PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2019 EXAMINATION

A. Applicable for November, 2019 examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

(I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;

(II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

II. Amendments in Schedule V to the Companies Act, 2013

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading "REMUNERATION", in Section II -,

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in the first para, the words "without Central Government approval" shall be omitted;

(c) in item (A), in the proviso, for the words "Provided that the above limits shall be doubled" the words "Provided that the remuneration in excess of above limits may be paid" shall be substituted;

(d) in item (B), for the words "no approval of Central Government is required" the words "remuneration as per item (A) may be paid" shall be substituted;

(e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-

"(ii) the company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

(f) in item (B), in second proviso, in clause (iii), the words "the limits laid down in" shall be omitted;

In PART II, under the heading "REMUNERATION", in Section III, –

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in first para, the words "without the Central Government approval" shall be omitted;

(c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted;

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

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

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

IV. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading)	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.

			(e) Stores and spares (f) Loose tools (g) Others (specify nature)".	
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in Supplementary Material on AS 10 at the link: https://resource.cdn.icai.org/44440bos34351.PDF. AS 10 Property, Plant and equipment (2016) has also been incorporated in the revised chapter 1 "Accounting Standards" uploaded on the BoS knowledge portal at the link: https://resource.cdn.icai.org/38480

				bos28154-mod1-cp1.pdf
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.

	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'Miscellaneous expenditure' in Schedule III to the Companies Act, 2013

Note: The above mentioned amendments have also been incorporated in the revised Chapters 1, 2 and 6 of the Study Material and uploaded on the BoS Knowledge portal of the Institute's website.

B. <u>Not applicable for November, 2019 examination</u>

Non-Applicability of Ind ASs for November, 2019 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2019 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		₹	Particulars		₹
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans: Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Deposits (unsecured):		
General Charges		16,500	Short -Term	1,500	
Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000	Long -term	3,300	4,800
			Trade payables		3,27,000
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			**24,34,200**

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2019 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is ₹ 1,000.
7. The Taxation provision of 40% on net profit is considered.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2019

Liabilities	₹
Authorised capital:	
15,000, 14% preference shares of ₹ 100	15,00,000
1,50,000 Equity shares of ₹ 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of ₹ 100 each fully paid	15,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to the Companies Act, 2013.

Cash flow statement

2. From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheets

	Particulars	Note	31.03.2019 (₹)	31.03.2018 (₹)
I	EQUITY AND LIABILITES			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000
	(c) Short term Provisions (provision for tax)		32,000	28,000
	Total		5,66,000	4,37,000
II	ASSETS			
	(1) Non current Assets			
	(a) Tangible Assets	4	2,66,000	1,90,000
	(b) Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2) Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		5,66,000	4,37,000

Note 1: Share Capital

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	3,50,000	3,00,000

Note 2: Reserves and Surplus

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
General Reserve	30,000	20,000

Profit and Loss A/c	27,000	18,000
Capital Reserve	25,000	______
Total	82,000	38,000

Note 3: Current Liabilities

Particulars	31.03.2019(₹)	31.03.2018 (₹)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	2,66,000	1,90,000

Additional Information:

(i) ₹ 18,000 depreciation for the year has been written off on Plant and Machinery and no depreciation has been charged on Land and Building.

(ii) A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

(iii) A plant was sold for ₹ 12,000 WDV being ₹ 15,000 on the date of sale (after charging depreciation).

(iv) Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.

(v) An interim dividend of ₹ 10,000 including Dividend Distribution Tax has been paid.

(vi) Non-current investments given in the balance sheet represents investment in shares of other companies.

(vii) Amount of provision for tax existing on 31.3.2018 was paid during the year 2018-19.

Profit/Loss prior to Incorporation

3. Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2018 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2019 is as under:

Happy Ltd.

Profit & Loss A/c for the year ending March 31, 2019

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

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

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

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2015-16 has been deducted from bad debts mentioned above.

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

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2018 for which rent was ₹ 2,400 per month.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000

Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 20X1 after bonus issue.

Internal Reconstruction of a Company

5. The summarised Balance Sheet of Preet Limited as on 31st March 2019, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Authorised and subscribed capital:		Fixed Assets:	
20,000 Equity shares of ₹ 100 each fully paid	20,00,000	Machineries	7,00,000
Unsecured loans:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000
Accrued interest	90,000	Trade receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

(i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.

(iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.

(v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Amalgamation of Companies

6. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2019 were as under:

P Limited
Balance Sheet as at 31.03.2019

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserves & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8 % Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total	3,34,000
II. Assets	
1. Non-current Assets	
(a) Property, Plant & Equipment	
(i) Building at cost less Depreciation	1,00,000
(ii) Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at bank	30,000
Total	3,34,000

Q Limited
Balance Sheet as at 31.03.2019

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserves & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total	5,45,000
II. Assets	
1. Non-current assets	
(a) Property, Plant & Equipment	
(i) Building at cost less depreciation	1,90,000
(ii) Plant & Machinery at cost less depreciation	80,000
(iii) Furniture & Fixture at cost less depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at bank	58,000
Total	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The Trade receivables of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the trade payables are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% 11,000 debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2019, the date of completion of amalgamation.

Average Due Date

7. Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2018	₹ 3,000	for 4 months
18th April 2018	₹ 5,500	for 3 months
25th May 2018	₹ 3,000	for 6 months
5th June 2018	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.

Account Current

8. From the following transactions in the books of Mr. Perfact, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2019. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2019		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

Self – Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2019:

	(₹)
Debit balances in Debtors Ledger on 01-04-2019	1,79,100
Credit balances in Debtors Ledger on 01-04-2019	4,700

Transactions during the month of April, 2019 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2019	4,900

Financial Statements of Not-For-Profit Organizations

10. Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Accounts from Incomplete Records

11. Following is the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	*31.03.2018*	*31.03.2019*
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In ₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.

(ii) Office equipment was sold at its book value on 01.04.2018.

(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019.

Hire Purchase Transactions

12. Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2016 on the following terms (for both cars):

Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Srikumar provides depreciation @ 25% on the diminishing balances.

On 31.3.2019 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Cars Account in the books of Srikumar assuming books are closed on March 31, every year.

Figures may be rounded off to the nearest rupee.

Investment Accounts

13. A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2018 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again

purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2018 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis.

Insurance Claim for loss of stock

14. On 2.6.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	₹
Stock at cost on 1.4.2018	1,35,000
Stock at 90% of cost on 31.3.2019	1,62,000
Purchases for the year ended 31.3.2019	6,45,000
Sales for the year ended 31.3.2019	9,00,000
Purchases from 1.4.2019 to 2.6.2019	2,25,000
Sales from 1.4.2019 to 2.6.2019	4,80,000

Sales up to 2.6.2019 includes ₹ 75,000 being the goods not dispatched to the customers. The sales (invoice) price is ₹ 75,000.

Purchases up to 2.6.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 2.6.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Issues in Partnership Accounts

15. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed ₹ 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2014	2015	2016	2017
	₹	₹	₹	₹
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	₹	*Assets*	₹
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin.

Accounting in Computerized Environment

16. A large size hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

17 (a) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

(v) There is no single list of accounting policies which are applicable to all circumstances.

AS 2 Valuation of Inventories

(b) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. You are required to ascertain the value of closing stock?

AS 3 Cash Flow Statements

18. (a) Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on them:

(1) to suppliers

(2) to employees

(3) to its subsidiaries companies

(ii) Investment made in subsidiary Smart Ltd. and dividend received

(iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advance given to suppliers

Discuss in the context of AS 3 Cash Flow Statement.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

(b) In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Remainder of building	50	₹ 55,00,000
		₹ 90,00,000

Calculate depreciation for the year 2016-17 as per componentization method. After 25 years, when the roof will require replacement at the end of its useful life, the carrying amount will be nil and the cost of replacing the roof will be recognized as a new component.

AS 7 Construction Contracts

19. (a) On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31st March, 2019 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Accounting for Construction Contracts."

AS 9 Revenue Recognition

(b) The Board of Directors decided on 31.3.2019 to increase the sale price of certain items retrospectively from 1st January, 2019. In view of this price revision with effect from 1st January 2019, the company has to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. Accountant cannot make up his mind whether to include ₹ 15 lakhs in the sales for 2018-2019. Advise.

AS 10 Property, Plant and Equipment

20. (a) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000

per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

AS 13 Accounting for Investments

(b) Z Bank has classified its total investment on 31-3-2018 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines.

'Held to maturity' investments are carried at acquisition cost less amortized amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. Comment whether the policy of the bank is in accordance with AS 13?

SUGGESTED ANSWERS/HINTS

1. (a) Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2019

(₹)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240

	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2019

	Particulars		Note	Amount
1	**Equity and Liabilities**			
	(i) Shareholders' funds			
	(a) Share Capital			3,15,000
	(b) Reserves and surplus		1	50,430
2)	**Non-current liabilities**			
	(a) Long-term borrowings		2	23,300
(3)	**Current Liabilities**			
	(a) Short -term borrowings		3	6,000
	(b) Trade payables			3,27,000
	(c) Other current liability		4	73,000
	(d) Short term provision		5	19,620
				8,14,350
II	**ASSETS**			
(1)	**Non current assets**			
	(a) Property, Plant & equipment			
	(i) Tangible assets		6	2,04,160
	(b) Non-current investments			7,500
(2)	**Current assets**			
	(a) Current investments			4,500
	(b) Inventories		7	85,800

	(c) Trade receivables			2,38,500
	(d) Cash and cash equivalents			2,71,100
	(e) Short-term loans and advances		8	2,490
	(f) Other current assets		9	300
				8,14,350

Notes to accounts

No	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend including DDT		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits: Unsecured		3,300	23,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	73,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**Tangible Assets**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		

	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300
10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		
	Stores & spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

(b) Computation of Effective Capital

	₹
Paid-up share capital-	
15,000, 14% Preference shares	15,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000
15% Debentures	65,00,000
(A)	1,76,95,000

Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A–B)	86,70,000

2. Cash flow Statement for the year ending 31st March, 2019

		Particulars	₹	₹
1		**Cash Flow from Operating Activities**		
	A.	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000
	B.	Net profit before taxation, and extra-ordinary item		98,000
	C.	*Add:* Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000
	D.	*Less:* Dividend Income		(1,500)
	E.	Operating profit before working capital changes [B + C - D]		1,30,500
	F.	*Add:* Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G.	*Less:* Increase in Trade Receivables		(33,000)
	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
II.		**Cash Flows from investing activities:**		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000

		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
III.		**Cash Flows from Financing Activities:**		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
IV.		**Net increase in cash and cash equivalents (I+II+III)**		15,000
V.		**Cash and cash equivalents at beginning of period**		17,000
VI.		**Cash and cash equivalents at end of period (IV+V)**		32,000

1. **Land and Building Account**

Particulars	₹	*Particulars*	₹
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	1,25,000		1,25,000

2. **Plant and Machinery Account**

Particulars	₹	*Particulars*	₹
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		2,24,000

3. **Investments Account**

Particulars	₹	*Particulars*	₹
To Balance b/d	10,000	By Bank A/c (Div. received)	600

To bank A/c (Purchase	25,600	By Balance c/d	35,000
	35,600		35,600

3. Pre-incorporation period is for two months, from 1st April, 2018 to 31st May, 2018. 10 months' period (from 1st June, 2018 to 31st March, 2019) is post-incorporation period.

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

		Pre-Inc ₹	***Post Inc*** ₹
Gross Profit		50,000	4,00,000
Bad debts Recovery		14,000	
		64,000	4,00,000
Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	–	36,000
	Rent	4,000	34,400
Net Profit		24,000	1,09,350

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales

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

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

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

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

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

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

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

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

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

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2015-16.

(viii) Rent

(₹ 38,400 – Additional rent for 6 months)		₹
[38,400- 14,400 (2,400 x 6) = ₹ 24,000 i.e. 2,000 per month]		
1/4/18 -31/5//18 (2,000 x 2)	=	4,000
1/6/18-31/3/19 – [(2,000 x 10) +14,400]	=	<u>34,400</u>
		<u>38,400</u>

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

			₹	₹
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

5. In the books of Preet Limited

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c	Dr.	3,00,000	
	Accrued Interest A/c (proportionate 50%)	Dr.	45,000	
	To Reconstruction A/c			3,45,000
	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	1,04,000	
	To Reconstruction A/c			1,04,000

	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	11,71,000	
	To Profit & Loss A/c			11,60,000
	To Capital Reserve A/c			11,000
	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)			

Preet Limited (and reduced)

Balance Sheet as on 31st March, 2019

	Particulars	*Notes No.*	₹
	Equity and Liabilities		
1	Shareholders' funds		
	a) Share capital	1	12,78,000
	b) Reserves and Surplus	2	11,000
2	Non-current liabilities		
	Long-term borrowings	3	3,00,000
3	Current liabilities		
	a) Other current liabilities	4	45,000
	b) Short-term provisions	5	72,000
	Total		17,06,000

	Assets		
1	Non-current assets		
	a) Property, Plant & Equipment		
	i) Tangible assets	6	7,00,000
2	Current assets		
	a) Inventories		5,06,000
	b) Trade receivables		4,60,000
	c) Cash and cash equivalents	7	40,000
	Total		17,06,000

Notes to Accounts

		₹
1.	**Share Capital**	
	1,07,800, Equity shares of ₹ 10 each	10,78,000
	20,000, 10% Preference shares of ₹ 10 each	2,00,000
		12,78,000
	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	**Reserves and Surplus**	
	Capital Reserves	11,000
3.	**Long-term borrowings**	
	Unsecured	
	15% Debentures	3,00,000
4.	**Other current liabilities**	
	Accrued Interest on 15% Debentures	45,000
5.	**Short-term provisions**	
	Provision for income tax	72,000
6.	**Tangible assets**	
	Machineries	7,00,000
7.	**Cash and cash equivalents**	
	Balances with banks	40,000

6. **Calculation of Purchase Consideration**

	P Ltd. (₹)	*Q Ltd.* (₹)
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000
Less: Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited

Balance Sheet as at 1st April, 2019

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000

II.	**Assets**		
	(1) Non-current assets		
	Property, Plant & Equipment		
	Tangible	4	4,30,000
	Intangible	5	2,00,000
	(2) Current Assets		
	a) Inventories		1,85,000
	b) Trade Receivables		1,42,000
	c) Cash at Bank		58,000
	Total		10,15,000

Notes to Accounts:

			₹
1	**Share Capital**		
	Authorized		
	1,00,000 shares of ₹ 10 each		10,00,000
	Issued, Subscribed and Paid up		
	75,400 shares of ₹ 10 each		7,54,000
	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)		
2	**Reserve & Surplus**		
	Securities Premium Account		11,000
3	**Long term borrowings**		
	8 % Debentures		1,10,000
4	**Tangible Fixed Assets**		
	Building		
	P Ltd.	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000

	Furniture & Fixture		
	Q Ltd.		35,000
			4,30,000
5	**Intangible Asset**		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	1,50,000	2,00,000

Working Note:

Computation of Securities Premium

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

7. **Calculation of Average Due Date**

Taking Base Date 21.07.2018

Date of bill	*Period*	*Due Date*	*Amount*	*Number of Days from Base Date*	*Product*
			₹		₹
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2018 + 43 \text{ days} = 2.09.2018.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;

Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)

= ₹ 10,000 x 10% x 63/365 = ₹ 172.60

2nd bill = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2018 to 4.1.2019)

= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

8. **In the books of Mr. Perfact**

Mr. Smart in Account Current with Mr. Perfact

(Interest to 31st March, 2019 @ 12% p.a.)

(By means of product)

Date 2019	Particulars	Due Date	Amount ₹	Days	Product	Date 2019	Particulars	Due Date	Amount ₹	Days	Product
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365 x $\frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			64,500		29,50,000				64,500		29,50,000

9. **General Ledger Adjustment Account in Debtors Ledger**

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Balance b/d	4,700	1.4.2019	By Balance b/d	1,79,100
01.04.2019 to 30.4.2019	To Debtors ledger adjustment A/c:		01.04.2019 to 30.4.2019	By Debtors ledger adjustment A/c:	
	Cash received	8,62,850		Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2019	By Balance c/d	4,900

30.04.2019	To Balance c/d (bal.fig)	2,48,850			
		11,88,450			11,88,450

10. **Income and Expenditure Account**

for the year ended 31st March, 2019

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹ 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over Expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account
for the year ended 31st March, 2019

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from Income	
To Salary of domestic servants	15,000	and Expenditure A/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	*Assets*	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000

		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

11. **In the Books of Moonlight Traders**

Trading Account for the year ended 31.03.2019

Particulars	₹	Particulars	₹
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2)	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000x25/125)	2,50,000		
	13,15,000		13,15,000

Profit and Loss Account for the year ended 31.03.2019

Particulars		₹	Particulars	₹
To Discount		5,500	By Gross profit	2,50,000
To Salaries Expenses	32,000		By Discount	4,500
To Office expenses (W.N.3)	37,000			
To Selling expenses	15,000	84,000		
To Interest on loan (12% on ₹1,60,000)		19,200		
To Bad debts (2% of ₹2,25,000)		4,500		
To Loss on sale of Machinery		15,000		
To Depreciation:				
Land & Building	25,000			
Plant & Machinery(W.N 4b)	23,750			
Office Equipment (W.N. 5)	12,750	61,500		
To Net profit after tax		64,800		
		2,54,500		2,54,500

Balance sheet as on 31.3.2019

Liabilities	₹	₹	Assets	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000

Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

Working Notes:

1. **Calculation of Total Sales**

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (2,50,000 x 100/20)	12,50,000
Credit Sales (12,50,000 x 80/100)	10,00,000

2. **Calculation of Total Purchases**

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. **Office Expenses Account**

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (a) **Plant and Machinery Account**

	₹		₹
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(b) **Depreciation calculations on Plant & Machinery**

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) **Sale of Machinery Account**

	Amount (₹)		*Amount* (₹)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank	23,000
	40,000		40,000

5. **Depreciation calculations on Office Equipments**

	₹
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipments	20,000
Balance of Office Equipments after sale	85,000
Depreciation @15%	12,750

6. **Opening Balance Sheet as on 31.03.2018**

	₹		₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500

		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. **Sundry Debtors A/c**

	₹		₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. **Sundry Creditors A/c**

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. **Bank Account**

	₹		₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest	79,200
		By Balance c/d	39,800
	12,43,000		12,43,000

12. (i) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	Interest	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6]4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹ 12,00,000+ 6,00,000 (down payment) = ₹ 18,00,000.

(ii) In the books of Srikumar

Cars Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.2016	To Fair Value Motors A/c	18,00,000	31.3.2017	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2017	To Balance b/d	13,50,000	31.3.2018	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2018	To Balance b/d	10,12,500	31.3.2019	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000+2,16,000+1,29,600)]	1,94,400
				By Loss on surrender transferred to Profit and Loss A/c (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			10,12,500

13. **Books of A Pvt. Ltd.**

Investment in 13.5% Convertible Debentures in P Ltd. Account

(Interest payable 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept. 30	By Bank (6 months Int)		50,625	
Aug. 1	To Bank	2,50,000	11,250	2,45,000	Oct. 1	By Bank	2,00,000		2,06,000
Oct. 1	To P&L A/c			2,167					
Dec. 31	To P&L A/c		52,313		Dec. 31	By Equity share	1,10,000		1,12,108
					Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ₹ 3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
		₹	₹			₹	₹
2018				2018			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625
2. Interest received on 30th Sept. 2018

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

   Less: Sale Price (2,000 x 103) = 2,06,000

   Profit on sale = ₹ 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018

   1,10,000 x 13.5% x 3/12 = ₹ 3,713

6. Cost of Debentures converted to Equity Shares

   (₹ 5,19,375 + ₹ 2,45,000) x 1,10,000/7,50,000= ₹ 1,12,108

7. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹ 7,50,000 = ₹ 4,48,434

8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)

   ₹ 4,40,000 x 13.5% x 3/12 = ₹ 14,850

14. In the books of Mr. Black

Trading Account for the year ended 31.3.2019

	₹		₹
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchases	6,45,000	By Closing Stock at cost $\left(1{,}62{,}000 \times \frac{100}{90}\right)$	1,80,000
To Gross Profit	3,00,000		
	10,80,000		10,80,000

Memorandum Trading A/c
for the period from 1.4.2019 to 02.06.2019

	₹		₹
To Opening Stock (at cost)	1,80,000	By Sales 4,80,000	
To Purchases 2,25,000		*Less:* Goods not	
Add: Goods received but		dispatched 75,000	4,05,000

invoice not received 30,000 2,55,000		By Closing stock (Balancing figure)	1,50,000
Less: Machinery 15,000	2,40,000		
To Gross Profit (Refer W.N.)	1,35,000		
	5,55,000		5,55,000

Calculation of Insurance Claim

Claim subject to average clause = $\left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}\right)$

$$= 1{,}20{,}000 \text{ x } \left(\frac{1{,}50{,}000}{1{,}50{,}000}\right) = ₹\ 1{,}20{,}000$$

Working Note:

G.P. ratio = $\frac{3{,}00{,}000}{9{,}00{,}000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = ₹ 4,05,000 x $33\frac{1}{3}\%$ = ₹ 1,35,000

15. (i) Profit and Loss Adjustment Account*

	₹		₹
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) Partners' Capital Accounts

	Laurel ₹	*Hardy* ₹	*Chaplin* ₹		*Laurel* ₹	*Hardy* ₹	*Chaplin* ₹
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored. Further, it has been considered that they are still outstanding and accrued on 1.4.2017.

