PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY 2020 EXAMINATION

A. Applicable for May, 2020 examination

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate Dividend Tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

V. Amendment in AS 11 "The Effects of Changes in Foreign Exchange Rates"

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the "ANNEXURE", under the heading "ACCOUNTING STANDARDS" under "AS 11 on The Effects of Changes in Foreign Exchange Rates", for the paragraph 32, the following paragraph shall be substituted, namely :-

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down".

VI. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)

A listed company, while issuing bonus shares to its members, must comply with the following requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:

Regulation 293 - Conditions for Bonus Issue

Subject to the provisions of the Companies Act, 2013 or any other applicable law, a listed issuer shall be eligible to issue bonus shares to its members if:

a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve; b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

c) it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;

d) any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up;

e) any of its promoters or directors is not a fugitive economic offender.

Regulation 294 - Restrictions on a bonus issue

(1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.

(2) The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.

(3) A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalized for this purpose.

(4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.

(5) If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.]

Regulation 295 - Completion of a bonus issue

(1) An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalization of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors: Provided that where the issuer is required to seek shareholders' approval for capitalization of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation:

For the purpose of a bonus issue to be considered as 'implemented' the date of commencement of trading shall be considered.

(2) A bonus issue, once announced, shall not be withdrawn.

VII. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

  (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

  (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

  (iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.

  (iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

    (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

    (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

  (v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:— (A) in deposits with any scheduled bank, free from any charge or lien; (B) in unencumbered securities of the Central Government or any State Government; (C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures."

NOTE: Chapter 8 "Redemption of Debentures" of the Intermediate Paper 1: Accounting Study Material (Module II) has been revised and uploaded on the BoS Knowledge Portal of the Institute's website. It is advised to refer the updated chapter uploaded on the BoS Knowledge Portal of the Institute's website at the link: https://resource.cdn.icai.org/55831bos45229cp8.pdf.

B. Not applicable for May, 2020 examination

Non-Applicability of Ind ASs for May, 2020 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2020 Examination.

Exclusion of Accounting Standards and topics from the Curriculum of Accounting w.e.f. May, 2020 Examination

The following topics/ sub-topics/ Accounting Standards have been excluded from the Curriculum of Accounting w.e.f. May, 2020 Examination:

- Application of Accounting Standards: AS 4; AS 5; AS 17 and AS 22;
- Accounting for Tax: Concept of deferred tax asset and deferred tax liability in line with AS 22 under Company Accounts;
- Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

NOTE: July 2019 Edition of the Study Material on Paper 1 Accounting is applicable for May, 2020 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. On 31st March 2019, Gaurav Ltd. provides you the following particulars:

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	2,50,000	3,12,500	
Provision for Taxation			1,60,000
Trade receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375

Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade payables			2,50,000

The following additional information is also provided:

(i) 2,500 Equity shares were issued for consideration other than cash.

(ii) Debtors of ₹ 65,000 (included in trade receivables) are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 7,50,000, Plant & Machinery ₹ 8,75,000 and Furniture ₹ 78,125

(iv) The balance of ₹ 1,87,500 in the Loan Account with State Finance Corporation is inclusive of ₹ 9,375 for Interest accrued but not due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 2,500 with Global Bank Ltd., which is not a Scheduled Bank.

You are required to prepare the Balance sheet of Gaurav Ltd. as on 31st March, 2019 as per Schedule III to the Companies Act, 2013.

Managerial Remuneration

2. The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		₹			₹
To	Administrative, Selling and distribution expenses	41,12,710	By	Balance b/d	28,61,750
”	Directors fees	6,73,900	“	Balance from Trading A/c	201,26,825
”	Interest on debentures	1,56,200	“	Subsidies received from Govt.	13,69,625
”	Managerial remuneration	14,26,750			
”	Depreciation on fixed assets	26,12,715			
”	Provision for Taxation	62,12,500			
”	General Reserve	20,00,000			
”	Investment Revaluation Reserve	62,500			
”	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹ 28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

Cash Flow Statement

3. The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

   (i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:

      (a) Depreciation on Property, Plant & Equipment ₹ 5 lakhs.

      (b) Discount on issue of Debentures written off ₹ 30,000.

      (c) Interest on Debentures paid ₹ 3,50,000.

      (d) Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).

      (e) Interest received on investments ₹ 60,000.

      (f) Compensation received ₹ 90,000 by the company in a suit filed.

   (ii) Income tax paid during the year ₹ 10,50,000.

   (iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

   (iv) Dividend paid for the year 2017-2018 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2018-2019.

   (v) Land was purchased on 2.4.2018 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.

   (vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 31.3.2018	As on 31.3.2019
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Profit/Loss prior to Incorporation

4. The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2018. However, company could be incorporated only on 1st June, 2018. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2018 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2018 to December, 2018 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2019. The company recruited additional work force to expand the business. The salaries from July, 2018 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2018.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods.

Accounting for Bonus Issue

5. The following is the summarised Balance Sheet of Bumbum Limited as at 31st March, 2019:

	₹
Sources of funds	
Authorized capital	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	10,00,000
	15,00,000

Issued, subscribed and paid up	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8%Redeemable Preference shares of ₹ 100 each	5,00,000
Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
Trade payables	4,20,000
	25,10,000
Application of funds	
PPE (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000
	25,10,000

In Annual General Meeting held on 20th June, 2019 the company passed the following resolutions:

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 2019.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2019 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

The bonus issue was concluded by 12th September, 2019

You are required to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2019. All working notes should form part of your answer.

Right Issue

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

Redemption of Preference Shares

7. The capital structure of Chand Ltd. consists of 20,000 Equity Shares of ₹10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹100 each fully paid up (issued on 1.4.20X1).

   Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve is ₹ 10,000 out of which ₹ 5,000 is not free for distribution as dividend; Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilizing the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilized.

   Pass Journal Entries to give effect to the above arrangements and also show how the relevant items will appear in the Balance Sheet of the company after the redemption carried out.

Redemption of Debentures

8. The following balances appeared in the books of Lakshya Ltd. as on 1-4-20X1:

   (i) 10 % Debentures ₹ 37,50,000

   (ii) Balance of DRR ₹ 1,25,000

   (iii) DRR Investment 5,62,500 represented by 10% ₹ 5,625 Secured Bonds of the Government of India of ₹ 100 each.

   Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was ₹ 37,50,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

   Lakshya Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Lakshya Ltd. for the year ended 31st March, 20X2.

Investment Accounts

9. Meera carried out the following transactions in the shares of Kumar Ltd.:

   (1) On 1st April, 2019 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

   (2) On 15th May 2019, Meera sold 8,000 shares for ₹ 15,200.

   (3) At a meeting on 15th June 2019, the company decided:

      (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

(a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

(b) On 15th March 2020, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2019.

(c) On 30th March 2020, she received ₹ 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Insurance Claim for loss of stock or loss of profit

10. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	36,00,000
Standing charges in last financial year	7,20,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 50,000.

Hire Purchase Transactions

11. On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:

(a) The cash price of the van was ₹ 25,000.

(b) ₹ 10,000 were to be paid on signing of the contract.

(c) The balance was to be paid in annual instalments of ₹ 5,000 plus interest.

(d) Interest chargeable on the outstanding balance was 6% p.a.

(e) Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to show the Van account & Shorya Ltd. account in the books of Kasturi Ltd. from January 1, 20X1 to December 31, 20X3.

Departmental Accounts

12. (a) How will you allocate the following expenses among different departments:

(i) Rent, rates and taxes, repairs and maintenance, insurance of building;

(ii) Maintenance of capital assets

(iii) PF/ESI contributions

(iv) Carriage inward/ Discount received

(v) Lighting and Heating expenses

(b) There is transfer/sale among the three departments as below:

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 20% profit on cost.

Department Y sells goods to X and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Departments X and Y respectively.

Department Managers are entitled to 10% commission on net profit subject to urealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under:

	₹
Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

Stocks lying at different Departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
Transfer from Department X	-	75,000	57,000
Transfer from Department Y	70,000	-	60,000
Transfer from Department Z	30,000	25,000	-

Find out the correct departmental profits after charging Managers' commission.

Branch Accounting

13. On 31st March, 2019 Chennai Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	₹ in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2018	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

Additional Information:

Stock on 31st March, 2019 was valued at ₹ 62 lacs. On 29th March, 2019 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2019. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralized services for which the branch has not passed the entry.

You are required to :(i) pass Journal Entries in the books of the Branch to make the necessary adjustments and (ii) prepare Final Accounts of the Branch including Balance Sheet.

Accounts from Incomplete Records

14. The books of account of Mr. Maan of Mumbai showed the following figures:

	31.3.2018 ₹	31.3.2019 ₹
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	₹
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Mr. Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Framework for Preparation and Presentation of Financial Statements

15. A Ltd. has entered into a binding agreement with Gamma Ltd. to buy a custom-made machine ₹ 1,00,000. At the end of 20X1-X2, before delivery of the machine, A Ltd. had to

change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

You are required to advise the accounting treatment and give necessary journal entry in the year 20X1-X2.

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

16. (a) ABC Ltd. was making provision for non-moving inventories based on no issues for the last 12 months up to 31.3.2019.

The company wants to provide during the year ending 31.3.2020 based on technical evaluation:

Total value of inventory	₹ 100 lakhs
Provision required based on 12 months issue	₹ 3.5 lakhs
Provision required based on technical evaluation	₹ 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision?

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

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

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

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

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

AS 2 Valuation of Inventories

17. (a)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000

Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date.

AS 3 Cash Flow Statements

(b) Classify the following activities as (1) Operating Activities, (2) Investing Activities, (3) Financing Activities (4) Cash Equivalents.

a. Proceeds from long-term borrowings.

b. Proceeds from Trade receivables.

c. Trading Commission received.

d. Redemption of Preference Shares.

e. Proceeds from sale of investment

f. Interim Dividend paid on equity shares.

g. Interest received on debentures held as investment.

h. Dividend received on shares held as investments.

i. Rent received on property held as investment.

j. Dividend paid on Preference shares.

k. Marketable Securities

AS 10 Property, Plant and Equipment

18. (a) Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

(b) Entity A purchased an asset on 1st January 2016 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

(c) The following items are given to you:

ITEMS

(1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

(4) Costs of opening a new facility or business, such as, inauguration costs;

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE.

AS 11 The Effects of Changes in Foreign Exchange Rates

19\. (a) (i) AXE Limited purchased fixed assets costing \$ 5,00,000 on 1st Jan. 2018 from an American company M/s M&M Limited. The amount was payable after 6 months. The company entered into a forward contract on 1st January 2018 for five months @ ₹ 62.50 per dollar. The exchange rate per dollar was as follows :

On 1st January, 2018 ₹ 60.75 per dollar

On 31st March, 2018 ₹ 63.00 per dollar

You are required to state how the profit or loss on forward contract would be recognized in the books of AXE Limited for the year ending 2017-18, as per the provisions of AS 11.

(ii) Assets and liabilities and income and expenditure items in respect of integral foreign operations are translated into Indian rupees at the prevailing rate of exchange at the end of the year. The resultant exchange differences in the case of profit, is carried to other Liabilities Account and the Loss, if any, is charged to revenue. You are required to comment in line with AS 11 .

AS 12 Accounting for Government Grants

(b) How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

(i) ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(ii) ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.

(iii) ₹ 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

AS 13 Accounting for Investments

20. (a) Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.

(ii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

(iii) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

AS 16 Borrowing Costs

(b) Govind Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.04.2018, to be utilized as under:

Particulars	*Amount (₹ in lakhs)*
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2019, construction of the factory building was completed and machinery was installed and ready for its intended use. Total interest on debentures for the financial year ended 31.03.2019 was ₹ 12,00,000. During the year 2018-19, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 3,00,000.

You are required to show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

SUGGESTED ANSWERS/HINTS

1. **Gaurav Ltd.**

Balance Sheet as on 31st March, 2019

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,48,750
	b	Reserves and Surplus	2	3,70,875
2		**Non-current liabilities**		
		Long-term borrowings	3	3,29,375
3		**Current liabilities**		
	a	Trade Payables		2,50,000
	b	Other current liabilities	4	9,375
	c	Short-term provisions	5	1,60,000
		Total		**23,68,375**
		Assets		
1		**Non-current assets**		
		PPE	6	14,06,250
2		**Current assets**		
	a	Inventories	7	3,12,500
	b	Trade receivables	8	2,50,000
	c	Cash and cash equivalents	9	3,46,250
	d	Short-term loans and advances		53,375
		Total		**23,68,375**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	12,500 Equity Shares of ₹ 100 each		
	(of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (1,87,500 – 9,375) (Secured by hypothecation of Plant and Machinery)		1,78,125
	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		9,375
5	**Short-term provisions**		
	Provision for taxation		1,60,000
6	**PPE**		
	Land and Building	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant & Machinery	8,75,000	
	Less: Depreciation	(2,18,750)	6,56,250
	Furniture & Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials		62,500
	Finished goods		2,50,000

	Total		**3,12,500**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
	Total		**2,50,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	3,06,250	
	with others (Global Bank Ltd.)	2,500	3,08,750
	Cash in hand		37,500
	Total		**3,46,250**

2. **Calculation of net profit u/s 198 of the Companies Act, 2013**

	₹	₹
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		13,69,625
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	28,76,725	(78,19,535)
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 136,76,915= ₹ 15,04,461.

3. **X Ltd.**

Cash Flow Statement

for the year ended 31st March, 2019

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	

Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)
Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

Note: Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

4. **Shreya (P) Limited**

Profit and Loss Account

for 15 months ended 31st March, 2019

	Pre. inc. (5 months) (₹)	*Post inc. (10 months)* (₹)		*Pre. inc. (5 months)* (₹)	*Post inc. (10 months)* (₹)
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000	(W.N.1)		
	3,00,000	16,80,000		3,00,000	16,80,000
To Discount to dealers	7,000	39,200	By Gross profit	1,20,000	6,72,000
To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Working Notes:

1. **Calculation of sales ratio:**

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation)		=	x X 5 = 5x
Sales (Post incorporation) from June to December, 2018	= 2½ x X 7	=	17.5x
From January to March, 2019	= 3½ x X 3	=	10.5x
Total Sales			28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. **Calculation of ratio for salaries**

Let the average salary be x

Pre-incorporation salary = x X 5= 5x

Post incorporation salary

June, 2018 = x

July 18 to March, 2019 = x X 9 X 2 = 18x

19x

Ratio is 5 : 19

3. **Calculation of Rent**

		₹
Total rent		1,35,000
Less: Additional rent for 9 months @ ₹ 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. **Calculation of interest**

Pre-incorporation period from January, 2018 to May, 2018

$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right) =$ ₹ 30,000

Post incorporation period from June, 2018 to March, 2019

$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right) =$ ₹ 75,000

₹ 1,05,000

5. **Bumbum Limited**

Journal Entries

2019		*Dr. (₹)*	*Cr. (₹)*
July 1	Equity Share Capital A/c (₹ 10 each) Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)		3,00,000

	(Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each) {1,50,000 X 2}		
July 10	Cash & Bank balance A/c Dr.	5,55,000	
	To Investment A/c		4,90,000
	To Profit & Loss A/c		65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)		
July 10	8% Redeemable preference share capital A/c Dr.	5,00,000	
	Premium on redemption of preference share A/c Dr.	25,000	
	To Preference shareholders A/c		5,25,000
	(Being amount payable to preference share holders on redemption)		
July 10	Preference shareholders A/c Dr.	5,25,000	
	To Cash & bank A/c		5,25,000
	(Being amount paid to preference shareholders)		
July 10	General reserve A/c Dr.	5,00,000	
	To Capital redemption reserve A/c		5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)		
Sept. 12	Capital Redemption Reserve A/c Dr.	1,00,000	
	To Bonus to shareholders A/c		1,00,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)		
Sept. 12	Bonus to shareholders A/c Dr.	1,00,000	
	To Equity share capital A/c		1,00,000
	(Being 50,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)		
Sept. 30	Securities Premium A/c Dr.	25,000	
	To Premium on redemption of preference shares A/c		25,000
	(Being premium on preference shares adjusted from securities premium account)		

Balance Sheet as at 30th September, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	4,00,000
	b	Reserves and Surplus	2	12,30,000
2		**Current liabilities**		
	a	Trade Payables		4,20,000
		Total		**20,50,000**
		Assets		
1		**Non-current assets**		
	a	PPE		7,80,000
	b	Deferred tax asset		3,40,000
2		**Current assets**		
		Trade receivables		6,20,000
		Cash and cash equivalents		3,10,000
		Total		**20,50,000**

Notes to accounts

1	**Share Capital**	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 8% Preference shares of ₹100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,00,000 Equity shares of ₹ 2 each		4,00,000
2	**Reserves and Surplus**		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium on preference Shares	(25,000)	
	Balance		5,75,000
	Capital Redemption Reserve (5,00,000-1,00,000)		4,00,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000

	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	1,05,000
	Total		**12,30,000**

Working Notes:

		₹
1.	**Redemption of preference shares**	
	5,000 Preference shares of ₹ 100 each	5,00,000
	Premium on redemption @ 5%	25,000
	Amount Payable	5,25,000
2.	**Issue of Bonus Shares**	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	50,000 shares
3.	**Cash and Bank Balance**	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	5,55,000
		8,35,000
	Less: Paid to preference share holders	(5,25,000)
	Balance	3,10,000

6. Ex-right value of the shares =

(Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + Rights No. of shares) = (₹ 360 x 2 Shares + ₹ 180 x 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

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

= ₹ 360 – ₹ 300 = ₹ 60 per share.

