MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

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

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

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

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

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

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

(b) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crores with an escalation clause. The costs to complete the whole contract are estimated at Rs. 9.50 crores of rupees. You are·given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019 Rs. 4 crores

Cost estimated to complete the contract is Rs. 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS 7.

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

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

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

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

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

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

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

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

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

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

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

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

(4 Parts x 5 Marks = 20 Marks)

2. The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares Rs.10 each	4,00,000	Goodwill at cost	36,100
		Freehold Land	1,20,000
Reserves and Surplus		Freehold Premises	2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account	(1,38,400)	Investment (marked to market)	64,000
Secured Borrowings			
9% Debentures (Rs.100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Inventories:	

Current liabilities Trade payables	1,20,000	Raw materials and packing materials 60,000	
Tax payable	50,000	Finished goods 16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital of Rs.7 lakhs). Both classes of shares are of Rs.10 each.

(2) The preference shares are to be reduced to Rs.5 each and equity shares reduced by Rs.3 per share. Post reduction, both classes of shares to be re-consolidated intoRs.10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were Rs.10,000.

(6) The debenture holders took over freehold land at Rs.2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs.12,500.

(8) The intangible assets were all to be written off along with Rs.10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose. ***(16 Marks)***

3. The Income and Expenditure Account of Happy Sports Club for the year ended 31st March, 2017 was as follows:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	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:

	Rs.
Subscriptions outstanding on 31.03.2016	12,000
Subscriptions received in advance on 31.03.2016	9,000
Subscriptions received in advance on 31.03.2017	5,400
Subscriptions outstanding on 31.03.2017	15,000

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

The Club owned a freehold ground valued Rs. 2,00,000. The Club has sports equipment on 01.04.2016 valued at Rs. 52,000. At the end of the year, after depreciation, the sports equipment amounted to Rs. 54,000. The Club raised a loan of Rs. 40,000 from a bank on 01.01.2016, which was unpaid till 31.03.2017. On 31.03.2017, cash in hand was Rs. 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2017 and Balance Sheet as on that date. ***(16 Marks)***

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

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

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

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

(iii) The rate of gross profit is constant.

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

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

The terms of bonus and right issue were -

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

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

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

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

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

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

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

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2019 and determine the value of shares held on that date assuming the investment as current investment. ***(6+10 = 16 Marks)***

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

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

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

(b) You are required to show the following transactions under General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:

	Rs.
Transfer from Debtors' Ledger-to Creditors' Ledger	2,200
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered Rs. 600)	4,400

Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400

(8+8 = 16 Marks)

6. L and M who carry on partnership business in the name of M/s. LM Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

(i) Profit Loss sharing, L : 2/3 and M : 1/3 and

(ii) On retirement or admission of Partner:

(a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).

(b) No account for Goodwill is to be maintained in the firm's books.

(c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st, 2017 was as follows:

Particulars	Amount in (Rs.)	Amount in (Rs.)
Capital Account		
L	-	24,000
M	-	12,000
N – Cash brought in on 30-09-2016	-	9,000
Plant and machinery at cost	22,000	-
Depreciation provision up to 31-03-2016	-	4,400
Motor car at cost	30,000	-
Depreciation provision up to 31-03-2016	-	6,000
Purchases	84,000	-
Stock as on 31st March 2016	15,500	-
Salaries	18,000	-
Debtors	5,400	-
Sales	-	1,20,000
Travelling expenses	800	

Office Maintenance	1,200	
Conveyance	500	
Trade Expenses	1,000	
Creditors	-	10,100
Rent and Rates	3,000	-
Bad Debts	900	-
Cash in hand and at Bank	3,200	-
	1,85,500	1,85,500

'L' retired from the firm on 30th September, 2016 and on the same day 'N' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - M : 3/5 and N : 2/5. Necessary Accounting Entries for adjustments were pending up to 31-03-2017. You are given the following further information:

(i) The value of firm's goodwill as on 30th September, 2016 was agreed to Rs. 15,000.

(ii) The stock as on 31st March, 2017 was valued at Rs. 18,550.

(iii) Partners' drawings which are included in Salaries: L - Rs. 2,000, M - Rs. 3,000 and N - Rs. 1,000.

(iv) Salaries also includes Rs. 1,500 paid to N prior to his being admitted as a partner.

(v) Bad-debts of Rs. 500 related to the period upto 30th September, 2016.

(vi) As on 31st March, 2017 rent paid in advance amounted to Rs. 600 and trade expenses accrued amounted to Rs. 250.

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made @ 5% on debtors as on March 31st 2017.

(ix) Amount payable to L on retirement remained unpaid till March 31st 2017.

You are required to prepare:

(a) The Trading and Profit & Loss Account for the year ended March 31st 2017.

(b) Partners' Capital Accounts for the year ended March 31st 2017.

(c) The Balance Sheet as on that date. ***(16 Marks)***

7 Answer any **four** of the following:

(a) A large size business entity decided to outsource the accounting functions. It invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

(b) Mehnaaz accepted the following bills drawn by Shehnaaz:

On 8th March, 2017, Rs. 4,000 for 4 months.

On 16th March, 2017, Rs. 5,000 for 3 months.

On 7th April, 2017, Rs. 6,000 for 5 months.

On 17th May, 2017, Rs. 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

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

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

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

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

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

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

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

(e) Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2019 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2019. Discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

(4 Parts x 4 Marks = 16 Marks)

MOCK TEST PAPER 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

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

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

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

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

(b)

	Rs. in crore
Cost of construction of bridge incurred till 31.3.19	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= $(4/10)\times100$ = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2019 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=Rs. 12.60 crore x 40% =Rs. 5.04 crore

Profit for the year ended 31st March, 2019 = Rs. 5.04 crore less Rs. 4 crore = 1.04 crore

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

Hence the valuation will be done as under:

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

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

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

Valuation of Total Inventory as on 31.03.2019:

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

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

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

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

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

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

2. **(i)** **In the books of Lili Ltd.**

Journal Entries

				Dr.	*Cr.*
	2017			*Rs.*	*Rs.*
1	March 31	Equity Share Capital A/c (Rs.10)	Dr.	3,00,000	

	To Capital Reduction A/c			90,000
	To Equity Share Capital A/c (Rs.7)			2,10,000
	(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)			
2.	8% Cum. Preference Share Capital A/c (Rs. 10)	Dr.	4,00,000	
	To Capital Reduction A/c			2,00,000
	To Preference Share Capital A/c (Rs. 5)			2,00,000
	(Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			
3.	Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
	Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
	To Equity Share Capital A/c (21,000 x Rs. 10)			2,10,000
	To Preference Share Capital A/c (20,000 x Rs.10)			2,00,000
	(Being post reduction, both classes of shares reconsolidated into Rs.10 each)			
4.	Cash Account	Dr.	64,000	
	To Trade Investments			64,000
	(Being trade investments liquidated in the open market)			
5.	Capital Reduction Account	Dr.	32,000	
	To Equity Share Capital Account			32,000
	(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6.	Capital Reduction Account	Dr.	10,000	
	To Cash Account			10,000
	(Being expenses of reconstruction scheme paid in cash)			
7.	9% Debentures Account	Dr.	1,20,000	
	Accrued Interest Account	Dr.	5,400	
	To Debenture holders Account			1,25,400
	(Being amount due to debenture holders)			
8.	Debenture holders Account	Dr.	1,25,400	
	Cash Account (2,10,000 – 1,25,400)	Dr.	84,600	
	To Freehold Land			1,20,000
	To Capital Reduction Account (2,10,000 – 1,20,000)			90,000
	(Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)			
9.	Capital Reduction Account	Dr.	54,000	
	To Cash Account			54,000
	(Being contingent liability of Rs.54,000 paid)			

10.		Cash Account	Dr.	12,500	
		To Capital Reduction Account			12,500
		(Being pending insurance claim received)			
11.		Capital Reduction Account	Dr.	1,68,100	
		To Trademarks and Patents			1,10,000
		To Goodwill			36,100
		To Raw materials & Packing materials			10,000
		To Trade receivables			12,000
		(Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)			
12.		Cash Account	Dr.	1,26,000	
		To Equity Share Capital Account			1,26,000
		(Being 12,600 shares issued to existing shareholders)			
13.		Bank Overdraft Account	Dr.	2,23,100	
		To Cash Account			2,23,100
		(Being cash balance utilized to pay off bank overdraft)			
14.		Capital Reduction Account	Dr.	1,28,400	
		To Capital reserve Account			1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)			

(ii) **Capital Reduction Account**

Particulars	*Rs.*	*Particulars*	*Rs.*
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) **Cash Account**

Particulars	*Rs.*	*Particulars*	*Rs.*
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders			

	(2,10,000-1,25,400)	84,600	By	Expenses	10,000
To	Capital reduction (insurance claim)	12,500	By	Temporary bank overdraft - From available cash (64,000 +84,600 + 12,500 - 54,000 -10,000) 97,100	
To	Equity share capital 12,600 shares @ *Rs.*10 each	1,26,000		- From proceeds of equity share capital (2,23,100–97,100) 1,26,000	2,23,100
		2,87,100			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs.97,100 = Rs.1,26,000

3. **Happy Sports Club**

Receipt and Payments Account for the year ended 31st March, 2017

	Receipts	*Amount (Rs.)*		*Payments*	*Amount (Rs.)*
To	Balance b/d (Bal. Fig.)	27,800	By	Salaries:	
To	Subscription:			for 2015-2016	8,000
	for 2015-2016	12,000		for 2016-2017	1,10,000
	for 2016-2017 (W.N.3)	1,36,000	By	Printing and Stationery	6,000
	for 2017-2018	5,400	By	Rent	12,000
To	Entrance Fees	10,000	By	Repairs	10,000
To	Contribution for Annual Dinner	20,000	By	Sundry Expenses (8,000 + 1,200)	9,200
To	Profit on Annual Sports Meet	20,000*	By	Annual Dinner Expenses	30,000
			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, 2017

Liabilities	*Amount (Rs.)*	*Amount (Rs.)*	*Assets*	*Amount (Rs.)*	*Amount (Rs.)*
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

* It is assumed that the profit on annual sports meet has been realized in cash.

