MOCK TEST PAPER – 1

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

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

1. (a) (i) In the year 2018-19, an entity has acquired a new freehold building with a useful life of 50 years for Rs. 75,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	Rs. 10,00,000
Roof	25	Rs. 15,00,000
Lifts	20	Rs. 7,50,000
Fixtures	10	Rs. 2,50,000
Remainder of building	50	Rs. 40,00,000
		Rs. 75,00,000

Calculate depreciation for the year 2018-19 as per componentization method. Also state the treatment, in case Roof requires replacement at the end of its useful life.

(ii) Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether the remodeling cost will be capitalized or not as per provision of AS 10 "Property plant & Equipment".

(b) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

(c) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2019. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ Rs. 120). Replacement cost of raw material A as on 31-3-2019 is Rs. 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date Rs. 260 per unit. These units can be finished next year by incurring additional cost of Rs. 60 per unit.

(iii) 1500 units of finished Product X and total cost incurred Rs. 320 per unit.

Expected selling price of Product X is Rs. 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2019. Also calculate the value of total inventory as on 31-3-2019.

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

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

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

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

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

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

(4 Parts x 5 Marks = 20 Marks)

2. (a) M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		

Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep.				
Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2019

Lucknow Rs. 1,50,000

Canberra A$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	*1 A $ = Rs. 50*
Closing rate	*1 A $ = Rs. 53*
Average rate	*1 A $ = Rs. 51.00*
For Fixed Assets	*1 A $ = Rs. 46.00*

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately.

(b) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2018:

Particulars	Deptt. A Rs.	Deptt. B Rs.
Opening Stock	3,00,000	2,40,000

Purchases	39,00,000	54,60,000
Sales	60,00,000	90,00,000

General expenses incurred for both the Departments were Rs. 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A Rs. 6,00,000 including goods from Department B for Rs. 1,20,000 at cost to Department A.

(ii) Closing stock of Department B Rs. 12,00,000 including goods from Department A for Rs. 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of Rs. 60,000 and Rs. 90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year. ***(12+8=20 Marks)***

3. (a) Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2018 was:

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		1,44,000	Stock		1,44,000
Bank Overdraft		84,000	Machinery		3,60,000
Capital A/c:			Debtors		1,68,000
			Joint Life Policy		21,600
Ali	3,36,000		Leasehold Premises		81,600
Beta	3,12,000	6,48,000	Profit & Loss A/c		62,400
			Drawing A/c:		
			Ali	24,000	
			Beta	14,400	38,400
		8,76,000			8,76,000

The business was carried on till 30-06-2019. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-06-2019, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs. 24,000 and bank overdraft by Rs. 36,000.

On 30-06-2019, stock was valued at Rs. 1,80,000 and debtors at Rs. 1,44,000; the Joint Life Policy had been surrendered for Rs. 21,600 before 30-06-2019 and other items remained the same as at 31-12-2018.

On 30-06-2019, the firm sold the business to a limited company. The value of goodwill was fixed at Rs. 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-06-2019. The company paid the purchase consideration in equity shares of Rs. 10 each.

You are required to prepare:

(i) Balance Sheet of the firm as at 30-06-2019;

(ii) Realisation Account; and

(iii) Partners' Capital Accounts showing the final settlement between them.

(b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? ***(16+4 = 20 Marks)***

4. (a) The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was Rs. 6,63,600 as against Rs. 4,81,100 on 31st March, 2015.

Purchases from 1st April, 2016 to the date of fire were Rs. 17,41,350 as against Rs. 22,62,500 for the full year 2015-16 and the corresponding sales figures were Rs. 24,58,500 and Rs. 26,00,000 respectively. You are given the following further information:

(i) In July, 2016, goods costing Rs. 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs. 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

(iii) The rate of gross profit is constant.

You are required to calculate the value of stock in hand on the date of fire with the help of above information.

(b) Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2018.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.

(5) Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2019.

(6) On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.

(7) The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment.

(c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2018	
Sundry Assets	Rs. 16,65,000
Liabilities	Rs. 4,13,000
On 31st March, 2019	
Sundry Assets	Rs. 28,40,000
Liabilities	Rs. 5,80,000
Mr. Aman's drawings for the year 2018-19	Rs. 32,000 per month
Income declared to the Income Tax Officer	Rs. 9,12,000

During the year 2018-19, one life insurance policy of Mr. Aman was matured and amount received Rs. 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

(6 +10 + 4 = 20 Marks)

5. (a) J Ltd. presents you the following information for the year ended 31st March, 2019:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2018	6,000
	Cash and bank balance on 31.3.2019	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(b) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2019:

	Amount Rs. in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

(c) PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs. in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserves (including Revaluation reserve Rs. 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Application money pending allotment	1080
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years. ***(12+4+4=20 Marks)***

6. Answer the following:

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

Particulars	Amount
3,000 Equity Shares of Rs. 100 each	3,00,000
Securities Premium (collected in cash)	40,000
Capital Redemption Reserve	30,000
General Reserve	1,00,000

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

(b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to Rs. 4,00,000. As on 31st March, 2018 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.

(c) Suhana Ltd. issued 12% secured debentures of Rs. 100 Lakhs on 01.05.2018, to be utilized as under:

Particulars	*Amount (Rs. 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 Rs. 11,00,000. 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 Rs. 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

OR

Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 1,000 lakhs and Rs. 2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 50 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

(d) The Board of Directors of a Company decide to issue minimum number of equity shares of Rs. 9 to redeem Rs. 5,00,000 preference shares. The maximum amount of divisible profits available for redemption is Rs. 3,00,000.

Calculate the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of Rs. 50 only. ***(4 Parts x 5 Marks = 20 Marks)***

MOCK TEST PAPER - 1

INTERMEDIATE (NEW): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) Statement showing amount of depreciation as per Componentization Method

Component	**Depreciation (Per annum) (Rs.)**
Land	Nil
Roof	60,000
Lifts	37,500
Fixtures	25,000
Remainder of Building	80,000
	2,02,500

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

(ii) The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10 PPE.

(b) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(c) As per AS 2 "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is Rs. 300 and total cost per unit for production is Rs. 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at Rs. 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost Rs. 320 (Rs. 260 + additional cost Rs. 60) or Net estimated selling price or NRV i.e.Rs. 240 (Estimated selling price Rs. 300 per unit less additional cost of Rs. 60).

(iii) 1,500 units of finished product X will be valued at NRV of Rs. 300 per unit since it is lower than cost Rs. 320 of product X.

Valuation of Total Inventory as on 31.03.2019:

	Units	*Cost (Rs.)*	*NRV/Replacement cost*	*Value = units x cost or NRV whichever is less (Rs.)*
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

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

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

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

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

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

2. (a) **M & S Co. Ltd.**

Canberra, Australia Branch Trial Balance
As on 31st March 2019

	($ 'thousands)			(Rs.' thousands)	
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019

(Rs.'000)

	H.O.	Branch	Total		H.O.	Branch	Total
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000
To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	–	100.000
To Goods received from Head Office	–	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	770	6,438.625	7,208.625		770	6,438.625	7,208.625
To Rent	–	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts @ 5%	14	159.000	173.000				

To Depreciation (W. N.)	460	644.000	1,104.000				
To Balance c/d	112	4,790.625	4,902.625				
	611	7,123.625	7,734.625		611	7,123.625	7,734.625
To Managing Partner's Salary			30.000	By Balance b/d			4,902.625
To Exchange Loss			208.000	By Branch stock reserve			4.000
To Balance c/d			4,668.625				
			4,906.625				4,906.625

Working Note:

Calculation of Depreciation

	H.O Rs. '000	*Branch Rs. '000*
Building – Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

(b) Departmental Trading Account for the year ended on 31st December, 2018

Particulars	*A*	*B*	*Particulars*	*A*	*B*
	Rs.	Rs.		Rs.	Rs.
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st December, 2018

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		Rs.
To General expenses*	7,50,000	By Stock reserve (opening stock)	

* *General expenses have not been allocated to individual department and are charged to General Profit and Loss Account.*

To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100 40%	45,00,000/90,00,000 x 100 50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

3. (a) Balance Sheet of the Firm as at 30.6.2019

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital Accounts:			Machinery	3,60,000	
Ali balance as on 1.1.2019	2,80,800		*Less*: Depreciation @ 10% p.a. for 6 months	(18,000)	3,42,000
Add: Profit for 6 months	28,320		Leasehold premises	81,600	
	3,09,120		*Less*: Written-off @ 5%		
Less: Drawings for 6 months	(14,160)	2,94,960	for 6 months	(4,080)	77,520
Beta balance as on 1.1.2019	2,66,400		Stock		1,80,000
Add: Profit for 6 months	28,320		Sundry Debtors		1,44,000
	2,94,720				
Less: Drawings for 6 months	(14,160)	2,80,560			
Sundry Creditors (1,44,000 – 24,000)		1,20,000			
Bank overdraft (84,000 – 36,000)		48,000			
		7,43,520			7,43,520

(b) Realization Account

	Particulars	Rs.		Particulars	Rs.
To	Machinery A/c	3,42,000	By	Sundry Creditors A/c	1,20,000
To	Leasehold Premises A/c	77,520	By	Bank Overdraft A/c	48,000
To	Stock A/c	1,80,000	By	Purchasing Company A/c (W.N.1)	8,15,520
To	Sundry Debtors A/c	1,44,000			
To	Ali Capital A/c	1,20,000			

To Beta Capital A/c	1,20,000		
	9,83,520		9,83,520

(c) **Partners' Capital Accounts**

Date	Particulars	Ali	Beta	Date	Particulars	Ali	Beta
		Rs.	Rs.			Rs.	Rs.
1.1.19	To Profit & Loss A/c	31,200	31,200	1.1.19	By Balance b/d	3,36,000	3,12,000
	To Drawings A/c	24,000	14,400				
29.6.19	Balance c/d	2,80,800	2,66,400				
		3,36,000	3,12,000			3,36,000	3,12,000
30.6.19	To Drawings A/c	14,160	14,160	30.6.19	By Balance b/d	2,80,800	2,66,400
	To Shares in Purchasing Company A/c	4,14,960	4,00,560	30.6.19	By Profit & Loss Appropriation A/c	28,320	28,320
					By Realization A/c	1,20,000	1,20,000
		4,29,120	4,14,720			4,29,120	4,14,720

Working Notes:

(1) Ascertainment of purchase consideration

	Rs.	Rs.
Assets:		
Stock		1,80,000
Sundry Debtors		1,44,000
Machinery less depreciation		3,42,000
Leasehold premises less written off		77,520
		7,43,520
Less: Liabilities:		
Sundry Creditors	1,20,000	
Bank overdraft	48,000	
		(1,68,000)
Closing Net Assets		5,75,520
Add: Goodwill		2,40,000
Purchase Consideration		8,15,520

(2) Ascertainment of profit for the 6 month ended 30th June, 2019

	Rs.	Rs.
Closing Net Assets		5,75,520

Less: Opening Combined Capital		
Ali – (3,36,000- 31,200-24,000)	2,80,800	
Beta – (3,12,000-31,200-14,400)	2,66,400	5,47,200
Profit after adjustment of Drawings		28,320
Add: Combined drawings during the 6 month (equal to profit)		28,320
Profit for 6 months		56,640

(b) Nature of Limited Liability Partnership: A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

4. (a) Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		32,63,600

Rate of gross profit = $\frac{GP}{Sales} \times 100 \quad = \frac{5,20,000}{26,00,000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of ₹ 24,78,500)		4,95,700			
		28,50,650			28,50,650

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

(b) Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			Rs.	Rs.				Rs.	Rs.
2018					2019				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2019									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold — Amount paid for 8,000 shares**

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2018	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

   Closing balance will be valued based on lower of cost (Rs. 42,250) or net realizable value (Rs.13 x 4,000). Thus investment will be valued at Rs. 42,250.

3. **Calculation of sale of right entitlement**

   1,000 shares x Rs. 8 per share = Rs. 8,000

   Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

4. **Dividend received on investment held as on 1st April, 2018**

= 4,000 shares x Rs. 10 x 20%

= Rs. 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1stSep. 2018

= 1,000 shares x Rs. 10 x 20% = Rs. 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2018 and dividend pertains to the year ended 31.3.2018.

(c) Determination of Capital balances of Mr. Aman on 31.3.2018 and 31.3.2019

	31.3.2018	*31.3.2019*
	Rs.	*Rs.*
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison

	Rs.
Capital Balance as on 31-3-2019	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (Rs. 32,000 × 12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2018	(12,52,000)
Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by Rs. 4,30,000.

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

5. (a) Cash Flow Statement as per AS 3

		Rs. in lacs
Cash flows from operating activities: Net profit before tax provision		36,000
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	12,000	36,048

		72,048
Less: Non cash income		
Amortisation of capital grant received	(10)	
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,130
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2018		6,000
Cash and bank balance as on 31.3.2019		8,000

(b) Note 6 (B) given under Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

(c) Calculation of effective capital and maximum amount of monthly remuneration

	(Rs. in lakhs)
Paid up equity share capital	180

Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225- 15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less: Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ Rs. 60,00,000 per annum.

Note: Revaluation reserve and application money pending allotment are not included while computing effective capital of PQ Ltd.

6. (a)

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

(b) A liability is recognized 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, ABC Ltd. should recognize a liability of Rs. 4,00,000 payable to XYZ Ltd. When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized 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 recognized as an expense. Hence ABC Ltd. should charge the amount of Rs. 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2018.

(c) 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

= Rs. 11,00,000 – Rs. 2,00,000

= Rs. 9,00,000

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

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

OR

As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of Rs. 1,000 lakhs depreciation, timing difference amounting Rs. 400 lakhs (Rs. 50 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognized. However, for Rs. 600 lakhs (Rs. 1,000 lakhs – Rs. 400 lakhs), deferred tax liability will be recognized for Rs. 240 lakhs (40% of Rs. 600 lakhs) in first year. In the second year, the entire amount of timing difference of Rs. 2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting Rs. 800 lakhs (40% of Rs. 2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be Rs. 1,040 lakhs (240 lakhs + 800 lakhs).

