MOCK TEST PAPER – 2

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

(Time allowed: Three hours) **(Maximum marks: 100)**

1. (a) Omega Ltd., has a normal wastage of 4% in the production process. During the year 2016-17, the Company used 12,000 MT of raw material costing Rs. 150 per MT. At the end of the year 630 MT of wastage was ascertained in stock. The accountant wants to know how this wastage is to be treated in the books.

   You are required to compute the amount of normal and abnormal loss and treatment thereof in line with AS 2 "Valuation of inventories".

   (b) Ram Ltd. purchased machinery for Rs. 80 lakhs. (useful life 4 years and residual value Rs. 8 lakhs). Government grant received is Rs. 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant is credited to Deferred Grant A/c.

   (c) While preparing its final accounts for the year ended 31st March, 2019, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2019 a debtor for Rs. 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2019 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2019? Comment with reference to relevant Accounting Standard.

   (d) Kumar Ltd. had made a rights issue of shares in 2017. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2017. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided not to provide for "after sales expenses" during the warranty period. Till the last year, provision at 2% of sales used to be made under the concept of "matching of costs against revenue" and actual expenses used to be charged against the provision. The board now decided to account for expenses as and when actually incurred. Sales during the year total to Rs. 600 crores.

   As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2016-2017. ***(4 parts x 5 Marks = 20 Marks)***

2. (a) Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2015 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2015, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2015, 800 debentures are sold cum-interest for Rs. 1,10,000. You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

(b) Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 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.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan 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 Krishan 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 Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(10 + 10 = 20 Marks)***

3. (a) On 31st December, 2016 the following balances appeared in the books of Kolkata Branch of an English firm having its HO office in New York:

	Amount in Rs.	Amount in Rs.
Stock on 1st Jan., 2016	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 2016 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2016 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange on 31st December, 2015 was Rs. 52 and on 31st December, 2016 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch.

(b) The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases

(b) On 1st April, 2015 the stock level was raised to Rs. 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to Rs. 1,40,000 of which Rs. 35,000 was received in cash, Business expenses amounted to Rs. 20,000 of which Rs. 5,000 was outstanding on 31st March, 2016 and Rs. 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors Rs. 1,37,500, Personal Drawing Rs. 7,500, Cash deposited in Bank Rs. 71,500, and Cash withdrawn from Bank Rs. 12,000.

(e) Gross profit as per last year's audited accounts was Rs. 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date. ***(10 + 10= 20 Marks)***

4. (a) X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	Rs.	Assets	Rs.
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

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

Assets were realised piecemeal as under:

	Rs.
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000
Dissolution expenses were provided for estimated amount of	Rs. 12,000
The creditors were settled finally for	Rs. 63,600

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

(b) State the circumstances when LLP can be wound up by the Tribunal. ***(16 + 4 = 20 Marks)***

5. (a) From the following particulars furnished by Megha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		*Debit Rs.*	*Credit Rs.*
Equity Share Capital (Face value of Rs. 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of Rs. 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500

(iv) The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes Rs. 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer Rs. 20,000 to general reserve is proposed by the Board of directors.

(b) Omega company offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

(16 + 4 = 20 Marks)

6 Answer the following:

(a) The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	Rs.	**Rs.**
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to prepare a statement showing the amount of pre and post-incorporation period profits stating the basis of allocation of expenses.

Or

Following items appear in the Trial Balance of Beta Ltd. as on 31st March, 2017:

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000
Profit and Loss Account (Cr. Balance)	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Beta Ltd.

(b) State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Cash equivalents.

(c) Mohan Ltd. purchased an asset on 1st January 2013 for Rs. 5,00,000 and the asset had an estimated useful life of 5 years and a residual value of nil. On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

You are required to compute the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

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

(4 parts x 5 Marks = 20 Marks)

MOCK TEST PAPER - 2

INTERMEDIATE (New): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

Test Series: April, 2019

1. (a) As per para AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Normal Loss and Abnormal Loss:

Material used	12,000 MT @ Rs. 150 = Rs. 18,00,000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT (630 MT less 480 MT)
Abnormal Loss	Rs. 23,437.50 [150 units @ Rs. 156.25 (Rs.18,00,000/11,520)]

Amount Rs. 23,437.50 will be charged to the Profit and Loss statement.

(b) In the books of Ram Ltd.

If the grant is credited to Deferred Grant Account:

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged.

Accordingly, in the first two years (Rs. 32 lakhs /4 years) = Rs. 8 lakhs x 2 years = Rs. 16 lakhs will be credited to Profit and Loss Account and Rs. 16 lakhs will be the balance of Deferred Grant Account after two years.

Therefore, on refund of grant, following entry will be passed:

			Rs.	*Rs.*
I	Deferred Grant A/c	Dr.	16 lakhs	
	Profit & Loss A/c	Dr.	16 lakhs	
	To Bank A/c			32 lakhs
	(Being Government grant refunded)			

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = Rs. 80 lakhs

Depreciation for each year = (Rs. 80 lakhs – Rs.8 lakhs)/4 years = Rs. 18 lakhs per year

Book value of fixed assets after two years = Rs. 80 lakhs – (Rs. 18 lakhs x 2 years) = Rs. 44 lakhs

2. **Value of Fixed Assets after refund of grant**

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at Rs. 44 lakhs.

3. **Amount of depreciation for remaining two years**

Depreciation will continue to be charged at Rs. 18 lakhs per annum for the remaining two years.

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

A debtor for Rs. 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2019 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2019 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting Rs. 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2019. Since the company has already made 5% provision of its total debtors, additional provision amounting Rs. 19,00,000 shall be made (20,00,000 x 95%).

(d) As per AS 1, 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. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

So far, the company has been providing 2% of sales for meeting "after sales expenses during the warranty period. With the improved method of production, the probability of defects occurring in the products has reduced considerably. Hence, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change, the profit for the year is increased by Rs. 12 crores than would have been the case if the old policy were to continue.

2. (a) **Investment Account of Gopal**

For the year ended 31.3.2016

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400

31.12.15	To Profit & Loss A/c			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000
31.03.16	To Profit & Loss A/c		37,250		31.12.15	By Bank A/c	-	13,500	-
	(Bal. fig.)				31.12.15	By Bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = Rs. 2,00,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 7,500

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 5,000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 22,500

(v) Accrued Interest on debentures sold on 1.11.2015

= Rs. 1,20,000 x $\frac{15}{100} \times \frac{4}{12} =$ ₹ 6,000

(vi) Accrued Interest = Rs. 80,000 x $\frac{15}{100} \times \frac{5}{12} =$ ₹ 5,000

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 6,000

(viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000-Rs. 6,000 = Rs. 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
$\frac{2,10,000}{2,00,000}$ x ₹ 1,20,000	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000 x $\frac{15}{100} \times \frac{6}{12} =$ ₹ 13,500

(xi) Accrued Interest = Rs. 1,80,000 x $\frac{15}{100} \times \frac{3}{12} =$ ₹ 6,750

(xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000 –(Rs. 2,10,000x800/2,000) =Rs. 20,000

(b) 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 = Rs. 12,00,000+ 6,00,000 (down payment) = Rs. 18,00,000.

Cars Account in the books of Krishan

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2015	To Fair Value Motors A/c	18,00,000	31.3.2016	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2016	To Balance b/d	13,50,000	31.3.2017	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2017	To Balance b/d	10,12,500	31.3.2018	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 transferred to Profit and Loss A/c on surrender (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

3. (a) In the books of English Firm (Head Office in New York)

Kolkata Branch Profit and Loss Account

for the year ended 31st December, 2016

	$		$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625

To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

Balance Sheet of Kolkata Branch
as on 31st December, 2016

Liabilities	*$*	*$*	*Assets*	*$*
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

Working Note:

Require for calculation of Exchange Translation Loss
Kolkata Branch Trial Balance (converted in $)
as on 31st December, 2016

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	Rs.	*Rs.*	*rate*	*($)*	*($)*
Stock on 1st Jan., 2016	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

(b) Trading and Profit and Loss Account
For the year ending on 31st March, 2016

Particulars		**Rs.**	**Particulars**	**Rs.**
To Opening Stock		20,000	By Sales	1,80,000
To Purchases (bal.fig.);		1,54,000	By Closing Stock	30,000
To Gross Profit c/d (@20% on sales)		36,000		2,10,000
		2,10,000		
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000

To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet as at 31st March, 2016

Liabilities		Rs.	Assets		Rs.
Capital Account:			Building	32,500	
Opening Balance	48,000		*Less:* Depreciation	(1,625)	30,875
Add: Net profit	12,325		Furniture	5,000	
	60,325		*Less:* Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	*Less:* Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		4,500
		1,20,325			1,20,325

Working Notes:

(i) **Total Debtors Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	17,000	By Bank (Rs. 1,40,000 – Rs. 35,000)	1,05,000
To Sales (80% of Rs. 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) **Total Creditors Account**

Particulars	Rs.	Particulars	Rs.
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii) **Cash Book**

Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500

To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = Rs. 30,000 x 100/20 = Rs. 1,50,000

(v) Current year's Total Sales = Rs. 1,50,000+ 20% of Rs. 1,50,000= Rs. 1,80,000

(vi) Current year's Credit Sales = Rs. 1,80,000 x 80%= Rs. 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = Rs.1,80,000 – Rs. 36,000 = Rs. 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock

= Rs. 1,44,000 + Rs. 30,000 – Rs. 20,000 = Rs. 1,54,000

4. (a) Statement showing distribution of cash amongst the partners

		Trade Payable	*Y's Loan*		*Capitals*	
				X (Rs.)	*Y (Rs.)*	*Z (Rs.)*
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1st Instalment amount with the firm Rs. (1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	(12,000)					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	(746)					
	62,954					
Less: Payment made to Trade Payables	(62,954)	(62,954)				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to Trade Payables	(646)	(646)				
Transferred to P& L A/c		2,400				
	67,962					

Less: Payment for Y's loan A/c	(18,000)		(18,000)			
Amount available for distribution to partners	49,962		nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	(4,542)					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	(2,000)					(2,000)
	43,420					48,000
Less: Paid to X and Z in 5:4 (W.N.)	(18,000)			(10,000)	-	(8,000)
Balance due	25,420			50,000	40,000	40,000
Less: Paid to X, Y & Z in 5:4:4	25,420			(9,778)	(7,821)	(7,821)
	Nil					
Amount of 3rd instalment	40,000			40,222	32,179	32,179
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)	(400)					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)	(3,600)					
	36,000					
Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	(36,000)			(13,846)	(11,077)	(11,077)
	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	(280)					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	(2,520)					
	25,200					

Less: Paid to X, Y and Z in 5:4:4	(25,200)			(9,692)	(7,754)	(7,754)
	Nil					
Loss suffered by partners				16,684	13,348	13,348

Working Note:

(i) Rs. 1100 added to the first instalment received on sale of assets represents the Cash in Bank

(ii) The amount due to Creditors at the end of the utilization of First Instalment is Rs. 3046. However, since the creditors were settled for Rs. 63,600 only the balance Rs.646 were paid and the balance Rs. 2400 was transferred to the Profit & Loss Account.

(iii) **Highest Relative Capital Basis**

	X *Rs.*	*Y* *Rs.*	*Z* *Rs.*
Balance of Capital Accounts (A)	60,000	40,000	50,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	12,000	10,000	12,500
Capital in profit sharing			
ratio taking Y's Capital as base (B)	50,000	40,000	40,000
Excess of X's Capital and Z's Capital (A-B) =(C)	10,000	nil	10,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	2,000		2,500
Capital in profit sharing			
ratio taking X's Capital as base (D)	10,000		8,000
Excess of Z's Capital (C-D)=(E)	nil		2,000

Therefore, firstly Rs.2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto Rs. 18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

(b) Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

5. (a)

Alpha Ltd.

Balance Sheet as on 31st March, 20X1

		Particulars	*Notes*	*Rs.*
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	11,82,907
2		**Non-current liabilities**		
		Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	3,38,093
	c	Short-term provisions	5	6,40,000
	d	Short-term borrowings		2,00,000
		Total		**94,73,500**
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment		
		Tangible assets	6	56,25,000
2		**Current assets**		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve	10,50,000	

	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DDT on dividend (Refer W N)	(50,843)	1,12,907
	Total		**11,82,907**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DDT on dividend (Refer W N)	50,843	3,00,593
			3,38,093
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000

	Total		10,00,000
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		**13,85,000**

Working Note:

Calculation of grossing-up of dividend

Particulars	*Rs.*
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend	
$\left[\frac{15}{100-15} \times 2,49,750\right]$	44,074
Gross dividend	2,93,824
Dividend distribution tax @ 17.304%	50,843

(b) Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (Rs. 200 X 5 Shares + Rs. 125 X 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

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

= Rs. 200 – Rs. 187.50 = Rs. 12.50 per share.

6. (a) Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2017

Particulars	**Basis**	**Pre**	**Post**
		Rs.	*Rs.*
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200

Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio

$\therefore$ Ratio is 3 : 9

But purchase price was 10% higher in the company period

$\therefore$ Ratio is 3 : 9 + 10% ie. 3:9.9 = 1:3.3.

Or

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
General Reserve A/c	Dr.	30,000	
To Bonus to Shareholders			1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Being capitalization of Profit)			

(b) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(viii) Current Assets

(c) The entity has charged depreciation using the straight-line method at Rs. 1,00,000 per annum i.e (5,00,000/5 years). On 1st January 2017, the asset's net book value is [5,00,000 – (1,00,000 x 4)] Rs. 1,00,000. The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at Rs. 25,000 per annum i.e. (1,00,000 / 4 years).

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

A brief explanation of each measurement basis is as follows:

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

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

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

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

MOCK TEST PAPER - 2

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

*Division **A** is compulsory.*

*In Division **B**, Question No.**1** is compulsory*

*Attempt any **Three** questions out of the remaining **Four** questions*

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

DIVISION A

1. An aid that expresses the scope, object and purpose of the Act—

   (a) Title of the Act

   (b) Heading of the Chapter

   (c) Preamble

   (d) Definitional sections **(1 Mark)**

2. As per the Negotiable Instruments Act, 1881, when the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the…….. .

   (a) said public holiday

   (b) 5 days succeeding public holiday

   (c) next succeeding business day

   (d) next preceding business day **(1 Mark)**

3. An internal aid that may be added to include something within the section or to exclude something from it, is—

   (a) Proviso

   (b) Explanation

   (c) Schedule

   (d) Illustrations **(1 Mark)**

4. In how many days from the date of declaration of interim dividend, it shall be deposited in a separate bank account

   (a) 5 days

   (b) 7 days

   (c) 15 days

   (d) 21 days **(1 Mark)**

5. After Declaration of dividend it should be paid within

   (a) 14 days

   (b) 21 days

   (c) 30 days

(d) 45 days **(1 Mark)**

6. A company can re- open / recast its book of accounts on an application to Tribunal made by:

   (a) Registrar

   (b) Member

   (c) Board of Directors

   (d) Income –tax authorities **(1 Mark)**

7. Which of the following is a prohibited services to be rendered by the auditor of the Company

   (a) design and implementation of any financial information system

   (b) making report to the members of the company on the accounts examined by him

   (c) compliance with the auditing standards

   (d) Reporting of fraud against the company by officers or employees to the Central Government

   (1 Mark)

8. For appointing an auditor other than the retiring auditor,

   (a) Special notice is required.

