Test Series: February, 2015

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) Hema Ltd. is in the business of manufacturing computers. During the year ended 31st March, 2015 the company manufactured 550 computers, it has the policy of valuing finished stock of goods at a standard cost of Rs. 1.8 lakhs per computer. The details of the cost are as under:

	(Rs. in lakhs)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (including interest of Rs. 100 lakhs)	290

Compute the value of cost per computer for the purpose of closing stock and also comment on the policy of valuation of inventory adopted by Hema Ltd.

(b) In the books of Optic Fiber Ltd., plant and machinery stood at Rs. 6,32,000 on 1.4.2014. However, on scrutiny it was found that machinery worth Rs. 1,20,000 was included in the purchases on 1.6.2014. On 30.6.2014 the company disposed a machine having book value of Rs. 1,89,000 on 1.4.2014 at Rs. 1,75,000 in part exchange of a new machine costing Rs. 2,56,000. The company charges depreciation @ 20% per annum WDV on plant and machinery.

You are required to calculate:

(i) Depreciation to be charged to the Profit and Loss Account.

(ii) Loss on exchange of machinery.

(c) Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd. and amount to be debited to the Profit and Loss Account in the context of the relevant Accounting Standard.

Narrations for the adjustments made should form part of the answer:

(i) Balance of Office Equipment as on 01.04.2013 is Rs.1,20,000. On.1.04.2013, out of the above office equipment having book value Rs. 20,000 has been retired from use and held for disposal. The net realizable value of the same is Rs. 2,000. Rate of depreciation is 15% p.a. on WDV basis.

(ii) Book Value of Plant and Machinery as on 01.04.2013 was Rs. 7,20,000. On 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value Rs. 10. The Fair Market value of the equity shares on 01.08.2013 wasRs. 120. Rate of depreciation is 10% p.a. on WDV basis.

(d) M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at Rs. 150 crores. Up to 31.03.2014 the company incurred Rs. 120 crores on the construction. The engineers involved in the project estimated that a further Rs. 45 crores would be incurred for completing the work. What amount should be charged to revenue for the year 2013-14 as per the provisions of Accounting Standard 7 "Construction Contracts"? *(4 x 5 = 20 Marks)*

2. Mr. Rajeev furnishes you with the following information relating to his business:

(a) Assets and liabilities as on	1.1.2014	31.12.2014
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2014:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freight inwards Rs. 3,000. Amount withdrawn for personal use Rs. 7,000. Payment for office furniture Rs. 1,000. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.

(d) Difference in cash book, if any, is to be treated as further drawing or introduction by Mr. Rajeev.

(e) Goods are invariably sold to show a gross profit of $33^1/_3$% on sales.

Mr. Rajeev asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2014 and the balance sheet as on that date. *(16 Marks)*

3. (a) Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2014. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2014:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following is the additional information:

(i) The authorised capital of the new company will be Rs. 25,00,000 divided into 1,00,000 equity shares of Rs. 25 each.

(ii) Liabilities of Neel Ltd. includes Rs. 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.

(iii) Neel Ltd. had purchased goods costing Rs. 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2014.

(iv) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	Rs.	Rs.
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of Rs. 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2014 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

(b) Mr. 'Zoom' prepares accounts on 30th September each year, but on 31st December 2014 fire destroyed the greater part of his stock. Following information was collected from his books:

Particulars	**Rs.**
Stock as on 1.10.2014	59,400
Purchases from 1.10.2014 to 31.12.2014	1,50,000
Wages from 1.10.2014 to 31.12.2014	66,000
Sales from 1.10.2014 to 31.12.2014	2,80,000

The rate of Gross profit is $33\frac{1}{3}\%$ on sale value. There was salvaged stock of Rs. 6,000. Insurance policy was for Rs. 50,000 and claim was subject to average clause.

Additional Information:

(i) Stock in the beginning was calculated at 10% less than cost

(ii) A plant was installed by firm's own worker. He was paid Rs. 1,000 which was included in wages.

(iii) Purchases include the purchase of plant for Rs. 10,000.

You are required to calculate the claim for loss of stock. *(10 + 6 = 16 Marks)*

4. On 31st March, 2014, the Balance Sheet of A, B and C sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	*Assets*	₹
Capital Account:		Land and Building	60,000
Mr. A	40,000	Plant and Machinery	40,000
Mr. B	60,000	Inventory of goods	24,000
Mr. C	40,000	Sundry debtors	22,000
Sundry Creditors	20,000	Cash and Bank Balances	14,000
	1,60,000		1,60,000

On 1st April, 2014, A desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Inventory of goods to be valued at ₹ 20,000.

(iv) Old credit balances of Sundry creditors, ₹ 4,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 15,100.

(vii) Goodwill of the entire firm is valued at ₹ 28,000 and A's share of the goodwill is adjusted in the A/cs of B and C, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. A is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s B & C as on 1.04.2014. *(16 Marks)*

5. From the following Receipts and Payments Account of Omega Recreation Club for the year ended 31.3.2014 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2014 and Balance Sheet as on 31.3.2014:

Receipts	*Rs.*	*Payments*	*Rs.*
Opening Balance:		Secretary's salary	12,000
Cash in Hand and at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old newspapers	2,500	Printing and stationary	600

Legacies	4,000	Postage expenses	120
Interest on investments	2,000	Rates and taxes	1,500
Endowment fund receipts	20,000	Upkeep of the land	2,000
Proceeds of sport and concerts	4,020	Purchase of sports materials	10,000
Advertisement in the year book	5,000		
		Telephone expenses	3,480
		Closing balance:	
		Cash in hand and at bank	3,000
	58,700		58,700

Assets and liabilities as on 31.3.2013 and 31.3.2014 were as follows:-

	31.3.2013 Rs.	31.3.2014 Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.2012 and the amount of investments was Rs. 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2014 was useless and valued at Nil. *(16 Marks)*

6. (a) Following is the Draft Balance Sheet of ABC Ltd. Co. as at 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of		Furniture and fixtures	2,50,000
Rs. 10 each fully paid up	20,00,000	Patents and copyrights	70,000
6,000 8% Preference shares of Rs. 100 each	6,00,000	Investments (at cost) (Market value Rs. 55,000)	68,000
9% Debentures	12,00,000	Inventory	14,00,000
Bank overdraft	1,50,000	Trade receivables	14,39,000
Trade payables	5,92,000	Cash and bank balance	10,000
		Profit and Loss Account	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalized:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Stock equal to Rs.5,00,000 in book value will be taken over by trade payables in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for Rs. 3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Give necessary journal entries reflecting the above scheme of reconstruction in the books of the ABC Ltd. Co.

(b) From the following prepare an account current, as sent by A to B on 30th June, 2012 by means of products method charging interest @ 6% p.a:

2012		Rs.
Jan. 1	Balance due from B	600
Jan.11	Sold goods to B	520
Jan. 18	B returns Goods	125
Feb 11	B Paid by cheque	400
Feb 14	B accepted a bill drawn by A for one month	300
Apr. 29	Goods sold to B	615
May 15	Received cash from B	700

(8+8=16 marks)

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

(a) A hospital has decided to outsource the accounting functions. For this purpose, it invited proposals from vendors received proposals. How will you select the vendor?

(b) Intelligent Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on them:

(1) to suppliers

(2) to employees

(ii) Investment made in subsidiary Smart Ltd. and dividend received

(iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advance given to suppliers

(vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement.

(c) Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:

Particulars	Amount
4,500 Equity Shares of Rs. 100 each	4,50,000
Capital Reserve (including Rs. 40,000 being profit on sale of Plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

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

(d) Abhishek Ltd.manufactures machinery used in Steel plants. In response to the tenders issued by Steel plants, Abhishek Ltd. quotes its price. As per terms of contract, full price of machinery is not released by the Steel plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. From the past experience, it is observed that Abhishek Ltd. normally performs satisfactorily and fulfills the expectations of the Steel plants. Abhishek Ltd. accounts for only 90% of the invoice value as sales revenue and book the balance amount in the year of receipt to the extent of actual receipts only. Comment on the treatment done by the company.

(e) The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 2015:

		Rs.			*Rs.*
To	Administrative, Selling and distribution expenses	8,22,542	By	Balance b/d	5,72,350
	Directors fees	1,34,780	By	Balance from Trading A/c	40,25,365
	Interest on debentures	31,240	By	Subsidies received from Govt.	2,73,925
	Managerial remuneration	2,85,350			

Depreciation on fixed assets	5,22,543		
Provision for Taxation	12,42,500		
General Reserve	4,00,000		
Investment Revaluation Reserve	12,500		
Balance c/d	14,20,185		
	48,71,640		48,71,640

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. *(4 x 4 = 16 Marks)*

Test Series: February, 2015

MOCK TEST PAPER - 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) As per AS 2 'Valuation of Inventories', for inclusion in the cost of inventory, allocation of fixed production overheads is based on the normal capacity of the production facilities.

In this, case finished stock has been valued at a standard cost of ₹ 1.8 lakhs per computer which incidentally synchronizes with the value computed on the basis of absorption costing as under:

		(₹ in lakhs)
Materials		400
Direct Labour		250
Variable production overheads		150
Fixed production overheads	290	
Less: Interest	(100)	190
Total cost		990

Number of computers produced = 550 computers (Assumed to be normal production)

Cost per computer ₹ 990 lakhs/550 computers = ₹ 1.80 lakhs

Policy of the company to value closing stock on the basis of standard costing is not as per AS 2. As per AS 2, the techniques of standard cost method may be used for convenience if the result approximates to the actual cost. However, standard cost should be regularly reviewed, if necessary, and be revised in the light of the current conditions. In the instant case, the cost of inventory can be conveniently calculated as per absorption costing. Therefore, there is no reason to adopt standard costing method.

(b) (i) Depreciation to be charged in the Profit and Loss Account

	₹
Depreciation on old Machinery [20% on ₹ 6,32,000 for 3 months (01.4.14 to 30.6.14)]	31,600
Add: Depreciation machinery acquired on 01.06.2014	

(₹ 1,20,000 x 20% x 10/12)	20,000
Depreciation on Machinery after adjustment of Exchange [20% of ₹ (6,32,000 - 1,89,000 + 2,56,000) for 9 months]	1,04,850
Total Depreciation to be charged in Profit and Loss A/c	1,56,450

(ii) Loss on exchange of Machinery

	₹
Book value of machinery as on 01.04.2014	1,89,000
Less: Depreciation for 3 months	(9,450)
WDV as on 30.06.2014	1,79,550
Less: Exchange value	(1,75,000)
Loss on exchange of machinery	4,550

(c)

Item of Fixed Assets	*Amount (₹)*	*Amount Debited to P& L in 2013-14*	*Narration*	*Book Value as on 31.3.2014*
Office Equipment				
Balance as on 1.4.13	1,20,000			
Less: Retired from use (Book value on 1.4.2013)	20,000			
	1,00,000			
Less: depreciation for 2013-14 @ 15% WDV	15,000	15,000	Depreciation	
Balance as on 31.3.2014	85,000			85,000
Office Equipment (Retired from use)				
Book Value as on 1.4.2013	20,000			
Less: Book Value as on 31.3.2014 (at NRV)	2,000			2,000
Loss on retirement charged to P&L	18,000	18,000	Loss on retirement of asset	
Office equipment having book value of ₹ 20,000 as on 1.4.2013 has been retired from use. It has been recorded at Net Realisable Value (NRV) as the NRV is lower than the book value.				
Plant and Machinery				

Book Value as on 1.4.2013	7,20,000			
Add: Machine purchased on 01.08.2013	60,000			
	7,80,000			
Less: Depreciation				
Original machine for whole year 72,000				
New machine for 8 months 4,000	76,000	76,000	Depreciation	
Balance as on 31.3.2014	7,04,000			7,04,000
The new machine has been recorded at the Fair Market Value of the securities issued as it is more clearly evident				
		1,09,000		7,91,000

(d)

		₹ (Crores)
	Cost of construction incurred upto 31.03.2014	120
Add:	Estimated future cost	45
	Total estimated cost of construction	165
	Degree of completion (120/165 x 100)	72.73%
	Revenue recognized (72.73% of 150)	109 (approx)
	Total Foreseeable loss (165 – 150)	15
Less:	Loss for current year (120 – 109)	11
	Expense loss to be provided for	4

2. **Trading and Profit and Loss Account of Mr. Rajeev**

for the year ended 31st December, 2014

		₹		₹
To Opening Stock		8,000	By Sales	74,400
To Purchases		45,600	By Closing stock	7,000
To Freight inwards		3,000		
To Gross profit c/d		24,800		
		81,400		81,400
To Sundry expenses (W.N.6)		14,200	By Gross profit b/d	24,800

To Discount allowed –			By Discount received	800
Debtors	1,500		By Miscellaneous income	500
Bills Receivable	125	1,625		
To Depreciation on furniture		650		
To Net Profit		9,625		
		26,100		26,100

Balance Sheet as on 31st December, 2014

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital as on 1st January, 2014	18,800		Furniture	6,000	
Less: Drawings (W.N.5)	(8,000)		Additions during the year	1,000	
	10,800			7,000	
Add: Net Profit	9,625	20,425	*Less :* Depreciation	(650)	6,350
Sundry creditors		15,000	Closing Stock		7,000
Outstanding expenses		1,800	Sundry debtors		20,800
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		700
		37,225			37,225

Working Notes:

(1) Capital on 1st January, 2014

Balance Sheet as on 1st January, 2014

Liabilities	₹	*Assets*	₹
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	600
	31,800		31,800

(2) Purchases made during the year

Creditors Account

	₹		₹
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	15,000		
	57,000		57,000

(3) Sales made during the year

	₹
Opening stock	8,000
Purchases	45,600
Freight inwards	3,000
	56,600
Less: Closing stock	(7,000)
Cost of goods sold	49,600
Add: Gross profit (@ 50% on cost)	24,800
	74,400

(4) Debtors on 31.12.2014

Debtors Account

	₹		₹
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	74,400	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	20,800
	90,800		90,800

(5) Additional drawings by Mr. Rajeev

Cash and Bank Account

	₹		₹
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000

To Bills Receivable A/c	6,125	By Expenses A/c	14,500
To Miscellaneous income A/c	500	By Creditors A/c	39,200
		By Drawings A/c (₹ 7,000+₹ 1,000)	8,000
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.1.2014)	600	By Outstanding expenses A/c (on 1.1.2014)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2014)	1,800	By Prepaid expenses A/c (on 31.12.2014)	700
	16,900		16,900

(7) Bills Receivable on 31.12.2014

Bills Receivable Account

	₹		₹
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Bal.fig.)	1,750
	10,000		10,000

3. (i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	*Neel*	*Gagan*
	₹	₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Neel	*Gagan*
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel	*Gagan*
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12}\right] = 5,60,000$ @ ₹ 10 each	56,000 shares	
$\left[73,920 \times \frac{100}{12}\right] = 6,16,000$ @ ₹ 10 each.		61,600 shares

(ii) Total Purchase Consideration

	Neel	*Gagan*
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	8,45,000	9,31,000

Working Note

Calculation of Net assets as on 31.3.2014

	Neel	*Gagan*
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	9,24,000

(b) Memorandum Trading A/c for the period from 1.10.14 to 1.12.14

	₹		₹
To Opening stock $\left(59{,}400 \times \frac{100}{90}\right)$	66,000	By Sales	2,80,000
To Purchases (1,50,000 – 10,000)	1,40,000	By Closing stock (Bal. fig)	61,000
To Wages (66,000 – 1,000)	65,000		
To Gross profit (1/4 on sales)	70,000		
	3,41,000		3,41,000

