PAPER – 1: ACCOUNTING

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

A. **Applicable for May, 2020 examination**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Earlier this was 3%.*

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

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

<u>Regulation 293 - Conditions for Bonus Issue</u>

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

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

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

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

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

Regulation 294 - Restrictions on a bonus issue

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

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

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

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

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

Regulation 295 - Completion of a bonus issue

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

from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation:

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

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

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

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

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

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment.

	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)”.	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. ‘Others’.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: ‘Property, Plant and Equipment’ by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in Supplementary Material on AS 10 at the link: https://resource.cdn.icai.org/44440bos34351.PDF. AS 10 Property, Plant and equipment (2016) has also

	30			been incorporated in the revised chapter 1 "Accounting Standards" uploaded on the BoS knowledge portal at the link: https://resource.cdn.icai.org/38480bos28154-mod1-cp1.pdf
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model

AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'Miscellaneous expenditure' in Schedule III to the Companies Act, 2013

B. Not applicable for May, 2020 examination

Non-Applicability of Ind ASs for May, 2020 Examination

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

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

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

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			12,50,000
Call in Arrears		1,250	
Land & Building		6,87,500	
Plant & Machinery		6,56,250	
Furniture		62,500	
General Reserve			2,62,500
Loan from State Financial Corporation			1,87,500
Stock:			
Raw Materials	62,500		
Finished Goods	2,50,000	3,12,500	
Provision for Taxation			1,60,000
Trade Receivables		2,50,000	
Advances		53,375	
Profit & Loss Account			1,08,375
Cash in Hand		37,500	
Cash at Bank		3,08,750	
Unsecured Loan			1,51,250
Trade Payables (for Goods and Expenses)			2,50,000

The following additional information is also provided:

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

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

(iii) The cost of the assets were:

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

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

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

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

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

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

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

Cash Flow Statement

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

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

(a) Depreciation on PPE ₹ 5 lakhs.

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

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

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

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

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

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

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

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

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

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

	As on 31.3.2018	As on 31.3.2019
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53,100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

Profit/Loss prior to Incorporation

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

its accounts for the first time on 31st March, 2019 and presents you the following summarized profit and loss account:

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

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

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

Accounting for Bonus Issue

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

	₹
Sources of funds	
Authorized capital	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	10,00,000
	15,00,000
Issued, subscribed and paid up	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8%Redeemable Preference shares of ₹ 100 each	5,00,000

Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
Trade payables	4,20,000
	25,10,000
Application of funds	
Property, Plant & Equipment (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000
	25,10,000

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

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

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

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

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

The bonus issue was concluded by 12th September, 2019

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

Internal Reconstruction of a Company

5. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹ 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000

1,00,000 shares of ₹ 50		Inventories	3,20,000
each ₹ 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹ 100 each	4,00,000	Profit & Loss	29,82,000
12% Debentures of ₹ 100 each	6,00,000		
Trade Creditors	12,40,000		
Outstanding Expenses	10,60,000		
Total	1,03,00,00	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.

(3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agrees to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Amalgamation of Companies

6. The following are the summarized Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2019:

	(₹ in lakhs)	
Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference shares of ₹ 10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of ₹ 1,000 each	-	300
Trade payables	2,421	369
Provisions	870	93
	11,571	1,662
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Inventory	2,370	444
Trade receivables	1,044	237
Cash at Bank	1,542	240
Discount on Issue of Debentures	-	39
	11,571	1,662

A new Company MN Ltd. was incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each. For the purpose of amalgamation in the nature of merger, M Ltd. and N Ltd. were merged into MN Ltd. on the following terms:

(i) Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares of ₹ 10 each and 720 lakhs fully paid equity shares of ₹ 10 each of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares of ₹ 10 each to shareholders of N Ltd. in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd. and N Ltd. amounting to ₹ 6 lakhs are to be borne by MN Ltd.

(iv) 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debentures of MN Ltd.

(v) Expenses on incorporation of MN Ltd. were ₹ 15 lakhs.

You are requested to:

(a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and

(b) Prepare Balance Sheet of MN Ltd. after merger.

Average Due Date

7. T owes to K the following amounts:

₹ 7,000 due on 15th March, 2019

₹ 12,000 due on 5th April, 2019

₹ 30,000 due on 25th April, 2019

₹ 20,000 due on 11th June, 2019

He desires to make the full payment on 30th June, 2019 along with interest @ 10% per annum after the average due date. Find out the average due date and the amount of interest. Amount of interest may be rounded off to the nearest rupee. Take 365 days in year.

Account Current

8. From the following particulars prepare the account current to be rendered by Mr. Singh to Mr. Paul as on 31st August, 2019. Interest must be calculated @ 10% p.a.

2019			Rs.		2019	Rs.
June	11	Goods sent to Mr. Paul	1,020	July 07	Goods sent to Mr. Paul	700
June	15	Cash received from Mr. Paul	500	August 08	Cash received from Mr. Paul	1,100
June	20	Goods sent to Mr. Paul	650			

Self – Balancing Ledgers

9. Ujju Enterprise furnishes you the following information for the period October to December, 2019. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

   (i) Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.

   (ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.

   (iii) Bills receivables drawn during the period totalled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.

   (iv) A sum of ₹ 3,000 was written off as bad debts, ₹ 7,000 was realized against bad debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts.

Financial Statements of Not-For-Profit Organizations

10. The Income and Expenditure Account of City Sports Club for the year ended 31st March, 2019 was as follows:

	Expenditure	Amount (₹)		Income	Amount (₹)
To	Salaries	1,20,000	By	Subscriptions	1,60,000
To	Printing and Stationery	6,000	By	Entrance Fee	10,000
To	Rent	12,000	By	Contribution for Annual dinner	20,000
To	Repairs	10,000	By	Profit on Annual Sports meet	20,000
To	Sundry Expenses	8,000			
To	Annual Dinner Expenses	30,000			
To	Interest to Bank	6,000			
To	Depreciation on Sports equipment	6,000			
To	Excess of Income over Expenditure	12,000			
		2,10,000			2,10,000

The above account had been prepared after the following adjustments:

	₹
Subscriptions outstanding on 31.03.2018	12,000
Subscriptions received in advance on 31.03.2018	9,000
Subscriptions received in advance on 31.03.2019	5,400
Subscriptions outstanding on 31.03.2019	15,000

Salaries outstanding at the beginning and at the end of the financial year were ₹ 8,000 and ₹ 10,000 respectively. Sundry expenses included prepaid insurance expenses of ₹ 1,200.

The Club owned a freehold ground valued ₹ 2,00,000. The Club has sports equipment on 01.04.2018 valued at ₹ 52,000. At the end of the year, after depreciation, the sports equipment amounted to ₹ 54,000. The Club raised a loan of ₹ 40,000 from a bank on 01.01.2018, which was unpaid till 31.03.2019. On 31.03.2019, cash in hand was ₹ 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2019 and Balance Sheet as on that date. Consider the fact that the profit on annual sports meet has been realized in cash.

Accounts from Incomplete Records

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

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

An analysis of the cash book revealed the following:

	₹
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000

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

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

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

Hire Purchase Transactions

12. On January 1, 20X1 Kasturi Ltd. acquired a Pick-up Van on hire purchase from Shorya Ltd. The terms of the contract were as follows:
    (a) The cash price of the van was ₹ 25,000.
    (b) ₹ 10,000 were to be paid on signing of the contract.
    (c) The balance was to be paid in annual instalments of ₹ 5,000 plus interest.
    (d) Interest chargeable on the outstanding balance was 6% p.a.
    (e) Depreciation at 10% p.a. is to be written-off using the straight-line method.

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

Investment Accounts

13. Meera carried out the following transactions in the shares of Kumar Ltd.:
    (1) On 1st April, 2019 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.
    (2) On 15th May 2019, Meera sold 8,000 shares for ₹ 15,200.
    (3) At a meeting on 15th June 2019, the company decided:
        (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019, and
        (ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of ₹ 1.50 per share of which 75 paise is payable on

or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

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

(a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.

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

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

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

Insurance Claim for loss of stock

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

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

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

Increase in turnover expected 25%.

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

Issues in Partnership Accounts

15. E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2018 Balance Sheet of the firm stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G 28,000	1,18,000	Debtors	20,000
Creditors	33,500	Cash at bank	11,200

Outstanding Expenses	1,700		
	1,53,200		1,53,200

On 31st March, 2018, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%.

(ii) Furniture be depreciated by 10%.

(iii) A provision of 5% be created for bad debts on debtors.

(iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March, 2018 was ₹ 25,000. No goodwill account is to be raised in the books of accounts.

(v) Fresh capital be introduced by F and G to the extent of ₹ 10,000 and ₹ 35,000 respectively.

(vi) Out of sum payable to retiring partner E, a sum of ₹ 45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2020.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-fourth share in profits/losses. E agreed that the balance in his loan account be converted into H's capital. E also agreed to forgo one month's interest on his loan. It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to the above transactions and prepare partners' capital accounts.

Accounting in Computerized Environment

16. What do you mean by Customised Accounting Software? Explain in brief.

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

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

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

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

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

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

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

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

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

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

AS 2 Valuation of Inventories

(b)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

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

AS 3 Cash Flow Statements

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

a. Proceeds from long-term borrowings.

b. Proceeds from Trade receivables.

c. Trading Commission received.

d. Redemption of Preference Shares.

e. Proceeds from sale of investment

f. Interim Dividend paid on equity shares.

g. Interest received on debentures held as investment.

h. Dividend received on shares held as investments.

i. Rent received on property held as investment.

j. Dividend paid on Preference shares.

k. Marketable Securities

Depreciation Accounting as per AS 10 Property, Plant and Equipment

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

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

AS 7 Construction Contracts

19. (a) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount ₹ in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

AS 9 Revenue Recognition

(b) The following information of Meghna Ltd. is provided:

(i) Goods of ₹ 60,000 were sold on 20-3-2019 but at the request of the buyer these were delivered on 10-4-2019.

(ii) On 15-1-2019 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2019.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of Meghna Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9.

AS 10 Property, Plant and Equipment

20. (a) The following items are given to you:

ITEMS

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

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

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

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

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

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

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

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

AS 13 Accounting for Investments

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

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

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

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

SUGGESTED ANSWERS/HINTS

1. (a) Gaurav Ltd.

Balance Sheet as on 31st March, 2019

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,48,750
	b	Reserves and Surplus	2	3,70,875
2		**Non-current liabilities**		
		Long-term borrowings	3	3,29,375

3		**Current liabilities**		
	a	Trade Payables		2,50,000
	b	Other current liabilities	4	9,375
	c	Short-term provisions	5	1,60,000
		Total		**23,68,375**
		Assets		
1		**Non-current assets**		
		PPE	6	14,06,250
2		**Current assets**		
	a	Inventories	7	3,12,500
	b	Trade receivables	8	2,50,000
	c	Cash and cash equivalents	9	3,46,250
	d	Short-term loans and advances		53,375
		Total		**23,68,375**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	12,500 Equity Shares of ₹ 100 each		
	(of the above 2,500 shares have been issued for consideration other than cash)	12,50,000	
	Less: Calls in arrears	(1,250)	12,48,750
	Total		**12,48,750**
2	**Reserves and Surplus**		
	General Reserve		2,62,500
	Surplus (Profit & Loss A/c)		1,08,375
	Total		**3,70,875**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (1,87,500 – 9,375) (Secured by hypothecation of Plant and Machinery)		1,78,125

	Unsecured Loan		1,51,250
	Total		**3,29,375**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		9,375
5	**Short-term provisions**		
	Provision for taxation		1,60,000
6	**PPE**		
	Land and Building	7,50,000	
	Less: Depreciation	(62,500)	6,87,500
	Plant & Machinery	8,75,000	
	Less: Depreciation	(2,18,750)	6,56,250
	Furniture & Fittings	78,125	
	Less: Depreciation	(15,625)	62,500
	Total		**14,06,250**
7	**Inventories**		
	Raw Materials		62,500
	Finished goods		2,50,000
	Total		**3,12,500**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		65,000
	Other Amounts		1,85,000
	Total		**2,50,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	3,06,250	
	with others (Global Bank Ltd.)	2,500	3,08,750
	Cash in hand		37,500
	Total		**3,46,250**

(b) Calculation of net profit u/s 198 of the Companies Act, 2013

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

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 136,76,915= ₹ 1504461.

2. **X Ltd.**

Cash Flow Statement

for the year ended 31st March, 2019

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		20,00,000
Adjustments for:		
Depreciation on PPE	5,00,000	
Discount on issue of debentures	30,000	
Interest on debentures paid	3,50,000	
Interest on investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
Operating profit before working capital changes		28,00,000
Adjustments for:		
Increase in inventory	(1,18,000)	
Decrease in trade receivable	4,900	
Increase in trade payables	300	
Increase in outstanding expenses	6,800	(1,06,000)

Cash generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net cash flow from operating activities		17,34,000
Cash flow from Investing Activities		
Sale proceeds of investments	3,20,000	
Interest received on investments	60,000	
Net cash flow from investing activities		3,80,000
Cash flow from Financing Activities		
Proceeds by issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(15,75,000)	
Preference dividend paid	(1,50,000)	
Interest on debentures paid	(3,50,000)	
Dividend paid (5,00,000 + 3,00,000)	(8,00,000)	
Net cash used in financing activities		(22,75,000)
Net decrease in cash and cash equivalents during the year		(1,61,000)
Add: Cash and cash equivalents as on 31.3.2018		1,96,300
Cash and cash equivalents as on 31.3.2019		35,300

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

3. Shreya (P) Limited

Profit and Loss Account

for 15 months ended 31st March, 2019

	Pre. inc. (5 months) (₹)	*Post inc. (10 months)* (₹)		*Pre. inc. (5 months)* (₹)	*Post inc. (10 months)* (₹)
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000	(W.N.1)		
	3,00,000	16,80,000		3,00,000	16,80,000
To Discount to dealers	7,000	39,200	By Gross profit	1,20,000	6,72,000

To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Working Notes:

1. **Calculation of sales ratio:**

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

   Average Sales (Pre-incorporation) = x X 5 = 5x

   Sales (Post incorporation) from June to December, 2018 = 2½ x X 7 = 17.5x

   From January to March, 2019 = 3½ x X 3 = 10.5x

   Total Sales 28.0x

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

2. **Calculation of ratio for salaries**

   Let the average salary be x

   Pre-incorporation salary = x X 5= 5x

   Post incorporation salary

   June, 2018 = x

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

   19x

   Ratio is 5 : 19

3. **Calculation of Rent** ₹

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

Additional Rent		90,000
	15,000	1,20,000

4. **Calculation of interest**

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

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

Post incorporation period from June, 2018 to March, 2019

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

₹ 1,05,000

4. Bumbum Limited

Journal Entries

2019		*Dr. (₹)*	*Cr. (₹)*
July 1	Equity Share Capital A/c (₹ 10 each) Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)		3,00,000
	(Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each) {1,50,000 X 2}		
July 10	Cash & Bank balance A/c Dr.	5,55,000	
	To Investment A/c		4,90,000
	To Profit & Loss A/c		65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)		
July 10	8% Redeemable preference share capital A/c Dr.	5,00,000	
	Premium on redemption of preference share A/c Dr.	25,000	
	To Preference shareholders A/c		5,25,000
	(Being amount payable to preference share holders on redemption)		
July 10	Preference shareholders A/c Dr.	5,25,000	
	To Cash & bank A/c		5,25,000
	(Being amount paid to preference shareholders)		
July 10	General reserve A/c Dr.	5,00,000	
	To Capital redemption reserve A/c		5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)		

Sept. 12	Capital Redemption Reserve A/c Dr.	1,00,000	
	To Bonus to shareholders A/c		1,00,000
	(Being balance in capital redemption reserve capitalized to issue bonus shares)		
Sept. 12	Bonus to shareholders A/c Dr.	1,00,000	
	To Equity share capital A/c		1,00,000
	(Being 50,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)		
Sept. 30	Securities Premium A/c Dr.	25,000	
	To Premium on redemption of preference shares A/c		25,000
	(Being premium on preference shares adjusted from securities premium account)		

Balance Sheet as at 30th September, 2019

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

Notes to accounts

1	Share Capital	₹	₹
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 8% Preference shares of ₹100 each	10,00,000	15,00,000

	Issued, subscribed and paid up		
	2,00,000 Equity shares of ₹ 2 each		4,00,000
2	**Reserves and Surplus**		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	
	Less: Adjustment for premium on preference		
	Shares	(25,000)	
	Balance		5,75,000
	Capital Redemption Reserve (5,00,000 -1,00,000)		4,00,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000
	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	1,05,000
	Total		**12,30,000**

Working Notes:

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

5. Journal Entries

		₹	₹
Bank A/c	Dr.	10,00,000	

To Equity share capital A/c (Being money on final call received)			10,00,000
Equity share capital (₹ 50) A/c To Equity share capital (₹ 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)	Dr.	75,00,000	 60,00,000 15,00,000
Bank A/c To Equity Share Capital A/c (Being new shares allotted at ₹ 40 each)	Dr.	12,50,000	 12,50,000
Trade Creditors A/c To Equity share capital A/c (18,750 shares of ₹ 40 each) To Bank A/c (4,90,000 x 70%) To Capital Reduction A/c (Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)	Dr.	12,40,000	 7,50,000 3,43,000 1,47,000
8% Debentures A/c 12% Debentures A/c To Shiv A/c (Being cancellation of 8% and 12% debentures of Shiv)	Dr. Dr.	3,00,000 4,00,000	 7,00,000
Shiv A/c To 15% Debentures A/c (5,00,000+1,00,000) To Capital Reduction A/c (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)	Dr.	8,00,000	 6,00,000 2,00,000
Bank A/c To Shiv A/c (Being new debentures subscribed by Shiv)	Dr.	1,00,000	 1,00,000
8% Debentures A/c 12% Debentures A/c To Ganesh A/c	Dr. Dr.	1,00,000 2,00,000	 3,00,000