   (b) Ordinary notice is required.

   (c) Neither ordinary nor special notice is required

   (d) Approval of Central Government is required. **(1 Mark)**

9. ABC Ltd., a pharmaceutical company was having its manufacturing plant in Solan, Himachal Pradesh. The address of its registered office as informed to the Registrar of Companies was of one of its Director's office, situated at Mumbai, Maharashtra. To comply with the provisions of the Companies Act, 2013 it was keeping all its books of accounts, other relevant papers and financial statements at its registered office. After sometime Directors of the company found it difficult to maintain such books etc.at the registered office, so in a duly convened meeting of the Board of the Directors, it was decided that the books of accounts and other relevant papers be kept at the office situated in Solan. Within which time period the Registrar must be given notice about such decision of the board –

   (a) Within 30 days from the date of taking such decision by the board.

   (b) Within 15 days from the date it starts maintaining its books of accounts at the office situated at Solan.

   (c) Within 30 days from the date it starts maintaining its books of accounts at the office situated at Solan.

   (d) Within 7 days from the date of taking such decision by the board. **(1 Mark)**

10. Purvi Pvt. Ltd. is maintaining a register of charges along with all other necessary books and registers. The entry for every creation, modification and satisfaction of charges is being done properly. The company is also preserving every instrument related to such charges. From the following for how long the instrument of charges shall be maintained/preserved by the company---

    (a) for minimum 8 years from the date of creation of charge

    (b) For minimum 10 years from the date of creation of charge

    (c) For minimum 8 years from the date of satisfaction of charge

    (d) permanently, without any time limit **(1 Mark)**

11. ABC Infrastructures Limited is a listed company quoted at National Stock Exchange. The company closed its Register of Members in June and August, 2017 for 12 and 21 days respectively. The CFO of company has informed the company secretary to consider closing of register in December for another 15 days for some strategic reasons. Referring to the provisions of Companies Act, 2013, examine the validity of above action of the company.

    (a) Valid, as the closure of register of members by company each time is not exceeding 30 days.

    (b) Invalid, as company cannot go for closure of Register of members more than twice in a year.

    (c) Invalid, as the period of closing register of members exceeding 30 days in a year.

    (d) Invalid, as the period of closing the Register of members by the company is exceeding 45 days in a year. **(1 Mark)**

12. The Annual General meeting of Tirupati Limited was scheduled for 28th December, 2017. Mr. Ananat, shareholder of Tirupati Limited has desired to inspect inspection of proxies lodged with the company. The notice for inspection should be given at least .... before the meeting:

    (a) 24 hours

    (b) 1 day

    (c) 2 days

    (d) 3 days **(1 Mark)**

13. Feel Rich Co. Ltd. Having its registered office at New Delhi, is a subsidiary of a German company named Richman Company limited. The financial year of the parent/holding company ends on 31st December every year. The subsidiary company intends to follow a different financial year for consolidation of its accounts with its parent company, situated outside India. For doing so it is required to take prior permission of the competent authority. For the purpose from the following who will be this competent authority---

    (a) Registrar of Companies at New Delhi

    (b) Tribunal

    (c) Ministry of Corporate Affairs

    (d) SEBI **(1 Mark)**

14. Validity period for the presentment of cheque in bank is—

    (a) 3 months

    (b) 6 months

    (c) 1 year

    (d) 2 years **(1 Mark)**

15. Food lovers Inc. was incorporated as a one person company (OPC) on 1st September 2015 with paid up share capital of Rs. 25 lacs. This OPC wants to convert itself into a private limited company during the year ending on 31st March 2017. But the provisions of the Companies Act, 2013 prohibits an OPC from doing so before the expiry of a specified period. From the following options in which situation this OPC will mandatorily be converted into a private/public company even before expiry of such period—

    (a) After the expiry of two years from the date of its incorporation

    (b) Paid up share capital of the company is increased beyond fifty lakh rupees

    (c) The average annual turnover during the relevant period exceeds one crore rupees

(d) If the application is filed with the ROC within 90 days of its incorporation as OPC, to be converted into a Private Limited company. **(2 Marks)**

16. The paid up share capital of ABC Ltd. Is 5000000 shares of Rs. 200 each. 20% of its paid up share capital is held by 4 of its promoters, who wants to off load their holding by making an offer of sale to the public by issuing a prospectus. They want to authorise someone to take all actions and complete all formalities related to such offer of sale. From the following who can be authorised by them to do so—

    (a) Any person who has agreed to fulfil all the formalities related to such offer of sale

    (b) Any one or more director of the company.

    (c) Company itself whose shareholding they want to offload.

    (d) Any competent officer of the company. **(2 Marks)**

17. The Authorised share capital clause of LMN & Co. ltd. consisted of Preference share capital and Equity share capital both. With regard to equity share capital, the article of association of the company has given authorisation to issue differential equity shares. Apart from authorisation by the Articles, from the following strike out the condition, which is not mandatory to comply with—

    (a) Such issue of shares must be authorised by an ordinary resolution passed at a general meeting of the shareholders or by postal ballot, as the case may be

    (b) The company must have consistent track record of distributable profit for the last five years.

    (c) The company has no subsisting default in the payment of the declared dividend to its shareholders.

    (d) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares

    (2 Marks)

18. ABC Ltd., a listed company proposed a dividend @ 15% on equity shares for the financial year ended on 31st March 2018. The Annual General Meeting (AGM) of the company was held on 15th July 2018 and the proposed dividend was approved and declared in the same. Due to some technical issues, dividend on 600 shares neither be paid within the time limit prescribed by the Act nor was transferred to unpaid dividend account. In such a situation which regulatory authority can take action against the company and its officers in default?

    (a) Central Government

    (b) SEBI

    (c) Tribunal

    (d) Investor Education and Protection Fund Authority **(2 Marks)**

19. Mr. A died at the age of 72 leaving behind some movable and immovable properties to be distributed between his two sons C& D, as per his registered will. His Will clearly mentioned that all the immovable property should go to C and all the movable property should go to D.Both the brothers divided the property as per will except below mentioned properties, because they could not establish which property should go to whom. Kindly help them by ticking the property/ies which should go to D (as per the provisions of the general Clause Act, 1897):

    (a) Standing crop in the fields

    (b) Cut crop, ready to sell

    (c) Tube well in the agriculture land

(d) Sandal wood tree **(2 Marks)**

20. Anand is a goldsmith, who makes gold jewellery as per customer's requirement. Brijesh along with his friend Ramesh, who was also a friend of Anand, approached Anand for making bangles for his wife. Anand agreed to give delivery within 7 days from the day Brijesh gives him gold for making bangles. Brijesh gave him bangles on 2nd February 2018. The bangle making charges were Rs. 5000/-, which Brijesh agreed to pay at the time of delivery of the bangles. Anand delivered the bangles on 6th February 2018, but Brijesh said that he will pay the making charges after some time. Anand agreed to that. In spite of repeated reminders Brijesh did not pay his making charges. In this situation from the following what remedy is available to Brijesh—

    (a) He can sue Ramesh for his making charges because Anand was accompanied by him

    (b) He can sue Anand for his overdue making charges.

    (c) He can visit Anand's place and can take away anything, which is similar in value to the bangle making charges.

    (d) He can retain the goods, as he has the right of particular lien, he however does not have the right to sue Anand or Ramesh **(2 Marks)**

21. A good friend of Mr. A, Mr. D is a property dealer in Delhi and works for many renowned registered real estate developers. As Mr. D is doing very well in his work, Mr. A also wanted to work as a property dealer or property agent. Mr. X, a real estate developer of Delhi, appointed Mr. D as his agent for selling flats in his upcoming project, and asked him to name some other person to work for him, for his another project. At this time he introduced Mr. A to Mr. X, saying that he is also in the same field for last 10 years, although Mr. A did not had any experience in this field. Going by his words, Mr. X instructed to appoint Mr. A also for his other ventures. From the following, Mr. A will be treated as --

    (a) Agent of Mr. X

    (b) Sub-agent of Mr. D

    (c) Substituted agent of Mr. X

    (d) Sub- agent of Mr. X **(2 Marks)**

22. A draws a cheque in favour of M, a minor. M endorses the same in favour of X. The cheque is dishonoured by the bank on grounds of inadequate funds. As per the provisions of Negotiable Instruments Act, 1881:

    (a) M is liable to X

    (b) X can proceed against A

    (c) No one is liable in this case

    (d) M can proceed against A **(2 Marks)**

DIVISION B

1. (a) New a One Person company (OPC) was incorporated during the year 2015-16 with an authorised capital of Rs. 45 lakhs (4.5 lakhs shares of Rs. 10 each). The capital was fully subscribed and paid up. Turnover of the company during 2015-16 and 2016-17 was Rs. 2 crores and Rs. 2.5 crores respectively. Promoter of the company seeks your advice in the following circumstances, whether New (OPC) can convert into any other kind of company during 2017-18. Please, advise with reference to relevant provisions of the Companies Act, 2013 in the below mentioned circumstances:

    (i) If promoter increases the paid up capital of the company by Rs. 10 lakhs during 2017-18

(ii) If turnover of the company during 2017-18 was Rs. 3 crores. **(6 Marks)**

(b) (i) YZ Ltd is a manufacturing company & has proposed a dividend @ 10% for the year 2017-18 out of the current year profits. The company has earned a profit of Rs. 910 crores during 2017-18. YZ Ltd. does not intend to transfer any amount to the general reserves of the company out of current year profit. Is YZ Ltd. allowed to do so? Comment.

(ii) Karan was holding 5000 equity shares of Rs. 100 each of M/s. Future Ltd. A final call of Rs. 10 per share was not paid by Karan. M/s. Future Ltd. declared dividend of 10%. Examine with reference to relevant provisions of the Companies Act, 2013, the amount of dividend Karan should receive. **(6 Marks)**

(c) Explaining the provisions of the Indian Contract Act, 1872, answer the following:

Mr. D was in urgent need of money amounting Rs. 5,00,000. He asked Mr. K for the money. Mr. K lent the money on the sureties of A, B and N without any contract between them in case of default in repayment of money by D to K. D makes default in payment. B refused to contribute, examine whether B can escape liability? **(4 Marks)**

(d) Mr. S Venkatesh drew a cheque in favour of M who was sixteen years old. M settled his rental due by endorsing the cheque in favour of Mrs. A the owner of the house in which he stayed. The cheque was dishonoured when Mrs. A presented it for payment on grounds of inadequacy of funds. Advise Mrs. A how she can proceed to collect her dues.

Give your answer in reference to the Provisions of Negotiable Instruments Act, 1881. **(3 Marks)**

2. (a) Miraj Limited held its Annual General Meeting on September 15, 2018. The meeting was presided over by Mr. Venkat, the Chairman of the Company's Board of Directors. On September 17, 2018, Mr. Venkat, the Chairman, without signing the minutes of the meeting, left India to look after his father who fell sick in London. Referring to the provisions of the Companies Act, 2013, examine the manner in which the minutes of the above meeting are to be signed in the absence of Mr. Venkat and by whom. **(4 Marks)**

(b) State any 6 amounts that can be credited to the Investor Education and Protection Fund. Give your answer as per the provisions of the Companies Act, 2013. **(6 Marks)**

(c) Mr. Ahuja of Delhi engaged Mr. Singh as his agent to buy a house in West Extension area. Mr. Singh bought a house for Rs. 20 lakhs in the name of a nominee and then purchased it himself for Rs. 24 lakhs. He then sold the same house to Mr. Ahuja for Rs. 26 lakhs. Mr. Ahuja later comes to know the mischief of Mr. Singh and tries to recover the excess amount paid to Mr. Singh. Is he entitled to recover any amount from Mr. Singh? If so, how much? Explain. **(4 Marks)**

(d) What are the circumstances under which a bill of exchange can be dishonoured by non-acceptance? Give your answer as per the provisions of the Negotiable Instruments Act, 1881. **(3 Marks)**

3. (a) State in what way does the Companies Act, 2013 regulate and restrict the following in respect of a company going for public issue of shares:

(i) Minimum Subscription, and

(ii) Application Money payable on shares being issued? **(5 Marks)**

(b) EF Limited appointed an individual firm, Naresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30th September, 2018. Mrs. Kamala, wife of Mr. Naresh, invested in the equity shares face value of Rs. 1 lakh of EF Limited on 15th October, 2018. But Naresh & Company continues to function as statutory auditors of the company. Advice as per the provisions of the Companies Act, 2013.

(5 Marks)

(c) P draws a bill on Q for Rs. 10,000. Q accepts the bill. On maturity, the bill was dishonored by non-payment. P files a suit against Q for payment of Rs. 10,000. Q proved that the bill was accepted for value of Rs. 7,000 and as an accommodation to the plaintiff for the balance amount i.e. Rs. 3,000. Referring to the provisions of the Negotiable Instruments Act, 1881 decide whether P would succeed in recovering the whole amount of the bill? **(4 Marks)**

(d) Explain the rule of 'beneficial construction' while interpreting the statutes quoting an example. **(3 Marks)**

4. (a) XY Ltd. has its registered office at Mumbai in the State of Maharashtra. For better administrative conveniences the company wants to shift its registered office from Mumbai to Nashik (within the State of Maharashtra). What formalities the company has to comply with under the provisions of the Companies Act, 2013 for shifting its registered office as stated above? Explain. **(4 Marks)**

(b) A General Meeting was scheduled to be held on 15th April, 2018 at 3.00 P.M. As per the notice the members who are unable to attend a meeting in person can appoint a proxy and the proxy forms duly filled should be sent to the company so as to reach at least 48 hours before the meeting. Mr. X, a member of the company appoints Mr. Y as his proxy and the proxy form dated 10-04-2018 was deposited by Mr. Y with the company at its registered Office on 11-04-2018. Similarly, another member Mr. W also gives two separate proxies to two individuals named Mr. M and Mr. N. In the case of Mr. M, the proxy dated 12-04-2018 was deposited with the company on the same day and the proxy form in favour of Mr. N was deposited on 14-04-2018. All the proxies viz., Y, M and N were present before the meeting.

According to the provisions of the Companies Act, 2013, who would be the persons allowed to represent at proxies for members X and W respectively? **(6 Marks)**

(c) X owned a land with fifty tamarind trees. He sold his land and the timber (obtained after cutting the fifty trees) to Y. X wants to know whether the sale of timber tantamounts to sale of immovable property. Advise him with reference to provisions of "General Clauses Act, 1897". **(4 Marks)**

(d) Explain how 'Dictionary Definitions' can be of great help in interpreting / constructing an Act when the statute is ambiguous. **(3 Marks)**

5. (a) Examine the validity of the following statement referring to the provisions of the Companies Act, 2013 and/or Rules:

"The Articles of Association of X Ltd. contained a provision that upto 4% of issue price of' the shares may be paid as underwriting commission to the underwriters. The Board of Directors of X Ltd. decided to pay 5% underwriting commission. **(5 Marks)**

(b) Define the term "charge" and also explain what is the punishment for default with respect to registration of charge as per the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Define contract of indemnity and contract of guarantee and state the conditions when guarantee is considered invalid? **(4 Marks)**

(d) What is the meaning of service by post as per provisions of The General Clauses Act, 1897? **(4 Marks)**

MOCK TEST PAPER - 2

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

SUGGESTED ANSWERS/HINTS

DIVISION A

1	2	3	4	5	6	7	8	9	10
(c)	(c)	(b)	(a)	(c)	(d)	(a)	(a)	(d)	(c)
11	12	13	14	15	16	17	18	19	20
(d)	(d)	(b)	(a)	(b)	(c)	(b)	(b)	(b)	(b)
21	22								
(a)	(b)								

DIVISION B

1. (a) As per Rule 3 of *the Companies (Incorporation) Rules, 2014*, One Person Company (OPC) cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation, except where the paid up share capital is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

Besides, Section 18 of the Companies Act, 2013 provides that a company of any class registered under this Act may convert itself as a company of other class under this Act by alteration of memorandum and articles of the company in accordance with the provisions of the Chapter II of the Act.