Calculation of Insurance Claim

	₹
Stock on the date of fire 31.12.2014	61,000
Less: Stock salvaged	(6,000)
Stock destroyed by fire	55,000

Claim subject to average clause

$$= \left(\frac{50{,}000}{61{,}000}\right) \text{x } 55{,}000 = ₹\ 45{,}082$$

Net claim for loss of stock policy = ₹ 45,082

4. (a) Revaluation Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
2014				*2014*			
April	To	Plant & Machinery	12,000	April	By	Land and building	12,000
	To	Inventory of goods	4,000		By	Sundry creditors	4,000
	To	Provision for bad and doubtful debts	1,100		By	Cash & Bank - Joint life Policy surrendered	15,100
	To	Capital accounts (profit on revaluation transferred)					
		Mr. A (2/7) 4,000					
		Mr. B (3/7) 6,000					

		Mr. C (2/7) 4,000	14,000				
			31,100				31,100

(b) Partners' Capital Accounts

Particulars	*A*	*B*	*C*	*Particulars*	*A*	*B*	*C*
	(₹)	*(₹)*	*(₹)*		*(₹)*	*(₹)*	*(₹)*
To A's Capital A/c - goodwill	-	2,000	6,000	By Balance b/d	40,000	60,000	40,000
To Cash & bank A/c - (50% dues paid)	26,000	-	-	By Revaluation A/c	4,000	6,000	4,000
To A's Loan A/c - (50% transfer)	26,000	-	-	By B & C's Capital A/cs - goodwill	8,000	-	-
To Balance c/d	-	70,000	70,000	By Cash & bank A/c-amount brought in (Balancing figures)	-	6,000	32,000
	52,000	72,000	76,000		52,000	72,000	76,000

(c) Cash and Bank Account

To Balance b/d	14,000	By A's Capital A/c - 50% dues paid	26,000
To Revaluation A/c – surrender value of joint life policy	15,100	By Balance b/d	41,100
To B's Capital A/c	6,000		
To C's Capital A/c	32,000		
	67,100		67,100

(d) Balance Sheet of M/s B & C as on 01.04.2014

Liabilities		*₹*	*Assets*		*₹*
Partners' Capital accounts			Land and Building	60,000	
Mr. B	70,000		*Add*: Appreciation 20%	12,000	72,000
Mr. C	70,000	1,40,000			

Mr. A's Loan Account		26,000	Plant & Machinery	40,000	
Sundry Creditors		16,000	*Less*: Depreciation 30%	12,000	28,000
			Inventory of goods	24,000	
			Less: devalued	4,000	20,000
			Sundry Debtors	22,000	
			Less: Provision for bad debts 5%	1,100	20,900
			Cash & Bank balances		41,100
		1,82,000			1,82,000

Working Notes:

Adjustment for Goodwill:	₹
Goodwill of the firm	28,000
Mr. A's Share (2/7)	8,000
Gaining ratio of B & C;	
B = 1/2 - 3/7 = 1/14	
C= 1/2 - 2/7 = 3/14	
B:C = 1:3	

Therefore, B will bear = 1/4 × 8,000 or ₹ 2,000

C will bear = 3/4 × 8,000 or ₹ 6,000

5. Income and Expenditure Account

for the year ended 31st March, 2014

Expenditure	₹	*Income*		₹
To Secretary's salary	12,000	By Subscription		17,100
To Salaries to staff	25,000	By Sale of old newspapers		2,500
To Charities	1,000	By Interest on securities	2,000	
To Printing and stationeries	600	*Add:* amount due	400	2,400
To Postage expenses	120	By Proceeds of sport and concerts		4,020
To Rates and taxes	1,500	By Advertisement in the year book		5,000
To Upkeep of land	2,000	By Deficit: Excess of expenditure over Income		24,880
To Sports materials written off	10,000			
To Telephone expenses	3,480			

To Depreciation on furniture	200		
	55,900		55,900

Balance Sheet of Omega Recreation Club
as on 31st March, 2014

Liabilities	₹	₹	*Assets*	₹	₹
Capital fund			Land		10,000
Opening balance	36,680		Furniture	2,000	
Less: Excess of expenditure over income	24,880		*Less:* Depreciation	200	1,800
			Sports materials	10,000	
	11,800		*Less:* written off	10,000	-
Add: Legacies	4,000	15,800	Investment in securities		20,000
Endowment fund		20,000			
Subscription received in advance		400	Subscriptions receivable		1,000
			Interest due		400
			Cash in hand and at bank		3,000
		36,200			36,200

Working Notes:

(1) Balance Sheet of Omega Recreation Club
as on 31st March, 2013

Liabilities	₹	*Assets*	₹
Capital fund (balancing figure)	36,680	Land	10,000
Subscriptions received in advance	500	Furniture	2,000
		Arrears of subscription	2,000
		Investments in securities	20,000
		Cash in hand and at bank	3,180
	37,180		37,180

(2) Subscription pertaining to the year ended 31st March, 2014:

	₹
Subscriptions received during the year	18,000
Add: Outstanding subscription on 31.3.2014	1,000
	19,000
Add: Received in advance as on 31.3.2013	500
	19,500
Less: Outstanding subscription as on 31.3.2013	(2,000)
	17,500
Less: Received in advance as on 31.3.2014	(400)
	17,100

6. (a) Journal Entries in the Books of ABC Ltd.

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000

To Capital reduction A/c [Being settlement of creditors by giving stocks]			92,000
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

(b) **B in Account Current with A**
for the peroiod ending on 30th June, 2012

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2012		₹.			2012		₹		
Jan.1	To Balance b/d	600	182	1,09,200	Jan.18	By Sales Returns	125	164	20,500
Jan. 11	To Sales A/c	520	171	88,920	Feb. 11	By Bank A/c	400	140	56,000
Apr 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	31,500
June 30	To Interest A/c	15.75							
					May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products			96,050
						By Balance c/d	225.75		
		1,750.75		2,36,250			1,750.75		2,36,250

Calculation of interest:

$$\text{Interest} = \frac{96,050}{366} \times \frac{6}{100} = ₹\ 15.75$$

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) (i) **Loans and advances given and interest earned**

(1) to suppliers — operating Cash flow

(2) to employees — operating Cash flow

(ii) **Investment made in subsidiary company and dividend received**

Investing Cash flow

(iii) **Dividend paid for the year**

Financing Cash Outflow

(iv) **TDS on interest income earned on investments made**

Investing Cash Outflow

(v) **TDS on interest earned on advance given to suppliers**

Operating Cash Outflow

(vi) **Insurance claim received of amount loss of fixed asset by fire**

Extraordinary item to be shown under a separate heading as 'Cash inflow from operating activities'.

(c)

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
Capital Reserve (Realized in cash)	Dr	40,000	
General Reserve A/c	Dr.	40,000	
To Bonus to Shareholders			1,50,000

(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)

Bonus to Shareholders A/c	Dr.	1,50,000	
To Equity Share Capital		1,50,000	
(Being Capitalization of Profit)			

(d) As per AS 9, 'Revenue Recognition', revenue from sale of goods should be recognised when:

(i) the seller has transferred the property in the goods to the buyer for a consideration and the transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer and the seller retains no effective control of the goods transferred; and

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

In the present case, the goods, as well as the risks and rewards of ownership have been transferred to the Steel plants. Since, the invoice raised by Abhishek Ltd. is for the full price (though it receives only 90% of the invoice value in the year of sale and 10% is kept as 'Retention Money'), Abhishek Ltd. should recognise revenue at the full invoice price, i.e., 100% of the sales price. The company should make a separate provision for the balance 10% amount to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

Therefore, the practice adopted of recognising only 90% of sales price as revenue by Abhishek Ltd. is not in consonance with AS 9.

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

	₹	₹
Balance from Trading A/c		40,25,365
Add: Subsidies received from Government		2,73,925
		42,99,290
Less: Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	(15,63,907)
Profit u/s 198		27,35,383

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 27,35,383 = ₹ 3,00,892

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

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

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

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

1. (a) Mr. Anand contracts with Mr. Birendra that, if he (Anand) practices as a surgeon within Calcutta, he will pay Birendra Rs. 5000. Anand starts practising as a surgeon in Calcutta. Discuss the right available to Birendra with reference to the provisions of the Indian Contract Act, 1872. *(5 Marks)*

   (b) Matrika Company Limited served a notice of general meeting upon its shareholders. The notice stated that the issue of sweat equity shares would be considered at such meeting. Mr. 'A', a shareholder of the Matrika Company Limited complains that the issue of sweat equity shares was not specified fully in the notice. Is the notice issued by Matrika Company Limited regarding issue of sweat equity shares valid according to the provisions of the Companies Act, 2013? Explain in detail. *(5 Marks)*

   (c) "CSR can mean different things to different people", explain. *(5 Marks)*

   (d) State the various forms of formal communication along with their potential benefits in any organisation. *(5 Marks)*

2. (a) (i) State whether following statements is correct or incorrect with respect to the Payment of Bonus Act, 1965.

   1. The provisions of the Payment of Bonus Act does not apply on public sector establishments.
   2. As employee by his misconduct caused financial loss to the employer. As of consequences employer denied to pay employee the bonus to compensate the financial loss. *(4 Marks)*

   (ii) Examining the law related to the nominations for gratuity as per the Payment of Gratuity Act, 1972, give the answers of the following-

   1. Whether an employee can make nomination in favour of more than one family members.
   2. What if, at the time of making nomination the employee has no family and he subsequently acquires a family.
   3. Where the nominee dies before the employee.
   4. Where an employee wants to modify the nomination. *(4 Marks)*

(b) State the importance of the ethical behavior in the workplace that may develop the common understanding of right and wrong and lead to the growth and expansion of the organization. *(4 Marks)*

(c) Explain how the kinesics, a non-verbal communication conveys relational messages to other person. *(4 Marks)*

3. (a) (i) A is the holder of a bill of exchange made payable to the order of B, which contains the following endorsements in blank-

First endorsement, " B".

Second endorsement, " C".

Third endorsement, "D".

Fourth endorsement, "E".

This bill, A puts in suit against E and strikes out, without the E consent, the endorsement by C & D. Examining the legal provisions of the endorser's liability under the Negotiable Instruments Act, 1881, discuss the liability of E.

(5 Marks)

(ii) State whether the given statements is correct/incorrect.

1. A breaks open B's safe and gets B's cheque book. He then forges B's signature on a cheque and obtains money on it from B's banker and then disappears. The loss shall be borne by the B.
2. A promissory note was made without mentioning any time for payment. The holder added the words "on demand" on the face of the instrument .This amount to material alteration. *(3 Marks)*

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

1. Environmental considerations does not play a key role in corporate strategy.*(2 Marks)*
2. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. *(2 Marks)*

(c) State the various factors that may lead to the development of the critical thinking. *(4 Marks)*

4. (a) Mr. Vihan, alongwith six other persons desires to float a company for charitable purposes, as permissible under Section 8 of the Companies Act, 2013. He seeks your advise about the procedure to be followed to give effect to the above proposal. Advise him. *(8 Marks)*

(b) Answer whether the statement is correct or incorrect with brief reason:

1 Consumer purchases goods and health services for personal purposes only.

2 'Competition Act, 2002 protects the interest of consumers'. *(4 Marks)*

(c) What is meant by "Negotiation"? Name the various steps which can be identified in the process of negotiation from start to the completion of the process. *(4 Marks)*

5. (a) M/s Rubby textile enters into a contract with Retail Garments Show Room for supply of 1,000 pieces of Cotton Shirts at Rs. 300 per shirt to be supplied on or before 31st December, 2014. However, on 1st November, 2014 Rubby Textiles informs the Retail Garments Show Room that he is not willing to supply the goods as the price of Cotton shirts in the meantime has gone upto Rs. 350 per shirt. Examine the rights of the Retail Garments Show Room in this regard. *(8 Marks)*

   (b) Mars India Ltd. owed to Sunil Rs.1,000. On becoming this debt payable, the company offered Sunil 10 shares of Rs.100 each in full settlement of the debt. The said shares were fully paid and were allotted to Sunil. Examine the validity of these allotments in the light of the provisions of the Companies Act, 2013. *(4 Marks)*

   (c) Draft a press release by the manufacturing company with respect to establishing of new business location. *(4 Marks)*

6. (a) (I) State whether the following statement is correct/incorrect with reasons:

   1 OPC and Private Limited Company are synonymous.

   2 Cash withdrawn by the customer of a bank from the automatic teller machine is an implied contract. *(2 x 2 = 4 Marks)*

   (II) Whether the following persons can be counted for the purposes of quorum in a general meeting of a public company-

   (i) a person representing three member companies;

   (ii) both the joint owners of shares present at the meeting;

   (iii) a single member present at the meeting *(4 Marks)*

   (b) 'The Competition Act, 2002 protects the interest of consumers'. Explain. *(4 Marks)*

   (c) Draft the specimen of partnership deed. *(4 Marks)*

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

   (a) Write a note on the Employees' Deposit Linked Insurance (Amendment) Scheme, 2014. *(4 Marks)*

   (b) What are the advantages of E-filing under MCA 21. *(4 Marks)*

   (c) The minutes of the meeting must contain fair and correct summary of the proceedings thereat. Can the Chairman direct exclusion of any matter from the minutes? Some of the shareholders insist on inclusion of certain matters which are regarded as defamatory of a Director of the company. The Chairman declines to do so. State how the matter can be resolved as per the Companies Act, 2013. *(4 Marks)*

   (d) State the various acts of responsibility which would help to comply with the Integrity principle for behaving in an ethical manner. *(4 Marks)*

   (e) Draft a lease deed for the transfer of land for a limited period. *(4 Marks)*

Mock Test Paper – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

SUGGESTED ANSWERS/HINTS

1. (a) (i) As per the provision give under section 7 of the Indian Contract Act, 1872 acceptance is valid only when it is absolute and unqualified . Accordingly, in the given case where 'B' agrees to purchase the car from 'A' as per his proposal, depending on availability of valid Registration Certificate for the car, the acceptance given to the proposal of 'A' is in place though the offer contained no mention of R.C. book. This is because expecting a valid title for the car is not a condition. Therefore the acceptance given by B, in this case is unconditional. Thus agreement is valid.

(ii) The word 'Consent' generally means 'knowledge and approval' of the parties concerned. Whereas the Indian Contract Act, 1872 defines the term 'consent' as meeting of the minds on the same thing in the same sense viz *consensus ad idem*. Further such consent must be free. Consent would be considered as free consent if it is not vitiated by coercion, undue influence, fraud, misrepresentation or mistake. Wherever the consent of any party is not free, the contract is voidable at the option of that party.

Accordingly in the case, A threatened to shoot B if he (B) does not lend him ` 2000 and B agreed to it. Here the agreement is entered into under coercion and hence voidable at the option of B.

(b) Issue of Further Shares: Section 81 of the Companies Act, 1956 provides that if, at any time after the expiry of 2 years from the formation of the company or after the expiry of one year from the first allotment of shares, whichever is earlier, it is proposed to increase the subscribed capital by allotment of further shares, it should be offered to the existing equity shareholders of the company in proportion to the capital paid up on those shares.