(Being cancellation of 8% and 12% debentures of Ganesh)		
Ganesh A/c Dr.	3,00,000	
To 15% Debentures A/c		2,50,000
To Capital Reduction A/c		50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)		
Land and Building Dr.	9,14,000	
(51,84,000 – 42,70,000)		
Inventories Dr.	30,000	
To Capital Reduction A/c		9,44,000
(Being value of assets appreciated)		
Outstanding expenses A/c Dr.	10,60,000	
To Bank A/c		10,60,000
(Being outstanding expenses paid in cash)		
Capital Reduction A/c Dr.	33,41,000	
To Machinery A/c		1,30,000
To Computers A/c		1,20,000
To Trade Receivables A/c		1,09,000
To Profit and Loss A/c		29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
Capital Reserve A/c Dr.	5,00,000	
To Capital Reduction A/c		5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000

2		**Non-current liabilities**		
	a	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	a	PPE	3	63,04,000
2		**Current assets**		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹ 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**PPE**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. **Cash at Bank Account**

	Particulars	₹		Particulars	₹
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share capital A/c	10,00,000	By	Outstanding expenses A/c	10,60,000
To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	Shiv A/c	1,00,000			
		26,18,000			26,18,000

2. **Capital Reduction Account**

	Particulars	₹		Particulars	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000

To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Profit and Loss A/c	29,82,000	By	Ganesh A/c	50,000
			By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

6. **In the books of MN Ltd.**

Journal Entries

			(₹ in lakhs)
		Dr.	*Cr.*
Business Purchase Account	Dr.	9,300	
To Liquidator of M Ltd.			8,400
To Liquidator of N Ltd.			900
(Being consideration payable to liquidators of the two companies taken over)			
Plant and Machinery Account (4,215+468)	Dr.	4,683	
Furniture and Fixtures Account (2,400+183)	Dr.	2,583	
Motor Vehicles Account	Dr.	51	
Inventory Account (2,370+444)	Dr.	2,814	
Trade receivables Account (1,044+237)	Dr.	1,281	
Cash at Bank Account (1,542+240)	Dr.	1,782	
Discount on issue of Debentures Account	Dr.	39	
Profit and Loss Account (Refer W.N.)	Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account			300
To Trade payables Account (2,421+369)			2,790
To Provisions Account (870+93)			963
To Business Purchase Account			9,300
(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)			
Liquidator of M Ltd. Account	Dr.	8,400	
Liquidator of N Ltd. Account	Dr.	900	

To Equity Share Capital Account (7,200+900)			8,100
To 11% Preference Share Capital Account			1,200
(Being allotment of fully paid shares in discharge of purchase consideration)			
Profit and Loss Account	Dr.	6	
To Bank Account			6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)			
Preliminary Expenses Account	Dr.	15	
To Bank Account			15
(Being expenses on incorporation of MN Ltd.)			
8% Redeemable Debentures of N Ltd. Account	Dr.	300	
To 8.5% Redeemable Debentures Account			300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)			
Profit and Loss Account	Dr.	15	
To Preliminary Expenses Account			15
(Being Preliminary Expenses are charged to Profit & Loss A/c in the year it is incurred and not shown in the Balance Sheet as per para 56 of AS 26)			

Balance Sheet of MN Ltd.

		Particulars	Notes	₹ *in lakhs*
		EQUITY & LIABILITY		
1.		**Shareholders' Funds**		
	a	Share capital	1	9,300
	b	Reserve & Surplus	2	(141)
2		**Non-Current-Liabilities**		
	a	Long- term borrowings	3	300
3.		**Current-Liabilities**		
	a	Trade Payables		2,790
	b	Short term provisions	4	963
		Total		**13,212**

		ASSETS		
1		**Non-current assets**		
	a	Property, Plant & equipment	5	7,317
	b	Other Non-current asset	6	39
2.		**Current assets**		
	a	Inventories		2,814
	b	Trade receivables		1,281
	c	Cash and cash equivalents	7	1,761
		Total		**13,212**

Note to Accounts

		₹ in lakhs
1	**Share Capital**	
	Authorised share capital	
	15 crore shares of ₹10 each	15,000
	Issued, subscribed and paid up	
	810 lakhs Equity shares of ₹10 each, fully paid Reserves and Surplus	8,100
	120 lakhs 11% Preference shares of ₹10 each, fully paid	1,200
	(All the above mentioned shares have been issued for consideration other than cash)	
	Total	9,300
2	**Reserves and Surplus**	
	Profit and Loss Account (120+6+15)	(141)
3	**Long-term borrowings**	
	Secured	
	8.5% Redeemable Debentures	300
4	**Short-term provisions**	
	Others	963
5	**PPE**	
	Plant and Machinery	4,683
	Furniture and Fixtures	2,583
	Motor Vehicles	51
	Total	7,317

6	**Other non-current assets**	
	Discount on Issue of Debentures	39
7	**Cash and cash equivalents**	
	Cash at Bank (1,782–6–15)	1,761

Working Note:

Profit and Loss Account		*(₹ in lakhs)*
Total consideration = ₹ (8,400 + 900) lakhs		9,300
Less: Share Capital of Companies taken over		5,700
[₹ (3,600 + 1,200 + 900) lakhs]		3,600
Amount to be adjusted:		
Capital Reserve	600	
General Reserve	2,100	
Profit & Loss A/c	780	3,480
Debit balance of Profit & Loss Account		120

7. Calculation of Average Due Date taking 15th March, 2019 as the base date

Due date	*Amount*	*No. of days from the base date i.e. 15th March, 2019*	*Product*
	₹		
15th March, 2019	7,000	0	0
5th April, 2019	12,000	21	2,52,000
25th April, 2019	30,000	41	12,30,000
11th June 2019	20,000	88	17,60,000
	69,000		32,42,000

Average due date $= \text{Base date} + \text{Days equal to } \dfrac{\text{Total of products}}{\text{Total amount}}$

$= 15^{th}\text{ March, 2019} + \dfrac{32{,}42{,}000}{69{,}000}$

$= 15^{th}$ March, 2019 + 47 days $= 1^{st}$ May, 2019

Interest amount: Interest can be calculated on ₹ 69,000 after 1st May, 2019 to 30th June, 2019 at 10% p.a. i.e. interest on ₹ 69,000 for 60 days at 10% p.a. =₹ 69,000 x 10/100 x 60/365 = ₹ 1,134 (approx.)

8. **Mr. Paul in Account Current with Mr. Singh**

(Interest to 31st August, 2019 @ 10% p.a.)

Date	Particulars	Due Date	Amount	Days	Interest	Date	Particulars	Due Date	Amount	Days	Interest
2019			Rs.			2019			Rs.		
June 11	To Sales A/c	June 11	1,020	81	82,620	June 15	By Cash A/c	June 15	500	77	38,500
June 20	To Sales A/c	June 20	650	72	46,800	Aug.8	By Cash A/c	Aug.8	1,100	23	25,300
July 7	To Sales A/c	July 7	700	55	38,500	Aug. 31	By Balance of product				1,04,120
Aug.31	To Interest A/c		28.53			Aug. 31	Balance c/d		798.53		
	(₹ 1,04,120 x 10%)/365		2,398.53		1,67,920				2,398.53		1,67,920
Sept.1	To Balance b/d		798.53								

9. **In the books of Ujju Enterprise**

Debtors Ledger Adjustment Account in the General Ledger

2019		₹	2019		₹
Oct. 1	To Balance b/d	40,000	Oct. 1 to Dec. 31	By General Ledger Adj. A/c:	
Oct. 1 to Dec.31	To General Ledger Adj. A/c: Sales (Refer W.N.)	1,35,000		Collection from debtors-bank	1,05,000
	Bills Receivables dishonoured	5,000		[60% of ₹ (40,000 + 1,35,000)]	
				Discount allowed	10,000
				Bills receivables	20,000
				Bad debts (₹ 2,500 + ₹ 3,000)	5,500
				By Balance c/d	39,500
		1,80,000			1,80,000

Note: No entries are to be made:

(a) For ₹ 7,000 realised against bad debts written off in earlier years, and

(b) For provision of ₹ 6,000 made for doubtful debts.

Working Note:

Calculation of credit sales :

	₹
Total trade sales (2,20,000 – 10,000)	2,10,000
Less: Cash sales $\left(2,10,000 \times \frac{100}{(180+100)}\right)$	(75,000)
Credit sales	1,35,000

10. City Sports Club

Receipt and Payments Account for the year ended 31st March, 2019

	Receipts	*Amount (₹)*		*Payments*	*Amount (₹)*
To	Balance b/d (Bal. Fig.)	27,800	By	Salaries:	
				for 2017-2018	8,000
To	Subscription:			for 2018-2019	1,10,000
	for 2017-2018	12,000	By	Printing and Stationery	6,000
	for 2018-2019 (W.N.3)	1,36,000	By	Rent	12,000
	for 2019-2020	5,400	By	Repairs	10,000
To	Entrance Fees	10,000	By	Sundry Expenses (8,000 + 1,200)	9,200
To	Contribution for Annual Dinner	20,000	By	Annual Dinner Expenses	30,000
To	Profit on Annual Sports Meet	20,000	By	Interest to Bank	6,000
			By	Sports Equipment (W.N.2)	8,000
			By	Balance c/d	32,000
		2,31,200			2,31,200

Balance Sheet as at 31st March, 2019

Liabilities	*Amount (₹)*	*Amount (₹)*	*Assets*	*Amount (₹)*	*Amount (₹)*
Capital Fund (W.N.1)	2,34,800		Freehold Ground		2,00,000

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

Working Notes:

(1) Opening Balance of Capital Fund:

Balance Sheet as at 31st March, 2018

	₹		₹
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000
Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000
Subscription in Advance	9,000	Cash in hand	27,800
	2,91,800		2,91,800

(2) Sports Equipment Account

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

(3) Subscription received during 2018-2019

	₹	₹
Subscription for 2018-2019		1,60,000
Less: Subscription outstanding as on 31.3.2019	15,000	
Less: Subscription received in advance as on 31.3.2018	9,000	24,000
		1,36,000

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

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

Balance Sheet as at 31st March, 2019

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

Working Notes:

1. **Bills Payable Account**

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

2. **Creditors Account**

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

3. **Calculation of credit sales**

		₹
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales $\left[₹\ 20,40,000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. **Debtors Account**

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

5. **Salaries**

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

6. **Cash / Bank Account**

	₹		₹
To Balance b/d	1,10,000	By Cash purchases	6,15,000
To Cash sales	16,20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

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

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

12. **Ledger Accounts in the books of Kasturi**

Van Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.1.20X1	To Shorya Ltd. A/c	25,000	31.12.20X1	By Depreciation A/c	2,500

				31.12.20X1	By	Balance c/d	22,500
			25,000				25,000
1.1.20X2	To	Balance b/d	22,500	31.12.20X2	By	Depreciation A/c	2,500
				31.12.20X2	By	Balance c/d	20,000
			22,500				22,500
1.1.20X3	To	Balance b/d	20,000	31.12.20X3	By	Depreciation A/c	2,500
				31.12.20X3	By	Balance c/d	17,500
			20,000				20,000

Shorya Ltd. Account

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

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

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2019			*₹*	*₹*	*2019*			*₹*	*₹*
April 1	To Bank (Purchases)	40,000	-	60,000	May	By Bank (Sale)	8,000	-	15,200
May	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June	To Bonus Issue	8,000	-	Nil	2020				
July	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-

Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

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

Working Notes:

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

14. (a) Calculation of Gross Profit

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

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

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

	₹
Turnover in the last financial year	36,00,000
Add: 25% increase in turnover	9,00,000
	45,00,000
Gross profit on increased turnover (30% on 45,00,000)	13,50,000
Add: Additional standing charges	50,000
Policy Amount	14,00,000

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

15.

			Dr.	Cr.
			₹	₹
1.	Building Account	Dr.	11,000	
	To Revaluation Account			11,000
	(Being building appreciated)			
2.	Revaluation Account	Dr.	3,500	
	To Furniture Account			2,500
	To Provision for Doubtful Debts Account			1,000
	(Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)			
3.	Revaluation Account	Dr.	7,500	
	To E's Capital Account			3,750
	To F's Capital Account			2,250
	To G's Capital Account			1,500
	(Being profit on revaluation transferred to capital accounts of partners)			
4.	F's Capital Account	Dr.	10,000	
	G's Capital Account	Dr.	15,000	
	To E's Capital Account			25,000
	(Being adjustment for E's share of goodwill)			
5.	Bank Account	Dr.	45,000	
	To F's Capital Account			10,000
	To G's Capital Account			35,000
	(Being fresh capital introduced by F and G)			
6.	E's Capital Account	Dr.	78,750	
	To Bank Account			45,000
	To E's Loan Account			33,750
	(Being settlement of E's capital on his retirement)			
7.	E's Loan Account	Dr.	33,750	
	To H's Capital Account			33,750
	(Transfer of E's Loan Account to H's Capital Account)			

8.	H's Capital Account	Dr.	12,500	
	To F's Capital Account			6,250
	To G's Capital Account			6,250
	(Being adjustment entry passed for H's share of goodwill)			

Partners' Capital Accounts

	E ₹	F ₹	G ₹	H ₹		E ₹	F ₹	G ₹	H ₹
To E (Goodwill)		10,000	15,000		By Balance b/d	50,000	40,000	28,000	
To Bank	45,000				By Revaluation A/c	3,750	2,250	1,500	
To E's Loan A/c	33,750				By F (Goodwill)	10,000			
To Balance c/d		42,250	49,500		By G (Goodwill)	15,000			
					By Bank (fresh capital)		10,000	35,000	
	78,750	52,250	64,500			78,750	52,250	64,500	
To F (Goodwill)				6,250	By Balance b/d		42,250	49,500	
To G (Goodwill)				6,250	By E's Loan A/c				33,750
To Balance c/d		48,500	55,750	21,250	By H (goodwill)		6,250	6,250	
		48,500	55,750	33,750			48,500	55,750	33,750

Working Notes:

1. **Calculation of gaining ratio**

Partners	New ratio	Old ratio	Gain	Sacrifice
E		$\frac{5}{10}$		$\frac{5}{10}$
F	$\frac{1}{2}$	$\frac{3}{10}$	$\frac{1}{2}-\frac{3}{10}=\frac{2}{10}$	
G	$\frac{1}{2}$	$\frac{2}{10}$	$\frac{1}{2}-\frac{2}{10}=\frac{3}{10}$	

Hence, ratio of gain between F and G = 2:3

2. **Value of total goodwill of the firm** = ₹ 25,000 × 2 = ₹ 50,000

E's share = ₹ 50,000 $\times \frac{5}{10}$ = Rs. 25,000

F will bear = ₹ 25,000 $\times \frac{2}{5}$ = Rs.10,000

G will bear = ₹ 25,000 $\times \frac{3}{5}$ = Rs.15,000

3. H's share of goodwill = ₹ 50,000 $\times \frac{1}{4}$ = ₹ 12,500

F and G share equal profits. Therefore, their sacrificing ratio will also be equal

Hence, each of them will be credited with ₹ 6,250

16. A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

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

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

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

2. False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
3. True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
4. False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(b) Calculation of cost for closing inventory

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

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

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

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

18. (a) Operating Activities: b, c.

Investing Activities: e, g, h, i.

Financing Activities: a, d, f, j.

Cash Equivalent: k.

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

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

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

19. (a) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in ₹ lakhs)

	Up to the reporting date	*Recognized in previous years*	*Recognized in current year*
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note:

	Year 1	*Year 2*	*Year 3*
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200

Actual cost incurred upto the reporting date (B)	2,093	6,068 (6,168-100)	8,200 (8,100+100)
Degree of completion (B/A)	26%	74%	100%

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i) The sale is complete but delivery has been postponed at buyer's request. Meghna Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2019.

Case (ii) 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

Case (iv) Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

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

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

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

management will be included in determination of Purchase Price of PPE

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

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

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

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

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

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

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

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

Applicability for May, 2020 examinations

The Study Material (July 2015 edition), along with the "Supplementary Study Paper for May 2019 examination and onwards" is relevant for May 2020 examinations.

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

Further, all relevant amendments/ circulars/ notifications etc. in the Business Law and Company law part for the period 1st May 2018 to 31st October, 2019 are mentioned below:

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

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

[1] Read section 42 of the Companies Act, 2013 along with Rule 14 (Private Placement) of the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2018 dated 7th August, 2018.