According to the above provisions, following are the answers to the given circumstances:

(i) Where, if the promotors increases the paid up capital of the company by Rs. 10.00 lakh during 2017-2018 i.e., to Rs. 55 lakh (45+10= 55), 'New' (OPC) may convert itself voluntarily into any other kind of company due to increase in the paid up share capital exceeding 50 lakh rupees. This could be done by the 'New' by alteration of memorandum and articles of the company in compliance with the Provisions of the Act.

(ii) Where if the turnover of the 'New' during 2017-18 was Rs. 3.00 crore, there will be no change in the answer, as it meets up the requirement of minimum turnover i.e., Rs. 2 crore for voluntarily conversion of 'New' (OPC) into any other kind of company.

(b) (i) Transfer to reserves (Section 123 of the Companies Act, 2013): A company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company. Therefore, the company may transfer such percentage of profit to reserves before declaration of dividend as it may consider necessary. Such transfer is not mandatory and the percentage to be transferred to reserves is at the discretion of the company.

As per the given facts, YZ Limited has earned a profit of Rs. 910 crores for the financial year 2017-18. It has proposed a dividend @ 10%. However, it does not intend to transfer any amount to the reserves of the company out of current year profit.

As per the provisions stated above, the amount to be transferred to reserves out of profits for a financial year is at the discretion of the YZ Ltd. acting vide its Board of Directors.

(ii) As per the proviso to section 127 of the Companies Act, 2013, no offence will be said to have been committed by a director for adjusting the calls in arrears remaining unpaid or any other sum due from a member from the dividend as is declared by a company.

Thus, as per the given facts, M/s Future Ltd. can adjust the sum of Rs. 50,000 unpaid call money against the declared dividend of 10%, i.e. 5,00,000 x 10/100 = 50,000. Hence, Karan's unpaid call money (Rs. 50,000) can be adjusted fully from the entitled dividend amount of Rs. 50,000/-.

(c) **Co-sureties liable to contribute equally** (Section 146 of the Indian Contract act, 1872): Equality of burden is the basis of Co-suretyship. This is contained in section 146 which states that "when two or more persons are co-sureties for the same debt, or duty, either jointly, or severally and whether under the same or different contracts and whether with or without the knowledge of each other, the co-sureties in the absence of any contract to the contrary, are liable, as between themselves, to pay each an equal share of the whole debt, or of that part of it which remains unpaid by the principal debtor".

Accordingly, on the default of D in payment, B cannot escape from his liability. All the three sureties A, B and N are liable to pay equally, in absence of any contract between them.

(d) **Capacity to make, etc., promissory notes, etc.** (Section 26 of the Negotiable Instruments Act, 1881): Every person capable of contracting, according to the law to which he is subject, may bind himself and be bound by the making, drawing, acceptance, endorsement, delivery and negotiation of a promissory note, bill of exchange or cheque.

However, a minor may draw, endorse, deliver and negotiate such instruments so as to bind all parties except himself.

As per the facts given in the question, Mr. S Venkatesh draws a cheque in favour of M, a minor. M endorses the same in favour of Mrs. A to settle his rental dues. The cheque was dishonoured when it was presented by Mrs. A to the bank on the ground of inadequacy of funds. Here, in this case, M being a minor may draw, endorse, deliver and negotiate the instrument so as to bind all parties except himself. Therefore, M is not liable. Mrs. A can, thus, proceed against Mr. S Venkatesh to collect her dues.

2. **(a)** Section 118 of the Companies Act, 2013 provides that every company shall prepare, sign and keep minutes of proceedings of every general meeting, including the meeting called by the requisitionists and all proceedings of meeting of any class of shareholders or creditors or Board of Directors or committee of the Board and also resolution passed by postal ballot within thirty days of the conclusion of every such meeting concerned. Minutes kept shall be evidence of the proceedings recorded in a meeting.

By virtue of Rule 25 of the Companies (Management and Administration) Rules 2014 read with section 118 of the Companies Act, 2013 each page of every such book shall be initialled or signed and the last page of the record of proceedings of each meeting or each report in such books shall be dated and signed by, in the case of minutes of proceedings of a general meeting, by the chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that chairman within that period, by a director duly authorized by the Board for the purpose.

Therefore, the minutes of the meeting referred to in the case given above can be signed in the absence of Mr Venkat, by any director who is authorized by the Board.

(b) **Credit of amount to the Fund:** There shall be credited to the Investor Education and Protection Fund the following amounts—

(a) **Amount given by the Central Government-** the amount given by the Central Government by way of grants after due appropriation made by Parliament by law in this behalf for being utilised for the purposes of the Fund;

(b) **Donations by the Central Government-** donations given to the Fund by the Central Government, State Governments, companies or any other institution for the purposes of the Fund;

(c) **Amount of Unpaid Dividend Account-** the amount in the Unpaid Dividend Account (UDA) of companies transferred to the Fund under section 124(5);

(d) **Amount of the general revenue account of the Central Government-** the amount in the general revenue account of the Central Government which had been transferred to that account under section 205A(5) of the Companies Act, 1956 as it stood immediately before the commencement of the Companies (Amendment) Act, 1999 and remaining unpaid or unclaimed on the commencement of this Act;

(e) **Amount in IEPF-** the amount lying in the Investor Education and Protection Fund under section 205C of the Companies Act, 1956;

(f) **Income from investments-** the interest or other income received out of investments made from the Fund;

(g) **Amount received through disgorgement or disposal of securities-** The amount received under section 38(4) i.e. amount received through disgorgement or disposal of securities under section 38(3) shall be credited to the IEPF provided under section 38(4);

(h) **Application money-** the application money received by companies for allotment of any securities and due for refund;

(i) **Matured deposits-** matured deposits with companies other than banking companies;

(j) **Matured debentures-** matured debentures with companies;

(k) **Interest-** interest accrued on the amounts referred to in clauses (h) to (j);

(l) **Amount received from sale proceeds-** sale proceeds of fractional shares arising out of issuance of bonus shares, merger and amalgamation for seven or more years;

(m) **Redemption amount-** redemption amount of preference shares remaining unpaid or unclaimed for seven or more years; and

(n) **Other amount-** such other amount as prescribed in Rule 3 of the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016.

(c) The problem in this case, is based on the provisions of the Indian Contract Act, 1872 as contained in Section 215 read with Section 216. The two sections provide that where an agent without the knowledge of the principal, deals in the business of agency on his own account, the principal may:

(1) repudiate the transaction, if the case shows, either that the agent has dishonestly concealed any material fact from him, or that the dealings of the agent have been disadvantageous to him.

(2) claim from the agent any benefit, which may have resulted to him from the transaction.

Therefore, based on the above provisions, Mr. Ahuja is entitled to recover Rs. 6 lakhs from Mr. Singh being the amount of profit earned by Mr. Singh out of the transaction.

(d) As per section 91 of the Negotiable Instruments Act, 1881, a bill may be dishonoured either by non-acceptance or by non-payment.

Dishonour by non-acceptance may take place in any one of the following circumstances:

(i) When the drawee either does not accept the bill within forty-eight hours (exclusive of public holidays) of presentment or refuse to accept it;

(ii) When one of several drawees, not being partners, makes default in acceptance;

(iii) When the drawee makes a qualified acceptance;

(iv) When presentment for acceptance is excused and the bill remains unaccepted; and

(v) When the drawee is incompetent to contract.

3. (a) The Companies Act, 2013 by virtue of provisions as contained in Section 39 (1) and (2) regulates and restricts the minimum subscription and the application money payable in a public issue of shares as under:

Minimum subscription [Section 39 (1)]

No Allotment shall be made of any securities of a company offered to the public for subscription; unless; -

(i) the amount stated in the prospectus as the minimum amount has been subscribed; and

(ii) the sums payable on application for such amount has been paid to and received by the company-

Application money: Section 39 (2) provides that the amount payable on application on each security shall not be less than 5% of the nominal amount of such security or such amount as SEBI may prescribe by making any regulations in this behalf.

Further section 39 (3) provides that if the stated minimum amount is not received by the company within 30 days of the date of issue of the prospectus or such time as prescribed by SEBI, the company will be required to refund the application money received within such time and manner as may be prescribed.

In case of any default under sub-section, the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.

Section 40 (3) provides that all moneys received on application from the public for subscription to the securities shall be kept in a separate bank account maintained with a scheduled bank.

(b) Disqualification of auditor: According to section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner holds any security of the company or its subsidiary or of its holding or associate company a subsidiary of such holding company, which carries voting rights, such person cannot be appointed as auditor of the company. Provided that the relative of such person may hold security or interest in the company of face value not exceeding 1 lakh rupees as prescribed under the Companies (Audit and Auditors) Rules, 2014.

In the case Mr. Naresh, Chartered Accountants, did not hold any such security. But Mrs. Kamala, his wife held equity shares of EF Limited of face value Rs. 1 lakh, which is within the specified limit.

Further Section 141(4) provides that if an auditor becomes subject, after his appointment, to any of the disqualifications specified in sub-section 3 of section 141, he shall be deemed to have vacated his office of auditor. Hence, Naresh & Company can continue to function as auditors of the Company even after 15th October 2018 i.e. after the investment made by his wife in the equity shares of EF Limited.

(c) As per Section 44 of the Negotiable Instruments Act, 1881, when the consideration for which a person signed a promissory note, bill of exchange or cheque consisted of money, and was originally absent in part or has subsequently failed in part, the sum which a holder standing in immediate relation with such signer is entitled to receive from him is proportionally reduced.

Explanation—The drawer of a bill of exchange stands in immediate relation with the acceptor. The maker of a promissory note, bill of exchange or cheque stands in immediate relation with the payee, and the endorser with his endorsee. Other signers may by agreement stand in immediate relation with a holder.

On the basis of above provision, P would succeed to recover Rs. 7,000 only from Q and not the whole amount of the bill because it was accepted for value as to Rs. 7,000 only and an accommodation to P for Rs. 3,000.

(d) Where the language used in a statute is capable of more than one interpretation, the most firmly established rule for construction is the principle laid down in the Heydon's case. This rule enables, consideration of four matters in constituting an act :

(1) what was the law before making of the Act,

(2) what was the mischief or defect for which the law did not provide,

(3) what is the remedy that the Act has provided, and

(4) what is the reason for the remedy.

The rule then directs that the courts must adopt that construction which 'shall suppress the mischief and advance the remedy'. Therefore even in a case where the usual meaning of the language used falls short of the whole object of the legislature, a more extended meaning may be attributed to the words, provided they are fairly susceptible of it. If the object of any enactment is public safety, then its working must be interpreted widely to give effect to that object. Thus in the case of Workmen's Compensation Act, 1923 the main object being provision of compensation to workmen, it was held that the Act ought to be so construed, as far as possible, so as to give effect to its primary provisions.

However, it has been emphasized by the Supreme Court that the rule in Heydon's case is applicable only when the words used are ambiguous and are reasonably capable of more than one meaning *[CIT v. Sodra Devi (1957) 32 ITR 615 (SC)].*

4. (a) The Companies Act, 2013 under section 13 provides for the process of altering the Memorandum of a company. Since the location or Registered Office clause in the Memorandum only names the state in which its registered office is situated, a change in address from Mumbai to Nashik, does not result in the alteration of the Memorandum and hence the provisions of section 13 (and its sub sections) do not apply in this case.

However, under section 12 (5) of the Act which deals with the registered office of company, the change in registered office from one town or city to another in the same state, must be approved by a special resolution of the company. Further, presuming that the Registrar will remain the same for the whole state of Maharashtra, there will be no need for the company to seek the confirmation to such change from the Regional Director.

(b) A Proxy is an instrument in writing executed by a shareholder authorizing another person to attend a meeting and to vote thereat on his behalf and in his absence. As per the provisions of Section 105 of the Companies Act, 2013, every shareholder who is entitled to attend and vote has a statutory right to appoint another person as his proxy. It is not necessary that the proxy be a member of the company. Further, any provision in the articles of association of the company requiring instrument of proxy to be lodged with the company more than 48 hours before a meeting shall have effect as if 48 hours had been specified therein. The members have a right to revoke the proxy's authority by voting himself before the proxy has voted but once the proxy has voted the member cannot retract his authority.

Where two proxy instruments by the same shareholder are lodged of in such a manner that one is lodged before and the other after the expiry of the date fixed for lodging proxies, the former will be counted.

Thus, in case of member X, the proxy Y will be permitted to vote on his behalf as form for appointing proxy was submitted within the permitted time.

However, in the case of Member W, the proxy M (and not Proxy N) will be permitted to vote as the proxy authorizing N to vote was deposited in less than 48 hours before the meeting.

(c) "Immovable Property" [Section 3(26) of the General Clauses Act, 1897]: 'Immovable Property' shall include:

(i) Land

(ii) Benefits to arise out of land, and

(iii) Things attached to the earth, or

(iv) Permanently fastened to anything attached to the earth.

It is an inclusive definition. It contains four elements: land, benefits to arise out of land, things attached to the earth and things permanently fastened to anything attached to the earth. Where, in any enactment, the definition of immovable property is in the negative and not exhaustive, the definition as given in the General Clauses Act will apply to the expression given in that enactment.

In the instant case, X sold Land along with timber (obtained after cutting trees) of fifty tamarind trees of his land. According to the above definition, Land is immovable property; however, timber cannot be immovable property since the same are not attached to the earth.

(d) Dictionary Definitions: First we refer the Act in question to find out if any particular word or expression is defined in it. Where we find that a word is not defined in the Act itself, we may refer to dictionaries to find out the general sense in which that word is commonly understood. However, in selecting one out of the several meanings of a word, we must always take into consideration the context in which it is used in the Act. It is the fundamental rule that the meanings of words and expressions used in an Act must take their colour from the context in which they appear. Further, judicial decisions laying down the meaning of words in construing statutes in '*pari materia*' will have greater weight than the meaning furnished by dictionaries. However, for technical terms, reference may be made to technical dictionaries.

5. (a) Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the number of conditions which are prescribed under *Companies (Prospectus and Allotment of Securities) Rules, 2014*. Under the *Companies (Prospectus and Allotment of Securities) Rules, 2014* the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less.

In the given problem, the articles of X Ltd. have prescribed 4% underwriting commission but the directors decided to pay 5% underwriting commission.

Therefore, the decision of the Board of Directors to pay 5% commission to the underwriters is invalid.

(b) The term charge has been defined in section 2 (16) of the Companies Act, 2013 as an interest or lien created on the property or assets of a company or any of its undertakings or both as security and includes a mortgage.

Every company is under an obligation to keep at its registered office a register of charges and enter therein all charges specifically affecting property of the company and all floating charges on the undertaking or any property of the company.