Subscription in Advance		5,400	Prepaid Insurance Cash in hand		1,200 32,000
		3,02,200			3,02,200

Working Notes:

(1) Opening Balance of Capital Fund:

Balance Sheet as at 31st March, 2016

	Rs.		*Rs.*
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

	Rs.		Rs.
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 2016-17

	Rs.	*Rs.*
Subscription for 2016-17		1,60,000
Less: Subscription outstanding as on 31.3.17	15,000	
Less: Subscription received in advance as on 31.3.16	9,000	24,000
		1,36,000

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

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

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

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

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

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash	20,000	24,78,500

Less: Goods used for advertisement	(50,000)	16,91,350	sales (W.N.) By Closing stock		3,72,150
To Gross profit (20% of ₹ 24,78,500)		4,95,700			
		28,50,650			28,50,650

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

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

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

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

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

Working Notes:

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

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

Profit on sale	13,750

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

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

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

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

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

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

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

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

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

   Dividend received on shares purchased on 1stSep. 2018

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

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

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

		Rs. in lacs
Cash flows from operating activities:		36,000
Net profit before tax provision		
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	12,000	36,048
		72,048
Less: Non cash income		
Amortisation of capital grant received	(10)	
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,130
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	

Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2018		6,000
Cash and bank balance as on 31.3.2019		8,000

(b) **In Debtors Ledger**

General Ledger Adjustment Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Debtors Ledger Adjustment A/c:		To Debtors Ledger Adjustment A/c:	
Discount Allowed	3,000	Endorsed Bills receivable dishonoured	2,000
Bad Debts (4,400 + 600)	5,000		
Transfer to creditor ledger	2,200		

In Creditors Ledger

General Ledger Adjustment Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Creditors Leger Adjustment A/c:		By Creditors Ledger Adjustment A/c	
Endorsed Bills receivable dishonoured	2,000	Transfer from debtor ledger	2,200
		Bill receivable endorsed to creditors	8,000
		Discount received	1,200
		Allowances	6,400

Notes:

(i) The following items do not appear in GLA Account in Debtors Ledger.

1. Cash Sales
2. Provision *for* Doubtful Debts
3. Provision for Discount on Debtors
4. Bad Debts Recovered

5. Bills Receivable matured/collected on maturity
6. Bills Receivable discounted
7. Bills Receivable endorsed

(ii) The following items do not appear in GLA Account in Creditors Ledger

1. Cash Purchases
2. Reserve for Discount on Creditors
3. Bills Payable matured

6. **Trading and Profit and Loss Account**

for the year ended 31st March, 2017

	Rs.	Rs.
Sales		1,20,000
Less: Cost of goods sold:		
Opening Stock	15,500	
Purchases	84,000	
	99,500	
Less: Closing stock	(18,550)	(80,950)
Gross Profit		39,050

	Half year to 30th September 2016		*Half year to 31st March 2017*	
	Rs.	Rs.	Rs.	Rs.
Gross profit allocated on time basis		19,525		19,525
Less: Expenses				
Salaries (W.N. 1)	6,750		5,250	
Travelling expenses	400		400	
Office maintenance	600		600	
Conveyance	250		250	
Trade expenses (W.N.2)	625		625	
Rent and rates (W.N. 3)	1,200		1,200	
Bad debts	500		400	
Provision for doubtful debts	-		270	
Depreciation:				
Plant and machinery	1,100		1,100	
Motor vehicles	1,500		1,500	
Interest on loan (W.N. 4)	-	(12,925)	1,638	(13,233)
		6,600		6,292
Appropriation of profits:				
Remaining profits				
L and M (2:1)	4,400			
	2,200	6,600	3,775	
M and N (3:2)			2,517	6,292

Partners' Capital Accounts

	L	M	N		L	M	N
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To L (goodwill)		4,000	6,000	By Balance b/d	24,000	12,000	-
To Drawings	2,000	3,000	1,000	By Cash	-	-	9,000
To Transfer to loan a/c	36,400	-	-	By M (Goodwill)	4,000	-	-
				By N (Goodwill)	6,000	-	-
To Balance c/d	-	10,975	4,517	By Profit	4,400	5,975	2,517
	38,400	17,975	11,517		38,400	17,975	11,517

Balance Sheet as on 31st March, 2017

Liabilities		*Amount (Rs.)*	*Assets*	*Amount (Rs.)*
Capital A/c			Plant & Machinery	
M	10,975		*Less:* Depreciation	
N	4,517	15,492	(22,000 – 6,600)	15,400
L's Loan	36,400		Motor Car	
Interest	1,638	38,038	*Less:* Depreciation	
			(30,000 – 9,000)	21,000
Current Liabilities			Current Assets:	
Creditors		10,100	Stock	18,550
Out-standing Trade expenses		250	Debtors (*Less:* Provision (5,400-270)	5,130
			Prepaid Rent	600
			Balance at bank	3,200
Total		63,880		63,880

Working Notes:

			Rs.	Rs.
1.	**Salaries**			
	Total as per trial balance			18,000
	Less: Partners' Drawings -	L	2,000	
		M	3,000	
		N	1,000	(6,000)
				12,000
	Less: N's Salary up to 30.09.2016			1,500
				10,500
			Upto 30.09.2016	Upto 31.03.2017
	Allocation on time basis		5,250	5,250
	Add: N's salary upto 30.09.2016		1,500	0

		6,750	5,250
2.	**Trade Expenses**		
	Total as per trial balance		1,000
	Add: Accrual		250
			1,250
	Allocation: on time basis (50 : 50)	625	625
3.	**Rent and rates**		
	Total as per trial balance		3,000
	Less: Rent paid in advance		(600)
			2,400
	Allocation: on time basis (50 : 50)	1,200	1,200
4.	**Interest on loan account of 'L'**		
	Balance in Capital a/c as per trial balance		24,000
	Less: Drawings		(2,000)
	Add: Share of Goodwill	10,000	
	Share in Profit	4,400	14,400
			36,400
	Interest payable @9% p.a. from 01.10.2016 to 31.03.2017 (6 months) 36,400 x 6/12 x 9/100 =		1,638

Adjustment for L's share of Goodwill

Value of goodwill Rs. 15,000

Net entry for Goodwill

M's Capital account Dr. Rs. 4,000

N's Capital account Dr. Rs. 6,000

To L's Capital account Rs. 10,000

(L's share in goodwill adjusted to existing partners in their gaining ratio)

7. **(a)** The proposals will be evaluated and vendor will be selected considering the following criteria:

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

(b) **Calculation of number of days from base date**

Transaction date	Due date	Amount Rs.	No. of days from Base date (Base date 19.6.2017)	Product
8.3.2017	11.7.2017	4,000	22	88,000
16.3.2017	19.6.2017	5,000	0	0
7.4.2017	10.9.2017	6,000	83	4,98,000
17.5.2017	20.8.2017	5,000	62	3,10,000
		20,000		8,96,000

Average due date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2017 + Rs. 8,96,000 / Rs. 20,000

= 19.6.2017 + 45 days approximately = 3.8.2017

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

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

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

Determination of Profit by applying the method of the capital comparison

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

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

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.

- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

(e) As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31st March, 2019. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

Division A is compulsory

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

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

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

DIVISION A

1. As per the Payment of Bonus Act, 1965, the amount payable to an employee by way of bonus shall be paid within a period of 8 months from the closing of accounting year. However, this period may be extended up to maximum of ……… by appropriate Government.