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

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

	6. In **section 54**, in sub-section (*1*), clause (*c*) shall be omitted. **Enforcement Date: 7th May, 2018**	123
	7. In **section 73** of the principal Act, in sub-section (*2*),— **(i)** for clause (*c*), the following clause shall be substituted, namely:— "(*c*) depositing, on or before the thirtieth day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;"; **(ii)** clause (*d*) shall be omitted; **(iii)** in clause (*e*), for the words "such deposits;", the following shall be substituted, namely:— "such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default;". **Enforcement Date: 15th August, 2018**	153
	8. In **section 74**, in sub-section (*1*), for clause (*b*), the following clause shall be substituted, namely:— "(*b*) repay within three years from such commencement or on or before expiry of the period for which the deposits were accepted, whichever is earlier: Provided that renewal of any such deposits shall be done in accordance with the provisions of Chapter V and the rules made thereunder.". **Enforcement Date: 15th August, 2018**	160
	9. In **section 77** of the principal Act, in sub-section (*1*), after the third proviso, the following proviso shall be inserted, namely:— "Provided also that this section shall not apply to such charges as may be prescribed in consultation with the Reserve Bank of India.". **Enforcement Date: 7th May, 2018**	165
	10. In **section 78** of the principal Act, for the words and figures "register the charge within the period specified in section 77", the words, brackets and figures "register the charge within the period of thirty days referred to in sub-section (*1*) of section 77" shall be substituted. **Enforcement Date: 7th May, 2018**	166
	11. In **section 82** of the principal Act, in sub-section (*1*),— **(i)** the words, brackets and figures "and the provisions of sub-section (*1*) of section 77 shall, as far as may be, apply to an intimation given under this section" shall be omitted; **Enforcement Date: : 5th July, 2018**	169

	11. In **section 82** of the principal Act, in sub-section (*1*),— **(ii)** the following proviso shall be inserted, namely:— "Provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of such additional fees as may be prescribed.". **Enforcement Date: : 5th July, 2018**	169
	12. In **section 89** of the principal Act,— **(i)** in sub-section (*6*), the words and figures, "within the time specified under section 403" shall be omitted; **(ii)** in sub-section (*7*), for the words and figures, "under the first proviso to sub-section (*1*) of section 403", the word "therein", shall be substituted; **(iii)** after sub-section (*9*), the following sub-section shall be inserted, namely:— "(*10*) For the purposes of this section and section 90, beneficial interest in a share includes, directly or indirectly, through any contract, arrangement or otherwise, the right or entitlement of a person alone or together with any other person to— (i) exercise or cause to be exercised any or all of the rights attached to such share; or (ii) receive or participate in any dividend or other distribution in respect of such share.". **Enforcement Date: 7th May, 2018 [for (i) and (ii)]** **13th June, 2018 [for (iii)]**	182
	13. For **section 90** of the principal Act, the following section shall be substituted, namely:— '(1) Every individual, who acting alone or together, or through one or more persons or trust, including a trust and persons resident outside India, holds beneficial interests, of not less than twenty-five per cent. or such other percentage as may be prescribed, in shares of a company or the right to exercise, or the actual exercising of significant influence or control as defined in clause (27) of section 2, over the company (herein referred to as "significant beneficial owner"), shall make a declaration to the company, specifying the nature of his interest and other particulars, in such manner and within such period of acquisition of the beneficial interest or rights and any change thereof, as may be prescribed:	183

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

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

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

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

	[3]**(ii)** in sub-section (*3*), for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted. **Enforcement Date: 7th May, 2018**	
	20. In **section 447** of the principal Act,- (a) after the words "guilty of fraud", the words "involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower" shall be inserted. **Enforcement Date: 9th February, 2018**	104
	20. In **section 447** of the principal Act,- (b) after the proviso, the following proviso shall be inserted, namely:— "Provided further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to [4]twenty lakh rupees or with both." **Enforcement Date: 9th February, 2018**	104
II.	**Amendments related to -** Notification G.S.R. 433(E) dated 7th May, 2018 The Central Government has amended the Companies (Specification of Definitions Details) Rules, 2014, by the Companies (Specification of Definitions Details) Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Specification of Definitions Details) Rules, 2014, in rule 2, in sub-rule (1), clause (r) shall be omitted. **Please note:** The said clause (r) deals with 'Total Share Capital'	12 & 28
III.	**Amendments related to -** Notification G.S.R. 434(E) dated 7th May, 2018 The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Second Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Share Capital and Debentures) Rules, 2014, in the principal rules, in rule 8, in sub-rule (1), in the Explanation, in clause (i) in sub-clause (a), the words "for at least last one year" shall be omitted.	124

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

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

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

	Explanation II.- For the purposes of this rule, while counting the number of days of stay of a director in India for the financial year 2018-2019, any period of stay between 01.01.2018 till the date of notification of this rule shall also be counted”	
VII.	**Amendments related to -** COMPANIES (AMENDMENT) ACT, 2019 Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Second Ordinance, 2019 dated 21st February, 2019. [Deemed to have come into force on 2nd November, 2018.] and by the S.O. 2947(E) dated 14th August, 2019 [the sections contained therein shall deemed to have come into force on 15th August, 2019] **1.** In **clause (41) of section 2**, (a) for the first proviso, the following provisos shall be substituted namely: “Provided that where a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on an application made by that company or body corporate in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year: Provided further that any application pending before the Tribunal as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement.” **[Enforcement Date: 2nd November, 2018]**	18
	1. In **clause (41) of section 2**, (b) for the second proviso, the for the words “Provided further that”, the words “Provided also that” shall be substituted. **[Enforcement Date: 2nd November, 2018]**	18
	2. After section 10, the following section shall be inserted, namely: “**10A.Commencement of business etc.** (1) A company incorporated after the commencement of the Companies (Amendment) Ordinance, 2019 and having a share capital shall not commence any business or exercise any borrowing powers unless— (a) a declaration is filed by a director within a period of one hundred and eighty days of the date of incorporation of the company in such form and verified in such manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him on the date of making of such declaration; and	64

	(b) The company has filed with the Registrar a verification of its registered office as provided in sub-section (2) of section 12. (2) If any default is made in complying with the requirements of this section, the company shall be liable to a penalty of fifty thousand rupees and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues but not exceeding an amount of one lakh rupees. (3) Where no declaration has been filed with the Registrar under clause (a) of sub-section (1) within a period of one hundred and eighty days of the date of incorporation of the company and the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may, without prejudice to the provisions of sub-section (2), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII." **[Enforcement Date: 2nd November, 2018]**	
	3. In **section 12**, after sub- section (8), the following sub- section shall be inserted, namely: "(9) If the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may cause a physical verification of the registered office of the company in such manner as may be prescribed and if any default is found to be made in complying with the requirements of sub-section (1), he may without prejudice to the provisions of sub-section (8), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII." **[Enforcement Date: 2nd November, 2018]**	65
	4. In **section 14**, **(i)** in Sub- section (1), for the second proviso, the following provisos shall be substituted namely: "Provided further that any alteration having the effect of conversion of a public company into a private company shall not be valid unless it is approved by an order of the Central Government on an application made in such form and manner as may be prescribed: Provided also that any application pending before the Tribunal, as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement." **(ii)** in sub- section (2), for the word "Tribunal", the words "Central Government" shall be substituted. **[Enforcement Date: 2nd November, 2018]**	72
	5. In **section 26-**	87

	(i) in sub-sections (4), (5) and (6), for the word "registration", the word "filing" shall be substituted; **(ii)** sub-section (7) shall be omitted **[Enforcement Date: 15th August, 2019]**	
	6. In **section 29-** (i) in sub-section (1), in clause (b), the word "public" shall be omitted; (ii) after sub-section (1), the following sub-section shall be inserted, namely:- "(1A) In case of such class or classes of unlisted companies as may be prescribed, the securities shall be held or transferred only in dematerialised form in the manner laid down in the Depositories Act, 1996 and the regulations made thereunder.". **[Enforcement Date: 15th August, 2019]**	89
	7. In **section 35**, in sub-section (2), in clause (c), for the words "delivery of a copy of the prospectus for registration", the words "filing of a copy of the prospectus with the Registrar" shall be substituted. **[Enforcement Date: 15th August, 2019]**	101
	8. In **section 53,** for sub – section (3), the following sub- section shall be substituted, namely: "(3) Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued." **[Enforcement Date: 2nd November, 2018]**	123
	9. In **section 64**, for sub- section (2), the following sub- section shall be substituted, namely: "(2) Where any company fails to comply with the provisions of sub-section (1), such company and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues, or five lakh rupees whichever is less." **[Enforcement Date: 2nd November, 2018]**	137
	10. In **section 77**, in sub- section (1), for the first and second provisos, the following provisos shall be substituted, namely: "Provided that the Registrar may, on an application by the company, allow such registration to be made-	165

	(a) in case of charges created before the commencement of the Companies (Amendment) Ordinance, 2019, within a period of three hundred days of such creation; or (b) in case of charges created on or after the commencement of the Companies (Amendment) Ordinance, 2019, within a period of sixty days of such creation, on payment of such additional fees as may be prescribed: Provided further that if the registration is not made within the period specified- (a) in clause (a) to the first proviso, the registration of the charge shall be made within six months from the date of commencement of the Companies (Amendment) Ordinance, 2019, on payment of such additional fees as may be prescribed and different fees may be prescribed for different classes of companies; (b) in clause (b) to the first proviso, the Registrar may, on an application, allow such registration to be made within a further period of sixty days after payment of such *advalorem* fees as may be prescribed." **[Enforcement Date: 2nd November, 2018]**	
	11. Section 86 of the Companies Act, 2013, shall be numbered as sub-section (1) thereof and after sub- section (1) as so numbered, the following sub- section shall be inserted, namely: "(2) If any person wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required to be registered in accordance with the provisions of section 77, he shall be liable for action under section 447." **[Enforcement Date: 2nd November, 2018]**	171
	12. For **section 87**, the following sections shall be substituted, namely: "87. The Central Government on being satisfied that — (a) the omission to give intimation to the Registrar of the payment or satisfaction of a charge, within the time required under this Chapter; or (b) the omission or misstatement of any particulars, in any filing previously made to the Registrar with respect to any such charge or modification thereof or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83, was accidental or due to inadvertence or some other sufficient cause or it is not of a nature to prejudice the position of creditors or shareholders of the company, it may, on the application of the company or any person interested and on such terms and conditions as it deems just and expedient, direct that the time for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or misstatement shall be rectified." **[Enforcement Date: 2nd November, 2018]**	171

	13. In **section 90**, **(i)** after sub-section (4), the following sub-section shall be inserted, namely:- "(4A) Every company shall take necessary steps to identify an individual who is a significant beneficial owner in relation to the company and require him to comply with the provisions of this section."; **[Enforcement Date: 15th August, 2019]** **(ii)** for sub- section (9), the following sub- section shall be substituted, namely: "(9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8), within a period of one year from the date of such order: Provided that if no such application has been filed within a period of one year from the date of the order under sub-section (8), such shares shall be transferred, without any restrictions, to the authority constituted under sub-section (5) of section 125, in such manner as may be prescribed." **[Enforcement Date: 2nd November, 2018]** **(iii)** after sub-section (9), as so substituted, the following sub-section shall be inserted, namely:- "(9A) The Central Government may make rules for the purposes of this section."; **[Enforcement Date: 15th August, 2019]** **(iv)** in sub- section (10),- (a) after the word "punishable", the words "with imprisonment for a term which may extend to one year or" shall be inserted; (b) after the words "ten lakh rupees", the words "or with both" shall be inserted. **[Enforcement Date: 2nd November, 2018]** **(v)** in sub-section (11), after the word, brackets and figure "sub-section (4)", the words, brackets, figure and letter "or required to take necessary steps under sub-section (4A)" shall be inserted. [Enforcement Date: 15th August, 2019]	(ii) [5]183 (iv) [6]183

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

[6] Same as footnote 4.

	14. In **section 92,** for sub- section (5), the following sub- section shall be substituted, namely: "(5) If any company fails to file its annual return under sub-section (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of five lakh rupees." **[Enforcement Date: 2nd November, 2018]**	187
	15. In **section 102**, for sub- section (5), the following sub- section shall be substituted, namely: "(5) Without prejudice to the provisions of sub-section (4), if any default is made in complying with the provisions of this section, every promoter, director, manager or other key managerial personnel of the company who is in default shall be liable to a penalty of fifty thousand rupees or five times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher." **[Enforcement Date: 2nd November, 2018]**	195
	16. In **section 105**, in sub- section (3), for the words "punishable with fine which may extend to five thousand rupees", the words "liable to a penalty of five thousand rupees" shall be substituted. **[Enforcement Date: 2nd November, 2018]**	199
	17. In **section 117**, for sub- section (2), the following sub- section shall be substituted, namely: "(2) If any company fails to file the resolution or the agreement under sub-section (1) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of twenty-five lakh rupees and every officer of the company who is in default including liquidator of the company, if any, shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees." **[Enforcement Date: 2nd November, 2018]**	221
	18. In **section 121**, for sub- section (3), the following sub- section shall be substituted, namely: "(3) If the company fails to file the report under sub-section (2) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further	229

	penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees and every officer of the company who is in default shall be liable to a penalty which shall not be less than twenty-five thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees." **[Enforcement Date: 2nd November, 2018]**	
	19. In **section 447**, in the second proviso, for the words "twenty lakh rupees", the words "fifty lakh rupees" shall be substituted. **[Enforcement Date: 2nd November, 2018]**	104
VIII.	**Amendments related to -** Notification dated 7th August, 2018 The Central Government has amended the Companies (Prospectus and Allotment of Securities) Rules, 2014, by the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2018. It shall come into force on 7th August, 2018. In the Companies (Prospectus and Allotment of Securities) Rules, 2014, for Rule 14, the following rule shall be substituted, namely:- (1) For the purposes of sub-section (2) and sub-section (3) of section 42, a company shall not make an offer or invitation. to subscribe to securities through private placement unless the proposal has been previously approved by the shareholders of the company, by a special resolution. for each of the offers or invitations: Provided that in the explanatory statement annexed to the notice for shareholders' approval, the following disclosure shall be made:- (a) particulars of the offer including date of passing of Board resolution; (b) kinds of securities offered and the price at which security is being offered: (c) basis or justification for the price (including premium, if any) at which the offer or invitation is being made; (d) name and address of valuer who performed valuation; (e) amount which the company intends to raise by way of such securities; (f) material terms of raising such securities, proposed time schedule, purposes or objects of offer, contribution being made by the promoters or directors either as part of the offer or separately in furtherance of objects; principle terms of assets charged as securities: Provided further that this sub-rule shall not apply in case of offer or invitation for. non-convertible debentures, where the proposed amount to be raised through such offer or invitation does not exceed the limit as specified in clause (c) of sub section (1) of section 180 and in such cases	

	relevant Board resolution under clause (c) of subsection (3) of section 179 would be adequate: Provided also that in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation exceeds the limit as specified in clause (c) of sub-section (1) of section 180, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year. (2) For the purpose of sub-section (2) of section 42, an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred in the aggregate in a financial year: Provided that any offer or invitation made to qualified institutional buyers, or to employees of the company under a scheme of employees stock option as per provisions of clause (b) of sub-section (1) of section 62 shall not be considered while calculating the limit of two hundred persons. Explanation.- For the purposes of this sub-rule it is hereby clarified that the restrictions aforesaid would be reckoned individually for each kind of security that is equity share, preference share or debenture. (3) A private placement offer cum application letter shall be in the form of an application in Form PAS-4 serially numbered and addressed specifically to the person to whom the offer is made and shall be sent to him, either in writing or in electronic mode, within thirty days of recording the name of such person pursuant to sub-section (3) of section 42: Provided that no person other than the person so addressed i. the private placement offer cum application letter shall be allowed to apply through such application form and any application not conforming to this condition shall be treated as invalid (4) The company shall maintain a complete record of private placement offers in Form PAS-5. (5) The payment to be made for subscription to bank account of the person subscribing to such keep the record of the bank account from where been received: Provided that monies payable on subscription to securities to be held by joint holders shall be paid from the bank account of the person whose name appears first in the application: Provided further that the provisions of this sub-rule shall not apply in case of issue of shares for consideration other than cash. (6) A return of allotment of securities under section 42 shall be filed with the Registrar within fifteen days of allotment in Form PAS-3 and with the fee as provided in the Companies (Registration offices and Fees) Rules, 2014 along with a complete list of all the allottees containing-	

	(i) the full name, address, permanent Account Number and E-mail ID of such security holder; (ii) the class of security held; (iii) the date of allotment of security; (iv) the number of securities herd, nominal value and amount paid on such securities; and particulars of consideration received if tire securities were issued for consideration other than cash. (7) The provisions of sub-rule (2) shall not be applicable to - (a) non-banking financial companies which are registered with the Reserve Bank of India under the Reserve Bank of India Act,1934 and (b) housing finance companies which are registered with the National Housing Bank under the National Housing Bank Act, 1987, if they are complying with regulations made by the Reserve Bank of India or the National Housing Bank in respect of offer or invitation to be issued on private placement basis: Provided that such companies shall comply with sub-rule (2) in case the Reserve Bank of India or the National Housing Bank have not specified similar regulations. (8) A company shall issue private placement offer cum application letter only after the relevant special resolution or Board resolution has been filed in the Registry: Provided that private companies shall file with the Registry copy of the Board resolution or special resolution with respect to approval under clause (c) of subsection (3) of section 179	
IX.	**Amendments related to** - Notification G.S.R. 1219(E) dated 18th December, 2018 The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fourth Amendment Rules, 2018. It shall come into force on 18th December, 2018. In the Companies (Incorporation) Rules, 2014 (hereinafter referred to as the said rules), after rule 23, the following rule shall be inserted, namely:- "23A. Declaration at the time of commencement of business.- The declaration under section 10A by a director shall be in Form No.INC-20A and shall be filed as provided in the Companies (Registration Offices and Fees) Rules, 2014 and the contents of the said form shall be verified by a Company Secretary or a Chartered Accountant or a Cost Accountant, in practice: Provided that in the case of a company pursuing objects requiring registration or approval from any sectoral regulators such as the Reserve Bank of India, Securities and Exchange Board of India, etc., the	64

	registration or approval, as the case may be from such regulator shall also be obtained and attached with the declaration.”.	
X.	**<u>Amendments related to</u>** - <u>Notification G.S.R. 42(E) dated 22nd January, 2019</u> The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Amendment Rules, 2019. It shall come into force on 22nd January, 2019. In the Companies (Acceptance of Deposits) Rules, 2014 (hereinafter referred to as the said rules): **1**. In rule 2, in sub-rule (1), in clause (c), in sub-clause(xviii), after the words “Infrastructure Investment Trusts,” the words “Real Estate Investment Trusts” shall be inserted. **2.** In the said rules, in rule 16, the following Explanation shall be inserted, namely:- “Explanation.- It is hereby clarified that Form DPT-3 shall be used for filing return of deposit or particulars of transaction not considered as deposit or both by every company other than Government company.”. **3.** In rule 16(A), after sub-rule (2), the following sub-rule shall be inserted, namely:- “(3) Every company other than Government company shall file a onetime return of outstanding receipt of money or loan by a company but not considered as deposits, in terms of clause (c) of sub-rule 1 of rule 2 from the 01st April, 2014 to *[the date of publication of this notification in the Official Gazette], as specified in Form DPT-3 within **[ninety days from the date of said publication of this notification] along with fee as provided in the Companies (Registration Offices and Fees) Rules, 2014.”.	1. 151 2. 158 3. 158/ 159
XI.	**<u>Amendments related to</u>** - <u>Notification G.S.R. 341(E) dated 30th April, 2019</u> The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Second Amendment Rules, 2019. In the Companies (Acceptance of Deposits) Rules, 2014, in rule 16A, in sub-rule (3), - *(a) for the words “the date of publication of this notification in the Official Gazette”, the figures, letters and word “31st March, 2019” shall be substituted;	159