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

7. **Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	25,000	
	To Equity Share Capital A/c			25,000
	(Being the issue of 2,500 Equity Shares of ₹ 10			

	each at par as per Board's Resolution No.....dated.......)			
	8% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
	(Being the amount paid on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	10,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)			
	General Reserve A/c	Dr.	60,000	
	Profit & Loss A/c	Dr.	10,000	
	Investment Allowance Reserve A/c	Dr.	5,000	
	To Capital Redemption Reserve A/c			75,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Balance Sheet as on ....[Extracts]

		Particulars	Notes No.	₹
		EQUITY AND LIABILITIES		
1.	**Shareholders' funds**			
	a	Share capital	1	2,25,000
	b	Reserves and Surplus	2	1,02,000
		Total		?
	ASSETS			
2.	**Current Assets**			
		Cash and cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
		Total		?

Notes to accounts

1. Share Capital

22,500 Equity shares (20,000 + 2,500) of ₹10 each fully paid up	2,25,000

2. Reserves and Surplus

General Reserve	20,000
Capital Redemption Reserve	75,000
Investment Allowance Reserve	5,000
	1,00,000

Working Note:

No of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	₹1,00,000	
Less: Profit available for distribution as dividend:		
General Reserve: ₹(80,000-20,000)	₹60,000	
Profit and Loss (20,000 – 10,000 set aside for adjusting premium payable on redemption of preference shares)	₹10,000	
Investment Allowance Reserve: (₹ 10,000-5,000)	₹ 5,000	(₹ 75,000)
		₹ 25,000

Therefore, No. of shares to be issued = 25,000/₹10 = 2,500 shares.

8. Debenture Redemption Reserve Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
31st March, 20X2	To General reserve A/c note 1 (Refer Note 1)	3,75,000	1st April, 20X1	By Balance b/d	1,25,000
			1st April, 20X1	By Profit and loss A/c (Refer Note 1)	2,50,000
		3,75,000			3,75,000

10% Secured Bonds of Govt. (DRR Investment) A/c

		₹			₹
1st April, 20X1	To Balance b/d	5,62,500	31st March, 20X2	By Bank A/c	5,62,500
		5,62,500			5,62,500

Bank Account

		₹			₹
31st March, 20X2	To Balance b/d	37,50,000	31st March, 20X2	By Debenture holders A/c (110% of 37,50,000)	41,25,000
	To Interest on DRR Investment (5,62,500X 10%)	56,250			
	To DRR Investment A/c	5,62,500		By Balance c/d	2,43,750
		43,68,750			43,68,750

Working note –

Calculation of DRR before redemption = 10% of ₹ 37,50,000 = 3,75,000

Available balance = ₹ 1,25,000

DRR required =3,75,000 – 1,25,000 = ₹ 2,50,000.

9. Investment Account (Shares in Kumar Limited) in the books of Meera

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2019			*₹*	*₹*	*2019*			*₹*	*₹*
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June15	To Bonus Issue	8,000	-	Nil	2020				
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

* $\left(\frac{24,000}{44,000}\times 54,000\right)$

Working Notes:

(1)	**Profit on Sale on 15-5-2019:**		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	**Cost of 20,000 shares sold:**		
	Cost of 44,000 shares (48,000 + 6,000)		₹ 54,000
	∴ Cost of 20,000 shares $\left(\frac{₹\,54,000}{44,000\text{ shares}} \times 20,000\text{ shares}\right)$		₹ 24,545
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)		₹ 3,455

10. (a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

= (3,60,000+7,20,000)/36,00,000= 30%

(b) Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	9,00,000
	45,00,000
Gross profit on increased turnover	13,50,000
Add: Additional standing charges	50,000
Policy Amount	14,00,000

Therefore, the trader should go in for a loss of profit policy of ₹ 14,00,000.

11. Ledger Accounts in the books of Kasturi

Van Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.1.20X1	To	Shorya Ltd.	25,000	31.12.20X1	By	Depreciation A/c	2,500
				31.12.20X1	By	Balance c/d	22,500
			25,000				25,000
1.1.20X2	To	Balance b/d	22,500	31.12.20X2	By	Depreciation A/c	2,500
				31.12.20X2	By	Balance c/d	20,000
			22,500				22,500

1.1.20X3	To	Balance b/d	20,000	31.12.20X3	By	Depreciation A/c	2,500
				31.12.20X3	By	Balance c/d	17,500
			20,000				20,000

Shorya Ltd. Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.1.20X1	To	Bank A/c	10,000	1.1.20X1	By	Van A/c	25,000
31.12.20X1	To	Bank A/c	5,900	31.12.20X1	By	Interest A/c	900
31.12.20X1	To	Balance c/d	10,000				
			25,900				25,900
31.12.20X2	To	Bank A/c	5,600	1.1.20X2	By	Balance b/d	10,000
31.12.20X2	To	Balance c/d	5,000	31.12.20X2	By	Interest A/c	600
			10,600				10,600
31.12.20X3	To	Bank A/c	5,300	1.1.20X3	By	Balance b/d	5,000
				31.12.20X3	By	Interest A/c	300
			5,300				5,300

12. **(a)** (i) Floor area occupied by each department (if given) otherwise on time basis;

(ii) Value of assets of each department otherwise on time basis;

(iii) Wages and salaries of each department;

(iv) Purchases of each department;

(v) Consumption of energy by each department.

(b) Calculation of Correct Profit

	Department X	*Department Y*	*Department Z*
	₹	₹	₹
Profit after charging managers' commission	1,80,000	1,35,000	90,000
Add back: Managers' commission (1/9)	20,000	15,000	10,000
	2,00,000	1,50,000	1,00,000
Less: Unrealized profit on stock (W.N.)	(24,500)	(22,500)	(10,000)
Profit before Manager's commission	1,75,500	1,27,500	90,000
Less: Commission for Department Manager @ 10%	(17,550)	(12,750)	(9,000)
Departmental Profits after manager's commission	1,57,950	1,14,750	81,000

Working Note:

Stock lying with

	Dept. X	*Dept. Y*	*Dept. Z*	*Total*
	₹	₹	₹	₹
Unrealized Profit of:				
Department X		1/5×75,000 = 15,000	20/120×57,000 = 9,500	24,500
Department Y	0.15×70,000 = 10,500		0.20×60,000 = 12,000	22,500
Department Z	20/120×30,000 = 5,000	25/125×25,000 = 5,000		10,000

13. (i) Books of Branch

Journal Entries

			(₹ *in lacs)*
		Dr.	*Cr.*
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2019)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) Trading and Profit & Loss Account of the Branch

for the year ended 31st March, 2019

		₹ *in lacs*		₹ *in lacs*
To Opening Stock		60	By Sales	360
To Goods received from			By Closing Stock	62
Head Office	288			
Less: Returns	(5)	283		
To Carriage Inwards		7		
To Gross Profit c/d		72		
		422		422
To Salaries		25	By Gross Profit b/d	72
To Depreciation on Furniture		2		
To Rent		10		
To Advertising		6		

To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to Head Office A/c	24		
	72		72

Balance Sheet as on 31st March, 2019

Liabilities	*₹ in lacs*		*Assets*	*₹ in lacs*	
Head Office	80		Furniture & Equipment	20	
Add: Goods in transit	10		*Less:* Depreciation	(2)	18
Head Office Expenses	1		Stock in hand		62
Net Profit	24	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			118

14. Trading & Profit and Loss Account In the books of Mr. Maan for the year ended 31st March, 2019

	Particulars	*Amount*		*Particulars*	*Amount*
		₹			₹
To	Opening stock	2,45,000	By	Sales:	
To	Purchases:			Cash	16,20,000
	Cash	6,15,000		Credit (W.N.3)	11,00,000
	Credit (W.N. 2)	15,00,000	By	Closing stock	3,20,000
To	Gross profit c/d	6,80,000			
		30,40,000			30,40,000
To	Salaries (W.N.5)	2,37,000	By	Gross profit b/d	6,80,000
To	Rent	1,32,000	By	Discount received	32,000
To	Sundry trade expenses	81,000			
To	Discount allowed	20,000			
To	Depreciation on furniture & fixtures	26,000			
To	Net profit	2,16,000			
		7,12,000			7,12,000

Balance Sheet
as at 31st March, 2019

Liabilities		*Amount*		*Amount*
		₹		₹
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. **Bills Payable Account**

	₹		₹
To Cash/Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. **Creditors Account**

	₹		₹
To Cash/Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal. fig.)	15,00,000
To Discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. **Calculation of credit sales**

	₹
Opening stock	2,45,000

Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales $\left[₹\ 20{,}40{,}000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. **Debtors Account**

	₹		₹
To Balance b/d	1,25,000	By Cash/Bank	10,58,000
To Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
		By Balance c/d (Bal. fig.)	1,47,000
	12,25,000		12,25,000

5. **Salaries**

	₹
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2019	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2018	19,000
	2,37,000

6. **Cash / Bank Account**

	₹		₹
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000

		By Rent	1,32,000
		By Sundry trade expenses	81,000
	________	By Balance c/d	2,01,000
	27,88,000		27,88,000

7. **Balance Sheet as at 31st March, 2018**

	₹		₹
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

15. A liability is recognised when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, A Ltd. should recognise a liability of ₹ 1,00,000 to Gamma Ltd..

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognised as an expense.

Journal entry

Loss on change in production method	Dr.	1,00,000	
To Gamma Ltd.			1,00,000
(Loss due to change in production method)			
Profit and loss A/c	Dr.	1,00,000	
To Loss on change in production method			1,00,000
(Loss transferred to profit and loss account)			

16. (a) (i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made. In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 3.5 lakhs to ₹ 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2019-20:

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 1 lakh."

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

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

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

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

17. (a) Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	₹ 32,550

(b) Operating Activities: b, c.

Investing Activities: e, g, h, i.

Financing Activities: a, d, f, j.

Cash Equivalent: k.

18. (a) The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.

(b) The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (1,00,000/10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 x 4)] = ₹ 60,000.

The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at ₹ 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognized even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

(c) (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as “Directly attributable cost of PPE”.

(2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under head (iii)as it will not be included in determining the carrying amount of an item of PPE.

(3) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management will be included in determination of Purchase Price of PPE

(4) Costs of opening a new facility or business, such as, inauguration costs will be classified under head (iii) as it will not be included in determining the carrying amount of an item of PPE.

(5) Purchase price, including import duties and non–refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of Purchase Price of PPE.

19. (a) (i) As per AS 11 “The Effects of Changes in Foreign Exchange Rates”, an enterprise may enter into a forward exchange contract to establish the amount of the reporting currency required, the premium or discount arising at the inception of such a forward exchange contract should be amortized as expenses or income over the life of the contract.

Forward Rate	₹ 62.50
Less: Spot Rate	(₹ 60.75)
Premium on Contract	₹ 1.75

Contract Amount US$ 5,00,000

Total Loss (5,00,000 x 1.75) ₹ 8,75,000

Contract period 5 months

3 months falling in the year 2017-18; therefore loss to be recognized in 2017-18 (8,75,000/5) x 3 = ₹ 5,25,000. Rest ₹ 3,50,000 will be recognized in the following year 2018-19.

(ii) Financial statements of an integral foreign operation (for example, dependent foreign branches) should be translated using the principles and procedures described in paragraphs 8 to 16 of AS 11 (Revised 2003). The individual items in the financial statements of a foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of transaction. The foreign currency monetary items (for example cash, receivables, payables) should be reported using the closing rate at each balance sheet date. Non-monetary items (for example, fixed assets, inventories, investments in equity shares) which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange date at the date of transaction. Thus the cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If the fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate. Exchange difference arising on the translation of the financial statements of integral foreign operation should be charged to profit and loss account.

Thus, the treatment by the management of translating all assets and liabilities; income and expenditure items in respect of foreign branches at the prevailing rate at the year end and also the treatment of resultant exchange difference is not in consonance with AS 11 (Revised 2003).

(b) (i) ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(iii) ₹ 10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Thus, ₹ 10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

20. (a) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

(iii) In this case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

(b) According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 12,00,000 – ₹ 3,00,000

= ₹ 9,00,000

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
i	Construction of factory building	Qualifying Asset	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

PAPER – 2: CORPORATE AND OTHER LAWS

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR MAY, 2020 EXAMINATIONS

Applicability for May, 2020 examinations

The Study Material (July 2019 edition) is applicable for May, 2020 examinations. This study material is updated for all amendments till 30th April, 2019. Further, all relevant amendments/ circulars/ notifications etc. in the Company law part and the Other Laws portion, for the period 1st May 2019 to 31st October, 2019 are mentioned below:

PART I- COMPANY LAW

THE COMPANIES ACT, 2013

I. Chapter 2: Incorporation of Company and Matters Incidental thereto

Amendments related to - Notification G.S.R. 357(E) dated 10th May, 2019

The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fifth Amendment Rules, 2019.

In the Companies (Incorporation) Rules, 2014, Rule 8 has been fully substituted by Rule 8, Rule 8A and Rule 8B.

[Note: On page 2.19 of the Study Material, under the heading of **Undesirable names**, 'the words and combinations thereof which shall not be used in the name of a company depicting the same meaning unless the previous approval of the Central Government has been obtained for the use of any such word or expression', were earlier covered under Rule 8. As per the amendment now they are dealt in with Rule 8B.]

II. Chapter 3: Prospectus and Allotment of Securities

Amendments related to - COMPANIES (AMENDMENT) ACT, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

1. In **section 26-**

(i) in sub-sections (4), (5) and (6), for the word "registration", the word "filing" shall be substituted;

(ii) sub-section (7) shall be omitted

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 3.7 and 3.8 of SM]

2. In **section 29-**

(i) in sub-section (1), in clause (b), the word "public" shall be omitted;

(ii) after sub-section (1), the following sub-section shall be inserted, namely:-

"(1A) In case of such class or classes of unlisted companies as may be prescribed, the securities shall be held or transferred only in dematerialised form in the manner laid down in the Depositories Act, 1996 and the regulations made thereunder.".

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 3.9 of SM]

3. In **section 35**, in sub-section (2), in clause (c), for the words "delivery of a copy of the prospectus for registration", the words "filing of a copy of the prospectus with the Registrar" shall be substituted.

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 3.23 of SM]

III. Chapter 4: Share Capital and Debentures

Amendments related to - Notification G.S.R. 574(E) dated 16th August, 2019

The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Amendment Rules, 2019.

In the Companies (Share Capital and Debentures) Rules, 2014:

In **Rule 4**, in sub-rule (1),

(i) for clause (c), the following clause shall be substituted, namely:-

"(c) the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent. of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;";

(ii) clause (d) shall be omitted.

[Enforcement Date: 16th August, 2019]

[Amendment to be incorporated on Pg 4.5 of SM]

IV. Chapter 7: Management and Administration

Amendments related to - COMPANIES (AMENDMENT) ACT, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

In **section 90,**

(i) after sub-section (4), the following sub-section shall be inserted, namely:-

"(4A) Every company shall take necessary steps to identify an individual who is a significant beneficial owner in relation to the company and require him to comply with the provisions of this section.";

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 7.13 of SM]

(ii) after sub-section (9), as so substituted, the following sub-section shall be inserted, namely:-

"(9A) The Central Government may make rules for the purposes of this section.";

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 7.14 of SM]

(iii) in sub-section (11), after the word, brackets and figure "sub-section (4)", the words, brackets, figure and letter "or required to take necessary steps under sub-section (4A)" shall be inserted.

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 7.14 of SM]

V. Chapter 9: Accounts of Companies

(A) Amendments related to - Notification G.S.R. 390(E) dated 30th May, 2019

The Central Government has amended the Schedule VII of the Companies Act, 2013.

In the said Schedule VII, after item (xi) and the entries relating thereto, the following item and entries shall be inserted, namely:

"(xii) disaster management, including relief, rehabilitation and reconstruction activities."

[Enforcement Date: 30th May, 2019]

[Amendment to be incorporated on Pg 9.38 of SM]

(B) Amendments related to - Notification G.S.R. 776(E) dated 11th October, 2019

The Central Government has amended the Schedule VII of the Companies Act, 2013.

In the said Schedule VII, for item (ix) and the entries relating thereto, the following item and entries shall be substituted, namely:

"(ix) Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities, Indian Institute of Technology (IITs), National Laboratories and Autonomous Bodies (established under the auspices of Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Council of Scientific and Industrial Research (CSIR), Department of Atomic Energy (DAE), Defence Research and Development Organisation (DRDO), Department of Science and Technology (DST), Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)."

[Enforcement Date: 11th October, 2019]

[Amendment to be incorporated on Pg 9.38 of SM]

(C) Amendments related to - COMPANIES (AMENDMENT) ACT, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

In **section 132—**

(i) after sub-section (1), the following sub-section shall be inserted, namely:—

"(1A) The National Financial Reporting Authority shall perform its functions through such divisions as may be prescribed.";

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 9.16 of SM]

(ii) after sub-section (3), the following sub-sections shall be inserted, namely:—

"(3A) Each division of the National Financial Reporting Authority shall be presided over by the Chairperson or a full-time Member authorised by the Chairperson.

(3B) There shall be an executive body of the National Financial Reporting Authority consisting of the Chairperson and full-time Members of such Authority for efficient discharge of its functions under sub-section (2) [other than clause (a)] and sub-section (4).";

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 9.17 of SM]

(iii) in sub-section (4), in clause (c), for sub-clause (B), the following sub-clause shall be substituted, namely:—

"(B) debarring the member or the firm from—

I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or

II. performing any valuation as provided under section 247,

for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.".