The new shares of a company may be offered to outsiders or any persons (including the equity shareholders) if-

(i) a special resolution to that effect is passed by the company.

(ii) an ordinary resolution is passed and the approval of the Central Government is obtained. The Central Government will accord its approval if it is satisfied that the proposal is most beneficial to the company.

(iii) if any shareholder to whom the shares are offered declines to accept the shares. In such a case the Board of Directors may dispose of the shares in such a manner as they think most beneficial to the company.

(iv) if the new shares are issued within 2 years from the formation of the company or 1 year of the allotment made for the first time.

Preference Shareholders - whether (Further Issue of Capital) be offered to: From the wordings of Section 81, it is quite clear that these shares can be issued only to equity shareholders, unless procedure as stated above has been adopted for issue of these shares to outsiders, etc. Therefore, in general these shares cannot be offered to preference Shareholders.

(c) It is now a well accepted fact that ethical behaviour creates a positive reputation that expands the opportunities for profit. An organisation is not only its buildings, assets, capital or even profit. It is living and creative, evolving over time and having a vision about its future role in society, nation and the world. In the broad sense ethics in business is simply the application of everyday moral or ethical norms to business. Being ethical in business requires acting with an awareness of how the products and services of an organization, and the actions of its employees, can affect its stakeholders and society as a whole and developing codes of conduct for doing business in an ethical manner. Amongst the thinkers of modern times, an invaluable contribution to practising business ethically is provided by Mahatma Gandhi, the father of our nation. He sought to unite mankind in common interest of justice and establishment of a moral order in world-society. He advised the citizens to observe truthfulness in business and reminded them of their responsibility which was greater since their conduct would be seen as a reflection of their country.

(d) The statement 'Interpersonal communication is contextual' which means that any communication does not happen in isolation. There are following context of communications:

psychological context, which is who the communicators are and what they bring to the interaction. Their needs, desires, values, personality, etc., all form the psychological context.

Relational context, which concerns reactions to each other.

Situational context deals with the "psycho-social-where" one is communicating. For example, an interaction that takes place in a classroom will be very different from one that takes place in a Board room.

Environmental context deals with the "physical -where" one is communicating. Furniture, location, noise level, temperature, season, time of day, all are examples of factors in the environmental context.

Cultural context includes all the learned behaviours and rules that affect the interaction. If you come from a culture (foreign or within your own country) where it is considered rude to make long, direct eye contact, you will out of politeness avoid eye contact. If the other person comes from a culture where long, direct eye contact signals trustworthiness, then we have in the cultural context a basis for misunderstanding.

2. (a) (i) As per the Payment of Bonus Act, 1965, Every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment-(i) for not less than thirty working days in that year, (ii) on a salary or wage not exceeding ₹ 10,000 per mensem. [Section 2(13) read with Section 8].

The Act does not make any distinction as to whether an employee is daily wager, temporary, permanent, weekly paid, monthly paid etc. the only precondition is that he should have worked in the establishment for not less than 30 working days in an accounting year.*[Himachal Pradesh State Electricity Board and Others Vs Krishan Dutt 2010 (127) FLR 577(H.P.).]*

According to the given facts, labour who was on daily wages, have fulfilled the requirements of the above stated provisions. He has worked for the 2 months i.e., more than 30 days and on the daily wages of ₹ 300 which amounts the wages (₹ 300 x 30 days= ₹ 9000 p.m) not exceeding ₹ 10,000 p.m.

Thus it can be concluded that labour is entitled for the payment of bonus.

(ii) As per the Payment of Gratuity Act,1972 , gratuity shall be payable to an 'employee' on the termination of his employment after he has rendered continuous service for not less than five years –

- On his superannuation, or
- On his retirement or resignation, or
- On his death or disablement due to accident or disease;

The condition of the completion of five years continuous service is not essential in case of the termination of the employment of any employee due to death or disablement.

According to the above provision, the payability of Gratuity to the employee is his right as well as the obligation of the employer. An employee resigning from service is also entitled to gratuity; *[Texmaco Ltd. Vs Sri Ram Dhan 1992 LLR 369(Del)]* and non-acceptance of the resignation is no hurdle in the way of an employee to claim gratuity *[Mettur Spinning Mills Vs Deputy Commissioner of Labour, (1983) II LLJ 188]*.

Thus in the given case, the contention of the company is not valid. The non-acceptance of the resignation cannot the deprive Mr. X from claiming the gratuity.

(b) **Business Relationships:** The behaviour of businesspersons toward customers, suppliers, and others in their workplace may also generate ethical concerns. Ethical behaviour within a business involves keeping company secrets, meeting obligations and responsibilities, and avoiding undue pressure that may force others to act unethically.

Managers, in particular, because of the authority of their position, have the opportunity to influence employees' actions. For example, a manager can influence employees to use pirated computer software to save costs. The use of illegal software puts the employee and the company at legal risk, but employees may feel pressured to do so by their superior's authority. Customer's need should be considered most when it comes to ethical business practices. In the long run, a company will reap great profits from a customer base that feels it is being treated fairly and truthfully. Organizational pressures may encourage a person to engage in activities that he or she might otherwise view as unethical, such as invading others' privacy or stealing a competitor's secrets.

(c) Following is an ethical communication which an ethical communicators may include in communication with others:

- ♦ all relevant information,
- ♦ true in every sense and is not deceptive in any way.
- ♦ accurate and sincere. Avoids language that manipulates,, discriminates or exaggerates.
- ♦ not hide negative information behind an optimistic attitude .
- ♦ not state opinions as facts,
- ♦ portrays graphic data fairly.

In a nutshell, ethical communicators have a "well developed sense of social responsibility".

3. (a) (i) According to Section 138 of the Negotiable Instruments Act, 1881 where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from/out of that account for discharging any debt or liability, and if it is dishonoured by banker on sufficient grounds, such person shall be deemed to have committed an offence and shall be liable. However, in this case, P is neither a director nor a person-in-charge of the company and is not connected with the day-to-day affairs of the company and had neither opened nor is operating the bank account of the company. Further, the cheque, which was dishonoured, was also not drawn on an account maintained by him but was drawn on an account maintained by the company. Therefore, he has not committed an offence under section 138 of the Negotiable Instruments Act, 1881.

(ii) (I) (3)

(II) (3)

(III) (4)

(b) Central Consumer Protection Council: The objects of the Central Council shall be 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(or services, as the case may be) so as to protect the consumer against unfair trade practices;

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

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

(v) the right to seek redressal against unfair trade practices (or restrictive trade practices) or unscrupulous exploitation of consumers; and

(vi) the right to consumer education.

(c) Ecological ethics is based on the idea that the environment should be protected not only for the sake of human beings but also for its own sake. The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal.

Business and Industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play major role in protecting the environment and conservation of resources. Business, Industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development. Sound management of wastes is among the major environmental issues for maintaining the quality of Earth's environment and achieving sustainable development.

If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pays Principle". Removing subsidies that encourage environmental damage is another measure.

4. (a) Comprehensive rules and regulations have been incorporated into the Companies Act, 1956 in respect of this basic document which is the only source for the investors to ascertain the soundness or otherwise of the company. Since the prospectus is intended to save the investing public from victimisation, the

Legislature has aimed at securing the fullest disclosure of all material and essential particulars and laying the same before all the prospective buyers of shares. Briefly the rules and regulations are as follows:

(i) **Dating of prospectus -** According to Section 55, every prospectus must be dated. This requirement is designed to ensure a prima facie evidence of the date of its publication. However, this evidence may be rebutted by a contrary evidence.

(ii) **Registration of prospectus -** It is absolutely necessary for the company to deliver to the Registrar a copy of every prospectus for registration. It must be made on or before the prospectus is published. But the prospectus must not be issued more than 90 days after the date on which a copy of it is delivered to the Registrar for Registration.

(iii) **Approval of prospectus by various agencies**: The draft prospectus has to be approved by various agencies before it is filed with the ROC of the concerned State.

(iv) **The lead financial institution underwriting the issue, if applicable**: The draft prospectus is vetted by SEBI to ensure adequacy of disclosures. However, vetting by SEBI does not amount to approval of prospectus. SEBI does not take any responsibility for the correctness of the statements made or opinions expressed in the prospectus.

Non-issuing of Prospectus:

As per Section 56 of the Companies Act, 1956 the issue of prospectus is not necessary in the following cases-

(1) Where shares or debentures are offered to existing holders of shares or debentures.

(2) When the issue relates to shares or debentures uniform in all respects, with shares or debentures previously issued and dealt in or quoted in a recognized stock exchange.

(3) Where a person is bona-fide invited to enter into an underwriting agreement.

(4) Where shares are not offered to the public.

(b) Some common ethical issues faced by an individual at the workplace are:

(i) Relationship with suppliers and business partners:

- Bribery and immoral entertainment
- Discrimination between suppliers
- Dishonesty in making and keeping contracts

(ii) Relationship with customers:

- Unfair pricing
- Cheating customers
- Dishonest advertising
- Research Confidentiality

(iii) Relationship with employees:

- Discrimination in hiring and treatment of employees,
- Lack of good behaviour with employees

(iv) Management of resources:

- Misuse of organizational funds
- Tax evasion

(c) **Active Listening**: Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is-"we hear but do not listen". Hearing is through ears and listening is by mind. Listening happens when we understand and message as intended by sender. Many managers are so used to helping people solve problems that their first cause of action is transforming solutions and giving advice instead of listening with full attention directed towards understanding what the co-worker or staff member needs.

Therefore, every employer and worker needs a listening ear. If one does not learn how to listen, a great deal of what people are trying to tell you would be missed. In addition, appropriate response would not be possible. Active listening is important for several reasons.

(i) It aids the organization in carrying out its missions.

(ii) It helps individuals to advance in their careers.

(iii) It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well.

(iv) It also helps in building strong personal relationships.

5. **(a)** **Contribution to Provident Fund under the EPF and Miscellaneous Provisions Act, 1952:** Section 6 of the EPF and MP Act, 1952 regulates contribution to Provident Fund Scheme established under the Act. The employer's contribution shall be 10% of the basic wages, dearness allowance and retaining allowance, if any. The employee's contribution shall be equal to the contribution payable by the employer in respect of him.

Dearness allowance includes cash value of any food concession allowed to the employees. Retaining allowance means the sum paid for retaining the service, when the factory is not working. The Central Government may by notification make the employer's contribution equal to 12% for certain establishments class of establishments.

The above rule will prevail irrespective of whether the employer employs the person directly or through a contractor.

An employee can at his will voluntarily contribute, beyond 10%. But the employer shall not be under an obligation to pay any contribution over and above his contribution payable under section 6 of the said Act.

(b) The membership of a company may be acquired in the following ways:

1. **By subscribing to memorandum (Section 41):** This section provides that the subscribers of the memorandum of association shall be deemed to have agreed to become the members of the company and on its registration shall be entered as members in the register of members.
2. **By allotment**: A person may become a shareholder by agreeing to take shares in the company by allotment.
3. **By transfer**: Section 41 says that every subscribers to the memorandum of a company and every other person who agrees in writing to become a member of the company and whose name is entered in its register of members. Thus it requires two thing a) an agreement in writing to become a member and b) an entry in the register.
4. **By transmission**: Here a person may become a shareholder by transmission of shares through death, lunacy or insolvency.
5. **By estoppel**: This arises when a person holds himself out as a member or knowingly allows his name to remain on the register when he has actually parted with his shares. In the event of winding up he will be liable like other genuine members as a contributory *(Hansraj A. Ashtana).* However, he may escape liquidity by applying for removal of his name under Section 155.

(c) Letter of request for payment of overdue amount for the goods supplied

Dated:---------

To,

Mr. P,

----------------(Address)

Subject: Payment for the goods supplied on credit

This is with reference to our dealing made on ----------with respect to the purchase of goods on credit on the payment of ------------(amount). This is to remind you that above stated payment is overdue. We request you to settle the payment at your earliest.

We look forward to your response.

Yours sincerely,

S/d

(Supplier)

6. (a) (I) (i) Incorrect. According to Section 165 of the Companies Act, 156 only Public Ltd. Company with a share capital must hold Statutory Meeting. Private Companies and Government Companies are not required to hold such a Meeting.

(ii) Incorrect. As a wagering contract is *void ab initio*, it is but automatic that a promissory note given out of a wagering contract is not enforceable by way of a suit. A promissory note of this character is one without consideration and hence is null and void.

(iii) Correct: Bills of exchange drawn up in the vernacular are generally known as Hundis. The Negotiable Instruments Act ordinarily is not applicable to Hundis but, the title of the Act conveys the idea that the Act is a comprehensive enactment relating to all kinds of negotiable instruments whether negotiable by law, or by usage or custom. So, the parties to the Hundis may agree to be governed by the Negotiable Instruments Act,1881.

(iv) Correct: Wherever a partnership is converted into a registered company, there the employees are entitled to gratuity on the basis of length of service under both the establishments taken together *[Bommidala Bros. v. Authority, the Payment of Gratuity Act(1989) 1 cur LR 595 AP]*

(II) According to Section 166 of the Companies Act, 1956, every company shall hold its first annual general meeting within a period of 18 months from the date of incorporation. Since company was incorporated on 1.4.2013, the first annual general meeting of the company should be held on or before 30th September, 2014. Even though the Registrar of Companies is empowered to grant extension of time for a period not exceeding 3 months for holding the annual general meeting, such a power is not available to the Registrar in the case of the first annual general meeting. Thus, the company and its directors will be liable for the default if the annual general meeting was held after 30th September, 2014.

(b) Conservation refers to the saving or rationing of natural resources for later uses. Conservation, therefore, looks primarily to the future: to the need to limit consumption now to have resources available for tomorrow. In a sense, pollution control is a form of conservation. Pollution "consumes" pure air and water, and pollution control "conserves" them for the future. Consequently, our concern over the depletion of resources is primarily a concern for future generations. Conservation, therefore, is the only way of ensuring a supply for tomorrow's generations.

(c) This Bond is made on the -----------day of ----------between ----------(details of party to be called as debtor) and ----------(details of the other party to be called as creditor).

Whereas the debtor has this day borrowed a sum of Rupees-------------(`………)only from the creditor with the condition to repay the same with interest at the rate of ----------percent per annum by monthly instalments. The debtor has agreed to pay the same.

Whereas in case of default in the payment of any consecutive instalments, the penalty shall be levied with double rate of interest on the remaining unpaid amount.

Signature of debtor

Signature of creditor

Witnesses:

1…………….

2…………….

7. (a) (i) Difference between Cheque and Bill of Exchange:

(1) In the case of a cheque the drawee- *i.e.,* the person on whom the bill is drawn-must always be banker whereas in the case of a bill of exchange the drawee may be any person.

(2) No days of grace are allowed in the case of a cheque, and a cheque is as a rule, payable immediately on demand, whereas three days' grace is allowed in the case of a bill which is not payable on demand.

(3) In the case of dishonour of a cheque, bank only gives the reason in writing but there is no system of Noting or Protest ,whereas in the case of a bill, there can be Noting and Protest to prove that the bill has been dishonoured.

(4) A cheque is always payable on demand, whereas a bill which is other than a cheque may be either a time bill or it may be payable on demand.

