Test Series: February, 2016

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) On 31st March 2015 a business firm finds that cost of a partly finished unit on that date is Rs. 530. The unit can be finished in 2015-16 by an additional expenditure of Rs. 310. The finished unit can be sold for Rs. 750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2015 for preparation of final accounts. Assume that the partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

(b) M/s X Construction Company undertook a contract to construct a building for Rs. 3 crore on 1st September, 2014. On 31st March, 2015 the company found that it had already spent Rs. 1 crore 80 lakhs on the construction. Prudent estimate of additional cost for completion was Rs. 1 crore 40 lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2015, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)"?

(c) A and B were partners sharing profits in the ratio of 13 : 11 respectively. On 1st April, 2015 they admitted C as a new partner on the following conditions:

(i) All partners would share profits equally in the new firm.

(ii) C would bring in Rs. 52,000 as his capital and Rs. 36,000 as his share of goodwill. No goodwill account appeared in the books of the firm at the time of C's admission and it was decided not to open any goodwill account. Adjustment for C's goodwill being made through capital accounts.

Pass journal entries to record all the transactions on C's admission.

Clearly show the calculation of ratio of sacrifice.

(d) During the current year 2014-15, Raj Limited made the following expenditure relating to its plant building:

	Rs. in lakhs
Routine Repairs	4
Repairing	1
Partial replacement of roof tiles	0.5
Substantial improvements to the electrical wiring system which will increase efficiency	10

What amount should be capitalized? *(4 x 5 = 20 Marks)*

2. The summarised Balance Sheet of Marry Ltd. as on 31-03-2015 is given below:

Liabilities		Rs.	Assets	Rs.
1,00,000 Equity shares of Rs. 10 each fully paid up		10,00,000	Freehold property	5,50,000
			Plant and machinery	2,00,000
4,000, 8% Preference shares of Rs. 100 each fully paid		4,00,000	Trade investment (at cost)	2,00,000
			Trade receivables	4,50,000
6% Debentures	4,00,000		Inventories-in trade	3,00,000
(secured by freehold property)			Profit and loss account	5,25,000
Arrear interest	24,000	4,24,000		
Trade payables		1,01,000		
Director's loan		3,00,000		
		22,25,000		22,25,000

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to Rs. 80 each and equity shares to Rs. 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of Rs. 2 each to be allotted.

(iii) Debentureholders agreed to take one freehold property at its book value of Rs. 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at Rs. 4,00,000.

(vi) Investment sold out for Rs. 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity shares of Rs. 2 each to be allotted.

(viii) 40% of Trade receivables, 80% of Inventories and 100% of debit balance of profit and loss account to be written off.

(ix) Company's contractual commitments amounting to Rs. 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme. *(16 Marks)*

3. The following was the Balance Sheet of 'L' and 'M', who were sharing profits and losses in the ratio of 2:1 on 31.12.2015:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant and machinery	12,00,000
L	10,00,000	Building	9,00,000
M	5,00,000	Sundry debtors	3,00,000
Reserves	9,00,000	Stock	4,00,000
Sundry creditors	4,00,000	Cash	1,00,000
Bills payable	1,00,000		
	29,00,000		29,00,000

They agreed to admit 'N' into the partnership on the following terms:

(i) The goodwill of the firm was fixed at Rs. 1,05,000.

(ii) That the value of stock and plant and machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for doubtful debts.

(iv) That the building account was to be appreciated by 20%.

(v) There was an unrecorded liability of Rs. 10,000.

(vi) Investments worth Rs. 20,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of reserve, the values of liabilities and the values of assets other than cash are not to be altered.

(viii) 'N' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm. *(16 Marks)*

4. (a) On 1st April, 2014, Hello has 50,000 equity shares of P Ltd. at a book value of Rs. 15 per share (face value Rs. 10 each). He provides you the further information:

(1) On 20th June, 2014 he purchased another 10,000 shares of P Ltd. at Rs. 16 per share.

(2) On 1st August, 2014, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2014, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at Rs. 15 per share. Shareholders can transfer their rights in full or in part.

Hello sold 1/3rd of entitlement to Umang for a consideration of Rs. 2 per share and subscribed the rest on 5th November, 2014.

You are required to prepare Investment A/c in the books of Hello for the year ending 31st March, 2015.