(d) Nominal value of preference shares Rs.5,00,000

Maximum possible redemption out of profits Rs.3,00,000

Minimum proceeds of fresh issue Rs.5,00,000 - 3,00,000 = Rs.2,00,000

Proceeds of one share = Rs.9

Minimum number of shares $= \frac{2,00,000}{9} = 22,222.22$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Test Series: October, 2019

MOCK TEST PAPER 1

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

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

DIVISION A: MULTIPLE CHOICE QUESTIONS (TOTAL OF 30 MARKS)

Instructions: All questions are compulsory.

Questions nos. 1-10 are of 2 marks each and from 11- 20 are of 1 mark each)

1. Being in need of further capital, Rimsi Cotton-Silk Products Limited opted to offer 50.00 lacs equity shares of Rs. 1 each to 50 identified persons on 'private placement' basis and accordingly a letter of offer accompanied by serially numbered application form was sent to them after fulfillment of due formalities including passing of special resolution. One of the applicants, Rajan made a written complaint to the company highlighting the fact that the letter of offer was incomplete as well as illegal, for the same did not contain 'renunciation clause' though he wanted to exercise his 'right of renunciation' in favour of one of his son Uday. By choosing the correct option, advise the company in this matter. **(2 Marks)**
   (a) As the 'Right of Renunciation' cannot be denied, the company needs to rectify its mistake by including the same in the letter of offer and the application form.
   (b) The company is prohibited from providing 'Right of Renunciation' and therefore, the letter of offer and the application form need not include any such clause.
   (c) Instead of absolute prohibition, the company needs to provide 'Right of Renunciation' limited to twenty five percent of offering.
   (d) Instead of absolute prohibition, the company needs to provide 'Right of Renunciation' limited to fifty percent of offering.

2. Dwapar Equipment Finance Limited, a non-banking finance company (NBFC), is desirous of offering secured, redeemable, non-convertible 9% Debentures to the public in three or more tranches over a certain period of time. Which kind of prospectus it is required to issue so that its purpose is served and there arises no need to take out a fresh prospectus for second and subsequent offer of securities.
   (2 Marks)
   (a) Deemed Prospectus.
   (b) Shelf Prospectus.
   (c) Red Herring Prospectus.
   (d) Abridged prospectus.

3. In the current financial year Zunee Traders Limited, a non-listed company, has 556 members, increased from 451 members which it had in the immediate previous financial year. For the forthcoming Annual General Meeting (AGM), advise the company whether it is required to provide to its members the facility to exercise their right to vote at this AGM by electronic means. **(2 Marks)**
   (a) Since the company has more than 500 members it is required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means.
   (b) The company is not required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means since its members are less than one thousand.
   (c) Though the company is required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means because it has more than 500 members, it can, as a

one-time measure, seek exemption from ROC beforehand and in that case, it need not provide facility of voting by electronic means.

(d) Only a listed company is required to provide to its members the facility to exercise their right to vote at the General Meetings by electronic means.

4. Eztech Machines Limited owns a plot of land which was mortgaged to Urbane Commercial Bank Limited for raising term loan of Rs. 2.00 crore. The mortgage was duly registered with the Central Registry. First loan installment of Rs. 50.00 lacs was released immediately after sanction of term loan with the condition that subsequent three installments of Rs.50.00 lacs shall be released as soon as the earlier released installment is utilized satisfactorily. Is it necessary either for the company or the bank to register the charge on plot with the concerned Registrar of Companies (ROC) when the mortgage is registered with the Central Registry? **(2 Marks)**

(a) It is not necessary either for the bank or the company to register the charge on plot of land with the concerned Registrar of Companies (ROC) when the mortgage is registered with the Central Registry.

(b) It is necessary to get the charge on plot on land registered with the concerned Registrar of Companies (ROC) irrespective of the fact that mortgage is registered with the Central Registry.

(c) The charge on plot needs to be registered with the concerned Registrar of Companies (ROC) only when the actual liability of the company with the Bank exceeds Rs. 1.00 crore.

(d) The charge on plot needs to be registered with the concerned Registrar of Companies (ROC) only when the term loan sanctioned by the bank to the company exceeds Rs. 2.00 crores.

5. Sumitra Healthcare and Hospitality Limited had issued 9% non-convertible debentures which matured four years back. However, 1000 such debentures of Rs. 100 each are still remaining unclaimed and unpaid even after the maturity. State the period after which the company needs to transfer them to Investor Education and Protection Fund (IEPF) if they remain unclaimed and unpaid. **(2 Marks)**

(a) After the expiry of five years from the maturity date.

(b) After the expiry of six years from the maturity date.

(c) After the expiry of seven years from the maturity date.

(d) After the expiry of eight years from the maturity date.

6. BSP Ltd appointed XPP & Co LLP as their statutory auditors for the year ended 31 March 2018 on 18 June 2018, as per Section 139(8) of the Companies Act 2013, to fill the casual vacancy caused by resignation of previous statutory auditors to hold office till the conclusion of next Annual General Meeting (AGM) of BSP Ltd. BSP Ltd is listed with Bombay Stock Exchange and National Stock Exchange. BSP Ltd is covered under auditors rotation requirements and wants to re-appoint XPP & Co LLP at their next AGM. Please advise**.** **(2 Marks)**

(a) XPP & Co LLP can be re-appointed for a term of five consecutive years at the AGM and after that can be considered for re-appointment for another five consecutive years.

(b) XPP & Co LLP can be re-appointed for a term of four consecutive years at the AGM and after that can be considered for re-appointment for another five consecutive years.

(c) XPP & Co LLP can be re-appointed for a term of five consecutive years at the AGM.

(d) XPP & Co LLP cannot be re-appointed at the AGM.

7. NTW Ltd is listed on National Stock Exchange and has a turnover of INR 4500 crores. NTW Ltd has 12 subsidiaries, 3 associate companies and 5 joint venture companies (collectively referred to as NTW Group). AKW & Co LLP is the statutory auditor of NTW Ltd. NTW Ltd wants to appoint AKW as the

statutory auditors for entire NTW Group. In respect of this, please advise the management of NTW Group. **(2 Marks)**

(a) AKW & Co LLP can be appointed as statutory auditors for only 10 companies of NTW Group.

(b) AKW & Co LLP can be appointed as statutory auditors for only 20 companies of NTW Group.

(c) AKW & Co LLP can be appointed as statutory auditors for all the companies of NTW Group.

(d) AKW & Co LLP can be appointed as statutory auditors for all the companies of NTW Group provided they meet the limits requirements as per the Companies Act 2013.

8. L made an offer to MD of a company. MD accepted the offer though he had no authority to do so. Subsequently L withdrew the offer but the company ratified the MD's acceptance. State which of the statement given hereunder is correct: **(2 Marks)**

(a) L was bound with the offer

(b) An offer once accepted cannot be withdrawn

(c) Both option (a) & (b) is correct

(d) L is not bound to an offer.

9. M drew a cheque amounting to Rs. 2 lakh payable to N and subsequently delivered to him. After receipt of cheque N endorsed the same to C but kept it in his safe locker. After sometime, N died, and P found the cheque in N's safe locker. State the nature of the Instrument as amounting to indorsement under the NI Act,1881. **(2 Marks)**

(a) Yes its an endorsement, as P becomes the holder of the cheque that he found in the N's safe locker.

(b) No, its not an endorsement, as P does not become the holder of the cheque

(c) Yes , its an endorsement, as P was a ultimate custodian of the cheque

(d) No, its not an endorsement, as N endorsed it to C and not to the P.

10. As per a Rule of an Educational Institution, every student may come on weekends for extra classes but every student shall appear on a weekly test conducted in the institute, which can be analysed in terms of General Clause Act, as: **(2 Marks)**

(a) Attending weekend classes is optional but appearing in weekly test is compulsory

(b) Attending weekend classes is compulsory but appearing in weekly test is optional

(c) Attending weekend classes and appearing in weekly test, both are compulsory for students

(d) Attending weekend classes and appearing in weekly test both are optional for students.

11. The Registrar shall register any alteration of the memorandum with respect to the objects of the company and certify the registration within a period of ______ from the date of filing of the special resolution.

(1 Mark)

(a) 30 days

(b) 60 days

(c) 90 days

(d) 6 months

12. Part of the capital for which application have been received from the public and shares allotted to them: **(1 Mark)**

(a) Nominal capital

(b) Issued capital

(c) Subscribed capital

(d) Called up capital

13. No deposits are repayable earlier than ______ from the date of such deposits or renewal thereof. **(1 Mark)**

(a) 3 months

(b) 6 months

(c) 9 months

(d) 12 months

14. On receipt of intimation of satisfaction of charge, the registrar issues a notice to the holder calling a show cause within such time not exceeding ______ days as to why payment or satisfaction in full should not be regarded as intimated to the Registrar: **(1 Mark)**

(a) 14

(b) 21

(c) 30

(d) 300

15. A guarantee obtained by a creditor by keeping silence as to material circumstances is : **(1 Mark)**

(a) Valid

(b) Voidable

(c) Unenforceable

(d) Invalid

16. Offences committed under the Negotiable Instruments Act can be— **(1 Mark)**

(a) Compoundable

(b) Non- compoundable

(c) Non- compoundable and non-bailable

(d) bailable

17. Which of the following given Statement/s is/are correct: **(1 Mark)**

(1) In all Central Acts and Regulations, any words which denote the masculine gender shall also be taken to include females, and vice versa.

(2) In all Central Acts and Regulations, words in the singular shall include the plural, but not vice versa.

(a) Only statement (1) is correct

(b) Only statement (2) is correct

(c) Both the statements are correct

(d) None of the statement is correct

18. The act by which the operation of a previous Act comes to an end, is called as ___________ **(1 Mark)**

    (a) The Repealing Act

    (b) The Consolidating Act

    (c) The Amending Act

    (d) Analogous Act

19. As per _________, the best way to interpret a statute or document is to read it as it would have been read when it was enacted or made. **(1 Mark)**

    (a) Optima legume interpres est consuetude

    (b) Expressio unius Est Exclusio Alterius

    (c) Ut res magis valeat quam pereat

    (d) Contemporanea Expositio Est Optima Et Fortissima in Lege

20. If the _________ used in a statute make it clear that a ________ sense is intended, the rule of Ejusdem Generis shall not apply. (**1 Mark)**

    (a) Specific words, narrow

    (b) Specific words, wider

    (c) General words, narrow

    (d) General words, wider

Division B: Descriptive questions (70 Marks)

Instructions: Question No.1 is compulsory. Attempt any Four questions out of the remaining Five questions.

1. (a) Mr. Transferor has transferred 1000 shares of Perfect Ltd. to Ms. Receiver. The company has refused to register transfer of shares and does not even send a notice of refusal to Mr. Transferor or Ms. Receiver respectively within the prescribed period. Examine the given situation and discuss as per the provisions of the Companies Act, 2013, whether aggrieved party has any right(s) against the company for such refusal? **(6 Marks)**

   (b) Mars Ltd. declared and paid dividend in time to all its equity holders for the financial year 2016-17, except in the following two cases:

   (i) Mrs. Sheetal, holding 250 shares had mandated the company to directly deposit the dividend amount in her bank account. The company, accordingly remitted the dividend but the bank returned the payment on the ground that there was difference in surname of the payee in the bank records. The company, however, did not inform Mrs. Sheetal about this discrepancy.

   (ii) Dividend amount of Rs. 50,000 was not paid to Mr. Piyush, deceased, in view of court order restraining the payment due to family dispute about succession.

   You are required to analyse these cases with reference to provisions of the Companies Act, 2013 regarding failure to distribute dividends. **(6 Marks)**

   (c) Mr. Dhannaseth delivers a rough blue sapphire to a jeweller, to be cut and polished. The jeweller carries out the job accordingly. However, now Mr. Dhannaseth refuses to make the payment and wants his blue sapphire back. The jeweller denies the delivery of goods without payment. Examine whether the jeweler can hold blue sapphire. Give your answer as per the provisions of the Contract Act, 1872. **(4 Marks)**

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

2. (a) (i) The Auditor of the company (other than government company) has resigned on 31st December, 2018, while the Financial year of the company ends on 31st March, 2019. Discuss as per the provisions of the Companies Act, 2013, how the auditor will be appointed in this case.

(ii) A company includes the following shareholders also:

(I) Bank of Baroda (A Nationalized Bank) holding 12% of the subscribed capital in the company.

(II) National Insurance Company Limited (carrying on General Insurance Business) holding 10% of the subscribed capital in the company.

(III) Maharashtra State Financial Corporation (A Public Financial Institution) holding 8% of the subscribed capital in the company.