(5) Cheques do not require to be stamped in India, whereas bills must be stamped according to the law. In England and several other countries, cheques also are required to be stamped.

(6) A cheque may be crossed, whereas a bill cannot be crossed.

(ii) **Difference between the General Lien and the Particular Lien:**

General lien	Particular lien
It is a right to detain/retain any goods of the bailor for general balance of account outstanding	It is a right exercisable only on such goods in respect of which charges are due.
A general lien is not automatic but is recognized through on agreement. It is exercised by the bailee only by name	It is automatic
It can be exercised against goods even without involvement of labour or skill.	It comes into play only when some labour or skill is involved
Bankers, factors, wharfingers, policy brokers etc. are entitled to general lien	Bailee, finder of goods, pledgee, unpaid seller, agent, partner etc are entitled to particular lien

(b) Serving to notice of meeting: Notice of meeting shall be given -

(i) to every member of the company;

(ii) to the persons entitled to a share in consequence of the death or insolvency of a member;

(iii) to a auditor or auditors [Section 172(2)] and,

The company cannot take notice of the beneficial owners of shares who are, therefore, not entitled to notice, where, however, anyone is legally entitled to represent the members, such representative is entitled to receive the notice.

The private company, which is not, a subsidiary of a public company may prescribe, by its articles, persons to whom the notice should be given. The non-receipt of notice or accidental omission go given notice to any member shall not invalidate the proceedings in the meeting [Section 172(3)]. However, omission to serve notice of meeting on a member on the mistaken ground that he is not a shareholder cannot be said to be an accidental omission. Accidental omission means that the omission must be not only designed but also not deliberate. *[Maharaja Export Vs. Apparels Exports Promotion Council (1986)].*

(c) Inspection of Minutes Books of General Meetings: Following are the provisions relating to the procedure for inspection of minutes books of general meetings of a company by the members:

(1) The books containing the Minutes of the proceedings of any general meeting of a company shall-

(a) be kept at the registered office of the company, and

(b) be open, during business hours, to the inspection of any member without charge, subject to such reasonable restrictions as the company may, by its articles or in general meeting impose, so however that not less than two hours in each day are allowed for inspection.

(2) Any member shall be entitled to be furnished, within seven days after he has made a requisition in that behalf to the company, with a copy of any minutes referred to in subsection (1), on payment of such sum as may be prescribed for every one hundred words or fractional part thereof required to be copied.

(3) If any inspection required under sub-section (1) is refused, or if any copy required under sub-section (2) is not furnished within the time specified therein, the company, and every officer of the company who is in default, shall be punishable with fine which may extend to five thousand rupees in respect of each offence.

(4) In the case of any such refusal or default, the Central Government may, by order, compel on immediate inspection of the Minute books or direct that the copy required shall forthwith be sent to the person requiring it.

(d) The following safeguards may be created by a business enterprise in the work environment:

(i) The employing organisations' systems or corporate oversight or other oversight structures.

(ii) The employing organisation's ethics and conduct programmes.

(iii) Recruitment procedures in the employing organisation emphasizing the importance of employing high caliber competent staff

(iv) Strong internal controls

(v) Appropriate disciplinary process

(vi) Leadership that stresses the importance of ethical behaviour and expectation that employees will act in an ethical manner.

(vii) Policies and procedures to implement and monitor the quality of employee performance.

(viii) Timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.

(e) Circular for employees

Jaipee Electronics Ltd.

Civil Lines, Kanpur.

Circular No: Date…………

To all employees,

Recent surprise checks have revealed that there is considerable late coming and in some cases, even the standard instructions for ensuring punctual attendance are not followed. All employees are requested to strictly adhere to the arrival, departure and lunch timing of the office. Tendency to move around in the corridors and canteen would also be viewed seriously.

Cooperation of all employees is solicited.

Sd/-

Manager – H.R

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

*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) Aditya Ltd. is engaged in heavy engineering works on the basis of job order received from industrial customers. The company has received a job order of making turbine from a power generating company. Below are some details of stores receipts and issues of copper wire, used in the manufacturing of turbine:

Feb. 1	Opening stock of 1,200 Kgs. @ Rs. 475 per kg.
Feb. 5	Issued 975 kgs. to mechanical division vide material requisition no. Mec 09/13
Feb. 6	Received 3,500 kgs. @ Rs. 460 per kg vide purchase order no. 159/2013
Feb. 7	Issued 2,400 kgs. to electrical division vide material requisition no. Ele 012/13
Feb. 9	Returned to stores 475 kgs. by electrical division against material requisition no. Ele 012/13.
Feb. 15	Received 1,800 kgs. @ Rs. 480 per kg. vide purchase order no. 161/ 2013
Feb. 17	Returned to supplier 140 kgs. out of quantity received vide purchase order no. 161/2013.
Feb. 20	Issued 1,900 kgs. to electrical division vide material requisition no. Ele 165/ 2013

On 28th February, 2014 it was found that 180 kgs. of wire was fraudulently misappropriated by the stores assistant and never recovered by the company.

From the above information you are required to prepare the Stock Ledger account using 'Weighted Average' method of valuing the issues.

(b) Maxim Ltd. manufactures a product "N-joy". In the month of August 2014, 14,000 units of the product "N-joy" were sold, the details are as under:

	(Rs.)
Sale Revenue	2,52,000
Direct Material	1,12,000
Direct Labour	49,000
Variable Overheads	35,000
Fixed Overheads	28,000

A forecast for the month of September 2014 has been carried out by the General manger of Maxim Ltd. As per the forecast, price of direct material and variable overhead will be increased by 10% and 5% respectively.

Required to calculate:

(i) Number of units to be sold to maintain the same quantum of profit that made in August 2014.

(ii) Margin of safety in the month of August 2014 and September 2014.

(c) For Alpha Limited the average receivables balance is Rs. 30,00,000 and credit sales are Rs. 4,00,00,000. You are required to compute the receivable collection period. (1 Year = 365 days)

(d) Mr. Grewal borrowed Rs. 10,00,000 from a bank on a one-year 16% term loan, with interest compounded quarterly. Determine the effective annual interest on the loan?

(4 × 5 = 20 Marks)

2. (a) J&J Ltd. produces an article by blending two basic raw materials. The following standards have been set up for raw materials:

Material	Standard Mix	Standard Price per kg.
A	40%	Rs. 5.00
B	60%	Rs. 4.00

The standard loss in processing is 10%. During March, 2014, the company produced 2,250 kg. of finished output.

The position of stock and purchases for the month of March, 2014 is as under:

Material	Stock on 1.3.2014	Stock on 31.3.2014	Purchase during March, 2014
A	40 kg.	20 kg.	800 kg. for Rs.4,800
B	50 kg.	15 kgs	1800 kg. for Rs. 7,560

Calculate the following variances:

(i) Material Price Variance

(ii) Material Usage Variance

(iii) Materials Yield Variance

(iv) Materials Mix Variance

(v) Material Cost Variance

Assume FIFO method for issue of material. The opening stock is to be valued at standard price. *(8 Marks)*

(b) The capital structure of Beta Limited is as follows:

10% Preference shares of Rs. 10 each	Rs. 50,00,000
Equity shares of Rs. 100 each	Rs. 70,00,000
	Rs. 1,20,00,000

Additional Information:

Profit after tax (50%)	15,00,000
Depreciation	6,00,000
Equity dividend paid	10%
Market price per equity share	200

You are required to compute the following:

(i) The cover for the preference and equity dividend,

(ii) The earnings per share,

(iii) The price earnings ratio, and

(iv) The net funds flow. *(8 Marks)*

3. (a) Giant Construction Ltd. has been constructing a flyover for 15 months and is under progress. The following information relating to the work on the contract has been prepared for the period ended 31st March, 2014.

	Amount (Rs.)
Contract price	65,00,000
Value of work certified at the end of the year	57,20,000
Cost of work not yet certified at the end of the year	1,20,000
Opening balances:	
Cost of work completed	8,00,000
Materials on site	80,000
Costs incurred during the year:	

Material delivered to site	15,90,000
Wages	14,95,000
Hire of plant	2,86,000
Other expenses	2,30,000
Closing balance: Material on site	40,000

As soon as materials are delivered to the site, they are charged to the contract account. A record is kept on actual use basis, periodically a stock verification is made and any discrepancy between book stock and physical stock is transferred to a general contract material discrepancy account. The stock verification at the year end revealed a stock shortage of Rs. 15,000.

In addition to the direct charges listed above, general overheads are charged to contracts at 5% of the value of work certified. General overheads of Rs. 35,000 had been absorbed into the cost of work completed at the beginning of the year.

It has been estimated that further costs to complete the contract will be Rs. 5,72,000. This estimate includes the cost of materials on site at the end of the year (31.3.2014) and also a provision for rectification.

Required:

(i) Determine profitability of the above contract and recommend how much profit should be taken for the year just ended. (Provide a detailed schedule of costs).

(ii) State how your recommendation in (i) would be affected if the contract price was Rs. 80,00,000 (rather than Rs. 65,00,000) and if no estimate has been made of costs to completion. *(8 Marks)*

(b) Given below are the balance sheets of Gamma Limited for the years ending 31st July, 2013 and 31st July, 2014.

Balance Sheet for the year ending on 31st July

	(Rs.)	*(Rs.)*
	2013	*2014*
Capital and Liabilities		
Share capital	3,00,000	3,50,000
General reserve	1,00,000	1,25,000
Capital reserve (profit on sale of investment)	-	5,000
Profit and loss account	50,000	1,00,000
15% Debentures	1,50,000	1,00,000
Accrued expenses	5,000	6,000

Creditors	80,000	1,25,000
Provision for dividend	15,000	17,000
Provision for taxation	35,000	38,000
Total	7,35,000	8,66,000

Assets

Fixed Assets	5,00,000	6,00,000
Less: Accumulated depreciation	1,00,000	1,25,000
Net fixed assets	4,00,000	4,75,000
Long-term investments (at cost)	90,000	90,000
Stock (at cost)	1,00,000	1,35,000
Debtors (net of provisions for doubtful debts of Rs. 20,000 and Rs. 25,000 respectively for 2013 and 2014)	1,12,500	1,22,500
Bills receivables	20,000	32,500
Prepaid expenses	5,000	6,000
Miscellaneous expenditure	7,500	5,000
Total	7,35,000	8,66,000

Additional Information:

(i) During the year 2014, fixed asset with a net book value of Rs. 5,000 (accumulated depreciation Rs. 15,000) was sold for Rs. 4,000.

(ii) During the year 2014, investments costing Rs. 40,000 were sold, and also investments costing Rs. 40,000 were purchased.

(iii) Debentures were retired at a premium of 10 percent.

(iv) Tax of Rs. 27,500 was paid for 2013.

(v) During 2014, bad debts of Rs. 7,000 were written off against the provision for doubtful debt account.

(vi) The proposed dividend for 2013 was paid in 2014.

You are required to prepare a funds flow statement (i.e. statement of changes in financial position on working capital basis) for the year ended 31st July, 2014. *(8 Marks)*

4. (a) Arnav Ltd. has three production departments M, N and O and two service departments P and Q. The following particulars are available for the month of September, 2014:

	(Rs.)
Lease rental	35,000
Power & Fuel	4,20,000
Wages to factory supervisor	6,400
Electricity	5,600
Depreciation on machinery	16,100
Depreciation on building	18,000
Payroll expenses	21,000
Canteen expenses	28,000
ESI and Provident Fund Contribution	58,000

Followings are the further details available:

Particulars	M	N	O	P	Q
Floor space (square meter)	1,200	1,000	1,600	400	800
Light points (nos.)	42	52	32	18	16
Cost of machines (Rs.)	12,00,000	10,00,000	14,00,000	4,00,000	6,00,000
No. of employees (nos.)	48	52	45	15	25
Direct Wages (Rs.)	1,72,800	1,66,400	1,53,000	36,000	53,000
HP of Machines	150	180	120	-	-
Working hours (hours)	1,240	1,600	1,200	1,440	1,440

The expenses of service department are to be allocated in the following manner:

	M	N	O	P	Q
P	30%	35%	25%	-	10%
Q	40%	25%	20%	15%	-

You are required to calculate the overhead absorption rate per hour in respect of the three production departments. *(8 Marks)*

(b) Theta Limited is considering buying a new machine which would have a useful economic life of five years, a cost of Rs. 1,25,000 and a scrap value of Rs. 30,000, with 80 per cent of the cost being payable at the start of the project and 20 per cent at the end of the first year. The machine would produce 50,000 units per annum of a new project with an estimated selling price of Rs. 3 per unit. Direct costs would be Rs. 1.75 per unit and annual fixed costs, including depreciation calculated on a straight- line basis, would be Rs. 40,000 per annum.

In the first year and the second year, special sales promotion expenditure, not included in the above costs, would be incurred, amounting to Rs. 10,000 and Rs. 15,000 respectively.

Evaluate the project using the NPV method of investment appraisal, assuming the company's cost of capital to be 10 percent.

Year	1	2	3	4	5
PVF (10%)	0.909	0.826	0.751	0.683	0.621

(8 Marks)

5. (a) Ascent Ltd. is a manufacturing company which keeps its Cost Accounts and Financial Accounts separately. The Audit Committee of the company has advised the Board of Directors to *integrate* the above two accounts to avoid duplicity of work. The Finance Manager has requested you to identify few pre-requisites for the implementation of the Audit Committee's advice.

(b) A management trainee of an engineering firm while attending a meeting with the Director Finance of his company, heard the term 'Cost Control' and 'Cost Reduction'. Management Trainee is curious to know the difference between the above two terms. You are requested to satisfy his curiosity.

(c) Discuss the Relevance of Time Value of Money in Financial Decisions.

(d) Write short note on the Major Considerations in Capital Structure Planning.

(4 x 4 =16 Marks)

6. (a) The following information is available for Zeta Limited for your consideration:

(i) Production during the previous year was 60,000 units, it is planned that this level of activity should be maintained during the present year.

(ii) The expected ratios of cost to selling price are – raw materials 60%, direct wages 10%, and overheads 20%.

(iii) Raw materials are expected to remain in stores for an average of two months before these are issued for production.

(iv) Each unit of production is expected to be in process for one month.

(v) Finished goods will stay in warehouse for approximately three months.

(vi) Creditors allow credit for 2 months from the date of delivery of raw materials.

(vii) Credit allowed to debtors is 3 months from the date of dispatch.

(viii) Selling price per unit is Rs. 5.

(xi) There is a regular production and sales cycle.

You are required to prepare the working capital requirement forecast. *(8 Marks)*

(b) Oleum Refinery Ltd. refines crude oil and produces two joint product Gasoline and HSD in the ratio of 4:6. The refining is done in three processes.

Crude oil is first fed in Process-A, from where the two products Gasoline and HSD are get separated. After separation from Process-A, Gasoline and HSD are further processed in Process- B and Process- C respectively. During the month of July, 2014, 4,50,000 Ltr. of crude oil were processed in Process-A at a total cost of Rs. 1,71,99,775.

In Process-B, Gasoline is further processed at a cost of Rs. 10,80,000.

In Process- C, HSD is further processed at a cost of Rs. 1,35,000.