To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) Balance Sheet of LH & Co.

as on 1.4.2017

(After admission of Chaplin)

Liabilities	₹	*Assets*	₹
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

				₹
Profit for the year ended	31.3.2014			1,40,000
	31.3.2015			2,60,000
	31.3.2016			3,20,000
	31.3.2017			3,60,000
Total Profit				10,80,000

	Laurel	*Hardy*	*Total*
	₹	₹	₹
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2. Capital brought in by Chaplin

	₹
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of ₹ 3,19,000)	63,800

16. The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

17. (a) (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) **True**; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

(b) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

18. (a) (i) Loans and advances given and interest earned

(1) to suppliers — Operating Cash flow

(2) to employees — Operating Cash flow

(3) to its subsidiary companies — Investing Cash flow

(ii) Investment made in subsidiary company and dividend received

Investing Cash flow

(iii) Dividend paid for the year

Financing Cash Outflow

(iv) TDS on interest income earned on investments made

Investing Cash Outflow

(v) TDS on interest earned on advance given to suppliers

Operating Cash Outflow

(b) Statement showing amount of depreciation as per Componentization Method

Component	**Depreciation (Per annum) (₹)**
Land	Nil
Roof	40,000
Lifts	25,000
Remainder of Building	1,10,000
	1,75,000

19. (a) Calculation of foreseeable loss for the year ended 31st March, 2019
(as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2019	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019.

(b) Price revision was effected during the current accounting period 2018-2019. As a result, the company stands to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2018-2019 vide para 10 of AS 9.

20. (a) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		₹
Purchase Price	Given (₹ 158,34,000 x 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

(b) As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR NOVEMBER, 2019 EXAMINATIONS

Applicability for November, 2019 examinations

The Study Material (July 2015 edition), along with the "Supplementary Study Paper for May 2019 examination and onwards" is relevant for November 2019 examinations.

Supplementary Study Paper contains the relevant amendments in the subject pertaining to business law for the period 1st May 2015 to 30th April, 2018. Further, Chapter 6 – The Companies Act, 2013, has been fully revised as per amendments upto 30th April, 2018. Hence, the students are advised that Module-2 (which is comprised of Chapter 6) of this paper is now to be read from this supplementary study paper.

Further, all relevant amendments/ circulars/ notifications etc. in the Business Law and Company law part for the period 1st May 2018 to 30th April, 2019 are mentioned below:

Relevant Legislative amendments from 1st May 2018 to 30th April, 2019		
The Companies Act, 2013		
Sl. No.	**Relevant Amendments**	**Page no. #**
I.	<u>**Amendments related to-** COMPANIES (AMENDMENT) ACT, 2017</u> Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Act, 2017 via Notifications: S.O. 1833 (E) dated 7th May, 2018; S.O. 2422(E) dated 13th June, 2018; SO. 3299(E) dated 5th July, 2018; S.O. 3300(E) dated 5th July, 2018; S.O. 3684(E) dated 27th July, 2018; S.O. 3838(E) dated 31st July, 2018; S.O. 3921(E) dated 7th August, 2018 and S.O. 4907(E) dated 19th September, 2018.	
	1. In **section 2** of the Companies Act, 2013 (hereinafter referred to as the principal Act)-	
	(i) in **clause (6)**, for the Explanation, the following Explanation shall be substituted, namely:— '*Explanation*.—For the purpose of this clause,— (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement; (b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;';	12

	Enforcement Date: 7th May, 2018	
	(ii) in **clause (87)**, in sub-clause (ii), for the words "total share capital", the words "total voting power" shall be substituted; **Enforcement Date: 7th May, 2018**	28
	2. In **section 7** of the principal Act, in sub-section (1), in item (c), for the words "an affidavit", the words "a declaration" shall be substituted. **Enforcement Date: 27th July, 2018**	61
	3. In **section 12** of the principal Act,— **(i)** in sub-section (1), for the words "on and from the fifteenth day of its incorporation", the words "within thirty days of its incorporation" shall be substituted; **(ii)** in sub-section (4), for the words "within fifteen days", the words "within thirty days" shall be substituted. **Enforcement Date: 27th July, 2018**	65
	4. In **section 26** of the principal Act, in sub-section (1),— **(i)** after the words "signed and shall", the following shall be inserted, namely:— "state such information and set out such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government: Provided that until the Securities and Exchange Board specifies the information and reports on financial information under this sub-section, the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, in respect of such financial information or reports on financial information shall apply."; **Enforcement Date: 7th May, 2018**	84
	4. In **section 26**, in sub-section (1),— **(ii)** clauses (a), (b) and (d) shall be omitted. **Enforcement Date: 7th May, 2018**	84, 85 & 86
	5. For **section 42** of the principal Act, the following section shall be substituted, namely:— '42. (1) A company may, subject to the provisions of this section, make a private placement of securities. (2) A private placement shall be made only to a select group of persons who have been identified by the Board (herein referred to as "identified persons"), whose number shall not exceed fifty or such higher number as may be prescribed [excluding the qualified institutional buyers and employees of the company being offered securities under a scheme of	107, 108, 109, 110 & 111

	employees stock option in terms of provisions of clause (b) of sub-section (1) of section 62], in a financial year subject to such conditions as may be prescribed. (3) A company making private placement shall issue private placement offer and application in such form and manner as may be prescribed to identified persons, whose names and addresses are recorded by the company in such manner as may be prescribed: Provided that the private placement offer and application shall not carry any right of renunciation. *Explanation I.*—"private placement" means any offer or invitation to subscribe or issue of securities to a select group of persons by a company (other than by way of public offer) through private placement offer-cum-application, which satisfies the conditions specified in this section. *Explanation II.*—"qualified institutional buyer" means the qualified institutional buyer as defined in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended from time to time, made under the Securities and Exchange Board of India Act, 1992. *Explanation III.*—If a company, listed or unlisted, makes an offer to allot or invites subscription, or allots, or enters into an agreement to allot, securities to more than the prescribed number of persons, whether the payment for the securities has been received or not or whether the company intends to list its securities or not on any recognised stock exchange in or outside India, the same shall be deemed to be an offer to the public and shall accordingly be governed by the provisions of Part I of this Chapter. (4) Every identified person willing to subscribe to the private placement issue shall apply in the private placement and application issued to such person alongwith subscription money paid either by cheque or demand draft or other banking channel and not by cash: Provided that a company shall not utilise monies raised through private placement unless allotment is made and the return of allotment is filed with the Registrar in accordance with sub-section (8). (5) No fresh offer or invitation under this section shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company: Provided that, subject to the maximum number of identified persons under sub-section (2), a company may, at any time, make more than one issue of securities to such class of identified persons as may be prescribed. (6) A company making an offer or invitation under this section shall allot its securities within sixty days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within	

	that period, it shall repay the application money to the subscribers within fifteen days from the expiry of sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent. per annum from the expiry of the sixtieth day: Provided that monies received on application under this section shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than— (a) for adjustment against allotment of securities; or (b) for the repayment of monies where the company is unable to allot securities. (7) No company issuing securities under this section shall release any public advertisements or utilise any media, marketing or distribution channels or agents to inform the public at large about such an issue. (8) A company making any allotment of securities under this section, shall file with the Registrar a return of allotment within fifteen days from the date of the allotment in such manner as may be prescribed, including a complete list of all allottees, with their full names, addresses, number of securities allotted and such other relevant information as may be prescribed. (9) If a company defaults in filing the return of allotment within the period prescribed under sub-section (8), the company, its promoters and directors shall be liable to a penalty for each default of one thousand rupees for each day during which such default continues but not exceeding twenty-five lakh rupees. (10) Subject to sub-section (11), if a company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount raised through the private placement or two crore rupees, whichever is lower, and the company shall also refund all monies with interest as specified in sub-section (*6*) to subscribers within a period of thirty days of the order imposing the penalty. (11) Notwithstanding anything contained in sub-section (*9*) and sub-section (*10*), any private placement issue not made in compliance of the provisions of sub-section (*2*) shall be deemed to be a public offer and all the provisions of this Act and the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 shall be applicable.'. **Enforcement Date: 7th August, 2018**	
	6. In **section 54**, in sub-section (*1*), clause (*c*) shall be omitted. **Enforcement Date: 7th May, 2018**	123
	7. In **section 73** of the principal Act, in sub-section (*2*),— **(i)** for clause (*c*), the following clause shall be substituted, namely:—	153

	"(*c*) depositing, on or before the thirtieth day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;"; **(ii)** clause (*d*) shall be omitted; **(iii)** in clause (*e*), for the words "such deposits;", the following shall be substituted, namely:— "such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default;". **Enforcement Date: 15th August, 2018**	
	8. In **section 74**, in sub-section (*1*), for clause (*b*), the following clause shall be substituted, namely:— "(*b*) repay within three years from such commencement or on or before expiry of the period for which the deposits were accepted, whichever is earlier: Provided that renewal of any such deposits shall be done in accordance with the provisions of Chapter V and the rules made thereunder.". **Enforcement Date: 15th August, 2018**	160
	9. In **section 77** of the principal Act, in sub-section (*1*), after the third proviso, the following proviso shall be inserted, namely:— "Provided also that this section shall not apply to such charges as may be prescribed in consultation with the Reserve Bank of India.". **Enforcement Date: 7th May, 2018**	165
	10. In **section 78** of the principal Act, for the words and figures "register the charge within the period specified in section 77", the words, brackets and figures "register the charge within the period of thirty days referred to in sub-section (*1*) of section 77" shall be substituted. **Enforcement Date: 7th May, 2018**	166
	11. In **section 82** of the principal Act, in sub-section (*1*),— **(i)** the words, brackets and figures "and the provisions of sub-section (*1*) of section 77 shall, as far as may be, apply to an intimation given under this section" shall be omitted; **Enforcement Date: : 5th July, 2018**	169
	11. In **section 82** of the principal Act, in sub-section (*1*),— **(ii)** the following proviso shall be inserted, namely:—	169

	"Provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of such additional fees as may be prescribed.". **Enforcement Date: : 5th July, 2018**	
	12. In **section 89** of the principal Act,— **(i)** in sub-section (*6*), the words and figures, "within the time specified under section 403" shall be omitted; **(ii)** in sub-section (*7*), for the words and figures, "under the first proviso to sub-section (*1*) of section 403", the word "therein", shall be substituted; **(iii)** after sub-section (*9*), the following sub-section shall be inserted, namely:— "(*10*) For the purposes of this section and section 90, beneficial interest in a share includes, directly or indirectly, through any contract, arrangement or otherwise, the right or entitlement of a person alone or together with any other person to— (i) exercise or cause to be exercised any or all of the rights attached to such share; or (ii) receive or participate in any dividend or other distribution in respect of such share.". **Enforcement Date: 7th May, 2018 [for (i) and (ii)]** **13th June, 2018 [for (iii)]**	182
	13. For **section 90** of the principal Act, the following section shall be substituted, namely:— '(1) Every individual, who acting alone or together, or through one or more persons or trust, including a trust and persons resident outside India, holds beneficial interests, of not less than twenty-five per cent. or such other percentage as may be prescribed, in shares of a company or the right to exercise, or the actual exercising of significant influence or control as defined in clause (27) of section 2, over the company (herein referred to as "significant beneficial owner"), shall make a declaration to the company, specifying the nature of his interest and other particulars, in such manner and within such period of acquisition of the beneficial interest or rights and any change thereof, as may be prescribed:	183

	Provided that the Central Government may prescribe a class or classes of persons who shall not be required to make declaration under this sub-section. (2) Every company shall maintain a register of the interest declared by individuals under sub-section (1) and changes therein which shall include the name of individual, his date of birth, address, details of ownership in the company and such other details as may be prescribed. (3) The register maintained under sub-section (2) shall be open to inspection by any member of the company on payment of such fees as may be prescribed. (4) Every company shall file a return of significant beneficial owners of the company and changes therein with the Registrar containing names, addresses and other details as may be prescribed within such time, in such form and manner as may be prescribed. (5) A company shall give notice, in the prescribed manner, to any person (whether or not a member of the company) whom the company knows or has reasonable cause to believe— (a) to be a significant beneficial owner of the company; (b) to be having knowledge of the identity of a significant beneficial owner or another person likely to have such knowledge; or (c) to have been a significant beneficial owner of the company at any time during the three years immediately preceding the date on which the notice is issued, and who is not registered as a significant beneficial owner with the company as required under this section. (6) The information required by the notice under sub-section (5) shall be given by the concerned person within a period not exceeding thirty days of the date of the notice. (7) The company shall,— (a) where that person fails to give the company the information required by the notice within the time specified therein; or (b) where the information given is not satisfactory, apply to the Tribunal within a period of fifteen days of the expiry of the period specified in the notice, for an order directing that the shares in question be subject to restrictions with regard to transfer of interest, suspension of all rights attached to the shares and such other matters as may be prescribed. (8) On any application made under sub-section (7), the Tribunal may, after giving an opportunity of being heard to the parties concerned, make such order restricting the rights attached with the shares within a period of sixty days of receipt of application or such other period as may be prescribed.	

	(9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8). (10) If any person fails to make a declaration as required under sub-section (1), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to ten lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues. (11) If a company, required to maintain register under sub-section (2) and file the information under sub-section (4), fails to do so or denies inspection as provided therein, the company and every officer of the company who is in default shall be punishable with fine which shall not be less than ten lakh rupees but which may extend to fifty lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues. (12) If any person wilfully furnishes any false or incorrect information or suppresses any material information of which he is aware in the declaration made under this section, he shall be liable to action under section 447.' **Enforcement Date: 13th June, 2018**	
	14. In **section 92** of the principal Act,— **(*i*)** in sub-section (*4*), the words and figures, "within the time as specified, under section 403" shall be omitted; [1]**(*ii*)** in sub-section (*5*), for the words and figures, "under section 403 with additional fees" the word "therein" shall be substituted. **Enforcement Date: 7th May, 2018**	186
	15. Section 93 of the principal Act shall be omitted. **Enforcement Date: 13th June, 2018**	187
	16. In **section 94** of the principal Act,— **(i)** in sub-section (1), in the first proviso, the words "and the Registrar has been given a copy of the proposed special resolution in advance" shall be omitted; **(ii)** in sub-section (3), the following proviso shall be inserted, namely:—	188

[1] Sub-section 5 of section 92, has been fully substituted by the Companies (Amendment) Second Ordinance, 2019, with retrospective effect from 2.11.2018.

	"Provided that such particulars of the register or index or return as may be prescribed shall not be available for inspection under sub-section (2) or for taking extracts or copies under this sub-section.". **Enforcement Date: 13th June, 2018**	
	17. In **section 96** of the principal Act, in sub-section (2), in the proviso, for the words "Provided that", the following shall be substituted, namely:— "Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance: Provided further that". **Enforcement Date: 13th June, 2018**	227
	18. In **section 117** of the principal Act,— **(i)** in sub-section (1), the words and figures "within the time specified under section 403" shall be omitted; **(ii)** in sub-section (2),— (a) for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted; (b) for the words "not be less than five lakh rupees", the words "not be less than one lakh rupees" shall be substituted; (c) for the words "one lakh rupees", the words "fifty thousand rupees" shall be substituted; **(iii)** in sub-section (3),— (a) clause (e) shall be omitted; (b) in clause (g), in the proviso, the word "and" shall be omitted and the following proviso shall be inserted, namely:— "Provided further that nothing contained in this clause shall apply to a banking company in respect of a resolution passed to grant loans, or give guarantee or provide security in respect of loans under clause (f) of sub-section (3) of section 179 in the ordinary course of its business; and.". **Enforcement Date: 7th May, 2018**	220/221
	19. In **section 121** of the principal Act,— **(i)** in sub-section (2), the words and figures "within the time as specified, under section 403" shall be omitted;	229

	[2]**(ii)** in sub-section (*3*), for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted. **Enforcement Date: 7th May, 2018**	
	20. In **section 447** of the principal Act,- (a) after the words "guilty of fraud", the words "involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower" shall be inserted. **Enforcement Date: 9th February, 2018**	104
	20. In **section 447** of the principal Act,- (b) after the proviso, the following proviso shall be inserted, namely:— "Provided further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to [3]twenty lakh rupees or with both." **Enforcement Date: 9th February, 2018**	104
II.	**Amendments related to** - Notification G.S.R. 433(E) dated 7th May, 2018 The Central Government has amended the Companies (Specification of Definitions Details) Rules, 2014, by the Companies (Specification of Definitions Details) Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Specification of Definitions Details) Rules, 2014, in rule 2, in sub-rule (1), clause (r) shall be omitted. **Please note:** The said clause (r) deals with 'Total Share Capital'	12 & 28
III.	**Amendments related to** - Notification G.S.R. 434(E) dated 7th May, 2018 The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Second Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Share Capital and Debentures) Rules, 2014, in the principal rules, in rule 8, in sub-rule (1), in the Explanation, in clause (i) in sub-clause (a), the words "for at least last one year" shall be omitted.	124

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2 Sub-section 3 of section 121, has been fully substituted by the Companies (Amendment) Second Ordinance, 2019, with retrospective effect from 2.11.2018.

3 The amount of "twenty lakh rupees" has been replaced with "fifty lakh rupees" as per the Companies (Amendment) Second Ordinance, 2019.

IV.	**Amendments related to -** Notification G.S.R. 560(E) dated 13th June, 2018 The Ministry of Corporate Affairs vide G.S.R. 560 (E) dated 13th June, 2018, has amended the Companies (Management and Administration) Rules, 2014 through the Companies (Management and Administration) Second Amendment Rules, 2018. Accordingly, in the Companies (Management and Administration) Rules, 2014, 1. rule 13 shall be omitted 2. the "Form No.MGT-10" shall be omitted. 3. in rule 15, the sub-rule (6), shall be omitted 4. in rule 18, in sub-rule (3), Explanation after clause (ix), shall be omitted 5. in rule 22, in sub-rule(16) for the proviso, the following shall be substituted, namely:- "Provided that any aforesaid items of business under this sub-rule, required to be transacted by means of postal ballot, may be transacted at a general meeting by a company which is required to provide the facility to members to vote by electronic means under section 108, in the manner provided in that section: Provided further that One Person Companies and other companies having members upto two hundred are not required to transact any business through postal ballot"	1. 188 2. 188 3. 189 4. 226 5. 213
V.	**Amendments related to -** Notification G.S.R. 612 (E) dated 5th July, 2018 The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Amendment Rules, 2018. It shall come into force on 15th August, 2018. In the Companies (Acceptance of Deposits) Rules, 2014 in rule 14, in sub-rule (1), clause (k) shall be omitted;	158
VI.	**Amendments related to -** Notification G.S.R. 708(E) dated 27th July, 2018 The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Third Amendment Rules, 2018. It shall come into force on 27th July, 2018. In the Companies (Incorporation) Rules, 2014: In **rule 3**, for Explanation to sub-rule (1), the following shall be substituted, namely:- **"Explanation I.** - For the purposes of this rule, the term "resident in India" means a person who has stayed in India for a period of not less than one hundred and eighty two days during the immediately preceding financial year. **Explanation II.**- For the purposes of this rule, while counting the number of days of stay of a director in India for the financial year 2018-2019, any	47

	period of stay between 01.01.2018 till the date of notification of this rule shall also be counted"	
VII.	**Amendments related to** - COMPANIES (AMENDMENT) SECOND ORDINANCE, 2019 Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Second Ordinance, 2019 dated 21st February, 2019. [It shall be deemed to have come into force on 2nd November, 2018.] **1.** In **clause (41) of section 2**, (a) for the first proviso, the following provisos shall be substituted namely: "Provided that where a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on an application made by that company or body corporate in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year: Provided further that any application pending before the Tribunal as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement."	18
	1. In **clause (41) of section 2**, (b) for the second proviso, the for the words "Provided further that", the words "Provided also that" shall be substituted.	18
	2. After section 10, the following section shall be inserted, namely: "**10A.Commencement of business etc.** (1) A company incorporated after the commencement of the Companies (Amendment) Ordinance, 2019 and having a share capital shall not commence any business or exercise any borrowing powers unless— (a) a declaration is filed by a director within a period of one hundred and eighty days of the date of incorporation of the company in such form and verified in such manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him on the date of making of such declaration; and (b) The company has filed with the Registrar a verification of its registered office as provided in sub-section (2) of section 12. (2) If any default is made in complying with the requirements of this section, the company shall be liable to a penalty of fifty thousand rupees and every	64

	officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues but not exceeding an amount of one lakh rupees. (3) Where no declaration has been filed with the Registrar under clause (a) of sub-section (1) within a period of one hundred and eighty days of the date of incorporation of the company and the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may, without prejudice to the provisions of sub-section (2), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII."	
	3. In **section 12**, after sub- section (8), the following sub- section shall be inserted, namely: "(9) If the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may cause a physical verification of the registered office of the company in such manner as may be prescribed and if any default is found to be made in complying with the requirements of sub-section (1), he may without prejudice to the provisions of sub-section (8), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII."	65
	4. In **section 14**, **(i)** in Sub- section (1), for the second proviso, the following provisos shall be substituted namely: "Provided further that any alteration having the effect of conversion of a public company into a private company shall not be valid unless it is approved by an order of the Central Government on an application made in such form and manner as may be prescribed: Provided also that any application pending before the Tribunal, as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement." **(ii)** in sub- section (2), for the word "Tribunal", the words "Central Government" shall be substituted.	72
	5. In **section 53,** for sub – section (3), the following sub- section shall be substituted, namely: "(3) Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the	123

	company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.”	
	6. In **section 64**, for sub- section (2), the following sub- section shall be substituted, namely: “(2) Where any company fails to comply with the provisions of sub-section (1), such company and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues, or five lakh rupees whichever is less.”	137
	7. In **section 77**, in sub- section (1), for the first and second provisos, the following provisos shall be substituted, namely: “Provided that the Registrar may, on an application by the company, allow such registration to be made- (a) in case of charges created before the commencement of the Companies (Amendment) Ordinance, 2019, within a period of three hundred days of such creation; or (b) in case of charges created on or after the commencement of the Companies (Amendment) Ordinance, 2019, within a period of sixty days of such creation, on payment of such additional fees as may be prescribed: Provided further that if the registration is not made within the period specified- (a) in clause (a) to the first proviso, the registration of the charge shall be made within six months from the date of commencement of the Companies (Amendment) Ordinance, 2019, on payment of such additional fees as may be prescribed and different fees may be prescribed for different classes of companies; (b) in clause (b) to the first proviso, the Registrar may, on an application, allow such registration to be made within a further period of sixty days after payment of such *advalorem* fees as may be prescribed.”	165
	8. Section 86 of the Companies Act, 2013, shall be numbered as sub-section (1) thereof and after sub- section (1) as so numbered, the following sub- section shall be inserted, namely: “(2) If any person wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required to be registered in accordance with the provisions of section 77, he shall be liable for action under section 447.”	171
	9. For **section 87**, the following sections shall be substituted, namely: “87. The Central Government on being satisfied that —	171

	(a) the omission to give intimation to the Registrar of the payment or satisfaction of a charge, within the time required under this Chapter; or (b) the omission or misstatement of any particulars, in any filing previously made to the Registrar with respect to any such charge or modification thereof or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83, was accidental or due to inadvertence or some other sufficient cause or it is not of a nature to prejudice the position of creditors or shareholders of the company, it may, on the application of the company or any person interested and on such terms and conditions as it deems just and expedient, direct that the time for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or misstatement shall be rectified."	
	10. In **section 90**, **(i)** for sub- section (9), the following sub- section shall be substituted, namely: "(9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8), within a period of one year from the date of such order: Provided that if no such application has been filed within a period of one year from the date of the order under sub-section (8), such shares shall be transferred, without any restrictions, to the authority constituted under sub-section (5) of section 125, in such manner as may be prescribed."	[4]183
	10. In **section 90**, **(ii)** in sub- section (10),- (a) after the word "punishable", the words "with imprisonment for a term which may extend to one year or" shall be inserted; (b) after the words "ten lakh rupees", the words "or with both" shall be inserted.	[5]183
	11. In **section 92,** for sub- section (5), the following sub- section shall be substituted, namely:	187

[4] Section 90 (Investigation of Beneficial Ownership of Shares in Certain cases) has been replaced with section 90 (Register of Significant Beneficial Owners in a Company) via Companies (Amendment) Act, 2017 [w.e.f. 13th June, 2018].