Advise the company, whether the provisions related to 'appointment of auditor in case of Government Company' are applicable to it. Discuss in the light of the provisions of the Companies Act, 2013. **(6 Marks)**

(b) At a General meeting of a XYZ Limted, a matter was to be passed by a special resolution. Out of 40 members present, 20 voted in favour of the resolution, 5 voted against it and 5 votes were found invalid. The remaining 10 members abstained from voting. The Chairman of the meeting declared the resolution as passed. With reference to the provisions of the Companies Act, 2013, examine the validity of the Chairman's declaration**.** **(4 Marks)**

(c) Rahul, a transporter was entrusted with the duty of transporting tomatoes from a rural farm to a city by Aswin. Due to heavy rains, Rahul was stranded for more than two days. Rahul sold the tomatoes below the market rate in the nearby market where he was stranded fearing that the tomatoes may perish. Can Aswin recover the loss from Rahul on the ground that Rahul had acted beyond his authority**?** **(4 Marks)**

(d) What are the circumstances under which a bill of exchange can be dishonoured by non-acceptance? **(3 Marks)**

3. (a) XY Ltd. has its registered office at Mumbai in the State of Maharashtra. For better administrative conveniences the company wants to shift its registered office from Mumbai to Pune (within the State of Maharashtra). What formalities the company has to comply with under the provisions of the Companies Act, 2013 for shifting its registered office as stated above? Explain. **(5 Marks)**

(b) The Annual General Meeting of ABC Limited declared a dividend at the rate of 30 percent payable on paid up equity share capital of the Company as recommended by Board of Directors on 30th April, 2019. But the Company was unable to post the dividend warrant to Mr. Ranjan, an equity shareholder of the Company, up to 30th June, 2019. Mr. Ranjan filed a suit against the Company for the payment of dividend along with interest at the rate of 20 percent per annum for default period. Decide in the light of provisions of the Companies Act, 2013, whether Mr. Ranjan would succeed? Also, state the directors' liability in this regard under the Act. **(5 Marks)**

(c) Mr. Muralidharan drew a cheque payable to Mr. Vyas or order. Mr. Vyas lost the cheque and was not aware of the loss of the cheque. The person who found the cheque forged the signature of Mr. Vyas and endorsed it to Mr. Parshwanath as the consideration for goods bought by him from Mr. Parshwanath. Mr. Parshwanath encashed the cheque, on the very same day from the drawee bank. Mr. Vyas intimated the drawee bank about the theft of the cheque after three days. Examine the liability of the drawee bank. **(4 Marks)**

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

4. (a) The Directors of Mars India Ltd. desire to alter capital clause of Memorandum of Association of their company. Advise them, under the provisions of the Companies Act, 2013 about the ways in which the said clause may be altered. **(4 Marks)**

(b) Answer the following in the light of the companies Act, 2013-

(i) MNC Limited realised on 2nd May, 2019 that particulars of charge created on 12th March, 2019 in favour of a Bank were not registered with the Registrar of Companies. What procedure should the company follow to get the charge registered? Would the procedure be different if the company realised its mistake of not registering the charge on 7th June, 2019 instead of 2nd May, 2019? Explain with reference to the relevant provisions of the Companies Act, 2013.

(ii) Mr. Antriksh entered into an agreement for purchasing a commercial property in Delhi belonging to NRT Ltd. At the time of registration, Mr. Antriksh comes to know that the title deed of the company is not free and the company expresses its inability to get the title deed transferred in the name of Mr. Antriksh saying that he ought to have had the knowledge of charge created on the property of the company. Explain with the help of 'Notice of a charge', whether the contention of NRT LTD. is correct? **(6 Marks)**

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

(d) Explain 'Mischieve Rule' for interpretation of statute. Also, give four matters it considers in construing an Act. **(3 Marks)**

5. (a) An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013. **(5 Marks)**

(b) In a General meeting of Alpha Limited, the chairman directed to exclude certain matters detrimental to the interest of the company from the minutes, Mukesh, a shareholder contended that the minutes of the meeting must contain fair and correct summary of the proceedings thereat. Decide, whether the contention of Mukesh is maintainable under the provisions of the Companies Act, 2013?

(5 Marks)

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

(d) 'Repeal' of provision is different from 'deletion' of provision. Explain as per the General Clauses Act, 1897. **(3 Marks)**

MOCK TEST PAPER 1

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

SUGGESTED ANSWERS/HINTS

MCQ'S

1. (b)

2. (b)

3. (b)

4. (b)

5. (c)

6. (a)

7. (d)

8. (c)

9. (b)

10. (a)

11. (a)

12. (c)

13. (a)

14. (a)

15. (d)

16. (a)

17. (d)

18. (a)

19. (d)

20. (b)

Descriptive Questions

1. (a) The problem as asked in the question is governed by Section 58 of the Companies Act, 2013 dealing with the refusal to register transfer and appeal against refusal.

In the present case the company has committed the wrongful act of not sending the notice of refusal of registering the transfer of shares.

Under section 58 (4), if a public company without sufficient cause refuses to register the transfer of securities within a period of thirty days from the date on which the instrument of transfer is delivered to the company, the transferee may, within a period of sixty days of such refusal or where no intimation has been received from the company, within ninety days of the delivery of the instrument of transfer, appeal to the Tribunal.

Section 58 (5) further provides that the Tribunal, while dealing with an appeal made under sub-section (4), may, after hearing the parties, either dismiss the appeal, or by order—

(a) direct that the transfer or transmission shall be registered by the company and the company shall comply with such order within a period of ten days of the receipt of the order; or

(b) direct rectification of the register and also direct the company to pay damages, if any, sustained by any party aggrieved.

In the present case Ms. Receiver can make an appeal before the tribunal and claim damages..

(b) **(i)** Section 127 of the Companies Act, 2013 provides for punishment for failure to distribute dividend on time. One of such situations is where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with and the same has not been communicated to her.

In the given situation, the company has failed to communicate to the shareholder Mrs. Sheetal about non-compliance of her direction regarding payment of dividend. Hence, the penal provisions under section 127 will be applicable.

(ii) Section 127, inter-alia, provides that no offence shall be deemed to have been committed where the dividend could not be paid by reason of operation of law.

In the present circumstance, the dividend could not be paid because it was not allowed to be paid by the court until the matter was resolved about succession. Hence, there will not be any liability on the company and its Directors etc.

(c) According to section 170 of the Indian Contract Act, 1872, where the bailee has, in accordance with the purpose of the bailment, rendered any service involving the exercise of labour or skill in respect of the goods bailed, he has, in the absence of a contract to the contrary, a right to retain such goods until he receives due remuneration for the services he has rendered in respect of them.

Thus, in accordance with the purpose of bailment if the bailee by his skill or labour improves the goods bailed, he is entitled for remuneration for such services. Towards such remuneration, the bailee can retain the goods bailed if the bailor refuses to pay the remuneration. Such a right to retain the goods bailed is the right of particular lien. He however does not have the right to sue.

Where the bailee delivers the goods without receiving his remuneration, he has a right to sue the bailor. In such a case the particular lien may be waived. The particular lien is also lost if the bailee does not complete the work within the time agreed.

Hence, in the given situation the jeweller is entitled to retain the stone till he is paid for the services he has rendered.

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

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

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

2. **(a)** **(i)** The situation as stated in the question relates to the creation of a casual vacancy in the office of an auditor due to resignation of the auditor before the AGM in case of a company other government company. Under section 139 (8)(i) any casual vacancy in the office of an auditor arising as a result of his resignation, such vacancy can be filled by the Board of Directors within 30 days thereof and in addition the appointment of the new auditor shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

(ii) According to section 139(5) of the Companies Act, 2013, in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of one hundred and eighty days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.

In the given case as the total shareholding of the three institutions adds up to 30% of the subscribed capital of the company it is not a government company. Hence, the provisions applicable to non-government companies in relation to the appointment of auditors shall apply.

(b) Under Section 114(2) of the Companies Act, 2013, for a valid special resolution to be passed at a meeting of members of a company, the following conditions need to be satisfied:

(1) The intention to propose the resolution, as a special resolution must have been specified in the notice calling the general meeting or other intimation given to the members;

(2) The notice required under the Companies Act must have been duly given of the general meeting;

(3) The votes cast in favour of the resolution (whether by show of hands or electronically or on a poll, as the case may be) by members present in person or by proxy or by postal ballot are not less than 3 times the number of votes, if any, cast against the resolution by members so entitled and voting.

Thus, in terms of the requisite majority, votes cast in favour have to be compared with votes cast against the resolution. Abstentions or invalid votes, if any, are not to be taken into account.

Accordingly, in the given problem, the votes cast in favour (20) being more than 3 times of the votes cast against (5), and presuming other conditions of Section 114(2) are satisfied, the decision of the Chairman is in order.

(c) Agent's authority in an emergency (Section 189 of the Indian Contract Act, 1872): An agent has authority, in an emergency, to do all such acts for the purpose of protecting his principal from loss as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

In the instant case, Rahul, the agent, was handling perishable goods like 'tomatoes' and can decide the time, date and place of sale, not necessarily as per instructions of the Aswin, the principal, with the intention of protecting Aswin from losses.

Here, Rahul acts in an emergency as a man of ordinary prudence, so Aswin will not succeed against him for recovering the loss.

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

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

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

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

(iii) When the drawee makes a qualified acceptance;

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

(v) When the drawee is incompetent to contract.

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

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

(b) Section 127 of the Companies Act, 2013 lays down the penalty for non - payment of dividend within the prescribed time period. Under section 127 where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within 30days from the date of declaration to any shareholder entitled to the payment of the dividend:

(i) every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues; and

(ii) the company shall be liable to pay simple interest at the rate of eighteen per cent. per annum during the period for which such default continues.

Therefore, in the given case Mr Rajan will not succeed in his claim for 20% interest as the limit under section 127 is 18% per annum.

(c) Cheque payable to order [Section 85 of the Negotiable Instruments Act, 1881]

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

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

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

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

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

4. (a) Alteration of Capital: Under section 61(1) of the Companies Act, 2013, a limited company having a share capital may, if authorized by its Articles, alter its Memorandum in its general meeting to:

(i) increase its authorized share capital by such amount as it thinks expedient;

(ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares

However, no consolidation and division which results in changes in the voting percentage of shareholders shall take effect unless it is approved by the Tribunal on an application made in the prescribed manner.

(iii) convert all or any of its paid- up shares into stock and reconvert that stock into fully paid shares of any denomination

(iv) sub-divide the whole or any part of its shares into shares of smaller amount than is fixed by the Memorandum

(v) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Further, under section 64, where a company alters its share capital in any of the above mentioned ways, the company shall file a notice in the prescribed form with the Registrar within a period of thirty days of such alteration or increase or redemption, as the case may be, along with an altered memorandum. The memorandum shall be altered by a special resolution and in compliance with other relevant provisions of section 13 of the Companies Act, 2013.

(b) (i) The charge in the present case was created after 02-11-2018 (*i.e.* the date of commencement of the Companies (Amendment) Second Ordinance, 2019) to which another set of provisions is applicable. These provisions are different from a case where the charge was created before 02-11-2018.

Initially, the prescribed particulars of the charge together with the instrument, if any, by which the charge is created or evidenced, or a copy thereof, duly verified by a certificate, are to be filed with the Registrar within 30 days of its creation. [Section 77 (1)]. In this case particulars of charge were not filed within the prescribed period of 30 days.

However, the Registrar is empowered under clause (b) of first proviso to section 77 (1) to extend the period of 30 days by another 30 days (*i.e.* sixty days from the date of creation) on payment of prescribed additional fee. Taking advantage of this provision MNC Limited should immediately file the particulars of charge with the Registrar after satisfying him through making an application that it had sufficient cause for not filing the particulars of charge within 30 days of its creation.

If the company realises its mistake of not registering the charge on 7th June, 2019 instead of 2nd May, 2019, it shall be noted that a period of sixty days has already expired from the date of creation of charge. However, Clause (b) of Second Proviso to Section 77 (1) provides another opportunity for registration of charge by granting a further period of sixty days but the company is required to pay *advalorem* fees. Since first sixty days from creation of charge were expired on 11th May, 2019, MNC Limited can still get the charge registered within a further period of sixty days from 11th May, 2019 after paying the prescribed *advalorem* fees. The company is required to make an application to the Registrar in this respect giving sufficient cause for non-registration of charge.

(ii) Notice of Charge : According to section 80 of the Companies Act, 2013, where any charge on any property or assets of a company or any of its undertakings is registered under section 77 of the Companies Act, 2013, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, the section clarifies that if any person acquires a property, assets or undertaking for which a charge is already registered, it would be deemed that he has complete knowledge of charge from the date the charge is registered.

Thus, the contention of NRT Ltd. is correct.

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

(i) Land,

(ii) Benefits to arise out of land, and

(iii) Things attached to the earth, or

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

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

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

(d) **Mischieve Rule:** Where the language used in a statute is capable of more than one interpretation, principle laid down in the Heydon's case is followed. This is known as 'purposive construction' or 'mischieve rule'. The rule then directs that the courts must adopt that construction which 'shall suppress the mischief and advance the remedy'.

It has been emphasized by the Supreme Court that the rule in Heydon's case is applicable only when the words used are ambiguous and are reasonably capable of more than one meaning.

It enables consideration of four matters in construing an Act:

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

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

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

(4) what is the reason for the remedy.

5. **(a)** Yes, the Director shall be held liable for the false statements in the prospectus under sections 34 and 35 of the Companies Act, 2013. Whereas section 34 imposes a criminal punishment on every person who authorises the issue of such prospectus, section 35 more particularly includes a director of the company in the imposition of liability for such misstatements.

The only situations when a director will not incur any liability for misstatements in a prospectus are as under:

(i) No criminal liability under section 34 shall apply to a person if he proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary.

(ii) No civil liability for any misstatement under section 35 shall apply to a person if he proves that:

(1) Having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or

(2) The prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

Therefore, in the present case the director cannot hide behind the excuse that he had relied on the promoters for making correct statements in the prospectus. He will be liable for misstatements in the prospectus.

(b) Under Section 118 (5) of the Companies Act, 2013, there shall not be included in the Minutes of a meeting, any matter which, in the opinion of the Chairman of the meeting:

(i) is or could reasonably be regarded as defamatory of any person;

(ii) is irrelevant or immaterial to the proceeding; or

(iii) is detrimental to the interests of the company;

Further, under section 118(6) the chairman shall exercise absolute discretion in regard to the inclusion or non-inclusion of any matter in the Minutes on the grounds specified in sub-section (5) above.

Hence, in view of the above, the contention of Mukesh, a shareholder of Alpha Limited is not valid because the Chairman has absolute discretion on the inclusion or exclusion of any matter in the minutes for aforesaid reasons.

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

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

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

(i) Guarantee obtained by means of misrepresentation.