The Input output ratio for the each process is as follows:

Process- A	1 : 0.80
Process- B	1 : 0.95
Process- C	1 : 0.90

The details of sales during the month are:

	Gasoline	**HSD**
Quantity sold (Ltr.)	1,32,000	1,88,000
Sales price per Ltr.(Rs.)	68	46

There were no opening stocks. If these products were sold at split-off point, the selling price of Gasoline and HSD would be Rs. 64 and Rs. 41 per Ltr. respectively.

Required:

(i) Prepare a statement showing the apportionment of joint cost to Gasoline and HSD in proportion of sales value at split off point.

(ii) Prepare a statement showing the cost per Ltr. of each product indicating joint cost, processing cost and total cost separately.

(iii) Prepare a statement showing the product wise profit or loss for the month.

(8 Marks)

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

(a) Yanni Ltd. is witnessing high labour turnover for few past years. The Director Personnel has requested you to suggest few remedial steps to be taken to minimize the labour turnover.

(b) Distinguish between Deep Discount Bonds and Zero Coupon Bonds.

(c) The Board of Directors of Rehman Ltd. has asked the finance department to prepare Fixed and Flexible Budget for the coming financial year. State the difference between Fixed and Flexible budgets.

(d) Write a short note on Global Depository Receipts.

(e) Rahul and you are a good friend, you had a discussion on the relevance of Marginal Costing, the topic studied at Intermediate level in Chartered Accountancy course. Rahul has of the opinion that there is no practical application of the Marginal Costing. Being a good friend of Rahul, you are expected to elaborate the practical application of Marginal Costing. *(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) **Store Ledger of Aditya Ltd. (Weighted Average Method)**

Date	Receipts			Issues			Balance of Stock		
Feb.	Qty (kg.)	Rate (Rs.)	Amount (Rs.)	Qty (kg.)	Rate (Rs.)	Amount (Rs.)	Qty (kg.)	Rate (Rs.)	Amount (Rs.)
1	-	-	-	-	-	-	1,200	475.00	5,70,000
5	-	-	-	975	475.00	4,63,125	225	475.00	1,06,875
6	3,500	460.00	16,10,000	-	-	-	3,725	460.91	17,16,875
7	-	-	-	2,400	460.91	11,06,175	1,325	460.91	6,10,700
9	475	460.91	2,18,932	-	-	-	1,800	460.91	8,29,632
15	1,800	480.00	8,64,000	-	-	-	3,600	470.45	16,93,632
17	-	-	-	140	480.00	67,200	3,460	470.07	16,26,432
20	-	-	-	1,900	470.07	8,93,133	1,560	470.06	7,33,299
28	-	-	-	180*	470.06	84,611	1,380	470.06	6,48,688

* 180 kgs. is abnormal loss shown as issue and it will be transferred to Costing Profit & Loss A/c.

(b) Calculation of Profit made in the month of August 2014 by selling 14,000 units.

	Amount per unit (Rs.)	Amount (Rs.)
Sales Revenue	18.00	2,52,000
Less: Variable Costs:		
- Direct Material	8.00	1,12,000
- Direct Labour	3.50	49,000
- Variable Overhead	2.50	35,000
Contribution	4.00	56,000
Less: Fixed Overhead	2.00	28,000
Profit	2.00	28,000

(i) To maintain the same amount of profit i.e. Rs. 28,000 in September 2014 also, the company needs to maintain a contribution of Rs. 56,000.

Let, number of units to be sold in September 2014 is 'x', then the contribution will be

Rs. 18 x – [(Rs.8 × 1.10) + Rs. 3.5 + (Rs. 2.5 × 1.05)] x = Rs. 56,000

Rs. 18 x – (Rs. 8.8 + Rs. 3.5 + Rs. 2.625) x = Rs. 56,000

Or, x $= \frac{\text{Rs. }56{,}000}{\text{Rs.}3.075}$ = 18,211.38 units or 18,212 units.

(ii) Margin of Safety

	August 2014	September 2014
Profit	Rs. 28,000	Rs. 28,000
P/V Ratio	$\frac{\text{Rs.}4}{\text{Rs.}18}\times 100$	$\frac{\text{Rs.}3.075}{\text{Rs.}18}\times 100$
Margin of Safety $\left(\frac{\text{Profit}}{\text{P / VRatio}}\times 100\right)$	Rs.1,26,000 $\left(\frac{28{,}000}{400}\times 18\times 100\right)$	Rs.1,63,902.44 $\left(\frac{28{,}000}{307.5}\times 18\times 100\right)$

(c) Calculation of Receivable Collection Period

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

$$\text{Receivables collection period} = \frac{\text{Rs. }30{,}00{,}000}{\text{Rs. }4{,}00{,}00{,}000 / 365\text{ days}}$$

= 27 days

(d) Calculation of Effective Annual Interest Rate

Effective Interest Rate (EAR) is calculated as follows:

$$\text{EAR} = \left(1+\frac{r}{m}\right)^m - 1$$

$$\text{EAR} = \left(1+\frac{0.16}{4}\right)^4 - 1$$

= 1.1699 – 1 = 0.1699 = 16.99%.

2. (a) Working Notes:

(a) Standard input = $\frac{\text{Actual output}}{90\%} = \frac{2,250 \text{ kg.}}{90\%}$ = 2,500 kg.

Standard input of material- A	2,500 kg. x 40%	= 1,000 kg.
Standard input of material- B	2,500 kg. x 60%	= 1,500 kg.

(b) Actual input = (Opening Stock + Purchases – Closing Stock)

Actual input of material- A	(40 kg. + 800 kg. – 20 kg.)	= 820 kg.
Actual input of material- B	(50 kg. + 1,800 kg. – 15 kg.)	= 1,835 kg.
Total actual input		2,655 kg.

(c) Standard Cost

Material- A 1000 kg.@ Rs. 5.00 per kg	= Rs. 5,000
Material- B 1500 kg.@ Rs. 4.00 per kg	= Rs. 6,000
	Rs.11,000

(d) Actual Cost

Material- A 40 kg. @ Rs. 5.00 per kg	= Rs. 200	
780 kg. @ Rs. 6.00 per kg	= Rs. 4,680	= Rs. 4,880
Material- B 50 kg. @ Rs. 4.00 per kg	= Rs. 200	
1,785 kg. @ Rs. 4.20 per kg	= Rs. 7,497	= Rs. 7,697
		Rs. 12,577

(i) Material Price Variance = Actual Quantity (Std. Rate – Actual Rate)

Material- A = 40 kg (Rs. 5.00 - Rs. 5.00)	= Nil
780 kg (Rs. 5.00 - Rs. 6.00)	= Rs. 780 (A)
Material- B = 50 kg. (Rs. 4.00 - Rs. 4.00)	= Nil
1785 kg (Rs. 4.00 - Rs. 4.20)	= Rs. 357 (A)
	Rs. 1,137 (A)

(ii) Material Usage Variance = Std. Rate (Standard Quantity – Actual Quantity)

Material- A = Rs. 5.00 (1,000 kg. – 820 kg)	= Rs. 900 (F)
Material- B = Rs. 4.00 (1,500 kg. – 1835 kg.)	= Rs.1,340 (A)
	Rs. 440 (A)

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

Material- A = Rs. 5.00 (1,000 kg. – 2,655 x 40%)

= Rs. 5.00 (1,000 kg. – 1,062 kg.) = Rs. 310 (A)

Material- B = Rs. 4.00 (1,500 kg – 2,655 x 60%)

= Rs. 4.00 (1,500 kg. – 1,593 kg.) = Rs. 372 (A)

Rs. 682 (A)

(iv) Material Mix Variance = Std. Rate (Revised Std. Quantity – Actual Quantity)

Material- A = Rs. 5.00 (2,655 x 40% - 820 kg.)

= Rs. 5.00 (1,062 kg. – 820 kg) = Rs. 1,210 (F)

Material- B = Rs. 4.00 (2,655 x 60% - 1,835 kg.)

= Rs. 4.00 (1,593 kg. – 1,835 kg.) = Rs. 968 (A)

Rs. 242 (F)

(v) Material Cost Variance = Std. Cost – Actual cost

= Rs. 11,000 - Rs. 12,577 = Rs. 1,577 (A)

2. (i) Cover for Preference and Equity Dividends

$$\frac{\text{Profit after tax}}{\text{Preference dividend} + \text{Equity dividend}}$$

$$\frac{15,00,000}{5,00,000 + 7,00,000} = 1.25$$

(ii) Earnings per share

$$\frac{\text{Net profit after preference dividend}}{\text{Number of equity shares}}$$

$$\frac{10,00,000}{70,000} = \text{Rs } 14.29$$

(iii) Price Earnings Ratio

$$\frac{\text{Market price per share}}{\text{Earning per share}}$$

$$\frac{200}{14.29} = 14 \text{ times}$$

(iv) **Net Funds Flow**

	Rs.
Profit after tax	15,00,000
Add : Depreciation	6,00,000
Net Funds Flow	21,00,000

3. (a) Schedule of costs

	Amount (Rs.)	**Amount (Rs.)**
Cost incurred: Opening balance		8,00,000
During the year Material consumed:		
Opening Stock	80,000	
Add: Material delivered during the year	15,90,000	
	16,70,000	
Less: Closing stock	40,000	16,30,000
Wages		14,95,000
Hire of plant		2,86,000
Other expenses		2,30,000
Material discrepancy (Actual)		15,000
General overheads 5% of Rs. 57,20,000	2,86,000	
Less: Absorbed at the beginning of the year	35,000	2,51,000
		47,07,000
Estimated further cost to complete		5,72,000
Estimated Total Cost		52,79,000
Contract Price		65,00,000
Estimated Total Profit		12,21,000

(i) **Profit to be transferred to Profit and loss account:**

$$\text{Estimated Profit} \times \frac{\text{Value of work certified}}{\text{Contract price}} \times \frac{12 \text{ months}}{15 \text{ months}}$$

$$= \text{Rs. } 12{,}21{,}000 \times \frac{57{,}20{,}000}{65{,}00{,}000} \times \frac{12}{15} = \text{Rs. } 8{,}59{,}584$$

(ii) If contract price was Rs. 80 lakhs and if no estimate has been made of costs to completion.

Value of work certified at the end of year = Rs. 57,20,000 i.e. 71.5% of contract value. In such a case notional profit has to be calculated instead of estimated profit.

Value of work certified	Rs. 57,20,000
Add: Cost of work not certified	Rs. 1,20,000
	58,40,000
Less: Cost of work upto the end of year	47,07,000
Notional Profit	Rs. 11,33,000

Recommendation in (i) above would be affected as follows:

Profit to be credited to Profit and loss A/c. for the year just ended.

$$\frac{2}{3} \text{ x Notional profit x } \frac{12 \text{ months}}{15 \text{ months}}$$

$$\frac{2}{3} \text{ x Rs.11,33,000 x } \frac{12}{15} = \text{Rs. 6,04,267}$$

[It has been assumed that cash received is equals to value of work certified]

(b) Funds Flow Statement for the year ended 31st July, 2014

		(Rs.)
Sources		
Working capital from operations	1,71,000	
Sale of fixed asset	4,000	
Sale of investments	45,000	
Share capital issued	50,000	
Total Funds Provided		2,70,000
Uses		
Purchase of fixed assets	1,20,000	
Purchase of investments	40,000	
Payment of debentures (at a premium of 10%)	55,000	
Payment of dividend	15,000	
Payment of taxes	27,500	
Total Funds Applied		2,57,500
Increase in Working Capital		12,500

Working Notes:

(a) **Funds from Operations:**

	Rs.
Profit and loss balance on 31st July, 2014	1,00,000
Add: Depreciation	40,000
Loss on sale of asset	1,000
Misc. expenditure written off	2,500
Transfer to reserve	25,000
Premium on redemption of debentures	5,000
Provision for dividend	17,000
Provision for taxation	30,500
	2,21,000
Less: Profit and loss balance on 31st July, 2013	50,000
Funds from Operations	1,71,000

(b) Depreciation for the year 2014 was Rs. 40,000. The accumulated depreciation on 31st July, 2013 was Rs. 1,00,000 of which Rs. 15,000 was written off during the year on account of sale of asset. Thus, the balance on 31st July, 2014 should have been Rs. 85,000. Since the balance is Rs. 1,25,000, the company would have provided a depreciation of Rs. 40,000 (i.e. Rs. 1,25,000 – Rs. 85,000) during the year 2014.

(c) Fixed assets were of Rs. 5,00,000 in 2013. With the sale of a fixed asset costing Rs. 20,000 (i.e. Rs. 5,000 + Rs. 15,000) this balance should have been Rs. 4,80,000. But the balance on 31st July, 2014 is Rs. 6,00,000. This means fixed assets of Rs. 1,20,000 were acquired during the year.

(d) Profit on the sale of investment, Rs. 5,000 has been credited to capital reserve account. It implies that investments were sold for Rs. 45,000 (i.e. Rs. 40,000 + Rs. 5,000).

(e) The provision for taxation during the year 2014 is Rs. 30,500 [i.e. Rs. 38,000 – (Rs. 35,000 – Rs. 27,500)].

(f) Bad debts written off against the provision account have no significance for funds flow statement, as they do not affect working capital.

4. (a) Primary Distribution Summary

Item of cost	Basis of apportionment	Total	Production Dept.			Service Dept.	
		(Rs.)	M (Rs.)	N (Rs.)	O (Rs.)	P (Rs.)	Q (Rs.)
Lease rental	Floor space (6 : 5 : 8 : 2 : 4)	35,000	8,400	7,000	11,200	2,800	5,600
Power & Fuel	HP of Machines × Working hours (93: 144 : 72)	4,20,000	1,26,408	1,95,728	97,864	-	-

Factory supervisor's wages*	Working hours (31 : 40 : 30)	6,400	1,964	2,535	1,901	-	-
Electricity	Light points (21: 26: 16 : 9 : 8)	5,600	1,470	1,820	1,120	630	560
Depreciation on machinery	Value of machinery (6 : 5 : 7 : 2 : 3)	16,100	4,200	3,500	4,900	1,400	2,100
Depreciation on building	Floor space (6 : 5 : 8 : 2 : 4)	18,000	4,320	3,600	5,760	1,440	2,880
Payroll expenses	No. of employees (48: 52: 45: 15: 25)	21,000	5,448	5,903	5,108	1,703	2,838
Canteen expenses	No. of employees (48: 52: 45: 15: 25)	28,000	7,265	7,870	6,811	2,270	3,784
ESI and PF contribution	Direct wages (864: 832: 765: 180: 265)	58,000	17,244	16,606	15,268	3,593	5,289
		6,08,100	**1,76,719**	**2,44,562**	**1,49,932**	**13,836**	**23,051**

* Wages to factory supervisor is to be distributed to production departments only.

Let 'P' be the overhead of service department P and 'Q' be the overhead of service department Q.