[5] Same as footnote 4.

	"(5) If any company fails to file its annual return under sub-section (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of five lakh rupees."	
	12. In **section 102**, for sub- section (5), the following sub- section shall be substituted, namely: "(5) Without prejudice to the provisions of sub-section (4), if any default is made in complying with the provisions of this section, every promoter, director, manager or other key managerial personnel of the company who is in default shall be liable to a penalty of fifty thousand rupees or five times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher."	195
	13. In **section 105**, in sub- section (3), for the words "punishable with fine which may extend to five thousand rupees", the words "liable to a penalty of five thousand rupees" shall be substituted.	199
	14. In **section 117**, for sub- section (2), the following sub- section shall be substituted, namely: "(2) If any company fails to file the resolution or the agreement under sub-section (1) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of twenty-five lakh rupees and every officer of the company who is in default including liquidator of the company, if any, shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees."	221
	15. In **section 121**, for sub- section (3), the following sub- section shall be substituted, namely: "(3) If the company fails to file the report under sub-section (2) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees and every officer of the company who is in default shall be liable to a penalty which shall not be less than twenty-five thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees."	229

	16. In **section 447**, in the second proviso, for the words "twenty lakh rupees", the words "fifty lakh rupees" shall be substituted.	104
VIII.	**Amendments related to** - Notification G.S.R. 1219(E) dated 18th December, 2018 The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fourth Amendment Rules, 2018. It shall come into force on 18th December, 2018. In the Companies (Incorporation) Rules, 2014 (hereinafter referred to as the said rules), after rule 23, the following rule shall be inserted, namely:- "23A. Declaration at the time of commencement of business.- The declaration under section 10A by a director shall be in Form No.INC-20A and shall be filed as provided in the Companies (Registration Offices and Fees) Rules, 2014 and the contents of the said form shall be verified by a Company Secretary or a Chartered Accountant or a Cost Accountant, in practice: Provided that in the case of a company pursuing objects requiring registration or approval from any sectoral regulators such as the Reserve Bank of India, Securities and Exchange Board of India, etc., the registration or approval, as the case may be from such regulator shall also be obtained and attached with the declaration.".	64
IX.	**Amendments related to** - Notification G.S.R. 42(E) dated 22nd January, 2019 The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Amendment Rules, 2019. It shall come into force on 22nd January, 2019. In the Companies (Acceptance of Deposits) Rules, 2014 (hereinafter referred to as the said rules): **1**. In rule 2, in sub-rule (1), in clause (c), in sub-clause(xviii), after the words "Infrastructure Investment Trusts," the words "Real Estate Investment Trusts" shall be inserted. **2.** In the said rules, in rule 16, the following Explanation shall be inserted, namely:- "Explanation.- It is hereby clarified that Form DPT-3 shall be used for filing return of deposit or particulars of transaction not considered as deposit or both by every company other than Government company.". **3.** In rule 16(A), after sub-rule (2), the following sub-rule shall be inserted, namely:- "(3) Every company other than Government company shall file a onetime return of outstanding	1. 151 2. 158 3. 158/ 159

	receipt of money or loan by a company but not considered as deposits, in terms of clause (c) of sub-rule 1 of rule 2 from the 01st April, 2014 to *[the date of publication of this notification in the Official Gazette], as specified in Form DPT-3 within **[ninety days from the date of said publication of this notification] along with fee as provided in the Companies (Registration Offices and Fees) Rules, 2014.".	
X.	<u>**Amendments related to** - Notification G.S.R. 341(E) dated 30th April, 2019</u> The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Second Amendment Rules, 2019. In the Companies (Acceptance of Deposits) Rules, 2014, in rule 16A, in sub-rule (3), - *(a) for the words "the date of publication of this notification in the Official Gazette", the figures, letters and word "31st March, 2019" shall be substituted; **(b) for the words "ninety days from the date of said publication of this notification", the words, figures and letters "ninety days from 31st March, 2019" shall be substituted.	159
XI.	<u>**Amendments related to** - Notification dated 30th April, 2019</u> The Central Government has amended the Companies (Registration of Charges) Rules, 2014, by the Companies (Registration of Charges) Amendment Rules, 2019. In the Companies (Registration of Charges) Rules, 2014: 1. In **Rule 4**, the following rules shall be substituted, namely: "**4. Application to Registrar** (1) For the purposes of the first proviso and clause (b) of the second proviso to sub-section (1) of section 77, the Registrar may, on being satisfied that the company had sufficient cause for not filing the particulars and instrument of charge, if any, within a period of thirty days of the date of creation of the charge including modification thereto, allow the registration of the same after thirty days but within the period as specified in the said provisos, on payment of fee, additional fee or *advalorem* fee, as may be applicable, as prescribed in the Companies (Registration Offices and Fees) Rules, 2014. (2) The application under sub-rule (1) shall be made in Form No. CHG-I and Form No.CHG-9 supported by a declaration from the company signed by its company secretary or a director that such belated filing shall not adversely affect the rights of any other intervening creditors of the company." 2. For **Rule 12**, the following rule shall be substituted, namely:	1. 165 2. 172

	"**12. Rectification in register of charges on account of omission or misstatement of particulars in charge previously recorded and extension of time in filing of satisfaction of charge**.- The Central Government may on an application filed in Form No. CHG-8 in accordance with section 87- (a) direct rectification of the omission or misstatement of any particulars, in any filing, previously recorded with the Registrar with respect to any charge or modification thereof, or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83, (b) direct extension of time for satisfaction of charge, if such filing is not made within a period of three hundred days from the date of such payment or satisfaction."	
The Negotiable Instruments Act, 1881		
	Amendments related to - THE NEGOTIABLE INSTRUMENTS (AMENDMENT) ACT, 2018 The Ministry of Law and Justice has made amendments to the Negotiable Instruments Act, 1881 through the Negotiable Instruments (Amendment) Act, 2018. This Amendment Act received the assent of the President and published in the Official Gazette on 2nd August, 2018.	
	In the Negotiable Instruments Act, 1881 (hereinafter referred to as the principal Act), after section 143, the following section shall be inserted, namely:— "**143A. Power to direct interim compensation**. (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, the Court trying an offence under section 138 may order the drawer of the cheque to pay interim compensation to the complainant— (a) in a summary trial or a summons case, where he pleads not guilty to the accusation made in the complaint; and (b) in any other case, upon framing of charge. (2) The interim compensation under sub-section (1) shall not exceed twenty per cent. of the amount of the cheque. (3) The interim compensation shall be paid within sixty days from the date of the order under sub-section (1), or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the drawer of the cheque. (4) If the drawer of the cheque is acquitted, the Court shall direct the complainant to repay to the drawer the amount of interim compensation, with interest at the bank rate as published by the Reserve Bank of India,	- (The section is newly inserted)

	prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant. (5) The interim compensation payable under this section may be recovered as if it were a fine under section 421 of the Code of Criminal Procedure, 1973. (6) The amount of fine imposed under section 138 or the amount of compensation awarded under section 357 of the Code of Criminal Procedure, 1973, shall be reduced by the amount paid or recovered as interim compensation under this section.''.	
	(2) In the principal Act, after section 147, the following section shall be inserted, namely:— ''**148. Power of Appellate Court to order payment pending appeal against conviction.** (*1*) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, in an appeal by the drawer against conviction under section 138, the Appellate Court may order the appellant to deposit such sum which shall be a minimum of twenty per cent. of the fine or compensation awarded by the trial Court: Provided that the amount payable under this sub-section shall be in addition to any interim compensation paid by the appellant under section 143A. (*2*) The amount referred to in sub-section (*1*) shall be deposited within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the appellant. (*3*) The Appellate Court may direct the release of the amount deposited by the appellant to the complainant at any time during the pendency of the appeal: Provided that if the appellant is acquitted, the Court shall direct the complainant to repay to the appellant the amount so released, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant.''	- (The section is newly inserted)

 # Page number of the Study material (SM)/ Supplementary study paper (SSP) with reference of relevant provisions

Please note: The Ministry of Corporate Affairs has replaced Rule 14 of the Companies (Prospectus and Allotment of Securities) Rule, 2014 through Companies (Prospectus and Allotment of Securities) Second Rule, 2018. Hence, students are advised not to read the content related to Rule 14(2) of the Companies (Prospectus and Allotment of Securities) Rule, 2014 as contained on pages 110 and Page 111 of SSP. [For November 2019 examinations the said amended rule has not been made applicable for the students.]

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

DIVISION A - MULTIPLE CHOICE QUESTIONS

1. Eztech Machines Limited owns a plot of land which was mortgaged to Urbane Commercial Bank Limited for raising term loan of ₹ 2.00 crore. The mortgage was duly registered with the Central Registry. First loan installment of ₹ 50.00 lacs was released immediately after sanction of term loan with the condition that subsequent three installments of ₹50.00 lacs shall be released as soon as the earlier released installment is utilized satisfactorily. Is it necessary either for the company or the bank to register the charge on plot with the concerned Registrar of Companies (ROC) when the mortgage is registered with the Central Registry?
   (a) It is not necessary either for the bank or the company to register the charge on plot of land with the concerned Registrar of Companies (ROC) when the mortgage is registered with the Central Registry.
   (b) It is necessary to get the charge on plot on land registered with the concerned Registrar of Companies (ROC) irrespective of the fact that mortgage is registered with the Central Registry.
   (c) The charge on plot needs to be registered with the concerned Registrar of Companies (ROC) only when the actual liability of the company with the Bank exceeds ₹ 1.00 crore.
   (d) The charge on plot needs to be registered with the concerned Registrar of Companies (ROC) only when the term loan sanctioned by the bank to the company exceeds ₹ 2.00 crores.
2. With a view to augment its production, Surya Techno-Products Limited availed a loan of ₹ 50.00 lacs from Shrilaxmi First Bank Limited for purchase of a new machinery by offering its factory worth ₹ 2.25 crores as security. However, the company did not initiate any steps

to get the charge on factory registered in favour of lending banker within the specified time. As soon as the charge-holder bank came to know about the non-registration of charge with the ROC, it applied to the Registrar for registration of charge along with the instrument creating the charge and paid the requisite fees when demanded. Advise the bank whether it can recover the fees so paid for registration of charge from Surya Techno-Products.

(a) Yes, the bank can recover the fees paid by it for registration of charge.

(b) No, the bank cannot recover the fees paid by it for registration of charge because the bank is equally responsible for getting the charge registered.

(c) Only when it obtains recovery orders from Regional Director (RD), the bank can recover the fees paid by it for registration of charge from the company.

(d) Only when it obtains recovery orders from National Company Law Tribunal (NCLT), the bank can recover the fees paid by it for registration of charge from the company.

3. A charge was created by Cygnus Softwares Limited on its office premises to secure a term loan of ₹ 1.00 crore availed from Next_Gen Commercial Bank Limited through an instrument of charge executed by both the parties on 16th February, 2019. Inadvertently, the company could not get the charge registered with the concerned Registrar of Companies (ROC) within the first statutory period permitted by law and the default was made known to it by the lending banker with a stern warning to take immediate steps for rectification. Advise the company regarding the latest date within which it must register the charge with the ROC so that it is not required to pay a specific type of fees for charge registration.

(a) With a view to avoid paying a specific type of fees for charge registration, the company must get the charge registered latest by 27th April, 2019.

(b) With a view to avoid paying a specific type of fees for charge registration, the company must get the charge registered latest by 17th April, 2019.

(c) With a view to avoid paying a specific type of fees for charge registration, the company must get the charge registered latest by 2nd May, 2019.

(d) The company cannot now get the charge register as the time prescribed by Law has expired.

4. Cyplish Games and Toys Limited was sanctioned a term loan of ₹ 60.00 lacs by Zawnn Industrial Bank Limited on 21st November, 2018. As a security, the company offered its office premises situated at Bandra, Mumbai and an instrument of charge was executed. However, the company failed to get the charge registered with the concerned Registrar within the first as well as second statutory period available as per law. This was adversely commented by the internal auditors of the bank and therefore, after a strict advisory received from Shahji, the senior manager of the bank, the company was prompted to take steps for registration of charge. Name the specific type of fees which the company is now required to pay for registration of charge.

(a) Special Fees.

(b) Ad-valorem Fees.

(c) A Late Registration Fees.

(d) Ad-valorem Duty.

5. Delight Sports Garments Limited is contemplating to raise funds through issue of prospectus in which, according to the directors, a sum of ₹ fifty crores should be stated as the minimum amount that needs to be subscribed by the prospective subscribers. The funds shall be raised in four instalments consisting of application, allotment, first call and second & final call. Advise the company by which instalment it should receive the minimum subscription stated in the prospectus.

   (a) Along with amount subscribed as application money.

   (b) Along with amount subscribed as final call money.

   (c) Along with amount subscribed as first call money.

   (d) Along with amount subscribed as second and final call money.

6. All the 40 members of Taxila Traders Limited have valid voting rights. Due to some urgency, its directors are desirous of convening Annual General Meeting (AGM) at a shorter notice than statutorily required. Is it possible for them to do so?

   (a) Taxila Traders Limited cannot convene AGM at shorter notice than statutorily required.

   (b) Taxila Traders Limited can convene AGM at shorter notice than statutorily required, if consent in writing or by electronic mode is accorded by all the forty members who are entitled to vote at the AGM.

   (c) Taxila Traders Limited can convene AGM at shorter notice than statutorily required if consent in writing or by electronic mode is accorded by at least 38 members who are entitled to vote at the AGM.

   (d) Taxila Traders Limited can convene AGM at shorter notice than statutorily required if consent in writing or by electronic mode is accorded by at least 36 members who are entitled to vote at the AGM.

DIVISION B - DETAILED QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act,1872

1. Yan holds agricultural land in Gujarat on a lease granted by Xian, the owner. The land revenue payable by X to the Government being in arrear, his land is advertised for sale by the Government. Under the Revenue law, the consequence of such sale will be termination of Yan's lease. Yan, in order to prevent the sale and the consequent termination of his own

lease, pays the Government, the sum due from Xian. Referring to the provisions of the Indian Contract Act, 1872 decide whether Xian is liable to make good to Yan, the amount so paid?

2. Mr. Chintu was appointed as Site Manager of ABC Constructions Company on a two years contract at a monthly salary of ` 50,000. Mr. Ganesh gave a surety in respect of Mr. Chintu's conduct. After six months the company was not in position to pay ₹ 50,000 to Mr. Chintu because of financial constraints. Chintu agreed for a lower salary of ₹ 30,000 from the company. This was not communicated to Mr. Ganesh. Three months afterwards it was discovered that Chintu had been doing fraud since the time of his appointment. What is the liability of Mr. Ganesh during the whole duration of Chintu's Appointment.

The Negotiable Instruments Act, 1881

3. Mr. Madhavan drew a cheque payable to Mr. Vikas or order. Mr. Vikas lost the cheque and was not aware of the loss of the cheque. The person who found the cheque forged the signature of Mr. Vyas and endorsed it to Mr. Pawan as the consideration for goods bought by him from Mr. Pawan. Mr. Pawan encashed the cheque, on the very same day from the drawee bank. Mr. Vikas intimated the drawee bank about the theft of the cheque after three days. Examine the liability of the drawee bank.

   Give your answer in reference to the Provisions of Negotiable Instruments Act, 1881.

The Payment of Bonus Act, 1965

4. Ishan, a temporary employee drawing a salary of ₹ 15,000 per month, in an establishment to which the Payment of Bonus Act, 1965 applies was prevented by the employers from working in the establishment for two months during the financial year 2017-2018, pending certain inquiry. Since there were no adverse findings 'Ishan' was re-instated in service, later, when the bonus was to be paid to other employees, the employers refuse to pay bonus to 'Ishan', even though he has worked for the remaining ten months in the year. Referring to the provisions of the Payment of Bonus Act, 1965 examine the validity of employer's refusal to pay bonus to 'Ishan'.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

5. X, an employee in ABC Ltd (covered by the Employees' Provident Funds and Miscellaneous Provisions Act, 1952) died in an accident. State to whom the amount standing in his account to be payable under the provisions of the said Act.

The Payment of Gratuity Act, 1972

6. Mr. Kamal 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. Kamal 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.

The Companies Act, 2013

7. Neemrana Infotech Ltd. was incorporated on 1.4.2017. No General Meeting of the company has been held so far. Explain the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting.
8. Red Limited was incorporated on 1st April, 2014 is facing severe effects of depression of the economy. Owing to its bad financial status most of the members have started withdrawing their holding from the company. The company had 250 members on 10th January, 2019. By 15th January, 2019, 244 members had withdrawn their holding. No new member has invested in the company after 15th February till date. Now, Mr. A, an existing member has approached you to advise him regarding his liabilities in such a situation.
9. Rijwan Limited, a listed company, is in the business of garment manufacturing and has its registered office at 123, N Tower, Commercial Beta Complex, Biwadi, Rajasthan. The company has called its 6th Annual General Meeting at 3 PM on 22nd August, 2019 at Ansal Plaza, Bhiwadi. Some of the members of the company have opposed to calling of the meeting at Ansal Plaza. The company has approached you to advise them in this regard.

   Suppose, Rijwan Limited is an unlisted company and wants to call their 6th AGM at Jaipur, will your answer differ.

PART – B: ETHICS

10. Explain how corporate social responsibility minimises the ecological damage and helps in achieving long-term objectives, so that the business may gain long-term profit maximization.
11. State in brief the guidelines for managing ethics and to prevent the need for whistle-blowing in the work place.
12. Explain the concept of Green Accounting System. Also, discuss its benefits.

PART – C: COMMUNICATION

13. Explain the key elements involved in the innovation frame work of an organisation.
14. As a Secretary of Narayan Ltd., draft a notice of a Board of Directors meeting to consider any five items as agenda of the meeting, to be held on September 12, 2019 at the registered office of the Company at Mysore.
15. What is an affidavit? Draft an affidavit certifying that Krishna Ltd. does not have any tax dues to the Central Government.

SUGGESTED ANSWERS/HINTS

DIVISION A - ANSWER TO MULTIPLE CHOICE QUESTIONS

Question No.	1	2	3	4	5	6
Correct Option	(b)	(a)	(b)	(b)	(a)	(c)

DIVISION B - ANSWER TO DETAILES QUESTIONS

1. Section 69 of the Indian Contract Act, 1872, provides that "A person who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other.

In the given case Yan has made the payment of lawful dues of Xian in which Yan had an interest. Therefore, Yan is entitled to get the reimbursement from Xian.

2. As per the provisions of Section 133 of the Indian Contract Act, 1872, if the creditor makes any variance (i.e. change in terms) without the consent of the surety, then surety is discharged as to the transactions subsequent to the change.

In the instant case, Mr. Ganesh is liable as a surety for the loss suffered by ABC Constructions company due to misappropriation of cash by Mr. Chintu during the first six months but not for misappropriations committed after the reduction in salary.

Hence, Mr. Ganesh, will be liable as a surety for the act of Mr. Chintu before the change in the terms of the contract i.e., during the first six months. Variation in the terms of the contract (as to the reduction of salary) without consent of Mr. Ganesh, will discharge Mr. Ganesh from all the liabilities towards the act of the Mr. Chintu after such variation.

3. Cheque payable to order

According to Section 85 of the Negotiable Instruments Act, 1881.