   (a) 1 year

   (b) 15 months

   (c) 18 months

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

2. Who is not treated as family as per the Payment of Gratuity Act, 1872, in case of a male employee

   (a) himself

   (b) his wife

   (c) dependent parents of his wife

   (d) adult children of his son ***(1 Mark)***

3. The delivery of goods by one person to another for some specific purpose and time is known as:

   (a) Mortgage

   (b) Pledge

   (c) Bailment

   (d) Charge ***(1 Mark)***

4. Offences committed under the Negotiable Instruments Act can be—

   (a) Compoundable

   (b) Non- compoundable

   (c) Non- compoundable and non-bailable

   (d) bailable ***(1 Mark)***

5. Substituted Agent is agent of the:

   (a) Agent

   (b) Principal

   (c) Sub- agent

   (d) Third Party ***(1 Mark)***

6. As per the Contract Act, 1872, which of the following are circumstances when the authority conferred on the agent does not get terminated:

   (a) Revocation of authority by the principal

   (b) Renunciation of agency by the agent

   (c) Completion of business of agency

   (d) Where the agent gets interested in the subject matter **(1 Mark)**

7. While drawing a bill of exchange, a person whose name is given in addition to the drawee who can be resorted in case of need, is called

   (a) Acceptor

   (b) Acceptor for honour

   (c) Drawee in case of need

   (d) Drawer **(1 Mark)**

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

   (a) 30 days

   (b) 60 days

   (c) 90 days

   (d) 6 months **(1 Mark)**

9. Part of the capital for which application have been received from the public and shares allotted to them :

   (a) Nominal capital

   (b) Issued capital

   (c) Subscribed capital

   (d) Called up capital **(1 Mark)**

10. No deposits are repayable earlier than ______ from the date of such deposits or renewal thereof.

   (a) 3 months

   (b) 6 months

   (c) 9 months

   (d) 12 months **(1 Mark)**

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

   (a) 14

   (b) 21

   (c) 30

   (d) 300 **(1 Mark)**

12. A shelf prospectus filed with the ROC shall remain valid for a period of:

   (a) one year from the date of registration

(b) one year from the date of closing of first issue

(c) one year from the date of opening of first issue

(d) Ninety days from the date on which a copy was delivered to ROC ***(1 Mark)***

13. Being in need of further capital, Rimsi Cotton-Silk Products Limited opted to offer 50.00 lacs equity shares of Rs. 1 each to 50 identified persons on 'private placement' basis and accordingly a letter of offer accompanied by serially numbered application form was sent to them after fulfillment of due formalities including passing of special resolution. One of the applicants, Rajan made a written complaint to the company highlighting the fact that the letter of offer was incomplete as well as illegal, for the same did not contain 'renunciation clause' though he wanted to exercise his 'right of renunciation' in favour of one of his son Uday. By choosing the correct option, advise the company in this matter. ***(2 Marks)***

    (a) As the 'Right of Renunciation' cannot be denied, the company needs to rectify its mistake by including the same in the letter of offer and the application form.

    (b) The company is prohibited from providing 'Right of Renunciation' and therefore, the letter of offer and the application form need not include any such clause.

    (c) Instead of absolute prohibition, the company needs to provide 'Right of Renunciation' limited to twenty five percent of offering.

    (d) Instead of absolute prohibition, the company needs to provide 'Right of Renunciation' limited to fifty percent of offering.

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

    (a) Deemed Prospectus.

    (b) Shelf Prospectus.

    (c) Red Herring Prospectus.

    (d) Abridged prospectus. ***(2 Marks)***

15. In the current financial year Zunee Traders Limited, a non-listed company, has 556 members, increased from 451 members which it had in the immediate previous financial year. For the forthcoming Annual General Meeting (AGM), advise the company whether it is required to provide to its members the facility to exercise their right to vote at this AGM by electronic means.

    (a) Since the company has more than 500 members it is required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means.

    (b) The company is not required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means since its members are less than one thousand.

    (c) Though the company is required to provide to its members the facility to exercise their right to vote at the forthcoming AGM by electronic means because it has more than 500 members, it can, as a one-time measure, seek exemption from ROC beforehand and in that case, it need not provide facility of voting by electronic means.

    (d) Only a listed company is required to provide to its members the facility to exercise their right to vote at the General Meetings by electronic means. ***(2 Marks)***

16. Eztech Machines Limited owns a plot of land which was mortgaged to Urbane Commercial Bank Limited for raising term loan of Rs. 2.00 crore. The mortgage was duly registered with the Central Registry. First loan installment of Rs. 50.00 lacs was released immediately after sanction of term loan with the condition that subsequent three installments of Rs.50.00 lacs shall be released as soon as the earlier released

installment is utilized satisfactorily. Is it necessary either for the company or the bank to register the charge on plot with the concerned Registrar of Companies (ROC) when the mortgage is registered with the Central Registry?

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

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

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

(d) The charge on plot needs to be registered with the concerned Registrar of Companies (ROC) only when the term loan sanctioned by the bank to the company exceeds Rs. 2.00 crores. ***(2 Marks)***

17. Which of the following statement is contrary with the provisions of the Companies Act; 2013?

(a) a private company can make a private placement of its securities

(b) company has to pass a special resolution for private placement

(c) Minimum offer per person should have Market Value of Rs. 20;000

(d) a public company can make a private placement of its securities ***(2 Marks)***

18. Tweeter Ltd. has invested 51% in the shares of Snapchat Pvt. Ltd. on 31 March 2018. Snapchat Pvt. Ltd. have been holding 2% equity of Tweeter Ltd since 2011. Snapchat Pvt. Ltd. wants to increase its holdings in equity upto 4% in Tweeter Ltd. after 31 March 2017. Can Snapchat Pvt. Ltd. increase its holdings in equity upto 4% in Tweeter Ltd. after 31 March 2018?

(a) Yes; it can increase its holdings

(b) No; it cannot increase its holdings

(c) Yes, it can increase subject to the limit of 35%

(d) Yes, it can increase its holding subject to 90% ***(2 Marks)***

19. Mr. Vishal parks his car at a parking lot, locks it, and keeps the keys with himself. Which of the following statement is correct in this regard:

(a) This is a case of bailment

(b) The parking people has possession of the car of Mr. Vishal

(c) The parking people has custody of car of Mr. Vishal

(d) This is the case of mortgage ***(2 Marks)***

20. M offered to sell his land to N for Rs. 20 Lac. N replied purporting to accept the offer but enclosed a cheque for Rs. 5 Lac only. He promised to pay the balance of Rs. 15 Lac by monthly installments of Rs. 1 Lac each. Which of the following statement is correct in this regard:

(a) M is bound to accept the offer of N to receive the balance amount in monthly instalments

(b) N could not enforce his acceptance because it was not an unqualified one

(c) N could enforce his acceptance because it was not an unqualified one

(d) N could enforce his acceptance because it was a qualified one ***(2 Marks)***

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

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

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

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

(d) No, its not an endorsement, as N endorsed it to C and not to the P. ***(2 Marks)***

DIVISION B

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

(b) "To maintain social contract between society and business, the trusteeship relations are essential". Describe the role of business ethics in this reference. ***(4 Marks)***

(c) What are the factors that lead to grapevine communication? ***(4 Marks)***

2. (a) Manish is working as a salesman in a company on salary basis. The following payments were made to him by the company during the previous financial year –

(i) overtime allowance,

(ii) dearness allowance

(iii) commission on sales

(iv) employer's contribution towards pension fund

(v) value of food.

Examine as to which of the above payments form part of "salary" of Manish under the provisions of the Payment of Bonus Act, 1965. ***(6 Marks)***

(b) State with reasons whether the following statement is correct or incorrect:

'Fairness and honesty are the pillars of success in business'. ***(4 Marks)***

(c) Explain the functions of interpersonal communication. ***(4 Marks)***

3. (a) State the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 relating to the protection of the amount standing to the credit of an employee in the provident fund against attachment. ***(3 Marks)***

(b) State in what way does the Companies Act, 2013 regulate and restrict Minimum Subscription and receipt of Application Money in respect of a company going for public issue of shares. ***(3 Marks)***

(c) What is meant by 'Corporate Governance'? State the major 'characteristics' of good corporate governance. ***(4 Marks)***

(d) Explain the concept of "Negotiation". What are its techniques? ***(4 Marks)***

4. (a) Explaining the provisions of the Indian Contract Act, 1872, answer the following:

(i) Rajesh, aged 16 years, was studying in an engineering college. On 1 March, 2018 he took a loan of Rs. 1 lakh from Suresh for the payment of his college fee and agreed to pay by 30th

May, 2019. Rajesh possesses assets worth Rs. 10 lakhs. On due date Rajesh fails to pay back the loan to Suresh. Suresh now wants to recover the loan from Rajesh out of his assets. Whether Suresh would succeed?

(ii) A received certain goods from B promising to pay Rs. 10,000/-. Later on, A expressed his inability to make payment. C, who is known to A, pays Rs., 6000/- to B on behalf of A. However, A was not aware of the payment. Now B is intending to sue A for the amount of Rs. 10000/-. Can B do so? Advise. ***(6 Marks)***

(b) State the objectives of the Central Consumer Protection Council in India. ***(4 Marks)***

(c) Write Short note on 'The Press Communique' ***(4 Marks)***

5. (a) Answer the following in the light of the companies Act, 2013-

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

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

(b) State with reasons whether the following statement is correct or incorrect:

Inclusion of environmental consideration as a part of corporate strategy improves corporate performance. ***(4 Marks)***

(c) What qualities should a sustainable innovation organization possess? ***(4 Marks)***

6. (a) Distinguish between 'Bearer instrument' and 'Order instrument' under the Negotiable Instruments Act, 1881. ***(3 Marks)***

(b) The Directors of Mars India Ltd. desire to alter capital clause of Memorandum of Association of their company. Advise them, under the provisions of the Companies Act, 2013 about the ways in which the said clause may be altered. ***(3 Marks)***

(c) State, how far a sound ethical environment in a company may be created and corporate scandals may be avoided. ***(4 Marks)***

(d) Draft an Indemnity Bond to be given to a Nationalized Bank by its depositor for the loss of Deposit certificates. ***(4 Marks)***

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

SUGGESTED ANSWERS/HINTS

DIVISION A

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

DIVISION B

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

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

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

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

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

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

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

(b) Businesses as trustees: Mahatma Gandhi, the father of the nation, had aptly said that trusteeship provides a means for transforming the present capitalist order of society into an egalitarian one. A business man has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society. Society bestows upon business the authority to own and use land and natural resources. In return the society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.