Punishment for contravention – According to section 86 of the Companies Act, 2013, if a company makes any default with respect to the registration of charges covered under chapter VI, a penalty shall be levied, ranging from Rs. 1 lakh to 10 lakhs.

Every defaulting officer is punishable with imprisonment for a term not exceeding 6 months or fine which shall not be less than 25,000 rupees, but not exceeding 1 lakh rupees or both.

(c) Section 124 of the Indian Contract Act, 1872 says that "A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or the conduct of any person", is called a "contract of indemnity".

Section 126 of the Indian Contract Act says that "A contract to perform the promise made or discharge liability incurred by a third person in case of his default." is called as "contract of guarantee".

The conditions under which the guarantee is invalid or void are stated in section 142,143 and 144 of the Indian Contract Act are :

(i) Guarantee obtained by means of misrepresentation.

(ii) creditor obtained any guarantee by means of keeping silence as to material circumstances.

(iii) When contract of guarantee is entered into on the condition that the creditor shall not act upon it until another person has joined in it as co-surety and that other party fails to join as such.

(d) **"Meaning of Service by post"** [Section 27 of the General Clauses Act, 1897]: Where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

(i) properly addressing

(ii) pre-paying, and

(iii) posting by registered post.

A letter containing the document to have been effected at the time at which the letter would be delivered in the ordinary course of post.

MOCK TEST PAPER –II

INTERMEDIATE (NEW): GROUP – I

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) Yamuna Ltd. manufactures a product, currently utilising 80% capacity with a turnover of Rs.8,00,000 at Rs.25 per unit. The cost data are as under:

Material cost Rs.7.50 per unit, Labour cost Rs.6.25 per unit

Semi-variable cost (Including variable cost of Rs.3.75) per unit Rs.1,80,000.

Fixed cost Rs. 90,000 upto 80% level of output, beyond this an additional Rs. 20,000 will be incurred.

CALCULATE:

(i) Activity level at Break-Even-Point

(ii) Number of units to be sold to earn a net income of 8% of sales

(iii) Activity level needed to earn a profit of Rs. 95,000.

(b) Madhu Ltd. has calculated a predetermined overhead rate of Rs.22 per machine hour for its Quality Check (QC) department. This rate has been calculated for the budgeted level of activity and is considered as appropriate for absorbing overheads. The following overhead expenditures at various activity levels had been estimated.

Total overheads	Number of machine hours
Rs.3,38,875	14,500
Rs.3,47,625	15,500
Rs.3,56,375	16,500

You are required to:

(i) CALCULATE the variable overhead absorption rate per machine hour.

(ii) CALCULATE the estimated total fixed overheads.

(iii) CALCULATE the budgeted level of activity in machine hours.

(iv) CALCULATE the amount of under/over absorption of overheads if the actual machine hours were 14,970 and actual overheads were Rs.3,22,000.

(v) ANALYSE the arguments for and against using departmental absorption rates as opposed to a single or blanket factory wide rate.

(c) Anirban Ltd. wants to ascertain the profit lost during the year 20X8-X9 due to increased labour turnover. For this purpose, they have given you the following information:

(1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.

(2) 20% of the output during training period was defective. Cost of rectification of a defective unit was Rs. 25.

(3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.

(4) Selling price per unit is Rs.180 and P/V ratio is 20%.

(5) Settlement cost of the workers leaving the organization was Rs.1,83,480.

(6) Recruitment cost was Rs.1,56,340

(7) Training cost was Rs.1,13,180.

You are required to CALCULATE the profit lost by the company due to increased labour turnover during the year 20X8-X9.

(d) Nirmal Motors Ltd. manufactures pistons used in car engines. As per the study conducted by the Auto Parts Manufacturers Association, there will be a demand of 80 million pistons in the coming year. Arnav Motors Ltd. is expected to have a market share of 1.15% of the total market demand of the pistons in the coming year. It is estimated that it costs Rs.150 as inventory holding cost per piston per month and that the set-up cost per run of piston manufacture is Rs. 3,50,000.

(i) DETERMINE the optimum run size for piston manufacturing?

(ii) Assuming that the company has a policy of manufacturing 40,000 pistons per run, CALCULATE how much extra costs the company would be incurring as compared to the optimum run suggested in (i) above? **(4 × 5 = 20 Marks)**

2. (a) BBC Ltd. manufactures Ordinary Portland Cement (OPC). The standard data for the raw materials that are used to manufacture OPC are as follows:

Material	Composition (%)	Rate per Metric Ton (Rs.)
Limestone	65	565
Silica	20	4,800
Alumina	5	32,100
Iron ore	5	1,800
Others	5	2,400

During the month of February 20X8, A Ltd. produced 500 MT OPC. Actual data related with the consumption and costs are as follows:

Raw Material	Quantity (MT)	Total Cost (Rs.)
Limestone	340	1,90,400
Silica	105	5,09,250
Alumina	25	8,12,500
Iron ore	30	53,400
Others	23	51,750

You are required to COMPUTE the following variances related with the production of OPC for the month of February 20X8:

(i) Material Price Variance

(ii) Material Mix Variance

(iii) Material Yield Variance

(iv) Material Cost Variance. **(10 Marks)**

(b) Cimech Constructions Limited has entered into a big contract at an agreed price of Rs. 1,50,00,000 subject to an escalation clause for material and labour as spent out on the contract and corresponding actual are as follows:

Material:	Standard		Actual	
	Quantity	Rate per Ton	Quantity	Rate per Ton
	(Tons)	(Rs.)	(Tons)	(Rs.)
A	3,000	1,000	3,400	1,100
B	2,400	800	2,300	700
C	500	4,000	600	3,900
D	100	30,000	90	31,500
Labour:	**Hours**	**Hourly Rate (Rs.)**	**Hours**	**Hourly Rate (Rs.)**
L_1	60,000	15	56,000	18
L_2	40,000	30	38,000	35

You are required to:

(i) ANALYSE admissible escalation claim and DETERMINE the final contract price payable.

(ii) PREPARE the contract account, if the all expenses other than material and labour related to the contract are Rs. 13,45,000. **(10 Marks)**

3. (a) The following data are available in respect of Process-I for January 20X9:

(1) Opening stock of work in process: 600 units at a total cost of Rs. 4,20,000.

(2) Degree of completion of opening work in process:

Material	100%
Labour	60%
Overheads	60%

(3) Input of materials at a total cost of Rs.55,20,000 for 9,200 units.

(4) Direct wages incurred Rs.18,60,000

(5) Production overhead Rs.8,63,000.

(6) Units scrapped 200 units. The stage of completion of these units was:

Materials	100%
Labour	80%
Overheads	80%

(7) Closing work in process; 700 units. The stage of completion of these units was:

Material	100%
Labour	70%
Overheads	70%

(8) 8,900 units were completed and transferred to the next process.

(9) Normal loss is 4% of the total input (opening stock plus units put in)

(10) Scrap value is Rs.60 per unit.

You are required to:

(i) COMPUTE equivalent production,

(ii) CALCULATE the cost per equivalent unit for each element.

(iii) CALCULATE the cost of abnormal loss (or gain), closing work in process and the units transferred to the next process using the FIFO method. **(10 Marks)**

(b) 'Humara - Apna' bank offers three products, viz., deposits, Loans and Credit Cards. The bank has selected 4 activities for a detailed budgeting exercise, following activity based costing methods.

The bank wants to know the product wise total cost per unit for the selected activities, so that prices may be fixed accordingly.

The following information is made available to formulate the budget:

Activity	Present Cost (Rs.)	Estimation for the budget period
ATM Services: (a) Machine Maintenance (b) Rents (c) Currency Replenishment Cost	 4,00,000 2,00,000 1,00,000 7,00,000	 All fixed, no change. Fully fixed, no change. Expected to double during budget period. (This activity is driven by no. of ATM transactions)
Computer Processing	5,00,000	Half this amount is fixed and no change is expected. The variable portion is expected to increase to three times the current level. (This activity is driven by the number of computer transactions)
Issuing Statements	18,00,000	Presently, 3 lakh statements are made. In the budget period, 5 lakh statements are expected. For every increase of one lakh statement, one lakh rupees is the budgeted increase. (This activity is driven by the number of statements)
Computer Inquiries	2,00,000	Estimated to increase by 80% during the budget period. (This activity is driven by telephone minutes)

The activity drivers and their budgeted quantifies are given below:

Activity Drivers	Deposits	Loans	Credit Cards
No. of ATM Transactions	1,50,000	---	50,000
No. of Computer Processing Transactions	15,00,000	2,00,000	3,00,000
No. of Statements to be issued	3,50,000	50,000	1,00,000
Telephone Minutes	3,60,000	1,80,000	1,80,000

The bank budgets a volume of 58,600 deposit accounts, 13,000 loan accounts, and 14,000 Credit Card Accounts.

Required

(i) CALCULATE the budgeted rate for each activity.

(ii) PREPARE the budgeted cost statement activity wise.

(iii) COMPUTE the budgeted product cost per account for each product using (i) and (ii) above. **(10 Marks)**

4. (a) Nakata Ltd a Vehicle manufacturer has prepared sales budget for the next few months, and the following draft figures are available:

Month	No. of vehicles
October	40,000
November	35,000
December	45,000
January	60,000
February	65,000

To manufacture a vehicle a standard cost of Rs.5,71,400 is incurred and sold through dealers at a uniform selling price of Rs.8,57,100 to customers. Dealers are paid 15% commission on selling price on sale of a vehicle.

Apart from other materials four units of Part - X are required to manufacture a vehicle. It is a policy of the company to hold stocks of Part-X at the end of each month to cover 40% of next month's production. 48,000 units of Part-X are in stock as on 1st October.

There are 9,500 nos. of completed vehicles are in stock as on 1st October and it is policy to have stocks at the end of each month to cover 20% of the next month's sales.

You are required to

(i) PREPARE Production budget (in nos.) for the month of October, November, December and January.

(ii) PREPARE a Purchase budget for Part-X (in units) for the months of October, November and December.

(iii) CALCULATE the budgeted gross profit for the quarter October to December. **(10 Marks)**

(b) R Limited showed a net loss of Rs.35,400 as per their cost accounts for the year ended 31st March, 20X8. However, the financial accounts disclosed a net profit of Rs.67,800 for the same period. The following information were revealed as a result of scrutiny of the figures of cost accounts and financial accounts:

		(Rs.)	(Rs.)
(i)	Administrative overhead under recovered	25,500	
(ii)	Factory overhead over recovered		1,35,000
(iii)	Depreciation under charged in Cost Accounts	26,000	
(iv)	Dividend received		20,000
(v)	Loss due to obsolescence charged in Financial Accounts	16,800	
(vi)	Income tax provided	43,600	
(vii)	Bank interest credited in Financial Accounts	13,600	
(viii)	Value of opening stock:		
	- In Cost Accounts	1,65,000	
	- In Financial Accounts	1,45,000	
(ix)	Value of closing stock:		
	- In Cost Accounts	1,25,500	
	- In Financial Accounts	1,32,000	
(x)	Goodwill written-off in Financial Accounts	25,000	
(xi)	Notional rent of own premises charged in Cost Accounts	60,000	
(xii)	Provision for doubtful debts in Financial Accounts	15,000	

PREPARE a reconciliation statement by taking costing net loss as base. **(10 Marks)**

5. (a) XYZ LLP, contractors and civil engineers, are building a new wing to a school. The quoted fixed price for the contract is Rs.30,00,000. Work commenced on 1st January 20X8 and is expected to be completed on schedule by 30 June 20X9.

Data relating to the contract at the year ended 31st March 20X9 is as follows.

	Amount (Rs.)
Plant sent to site at commencement of contract	2,40,000
Hire of plant and equipment	77,000
Materials sent to site	6,62,000
Materials returned from site	47,000
Direct wages paid	9,60,000
Wage related costs	1,32,000
Direct expenses incurred	34,000
Supervisory staff salaries - Direct	90,000
- Indirect	20,000
Regional office expenses apportioned to contract	50,000
Head office expenses apportioned to contract	30,000
Surveyor's fees	27,000
Progress payments received from school	18,00,000

Additional information:

1. Plant is to be depreciated at the rate of 25 % per annum following straight line method, with no residual value.

2. Unused materials on site at 31st March are estimated at Rs. 50,000.
3. Wages owed to direct workers total Rs. 40,000
4. No profit in respect of this contract was included in the year ended 31st March 2016.
5. Budgeted profit on the contract is Rs. 8,00,000
6. Value of work certified by the surveyor is Rs. 24,00,000.
7. The surveyor has not certified the work costing Rs. 1,80,000

You are required to PREPARE the account for the school contract for the fifteen months ended 31st March 20X9, and CALCULATE the notional profit to date. **(10 Marks)**

(b) A Ltd. produces a product 'Exe' using a raw material Dee. To produce one unit of Exe, 2 kg of Dee is required. As per the sales forecast conducted by the company, it will able to sale 20,000 units of Exe in the coming year. The following is the information regarding the raw material Dee:

(i) The Re-order quantity is 200 kg. less than the Economic Order Quantity (EOQ).
(ii) Maximum consumption per day is 20 kg. more than the average consumption per day.
(iii) There is an opening stock of 2,000 kg.
(iv) Time required to get the raw materials from the suppliers is 4 to 8 days.
(v) The purchase price is Rs.125 per kg.

There is an opening stock of 1,800 units of the finished product Exe.

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

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

From the above information COMPUTE the followings in relation to raw material Dee:

(a) Re-order Quantity
(b) Maximum Stock level
(c) Minimum Stock level
(d) Impact on the profitability of the company by not ordering the EOQ.

[Take 364 days for a year] **(10 Marks)**

6. (a) DISCUSS the accounting treatment of Idle time and overtime wages.
(b) EXPLAIN the difference between Cost Control and Cost Reduction
(c) STATE Direct Expenses with examples.
(d) EXPLAIN the difference between product cost and period cost. **(4 × 5 =20 Marks)**

MOCK TEST PAPER – 2

INTERMEDIATE (NEW): GROUP – I

PAPER – 3: COST MANAGEMENT ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Working notes:

1. (i) Number of units sold at 80% capacity

$$= \frac{\text{Turnover}}{\text{Selling price p.u.}} = \frac{\text{Rs. }8,00,000}{\text{Rs. }25} = 32,000 \text{ units.}$$

(ii) Number of units sold at 100% capacity

$$\frac{\text{Rs. }32,000 \text{ units}}{80} \times 100 = 40,000 \text{ units}$$

2. Component of fixed cost included in semi-variable cost of 32,000 units.

Fixed cost= {Total semi-variable cost – Total variable cost }

= Rs.1,80,000 – 32,000 units × Rs.3.75

= Rs.1,80,000 – Rs.1,20,000

= Rs.60,000

3. (i) Total fixed cost at 80% capacity

= Fixed cost + Component of fixed cost included in semi—variable cost

(Refer to working note 2)

= Rs.90,000 + Rs.60,000 = Rs.1,50,000

(ii) **Total fixed cost beyond 80% capacity**

= Total fixed cost at 80% capacity + Additional fixed cost to be incurred

= Rs.1,50,000 + Rs.20,000 = Rs.1,70,000

4. **Variable cost and contribution per unit**

Variable cost per unit = Material cost + Labour cost + Variable cost component in semi variable cost = Rs.7.50 + Rs.6.25 + Rs.3.75 = Rs.17.50

Contribution per unit = Selling price per unit – Variable cost per unit

= Rs.25 – Rs.17.50 = Rs.7.50

5. **Profit at 80% capacity level**

= Sales revenue – Variable cost – Fixed cost

= Rs.8,00,000 – Rs.5,60,000 (32,000 units × Rs.17.50) – Rs.1,50,000

= Rs.90,000

(i) Activity level at Break–Even Point

$$\text{Break-even point (units)} = \frac{\text{Fixed cost}}{\text{Contribution per unit}} = \frac{\text{Rs. }1,50,000}{\text{Rs. }7.50} = 20,000 \text{ units}$$

(Refer to working notes 3 & 4)

$$\text{Activity level at BEP} = \frac{\text{Break - Even point (units)}}{\text{No. of units at 100\% capacity level}} \times 100$$

(Refer to working note 1(ii))

$$= \frac{20{,}000 \text{ units}}{40{,}000 \text{ units}} \times 100 = 50\%$$

(ii) Number of units to be sold to earn a net income of 8% of sales

Let S be the number of units sold to earn a net income of 8% of sales.