(1) Where a cheque payable to order purports to be indorsed by or on behalf of the payee, the drawee is discharged by payment in due course.

(2) Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any indorsement whether in full or in blank appearing thereon, and notwithstanding that any such indorsement purports to restrict or exclude further negotiation.

As per the given facts, cheque is drawn payable to "Mr. Vikas or order". It was lost and Mr. Vikas was not aware of the same. The person found the cheque and forged and endorsed it to Mr. Pawan, who encashed the cheque from the drawee bank. After few days, Mr. Vikas intimated about the theft of the cheque, to the drawee bank, by which time, the drawee bank had already made the payment.

According to above stated section 85, the drawee banker is discharged when it has made a payment against the cheque payable to order when it is purported to be endorsed by or on behalf of the payee. Even though the signature of Mr. Vikas is forged, the banker is protected and is discharged. The true owner, Mr. Vikas, cannot recover the money from the drawee bank in this situation.

4. **Entitlement for bonus under the Payment of Bonus Act, 1965**: Every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment for not less than 30 working days in the year and he draws a salary less than ₹ 21,000 per month. *[Section 2(13) read with Section 8]* In the given case, Ishan has worked in the establishment for 10 months and draws a salary of ₹ 15,000/-, hence his entitlement to bonus is established. However, the point here is, whether he is entitled to receive bonus for the period of 2 months during which he was suspended pending certain inquiry against him. Subsequently, he was exonerated from the charges and was taken back on work.

Section 14 of the Payment of Bonus Act, 1965 lays down the days in a year when an employee is deemed to have worked in the establishment even though he did not actually attend the place of work. Under the said section, an employee is deemed to have worked also on the following days during the accounting year:

(a) He has been laid off under an agreement or as permitted by standing orders under the Industrial Employment (Standing Orders) Act, 1946, or under the Industrial Disputes Act, 1947 or under any other law applicable to the establishment;

(b) he has been on leave with salary or wage;

(c) he has been absent due to temporary disablement caused by accident arising out of and in the course of his employment; and

(d) the employee has been on maternity leave with salary or wage,

In the given case, Ishan was suspended pending an inquiry; hence he did not attend office for 2 months. These 2 months shall be treated as days worked as it can be reasonably assumed that his suspension was under the Industrial Disputes Act, 1947.

Hence, Ishan will be entitled to receive bonus for the full year and his employer is wrong to deny him bonus.

5. As per Section 10 of the Employees' Provident Funds and Miscellaneous Provisions Act,1952, the amount standing to the credit of any member in the fund or of any exempted employee in a provident fund shall not in any way be capable of being assigned or charged and shall not be liable to attachment under any decree or order of any court in respect of any debt or liability incurred by the member or exempted employee, and neither the official assignee appointed under the Presidency Town Insolvency Act,1909, nor any receiver appointed under the Provincial Insolvency Act,1920, shall be entitled to or have any claim on, any such amount. This protection also applies to provident fund, pension and insurance amount receivable by employee under the scheme.

The amount standing to the credit of the person at the time of his death is payable to his nominees under the scheme or the rules under this Act.

Further, the amount shall be free from any debt or other liability incurred by the deceased or the nominee before the death of the member or of the exempted employee and shall also not be liable to attachment under any decree or order of any Court.

6. **(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. Kamal 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. Kamal. On the refusal by the company, Mr. Kamal can apply to the appropriate authority and the company will be liable to pay the gratuity along with interest as decided by such authority.

7. According to Section 96 of the Companies Act, 2013, every company shall be required to hold its first annual general meeting within a period of 9 months from the closing of its first financial year.

Also, if a company holds its first annual general meeting as aforesaid, it shall not be necessary for the company to hold any annual general meeting in the year of its incorporation:

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

In the given case, taking the first financial year of Neemrana Infotech Ltd is for the period 1st April 2017 to 31st March 2018, the first annual general meeting of the company should be held on or before 31st December, 2018.

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

Even though the Registrar of Companies is empowered to grant extension of time for a period not exceeding 3 months for holding the annual general meetings, such power does not apply in the case of the first annual general meeting. Thus, the company and its directors will be liable under section 99 of the Companies Act, 2013 for the default if the annual general meeting was held after 31st December, 2018.

8. According to section 3A of the Companies Act, 2013, If at any time the number of members of a company is reduced, in the case of a public company, below seven, in the case of a private company, below two, and the company carries on business for more than six months while the number of members is so reduced, every person who is a member of the company during the time that it so carries on business after those six months and is cognisant of the fact that it is carrying on business with less than seven members or two members, as the case may be, shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.

Hence, in the given situation, the number of member in the said public company have fallen below 7 [250-244=6] and these members have continued beyond the specified limit of 6 months, the reduced members of the company during the period of 1 month shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.

9. According to section 96(2) of the Companies Act, 2013, every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situate.

Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

Thus, in the first case, the company is rightful in calling the Annual General meeting at Ansal Plaza.

In the second scenario, in case of an unlisted company, annual general meeting may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance. Hence, if consent is given in writing or by electronic mode by all the members in advance, the AGM can be called at Jaipur, otherwise not.

10. **Corporate social responsibility and ecological damage:** The business institution exists and flourishes only because it performs invaluable services to society. Society gives business its license to exist which may be revoked and amended at any time if they do not fulfill the society's expectations. Therefore, if a business intends to retain its existing social role and power, it must serve society's needs constructively.

A business organization acts in its own self interest and uses natural resources also. The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognizing their ecological responsibility towards society. Companies must recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

11. **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.

12. **Green accounting systems and its benefits:** 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 the 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. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pay Principle". Removing subsidies that encourage environmental damage is another measure.

13. **The key elements in the innovation framework are:**

(i) Accessibility: The major organizational challenge is to make everyone, particularly the workers as active participants in the work process. The innovative enterprise ensures everyone is accessible to each other at all levels within the organization.

(ii) Recognize and reward innovation: One of the more radical steps an organization or manager can take is to make innovation a requirement of the job.

(iii) Develop company programs that encourage innovation: Some companies allow their employees to take sabbaticals to work in a new environment or teach in a college. By placing employees in different environments, they can meet new people, come across new ideas and hopefully generate their own novel approaches.

(iv) Foster informal communication: The paperwork involved in proposing or even pursuing a project can be a major roadblock to innovation. Employees often feel stifled when asked to fully justify ideas; they may be working on a hunch.

(v) Information: The right kind of information is called innoinformation. This type of information is critical to the vitality of the enterprises. Innoinformation consists of the plans, vision, goals and all the new ideas affecting the enterprises. The innovative enterprise is looking forward continuously changing and adapting to the needs of the customer.

(vi) Framework: The innovative enterprise must constantly adapt, create and innovate. Information and communication are the wind that sails the innovative enterprise towards its destination. Information and communication pose difficult challenges for most businesses. The difficulty lies in balancing the flow of information between providing too much or too little information.

14. Notice of a Board Meeting

Narayan Limited,

Ph. No- Saiyaji Road

Fax - Mysore – 32

Ref. No.

August 10, 2019

Dear sir/ Madam

This is to inform you that a meeting of the Board of Director will be held on September 12, 2019 at the registered office of the company, 281 Saiyaji Road, Mysore- 32 at 11.30 AM to consider the following:

1. To approve the minutes of the last meeting.
2. To consider matters arising out of the minutes.
3. To consider and pass the statement of accounts for payment.
4. To approve transfer of shares.
5. To sanction an interim dividend @ 10% on the equity shares of ₹ 10/- each. ₹ 8/- per shares paid up.
6. To consider any other matter with the permission of the chair and.
7. To fix the date and time of the next meeting.

Yours faithfully

(Ajay Garg)

15. Affidavit meaning: 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 respect of the particular kind of affidavit.

Affidavit having no tax dues to the Central Government:

I, Mr. R, son of Mr. Q aged 50 years residing at Mandir Marg, Nagpur, Maharashtra, hereby solemnly affirm and declare on oath as under:

That Krishna Ltd. has cleared all tax dues of the Central Government and does not have any tax dues outstanding towards Income Tax /Service Tax/Central Excise or any other Central Government authority as on to-day, i.e., 1st August, 2019.

Sworn on this 1st day of August, 2019.

Date: 01/08/2019

Place: NAGPUR Signature:-----------------------------

(Deponent)

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART-I: COST ACCOUNTING

QUESTIONS

Material

1. HBL Limited produces product 'M' which has a quarterly demand of 20,000 units. Each product requires 3 kg. and 4 kg. of material X and Y respectively. Material X is supplied by a local supplier and can be procured at factory stores at any time, hence, no need to keep inventory for material X. The material Y is not locally available, it requires to be purchased from other states in a specially designed truck container with a capacity of 10 tons.

   The cost and other information related with the materials are as follows:

Particulars	Material –X	Material-Y
Purchase price per kg. (excluding GST)	₹140	₹640
Rate of GST	18%	18%
Freight per trip (fixed, irrespective of quantity)	-	₹28,000
Loss of materials in transit	-	2%
Loss in process	4%	5%

   Other information:

   - The company has to pay 15% p.a. to bank for cash credit facility.

   - Input credit is available on GST paid on materials.

   Required:

   (i) Calculate cost per kg. of material X and Y

   (ii) Calculate the Economic Order quantity for both the materials.

Labour

2. ADV Pvt. Ltd. manufactures a product which requires skill and precision in work to get quality products. The company has been experiencing high labour cost due to slow speed of work. The management of the company wants to reduce the labour cost but without compromising with the quality of work. It wants to introduce a bonus scheme but is indifferent between the Halsey and Rowan scheme of bonus.

   For the month of November 2019, the company budgeted for 24,960 hours of work. The workers are paid ₹80 per hour.

   Required:

   Calculate and suggest the bonus scheme where the time taken (in %) to time allowed to complete the works is (a) 100% (b) 75% (c) 50% & (d) 25% of budgeted hours.

Overheads

3. PLR Ltd. manufacturers a single product and recovers the overheads by adopting a single blanket rate based on machine hours. The budgeted production overheads of the factory for the FY 2019-20 are ₹50,40,000 and budgeted machine hours are 6,000.

   For a period of first six months of the financial year 2019–20, following information were extracted from the books:

Actual production overheads	₹34,08,000
Amount included in the production overheads:	
Paid as per court's order	₹4,50,000
Expenses of previous year booked in current year	₹1,00,000
Paid to workers for strike period under an award	₹4,20,000
Obsolete stores written off	₹36,000

   Production and sales data of the concern for the first six months are as under:

Production:	
Finished goods	1,10,000 units
Works-in-progress	
(50% complete in every respect)	80,000 units
Sale:	
Finished goods	90,000 units

   The actual machine hours worked during the period were 3,000 hours. It is revealed from the analysis of information that 40% of the over/under-absorption was due to defective production policies and the balance was attributable to increase in costs.

   You are required:

   (i) to determine the amount of over/ under absorption of production overheads for the period,

   (ii) to show the accounting treatment of over/ under-absorption of production overheads, and

   (iii) to apportion the over/ under-absorbed overheads over the items.

Non-Integrated Accounting

4. As of 30th September, 2019, the following balances existed in a firm's cost ledger, which is maintained separately on a double entry basis:

	Debit (₹)	Credit (₹)
Stores Ledger Control A/c	15,00,000	–

Work-in-progress Control A/c	7,50,000	–
Finished Goods Control A/c	12,50,000	–
Manufacturing Overhead Control A/c	–	75,000
Cost Ledger Control A/c	–	34,25,000
	35,00,000	35,00,000

During the next quarter, the following items arose:

	(₹)
Finished Product (at cost)	11,25,000
Manufacturing overhead incurred	4,25,000
Raw material purchased	6,25,000
Factory wages	2,00,000
Indirect labour	1,00,000
Cost of sales	8,75,000
Materials issued to production	6,75,000
Sales returned (at cost)	45,000
Materials returned to suppliers	65,000
Manufacturing overhead charged to production	4,25,000

Required:

Prepare the Cost Ledger Control A/c, Stores Ledger Control A/c, Work-in-progress Control A/c, Finished Stock Ledger Control A/c, Manufacturing Overhead Control A/c, Wages Control A/c, Cost of Sales A/c and the Trial Balance at the end of the quarter.

Contract Costing

5. GVL Ltd. commenced a contract on April 1, 2018. The total contract was for ₹ 1,08,50,000. It was decided to estimate the total profit and to take to the credit of Costing P & L A/c the proportion of estimated profit on cash basis which work completed bear to the total contract. Actual expenditure in 2018-19 and estimated expenditure in 2019-20 are given below:

	2018-19	2019-20
	Actual (₹)	**Estimated (₹)**
Material issued	18,24,000	32,56,000
Labour : Paid	12,20,000	15,20,000
: Outstanding at end	96,000	1,50,000

Plant purchased Expenses : Paid : Outstanding at the end : Prepaid at the end	9,00,000 4,00,000 - 90,000	- 7,00,000 1,00,000 -
Plant returned to stores (at historical cost)	3,00,000	6,00,000 (on Sep. 30, 2019)
Material at site	1,20,000	3,00,000
Work-in progress certified	51,00,000	Full
Work-in-progress uncertified	1,60,000	----
Cash received	40,00,000	Full

The plant is subject to annual depreciation @ 20% of WDV cost. The contract is likely to be completed on September 30, 2019.

Required:

(i) Prepare the Contract A/c for the year 2018-19.

(ii) Estimate the profit on the contract for the year 2018-19 on prudent basis which has to be credited to Costing P & L A/c.

Batch Costing

6. BTL LLP. manufactures glass bottles for HDL Ltd., a pharmaceutical company, which is in ayurvedic medicines business..

BTL can produce 2,00,000 bottles in a month. Set-up cost of each production run is ₹5,200 and the cost of holding one bottle for a year is ₹1.50.

As per an estimate HDL Ltd. can order as much as 19,00,000 bottles in a year spreading evenly throughout the year.

At present the BTL manufactures 1,60,000 bottles in a batch.

Required:

(i) Compute the Economic Batch Quantity for bottle production.

(ii) Compute the annual cost saving to BTL by adopting the EBQ of a production.

Job Costing

7. Ispat Engineers Limited (IEL) undertook a plant manufacturing work for a client. It will charge a profit mark up of 20% on the full cost of the jobs. The following are the information related to the job:

Direct materials utilised – ₹1,87,00,000

Direct labour utilised – 2,400 hours at ₹80 per hour

Budgeted production overheads are Rs. 48,00,000 for the period and are recovered on the basis of 24,000 labour hours.

Budgeted selling and administration overheads are `18,00,000 for the period and recovered on the basis of total budgeted total production cost of `36,00,00,000.

Required:

Calculate the price to be charged for the job.

Operating Costing

8. A transport company has a fleet of four trucks of 10 tonne capacity each plying in different directions for transport of customer's goods. The trucks run loaded with goods and return empty. The distance travelled, number of trips made and the load carried per day by each truck are as under:

Truck No.	One way Distance Km	No. of trips per day	Load carried per trip / day tonnes
1	48	4	6
2	120	1	9
3	90	2	8
4	60	4	8

The analysis of maintenance cost and the total distance travelled during the last two years is as under

Year	Total distance travelled	Maintenance Cost ₹
1	1,60,200	1,38,150
2	1,56,700	1,35,525

The following are the details of expenses for the year under review:

Diesel	₹ 60 per litre. Each litre gives 4 km per litre of diesel on an average.
Driver's salary	₹ 22,000 per truck per month
Licence and taxes	₹ 15,000 per annum per truck
Insurance	₹ 80,000 per annum for all the four trucks
Purchase Price per truck	₹30,00,000, Life 10 years. Scrap value at the end of life is ₹1,00,000.
Oil and sundries	₹ 525 per 100 km run.
General Overhead	₹ 1,10,840 per annum

The trucks operate 24 days per month on an average.

Required:

(i) Prepare an Annual Cost Statement covering the fleet of four trucks.

(ii) Calculate the cost per km. run.

(iii) Determine the freight rate per tonne km. to yield a profit of 30% on freight.

Process Costing

9. A product is manufactured in two sequential processes, namely Process-1 and Process-2. The following information relates to Process-1. At the beginning of June 2019, there were 1,000 WIP goods (60% completed in terms of conversion cost) in the inventory, which are valued at ₹2,86,020 (Material cost: ₹2,55,000 and Conversion cost: ₹31,020). Other information relating to Process-1 for the month of June 2019 is as follows;

Cost of materials introduced- 40,000 units (₹)	96,80,000
Conversion cost added (₹)	18,42,000
Transferred to Process-2 (Units)	35,000
Closing WIP (Units) (60% completed in terms of conversion cost)	1,500

100% of materials are introduced to Process-1 at the beginning. Normal loss is estimated at 10% of input materials (excluding opening WIP).

Required:

(i) Prepare a statement of equivalent units using the weighted average cost method and thereby calculate the following:

(ii) Calculate the value of output transferred to Process-2 and closing WIP.

Standard Costing

10. JVG Ltd. produces a product and operates a standard costing system and value material and finished goods inventories at standard cost. The information related with the product is as follows:

Particulars	Cost per unit (₹)
Direct materials (30 kg at ₹350 per kg)	10,500
Direct labour (5 hours at ₹80 per hour)	400

The actual information for the month just ended is as follows:

(a) The budgeted and actual production for the month of September 2019 is 1,000 units.

(b) Direct materials –5,000 kg at the beginning of the month. The closing balance of direct materials for the month was 10,000 kg. Purchases during the month were made at ₹365 per kg. The actual utilization of direct materials was 7,200 kg more than the budgeted quantity.

(c) Direct labour – 5,300 hours were utilised at a cost of ₹ 4,34,600.

Required:

Calculate (i) Direct material price and usage variances (ii) Direct labour rate and efficiency variances.

Marginal Costing

11. PVC Ltd sold 55,000 units of its product at ₹375 per unit. Variable costs are ₹175 per unit (manufacturing costs of ₹140 and selling cost ₹35 per unit). Fixed costs are incurred uniformly throughout the year and amount to ₹65,00,000 (including depreciation of ₹ 15,00,000). There is no beginning or ending inventories.

Required:

(i) Estimate breakeven sales level quantity and cash breakeven sales level quantity.

(ii) Estimate the P/V ratio.

(iii) Estimate the number of units that must be sold to earn an income (EBIT) of ₹5,00,000.

(iv) Estimate the sales level achieve an after-tax income (PAT) of ₹5,00,000, assume 40% corporate tax rate.

Budget and Budgetary Control

12. KLM Limited has prepared its expense budget for 50,000 units in its factory for the year 2019-20 as detailed below:

	(₹ per unit)
Direct Materials	125
Direct Labour	50
Variable Overhead	40
Direct Expenses	15
Selling Expenses (20% fixed)	25
Factory Expenses (100% fixed)	15
Administration expenses (100% fixed)	8
Distribution expenses (85% variable)	20
Total	298

Prepare an expense budget for the production of 35,000 units and 70,000 units.

Miscellaneous

13. (i) Differentiate between Cost Accounting and Management Accounting.
    (ii) Explain the meaning of Budget Manual.
    (iii) Explain the term Equivalent units used in process industries.

SUGGESTED ANSWERS/HINTS

1. **Working Notes:**

(a) Annual purchase quantity for material X and Y:

Annual demand for product M- 20,000 units × 4 = 80,000 units

Particulars	Mat-X	Mat-Y
Quantity required for per unit of product M	3 kg.	4 kg.
Net quantity for materials required	2,40,000 kg.	3,20,000 kg.
Add: Loss in transit	-	6,881 kg.
Add: Loss in process	10,000 kg.	17,204 kg.
Purchase quantity	2,50,000 kg.	3,44,085 kg.

Note- Input credit on GST paid is available; hence, it will not be included in cost of material.

(i) Calculation of cost per kg. of material X and Y:

Particulars	Mat-X	Mat-Y
Purchase quantity	2,50,000 kg.	3,44,085 kg.
Rate per kg.	₹140	₹640
Purchase price	₹3,50,00,000	₹22,02,14,400
Add: Freight	0	₹9,80,000*
Total cost	₹3,50,00,000	₹22,11,94,400
Net Quantity	2,40,000 kg.	3,20,000 kg
Cost per kg.	₹145.83	₹691.23

*No. of trucks = $\frac{3,44,085 \text{kg.}}{10 \text{ton} \times 1,000}$ = 34.40 trucks or 35 trucks

Therefore, total freight = 35 trucks × ₹28,000 = ₹9,80,000

(ii) Calculation of Economic Order Quantity (EOQ) for Mat.-X and Y:

$$EOQ = \sqrt{\frac{2 \times \text{Annual Requirement} \times \text{Order cost}}{\text{Carrying cost per unit p.a.}}}$$

Particulars	Mat-X	Mat-Y
Annual Requirement	2,50,000 kg.	3,44,085 kg.
Ordering cost	0	₹28,000
Cost per unit	₹145.83	₹691.23
Carrying cost	15%	15%
Carrying cost per unit p.a.	0*	₹103.68
EOQ	0	13,632.62 kg.

2. The Cost of labour under the bonus schemes are tabulated as below:

Time Allowed	Time taken	Wages (₹)	Bonus (₹)		Total Wages (₹)		Earning per hour (₹)	
			Halsey*	Rowan**	Halsey	Rowan	Halsey	Rowan
(1)	(2)	(3) = (2) ×₹80	(4)	(5)	(6) = (3) + (4)	(7) = (3) + (5)	(8) = (6)/(2)	(9) = (7)/(2)
24,960	24,960	19,96,800	-	-	19,96,800	19,96,800	80.00	80.00
24,960	18,720	14,97,600	2,49,600	3,74,400	17,47,200	18,72,000	93.33	100.00
24,960	12,480	9,98,400	4,99,200	4,99,200	14,97,600	14,97,600	120.00	120.00
24,960	6,240	4,99,200	7,48,800	3,74,400	12,48,000	8,73,600	200.00	140.00

* Bonus under Halsey Plan = 50% of (Time Allowed – Time Taken) × Rate per hour

** Bonus under Rowan Plan = $\frac{\text{Time taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Rate per hour}$

Rowan scheme of bonus keeps checks on speed of work as the rate of incentive increases only upto 50% of time taken to time allowed but the rate decreases as the time taken to time allowed comes below 50%. It provides incentives for efficient workers for saving in time but also puts check on careless speed. On implementation of Rowan scheme, the management of ADV Pvt. Ltd. would resolve issue of the slow speed work while maintaining the skill and precision required maintaining the quality of product.