Business ethics is required to implement the laws of land, customs, expectations of community, principles of morality, etc. The products and services of an organization affect its employees, the community and society as a whole. Business ethics also subserve the management discipline. Business houses may also use their financial and public influence to address social problems like poverty, crime, equal rights, environmental problems, public health and education. Society at large has also come to realize that since businessmen are making profits by using the country's resources, they owe it to the country to work for its development. Sound workplace ethics ensure that a company's employees are highly motivated and identify themselves with their employer.

Following ethical business practices safeguard a company from getting entangled with law enforcement agencies. A reputation for highly ethical behaviour also ensures increased sales and customer loyalty. Certain eco-friendly practices also reduce operation costs. Thus, society derives benefits as well as business prospers when businesses are ethically driven.

(c) The grapevine becomes active when the following factors are present:

(a) Feeling of uncertainty or lack of sense of direction when the organisation is passing through a difficult period.

(b) Feeling of inadequacy or lack of self confidence on the part of the employee, leading to the formation of groups.

(c) Formation of a coterie or favoured group by the manager, giving other employees a feeling of insecurity or isolation. People operating in such circumstances will be filled with all sorts of ideas and will share them with like minded companions, at whatever level they may be. Mostly they find them at their own level, but other levels are not barred. This type of communication is being seriously studied by psychologists and management experts.

2. (a) Computation of Salary / Wages: According to Section 2(21) of the Payment of Bonus Act, 1965 salary and wages means all remuneration other than remuneration in respect of overtime work, capable of being expressed in terms of money, which would if the terms of employment, express or implied, were fulfilled, be payable to an employee in respect of his employment, or of work done in such employment and includes dearness allowance, i.e. all cash payment by whatever name called, paid to an employee on account of a rise in the cost of living. But the term excludes:

(i) Any other allowance which the employee is for the time being entitled to;

(ii) The value of any house accommodation or of supply of light, water, medical attendance or other amenities of any service or of any concessional supply of food grains or other articles;

(iii) Any traveling concession;

(iv) Any bonus including incentive, production or attendance bonus;

(v) Any contribution paid or payable by the employer to any pension fund or for benefit of the employee under any law for the time being in force.

(vi) Any retrenchment compensation or any gratuity or other retirement benefit payable to the employee or any ex-gratia payment made to him; and

(vii) Any commission payable to the employee.

It has been clarified in the explanation to the section that where an employee is given, in lieu of the whole or part of the salary or wage payable to him, free food allowance or free food by his employer, such food allowance or the value of such food shall be deemed to form part of the salary or wage for such employee.

In view of the provisions of Section 2(21) explained above, the payment of dearness allowance and value of free food by the employer forms part of salary of Manish while remaining three payments i.e. payment for overtime, commission on sales and employer's contribution towards pension funds shall not form part of his salary.

(b) Correct: The success of the business depends very much on fairness and honesty in the business. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. At a minimum, business professionals and persons are expected to follows all applicable laws and regulation. Even then, they are expected not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination.

One aspect of fairness and honesty is related to disclosure of potential harm caused by product use. For *example*, Mitsubishi Motors, a Japanese automaker, faced criminal charges and negative publicity after executives admitted that the company had systematically covered up customer complaints about tens of thousands of defective automobiles over a 20 year period in order to avoid expensive and embarrassing product recalls.

Another aspect of fairness relates to competition. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition.

Rivals of Microsoft, for *example,* accused the software giant of using unfair and monopolistic practices to maintain market dominance with its Internet Explorer browser.

These aforesaid *examples* show that fairness and honesty pay in the long run; they secure the stability of the business and overall reputation in the business world. Therefore, we may say that fairness and honesty are the pillars of success in the business.

(c) **Functions of Interpersonal Communication:** Interpersonal communication is important because of the following functions it achieves:

Gaining Information: One reason, we engage in interpersonal communication, is to gain knowledge about another individual. We attempt to gain information about others so that we can interact with them more effectively.

Building Understanding: Interpersonal communication helps us to understand better what someone says in a given context. Words can mean very different things depending on how they are said or in what context. **Content Messages** refer to the surface level meaning of a message. **Relationship Messages** refer to how a message is said. The two are sent simultaneously, but each affects the meaning assigned to the communication and helps us understand each other better.

Establishing Identity: We also engage in interpersonal communication to establish an identity based on our relationships and the image we present to others.

Interpersonal Needs: We also engage in interpersonal communication to express interpersonal needs. William Schutz has identified three such needs: inclusion, control, and affection.

- Inclusion is the need to establish identity with others.
- Control is the need to exercise leadership and prove one's abilities.
- Affection is the need to develop relationships with people. Groups are an excellent way to make friends and establish relationships.

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

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

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

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

Minimum subscription [Section 39 (1)]

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

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

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

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

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

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

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

(c) Corporate Governance: Simply stated, 'Governance' means the process of decision making and the process by which decisions are implemented. The term corporate governance is understood and defined in various ways. Corporate governance can be defined as the formal system of accountability and control for ethical and socially responsible organisational decisions and use of resources and accountability relates to how well the content of workplace decisions is aligned with the organisations strategic direction. Control involves the process of auditing and improving organisation decisions and actions. Good corporate governance has the following major characteristics:

(i) Participatory

(ii) Consensus oriented

(iii) Accountable

(iv) Transparent

(v) Responsive

(vi) Effective and efficient

(vii) Equitable and inclusive and

(viii) Follows the rule of law.

(d) Negotiation: Negotiation occurs when two or more parties either individuals or groups discuss specific proposals in order to find a mutually acceptable agreement. Whether it is with an employer, family member or business associate, we all negotiate for things each day like higher salary, letter service or solving a dispute with a co worker or family member Negotiation is a common way of settling conflicts in business. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

Techniques for Negotiation:

(a) Spiraling agreements: Begin by reaching a minimums agreement even though it is not related to the objectives and build, hit by hit, on this first agreement.

(b) Changing of position: Formulate the proposals in a different way, without changing the final result.

(c) Gathering information: Ask for information from the other party to clarify their position

(d) Making the cake bigger: Offer alternatives that may be agreeable to the other party, without changing the terms.

(e) Commitments: Formalize agreements orally and in writing before ending the negotiation.

4. (a) (i) According to Section 11 of the Indian Contract Act, 1872, a person who is of the age of majority to the law to which he is subject is competent to enter into any contract. A person who has completed the age of 18 years is a major and otherwise he will be treated as minor. Thus Rajesh who is a minor is incompetent to contract and any agreement with him is void [Mohori Bibi Vs Dharmodas Ghose 1903, 30 Cal, 539 (PC)]. Section 68 of the Indian Contract Act, 1872 however, prescribes the liability of a minor for the supply of the things which are the necessaries of life to him. It says that though minor is not personally liable to pay the price of necessaries supplied to him or money lent for the purpose, the supplier or lender will be entitled to claim the money/price of goods or services which are necessaries suited to his condition of life provided that the minor has a property. The liability of minor is only to the extent of the minor's property. This type of contract is called a Quasi-contract and the right of the supplier/lender is based on the principle of equity. Thus, according to the above provision, Suresh will be entitled to recover the amount of loan given to Rajesh for payment of the college fees from the property of the minor.

(ii) As per section 41 of the Indian Contract Act, 1872, when a promisee accepts performance of the promise from a third person, he cannot afterwards enforce it against the promisor. That is, performance by a stranger, accepted by the promisee, produces the result of discharging the promisor, although the latter has neither authorised nor ratified the act of the third party.

Therefore B can sue A only for ₹ 4000.

(b) The objectives of the Central Consumer Protection Council in India are to promote and protect the rights of the consumers such as:-

(i) the right to be protected against the marketing of goods and services which are hazardous to life and property;

(ii) the right to be informed about the quality, quantity, potency, purity, standard and price of goods/services so as to protect the consumer against unfair trade practices;

(iii) the right to be assured, whichever possible, access to a variety of goods and services at competitive prices;

(iv) the right to be heard and to be assured that consumers interest will receive due consideration at appropriate terms;

(v) the right to seek redressal against unfair trade practices;

(vi) the right to consumer education.

(c) The Press Communiqué: The press communiqués are issued when some important government decisions or announcements are made such as cabinet appointments, conclusion of the foreign dignitaries' visits, international agreement, etc. The press communiqué is formal in character. It carries the name of the ministry or department and the place the date at the bottom left-hand corner of the release. Generally, the press is expected to reproduce the press communiqué without any substantial change. No heading or subheading is given on press communiqués.

5. (a) (i) The prescribed particulars of the charge together with the instrument, if any by which the charge is created or evidenced, or a copy thereof shall be filed with the Registrar within 30 days after the date of the creation of charge [Section 77 (1)]. In this case particulars of charge have not been filed within the prescribed period of 30 days.

However, the Registrar is empowered under proviso to section 77 (1) to extend the period of 30 days by another 300 days on payment of such additional fee as may be prescribed. Taking advantage of this provision, MNC Limited, should immediately file the particulars of charge with the Registrar and satisfy the Registrar that it had sufficient cause, for not filing the particulars of charge within 30 days of creation of charge.

There will be no change in the situation if the charge was created on 12th February, 2019.

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

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

Thus, the contention of NRT Ltd. is correct.

(b) **CORRECT:** Inclusion of environmental consideration as a part of corporate strategy improves corporate performance is a correct statement.

Environmental consideration is a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organizational set up. A good environmental practice improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus, environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.