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

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

(d) In *Navrangpura Gam Dharmada Milkat Trust Vs. Rmtuji Ramaji, AIR 1994 Guj 75* case, it was decided that 'Repeal' of provision is in distinction from 'deletion' of provision. 'Repeal' ordinarily brings about complete obliteration (abolition) of the provision as if it never existed, thereby affecting all incoherent rights and all causes of action related to the 'repealed' provision while 'deletion' ordinarily takes effect from the date of legislature affecting the said deletion, never to effect total effecting or wiping out of the provision as if it never existed.

MOCK TEST PAPER 1

INTERMEDIATE (NEW): GROUP – I

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) C.T. Ltd. manufactures and sells a single product X whose selling price is Rs. 100 per unit and the variable cost is Rs. 60 per unit.

(i) If the Fixed Costs for this year are Rs. 24,00,000 and the annual sales are at 60% margin of safety, CALCULATE the rate of net return on sales, assuming an income tax level of 40%.

(ii) For the next year, it is proposed to add another product line Y whose selling price would be Rs. 150 per unit and the variable cost Rs. 100 per unit. The total fixed costs are estimated at Rs. 28,00,000. The sales mix of X : Y would be 5 : 3. COMPUTE the break-even sales in units for both the products.

(b) CALCULATE from the following figures:

(i) Efficiency ratio,

(ii) Activity, Ratio and

(iii) Capacity Ratio:

Budgeted Production	88,000 units
Standard Hours per unit	10
Actual Production	75,000 units
Actual Working Hours	6,00,000

(c) A Ltd. manufactures a product X which requires two raw materials A and B in a ratio of 1:4. The sales department has estimated a demand of 5,00,000 units for the product for the year. To produce one unit of finished product, 4 units of material A is required.

Stock position at the beginning of the year is as below:

Product- X	12,000 units
Material A	24,000 units
Material B	52,000 units

To place an order the company has to spend Rs.15,000. The company is financing its working capital using a bank cash credit @13% p.a.

Product X is sold at Rs.1,040 per unit. Material A and B are purchased at Rs.150 and Rs.200 respectively.

Required:

COMPUTE economic order quantity (EOQ):

(i) If purchase order for the both materials is placed separately.

(ii) If purchase order for the both materials is not placed separately.

(d) A manufacturing company has disclosed a net loss of Rs 2,25,000 as per their cost accounting records for the year ended March 31, 2019. However, their financial accounting records disclosed a net loss of Rs 2,70,000 for the same period. A scrutiny of data of both the sets of books of accounts revealed the following information:

		(Rs)
(i)	Factory overheads under-absorbed	5,000
(ii)	Administration overheads over-absorbed	3,000
(iii)	Depreciation charged in financial accounts	70,000
(iv)	Depreciation charged in cost accounts	80,000
(v)	Interest on investments not included in cost accounts	20,000
(vi)	Income-tax provided in financial accounts	65,000
(vii)	Transfer fees (credit in financial accounts)	2,000
(viii)	Preliminary expenses written off	3,000
(ix)	Over-valuation of closing stock of finished goods in cost accounts	7,000

Required:

PREPARE a Memorandum Reconciliation Account. **[4 × 5 Marks = 20 Marks]**

2. (a) Asian Mfg. Co. has decided to increase the size of the store. It wants the information about the probability of the individual product lines : Lemon, Grapes and Papaya. It provides the following data for the 2018 for each product line:

Particulars	Lemon	Grapes	Papaya
Revenues (Rs.)	79,350	2,10,060	1,20,990
Cost of goods sold (Rs.)	60,000	1,50,000	90,000
Cost of bottles returned (Rs.)	1,200	0	0
Number of purchase orders placed	36	84	36
Number of deliveries received	30	219	66
Hours of shelf stocking time	54	540	270
Items sold	12,600	1,10,400	30,600

Asian Mfg. Co. also provides the following information for the year 2018:

Activity	Description of Activity	Total Costs (Rs.)	Cost Allocation Basis
Bottle returns	Returning of empty bottles to the store	1,200	Direct tracing to product line
Ordering	Placing of orders of purchases	15,600	156 purchase orders
Delivery	Physical delivery and the receipts of merchandise	25,200	315 deliveries
Self- stocking	Stocking of merchandise on store shelves and ongoing restocking	17,280	864 hours of time

Customer support	Assistance provided to customers including bagging and checkout	30,720	1,53,600 items sold

Required

(i) Asian Mfg. Co. currently allocates store support costs (all costs other than the cost of goods sold) to the product line on the basis of the cost of goods sold of each product line. CALCULATE the operating income and operating income as the percentage of revenue of each product line.

(ii) If Asian Mfg. Co. allocates store support costs (all costs other than the cost of goods sold) to the product lines on the basis of ABC system, CALCULATE the operating income and operating income as the percentage of revenue of each product line.

(iii) SHOW a comparison statement. **[10 Marks]**

(b) APFL Ltd. deals in plumbing materials and also provides plumbing services to its customers. On 12th August, 2019, APFL received a job order for a students' hostel to supply and fitting of plumbing materials. The work is to be done on the basis of specification provided by the hostel owner. Hostel will be inaugurated on 5th September, 2019 and the work is to be completed by 3rd September, 2019. Following are the details related with the job work:

Direct Materials

APFL uses a weighted average method for the pricing of materials issues.

Opening stock of materials as on 12th August 2019:

- 15mm GI Pipe, 12 units of 15 feet size @ Rs.600 each
- 20mm GI Pipe, 10 units of 15 feet size @ Rs.660 each
- Other fitting materials, 60 units @ Rs. 26 each
- Stainless Steel Faucet, 6 units @ Rs. 204 each
- Valve, 8 units @ Rs. 404 each

Purchases:

On 16th August 2019:

- 20mm GI Pipe, 30 units of 15 feet size @ Rs. 610 each
- 10 units of Valve @ Rs. 402 each

On 18th August 2019:

- Other fitting materials, 150 units @ Rs. 28 each
- Stainless Steel Faucet, 15 units @ Rs. 209 each

On 27th August 2019:

- 15mm GI Pipe, 35 units of 15 feet size @ Rs.628 each
- 20mm GI Pipe, 20 units of 15 feet size @ Rs.660 each
- Valve, 14 units @ Rs. 424 each

Issues for the hostel job:

On 12th August 2019:

- 20mm GI Pipe, 2 units of 15 feet size
- Other fitting materials, 18 units

On 17th August 2019:

- 15mm GI Pipe, 8 units of 15 feet size
- Other fitting materials, 30 units

On 28th August 2019:

- 20mm GI Pipe, 2 units of 15 feet size
- 15mm GI Pipe, 10 units of 15 feet size
- Other fitting materials, 34 units
- Valve, 6 units

On 30th August:

- Other fitting materials, 60 units
- Stainless Steel Faucet, 15 units

Direct Labour:

Plumber: 180 hours @ Rs. 50 per hour (includes 12 hours overtime)

Helper: 192 hours @ Rs.35 per hour (includes 24 hours overtime)

Overtimes are paid at 1.5 times of the normal wage rate.

Overheads:

Overheads are applied @ Rs. 13 per labour hour.

Pricing policy:

It is company's policy to price all orders based on achieving a profit margin of 25% on sales price.

You are required to

(a) CALCULATE the total cost of the job.

(b) CALCULATE the price to be charged from the customer. **[10 Marks]**

3. (a) V Ltd. produces and markets a very popular product called 'X'. The company is interested in presenting its budget for the second quarter of 2019.

The following information are made available for this purpose:

(i) It expects to sell 50,000 bags of 'X' during the second quarter of 2019 at the selling price of Rs. 900 per bag.

(ii) Each bag of 'X' requires 2.5 kgs. of a raw – material called 'Y' and 7.5 kgs. of raw – material called 'Z'.

(iii) Stock levels are planned as follows:

Particulars	Beginning of Quarter	End of Quarter
Finished Bags of 'X' (Nos.)	15,000	11,000
Raw – Material 'Y' (Kgs.)	32,000	26,000
Raw – Material 'Z' (Kgs.)	57,000	47,000
Empty Bag (Nos.)	37,000	28,000

(iv) 'Y' cost Rs.120 per Kg., 'Z' costs Rs.20 per Kg. and 'Empty Bag' costs Rs.80 each.

(v) It requires 9 minutes of direct labour to produce and fill one bag of 'X'. Labour cost is

Rs.50 per hour.

(vi) Variable manufacturing costs are Rs.45 per bag. Fixed manufacturing costs Rs.30,00,000 per quarter.

(vii) Variable selling and administration expenses are 5% of sales and fixed administration and selling expenses are Rs.20,50,000 per quarter.

Required

(i) PREPARE a production budget for the said quarter.

(ii) PREPARE a raw – material purchase budget for 'Y', 'Z' and 'Empty Bags' for the said quarter in quantity as well as in rupees.

(iii) COMPUTE the budgeted variable cost to produce one bag of 'X'.

(iv) PREPARE a statement of budgeted net income for the said quarter and show both per unit and total cost data. **[10 Marks]**

(b) V Ltd. manufactures luggage trolleys for airports. The factory, in which the company undertakes all of its production, has two production departments- 'Fabrication' and 'Assembly', and two service departments- 'Stores' and 'Maintenance'.

The following information have been extracted from the company's budget for the financial year ended 31st March, 2019:

Particulars	Rs.
Allocated Overhead Costs	
Fabrication Department	15,52,000
Assembly Department	7,44,000
Stores Department	2,36,000
Maintenance Department	1,96,000
Other Overheads	
Factory rent	15,28,000
Factory building insurance	1,72,000
Plant & machinery insurance	1,96,000
Plant & Machinery Depreciation	2,65,000
Subsidy for staffs' canteen	4,48,000

Direct Costs	Rs.	Rs.
Fabrication Department:		
Material	63,26,000	
Labour	8,62,000	71,88,000
Assembly Department:		
Material	1,42,000	
Labour	13,06,000	14,48,000

The following additional information is also provided:

	Fabrication Department	Assembly Department	Stores Department	Maintenance Department
Floor area (square meters)	24,000	10,000	2,500	3,500

Value of plant & machinery (Rs.)	16,50,000	7,50,000	75,000	1,75,000
No. of stores requisitions	3,600	1,400	---	---
Maintenance hours required	2,800	2,300	400	---
No. of employees	120	80	38	12
Machine hours	30,00,000	60,000		
Labour hours	70,000	26,00,000		

Required:

(i) PREPARE a table showing the distribution of overhead costs of the two service departments to the two production departments using step method; and

(ii) CALCULATE the most appropriate overhead recovery rate for each department.

(iii) Using the rates calculated in part (ii) above, CALCULATE the full production costs of the following job order:

Job number IGI2019

Direct Materials	Rs. 2,30,400
Direct Labour:	
Fabrication Department	240 hours @ Rs. 50 per hour
Assembly Department	180 hours @ Rs. 50 per hour
Machine hours required:	
Fabrication Department	210 hours
Assembly Department	180 hours

[10 Marks]

4. (a) In a manufacturing company the standard units of production of the year were fixed at 1,20,000 units and overhead expenditures were estimated to be:

Fixed	Rs. 12,00,000;	Variable	Rs. 6,00,000;
Semi-Variable	Rs. 1,80,000		

Actual production during the April, 2019 of the year was 8,000 units. Each month has 20 working days.

During the month there was one public holiday. The actual overheads amounted to:

Fixed	Rs. 1,10,000;	Variable	Rs. 48,000
Semi-variable	Rs. 19,200		

Semi-variable charges are considered to include 60 per cent expenses of fixed nature and 40 per cent of variable character.

CALCULATE the followings:

(i) Overhead Cost Variance

(ii) Fixed Overhead Cost Variance

(iii) Variable Overhead Cost Variance

(iv) Fixed Overhead Volume Variance

(v) Fixed Overhead Expenditure Variance

(vi) Calendar Variance. **[10 Marks]**

(b) From the following data of A Ltd., CALCULATE (i) Material Consumed; (ii) Prime Cost and (iii) Cost of production.

		Amount (Rs.)
(i)	Repair & maintenance paid for plant & machinery	9,80,500
(ii)	Insurance premium paid for inventories	26,000
(iii)	Insurance premium paid for plant & machinery	96,000
(iv)	Raw materials purchased	64,00,000
(v)	Opening stock of raw materials	2,88,000
(vi)	Closing stock of raw materials	4,46,000
(vii)	Wages paid	23,20,000
(viii)	Value of opening Work-in-process	4,06,000
(ix)	Value of closing Work-in-process	6,02,100
(x)	Quality control cost for the products in manufacturing process	86,000
(xi)	Research & development cost for improvement in production process	92,600
(xii)	Administrative cost for:	
	- Factory & production	9,00,000
	- Others	11,60,000
(xiii)	Amount realised by selling scrap generated during the manufacturing process	9,200
(xiv)	Packing cost necessary to preserve the goods for further processing	10,200
(xv)	Salary paid to Director (Technical)	8,90,000

[10 Marks]

5. (a) SLS Infrastructure builts and operates a 110 k.m. long highway on the basis of Built-Operate-Transfer (BOT) model for a period of 25 years. A traffic assessment has been carried out to estimate the traffic flow per day. The details are as below:

Sl. No.	Type of vehicle	Daily traffic volume
1.	Two wheelers	44,500
2.	Car and SUVs	3,450
3.	Bus and LCV	1,800
4.	Heavy commercial vehicles	816

The following is the estimated cost of the project:

Sl. no.	Activities	Amount (Rs. in lakh)
1	Site clearance	170.70
2	Land development and filling work	9,080.35
3	Sub base and base courses	10,260.70
4	Bituminous work	35,070.80
5	Bridge, flyovers, underpasses, Pedestrian subway, footbridge, etc.	29,055.60

6	Drainage and protection work	9,040.50
7	Traffic sign, marking and road appurtenance	8,405.00
8	Maintenance, repairing and rehabilitation	12,429.60
9	Environmental management	982.00
	Total Project cost	1,14,495.25

An average cost of Rs.1,120 lakh has to be incurred on administration and toll plaza operation.