	**(b) for the words "ninety days from the date of said publication of this notification", the words, figures and letters "ninety days from 31st March, 2019" shall be substituted.	
XII.	<u>**Amendments related to -** Notification dated 30th April, 2019</u> The Central Government has amended the Companies (Registration of Charges) Rules, 2014, by the Companies (Registration of Charges) Amendment Rules, 2019. In the Companies (Registration of Charges) Rules, 2014: 1. In **Rule 4**, the following rules shall be substituted, namely: "**4. Application to Registrar** (1) For the purposes of the first proviso and clause (b) of the second proviso to sub-section (1) of section 77, the Registrar may, on being satisfied that the company had sufficient cause for not filing the particulars and instrument of charge, if any, within a period of thirty days of the date of creation of the charge including modification thereto, allow the registration of the same after thirty days but within the period as specified in the said provisos, on payment of fee, additional fee or *advalorem* fee, as may be applicable, as prescribed in the Companies (Registration Offices and Fees) Rules, 2014. (2) The application under sub-rule (1) shall be made in Form No. CHG-I and Form No.CHG-9 supported by a declaration from the company signed by its company secretary or a director that such belated filing shall not adversely affect the rights of any other intervening creditors of the company." 2. For **Rule 12**, the following rule shall be substituted, namely: "**12. Rectification in register of charges on account of omission or misstatement of particulars in charge previously recorded and extension of time in filing of satisfaction of charge**.- The Central Government may on an application filed in Form No. CHG-8 in accordance with section 87- (a) direct rectification of the omission or misstatement of any particulars, in any filing, previously recorded with the Registrar with respect to any charge or modification thereof, or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83, (b) direct extension of time for satisfaction of charge, if such filing is not made within a period of three hundred days from the date of such payment or satisfaction."	1. 165 2. 172
XIII.	<u>**Amendments related to -** Notification G.S.R. 357(E) dated 10th May, 2019</u> The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fifth Amendment Rules, 2019.	55

	In the Companies (Incorporation) Rules, 2014, Rule 8 has been fully substituted by Rule 8, Rule 8A and Rule 8B.	
XIV.	<u>**Amendments related to -** Notification G.S.R. 574(E) dated 16th August, 2019</u> The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Amendment Rules, 2019. In the Companies (Share Capital and Debentures) Rules, 2014: In **Rule 4**, in sub-rule (1), **(i)** for clause (c), the following clause shall be substituted, namely:- “(c) the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent. of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;”; **(ii)** clause (d) shall be omitted.	115
The Indian Contract Act, 1872		
	Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019. As per the Jammu and Kashmir Reorganisation Act, 2019, in the Indian Contract Act, 1872, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted. Now, Section 1 will be read as under, ‘**Short title-** This Act may be called the Indian Contract Act, 1872. Extent, **Commencement-** It extends to the whole of India and it shall come into force on the first day of September, 1872. **Saving-** Nothing herein contained shall affect the provisions of any Statute, Act or Regulation not hereby expressly repealed, nor any usage or custom of trade, nor any incident of any contract, not inconsistent with the provisions of this Act.’	-
The Negotiable Instruments Act, 1881		
	<u>**Amendments related to -** THE NEGOTIABLE INSTRUMENTS (AMENDMENT) ACT, 2018</u> The Ministry of Law and Justice has made amendments to the Negotiable Instruments Act, 1881 through the Negotiable Instruments (Amendment) Act, 2018. This Amendment Act received the assent of the President and published in the Official Gazette on 2nd August, 2018.	

	In the Negotiable Instruments Act, 1881 (hereinafter referred to as the principal Act), after section 143, the following section shall be inserted, namely:— "**143A. Power to direct interim compensation**. (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, the Court trying an offence under section 138 may order the drawer of the cheque to pay interim compensation to the complainant— (a) in a summary trial or a summons case, where he pleads not guilty to the accusation made in the complaint; and (b) in any other case, upon framing of charge. (2) The interim compensation under sub-section (1) shall not exceed twenty per cent. of the amount of the cheque. (3) The interim compensation shall be paid within sixty days from the date of the order under sub-section (1), or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the drawer of the cheque. (4) If the drawer of the cheque is acquitted, the Court shall direct the complainant to repay to the drawer the amount of interim compensation, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant. (5) The interim compensation payable under this section may be recovered as if it were a fine under section 421 of the Code of Criminal Procedure, 1973. (6) The amount of fine imposed under section 138 or the amount of compensation awarded under section 357 of the Code of Criminal Procedure, 1973, shall be reduced by the amount paid or recovered as interim compensation under this section.".	- (The section is newly inserted)
	(2) In the principal Act, after section 147, the following section shall be inserted, namely:— "**148. Power of Appellate Court to order payment pending appeal against conviction.** (*1*) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, in an appeal by the drawer against conviction under section 138, the Appellate Court may order the appellant to deposit such sum which shall be a minimum of twenty per cent. of the fine or compensation awarded by the trial Court:	- (The section is newly inserted)

	Provided that the amount payable under this sub-section shall be in addition to any interim compensation paid by the appellant under section 143A. (*2*) The amount referred to in sub-section (*1*) shall be deposited within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the appellant. (*3*) The Appellate Court may direct the release of the amount deposited by the appellant to the complainant at any time during the pendency of the appeal: Provided that if the appellant is acquitted, the Court shall direct the complainant to repay to the appellant the amount so released, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant.''	
The Employees' Provident Funds and Miscellaneous Provisions Act, 1952		
	Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019. As per the Jammu and Kashmir Reorganisation Act, 2019, in the Employees Provident Funds and Miscellaneous Provisions Act, 1952, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted. Now, Section 1(2) will be read as under, (2) 'It extends to the whole of India.'	

 # Here, SM means Study Material and SSP means Supplementary study paper (i.e. Page number of the Study material/ Supplementary study paper in reference to relevant provisions)

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

DIVISION A - MULTIPLE CHOICE QUESTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Registered office of the company Alpha Limited.

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

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

   (a) Can claim the full amount from R

   (b) Can claim the full amount from S

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

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

4. Shelf prospectus remains valid upto-

   (a) 6 months

   (b) 1 year

   (c) 2 years

   (d) 5 years

5. An eligible company as per section 76, which is accepting deposits within the limits specified under section 180 (1) (c) may accept deposits by means of ________.

   (a) ordinary resolution

   (b) unanimous resolution

   (c) Special resolution

   (d) Special resolution and approval of Central Government

DIVISION B - DETAILED QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act,1872

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

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

2. Ashley stands surety for 'Bommy' for any amount which 'Chand' may lend to ' Bommy' from time to time during the next three months subject to a maximum amount of ₹ 1,00,000 (one lakh only). One month later ' Ashley ' revokes the surety, when 'Chand' had already lent to 'Bommy' ₹ 10,000 (ten thousand). Referring to the provisions of the Indian Contract Act, 1872. Decide:

   (i) Whether ' Ashley ' is discharged from all the liabilities to 'Chand' for any subsequent loan given to ' Bommy'?

   (ii) What would be your answer in case ' Bommy' makes a default in paying back to 'Chand' the already borrowed amount of ₹ 10,000?

The Negotiable Instruments Act, 1881

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

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

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

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

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

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

The Payment of Bonus Act, 1965

4. In 2016, P Electronics Corporation, an establishment in public sector starts to sell mobile sets manufactured by it, in addition to Air conditioners, so as to compete with private sector establishments of mobile sets in the market. The income from sale of mobile sets is 28 percent of the gross income of the P Electronics Corporation. The employees of the Corporation went to strike for demand of bonus.

   Decide, whether the demand of the employees is tenable under the provisions of the payment of Bonus Act, 1965. Would your answer be different if the income from sale of mobile sets is only 18 percent of the gross income of the Corporation?

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

5. Annie retired from the service of Modern Cosmetics Ltd. on 31st March, 2017. She had a sum of 5 lacs in her provident fund account. It became due for payment to Annie on 30th April, 2017 but the company made the payment of the said amount after two years. Annie claimed interest on the amount due to her, at the rate of 15% p.a. for two years. Decide

whether the claim of Annie is tenable under the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

The Payment of Gratuity Act, 1972

6. Azee Steels Ltd. decided to forfeit the amount of gratuity of its employees 'Artha' and 'Sun' on account of disorderly conduct and other acts which caused loss to the property belonging to the Company.

   'Artha' and 'Sun' committed the following acts:

   (i) 'Artha' refused to surrender the occupied land belonging to the Company.

   (ii) 'Sun' after superannuation continued to occupy the quarter of the Company for six months.

   Against the decision of the Company, 'Artha' and 'Sun' applied to the appropriate authorities for relief. The Company contented that the right to gratuity is not a statutory right and the forfeiture of the amount of gratuity was within the law. Examine the contention of the Company and the decision taken by the Company to forfeit the amount of gratuity in the light of the Payment of Gratuity Act, 1972.

The Companies Act, 2013

7. The Articles of Association of Ajad Ltd. require the personal presence of 7 members to constitute quorum of General Meetings. The company has 965 members as on the date of meeting. The following persons were present in the extra-ordinary meeting to consider the appointment of Managing Director:

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

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

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

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

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

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

9. Yadav Dairy Products Private limited has registered its articles along with memorandum at the time of registration of company in December, 2014. Now directors of the company are of the view that provisions of articles regarding forfeiture of shares should not be changed except by a resolution of 90% majority. While as per section 14 of the Companies Act, 2013 articles may be changed by passing a special resolution only. Hence, one of the

directors is of the view that they cannot make a provision against the Companies Act, 2013. You are required to advise the company on this matter.

PART – B: ETHICS

10. What is meant by 'Corporate Governance'? State the 'Measures of Corporate Governance' with reference to Indian companies.
11. Explain the reasons for unethical behaviour among finance and accounting professionals.
12. Discuss practices widely recognized as discriminatory at the workplace.

PART – C: COMMUNICATION

13. Explain the factors which are responsible for the growing importance of communication of an organization.
14. State with reasons whether following statements are correct or incorrect.
    (i) Rumours and gossips are synonymous.
    (ii) Lying breaks down the trust between individuals.
15. Mr. Swamy has not received a dividend warrant of ₹ 1,500 for 150 shares of Tirupati Ltd. Draft an indemnity bond, to be given to the company for seeing release of Dividend.

SUGGESTED ANSWERS/HINTS

DIVISION A - ANSWER TO CASE SCENARIO / MULTIPULE CHOICE QUESTIONS

1. (A) (d)
(B) (b)
(C) (a)
2. (c)
3. (b)
4. (b)
5. (a)

DIVISION B - ANSWER TO DETAILES QUESTIONS

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

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

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

2. **Revocation of continuing guarantee:** The problem as asked in the question is based on the provisions of the Indian Contract Act 1872, as contained in Section 130 relating to the revocation of a continuing guarantee as to future transactions which can be done mainly in the following two ways:

   1. By Notice: A continuing guarantee may at any time be revoked by the surety as to future transactions, by notice to the creditor.
   2. By death of surety: The death of the surety operates, in the absence of any contract to the contrary, as a revocation of a continuing guarantee, so far as regards future transactions. (Section 131).

   So far as the transactions before revocation are concerned, the liability of the surety for previous transactions (i.e. before revocation) remains.

   (i) Thus, applying the above provisions in the given case, Ashley is discharged from all the liabilities to Chand for any subsequent loan.

   (ii) Answer in the second case would differ i.e. Ashley is liable to Chand for ₹ 10,000 on default of Bommy since the loan was taken before the notice of revocation was given to Chand.

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

   On applying the above provision in the given cases—

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

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

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

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

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

4. Sub Section (1) of Section 20 of the Payment of Bonus Act, 1965 provides that, if in any accounting year, an establishment in public sector sells any goods produced or manufactured by it or if it renders any services in competition with an establishment in private sector and if the income from such sale or service or both is not less than 20% of the gross income of such establishment, then, the provisions of this Act shall apply in relation to such establishment in public sector as they apply in relation to a like establishment in private sector.

Sub Section (2) of Section 20 of the Payment of Bonus Act, 1965 provides that, save as otherwise provided in sub-section (1), nothing in this Act shall apply to the employees employed by an establishment in public sector.

In the instant case, P Electronics Corporation, an establishment in public sector starts selling mobile sets manufactured by it, in addition to Air conditioners, so as to compete with private sector establishments of mobile sets in the market.

In the first case, the income from sale of mobile sets is 28% of the gross income of P Electronics Corporation. The employees of the Corporation went on strike for demand of bonus. The demand of the employees is tenable in this case due to the fact that income from sale of mobile sets is not less than 20% of the gross income of the establishment.

In the second case, the income from sale of mobile sets is only 18% of the gross income of the corporation; hence, demand of the employees is not tenable since income from sale of mobile sets is less than 20% of the gross income of the establishment.

5. According to Section 7Q of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 the employer shall be liable to pay simple interest @ of 12% per annum or at such higher rate as may be specified in the Scheme on any amount due from him under this Act from the date on which the amount has become so due till the date of its actual payment.

However higher rate of interest specified in the Scheme shall not exceed the lending rate of interest charged by any scheduled bank.

As per above provision, Annie can claim for the payment of interest on due amount @ 12 percent per annum or at the rate specified in the Scheme, whichever is higher, for two years. Here, in the absence of specified rate Annie can claim only 12 percent per annum interest on the due amount.

Hence, claim of Annie for interest rate of 15% is not tenable.

6. As per the provisions of section 4(1) of the Payment of Gratuity Act, 1972, gratuity is payable to an employee on termination of his employment after he has rendered continuous service for not less than five years, -

(a) on his superannuation, or

(b) on his retirement or resignation, or

(c) on his death or disablement due to accident or disease:

Provided that the completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.

Forfeiture of Gratuity: In accordance with the provisions of Section 4(6) of the Payment of Gratuity Act, 1972, if the services of any employee have been terminated for any act, willful omission, or negligence causing any damage or loss to or destruction of property belonging to the employer, the gratuity shall be forfeited to the extent of the damage or loss so caused.

Further, if the services of such an employee have been terminated for any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment, the gratuity payable to the employee may be wholly or partially forfeited.

The correctness of the decision taken by Azee Steel Ltd. in the given case, regarding forfeiture of gratuity to its employees Artha and Sun may be tested in the light of Section 4(6) of the Payment of Gratuity Act, 1972 as referred above.

(i) Artha, as per the given facts, refused to surrender the occupied land belonging to the company. This reflects unauthorized occupation or holding of land and deliberate appropriation of the company's property by him. This may be termed as disorderly conduct on the part of Artha. Hence, his gratuity may be forfeited by the company as per the provisions of section 4(6) the Payment of Gratuity Act, 1972.

(ii) Sun had wrongfully continued to occupy the company's quarter for six months after superannuation. Sun may have caused a deliberate loss to the company by his wrongful occupation for 6 months as the quarter could not be provided to another employee and the company may have incurred the cost of rent in such case. Hence, the company is entitled to charge rent from him and after adjusting other dues the remaining amount of gratuity if any, should be paid.

In a similar case to the situation given in the question, *[Wazir Chand vs. Union of India, 2001, LLR172 (SC)],* the court has taken view that there is no illegality in those rental dues being adjusted against the death-cum-retirement dues of the appellant.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Meaning and Measures of Corporate Governance:

Meaning: "Corporate governance is about promoting corporate fairness, transparency and accountability. It is concerned with the structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organization are set and achieved, how risk is monitored and assessed and how performance is optimized.

Measures: In general, corporate governance measures include appointing non-executive directors, placing constraints on management power and ownership concentration, as well as ensuring proper disclosure of financial information and executive compensation. Many companies have established ethical and/or social responsibility committees on their Boards to review strategic plans, assess progress and offer guidance on social responsibilities of their business. In addition to having committees and Boards, some companies have adopted guidelines governing their own policies around such issues like board diversity, independence, and compensation. Indian companies are also required to comply with Clause 49 of the listing agreement.

11. The reasons which lead to unethical behaviour are as follows:

(i) Emphasis on short term results.

This is one of the primary reasons which has led to the downfall of many companies like Enron and Worldcom.

(ii) Ignoring small unethical issues.

It is a known fact that most of the compromises we make are small but however they lead us into committing large infractions. And ignoring minor lapses, lead to bigger and more huge mistakes.

(iii) Economic cycles.

In good times, companies are relaxed in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So, companies need to watch out for economic cycles and be vigilant in good times as well as bad.

(iv) Accounting rules.

In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.

12. **Discriminatory Practices in Employment:** Discrimination in employment is wrong because it violates the basic principle of justice by differentiating between people on the basis of characteristics (race or sex) that are not relevant to the tasks they must perform.