(c) A sustainable innovation organisation should have:

(a) Vision and strategy for innovation

(b) Culture supporting innovation

(c) Processes, practices and systems supporting innovation

(d) Top management team leading to innovation.

(e) Effective cross-financial teams.

(f) Empowered employees driving innovation.

(g) Finding the right balance between bureaucracy and chaos.

6. (a) **Bearer and Order instruments:** An instrument may be made payable: (1) to bearer; or (2) to a specified person or to his order.

An instrument is said to be payable to bearer when it is expressed to be so payable to its bearer or when the only or last endorsement on it is an endorsement in blank.

An instrument is payable to order, (1) when it is payable to the order of a specified person or (2) when it is payable to a specified person or his order or, (3) when it is payable to a specified person without the addition of the words "or his order" and does not contain words prohibiting transfer or indicating an intention that it should not be transferable. When an instrument, either originally or by endorsement, is made payable to the order of a specified person and not to him or his order, it is payable to him or his order, at his option.

When an instrument is not payable to bearer (i.e., in case of order instrument), the payee must be indicated with reasonable certainty.

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

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

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

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

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

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

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

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

(c) Creating an ethical environment in company: A sound ethical environment in a company may be created and corporate scandals may be avoided by adopting the following methods:

(i) Ensuring that employees are aware of their legal and ethical responsibilities.

Some ethical organisations are having policies to train and motivate employees towards ethical behaviour. To start with, such initiation should be from the top. A number of companies in India and abroad are being known for their quality and soundness of their ethics programmes. Companies like Raytheon, Texas Instruments, Wipro are pioneers in establishing ethical environment among the employees enabling them to take ethical decisions.

(ii) Providing a communication system between the management and employees so that anyone in the company can report fraud and mismanagement with out the fear of being reprimanded.

In India, Wipro has introduced a helpline comprising of senior members of the company, who are available for guidance on any moral, legal or ethical issues that an employee of the company may face.

(iii) Ensuring fair treatment to those who act as whistle blowers:

This is perhaps the most important and sensitive issue. Fair treatment to whistle blowers is a basic necessity to check fraud. Some acts must be appreciated and that appreciation should be extended from within the company rather than outside.

(d) Indemnity Bond

Mr. A, S/o Mr. X residing at ...., Mumbai do hereby agree to indemnify Primal Bank for any loss that may occur for seeking re-issue of Deposit Certificates (for a sum of Rs…..) in duplicate. I further declare that personally I have not received the Deposit Certificates issued by the bank for which the bank is claiming that it has already been dispatched.

Date………

Place: Mumbai

Signature

(Mr. A)

MOCK TEST PAPER 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

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

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

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

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

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

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

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

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

Required:

Compute economic order quantity (EOQ):

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

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

(c) Mr. B will require Rs. 50 lakhs after 10 years from now. He wants to ascertain an amount to be invested in a fund which pays interest @ 10% per annum.

Following options are available to him:

(i) to make annual payment into the fund at the end of each year.

(ii) to invest a lumpsum amount in the fund at the end of the year.

(iii) to make annual payment into the fund in the beginning of each year.

Find out the amount to be invested under each of the options given above.

Factors are as under:

FVIF/CVF (10%, 10) = 2.594

FVIFA/CVFA (10%,10) = 15.937

PVIF/PVF (I0%, 10) = 0.386

PVIFA/PVFA (10%,10) = 6.145

(d) S Ltd. has furnished the following information for the year ending 31st March, 2019:

	Rs.
Net profit before taxation	20,78,000
Depreciation charged to P&L Account	8,00,000
Profit on sale of plant & machinery	2,20,000
Increase in debtors	2,40,000
Decrease in stock	6,80,000
Decrease in other current liabilities	1,50,000
Increase in creditors	20,000
Purchases of plant and machinery	23,20,000
Proceeds from issue of share capital	15,00,000
Dividend paid	7,20,000
Income-tax paid	7,28,000

You are required to calculate cash from operating activities. ***(4 × 5 = 20 Marks)***

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

The following information are made available for this purpose:

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

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

(iii) Stock levels are planned as follows:

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

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

(v) It requires 9 minutes of direct labour to produce and fill one bag of 'X'. Labour cost is Rs.50 per hour.

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

(vii) Variable selling and administration expenses are 5% of sales and fixed administration and selling expenses are Rs.2,50,000 per quarter.

Required

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

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

(iii) Compute the budgeted variable cost to produce one bag of 'X'. ***(8 Marks)***

(b) You are given the following information:

(i) Estimated monthly Sales are as follows:

	Rs.		Rs.
January	1,00,000	June	80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

(ii) Wages and Salaries are estimated to be payable as follows:

	Rs		Rs.
April	**9,000**	**July**	**10,000**
May	8,000	August	9,000
June	10,000	September	9,000

(iii) Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses.

(iv) Purchases amount to 80% of sales and are made and paid for in the month preceding the sales.

(v) The firm has taken a loan of Rs.1,20,000. Interest @ 10% p.a. has to be paid quarterly in January, April and so on.

(vi) The firm is to make payment of tax of Rs. 5,000 in July, 2019.

(vii) The firm had a cash balance of Rs. 20,000 on 1st April, 2019 which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investments/liquidation of temporary investments or temporary borrowings at the end of each month (interest on these to be ignored).

Required

Prepare monthly cash budgets for six months beginning from April, 2019 on the basis of the above information. ***(8 Marks)***

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

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

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

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

The following additional information is also provided:

	Fabrication Department	Assembly Department	Stores Department	Maintenance Department
Floor area (square meters)	24,000	10,000	2,500	3,500
Value of plant & machinery (Rs.)	16,50,000	7,50,000	75,000	1,75,000
No. of stores requisitions	3,600	1,400	---	---
Maintenance hours required	2,800	2,300	400	---
No. of employees	120	80	38	12
Machine hours	30,00,000	60,000		
Labour hours	70,000	26,00,000		

Required:

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

(ii) Calculate the most appropriate overhead recovery rate for each department. ***(8 Marks)***

(b) H Ltd. is considering a new product line to supplement its range of products. It is anticipated that the new product line will involve cash investments of Rs.70,00,000 at time 0 and Rs.1,00,00,000 in year 1. After-tax cash inflows of Rs. 25,00,000 are expected in year 2, Rs.30,00,000 in year 3, Rs.35,00,000 in year 4 and Rs.40,00,000 each year thereafter through year 10. Although the product line might be viable after year 10, the company prefers to be conservative and end all calculations at that time.

(i) If the required rate of return is 15 per cent, what is the net present value of the project? Is it acceptable?

(ii) What would be the case if the required rate of return were 10 per cent?

(iii) What is its internal rate of return?

(vi) What is the project's payback period? ***(8 Marks)***

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

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

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

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

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

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

Calculate the followings:

(i) Overhead Cost Variance

(ii) Fixed Overhead Cost Variance

(iii) Variable Overhead Cost Variance

(iv) Fixed Overhead Volume Variance

(v) Fixed Overhead Expenditure Variance ***(8 Marks)***

(b) ABC Ltd. has the following capital structure which is considered to be optimum as on 31st March, 2019:

	(Rs.)
14% Debentures	30,00,000
11% Preference shares	10,00,000
Equity Shares (10,000 shares)	1,60,00,000
	2,00,00,000

The company share has a market price of Rs. 236. Next year dividend per share is 50% of year 2019 EPS. The following is the trend of EPS for the preceding 10 years which is expected to continue in future.

Year	EPS (Rs.)	Year	EPS Rs.)
2010	10.00	2015	16.10
2011	11.00	2016	17.70
2012	12.10	2017	19.50
2013	13.30	2018	21.50
2014	14.60	2019	23.60

The company issued new debentures carrying 16% rate of interest and the current market price of debenture is Rs. 96.

Preference share Rs. 9.20 (with annual dividend of Rs. 1.1 per share) were also issued. The company is in 50% tax bracket.

(A) Calculate after tax:

(i) Cost of new debt

(ii) Cost of new preference shares

(iii) New equity share (consuming new equity from retained earnings)

(B) Calculate marginal cost of capital when no new shares are issued.

(C) How much can be spent for capital investment before new ordinary shares must be sold. Assuming that retained earnings for next year's investment are 50 percent of 2019.

(D) What will the marginal cost of capital when the funds exceeds the amount calculated in (C), assuming new equity is issued at Rs. 200 per share? ***(8 Marks)***

5. (a) Discuss the essential features of a good cost accounting system.

(b) Explain the difference between Cost Control and Control Reduction.

(c) Discuss the Inter relationship between investment, financing and dividend decisions.

(d) What is debt securitisation? Explain the basics of debt securitisation process. ***(4 x 4 =16 Marks)***

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

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

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

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

Prepare a statement of profitability based on:

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

(ii) If they are sold at the split off point. ***(8 Marks)***

(b) B LLP. has the following balance sheet and income statement information:

Balance Sheet as on March 31st, 2019

Liabilities	(Rs.)	Assets	(Rs.)
Share Capital	80,00,000	Net Fixed Assets	1,00,00,000
Term Loan	60,00,000	Inventories	45,00,000
Retained Earnings	35,00,000	Trade Receivables	40,50,000
Trade Payables	15,00,000	Cash & Bank	4,50,000
	1,90,00,000		1,90,00,000

Income Statement for the year ending March 31st, 2019

	(Rs.)
Sales	34,00,000
Operating expenses (including Rs. 6,00,000 depreciation)	12,00,000
EBIT	22,00,000
Less: Interest	6,00,000
Earnings before tax	16,00,000
Less: Taxes	5,60,000
Net Earnings (EAT)	10,40,000

(i) Determine the degree of operating, financial and combined leverages at the current sales level, if all operating expenses, other than depreciation, are variable costs.