On the basis of the vehicle specifications (i.e. weight, size, time saving etc.), the following weights has been assigned to the passing vehicles:

Sl. No.	Type of vehicle	
1.	Two wheelers	5%
2.	Car and SUVs	20%
3.	Bus and LCV	30%
4.	Heavy commercial vehicles	45%

Required:

(i) CACULATE the total project cost per day of concession period.

(ii) COMPUTE toll fee to be charged for per vehicle of each type, if the company wants to earn a profit of 15% on total cost.

[**Note:** Concession period is a period for which an infrastructure is allowed to operate and recovers its investment] **[10 Marks]**

(b) In an Oil Mill, four products emerge from a refining process. The total cost of input during the quarter ending March 2019 is Rs.22,20,000. The output, sales and additional processing costs are as under:

Products	Output in Litres	Additional processing cost after split off (Rs.)	Sales value (Rs.)
A	8,000	6,45,000	25,87,500
B	4,000	1,35,000	2,25,000
C	2,000	–	90,000
D	4,000	22,500	6,75,000

In case these products were disposed-off at the split off point that is before further processing, the selling price per litre would have been:

A (Rs.)	B (Rs.)	C (Rs.)	D (Rs.)
225.00	90.00	45.00	112.50

PREPARE a statement of profitability based on:

(i) If the products are sold after further processing is carried out in the mill.

(ii) If they are sold at the split off point. **[10 Marks]**

6. (a) DISCUSS the essential features of a good cost accounting system.

(b) DISTINGUISH between Bill of Materials and Material Requisition Note.

(c) DISCUSS the remedial steps to be taken to minimize the labour turnover.

(d) DISTINGUISH between Job and Batch costing. **[4 × 5 = 20 Marks]**

MOCK TEST PAPER 1
INTERMEDIATE (NEW): GROUP – I
PAPER – 3: COST AND MANAGEMENT ACCOUNTING
Suggested Answers/ Hints

1. (a) (i) Contribution per unit = Selling price – Variable cost

= Rs.100 – Rs.60

= Rs.40

Break-even Point = $\frac{\text{Rs.24,00,000}}{\text{Rs.40}}$

= 60,000 units

Percentage Margin of Safety = $\frac{\text{Actual Sales} - \text{Break-even Sales}}{\text{Actual Sales}}$

Or, 60% = $\frac{\text{Actual Sales} - 60{,}000\,\textit{units}}{\text{Actual Sales}}$

∴ Actual Sales = 1,50,000 units

	(Rs.)
Sales Value (1,50,000 units × Rs.100)	1,50,00,000
Less: Variable Cost (1,50,000 units ×Rs.60)	90,00,000
Contribution	60,00,000
Less: Fixed Cost	24,00,000
Profit	36,00,000
Less: Income Tax @ 40%	14,40,000
Net Return	21,60,000

Rate of Net Return on Sales = 14.40% $\left(\frac{\text{Rs.21,60,000}}{\text{Rs.1,50,00,000}} \times 100\right)$

(ii) Products

	X (Rs.)	Y (Rs.)
Selling Price *per unit*	100	150
Variable Cost *per unit*	60	100
Contribution *per unit*	40	50

Composite contribution will be as follows:

Contribution per unit = $\left(\frac{40}{8} \times 5\right) + \left(\frac{50}{8} \times 3\right)$

= 25 + 18.75 = Rs.43.75

Break-even Sale = 64,000 units $\left(\frac{\text{Rs.28,00,000}}{\text{Rs.43.75}}\right)$

Break-even Sales Mix:

X (64,000 units × 5/8) = 40,000 units

Y (64,000 units × 3/8) = 24,000 units

(b) **(i)** Efficiency Ratio $= \dfrac{\text{Standard Hours (for actual production)}}{\text{Actual Hours (worked)}} \times 100$

$= \dfrac{75{,}000 \text{ units} \times 10 \text{ hrs.}}{6{,}00{,}000 \text{ hrs.}} \times 100$

$= 125\%$

(ii) Activity Ratio $= \dfrac{\text{Standard Hours (for actual production)}}{\text{Budgeted Hours}} \times 100$

$= \dfrac{75{,}000 \text{ units} \times 10 \text{ hrs.}}{88{,}000 \text{ units} \times 10 \text{ hrs.}} \times 100$

$= 85.23\%$

(iii) Capacity Ratio $= \dfrac{\text{Actual Hours (worked)}}{\text{Budgeted Hours}} \times 100$

$= \dfrac{6{,}00{,}000 \text{ hrs.}}{88{,}000 \text{ units} \times 10 \text{ hrs.}} \times 100$

$= 68.18\%$

(c) **Workings:**

Annual production of Product X = Annual demand – Opening stock

= 5,00,000 – 12,000 = 4,88,000 units

Annual requirement for raw materials = Annual production × Material per unit – Opening stock of material

Material A = 4,88,000 × 4 units – 24,000 units = 19,28,000 units

Material B = 4,88,000 × 16 units – 52,000 units = 77,56,000 units

(i) **Computation of EOQ when purchase order for the both materials is placed separately**

$$\text{EOQ} = \sqrt{\frac{2 \times \text{Annual Requirement for material} \times \text{Ordering cost}}{\text{Carrying cost per unit per annum}}}$$

$$\text{Material A} = \sqrt{\frac{2 \times 19{,}28{,}000 \text{ units} \times \text{Rs.}15{,}000}{13\% \text{ of Rs.}150}} = \sqrt{\frac{38{,}56{,}000 \times \text{Rs.}15{,}000}{\text{Rs.}19.5}}$$

= 54,462 units

$$\text{Material B} = \sqrt{\frac{2 \times 77{,}56{,}000 \text{ units} \times \text{Rs.}15{,}000}{13\% \text{ of Rs.}200}} = \sqrt{\frac{1{,}55{,}12{,}000 \times \text{Rs.}15{,}000}{\text{Rs.}26}}$$

= 94,600 units

(ii) **Computation of EOQ when purchase order for the both materials is not placed separately**

$$\text{Material A \& B} = \sqrt{\frac{2 \times (19{,}28{,}000 + 77{,}56{,}000) \text{ units} \times \text{Rs.}15{,}000}{13\% \text{ of Rs.}190^*}}$$

$$= \sqrt{\frac{1{,}93{,}68{,}000 \times \text{Rs.}15{,}000}{\text{Rs.}24.7}} = 1{,}08{,}452 \text{ units}$$

$$\text{Material A} = \frac{1{,}08{,}452 \times 19{,}28{,}000}{96{,}84{,}000} = 21{,}592 \text{ units}$$

$$\text{Material A} = \frac{1{,}08{,}452 \times 77{,}56{,}000}{96{,}84{,}000} = 86{,}860 \text{ units}$$

$$* \frac{(\text{Rs.}150 \times 19{,}28{,}000) + (\text{Rs.}200 \times 77{,}56{,}000)}{(19{,}28{,}000 + 77{,}56{,}000)} = \text{Rs.}190$$

(d) Memorandum Reconciliation Account

	Particulars	(Rs.)		Particulars	(Rs.)
To	Net loss as per Costing books	2,25,000	By	Administrative overhead over absorbed in costs	3,000
To	Factory overheads under absorbed	5,000	By	Depreciation over charged in Cost books (Rs. 80,000 – Rs.70,000)	10,000
To	Income tax not provided in Cost books	65,000	By	Interest on investments not included in Cost books	20,000
To	Preliminary expenses written off in Financial books	3,000	By	Transfer fees not considered in Cost books	2,000
To	Over-valuation of Closing Stock of finished goods in Cost books	7,000	By	Net loss as per Financial books	2,70,000
		3,05,000			3,05,000

2. (a) (i) Absorption Costing System

Operating Income-

Particulars	Lemon	Grapes	Papaya	Total
Revenue	79,350	2,10,060	1,20,990	4,10,400
Less: Cost of Goods Sold	60,000	1,50,000	90,000	3,00,000
Less: Store Support Cost	18,000	45,000	27,000	90,000
Operating Income	1,350	15,060	3,990	20,400
Operating Income (%)	1.70	7.17	3.30	4.97

(ii) ABC System

Overhead Allocation Rate-

Activity	Total Costs (Rs.)	Quantity of Cost Allocation Base	Overhead Allocation Rate (Rs.)
Ordering	15,600	156 Purchase Orders	100.00
Delivery	25,200	315 Delivering Orders	80.00
Shelf Stocking	17,280	864 Self Stocking Hours	20.00
Customer Support	30,720	1,53,600 Items Sold	0.20

Store Support Cost-

Particulars	Cost Driver	Lemon	Grapes	Papaya	Total
Bottle Returns	Direct	1,200	0	0	1,200
Ordering	Purchase Orders	3,600	8,400	3,600	15,600
Delivery	Deliveries	2,400	17,520	5,280	25,200
Self -Stocking	Hours of time	1,080	10,800	5,400	17,280
Customer Support	Items Sold	2,520	22,080	6,120	30,720
Grand Total		10,800	58,800	20,400	90,000

Operating Income-

Particulars	Lemon	Grapes	Papaya	Total
Revenue	79,350	2,10,060	1,20,990	410,400
Less: Cost of Goods Sold	60,000	1,50,000	90,000	300,000
Less: Store Support Cost	10,800	58,800	20,400	90,000
Operating Income	8,550	1,260	10,590	20,400
Operating Income (%)	10.78	0.60	8.75	4.97

(iii) Comparison

Particulars	Lemon	Grapes	Papaya	Total
Under Traditional Costing System	1.70%	7.17%	3.30%	4.97%
Under ABC System	10.78%	0.60%	8.75%	4.97%

(b) (a) **Calculation of Total Cost for the Hostel Job**

Particulars	Amount (Rs.)	Amount (Rs.)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	
- Other fitting materials (Working Note- 3)	3,866.07	
- Stainless steel faucet		
15 units × $\left(\frac{6\times ₹204+15\times ₹209}{21\text{units}}\right)$	3,113.57	
- Valve		
6 units × $\left(\frac{8\times ₹404+10\times ₹402+14\times ₹424}{32\text{units}}\right)$	2,472.75	23,091.95
Direct Labour:		
Plumber [(180 hours × Rs. 50) + (12 hours × Rs. 25)]	9,300.00	
Helper [(192 hours × Rs. 35) + (24 hours × Rs. 17.5)]	7,140.00	16,440.00
- Overheads [Rs. 13 × (180 + 192) hours]		4,836.00
Total Cost		44,367.95

(b) Price to be charged for the job work:

	Amount (Rs.)
Total Cost incurred on the job	44,367.95
Add: 25% Profit on Job Price $\left(\frac{44,367.95}{75\%}\times 25\%\right)$	14,789.32
	59,157.27

Working Note:

1. Cost of 15mm GI Pipe

Date		Amount (Rs.)
17-08-2019	8 units × Rs. 600	4,800.00
28-08-2019	10 units × $\left(\frac{4\times Rs.600+35\times Rs.628}{39\,units}\right)$	6,251.28
		11,051.28

2. Cost of 20mm GI Pipe

Date		Amount (Rs.)
12-08-2019	2 units × Rs. 660	1,320.00
28-08-2019	2 units × $\left(\frac{8\times Rs.660+30\times Rs.610+20\times Rs.660}{58\,units}\right)$	1,268.28
		2,588.28

3. Cost of Other fitting materials

Date		Amount (Rs.)
12-08-2019	18 units × Rs. 26	468.00
17-08-2019	30 units × Rs. 26	780.00
28-08-2019	34 units × $\left(\frac{12\times Rs.26+150\times Rs.28}{162\,units}\right)$	946.96
30-08-2019	60 units × $\left(\frac{12\times Rs.26+150\times Rs.28}{162\,units}\right)$	1,671.11
		3,866.07

3. (a) (i) Production Budget of 'X' for the Second Quarter

Particulars	Bags (Nos.)
Budgeted Sales	50,000
Add: Desired Closing stock	11,000
Total Requirements	61,000
Less: Opening stock	15,000
Required Production	46,000

(ii) Raw–Materials Purchase Budget in Quantity as well as in Rs. for 46,000 Bags of 'X'

Particulars	'Y' Kgs.	'Z' Kgs.	Empty Bags Nos.
Production Requirements	2.5	7.5	1.0

Per bag of 'X'			
Requirement for Production	1,15,000 (46,000 × 2.5)	3,45,000 (46,000 × 7.5)	46,000 (46,000 × 1)
Add: Desired Closing Stock	26,000	47,000	28,000
Total Requirements	1,41,000	3,92,000	74,000
Less: Opening Stock	32,000	57,000	37,000
Quantity *to be purchased*	1,09,000	3,35,000	37,000
Cost per Kg./Bag	Rs.120	Rs.20	Rs.80
Cost of Purchase (Rs.)	1,30,80,000	67,00,000	29,60,000

(iii) Computation of Budgeted Variable Cost of Production of 1 Bag of 'X'

Particulars	(Rs.)
Raw – Material	
Y 2.5 Kg @120	300.00
Z 7.5 Kg. @20	150.00
Empty Bag	80.00
Direct Labour(Rs.50× 9 minutes / 60 minutes)	7.50
Variable Manufacturing Overheads	45.00
Variable Cost of Production *per bag*	582.50

(iv) Budgeted Net Income for the Second Quarter

Particulars	Per Bag (Rs.)	Total (Rs.)
Sales Value (50,000 Bags)	900.00	4,50,00,000
Less: Variable Cost:		
Production Cost	582.50	2,91,25,000
Admn. & Selling Expenses (5% of Sales Price)	45.00	22,50,000
Budgeted Contribution	272.50	1,36,25,000
Less: Fixed Expenses:		
Manufacturing		30,00,000
Admn. & Selling		20,50,000
Budgeted Net Income		85,75,000

(b) (i) Table of Primary Distribution of Overheads

Particulars	Basis of Apportionment	Total Amount	Production Department		Service Departments	
			Fabrication	Assembly	Stores	Maintenance
Overheads Allocated		27,28,000	15,52,000	7,44,000	2,36,000	1,96,000
Direct Costs	Actual	86,36,000	71,88,000	14,48,000	---	---

Other Overheads:						
Factory rent	Floor Area (48:20:5:7)	15,28,000	9,16,800	3,82,000	95,500	1,33,700
Factory building insurance	Floor Area (48:20:5:7)	1,72,000	1,03,200	43,000	10,750	15,050
Plant & Machinery insurance	Value of Plant & Machinery (66:30:3:7)	1,96,000	1,22,038	55,472	5,547	12,943
Plant & Machinery Depreciation	Value of Plant & Machinery (66:30:3:7)	2,65,000	1,65,000	75,000	7,500	17,500
Canteen Subsidy	No. of employees (60:40:19:6)	4,48,000	2,15,040	1,43,360	68,096	21,504
		1,39,73,000	1,02,62,078	28,90,832	4,23,393	3,96,697

Re-distribution of Service Departments' Expenses:

Particulars	Basis of Apportionment	Production Department		Service Departments	
		Fabrication	Assembly	Stores	Maintenance
Overheads as per Primary distribution	As per Primary distribution	1,02,62,078	28,90,832	4,23,393	3,96,697
Maintenance Department Cost	Maintenance Hours (28:23:4:-)	2,01,955	1,65,891	28,851	(3,96,697)
		1,04,64,033	30,56,723	4,52,244	---
Stores Department	No. of Stores Requisition (18:7:-:-)	3,25,616	1,26,628	(4,52,244)	
		1,07,89,649	31,83,351	---	---

(ii) Overhead Recovery Rate

Department	Apportioned Overhead (Rs.) (I)	Basis of Overhead Recovery Rate (II)	Overhead Recovery Rate (Rs.) [(I) ÷ (II)]
Fabrication	1,07,89,649	30,00,000 Machine Hours	3.60 per Machine Hour
Assembly	31,83,351	26,00,000 Labour Hours	1.22 per Labour Hour

(iii) Calculation of full production costs of Job no. IGI2019.