[Enforcement Date: 15th August, 2019]

[Amendment to be incorporated on Pg 9.18 of SM]

(D) <u>Amendments related to -</u> <u>Notification G.S.R. 636(E) 5th September, 2019</u>

The Central Government has amended the National Financial Reporting Authority Rules, 2018, by the National Financial Reporting Authority (Amendment) Rules, 2019.

In the National Financial Reporting Authority Rules, 2018, after clause (c) of sub-rule (1) of **rule 3**, the following explanation shall be inserted, namely:-

"Explanation.- For the purpose of this clause, "banking company" includes 'corresponding new bank' as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) and clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980) and 'subsidiary bank' as defined in clause (k) of section 2 of the State Bank of India (Subsidiary Bank) Act, 1959 (38 of 1959).".

[Enforcement Date: 5th September, 2019]

[Amendment to be incorporated on Pg 9.19 of SM]

PART II- OTHER LAWS

THE INDIAN CONTRACT ACT, 1872

Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.

As per the Jammu and Kashmir Reorganisation Act, 2019, in the Indian Contract Act, 1872, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted.

Now, Section 1 will be read as under,

'**Short title**- This Act may be called the Indian Contract Act, 1872.

Extent, Commencement- It extends to the whole of India and it shall come into force on the first day of September, 1872.

Saving- Nothing herein contained shall affect the provisions of any Statute, Act or Regulation not hereby expressly repealed, nor any usage or custom of trade, nor any incident of any contract, not inconsistent with the provisions of this Act.'

THE GENERAL CLAUSES ACT, 1897

Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.

As per the Jammu and Kashmir Reorganisation Act, 2019, the General Clauses Act, 1897 has been extended as a whole.

 # Here, SM means Study Material (i.e. Page number of the Study material in reference to relevant provisions)

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

DIVISION A – CASE SCENARIO / MULTIPLE CHOICE QUESTIONS

1 A private company by the name of Neha Pvt. Limited was incorporated in the year 2002. The registered office of the company Neha Pvt. Limited was situated in city K of state Y.

During the financial year beginning on 01/04/2018 and ending on 31/03/2019 the turnover of the company Neha Pvt. Limited was ₹ 1010 crore. The net profit of the company Neha Pvt. Limited for the financial year 2018-19 was ₹ 4 crore.

The Board of Directors of Neha Pvt. Limited consisted of only two directors namely Mr. M and Mr. N. Mr. M and Mr. N were the only directors of company Neha Pvt. Limited since its incorporation in the year 2002.

Mr. M one of the two directors of Neha Pvt. Limited was of the opinion that no Corporate Social Responsibility Committee of the Board was required to be formed as for the financial year 2019 – 20 due to the reason that net profit of the company Neha Pvt. Limited for financial year 2018-19 was ₹ 4 crore which was less than ₹ 5 crore.

Mr. N the other director of Neha Pvt. Limited was not having the same opinion as Mr. M. He was of the opinion that Corporate Social Responsibility Committee of the Board must be formed for the company Neha Pvt. Limited.

The net profit of the company Neha Pvt. Limited for the financial year 2015-16, 2016-17 and 2017-18 were ₹ 1 crore, ₹ 2 crore and ₹ 3 crore respectively.

Keeping the basic provisions of Companies Act in mind answer the following multiple choice questions:

(A) Mr. M one of the director of Neha Pvt. Limited was of the opinion that no Corporate Social Responsibility Committee of Board was required to be formed for financial year 2019-20 but Mr. N other director was of opinion that it was required to be formed.

According to your understanding which one of the two director is right and why:

(a) Mr. M because net profit of Neha Pvt. Limited for financial year 2018-19 was less than ₹ 5 crore.

(b) Mr. N because turnover of Neha Pvt. Limited for financial year 2018-19 was more than ₹ 1,000 crore.

(c) Mr. N because net profit of Neha Pvt. Limited for financial year 2018-19 was more than ₹ 2 crore.

(d) Mr. M because turnover of Neha Pvt. Limited for financial year 2019-19 was less than ₹ 1,500 crore.

(B) The company Neha Pvt. Limited must give preference to spend the amount of contribution towards Corporate Social Responsibility in area of:

(a) City O of State Y

(b) City A of State Z

(c) City G of State Z

(d) City K of State Y

(C) According to law Corporate Social Responsibility Committee shall consist of three or more directors, so for company Neha Pvt. Limited the Corporate Social Responsibility Committee will:

(a) Not be formed as it has only two directors namely Mr. M and Mr. N

(b) Be formed only after appointing one more director apart from Mr. M and Mr. N

(c) Be formed with two directors only namely Mr. M and Mr. N

(d) Be formed only after appointing two more directors apart from Mr. M and Mr. N

(D) The company Neha Pvt. Limited shall spend during financial year 2018-19 on Corporate Social Responsibility an amount of atleast:

(a) ₹ 0.04 crore

(b) ₹ 0.12 crore

(c) ₹ 0.18 crore

(d) ₹ 0.06 crore

2. GHWX Private Limited was incorporated in the year 2009. The registered office of the company GHWX Private Limited was situated in city T of state V. The Board of Directors of GHWX Private Limited comprised of five directors namely Mr. K, Mr. N, Mr. R, Mr. U and Mr. W.

During the financial year beginning on 01/04/2018 and ending on 31/03/2019 the second meeting of Board of Directors of GHWX Private Limited was held on 7 September, 2018. Out of 5 directors, Mr. K, Mr. N, Mr. R and Mr. W were present for the said meeting. During the meeting of Board of Directors a resolution on one of the important matters was passed. While three directors namely Mr. K, Mr. N and Mr. R agreed with the resolution and voted in favour of resolution, however, Mr. W did not agree with the resolution and voted against the resolution.

The minutes of the second meeting of Board of Directors of GHWX Private Limited held on 7 September, 2018 were prepared and they were entered in Minutes Book of meeting of Board of Directors of GHWX Private Limited. One of the director Mr. K was of the opinion that minutes of second meeting of Board of Directors of GHWX Private Limited must be prepared and entered in Minute Book of meeting of Board of Directors of GHWX Private Limited by end of October, 2018. The remaining four directors namely Mr. N, Mr. R, Mr. U and Mr. W did not agree with the opinion of Mr. K because they thought that it was not within the time limit as prescribed by the law.

One of the directors, Mr. N. opined that minute books of meetings of Board of Directors of GHWX private limited for the years starting with 2009 to 2015 should be shredded to ruins as these papers were taking a lot of space. He further added that since the Companies Act, 2013 is silent as to maintaining the minute book of meetings of Board of Directors, it is not necessary to maintain such minute books.

The Board of Directors of GHWX Private Limited did not decide any place where minute book of meetings of Board of Directors of GHWX Private Limited will be kept.

Keeping the provisions of minutes and minutes book in mind answer the following multiple choice questions:

(A) The second meeting of Board of Directors of GHWX Private Limited was held on 7 September, 2018 for the financial year 2018-19. The minutes of second meeting of Board of Directors of GHWX Private Limited for financial year 2018-19 must contain:

(a) Name of director Mr. U who was absent from the meeting of Board of Directors held on 7 September, 2018.

(b) Names of all the directors Mr. K, Mr. N, Mr. R, Mr. U and Mr. W comprising Board of Directors of GHWX Private Limited.

(c) Name of one director Mr. U who was absent and one director Mr. K who was present in the meeting of Board of Directors held on 7 September, 2018.

(d) Names of directors Mr. K, Mr. N, Mr. R and Mr. W who were present in the meeting of Board of Directors held on 7 September, 2018.

(B) The minutes of second meeting of Board of Directors of GHWX Private Limited for financial year 2018-19 held on 7 September, 2018 must contain:

(a) Name of four directors Mr. K, Mr. N, Mr. R and Mr. W who were present in meeting and voted in the resolution.

(b) Name of director Mr. W who voted against the resolution.

(c) Name of directors Mr. K, Mr. N and Mr. R who voted in favour of the resolution.

(d) Names of all the directors Mr. K, Mr. N, Mr. R, Mr. U and Mr. W who all had the right to attend the meeting and vote in the resolution.

(C) The opinion of one of the director Mr. K was that minutes of second meeting of Board of Directors of GHWX Private Limited for financial year 2018-19 must be prepared and entered in minutes book of meeting of Board of Directors of GHWX Private Limited by the end of October, 2018 is incorrect. The opinion of Mr. K is incorrect because:

(a) Minutes of second meeting of Board of Directors of GHWX Private Limited for financial year 2018-19 must be entered in minute book of meeting of Board of Directors within thirty days of the conclusion of meeting on 7 September, 2018.

(b) Minutes of second meeting of Board of Directors of GHWX Private Limited for the financial year 2018-19 must be entered in minute book of meeting of Board of Directors within sixty days of the conclusion of meeting on 7 September, 2018.

(c) Minutes of second meeting of Board of Directors of GHWX Private Limited for the financial year 2018-19 must be entered in minute book of meeting of Board of Directors within ninety days of the conclusion of meeting on 7 September, 2018.

(d) Minutes of second meeting of Board of Directors of GHWX Private Limited for financial year 2018-19 must be entered in minute book of meeting of Board of Directors within one twenty days of the conclusion of meeting on 7 September, 2018.

3. G Ltd. (a company having CSR Committee as per the provision of Section 13 of the Companies Act, 2013) decides to spend and utilize half of the amount of Corporate Social Responsibility on the activities for the benefit of all the employees of G Limited and the remaining half of the amount of Corporate Social Responsibility on the activities for the benefit of family members of employees of G Limited As per the provision of Companies Act, 2013 this would mean that:-

(a) Total Amount spent on Corporate Social Responsibility Activities by G Limited for that financial year

(b) No amount spent on Corporate Social Responsibility Activities by G Limited for that financial year

(c) Half amount spent on Corporate Social Responsibility Activities by G Limited for that financial year

(d) Half amount spent on Corporate Social Responsibility Activities and remaining half amount spent on Other Activities by G Limited for that financial year

4. The minute book of General meetings of Alpha Limited will be kept at:

(a) That place where members of Alpha Limited will decide.

(b) That place where all employees of Alpha Limited will decide.

(c) Registered office of the company Alpha Limited.

(d) That place where senior officials of Alpha Limited will decide.

5 R purchases some goods on credit from S, payable within 3 months. After 2 months, R makes out a blank cheque in favour of S, signs and delivers it to S with a request to fill up the amount due, as R does not know the exact amount payable by him. S fills up fraudulently the amount larger than the amount payable by R and endorses the cheque to C in full payment of S's own due. R's cheque is dishonoured. Referring to the provisions of the Negotiable Instruments Act, 1881, C:

(a) Can claim the full amount from R

(b) Can claim the full from S

(c) Cannot claim the amount either from R or S

(d) Can claim from S only the exact amount due from R

DIVISION B - DETAILED QUESTIONS

COMPANY LAW

The Companies Act, 2013

1. MNP Ltd. has a paid up share capital of ₹ 10 crore and free reserves of ₹ 50 crore, as on 31st March, 2019. The company made a loss of ₹ 40 lakh after providing for depreciation for the year ended 31st March, 2019 and as a result, the company was not in a position to declare any dividend for the said year out of profits. However, the Board of directors of the company announced the declaration of dividend of 20% on the equity shares payable out of free reserves. The average dividend declared by the company in the last three years is 25%. Referring to the provisions of the Companies Act, 2013, examine the validity of declaration of dividend.

2. New Limited appointed an individual firm, Naresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30 September 2019. Mrs. Reena, wife of Mr. Naresh, invested in the equity shares face value of ₹ 1 lakh of New Limited on 15 October 2019. But Naresh & Company continues to function as statutory auditors of the company. Advice, Naresh & Company on the continuation of such appointment, as per provisions of the Companies Act, 2013.

3. The Board of Directors of Vishwakarma Electronics Limited consists of Mr. Ghanshyam (Director), Mr. Hyder (Director) and Mr. Indersen (Managing Director). The company has also employed a full time Secretary.

   The Profit and Loss Account and Balance Sheet of the company were signed by Mr. Ghanshyam and Mr. Hyder. Examine whether the authentication of financial statements of the company was in accordance with the provisions of the Companies Act, 2013?

4. EFG Ltd. was incorporated on 1.4.2017. No General Meeting of the company has been held till 30.4.2019. Discuss the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting.

5. Green Ltd. was dealing in export of rubber to specified foreign countries. The company was willing to purchase rubber trees in A.P. State. The prospectus issued by the company contained some important extracts of the expert report and number of trees in A.P. State. The report was found untrue. Mr. Andrew purchased the shares of Green Ltd. on the basis of the expert's report published in the prospectus. Will Mr. Andrew have any remedy against the company? State also the circumstances where an expert is not liable under the Companies Act, 2013.

6. The Articles of Association of Ajad Ltd. require the personal presence of 7 members to constitute quorum of General Meetings. The company has 965 members as on the date of

meeting. The following persons were present in the extra-ordinary meeting to consider the appointment of Managing Director:

(i) A, the representative of Governor of Uttar Pradesh.

(ii) B and C, shareholders of preference shares,

(iii) D, representing Y Ltd. and Z Ltd.

(iv) E, F, G and H as proxies of shareholders.

Can it be said that the quorum was present in the meeting?

7. K Limited, a subsidiary of Old Limited, decides to give a loan of ₹ 4,00,000 to the Human Resource Manager, who is not a Key Managerial Personnel of K Limited, drawing salary of ₹ 30,000 per month, to buy 500 partly paid-up equity Shares of ₹ 1000 each in K Limited. Examine the validity of company's decision under the provisions of the Companies Act, 2013.

8. Yadav Dairy Products Private limited has registered its articles along with memorandum at the time of registration of company in December, 2014. Now directors of the company are of the view that provisions of articles regarding forfeiture of shares should not be changed except by a resolution of 90% majority. While as per section 14 of the Companies Act, 2013 articles may be changed by passing a special resolution only. Hence, one of the directors is of the view that they cannot make a provision against the Companies Act, 2013. You are required to advise the company on this matter.

OTHER LAWS

The Indian Contract Act, 1872

9. Pankaj appoints Shruti as his agent to sell his estate. Shruti, on looking over the estate before selling it, finds the existence of a good quality Granite-Mine on the estate, which is unknown to Pankaj. Shruti buys the estate herself after informing Pankaj that she (Shruti) wishes to buy the estate for herself but conceals the existence of Granite-Mine. Pankaj allows Shruti to buy the estate, in ignorance of the existence of Mine. State giving reasons in brief the rights of Pankaj, the principal, against Shruti, the agent. Give your answer as per the provisions of the Contract Act, 1872.

   What would be your answer if Shruti had informed Pankaj about the existence of Mine before she purchased the estate, but after two months, she sold the estate at a profit of ₹ 10 lac?

The Negotiable Instruments Act, 1881

10. Discuss with reasons, whether the following persons can be called as a 'holder' under the Negotiable Instruments Act, 1881:

    (i) X who obtains a cheque drawn by Y by way of gift.

(ii) A, the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque.

(iii) M, who finds a cheque payable to bearer, on the road and retains it.

(iv) B, the agent of C, is entrusted with an instrument without endorsement by C, who is the payee.

(v) B, who steals a blank cheque of A and forges A's signature.

The General Clauses Act, 1897

11. Mr. Vyas is the owner of House No. 20 in Geeta Colony, Delhi. He has rented two rooms in this house to Mr. Iyer. The Income Tax Authority has served a show cause notice to Mr. Vyas. The said notice was received by Mr. Iyer and returned the notice with an endorsement of refusal. Decide with reference to provisions of "General Clauses Act, 1897", whether the notice was rightfully served on Mr. Vyas.

Interpretation of Statutes

12. Explain the function of 'proviso' as an internal aid to construction.

SUGGESTED ANSWERS/HINTS

DIVISION A - ANSWER TO CASE SCENARIO / MULTIPULE CHOICE QUESTIONS

1. (A) **(b)**

(B) **(d)**

(C) **(c)**

(D) **(a)**

2. (A) **(d)**

(B) **(b)**

(C) **(a)**

3. **(b)**

4. **(c)**

5. **(b)**

DIVISION B - ANSWER TO DETAILES QUESTIONS

1. As per Second Proviso to Section 123 (1), in the event of inadequacy or absence of profits in any financial year, a company may declare dividend out of the accumulated profits of previous years which have been transferred to the free reserves. However, such declaration shall be subject to the following conditions as per Rule 3 of Companies (Declaration and Payment of Dividend) Rules, 2014.

(i) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.

As per facts of the question the present rate of dividend is 20% and average dividend declared in the last three years is 25%. So, this condition is fulfilled.

(ii) The total amount to be drawn from free reserves shall not exceed one-tenth i.e., 10% of its paid-up share capital and free reserves as per the latest audited financial statement.

Amount of dividend proposed: ₹ 2 Crores (20% of ₹ 10 Crore i.e on paid up capital)

10% of paid up share capital and free reserves: 10% of (10 crore + 50 crore) = ₹ 6 Crore.

This condition is fulfilled as amount of dividend is not exceeding 10% of its paid-up share capital and free reserves.

(iii) The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared and only thereafter, any dividend in respect of equity shares shall be declared.

(iv) After such withdrawal from free reserves, the residual reserves shall not fall below 15% of its paid-up share capital as per the latest audited financial statement.

Balance of reserves after payment of dividend: ₹ 48 crore (50 crore – 2 crore)

15% of paid up share capital: 1.5 crore (15% of 10 crore)

This condition is fulfilled.

Taking into account all the conditions, it can be said that declaration of dividend by MNP Limited is valid.

2. **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 or 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. Reena, his wife held equity shares of New Limited of face value ₹ 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 15 October 2019 i.e. after the investment made by his wife in the equity shares of New Limited.