3. (i) Amount of over/ under absorption of production overheads during the period of first six months of the year 2019-20:

	Amount (₹)	Amount (₹)
Total production overheads actually incurred during the period		34,08,000
Less: Amount paid to worker as per court order	4,50,000	
Expenses of previous year booked in the current year	1,00,000	
Wages paid for the strike period under an award	4,20,000	
Obsolete stores written off	36,000	10,06,000
		24,02,000
Less: Production overheads absorbed as per machine hour rate (3,000 hours × ₹840*)		25,20,000
Amount of over absorbed production overheads		1,18,000

*Budgeted Machine hour rate (Blanket rate) = $\frac{₹\ 50,40,000}{6,000 \text{ hours}}$ = ₹840 per hour

(ii) **Accounting treatment of over absorbed production overheads:** As, 40% of the over absorbed overheads were due to defective production policies, this being abnormal, hence should be credited to Costing Profit and Loss Account.

Amount to be credited to Costing Profit and Loss Account

= ₹1,18,000× 40% = ₹47,200.

Balance of over absorbed production overheads should be distributed over Works in progress, Finished goods and Cost of sales by applying supplementary rate*.

Amount to be distributed = ₹1,18,000× 60% = ₹70,800

Supplementary rate = $\frac{₹\ 70,800}{2,40,000 \text{ units}}$ = ₹ 0.295 per unit

(iii) Apportionment of under absorbed production overheads over WIP, Finished goods and Cost of sales:

	Equivalent completed units	Amount (₹)
Work-in-Progress (80,000 units × 50% ×0.295)	40,000	11,800
Finished goods (1,10,000 units × 0.295)	1,10,000	32,450
Cost of sales (90,000 units × 0.295)	90,000	26,550
Total	2,40,000	70,800

4. **Cost Ledger Control Account**

Dr. Cr.

	(₹)		(₹)
To Store Ledger Control A/c	65,000	By Opening Balance	34,25,000
To Balance c/d	47,10,000	By Store ledger control A/c	6,25,000
		By Manufacturing Overhead Control A/c	4,25,000
		By Wages Control A/c	3,00,000
	47,75,000		47,75,000

Stores Ledger Control Account

Dr. Cr.

	(₹)		(₹)
To Opening Balance	15,00,000	By WIP Control A/c	6,75,000
To Cost ledger control A/c	6,25,000	By Cost ledger control A/c (Returns)	65,000
		By Balance c/d	13,85,000
	21,25,000		21,25,000

WIP Control Account

Dr. Cr.

	(₹)		(₹)
To Opening Balance	7,50,000	By Finished Stock Ledger Control A/c	11,25,000
To Wages Control A/c	2,00,000	By Balance c/d	9,25,000
To Stores Ledger Control A/c	6,75,000		
To Manufacturing Overhead Control A/c	4,25,000		
	20,50,000		20,50,000

Finished Stock Ledger Control Account

Dr. Cr.

	(₹)		(₹)
To Opening Balance	12,50,000	By Cost of Sales	8,75,000
To WIP Control A/c	11,25,000	By Balance c/d	15,45,000
To Cost of Sales A/c (Sales Return)	45,000		
	24,20,000		24,20,000

Manufacturing Overhead Control Account

Dr. Cr.

	(₹)		(₹)
To Cost Ledger Control A/c	4,25,000	By Opening Balance	75,000
To Wages Control A/c	1,00,000	By WIP Control A/c	4,25,000
		By Under recovery c/d	2 5,000
	5,25,000		5,25,000

Wages Control Account

Dr. Cr.

	(₹)		(₹)
To Transfer to Cost Ledger Control A/c	3,00,000	By WIP Control A/c	2,00,000
		By Manufacturing Overhead Control A/c	1,00,000
	3,00,000		3,00,000

Cost of Sales Account

Dr. Cr.

	(₹)		(₹)
To Finished Stock Ledger Control A/c	8,75,000	By Finished Stock Ledger Control A/c (Sales return)	45,000

		By Balance c/d	8,30,000
	8,75,000		8,75,000

Trial Balance

	(₹)	(₹)
Stores Ledger Control A/c	13,85,000	
WIP Control A/c	9,25,000	
Finished Stock Ledger Control A/c	15,45,000	
Manufacturing Overhead Control A/c	25,000	
Cost of Sales A/c	8,30,000	
Cost ledger control A/c	----	47,10,000
	47,10,000	47,10,000

5. **GVL Ltd.**

Contract A/c
(April 1, 2018 to March 31, 2019)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Materials Issued	18,24,000	By Plant returned to Stores (Working Note 1)	2,40,000
To Labour 12,20,000		By Materials at Site	1,20,000
Add: Outstanding 96,000	13,16,000	By W.I.P.	
To Plant Purchased	9,00,000	Certified 51,00,000	
To Expenses 4,00,000		Uncertified 1,60,000	52,60,000
Less: Prepaid 90,000	3,10,000	By Plant at Site (Working Note 2)	4,80,000
To Notional Profit c/d	17,50,000		
	61,00,000		61,00,000
To Costing Profit & Loss A/c (Refer to Working Note 5)	6,45,899	By Notional Profit b/d	17,50,000

To Work-in-Progress A/c (Profit-in-reserve)	11,04,101		
	17,50,000		17,50,000

GVL Ltd.

Contract A/c
(April 1, 2018 to September 30, 2019)
(For Computing estimated profit)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Materials Issued (₹ 18,24,000 + ₹32,56,000)	50,80,000	By Material at Site	3,00,000
To Labour Cost (₹12,20,000+₹96,000+₹ 14,24,000* + ₹1,50,000)	28,90,000	By Plant returned to Stores on 31.03.2019.	2,40,000
To Plant purchased	9,00,000	By Plant returned to Stores on 30.09.2019 (Working Note 3)	4,32,000
To Expenses (₹3,10,000+₹7,90,000+ ₹1,00,000)	12,00,000	By Contractee A/c	1,08,50,000
To Estimated profit	17,52,000		
	1,18,22,000		1,18,22,000

* Labour paid in 2019-20: ₹15,20,000 – ₹96,000 = ₹14,24,000

Working Notes

		(₹)
1.	**Value of the Plant returned to Stores on 31.03.2019**	
	Historical Cost of the Plant returned	3,00,000
	Less: Depreciation @ 20% of WDV for one year	(60,000)
		2,40,000
2.	**Value of Plant at Site 31.03.2019**	
	Historical Cost of Plant at Site (₹9,00,000 – ₹3,00,000)	6,00,000
	Less: Depreciation @ 20% on WDV for one year	(1,20,000)
		4,80,000
3.	**Value of Plant returned to Stores on 30.09.2019**	
	Value of Plant (WDV) on 31.3.2019	4,80,000
	Less: Depreciation @ 20% of WDV for a period of 6 months	(48,000)
		4,32,000

4. **Expenses Paid for the year 2018-19**	
Total expenses paid	4,00,000
Less: Pre-paid at the end	(90,000)
	3,10,000
5. **Profit to be credited to Costing Profit & Loss A/c** on March 31, 2019 for the Contract likely to be completed on September 30, 2019.	
Estimated Profit × $\frac{\text{Work Certified}}{\text{Total Contract Price}} \times \frac{\text{Cash received}}{\text{Work Certified}}$	
= ₹17,52,000 × $\frac{51,00,000}{1,08,50,000} \times \frac{40,00,000}{51,00,000}$	6,45,899

6. Economic Batch Quantity (EBQ) = $\sqrt{\frac{2DS}{C}}$

Where, D = Annual demand for the product

S = Setting up cost per batch

C = Carrying cost per unit of production

(i) Computation of EBQ :

$$= \sqrt{\frac{2 \times 19,00,000 \times ₹5,200}{₹1.5}}$$

= 1,14,775 bottles

(ii) Computation of savings in cost by adopting EBQ:

Batch Size	**No. of Batch**	**Set-up cost**	**Carrying cost**	**Total Cost**
1,60,000 bottles	12	62,400 (₹5,200 × 12)	1,20,000 (₹1.5 × ½ × 1,60,000)	1,82,400
1,14,775 bottles	17	88,400 (₹5,200 × 17)	86,081.25 (₹1.5 × ½ × 1,14,775)	1,74,481.25
Saving				7,918.75

7. Calculation of job price

Particulars	**Amount (₹)**
Direct materials	1,87,00,000
Direct wages (₹80 × 2,400 hours)	1,92,000

Production overheads $\left(\frac{₹48,00,000}{24,000\,hrs} \times 2,400\,hrs\right)$	4,80,000
Production cost	**1,93,72,000**
Selling and administration overheads $\left(\frac{₹18,00,000}{₹36,00,00,000} \times ₹1,93,72,000\right)$	96,860
Total cost of sales	1,94,68,860
Profit mark-up @ 20%	38,93,772
Price for the job	**2,33,62,632**

8. (i) **Annual Cost Statement of four vehicles**

	(₹)
Diesel {(4,21,632 km. ÷ 4 km) × ₹ 60) (Refer to Working Note 1)	63,24,480
Oil & sundries {(4,21,632 km. ÷ 100 km.) × ₹ 525}	22,13,568
Maintenance {(4,21,632 km. × ₹ 0.75) + ₹ 18,000} (Refer to Working Note 2)	3,34,224
Drivers' salary {(₹22,000 × 12 months) × 4 trucks}	10,56,000
Licence and taxes (₹ 15,000 × 4 trucks)	60,000
Insurance	80,000
Depreciation {(₹29,00,000 ÷ 10 years) × 4 trucks}	11,60,000
General overhead	1,10,840
Total annual cost	**1,13,39,112**

(ii) **Cost per km. run**

$$\text{Cost per kilometer run} = \frac{\text{Total annual cost of vehicles}}{\text{Total kilometre travelled annually}} \text{ (Refer to Working Note 1)}$$

$$= \frac{₹1,13,39,112}{4,21,632\text{ Kms}} = ₹\,26.89$$

(iii) **Freight rate per tonne km (to yield a profit of 30% on freight)**

$$\text{Cost per tonne km.} = \frac{\text{Total annual cost of three vehicles}}{\text{Total effective tonnes kms. per annum}} \text{ (Refer to Working Note 1)}$$

$$= \frac{₹1,13,39,112}{16,10,496\text{ kms}} = ₹\,7.04$$

Freight rate per tonne km. $\left(\frac{₹7.04}{0.7}\right)\times 1$ = ₹ 10.06

Working Notes:

1. Total kilometre travelled and tonnes kilometre (load carried) by four trucks in one year

Truck number	One way distance in kms	No. of trips	Total distance covered in km per day	Load carried per trip / day in tonnes	Total effective tonnes km
1	48	4	384	6	1,152
2	120	1	240	9	1,080
3	90	2	360	8	1,440
4	60	4	480	8	1,920
Total			1,464		5,592

Total kilometre travelled by four trucks in one year

(1,464 km. × 24 days × 12 months) = 4,21,632

Total effective tonnes kilometre of load carried by four trucks during one year

(5,592 tonnes km. × 24 days × 12 months) = 16,10,496

2. Fixed and variable component of maintenance cost:

Variable maintenance cost per km = $\frac{\text{Difference in maintenance cost}}{\text{Difference in distance travelled}}$

$= \frac{₹\ 1,38,150 - ₹\ 1,35,525}{1,60,200\ \text{kms} - 1,56,700\ \text{kms}}$

= ₹ 0.75

Fixed maintenance cost = Total maintenance cost–Variable maintenance cost

= ₹1,38,150 – 1,60,200 kms × ₹ 0.75 = ₹ 18,000

9. (i) Statement of Equivalent Production

Particulars	Input Units	Particulars	Output Units	Equivalent Production			
				Material		Conversion cost	
				%	Units	%	Units
Opening WIP	1,000	Completed and transferred to Process-2	35,000	100	35,000	100	35,000

Units introduced	40,000	Normal Loss (10% of 40,000)	4,000	--	--	--	--
		Abnormal loss (Balancing figure)	500	100	500	60	300
		Closing WIP	1,500	100	1,500	60	900
	41,000		41,000		37,000		36,200

(ii) Calculation of value of output transferred to Process-2 & Closing WIP

	Amount (₹)	Amount (₹)
1. Value of units completed and transferred (35,000 units × ₹ 320.25) (Refer working note) 3. Value of Closing W-I-P:		1,12,08,750
- Materials (1,500 units × ₹ 268.51)	4,02,765	
- Conversion cost (900 units × ₹ 51.74)	46,566	4,49,331

Workings:

Cost for each element

Particulars	Materials (₹)	Conversion (₹)	Total (₹)
Cost of opening work-in-process	2,55,000	31,020	2,86,020
Cost incurred during the month	96,80,000	18,42,000	1,15,22,000
Total cost: (A)	99,35,000	18,73,020	1,18,08,020
Equivalent units: (B)	37,000	36,200	
Cost per equivalent unit: (C) = (A ÷ B)	268.51	51.74	320.25

10. Working:

Quantity of material purchased and used.

No. of units produced	1,000 units
Std. input per unit	30kg.
Std. quantity (Kg.)	30,000 kg.
Add: Excess usage	7,200 kg.
Actual Quantity	37,200 kg.
Add: Closing Stock	10,000 kg.
Less: Opening stock	5,000 kg.
Quantity of Material purchased	42,200 kg.

(i) Direct Material Price Variance:

= Actual Quantity purchased (Std. Price – Actual Price)

= 42,200 kg.(₹350 – ₹365) = 6,33,000 (Adverse)

Direct Material Usage Variance:

= Std. Price (Std. Quantity – Actual Quantity)

= ₹350 (30,000 kg. – 37,200 kg.) = ₹25,20,000 (Adverse)

(ii) Direct Labour Rate Variance:

= Actual hours (Std. Rate – Actual Rate)

= 5,300 hours (₹80 – ₹82) = ₹10,600 (Adverse)

Direct Labour Efficiency Variance:

= Std. Rate (Std. hours – Actual hours)

= ₹80 (1,000 units × 5 hours – 5,300 hours) = ₹24,000 (Adverse)

11. (i) Contribution = ₹375 - ₹175 = ₹200 per unit.

Break even Sales Quantity = $\frac{\text{Fixed cost}}{\text{Contribution margin per unit}} = \frac{₹\ 65,00,000}{₹\ 200}$ = 32,500 units

Cash Break even Sales Qty= $\frac{\text{Cash Fixed Cost}}{\text{Contribution margin per unit}} = \frac{₹50,00,000}{₹200}$ = 25,000 units.

(ii) P/V ratio = $\frac{\text{Contribution/unit}}{\text{Selling Price/unit}} \times 100 = \frac{₹\,200}{₹\,375} \times 100$ = 53.33%

(iii) No. of units that must be sold to earn an Income (EBIT) of ₹5,00,000

$\frac{\text{Fixed cost + Desired EBIT level}}{\text{Contribution margin per unit}} = \frac{65,00,000 + 5,00,000}{200}$ = 35,000 units

(iv) After Tax Income (PAT) = ₹5,00,000

Tax rate = 40%

Desired level of Profit before tax $= \frac{₹5,00,000}{60} \times 100$ = ₹8,33,333

Estimate Sales Level = $\frac{\text{Fixed Cost + Desired Profit}}{\text{P/V ratio}}$

Or, $\left(\frac{\text{Fixed Cost + Desired Profit}}{\text{Contribution per unit}} \times \text{Selling Price per unit} \right)$

$= \dfrac{₹65,00,000 + ₹8,33,333}{53.33\%}$ = ₹1,37,50,859

12. Expense Budget of KLM Ltd.

Particulars	50,000 Units (₹)	35,000 Units (₹)	70,000 Units (₹)
Direct Material	62,50,000 (50,000 x 125)	43,75,000 (35,000 x 125)	87,50,000 (70,000 x 125)
Direct Labour	25,00,000 (50,000 x 50)	17,50,000 (35,000 x 50)	35,00,000 (70,000 x 50)
Variable Overhead	20,00,000 (50,000 x 40)	14,00,000 (35,000 x 40)	28,00,000 (70,000 x 40)
Direct Expenses	7,50,000 (50,000 x 15)	5,25,000 (35,000 x 15)	10,50,000 (70,000 x 15)
Selling Expenses (Variable)*	10,00,000 (50,000 x 20)	7,00,000 (35,000 x 20)	14,00,000 (70,000 x 20)
Selling Expenses (Fixed)* (5 x 50,000)	2,50,000	2,50,000	2,50,000
Factory Expenses (Fixed) (15 x 50,000)	7,50,000	7,50,000	7,50,000
Administration Expenses (Fixed) (8 x 50,000)	4,00,000	4,00,000	4,00,000
Distribution Expenses (Variable)**	8,50,000 (17 x 50,000)	5,95,000 (17 x 35,000)	11,90,000 (17 x 70,000)
Distribution Expenses (Fixed)** (3 x 50,000)	1,50,000	1,50,000	1,50,000
	1,49,00,000	1,08,95,000	2,02,40,000

*Selling Expenses: Fixed cost per unit = ₹25 x 20% = ₹5

Fixed Cost = ₹5 x 50,000 units = ₹2,50,000

Variable Cost Per unit = ₹25 – ₹5 = ₹20

**Distribution Expenses: Fixed cost per unit = ₹20 x 15% = ₹3

Fixed Cost = ₹3 x 50,000 units = ₹1,50,000

Variable cost per unit = ₹20 – ₹3 = ₹17

13. (i) Difference between Cost Accounting and Management Accounting

	Basis	Cost Accounting	Management Accounting
(i)	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
(ii)	Objective	It records the cost of producing a product and providing a service.	It Provides information to management for planning and co-ordination.
(iii)	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes financial accounting, budgeting, taxation, planning etc.
(iv)	Recording of data	It uses both past and present figures.	It is focused with the projection of figures for future.
(v)	Development	Its development is related to industrial revolution.	It develops in accordance to the need of modern business world.
(vi)	Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

(ii) Budget Manual: A budget manual is a collection of documents that contains key information for those involved in the planning process. Typical contents could include the following:

- An introductory explanation of the budgetary planning and control process, including a statement of the budgetary objective and desired results.
- A form of organisation chart to show who is responsible for the preparation of each functional budget and the way in which the budgets are interrelated.
- A timetable for the preparation of each budget. This will prevent the formation of a 'bottleneck' with the late preparation of one budget holding up the preparation of all others.
- Copies of all forms to be completed by those responsible for preparing budgets, with explanations concerning their completion.
- A list of the organization's account codes, with full explanations of how to use them.
- Information concerning key assumptions to be made by managers in their budgets, for example the rate of inflation, key exchange rates, etc.

(iii) Equivalent Units: Equivalent units or equivalent production units, means converting the incomplete production units into their equivalent completed units. Under each process, an estimate is made of the percentage completion of work-in-process with regard to different elements of costs, *viz.,* material, labour and overheads. It is important that the estimate of percentage of completion should be as accurate as possible. The formula for computing equivalent completed units is:

$$\text{Equivalent completed units} = \begin{pmatrix} \text{Actual number of units in} \\ \text{the process of manufacture} \end{pmatrix} \times \begin{pmatrix} \text{Percentage of} \\ \text{Work completed} \end{pmatrix}$$

For instance, if 25% of work has been done on the average of units still under process, then 200 such units will be equal to 50 completed units and the cost of work-in-process will be equal to the cost of 50 finished units.

PART-II: FINANCIAL MANAGEMENT

QUESTIONS

Time Value of Money

1. A is 22 years old, recently joined a new job, wants to plan a tour to Europe after the end of 5 years. The Europe tour will cost ₹ 5,00,000, for this purpose she wants to invest a annually in mutual fund which will pay an average return of 12% p.a.

   Required:

   (i) Find out the annual investment to be made in the mutual fund.

Ratio Analysis

2. The following is the Profit and loss account and Balance sheet of KLM LLP.

Trading and Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	12,46,000	By Sales	1,96,56,000
To Purchases	1,56,20,000	By Closing stock	14,28,000
To Gross profit c/d	42,18,000		
	2,10,84,000		2,10,84,000
		By Gross profit b/d	42,18,000
To Administrative expenses	18,40,000	By Interest on investment	24,600
To Selling & distribution expenses	7,56,000	By Dividend received	22,000
To Interest on loan	2,60,000		
To Net profit	14,08,600		
	42,64,600		42,64,600

Balance Sheet as on……….

Capital & Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	20,00,000	Plant & machinery	24,00,000
Retained earnings	42,00,000	Building	42,00,000
General reserve	12,00,000	Furniture	12,00,000
Term loan from bank	26,00,000	Sundry receivables	13,50,000
Sundry Payables	7,20,000	Inventory	14,28,000
Other liabilities	2,80,000	Cash & Bank balance	4,22,000
	1,10,00,000		1,10,00,000

You are required to compute:

(i) Gross profit ratio	(ii) Net profit ratio	(iii) Operating cost ratio	(iv) Operating profit ratio
(v) Inventory turnover ratio	(vi) Current ratio	(vii) Quick ratio	(viii) Interest coverage ratio
(ix) Return on capital employed	(x) Debt to assets ratio.		