(ii) If total assets remain at the same level, but sales units (i) increase by 20 percent and (ii) decrease by 20 percent, what will be the earnings after taxes at the new sales level?

(8 Marks)

7. Answer any **four** of the following:

(a) Define Controllable Cost and Uncontrollable Cost.

(b) Distinguish between Job and Batch costing.

(c) Write short note on Factoring and its advantages.

(d) Discuss financial break-even and EBIT-EPS indifference analysis.

(e) (i) Define 'Present Value' and 'Perpetuity'.

(ii) Explain the term Equivalent units used in process industries. ***(4 x 4 =16 Marks)***

MOCK TEST PAPER 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

SUGGESTED ANSWERS/HINTS

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

= Rs.100 – Rs.60

= Rs.40

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

= 60,000 units

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

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

$\therefore$ Actual Sales = 1,50,000 units

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

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

(ii) Products

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

Composite contribution will be as follows:

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

= 25 + 18.75 = Rs.43.75

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

Break-even Sales Mix:

X (64,000 units × 5/8) = 40,000 units

Y (64,000 units × 3/8) = 24,000 units

(b) Workings:

Annual production of Product X = Annual demand – Opening stock

= 5,00,000 – 12,000 = 4,88,000 units

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

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

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

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

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

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

= 54,462 units

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

= 94,600 units

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

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

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

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

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

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

(c) Future Value = Rs.50,00,000

Interest (i) = 10% p.a.

Period (n) = 10 years

(i) To make annual payment into the fund at the end of each year:

$$\text{Future Value} = \text{Annual Payment} \times (\text{FVIFA}_{n,\,i}) \text{ or Annual Payment} \times \left(\frac{(1+i)^n - 1}{i}\right)$$

$$\text{Rs.}50,00,000 = \text{A}\ (\text{FVIFA}_{10\%,\,10})$$

Or, A $= \frac{Rs.50,00,000}{15.937}$ = Rs.3,13,735

(ii) To invest a lumpsum amount in the fund at the end of the year:

Future Value = Amount × ($FVIF_{10\%,\,10}$) or Amount × $(1+0.1)^{10}$

Or, A $= \frac{Rs.50,00,000}{2.594}$ = Rs.19,27,525

(iii) To make annual payment into the fund at the beginning of each year:

Future Value = Annual Payment × ($FVIFA_{n,\,i}$) × (1+i)

Rs.50,00,000 = A ($FVIFA_{10\%,\,10}$) × (1+ 0.1)

Or, A $= \frac{Rs.50,00,000}{15.937 \times 1.1} = \frac{Rs.50,00,000}{17.531}$ = Rs.2,85,209 (approx.)

(d) Statement of Cash Flows for the year ended 31st March 2019

		(Rs.)
Cash flow from Operating Activities		
Net profit before taxation		20,78,000
Add: Depreciation charged to P & L account		8,00,000
Less: Profit on Sale of Plant & Machinery		(2,20,000)
Operating profit before working capital changes		26,58,000
Add: Decrease in Stock	6,80,000	
Add: Increase in Creditors	20,000	
Less: Increase in Debtors	(2,40,000)	
Less: Decrease in Current Liabilities	(1,50,000)	3,10,000
Cash generated from Operating activities		29,68,000
Less: Income tax		7,28,000
Net Cash from Operating activities		22,40,000

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

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

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

Particulars	**'Y' Kgs.**	**'Z' Kgs.**	**Empty Bags Nos.**
Production Requirements Per bag of 'X'	2.5	7.5	1.0

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

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

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

(b) Computation – Collections from Debtors

Particulars	**Feb (Rs.)**	**Mar (Rs.)**	**Apr (Rs.)**	**May (Rs.)**	**Jun (Rs.)**	**Jul (Rs.)**	**Aug (Rs.)**	**Sep (Rs.)**
Total Sales	1,20,000	1,40,000	80,000	60,000	80,000	1,00,000	80,000	60,000
Credit Sales (80% of total Sales)	96,000	1,12,000	64,000	48,000	64,000	80,000	64,000	48,000
Collection (within one month)		72,000	84,000	48,000	36,000	48,000	60,000	48,000
Collection (within two months)			24,000	28,000	16,000	12,000	16,000	20,000
Total Collections			1,08,000	76,000	52,000	60,000	76,000	68,000

Monthly Cash Budget for Six Months: April to September, 2019

Particulars	**April (Rs.)**	**May (Rs.)**	**June (Rs.)**	**July (Rs.)**	**August (Rs.)**	**Sept. (Rs.)**
Receipts:						
Opening Balance	20,000	20,000	20,000	20,000	20,000	20,000
Cash Sales	16,000	12,000	16,000	20,000	16,000	12,000
Collections from Debtors	1,08,000	76,000	52,000	60,000	76,000	68,000
Total Receipts (A)	1,44,000	1,08,000	88,000	1,00,000	1,12,000	1,00,000
Payments:						
Purchases	48,000	64,000	80,000	64,000	48,000	80,000
Wages and Salaries	9,000	8,000	10,000	10,000	9,000	9,000
Interest on Loan	3,000	-----	-----	3,000	-----	-----

Tax Payment	-----	-----	-----	5,000	-----	-----
Total Payment (B)	60,000	72,000	90,000	82,000	57,000	89,000
Minimum Cash Balance	20,000	20,000	20,000	20,000	20,000	20,000
Total Cash Required (C)	80,000	92,000	1,10,000	1,02,000	77,000	1,09,000
Surplus/ (Deficit) (A)-(C)	64,000	16,000	(22,000)	(2,000)	35,000	(9,000)
Investment/Financing: Total effect of (Invest)/ Financing (D)	(64,000)	(16,000)	22,000	2,000	(35,000)	9,000
Closing Cash Balance (A) + (D) - (B)	20,000	20,000	20,000	20,000	20,000	20,000

3. (a) (i) **Table of Primary Distribution of Overheads**

Particulars	Basis of Apportionment	Total Amount	Production Department		Service Departments	
			Fabrication	Assembly	Stores	Maintenance
Overheads Allocated		27,28,000	15,52,000	7,44,000	2,36,000	1,96,000
Direct Costs	Actual	86,36,000	71,88,000	14,48,000	---	---
Other Overheads:						
Factory rent	Floor Area (48:20:5:7)	15,28,000	9,16,800	3,82,000	95,500	1,33,700
Factory building insurance	Floor Area (48:20:5:7)	1,72,000	1,03,200	43,000	10,750	15,050
Plant & Machinery insurance	Value of Plant & Machinery (66:30:3:7)	1,96,000	1,22,038	55,472	5,547	12,943
Plant & Machinery Depreciation	Value of Plant & Machinery (66:30:3:7)	2,65,000	1,65,000	75,000	7,500	17,500
Canteen Subsidy	No. of employees (60:40:19:6)	4,48,000	2,15,040	1,43,360	68,096	21,504
		1,39,73,000	1,02,62,078	28,90,832	4,23,393	3,96,697

Re-distribution of Service Departments' Expenses:

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

(ii) **Overhead Recovery Rate**

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

(b) (i)

Year	Cash flow	Discount Factor (15%)	Present value
	(Rs.)		(Rs.)
0	(70,00,000)	1.000	(70,00,000)
1	(1,00,00,000)	0.870	(87,00,000)
2	25,00,000	0.756	18,90,000
3	30,00,000	0.658	19,74,000
4	35,00,000	0.572	20,02,000
5–10	40,00,000	2.163	86,52,000
		Net Present Value	(11,82,000)

As the net present value is negative, the project is unacceptable.

(ii) **Similarly, NPV at 10% discount rate can be computed as follows:**

Year	Cash flow	Discount Factor (10%)	Present value
	(Rs.)		(Rs.)
0	(70,00,000)	1.000	(70,00,000)
1	(1,00,00,000)	0.909	(90,90,000)
2	25,00,000	0.826	20,65,000
3	30,00,000	0.751	22,53,000
4	35,00,000	0.683	23,90,500
5–10	40,00,000	2.974	1,18,96,000
		Net Present Value	25,14,500

Since NPV = Rs.25,14,500 is positive, hence the project would be acceptable.