3. According to section 134(1) of the Companies Act, 2013, the financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

In the instant case, the Balance Sheet and Profit and Loss Account have been signed by Mr. Ghanshyam and Mr. Hyder, the directors. In view of Section 134(1) of the Companies Act, 2013, Mr. Indersen, the Managing Director should be one of the two signing directors. Since, the company has also employed a full- time Secretary, he should also sign the Balance Sheet and Profit and Loss Account.

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

The first financial year of EFG Ltd is for the period 1st April 2017 to 31st March 2018, the first annual general meeting (AGM) of the company should be held on or before 31st December, 2018.

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

Thus, the first AGM of EFG Ltd. should have been held on or before 31st December, 2018. Further, the Registrar does not have the power to grant extension to time limit for the first AGM.

5. Under section 35 (1) of the Companies Act 2013, where a person has subscribed for securities of a company acting on any statement included in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof, the company and every person including an expert shall, be liable to pay compensation to the person who has sustained such loss or damage.

In the present case, Mr. Andrew purchased the shares of Green Ltd. on the basis of the expert report published in the prospectus. Mr. Andrew can claim compensation for any loss or damage that he might have sustained from the purchase of shares, which has not been mentioned in the given case.

Hence, Mr. Andrew will have no remedy against the company.

Circumstances when an expert is not liable: An expert will not be liable for any mis-statements in the prospectus under the following situations:

(i) Under section 26 (5), that having given his consent, but withdrew it in writing before delivery of the copy of prospectus for registration, or

(ii) Under section 35 (2), that the prospectus was issued without his knowledge / consent and that on becoming aware of it, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent;

(iii) An expert will not be liable in respect of any statement not made by him in the capacity of an expert and included in the prospectus as such;

(iv) that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by section 26(5) to the issue of the prospectus and had not withdrawn that consent before filing of a copy of the prospectus with the Registrar or, to the defendant's knowledge, before allotment thereunder.

6. According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number in case of a public company, five members personally present if the number of members as on the date of meeting is not more than one thousand, shall be the quorum.

In this case the quorum for holding a general meeting is 7 members to be personally present (higher of 5 or 7). For the purpose of quorum, only those members are counted who are entitled to vote on resolution proposed to be passed in the meeting.

Again, only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum.

If a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum Where two or more companies which are members of another company, appoint a single person as their representative then each such company will be counted as quorum at a meeting of the latter company.

Further the President of India or Governor of a State, if he is a member of a company, may appoint such a person as he thinks fit, to act as his representative at any meeting of the company. A person so appointed shall be deemed to be a member of such a company and thus considered as member personally present.

In view of the above there are only three members personally present.

'A' will be included for the purpose of quorum. B & C have to be excluded for the purpose of quorum because they represent the preference shares and since the agenda being the appointment of Managing Director, their rights cannot be said to be directly affected and therefore, they shall not have voting rights. D will have two votes for the purpose of quorum as he represents two companies 'Y Ltd.' and 'Z Ltd.' E, F, G and H are not to be included as they are not members but representing as proxies for the members.

Thus, it can be said that the requirements of quorum has not been met and it shall not constitute a valid quorum for the meeting.

7. **Restrictions on purchase by company or giving of loans by it for purchase of its share:** As per section 67 (3) of the Companies Act, 2013 a company is allowed to give a loan to its employees subject to the following limitations:

   (a) The employee must not be a Key Managerial Personnel;

   (b) The amount of such loan shall not exceed an amount equal to six months' salary of the employee.

   (c) The shares to be subscribed must be fully paid shares

   In the given instance, Human Resource Manager is not a Key Managerial Personnel of the K Ltd. He is drawing salary of ₹ 30,000 per month and loan taken to buy 500 partly paid up equity shares of ₹ 1000 each in K Ltd.

   Keeping the above provisions of law in mind, the company's (K Ltd.) decision is invalid due to two reasons:

   i. The amount of loan being more than 6 months' salary of the HR Manager, which should have restricted the loan to ₹ 1.8 Lakh.

   ii. The shares subscribed are partly paid shares whereas the benefit is available only for subscribing fully paid shares.

8. As per section 5 of the Companies Act, 2013 the article may contain provisions for entrenchment to the effect that specified provisions of the articles may be altered only if more restrictive conditions than a special resolution, are met.

   The provisions for entrenchment shall only be made either on formation of a company, or by an amendment in the articles agreed to by all the members of the company in the case of a private company and by a special resolution in the case of a public company.

   Where the articles contain provisions for entrenchment, whether made on formation or by amendment, the company shall give notice to the Registrar of such provisions in prescribed manner.

   In the present case, Yadav Dairy Products Private Limited is a private company and wants to protect provisions of articles regarding forfeiture of shares. It means it wants to make entrenchment of articles, which is allowed. But the company will have to pass a resolution taking permission of all the members and it should also give notice to Register of Companies regarding entrenchment of articles.

9. **Agent's duty to disclose all material circumstances & his duty not to deal on his own account without principal's consent.** The problem is based on Sections 215 & 216 of the Indian Contract Act, 1872. According to Section 215, if an agent deals on his own account in the business of the agency, without obtaining the consent of his principal and without acquainting him with all material circumstances, then the principal may repudiate the transaction. On the other hand, section 216 provides that, if an agent, without the knowledge of his principal, acts on his own account in the business of the agency, then

the principal may claim any benefit which may have accrued to the agent from such a transaction. Hence in the first instance, though Pankaj had given his consent to Shruti permitting the latter to act on his own account in the business of agency, Pankaj may still repudiate the sale as the existence of the mine, a material circumstance, had not been disclosed to him.

In the second instance, Pankaj had knowledge that Shruti was acting on her own account and also that the mine was in existence; hence, Pankaj cannot repudiate the transaction under section 215. Also, under Section 216, he cannot claim any benefit from Shruti as he had knowledge that Shruti was acting on her own account in the business of the agency.

10. **Person to be called as a holder**: As per section 8 of the Negotiable Instruments Act, 1881 'holder' of a Negotiable Instrument means any person entitled in his own name to the possession of it and to receive or recover the amount due thereon from the parties thereto.

On applying the above provision in the given cases—

(i) Yes, X can be termed as a holder because he has a right to possession and to receive the amount due in his own name.

(ii) No, he is not a 'holder' because to be called as a 'holder' he must be entitled not only to the possession of the instrument but also to receive the amount mentioned therein.

(iii) No, M is not a holder of the Instrument though he is in possession of the cheque, so is not entitled to the possession of it in his own name.

(iv) No, B is not a holder. While the agent may receive payment of the amount mentioned in the cheque, yet he cannot be called the holder thereof because he has no right to sue on the instrument in his own name.

(v) No, B is not a holder because he is in wrongful possession of the instrument.

11. According to 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.

The facts of the question are similar to a decided case law, wherein it was held that where a notice is sent to the landlord by registered post and the same is returned by the tenant with an endorsement of refusal, it will be presumed that the notice has been served. Thus, in the given question it can be deemed that the notice was rightfully served on Mr. Vyas.

12. **Proviso:** The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment. Ordinarily a proviso is not interpreted as stating a general rule.

    It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. *(Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax, AIR 1955 SC 765)*.

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

QUESTIONS

Material Cost

1. Arnav Electronics manufactures electronic home appliances. It follows weighted average Cost method for inventory valuation. Following are the data of component X:

Date	Particulars	Units	Rate per unit (₹)
15-12-19	Purchase Order- 008	10,000	9,930
30-12-19	Purchase Order- 009	10,000	9,780
01-01-20	Opening stock	3,500	9,810
05-01-20	GRN*-008 (against the Purchase Order- 008)	10,000	-
05-01-20	MRN**-003 (against the Purchase Order- 008)	500	-
06-01-20	Material Requisition-011	3,000	-
07-01-20	Purchase Order- 010	10,000	9,750
10-01-20	Material Requisition-012	4,500	-
12-01-20	GRN-009 (against the Purchase Order- 009)	10,000	-
12-01-20	MRN-004 (against the Purchase Order- 009)	400	-
15-01-20	Material Requisition-013	2,200	-
24-01-20	Material Requisition-014	1,500	-
25-01-20	GRN-010 (against the Purchase Order- 010)	10,000	-
28-01-20	Material Requisition-015	4,000	-
31-01-20	Material Requisition-016	3,200	-

*GRN- Goods Received Note; **MRN- Material Returned Note

Based on the above data, you are required to CALCULATE:

(i) Re-order level

(ii) Maximum stock level

(iii) Minimum stock level

(iv) PREPARE Store Ledger for the period January 2020 and DETERMINE the value of stock as on 31-01-2020.

(v) Value of components used during the month of January, 2020.

(vi) Inventory turnover ratio.

Employee Cost

2. From the following information, CALCULATE employee turnover rate using – (i) Separation Method, (ii) Replacement Method, (iii) New Recruitment Method, and (iv) Flux Method:

   No. of workers as on 01.01.2019 = 3,600

   No. of workers as on 31.12.2019 = 3,790

   During the year, 40 workers left while 120 workers were discharged. 350 workers were recruited during the year, of these 150 workers were recruited because of exits and the rest were recruited in accordance with expansion plans.

Overheads: Absorption Costing Method

3. ABC Ltd. has three production departments P_1, P_2 and P_3 and two service departments S_1 and S_2. The following data are extracted from the records of the company for the month of January, 2020:

	(₹)
Rent and rates	6,25,000
General lighting	7,50,000
Indirect wages	1,87,500
Power	25,00,000
Depreciation on machinery	5,00,000
Insurance of machinery	2,00,000

Other Information:

	P_1	P_2	P_3	S_1	S_2
Direct wages (₹)	3,75,000	2,50,000	3,75,000	1,87,500	62,500
Horse Power of Machines used	60	30	50	10	–
Cost of machinery (₹)	30,00,000	40,00,000	50,00,000	2,50,000	2,50,000
Floor space (Sq. ft)	2,000	2,500	3,000	2,000	500
Number of light points	10	15	20	10	5
Production hours worked	6,225	4,050	4,100	–	–

Expenses of the service departments S_1 and S_2 are reapportioned as below:

	P_1	P_2	P_3	S_1	S_2
S_1	20%	30%	40%	–	10%
S_2	40%	20%	30%	10%	–

Required:

(i) COMPUTE overhead absorption rate per production hour for each production department.

(ii) DETERMINE the total cost of product X which is processed for manufacture in department P_1, P_2 and P_3 for 5 hours, 3 hours and 4 hours respectively, given that its direct material cost is ₹6,250 and direct labour cost is ₹3,750.

Activity Based Costing

4. Following are the data of three product lines of a departmental store for the year 2019-20:

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

Additional information related with the store are as follows:

Activity	**Description of activity**	**Total Cost**	**Cost-allocation base**
Bottles returns	Returning of empty bottles	₹ 60,000	Direct tracing to soft drink line
Ordering	Placing of orders for purchases	₹ 7,80,000	1,560 purchase orders
Delivery	Physical delivery and receipt of goods	₹ 12,60,000	3,150 deliveries
Shelf stocking	Stocking of goods on store shelves and on-going restocking	₹ 8,64,000	8,640 hours of shelf-stocking time
Customer Support	Assistance provided to customers including check-out	₹ 15,36,000	15,36,000 items sold

Required:

CALCULATE the total cost and operating income using Activity Based Costing method.

Cost Sheet

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

		Amount (₹)
(i)	Repair & maintenance paid for plant & machinery	9,80,500
(ii)	Insurance premium paid for plant & machinery	96,000
(iii)	Raw materials purchased	64,00,000
(iv)	Opening stock of raw materials	2,88,000
(v)	Closing stock of raw materials	4,46,000
(vi)	Wages paid	23,20,000
(vii)	Value of opening Work-in-process	4,06,000
(viii)	Value of closing Work-in-process	6,02,100
(ix)	Quality control cost for the products in manufacturing process	86,000
(x)	Research & development cost for improvement in production process	92,600
(xi)	Administrative cost for:	
	- Factory & production	9,00,000
	- Others	11,60,000
(xii)	Amount realised by selling scrap generated during the manufacturing process	9,200
(xiii)	Packing cost necessary to preserve the goods for further processing	10,200
(xiv)	Salary paid to Director (Technical)	8,90,000

Cost Accounting System

6. The following are the balances existed in the books of JPG Ltd. for the year ended, 31st March, 2019:

Particulars	Dr.	Cr.
	(₹)	(₹)
Stores Ledger Control A/c	30,00,000	
WIP Control A/c	15,00,000	
Finished Goods Control A/c	25,00,000	
Manufacturing Overheads Control A/c		1,50,000
Cost Ledger Control A/c		68,50,000

During the year 2019-20, the following transactions took place:

Particulars	Amount (₹)
Finished product (at cost)	22,50,000
Manufacturing Overhead incurred	8,50,000
Raw material purchased	12,50,000
Factory wages	4,00,000
Indirect labour	2,00,000
Cost of sales	17,50,000
Materials issued to production	13,50,000
Sales returned (at cost)	90,000
Material returned to suppliers	1,30,000
Manufacturing overhead charged to production	8,50,000

Required:

PREPARE the following control accounts and Trial balance at the end of the year:

Cost Ledger, Stores Ledger, Work-in-process, Finished Stock, Manufacturing Overhead, Wages and Cost of Sales.

Job Costing

7. A factory uses job costing system. The following data are obtained from its books for the year ended 31st March, 2020:

	Amount (₹)
Direct materials	18,00,000
Direct wages	15,00,000
Selling and distribution overheads	10,50,000
Administration overheads	8,40,000
Factory overheads	9,00,000
Profit	12,18,000

(i) PREPARE a Job Cost sheet indicating the Prime cost, Cost of Production, Cost of sales and the Sales value.

(ii) In 2019-20, the factory received an order for a job. It is estimated that direct materials required will be ₹4,80,000 and direct labour will cost ₹3,00,000. DETERMINE what should be the price for the job if factory intends to earn the same rate of profit on sales assuming that the selling and distribution overheads have gone up by 15%. The factory overheads is recovered as percentage of wages paid, whereas, other overheads as a percentage of cost of production, based on cost rates prevailing in the previous year.

Process Costing

8. Star Ltd. manufactures chemical solutions for the food processing industry. The manufacturing takes place in a number of processes and the company uses FIFO method to value work-in-process and finished goods. At the end of the last month, a fire occurred in the factory and destroyed some of papers containing records of the process operations for the month.

Star Ltd. needs your help to prepare the process accounts for the month during which the fire occurred. You have been able to gather some information about the month's operating activities but some of the information could not be retrieved due to the damage. The following information was salvaged:

- Opening work-in-process at the beginning of the month was 1,600 litres, 70% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹ 1,06,560.
- Closing work-in-process at the end of the month was 320 litres, 30% complete for labour and 20% complete for overheads.
- Normal loss is 10% of input and total losses during the month were 1,200 litres partly due to the fire damage.
- Output sent to finished goods warehouse was 8,400 litres.
- Losses have a scrap value of ₹15 per litre.
- All raw materials are added at the commencement of the process.
- The cost per equivalent unit (litre) is ₹78 for the month made up as follows:

	(₹)
Raw Material	46
Labour	14
Overheads	18
	78

Required:

(i) CALCULATE the quantity (in litres) of raw material inputs during the month.

(ii) CALCULATE the quantity (in litres) of normal loss expected from the process and the quantity (in litres) of abnormal loss / gain experienced in the month.

(iii) CALCULATE the values of raw material, labour and overheads added to the process during the month.

(iv) PREPARE the process account for the month.

Service Costing

9. AD Higher Secondary School (AHSS) offers courses for 11th & 12th standard in three streams i.e. Arts, Commerce and Science. AHSS runs higher secondary classes alongwith primary and secondary classes but for accounting purpose it treats higher secondary as a separate responsibility centre. The Managing committee of the school wants to revise its fee structure for higher secondary students. The accountant of the school has provided the following details for a year:

	Amount (₹)
Teachers' salary (15 teachers × ₹35,000 × 12 months)	63,00,000
Principal's salary	14,40,000
Lab attendants' salary (2 attendants × ₹15,000 × 12 months)	3,60,000
Salary to library staff	1,44,000
Salary to peons (4 peons × ₹10,000 × 12 months)	4,80,000
Salary to other staffs	4,80,000
Examinations expenditure	10,80,000
Office & Administration cost	15,20,000
Annual day expenses	4,50,000
Sports expenses	1,20,000

Other information:

(i)

	Standard 11 & 12			**Primary & Secondary**
	Arts	**Commerce**	**Science**	
No. of students	120	360	180	840
Lab classes in a year	0	0	144	156
No. of examinations in a year	2	2	2	2
Time spent at library per student per year	180 hours	120 hours	240 hours	60 hours
Time spent by principal for administration	208 hours	312 hours	480 hours	1,400 hours
Teachers for 11 & 12 standard	4	5	6	-

(ii) One teacher who teaches economics for Arts stream students also teaches commerce stream students. The teacher takes 1,040 classes in a year, it includes 208 classes for commerce students.

(iii) There is another teacher who teaches mathematics for Science stream students also teaches business mathematics to commerce stream students. She takes 1,100 classes a year, it includes 160 classes for commerce students.

(iv) One peon is fully dedicated for higher secondary section. Other peons dedicate their 15% time for higher secondary section.

(v) All school students irrespective of section and age participate in annual functions and sports activities.

Requirement:

(a) CALCULATE cost per student per annum for all three streams.

(b) If the management decides to take uniform fee of ₹ 1,000 per month from all higher secondary students, CALCULATE stream wise profitability.

(c) If management decides to take 10% profit on cost, COMPUTE fee to be charged from the students of all three streams respectively.