P = 13,836 + 0.15 Q

Q = 23,051 + 0.10 P

Substituting the value of Q in P we get

P = 13,836 + 0.15 (23,051 + 0.10 P)

P = 13,836 + 3,457.65 + 0.015 P

0.985 P = 17,293.65

$\therefore$ P = Rs. 17,557

$\therefore$ Q = 23,051 + 0.10 $\times$ 17,557

= Rs. 24,806.70 or Rs. 24,807

Secondary Distribution Summary

Particulars	Total	M	N	O
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Allocated and Apportioned over-heads as per primary distribution	5,71,213	1,76,719	2,44,562	1,49,932
P (90% of Rs.17,557)	15,801	5,267	6,145	4,389
Q (85% of Rs.24,807)	21,086	9,923	6,202	4,961
		1,91,909	2,56,909	1,59,282

Overhead rate per hour

	M	N	O
Total overheads cost (Rs.)	1,91,909	2,56,909	1,59,282
Working hours	1,240	1,600	1,200
Rate per hour (Rs.)	154.77	160.57	132.74

(b) Calculation of Net Cash flows

Contribution = (3.00 – 1.75)×50,000 = Rs. 62,500

Fixed costs = 40,000 – (1,25,000 – 30,000)/5 = Rs. 21,000

Year	*Capital (Rs.)*	*Contribution (Rs.)*	*Fixed costs (Rs.)*	*Adverts (Rs.)*	*Net cash flow (Rs.)*
0	(1,00,000)				(1,00,000)
1	(25,000)	62,500	(21,000)	(10,000)	6,500
2		62,500	(21,000)	(15,000)	26,500
3		62,500	(21,000)		41,500
4		62,500	(21,000)		41,500
5	30,000	62,500	(21,000)		71,500

Calculation of Net Present Value

Year	*Net cash flow (Rs.)*	*10% discount factor*	*Present value (Rs.)*
0	(1,00,000)	1.000	(1,00,000)
1	6,500	0.909	5,909
2	26,500	0.826	21,889
3	41,500	0.751	31,167

4	41,500	0.683	28,345
5	71,500	0.621	44,402
			31,712

The net present value of the project is Rs. 31,712.

5. (a) The Ascent Ltd. has been maintaining separate books of account for Cost Accounting and Financial Accounting purposes. As per the advice of the Audit Committee, the books of account for the above two purposes will be integrated into one i.e. Integrated System of Accounting will be followed. Few pre-requisites for the above purpose are as follows:

(i) The management's decision about the extent of integration of the two sets of books.

(ii) A suitable coding system must be made available so as to serve the accounting purposes of financial and cost accounts.

(iii) An agreed routine, with regard to the treatment of provision for accruals, pre-paid expenses, other adjustments necessary for preparation of interim accounts.

(iv) Perfect coordination should exist between the staff responsible for the financial and cost aspects of the accounts and an efficient processing of accounting documents should be ensured.

(b) As requested by the Management Trainee, the following points of distinction between the Cost Control and Cost Reduction can be explained to him:

(1) Cost Control aims at maintaining the costs in accordance with the established standards. While Cost Reduction is concerned with reducing the costs.

(2) Cost Control seeks to attain lowest possible cost under existing conditions, while Cost Reduction recognizes no condition as permanent, since a change will result in lower cost.

(3) In case of Cost Control, emphasis is on past and present, while in case of Cost Reduction, it is on present and future.

(4) Cost Control is a preventive while Cost Reduction is corrective.

(5) Cost Control ends when targets are achieved, while Cost Reduction has visible end.

(c) Relevance of Time Value of Money in Financial Decisions

A rupee today is more valuable than a rupee after a year due to several reasons:

Risk: There is uncertainty about the receipt of money in future.

Preference for Present Consumption: Most of the persons and companies in general, prefer current consumption to future consumption.

Inflation: In an inflationary period, a rupee today represents a greater real purchasing power than a rupee a year hence.

Investment Opportunities: Most of the persons and the companies have a preference for present money because of availabilities of opportunities of investment for earning additional cash flow.

Many financial problems involve cash flows accruing at different points of time. For evaluating such cash flows an explicit consideration of time value of money is required.

(d) Major Considerations in Capital Structure Planning

Three factors, i.e., risk, cost and control determine the capital structure of a particular business undertaking at a given point of time. The finance manager attempts to design the capital structure in such a manner that his risk and costs are the least and the control of the existing management is diluted to the least extent. However, there are also subsidiary factors like marketability of the issue, maneuverability and flexibility of the capital structure and timing of raising the funds which affect the capital structure planning. These considerations help the finance manager in determining the proportion in which he can raise funds from various sources. Risk is of cash insolvency and of variation in the expected earnings available to the equity shareholders. Since a business should be at least capable of earning enough revenue to meet its cost of capital and finance its growth. Hence, along with risk as a factor, the finance manager has to consider the cost aspect carefully while determining the capital structure.

6. (a) Working Notes:

Calculation of Cost and Sales

Particulars	For 60,000 units Rs.	Per unit Rs.
Raw Materials	1,80,000	3.00
Direct Wages	30,000	0.50
Overheads	60,000	1.00
Cost of Sales	2,70,000	4.50
Profit (balancing figure)	30,000	0.50
Sales	3,00,000	5.00

Computation of Current Assets and Current Liabilities

1.	Raw Material inventory – 2 months consumption = Rs. 1,80,000×2/12		= Rs. 30,000

2.	Work-in-progress inventory – 1 month production		
		Rs.	
	Raw material = $\frac{\text{Rs. } 1,80,000}{12}$ (100%)	= 15,000	
	Direct Wages = $\frac{\text{Rs. } 30,000}{12} \times \frac{50}{100}$ (50%)	= 1,250	
	Overheads = $\frac{\text{Rs. } 60,000}{12} \times \frac{50}{100}$ (50%)	= 2,500	= Rs. 18,750
3.	Finished goods inventory – 3 months production		
	= Rs. 2,70,000×3/12		= Rs. 67,500
4.	Debtors – 3 months (Cost of Sales)		
	= Rs. 2,70,000×3/12		= Rs. 67,500
5.	Creditors – 2 months raw material consumption		
	= Rs. 1,80,000×2/12		= Rs. 30,000

Statement of Working Capital Requirement forecast

Particulars	Holding period months	Amount Rs.
Current Assets		
Raw Materials	2	30,000
Work-in-Progress	1	18,750
Finished Goods	3	67,500
Debtors	3	67,500
		1,83,750
Less: **Current Liabilities**	2	30,000
Working Capital		1,53,750

(b) Calculation of quantity produced

	Process- A (Ltr.)	Process- B (Ltr.)	Process- C (Ltr.)
Input	4,50,000	1,44,000	2,16,000
Normal Loss	(90,000)	(7,200)	(21,600)

	(20% of 4,50,000 ltr.)	(5% of 1,44,000 ltr.)	(10% of 2,16,000 ltr.)
	3,60,000	1,36,800	1,94,400
Production of Gasoline	1,44,000	136,800	--
Production of HSD	2,16,000	--	1,94,400

(i) Statement of apportionment of joint cost on the basis of sale value at split-off point

	Gasoline	HSD
Output at split-off point (Ltr.)	1,44,000	2,16,000
Selling price per Ltr. (Rs.)	64	41
Sales value (Rs.)	92,16,000	88,56,000
Share in Joint cost (128:123)	87,71,200	84,28,575
	$\left(\frac{\text{Rs.}1,71,99,775}{251}\times 128\right)$	$\left(\frac{\text{Rs.}1,71,99,775}{251}\times 123\right)$

(ii) Statement of cost per Litre.

	Gasoline	HSD
Output (Ltr.)	1,36,800	1,94,400
Share in joint cost (Rs.)	87,71,200	84,28,575
Cost per Ltr. (Rs.) (Joint cost)	64.11	43.36
Further processing cost (Rs.)	10,80,000	1,35,000
Further processing cost per Ltr. (Rs.)	7.89	0.69
Total cost per Ltr. (Rs.)	72.00	44.05

(iii) Statement of profit

	Gasoline	HSD
Output (Ltr.)	1,36,800	1,94,400
Sales (Ltr.)	1,32,000	1,88,000
Closing stock (Ltr.)	4,800	6,400
	(Rs.)	**(Rs.)**
Sales @ Rs.68 and Rs.46 for Gasoline and HSD respectively	89,76,000	86,48,000
Add: closing stock (Ltr.) (at full cost)	3,45,600	2,81,920
Value of production	93,21,600	89,29,920
Less: Share in joint cost	87,71,200	84,28,575
Further processing	10,80,000	1,35,000
Profit/ (Loss)	(5,29,600)	3,66,345

7. (a) The suggestive remedial steps that will be helpful for Yanni Ltd. to minimize the labour turnover are as follows:

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

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

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

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

(e) Committee for settling workers grievances.

(b) Distinction between Deep Discount Bonds (DDBs) and Zero Coupon Bonds (ZCBs)

Deep discount bonds are in the form of zero interest bonds. These bonds are sold at a discounted value and on maturity face value is paid to the investors. In such bonds, there is no interest payout during lock-in period. IDBI was first to issue a deep discount bonds in India in January 1992. The bond of a face value of Rs.1 lakh was sold for Rs. 2,700 with a maturity period of 25 years.

Whereas, on the other hand, zero coupon bond does not carry any interest but it is sold by the issuing company at a discount. The difference between discounted value and maturing or face value represents the interest to be earned by the investor on such bonds.

(c) Difference between fixed and flexible budgets are as follows:

S.No.	Fixed Budget	Flexible Budget
1.	It does not change with actual volume of activity achieved. Thus it is rigid	It can be re-casted on the basis of activity level to be achieved. Thus it is not rigid.
2	It operates on one level of activity and under one set of conditions	It consists of various budgets for different level of activity.
3	If the budgeted and actual activity levels differ significantly, then cost ascertainment and price fixation do not give a correct picture.	It facilitates the cost ascertainment and price fixation at different levels of activity.
4.	Comparisons of actual and budgeted targets are	It provided meaningful basis of comparison of actual and budgeted

	meaningless particularly when there is difference between two levels.	targets.

(d Global Depository Receipts (GDRs)

Global Depository Receipts are negotiable certificates denominated in US dollars which represent a Non-US company's publicly traded local currency equity shares. GDRs are created when the local currency shares of an Indian company are delivered to depository's local custodian bank against which the depository bank issues depository receipts in US dollars. The GDRs may be traded freely in the overseas market like any other dollar-expressed security either on a foreign stock exchange or in the over-the-counter market or among qualified institutional buyers.

(e) The followings are the few practical applications of Marginal Costing that can be elaborated to Rahul:

(i) **Pricing Policy:** Since marginal cost per unit is constant from period to period, firm decisions on pricing policy can be taken particularly in short term.

(ii) **Decision Making:** Marginal costing helps the management in taking a number of business decisions like make or buy, discontinuance of a particular product, replacement of machines, etc

(iii) **Ascertaining Realistic Profit:** Under the marginal costing technique, the stock of finished goods and work-in-progress are carried on marginal cost basis and the fixed expenses are written off to profit and loss account as period cost. This shows the true profit of the period.

(iv) **Determination of production level:** Marginal costing helps in the preparation of break-even analysis which shows the effect of increasing or decreasing production activity on the profitability of the company.

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 4: TAXATION

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

1. (a) Mr. Rajeev working as Manager (Sales) with Pipeline Foods Ltd., provides the following information for the year ended 31.03.2015:

Basic Salary	Rs. 15,000 p.m.
DA (50% of it is meant for retirement benefits)	Rs. 12,000 p.m.
Commission as a percentage of turnover of the Company	0.5 %
Turnover of the Company	Rs. 50 lacs
Bonus	Rs. 50,000
Gratuity	Rs. 30,000
Own Contribution to R.P.F.	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. account @ 15% p.a..	Rs. 15,000

Gold Ring worth Rs. 10,000 was given by employer on his 25th wedding anniversary.

Music System purchased on 01.04.2014 by the company for Rs. 85,000 and was given to him for personal use.

Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of account are not maintained.

Received interest of Rs. 5,860 on bank FDRs, dividend of Rs. 1,260 from shares of Indian Companies and interest of Rs. 7,540 from the debentures of Indian Companies.

Made payment by cheques of Rs. 15,370 towards premium of Life Insurance policies and Rs. 12,500 for Mediclaim Insurance policy.

Invested in NSC Rs. 30,000 and in FDR of SBI for 5 years Rs. 50,000.

Donations of Rs. 11,000 to an institution approved u/s 80G and of Rs. 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2015-16.

(10 Marks)

(b) A One Decorators entered into a contract for doing the interiors of a newly launched showroom of PB Jewellers. At the time of signing the contract for providing the said service, it received Rs. 3,00,000 by an account payee cheque. It received Rs. 6,00,000 by credit card and Rs. 2,00,000 by a pay order in the same month.

Determine the value of taxable service and the service tax payable by A One Decorators.

Note: A One Decorators is not eligible for small service provider's exemption under Notification No. 33/2012 ST dated 20.06.2012 and service tax has been charged separately. *(6 Marks)*

(c) An importer imports a carton of goods containing 1000 pieces with assessable value of Rs. 1,00,000 under section 14 of the Customs Act, 1962. On said product, rate of basic customs duty is 10% and rate of excise duty is 12% ad valorem. Similar product in India is assessable under section 4A of the Central Excise Act, 1944, after allowing an abatement of 30%. MRP printed on the package at the time of import is Rs. 250 per piece.

Calculate the countervailing duty (CVD) leviable under section 3(1) of the Customs Tariff Act, 1975 payable on the imported goods. *(4 Marks)*

2. (a) Mr. Suraj submits the following details of his income for the assessment year 2015-16:

Particulars	**Rs.**
Income from salary	3,00,000
Loss from let out house property	40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2008-09)	1,20,000
Short term capital loss	60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games	6,000
Agricultural income	20,000
Long term capital gain from shares (STT paid)	10,000
Short term capital loss under section 111A	10,000
Bank interest	5,000

Calculate gross total income and losses to be carried forward. *(8 Marks)*

(b) Prince Private Limited is engaged in providing taxable services. It received following amounts in the month of October, 2014. Compute the value of taxable service and the service tax payable by it:-

Receipts	Amount (Rs.)
Advances received from clients for which no service has been rendered so far	9,00,000
Demurrage charges recovered for use of the services beyond the agreed period	80,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service	3,20,000

Besides the above receipts, one of the clients-MNO Ltd. made a payment of Rs. 2,00,000 (out of which Rs. 40,000 were paid extra by mistake). However, Prince Private Limited refused to return the excess payment received.

Note: Prince Private Limited is not eligible for small service providers' exemption under Notification No. 33/2012 ST dated 20.06.2012. *(4 Marks)*

(c) Mr. Shantiprasad, a first stage dealer of a machine in the State of Madhya Pradesh, furnishes the following data:

S.No.	Particulars	Rs.
(i)	Total inter-State sales during F.Y. 2014-15 (CST not shown separately)	95,60,000
(ii)	Above sales include:	
	Dharmada	6,50,000
	Freight	4,10,000
	(Rs. 1,10,000 is not shown separately in invoices)	
	Cost of corrugated boxes specially designed for packing of the machinery	48,000
	Installation and commissioning charges shown separately	1,25,000

Determine CST payable assuming that all transactions were covered by valid 'C' Forms and sales tax rate within the State is 5%. *(4 Marks)*

3. (a) State with reasons whether the following transactions attract income-tax in India in the hands of recipients:

   (i) Salary paid by Central Government to Mr. Gagan, a citizen of India Rs. 7,00,000 for the services rendered outside India.

(ii) Interest on moneys borrowed from outside India Rs. 5,00,000 by a non--resident for the purpose of business within India say, at Mumbai.

(iii) Post office savings bank interest of Rs. 12,000 received by a resident assessee, Mr. Pawan

(iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India. *(4 Marks)*

(b) Mr. Sahil, a non-resident, operates an aircraft between Canada to Mumbai. For the Financial year ended on 31st March, 2015, he received the amounts as under:

(i) For carrying passengers from Mumbai Rs. 50 lacs.