Mathematically it means that : (Sales revenue of S units)

= Variable cost of S units + Fixed cost + Net income

$$\text{Or, Rs.25S} = \text{Rs.17.5S} + \text{Rs.1,50,000} + \frac{8}{100} \times (\text{Rs.25S})$$

Or, Rs.25S = Rs.17.5S + Rs.1,50,000 + Rs.2S

Or, S = (Rs.1,50,000/Rs.5.5) units

Or, S = 27,273 units.

(iii) Activity level needed to earn a profit of Rs. 95,000

The profit at 80% capacity level, is Rs. 90,000 which is less than the desired profit of Rs. 95,000, therefore the needed activity level would be more than 80%. Thus the fixed cost to be taken to determine the activity level needed should be Rs.1,70,000 *(Refer to Working Note 3 (ii))*

Units to be sold to earn a profit of Rs.95,000

$$= \frac{\text{Fixed cost + Desired profit}}{\text{Contribution per unit}}$$

$$= \frac{\text{Rs.1,70,000 + Rs.95,000}}{\text{Rs.7.5}}$$

= 35,333.33 units

Activity level needed to earn a profit of Rs.95,000

$$= \frac{35{,}333.33 \text{ units}}{40{,}000 \text{ units}} \times 100 = 88.33\%$$

(b) (i) Variable overhead absorption rat $= \frac{\text{Difference in Total Overheads}}{\text{Difference in levels in terms of machine hours}}$

$$= \frac{\text{Rs.3,47,625 - Rs.3,38,875}}{\text{15,500 hours - 14,500 hours}} = \text{Rs.8.75 per machine hour.}$$

(ii) Calculation of Total fixed overheads:

	(Rs.)
Total overheads at 14,500 hours	3,38,875
Less: Variable overheads (Rs. 8.75 × 14,500)	(1,26,875)
Total fixed overheads	2,12,000

(iii) Calculation of Budgeted level of activity in machine hours:

Let budgeted level of activity = X

Then, $\frac{(\text{Rs. }8.75\text{ X} + \text{Rs. }2,12,000)}{\text{X}}$ = Rs. 22

8.75X + Rs.2,12,000 = 22X

13.25X = 2,12,000

X =16,000

Thus, budgeted level of activity = 16,000 machine hours.

(iv) Calculation of Under / Over absorption of overheads:

	(Rs.)
Actual overheads	3,22,000
Absorbed overheads (14,970 hours × Rs. 22 per hour)	3,29,340
Over-absorption (3,29,340 – 3,22,000)	7,340

(v) Departmental absorption rates provide costs which are more precise than those provided by the use of blanket absorption rates. Departmental absorption rates facilitate variance analysis and cost control. The application of these rates make the task of stock and work-in-process (WIP) valuation easier and more precise. However, the setting up and monitoring of these rates can be time consuming and expensive.

(c) Output by experienced workers in 50,000 hours = $\frac{50,000}{10}$ = 5,000 units

∴ Output by new recruits = 60% of 5,000 = 3,000 units

Less of output = 5,000 – 3,000 = 2,000 units

Total loss of output = 10,000 + 2,000 = 12,000 units

Contribution per unit = 20% of 180 = Rs. 36

Total contribution cost = 36 × 12,000 = Rs. 4,32,000

Cost of repairing defective units = 3,000 × 0.2 × 25 = Rs. 15,000

Profit forgone due to labour turnover

	(Rs.)
Loss of Contribution	4,32,000
Cost of repairing defective units	15,000
Recruitment cost	1,56,340
Training cost	1,13,180
Settlement cost of workers leaving	1,83,480
Profit forgone in 20X8-X9	9,00,000

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

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

S = Set-up cost per run = Rs. 3,50,000

C = Inventory holding cost per unit per annum

= Rs.150 × 12 months = Rs. 1,800

$$\text{EBQ} = \sqrt{\frac{2\times 9{,}20{,}000\text{ units}\times \text{Rs.}3{,}50{,}000}{\text{Rs.}1{,}800}} = 18{,}915 \text{ units}$$

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

	Batch size	No. of set-ups	Set-up Cost (Rs.)	Inventory holding cost (Rs.)	Total Cost (Rs.)
A	40,000 units	23 $\left(\frac{9{,}20{,}000}{40{,}000}\right)$	80,50,000 (23×Rs.3,50,000)	3,60,00,000 $\left(\frac{40{,}000\times \text{Rs.}1{,}800}{2}\right)$	4,40,50,000
B	18,915 units	49 $\left(\frac{9{,}20{,}000}{18{,}915}\right)$	1,71,50,000 (49×Rs.3,50,000)	1,70,23,500 $\left(\frac{18{,}915\times \text{Rs.}1{,}800}{2}\right)$	3,41,73,500
	Extra Cost (A – B)				98,76,500

2. **(a)** (i) Material Price Variance = Actual Quantity (Std. Price – Actual Price)

Limestone = $340\left(\text{Rs.}565 - \frac{\text{Rs.}1{,}90{,}400}{340}\right)$

= 340 (Rs. 565 - Rs. 560) = 1,700 (F)

Silica = $105\left(\text{Rs.}4{,}800 - \frac{\text{Rs.}5{,}09{,}250}{105}\right)$

= 105 (Rs. 4,800 - Rs. 4,850) = 5,250 (A)

Alumina = $25\left(\text{Rs.}32{,}100 - \frac{\text{Rs.}8{,}12{,}500}{25}\right)$

= 25 (Rs. 32,100 - Rs. 32,500) = 10,000 (A)

Iron ore = $30\left(\text{Rs.}1{,}800 - \frac{\text{Rs.}53{,}400}{30}\right)$

= 30 (Rs. 1,800 - Rs. 1,780) = 600 (F)

Others = $23\left(\text{Rs.}2{,}400 - \frac{\text{Rs.}51{,}750}{23}\right)$

= 23 (Rs. 2,400 - Rs. 2,250) = 3,450 (F)

9,500 (A)

(ii) Material Mix Variance = Std. Price (Revised Std. Quantity – Actual Quantity)

Limestone = Rs. 565 (523 × 65% - 340)

= Rs. 565 (339.95 - 340) = 28.25 (A)

Silica = Rs. 4,800 (523 × 20% - 105)

= Rs. 4,800 (104.6 - 105) = 1,920 (A)

Alumina = Rs. 32,100 (523 × 5% - 25)

	=	Rs. 32,100 (26.15 - 25)	= 36,915 (F)
Iron ore	=	Rs. 1,800 (523 × 5% - 30)	
	=	Rs. 1,800 (26.15 - 30)	= 6,930 (A)
Others	=	Rs. 2,400 (523 × 5% - 23)	
	=	Rs. 2,400 (26.15 - 23)	= 7,560 (F)
			35,596.75 (F)

(iii) Material Yield Variance = Std. Price (Standard Quantity – Revised Std. Quantity)

Limestone	=	Rs. 565 (500 × 65% - 523 × 65%)	
	=	Rs. 565 (325 - 339.95)	= 8,446.75 (A)
Silica	=	Rs. 4,800 (500 × 20% - 523 × 20%)	
	=	Rs. 4,800 (100 - 104.6)	= 22,080 (A)
Alumina	=	Rs. 32,100 (500 × 5% - 523 × 5%)	
	=	Rs. 32,100 (25 - 26.15)	= 36,915 (A)
Iron ore	=	Rs. 1,800 (500 × 5% - 523 × 5%)	
	=	Rs. 1,800 (25 - 26.15)	= 2,070 (A)
Others	=	Rs. 2,400 (500 × 5% - 523 × 5%)	
	=	Rs. 2,400 (25 - 26.15)	= 2,760 (A)
			72,271.75 (A)

(iv) Material Cost Variance = (Std. Quantity × Std. Price) – (Actual Quantity × Actual Price)

Limestone	=	Rs. 565 × (500 × 65%) - Rs. 1,90,400	
	=	Rs. 1,83,625 - Rs. 1,90,400	= 6,775 (A)
Silica	=	Rs. 4,800 × (500 × 20%) - Rs. 5,09,250	
	=	Rs. 4,80,000 – Rs. 5,09,250	= 29,250 (A)
Alumina	=	Rs. 32,100 (500 × 5%) – Rs. 8,12,500	
	=	Rs. 8,02,500 – Rs. 8,12,500	= 10,000 (A)
Iron ore	=	Rs. 1,800 (500 × 5%) – Rs. 53,400	
	=	Rs. 45,000 – Rs. 53,400	= 8,400 (A)
Others	=	Rs. 2,400 (500 × 5%) – Rs. 51,750	
	=	Rs. 60,000 – Rs. 51,750	= 8,250 (F)
			46,175 (A)

(b) In case of escalation clause in a contract, a contractor is paid for the any increase in price of materials and rate of labours which are beyond the control of the contractor. Any increase in the cost due to inefficiencies in usage of the materials and labours are not admissible. Thus any increase in cost due to usage in excess of standard quantity or hours are not paid.

(i) Statement showing Additional claim due to Escalation clause.

	Standard Qty / Hours	Std. Rate (Rs.)	Actual Rate (Rs.)	Variation in Rate (Rs.)	Escalation claim (Rs.)
	(a)	(b)	(c)	(d) = (c-b)	(e) = (a × d)
Material:					

A	3,000	1,000	1,100	+100	+3,00,000
B	2,400	800	700	-100	-2,40,000
C	500	4,000	3,900	-100	-50,000
D	100	30,000	31,500	+1,500	+1,50,000
Material escalation claim					1,60,000
Labour:					
L_1	60,000	15	18	+3	+1,80,000
L_2	40,000	30	35	+5	+2,00,000
Labour escalation claim					3,80,000

Statement showing Final Contract Price

	(Rs.)	(Rs.)
Agreed contract price		1,50,00,000
Add: Agreed escalation claim:		
Material Cost	1,60,000	
Labour Cost	3,80,000	5,40,000
Final Contract Price		1,55,40,000

(ii) Contract Account

Dr Cr.

Particulars		(Rs.)	Particulars	(Rs.)
To Material:			By Contractee's A/c	1,55,40,000
A – (3,400 × Rs. 1,100)	37,40,000			
B – (2,300 × Rs. 700)	16,10,000			
C – (600 × Rs. 3,900)	23,40,000			
D – (90 × Rs. 31,500)	28,35,000	1,05,25,000		
To Labour:				
L_1 – (56,000 × Rs.18)	10,08,000			
L_2 – (38,000 × Rs.35)	13,30,000	23,38,000		
To Other expenses		13,45,000		
To Estimated Profit		13,32,000		
		1,55,40,000		1,55,40,000

3. (a) (i) Statement of Equivalent Production (FIFO Method)

Input		Output		Equivalent Production					
				Materials		Labour		Production Overhead	
Details	Units	Details	Units	%	Units	%	Units	%	Units
Opening Stock	600	From opening stock	600	-	-	40	240	40	240
		- From fresh materials	8,300	100	8,300	100	8,300	100	8,300
		Closing W-I-P	700	100	700	70	490	70	490
Fresh inputs	9,200	Normal loss	392	-	-	-	-	-	-

			9,992		9,000		9,030		9,030
		Less: Abnormal Gain	(192)	100	(192)	100	(192)	100	(192)
	9,800		9,800		8,808		8,838		8,838

(ii) Statement of Cost per equivalent units

Elements	(Rs.)	Cost (Rs.)	Equivalent units (EU)	Cost per EU (Rs.)
Material Cost	55,20,000			
Less: Scrap realisation 392 units @ Rs. 60/- p.u.	(2,3520)	54,96,480	8,808	624.03
Labour cost		18,60,000	8,838	210.45
Production OH Cost		8,63,000	8,838	97.65
Total Cost		82,19,480		932.13

(iii) Cost of Abnormal Gain – 192 Units

	(Rs.)	(Rs.)
Material cost of 192 units @ Rs. 624.03 p.u.	1,19,813.76	
Labour cost of 192 units @ Rs. 210.45 p.u.	40,406.40	
Production OH cost of 192 units @ Rs. 97.65 p.u.	18,748.80	1,78,968.96

Cost of closing WIP – 700 Units

Material cost of 700 equivalent units @ Rs. 624.03 p.u.	4,36,821.00	
Labour cost of 490 equivalent units @ Rs. 210.45 p.u.	1,03,120.50	
Production OH cost of 490 equivalent @ Rs. 97.65 p.u.	47,848.50	5,87,790.00

Cost of 8,900 units transferred to next process

(i)	Cost of opening W-I-P Stock b/f – 600 units	4,20,000.00
(ii)	Cost incurred on opening W-I-P stock	
	Material cost	—
	Labour cost 240 equivalent units @ Rs. 210.45 p.u.	50,508.00
	Production OH cost 240 equivalent units @ Rs 97.65 p.u.	23,436.00
		4,93,944.00
(iii)	Cost of 8,300 completed units	
	8,300 units @ Rs. 932.13 p.u.	77,36,679.00
	Total cost [(i) + (ii) + (iii))]	86,50,623.00

(b) Statement Showing "Budgeted Cost *per unit* of the Product"

Activity	Activity Cost (Budgeted) (Rs.)	Activity Driver	No. of Units of Activity Driver (Budget)	Activity Rate (Rs.)	Deposits	Loans	Credit Cards
ATM Services	8,00,000	No. of ATM Transaction	2,00,000	4.00	6,00,000	---	2,00,000
Computer Processing	10,00,000	No. of Computer Transaction	20,00,000	0.50	7,50,000	1,00,000	1,50,000
Issuing Statements	20,00,000	No. of Statements	5,00,000	4.00	14,00,000	2,00,000	4,00,000
Customer Inquiries	3,60,000	Telephone Minutes	7,20,000	0.50	1,80,000	90,000	90,000
Budgeted Cost	41,60,000				29,30,000	3,90,000	8,40,000
Units of Product (as estimated in the budget period)					58,600	13,000	14,000
Budgeted Cost *per unit* of the product					50	30	60

Working Note

Activity	Budgeted Cost (Rs.)	Remark
ATM Services:		
(a) Machine Maintenance	4,00,000	− All fixed, no change.
(b) Rents	2,00,000	− Fully fixed, no change.
(c) Currency Replenishment Cost	2,00,000	− Doubled during budget period.
Total	8,00,000	
Computer Processing	2,50,000	− Rs.2,50,000 (half of Rs.5,00,000) is fixed and no change is expected.
	7,50,000	− Rs.2,50,000 (variable portion) is expected to increase to three times the current level.
Total	10,00,000	
Issuing Statements	18,00,000	− Existing.
	2,00,000	− 2 lakh statements are expected to be increased in budgeted period. For every increase of one lakh statement, one lakh rupees is the budgeted increase.
Total	20,00,000	
Computer Inquiries	3,60,000	− Estimated to increase by 80% during the budget period. (Rs.2,00,000 x 180%)
Total	3,60,000	

4. (a) (i) **Preparation of Production Budget (in units)**

	October	November	December	January
Demand for the month (Nos.)	40,000	35,000	45,000	60,000
Add: 20% of next month's demand	7,000	9,000	12,000	13,000
Less: Opening Stock	(9,500)	(7,000)	(9,000)	(12,000)
Vehicles to be produced	37,500	37,000	48,000	61,000

(ii) **Preparation of Purchase budget for Part-X**

	October	November	December
Production for the month (Nos.)	37,500	37,000	48,000
Add: 40% of next month's production	14,800 (40% of 37,000)	19,200 (40% of 48,000)	24,400 (40% of 61,000)
	52,300	56,200	72,400
No. of units required for production	2,09,200 (52300 × 4 units)	2,24,800 (56200 × 4 units)	2,89,600 (72,400 × 4 units)
Less: Opening Stock	(48,000)	(59,200) (14800 × 4 units)	(76,800) (19200 × 4 units)
No. of units to be purchased	1,61,200	1,65,600	2,12,800

(iii) **Budgeted Gross Profit for the Quarter October to December**

	October	November	December	Total
Sales in nos.	40,000	35,000	45,000	1,20,000
Net Selling Price per unit*	7,28,535	7,28,535	7,28,535	
Sales Revenue (Rs. in lakh)	2,91,414	2,54,987.25	3,27,840.75	8,74,242
Less: Cost of Sales (Rs. in lakh) (Sales unit × Cost per unit)	2,28,560	1,99,990.00	2,57,130.00	6,85,680
Gross Profit (Rs. in lakh)	62,854	54,997.25	70,710.75	1,88,562

* Net Selling price unit = Rs. 8,57,100 – 15% commission on Rs. 8,57,100 = Rs.7,28,535.