(iii) IRR $= LR + \frac{\text{NPV at LR}}{\text{NPV at LR} - \text{NPV at HR}} \times (HR - LR)$

$= 10\% + \frac{\text{Rs.}25{,}14{,}500}{\text{Rs.}25{,}14{,}500 - (-)11{,}82{,}000} \times (15\% - 10\%)$

= 10% + 3.4012 or 13.40%

(iv) Payback Period = 6 years:

–Rs.70,00,000–Rs.1,00,00,000 + Rs.25,00,000 + Rs.30,00,000 + Rs.35,00,000 + Rs.40,00,000 + Rs.40,00,000 = 0

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

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

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

= Rs. 45,200 (A)

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

= Rs. 87,200 – Rs.1,21,520

= Rs.34,320 (A)

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

= Rs. 44,800 – Rs. 55,680

= Rs. 10,880 (A)

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

= Rs. 87,200 – Rs.1,09,000

= Rs. 21,800 (A)

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

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

= Rs.12,520 (A)

WORKING NOTE

Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.12,00,000}}{\text{1,20,000units}}$	Rs. 10
Fixed Overheads element in *Semi-Variable* Overheads i.e. 60% of Rs.1,80,000	Rs. 1,08,000
Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.1,08,000}}{\text{1,20,000units}}$	Rs. 0.90
Standard Rate of Absorption of Fixed Overheads *per unit* (Rs.10 + Rs.0.90)	Rs.10.90
Fixed Overheads Absorbed on 8,000 units @ Rs10.90	Rs. 87,200
Budgeted Variable Overheads	Rs. 6,00,000
Add : Variable element in Semi-Variable Overheads 40% of Rs.1,80,000	Rs.72,000
Total Budgeted Variable Overheads	Rs.6,72,000
Standard Variable Cost *per unit* = $\frac{\text{Budgeted Variable Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.6,72,000}}{\text{1,20,000units}}$	Rs.5.60
Standard Variable Overheads for 8,000 units @ Rs.5.60	Rs.44,800
Budgeted Annual Fixed Overheads (Rs.12,00,000 + 60% of Rs.1,80,000)	Rs.13,08,000
Actual Fixed Overheads (Rs.1,10,000 + 60% of Rs.19,200)	Rs.1,21,520
Actual Variable Overheads (Rs.48,000 + 40% of Rs.19,200)	Rs. 55,680

(b) (A) (i) Cost of new debt

$$K_d = \frac{I(1-t)}{P_0}$$

$$= \frac{16\ (1\ - 0.5)}{96} = 0.0833$$

(ii) **Cost of new preference shares**

$$K_p = \frac{PD}{P_0} = \frac{1.1}{9.2} = 0.12$$

(iii) **Cost of new equity shares**

$$K_e = \frac{D_1}{P_0} + g$$

$$= \frac{11.80}{236} + 0.10 = 0.05 + 0.10 = 0.15$$

Calculation of D_1

D_1 = 50% of 2019 EPS = 50% of 23.60 = Rs. 11.80

(B) Calculation of marginal cost of capital

Type of Capital	Proportion	Specific Cost	Product
(1)	(2)	(3)	(2) × (3) = (4)
Debenture	0.15	0.0833	0.0125
Preference Share	0.05	0.12	0.0060
Equity Share	0.80	0.15	0.1200
	Marginal cost of capital		0.1385

(C) The company can spend the following amount without increasing marginal cost of capital and without selling the new shares:

Retained earnings = (0.50) (236 × 10,000) = Rs. 11,80,000

The ordinary equity (Retained earnings in this case) is 80% of total capital

11,80,000 = 80% of Total Capital

Capital investment before issuing equity = $\frac{\text{Rs.}11,80,000}{0.80}$ = Rs.14,75,000

(D) If the company spends in excess of Rs.14,75,000 it will have to issue new shares.

The cost of new issue will be = $\frac{\text{Rs.}11.80}{200}$ + 0.10 = 0.159

The marginal cost of capital will be:

Type of Capital	Proportion	Specific Cost	Product
(1)	(2)	(3)	(2) × (3) = (4)
Debentures	0.15	0.0833	0.0125
Preference Shares	0.05	0.1200	0.0060
Equity Shares (New)	0.80	0.1590	0.1272
			0.1457

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

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

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

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

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

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

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

(b)

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

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

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

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

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

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

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

(d) Debt Securitisation: It is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this asset pool, market securities can be issued, e.g. housing finance, auto loans, and credit card receivables.

Process of Debt Securitisation

(i) *The origination function* – A borrower seeks a loan from a finance company, bank, HDFC. The credit worthiness of borrower is evaluated and contract is entered into with repayment schedule structured over the life of the loan.

(ii) *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.

(iii) *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.

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

Products	Sales Value after further processing	Share of Joint cost	Additional processing cost	Total cost after processing	Profit (loss)
A	25,87,500	14,80,000	6,45,000	21,25,000	4,62,500
B	2,25,000	2,96,000	1,35,000	4,31,000	(2,06,000)
C	90,000	74,000	–	74,000	16,000

D	6,75,000	3,70,000	22,500	3,92,500	2,82,500
	35,77,500	22,20,000	8,02,500	30,22,500	5,55,000

(ii) **Statement of profitability at the split off point**

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

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

(b) (i) Calculation of Degree of Operating (DOL), Financial (DFL) and Combined leverages (DCL).

$$\text{DOL} = \frac{\text{Rs. }34{,}00{,}000 - \text{Rs. }6{,}00{,}000}{\text{Rs. }22{,}00{,}000} = 1.27$$

$$\text{DFL} = \frac{\text{Rs.}22{,}00{,}000}{\text{Rs.}16{,}00{,}000} = 1.38$$

$$\text{DCL} = \text{DOL} \times \text{DFL} = 1.27 \times 1.38 = 1.75$$

(ii) Earnings after taxes at the new sales level

	Increase by 20%	Decrease by 20%
	(Rs.)	(Rs.)
Sales level	40,80,000	27,20,000
Less: Variable expenses	7,20,000	4,80,000
Less: Fixed cost	6,00,000	6,00,000
Earnings before interest and taxes	27,60,000	16,40,000
Less: Interest	6,00,000	6,00,000
Earnings before taxes	21,60,000	10,40,000
Less: Taxes	7,56,000	3,64,000
Earnings after taxes (EAT)	14,04,000	6,76,000

Working Notes:

(i) Variable Costs = Rs. 6,00,000 (total cost – depreciation)

(ii) Variable Costs at:

(a) Sales level, Rs. 40,80,000 = Rs. 7,20,000 (increase by 20%)

(b) Sales level, Rs. 27,20,000 = Rs. 4,80,000 (decrease by 20%)

7. (a) (i) Controllable Costs: - Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management.

(ii) **Uncontrollable Costs** - Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in-charge of that section but the share of the tool-room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman.

(b)

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

(c) **Factoring:** It is a new financial service that is presently being developed in India. Factoring involves provision of specialised services relating to credit investigation, sales ledger management, purchase and collection of debts, credit protection as well as provision of finance against receivables and risk bearing. In factoring, accounts receivables are generally sold to a financial institution (a subsidiary of commercial bank-called "Factor"), who charges commission and bears the credit risks associated with the accounts receivables purchased by it.

Its operation is very simple. Clients enter into an agreement with the "factor" working out a factoring arrangement according to his requirements. The factor then takes the responsibility of monitoring, follow-up, collection and risk-taking and provision of advance. The factor generally fixes up a limit customer-wise for the client (seller).

Factoring offers the following advantages which makes it quite attractive to many firms:

(1) The firm can convert accounts receivables into cash without bothering about repayment.

(2) Factoring ensures a definite pattern of cash inflows.

(3) Continuous factoring virtually eliminates the need for the credit department. That is why receivables financing through factoring is gaining popularly as useful source of financing short-term funds requirements of business enterprises because of the inherent advantage of flexibility it affords to the borrowing firm. The seller firm may continue to finance its receivables on a more or less automatic basis. If sales expand or contract it can vary the financing proportionally.

(4) Unlike an unsecured loan, compensating balances are not required in this case. Another advantage consists of relieving the borrowing firm of substantially credit and collection costs and to a degree from a considerable part of cash management.

However, factoring as a means of financing is comparatively costly source of financing since its cost of financing is higher than the normal lending rates.

(d) **Financial Break-even and EBIT-EPS Indifference Analysis**

Financial break-even point is the minimum level of EBIT needed to satisfy all the fixed financial charges i.e. interest and preference dividend. It denotes the level of EBIT for which firm's EPS equals zero. If the EBIT is less than the financial breakeven point, then the EPS will be negative but if the expected level of EBIT is more than the breakeven point, then more fixed costs financing instruments can be taken in the capital structure, otherwise, equity would be preferred.

EBIT-EPS analysis is a vital tool for designing the optimal capital structure of a firm. The objective of this analysis is to find the EBIT level that will equate EPS regardless of the financing plan chosen.

$$\frac{(EBIT - I_1)(1 - T)}{E_1} = \frac{(EBIT - I_2)(1 - T)}{E_2}$$

Where,

EBIT	=	Indifference point
E_1	=	Number of equity shares in Alternative 1
E_2	=	Number of equity shares in Alternative 2
I_1	=	Interest charges in Alternative 1
1_2	=	Interest charges in Alternative 2
T	=	Tax-rate

(e) (i) **Present Value:** "Present Value" is the current value of a "Future Amount". It can also be defined as the amount to be invested today (Present Value) at a given rate over specified period to equal the "Future Amount".

Perpetuity: Perpetuity is an annuity in which the periodic payments or receipts begin on a fixed date and continue indefinitely or perpetually. Fixed coupon payments on permanently invested (irredeemable) sums of money are prime examples of perpetuities.