Particulars	Amount (Rs.)
Direct Materials	2,30,400
Direct Labour:	
Fabrication Deptt. (240 hours × Rs.50)	12,000
Assembly Deptt. (180 hours × Rs.50)	9,000
Production Overheads:	

Fabrication Deptt. (210 hours × Rs. 3.60)	756
Assembly Deptt. (180 hours × Rs. 1.22)	220
Total Production Cost	2,52,376

4. (a) **COMPUTATION OF VARIANCES**

(i) **Overhead Cost Variance** = Absorbed Overheads – Actual Overheads

= (Rs.87,200 + Rs.44,800) – (Rs.1,21,520 + Rs.55,680)

= Rs. 45,200 (A)

(ii) **Fixed Overhead Cost Variance** = Absorbed Fixed Overheads – Actual Fixed Overheads

= Rs. 87,200 – Rs.1,21,520

= Rs.34,320 (A)

(iii) **Variable Overhead Cost Variance** = Standard Variable Overheads for Production – Actual Variable Overheads

= Rs. 44,800 – Rs. 55,680

= Rs. 10,880 (A)

(iv) **Fixed Overhead Volume Variance** = Absorbed Fixed Overheads – Budgeted Fixed Overheads

= Rs. 87,200 – Rs.1,09,000

= Rs. 21,800 (A)

(v) **Fixed Overhead Expenditure Variance** = Budgeted Fixed Overheads – Actual Fixed Overheads

= Rs.10.90 × 10,000 units – Rs.1,21,520

= Rs.12,520 (A)

(vi) **Calendar Variance** = Possible Fixed Overheads – Budgeted Fixed Overheads

= Rs.1,03,550 – Rs.1,09,000

= Rs. 5,450 (A)

WORKING NOTE

Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.12,00,000}}{\text{1,20,000units}}$	Rs. 10
Fixed Overheads element in *Semi-Variable* Overheads i.e. 60% of Rs.1,80,000	Rs. 1,08,000
Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.1,08,000}}{\text{1,20,000units}}$	Rs. 0.90
Standard Rate of Absorption of Fixed Overheads *per unit* (Rs.10 + Rs.0.90)	Rs.10.90
Fixed Overheads Absorbed on 8,000 units @ Rs10.90	Rs. 87,200
Budgeted Variable Overheads	Rs. 6,00,000
Add : Variable element in Semi-Variable Overheads 40% of Rs. 1,80,000	Rs. 72,000

Total Budgeted Variable Overheads Standard Variable Cost *per unit* = $\frac{\text{Budgeted Variable Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.6,72,000}}{\text{1,20,000units}}$	Rs. 6,72,000 Rs.5.60
Standard Variable Overheads for 8,000 units @ Rs.5.60	Rs. 44,800
Budgeted Annual Fixed Overheads (Rs. 12,00,000 + 60% of Rs. 1,80,000)	Rs.13,08,000
Possible Fixed Overheads = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Days}} \times \text{Actual Days}$ $= \left[\frac{\text{Rs.1,09,000}}{\text{20 Days}} \times \text{19 Days}\right]$	Rs.1,03,550
Actual Fixed Overheads (Rs.1,10,000 + 60% of Rs. 19,200)	Rs.1,21,520
Actual Variable Overheads (Rs.48,000 + 40% of Rs.19,200)	Rs. 55,680

(b) Calculation of Cost of Production of A Ltd. for the period…..

Particulars	Amount (Rs.)
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 inventories	26,000
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
	1,07,43,100
Add: Opening value of W-I-P	4,06,000
Less: Closing value of W-I-P	(6,02,100)
	1,05,47,000
Less: Amount realised by selling scrap	(9,200)
Add: Primary packing cost	10,200
Cost of Production	1,05,48,000

Notes:

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

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

5. (a) (i) Calculation of total project cost per day of concession period:

Activities	Amount (Rs. in lakh)
Site clearance	170.70

Land development and filling work	9,080.35
Sub base and base courses	10,260.70
Bituminous work	35,070.80
Bridge, flyovers, underpasses, Pedestrian subway, footbridge, etc	29,055.60
Drainage and protection work	9,040.50
Traffic sign, marking and road appurtenance	8,405.00
Maintenance, repairing and rehabilitation	12,429.60
Environmental management	982.00
Total Project cost	**1,14,495.25**
Administration and toll plaza operation cost	1,120.00
Total Cost	1,15,615.25
Concession period in days (25 years × 365 days)	9,125
Cost per day of concession period (Rs. in lakh)	**12.67**

(ii) Computation of toll fee:

Cost to be recovered per day = Cost per day of concession period + 15% profit on cost

= Rs.12,67,000 + Rs.1,90,050 = Rs.14,57,050

$$\text{Cost per equivalent vehicle} = \frac{₹14,57,050}{76,444 \text{ units (Refer working note)}}$$

= Rs.19.06 per equivalent vehicle

Vehicle type-wise toll fee:

Sl. No.	Type of vehicle	Equivalent cost [A]	Weight [B]	Toll fee per vehicle [A×B]
1.	Two wheelers	Rs.19.06	1	19.06
2.	Car and SUVs	Rs.19.06	4	76.24
3.	Bus and LCV	Rs.19.06	6	114.36
4.	Heavy commercial vehicles	Rs.19.06	9	171.54

Working Note:

The cost per day has to be recovered from the daily traffic. The each type of vehicle is to be converted into equivalent unit. Let's convert all vehicle types equivalent to Two-wheelers.

Sl. No.	Type of vehicle	Daily traffic volume [A]	Weight	Ratio [B]	Equivalent Two-wheeler [A×B]
1.	Two wheelers	44,500	0.05	1	44,500
2.	Car and SUVs	3,450	0.20	4	13,800
3.	Bus and LCV	1,800	0.30	6	10,800
4.	Heavy commercial vehicles	816	0.45	9	7,344
	Total				76,444

(b) (i) Statement of profitability of an Oil Mill (after carrying out further processing) for the quarter ending 31st March 2019.

Products	Sales Value after further processing	Share of Joint cost	Additional processing cost	Total cost after processing	Profit (loss)
A	25,87,500	14,80,000	6,45,000	21,25,000	4,62,500
B	2,25,000	2,96,000	1,35,000	4,31,000	(2,06,000)
C	90,000	74,000	–	74,000	16,000
D	6,75,000	3,70,000	22,500	3,92,500	2,82,500
	35,77,500	22,20,000	8,02,500	30,22,500	5,55,000

(ii) Statement of profitability at the split off point

Products	Selling price of split off	Output in units	Sales value at split off point	Share of joint cost	Profit at split off point
A	225.00	8,000	18,00,000	14,80,000	3,20,000
B	90.00	4,000	3,60,000	2,96,000	64,000
C	45.00	2,000	90,000	74,000	16,000
D	112.50	4,000	4,50,000	3,70,000	80,000
			27,00,000	22,20,000	4,80,000

Note: Share of Joint Cost has been arrived at by considering the sales value at split off point.

6. (a) The essential features, which a good cost and management accounting system should possess, are as follows:

(i) **Informative and simple:** Cost and management accounting system should be tailor-made, practical, simple and capable of meeting the requirements of a business concern. The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.

(ii) **Accurate and authentic:** The data to be used by the cost and management accounting system should be accurate and authenticated; otherwise it may distort the output of the system and a wrong decision may be taken.

(iii) **Uniformity and consistency:** There should be uniformity and consistency in classification, treatment and reporting of cost data and related information. This is required for benchmarking and comparability of the results of the system for both horizontal and vertical analysis.

(iv) **Integrated and inclusive:** The cost and management accounting system should be integrated with other systems like financial accounting, taxation, statistics and operational research etc. to have a complete overview and clarity in results.

(v) **Flexible and adaptive:** The cost and management accounting system should be flexible enough to make necessary amendments and modification in the system to incorporate changes in technological, reporting, regulatory and other requirements.

(vi) **Trust on the system:** Management should have trust on the system and its output. For this, an active role of management is required for the development of such a system that reflects a strong conviction in using information for decision making.

(b)

Bills of Material	Material Requisition Note
1.It is document or list of materials prepared by the engineering/ drawing department.	1.It is prepared by the foreman of the consuming department.
2.It is a complete schedule of component parts and raw materials required for a particular job or work order.	2.It is a document authorizing Store-Keeper to issue material to the consuming department.
3.It often serves the purpose of a Store Requisition as it shows the complete schedule of materials required for a particular job i.e. it can replace stores requisition.	3.It cannot replace a bill of material.
4.It can be used for the purpose of quotation.	4.It is useful in arriving historical cost only.
5.It helps in keeping a quantitative control on materials drawn through Stores Requisition.	5.It shows the material actually drawn from stores.

(c) The following steps are useful for minimizing labour turnover:

(a) *Exit interview*: An interview to be arranged with each outgoing employee to ascertain the reasons of his leaving the organization.

(b) *Job analysis and evaluation*: to ascertain the requirement of each job.

(c) Organization should make use of a scientific system of recruitment, placement and promotion for employees.

(d) Organization should create healthy atmosphere, providing education, medical and housing facilities for workers.

(e) Committee for settling workers grievances.

(d)

Sr. No	Job Costing	Batch Costing
1	Method of costing used for non- standard and non- repetitive products produced as per customer specifications and against specific orders.	Homogeneous products produced in a continuous production flow in lots.
2	Cost determined for each Job.	Cost determined in aggregate for the entire Batch and then arrived at on per unit basis.
3	Jobs are different from each other and independent of each other. Each Job is unique.	Products produced in a batch are homogeneous and lack of individuality.

MOCK TEST PAPER 1

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX LAW (60 MARKS)

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

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

Division A – Multiple Choice Questions

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

I. Neeraj was working as an accountant with the company Ujala Ltd. He died on 30.04.2018 and on account of his death, his wife Neha started receiving a pension of Rs.10,000 per month w.e.f. 01.06.2018. Determine under which head of income, the pension received by Neha during F.Y. 2018-19 shall be taxable. Also, compute the taxable amount in her hands.

(a) Income from other sources: Rs.1,00,000

(b) Income from other sources: Rs.85,000

(c) Income from Salary: Rs.1,00,000

(d) Income from Salary: Rs.85,000 **(1 Mark)**

II. Neha sold her residential house for Rs.85 lakh on 11.08.2018. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2018 was Rs.150 lakh. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at Rs.160 lakh. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

(a) Rs.85 lakh

(b) Rs.150 lakh

(c) Rs.160 lakh

(d) Rs.89.25 lakh **(1 Mark)**

III. Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

(i) Allowance paid by Government to a citizen of India for rendering services outside India

(ii) Death-cum-retirement gratuity received by a government employee

(iii) Any sum received under a life insurance policy taken on 01.05.2016, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.

(iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.

(a) (i), (ii), (iii), (iv)

(b) (i) & (ii)

(c) (i), (ii) & (iv)

(d) (ii) & (iv) **(1 Mark)**

IV. Match the following to their respective rate of depreciation -

L.	Pollution control equipment	1.	10%
M.	Commercial building	2.	40%
N.	Oil Wells	3.	100%
		4.	15%

Select the correct answer from the options given below:

	L.	M.	N.
(a)	2	1	4
(b)	4	2	1
(c)	2	4	1
(d)	3	1	4

(1 Mark)

V. Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2018 and charges Rs.14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

(a) Rs.14,50,000 shall be charged to tax as capital gains

(b) Rs.14,50,000 shall be charged to tax as income from other sources

(c) Rs.14,50,000 shall be charged to tax as income from profession

(d) No tax implications shall arise

(1 Mark)

VI. Mr. Kunal is a doctor by profession engaged in his medical practice from last 15 years. His gross receipts from the profession in FY 2015-16, 2016-17, 2017-18 were Rs.2,00,000, Rs.16,00,000 and Rs.18,50,000 respectively. Further, Kunal follows cash system of accounting. Determine which of the following books of accounts and documents are required to be kept and maintained by Kunal.