(b) A firm M/s. Rajat , which was carrying on business from 1st July, 2013 gets itself incorporated as a company on 1st November, 2013. The first accounts are drawn upto 31st March 2014. The gross profit for the period is Rs. 56,000. The general expenses are Rs. 14,220; Director's fee Rs. 12,000 p.a.; Incorporation expenses Rs. 1,500. Rent upto 31st December was Rs. 1,200 p.a. after which it is increased to Rs. 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is Rs. 6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.

Give Statement showing pre and post incorporation profit. The net sales are Rs. 8,20,000, the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored. *(8 + 8 = 16 Marks)*

5. Income and Expenditure Account for the year ended 31st March, 2015 of Happy Club is given below:

Expenditure	Rs.	Income	Rs.
To Salaries & wages	47,500	By Subscription	75,000
To Miscellaneous expenses	5,000	By Entrance fee	2,500
To Audit fee	2,500	By Contribution for annual	7,500
To Executive's honorarium	10,000	day (After deducting	
To Sports day expenses	5,000	expenses Rs. 7,500)	
To Printing & stationary	4,500		
To Interest on bank loan	1,500		
To Depreciation on sports	3,000		

equipment			
To Excess of income over expenditure	6,000		
	85,000		85,000

Following additional information are also available:

		31.3.2014 Rs.	31.3.2015 Rs.
(1)	Subscription received in advance	4,500	2,700
(2)	Subscription outstanding	6,000	7,500
(3)	Salaries outstanding	4,000	4,500
(4)	Sports equipment (After deducting depreciation)	26,000	27,000

(5) Cash in hand on 31-3-15 was Rs. 16,000.

(6) The club took a 5% loan of Rs. 30,000 from a bank during 2013-14 for which interest was not paid in the financial year 2014-15.

Prepare Receipts and Payments account of Happy Club for the year ending 31st March 2015. *(16 Marks)*

6. (a) From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

		Rs.
On 1.4.2014: Balance in sales ledger	(Dr.)	1,41,880
	(Cr.)	2,240
On 31.3.2015:		
Total sales		7,68,000
Cash sales		40,000
Sales return		10,000
Cash received from debtors		6,24,000
Discount allowed		11,200
Cash paid to supplier		4,80,000
Transfer from sales to bought ledger		20,800
Discount received		7,200
B/R received		40,000
Reserve for doubtful debts		9,160

Cash paid to customer	1,840
Bills received dishonoured	6,000
Sales ledger balance (Dr.)	1,83,200
Sales ledger balance (Cr.)	13,720

(b) Raj Ltd. gives you the following information for the year ended 31st March, 2015:

(i) Sales for the year Rs. 48,00,000. The Company sold goods for cash only.

(ii) Cost of goods sold was 75% of sales.

(iii) Closing inventory was higher than opening inventory by Rs. 50,000.

Additional information:-

(i) Trade payables on 31.3.2015 exceed the outstanding on 31.3.2014 by Rs. 1,00,000.

(ii) Tax paid during the year amounts to Rs. 1,50,000.

(iii) Amounts paid to Trade payables during the year Rs. 35,50,000.

(iv) Administrative and Selling expenses paid Rs. 3,60,000.

(v) One new machinery was acquired in December, 2014 for Rs. 6,00,000.

(vi) Dividend paid during the year Rs. 1,20,000.

(vii) Cash in hand and at Bank on 31.3.2015 Rs. 70,000.

(viii) Cash in hand and at Bank on 1.4.2014 Rs. 50,000.

Prepare Cash Flow Statement for the year ended 31.3.2015 as per the prescribed Accounting standard. *(8 + 8 =16 Marks)*

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

(a) Recently a growing trend has developed for outsourcing the accounting function. Explain the disadvantages of outsourcing the accounting functions

(b) From the following details find out the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
29th January, 2016	5,000	1 month
20th March, 2016	4,000	2 months
12th July, 2016	7,000	1 month
10th August, 2016	6,000	2 months

(c) A Ltd. entered into a contract with B Ltd. to despatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of Rs. 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth Rs. 50,000 ready for despatch. A Ltd. accounted Rs. 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

(d) Briefly explain disclosure requirements for Investments as per AS-13.