Standard Costing

10. ABC Ltd. had prepared the following estimation for the month of January:

	Quantity	Rate (₹)	Amount (₹)
Material-A	800 kg.	90.00	72,000
Material-B	600 kg.	60.00	36,000
Skilled labour	1,000 hours	75.00	75,000
Unskilled labour	800 hours	44.00	35,200

Normal loss was expected to be 10% of total input materials and an idle labour time of 5% of expected labour hours was also estimated.

At the end of the month the following information has been collected from the cost accounting department:

The company has produced 1,480 kg. finished product by using the followings:

	Quantity	Rate (₹)	Amount (₹)
Material-A	900 kg.	86.00	77,400
Material-B	650 kg.	65.00	42,250
Skilled labour	1,200 hours	71.00	85,200
Unskilled labour	860 hours	46.00	39,560

You are required to CALCULATE:

(a) Material Cost Variance;

(b) Material Price Variance;

(c) Material Mix Variance;

(d) Material Yield Variance;

(e) Labour Cost Variance;

(f) Labour Efficiency Variance and

(g) Labour Yield Variance.

Marginal Costing

11. A Ltd. manufacture and sales its product R-9. The following figures have been collected from cost records of last year for the product R-9:

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

Last Year 5,000 units were sold at ₹185 per unit. From the given DETERMINE the followings:

(i) Break-even Sales (in rupees)

(ii) Profit earned during last year

(iii) Margin of safety (in %)

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

(Assume that Administration Overhead is related with production activity)

Budget and Budgetary Control

12. 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 ₹11,42,800 is incurred and sold through dealers at a uniform selling price of ₹17,14,200 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 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.

Miscellaneous

13. (a) DIFFERENTIATE between Cost Accounting and Management Accounting.

(b) DISCUSS the impact of Information Technology (IT) on cost accounting system.

(c) DISCUSS the Escalation Clause in a Contract.

(d) DISCUSS the treatment of by-product cost in cost accounting.

SUGGESTED HINTS/ANSWERS

1. Workings:

Consumption is calculated on the basis of material requisitions:

Maximum component usage = 4,500 units (Material requisition on 10-01-20)

Minimum component usage = 1,500 units (Material requisition on 24-01-20)

Lead time is calculated from purchase order date to material received date

Maximum lead time = 21 days (15-12-2019 to 05-01-2020)

Minimum lead time = 14 days (30-12-2019 to 12-01-2020)

Calculations:

(i) Re-order level

= Maximum usage × Maximum lead time

= 4,500 units × 21 days = 94,500 units

(ii) Maximum stock level

= Re-order level + Re-order Quantity – (Min. Usage × Min. lead time)

= 94,500 units + 10,000 units – (1,500 units × 14 days)

= 1,04,500 units – 21,000 units = 83,500 units

(iii) Minimum stock level

= Re-order level – (Avg. consumption × Avg. lead time)

= 94,500 units – (3,000 units × 17.5 days)

= 94,500 units – 52,500 units

= 42,000 units

(iv) Store Ledger for the month of January 2020:

Date	Receipts				Issue				Balance		
	GRN/ MRN	Units	Rate ₹	Amt. (₹ '000)	MRN/ MR	Units	Rate ₹	Amt. (₹ '000)	Units	Rate ₹	Amt. (₹ '000)
01-01-20	-	-	-	-	-	-	-	-	3,500	9,810	34,335
05-01-20	008	10,000	9,930	99,300	003	500	9,930	4,965	13,000	9,898	1,28,670
06-01-20	-	-	-	-	011	3,000	9,898	29,694	10,000	9,898	98,980
10-01-20	-	-	-	-	012	4,500	9,898	44,541	5,500	9,898	54,439
12-01-20	009	10,000	9,780	97,800	004	400	9,780	3,912	15,100	9,823	1,48,327
15-01-20	-	-	-	-	013	2,200	9,823	21,611	12,900	9,823	1,26,716
24-01-20	-	-	-	-	014	1,500	9,823	14,734	11,400	9,823	1,11,982
25-01-20	010	10,000	9,750	97,500	-	-	-	-	21,400	9,789	2,09,482
28-01-20	-	-	-	-	015	4,000	9,789	39,156	17,400	9,789	1,70,326
31-01-20	-	-	-	-	016	3,200	9,789	31,325	14,200	9,789	1,39,001

[Note: Decimal figures may be rounded-off to the nearest rupee value wherever required)

Value of stock as on 31-01-2020 ('000) = ₹1,39,001

(v) Value of components used during the month of January 2020:

Sum of material requisitions 011 to 016 ('000)

= ₹ 29,694 + ₹ 44,541 + ₹ 21,611 + ₹ 14,734 + ₹ 39,156 + ₹ 31,325 = ₹ 1,81,061

(vi) Inventory Turnover Ratio

$$= \frac{\text{Value of materials used}}{\text{Average stock value}}$$

$$= \frac{₹\ 1,81,061}{₹\ (1,39,001 + 34,335)/2} = \frac{₹\ 1,81,061}{₹\ 86,668} = 2.09$$

2. Employee turnover rate using:

(i) Separation Method:

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

$$= \frac{(40 + 120)}{(3,600 + 3,790)/2} \times 100 = \frac{160}{3,695} \times 100 = 4.33\%$$

(ii) Replacement Method:

$$= \frac{\text{No. of workers replaced}}{\text{Average number of workers}} \times 100 = \frac{150}{3,695} \times 100 = 4.06\%$$

(iii) New Recruitment Method:

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

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

$$= \frac{350 - 150}{3,695} \times 100 = \frac{200}{3,695} \times 100 = 5.41\%$$

(iv) Flux Method:

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

$$= \frac{(160 + 350)}{(3,600 + 3,790)/2} \times 100 = \frac{510}{3,695} \times 100 = 13.80\%$$

3. Primary Distribution Summary

Item of cost	Basis of apportionment	Total (₹)	P_1 (₹)	P_2 (₹)	P_3 (₹)	S_1 (₹)	S_2 (₹)
Direct wages	Actual	2,50,000	--	--	--	1,87,500	62,500

Rent and rates	Floor area (4 : 5 : 6 : 4 : 1)	6,25,000	1,25,000	1,56,250	1,87,500	1,25,000	31,250
General lighting	Light points (2 : 3 : 4 : 2 : 1)	7,50,000	1,25,000	1,87,500	2,50,000	1,25,000	62,500
Indirect wages	Direct wages (6 : 4 : 6 : 3 : 1)	1,87,500	56,250	37,500	56,250	28,125	9,375
Power	Horse Power of machines used (6 : 3 : 5 : 1)	25,00,000	10,00,000	5,00,000	8,33,333	1,66,667	–
Depreciation of machinery	Value of machinery (12:16:20:1:1)	5,00,000	1,20,000	1,60,000	2,00,000	10,000	10,000
Insurance of machinery	Value of machinery (12:16:20:1:1)	2,00,000	48,000	64,000	80,000	4,000	4,000
		50,12,500	14,74,250	11,05,250	16,07,083	6,46,292	1,79,625

Overheads of service cost centres:

Let S_1 be the overhead of service cost centre S_1 and S_2 be the overhead of service cost centre S_2.

$S_1 = 6,46,292 + 0.10\ S_2$

$S_2 = 1,79,625 + 0.10\ S_1$

Substituting the value of S_2 in S_1 we get

$S_1 = 6,46,292 + 0.10\ (1,79,625 + 0.10\ S_1)$

$S_1 = 6,46,292 + 17,962.5 + 0.01\ S_1$

$0.99\ S_1 = 6,64,254.5$

$\therefore S_1 = ₹6,70,964$

$\therefore S_2 = 1,79,625 + 0.10 \times 6,70,964$

$= ₹2,46,721.4$

Secondary Distribution Summary

Particulars	Total (₹)	P1 (₹)	P2 (₹)	P3 (₹)
Allocated and Apportioned overheads as per primary distribution	41,86,583	14,74,250	11,05,250	16,07,083
S_1	6,70,964	1,34,192.8	2,01,289.2	2,68,385.6

S_2	2,46,721.4	98,688.6	49,344.3	74,016.5
		17,07,131.4	13,55,883.5	19,49,485.1

(i) Overhead rate per hour

	P_1	P_2	P_3
Total overheads cost (₹)	17,07,131.4	13,55,883.5	19,49,485.1
Production hours worked	6,225	4,050	4,100
Rate per hour (₹)	274.24	334.79	475.48

(ii) Cost of Product X

	(₹)
Direct material	6,250.00
Direct labour	3,750.00
Prime cost	10,000.00
Production on overheads	
P_1 5 hours × ₹ 274.24 = 1,371.20	
P_2 3 hours × ₹ 334.79 = 1,004.37	
P_3 4 hours × ₹ 475.48 = 1,901.92	4,277.49
Factory cost	14,277.49

4. Working notes:

(i) Total support cost:

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

(ii) Cost for each activity cost driver:

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

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

Statement of Total cost and Operating income

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

* Refer to working note (ii)

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

Particulars	**Amount (₹)**
Raw materials purchased	64,00,000
Add: Opening stock	2,88,000
Less: Closing stock	(4,46,000)
Material consumed	62,42,000
Wages paid	23,20,000
Prime cost	85,62,000
Repair and maintenance cost of plant & machinery	9,80,500

Insurance premium paid for plant & machinery	96,000
Quality control cost	86,000
Research & development cost	92,600
Administrative overheads related with factory and production	9,00,000
	1,07,17,100
Add: Opening value of W-I-P	4,06,000
Less: Closing value of W-I-P	(6,02,100)
	1,05,21,000
Less: Amount realised by selling scrap	(9,200)
Add: Primary packing cost	10,200
Cost of Production	1,05,22,000

Notes:

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

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

6. **Cost Ledger Control Account**

Particulars	**(₹)**	**Particulars**	**(₹)**
To Stores Ledger control A/c	1,30,000	By Balance b/d	68,50,000
To Costing Profit & Loss A/c	17,10,000	By Stores Ledger control A/c	12,50,000
		By Wages Control A/c	6,00,000
To Balance c/d	77,10,000	By Manufacturing overhead control A/c	8,50,000
	95,50,000		95,50,000

Store Ledger Control Account

Particulars	**(₹)**	**Particulars**	**(₹)**
To Balance b/d	30,00,000	By WIP Control A/c	13,50,000
To Cost Ledger control A/c	12,50,000	By Cost Ledger control A/c (return)	1,30,000
		By Balance c/d	27,70,000
	42,50,000		42,50,000

WIP Control Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	15,00,000	By Finished Stock Control A/c	22,50,000
To Wages Control A/c	4,00,000		
To Stores Ledger control A/c	13,50,000		
To Manufacturing overhead control A/c	8,50,000	By Balance c/d	18,50,000
	41,00,000		41,00,000

Finished Stock Control Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	25,00,000	By Cost of Sales A/c	17,50,000
To WIP Control A/c	22,50,000		
To Cost of Sales A/c (sales return)	90,000	By Balance c/d	30,90,000
	48,40,000		48,40,000

Manufacturing Overhead Control Account

Particulars	(₹)	Particulars	(₹)
To Cost Ledger Control A/c	8,50,000	By Balance b/d	1,50,000
To Wages Control A/c	2,00,000	By WIP Control A/c	8,50,000
		By Costing P&L A/c (under recovery)	50,000
	10,50,000		10,50,000

Wages Control Account

Particulars	(₹)	Particulars	(₹)
To Cost Ledger Control A/c	6,00,000	By WIP Control A/c	4,00,000
		By Manufacturing overhead control A/c	2,00,000
	6,00,000		6,00,000

Cost of Sales Account

Particulars	(₹)	Particulars	(₹)
To Finished Stock Control A/c	17,50,000	By Finished Stock Control A/c (sales return)	90,000

		By Costing Profit & Loss A/c	16,60,000
	17,50,000		17,50,000

Trial Balance

Particulars	Dr. (₹)	Cr. (₹)
Stores Ledger Control A/c	27,70,000	
WIP Control A/c	18,50,000	
Finished Goods Control A/c	30,90,000	
Cost Ledger Control A/c		77,10,000
	77,10,000	77,10,000

Working:

Costing P&L Account

Particulars	(₹)	Particulars	(₹)
To Cost of Sales A/c	16,60,000	By Cost Ledger control A/c	17,10,000
To Manufacturing overhead control A/c	50,000		
	17,10,000		17,10,000

7. (i) **Production Statement**

For the year ended 31st March, 2020

		Amount (₹)
Direct materials		18,00,000
Direct wages		15,00,000
	Prime Cost	33,00,000
Factory overheads		9,00,000
	Cost of Production	42,00,000
Administration overheads		8,40,000
Selling and distribution overheads		10,50,000
	Cost of Sales	60,90,000
Profit		12,18,000
	Sales value	73,08,000

Calculation of Rates:

1. Percentage of factory overheads to direct wages = $\frac{₹9,00,000}{₹15,00,000} \times 100 = 60\%$

2. Percentage of administration overheads to Cost of production

   $= \frac{₹8,40,000}{₹42,00,000} \times 100 = 20\%$

3. Selling and distribution overheads = ₹10,50,000 × 115% = ₹12,07,500

   Selling and distribution overhead % to Cost of production

   $= \frac{₹12,07,500}{₹42,00,000} \times 100 = 28.75\%$

4. Percentage of profit to sales = $\frac{₹12,18,000}{₹73,08,000} \times 100 = 16.67\%$ or, 1/6

(ii) Calculation of price for the job received in 2019-20

	Amount (₹)
Direct materials	4,80,000
Direct wages	3,00,000
Prime Cost	7,80,000
Factory overheads (60% of ₹3,00,000)	1,80,000
Cost of Production	9,60,000
Administration overheads (20% of ₹9,60,000)	1,92,000
Selling and distribution overheads (28.75% of ₹9,60,000)	2,76,000
Cost of Sales	14,28,000
Profit (1/5 of ₹14,28,000)	2,85,600
Sales value	17,13,600

8. (i) Calculation of Raw Material inputs during the month:

Quantities Entering Process	Litres	Quantities Leaving Process	Litres
Opening WIP	1,600	Transfer to Finished Goods	8,400
Raw material input (balancing figure)	8,320	Process Losses	1,200
		Closing WIP	320
	9,920		9,920

(ii) Calculation of Normal Loss and Abnormal Loss/Gain

	Litres
Total process losses for month	1,200
Normal Loss (10% input)	832
Abnormal Loss (balancing figure)	368

(iii) Calculation of values of Raw Material, Labour and Overheads added to the process:

	Material	Labour	Overheads
Cost per equivalent unit	₹46.00	₹14.00	₹18.00
Equivalent units (litre) (refer the working note)	7,488	7,744	7,872
Cost of equivalent units	₹3,44,448	₹1,08,416	₹1,41,696
Add: Scrap value of normal loss (832 units × ₹15)	₹12,480	--	--
Total value added	₹3,56,928	₹1,08,416	₹1,41,696

Workings:

Statement of Equivalent Units (litre):

Input Details	Units	Output details	Units	Equivalent Production					
				Material		Labour		Overheads	
				Units	(%)	Units	(%)	Units	(%)
Opening WIP	1,600	Units completed:							
Units introduced	8,320	- Opening WIP	1,600	--	--	480	30	640	40
		- Fresh inputs	6,800	6,800	100	6,800	100	6,800	100
		Normal loss	832	--	--	--	--	--	--
		Abnormal loss	368	368	100	368	100	368	100
		Closing WIP	320	320	100	96	30	64	20
	9,920		9,920	7,488		7,744		7,872	

(iv) **Process Account for the month**

	Litres	Amount (₹)		Litres	Amount (₹)
To Opening WIP	1,600	1,06,560	By Finished goods [8400 x ₹ 78]	8,400	6,55,200
To Raw Materials	8,320	3,56,928	By Normal loss [832 x ₹ 15]	832	12,480
To Wages	--	1,08,416	By Abnormal loss [368 x ₹ 78]	368	28,704
To Overheads	--	1,41,696	By Closing WIP [(320 x ₹ 46) + (320 x .30 x ₹ 14) + (320 x .20 x ₹ 18)]	320	17,216
	9,920	7,13,600		9,920	7,13,600

9. **Calculation of Cost per annum**

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Teachers' salary (W.N-1)	16,80,000	21,00,000	25,20,000	63,00,000
Re-apportionment of Economics & Mathematics teachers' salary (W.N- 2)	(84,000)	1,45,091	(61,091)	-
Principal's salary (W.N-3)	1,24,800	1,87,200	2,88,000	6,00,000
Lab assistants' salary (W.N-4)	-	-	1,72,800	1,72,800
Salary to library staff (W.N-5)	43,200	28,800	57,600	1,29,600
Salary to peons (W.N-6)	31,636	94,909	47,455	1,74,000
Salary to other staffs (W.N-7)	38,400	1,15,200	57,600	2,11,200
Examination expenses (W.N- 8)	86,400	2,59,200	1,29,600	4,75,200
Office & Administration expenses (W.N- 7)	1,21,600	3,64,800	1,82,400	6,68,800
Annual Day expenses (W.N-7)	36,000	1,08,000	54,000	1,98,000
Sports expenses (W.N- 7)	9,600	28,800	14,400	52,800
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400

(a) Calculation of cost per student per annum

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400
No. of students	120	360	180	660
Cost per student per annum	17,397	9,533	19,238	13,610

(b) Calculation of profitability

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Fees per annum	12,000	12,000	12,000	
Cost per student per annum	17,397	9,533	19,238	
Profit/ (Loss) per student per annum	(5,397)	2,467	(7,238)	
No. of students	120	360	180	
Total Profit/ (Loss)	(6,47,640)	8,88,120	(13,02,840)	(10,62,360)

(c) Computation of fees to be charged to earn a 10% profit on cost

Particulars	Arts (₹)	Commerce (₹)	Science (₹)
Cost per student per annum	17,397	9,533	19,238
Add: Profit @10%	1,740	953	1,924
Fees per annum	19,137	10,486	21,162
Fees per month	1,595	874	1,764

Working Notes:

(1) Teachers' salary

Particulars	Arts	Commerce	Science
No. of teachers	4	5	6
Salary per annum (₹)	4,20,000	4,20,000	4,20,000
Total salary	16,80,000	21,00,000	25,20,000

(2) Re-apportionment of Economics and Mathematics teachers' salary

	Economics		Mathematics	
Particulars	**Arts**	**Commerce**	**Science**	**Commerce**
No. of classes	832	208	940	160
Salary re-apportionment (₹)	(84,000)	84,000	(61,091)	61,091
	$\left(\frac{₹4,20,000}{1,040}\times 208\right)$		$\left(\frac{₹4,20,000}{1,100}\times 160\right)$	

Total addition to Commerce stream = ₹ 84,000 + ₹ 61,091 = ₹ 1,45,091

(3) Principal's salary has been apportioned on the basis of time spent by him for administration of classes.