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

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

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

Test Series: October, 2019

MOCK TEST PAPER 1

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX (50 MARKS)

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

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

Division A – Multiple Choice Questions

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

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

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

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

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

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

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

(a) Rs.85 lakh

(b) Rs.150 lakh

(c) Rs.160 lakh

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

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

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

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

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

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

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

(b) (i) & (ii)

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

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

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

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

Select the correct answer from the options given below:

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

(1 Mark)

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

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

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

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

(d) No tax implications shall arise

(1 Mark)

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

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

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

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

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

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

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

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

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

(c) (i), (ii)

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

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

(a) 29-05-2018

(b) 30-05-2018

(c) 29-09-2018

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

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

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

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

(a) Rs. 18,500

(b) Rs.28,500

(c) Rs.13,500

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

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

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

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

(a) Rs.1,05,000

(b) Rs.30,000

(c) Rs.2,87,000

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

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

(i) Amount of Interest payable or paid

(ii) Rate of interest payable or paid

(iii) Name of the lender

(iv) Address of the lender

(v) PAN of the lender

(vi) TAN of the lender

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

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

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

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

DIVISION B –DESCRIPTIVE QUESTIONS

Question No. **1** is compulsory

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

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

Income and Expenditure A/c

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

Other Information

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

WDV as on 1.4.2018	Rs.3,00,000
Rate of depreciation	@ 15%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost Inflation Index for Financial Year(s)

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

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

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

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2018-19) are:

Sl. No.	Particulars	Rs.
(i)	Unabsorbed depreciation	90,000
(iii)	Short term capital loss	27,800

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

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

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

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

(b) Briefly explain the provisions of section 234F of the Income-tax Act, 1961 with regard to default in furnishing return of income. **(3 Marks)**

SECTION B - INDIRECT TAXES (50 MARKS)

QUESTIONS

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

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

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

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

Division A - Multiple Choice Questions

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

Total Marks: 15 Marks

Question Nos. 1 and 2 carries 2 Marks each

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

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

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

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

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

   (a) (i) & (iii)

   (b) (i) & (iv)

   (c) (ii) & (iii)

   (d) (ii) & (iv)

2. Which of the following statements are correct?

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

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

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

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

   (a) (i) and (ii)

   (b) (i) and (iv)

   (c) (ii) and (iii)

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

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

3. Which of the following is not eligible for opting composition scheme under GST?
   - (a) M/s ABC, a firm selling garments having annual turnover of Rs. 78 lakh.
   - (b) A startup company operating restaurant in Delhi having a annual turnover of Rs. 98 lakh.
   - (c) A courier service company operating solely in Mumbai having annual turnover of Rs. 90 lakh.
   - (d) A trader selling grocery items having an annual turnover of Rs. 95 lakh.
4. Which of the following is not a supply of services?
   - (a) Renting of Commercial Office Complex
   - (b) Payment of Non-Compete Fee by an ex-employee to his previous employer
   - (c) Repairing of Mobile Phone
   - (d) Permanent transfer of business assets on which ITC is availed
5. Which of the following services is exempt under health care services provided by clinical establishments?
   - (a) Chemist shop in the hospital selling medicines to public at large
   - (b) Food supplied from an outsourced canteen to in-patients as per diet prescribed by the hospital dietitian
   - (c) Advertisement services provided by the hospital to a pharmaceutical company for their asthma pump by displaying it prominently in the hospital building
   - (d) All of the above
6. Alcoholic liquor for human consumption is subjected to
   - (a) State excise duty
   - (b) Central Sales Tax/Value Added Tax
   - (c) Both (a) and (b)
   - (d) GST
7. Which of the following persons is not eligible for composition scheme even though their aggregate turnover does not exceed Rs. 1 crore in preceding FY, in Uttar Pradesh?
   - (a) A person supplying restaurant services
   - (b) A person supplying restaurant services and earning bank interest
   - (c) A person supplying restaurant services and warehousing of rice
   - (d) A person supplying restaurant services and warehousing of processed tea
8. If the goods are received in lots/installment, -----------------------------
   - (a) 50% ITC can be taken on receipt of 1st installment and balance 50% on receipt of last installment.
   - (b) ITC can be availed upon receipt of last installment.
   - (c) 100% ITC can be taken on receipt of 1st installment.
   - (d) Proportionate ITC can be availed on receipt of each lot/installment.
9. The term 'goods', as defined under section 2(52) of the CGST Act, 2017, does not include-
   - (a) Grass
   - (b) Money and securities
   - (c) Actionable claims

(d) Growing crops

10. Which of the following services are not exempt from GST?
    (a) Yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961.
    (b) Services provided by business correspondent to the rural branch of a bank with respect to Savings Bank Accounts
    (c) Services provided by cord blood bank for preservation of stem cells.
    (d) Service provided by commentator to a recognized sports body
11. Can a registered person opting for composition scheme collect GST on his outward supplies?
    (a) Yes, in all cases
    (b) Yes, only on such goods as may be notified by the Central Government
    (c) Yes, only on such services as may be notified by the Central Government
    (d) No
12. What is the due date for payment of tax for a normal taxpayer?
    (a) Last day of the month to which payment relates
    (b) Within 10 days of the subsequent month
    (c) Within 20 days of the subsequent month
    (d) Within 15 days of the subsequent month
13. An exempt supply includes-
    (a) Supply of goods or services or both which attracts Nil rate of tax
    (b) Non-taxable supply
    (c) Supply of goods or services or both which are wholly exempt from tax under section 11 of the CGST Act or under section 6 of IGST Act
    (d) All of the above **(11 x 1 Mark=11 Marks)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any three questions out of remaining four questions.

Total Marks: 35 Marks

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

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

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

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

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

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

Note:

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

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

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

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

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

Particulars	*Gross amount charged (Rs.)*
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	*50,000*
Amount charged by business correspondent from banking company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	*1,00,000*
Amount charged by cord blood bank for preservation of stem cells	*5,00,000*
Amount charged for service provided by commentator to a recognized sports body	*5,20,000*

(5 Marks)

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

Would your answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai? **(4 Marks)**

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

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

(ii) Mehta Teleservices is an architect in Lucknow. Its aggregate turnover exceeds Rs. 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to it on 5th December. **(6 Marks)**

(b) The aggregate turnover of Sangri Services Ltd., Delhi, exceeded Rs. 20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6th September. You are required to advice Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices. **(4 Marks)**

4. (a) Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover for the preceding year for both the places of business was Rs. 120 lakh. It wishes to pay tax under composition levy for one of the place of business in the current year while under normal levy for other. You are required to advice Subramanian Enterpises whether he can do so? **(5 Marks)**

(b) M/s Parikshit Limited reduced the amount of Rs. 1,00,000 from the output tax liability in contravention of provisions of section 43(10) of the CGST Act, 2017 for the month of April 20XX, which is ineligible credit. A show cause notice was issued by the Tax Department to pay tax along with interest. M/s Parikshit Limited paid the tax and interest on 31st July, 20XX. Calculate Interest liability (Ignore Penalty). **(4 Marks)**

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

(4 Marks)

(b) Mr. X, a regular tax payer, did not make any taxable supply during the month of July. Is he required to file any goods and service tax return? **(2 Marks)**

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

(3 Marks)

MOCK TEST PAPER 1

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

SECTION – A: INCOME TAX

SOLUTIONS

Division A – Multiple Choice Questions

I. (b)

II. (b)

III. (b)

IV. (a)

V. (d)

VI. (d)

VII. (a)

VIII. (d)

IX. (a)

X. (b)

DIVISION B – DESCRIPTIVE QUESTIONS

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

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

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

Notes:

1. Computation of Income from House Property

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

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

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

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

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

4. Advance Tax is not allowable as deduction.

5. **Depreciation of Apparatus:**

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

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

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

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

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

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

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

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

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

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

P.Y. 2018-19

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

Four preceding previous years

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

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

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

Particulars		Rs.	Rs.
Income from house property			
Flat located in Delhi let-out from 01.05.2018 to 31.03.2019 @ Rs.28,000/- p.m.			
Gross Annual Value [28,000 x 11][1]		3,08,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		**3,08,000**	
Less: Deduction under section 24			
30% of NAV	92,400		
Interest on loan [fully allowable as deduction, since property is let-out]	2,15,500	3,07,900	100
Income from other sources			
- Gold chain worth Rs. 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil	

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

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

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

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

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

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Unabsorbed depreciation	90,000	

	8,35,000	
Less: Set-off of loss from house property, restricted to	2,00,000	6,35,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings	90,000	2,40,000
Gross Total Income		**8,75,000**
Less: Deduction under Chapter VI-A		Nil
Total income		**8,75,000**

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

Particulars	Rs.
Loss from house property (Rs. 2,50,000 - Rs. 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A(2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
Short term capital loss As per section 70, loss from short term capital asset can be set-off against any other capital gain. As per section 74, if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against capital gain, if any, in that year.	27,800
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	

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

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

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

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

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

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

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

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

(b) Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of –

Fee	**Circumstances**
Rs. 5,000	If the return is furnished on or before the 31st December of the assessment year;
Rs. 10,000	In any other case
However, if the total income of the person does not exceed Rs. 5 lakhs, the fees payable shall not exceed Rs. 1,000	

SECTION B - INDIRECT TAXES (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions Answer

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

Division B - Descriptive Answer

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

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

Computation of total ITC

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

Computation of minimum GST payable from cash ledger

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

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

2. (a) Computation of value of taxable supply

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. (a) A registered person with an aggregate turnover in a preceding financial year up to Rs. 1.5 crore is eligible for composition levy in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed Rs. 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme. Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business.

(b) A taxable person who makes an undue or excess reduction in output tax liability shall pay interest @ 24% p.a. on such undue or excess claim in terms of section 50 of CGST Act, 2017. The period of interest will be from the date following the due date of payment to the actual date of payment of tax.

Due date of payment is 20th May, 20XX.

Period for which interest is due = 21st May, 20XX to 31st July, 20XX

=72 days

Thus, interest liability = Rs. 1,00,000 x 24% x 72/365

= Rs. 4,734 (approx.)

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

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

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

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

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

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

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