(e) Progressive Limited has not charged depreciation for the year ended on 31st March, 2015, in respect of a spare bus purchased during the financial year 2014-15 and kept ready by the company for use as a stand-by, on the ground that, it was not actually used during the year. State your views with reference to Accounting Standard 6 "Depreciation Accounting". *(4 x 4 = 16 Marks)*

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PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Valuation of unfinished unit

	Rs.
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	(30)
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

(b)

	Rs. in crores
Cost of construction incurred till date	1.80
Add: Estimated future cost	1.40
Total estimated cost of construction	3.20

Percentage of completion till date to total estimated cost of construction

$= (1.80/3.20)\times 100 = 56.25\%$

Proportion of total contract value recognised as revenue as per AS 7 (Revised)

= Contract price x percentage of completion

= Rs. 3 crores x 56.25% = Rs. 1.6875 crores

Amount of foreseeable loss	*(Rs in crores)*
Total cost of construction	3.20
Less: Total contract price	(3.00)
Total foreseeable loss to be recognized as expense	0.20

According to of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(c) Journal Entries on C's admission

Year 2015			*Dr. Rs.*	*Cr. Rs.*
1st April	Bank A/c	Dr.	88,000	
	To C's Capital A/c (52,000 + 36,000)			88,000
	(Being amount brought by C towards his capital and share of goodwill)			
	C's Capital A/c	Dr.	36,000	
	To A's Capital A/c			22,500
	To B's Capital A/c			13,500
	(Being C's share of goodwill in the firm Rs. 36,000, has been credited to the old partners in the sacrificing ratio 5:3)			

Working Note:

Calculation of Sacrificing Ratio

	Old Ratio	*New Ratio*	*Sacrificing Ratio (Old – new)*
A	13/24	1/3	(13/24 – 1/3) = 5/24
B	11/24	1/3	(11/24 – 1/3) = 3/24
C	--	1/3	--

Therefore, sacrificing ratio is 5:3.

(d) As per AS 10 'Accounting for Fixed Assets', expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, Repairs amounting Rs. 5 lakhs and Partial replacement of roof tiles should be charged to profit and loss statement. Rs. 10 lakhs incurred for substantial improvement to the electrical writing system which will increase efficiency should be capitalized.

2. **In the books of Marry Ltd.**

Journal Entries

	Particulars		*Debit Rs.*	*Credit Rs.*
i	8% Preference share capital A/c (Rs. 100 each)	Dr.	4,00,000	
	To 8% Preference share capital A/c (Rs. 80 each)			3,20,000
	To Capital reduction A/c			80,000
	(Being the preference shares of Rs. 100 each reduced to Rs. 80 each as per the approved scheme)			
ii	Equity share capital A/c (Rs. 10 each)	Dr.	10,00,000	
	To Equity share capital A/c (Rs. 2 each)			2,00,000
	To Capital reduction A/c			8,00,000
	(Being the equity shares of Rs. 10 each reduced to Rs. 2 each)			
iii	Capital reduction A/c	Dr.	32,000	
	To Equity share capital A/c (Rs. 2 each)			32,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of Rs. 2 each)			
iv	6% Debentures A/c	Dr.	3,00,000	
	To Freehold property A/c			3,00,000
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	24,000	
	To Bank A/c			24,000
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	1,50,000	
	To Capital reduction A/c			1,50,000
	(Being appreciation in the value of freehold property)			
vii	Bank A/c	Dr.	2,50,000	
	To Trade investment A/c			2,00,000

	To Capital reduction A/c			50,000
	(Being trade investment sold on profit)			
viii	Director's loan A/c	Dr.	3,00,000	
	To Equity share capital A/c (Rs. 2 each)			75,000
	To Capital reduction A/c			2,25,000
	(Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of Rs. 2 each)			
ix	Capital Reduction A/c	Dr.	9,75,000	
	To Profit and loss A/c			5,25,000
	To Trade receivables A/c			1,80,000
	To Inventories-in-trade A/c			2,40,000
	To Bank A/c			30,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital Reduction A/c	Dr.	2,98,000	
	To Capital reserve A/c			2,98,000
	(Being balance transferred to capital reserve account as per the scheme)			

Balance Sheet of Marry Ltd. (As reduced)

		Particulars	*Notes No.*	*Rs.*
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	6,27,000
	b	Reserves and Surplus	2	2,98,000
2		**Non-current liabilities**		
		Long-term borrowings	3	1,00,000
3		**Current liabilities**		
		Trade Payables		1,01,000
		Total		11,26,000
		Assets		
1		Non-current assets		

	a Fixed assets		
	Tangible assets	4	6,00,000
2	**Current assets**		
	a Inventories		60,000
	b Trade receivables		2,70,000
	c Cash and cash equivalents	5	1,96,000
	Total		11,26,000

Note to Accounts Rs.