(ii) For carrying passengers from Canada Rs. 75 lacs received in India.

(iii) For carrying of goods from Mumbai Rs. 25 lacs.

The total expenditure incurred by Mr. Sahil for the purposes of the business for the financial year 2014-15 was Rs. 1.4 crores.

Compute the income of Mr. Sahil under the head "Profits and Gains from business or profession" for the financial year ended on 31st March 2015 relevant to assessment year 2015-16. *(4 Marks)*

(c) Determine the amount of CENVAT credit available with Durable Manufacturing Ltd. in respect of the following items procured by them:

S.No.	**Item**	**Excise duty paid [Rs.]***
(i)	Raw materials used in the factory of Durable Manufacturing Ltd.	65,000
(ii)	Goods used in the guest house primarily for the stay of the newly recruited employees.	50,000
(iii)	Inputs used for making structures for support of capital goods	1,15,000
(iv)	Capital goods used as parts and components for use in the manufacture of final product	70,000

*including EC and SHEC *(5 Marks)*

(d) A manufacturer cleared some goods by charging excise duty. The invoice provided the following details:

	Rs.
Price	15,000
Excise duty @ 10.30%	1,545
Total	16,545

However, he came to know later that actual rate of excise duty is 12.36%. How much differential duty is payable by him, if he is not able to recover any extra amount from the customer? *(3 Marks)*

4. (a) Mrs. Sonakshi (aged 40 years), working with M/s Star Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2014-15 from her employer:

Basic salary	Rs. 60,000 per month.
Dearness allowance	40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of Rs. 15,000 and the same has been provided for residence of Mrs. Sonakshi. Company is recovering Rs. 2,000 per month as rent of house.

Mrs. Sonakshi has further furnished the following details:

(i) She has paid professional tax of Rs. 6,000 during financial year 2014-15.

(ii) She is owning only one house and payment of interest of Rs. 1,75,000 and principal of Rs. 1,00,000 was made for housing loan taken for purchase of house.

(iii) She has also taken a loan of Rs. 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered Rs. 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability for assessment year 2015-16. *(8 Marks)*

(b) Akshita of Sikkim received some taxable services from Addum Enterprises of Netherland on 05.10.2014 for which an invoice was raised on 08.10.2014. Determine the point of taxation in accordance with Point of Taxation Rules, 2011, if Akshita makes the payment for the said services on:-

Case I: 27.12.2014

Case II: 13.01.2015 *(4 Marks)*

(c) Tirumala, purchased raw material 'A' for Rs. 40,00,000 plus VAT @ 4%. Out of such raw material 50% was used for manufacture of taxable goods and the remaining for manufacture of goods which are exempt from VAT.

Another raw material 'B' was purchased for Rs. 20,00,000 on which VAT was paid at 1%. Entire raw material' 'B' was used for manufacture of taxable goods only.

The entire taxable goods were sold for Rs. 70,00,000 plus VAT @ 12.5%.

Compute net VAT liability of Tirumala on the assumption that there was no opening or closing inventory. *(4 Marks)*

5. (a) MNO Ltd. made the following payments in the month of March 2015 to residents without deduction of tax at source. What would be the tax consequence for A.Y.2015-16, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by MNO Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees	15,00,000
(2)	Non-compete fees to Mr. Sagar	70,000
(3)	Directors' remuneration	25,000

Would your answer change if MNO Ltd. has deducted tax on the above in April, 2015 from subsequent payments made to these persons and remitted the same in July, 2015? *(4 Marks)*

(b) Mr. Yatin submits the following information pertaining to the year ended 31st March, 2015:

(i) On 30.11.2014, when he attained the age of 60, his friends in India gave a flat at Gwalior as a gift, each contributing a sum of Rs. 20,000 in cash. The cost of the flat purchased using the various gifts was Rs. 3.40 lacs.

(ii) His close friend abroad sent him a cash gift of Rs. 75,000 through his relative for the above occasion.

(iii) Mr. Yatin sold the above flat on 30.1.2015 for Rs. 3.6 lacs. The Registrar's valuation for stamp duty purposes was Rs. 3.7 lacs. Neither Mr. Yatin nor the buyer, questioned the value fixed by the Registrar.

(iv) He had purchased some unlisted equity shares in S Pvt. Ltd., on 5.2.2007 for Rs. 3.5 lacs. These shares were sold on 15.3.2015 for Rs. 2.8 lacs.

You are requested to calculate the total income of Mr. Yatin for the assessment year 2015-16. [Cost Inflation Index for F.Y. 2006-07: 519, 2014-15: 1024] *(4 Marks)*

(c) ABC & Co. is a consultancy firm based in Gujarat. It has two branch offices at Chandigarh and Malaysia. Services are provided by Chandigarh branch to Head Office at Gujarat and by Head Office at Gujarat to Malaysia branch.

Explain which of the activities will constitute 'service' under service tax law.

(5 Marks)

(d) The service tax liability of Mr. Manan Mittal, a service tax assessee for the quarter July-September, 2014 was Rs. 25,000. However, on account of a clerical error, he paid Rs. 2,50,000 as service tax for the said quarter. Now Mr. Manan Mittal wants to adjust the excess payment of Rs. 2,25,000 against his service tax liability for the succeeding quarter. Can he do so? What is the condition to be satisfied for it?

(3 Marks)

6. (a) Mr. Manish owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available:

Particulars	**Rs.**
Building completed in September, 2008 for	10,00,000
Land appurtenant thereto purchased in April, 2002 for	12,00,000
Advance received from a prospective buyer for land in May, 2003, forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2014	8,74,800
Sale value of factory building in November, 2014	8,00,000
Sale value of appurtenant land in November, 2014	40,00,000

The assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2015-16 and the amount to be invested under section 54EC for availing the maximum exemption.

Cost inflation indices are as under:

Financial Year	Cost inflation index
2002-03	447
2003-04	463
2014-15	1024

(8 Marks)

(b) Sahil Caretakers, a service tax assessee, provides the services of repair and maintenance of electrical appliances. On April 1, 2014, it has entered into an annual maintenance contract with X for its Refrigerator and Air Conditioner. As per the terms of contract, maintenance services will be provided in the first week of each quarter of the financial year 2014-15 and payment for the same will also be charged quarterly after completion of such services in each quarter. Services were provided during the year 2014-15 on April 4, July 2, October 3, and January 3. When should Sahil Caretakers issue the invoice for the services rendered? *(4 Marks)*

(c) LMN Co. is a manufacturer. It intends to pay *ad valorem* excise duty on the basis of assessable value computed under section 4 of the Central Excise Act, 1944. However, Excise Department insists that LMN Co. should pay duty under Compounded Levy Scheme as the product manufactured by it is covered under the said scheme.

You are required to examine the situation in the light of the relevant statutory provisions. Will your answer be different if the product manufactured by LMN Co. is notified under production capacity based duty scheme? *(4 Marks)*

7. (a) XYZ Ltd. makes the following payments to Mr. Ramprakash, a contractor, for contract work during the P.Y.2014-15 –

Rs. 15,000 on 1.5.2014

Rs. 25,000 on 1.8.2014

Rs. 30,000 on 1.12.2014

On 1.3.2015, a payment of Rs. 28,000 is due to Mr. Ramprakash on account of a contract work.

Discuss whether XYZ Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. Ramprakash. *(4 Marks)*

(b) Mr. Vikas submits his return of income on 12-09-2015 for A.Y 2015-16 consisting of income under the head “Income from house property” and “Income from other sources”. On 21-01-2016, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant assessment year. Discuss. *(4 Marks)*

(c) Mr. S is an air travel agent, who discharges his service tax liability at special rates provided under the Service Tax Rules, 1994. Compute his service tax liability for the quarter July-September, 2014 with the help of following particulars furnished by him:

Particulars	Basic fare as per rule 6(7) of Service Tax Rules, 1994 (Rs.)	Other charges and fee (Rs.)	Taxes (Rs.)	Total value of tickets (Rs.)
Domestic Bookings	1,00,000	8,200	3,980	1,12,180
International Bookings	3,06,000	17,100	16,400	3,39,500

Mr. S wants to pay service tax at the general rate of 12% in respect of bookings done by him during the quarter July-September, 2014. Can he do so? Explain.

(4 Marks)

(d) MNO Manufacturers Ltd. imported some goods from Australia through a vessel. After the ship entered Indian port, the goods were unloaded and were lying with the custodian. The said goods were pilfered before the proper officer made an order for clearance for home consumption.

Is MNO Manufacturers Ltd. Liable to pay duty on such goods? Further, what would be the customs duty implication if such goods are restored to MNO Manufacturers Ltd.? *(4 Marks)*

Test Series: February, 2015

MOCK TEST PAPER– 1

INTERMEDIATE (IPC) – GROUP – I

PAPER – 4: TAXATION

SUGGESTED ANSWERS/HINTS

1. (a) Computation of Total Income and tax liability of Mr. Rajeev for the A.Y. 2015-16

Particulars	Rs.	Rs.
Income from Salaries		
Basic Salary (Rs. 15,000 x 12)		1,80,000
Dearness Allowance (Rs. 12,000 x12)		1,44,000
Commission on Turnover (0.5% of Rs. 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of Rs. 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth Rs. 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000		8,500
		4,55,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 7,500 p.m. for each of the two trucks (7,500 x 2 x12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	

Dividend on shares [Exempt under section 10(34)]	Nil	13,400
Gross total Income		6,49,160
***Less*: Deductions under Chapter VI-A**		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D - Mediclaim Insurance	12,500	12,500
Section 80G (Note 4)	10,600	10,600
Total Income		5,00,690
Tax on total income		
Income-tax		25,138
Add: Education cess @ 2%		503
Add: Secondary and higher education cess @ 1%		251
Total Tax Payable		25,892
Tax Payable (rounded off)		25,890

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

   = 12% of (Rs. 1,80,000+ (50% of Rs. 1,44,000)+ Rs. 25,000)

   = 12% of 2,77,000 = Rs. 33,240
3. An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 5,000. In such a case the Income from Salaries would be Rs. 4,50,760.
4. Deduction under section 80G is computed as under:

Particulars	Rs.
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of	

Rs. 11,000) (amount contributed Rs. 11,000 or 10% of Adjusted Gross Total Income i.e. Rs. 51,129, whichever is lower)	5,500
Total deduction	**10,600**

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = Rs. 6,49,160 – Rs. 1,37,870 = Rs. 5,11,290.

(b) **Computation of taxable service of A One Decorators**

Particulars	Rs.
Advance received by an account payee cheque (Note 1)	3,00,000
Amount received through credit card (Note 1)	6,00,000
Amount received by a pay order (Note 2)	2,00,000
Value of taxable service	11,00,000

Calculation of service tax liability of A One Decorators

Particulars	Rs.
Service tax @ 12% on Rs. 11,00,000	1,32,000
Add: Education cess @ 2% on service tax	2,640
Add: Secondary and higher education cess @ 1% on service tax	1,320
Total service tax payable	1,35,960

Notes:

1. Gross amount charged, *inter*-alia, includes payment by cheque and through credit card.
2. Money, *inter alia,* means pay order.

(c) If imported goods are similar to goods covered under section 4A of the Central Excise Act, 1944, CVD is payable on basis of MRP printed on the packing less abatement as permissible.

Particulars	Amount (Rs.)
Maximum retail price [1000 pieces × 250]	2,50,000
Less: Abatement @ 30%	75,000
Assessable value	1,75,000
CVD @ 12% of Rs. 1,75,000 [Education cesses on CVD are exempted]	21,000

2. (a) Computation of gross total income of Mr. Suraj for the A.Y.2015-16

Particulars	Rs.	Rs.
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss from iron-ore business set-off as per section 72(1)	(50,000)	Nil
Balance business loss of Rs. 70,000 of P.Y.2008-09 carried forward to A.Y.2016-17		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss set-off	(40,000)	Nil
Balance short-term capital loss of Rs. 20,000 to be carried forward		
Short-term capital loss of Rs. 10,000 under section 111A also to be carried forward		
Income from other sources		
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	61,000
Gross Total Income		**3,21,000**
Losses to be carried forward to A.Y.2016-17		
Loss of iron-ore business	70,000	
Short term capital loss (Rs. 20,000 + Rs. 10,000)	30,000	

Notes:

1. The following income are exempt under section 10 –
   (i) Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
   (ii) Agricultural income [Exempt under section 10(1)].
   (iii) Long-term capital gains on which STT is paid [Exempt under section 10(38)].
2. It is presumed that loss from iron-ore business relates to P.Y.2008-09, the year in which the business was discontinued.

(b) Computation of the value of taxable service and the service tax payable

Particulars	Amount (Rs.)
Advances received from clients for which no service has been rendered so far (Note-1)	9,00,000
Demurrage charges recovered for use of the services beyond the agreed period (Note-2)	80,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service (Note-2)	3,20,000
Payment received from MNO Ltd. (Note-3)	2,00,000
Total	15,00,000
Value of taxable service=Rs. 15,00,000$\times \frac{100}{112.36}$	13,34,995
Service tax liability =Rs. 15,00,000$\times \frac{12.36}{112.36}$	1,65,005

Notes:

1. Advances received in October, 2014 shall be taxable in the month of receipt of advance only [Rule 3 of the Point of Taxation Rules, 2011]
2. As per rule 6 of the Service Tax Valuation (Determination of Value) Rules, 2006,
   (a) Demurrage charges recovered for use of the services beyond the period agreed upon are includible in the value of taxable service.
   (b) Accidental damages are excluded from the value of taxable services provided such damages are due to unforeseen actions and are not related to provision of services. However since in the given case, damages are due to negligence of the service receiver in the course of receiving the service, forfeited security deposits relating to such damages shall be includible in the value of taxable service.
3. Excess payment made as a result of a mistake, if not returned, but retained by the service provider, becomes a part of the taxable value of services. Hence, entire Rs. 2,00,000 would form part of value of taxable services.

(c) Computation of CST payable by Mr. Shanti Prasad

Particulars	Rs.	Rs.
Total inter-state sales		95,60,000
Less: Freight shown separately in the invoices [Note-2]	3,00,000	

Less: Installation and commissioning charges shown separately [Note-3]	1,25,000	4,25,000
Turnover including CST		91,35,000
CST payable = $91,35,000 \times \frac{2}{102}$ (B) [Note-4]		1,79,118

Notes:

1. Dharmada and cost of packing material are includible while calculating turnover.
2. Freight charges of Rs. 1,10,000 are not deductible while calculating the turnover as they are not shown separately in invoices. Remaining amount of freight, shown separately in the invoices, is deductible.
3. Installation and commissioning charges are deductible while calculating the turnover since shown separately in the invoices.
4. The CST on transactions covered by valid 'C' Form is 2% or the sales tax rate within the State, whichever is lower. Since, in this case, the State sales-tax rate is higher than 2%, the rate of CST is taken as 2%.

3. (a)

	Taxable/Not Taxable	**Amount liable to tax (**Rs. **)**	**Reason**
(i)	Taxable	7,00,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. Gagan for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India.
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	8,500	The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of *Rs.* 3,500 in case of an individual account. The

			remaining *Rs.* 8,500, being less than Rs. 10,000, would be allowed as deduction under section 80TTA from Gross Total Income.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).