(4) Lab attendants' salary has been apportioned on the basis of lab classes attended by the students.

(5) Salary of library staffs are apportioned on the basis of time spent by the students in library.

(6) Salary of Peons are apportioned on the basis of number of students. The peons' salary allocable to higher secondary classes is calculated as below:

	Amount (₹)
Peon dedicated for higher secondary (1 peon × ₹10,000 × 12 months)	1,20,000
Add: 15% of other peons' salary {15% of (3 peons × ₹10,000 × 12 months)}	54,000
	1,74,000

(7) Salary to other staffs, office & administration cost, Annual day expenses and sports expenses are apportioned on the basis of number of students.

(8) Examination Expenses has been apportioned taking number of students and number of examinations into account.

10. Material Variances:

Material	SQ (WN-1)	SP (₹)	SQ × SP (₹)	RSQ (WN-2)	RSQ × SP (₹)	AQ	AQ × SP (₹)	AP (₹)	AQ × AP (₹)
A	940 kg.	90.00	84,600	886 kg.	79,740	900 kg.	81,000	86.00	77,400
B	705 kg.	60.00	42,300	664 kg.	39,840	650 kg.	39,000	65.00	42,250
	1645 kg		1,26,900	1550 kg	1,19,580	1550 kg	1,20,000		1,19,650

WN-1: Standard Quantity (SQ):

Material A- $\left(\frac{800\text{kg.}}{0.9\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ = 939.68 or 940 kg.

Material B- $\left(\frac{600\text{kg.}}{0.9\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ = 704.76 or 705 kg.

WN- 2: Revised Standard Quantity (RSQ):

Material A- $\left(\frac{800\text{kg.}}{1{,}400\text{kg.}}\times1{,}550\text{kg.}\right)$ = 885.71 or 886 kg.

Material B- $\left(\frac{600\text{kg.}}{1{,}400\text{kg.}}\times1{,}550\text{kg.}\right)$ = 664.28 or 664 kg.

(a) Material Cost Variance (A + B) = {(SQ × SP) – (AQ × AP)}
= {1,26,900 – 1,19,650} = 7,250 (F)

(b) Material Price Variance (A + B) = {(AQ × SP) – (AQ × AP)
= {1,20,000 – 1,19,650} = 350 (F)

(c) Material Mix Variance (A + B) = {(RSQ × SP) – (AQ × SP)}
= {1,19,580 – 1,20,000} = 420 (A)

(d) Material Yield Variance (A + B) = {(SQ × SP) – (RSQ × SP)}
= {1,26,900 – 1,19,580} = 7,320 (F)

Labour Variances:

Labour	SH (WN-3)	SR (₹)	SH × SR (₹)	RSH (WN-4)	RSH × SR (₹)	AH	AH × SR (₹)	AR (₹)	AH × AR (₹)
Skilled	1,116 hrs	75.00	83,700	1144	85,800	1,200	90,000	71.00	85,200
Unskilled	893 hrs	44.00	39,292	916	40,304	860	37,840	46.00	39,560
	2,009 hrs		1,22,992	2,060	1,26,104	2,060	1,27,840		1,24,760

WN- 3: Standard Hours (SH):

Skilled labour- $\left(\frac{0.95\times1{,}000\text{hr.}}{0.90\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ =1,115.87 or 1,116 hrs.

Unskilled labour- $\left(\frac{0.95\times800\text{hr.}}{0.90\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ = 892.69 or 893 hrs.

WN- 4: Revised Standard Hours (RSH):

Skilled labour- $\left(\frac{1{,}000\,\text{hr.}}{1{,}800\,\text{hr.}} \times 2{,}060\,\text{hr.}\right)$ = 1,144.44 or 1,144 hrs.

Unskilled labour- $\left(\frac{800\,\text{hr.}}{1{,}800\,\text{hr.}} \times 2{,}060\,\text{hr.}\right)$ = 915.56 or 916 hrs.

(e) Labour Cost Variance (Skilled + Unskilled) = {(SH × SR) – (AH × AR)}
= {1,22,992 – 1,24,760} = 1,768 (A)

(f) Labour Efficiency Variance (Skilled + Unskilled) = {(SH × SR) – (AH × SR)}
= {1,22,992 – 1,27,840} = 4,848 (A)

(g) Labour Yield Variance (Skilled + Unskilled) = {(SH × SR) – (RSH × SR)}
= {1,22,992 – 1,26,104} = 3,112 (A)

11. Working Notes:

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

COGS = DM + DL + FOH + AOH

COGS = {0.3 COGS + 0.15 COGS + (0.10 COGS + ₹ 2,30,000) + (0.02 COGS + ₹ 71,000)}

Or, COGS = 0.57 COGS + ₹ 3,01,000

Or, COGS = $\frac{₹\,3{,}01{,}000}{0.43}$ = ₹ 7,00,000

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

COS = COGS + S&DOH

COS = COGS + (0.04 COS + ₹ 68,000)

Or, COS = ₹ 7,00,000 + (0.04 COS + ₹ 68,000)

Or, COS = $\frac{₹\,7{,}68{,}000}{0.96}$ = ₹ 8,00,000

(3) Calculation of Variable Costs:

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

(4) Calculation of total Fixed Costs:

Factory Overhead-	₹ 2,30,000
Administration OH-	₹ 71,000
Selling & Distribution OH	₹ 68,000
	₹ 3,69,000

(5) Calculation of P/V Ratio:

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}} \times 100$$

$$= \frac{(₹185 \times 5{,}000\text{ units}) - ₹\,4{,}31{,}000}{₹185 \times 5{,}000\text{ units}} \times 100 = 53.41\%$$

(i) Break-Even Sales

$$= \frac{\text{Fixed Costs}}{\text{P/V Ratio}} = \frac{₹\,3{,}69{,}000}{53.41\%} = ₹6{,}90{,}882$$

(ii) Profit earned during the last year

= (Sales – Total Variable Costs) – Total Fixed Costs

= (₹9,25,000 - ₹4,31,000) - ₹3,69,000

= ₹1,25,000

(iii) Margin of Safety (%)

$$= \frac{\text{Sales} - \text{Breakeven sales}}{\text{Sales}} \times 100$$

$$= \frac{₹\,9{,}25{,}000 - ₹\,6{,}90{,}882}{₹\,9{,}25{,}000} \times 100 = 25.31\%$$

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

Profit = 90% (₹9,25,000 - ₹4,31,000) - ₹3,69,000

= ₹4,44,600 - ₹3,69,000 = ₹75,600

12. (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 (52,300 × 4 units)	2,24,800 (56,200 × 4 units)	2,89,600 (72,400 × 4 units)
Less: Opening Stock	(48,000)	(59,200) (14,800 × 4 units)	(76,800) (19,200 × 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* (₹)	14,57,070	14,57,070	14,57,070	
Sales Revenue (₹ in lakh)	5,82,828	5,09,974.50	6,55,681.50	17,48,484
Less: Cost of Sales (₹ in lakh) (Sales unit × Cost per unit)	4,57,120	3,99,980	5,14,260	13,71,360
Gross Profit (₹ in lakh)	1,25,708	1,09,994.50	1,41,421.50	3,77,124

* Net Selling price unit =₹17,14,200 – 15% commission on ₹17,14,200 = ₹14,57,070.

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

	Basis	Cost Accounting	Management Accounting
(i)	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
(ii)	Objective	It records the cost of producing a product and providing a service.	It Provides information to management for planning and co-ordination.
(iii)	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes financial accounting, budgeting, taxation, planning etc.
(iv)	Recording of data	It uses both past and present figures.	It is focused with the projection of figures for future.

(v)	Development	Its development is related to industrial revolution.	It develops in accordance to the need of modern business world.
(vi)	Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

(b) The impact of IT in cost accounting system may include the following:

(i) After the introduction of ERPs, different functional activities get integrated and as a consequence a single entry into the accounting system provides custom made reports for every purpose and saves an organisation from preparing different sets of documents. Reconciliation process of results of both cost and financial accounting systems become simpler and less sophisticated.

(ii) A move towards paperless environment can be seen where documents like Bill of Material, Material Requisition Note, Goods Received Note, labour utilisation report etc. are no longer required to be prepared in multiple copies, the related department can get e-copy from the system.

(iii) Information Technology with the help of internet (including intranet and extranet) helps in resource procurement and mobilisation. For example, production department can get materials from the stores without issuing material requisition note physically. Similarly, purchase orders can be initiated to the suppliers with the help of extranet. This enables an entity to shift towards Just-in-Time (JIT) approach of inventory management and production.

(iv) Cost information for a cost centre or cost object is ascertained with accuracy in timely manner. Each cost centre and cost object is codified and all related costs are assigned to the cost object or cost centre. This process automates the cost accumulation and ascertainment process. The cost information can be customised as per the requirement. For example, when an entity manufacture or provide services, it can know information job-wise, batch-wise, process-wise, cost centre wise etc.

(v) Uniformity in preparation of report, budgets and standards can be achieved with the help of IT. ERP software plays an important role in bringing uniformity irrespective of location, currency, language and regulations.

(vi) Cost and revenue variance reports are generated in real time basis which enables the management to take control measures immediately.

(vii) IT enables an entity to monitor and analyse each process of manufacturing or service activity closely to eliminate non value added activities.

The above are examples of few areas where Cost Accounting is done with the help of IT.

(c) **Escalation clause** in a contract empowers a contractor to revise the price of the contract in case of increase in the prices of inputs due to some macro-economic or other agreed reasons. A contract takes longer period to complete and the factors based on which price negotiation is done at the time of entering into the contract may change till the contract completes. This protect the contractor from adverse financial impacts and empowers the contractor to recover the increased prices. As per this clause, the contractor increases the contract price if the cost of materials, employees and other expenses increase beyond a certain limit. Inclusion of such a clause in a contract deed is called an "Escalation Clause".

(d) **By-product cost can be dealt in cost accounting in the following ways:**

(i) **When they are of small total value:** When the by-products are of small total value, the amount realised from their sale may be dealt in any one the following two ways:

1. The sales value of the by-products may be credited to the Costing Profit and Loss Account and no credit be given in the Cost Accounts. The credit to the Costing Profit and Loss Account here is treated either as miscellaneous income or as additional sales revenue.
2. The sale proceeds of the by-product may be treated as deductions from the total costs. The sale proceeds in fact should be deducted either from the production cost or from the cost of sales.

(ii) **When the by-products are of considerable total value:** Where by-products are of considerable total value, they may be regarded as joint products rather than as by-products. To determine exact cost of by-products the costs incurred upto the point of separation, should be apportioned over by-products and joint products by using a logical basis. In this case, the joint costs may be divided over joint products and by-products by using relative market values; physical output method (at the point of split off) or ultimate selling prices (if sold).

(iii) **Where they require further processing:** In this case, the net realisable value of the by-product at the split-off point may be arrived at by subtracting the further processing cost from the realisable value of by-products.

If total sales value of by-products at split-off point is small, it may be treated as per the provisions discussed above under (i).

In the contrary case, the amount realised from the sale of by-products will be considerable and thus it may be treated as discussed under (ii).

PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2019 and the Finance (No. 2) Act, 2019, including significant notifications/ circulars and legislative amendments made upto 31st October, 2019, are applicable for May, 2020 examination. The relevant assessment year for May, 2020 examination is A.Y.2020-21. The August 2019 edition of the Study Material is based on the provisions of income-tax law as amended by the Finance Act, 2019 and Finance (No. 2) Act, 2019 and hence, the same is relevant for May 2020 examination.

The significant notifications/circulars and legislative amendments made upto 31.10.2019 which are relevant for May, 2020 examination but not covered in the August 2019 edition of the Study Material, are given hereunder;

Chapter 1: Basic Concepts

The August, 2019 edition of the Study Material contains the CBDT Press Release dated 24.8.2019, at Pg.4.362 of Module 2. According to this Press Release, the enhanced surcharge of 25% and 37% on Income-tax, as the case may be, applicable where the total income of Individuals/HUFs/ AOPs/BoIs/Artificial Juridical persons exceeds ₹ 2 crore and ₹ 5 crore, respectively, has been withdrawn on income-tax payable at special rates on short-term capital gain under section 111A and long-term capital gains under section 112A arising from the transfer of equity share in a company or unit of an equity-oriented fund/ business trust, which has been subject to securities transaction tax.

Consequently, the manner of computation of surcharge on income-tax, in case of Individuals/HUFs/ AOPs/BoIs/Artificial Juridical persons for A.Y.2020-21 would be as follows:

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	**Applicable rate of surcharge**
(i)	Where the total income (including income under section 111A and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	• STCG u/s 111A ₹ 30 lakhs; • LTCG u/s 112A ₹ 25 lakhs; and • Other income ₹ 40 lakhs	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 95 lakhs.

(ii)	Where total income (including income under section 111A and 112A) exceeds ₹ 1 crore but does not exceed ₹ 2 crore	15%	• STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 50 lakhs	Surcharge would be levied@15% on income-tax computed on total income of ₹ 1.75 crores.
(iii)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore	25%	• STCG u/s 111A ₹ 54 lakh; • LTCG u/s 112A ₹ 55 lakh; and • Other income ₹ 3 crores	Surcharge would be levied @15% on income-tax on: • STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 112A. Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income
	The rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	Not exceeding 15%		
(iv)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 5 crore	37%	• STCG u/s 111A ₹ 50 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 6 crore	Surcharge@15% would be levied on income-tax on: • STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 65 lakhs chargeable to tax u/s 112A. Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.
	Rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	Not exceeding 15%		

(v)	Where total income (including income under section 111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	• STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore	Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.25 crore.

Chapter 4: Unit 3: Profits and gains from Business and Profession

Increased rate of depreciation in respect of motor vehicles acquired and put to use during the period from 23.8.2019 to 31.3.2020 [Notification 69/2019 dated 20.9.2019]

	Particulars	Depreciation allowable as a % of WDV
(i)	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 ***Note*** – *For motor buses, motor lorries and motor taxis used in a business of running them on hire, except those covered in (i) above, the rate of depreciation would continue to be 30%.*	45%
(ii)	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 ***Note*** – *For motor cars, other than those used in a business of running them on hire, acquired or put to use on or after 1.4.1990, except those covered in (ii) above, the rate of depreciation would continue to be 15%*	30%

Chapter 4: Unit 4 – Capital Gains

Notification of Cost Inflation Index for Financial Year 2019-20 [Notification No. 63/2019, dated 12.9.2019]

Clause (v) of Explanation to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the financial year 2019-20 as 289.

S.No.	Financial Year	Cost Inflation Index	S.No.	Financial Year	Cost Inflation Index
1	2001-02	100	11	2011-12	184
2	2002-03	105	12	2012-13	200
3	2003-04	109	13	2013-14	220
4	2004-05	113	14	2014-15	240
5	2005-06	117	15	2015-16	254
6	2006-07	122	16	2016-17	264
7	2007-08	129	17	2017-18	272
8	2008-09	137	18	2018-19	280
9	2009-10	148	**19.**	**2019-20**	**289**
10	2010-11	167			

Chapter 9: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Tax deducted at source on cash withdrawals [Section 194N]

The Finance (No. 2) Act, 2019 has inserted section 194N, with effect from 1.9.2019 to require every person, being a banking company, a co-operative society engaged in carrying on the business of banking or a post office who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ₹ 1 crore. The deduction is to be made at the time of payment of such sum.

- **Clarification as to the applicability of section 194N and manner of computing the threshold limit of ₹ 1 crore thereunder, where cash withdrawals have taken place prior to 1.9.2019 [Press Release dated 30.8.2019]**

  The CBDT has, vide Press Release dated 30.8.2019, clarified that section 194N is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N. However, since the threshold of ₹ 1 crore is with respect to the previous year 2019-20, calculation of amount of cash withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn ₹ 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, TDS@2% shall apply on all subsequent cash withdrawals.

- **No tax is required to be deducted at source under section 194N on cash withdrawals by persons or class of persons as notified by the Central Government [Notification No. 68/2019 dated 18.9.2019, Notification No. 70/2019 dated 20.09.2019 & Notification No. 80/2019, dated 15.10.2019]**

  The proviso to section 194N provides that no tax is, however, required to be deducted at source on payments made to *inter alia* such other person or class of persons as notified, in consultation with the RBI, by the Central Government.