(b) **Statement of Reconciliation**

Sl. No.	Particulars	Amount (Rs.)	Amount (Rs.)
	Net loss as per Cost Accounts		(35,400)
	Additions		
1.	Factory O/H over recovered	1,35,000	
2.	Dividend Received	20,000	
3.	Bank Interest received	13,600	
4.	Difference in Value of Opening Stock	20,000	
	(1,65,000 – 1,45,000)		
5.	Difference in Value of Closing Stock	6,500	

	(1,32,000 – 1,25,500)		
6.	Notional Rent of own Premises	60,000	2,55,100
	Deductions		
1.	Administration O/H under recovered	25,500	
2.	Depreciation under charged	26,000	
3.	Loss due to obsolescence	16,800	
4.	Income tax Provided	43,600	
5.	Goodwill written-off	25,000	
6.	Provision for doubtful debts	15,000	(1,51,900)
	Net Profit as per Financial A/c.		67,800

5. (a) School Contract Account

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Plant	2,40,000	By Material returned	47,000
To Hire of plant	77,000	By Plant c/d	1,65,000
To Materials	6,62,000	By Materials c/d	50,000
To Direct wages 9,60,000		By WIP c/d:	
Add: Accrued 40,000	10,00,000	Value of work certified	24,00,000
To Wages related costs	1,32,000	Cost of work not certified	1,80,000
To Direct expenses	34,000		
To Supervisory staff: Direct 90,000			
Indirect 20,000	1,10,000		
To Regional office expenses	50,000		
To Head office expenses	30,000		
To Surveyors' fees	27,000		
To Notional profit c/d	4,80,000		
	28,42,000		28,42,000

(b) Working Notes:

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

Sales forecast of the product 'Exe'	20,000 units
Less: Opening stock of 'Exe'	1,800 units
Fresh units of 'Exe' to be produced	18,200 units
Raw material required to produce 18,200 units of 'Exe' (18,200 units × 2 kg.)	36,400 kg.
Less: Opening Stock of 'Dee'	2,000 kg.
Annual demand for raw material 'Dee'	34,400 kg.

(ii) Computation of Economic Order Quantity (EOQ):

$$\text{EOQ} = \sqrt{\frac{2 \times \text{Annual demand of 'Dee'} \times \text{Ordering cost}}{\text{Carrying cost per unit per annum}}}$$

$$= \sqrt{\frac{2 \times 34,400 \text{ kg.} \times \text{Rs.}720}{\text{Rs.}125 \times 13.76\%}} \qquad = \sqrt{\frac{2 \times 34,400 \text{ kg.} \times \text{Rs.}720}{\text{Rs.}17.2}} = 1,697 \text{ kg.}$$

(iii) Re- Order level:

= (Maximum consumption per day × Maximum lead time)

$$= \left\{\left(\frac{\text{Annual Consumption of 'Dee'}}{364 \text{ days}} + 20 \text{ kg.}\right) \times 8 \text{ days}\right\}$$

$$= \left\{\left(\frac{36,400 \text{ kg.}}{364 \text{ days}} + 20 \text{ kg.}\right) \times 8 \text{ days}\right\} = 960 \text{ kg.}$$

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

Average Consumption per day = 100 kg.

Hence, Maximum Consumption per day = 100 kg. + 20 kg. = 120 kg.

So, Minimum consumption per day will be

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

$$\text{Or,} \quad 100 \text{ kg.} = \frac{\text{Min. consumption} + 120 \text{ kg.}}{2}$$

Or, Min. consumption = 200 kg – 120 kg. = 80 kg.

(a) Re-order Quantity:

EOQ – 200 kg. = 1,697 kg. – 200 kg. = 1,497 kg.

(b) Maximum Stock level:

= Re-order level + Re-order Quantity – (Min. consumption per day × Min. lead time)

= 960 kg. + 1,497 kg. – (80 kg. × 4 days)

= 2,457 kg. – 320 kg. = 2,137 kg.

(c) Minimum Stock level:

= Re-order level – (Average consumption per day × Average lead time)

= 960 kg. – (100 kg. × 6 days) = 360 kg.

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

		When purchasing the ROQ	When purchasing the EOQ
I	Order quantity	1,497 kg.	1,697 kg.
II	No. of orders a year	$\frac{34,400 \text{ kg.}}{1,497 \text{ kg.}} = 22.9$ or 23 orders	$\frac{34,400 \text{ kg.}}{1,697 \text{ kg.}} = 20.27$ or 21 orders
III	Ordering Cost	23 orders × Rs. 720 = Rs.16,560	21 orders × Rs. 720 = Rs.15,120

IV	Average Inventory	$\frac{1,497 \text{ kg.}}{2} = 748.5 \text{ kg.}$	$\frac{1,697 \text{ kg.}}{2} = 848.5 \text{ kg.}$
V	Carrying Cost	748.5 kg. × Rs. 17.2 = Rs.12,874.2	848.5 kg. × Rs. 17.2 = Rs.14,594.2
VI	Total Cost	Rs. 29,434.20	Rs. 29,714.20

Cost saved by not ordering EOQ = Rs. 29,714.20 - Rs. 29,434.20 = Rs.280.

6. **(a)** **Accounting treatment of idle time wages & overtime wages in cost accounts:** Normal idle time is treated as a part of the cost of production. Thus, in the case of direct workers, an allowance for normal idle time is built into the labour cost rates. In the case of indirect workers, normal idle time is spread over all the products or jobs through the process of absorption of factory overheads.

Under Cost Accounting, the overtime premium is treated as follows:

If overtime is resorted to at the desire of the customer, then the overtime premium may be charged to the job directly.

If overtime is required to cope with general production program or for meeting urgent orders, the overtime premium should be treated as overhead cost of particular department or cost center which works overtime.

Overtime worked on account of abnormal conditions should be charged to costing Profit & Loss Account.

If overtime is worked in a department due to the fault of another department the overtime premium should be charged to the latter department.

(b)

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

(c) Expenses other than direct material cost and direct employee cost, which are incurred to manufacture a product or for provision of service and can be directly traced in an economically feasible manner to a cost object. The following costs are examples for direct expenses:

(a) Royalty paid/ payable for production or provision of service;

(b) Hire charges paid for hiring specific equipment;

(c) Cost for product/ service specific design or drawing;

(d) Cost of product/ service specific software;

(e) Other expenses which are directly related with the production of goods or provision of service.

(d) **Product costs** are those costs that are identified with the goods purchased or produced for resale. In a manufacturing organisation they are attached to the product and that are included in the inventory valuation for finished goods, or for incomplete goods. Product cost is also known as inventoriable cost. Under absorption costing method it includes direct material, direct labour, direct expenses, directly attributable costs (variable and non-variable) and other production (manufacturing) overheads. Under marginal costing method Product Costs includes all variable production costs and the all fixed costs are deducted from the contribution.

Periods costs are the costs, which are not assigned to the products but are charged as expense against revenue of the period in which they are incurred. General Administration, marketing, sales and distributor overheads are recognized as period costs.

MOCK TEST PAPER - 2

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX LAW (60 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.

Your answers should be based on the provisions of Income-tax law as amended by the Finance Act, 2018. The relevant assessment year is A.Y.2019-20.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Under the provisions of the Income-tax Act, 1961, the term "Person" would not include:

   (a) A body corporate incorporated in a country outside India

   (b) A Limited Liability Partnership (LLP)

   (c) Indian branch of a foreign company

   (d) A local authority **(1 Mark)**

2. Which of the following incomes is not deemed to accrue or arise in India under section 9(1)(i) of the Income-tax Act, 1961?

   (a) Income from any business connection in India

   (b) Income through or from any property in India

   (c) Income arising from transfer of a capital asset situated in India

   (d) Income relating to operations which are confined to purchase of goods in India for the purpose of export **(1 Mark)**

3. A member of parliament is entitled to salary, constituency allowance and daily allowance when the Parliament is in session. Which of the following statements are correct?

   (a) His entire income is taxable under the head "Salaries".

   (b) Only his salary component is taxable under the head "Salaries". Constituency allowance and daily allowance are exempt.

   (c) Only his salary component is taxable under the head "Income from other sources". Constituency allowance and daily allowance are exempt.

   (d) His salary component and constituency allowance is taxable under the head "Income from other sources". Daily allowance is exempt. **(1 Mark)**

4. Ms. Sheetal and her brother jointly own a bungalow. They had taken a housing loan to purchase the bungalow. The loan is sanctioned in the name of Ms. Sheetal and her brother in the year 2015. Interest on housing loan for the P.Y. 2018-19 amounted to Rs.4,50,000 which is paid by Ms. Sheetal (Rs.2,25,000) and her brother (Rs.2,25,000). The bungalow is used by them for their residence. In this case, what will be the amount of deduction available under section 24(b) to Ms. Sheetal and her brother?

   (a) Rs.30,000 each

   (b) Rs.2,00,000 each

   (c) Rs.2,25,000 each

   (d) Rs.4,50,000 each **(1 Mark)**

5. On 31.08.2018, Mr. Kashyap moved to Japan for employment. His family accompanied him, owing to long term nature of employment. Mrs. Kashyap is also planning to start a fashion boutique in Japan soon, once she gets settled. Both Mr. & Mrs. Kashyap are Indian citizens and have been working in India for more than a decade now. Comment on their residential status for A.Y. 2019-20, assuming they did not visit India after August 2018 -

   (a) Mr. & Mrs. Kashyap will qualify to be non-resident

   (b) Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident but not ordinarily resident

   (c) Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident and ordinarily resident

   (d) Mr. & Mrs. Kashyap will qualify to be resident but not ordinarily resident **(1 Mark)**

6. XYZ a partnership firm was dissolved on 30-6-2018. A machine acquired on 1-5-2016 for Rs.2,50,000 was distributed amongst the partners on dissolution for Rs.2,25,000. The value of machinery as per books of account and Fair Market Value on 30-6-2018 was Rs.2,00,000 and Rs.3,50,000, respectively. What will be the full value of consideration of this machine?

   (a) Rs.2,25,000

   (b) Rs.3,50,000

   (c) Rs.2,50,000

   (d) Rs.2,00,000 **(1 Mark)**

7. Mr. Kabir (a non-resident and aged 70 years) is a retired person, earning rental income of Rs.45,000 per month from a property located in Mumbai. He is residing in Canada. Apart from rental income, he does not have any other source of income. Is he liable to pay advance tax in India?

   (a) Yes, he is liable to pay advance tax in India as he is a non-resident and his tax liability in India exceeds Rs.10,000.

   (b) No, he is not liable to pay advance tax in India as his tax liability in India is less than Rs.10,000.

   (c) No, he is not liable to pay advance tax in India as he is a senior citizen and has no income chargeable under the head "Profits and gains of business or profession".

   (d) Both (b) and (c) **(2 Marks)**

8. Mr. Vikram sold his old residential house in May, 2017 for Rs.25,00,000. Long-term capital gain arising on transfer of old house amounted to Rs.8,70,000. In December, 2017 he purchased another residential house worth Rs.4,50,000. The new house was however, sold in May, 2018 for Rs.14,00,000 (stamp duty value of the new house was Rs.13,00,000). What will be amount of taxable capital gains in the hands of Mr. Vikram for the A.Y. 2018-19 and 2019-20?

   (a) Long term capital gain of Rs.4,20,000 in A.Y. 2018-19 and short-term capital gain of Rs.14,00,000 in A.Y. 2019-20

   (b) Long term capital gain of Rs.4,20,000 in A.Y. 2018-19 and long term capital gain of Rs.4,50,000 and short-term capital gain of Rs.14,00,000 in A.Y. 2019-20

   (c) Long term capital gain of Rs.4,20,000 in A.Y. 2018-19 and long term capital gain of Rs.4,50,000 and short-term capital gain of Rs.9,50,000 in A.Y. 2019-20

   (d) Long term capital gain of Rs.4,20,000 in A.Y. 2018-19 and long term capital gain of Rs.4,50,000 and short-term capital gain of Rs.8,50,000 in A.Y. 2019-20 **(2 Marks)**

9. M/s ABC & Co., a firm carrying on business, furnishes the following particulars for the P.Y. 2018-19.

Particulars	**Rs.**
Book profits (before setting of unabsorbed depreciation and brought forward business loss)	2,50,000
Unabsorbed depreciation of P.Y.2012-13	1,20,000
Brought forward business loss of P.Y.2017-18	2,00,000

   Compute the amount of remuneration allowable under section 40(b) from the book profit.