Fund Flow Analysis

3. The following are the Balance Sheet of Peacock Limited as on 31st March, 20X8 and 31st March, 20X9.

	Rupees 31st March, 20X8	**Rupees 31st March, 20X9**
Liabilities		
Share capital	88,00,000	1,32,00,000
Reserves and Surplus	55,00,000	77,00,000
Depreciation	17,60,000	26,40,000
Bank Loan	35,20,000	17,60,000
Sundry Creditors	26,40,000	29,70,000
Proposed dividend	8,00,000	12,00,000
Provision for taxation	8,00,000	11,00,000
	2,38,20,000	3,05,70,000
Assets		
Land	66,00,000	88,00,000
Plant and Machinery	1,01,20,000	1,38,60,000
Inventories	39,60,000	44,00,000
Sundry Debtors	22,00,000	34,10,000
Cash and Bank Balances	9,40,000	1,00,000
	2,38,20,000	3,05,70,000

Additional Information:

(a) The machine which was purchased earlier for ₹ 12,00,000 was sold during the financial year 20X8-20X9 for ₹80,000. The book value of the machine was ₹ 1,20,000. A new machine was purchased during the financial year.

(b) The company had issued new shares to the extent of ₹44,00,000.

You are required to prepare:

1. Statement showing changes in the Working Capital;
2. Statement of Sources and Application of funds

Cost of Capital

4. KM Ltd. has the following capital structure on September 30, 2019:

Sources of capital	(₹)
Equity Share Capital (40,00,000 Shares of ₹ 10 each)	4,00,00,000
Reserves & Surplus	4,00,00,000
12% Preference Shares	2,00,00,000
9% Debentures	6,00,00,000
	16,00,00,000

The market price of equity share is ₹60. It is expected that the company will pay next year a dividend of ₹6 per share, which will grow at 10% forever. Assume 40% income tax rate.

You are required to compute weighted average cost of capital using market value weights.

Capital Structure

5. The management of RT Ltd. wants to raise its funds from market to meet out the financial demands of its long-term projects. The company has various combinations of proposals to raise its funds. You are given the following proposals of the company:

Proposal	Equity shares (%)	Debts (%)	Preference shares (%)
P	100	-	-
Q	50	50	-
R	50	-	50

(i) Cost of debt and preference shares is 12% each.

(ii) Tax rate –40%

(iii) Equity shares of the face value of ₹10 each will be issued at a premium of ₹10 per share.

(iv) Total investment to be raised ₹8,00,00,000.

(v) Expected earnings before interest and tax ₹3,60,00,000.

From the above proposals the management wants to take advice from you for appropriate plan after computing the following:

- Earnings per share

- Financial break-even-point

Compute the EBIT range among the plans for indifference.

Leverage

6. The following summarises the percentage changes in operating income, percentage changes in revenues, and betas for four listed firms.

Firm	Change in revenue	Change in operating income	Beta
A Ltd.	35%	22%	1.00
B Ltd.	24%	35%	1.65
C Ltd.	29%	26%	1.15
D Ltd.	32%	30%	1.20

Required:

(i) Calculate the degree of operating leverage for each of these firms. Comment also.

(ii) Use the operating leverage to explain why these firms have different beta.

Capital Budgeting

7. MTR Limited is considering buying a new machine which would have a useful economic life of five years, at a cost of ₹25,00,000 and a scrap value of ₹3,00,000, with 80 per cent of the cost being payable at the start of the project and 20 per cent at the end of the first year. The machine would produce 75,000 units per annum of a new product with an estimated selling price of ₹300 per unit. Direct costs would be ₹285 per unit and annual fixed costs, including depreciation calculated on a straight- line basis, would be ₹8,40,000 per annum.

   In the first year and the second year, special sales promotion expenditure, not included in the above costs, would be incurred, amounting to ₹1,00,000 and ₹1,50,000 respectively.

   Evaluate the project using the NPV method of investment appraisal, assuming the company's cost of capital to be 15 percent.

Management of Working Capital

8. Following are cost information of KG Ltd., which has commenced a new project for an annual production of 24,000 units which is the full capacity:

	Costs per unit (₹)
Materials	80.00
Direct labour and variable expenses	40.00
Fixed manufacturing expenses	12.00
Depreciation	20.00

Fixed administration expenses	8.00
	160.00

The selling price per unit is expected to be ₹192 and the selling expenses ₹10 per unit, 80% of which is variable.

In the first two years of operations, production and sales are expected to be as follows:

Year	Production (No. of units)	Sales (No. of units)
1	12,000	10,000
2	18,000	17,000

To assess the working capital requirements, the following additional information is available:

(a)	Stock of materials	2 months' average consumption
(b)	Work-in-process	Nil
(c)	Debtors	2 month's average sales.
(d)	Cash balance	₹ 1,00,000
(e)	Creditors for supply of materials	1 month's average purchase during the year.
(f)	Creditors for expenses	1 month's average of all expenses during the year.

Prepare, for the two years:

(i) A projected statement of Profit/Loss (Ignoring taxation); and

(ii) A projected statement of working capital requirements

Management of Working Capital

9. A regular customer of your company has approached to you for extension of credit facility for purchasing of goods. On analysis of past performance and on the basis of information supplied, the following pattern of payment schedule emerges:

Pattern of Payment Schedule	
At the end of 30 days	20% of the bill
At the end of 60 days	30% of the bill.
At the end of 90 days	30% of the bill.
At the end of 100 days	18% of the bill.
Non-recovery	2% of the bill.

The customer wants to enter into a firm commitment for purchase of goods of ₹30 lakhs in 2019, deliveries to be made in equal quantities on the first day of each quarter in the calendar year. The price per unit of commodity is ₹300 on which a profit of ₹10 per unit is expected to be made. It is anticipated that taking up of this contract would mean an extra recurring expenditure of ₹10,000 per annum. If the opportunity cost is 18% per annum, would you as the finance manager of the company recommend the grant of credit to the customer? Assume 1 year = 360 days.

Miscellaneous

10. Write short notes on the following:

(a) Write a short note on Payback Reciprocal.

(b) Write a short note on the functions of treasury department.

(c) Write short notes on Inter relationship between investment, financing and dividend decisions.

SUGGESTED HINTS/ANSWERS

1. Annual investment (A) required:

$$A = ₹5,00,000\left(\frac{0.12}{(1+0.12)^5-1}\right)$$

$$A = ₹5,00,000\left(\frac{0.12}{1.7623-1}\right) = ₹5,00,000×0.1574 = ₹78,700$$

2. (i) Gross profit ratio = $\frac{\text{Gross profit}}{\text{Sales}}\times 100 = \frac{₹42,18,000}{₹1,96,56,000}\times 100 = 21.46\%$

(ii) Net profit ratio = $\frac{\text{Net profit}}{\text{Sales}}\times 100 = \frac{₹14,08,600}{₹1,96,56,000}\times 100 = 7.17\%$

(iii) Operating ratio = $\frac{\text{Operating cost}}{\text{Sales}}\times 100$

Operating cost = Cost of goods sold + Operating expenses

Cost of goods sold = Sales – Gross profit

= 1,96,56,000 - 42,18,000 = 1,54,38,000

Operating expenses = Administrative expenses + Selling & distribution expenses

= 18,40,000 + 7,56,000 = 25,96,000

Therefore, Operating ratio = $\frac{1,54,38,000+25,96,000}{1,96,56,000}\times 100$

$$= \frac{1,80,34,000}{1,96,56,000} \times 100 = 91.75\%$$

(iv) Operating profit ratio = 100 – Operating cost ratio

= 100 – 91.75% = 8.25%

(v) Inventory turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average stock}}$

$$= \frac{1,54,38,000}{(14,28,000 + 12,46,000)/2}$$

$$= \frac{1,54,38,000}{13,37,000} = 11.55 \text{ times}$$

(vi) Current ratio = $\frac{\text{Current assets}}{\text{Current liablities}}$

Current assets = Sundry receivables + Inventory + Cash & Bank balance

= 13,50,000 + 14,28,000 + 4,22,000 = 32,00,000

Current liabilities = Sundry Payables + Other liabilities

= 7,20,000 + 2,80,000 = 10,00,000

Current ratio = $\frac{32,00,000}{10,00,000}$ = 3.2 times

(vii) Quick Ratio = $\frac{\text{Current assets} - \text{Inventories}}{\text{Current liablities}}$

$$= \frac{32,00,000 - 14,28,000}{10,00,000} = 1.77 \text{ times}$$

(viii) Interest coverage ratio = $\frac{\text{EBIDT}}{\text{Interest}} = \frac{\text{Net profit} + \text{Interest}}{\text{Interest}}$

$$= \frac{14,08,600 + 2,60,000}{2,60,000} = 6.42 \text{ times}$$

(ix) Return on capital employed (ROCE) = $\frac{\text{EBIT}}{\text{Capital employed}} \times 100$

Capital employed = Capital + Retained earnings + General reserve + Term loan

= 20,00,000 + 42,00,000 + 12,00,000 + 26,00,000

= 1,00,00,000

Therefore, ROCE = $\frac{16,68,600}{1,00,00,000} \times 100$ = 16.69%

(x) Debt to assets ratio = $\frac{\text{Debts}}{\text{Total assets}} \times 100 = \frac{26,00,000}{1,10,00,000} \times 100$ =23.64%

3. (1) **Schedule of Changes in Working Capital**

Particulars	**31st March**		**Working Capital**	
	20X8 (₹)	**20X9 (₹)**	**Increase (₹)**	**Decrease (₹)**
A. Current Assets:				
Inventories	39,60,000	44,00,000	4,40,000	--
Sundry Debtors	22,00,000	34,10,000	12,10,000	--
Cash and Bank	9,40,000	1,00,000	--	8,40,000
Total (A)	71,00,000	79,10,000		
B. Current Liabilities:				
Sundry Creditors	26,40,000	29,70,000	--	3,30,000
Provision for Taxation	8,00,000	11,00,000	--	3,00,000
Total (B)	34,40,000	40,70,000		
Working Capital (A – B)	36,60,000	38,40,000		
Increase in Working Capital	1,80,000			1,80,000
Total	38,40,000	38,40,000	16,50,000	16,50,000

(2) **Funds Flow Statement for the year ending 31st March, 20X9**

	(₹)
A. Sources of Funds:	
(i) Fund from Business Operations	54,00,000
(ii) Proceeds from issue of shares	44,00,000
(iii) Proceeds from sale of machinery	80,000
Total sources	98,80,000
B. Application of Funds:	
(i) Payment of dividend	8,00,000
(ii) Repayment of bank loan	17,60,000

(iii) Purchase of land	22,00,000
(iv) Purchase of machinery	49,40,000
Total uses	97,00,000
Net Increase in Working Capital (A – B)	1,80,000

Working Notes:

1. **Computation of Funds from Business Operation**

		(₹)
	Reserve and surplus as on March 31, 20X9	77,00,000
Add:	Provision for depreciation	19,60,000
	Proposed dividend	12,00,000
	Loss on sale of machinery	40,000
		1,09,00,000
Less:	Profit and loss as on March 31, 20X8	55,00,000
	Fund from Operations	54,00,000

2. **Provision for Depreciation A/c**

	(₹)		(₹)
To Plant & Machinery A/c	10,80,000	By Balance b/d	17,60,000
To Balance c/d	26,40,000	By Profit & Loss A/c (Balancing figure)	19,60,000
	37,20,000		37,20,000

3. **Plant & Machinery A/c**

	(₹)		(₹)
To Balance b/d	1,01,20,000	By Prov. for Dep. A/c	10,80,000
To Bank (Purchases)	49,40,000	By Cash	80,000
		By Profit & Loss A/c (Loss on Sale)	40,000
		By Balance c/d	1,38,60,000
	1,50,60,000		1,50,60,000

4. **Workings:**

(i) Cost of Equity (K_e) = $\frac{D_1}{P_0} + g = \frac{₹6}{₹60} + 0.10 = 0.20 = 20\%$

(ii) Cost of Debentures (K_d) = I (1 - t) = 0.09 (1 - 0.4) = 0.054 or 5.4%

Computation of Weighted Average Cost of Capital (WACC using market value weights)

Source of capital	Market Value of capital (₹)	Weight	Cost of capital (%)	WACC (%)
9% Debentures	6,00,00,000	0.1875	5.40	1.01
12% Preference Shares	2,00,00,000	0.0625	12.00	0.75
Equity Share Capital (₹ 60 × 40,00,000 shares)	24,00,00,000	0.7500	20.00	15.00
Total	32,00,00,000	1.00		16.76

5. (i) **Computation of Earnings per Share (EPS)**

Plans	P (₹)	Q (₹)	R (₹)
Earnings before interest & tax (EBIT)	3,60,00,000	3,60,00,000	3,60,00,000
Less: Interest charges	--	(48,00,000)	--
Earnings before tax (EBT)	3,60,00,000	3,12,00,000	3,60,00,000
Less : Tax @ 40%	(1,44,00,000)	(1,24,80,000)	(1,44,00,000)
Earnings after tax (EAT)	2,16,00,000	1,87,20,000	2,16,00,000
Less : Preference share dividend	--	--	(48,00,000)
Earnings available for equity shareholders	2,16,00,000	1,87,20,000	1,68,00,000
No. of equity shares	40,00,000	20,00,000	20,00,000
E.P.S	5.40	9.36	8.40

(ii) **Computation of Financial Break-even Points**

Proposal 'P' = 0

Proposal 'Q' = ₹48,00,000 (Interest charges)

Proposal 'R' = Earnings required for payment of preference share dividend i.e. ₹48,00,000 ÷ 0.6 = ₹80,00,000

(iii) **Computation of Indifference Point between the Proposals**

Combination of Proposals

(a) Indifference point where EBIT of proposal "P" and proposal 'Q' is equal

$$\frac{\text{EBIT}(1-0.4)}{40{,}00{,}000\text{ shares}} = \frac{(\text{EBIT} - ₹48{,}00{,}000)(1-0.4)}{20{,}00{,}000\text{ shares}}$$

0.6 EBIT = 1.2 EBIT – ₹57,60,000

EBIT = ₹96,00,000

(b) Indifference point where EBIT of proposal 'P' and proposal 'R' is equal:

$$\frac{\text{EBIT}(1-0.40)}{40{,}00{,}000\text{ shares}} = \frac{\text{EBIT}(1-0.40) - ₹48{,}00{,}000}{20{,}00{,}000\text{ shares}}$$

$$\frac{0.6\text{EBIT}}{40{,}00{,}000\text{ shares}} = \frac{0.6\text{EBIT} - ₹48{,}00{,}000}{20{,}00{,}000\text{ shares}}$$

0.30 EBIT = 0.6 EBIT – ₹48,00,000

$$\text{EBIT} = \frac{₹48{,}00{,}000}{0.30} = ₹1{,}60{,}00{,}000$$

(c) Indifference point where EBIT of proposal 'Q' and proposal 'R' are equal

$$\frac{(\text{EBIT} - ₹48{,}00{,}000)(1-0.4)}{20{,}00{,}000\text{ shares}} = \frac{\text{EBIT}(1-0.4) - ₹48{,}00{,}000}{20{,}00{,}000\text{ shares}}$$

There is no indifference point between proposal 'Q' and proposal 'R'

6. **(i)** Degree of operating leverage $= \frac{\text{\% Change in Operating income}}{\text{\% Change in Revenues}}$

A Ltd.	=	0.22 / 0.35	=	0.63
B Ltd.	=	0.35 / 0.24	=	1.46
C Ltd.	=	0.26 / 0.29	=	0.90
D Ltd.	=	0.30 / 0.32	=	0.94

It is level specific.

(ii) High operating leverage leads to high beta. So when operating leverage is lowest i.e. 0.63, Beta is minimum (1) and when operating leverage is maximum i.e. 1.46, beta is highest i.e. 1.65.

7. **Calculation of Net Cash flows**

Contribution = (300 – 285) × 75,000 = ₹11,25,000

Fixed costs = 8,40,000 – [(25,00,000 – 3,00,000)/5] = ₹4,00,000

Year	Capital (₹)	Contribution (₹)	Fixed costs (₹)	Adverts (₹)	Net cash flow (₹)
0	(20,00,000)				(20,00,000)

1	(5,00,000)	11,25,000	(4,00,000)	(1,00,000)	1,25,000
2		11,25,000	(4,00,000)	(1,50,000)	5,75,000
3		11,25,000	(4,00,000)		7,25,000
4		11,25,000	(4,00,000)		7,25,000
5	3,00,000	11,25,000	(4,00,000)		10,25,000

Calculation of Net Present Value

Year	Net cash flow (₹)	12% discount factor	Present value (₹)
0	(20,00,000)	1.000	(20,00,000)
1	1,25,000	0.892	1,11,500
2	5,75,000	0.797	4,58,275
3	7,25,000	0.711	5,15,475
4	7,25,000	0.635	4,60,375
5	10,25,000	0.567	5,81,175
			1,26,800

The net present value of the project is ₹1,26,800.

8. (i) **Projected Statement of Profit / Loss**

(Ignoring Taxation)

	Year 1	Year 2
Production (Units)	12,000	18,000
Sales (Units)	10,000	17,000
	(₹)	**(₹)**
Sales revenue (A) (Sales unit × ₹192)	19,20,000	32,64,000
Cost of production:		
Materials cost (Units produced × ₹80)	9,60,000	14,40,000
Direct labour and variable expenses (Units produced × ₹40)	4,80,000	7,20,000
Fixed manufacturing expenses (Production Capacity: 24,000 units × ₹12)	2,88,000	2,88,000
Depreciation (Production Capacity : 24,000 units × ₹20)	4,80,000	4,80,000

Fixed administration expenses (Production Capacity : 24,000 units × ₹8)	1,92,000	1,92,000
Total Costs of Production	24,00,000	31,20,000
Add: Opening stock of finished goods (Year 1 : Nil; Year 2 : 2,000 units)	---	4,00,000
Cost of Goods available for sale (Year 1: 12,000 units; Year 2: 20,000 units)	24,00,000	35,20,000
Less: Closing stock of finished goods at average cost (year 1: 2000 units, year 2 : 3000 units) (Cost of Production × Closing stock/ units produced)	(4,00,000)	(5,28,000)
Cost of Goods Sold	20,00,000	29,92,000
Add: Selling expenses – Variable (Sales unit × ₹8)	80,000	1,36,000
Add: Selling expenses -Fixed (24,000 units × ₹2)	48,000	48,000
Cost of Sales : (B)	21,28,000	31,76,000
Profit (+) / Loss (-): (A - B)	(-) 2,08,000	(+) 88,000

Working Notes:

1. Calculation of creditors for supply of materials:

	Year 1 (₹)	**Year 2 (₹)**
Materials consumed during the year	9,60,000	14,40,000
Add: Closing stock (2 month's average consumption)	1,60,000	2,40,000
	11,20,000	16,80,000
Less: Opening Stock	---	1,60,000
Purchases during the year	11,20,000	15,20,000
Average purchases per month (Creditors)	93,333	1,26,667

2. Creditors for expenses:

	Year 1 (₹)	**Year 2 (₹)**
Direct labour and variable expenses	4,80,000	7,20,000
Fixed manufacturing expenses	2,88,000	2,88,000
Fixed administration expenses	1,92,000	1,92,000
Selling expenses (variable + fixed)	1,28,000	1,84,000
Total	10,88,000	13,84,000
Average per month	90,667	1,15,333

(ii) Projected Statement of Working Capital requirements

	Year 1 (₹)	Year 2 (₹)
Current Assets:		
Inventories:		
-Stock of materials (2 month's average consumption)	1,60,000	2,40,000
-Finished goods	4,00,000	5,28,000
Debtors (2 month's average sales) (including profit)	3,20,000	5,44,000
Cash	1,00,000	1,00,000
Total Current Assets/ Gross working capital (A)	9,80,000	14,12,000
Current Liabilities:		
Creditors for supply of materials (Refer to working note 1)	93,333	1,26,667
Creditors for expenses (Refer to working note 2)	90,667	1,15,333
Total Current Liabilities: (B)	1,84,000	2,42,000
Estimated Working Capital Requirements: (A-B)	7,96,000	11,70,000

9. Statement showing the Evaluation of credit Policies

Particulars	Proposed Policy ₹
A. Expected Profit:	
(a) Credit Sales	30,00,000
(b) Total Cost	
(i) Variable Costs	29,00,000
(ii) Recurring Costs	10,000
	29,10,000
(c) Bad Debts	60,000
(d) Expected Profit [(a) – (b) – (c)]	30,000
B. Opportunity Cost of Investments in Receivables	1,00,395
C. Net Benefits (A – B)	(70,395)

Recommendation: The Proposed Policy should not be adopted since the net benefits under this policy are negative

Working Note: Calculation of Opportunity Cost of Average Investments

$$\text{Opportunity Cost} = \text{Total Cost} \times \frac{\text{Collection period}}{360} \times \frac{\text{Rate of Return}}{100}$$

Particulars	20%	30%	30%	18%	Total
A. Total Cost	5,82,000	8,73,000	8,73,000	5,23,800	28,51,800
B. Collection period	30/360	60/360	90/360	100/360	
C. Required Rate of Return	18%	18%	18%	18%	
D. Opportunity Cost (A × B × C)	8,730	26,190	39,285	26,190	1,00,395

10. (a) As the name indicates it is the reciprocal of payback period. A major drawback of the payback period method of capital budgeting is that it does not indicate any cut off period for the purpose of investment decision. It is, however, argued that the reciprocal of the payback would be a close approximation of the Internal Rate of Return (later discussed in detail) if the life of the project is at least twice the payback period and the project generates equal amount of the annual cash inflows. In practice, the payback reciprocal is a helpful tool for quick estimation of rate of return of a project provided its life is at least twice the payback period.