(i) Cash Book

(ii) Journal

(iii) Inventory of the stock of drugs, medicines, etc.

(iv) A daily case register

(a) (i) and (ii)

(b) (i), (ii), (iii) & (iv)

(c) (i), (iii) & (iv)

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

VII. Which of the following statements is/are correct in respect of deduction allowed to an assessee in respect of certain donations for scientific research or rural development u/s 80GGA?

(i) Deduction is not allowed to an assessee having income from business.

(ii) The maximum amount of deduction allowed is Rs.10,000.

(iii) 100% deduction is allowed if amount in excess of Rs.10,000 donated is paid by any mode other than cash.

(iv) Deduction is not allowed to an assessee having income from salaries.

(v) Any sum paid to a University to be used for scientific research is allowed if such University is approved u/s 35(1)(ii).

(vi) Any sum paid to a notified Urban Development Fund is allowed.

(a) (i), (iii), (iv), (v), (vi)

(b) (ii), (iii), (v)

(c) (i), (ii)

(d) (i), (iii), (v) **(2 Marks)**

VIII. Mr. Vikesh, a US citizen, came to India for an assignment from 11.01.2015 to 09.10.2015 and went back to his home country on completion of the same. He thereafter, visited India on 05.07.2017 again for an assignment, which ended on 26.05.2018. What is the latest date by which Mr. Vikesh should depart from India after completing the assignment so as to qualify as non-resident for P.Y. 2018-19? *(Assume that he shall not be visiting India again during the year)*

(a) 29-05-2018

(b) 30-05-2018

(c) 29-09-2018

(d) 28-09-2018 **(2 Marks)**

IX. Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year –

- 12.06.2018: loan repayment of Rs. 27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of Rs.5,000.
- 19.08.2018: Portable dye machinery purchased for Rs. 15,000. The payment was made in cash in three weekly instalments.
- 26.01.2019: Payment of Rs. 10,000 made to electrician due to unforeseen electric circuit at shop
- 28.02.2019: Purchases made from unregistered dealer for Rs. 13,500

What will be disallowance under 40A(3), if any, if Mr. Shahid opts to declare his income as per the provisions of section 44AD?

(a) Rs. 18,500

(b) Rs.28,500

(c) Rs.13,500

(d) NIL **(2 Marks)**

X. Which of the following statements is/are true in respect of taxability of agricultural income under the Income-tax Act, 1961?

(i) Any income derived from saplings or seedlings grown in a nursery is agricultural income exempt from tax u/s 10(1).

(ii) 60% of dividend received from shares held in a tea company is agricultural income exempt from tax u/s 10(1).

(iii) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs.5,000 and the total income (including net agricultural income) exceeds Rs.2,50,000.

(iv) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs.5,000 and the total income (excluding net agricultural income) exceeds Rs.2,50,000.

Choose from the following options:

(a) (i) and (iii)

(b) (ii) and (iii)

(c) (i) and (iv)

(d) (i), (ii) and (iv) **(2 Marks)**

XI. X Ltd. files its return of loss for the A.Y. 2019-20 on 01.12.2019. The following data is taken from return submitted by the company:

Business Loss for P.Y. 2018-19 (before depreciation)	Rs.1,70,000
Depreciation	Rs.30,000
Short term capital loss	Rs.45,000
Long term capital gain	Rs.10,000
Income from other sources	Rs.23,000
Unabsorbed deprecation pertaining to A.Y. 2017-18 and A.Y. 2018-19 which has been determined in pursuance of return filed	Rs.75,000

Compute the amount of loss that can be carried forward by X Ltd.

(a) Rs.1,05,000

(b) Rs.30,000

(c) Rs.2,87,000

(d) Nil **(2 Marks)**

XII. Which of the following details/evidences are required to be furnished by an employee to his/her employer in respect of deduction of interest under the head "Income from house property", when the employer is estimating the total income of the employee for the purpose of tax deduction at source u/s 192?

(i) Amount of Interest payable or paid

(ii) Rate of interest payable or paid

(iii) Name of the lender

(iv) Address of the lender

(v) PAN of the lender

(vi) TAN of the lender

(a) (i), (iii), (v)

(b) (i), (iii), (iv), (v)

(c) (ii), (iv), (v), (vi)

(d) (i), (ii) **(2 Marks)**

DIVISION B –DESCRIPTIVE QUESTIONS

Question No. **1** is compulsory

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

1. Dr. Saxena (56 years), a resident individual furnished the following information for the previous year 2018-19.

Income and Expenditure A/c

To	Rs.	By	Rs.
Salary to staff	3,78,000	Consultation fees	51,85,000
Cost of medicine	36,35,000	Cost of medicines recovered	7,85,000
Rent	66,000	Stock of medicine	25,000
Administrative cost	11,98,000	Interest on Post Office MIS	86,400
Advance tax	1,40,000	Interest on Time Deposit with bank (Net of TDS)	27,000
Membership fees	5,000	Rent received	20,000
Depreciation on apparatus	42,500	Winning from lotteries (Net of TDS)	7,000
Net profit	6,70,900		
	61,35,400		61,35,400

Other Information

(i) Depreciation as per Income-tax Rules, 1962 to be computed as follows:

WDV as on 1.4.2018 Rs.3,00,000

Rate of depreciation @ 15%

(ii) Cost of administration includes Rs. 3,000 paid for municipal tax for the house let out to a tenant.

(iii) Cost of lottery tickets amounting to Rs. 350 has not been debited to Income and Expenditure account.

(iv) He received salary of Rs. 1,50,000 and commission of Rs. 50,000 from a nursing home in which Dr. (Mrs.) Saxena is also an equal partner. No TDS was deducted.

(v) He received fees of Rs. 50,000 from University of Chennai as lecturer.

(vi) Received pension of Rs. 84,000 against Life insurance cum pension plan from LIC

(vii) He paid lumpsum payment of Rs. 1,05,000 by cheque as mediclaim insurance premium for 3 years term for self and his wife medical treatment.

(viii) He paid LIC premium of Rs. 80,000 for his own life against a policy taken on 01.12.2017. Sum assured is Rs. 10,00,000

(ix) He has deposited Rs. 1,20,000 in PPF

(x) He purchased 300 shares in C Ltd. on 12.1.2017 at a cost of Rs.2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is Rs.1,800. He sold all the shares of C Ltd. on 15.7.2018 for Rs.3,200.

You are required to compute the total income and tax payable thereon by Dr. Saxena for the assessment year 2019-20. **14 Marks)**

2. (a) Determine the residential status of Mrs. Ria Bran and compute her gross total income chargeable to tax for the Assessment Year 2019-20 from the following information gathered from her documents:

Mrs. Ria Bran is an Australian, got married to Mr. Arjun of India in Australia on 2.01.2018 and came to India for the first time on 18.02.2018. She left for Australia on 15.9.2018. She returned to India again on 23.03.2019.

On 01.04.2018, she had purchased a Flat in Delhi, which was let out to Mr. Sahil on a rent of Rs. 28,000 p.m. from 1.5.2018. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of Rs. 2,15,500 upto 31.03.2019.

While in India, during the previous year 2018-19, she had received a gold chain from her in-laws worth Rs. 1,50,000, a Car worth Rs. 7,50,000 from married sister of her husband and Rs. 1,72,000 from very close friends of her husband. **(7 Marks)**

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

(i) Rs. 2,00,000 paid to Mr. Aarav, a resident individual, on 18-05-2018 by the State of Bihar on compulsory acquisition of his urban land.

(ii) Payment of Rs. 2,00,000 to Mr. Rakesh a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN. **(4 Marks)**

II. Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2019-20:

(i) Mr. Nihar makes cash payment to a hotel Ginger, Rishikesh of Rs. 50,000 against the bill raised by the hotel.

(ii) Mr. Suresh, in a single transaction, makes contract of Rs.1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.

(iii) Payment to Mutual Funds of Rs.57,000 for purchase of its units.

(3 Marks)

3. (a) Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2018 for Rs. 80,00,000.

The sale proceeds were to be paid in the following manner:

(i) 20% through account payee bank draft on the date of agreement.

(ii) 60% on the date of the possession of the property.

(iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2018 and the registration process was completed on 14.01.2019. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2018 was Rs. 90,00,000 whereas on 14.01.2019 it was Rs. 91,50,000.

Mr. Sarthak had acquired the property on 01.04.2001 for Rs. 20,00,000. After recovering the sale proceeds from Jaikumar, he purchased another residential house property for Rs. 20,00,000 on 24.3.2019.

Compute the income under the head "Capital Gains" for the Assessment Year 2019-20.

Cost Inflation Index for Financial Year(s)

2001-02- 100; 2018-19 - 280 **(7 Marks)**

(b) Mr. Shivam, employed as Finance Executive in Tej Pratap Industries Pvt. Ltd., furnishes you the following information for the year ended 31-03-2019 :

(i) Basic salary Rs. 70,000 p.m. From 1st December 2018, basic salary increased to 80,000 p.m.

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).

(iii) Bonus equal to one month salary. This was paid in November, 2018 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.

(v) Profession tax paid Rs.2,200 of which Rs.1,800 was paid by the employer.

(vi) Facility of laptop was provided to Shivam for both official and personal use. Cost of laptop Rs.65,000 and was purchased by the company on 11-10-2018

(vii) Leave travel concession given to Shivam, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer Rs. 20,000 for adults and lumpsum of Rs.25,000 for three children. Shivam is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Shivam. **(7 Marks)**

4. (a) Mr. Satish Sharma has derived the following income/loss, as computed below, for the previous year 2018-19:

Particulars	Rs.
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings (Gross)	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2019-20, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2019. **(5 Marks)**

(b) Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2019:

(i) Mahi received a gift of Rs.85,000 from her friend's father on the occasion of her birthday.

(ii) Nonu won a prize money of Rs.3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of Rs.25,000 (gross) accrued during the year.

Mr. Naresh's income before considering clubbing provisions is higher than that of his wife.

Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. **(5 Marks)**

(c) Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act. **(4 Marks)**

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

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

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

(iii) All questions should be answered on the basis of the position of GST law as amended up to 30th April, 2019.

(iv) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

Division A - Multiple Choice Questions

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

Total Marks: 12 Marks

Question Nos. 1 and 2 carries 2 Marks each

1. GST is payable by recipient of services in the following cases:-

(i) Services provided by way of sponsorship to ABC Ltd.

(ii) Services supplied by a director of Galaxy Ltd. to Mr. Krishna.

(iii) Services by Department of Posts by way of speed post to MNO Ltd.

(iv) Services supplied by a recovering agent to SNSP Bank

(a) (i) & (iii)

(b) (i) & (iv)

(c) (ii) & (iii)

(d) (ii) & (iv)

2. Which of the following statements are correct?

(i) Revocation of cancellation of registration under CGST/SGST Act shall be deemed to be a revocation of cancellation of registration under SGST/CGST Act.

(ii) Cancellation of registration under CGST/SGST Act shall be deemed to be a cancellation of registration under SGST/CGST Act.

(iii) Revocation of cancellation of registration under CGST/SGST Act shall not be deemed to be a revocation of cancellation of registration under SGST/CGST Act.

(iv) Cancellation of registration under CGST/SGST Act shall not be deemed to be a cancellation of registration under SGST/CGST Act.

(a) (i) and (ii)

(b) (i) and (iv)

(c) (ii) and (iii)

(d) (iii) and (iv) **(2 x 2 Marks = 4 Marks)**

Question Nos. 3 to 13 are of 1 mark each.

3. Which of the following is not eligible for opting composition scheme under GST?
   (a) M/s ABC, a firm selling garments having annual turnover of Rs. 78 lakh.
   (b) A startup company operating restaurant in Delhi having a annual turnover of Rs. 98 lakh.
   (c) A courier service company operating solely in Mumbai having annual turnover of Rs. 90 lakh.
   (d) A trader selling grocery items having an annual turnover of Rs. 95 lakh.
4. Which of the following is not a supply of services?
   (a) Renting of Commercial Office Complex
   (b) Payment of Non-Compete Fee by an ex-employee to his previous employer
   (c) Repairing of Mobile Phone
   (d) Permanent transfer of business assets on which ITC is availed
5. Which of the following services is exempt under health care services provided by clinical establishments?
   (a) Chemist shop in the hospital selling medicines to public at large
   (b) Food supplied from an outsourced canteen to in-patients as per diet prescribed by the hospital dietitian
   (c) Advertisement services provided by the hospital to a pharmaceutical company for their asthma pump by displaying it prominently in the hospital building
   (d) All of the above
6. Alcoholic liquor for human consumption is subjected to
   (a) State excise duty
   (b) Central Sales Tax/Value Added Tax
   (c) Both (a) and (b)
   (d) GST
7. Which of the following persons is not eligible for composition scheme even though their aggregate turnover does not exceed Rs. 1 crore in preceding FY, in Uttar Pradesh?
   (a) A person supplying restaurant services
   (b) A person supplying restaurant services and earning bank interest
   (c) A person supplying restaurant services and warehousing of rice
   (d) A person supplying restaurant services and warehousing of processed tea
8. Can a registered person opting for composition scheme collect GST on his outward supplies?
   (a) Yes, in all cases
   (b) Yes, only on such goods as may be notified by the Central Government
   (c) Yes, only on such services as may be notified by the Central Government
   (d) No
9. What is the due date for payment of tax for a normal taxpayer?
   (a) Last day of the month to which payment relates
   (b) Within 10 days of the subsequent month
   (c) Within 20 days of the subsequent month

(d) Within 15 days of the subsequent month

10. An exempt supply includes-

(a) Supply of goods or services or both which attracts Nil rate of tax

(b) Non-taxable supply

(c) Supply of goods or services or both which are wholly exempt from tax under section 11 of the CGST Act or under section 6 of IGST Act

(d) All of the above **(8 x 1 Mark=8 Marks)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any three questions out of remaining four questions.