3. (b) Under section 44BBA, in case of an assessee, being a non-resident, engaged in the business of operation of aircraft, a sum equal to 5% of the aggregate of the following amounts shall be deemed to be his business income:

(a) the amount paid or payable, whether in or out of India, to the assessee on account of carriage of passengers, goods etc. from any place in India; and

(b) the amount received or deemed to be received in India by the assessee on account of carriage of passengers, goods etc. from any place outside India.

Hence, the income of Mr. Sahil chargeable to tax in India under the head "Profits and Gains of business or profession" is determined as under:

Particulars	Rs.
(i) For carrying passengers from Mumbai	50,00,000
(ii) For carrying passengers from Canada, amount received in India	75,00,000
(iii) For carrying goods from Mumbai	25,00,000
Total	**1,50,00,000**

Hence, income from business computed on presumptive basis as per section 44BBA is Rs. 7,50,000, being 5% of Rs. 1,50,00,000.

Note: *No deduction is allowable in respect of any expenditure incurred for the purpose of the business.*

(c) Computation of CENVAT credit available with Durable Manufacturing Ltd.

Particulars	Amount (Rs.)
Raw materials used in the factory of Durable Manufacturing Ltd.	65,000
Goods used in the guest house primarily for the stay of the newly recruited employees. [Note 1]	Nil
Inputs used for making structures for support of capital goods [Note 1]	Nil

Capital goods used as parts and components for use in the manufacture of final product [Note 2]	70,000
Total CENVAT credit available	1,35,000

Notes:

1. As per the definition of inputs, there is specific exclusion with regard to the following:-
   (i) goods used in a guest house when the same are used primarily for personal use or consumption of any employee.
   (ii) goods used for making of structures for support of capital goods.
   Thus, CENVAT credit cannot be claimed in respect of the above goods.
2. Though definition of inputs specifically excludes capital goods, capital goods used as parts or components in the manufacture of a final product are included therein. Thus, CENVAT credit will be available on the same.

(d) Since the manufacturer charged only Rs. 16,545 and he is not able to recover any extra amount from customer, this amount is required to be treated as price–cum–duty. Hence, differential duty payable by him will be computed as under:

Particulars	Rs.
Price-cum-duty	16,545
Excise duty @ 12.36% [Rs. 16,545 x 12.36/112.36)	1,820.01
Excise duty (rounded off)	1,820
Differential excise duty to be paid [Rs. 1,820 – Rs. 1,545 (duty already paid)]	**275**

4. (a) Computation of taxable income of Mrs. Sonakshi for A.Y. 2015-16

Particulars	Rs.	Rs.
Income from Salaries		
Basic salary (Rs. 60,000 x 12)		7,20,000
Dearness Allowance (40% of basic salary)		2,88,000
Perquisite value of Concessional Accommodation taken on hire. Lower of:	1,08,000	
(i) actual rent (Rs. 15,000 x 12) Rs. 1,80,000		
(ii) 15% of salary (15% of Rs. 7,20,000) Rs. 1,08,000		
(assuming that dearness allowance does not form part of pay for retirement benefits)		

Less: Rent recovered (Rs. 2,000×12)	24,000	84,000
Perquisite value of concessional loan [Rule 3(7)(i)] [Rs. 20,000 (10% of Rs. 2,00,000) – Rs. 10,000]		10,000
Gross Salary		**11,02,000**
Less: Deduction under section 16(iii) - Professional tax paid		6,000
Net Salary		**10,96,000**
Income from house property		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information)	1,80,000	
Less: Deduction under section 24		
(a) 30% of Rs. 1,80,000 Rs. 54,000		
(b) Interest on loan Rs. 1,75,000	2,29,000	(49,000)
Gross Total Income		**10,47,000**
Less: **Deductions under Chapter – VIA**		
80C – Repayment of housing loan		1,00,000
Total Income		**9,47,000**

Computation of tax liability for A.Y. 2015-16

Tax on Rs. 9,47,000	**Rs.**
Upto Rs. 2,50,000	Nil
250,001 -5,00,000 - 10%	25,000
5,00,001 – 9,47,000 - 20%	89,400
	1,14,400
Add: Education cess @ 2%	2,288
Secondary and higher education cess @ 1%	1,144
Total Tax Liability	**1,17,832**
Total Tax Liability (Rounded off)	**1,17,830**

Note: Mrs. Sonakshi cannot claim benefit of self-occupation (i.e., taking the annual value as nil and claiming a higher loss of Rs. 2,00,000) in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence for Mrs. Sonakshi.

(c) In respect of any taxable services provided or agreed to be provided by any person who is located in a non-taxable territory and received by any person located in the taxable territory, person liable to pay service tax is the recipient of such service, i.e.

service tax has to be paid under reverse charge mechanism. Hence, in the given case, service tax is to be paid by Akshita of Sikkim.

Further, rule 7 of the Point of Taxation Rules, 2011 provides that the point of taxation in respect of the persons required to pay tax under reverse charge mechanism, shall be the date on which payment is made provided payment for the same is made within a period of 3 months of the date of invoice, otherwise the point of taxation will be the date immediately following the said period of three months.

In the light of the aforesaid provisions, point of taxation will be as follows:-

Case-I: Since the payment has been made within 3 months from the date of invoice, point of taxation shall be the date of payment i.e. 27.12.2014.

Case-II: Since the payment has not been made within a period of 3 months from the date of invoice, point of taxation will be the date immediately following the said period of 3 months i.e. 08.01.2015.

(d) Computation of Net VAT liability of Tirumala

Particulars	Rs.	Rs.
Output VAT (70,00,000 × 12.5%) **[A]**		8,75,000
Input VAT [B]		
Raw material 'A' (40,00,000 × 50% × 4%) [Refer Note]	80,000	
Raw material 'B' (20,00,000 × 1%)	20,000	1,00,000
Net VAT payable by Tirumala [A] – [B]		**7,75,000**

Note: Input tax credit is allowed only in respect of the raw material used in manufacture of taxable goods and hence, the same has been restricted to the extent of 50%.

5. (a) Non-deduction of tax at source on any payment on which tax is deductible as per the provisions of Chapter XVII-B would attract disallowance under section 40(a)(ia). Therefore, non-deduction of tax at source on salary payment on which tax is deductible under section 192 and non-compete fees and directors' remuneration on which tax is deductible under section 194J, would attract disallowance@30% of sum paid under section 40(a)(ia). Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y.2015-16 is as follows –

	Particulars	Amount paid in Rs.	Disallowance u/s 40(a)(ia) @ 30% of sum paid (Rs.)
(1)	Salary [tax is deductible under section 192]	15,00,000	4,50,000
(2)	Non-compete fees to Mr. Sagar [tax is deductible under section 194J]	70,000	21,000

(3)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	25,000	7,500
Disallowance under section 40(a)(ia)			**4,78,500**

If the tax is deducted and paid in the next year i.e., P.Y.2015-16, the amount of Rs. 4,78,500 would be allowed as deduction while computing the business income of A.Y.2016-17.

(b) Computation of total income of Mr. Yatin for A.Y. 2015-16

Particulars	Rs.	Rs.	Rs.
Capital Gains			
Short term capital gains (on sale of flat)			
(i) Sale consideration	3,60,000		
(ii) Stamp duty valuation	3,70,000		
Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration)		3,70,000	
Less: Cost of acquisition [As per section 49(4), cost to be taken into consideration for 56(2)(vii) will be the cost of acquisition]		3,40,000	30,000
Long term capital loss on sale of equity shares of S Pvt. Ltd			
Sale consideration		2,80,000	
Less: Indexed cost of acquisition(Rs. 3,50,000 × 1024/519)		6,90,559	
Long term capital loss to be carried forward		**4,10,559**	
(See Note 1 below)			
Income from other sources:			
Gift from friends by way of immovable property on 30.11.2014 [See Note 3 below].			3,40,000
Gift received from a close friend (unrelated person) [See Note 2 below]			75,000
Total income			**4,45,000**

Notes:

1. In the given problem, unlisted shares of S Pvt. Ltd. have been held for more than **36 months** and hence, constitute a long term capital asset. The loss

arising from sale of such shares is, therefore, a long-term capital loss. As per section 70(3), long term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss cannot be set-off against short-term capital gains. However, such long-term capital loss can be carried forward to the next year for set-off against long-term capital gains arising in that year.

2. Any sum received from an unrelated person will be deemed as income and taxed as income from other sources if the aggregate sum received exceeds Rs. 50,000 in a year [Section 56(2)(vii)].

3. Receipt of immovable property without consideration would attract the provisions of section56(2)(vii).

(c) As per section 65B(44) of Finance Act, 1994, a service is an activity carried out by one person for another person in lieu of a consideration. Further, Explanation 3 to section 65B(44) provides *inter alia* that an establishment of a person located in taxable territory and another establishment of such person located in non-taxable territory are treated as establishments of distinct persons. Also, as per explanation 4 to the said section, a person carrying on a business through a branch in any territory is treated as having an establishment in that territory.

Therefore, services provided by Chandigarh branch to Head Office at Gujarat will not be 'service' in terms of section 65B(44) since both the establishments namely, Branch office and Head office are located in the taxable territory and are thus, one and the same person. However, when services are provided by Head Office at Gujarat to Malaysia branch (located in non-taxable territory), the two establishments are treated as establishments of distinct persons and thus, the services provided in this case will constitute 'service' under service tax law.

(d) Where an assessee has paid to the credit of Central Government any amount in excess of the amount required to be paid towards service tax liability for a month/quarter, the assessee may adjust such excess amount paid by him against his service tax liability for the succeeding month/quarter. Such adjustment is subject to the condition that the excess amount paid is on account of reasons not involving interpretation of law, taxability, valuation or applicability of any exemption notification.

Since Mr. Manan Mittal has paid the excess amount on account of a clerical error, he can adjust the excess payment of Rs. 2,25,000 against his service tax liability for the succeeding quarter.

6. (a) Computation of taxable capital gain of Mr. Manish for A.Y.2015-16

Particulars	Rs.	Rs.
Factory building		
Sale price of building	8,00,000	

Less: WDV as on 1.4.2014	8,74,800	
Short-term capital loss on sale of building		(-) 74,800
Land appurtenant to the above building		
Sale value of land	40,00,000	
Less: Indexed cost of acquisition (Rs. 11,50,000 × 1024/447)	26,34,452	
Long-term capital gains on sale of land		13,65,548
Chargeable long term capital gain		**12,90,748**

Investment under section 54EC

In this case, both land and building have been held for more than 36 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd., within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is Rs. 12,90,748 (rounded off to Rs. 12,91,000) in this case.

Notes:

1. Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 12,00,000 – Rs. 50,000 = Rs. 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.
2. Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
3. Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 36 months), indexation benefit is available.
4. As per section 74, short term capital loss can be set-off against any income under the head “Capital gains”, long-term or short-term. Therefore, in this

case, short-term capital loss of Rs. 74,800 can be set-off against long-term capital gain of Rs. 13,65,548.

(b) Continuous supply of service means *inter alia* any service which is provided, or agreed to be provided continuously or on recurrent basis, under a contract, for a period exceeding three months with the obligation for payment periodically or from time to time.

Therefore, the above situation is a case of continuous supply of service as repair and maintenance services provided by Sahil Caretakers have been provided on a quarterly basis, under a contract, for a period of one year with the obligation for quarterly payment.

In terms of rule 4A of Service Tax Rules, 1994, in case of continuous supply of service, every person providing such taxable service has to issue an invoice, bill or challan, as the case may be, within 30 days of the date when each event specified in the contract, which requires the service receiver to make any payment to service provider, is completed.

Therefore, since the contract requires X to make payment on completion of services provided in each quarter, Sahil Caretakers should issue quarterly invoices latest by May 4, August 1, November 2 and February 2 (within 30 days of April 4, July 2, October 3, and January 3).

(c) Under Compounded Levy Scheme, assessee has an **option** to pay excise duty on the basis of specified factors relevant to production of goods covered under the scheme (size of equipment employed, number and types of machines used for manufacture etc.) at specified rates. The prescribed duty has to be paid by the assessee for a specified period.

Therefore, since Compounded Levy Scheme is an **optional scheme**, LMN Co. can pay *ad valorem* duty under section 4 even if goods manufactured by it are covered under Compounded Levy Scheme.

However, duty based on production capacity is **mandatory** i.e., duty cannot be paid in any other manner in respect of the goods notified under this scheme. Therefore, if goods manufactured by LMN Co. get notified under production capacity based duty scheme, it will not be able to pay duty under section 4 and will have to compulsorily pay duty based on its production capacity.

7. (a) In this case, the individual contract payments made to Mr. Ramprakash does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. Ramprakash during the P.Y.2014-15 exceeds Rs. 75,000 (on account of the last payment of Rs. 28,000, due on 1.3.2015, taking the total from Rs. 70,000 to Rs. 98,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted@1% on the entire amount of 98,000 from the last payment of Rs. 28,000 and the balance of Rs. 27,020 (i.e. Rs. 28,000 – Rs. 980) has to be paid to

Mr. Ramprakash.

(b) Since Mr. Vikas has income only under the heads "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2015-16 under section 139(1), in his case, is 31st July, 2015. Since Mr. Vikas had submitted his return only on 12.9.2015, the said return is a belated return under section 139(4).

As per section 139(5), only a return furnished under section 139(1) or in pursuance of a notice under section 142(1) can be revised. A belated return under section 139(4) cannot be revised. Therefore, Mr. Vikas cannot revise the return of income filed by him under section 139(4), to claim deduction under section 80TTA, even though the time limit of one year from the end of the relevant assessment year has not elapsed.

(c) **Computation of service tax liability of Mr. S for the quarter July-September, 2014**

Particulars	**Rs.**
Basic fare in case of domestic bookings	1,00,000
Service tax @ 0.6% **[A]** Refer Note 1	600.00
Basic fare in case of international bookings	3,06,000
Service tax @ 1.2% **[B]** Refer Note 1	3,672
Total service tax payable [A] + [B] (rounded off)	4,272
Add: Education cess @ 2%	85.44
Add: Secondary and higher education cess @ 1%	42.72
Total service tax payable inclusive of education cesses (rounded off)	**4,400**

Notes:

1. Rule 6(7) of Service Tax Rules, 1994 provides an option to an air travel agent to pay service tax at special rates of 0.6% and 1.2% of 'basic fare' in case of domestic and international bookings for air travel respectively.
2. Since the given basic fare is in terms of rule 6(7) of service Tax rules, 1994, service tax has been computed as a percentage of such basic fare and other charges, fee and taxes have been ignored.

The option once exercised, applies uniformly in respect of all the bookings for air travel made by the air travel agent and cannot be changed during a financial year under any circumstances. Therefore, Mr. S cannot pay service tax @ 12% for the quarter July – September, 2014 and will have to discharge his service tax liability for the said quarter by paying service tax at the special rates mentioned above. However, he can change the option and pay service tax @ 12% from financial year 2015-16.

(d) No, MNO Manufacturers Ltd. is not liable to pay duty in the given case. If any goods are pilfered after the unloading thereof but before the proper officer has made an order for clearance for home consumption, the importer shall not be liable to pay duty on such goods.

However, where such goods are restored to the importer after the pilferage, the importer becomes liable to pay duty. Thus, MNO Manufacturers Ltd. will be liable to pay duty if goods are restored to it.