   (a) Rs. 2,25,000

   (b) Rs.1,80,000

   (c) Rs.1,50,000

   (d) Rs.1,17,000 **(2 Marks)**

10. Mr. William, an Indian citizen and a Government employee, left India for the first time on 28.02.2018 on account of his transfer to High Commission in United Kingdom. During P.Y. 2018-19, he visited India only for a week on occasion of his brother marriage. During F.Y. 2018-19, his income composition includes salary, foreign allowances, rent from property in Singapore and interest earned from fixed deposits maintained with SBI. His taxable income for P.Y. 2018-19 will include:

   (a) All of them, since Mr. William is a resident in India, hence his global income will be taxable

   (b) Only interest earned from fixed deposits maintained in India

   (c) No income shall be taxable since Mr. William is a non-resident in India for P.Y. 2018-19

   (d) Salary and interest income of fixed deposits with SBI **(2 Marks)**

11. Provision of rent free accommodation and motor car owned by Alpha Ltd. to its employee Mr. Anurag, where motor car is allowed to be used by Mr. Anurag both for official and personal purposes, is a -

   (a) perquisite taxable in case of all employees

   (b) perquisite taxable only in case of specified employees

(c) perquisite of rent free accommodation is taxable in case of all employees whereas perquisite of motor car is taxable only in case of specified employees

(d) perquisite of rent free accommodation is taxable only in case of specified employees whereas perquisite of motor car is taxable in case of all employees **(2 Marks)**

12. Mr. Arjun, a businessman, whose total income (after allowing deduction under chapter VI-A except under section 80GG) for AY 2019-20 is Rs.5,50,000. He does not own any house property and is staying in a rented accommodation in Patna for a monthly rent of Rs.8,000. Deduction allowance under section 80GG for A.Y. 2019-20 is:

(a) Rs.41,000

(b) Rs.1,37,500

(c) Rs.60,000

(d) Rs.96,000 **(2 Marks)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions*

1. Mr. Ashwin, a resident individual aged 61, furnishes the following information pertaining to the year ended 31.3.2019:

(i) He is a working partner in ASC & Co. He has received the following amounts from the firm:

Interest on capital at 15% : Rs.3,00,000

Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) : Rs.90,000

(ii) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	Rs.	Particulars	Rs.
To Salaries	1,20,000	By Gross profit	12,45,500
To Bonus	48,000	By Interest on Bank FD	49,500
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	
To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	4,32,000		
	13,79,000		**13,79,000**

Details of assets:

Particulars	Rs.
Opening WDV of assets are as under:	
Car	3,00,000

Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 15.9.2018 by cash in single payment	2,00,000
Purchased on 12.12.2018 by account payee cheque	3,00,000
Second hand machinery purchased on 30.4.2018 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)

One-fifth of the car expenses are towards estimated personal use of the assessee.

Salary includes Rs. 15,000 paid by way of a single cash payment to manager.

(iii) In February, 2016, he had sold a house at Mumbai. Arrears of rent relating to this house amounting to Rs.75,000 was received in March, 2019.

(iv) Details of his Savings and Investments are as under:

Particulars	Rs.
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of Rs.10 lakhs p.a. (Sum assured Rs.2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his mother aged 79, who is not dependent on him	52,000

You are required to compute the total income and tax liability of Mr. Ashwin for the assessment year 2019-20. **(14 Marks)**

2. (a) Compute the total income of Mr. Rajesh, aged 45 years, an Indian citizen for A.Y. 2019-20. On 22.09.2018, he left India for the first time to work as an officer of a company in Canada. He earns the following income during the previous year 2018-19:

Sr. No.	Particulars	(Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	40,000
2.	Dividend from Canadian company received in Canada	20,000
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from Profession in Canada (set up in India), out of which Rs.10,000 is received in India	15,000
6.	Agricultural income from a land situated in Gujarat	45,000
7.	Rent received in Canada in respect of house property at Canada	60,000

(7 Marks)

(b) Mr. Sailesh, a resident individual aged 54, furnishes his income & other details for the P.Y. 2018-19:

(i) Income of Rs.8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.

(ii) Income from other sources Rs.2,70,000.

(iii) Tax deducted at source Rs.25,000.

(iv) Advance tax paid Rs.1,03,000 during the P.Y. 2018-19.

Return of income filed on 11-12-2019. Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. **(5 Marks)**

(c) Who are the persons authorized to verify return of income in the case of following persons:

(i) Local authority

(ii) Firm, having no managing partner **(2 Marks)**

3. (a) Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2017 and completed on 1-04-2018. Suresh started the construction on 1-04-2017 and completed the construction on 30-06-2018. Ramesh occupied the entire house on 01-04-2018. Suresh occupied the ground floor on 01-07-2018 and let out the first floor for a rent of Rs.15,000 per month. However, the tenant vacated the house on 31-12-2018 and Suresh occupied the entire house during the period 01-01-2019 to 31-03-2019.

Following are the other information

(i)	Fair rental value of each unit (ground floor /first floor)	Rs.1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	Rs.72,000 per annum
(iii)	Municipal taxes paid by	Ramesh – Rs.8,000 Suresh – Rs.8,000
(iv)	Repair and maintenance charges paid by	Ramesh – Rs.28,000 Suresh – Rs.30,000

Ramesh has availed a housing loan of Rs.20 lakhs @ 12% p.a. on 01-04-2017. Suresh has availed a housing loan of Rs.12 lakhs @ 10% p.a. on 01-07-2017. No repayment was made by either of them till 31-03-2019. Compute income from house property for Ramesh and Suresh for the previous year 2018-19 (A.Y. 2019-20). **(7 Marks)**

(b) Mr. Satish, General Manager of Akon Ltd., Delhi, furnishes the following particulars for the financial year 2018-19:

(i) Salary Rs.46,000 per month

(ii) Value of medical facility in a hospital maintained by the company Rs.7,000

(iii) Rent free accommodation owned by the company

(iv) Housing loan of Rs.6,00,000 given on 01.04.2018 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2018 in respect of housing loan is 10%.

(v) Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Satish Rs.4,750.

(vi) A four seater dining table was provided to Mr. Satish at his residence. This was purchased on 1.5.2015 for Rs.60,000 and sold to Mr. Satish on 1.8.2018 for Rs.30,000.

(vii) Personal purchases through credit card provided by the company amounting to Rs.10,000 was paid by the company. No part of the amount was recovered from Mr. Satish.

(viii) A Maruti Suzuki car which was purchased by the company on 16.7.2015 for Rs.2,50,000 was sold to the assessee on 14.7.2018 for Rs.80,000.

Other income received by the assessee during the previous year 2018-19:

	Particulars	Rs.
(a)	Interest on Fixed Deposits with a company	5,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	3,000

(ix) Contribution to LIC towards premium under section 80CCC Rs.1,00,000

(x) Deposit in PPF Account made during the year 2018-19 Rs.40,000

Compute the taxable income of Mr. Satish for the Assessment year 2019-20. **(7 Marks)**

4. (a) Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018-19:

(i) On 1.6.2018, Mr. Gyaneshwar made three nine month fixed deposits of ₹ 1 lakh each carrying interest@9% with Laxmi Nagar Branch, Mayur Vihar Branch and Rohini Branch of ABC Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2019.

(ii) Sky TV, a television channel, made payment of ₹ 70 lakhs to a production house ABC Ltd. for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Sky TV. **(4 Marks)**

(b) A proprietary business was started by Mrs. Kapoor in the year 2016. As on 1.4.2017 her capital in business was Rs.3,00,000. Her husband gifted Rs.2,00,000 on 10.4.2017, which amount Mrs. Kapoor invested in her business on the same date. Mrs. Kapoor earned profits from her proprietary business for the Financial year 2017-18, Rs.1,50,000 and Financial year 2018-19 Rs.3,90,000. Compute the income, to be clubbed in the hands of Mrs. Kapoor's husband for the Assessment year 2019-20 with reasons. **(3 Marks)**

(c) Compute the total income of Mr. Pratap (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2019. Also, show the items eligible for carry forward.

Particulars	Rs.
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000

Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

(7 Marks)

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Question in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.

(iii) All questions should be answered on the basis of the position of GST law as amended up to 31st October, 2018.

(iv) 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.

Division A - Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 12 Marks

Question Nos. 1 and 2 carries 2 Marks each

1. A person having ____business verticals in a State ____obtain a separate registration for each business vertical.

   (a) Single, shall

   (b) Multiple, shall

   (c) Multiple, may

   (d) Single, may **(2 Marks)**

2. Mr. Rahu is receiving legal services from a lawyer Mr. Ketu. The information regarding date of payment, invoice etc. is as follows-

   1. Invoice issued by Mr. Ketu on 15-Apr-20XX

   2. Payment received by Mr. Ketu on 5-May-20XX

   3. Date of payment entered in books of accounts of Rahu: 1-May-20XX

   What is time of supply of goods?

   (a) 1-May-20XX

   (b) 5-May-20XX

   (c) 14-Jun-20XX

   (d) 15-Apr-20XX **(2 Marks)**

Question Nos. 3 to 10 are of 1 mark each.

3. Services by way of warehousing of _____is exempt from GST.

   (i) processed tea

   (ii) jaggery

   (iii) processed coffee

   (iv) rice

(a) (i) & (ii)

(b) (iii)

(c) (iv)

(d) all of the above **(1 Mark)**

4. Discount given after the supply is deducted from the value of taxable supply, if –

   (a) such discount is given as per the agreement entered into at/or before the supply

   (b) such discount is linked to the relevant invoices

   (c) proportionate input tax credit is reversed by the recipient of supply

   (d) all of the above **(1 Mark)**

5. Which of the following services are exempt from GST?

   (a) Services by an artist by way of a performance in folk or classical art forms of painting/sculpture making etc. with consideration therefor not exceeding Rs. 1.5 lakh.

   (b) Services by an artist by way of a performance in modern art forms of music/ dance/ theatre with consideration therefor not exceeding Rs. 1.5 lakh.

   (c) Services by an artist by way of a performance in folk or classical art forms of music/dance/theatre with consideration therefor exceeding Rs. 1.5 lakh.

   (d) Services by an artist by way of a performance in folk or classical art forms of music/dance / theatre with consideration therefor not exceeding Rs. 1.5 lakh. **(1 Mark)**

6. Which of the following services does not fall under reverse charge provisions as contained under section 9(3) of the CGST Act?

   (a) Services supplied by arbitral tribunal to business entity

   (b) Sponsorship provided to any partnership firm

   (c) Sponsorship provided to any body corporate

   (d) None of the above **(1 Mark)**

7. Registration certificate granted to casual taxable person or non-resident taxable person will be valid for:

   (a) Period specified in the registration application

   (b) 90 days from the effective date of registration

   (c) Earlier of (a) or (b)

   (d) Later of (a) or (b) **(1 Mark)**

8. Where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued:

   (a) before/at the time of supply.

   (b) 6 months from the date of removal.

   (c) Earlier of (a) or (b).

   (d) Later of (a) or (b). **(1 Mark)**

9. Which of the following statements is true under GST?

   (a) Grand-parents are never considered as related persons to their grandson/granddaughter

   (b) Grand-parents are always considered as related persons to their grandson/granddaughter

   (c) Grand-parents are considered as related persons to their grandson/granddaughter only if they are wholly dependent on their grandson/granddaughter

   (d) None of the above **(1 Mark)**

10. Invoice shall be prepared in (i) ___________ in case of taxable supply of goods and in (ii)_____________ in case of taxable supply of services.

    (a) (i) Triplicate, (ii) Duplicate

    (b) (i) Duplicate, (ii) Triplicate

    (c) (i) Duplicate, (ii) Duplicate

    (d) None of the above **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks: 28 Marks

1. Sungrow Pvt. Ltd. (a registered taxable person) having the gross receipt of Rs. 50 lakh in the previous financial year provides the following information relating to their services for the month of July, 2018.

Sr. No.	Particulars	Amount (Rs.)
(1)	Running a boarding school	2,40,000
(2)	Fees from prospective employer for campus interview	1,70,000
(3)	Education services for obtaining the qualification recognised by law of foreign country	3,10,000
(4)	Renting of furnished flats for temporary stay to different persons	1,20,000
	(Rent per day is less than Rs. 1,000 per flat)	
(5)	Conducting Modular Employable Skill Course, approved by National Council of Vocational Training	1,40,000
(6)	Conducting private tuitions amount	3,00,000
(7)	Running martial arts academy for young children	55,000
(8)	Conducting career counselling session	1,65,000

Compute the value of taxable supply and the amount of GST payable. The above receipts don't include the GST amount. Rate of GST is 18%. **(8 Marks)**

2. (a) Laxmi Pvt. Ltd., a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of July, 2018:

Sr. No	Particulars	GST paid
(1)	Raw Material (to be received in September, 2018)	2,50,000
(2)	Membership of a club availed for employees working in the factory	1,45,000
(3)	Inputs to be received in 5 lots, out of which 3rd lot was received during the month	80,000
(4)	Trucks used for transport of raw material	40,000
(5)	Capital goods (out of 3 items, invoice for 2 items is missing and GST paid on that item is Rs. 80,000)	1,50,000
(6)	Confectionery items for consumption of employees working in the factory. These items were supplied free of cost to the employees in lieu of services rendered by them to the manufacturer in the course of employment.	75,000

Determine the amount of tax credit available with Laxmi Pvt. Ltd. for the month of July, 2018 by giving the necessary explanation for treatment of various items. All the conditions necessary for availing the ITC have been fulfilled. **(6 Marks)**

(b) Mr. Guneet is running a consulting firm and also a readymade garment showroom in Kolkata registered in same PAN. Turnover of the showroom is Rs. 70 lakh and receipt of consultancy firm is Rs. 15 lakh in the preceding financial year. You are required to answer the following:

(1) Is Mr. Guneet eligible for composition scheme?

(2) Is it possible for Mr. Guneet to opt for composition scheme only for showroom? **(4 Marks)**

3\. (a) The aggregate turnover of Priyank Services Ltd. exceeded Rs.20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6th September. You are required to advice Priyank Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices.

(6 Marks)

(b) Determine the effective date of registration in following cases:

(i) The aggregate turnover of Grand Industries of Delhi has exceeded Rs. 20 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.

(ii) Mangal Teleservices is an internet service provider in Lucknow. Its aggregate turnover exceeds Rs. 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to it on 5th December. **(4 Marks)**

4\. (a) State whether the following supplies would be treated as supply of goods or supply of services as per Schedule II of CGST Act:

(i) Renting of immovable property

(ii) Transfer of right in goods without transfer of title in goods.

(iii) Works contract services

(iv) Temporary transfer of permitting use or enjoyment of any intellectual property right

(v) Transfer of title in goods under an agreement which stipulates that property shall pass at a future date. **(5 Marks)**

(b) State the persons who are not liable for registration as per provisions of Section 23 of Central Goods and Service Tax Act, 2017. **(5 Marks)**

Test Series: April, 2019

MOCK TEST PAPER - 2

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION – A: INCOME TAX LAW

SOLUTIONS

Division A – Multiple Choice Questions

1. (c)

2. (d)

3. (c)

4. (b)

5. (c)

6. (b)

7. (b)

8. (a)

9. (b)

10. (d)

11. (c)

12. (a)

Division B – Descriptive Questions

1. **Computation of total income of Mr. Ashwin for the A.Y. 2019-20**

Particulars		Rs.	Rs.
Income from house property			
Arrears of rent received in respect of the Bangalore house taxable under section 25A **[Note 1]**		75,000	
Less: Deduction @ 30%		22,500	52,500
Profits and gains of business or profession			
(a) Own business [Note 3]			6,32,500
(b) Income from partnership firm [Note 2]			
Interest on capital		2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]			
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		55,000	79,000
Gross Total Income			**10,94,000**

Less: **Deductions under Chapter VIA**			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs.2,00,000.	20,000		
Contribution to PPF	70,000	90,000	
Section 80D			
Mediclaim premium for mother, a senior citizen	52,000		
(qualifies for deduction, even though the mother is not dependent on the assessee, subject to a maximum of Rs.50,000)		50,000	
Section 80TTB			
Interest on bank FD	55,000		
(subject to a maximum of Rs.50,000)		50,000	1,90,000
Total Income			**9,04,000**

Computation of tax liability of Mr. Ashwin for the A.Y. 2019-20

Particulars	Rs.
Tax on Agricultural income *plus* non-agricultural income i.e., Rs.9,64,000	1,02,800
Less: Tax on agricultural income plus basic exemption limit i.e., Rs.3,60,000	3,000
	99,800
Add: Health and education cess @4%	3,992
Tax liability	**1,03,792**
Less: TDS	5,000
Less: Advance Tax	70,000
Tax Payable	**28,792**
Tax Payable (rounded off)	**28,790**

Notes:

(1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.