  Accordingly, the Central Government has, vide these notifications, after consultation with the Reserve Bank of India (RBI), specified –

  I. **Cash Replenishment Agencies (CRA's) and franchise agents of White Label Automated Teller Machine Operators (WLATMO's)** maintaining a separate bank account from which withdrawal is made only for the purposes of replenishing cash in the Automated Teller Machines (ATM's) operated by such WLATMO's and the WLATMO have furnished a certificate every month to the bank certifying that the bank account of the CRA's and the franchise agents of the WLATMO's have been examined and the amounts being withdrawn from their bank accounts has been reconciled with the amount of cash deposited in the ATM's of the WLATMO's.

  II. **Commission agent or trader, operating under Agriculture Produce Market Committee (APMC), and registered under any Law relating to Agriculture Produce Market** of the concerned State, who has intimated to the banking company or co-operative society or post office his account number through which he wishes to withdraw cash in excess of ₹ 1 crore in the previous year along with his Permanent Account Number (PAN) and the details of the previous year and has certified to the banking company or co-operative society or post office that the withdrawal of cash from the account in excess of ₹ 1 crore during the previous year is for the purpose of making payments to the farmers on account of purchase of agriculture produce and the banking company or co-operative society or post office has ensured that the PAN quoted is correct and the commission agent or trader is registered with the APMC, and for this purpose necessary evidences have been collected and placed on record.

  III. (a) the authorised dealer and its franchise agent and sub-agent; and

  (b) **Full-Fledged Money Changer (FFMC)** licensed by the RBI and its franchise agent;

  Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

  (i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or

(ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and sub-agent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

"Authorised dealer" means any person who is authorised by the RBI as an authorised dealer to deal in foreign exchange [Section 10(1) of the Foreign Exchange Management Act, 1999].

- **Person to whom credit to be given for tax deduction at source and payment thereof under section 194N [Notification No. 74/2019, dated 27.9.19]**

  Rule 37BA provides the manner of giving credit for tax deducted and remitted to the Central Government i.e., it specifies the person to whom credit for tax deducted is to be given and also the assessment year for which the credit may be given.

  Accordingly, the CBDT has, vide this notification, inserted sub-rule (3A) in Rule 37BA, to provide that, for the purposes of section 194N, credit for tax deducted at source shall be given to the person from whose account tax is deducted and paid to the Central Government account for the assessment year relevant to the previous year in which such tax deduction is made.

Chapter 10: Provisions for filing return of income and self-assessment

Manner for allotment of PAN to a person who has not been allotted a PAN but possesses Aadhaar number [Notification No. 59/2019, dated 30.8.2019]

The Finance (No.2) Act, 2019, has inserted sub-section (5E) to section 139A, w.e.f. 1.9.2019, to provide *inter alia* that every person who is required to furnish or intimate or quote his PAN and who has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar Number in lieu of the PAN and such person would be allotted a PAN in such manner as may be prescribed.

Rule 114(4) requires submission of application for allotment of PAN by the applicant in the prescribed form accompanied by the prescribed documents as proof of identity, address and date of birth of such applicant.

The CBDT has, vide this notification, inserted sub-rule (1A) to Rule 114 w.e.f. 1.9.2019 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN in accordance with section 139A(5E), shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents under Rule 114.

Further, sub-rule (1B) has also been inserted in Rule 114 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents under Rule 114.

Date for intimation of Aadhaar number to the prescribed authority extended [Notification No. 75/2019, dated 28th September 2019]

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

Accordingly, the Central Government has, vide Notification No. 31/2019, dated 31.03.2019, notified that every person who has been allotted permanent account number as on 1st July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) on or before 30th September, 2019.

The Central Government has, vide this notification extended the date from 30th September, 2019 to 31st December, 2019.

Notwithstanding the last date of intimating/linking of Aadhaar Number with PAN being 31.12.2019, it is clarified that w.e.f. 01.04.2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted.

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

1. Mr. Sarthak (age 37 years) a share broker, sold a building to his friend Anay, who is a dealer in automobile spare parts, for ₹ 120 lakh on 10.11.2019, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2019 when the stamp duty value was ₹ 140 lakh. Mr. Sarthak had received a down payment of ₹ 15 lakh by a crossed cheque from Anay on the date of agreement. Mr. Sarthak purchased the building for ₹ 95 lakh on 10.5.2017. Further, Mr. Sarthak also sold an agricultural land (situated in a village which has a population of 5,800) for ₹ 60 lakhs to Mr. Vivek on 01.03.2020, which he acquired on 15.06.2014 for ₹ 45 lakhs. Stamp duty value of agricultural land as on 1.3.2020 is ₹ 75 lakhs

   CII for F.Y. 2014-15; 240; F.Y. 2017-18: 272; F.Y. 2019-20: 289.

   In the light of the above facts, you are required to answer the following:

(i) Is there any requirement to deduct tax at source on consideration paid or payable on transfer of building and agricultural land?

(a) No; no tax is required to be deducted at source on transfer of any capital asset

(b) Yes; Mr. Anay is required to deduct tax at source under section 194-IA.

(c) Yes; Mr. Vivek is required to deduct tax at source under section 194-IA.

(d) Yes; Mr. Sarthak is required to deduct tax at source under section 194-IA.

(ii) In respect of transfer of building, capital gains chargeable to tax in the hands of Mr. Sarthak would be -

(a) long-term capital gains of ₹ 49,06,250

(b) long-term capital gains of ₹ 39,06,250

(c) short-term capital gains of ₹ 45,00,000

(d) short-term capital gains of ₹ 55,00,000

(iii) Assuming that Mr. Sarthak has other income exceeding basic exemption limit, the tax payable (excluding surcharge and health and education cess) on transfer of building and agricultural land, would be -

(a) ₹ 7,81,250

(b) ₹ 13,97,500

(c) ₹ 9,81,250

(d) ₹ 10,97,500

(iv) In respect of purchase of building from Mr. Sarthak, income chargeable to tax in the hands of Mr. Anay would be –

(a) ₹ 20 lakh

(b) ₹ 30 lakhs

(c) ₹ 15 lakhs

(d) Nil

2. Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2019 in the scale of ₹ 35,000-3500-65,000. He is paid dearness allowance @40% of salary forming part of retirement benefits.

He is given rent free unfurnished accommodation on 01.5.2019 which he occupied only from 01.10.2019. The company pays lease rent of ₹ 5,000 p.m.

He has been provided a car of 2000 cc capacity which is used by him for private purposes only. The actual cost of the car is ₹ 8,00,000. The monthly expenditure of car is ₹ 5,000, which is fully met by the employer.

He pays lumpsum premium of ₹ 1,50,000 towards health insurance for self and his wife for 48 months on 01.10.2019 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.

In the light of above facts, you are required to answer the following:

(i) Value of rent-free accommodation chargeable to tax in the hands of Mr. Hardik, would be -

(a) ₹ 44,835

(b) ₹ 44,100

(c) ₹ 45,570

(d) ₹ 30,000

(ii) Mr. Hardik would be eligible for deduction in respect of health insurance premium paid during the previous year 2019-20, for –

(a) ₹ 30,000

(b) ₹ 18,750

(c) ₹ 25,000

(d) ₹ 37,500

(iii) Perquisite value of car chargeable to tax in the hands of Mr. Hardik would be –

(a) ₹ 28,800

(b) ₹ 21,600

(c) ₹ 60,000

(d) ₹ 1,40,000

3. Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y.2020-21 in respect of income from house property?

(a) One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.

(b) Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.

(c) One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.

(d) Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

4. Arun's gross total income of P.Y. 2019-20 is ₹ 2,45,000. He deposits ₹ 45,000 in PPF. He pays electricity bills aggregating to ₹ 1.20 lakhs in the P.Y.2019-20. Which of the statements is correct?

   (a) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since his total income before giving effect to deduction under section 80C does not exceed the basic exemption limit.

   (b) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since his electricity bills do not exceed ₹ 2,00,000 for the P.Y.2019-20.

   (c) Arun is not required to file his return of income u/s 139(1) for P.Y. 2019-20, since neither his total income before giving effect to deduction under section 80C exceeds the basic exemption limit nor his electricity bills exceed ₹ 2 lakh for the P.Y.2019-20.

   (d) Arun is required to file his return of income u/s 139(1) for P.Y. 2019-20, since his electricity bills exceed ₹1 lakh for the P.Y.2019-20.

5. Mr. Ritvik has purchased his first house in Gwalior for self-occupation on 5.4.2019 for ₹ 45 lakhs (stamp duty value being the same) with bank loan sanctioned on 30.3.2019 and disbursed on 3.4.2019. He paid interest of ₹ 3.8 lakhs during the P.Y.2019-20. What is the tax treatment of interest paid by him?

   (a) Interest of ₹2 lakhs allowable u/s 24

   (b) Interest of ₹2 lakhs allowable u/s 24 and ₹1.8 lakhs allowable u/s 80EEA

   (c) Interest of ₹2 lakhs allowable u/s 24 and ₹1.5 lakhs allowable u/s 80EEA

   (d) Interest of ₹1.5 lakhs allowable u/s 24 and ₹1.5 lakhs allowable u/s 80EEA

6. During the P.Y.2019-20, Mr. Ranjit has short-term capital gains of ₹ 95 lakhs taxable under section 111A, long-term capital gains of ₹ 110 lakhs taxable under section 112A and business income of ₹ 90 lakhs. Which of the following statements is correct?

   (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 2.95 crore, since total income exceeds ₹ 2 crore.

   (b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 2.95 crore.

   (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; in respect of business income, surcharge is leviable@25% on income-tax, since total income exceeds ₹ 2 crore.

(d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; surcharge@10% is leviable on income-tax computed on business income, since the same exceeds ₹ 50 lakhs but is less than ₹ 1 crore.

DESCRIPTIVE QUESTIONS

7. Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2019. His income during the financial year 2019-20 is given hereunder:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2019-20. Compute his Gross Total Income for the Assessment year 2020-21.

8. Mr. Ramesh furnishes the following particulars for the previous year 2019-20 in respect of an industrial undertaking established in "Special Economic Zone" in March 2014. It began manufacturing in April 2014.

Particulars	₹
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2019-20 include freight and insurance of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh under section 10AA for A.Y. 2020-21.

9. Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is ₹ 8,50,000, Fair Rent of the property is ₹ 7,30,000 and Standard Rent is ₹ 8,20,000 per annum.

The property was let out for ₹ 85,000 per month for the period April 2019 to December 2019.

Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2019 could not be realized from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from house property for the A.Y. 2020-21.

10. Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2019, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2019 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2020-21, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2021-22 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

11. Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2019. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2019 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2019, which were sold for ₹ 96,000 on 28th March, 2020. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2019, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2019-20.

In whose hands the above income and loss shall be included in Assessment Year 2020-21, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

12. Compute total income of Mr. Mathur for the assessment year 2020-21 from the following information furnished by him for the financial year 2019-20.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000

Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2020	60,000
Brought forward loss of business of assessment year 2014-15	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2006	3,00,000

13. Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2020 is as follows:

Income and Expenditure account for the year ending 31st March, 2020

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on saving bank deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		**59,06,000**

The following other information relates to the financial year 2019-20:

(1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.

(2) Written down value of the assets as on 1st April, 2019 are as follows:

Motor Car (25% used for personal use)	₹ 3,50,000
Furniture and Fittings	₹ 80,000

(3) Medical expenses includes:

- Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.

(4) The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:

- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2019.

(5) Bonus was paid on 30th September, 2020.

(6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2019 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2019. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2018-19 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2020-21.

14. The following details are provided by Mr. Divakar, an individual, for the assessment year 2020-21.

	Amount (₹)
Total estimated tax payable	4,40,000
TDS (deductible but not deducted)	55,000

Determine the advance tax payable with their due dates for the assessment year 2020-21.

15. Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2020-21 on or before the due date of filing such return of income.

(i) Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?

(ii) What are the consequences of non-filing the return within the due date under section 139(1)?

MOST APPROPRIATE OPTION - OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(b)
	(ii)	(a)
	(iii)	(c)
	(iv)	(b)
2.	(i)	(d)
	(ii)	(c)
	(iii)	(d)

MCQ No.	Most Appropriate Answer
3.	(b)
4.	(d)
5.	(a)
6.	(b)

SUGGESTED ANSWERS/HINTS - DESCRIPTIVE QUESTIONS

7. Mr. Shridhar is a non-resident for the A.Y.2020-21, since he was not present in India at any time during the previous year 2019-20 [Section 6(1)].

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

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

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

Computation of Gross Total Income of Mr. Shridhar for A.Y. 2020-21

Particulars	₹
Salaries	
Salary from Government of India	9,25,000
(Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non-resident and rendering services outside India)	

Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	**9,25,000**
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	
Rent from a house situated at Australia, received in Australia	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	**8,76,000**

Note *– Interest on Post office saving bank account of ₹ 1,000 would be allowed as deduction under section 80TTA.*

8. Computation of deduction under section 10AA for A.Y. 2020-21

Since A.Y. 2020-21 is the 6th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 20,00,000 \times \frac{40,00,000}{80,00,000} \times 50\% = ₹\ 5,00,000$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000

Total turnover	85,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	5,00,000
	80,00,000

9. Computation of income from house property of Mrs. Daya for the A.Y.2020-21

Particulars	Amount in ₹	
Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 8,50,000 and Fair Rent of ₹ 7,30,000, but restricted to Standard Rent of ₹ 8,20,000	8,20,000	
Actual rent receivable for the let-out period = ₹ 85,000 × 9	7,65,000	
[Unrealised rent is not deductible from actual rent in this case since Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence, one of the conditions laid out in Rule 4 has not been fulfilled]		
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	8,20,000	
Gross Annual Value (GAV)		**8,20,000**
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 8,50,000		1,02,000
Net Annual Value (NAV)		**7,18,000**
Less: **Deductions under section 24**		
(a) 30% of NAV = 30% of ₹ 7,18,000	2,15,400	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)	50,000	2,65,400
Income from house property		**4,52,600**

10. Computation of depreciation allowance

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2019-20, full depreciation@30% (higher rate of depreciation is allowable on the actual cost, since car is purchased during the period 23.8.2019 to 31.3.2020] of ₹ 19,20,000, which is the total price (inclusive of GST) would be allowable.	

However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable	
Depreciation for P.Y.2019-20 = 30% x ₹ 19,20,000 x 75% =	4,32,000
Written Down Value as on 1.4.2020 = ₹ 19,20,000 – ₹4,32,000 = ₹14,88,000	
Depreciation for P.Y.2020-21 = 30% x ₹14,88,000 x 75% =	3,34,800

Note - *As per section 17(5) of the CGST Act, 2017, input tax credit would not be available in respect of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the taxable supplies, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, input tax credit would not be available and hence, both CGST & SGST would form part of actual cost of car.*

11. In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per *Explanation 2* to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2019, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration *less* ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam.

12. **Computation of total income of Mr. Mathur for A.Y.2020-21**

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2021-22 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2014-15 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2021-22	(3,50,000)	Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2019-20 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2021-22.	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		**6,30,000**

Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2020	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		**5,49,500**

13. Computation of Total Income of Mr. Manohar for the A.Y.2020-21

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2020)	-	
[For the P.Y.2019-20, the gross receipts i.e., fees of Mr. Manohar from consultancy services is ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2020]		

- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2019-20, since his gross receipts from profession during the P.Y.2018-19 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
		52,07,600
Less: Income credited but not taxable or taxable under any other head		
- Share of profit from HUF (Exempt)	55,000	
- Interest on saving bank deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 ***[See Working Note]***		76,175
		50,25,425
Income from Other Sources		
- Interest on saving bank deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	85,000	1,36,000
Gross Total Income		**51,61,425**
Less: Deduction under Chapter VI-A		
Section 80D		50,000
Medical expenses for father (Deduction allowable to the extent of ₹ 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		
Total Income		**51,11,425**
Total Income (Rounded off)		**51,11,430**

Computation of tax liability of Mr. Manohar for A.Y. 2020-21

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000	
Above ₹ 10,00,001 i.e.,41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
		14,80,522
Less: Marginal Relief:		
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		**14,80,887**
Tax liability (rounded off)		**14,80,890**

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	₹
On Motor Car	
₹ 3,50,000 x 15% x 75%	39,375
On Furniture and fittings	
₹ 80,000 x 10%	8,000
On Computer	
₹ 72,000 x 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	28,800
	76,175

14. Computation of Advance Tax Payable for the A.Y 2020-21

Particulars	₹
Tax Payable	4,40,000
TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Net Tax Payable	**4,40,000**

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2019	**₹ 66,000** [15% of ₹ 4,40,000]
On or before 15th September, 2019	**₹ 1,32,000** [₹ 1,98,000 (45% of ₹ 4,40,000) *less* ₹ 66,000, (amount paid in earlier installment)]
On or before 15th December, 2019	**₹ 132,000** [₹ 3,30,000 (75% of ₹ 4,40,000) *Less* ₹ 1,98,000 (amount paid in earlier installment or installments)]
On or before 15th March, 2020	**₹ 1,10,000,** [₹ 4,40,000 (whole amount of advance tax liability *less* ₹ 3,30,000 (amount paid in earlier installment or installments)]

15. If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

(i) before the end of the relevant assessment year; or

(ii) before the completion of the assessment,

whichever is earlier.

The last date for filing return of income for A.Y.2020-21, therefore, is 31st March 2021.

Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

<u>Carry forward and set-off of certain losses:</u> Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1) but filed on or before 31st December of the assessment year and ₹ 10,000 would be the fee payable under section 234F where the return is furnished after 31st December of the assessment year. However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2019.

(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1 Mr. Mandeep, a registered dealer, is doing building material business in the State of Assam. He availed architect services for his business from his friend in London free of cost. He also availed designing services from his brother in London for ₹ 5 Lakhs for his personal purposes.