It is consequently understandable that the law has gradually been changed to conform to these moral requirements, and that there has been a growing recognition of the various ways in which discrimination in employment occurs. Among the practices now widely recognized as discriminatory are the following:

1. **Recruitment Practices:** Firms that rely solely on the word-of-mouth referrals of present employees to recruit new workers tend to recruit only from those racial and sexual groups that are already represented in their labor force. In such a case, recruitment would tend to be discriminatory.
2. **Screening Practices:** Job qualifications are discriminatory when they are not relevant to the job to be performed (e.g., requiring a high school diploma or a credential for an essentially manual task.). Job interviews are discriminatory if the interviewer routinely disqualifies certain class of people - for example assumptions about occupations “suitable for women” or the propriety of putting women in "male "environments.
3. **Promotion Practices:** Promotion, job progression, and transfer practices are discriminatory when employers place males on job tracks separate from those open to women and minorities. When promotions rely on the subjective recommendations of immediate supervisors.
4. **Conditions of Employment:** Many times, wages and salaries are discriminatory to the extent that equal wages and salaries are not given to people who are doing

essentially the same work. Another issue is related to fair wages and treatment to workers. Companies subcontracting manufacturing operations abroad are now aware of the ethical issues associated with supporting facilities like child labour that abuse and/or underpay their work forces. Such facilities have been termed “sweatshops.”

5. **Dismissal:** Firing an employee on the basis of his or her race or sex is a clear form of discrimination. Less blatant but still discriminatory are layoff policies that rely on a seniority system, in which women and minorities have the lowest seniority because of past discrimination.

13. The importance of communication in the industrial organization has increased immensely in these days. The following factors are responsible for the growing importance of communication:

(a) **Growth in the size and multiple locations of organizations:** Most of the organizations are growing larger and larger in size. The people are working in the country and abroad, of these organizations. Keeping in touch, sending directions across and getting feedback is possible only when communication lines are kept working effectively.

(b) **Growth of trade unions:** Over the last so many decades, trade unions have been growing strong. No management can be successful without taking the trade unions into confidence. Effective communication will create relationship between the management and the workers.

(c) **Growing importance of human relations:** Workers in an organization are not like machines. They have their own hopes and aspirations. Management has to recognize them and should work with the spirit of integration so that human relations may be maintained. This may only be achieved though effective communication.

(d) **Public relations:** Every organization has a social responsibility towards customers, government, suppliers and the public at large. Communication is the only way an organization can project a positive image of itself.

(e) **Advances in behavioral sciences:** Modern management is deeply influenced by exciting discoveries made in behavioral sciences like psychology, sociology, transactional analysis etc. All of them throw light on suitable aspects of human nature and help in developing a positive attitude towards life and building up meaningful relationship. This is possible only through communication.

(f) **Technological advancement:** The world is changing very fast, owing to scientific and technological advancements. These advancements deeply affect not only the methods of work but also the compositions of groups. In such a situation, proper communication between superiors and subordinates becomes very necessary.

14. **(i)** The given statement “Rumour and gossip are synonymous” is INCORRECT.

Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same network, there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people. Even though managers usually treat the information as "yet to be confirmed", it may cloud judgments about the employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.

(ii) The given statement "Lying breaks down the trust between individuals" is CORRECT.

A lie is a false statement intended to deceive. Of all the ethical dilemmas, lying would appear to be the least morally perplexing. Most would agree that "one ought not to lie". Yet lies in business are more common that many would care to admit. Lying break down the trust between individuals, shaking the foundation of ethical communication.

15. Mr. Swamy S/o .... resident .... do hereby agree to indemnify the Tirupati Ltd. for any loss that may occur for seeking release of dividend for 150 shares of ₹ 1500.

I further declare that personally I have not received the dividend warrant in question.

Mr. Swamy

Date: Signature

Place:

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART-I: COST ACCOUNTING

QUESTIONS

Material

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

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

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

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

(i) Re-order level

(ii) Maximum stock level

(iii) Minimum stock level

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

(v) Inventory turnover ratio.

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

Labour

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

   No. of workers as on 01.01.2019 = 3,600

   No. of workers as on 31.12.2019 = 3,790

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

Overheads

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

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

Other Information:

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

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

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

Required:

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

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

Non-Integrated Accounting

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

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

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

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

Required:

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

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

Job Costing

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

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

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

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

Process Costing

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

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

- Opening work-in-process at the beginning of the month was 1,600 litres, 70% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹ 1,06,560.
- Closing work-in-process at the end of the month was 320 litres, 30% complete for labour and 20% complete for overheads.
- Normal loss is 10% of input and total losses during the month were 1,200 litres partly due to the fire damage.

- Output sent to finished goods warehouse was 8,400 litres.
- Losses have a scrap value of ₹15 per litre.
- All raw materials are added at the commencement of the process.
- The cost per equivalent unit (litre) is ₹78 for the month made up as follows:

	(₹)
Raw Material	46
Labour	14
Overheads	18
	78

Required:

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

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

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

(iv) Prepare the process account for the month.

Operating Costing

7. SMC is a public school having five buses each plying in different directions for the transport of its school students. In view of a larger number of students availing of the bus service the buses work two shifts daily both in the morning and in the afternoon. The buses are garaged in the school. The work-load of the students has been so arranged that in the morning the first trip picks up senior students and the second trip plying an hour later picks up the junior students. Similarly in the afternoon the first trip takes the junior students and an hour later the second trip takes the senior students home.

The distance travelled by each bus one way is 10 km. The school works 25 days in a month and remains closed for vacation in May, June and December. Bus fee, however, is payable by the students for all 12 months in a year.

The details of expenses for a year are as under:

Driver's salary	₹ 9,000 per month per driver
Cleaner's salary	₹ 6,000 per month
(Salary payable for all 12 months)	
(one cleaner employed for all the five buses)	
Licence fee, taxes, etc.	₹ 8,600 per bus per annum

Insurance	₹ 10,000 per bus per annum
Repairs & maintenance	₹ 35,000 per bus per annum
Purchase price of the bus	₹ 15,00,000 each
Life of each bus	12 years
Scrap value of buses at the end of life	₹ 3,00,000
Diesel cost	₹ 65.00 per litre

Each bus gives an average mileage of 4 km. per litre of diesel.

Seating capacity of each bus is 50 students.

The seating capacity is fully occupied during the whole year.

Students picked up and dropped within a range upto 5 km. of distance from the school are charged half fare and fifty per cent of the students travelling in each trip are in this category. Ignore interest. Since the charges are to be based on average cost you are required to :

(i) Prepare a statement showing the expenses of operating a single bus and the fleet of five buses for a year.

(ii) Work out the average cost per student per month in respect of –

(A) students coming from a distance of upto 5 km. from the school and

(B) students coming from a distance beyond 5 km. from the school.

Standard Costing

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

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

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

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

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

	Quantity	Rate (₹)	Amount (₹)
Material-A	900 kg.	86.00	77,400
Material-B	650 kg.	65.00	42,250

Skilled labour	1,200 hours	71.00	85,200
Unskilled labour	860 hours	46.00	39,560

You are required to calculate:

(a) Material Cost Variance;

(b) Material Price Variance;

(c) Material Mix Variance;

(d) Material Yield Variance;

(e) Labour Cost Variance;

(f) Labour Efficiency Variance; and

(g) Labour Yield Variance.

Marginal Costing

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

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

Last Year 5,000 units were sold at ₹185 per unit. From the given information, determine the following:

(i) Break-even Sales (in rupees)

(ii) Profit earned during last year

(iii) Margin of safety (in %)

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

(Assume that Administration Overhead is related with production activity)

Budget and Budgetary Control

10. A Vehicle manufacturer has prepared sales budget for the next few months, and the following draft figures are available:

Month	No. of vehicles
October	40,000

November	35,000
December	45,000
January	60,000
February	65,000

To manufacture a vehicle a standard cost of ₹11,42,800 is incurred and sold through dealers at a uniform selling price of ₹17,14,200 to customers. Dealers are paid 15% commission on selling price on sale of a vehicle.

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

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

You are required to -

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

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

(iii) Calculate the budgeted gross profit for the quarter October to December.

Miscellaneous

11. (a) Differentiate between Cost Accounting and Management Accounting.

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

(c) Discuss the Escalation Clause in a Contract.

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

SUGGESTED HINTS/ANSWERS

1. Workings:

Consumption is calculated on the basis of material requisitions:

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

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

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

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

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

Calculations:

(i) Re-order level

= Maximum usage × Maximum lead time

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

(ii) Maximum stock level

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

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

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

(iii) Minimum stock level

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

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

= 94,500 units – 52,500 units

= 42,000 units

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

Sum of material requisitions 011 to 016 ('000)

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

(v) Inventory Turnover Ratio

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

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

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

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

25-01-20	010	10,000	9,750	97,500	-	-	-	-	21,400	9,789	2,09,482
28-01-20	-	-	-	-	015	4,000	9,789	39,156	17,400	9,789	1,70,326
31-01-20	-	-	-	-	016	3,200	9,789	31,325	14,200	9,789	1,39,001

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

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

2. Employee turnover rate using:

(i) Separation Method:

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

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

(ii) Replacement Method:

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

(iii) New Recruitment Method:

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

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

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

(iv) Flux Method:

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

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

3. Primary Distribution Summary

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

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

Overheads of service cost centres:

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

S_1 = 6,46,292 + 0.10 S_2

S_2 = 1,79,625 + 0.10 S_1

Substituting the value of S_2 in S_1 we get

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

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

0.99 S_1 = 6,64,254.5

$\therefore S_1$ = ₹6,70,964

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

= ₹2,46,721.4

Secondary Distribution Summary

Particulars	Total (₹)	P_1 (₹)	P_2 (₹)	P_3 (₹)
Allocated and Apportioned overheads as per primary distribution	41,86,583	14,74,250	11,05,250	16,07,083

S_1	6,70,964	1,34,192.8	2,01,289.2	2,68,385.6
S_2	2,46,721.4	98,688.6	49,344.3	74,016.5
		17,07,131.4	13,55,883.5	19,49,485.1

(i) Overhead rate per hour

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

(ii) Cost of Product X

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

4. Cost Ledger Control Account

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

Store Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	30,00,000	By WIP Control A/c	13,50,000

To Cost Ledger control A/c	12,50,000	By Cost Ledger control A/c (return)	1,30,000
		By Balance c/d	27,70,000
	42,50,000		42,50,000

WIP Control Account

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

Finished Stock Control Account

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

Manufacturing Overhead Control Account

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

Wages Control Account

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

Cost of Sales Account

Particulars	(₹)	Particulars	(₹)
To Finished Stock Control A/c	17,50,000	By Finished Stock Control A/c (sales return)	90,000
		By Costing Profit & Loss A/c	16,60,000
	17,50,000		17,50,000

Trial Balance

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

Working:

Costing P&L Account

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

5. (i) **Production Statement**

For the year ended 31st March, 2020

	Amount (₹)
Direct materials	18,00,000
Direct wages	15,00,000
Prime Cost	33,00,000
Factory overheads	9,00,000
Cost of Production	42,00,000
Administration overheads	8,40,000

Selling and distribution overheads		10,50,000
	Cost of Sales	60,90,000
Profit		12,18,000
	Sales value	73,08,000

Calculation of Rates:

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

2. Percentage of administration overheads to Cost of production

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

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

   Selling and distribution overhead % to Cost of production

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

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

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

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

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

Quantities Entering Process	Litres	Quantities Leaving Process	Litres
Opening WIP	1,600	Transfer to Finished Goods	8,400

Raw material input (balancing figure)	8,320	Process Losses	1,200
		Closing WIP	320
	9,920		9,920

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

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

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

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

Workings:

Statement of Equivalent Units (litre):

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

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

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

7. (i) Statement of Expenses of operating bus/ buses for a year

Particulars	Rate (₹)	Per Bus per annum (₹)	Fleet of 5 buses p.a. (₹)
(i) Standing Charges:			
Driver's salary	9,000 p.m.	1,08,000	5,40,000
Cleaner's salary	6,000 p.m.	14,400	72,000
Licence fee, taxes etc.	8,600 p.a.	8,600	43,000
Insurance	10,000 p.a.	10,000	50,000
Depreciation (15,00,000 – 3,00,000) ÷ 12 yrs	1,00,000 p.a.	1,00,000	5,00,000
(ii) Maintenance Charges:			
Repairs & maintenance	35,000 p.a.	35,000	1,75,000
(iii) Operating Charges:			
Diesel (Working Note 1)		2,92,500	14,62,500
Total Cost [(i) + (ii) + (iii)]		5,68,500	28,42,500
Cost per month		47,375	2,36,875
Total no. of equivalent students (Working Note 2)		150	750
Total Cost per half fare equivalent student		₹ 316	₹ 316

(ii) Average cost per student per month:

A. Students coming from distance of upto 5 km. from school

$$= \frac{\text{Total cost per month}}{\text{Total no. of equivalent students}} = \frac{₹47,375}{150 \text{ students}} = ₹\ 316$$

B. Students coming from a distance beyond 4 km. from school

= Cost of per half fare student × 2 = ₹ 316 × 2 = ₹ 632

Working Notes:

1. Calculation of diesel cost per bus:

Distance travelled in a year : (8 round trip × 10 km. × 25 days × 9 months)

Distance travelled p.a. : 18,000 km.

Cost of diesel (per bus p.a.) : $\frac{18,000 \text{ km.}}{4 \text{ kmpl}} \times ₹65 = ₹2,92,500$

2. Calculation of Equivalent number of students per bus:

Seating capacity of a bus	50 students
Half fare students (50% of 50 students)	25 students
Full fare students (50% of 50 students)	25 students
Total number of students equivalent to half fare students	
Full fare students (25 students × 2)	50 students
Add: Half fare students	25 students
Total Equivalent number of students in a trip	75 students
Total number of equivalent students in two trips (Senior + Junior)	150 students

8. Material Variances:

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

WN-1: Standard Quantity (SQ):

Material A- $\left(\frac{800\,kg.}{0.9 \times 1{,}400\,kg.} \times 1{,}480\,kg.\right)$ = 939.68 or 940 kg.

Material B- $\left(\frac{600\,kg.}{0.9 \times 1{,}400\,kg.} \times 1{,}480\,kg.\right)$ = 704.76 or 705 kg.

WN- 2: Revised Standard Quantity (RSQ):

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

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

(a) Material Cost Variance (A + B) = {(SQ × SP) – (AQ × AP)}

= {1,26,900 – 1,19,650} = 7,250 (F)

(b) Material Price Variance (A + B) = {(AQ × SP) – (AQ × AP)

= {1,20,000 – 1,19,650} = 350 (F)

(c) Material Mix Variance (A + B) = {(RSQ × SP) – (AQ × SP)}

= {1,19,580 – 1,20,000} = 420 (A)

(d) Material Yield Variance (A + B) = {(SQ × SP) – (RSQ × SP)}

= {1,26,900 – 1,19,580} = 7,320 (F)

Labour Variances:

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

WN- 3: Standard Hours (SH):

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

Unskilled labour- $\left(\frac{0.95 \times 800\,hr.}{0.90 \times 1,400\,kg.} \times 1,480\,kg.\right)$ = 892.69 or 893 hrs.

WN- 4: Revised Standard Hours (RSH):

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

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

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

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

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

9. Working Notes:

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

COGS = DM + DL + FOH + AOH

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

Or, COGS = 0.57 COGS + ₹ 3,01,000

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

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

COS = COGS + S&DOH

COS = COGS + (0.04 COS + ₹ 68,000)

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

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

(3) Calculation of Variable Costs:

Direct Material-	(0.30 × ₹ 7,00,000)	₹ 2,10,000
Direct Labour-	(0.15 × ₹ 7,00,000)	₹ 1,05,000

Factory Overhead-	(0.10 × ₹ 7,00,000)	₹ 70,000
Administration OH-	(0.02 × ₹ 7,00,000)	₹ 14,000
Selling & Distribution OH	(0.04 × ₹ 8,00,000)	₹ 32,000
		₹ 4,31,000

(4) Calculation of total Fixed Costs:

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

(5) Calculation of P/V Ratio:

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

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

(i) Break-Even Sales

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

(ii) Profit earned during the last year

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

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

= ₹ 1,25,000

(iii) Margin of Safety (%)

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

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

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

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

= ₹ 4,44,600 - ₹ 3,69,000 = ₹ 75,600

10. (i) Preparation of Production Budget (in units)

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

(ii) Preparation of Purchase budget for Part-X

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

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

	October	November	December	Total
Sales in nos.	40,000	35,000	45,000	1,20,000
Net Selling Price per unit* (₹)	14,57,070	14,57,070	14,57,070	
Sales Revenue (₹ in lakh)	5,82,828	5,09,974.50	6,55,681.50	17,48,484
Less: Cost of Sales (₹ in lakh) (Sales unit × Cost per unit)	4,57,120	3,99,980	5,14,260	13,71,360
Gross Profit (₹ in lakh)	1,25,708	1,09,994.50	1,41,421.50	3,77,124

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PART-II: FINANCIAL MANAGEMENT

QUESTIONS

Time Value of Money

1. A company offers a fixed deposit scheme whereby ₹ 10,000 matures to ₹ 12,625 after 2 years, on a half-yearly compounding basis. If the company wishes to amend the scheme by compounding interest every quarter, what will be the revised maturity value?

Ratio Analysis

2. MT Limited has the following Balance Sheet as on March 31, 2019 and March 31, 2020:

Balance Sheet

	₹ in lakhs	
	March 31, 2019	**March 31, 2020**
Sources of Funds:		
Shareholders' Funds	2,500	2,500
Loan Funds	3,500	3,000
	6,000	5,500
Applications of Funds:		
Fixed Assets	3,500	3,000
Cash and bank	450	400
Receivables	1,400	1,100
Inventories	2,500	2,000
Other Current Assets	1,500	1,000
Less: Current Liabilities	(1,850)	(2,000)
	6,000	5,500

The Income Statement of the MT Ltd. for the year ended is as follows:

	₹ in lakhs	
	March 31, 2019	**March 31, 2020**
Sales	22,500	23,800
Less: Cost of Goods sold	(20,860)	(21,100)
Gross Profit	1,640	2,700
Less: Selling, General and Administrative expenses	(1,100)	(1,750)
Earnings before Interest and Tax (EBIT)	540	950

Less: Interest Expense	(350)	(300)
Earnings before Tax (EBT)	190	650
Less: Tax	(57)	(195)
Profits after Tax (PAT)	133	455

Required:

Calculate for the year 2019-20:

(a) Inventory turnover ratio

(b) Financial Leverage

(c) Return on Capital Employed (ROCE)

(d) Return on Equity (ROE)

(e) Average Collection period.