Total Marks: 38 Marks

1. Mr. X, a supplier of goods, pays GST under regular scheme. He has made the following outward taxable supplies in a tax period:

Particulars	(Rs.)
Intra-State supply of goods	8,00,000
Inter-State supply of goods	3,00,000

He has also furnished the following information in respect of purchases made by him in that tax period:

Particulars	(Rs.)
Intra-State purchases of goods	2,00,000
Inter-State purchases of goods	50,000

Mr. X has following ITCs with him at the beginning of the tax period:

Particulars	(Rs.)
CGST	57,000
SGST	Nil
IGST	70,000

Note:

(i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Mr. X during the tax period. Make suitable assumptions as required. **(8 Marks)**

2. (a) Determine taxable value of supply under GST law with respect to each of the following independent services provided by the registered persons:

Particulars	Gross amount charged (Rs.)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	50,000

Amount charged by business correspondent from banking company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by commentator to a recognized sports body	5,20,000

(4 Marks)

(b) Raman is an architect in Chennai. His brother who is settled in London is a well-known lawyer. Raman has taken legal advice from him free of cost with regard to his family dispute. Examine whether the said activity would amount to supply under section 7 read with Schedule I of the CGST Act

Would your answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai? **(6 Marks)**

3. (a) Determine the effective date of registration in following cases:

(i) The aggregate turnover of Dhampur Footwear Industries of Delhi has exceeded the applicable threshold limit of Rs. 40 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.

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

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

4. (a) Discuss the provisions relating to time of supply of goods that are taxable under reverse charge? **(5 Marks)**

(b) Mr. X, a regular tax payer, did not make any taxable supply during the month of July. Is he required to file any goods and service tax return? **(3 Marks)**

(c) What could be the liabilities (in so far as registration is concerned) on transfer of a business?

(2 Marks)

MOCK TEST PAPER 1

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION – A: INCOME TAX LAW

SOLUTIONS

Division A – Multiple Choice Questions

I. (b)

II. (b)

III. (b)

IV. (a)

V. (d)

VI. (c)

VII. (d)

VIII. (a)

IX. (d)

X. (c)

XI. (a)

XII. (b)

DIVISION B – DESCRIPTIVE QUESTIONS

1. Computation of total Income and tax payable by Dr. Saxena for the A.Y. 2019-20

Particulars	Rs.	Rs.
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		2,60,400
Long-term capital gain under section 112A [The cost of acquisition of equity shares of C Ltd. would be Rs. 2,500, being higher of actual cost i.e., Rs. 2,500 and Rs. 1,800 (being the lower of FMV of Rs. 1,800 as on 31.1.2018 and actual sale consideration of Rs. 3,200). Accordingly, the long-term capital gains would be Rs. 2,10,000 i.e., [(Rs. 3,200 – Rs. 2,500) x 300].		2,10,000
Gross Total income		**13,53,300**
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	1,20,000	
Life insurance premium paid [Fully allowable since it does not exceed 10% of sum assured]	80,000	
	2,00,000	
Deduction restricted to	1,50,000	

(ii) Deduction under section 80D Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is Rs. 35,000, being 1/3rd of Rs. 1,05,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000	1,75,000
Total income		**11,78,300**
Components of Total Income		
Special income :		
Long-term capital gains under section 112A		2,10,000
Winning from lotteries (chargeable at special rate @ 30% under section 115BB)		10,000
Normal income		9,58,300
		11,78,300
Computation of Tax		
Tax on long-term capital gains under section 112A @10% in excess of Rs. 1,00,000		11,000
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
Upto Rs. 2,50,000	NIL	
Rs. 2,50,001-Rs. 5,00,000 @ 5%	12,500	
Rs. 4,58,300 (Rs. 5,00,001 – Rs. 9,58,300) @ 20%	91,660	1,04,160
Income tax payable		1,18,160
Add: Health & Education cess @4%		4,726
Total Tax Payable		**1,22,886**
Less: Tax deducted at source		
From Interest	3,000	
From lottery income	3,000	6,000
		1,16,886
Less : Advance tax paid		1,40,000
Net Tax Refundable		**(23,114)**
Net Tax Refundable (rounded off)		**(23,110)**

Notes:

1. **Computation of Income from House Property**

Particulars	Rs.
Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	3,000
Net Annual Value (NAV)	**17,000**
Less : Statutory deduction under section 24 @ 30% of NAV	5,100
Income from House Property	**11,900**

2. **Computation of Profits and gains of business or profession**

Particulars	Rs.	Rs.
Net Profit as per Income & Expenditure Account		6,70,900
Add : Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	1,40,000	1,85,500
		8,56,400
Less: Rent received	20,000	
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	45,000	1,85,400
		6,71,000
Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	50,000	2,00,000
Income from business		**8,71,000**

3. **Computation of Income from Other Sources**

Particulars	Rs.
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross) (See Note 7)	10,000
Fees from University of Chennai	50,000
Pension from LIC	84,000
Income from Other Sources	**2,60,400**

4. Advance Tax is not allowable as deduction.

5. **Depreciation of Apparatus :**

	Rs.
WDV as on 1.4.2018	3,00,000
Depreciation @15%	45,000
WDV as on 01.4.2019	2,55,000

6. Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

7. As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs. 350, cannot be allowed as deduction from income from winnings of lotteries.

8. Pension from LIC is taxable as Income from other sources.

2. (a) Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Ria Bran, an Australian, for A.Y.2019-20 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2019-20 i.e. P.Y.2018-19 and in the preceding four assessment years.

Her stay in India during the previous year 2018-19 and in the preceding four years are as under:

P.Y. 2018-19

01.04.2018 to 15.09.2019	-	168 days
23.03.2019 to 31.03.2019	-	9 days
Total		177 days

Four preceding previous years

P.Y.2017-18 [1.4.2017 to 31.3.2018]	-	42 days
P.Y.2016-17 [1.4.2016 to 31.3.2017]	-	Nil
P.Y.2015-16 [1.4.2015 to 31.3.2016]	-	Nil
P.Y.2014-15 [1.4.2014 to 31.3.2015]	-	Nil
Total		42 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 42 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2019-20.

Computation of total income of Mrs. Ria Bran for the A.Y. 2019-20

Particulars		Rs.	Rs.
Income from house property			
Flat located in Delhi let-out from 01.05.2018 to 31.03.2019 @ Rs.28,000/- p.m.			
Gross Annual Value [28,000 x 11][1]		3,08,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		**3,08,000**	
Less: Deduction under section 24			
30% of NAV	92,400		
Interest on loan [fully allowable as deduction, since property is let-out]	2,15,500	3,07,900	100
Income from other sources			
- Gold chain worth Rs. 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative		Nil	

[1] *Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.*

are not chargeable to tax. - Car worth Rs. 7,50,000 received from married sister of her husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from friends of her husband aggregating to Rs. 1,72,000 is taxable under section 56(2)(x) since the amount of cash gifts of Rs. 1,72,000 exceeds Rs. 50,000.	1,72,000	1,72,000
Gross Total income		**1,72,100**

(b) I. (i) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. Aarav does not exceed Rs. 2,50,000

(ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

(1) He owns ten or less goods carriages at any time during the previous year.

(2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Rakesh has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on Rs. 2,00,000, since the same exceeds the threshold limit of Rs. 1,00,000.

Tax deducted at source = Rs. 40,000 (Rs. 2,00,000 x 20%)

II. Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

(i) **PAN not required to be quoted:** Mr. Nihar is not required to quote his PAN while making payment Rs. 50,000 in cash to a hotel Ginger, Rishikesh, since such payment does not exceed Rs. 50,000.

(ii) **PAN is mandatorily required to be quoted:** Mr. Suresh is required to quote his PAN while making contract of Rs. 1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds Rs. 1,00,000.

(iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of Rs. 57,000 to Mutual Funds for purchase of its units, since such payment exceeds Rs. 50,000.

3. (a) Computation of income chargeable under the head "Capital Gains" for A.Y. 2019-20

Particulars		Rs.
Capital Gains on sale of residential house		
Actual sale consideration	Rs. 80 lakhs	
Value adopted by Stamp Valuation Authority	Rs. 90 lakhs	

Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of Rs. 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house	
[Rs. 20 lakhs x 280/100]	56,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	**24,00,000**
Less: **Exemption u/s 54**	20,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	**4,00,000**

(b) Computation of taxable salary of Mr. Shivam for the A.Y. 2019-20

Particulars	Rs.	Rs.
Basic Salary [(Rs.70,000 x 8) + (Rs.80,000 x 4)]]		8,80,000
Dearness allowance [50% of basic salary]		4,40,000
Bonus [Rs.70,000 + 50% of Rs.70,000]		1,05,000
Employer's contribution to recognized provident fund in excess of 12% of salary[(18%-12%) x Rs.8,80,000 = 6% of Rs.8,80,000= [Salary includes only basic salary, since dearness allowance, in this case, does not form part of salary for retirement benefits]		52,800
Leave travel concession	45,000	
Less: Exempt	45,000	
[Mr. Shivam can avail exemption on the entire amount of Rs.45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		-
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800

Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]		-
Gross Salary		**14,79,600**
Less: Deduction under section 16		
Professional tax paid		2,200
Standard Deduction, lower of salary or Rs. 40,000		40,000
Taxable Salary		**14,37,400**

4. (a) Computation of total income of Mr. Satish Sharma for the A.Y.2019-20

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings	90,000	2,40,000
Gross Total Income		**9,65,000**
Less: Deduction under Chapter VI-A		Nil
Total income		**9,65,000**

Losses to be carried forward to A.Y.2020-21:

Particulars	Rs.
Loss from house property (Rs. 2,50,000 - Rs. 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A(2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	

(b)

(i)	**<u>Gift received from non-relative by minor daughter Mahi</u>** Gift of Rs. 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds Rs. 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife. Exemption of Rs.1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

(ii)	<u>**Prize money of Rs. 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu**</u> Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of Rs. 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent. However, interest of Rs. 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent. Exemption of Rs.1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

(c) Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

(a) in the application form for allotment of Permanent Account Number (PAN)

(b) in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

SECTION B - INDIRECT TAXES (40 MARKS)

SUGGESTED ANSWERS/HINTS

Division A - Multiple Choice Questions Answer

1. (b)
2. (a)
3. (c)
4. (d)
5. (b)
6. (c)
7. (d)
8. (d)
9. (c)
10. (d)

Division B - Descriptive Answer

1. Computation of minimum GST payable in cash by Mr. X on outward supplies

S.No.	Particulars	(Rs.)	GST (Rs.)
(i)	Intra-State supply of goods		
	CGST @ 9% on Rs. 8,00,000	72,000	
	SGST @ 9% on Rs. 8,00,000	72,000	1,44,000
(ii)	Inter-State supply of goods		
	IGST @ 18% on Rs. 3,00,000		54,000
	Total GST payable		**1,98,000**

Computation of total ITC

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Opening ITC	57,000	Nil	70,000
Add: ITC on Intra-State purchases of goods valuing Rs. 2,00,000	18,000	18,000	Nil
Add: ITC on Inter-State purchases of goods valuing Rs. 50,000	Nil	Nil	9,000
Total ITC	**75,000**	**18,000**	**79,000**

Computation of minimum GST payable from cash ledger

Particulars	CGST @9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
GST payable	72,000	72,000	54,000
Less: ITC	(Nil)-IGST	(25,000)-IGST	(54,000)-IGST
	(72,000)-CGST	(18,000) – SGST	
Minimum GST payable in cash	**Nil**	**29,000**	**Nil**

Note : Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, ITC of IGST has been used to pay SGST (after paying IGST liability) to minimize cash outflow.

2. (a) Computation of value of taxable supply

Particulars	(Rs.)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961 [Note-1]	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-2]	Nil
Amount charged by cord blood bank for preservation of stem cells [Note-3]	Nil
Service provided by commentator to a recognized sports body [Note-4]	5,20,000

Notes:

1. Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
2. Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
3. Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST.
4. Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by commentators are liable to GST.

(b) Schedule I of CGST Act, inter alia, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be "related persons" if they are members of the same family. Further, as per section 2(49) of the CGST Act, 2017, family means, —

(i) the spouse and children of the person, and

(ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person.

In the given case, Raman has received free of cost legal services from his brother. However, in view of section 2(49)(ii) above, Raman and his brother cannot be considered to be related as Raman's brother is a well-known lawyer and is not wholly/mainly dependent on Raman. Further, Raman has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by Raman's brother to him would not be treated as supply under section 7 read with Schedule I of the CGST Act.

In the above case, if Raman has taken advice with regard to his business unit, services provided by Raman's brother to him would still not be treated as supply under section 7 of the CGST Act read with Schedule I as although the same are provided in course or furtherance of business, such services have not been received from a related person.

3. (a) (i) Every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit [Rs. 40 lakh in this case] in a finacial year [Section 22 read with *Notification No. 10/2019 CT dated 07.03.2019*]. Since in the given case, the turnover of Dhampur Industries exceeded Rs. 40 lakh on 1st September, it becomes liable to registration on said date.

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

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

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

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

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

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

4. **(a)** The time of supply of goods on which GST is payable on reverse charge basis under sub-sections (3) and (4) of section 9 of CGST Act is determined in terms of section 12(3)(a), (b) and (c), as follows:

The time of supply for such goods will be the earliest of the following dates:

- Date on which the goods are received, or
- Date on which payment is recorded in the books of account of the recipient, or the date on which the same is debited in his bank account, whichever is earlier, or
- Date immediately following 30 days from the date of issue of invoice (or document by some other name in lieu of invoice) by the supplier.

If it is not possible to determine the time of supply by using these parameters, then the time of supply will be the date of entry of goods in the books of account of the recipient of supply.

(b) A regular tax payer is required to furnish a return u/s 39 for every month even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

Therefore, Mr. X is required to file monthly return even if he did not make any taxable supply during the month of July.

(c) The transferee or the successor shall be liable to be registered with effect from such transfer or succession and he will have to obtain a fresh registration with effect from the date of such transfer or succession.