He availed services which are liable to tax under reverse charge for which date of invoice was 01.09.20XX, payment date as per his books of account and as per his bank account was 15.11.20XX and 18.11.20XX respectively.

His turnover for the current financial year is as follows:

Taxable supply of goods – ₹ 55 Lakhs

Exempt supply of goods – ₹ 16 Lakhs

Inward supply liable to tax under reverse charge – ₹ 8 Lakh

He intends to start providing services also from the next financial year and also to avail composition scheme. He also wishes to make supplies to the Government.

Based on the information given above, choose the most appropriate answer for the following questions:-

I. In respect of services imported by Mr. Mandeep, which of the following is a correct statement?

i. Architect services for his business from his friend in London free of cost is considered as a supply

ii. Designing services from his brother in London for ₹ 5 Lakh for his personal purposes is considered as a supply.

iii. Architect services for his business from his friend in London free of cost is not considered as a supply

iv. Designing services from his brother in London for ₹ 5 Lakh for his personal purposes is not considered as a supply.

(a) i & ii

(b) i & iv

(c) ii & iii

(d) iii & iv

II. The time of supply of services, received by him and taxable under reverse charge, is

(a) 01.09.20XX

(b) 01.11.20XX

(c) 15.11.20XX

(d) 18.11.20XX

III. Aggregate turnover of Mr. Mandeep for the given financial year will be,

(a) ₹ 63 Lakhs

(b) ₹ 79 Lakhs

(c) ₹ 71 Lakhs

(d) ₹ 47 Lakhs

IV. Mr. Mandeep will be eligible for composition scheme in the next financial year, but he can supply services only upto:

(a) ₹ 5.00 Lakhs

(b) ₹ 6.3 Lakhs

(c) ₹ 7.90 Lakhs

(d) ₹ 7.10 Lakhs

V. In case he supplies services to State Government by way of any activity in relation to any function entrusted to a Municipality under Article 243W of the Constitution, in the next financial year, which of the following will be exempt?

i. Pure Services

ii. Composite supply of goods and services in which value of supply of goods constitutes not more than 25% of value of said composite supply

iii. Composite supply of goods and services in which value of supply of service constitutes not more than 25% of value of said composite supply

(a) i & iii

(b) ii & iii

(c) i, ii & iii

(d) i & ii

2. ABC Ltd. is a registered pharmaceutical company. The company invented one drug for instant cure of cancer. They supplied free samples of this medicine to various doctors. What will be the tax treatment of these free samples under GST?

   (a) ABC Ltd. is liable to pay tax on supply of free samples and eligible to claim input tax credit.

   (b) ABC Ltd. is not liable to pay tax on supply of free samples but eligible to claim input tax credit.

   (c) ABC Ltd. is neither liable to pay tax on supply of free samples nor eligible to claim input tax credit.

   (d) ABC Ltd. is liable to pay tax on supply of free samples but not eligible to claim input tax credit.

3. Kala Niketan School is an educational institution providing pre-school education and education up to higher secondary school. Which of the following services are exempt if provided to Kala Niketan School?

   (i) Transportation of students, faculty and staff

   (ii) Catering services

   (iii) Cleaning services performed in such educational institution

   (a) (i)

   (b) (i) and (iii)

   (c) (ii) and (iii)

   (d) (i), (ii) and (iii)

4. Calculate the amount of eligible input tax credit-

S. No.	Particulars	GST paid (₹)
1.	A Mini bus having seating capacity of 15 persons (including driver) used for running on hire	15,00,000
2.	Car having seating capacity of 8 people used for business purposes	1,00,00,000
3.	Car having seating capacity of 4 persons used for imparting training on driving such car	50,00,000
4.	Special purpose vehicle having seating capacity of 2 persons used for transportation of goods	60,00,000

   (a) ₹ 2,25,00,000/-

   (b) ₹ 2,10,00,000/-

   (c) ₹ 1,25,00,000/-

(d) ₹ 75,00,000/-

5. Mr. Avishkar is a painter registered under GST in Delhi. He sends his artwork for exhibition in Mumbai. At what point of time, supply is considered to have been made under GST?

   (a) When painting is completed.

   (b) When painting is sent for exhibition in Mumbai.

   (c) When painting is displayed at the exhibition in Mumbai.

   (d) When painting is purchased by one of the visitors in the exhibition.

6. Which of the following is not covered under Schedule III of CGST Act, 2017?

   (a) Director's monthly salary under employment agreement

   (b) Sitting fees to independent directors for attending AGMs

   (c) Payment to employee for providing broking services to the employer for purchase of commercial property. Such services do not form part of the employment contract entered into by the employer with the employee.

   (d) Both (b) and (c)

7. Which of the following service is not exempt under GST?

   (a) Loading and unloading of paddy

   (b) Loading and unloading of sugarcane

   (c) Loading and unloading of tea bags

   (d) Loading and unloading of potato

8. Mr. Vicky Frankyn, an unregistered famous author, received ₹ 3 crore of consideration from Shiv Bhawan Publications (SBP) located in Indore for supply of services by way of temporary transfer of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works of his new book. He finished his work & made available the book to the publisher, but has yet not raised the invoice.

   Mr. Vicky Frankyn is of the view that SBP is liable to pay tax under reverse charge on services provided by him. SBP does not concur with his view and is not ready to deposit the tax under any circumstances.

   Examine whether the view of Mr. Vicky Frankyn is correct. Further, if the view of Mr. Vicky Frankyn is correct, what is the recourse available with Mr. Vicky Frankyn to comply with the requirements of GST law as SBP has completely refused to deposit the tax.

9. (a) Chanchal started providing beauty and grooming services and inaugurated "Care & Care Beauty Centre" in Janak Puri, Delhi on 01st April, 20XX. She opted to pay tax under *Notification No. 2/2019 CT (R) dated 07.03.2019* in the said financial year.

The aggregate turnover of Care & Care Beauty Centre for the quarter ending 30th June, 20XX was ₹ 20 lakh. Further, for the half year ending 30th September, 20XX, the turnover reached ₹ 50 lakh. Care & Care Beauty Centre recorded a rapid growth and the turnover reached ₹ 70 lakh by the end of October, 20XX. Determine the total tax liability of Care & Care Beauty Centre by the end of October, 20XX.

(b) Care & Care Beauty Centre wishes to opt for composition scheme from the next financial year. You are required to advise it whether it can do so?

Note: Rate of GST applicable on such services is 18%.

10. The temple of ancestral deity of Mr. Aman goel and his family is located at Beri, Haryana. The temple is run by a charitable organisation registered under section 12AA of the Income Tax Act, 1961. The family has got unshakeable faith in their ancestral deity. Mr. Aman is a big entrepreneur having flourishing business of tiles in Gurugram. Upon the birth of their first child, he donated ₹ 10 lakh to the said temple for construction of a sitting hall in the temple. On the main door of the sitting hall, a name plate was placed stating "Donated by Mr. Aman Goel upon birth of his first child".

You are required to examine the leviability of GST on the donation received from Mr. Aman Goel?

11. (a) Holiday Guest House, situated at Shimla, provides boarding & lodging services to tourists at economical cost. The charges of a single deluxe room per day are ₹ 999. Mr. X has booked one deluxe room for two days during Christmas holidays. You are required to determine whether GST is payable by Holiday Guest House on the above booking. If yes, determine the amount of GST so payable.

Will your answer change, if the charges of a single deluxe room per day charged by Holiday Guest House are ₹ 1,000?

(b) M/s Damodar Ltd. provides services by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab. The monthly rental for a godown is ₹ 15,000. Examine whether GST is payable by M/s Damodar Ltd.

12. M/s Siya Ram is a trader of decorative items in Hauz Khas, Delhi. His aggregate turnover exceeded ₹ 20 lakh in the month of October, 20XX. He applied for registration on GST portal, but missed to submit the details of his bank account. His tax consultant advised him that prior submission of bank details is mandatory to obtain registration. Examine whether the advice of Mr. Siya Ram's tax consultant is correct.

13. Mr. Gauri Shiva, a registered person in Punjab, supplies goods taxable @ 12% [CGST @ 6%, SGST @ 6% & IGST @ 12%] in the States of Punjab and Haryana. He has furnished the following details in relation to independent supplies made by him in the quarter ending June, 20XX:-

Supply	Recipient	Nature of supply	Value (₹)
1	Mr. A, a registered person	Inter-State	2,20,000
2	Mr. B, a registered person	Inter-State	2,55,000
3	Mr. C, an unregistered person	Intra -State	1,80,000
4	Mr. D, an unregistered person	Intra-State	2,60,000
5	Mr. M, an unregistered person	Inter-State	3,00,000
6	Mr. N, an unregistered person	Inter-State	50,000
7	Mr. O, an unregistered person	Inter-State	2,50,000
8	Mr. P, an unregistered person	Inter-State	2,80,000
9	Mr. Q, a registered person	Intra-State	1,50,000
10	Mr. R, a registered person	Intra-State	4,10,000

The aggregate annual turnover of Mr. Gauri Shiva in the preceding financial year was ₹ 1.20 crore. With reference to rule 59 of the CGST Rules, 2017, discuss the manner in which the details of above supplies are required to be furnished in GSTR-1.

14. Discuss the correctness of the following statements:-
    (i) Once generated, an e-way bill cannot be cancelled.
    (ii) E-way bill generated in one State is valid in another State.

15. Mr. Ram Narayan, a registered supplier under GST, wants to first discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period. Examine briefly whether he can do so?

SUGGESTED ANSWERS/HINTS

1. (I) (c)

1. II) (b)

1. (III) (c)

1. (IV) (d)

1. (V) (d)

2. (c)

3. (d)

4. (c)

5. (d)

6. (d)

7. (c)

8. Yes, the view of Mr. Vicky Frankyn is correct. GST is payable under reverse charge in case of supply of services by an author by way of transfer/permitting the use or enjoyment of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary work to a publisher located in the taxable territory in terms of reverse charge *Notification No. 13/2017 CT(R) dated 28.06.2017.* Therefore, in the given case, person liable to pay tax is the publisher – SBP.

However, since SBP has completely refused to deposit the tax on the given transaction, Mr. Vicky Frankyn has an option to pay tax under forward charge on the same. For the purpose, he needs to fulfill the following conditions:

(i) since he is unregistered, he has to first take registration under the CGST Act, 2017

(ii) he needs to file a declaration, in the prescribed form, that he exercises the option to pay CGST on the said service under forward charge in accordance with section 9(1) of the CGST Act and to comply with all the provisions as they apply to a person liable for paying the tax in relation to the supply of any goods and/or services and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option;

(iii) he has to make a declaration on the invoice, which he would issue to SBP, in prescribed form.

9. (a) *Notification No. 2/2019 CT (R) dated 07.03.2019* provides an option to a registered person to pay CGST @ 3% [Effective rate 6% (CGST+ SGST/ UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any financial year, subject to specified conditions.

It is clarified in the notification that first supplies of goods or services or both shall, for the purposes of determining eligibility of a person to pay tax under this notification, include the supplies from 1st April of a FY to the date from which he becomes liable for registration under the said Act, but for the purpose of determination of tax payable under this notification, shall not include the supplies from the first day of April of a financial year to the date from which he becomes liable for registration under the Act.

Thus, Care & Care Beauty Centre is eligible to pay tax under this notification upto the turnover of ₹ 50 lakh. The total tax payable by it is as under:-

Period	Tax Rate	Turnover (₹)	Tax liability (₹)
I Quarter	Since turnover did not exceed ₹ 20 lakh, it was not required to obtain	20 Lakh	Nil

	registration. Hence, no tax was required to be paid		
II Quarter	Effective rate is 6% (CGST+ SGST/ UTGST)] under *Notification No. 2/2019 CT (R)*	30 Lakh [(50-20) lakh]	1,80,000
For the month of October, 20XX	Normal rate of GST of 18% is to be applied	20 lakh [(70-50) lakh]	3,60,000
Total tax payable			**5,40,000**

(b) No, Care & Care Beauty Centre cannot opt for composition scheme from the next financial year. Fundamentally, the composition scheme can be availed in respect of goods and only one service namely, restaurant service. As regards services other than restaurant services are concerned, only marginal supply of the such services for a specified value along with the supply of goods and/or restaurant service, as the case may be, is permitted under section 10(1) of CGST Act, 2017. Therefore, a person engaged exclusively in supply of services other than restaurant services is not eligible to opt for composition scheme.

10. It has been clarified vide *Circular No. 116/35/2019 GST dated 11.10.2019* that when the name of the donor is displayed in the religious institution premises, by placing a name plate or similar such acknowledgement, which can be said to be an expression of gratitude and public recognition of donor's act of philanthropy and is not aimed at giving publicity to the donor in such manner that it would be an advertising or promotion of his business, then it can be said that there is no supply of service for a consideration (in the form of donation). There is no obligation (*quid pro quo*) on part of recipient of the donation or gift to do anything (supply a service). Therefore, there is no GST liability on such consideration.

In the given case, there is no reference or mention of any business activity of the donor which otherwise would have got advertised. Thus, since the gift or donation is made to a charitable organization, the payment has the character of gift or donation and the purpose is philanthropic (i.e., it leads to no commercial gain) and not advertisement, hence GST is not leviable.

11. **(a)** 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 or equal to ₹ 1,000 per day or equivalent have been exempted from GST vide an exemption notification.

Thus, in view of the above-mentioned provisions, GST is not payable by Holiday Guest House on the booking done by Mr. X as the charges for a unit of accommodation per day is less than ₹ 1,000.

The answer will remain the same even if the charges of a single deluxe room per day is ₹ 1,000 as the exemption is also available in the case where value of supply of a unit of accomodation per day is ₹ 1,000/ i.e., such services are taxable only where value of supply of a unit of accommodation per day exceeds ₹ 1,000/-. Thus, no GST is payable by Holiday Guest House on the booking done by Mr. X even if the charges of a single deluxe room per day is ₹ 1,000.

(b) Services by way of storage/ warehousing of cereals, pulses, fruits, nuts and vegetables, spices, copra, sugarcane, jaggery, raw vegetable fibres such as cotton, flax, jute etc., indigo, unmanufactured tobacco, betel leaves, tendu leaves, coffee and tea have been exempted from GST under an exemption notification under GST.

Thus, no GST is payable on the services provided by M/s Damodar Ltd. by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab.

12. The advice of Mr. Siya Ram's consultant that prior submission of bank details is mandatory to obtain registration is no more valid in law.

A new rule 10A has been inserted in the CGST Rules, 2017 vide *Notification No. 31/2019 CT dated 28.06.2019* which allows the registered person to furnish information with respect to details of bank account, or any other information, as may be required on the common portal in order to comply with any other provision, soon after obtaining certificate of registration and a GSTIN, but not later than 45 days from the date of grant of registration or the date on which the return required under section 39 is due to be furnished, whichever is earlier.

This relaxation is however not available for those who have been granted registration as TDS deductor/ TCS collector under rule 12 or who have obtained *suo-motu* registration under rule 16.

13. Rule 59 of the CGST Rules, 2017, *inter alia,* stipulates that the details of outward supplies of goods and/or services furnished in form GSTR-1 shall include the–

(a) invoice wise details of all –

(i) inter-State and intra-State supplies made to the registered persons; and

(ii) inter-State supplies with invoice value more than two and a half lakh rupees made to the unregistered persons;

(b) consolidated details of all –

(i) intra-State supplies made to unregistered persons for each rate of tax; and

(ii) State wise inter-State supplies with invoice value upto two and a half lakh rupees made to unregistered persons for each rate of tax;

Thus, in view of the above-mentioned provisions, Mr. Gauri Shiva should furnish the details of outward supplies of goods made by him during the quarter ending June 20XX in the following manner:-

Supply	Recipient	Nature of supply	Value (₹)	Manner of furnishing details
1	Mr. A, a registered person	Inter-State	2,20,000	Invoice-wise details
2	Mr. B, a registered person	Inter-State	2,55,000	Invoice-wise details
3	Mr. C, an unregistered person	Intra-State	1,80,000	Consolidated details of supplies 3 and 4
4	Mr. D, an unregistered person	Intra-State	2,60,000	
5	Mr. M, an unregistered person	Inter-State	3,00,000	Invoice-wise details
6	Mr. N, an unregistered person	Inter-State	50,000	Consolidated details of supplies 6 and 7
7	Mr. O, an unregistered person	Inter-State	2,50,000	
8	Mr. P, an unregistered person	Inter-State	2,80,000	Invoice-wise details
9	Mr. Q, a registered person	Intra-State	1,50,000	Invoice-wise details
10	Mr. R, a registered person	Intra-State	4,10,000	Invoice-wise details

14. (i) The said statement is partially correct. Where an e-way bill has been generated, but goods are either not transported at all or are not transported as per the details furnished in the e-way bill, the e-way bill may be cancelled electronically on the common portal within 24 hours of generation of the e-way bill.

However, an e-way bill cannot be cancelled if it has been verified in transit in accordance with the provisions of rule 138B of the CGST Rules, 2017.

(ii) The said statement is correct. The e-way bill generated under Goods and Services Tax Rules of any State or Union territory shall be valid in every State and Union territory.

15. As per section 49(8) of the CGST Act, 2017, the liability of a taxable person has to be discharged in a chronological order as under:-

(a) self -assessed tax and other dues for the previous tax periods have to be discharged first;

(b) the self -assessed tax and other dues for the current period have to be discharged next;

(c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 of the CGST Act, 2017 to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last.

This sequence has to be mandatorily followed.

Thus, in view of the above-mentioned provisions, Mr. Ram Narayan cannot discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period.

Note: GST law has been subject to frequent changes since its inception. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.