[Take 1 year = 365 days]

Cost of Capital

3. PK Ltd. has the following book-value capital structure as on March 31, 2020.

	(₹)
Equity share capital (10,00,000 shares)	2,00,00,000
11.5% Preference shares	60,00,000
10% Debentures	1,00,00,000
	3,60,00,000

The equity shares of the company are sold for ₹ 200. It is expected that the company will pay next year a dividend of ₹ 10 per equity share, which is expected to grow by 5% p.a. forever. Assume a 35% corporate tax rate.

Required:

(i) Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.

(ii) Compute the new WACC, if the company raises an additional ₹50 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹12.40 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 160 per share.

Capital Structure Decisions

4. Calculate the level of earnings before interest and tax (EBIT) at which the EPS indifference point between the following financing alternatives will occur.

   (i) Equity share capital of ₹60,00,000 and 12% debentures of ₹40,00,000.

   Or

   (ii) Equity share capital of ₹40,00,000, 14% preference share capital of ₹20,00,000 and 12% debentures of ₹40,00,000.

   Assume the corporate tax rate is 35% and par value of equity share is ₹100 in each case.

Leverage

5. A firm has sales of ₹ 85,00,000, variable cost is 56% and fixed cost is ₹ 20,00,000. It has a debt of ₹ 45,00,000 at 12% and equity of ₹ 55,00,000. You are required to interpret the following:

   (i) The firm's ROI?

   (ii) Does it have favourable financial leverage?

   (iii) If the firm belongs to an industry whose capital turnover is 3, does it have a high or low capital turnover?

   (iv) The operating, financial and combined leverages of the firm?

   (v) If the sales is increased by 10%, by what percentage will EBIT increase?

   (vi) At what level of sales, the EBT of the firm will be equal to zero?

   (vii) If EBIT increases by 20%, by what percentage will EBT increase?

Capital Budgeting

6. A company is considering the proposal of taking up a new project which requires an investment of ₹800 lakhs on machinery and other assets. The project is expected to yield the following earnings (before depreciation and taxes) over the next five years:

Year	Earnings (₹ in lakhs)
1	320
2	320
3	360
4	360
5	300

The cost of raising the additional capital is 12% and assets have to be depreciated at 20% on written down value basis. The scrap value at the end of the five year period may be taken as zero. Income-tax applicable to the company is 40%.

You are required to calculate the net present value of the project and advise the management to take appropriate decision. Also calculate the Internal Rate of Return of the Project.

Note: Present values of Re. 1 at different rates of interest are as follows:

Year	10%	12%	14%	16%	20%
1	0.91	0.89	0.88	0.86	0.83
2	0.83	0.80	0.77	0.74	0.69
3	0.75	0.71	0.67	0.64	0.58
4	0.68	0.64	0.59	0.55	0.48
5	0.62	0.57	0.52	0.48	0.40

Management of Receivables (Debtors)

7. TM Limited, a manufacturer of colour TV sets is considering the liberalization of existing credit terms to three of their large customers A, B and C. The credit period and likely quantity of TV sets that will be sold to the customers in addition to other sales are as follows:

Quantity sold (No. of TV Sets)

Credit Period (Days)	A	B	C
0	10,000	10,000	-
30	10,000	15,000	-
60	10,000	20,000	10,000
90	10,000	25,000	15,000

The selling price per TV set is ₹15,000. The expected contribution is 50% of the selling price. The cost of carrying receivable averages 20% per annum.

You are required to compute the credit period to be allowed to each customer.

(Assume 360 days in a year for calculation purposes).

Management of Working Capital

8. Day Ltd., a newly formed company has applied to the Private Bank for the first time for financing it's Working Capital Requirements. The following information is available about the projections for the current year:

Estimated Level of Activity	Completed Units of Production 31,200 plus unit of work in progress 12,000
Raw Material Cost	₹ 40 per unit
Direct Wages Cost	₹ 15 per unit
Overhead	₹ 40 per unit (inclusive of Depreciation ₹10 per unit)
Selling Price	₹ 130 per unit
Raw Material in Stock	Average 30 days consumption
Work in Progress Stock	Material 100% and Conversion Cost 50%
Finished Goods Stock	24,000 Units
Credit Allowed by the supplier	30 days
Credit Allowed to Purchasers	60 days
Direct Wages (Lag in payment)	15 days
Expected Cash Balance	₹ 2,00,000

Assume that production is carried on evenly throughout the year (360 days) and wages and overheads accrue similarly. All sales are on the credit basis. You are required to calculate the Net Working Capital Requirement on Cash Cost Basis.

Cash Flow Statement

9. Balance Sheet of Jungle Limited as on 31st March, 2019 and 31st March, 2020 are furnished below:

(Amount in Rupees)

Liabilities	**As at 31st March, 2019**	**As at 31st March, 2020**
Equity Share Capital	75,00,000	1,02,50,000
General Reserve	42,50,000	50,00,000
Profit & Loss Account	15,00,000	18,75,000
13 % Debentures of face value ₹ 100 each	58,00,000	43,50,000
Current Liabilities	30,00,000	32,50,000
Proposed Dividend	7,50,000	9,10,000
Provision for Income tax	22,50,000	24,75,000
Total	2,50,50,000	2,81,10,000

(Amount in Rupees)

Assets	**As at 31st March, 2019**	**As at 31st March, 2020**
Goodwill	10,00,000	7,75,000
Land & Building	68,00,000	61,20,000
Plant & Machinery	75,12,000	1,07,95,000
Investment	25,00,000	21,25,000
Stock	33,00,000	27,50,000
Debtors	24,45,000	36,20,000
Cash and Bank	14,93,000	19,25,000
Total	2,50,50,000	2,81,10,000

Following additional information is available:

(i) During the financial year 2019-20 the company issued equity shares at par.

(ii) Debentures were redeemed on 1st April, 2019 at a premium of 10%.

(iii) Some investments were sold at a profit of ₹ 75,000 and the profit was credited to General Reserve Account.

(iv) During the year an old machine costing ₹ 23,50,000 was sold for ₹ 6,25,000. Its written down value was ₹ 8,00,000.

(v) Depreciation is to be provided on plant and machinery at 20% on the opening balance.

(vi) There was no purchase or sale of land and building.

(vii) Provision for tax made during the year was ₹ 4,50,000.

You are required to prepare a Cash Flow Statement for the year ended 31st March 2020.

Miscellaneous

10. (i) "The profit maximization is not an operationally feasible criterion." Identify.

(ii) Explain the basics of debt securitisation process.

SUGGESTED HINTS/ANSWERS

1. Computation of Rate of Interest and Revised Maturity Value

Principal = ₹ 10,000

Amount = ₹ 12,625

$$₹\ 10,000 = \frac{₹12,625}{(1+i)^4}$$

$P_n = A \times (PVF_{n,\,i})$

₹ 10,000 = 12,625 ($PVF_{4,\,i}$)

0.7921 = ($PVF_{4,\,i}$)

According to the Table on Present Value Factor ($PVF_{4,i}$) of a lump sum of ₹1, a PVF of 0.7921 for half year at interest (i) = 6 percent. Therefore, the annual interest rate is 2 × 0.06 = 12 percent.

I = 6% for half year

I = 12% for full year.

Therefore, Rate of Interest = 12% per annum

Revised Maturity Value $= ₹10,000\left(1+\frac{12}{100}\times\frac{1}{4}\right)^{2\times4} = 10,000\left(1+\frac{3}{100}\right)^{8} = 10,000\ (1.03)^8$

= ₹ 10,000 × 1.267 [Considering ($CVF_{8,3}$) = 1.267]

Revised Maturity Value = ₹ 12,670

2. Ratios for the year 2019-2020

(a) Inventory turnover ratio

$$= \frac{\text{COGS}}{\text{Average Inventory}} = \frac{₹21,100}{\frac{₹(2,500 + 2,000)}{2}} = 9.4$$

(b) Financial leverage

$$= \frac{\text{EBIT}}{\text{EBT}} = \frac{₹\ 950}{₹\ 650} = 1.46$$

(c) ROCE

$$= \frac{\text{EBIT}\ (1-t)}{\text{Average Capital Employed}} = \frac{₹\ 950\ (1-0.3)}{₹\left(\frac{6,000+5,500}{2}\right)} = \frac{₹\ 665}{₹\ 5,750}\times 100 = 11.56\ \%$$

[Here, Return on Capital Employed (ROCE) is calculated after Tax]

(d) ROE

$$= \frac{\text{Profits after tax}}{\text{Average shareholders' funds}} = \frac{₹\ 455}{₹\ 2,500}\times 100 = 18.2\%$$

(e) Average Collection Period

$$\text{Average Sales per day} = \frac{₹\ 23,800}{365} = ₹\ 65.20\ \text{lakhs}$$

$$\text{Average collection period} = \frac{\text{Average Receivables}}{\text{Average sales per day}}$$

$$= \frac{\frac{₹\ (1,400+1,100)}{2}}{₹\ 65.2} = \frac{₹\ 1,250}{₹\ 65.2} = 19.17\text{days}$$

3. **(i) Computation of Weighted Average Cost of Capital based on existing capital structure**

Source of Capital	Existing Capital structure (₹)	Weights (a)	After tax cost of capital (%) (b)	WACC (%) (a) × (b)
Equity share capital (W.N.1)	2,00,00,000	0.555	10.00	5.55
11.5% Preference share capital	60,00,000	0.167	11.50	1.92
10% Debentures (W.N.2)	1,00,00,000	0.278	6.50	1.81
	3,60,00,000	1.000		9.28

Working Notes (W.N.):

1. **Cost of equity capital:**

$$K_e = \frac{\text{Expected Dividend}(D_1)}{\text{Current Market Price per share}(P_0)} + \text{Growth}(g) = \frac{₹10}{₹200} + 0.05 = 10\%$$

2. **Cost of 10% Debentures*:***

$$= \frac{I(1-t)}{NP} = \frac{₹10,00,000(1-0.35)}{₹1,00,00,000} = 0.065 \text{ or } 6.5\%$$

(ii) Computation of Weighted Average Cost of Capital based on new capital structure

Source of Capital	New Capital structure (₹)	Weights (b)	After tax cost of capital (%) (a)	WACC (%) (a) × (b)
Equity share capital (W.N. 3)	2,00,00,000	0.488	12.75	6.10
Preference share	60,00,000	0.146	11.50	1.68

10% Debentures (W.N. 2)	1,00,00,000	0.244	6.50	1.59
12% Debentures (W.N.4)	50,00,000	0.122	7.80	0.95
	4,10,00,000	1.00		10.32

Working Notes (W.N.):

3. **Cost of equity capital:**

$$K_e = \frac{\text{Expected Dividend}(D_1)}{\text{Current Market Price per share}(P_0)} + \text{Growth}(g)$$

$$= \frac{₹12.4}{₹160} + 0.05 = 0.1275 \text{ or } 12.75\%$$

4. **Cost of 12% Debentures**

$$= \frac{₹6,00,000(1-0.35)}{₹50,00,000} = 0.078 \text{ or } 7.8\%$$

$$K_d = \frac{₹2,40,000(1-0.35)}{₹20,00,000} = 0.078 \text{ or } 7.8\%$$

4. **Computation of level of earnings before interest and tax (EBIT)**

In case, alternative (i) is accepted, then the EPS of the firm would be:

$$EPS_{\text{Alternative (i)}} = \frac{(\text{EBIT} - \text{Interest})\ (1 - \text{tax rate})}{\text{No. of equity shares}}$$

$$= \frac{(\text{EBIT} - 0.12 \times ₹40,00,000)\ (1-0.35)}{60,000 \text{ shares}}$$

In case, alternative (ii) is accepted, then the EPS of the firm would be:

$$EPS_{\text{Alternative (ii)}} = \frac{(\text{EBIT} - 0.12 \times ₹40,00,000)\ (1-0.35) - (0.14 \times ₹20,00,000)}{40,000 \text{ shares}}$$

In order to determine the indifference level of EBIT, the EPS under the two alternative plans should be equated as follows:

$$\frac{(\text{EBIT} - 0.12 \times ₹40,00,000)\ (1-0.35)}{60,000 \text{ shares}} = \frac{(\text{EBIT} - 0.12 \times ₹40,00,000)\ (1-0.35) - (0.14 \times ₹20,00,000)}{40,000 \text{ shares}}$$

$$\text{Or} \quad \frac{0.65\ \text{EBIT} - ₹3,12,000}{3} = \frac{0.65\ \text{EBIT} - ₹5,92,000}{2}$$

Or 1.30 EBIT – ₹6,24,000 = 1.95 EBIT – ₹17,76,000

Or (1.95 – 1.30) EBIT = ₹17,76,000 – ₹6,24,000 = ₹11,52,000

Or EBIT $= \frac{₹11,52,000}{0.65}$

Or EBIT = ₹17,72,308

5. **Income Statement**

Particulars	Amount (₹)
Sales	85,00,000
Less: Variable cost (56% of ₹85,00,000)	(47,60,000)
Contribution	37,40,000
Less: Fixed costs	(20,00,000)
Earnings before interest and tax (EBIT)	17,40,000
Less: Interest on debt (@ 12% on ₹45 lakh)	(5,40,000)
Earnings before tax (EBT)	12,00,000

(i) ROI $= \frac{\text{EBIT}}{\text{Capital employed}} \times 100 = \frac{\text{EBIT}}{\text{Equity + Debt}} \times 100$

$= \frac{17,40,000}{55,00,000 + 45,00,000} \times 100 = 17.4\%$

(ROI is calculated on Capital Employed)

(ii) ROI = 17.4% and Interest on debt is 12%, hence, it has a favourable financial leverage.

(iii) Capital Turnover $= \frac{\text{Net Sales}}{\text{Capital}}$

Or, $= \frac{\text{Net Sales}}{\text{Capital}} = \frac{85,00,000}{1,00,00,000} = 0.85$

Which is very low as compared to industry average of 3.

(iv) Calculation of Operating, Financial and Combined leverages

(a) Operating Leverage $= \frac{\text{Contribution}}{\text{EBIT}} = \frac{37,40,000}{17,40,000} = 2.15$

(b) Financial Leverage $= \frac{\text{EBIT}}{\text{EBT}} = \frac{17,40,000}{12,00,000} = 1.45$

(c) Combined Leverage $= \frac{\text{Contribution}}{\text{EBT}} = \frac{37,40,000}{12,00,000} = 3.12$

Or, = Operating Leverage × Financial Leverage = 2.15 × 1.45 = 3.12

(v) Operating leverage is 2.15. So if sales is increased by 10%. EBIT will be increased by 2.15 × 10 i.e. 21.50% (approx.)

(vi) Since the combined Leverage is 3.12, sales have to drop by 100/3.12 i.e. 32.05% to bring EBT to Zero

Accordingly, New Sales = ₹85,00,000 × (1-0.3205)

=₹85,00,000 × 0.6795 = ₹57,75,750

Hence at ₹57,75,750 sales level, EBT of the firm will be equal to Zero.

(vii) Financial leverage is 1.45. So, if EBIT increases by 20% then EBT will increase by 1.45 × 20 = 29%

6. (i) Calculation of Net Cash Flow

					(₹ in lakhs)
Year	**Profit before dep. and tax**	**Depreciation (20% on WDV)**	**PBT**	**PAT**	**Net cash flow**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(3) + (5)**
1	320	800 × 20% = 160	160	96	256
2	320	(800 – 160)× 20% = 128	192	115.20	243.20
3	360	(640 – 128)× 20% = 102.4	257.6	154.56	256.96
4	360	(512 – 102.4)× 20% = 81.92	278.08	166.85	248.77
5	300	(409.6 – 81.92) = 327.68*	–27.68	–16.61	311.07

*this is treated as a short term capital loss.

(ii) Calculation of Net Present Value (NPV)

(₹ in lakhs)

Year	**Net Cash Flow**	**12%**		**16%**		**20%**	
		D.F	**P.V**	**D.F**	**P.V**	**D.F**	**P.V**
1	256	0.89	227.84	0.86	220.16	0.83	212.48
2	243.20	0.80	194.56	0.74	179.97	0.69	167.81
3	256.96	0.71	182.44	0.64	164.45	0.58	149.03
4	248.77	0.64	159.21	0.55	136.82	0.48	119.41
5	311.07	0.57	177.31	0.48	149.31	0.40	124.43
			941.36		850.71		773.16
	Less: Initial Investment		800.00		800.00		800.00
		NPV	141.36		50.71		-26.84

(iii) **Advise:** Since Net Present Value of the project at 12% = 141.36 lakhs, therefore the project should be implemented.