(2) The income by way of interest on capital and salary of Mr. Ashwin from the firm, ASC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs.3,30,000 [i.e., Rs.90,000 (salary) + Rs.2,40,000 (interest@12%)] should be included in his business income.

(3) Computation of income from own business

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	49,500	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,33,500

		2,98,500
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs.50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs.10,000	15,000	5,20,000
		8,18,500
Less: Depreciation **(See Working Note below)**		1,86,000
Income from business		**6,32,500**

Working Note:

Computation of depreciation allowable under the income-tax Act, 1961

Particulars		Rs.	Rs.
On Car:			
Depreciation @15% on Rs.3,00,000		45,000	
Less: 1/5th for personal use		9,000	
Depreciation on Car allowable as deduction			**36,000**
On Machinery:			
Opening WDV	6,50,000		
Additions during the year (used for more than 180 days)			
- New Machinery purchased on 15.9.18	2,00,000		
- Second hand machinery purchased on 30.4.18	1,25,000		
Additions during the year (used for less than 180 days)	3,00,000		
Normal Depreciation			
Depreciation @15% on Rs.6,50,000		97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 30.4.2018 and on new machinery purchased on 15.9.2018 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]			
Depreciation @ 7.5% on Rs.3,00,000		22,500	
Total normal depreciation on machinery (A)		**1,20,000**	
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.			
Additional depreciation (B)			
New machinery			

Used for less than 180 days = 10% of Rs.3,00,000	30,000	
Total permissible depreciation on machinery (A) + (B)		**1,50,000**
Depreciation allowable under section 32		**1,86,000**

2. (a) Under section 6(1), 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.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2018-19, Mr. Rajesh, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2019-20.

Computation of total income of Mr. Rajesh for the A.Y. 2019-20

S. No.	Particulars	Non-Resident (Rs.)
1.	Interest on Canada Development Bond **(See Note 1)**	20,000
2.	Dividend from Canadian Company received in Canada **(See Note 2)**	-
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from profession in Canada (set up in India) out of which Rs.10,000 is received in India **(See Note 1)**	10,000
6.	Agricultural income from a land in Gujarat **(See Note 3)**	-
7.	Income from house property at Canada **(See Note 4)**	-
	Gross Total income	**1,32,000**
	Less: Deduction under Chapter VI-A	
	Section 80TTA **(See Note 5)**	10,000
	Total Income	**1,22,000**

Notes:

(1) As per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

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

Therefore, only that part of interest income and income from profession which is received in India would be taxable in his hands.

(2) Dividend received in Canada from a Canadian based company would not be taxable in the hands of Mr. Rajesh since it has neither accrued nor arisen in India nor is it received in India.

(3) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.

(4) Rental income from property in Canada would not be taxable, since it is neither accrued or

arisen in India nor it is received in India.

(5) In case of an individual other than senior citizen, interest upto Rs.10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA, irrespective of the residential status.

(b) Computation of interest payable under section 234B by Mr. Sailesh

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 + Income from other sources of Rs.2,70,000]	1,36,500
Add: Health and education cess@4%	5,460
Tax on total income	**1,41,960**
Less: Tax deducted at source	25,000
Assessed Tax	**1,16,960**
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of Rs.1,03,000 paid is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2019 to 11th December, 2019, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sailesh's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2019-20, in his case, is 30.09.2019. Mr. Sailesh has filed his return on 11.12.2019 i.e., interest under section 234A will be payable for 3 months (from 1.10.2019 to 11.12.2019) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., Rs.13,960 rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = Rs.13,900 x 1% x 3 = Rs.417

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds Rs.5 lakhs, a fee of Rs.5,000 will be payable by him.

(c) Return of income to be verified by whom

	Person	Return of income to be verified by
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor

3. (a) Computation of income from house property of Mr. Ramesh for A.Y. 2019-20

Particulars	Rs.	Rs.
Annual value is nil (since house is self occupied)		Nil

Less: Deduction under section 24(b)		
Interest paid on borrowed capital Rs.20,00,000 @ 12%	2,40,000	
Pre-construction interest Rs.2,40,000 / 5	48,000	
	2,88,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
Loss under the head "Income from house property" of Mr. Ramesh		(2,00,000)

Computation of income from house property of Mr. Suresh for A.Y. 2019-20

Particulars	Ground floor (Self occupied)	First floor
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)		4,000
Net annual value(A)	Nil	86,000
Less: Deduction under section 24		
(a) 30% of net annual value		25,800
(b) interest on borrowed capital		
Current year interest		
Rs.12,00,000 x 10% = Rs.1,20,000	60,000	60,000
Pre-construction interest		
Rs.12,00,000 x 10% x 9/12 = Rs.90,000 Rs.90,000 allowed in 5 equal installments Rs.90000 / 5 = Rs.18,000 per annum	9,000	9,000
Total deduction under section 24(b)	69,000	94,800
Income from house property (A)-(B)	(69,000)	(8,800)
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	(77,800)	

Note: Computation of Gross Annual Value (GAV) of first floor of Suresh's house

If a single unit of property (in this case the first floor of Suresh's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2018.

Expected rent = Rs.75,000 being higher of -

Fair rent = 1,00,000 x 9 /12 = Rs.75,000
Municipal value = 72,000 x 9/12 = Rs.54,000

Actual rent = Rs.90,000 (Rs.15,000 p.m. for 6 months from July to December, 2018)

Gross Annual Value = Rs.90,000 (being higher of Expected Rent of Rs.75,000 and actual rent of Rs.90,000)

(b) Computation of taxable income of Mr. Satish for the A.Y. 2019-20

	Particulars	Rs.	Rs.
(a)	Income from salaries **(See Working Note below)**		7,62,800
(b)	Income from other sources		
	(i) Interest on fixed deposit with a company	5,000	
	(ii) Income from specified mutual fund exempt under section 10(35)	Nil	
	(iii) Interest on Fixed Deposit received by minor daughter (Rs.3,000 - Rs.1500)	1,500	6,500
Gross total income			**7,69,300**
	Less: Deductions under Chapter VI-A		
	Section 80C – PPF	40,000	
	Section 80CCC	1,00,000	1,40,000
Total Income			**6,29,300**

Working Note:

Computation of salary income of Mr. Satish for the A.Y. 2019-20

Particulars		Rs.
Income under the head "salaries"		
Salary [Rs.46,000 x 12]		5,52,000
Medical facility [in the hospital maintained by the company is exempt]		–
Rent free accommodation		
15% of salary is taxable (i.e. Rs.5,52,000 × 15% as per Rule 3(1))		82,800
Use of dining table for 4 months		
[Rs.60,000 x 10 /100 x 4 /12]		2,000
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] – 10% is taxable which is to be reduced by actual rate of interest charged i.e. [10% - 6% = 4%]		24,000
Gift given on the occasion of wedding anniversary Rs.4,750 is exempt, since its value is less than Rs.5,000		-
Perquisite on sale of dining table		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 3 years	18,000	
Written Down Value	42,000	
Less: Amount paid by the assessee	30,000	12,000
Purchase through credit card – not being a privilege but covered by section 17(2)(iv)		10,000
Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2015 to 15.7.2016 @ 20%	50,000	
	2,00,000	
Less: Depreciation from 16.7.2016 to 15.7.2017 @ 20%	40,000	

Value as on 14.07.2018- being the date of sale to employee	1,60,000	
Less: Amount received from the assessee on 14.07.2018	80,000	80,000
Income from Salaries		**7,62,800**

Note: Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of car is completed on 15.7.2018 whereas the car was sold to the employee on 14.7.2018. The solution worked out above provides for wear and tear for only two years.

4. (a) (i) ABC Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs.20,250 [1,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of ₹ 10,000. Since ABC Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs.20,250 exceeds the threshold limit of Rs.10,000, tax has to be deducted@10% under section 194A.

Tax to be deducted = Rs.20,250 x 10% = **Rs.2,025**

. **(ii)** In this case, since the programme is produced by the production house ABC Ltd. as per the specifications given by Sky TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 70 lakhs made by Sky TV to the production house ABC Ltd. would be subject to tax deduction at source under section 194C. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 2% if the payment is made to a person other than an individual or HUF.

Therefore, tax to be deducted = Rs.70 lakhs x 2% = **Rs.1,40,000**

(b) Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Mrs. Kapoor received a gift of Rs.2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Mrs. Kapoor's husband for A.Y.2019-20 is computed as under:

Particulars	Mrs. Kapoor's Capital Contribution	Capital Contribution Out of gift from husband	Total
	Rs.	Rs.	Rs.
Capital as at 1.4.2017	3,00,000	--	3,00,000
Investment on 10.04.2017 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2017-18 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2017	1,50,000		1,50,000
Capital employed as at 1.4.2018	**4,50,000**	**2,00,000**	**6,50,000**
Profit for F.Y.2018-19 to be apportioned on the basis of capital employed as at 1.4.2018 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Mrs. Kapoor's husband for A.Y.2019-20 is Rs.1,20,000.

(c) Computation of total income of Mr. Pratap for the A.Y.2019-20

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		**1,15,000**
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		**95,000**

Losses to be carried forward:

Particulars		Rs.
(1)	Loss from House property (Rs.2,50,000 – Rs.2,00,000)	50,000
(2)	Loss from toy business **(Rs.1,30,000 - Rs.40,000 - Rs.90,000)**	Nil
(3)	Loss from specified business covered by section 35AD	20,000

Notes:

(i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of Rs.2,00,000 only.

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2027-28, in this case.

(ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

(iii) Business loss cannot be set off against salary income. However, business loss of Rs.90,000 (Rs.1,30,000 – Rs.40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be Rs.50,000.

(iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to Rs.20,000 [i.e., Gross Total Income of Rs.1,15,000 – Rs.50,000 (LTCG) – Rs.45,000 (Casual income)].

(vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

SECTION B - INDIRECT TAXES (40 MARKS)

SUGGESTED ANSWERS/HINTS

Division A - Multiple Choice Questions Answer

1. **(c)**

2. **(a)**

3. **(c)**

4. **(d)**

5. **(d)**

6. **(d)**

7. **(c)**

8. **(c)**

9. **(c)**

10. **(a)**

Division B - Descriptive Answer

1. **Computation of value of taxable supply and amount of GST payable**

S.No.	Particulars	Rs.
(1)	Running a boarding school [Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(2)	Fees from prospective employer for campus interview [Not exempt.]	1,70,000
(3)	Education services for obtaining the qualification recognised by law of foreign country [An institution providing education services for obtaining qualification recognized by a foreign country does not qualify as educational institution. Thus, said services are not exempt.]	3,10,000
(4)	Renting of furnished flats for temporary stay of different persons [Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having *Value of Supply* of a unit of accommodation below Rs. 1,000 per day or equivalent are exempt]	Nil
(5)	Conducting Modular Employable Skill Course [An institution providing Modular Employable Skill Course qualifies as educational institution. Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(6)	Conducting private tuitions [Not exempt.]	3,00,000
(7)	Running martial arts academy for young children [Not exempt under GST laws]	55,000
(8)	Conducting career counselling session [Not exempt under GST laws]	1,65,000
	Value of taxable supply	**10,00,000**
	GST payable @ 18%	**1,80,000**

2. (a) **Computation of ITC available with Laxmi Pvt. Ltd. for the month of July, 2018**

Particulars	**Rs.**
Raw Material [ITC not available as raw material is not received in July, 2018]	Nil
Membership of a club availed for employees working in the factory [Blocked credit in terms of section 17(5) of the CGST Act, 2017]	Nil
Inputs to be received in 5 lots, out of which 3rd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles is allowed only when used, *inter alia,* for transportation of goods in terms of section 17(5) of the CGST Act, 2017]	40,000
Capital goods [ITC of GST paid on items for which invoice is missing is not available. So, ITC of Rs. 80,000 is not available]	70,000
Confectionery items for consumption of employees working in the factory [ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply-Section 17(5)(b)(i)]	Nil
Total ITC available	**1,10,000**

(b) A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore in a State/UT [Rs. 75 lakh in case of Special Category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme.

However, he shall not be eligible to opt for composition scheme if, *inter alia*, he is engaged in the supply of services other than restaurant services.

(1) In the given case, since Mr. Guneet is engaged in the supply of consultancy service, he is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.

(2) No, it is not possible for Mr. Guneet to opt for composition scheme only for showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of consultancy service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

3. **(a)** As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Priyank Services Ltd.'s turnover exceeded Rs. 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Priyank Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12^{th} August) till the date of issuance of certificate of registration (6^{th} September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6^{th} October.

(b) (i) Every supplier becomes liable to registration if his turnover exceeds Rs. 20 lakh [in a State/UT other than Special Category States except Jammu and Kashmir] in a financial year [Section 22 of CGST Act, 2017]. Since in the given case, the turnover of Grand Industries exceeded Rs. 20 lakh on 1st September, it becomes liable to registration on said date.

Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration [Section 25 read with rule 10 of the Chapter III - Registration of CGST Rules, 2017]. Therefore, the effective date of registration is 1st September.

(ii) Since in the given case, the turnover of Mangal Teleservices exceeds Rs. 20 lakh on 25th October, it becomes liable to registration on said date.

Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration. Therefore, the effective date of registration is 5th December.

4. (a) (i) Renting of immovable property would be treated as supply of services in terms of Schedule-II of CGST Act, 2017.

(ii) As per Schedule-II of CGST Act, 2017, transfer of right in goods without transfer of title in goods would be treated as supply of services.

(iii) As per Schedule-II of CGST Act, 2017, works contract services would be treated as supply of services.

(iv) As per Schedule-II of CGST Act, 2017, temporary transfer of permitting use or enjoyment of any intellectual property right would be treated as supply of services.

(v) As per Schedule-II of CGST Act, 2017, transfer of title in goods under an agreement which stipulates that property shall pass at a future date would be treated as supply of goods.

(b) As per provisions of Section 23 of CGST Act, 2017, the persons who are not liable for registration are as under–

(a) Person engaged exclusively in supplying goods/services/both that are wholly exempt from tax.

(b) Person engaged exclusively in supplying goods/services/both that are not liable to tax.

(c) Agriculturist to the extent of supply of produce out of cultivation of land.

(d) Persons only engaged in making supplies of taxable goods or services or both liable to reverse charge.

(e) Persons making inter-State supplies of taxable services up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir).

(f) Casual Taxable Persons making taxable supplies of specified handicraft goods up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.

(g) Persons making inter-State supplies of specified handicraft goods up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.

(h) Job workers making inter-State supply of services to a registered person up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.

(i) Persons making supplies of services through an electronic commerce operator (other than supplies specified under section 9(5) of the CGST Act) up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir).

[Note Any 5 points may be mentioned]