The payback reciprocal can be calculated as follows:

$$\text{Payback Reciprocal} = \frac{\text{Average annual cash in flow}}{\text{Initial investment}}$$

(b) 1. Cash Management: It involves efficient cash collection process and managing payment of cash both inside the organisation and to third parties.

There may be complete centralization within a group treasury or the treasury may simply advise subsidiaries and divisions on policy matter viz., collection/payment periods, discounts, etc.

Treasury will also manage surplus funds in an investment portfolio. Investment policy will consider future needs for liquid funds and acceptable levels of risk as determined by company policy.

2. Currency Management: The treasury department manages the foreign currency risk exposure of the company. In a large multinational company (MNC) the first step will usually be to set off intra-group indebtedness. The use of matching receipts and payments in the same currency will save transaction costs. Treasury might advise on the currency to be used when invoicing overseas sales.

The treasury will manage any net exchange exposures in accordance with company policy. If risks are to be minimized then forward contracts can be used either to buy or sell currency forward.

3. **Fund Management:** Treasury department is responsible for planning and sourcing the company's short, medium and long-term cash needs. Treasury department will also participate in the decision on capital structure and forecast future interest and foreign currency rates.

4. **Banking:** It is important that a company maintains a good relationship with its bankers. Treasury department carry out negotiations with bankers and act as the initial point of contact with them. Short-term finance can come in the form of bank loans or through the sale of commercial paper in the money market.

5. **Corporate Finance:** Treasury department is involved with both acquisition and divestment activities within the group. In addition, it will often have responsibility for investor relations. The latter activity has assumed increased importance in markets where share-price performance is regarded as crucial and may affect the company's ability to undertake acquisition activity or, if the price falls drastically, render it vulnerable to a hostile bid.

(c) **Inter-relationship between Investment, Financing and Dividend Decisions:** The finance functions are divided into three major decisions, viz., investment, financing and dividend decisions. It is correct to say that these decisions are inter-related because the underlying objective of these three decisions is the same, i.e. maximisation of shareholders' wealth. Since investment, financing and dividend decisions are all interrelated, one has to consider the joint impact of these decisions on the market price of the company's shares and these decisions should also be solved jointly. The decision to invest in a new project needs the finance for the investment. The financing decision, in turn, is influenced by and influences dividend decision because retained earnings used in internal financing deprive shareholders of their dividends. An efficient financial management can ensure optimal joint decisions. This is possible by evaluating each decision in relation to its effect on the shareholders' wealth.

The above three decisions are briefly examined below in the light of their inter-relationship and to see how they can help in maximising the shareholders' wealth i.e. market price of the company's shares.

Investment decision: The investment of long term funds is made after a careful assessment of the various projects through capital budgeting and uncertainty analysis. However, only that investment proposal is to be accepted which is expected to yield at least so much return as is adequate to meet its cost of financing. This have an influence on the profitability of the company and ultimately on its wealth.

Financing decision: Funds can be raised from various sources. Each source of funds involves different issues. The finance manager has to maintain a proper balance between long-term and short-term funds. With the total volume of long-term funds, he has to ensure a proper mix of loan funds and owner's funds. The optimum financing mix will increase return to equity shareholders and thus maximise their wealth.

Dividend decision: The finance manager is also concerned with the decision to pay or declare dividend. He assists the top management in deciding as to what portion of the profit should be paid to the shareholders by way of dividends and what portion should be retained in the business. An optimal dividend pay-out ratio maximises shareholders' wealth.

The above discussion makes it clear that investment, financing and dividend decisions are interrelated and are to be taken jointly keeping in view their joint effect on the shareholders' wealth.

PAPER 4: TAXATION

SECTION A: INCOME TAX

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2018, including significant notifications/ circulars issued upto 30th April, 2019 are applicable for November, 2019 examination. The relevant assessment year for November, 2019 examination is A.Y.2019-20. The July 2018 edition of the Study Material is based on the provisions of income-tax law as amended by the Finance Act, 2018 and significant notifications/circulars issued upto 30th April, 2018.

The significant notifications/circulars issued upto 30.4.2019 which are relevant for November, 2019 examination but not covered in the July 2018 edition of the Study Material, are given hereunder.

Chapter 3: Incomes which do not form part of Total Income

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (i) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover"' and "total turnover' while working out deduction admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A.

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover', while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

Note: *Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.*

Chapter 4 Unit 1: Salaries

Notified limit for exemption in respect of gratuity increased, in case of employees not covered under the Payment of Gratuity Act, 1972 [Notification No. 16 /2019, dated 08.03.2019]

As per section 10(10)(iii), in case of an employee not covered under the Payment of Gratuity Act, 1972, any gratuity received by an employee on his retirement or his becoming incapacitated prior to such retirement or on termination of his employment or any gratuity received by his widow, children or dependents on his death is exempt from tax to the extent of least of the following limits:

(i) One-half month's salary for each year of completed service

(ii) Actual gratuity received

(iii) Specified limit (i.e., limit notified by the Central Government)

The Central Government, having regard to the maximum amount of any gratuity payable to employees, has specified ₹ 20 lakh as the limit for the purposes of section 10(10)(iii) in relation to the employees who retire or become incapacitated prior to such retirement or die on or after 29th March, 2018 or whose employment is terminated on or after the said date. In effect, the Central Government has, vide this notification, increased the specified limit from ₹ 10 lakhs to ₹ 20 lakh with effect from 29.03.2018.

Chapter 9: Advance Tax and Tax Deduction at Source

No tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" – [Notification No. 27 & 28/2018, dated 18-06-2018]

Section 193 (Interest on securities) provides that the person responsible for paying to a resident any income by way of interest on securities shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax @ 10%, being the rates in force on the amount of the interest payable.

As per clause (iib) of the proviso to section 193, no tax is required to be deducted at source from any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified -

(i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and

(ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

No tax to be deducted at source under section 194A, in case of Senior Citizens if the aggregate amount of interest does not exceed ₹ 50,000 [Notification No. 6/2018, dated 6-12-2018]

Section 194A requires deduction of tax at source on interest other than interest on securities. However, section 194A(3) provides for exemption from this requirement where such interest credited or paid or likely to be credited or paid during the Financial Year does not exceed ₹10,000 and the payer is a banking company, co-operative society engaged in banking business or post office. In case of a senior citizen (being a resident), however, a higher threshold of ₹ 50,000 has been specified for non-deduction of tax at source in such cases.

Accordingly, as per the third proviso to section 194A(3), no tax is required to be deducted at source in the case of senior citizens where the amount of interest or the aggregate of the amount of interest credited or paid during the financial year by a banking company, co-operative society engaged in banking business or post office does not exceed ₹50,000. However, it has come to the notice of the CBDT, that, some tax deductors/banks are making tax deductions even when the amount of interest does not exceed ₹ 50,000.

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

Accordingly, the Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), clarified that no tax deduction at source under section 194A shall be made in the case of senior citizens where the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year does not exceed ₹50,000.

Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi notified for the purpose of section 194A(3)((iii)(f) [Notification No. 26/2019, dated 20.03.2019]

Section 194A(3)((iii)(f) provides that no tax is required to be deducted on interest income paid or credited to such other institution, association or body or class of institutions, associations, or bodies which is notified by the Central Government. Accordingly, the Central Government has, vide this notification, notified the Housing and Urban Development Corporation Ltd.(HUDCO), New Delhi for the purpose of the said section.

Consequent to such notification, no tax need to be deducted at source from interest other than interest on securities credited or paid to HUDCO.

Chapter 10: Provisions for filing return of income

Time limit for making an application for allotment of PAN in respect of certain persons [Notification No. 82/2018, dated 19-11-2018]

Section 139A(1) lists out the persons, who have not allotted PAN, to apply to the Assessing Officer for allotment of PAN within such time, as may be prescribed. The time limit for making such application is prescribed in Rule 114(3).

The Finance Act, 2018 has expanded the list of persons covered under section 139A(1) to include the persons mentioned in (iv) & (v) in column (2) of the table below, who have not been allotted a PAN, to apply to the Assessing Officer for allotment of PAN. Accordingly, Rule 114(3) has been amended *vide* this notification to provide the time limit (indicated in column (3) of the table below) for such persons to apply to the Assessing Officer for allotment of PAN.

The table below contains the list of persons mentioned in section 139A(1), who have not been allotted PAN, to apply for PAN and the time limit for making such application in each such case.

(1)	(2)	(3)
	Persons required to apply for PAN	**Time limit for making such application**
(i)	Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax	On or before the 31st May of the assessment year for which such income is assessable

(ii)	Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year	Before the end of that financial year (previous year).
(iii)	Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year	On or before 31st May of the immediately following financial year
(iv)	Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iv) above or any person competent to act on behalf of such person referred in (iv) above	On or before 31st May of the immediately following financial year in which the person referred in (iv) enters into financial transaction specified therein.

Quoting of Aadhaar Number mandatory in returns filed on or after 1.4.2019 [Circular No. 6/2019 dated 31.03.2019]

As per section 139AA(1)(ii), with effect from 01.07.2017, every person who is eligible to obtain Aadhaar number has to quote Aadhaar number in the return of income.

The Apex Court in a series of judgments has upheld the validity of section 139AA. Consequently, with effect from 01.04.2019, the CBDT clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted as per any notification issued under section 139AA(3). Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

Time limit for intimation of Aadhar Number to Prescribed Authority [Notification No. 31/2019, dated 31.03.2019]

Section 139AA(2) provides that every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified that every person who has been allotted permanent account number as on 1st July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) by 30th September, 2019.

This notification would, however, not be applicable to those persons or such class of persons or any State or part of any State who/which are/is specifically excluded under section 139AA(3).

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

I. Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2019 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of –

(a) ₹ 1,87,200

(b) ₹ 2,26,200

(c) ₹ 1,49,760

(d) ₹ 1,80,960

II. Mr. Suhaan (aged 35 years), a non-resident earned dividend income of ₹ 12,50,000 from an Indian Company which is credited directly to its bank account in France and ₹ 15,000 as interest in Saving A/c from State Bank of India during the previous year 2018-19. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2019-20?

(a) ₹ 2,55,000

(b) ₹ 2,65,000

(c) ₹ 15,000

(d) ₹ 5,000

III. XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2012 and unit in DTA from 15.6.2015. Total turnover of XYZ Ltd. and Unit in DTA is ₹ 8,50,00,000 and 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 2,50,00,000 and ₹ 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 80,00,000 and ₹ 45,00,000, respectively. XYZ Ltd. would be eligible for deduction under section 10AA for -

(a) ₹ 38,09,524

(b) ₹ 19,04,762

(c) ₹ 23,52,941

(d) ₹ 11,76,471

IV. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2018-19, following transactions were undertaken by Mr. Jagat:

(i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.

(ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Amount of fees is ₹ 25,000.

(iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month. Cost of education in similar institution is ₹ 5,250 per month.

Compute the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2019-20.

(a) ₹ 25,000

(b) ₹ 37,500

(c) ₹ 66,500

(d) ₹ 79,000

V. Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2018. He is resident in India during F.Y. 2018-19 and earned salary income of ₹5 lacs (computed). During the year, he earned ₹ 7 lacs from winning of lotteries. Compute his advance tax liability for A.Y. 2019-20:

(a) ₹ 2,20,000 + Cess ₹ 8,800 = ₹2,28,800, being the tax payable on total income of ₹12 lacs

(b) ₹ 2,10,000 + Cess ₹ 8,400 = ₹2,18,400, being the tax payable on lottery income of ₹7 lacs

(c) ₹ 10,000 + Cess ₹400 = ₹ 20,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.

(d) Nil

VI. APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2018-19, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2018-19, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd. Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

(a) Deposit Receipts (without interest) are taxable to the extent of ₹2,50,000 under Income from other sources.

(b) Deposit Receipts (without interest) are fully taxable under Income from other sources.

(c) Deposit Receipts (without interest) are exempt since DDT is payable by the company.

(d) Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

VII. Mr. Hari is 65 years old residing in Agra. During F.Y. 2013-14, he purchased a house property in Kamla Nagar for ₹ 25 lacs. This house property was self-occupied by him till F.Y. 2015-16. In F.Y. 2016-17, he shifted to Delhi and the house property in Kamla Nagar was let out to Mr. Kishore. His income from house property was ₹ 5 lacs per annum (computed). During F.Y. 2018-19, Mr. Hari earned long-term capital gain of ₹ 2.50 lacs, casual income of ₹ 10 lacs, agricultural income of ₹ 3 lacs and profits from business of ₹ 4 lacs. During the same year, he transferred house property situated in Kamla Nagar to Mrs. Neelam (his son's wife) without any consideration. Subsequently, income from house property was received by Mrs. Neelam for F.Y. 2018-19. Compute gross total income of Mr. Hari for A.Y. 2019-20:

(a) ₹ 16.50 lacs

(b) ₹ 21.50 lacs

(c) ₹ 19.50 lacs

(d) ₹ 24.50 lacs

VIII. The details of income/loss of Mr. Kumar for A.Y. 2019-20 are as follows:

Particulars	Amt. (in ₹)
Income from Salary (Computed)	5,20,000
Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for A.Y. 2019-20:

(a) ₹ 4,40,000

(b) ₹ 3,20,000

(c) ₹ 1,60,000

(d) ₹ 4,80,000

IX. Mr. Pawan is engaged in the business of roasting and grinding coffee beans. During F.Y. 2018-19, his total income is ₹ 4.5 lacs. Mr. Pawan filed its return of income for

A.Y. 2019-20 on 3rd March, 2020. Compute fee payable for default in furnishing in return of income for PQ & Associates for A.Y. 2019-20:

(a) ₹ 5,000

(b) Not exceeding ₹ 1,000

(c) ₹ 10,000

(d) No fees payable as total income is below ₹ 5,00,000

X. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018-19, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:

(a) ₹ 3,23,353

(b) ₹ 8,23,353

(c) ₹ 10,00,000

(d) None of the above

DESCRIPTIVE QUESTIONS

1. Mr. Sunil Patni, aged 45 years, furnishes the following details of his total income for the A.Y. 2019-20:

Income from Salaries (computed)	26,56,000
Income from House Property (computed)	16,90,000
Interest income from FDRs	7,34,000

He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Sunil Patni as per the provisions of Income Tax Act, 1961.

2. Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2018 as stamped in the passport and returned on 27th April 2019. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2019-20 from the following information:

(1) Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.

(2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2018. Interest on the borrowed money for the previous year 2018-19 amounted to ₹ 5,800.

(3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account.

3. Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

(i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

(ii) During the previous year 2018-19, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

4. Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2018-19, she received the following amounts from her employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus for the previous year 2017-18 amounting to ₹ 52,000 was received on 30th November, 2018.

(iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.

(iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.

(v) Ms. Suhaani was provided;

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2016 at ₹ 35,000.
- a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.

(vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2018 @ ` 170 per share against the fair market value of ` 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Ms. Suhaani for the assessment year 2019-20.

5. Mr. Vihaan is a resident but not ordinarily resident in India during the Assessment Year 2019-20. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2018-19:

- He owns two houses, one in Singapore and the other in Pune.
- The house in Singapore is let out there at a rent of SGD 4,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1250 and Sewerage Tax SGD 750 there. (1SGD=INR 51)
- The house in Pune is self-occupied. He had taken a loan of ₹ 25,00,000 to construct the house on 1st June, 2014 @12%. The construction was completed on 31st May, 2016 and he occupied the house on 1st June, 2016.

  The entire loan is outstanding as on 31st March, 2019. Property tax paid in respect of the second house is ₹ 2,800.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Vihaan for the Assessment Year 2019-20.

6. Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2018. The following machineries (falling under 15% block) purchased by him during the previous year 2018-19.

		Amount (₹ lakhs)
(i)	Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2018, 25th July 2018 and 1st August 2018, respectively). Payment is made on 15th April 2019 to Sahaj Limited by net banking.	58
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2018). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2018 (The payment for the purchase invoice was made through NEFT on 5th January, 2019)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2019-20.

7. Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

   She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

   Mrs. Yuvika, again entered into an agreement on 01.08.2018 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by cash payment. The stamp duty value on the date of agreement was ₹ 835 lakhs. The sale deed was executed and registered on 14-1-2019 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 870 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

   Subsequent to sale, Mrs. Yuvika made following investments:

   (i) Acquired a residential house at Delhi for ₹ 130 lakhs on 31.5.2019.

   (ii) Acquired a residential house at UK for ₹ 290 lakhs on 23.3.2019.

   (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 47 lakhs on 29-3-2019 and for ₹ 50 lakhs on 12-5-2019.

   Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

   Cost Inflation Index: F.Y. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2018-19 - 280.

8. Mr. Raghav is a chartered accountant and his income from profession for the year 2018-19 is ₹ 15,00,000. He provides you with the following information for the year 2018-19.

Particulars	₹
Income of minor son Rahul from company deposit	1,75,000
Income of minor daughter Riya (professional dancer) from her dance performances	20,00,000
Interest from Canara bank received by Riya on fixed deposit made in 2015 out of income earned from her dance performances	20,000
Gift received by Riya from friends of Mr. Raghav on winning National award	45,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000

Long term capital gain under section 112	4,00,000
Short term capital loss under section 111A	10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife.

Compute the Total Income of Mr. Raghav for Assessment Year 2019-20 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

9. Mr. Arihant, a resident individual aged 40 years, has Gross Total Income of ₹ 7,50,000 comprising of income from Salary and income from house property for the assessment year 2019-20. He provides the following information:

   Paid ₹ 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2017.

   Deposited ₹ 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.

   Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.

   Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government.

   Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2019-20.

10. You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the assessment year 2019-20. She furnishes the following particulars relating to the year ended 31-3-2019:

(i)	Winnings from a TV Game show (Net)	77,000
(ii)	Gift received from Father's brother	85,000
(iii)	Gift received from Archita, her close friend	80,000
(iv)	Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@15% p.a.)	4,50,000
(v)	Rent received for a vacant plot of land (Net)	3,03,300
(vi)	Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2018.	2,85,000

(vii)	Amount received under Keyman Insurance Policy	4,35,000
(viii)	Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix)	Donation given in cash to a charitable trust registered u/s 12AA	22,000
(x)	She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi)	Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii)	Interest credited in the said PPF account during the year	50,900
(xiii)	Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income.

11. Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2019. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2018-19 as under:

    (i) Retail Toy business, whose turnover is ₹ 185 lakhs [received ₹ 90 lakhs by Account payee cheque, ₹ 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.

    (ii) Income from other sources ₹ 3,05,000.

    (iii) Tax deducted at source ₹ 55,000.

    (iv) Advance tax paid ₹ 1,45,000 on 14-3-2019.

    Calculate the interest payable under section 234B of the income-tax Act, 1961.

12. Examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed by Mr. Sharma. These losses/deductions are in respect of the financial year 2018-19.

    (i) Loss from the business carried on by him as a proprietor: ₹ 9,80,000 (computed)

    (ii) Unabsorbed Depreciation: ₹ 3,25,000 (computed)

    (iii) Loss from House property: ₹ 50,000 (computed)

    The due date for filing the return for Mr. Sharma was 31st July, 2019 under section 139(1). However, he filed the return on 25.9.2019.

SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

I. (a)

II. (d)

III. (b)

IV. (d)

V. (d)

VI. (c)

VII. (b)

VIII. (a)

IX. (b)

X. (d)

DESCRIPTIVE QUESTIONS

1. Computation of tax liability of Mr. Sunil Patni for the A.Y. 2019-20

Particulars	₹	₹
Income from Salaries (computed)		26,56,000
Income from house property (computed)		16,90,000
Interest income from FDR's		7,34,000
Total Income		**50,80,000**
Tax Liability		
(A) Tax payable including surcharge on total income of ₹ 50,80,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 50,80,000 @30%	12,24,000	
	13,36,500	
Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,33,650	14,70,150
(B) Tax Payable on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000, being 30% of ₹ 40,00,000)		13,12,500

(C) Excess tax payable (A)-(B)		1,57,650
(D) Marginal Relief (₹ 1,57,650 – ₹ 80,000, being the amount of income in excess of ₹ 50,00,000)		77,650
Tax payable (A)-(D) [₹ 14,70,150 – ₹ 77,650]		13,92,500
Add: Health & Education cess@4%		55,700
Tax Liability		**14,48,200**

2. Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2018-19. Hence, he is non-resident in India for A.Y.2019-20.

Computation of total income of Mr. Rajesh Sharma for A.Y.2019-20

	Particulars	Amount (₹)
(1)	Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even through the sale proceeds were credited to bank account in Singapore.	58,000
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil
(3)	Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has	

	accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.	9,500
Total Income		**67,500**

3.

	Chargeability	Amount liable to tax (₹)	Reason
(i)	**Partly taxable**	96,000	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 x 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 – ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	**Not Taxable**	-	As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya.