(iv) **Calculation of Internal Rate of Return (IRR)**

$$IRR = 16\% + \frac{50.71 \times 4}{50.71 - (-26.84)}$$

$$= 16\% + \frac{2.03}{77.55} = 16\% + 2.62\% = 18.62\%.$$

7. In case of customer A, there is no increase in sales even if the credit is given. Hence comparative statement for B & C is given below:

Particulars	Customer B				Customer C			
1. Credit period (days)	0	30	60	90	0	30	60	90
2. Sales Units	10,000	15,000	20,000	25,000	-	-	10,000	15,000
	₹ in lakh				**₹in lakh**			
3. Sales Value	1,500	2,250	3,000	3,750	-	-	1,500	2,250
4. Contribution at 50% (A)	750	1,125	1,500	1,875	-	-	750	1,125
5. Receivables:- $\frac{\text{Credit Period} \times \text{Sales}}{360}$	-	187.5	500	937.5	-	-	250	562.5
6. Debtors at cost	-	93.75	250	468.75	-	-	125	281.25
7. Cost of carrying debtors at 20% (B)	-	18.75	50	93.75	-	-	25	56.25
8. Excess of contributions over cost of carrying debtors (A – B)	750	1,106.25	1,406.25	1,781.25	-	-	725	1,068.75

The excess of contribution over cost of carrying Debtors is highest in case of credit period of 90 days in respect of both the customers B and C. Hence, credit period of 90 days should be allowed to B and C.

8. **Calculation of Net Working Capital requirement:**

	(₹)	**(₹)**
A. Current Assets:		
Inventories:		
Stock of Raw material (Refer to Working note (iii)	1,44,000	

Stock of Work in progress (Refer to Working note (ii)	7,50,000	
Stock of Finished goods (Refer to Working note (iv)	20,40,000	
Debtors for Sales (Refer to Working note (v)	1,02,000	
Cash	2,00,000	
Gross Working Capital	32,36,000	32,36,000
B. Current Liabilities:		
Creditors for Purchases (Refer to Working note (vi)	1,56,000	
Creditors for wages (Refer to Working note (vii)	23,250	
	1,79,250	1,79,250
Net Working Capital (A - B)		**30,56,750**

Working Notes:

(i) Annual cost of production

	(₹)
Raw material requirements {(31,200 × ₹ 40) + (12,000 x ₹ 40)}	17,28,000
Direct wages {(31,200 ×₹ 15) +(12,000 X ₹ 15 x 0.5)}	5,58,000
Overheads (exclusive of depreciation) {(31,200 × ₹ 30) + (12,000 x ₹ 30 x 0.5)}	11,16,000
Gross Factory Cost	34,02,000
Less: Closing W.I.P [12,000 (₹ 40 + ₹ 7.5 + ₹15)]	(7,50,000)
Cost of Goods Produced	26,52,000
Less: Closing Stock of Finished Goods (₹ 26,52,000 × 24,000/31,200)	(20,40,000)
Total Cash Cost of Sales*	6,12,000

[*Note: Alternatively, Total Cash Cost of Sales = (31,200 units – 24,000 units) x (₹ 40 + ₹ 15 + ₹ 30) = ₹ 6,12,000]

(ii) Work in progress stock

	(₹)
Raw material requirements (12,000 units × ₹40)	4,80,000
Direct wages (50% × 12,000 units × ₹ 15)	90,000
Overheads (50% × 12,000 units × ₹ 30)	1,80,000
	7,50,000

(iii) Raw material stock

It is given that raw material in stock is average 30 days consumption. Since, the company is newly formed; the raw material requirement for production and work in progress will be issued and consumed during the year. Hence, the raw material consumption for the year (360 days) is as follows:

	(₹)
For Finished goods (31,200 × ₹ 40)	12,48,000
For Work in progress (12,000 × ₹ 40)	4,80,000
	17,28,000

Raw material stock = $\frac{₹17,28,000}{360\,days} \times 30\,days$ = ₹1,44,000

(iv) Finished goods stock:

24,000 units @ ₹ (40+15+30) per unit = ₹20,40,000

(v) Debtors for sale: $₹\,6,12,000 \times \frac{60\,days}{360\,days} = ₹\,1,02,000$

(vi) Creditors for raw material Purchases [Working Note (iii)]:

Annual Material Consumed (₹12,48,000 + ₹4,80,000)	₹17,28,000
Add: Closing stock of raw material [(₹17,28,000 x 30 days) / 360 days]	₹ 1,44,000
	₹18,72,000

Credit allowed by suppliers = $\frac{₹18,72,000}{360\,days} \times 30\,days$ = ₹ 1,56,000

(vii) Creditors for wages:

Outstanding wage payment = [(31,200 units x ₹ 15) + (12,000 units x ₹ 15 x .50)] x 15 days / 360 days

= $\frac{₹\,5,58,000}{360\,days} \times 15\,days$ = ₹ 23,250

9. **Cash Flow Statement**

for the year ended 31st March, 2020

		Amount (₹)	Amount (₹)
A.	**Cash flow from Operating Activities**		
	Profit and Loss A/c (Closing)		18,75,000
	Less: Profit and Loss A/c (Opening)		15,00,000

			3,75,000
	Add: Transfer to General Reserve	6,75,000	
	Provision for Tax	4,50,000	
	Proposed Dividend	9,10,000	20,35,000
	Profit before Tax		24,10,000
	Adjustment for Depreciation:		
	Land and Building (on building) (₹ 68,00,000 - ₹ 61,20,000)	6,80,000	
	Plant and Machinery (₹ 75,12,000 x 20%)	15,02,400	21,82,400
	Loss on Sale of Plant and Machinery (₹ 8,00,000 - ₹ 6,25,000)		1,75,000
	Goodwill written off (₹ 10,00,000 - ₹ 7,75,000)		2,25,000
	Interest on 13% Debentures (₹ 43,50,000 x13%)		5,65,500
	Premium on Redemption [10% of (₹ 58,00,000 - ₹ 43,50,000)]		1,45,000
	Operating Profit before Working Capital Changes		57,02,900
	Adjustment for Working Capital Changes:		
	Decrease in Stock	5,50,000	
	Increase in Debtors	(11,75,000)	
	Increase in Current Liabilities	2,50,000	(3,75,000)
	Cash generated from Operations		53,27,900
	Income tax paid		(225,000)
	Net Cash Inflow from Operating Activities (a)		51,02,900
B.	**Cash flow from Investing Activities**		
	Sale of Investment		4,50,000
	Sale of Plant and Machinery		6,25,000
	Purchase of Plant and Machinery		(55,85,400)
	Net Cash Outflow from Investing Activities (b)		(45,10,400)
C.	**Cash Flow from Financing Activities**		
	Issue of Equity Shares (₹ 1,02,50,000 - ₹ 75,00,000)		27,50,000

Redemption of Debentures		(14,50,000)
Redemption of Debentures at premium		(1,45,000)
Dividend paid		(7,50,000)
Interest paid to Debenture holders		(5,65,500)
Net Cash Outflow from Financing Activities (c)		(1,60,500)
Net increase in Cash and Cash Equivalents during the year **(a + b + c)**		4,32,000
Cash and Cash Equivalents at the beginning of the year		14,93,000
Cash and Cash Equivalents at the end of the year		19,25,000

Working Notes:

1. **Provision for the Tax Account**

Particulars	₹	Particulars	₹
To Bank (paid) (bal. fig.)	2,25,000	By Balance b/d	22,50,000
To Balance c/d	24,75,000	By Profit and Loss A/c (Provision)	4,50,000
	27,00,000		27,00,000

2. **Investment Account**

Particulars	₹	Particulars	₹
To Balance b/d	25,00,000	By Bank A/c (Sale) (bal. fig.)	4,50,000
To General Reserve A/c (Profit on Sale)	75,000	By Balance c/d	21,25,000
	25,75,000		25,75,000

3. **Plant and Machinery Account**

Particulars	₹	Particulars	₹
To Balance b/d	75,12,000	By Bank (Sale)	6,25,000
To Bank A/c (Purchase- Bal. figure)	55,85,400	By Profit and Loss A/c (Loss on sale)	1,75,000
		By Profit and Loss A/c (Depreciation)	15,02,400
		By Balance c/d	1,07,95,000
	1,30,97,400		1,30,97,400

4. **Proposed Dividend Account**

Particulars	₹	Particulars	₹
To Bank (paid)	7,50,000	By Balance b/d	7,50,000
To Balance c/d	9,10,000	By Profit and Loss A/c	9,10,000
	16,60,000		16,60,000

5. **General Reserve Account**

Particulars	₹	Particulars	₹
		By Balance b/d	42,50,000
		By Profit & Loss (transfer from) (bal. fig.)	6,75,000
To Balance c/d	50,00,000	By Investment (Gain on Sale)	75,000
	50,00,000		50,00,000

10. (i) The profit maximisation is not an operationally feasible criterion." This statement is true because profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:

(a) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?

(b) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.

(c) It ignores the risk factor.

(d) The term maximization is also vague.

(ii) Process of Debt Securitisation:

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

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

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

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

PAPER 4: TAXATION

SECTION A: INCOME TAX

PART I: STATUTORY UPDATE

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

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

Chapter 1: Basic Concepts

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

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

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

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

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

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

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

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

Chapter 4: Unit 4 – Capital Gains

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

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

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

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

Chapter 9: Advance Tax and Tax Deduction at Source

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chapter 10: Provisions for filing return of income

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

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

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

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

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

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

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

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

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

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

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) ₹ 7,81,250

(b) ₹ 13,97,500

(c) ₹ 9,81,250

(d) ₹ 10,97,500

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

(a) ₹ 20 lakh

(b) ₹ 30 lakhs

(c) ₹ 15 lakhs

(d) Nil

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

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

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

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

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

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

(a) ₹ 44,835

(b) ₹ 44,100

(c) ₹ 45,570

(d) ₹ 30,000

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

(a) ₹ 30,000

(b) ₹ 18,750

(c) ₹ 25,000

(d) ₹ 37,500

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

(a) ₹ 28,800

(b) ₹ 21,600

(c) ₹ 60,000

(d) ₹ 1,40,000

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; in respect of business income, surcharge is leviable@25% on income-tax, since total income exceeds ₹ 2 crore.

(d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; surcharge@10% is leviable on income-tax computed on business income, since the same exceeds ₹ 50 lakhs but is less than ₹ 1 crore.

DESCRIPTIVE QUESTIONS

7. Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2019. His income during the financial year 2019-20 is given hereunder:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2019-20. Compute his Gross Total Income for the Assessment year 2020-21.

8. Mr. Ramesh furnishes the following particulars for the previous year 2019-20 in respect of an industrial undertaking established in "Special Economic Zone" in March 2014. It began manufacturing in April 2014.

Particulars	₹
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2019-20 include freight and insurance of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh under section 10AA for A.Y. 2020-21.

9. Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is ₹ 8,50,000, Fair Rent of the property is ₹ 7,30,000 and Standard Rent is ₹ 8,20,000 per annum.

The property was let out for ₹ 85,000 per month for the period April 2019 to December 2019.

Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2019 could not be realized from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from house property for the A.Y. 2020-21.

10. Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2019, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2019 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2020-21, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2021-22 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

11. Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2019. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2019 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2019, which were sold for ₹ 96,000 on 28th March, 2020. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2019, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2019-20.

In whose hands the above income and loss shall be included in Assessment Year 2020-21, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

12. Compute total income of Mr. Mathur for the assessment year 2020-21 from the following information furnished by him for the financial year 2019-20.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000

Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2020	60,000
Brought forward loss of business of assessment year 2014-15	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2006	3,00,000

13. Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2020 is as follows:

Income and Expenditure account for the year ending 31st March, 2020

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on saving bank deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		**59,06,000**

The following other information relates to the financial year 2019-20:

(1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.

(2) Written down value of the assets as on 1st April, 2019 are as follows:

Motor Car (25% used for personal use)	₹ 3,50,000
Furniture and Fittings	₹ 80,000

(3) Medical expenses includes:

- Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.

(4) The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:

- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2019.

(5) Bonus was paid on 30th September, 2020.

(6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2019 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2019. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2018-19 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2020-21.

14. The following details are provided by Mr. Divakar, an individual, for the assessment year 2020-21.

	Amount (₹)
Total estimated tax payable	4,40,000
TDS (deductible but not deducted)	55,000

Determine the advance tax payable with their due dates for the assessment year 2020-21.

15. Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2020-21 on or before the due date of filing such return of income.

    (i) Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?

    (ii) What are the consequences of non-filing the return within the due date under section 139(1)?

MOST APPROPRIATE OPTION - OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(b)
	(ii)	(a)
	(iii)	(c)
	(iv)	(b)
2.	(i)	(d)
	(ii)	(c)
	(iii)	(d)

MCQ No.	Most Appropriate Answer
3.	(b)
4.	(d)
5.	(a)
6.	(b)

SUGGESTED ANSWERS/HINTS - DESCRIPTIVE QUESTIONS

7. Mr. Shridhar is a non-resident for the A.Y.2020-21, since he was not present in India at any time during the previous year 2019-20 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

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

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

Computation of Gross Total Income of Mr. Shridhar for A.Y. 2020-21

Particulars	₹
Salaries Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non-resident and rendering services outside India)	 9,25,000

Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	**9,25,000**
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	
Rent from a house situated at Australia, received in Australia	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	**8,76,000**

***Note** – Interest on Post office saving bank account of ₹ 1,000 would be allowed as deduction under section 80TTA.*

8. Computation of deduction under section 10AA for A.Y. 2020-21

Since A.Y. 2020-21 is the 6th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 20,00,000 \times \frac{40,00,000}{80,00,000} \times 50\% = ₹\ 5,00,000$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000

Total turnover	85,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	5,00,000
	80,00,000

9. Computation of income from house property of Mrs. Daya for the A.Y.2020-21

Particulars	Amount in ₹	
Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 8,50,000 and Fair Rent of ₹ 7,30,000, but restricted to Standard Rent of ₹ 8,20,000	8,20,000	
Actual rent receivable for the let-out period = ₹ 85,000 × 9	7,65,000	
[Unrealised rent is not deductible from actual rent in this case since Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence, one of the conditions laid out in Rule 4 has not been fulfilled]		
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	8,20,000	
Gross Annual Value (GAV)		**8,20,000**
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 8,50,000		1,02,000
Net Annual Value (NAV)		**7,18,000**
Less: **Deductions under section 24**		
(a) 30% of NAV = 30% of ₹ 7,18,000	2,15,400	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)	50,000	2,65,400
Income from house property		**4,52,600**

10. Computation of depreciation allowance

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2019-20, full depreciation@30% (higher rate of depreciation is allowable on the actual cost, since car is purchased during the period 23.8.2019 to 31.3.2020] of ₹ 19,20,000, which is the total price (inclusive of GST) would be allowable.	

However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2019-20 = 30% x ₹ 19,20,000 x 75% =	4,32,000
Written Down Value as on 1.4.2020 = ₹ 19,20,000 – ₹4,32,000 = ₹14,88,000	
Depreciation for P.Y.2020-21 = 30% x ₹14,88,000 x 75% =	3,34,800

Note - *As per section 17(5) of the CGST Act, 2017, input tax credit would not be available in respect of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the taxable supplies, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, input tax credit would not be available and hence, both CGST & SGST would form part of actual cost of car.*

11. In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per *Explanation 2* to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2019, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration *less* ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam.

12. Computation of total income of Mr. Mathur for A.Y.2020-21

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2021-22 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2014-15 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2021-22	(3,50,000)	Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2019-20 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2021-22.	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil

Gross Total Income		**6,30,000**
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2020	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		**5,49,500**

13. Computation of Total Income of Mr. Manohar for the A.Y.2020-21

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2020)	-	
[For the P.Y.2019-20, the gross receipts i.e., fees of Mr. Manohar from consultancy services is ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account		

audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2020]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2019-20, since his gross receipts from profession during the P.Y.2018-19 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
		52,07,600
Less: Income credited but not taxable or taxable under any other head		
- Share of profit from HUF (Exempt)	55,000	
- Interest on saving bank deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 ***[See Working Note]***		76,175
		50,25,425
Income from Other Sources		
- Interest on saving bank deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	85,000	1,36,000
Gross Total Income		**51,61,425**
Less: Deduction under Chapter VI-A		
Section 80D		50,000
Medical expenses for father (Deduction allowable to the extent of ₹ 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		
Total Income		**51,11,425**
Total Income (Rounded off)		**51,11,430**

Computation of tax liability of Mr. Manohar for A.Y. 2020-21

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000	
Above ₹ 10,00,001 i.e.,41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
		14,80,522
Less: Marginal Relief:		
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		**14,80,887**
Tax liability (rounded off)		**14,80,890**

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	₹
On Motor Car	
₹ 3,50,000 x 15% x 75%	39,375
On Furniture and fittings	
₹ 80,000 x 10%	8,000
On Computer	
₹ 72,000 x 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	28,800
	76,175

14. Computation of Advance Tax Payable for the A.Y 2020-21

Particulars	₹
Tax Payable	4,40,000
TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Net Tax Payable	**4,40,000**

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2019	₹ **66,000** [15% of ₹ 4,40,000]
On or before 15th September, 2019	₹ **1,32,000** [₹ 1,98,000 (45% of ₹ 4,40,000) *less* ₹ 66,000, (amount paid in earlier installment)]
On or before 15th December, 2019	₹ **132,000** [₹ 3,30,000 (75% of ₹ 4,40,000) *Less* ₹ 1,98,000 (amount paid in earlier installment or installments)]
On or before 15th March, 2020	₹ **1,10,000,** [₹ 4,40,000 (whole amount of advance tax liability *less* ₹ 3,30,000 (amount paid in earlier installment or installments)]

15. If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

(i) before the end of the relevant assessment year; or

(ii) before the completion of the assessment,

whichever is earlier.

The last date for filing return of income for A.Y.2020-21, therefore, is 31st March 2021.

Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1) but filed on or before 31st December of the assessment year and ₹ 10,000 would be the fee payable under section 234F where the return is furnished after 31st December of the assessment year. However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

SECTION B: INDIRECT TAXES

QUESTIONS

(1)	**All questions should be answered on the basis of the position of GST law as amended up to 31.10.2019.**
(2)	**The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**

1 Mr. Mandeep, a registered dealer, is doing building material business in the State of Assam. He availed architect services for his business from his friend in London free of cost. He also availed designing services from his brother in London for ₹ 5 Lakhs for his personal purposes.

