. Therefore, Rs. 1,08,00,000, being 150% of Rs. 72 lakhs, would be allowable as deduction under section 35AD in the hands of Growth& Co. in the P.Y. 2014-15.

(c) As per section 66D of Finance Act, 1994, services by way of *inter alia* —

(i) pre-school education and education up to higher secondary school or equivalent;

(ii) education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force

are included in the negative list of services.

Therefore, service tax will not be leviable on services relating to education rendered by the play school (pre-school), 'Tiny Tots' and the higher secondary school, 'Pinnacle Academy' run by Shikshit, the Educational Trust.

Since, coaching given by private coaching institutes/centres is not a part of a curriculum for obtaining recognized qualification, the same is not covered under the negative list of services. Therefore, coaching classes for IIT JEE entrance examination and CPA examinations will not be covered under negative list of services and thus, will be liable to service tax. It is immaterial that coaching is given to economically weak students or for a national level entrance examination or an international examination.

(d) DNCG will be required to furnish to the Superintendent of Central Excise, at the time of filing the return for the first time, a list of following documents in duplicate:

(a) all the records prepared or maintained by the assessee for accounting of transactions in regard to

(i) providing of any service, whether taxable or exempted;

(ii) receipt or procurement of input services and payment for them;

(iii) receipt, purchase, manufacture, storage, sale or delivery, as the case may be, in regard to inputs and capital goods;

(iv) other activities such as manufacture and sale of goods, if any.

(b) all other financial records maintained by him in the normal course of business.

6. (a) Computation of eligible deduction under Chapter VI-A of Mr. Malik for A.Y. 2015-16

Particulars	Rs.	Rs.
Deduction under Section 80C		
LIC premium paid Rs. 40,000	20,000	

[Limited to 10% of policy value, since policy has been taken on or after 1.04.2012 (10% x Rs. 2,00,000)]		
Contribution to PPF.	1,20,000	
Repayment of housing loan to HDFC	40,000	
	1,80,000	
Deduction allowed under section 80C, restricted to	1,50,000	
Deduction under section 80CCC		
Payment to LIC Pension Fund	30,000	
	1,80,000	
Deduction limited to Rs. 1,50,000 as per section 80CCE		1,50,000
Deduction under section 80D		
Payment of medical insurance premium Rs. 22,000 for self, wife and dependent children. Deduction limited to Rs. 15,000.	15,000	
Medical insurance premium paid for non-dependant parents Rs. 32,000 (restricted to Rs. 20,000, being the limit applicable for senior citizens)	20,000	35,000
Deduction under section 80CCG		
Mr. Malik would be eligible for deduction under section 80CCG in respect of investment made in Equity Oriented Fund of Rajiv Gandhi Equity Savings Scheme, 2013, since his gross total income does not exceed Rs. 12,00,000 and he is a new retail investor. The allowable deduction would be Rs. 20,000, being 50% of Rs. 40,000, since the same is within the limit of Rs. 25,000.		20,000
Deduction under section 80GGC		
Donation to BJP by crossed cheque		50,000
Eligible deduction under Chapter VI A		**2,55,000**

(b) As per rule 4 of Service Tax Rules, 1994, where a person, liable for paying service tax on a taxable service provides such service from more than one premises or offices and has centralised billing/accounting system in respect of such service, and such centralised billing/accounting systems are located in one or more premises, he may, at his option, register such premises or offices from where centralised billing/accounting systems are located.

However, if such assessee does not have any centralized billing/accounting systems, he shall make separate applications for registration in respect of each of such premises or offices to the jurisdictional Superintendent of Central Excise.

Therefore, since Achievers Academy provides coaching from different centres spread across the country, it can opt for centralized registration if it has centralized billing/accounting system located at one or more of its centres. However, if it does not have any centralized billing/accounting systems, it shall have to obtain separate registration for each of its centres.

(c) A person who carries out actual manufacturing process is considered as 'manufacturer' for the purpose of levy of central excise duty even if raw material is supplied by someone else and goods are manufactured as per the specifications of such person. In other words, ownership of raw material is not relevant.

Therefore, in this case, S(tailor), being the actual manufacturer, will be treated as 'manufacturer' for purpose of levy of excise duty even though the cloth (raw material) for making shirt is provided by R and the shirt is stitched as per his specifications.

7. (a) (i) Section 194A requiring deduction of tax at source on any income by way of interest, other than interest on securities, credited or paid to a resident, excludes from its scope, income credited or paid by a firm to its resident partner. Therefore, no tax is required to be deducted at source under section 194A on interest on capital of Rs. 15,000 and Rs. 25,000 paid by the firm, M/s Delta, to its resident partners Mr. Atul and Mr. Vipul.

(ii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Bhatia (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source under section 194J is not attracted in this case since, the fees for professional service paid to Dr. Pawan Puri is for personal purpose i.e. for the purposes of surgery on a member of the family.

(iii) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on or after 1.4.2012, the maturity proceeds of Rs. 5.50 lakhs are not exempt under section 10(10D) in the hands of Mr. Sunil, a resident individual. Therefore, tax is required to be deducted@2% under section 194DA on the maturity proceeds of Rs. 5.50 lakhs payable to Mr. Sunil, at the time of payment.

(b) **(i)** **False**: As per Explanation to section 139(9), the return of income shall be regarded as defective return unless the tax, together with interest, if any payable in accordance with the provisions of section 140A has been paid on or before the date of furnishing the return.

However, the defective return would be treated as invalid, only if the individual fails to rectify the defect within a period of 15 days from the date of intimation of the defect to him by the Assessing Officer or within such further period, as the Assessing Officer may allow, on an application made by such individual in this behalf.

(ii) **False**: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

(c) Person liable to pay service tax in relation to purchase or sale of foreign currency, including money changing, has an option to pay an amount at the following rates instead of paying service tax at the rate of 12%:-

For an amount	**Service tax shall be calculated at the rate of**
Upto Rs. 100,000	0.12 % of the gross amount of currency exchanged or Rs. 30 whichever is higher
Exceeding Rs. 1,00,000 and upto Rs. 10,00,000	Rs. 120 + 0.06 % of the (gross amount of currency exchanged - Rs. 1,00,000)
Exceeding Rs. 10,00,000	Rs. 660 + 0.012 % of the (gross amount of currency exchanged - Rs. 10,00,000) or Rs. 6,000 whichever is lower

However, the person providing the service shall exercise such option for a financial year and such option shall not be withdrawn during the remaining part of that financial year.

Therefore, Mr. Sai, being a money changer, has an option to pay service tax at the aforementioned rates.

(d) Services provided by a performing artist in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, excluding services provided by such artist as a brand ambassador are exempt from service tax vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012.*

Since Ms. Shilpi Kapoor is the brand ambassador of ‘Alwayz Young’ soap manufactured by Krishna Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by Krishna Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to service tax. The fact that the proceeds of the concert will be donated to a charitable organization will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.