4. **Computation of Income under the head "Salaries" in the hands of Ms. Suhaani for the A.Y. 2019-20**

Particulars	₹
Basic Salary [₹ 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the P.Y. 2018-19, since it is taxable on receipt basis]	52,000

Fixed Medical Allowance [Taxable]	48,000
Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2019-20, even though father is included in the meaning of "family" on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].	4,900
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	60,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	**8,76,900**
Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of ₹ 40,000 or amount of salary)	40,000
Taxable Salary	**8,34,700**

5. **Computation of income from house property of Mr. Vihaan for A.Y. 2019-20**

Particulars	₹	₹
1. Income from let-out property in Singapore [See Note 1 below]		
[1]Gross Annual Value (SGD 4,000 p.m. x 12 months x ₹ 51)		24,48,000
Less: Municipal taxes paid during the year [SGD 2,000 (SGD 1,250 + SGD 750) x ₹ 51][2]		1,02,000
Net Annual Value (NAV)		23,46,000
Less: Deductions under section 24		
(a) 30% of NAV	7,03,800	

[1] *In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV*

[2] Both property tax and sewerage tax qualify for deduction from gross annual value

(b) Interest on housing loan	-	7,03,800
		16,42,200
2. **Income from self-occupied property in Pune**		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan **[See Note 2 below]**		2,00,000
		(2,00,000)
Income from house property [₹ 16,42,200 – ₹ 2,00,000]		**14,42,200**

Notes:

(1) Since Mr. Vihaan is a resident but not ordinarily resident in India for A.Y. 2019-20, income which is, *inter alia,* received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Singapore would be taxable in India since such income is received by him in India.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (₹ 25,00,000 x 12%)	₹ 3,00,000
Pre-construction interest	
For the period 01.06.2014 to 31.03.2016 (₹ 25,00,000 x 12% x 22/12) = ₹ 5,50,000	
₹ 5,50,000 allowed in 5 equal installments (₹ 5,50,000/5)	₹ 1,10,000
	₹ 4,10,000
In case of self-occupied property, interest deduction to be restricted to	₹ 2,00,000

6. **Computation of depreciation under section 32 for A.Y. 2019-20**

Particulars	₹	₹
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and		NIL

installed on 8.8.2018 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		
Second hand Machinery M from Sunshine Ltd on 18.12.2018 assuming it is installed and put to use in P.Y. 2018-19. [Since payment is made to Sunshine Ltd by way of use of ECS]		15,00,000
Actual Cost		**73,00,000**
Depreciation for P.Y.2018-19		
Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs	8,70,000	
Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	
	9,82,500	
Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh	20,30,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2019-20	**30,12,500**	

7. **Computation of income chargeable under the head "Capital Gains" for A.Y.2019-20**

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 870 lakhs		
Gross Sale consideration		870.00
[Where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		

However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 105% of ₹ 810 lakhs]		
Less: Brokerage@1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		861.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, *plus* registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 280/113]	218.05	
- Construction cost of residential building (₹ 100 lakhs x 280/122)	229.51	447.56
Long-term capital gains[3] before exemption		**414.34**
Less: **Exemption under section 54**		130.00
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in UK		
Less: **Exemption under section 54EC**		50.00
Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2019), of long-term capital asset, being land or building or both, would qualify for exemption, to the		

[3] *Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain*

maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 97 lakhs, even if the both the investments are made on or before 13.7.2019 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**234.34**

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

8. **Computation of Total Income of Mr. Raghav for A.Y. 2019-20**

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession		15,00,000	
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	13,00,000
Capital gains			
Long term capital gain under section 112		4,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(4,00,000)	Nil
Income from other sources			
Income of minor son Rahul			
Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)	1,75,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,73,500	
Income of minor daughter Riya			
- Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) **not** includible in the	Nil		

hands of parent, since such income is earned on account of her special skills			
- Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
- Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	1,92,000
Total Income			**14,92,000**

Losses to be carried forward to A.Y.2020-21

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	10,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000]	2,00,000

Note – *Short-term capital loss under section 111A can also be set-off against long-term capital gains under section 112. In such a case, the losses to be carried forward to A.Y.2020-21 would be as under –*

Particulars	***₹***
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 10,00,000 – ₹ 4,00,000]	6,00,000
Short term capital loss (other than above)	6,00,000

9. **Computation of Total Income of Mr. Arihant for A.Y. 2019-20**

Particulars	₹	₹	₹
Gross Total Income			7,50,000
Less: **Deduction under Chapter VI-A**			
Under section 80C	60,000		
- Life insurance premium of ₹ 70,000 (restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000, being the sum assured, since the policy has			

been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U) - Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C	Nil	60,000	
Under section 80D			
- Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000		
- Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	
Under section 80G			
- Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.		25,000	1,60,000
Total Income			**5,90,000**

10. Computation of total income of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	85,500	1,99,500
Profits and gains of business or profession		
Interest on capital @12%, being the maximum allowable interest [₹ 4,50,000/15% x 12%] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	

Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		
Winning from a TV Game show (Gross) [₹ 77,000 x 100/(100-30)]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	
Gift received from her close friend would be taxable, since it exceeds ₹ 50,000	80,000	
Rent received for a vacant plot of land [₹ 3,03,300/90 x 100]	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh	5,20,000	
[not exempt, since such income is derived from land outside India]		
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		**23,51,500**
***Less:* Deductions under Chapter VI-A**		
Section 80C		
PPF subscription in the name of minor daughter	1,25,000	
Section 80G		
Donation of ₹ 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	-	1,25,000
Total Income		**22,26,500**

Computation of tax liability of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Tax on winnings of ₹ 1,10,000 from TV game show @30%		33,000
Tax on balance income of ₹ 21,16,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 - ₹ 10,00,000@20%	1,00,000	
₹ 10,00,001 - ₹ 21,16,500@30%	3,34,950	4,47,450
		4,80,450

Add: Health and Education cess@4%			19,218
Tax liability			**4,99,668**
Less: TDS			
Under section 194-I	33,700		
Under section 194B	33,000		66,700
Tax payable			**4,32,968**
Tax payable (rounded off)			**4,32,970**

11. Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	₹
Tax on total income of ₹ 15,05,000 [Business income of ₹ 12,00,000 **(See Note below)** + Income from other sources of ₹ 3,05,000]	2,64,000
Add: Health and Education cess @4%	10,560
Tax on total income	**2,74,560**
Less: Tax deducted at source	55,000
Assessed Tax	**2,19,560**
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2019	1,45,000
Interest under section 234B is leviable since advance tax of ₹1,45,000 paid is less than ₹1,97,604, being 90% of assessed tax	
Number of months from 1st April, 2019 to 15th December, 2019, being the date of payment of self-assessment tax	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 74,500 [i.e., difference between assessed tax of ₹ 2,19,560 and advance tax of ₹1,45,000 paid being ₹ 74,560 which is rounded off to ₹ 74,500[4]]	6,705
Interest under section 234B rounded off	6,710
***Note:** The presumptive income computed under section 44AD would be ₹12 lakhs, being 8% of ₹45 lakhs and 6% of ₹140 lakhs.*	

[4] *Rounded off under Rule 119A of Income-tax Rules, 1962*

12. Mr. Sharma has furnished his return of income for A.Y.2019-20 on 25.9.2019, i.e., after 31st July 2019, being the due date specified under section 139(1). Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 9,80,000 of Mr. Sharma for A.Y. 2019-20, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2020-21.

However, the loss of ₹ 50,000 from house property and unabsorbed depreciation of ₹ 3,25,000 pertaining to A.Y.2019-20, can be carried forward to A.Y.2020-21 for set-off, even though Mr. Sharma has filed the return of loss for A.Y.2019-20 belatedly.

SECTION B: INDIRECT TAXES

QUESTIONS

(1)	**All questions should be answered on the basis of the position of GST law as amended up to 30.04.2019.**
(2)	**The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**

1. Miss. Raksha is engaged in providing private coaching services in Noida, Uttar Pradesh and is not registered under GST till 25-Sep-20XX. Her aggregate turnover is ₹19,00,000/- on 30-Sep-20XX. She got GST registration on 30-Sep-20XX. Which of the following options are available to her?

   (a) She can pay tax @ 18%, charge it from customer and avail full input tax credit on procurements made.

   (b) She can pay tax @ 6% under exemption scheme for service providers but she cannot charge GST from customer and also cannot avail input tax credit.

   (c) She is not liable for registration since her aggregate turnover is less than ₹40,00,000/-

   (d) Either (a) or (b)

2. Mr. Arun, a registered supplier, is engaged in selling sweets. The sweets are sold in boxes and the cost of each sweet box is ₹ 500/-. In order to increase his turnover, he purchased certain juice cans @ ₹ 20/- each and added juice can with every sweet box as a gift. A sweet box along with free juice can is sold at ₹500/- each.

   Which of the statements is correct?

   (a) He is liable to pay tax on ₹520/- and eligible to claim input tax credit on purchase of juice cans

   (b) He is liable to pay tax on ₹500/- and not eligible to claim input tax credit on purchase of juice cans

   (c) He is liable to pay tax on ₹500/- and also eligible to claim input tax credit on purchase of juice cans

   (d) Either (a) or (b)

3. Which is not considered as supply under GST Law?

   (a) Stock transferred from one establishment in Delhi to another establishment in Gurgaon, Haryana registered under same PAN.

(b) CA Ram supplies accounting services to CA Radha in lieu of taxation services received from CA Radha.

(c) A Health club supplies lunch to its members at its annual meeting against a nominal charge.

(d) Mr. A sells a flat to Mr. B

(i)	Date of completion certificate	-	31/01/20XX
(ii)	Date of agreement with buyer	-	01/02/20XX
(iii)	Consideration received	-	05/02/20XX

4. With reference to the provisions relating to transaction value under section 15 of the CGST Act, 2017, which of the following is not correct?

(a) Central excise duty will not be included in transaction value for supply of tobacco.

(b) Municipal taxes paid by tenant will be included in transaction value for supply of renting service.

(c) Entertainment tax included in movie ticket will form part of transaction value.

(d) Customer makes payment of freight which is payable by the supplier, directly to the service provider. However, supplier does not include this amount in the invoice. Such amount will be included in transaction value of the supplier.

5. Which of the following services are notified under section 9(3) of CGST Act, 2017 or section 5(3) of IGST Act, 2017 the tax on which shall be paid on reverse charge basis by the recipient of such supply:

(i) Supply of security services provided by a person other than a body corporate to a composition taxpayer

(ii) Services supplied by an insurance agent to insurance company located in taxable territory

(iii) Supply of services by way of renting of hotel accommodation through e-commerce operator.

(iv) Supply of notified categories of goods or services or both by a supplier, who is not registered, to specified class of registered persons.

Choose from the following options:

(a) (i) & (ii)

(b) Only (ii)

(c) (i), (ii), (iii)

(d) (i) & (iv)

6. M/s. Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from M/s. High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28-Oct-20XX. Invoice for service rendered was issued on 5-Nov-XX. M/s Comfortable (P) Ltd. made part-payment of ₹ 4,20,000/- on 30-Nov-XX. Being unhappy with service provided by M/s High-fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by M/s High-Fi Infotech (P) Ltd. by 15-Feb-XY. M/s. Comfortable (P) Ltd. made payment of ₹ 3,00,000/- on 15-Feb-XY and balance payment was made on 6-June-20XY, i.e. after 180 days of issue of invoice.

   Input tax credit available in respect of IT engineering services received from M/s. High-Fi Infotech (P) Ltd. in financial year 20XX-XY:

   (a) ₹ 1,98,000/-

   (b) Nil

   (c) ₹ 64,068/-

   (d) ₹ 1,09,831/-

7. Mr. Dev Anand is engaged in providing services of facilitating sale and purchase of securities to various clients. He is also engaged in trading of securities. His turnover details are as follows:

Trading of securities	₹ 40,00,000/-
Brokerage on account of facilitating transactions in securities	₹ 30,00,000/-

   You are required to ascertain aggregate turnover of Mr. Dev Anand under GST:

   (a) ₹ 30,00,000/-

   (b) ₹ 40,00,000/-

   (c) ₹ 70,00,000/-

   (d) ₹ NIL.

8. Mr. Pappu Singh, commenced his business in Feb-20XX. He has established following units:

   1. Unit A (in SEZ) and Unit B (non-SEZ) in the State of Maharashtra
   2. Unit C in Delhi
   3. Unit D and E in the State of Goa

   Mr. Pappu Singh has approached you to help him in determining the States and number of registrations he is required to take under GST (presuming the fact that he is making taxable supply from each State and his aggregate turnover exceeds the threshold limit):

   (a) Maharashtra-2: Delhi-1, Goa–Optional 1 or 2

(b) Maharashtra-Optional 1 or 2: Delhi-1, Goa-Optional 1 or 2

(c) Maharashtra-1: Delhi-1, Goa-1

(d) Maharashtra-2: Delhi-1, Goa-2

9. A non-resident taxable person is required to apply for registration:

(a) within 30 days from the date on which he becomes liable to registration

(b) within 60 days from the date on which he becomes liable to registration

(c) at least 5 days prior to the commencement of business

(d) None of the above

10 Which of the following activity shall be treated neither as a supply of goods nor a supply of services?

(i) Permanent transfer of business assets where input tax credit has been availed on such assets

(ii) temporary transfer of intellectual property right

(iii) transportation of deceased

(iv) services by an employee to the employer in the course of employment

(a) (i) & (iii)

(b) (ii) & (iv)

(c) (i) & (ii)

(d) (iii) & (iv)

11. Examine whether the supplier is liable to get registered in the following independent cases:-

(i) Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 28 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.

(ii) Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.

(iii) Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh.

(iv) Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.

(v) Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh.

12. Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh.

    With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme in the current financial year (FY)? Is he eligible to avail benefit of concessional payment of tax under *Notification No. 2/2019 CT (R) dated 07.03.2019*? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh.

    Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighbouring State of Madhya Pradesh?

13. Advise regarding availability of input tax credit (ITC) under the CGST Act, 2017 in the following independent cases:-

    (i) AMT Co. Ltd. purchased a mini bus having seating capacity of 16 persons for transportation of its employees from their residence to office and back.

    (ii) Bangur Ceramics Ltd., a manufacturing company purchased two trucks for transportation of its finished goods from the factory to dealers located in various locations within the country.

    (iii) "Hans premium" dealing in luxury cars in Chankyapuri, Delhi purchased five Skoda VRS cars for sale to customers.

    (iv) Sun & Moon Packers Pvt. Ltd. availed outdoor catering service to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory.

14. M/s. Flow Pro sold a machine to BP Ltd. It provides the following particulars in this regard:-

S. No.	Particulars	₹
(i)	Price of the machine (excluding taxes and incidental charges)	30,000
(ii)	Machine was subject to third party inspection. The inspection charges have been directly paid by BP Ltd. to the inspection agency.	5,000
(ii)	Freight charges for delivery of the machine (M/s Flow Pro has agreed to deliver the goods at BP Ltd's premises)	2,000
(iv)	Subsidy received from State Government on sale of machine under skill Development Programme. [The subsidy is directly linked to the price].	5,000

(v)	Discount of 2% is offered to BP Ltd. on the price and recorded in the invoice	

Note: Items given in S. No. (ii) to (v) have not been considered in the price at S. No. (i).

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

15. State with reasons, whether GST is payable in the following independent cases:-

    (i) Services provided to recognized sports body as curator of national team.

    (ii) Services provided by way of transportation of passenger in Metered Cab.

    (iii) Services by way of public conveniences such as provision of facilities of washrooms.

    (iv) Services provided by a player to a franchisee which is not a recognized sports body.

16. Mahak Sons is a registered supplier of electronic items and pays GST under regular scheme. On 15th July 20XX, Mahak Sons received an order from Sunder Trader for supply of a consignment of electronic items. Mahak Sons gets the consignment ready by 20th July 20XX. The invoice for the consignment was issued the next day, 21st July 20XX. Sunder Trader could not collect the consignment immediately. Sunder Trader collects the consignment from the premises of Mahak Sons on 30th July 20XX and hands over the cheque towards payment on the same date. The said payment is entered in the books of accounts of Mahak Sons on 31st July, 20XX and amount is credited in their bank account on 1st August 20XX.

    You are required to determine the time of supply of the electronic items for the purpose of payment of tax.

17. ABC Ltd., a registered supplier has made following taxable supplies to its customer Mr. P in the quarter ending 30th June, 20XX.

Date	Bill No.	Particulars	Invoice value (including GST) [₹]
5th April, 20XX	102	Notebooks [10 in numbers]	1,200
10th May, 20XX	197	Chart Paper [4 in number]	600
20th May, 20XX	230	Crayon colors [2 packets]	500
2nd June, 20XX	254	Poster colors [5 packets]	900
22nd June, 20XX	304	Pencil box [4 sets]	700

Goods in respect of bill no. 102, 230 and 254 have been returned by Mr. P. You are required to advise ABC Ltd. whether it can issue consolidated credit note against all the three invoices?

18. Mr. X, a supplier of goods, pays GST under regular scheme. The amount of input tax credit (ITC) available and output tax liability under different tax heads is as under:-

Head	Output tax liability	ITC
IGST	2,000	4,000
CGST	800	2,000
SGST/ UTGST	2,500	500

Compute the minimum GST payable in cash by Mr. X. Make suitable assumptions as required.

SUGGESTED ANSWERS/HINTS

1. **(d)**

2. **(c)**

3. **(d)**

4. **(a)**

5. **(b)**

6. **(a)**

7. **(a)**

8. **(a)**

9. **(c)**

10. **(d)**

11. As per section 22 of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019,* a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

(c) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

(a) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the rest of India.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-

(i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.

(ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.

(iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.

(iv) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Ankit is liable to get registered under GST.

(v) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit is liable to get registered under GST as his turnover is more than the threshold limit.

12. Section 10 of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, if, *inter alia*, such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy.

In the given case, since Mr. Ajay is a supplier of repair services, he is not eligible for composition scheme even though his aggregate turnover in the preceding FY does not exceed ₹ 1.5 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates.

However, with effect from 01.04.2019, *Notification No. 2/2019 CT (R) dated 07.03.2019* has provided an option to a registered person whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme, to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any FY, subject to specified conditions.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the benefit of concessional payment of tax under *Notification No. 2/2019 CT (R) dated 07.03.2019* as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme.

Thus, the amount of tax payable by him under *Notification No. 2/2019 CT (R) dated 07.03.2019* is ₹ 2,10,000 [6% of ₹ 35 lakh].

A registered person cannot opt for *Notification No. 2/2019 CT (R) dated 07.03.2019,* if *inter alia*, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighbouring State of Madhya Pradesh.

13. **(i)** Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for certain specified purposes.

Since in the given case, the mini bus has a seating capacity of 16 persons, the ITC thereon will not be blocked.

(ii) Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles **for transportation of persons** with certain exceptions. Thus, ITC on motor vehicles for transportation of goods is allowed unconditionally.

Therefore, ITC on trucks purchased by Bangur Ceramics Ltd for transportation of its finished goods from the factory to dealers located in various locations within the country is allowed.

(iii) Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making further supply of such motor vehicles.

Being a dealer of cars, “Hans Premium” has purchased the cars for further supply. Therefore, ITC on such cars is allowed even though seating capacity is less than 13.

(iv) Section 17(5) of the CGST Act, 2017 *inter alia,* blocks input tax credit in respect of outdoor catering services. However, ITC is available on such services, when the same are provided by an employer to its employees under a statutory obligation.

Thus, in view of the above- mentioned provisions, Sun & Moon packers Pvt. Ltd. can avail ITC in respect of outdoor catering services availed by it as the same is being provided under a statutory obligation.

14. Computation of value of taxable supply

Particulars	**₹**
Price of the machine (Price ₹ 30,000 - ₹ 5,000 subsidy) [Note-1]	25,000
Third party inspection charges [Note-2]	5,000
Freight charges for delivery of the machine value [Note-3]	2,000
Total	32,000
Less: Discount @ 2% on ₹ 30,000 being price charged to BP Ltd. [Note-4]	600
Value of taxable supply	31,400

Notes:-

1. Since subsidy is received from State Government, the same is deductible to arrive at taxable value under section 15 of the CGST Act, 2017.
2. Any amount that the supplier is liable to pay in relation to such supply but has been incurred by the recipient, is includible in the value of supply under section 15 of the CGST Act, 2017.
3. Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.
4. Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply under section 15 of the CGST Act, 2017.

15. (i) Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide *Notification No. 12/2017 CT(R) dated 28.06.2017*. Thus, GST is payable in case of services provided to a recognized sports body as curator of national team.

(ii) Service of transportation of passengers, with or without accompanied belongings, *inter alia,* by metered cabs are specifically exempt from GST vide *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is not payable in this case.

(iii) Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets are not liable to GST as it is specifically exempt as per *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is not payable in this case.

(iv) Services provided by a player to a franchisee which is not a recognized sports body is taxable as it is not exempt under *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is payable in this case.

16. As per section 12(2) of the CGST Act, 2017, the time of supply in respect of goods shall be the earlier of the following two dates:-

(a) Date of issue of invoice/last date on which the invoice is required to be issued as per section 31 of the CGST Act, 2017

(b) Date of receipt of payment

Further, as per *Notification No. 66/2017 CT dated 15.11.2017,* a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

As per section 31(1), the invoice needs to be issued either before or at the time of removal (where supply involves movements of goods) of goods/delivery of goods/ making goods available to the recipient.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, time of supply for the purpose of payment of tax is the date of issue of invoice, which is 21st July, 20XX.

17. Where **one or more** tax invoices have been issued for supply of any goods and/or services and

(a) the taxable value/tax charged in that tax invoice is found to exceed the taxable value/tax payable in respect of such supply, or

(b) where the goods supplied are returned by the recipient, or

(c) where goods and/or services supplied are found to be deficient,

the registered person, who has supplied such goods and/or services, may issue to the recipient **one or more** credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices.

Hence, in view of the above-mentioned provisions, M/s ABC Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

18. Mr. X can use the ITC to pay his output tax liability. The order of utilisation of ITC is as under:-

(i) IGST credit should first be utilized towards payment of IGST.

(ii) Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.

(iii) Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.

(iv) ITC of CGST should be utilized for payment of CGST and IGST in that order.

(v) ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order. However, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.

CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST.

Computation of minimum GST payable in cash

Particulars	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
GST payable	800	2,500	2,000
Less: ITC	-	(2,000)-IGST	(2,000)-IGST
	(800)-CGST	(500) – SGST	_____
Net GST payable in cash	Nil	Nil	Nil

Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, it is beneficial to use ITC of IGST to pay SGST (after paying IGST liability) to minimize cash outflow.

Note: GST law has been subject to frequent changes since its inception. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.