He availed services which are liable to tax under reverse charge for which date of invoice was 01.09.20XX, payment date as per his books of account and as per his bank account was 15.11.20XX and 18.11.20XX respectively.

His turnover for the current financial year is as follows:

Taxable supply of goods – ₹ 55 Lakhs

Exempt supply of goods – ₹ 16 Lakhs

Inward supply liable to tax under reverse charge – ₹ 8 Lakh

He intends to start providing services also from the next financial year and also to avail composition scheme. He also wishes to make supplies to the Government.

Based on the information given above, choose the most appropriate answer for the following questions:-

I. In respect of services imported by Mr. Mandeep, which of the following is a correct statement?

   i. Architect services for his business from his friend in London free of cost is considered as a supply

   ii. Designing services from his brother in London for ₹ 5 Lakh for his personal purposes is considered as a supply.

   iii. Architect services for his business from his friend in London free of cost is not considered as a supply

   iv. Designing services from his brother in London for ₹ 5 Lakh for his personal purposes is not considered as a supply.

   (a) i & ii

(b) i & iv

(c) ii & iii

(d) iii & iv

II. The time of supply of services, received by him and taxable under reverse charge, is

(a) 01.09.20XX

(b) 01.11.20XX

(c) 15.11.20XX

(d) 18.11.20XX

III. Aggregate turnover of Mr. Mandeep for the given financial year will be,

(a) ₹ 63 Lakhs

(b) ₹ 79 Lakhs

(c) ₹ 71 Lakhs

(d) ₹ 47 Lakhs

IV. Mr. Mandeep will be eligible for composition scheme in the next financial year, but he can supply services only upto:

(a) ₹ 5.00 Lakhs

(b) ₹ 6.3 Lakhs

(c) ₹ 7.90 Lakhs

(d) ₹ 7.10 Lakhs

V. In case he supplies services to State Government by way of any activity in relation to any function entrusted to a Municipality under Article 243W of the Constitution, in the next financial year, which of the following will be exempt?

i. Pure Services

ii. Composite supply of goods and services in which value of supply of goods constitutes not more than 25% of value of said composite supply

iii. Composite supply of goods and services in which value of supply of service constitutes not more than 25% of value of said composite supply

(a) i & iii

(b) ii & iii

(c) i, ii & iii

(d) i & ii

2. ABC Ltd. is a registered pharmaceutical company. The company invented one drug for instant cure of cancer. They supplied free samples of this medicine to various doctors. What will be the tax treatment of these free samples under GST?

   (a) ABC Ltd. is liable to pay tax on supply of free samples and eligible to claim input tax credit.

   (b) ABC Ltd. is not liable to pay tax on supply of free samples but eligible to claim input tax credit.

   (c) ABC Ltd. is neither liable to pay tax on supply of free samples nor eligible to claim input tax credit.

   (d) ABC Ltd. is liable to pay tax on supply of free samples but not eligible to claim input tax credit.

3. Kala Niketan School is an educational institution providing pre-school education and education up to higher secondary school. Which of the following services are exempt if provided to Kala Niketan School?

   (i) Transportation of students, faculty and staff

   (ii) Catering services

   (iii) Cleaning services performed in such educational institution

   (a) (i)

   (b) (i) and (iii)

   (c) (ii) and (iii)

   (d) (i), (ii) and (iii)

4. Calculate the amount of eligible input tax credit-

S. No.	Particulars	GST paid (₹)
1.	A Mini bus having seating capacity of 15 persons (including driver) used for running on hire	15,00,000
2.	Car having seating capacity of 8 people used for business purposes	1,00,00,000
3.	Car having seating capacity of 4 persons used for imparting training on driving such car	50,00,000
4.	Special purpose vehicle having seating capacity of 2 persons used for transportation of goods	60,00,000

   (a) ₹ 2,25,00,000/-

   (b) ₹ 2,10,00,000/-

   (c) ₹ 1,25,00,000/-

(d) ₹ 75,00,000/-

5. Mr. Avishkar is a painter registered under GST in Delhi. He sends his artwork for exhibition in Mumbai. At what point of time, supply is considered to have been made under GST?

   (a) When painting is completed.

   (b) When painting is sent for exhibition in Mumbai.

   (c) When painting is displayed at the exhibition in Mumbai.

   (d) When painting is purchased by one of the visitors in the exhibition.

6. Which of the following is not covered under Schedule III of CGST Act, 2017?

   (a) Director's monthly salary under employment agreement

   (b) Sitting fees to independent directors for attending AGMs

   (c) Payment to employee for providing broking services to the employer for purchase of commercial property. Such services do not form part of the employment contract entered into by the employer with the employee.

   (d) Both (b) and (c)

7. Which of the following service is not exempt under GST?

   (a) Loading and unloading of paddy

   (b) Loading and unloading of sugarcane

   (c) Loading and unloading of tea bags

   (d) Loading and unloading of potato

8. Mr. Vicky Frankyn, an unregistered famous author, received ₹ 3 crore of consideration from Shiv Bhawan Publications (SBP) located in Indore for supply of services by way of temporary transfer of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works of his new book. He finished his work & made available the book to the publisher, but has yet not raised the invoice.

   Mr. Vicky Frankyn is of the view that SBP is liable to pay tax under reverse charge on services provided by him. SBP does not concur with his view and is not ready to deposit the tax under any circumstances.

   Examine whether the view of Mr. Vicky Frankyn is correct. Further, if the view of Mr. Vicky Frankyn is correct, what is the recourse available with Mr. Vicky Frankyn to comply with the requirements of GST law as SBP has completely refused to deposit the tax.

9. (a) Chanchal started providing beauty and grooming services and inaugurated "Care & Care Beauty Centre" in Janak Puri, Delhi on 01st April, 20XX. She opted to pay tax under *Notification No. 2/2019 CT (R) dated 07.03.2019* in the said financial year.

The aggregate turnover of Care & Care Beauty Centre for the quarter ending 30th June, 20XX was ₹ 20 lakh. Further, for the half year ending 30th September, 20XX, the turnover reached ₹ 50 lakh. Care & Care Beauty Centre recorded a rapid growth and the turnover reached ₹ 70 lakh by the end of October, 20XX. Determine the total tax liability of Care & Care Beauty Centre by the end of October, 20XX.

(b) Care & Care Beauty Centre wishes to opt for composition scheme from the next financial year. You are required to advise it whether it can do so?

Note: Rate of GST applicable on such services is 18%.

10. The temple of ancestral deity of Mr. Aman goel and his family is located at Beri, Haryana. The temple is run by a charitable organisation registered under section 12AA of the Income Tax Act, 1961. The family has got unshakeable faith in their ancestral deity. Mr. Aman is a big entrepreneur having flourishing business of tiles in Gurugram. Upon the birth of their first child, he donated ₹ 10 lakh to the said temple for construction of a sitting hall in the temple. On the main door of the sitting hall, a name plate was placed stating "Donated by Mr. Aman Goel upon birth of his first child".

    You are required to examine the leviability of GST on the donation received from Mr. Aman Goel?

11. (a) Holiday Guest House, situated at Shimla, provides boarding & lodging services to tourists at economical cost. The charges of a single deluxe room per day are ₹ 999. Mr. X has booked one deluxe room for two days during Christmas holidays. You are required to determine whether GST is payable by Holiday Guest House on the above booking. If yes, determine the amount of GST so payable.

    Will your answer change, if the charges of a single deluxe room per day charged by Holiday Guest House are ₹ 1,000?

    (b) M/s Damodar Ltd. provides services by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab. The monthly rental for a godown is ₹ 15,000. Examine whether GST is payable by M/s Damodar Ltd.

12. M/s Siya Ram is a trader of decorative items in Hauz Khas, Delhi. His aggregate turnover exceeded ₹ 20 lakh in the month of October, 20XX. He applied for registration on GST portal, but missed to submit the details of his bank account. His tax consultant advised him that prior submission of bank details is mandatory to obtain registration. Examine whether the advice of Mr. Siya Ram's tax consultant is correct.

13. Mr. Gauri Shiva, a registered person in Punjab, supplies goods taxable @ 12% [CGST @ 6%, SGST @ 6% & IGST @ 12%] in the States of Punjab and Haryana. He has furnished the following details in relation to independent supplies made by him in the quarter ending June, 20XX:-

Supply	Recipient	Nature of supply	Value (₹)
1	Mr. A, a registered person	Inter-State	2,20,000
2	Mr. B, a registered person	Inter-State	2,55,000
3	Mr. C, an unregistered person	Intra -State	1,80,000
4	Mr. D, an unregistered person	Intra-State	2,60,000
5	Mr. M, an unregistered person	Inter-State	3,00,000
6	Mr. N, an unregistered person	Inter-State	50,000
7	Mr. O, an unregistered person	Inter-State	2,50,000
8	Mr. P, an unregistered person	Inter-State	2,80,000
9	Mr. Q, a registered person	Intra-State	1,50,000
10	Mr. R, a registered person	Intra-State	4,10,000

The aggregate annual turnover of Mr. Gauri Shiva in the preceding financial year was ₹ 1.20 crore. With reference to rule 59 of the CGST Rules, 2017, discuss the manner in which the details of above supplies are required to be furnished in GSTR-1.

14. Discuss the correctness of the following statements:-
    (i) Once generated, an e-way bill cannot be cancelled.
    (ii) E-way bill generated in one State is valid in another State.

15. Mr. Ram Narayan, a registered supplier under GST, wants to first discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period. Examine briefly whether he can do so?

SUGGESTED ANSWERS/HINTS

1. (I) (c)

1. II) (b)

1. (III) (c)

1. (IV) (d)

1. (V) (d)

2. (c)

3. (d)

4. (c)

5. (d)

6. **(d)**

7. **(c)**

8. Yes, the view of Mr. Vicky Frankyn is correct. GST is payable under reverse charge in case of supply of services by an author by way of transfer/permitting the use or enjoyment of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary work to a publisher located in the taxable territory in terms of reverse charge *Notification No. 13/2017 CT(R) dated 28.06.2017.* Therefore, in the given case, person liable to pay tax is the publisher – SBP.

However, since SBP has completely refused to deposit the tax on the given transaction, Mr. Vicky Frankyn has an option to pay tax under forward charge on the same. For the purpose, he needs to fulfill the following conditions:

(i) since he is unregistered, he has to first take registration under the CGST Act, 2017

(ii) he needs to file a declaration, in the prescribed form, that he exercises the option to pay CGST on the said service under forward charge in accordance with section 9(1) of the CGST Act and to comply with all the provisions as they apply to a person liable for paying the tax in relation to the supply of any goods and/or services and that he shall not withdraw the said option within a period of 1 year from the date of exercising such option;

(iii) he has to make a declaration on the invoice, which he would issue to SBP, in prescribed form.

9. **(a)** *Notification No. 2/2019 CT (R) dated 07.03.2019* provides an option to a registered person to pay CGST @ 3% [Effective rate 6% (CGST+ SGST/ UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any financial year, subject to specified conditions.

It is clarified in the notification that first supplies of goods or services or both shall, for the purposes of determining eligibility of a person to pay tax under this notification, include the supplies from 1st April of a FY to the date from which he becomes liable for registration under the said Act, but for the purpose of determination of tax payable under this notification, shall not include the supplies from the first day of April of a financial year to the date from which he becomes liable for registration under the Act.

Thus, Care & Care Beauty Centre is eligible to pay tax under this notification upto the turnover of ₹ 50 lakh. The total tax payable by it is as under:-

Period	Tax Rate	Turnover (₹)	Tax liability (₹)
I Quarter	Since turnover did not exceed ₹ 20 lakh, it was not required to obtain	20 Lakh	Nil

	registration. Hence, no tax was required to be paid		
II Quarter	Effective rate is 6% (CGST+ SGST/ UTGST)] under *Notification No. 2/2019 CT (R)*	30 Lakh [(50-20) lakh]	1,80,000
For the month of October, 20XX	Normal rate of GST of 18% is to be applied	20 lakh [(70-50) lakh]	3,60,000
Total tax payable			**5,40,000**

(b) No, Care & Care Beauty Centre cannot opt for composition scheme from the next financial year. Fundamentally, the composition scheme can be availed in respect of goods and only one service namely, restaurant service. As regards services other than restaurant services are concerned, only marginal supply of the such services for a specified value along with the supply of goods and/or restaurant service, as the case may be, is permitted under section 10(1) of CGST Act, 2017. Therefore, a person engaged exclusively in supply of services other than restaurant services is not eligible to opt for composition scheme.

10. It has been clarified vide *Circular No. 116/35/2019 GST dated 11.10.2019* that when the name of the donor is displayed in the religious institution premises, by placing a name plate or similar such acknowledgement, which can be said to be an expression of gratitude and public recognition of donor's act of philanthropy and is not aimed at giving publicity to the donor in such manner that it would be an advertising or promotion of his business, then it can be said that there is no supply of service for a consideration (in the form of donation). There is no obligation (*quid pro quo*) on part of recipient of the donation or gift to do anything (supply a service). Therefore, there is no GST liability on such consideration.

In the given case, there is no reference or mention of any business activity of the donor which otherwise would have got advertised. Thus, since the gift or donation is made to a charitable organization, the payment has the character of gift or donation and the purpose is philanthropic (i.e., it leads to no commercial gain) and not advertisement, hence GST is not leviable.

11. (a) Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having value of supply of a unit of accommodation below or equal to ₹ 1,000 per day or equivalent have been exempted from GST vide an exemption notification.

Thus, in view of the above-mentioned provisions, GST is not payable by Holiday Guest House on the booking done by Mr. X as the charges for a unit of accommodation per day is less than ₹ 1,000.

The answer will remain the same even if the charges of a single deluxe room per day is ₹ 1,000 as the exemption is also available in the case where value of supply of a unit of accomodation per day is ₹ 1,000/ i.e., such services are taxable only where value of supply of a unit of accommodation per day exceeds ₹ 1,000/-. Thus, no GST is payable by Holiday Guest House on the booking done by Mr. X even if the charges of a single deluxe room per day is ₹ 1,000.

(b) Services by way of storage/ warehousing of cereals, pulses, fruits, nuts and vegetables, spices, copra, sugarcane, jaggery, raw vegetable fibres such as cotton, flax, jute etc., indigo, unmanufactured tobacco, betel leaves, tendu leaves, coffee and tea have been exempted from GST under an exemption notification under GST.

Thus, no GST is payable on the services provided by M/s Damodar Ltd. by way of storage of seasonal fruits and vegetables in Bhatinda, Punjab.

12. The advice of Mr. Siya Ram's consultant that prior submission of bank details is mandatory to obtain registration is no more valid in law.

A new rule 10A has been inserted in the CGST Rules, 2017 vide *Notification No. 31/2019 CT dated 28.06.2019* which allows the registered person to furnish information with respect to details of bank account, or any other information, as may be required on the common portal in order to comply with any other provision, soon after obtaining certificate of registration and a GSTIN, but not later than 45 days from the date of grant of registration or the date on which the return required under section 39 is due to be furnished, whichever is earlier.

This relaxation is however not available for those who have been granted registration as TDS deductor/ TCS collector under rule 12 or who have obtained *suo-motu* registration under rule 16.

13. Rule 59 of the CGST Rules, 2017, *inter alia,* stipulates that the details of outward supplies of goods and/or services furnished in form GSTR-1 shall include the–

(a) invoice wise details of all –

(i) inter-State and intra-State supplies made to the registered persons; and

(ii) inter-State supplies with invoice value more than two and a half lakh rupees made to the unregistered persons;

(b) consolidated details of all –

(i) intra-State supplies made to unregistered persons for each rate of tax; and

(ii) State wise inter-State supplies with invoice value upto two and a half lakh rupees made to unregistered persons for each rate of tax;

Thus, in view of the above-mentioned provisions, Mr. Gauri Shiva should furnish the details of outward supplies of goods made by him during the quarter ending June 20XX in the following manner:-

Supply	Recipient	Nature of supply	Value (₹)	Manner of furnishing details
1	Mr. A, a registered person	Inter-State	2,20,000	Invoice-wise details
2	Mr. B, a registered person	Inter-State	2,55,000	Invoice-wise details
3	Mr. C, an unregistered person	Intra-State	1,80,000	Consolidated details of supplies 3 and 4
4	Mr. D, an unregistered person	Intra-State	2,60,000	
5	Mr. M, an unregistered person	Inter-State	3,00,000	Invoice-wise details
6	Mr. N, an unregistered person	Inter-State	50,000	Consolidated details of supplies 6 and 7
7	Mr. O, an unregistered person	Inter-State	2,50,000	
8	Mr. P, an unregistered person	Inter-State	2,80,000	Invoice-wise details
9	Mr. Q, a registered person	Intra-State	1,50,000	Invoice-wise details
10	Mr. R, a registered person	Intra-State	4,10,000	Invoice-wise details

14. (i) The said statement is partially correct. Where an e-way bill has been generated, but goods are either not transported at all or are not transported as per the details furnished in the e-way bill, the e-way bill may be cancelled electronically on the common portal within 24 hours of generation of the e-way bill.

However, an e-way bill cannot be cancelled if it has been verified in transit in accordance with the provisions of rule 138B of the CGST Rules, 2017.

(ii) The said statement is correct. The e-way bill generated under Goods and Services Tax Rules of any State or Union territory shall be valid in every State and Union territory.

15. As per section 49(8) of the CGST Act, 2017, the liability of a taxable person has to be discharged in a chronological order as under:-

(a) self -assessed tax and other dues for the previous tax periods have to be discharged first;

(b) the self -assessed tax and other dues for the current period have to be discharged next;

(c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 of the CGST Act, 2017 to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last.

This sequence has to be mandatorily followed.

Thus, in view of the above-mentioned provisions, Mr. Ram Narayan cannot discharge his self-assessed tax liability for the current period before settling the dues for the previous tax period.

Note: GST law has been subject to frequent changes since its inception. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.