1.	**Share Capital**	
	1,53,500 Equity shares of Rs. 2 each	3,07,000
	(out of which 53,500 shares have been issued for consideration other than cash)	
	4,000, 8% Preference shares of Rs. 80 each fully paid up	3,20,000
	Total	6,27,000
2.	**Reserves and Surplus**	
	Capital Reserve	2,98,000
3.	**Long-term borrowings**	
	Secured	
	6% Debentures	1,00,000
4.	**Tangible assets**	
	Freehold property	4,00,000
	Plant and machinery	2,00,000
	Total	6,00,000
5.	**Cash and cash equivalents**	
	Cash at bank (2,50,000 – 24,000 – 30,000)	1,96,000

3. **Memorandum Revaluation Account**

	Rs.		*Rs.*
To Stock	40,000	By Building	1,80,000
To Plant & machinery	1,20,000	By Investments	20,000
To Provision for doubtful debts	15,000		
To Unrecorded liability	10,000		
To Profit transferred to			

	Partners' Capital A/cs (in old ratio) L = 10,000 M = 5,000	15,000		
		2,00,000		2,00,000
To	Building	1,80,000	By Stock	40,000
To	Investments	20,000	By Plant & machinery	1,20,000
			By Provision for doubtful debts	15,000
			By Unrecorded liability	10,000
			By Loss transferred to Partners' Capital A/cs (in new ratio) L = 7,500 M = 3,750 N = 3,750	15,000
		2,00,000		2,00,000

Partners' Capital Accounts

	L	M	N		L	M	N
To Memorandum Revaluation	7,500	3,750	3,750	By Balance b/d	10,00,000	5,00,000	-
To Reserve Fund	4,50,000	2,25,000	2,25,000	By Reserve	6,00,000	3,00,000	-
To L (W.N.3)	-	-	17,500	By N (W.N.3)	17,500	8,750	-
To M (W.N.3)	-	-	8,750	By Memorandum Revaluation A/c	10,000	5,000	
To Balance c/d (Refer W.N.2)	11,70,000	5,85,000	5,85,000	By Cash (Bal. Fig.)			8,40,000
	16,27,500	8,13,750	8,40,000		16,27,500	8,13,750	8,40,000

Balance Sheet of newly reconstituted firm as on 31.12.2015

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts		Plant & Machinery	12,00,000
L	11,70,000	Building	9,00,000
M	5,85,000	Sundry Debtors	3,00,000
N	5,85,000	Stock	4,00,000

Reserve Fund	9,00,000	Cash (1,00,000 + 8,40,000)	9,40,000
Sundry Creditors	4,00,000		
Bills Payable	1,00,000		
	37,40,000		37,40,000

Working Notes:

1. Calculation of new profit and loss sharing ratio

N will get 1/4th share in the new profit sharing ratio.

Therefore, remaining share will be 1-1/4 =3/4

Share of L will be 3/4 x 2/3 = 2/4 i.e. 1/2

Share of M will be 3/4 x 1/3 = 1/4

New ratio will be

L : M : N

1/2 : 1/4 : 1/4

2 : 1: 1

2. Calculation of closing capital of N

Closing capitals of L & M after all adjustments are:

L = Rs. 11,70,000

M = Rs. 5,85,000

Since M's capital is less than L's capital, therefore M's capital is taken as base.

Hence, N's closing capital should be Rs. 5,85,000 (23,40,000 x ¼) i.e. at par with M (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	*Goodwill as per old ratio*	*Goodwill as per new ratio*	*Effect*	
L	70,000	52,500	+ 17,500	-
M	35,000	26,250	+ 8,750	-
N	-	26,250	-	-26,250
	1,05,000	1,05,000	26,250	26,250

* Goodwill raised at the time of admission of N is to be written off in new ratio among all partners including new partner, N.

Adjustment entry will be:

C's Capital A/c	Dr.	26,250	
To A's Capital A/c			17,500
To B's Capital A/c			8,750

4. (a) **In the books of Hello**

Investment Account

(Equity shares in P Ltd.)

Date	*Particulars*	*No. of shares*	*Amount (Rs.)*	*Date*	*Particulars*	*No. of shares*	*Amount (Rs.)*
1.4.14	To Balance b/d	50,000	7,50,000	31.3.15	By Balance c/d (Bal. fig.)	90,000	12,10,000
20.6.14	To Bank A/c	10,000	1,60,000				
1.8.14	To Bonus issue (W.N.1)	10,000	-				
5.11.14	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares $= \frac{50,000 + 10,000}{6}$ = 10,000 shares

(2) Right shares $= \frac{50,000 + 10,000 + 10,000}{7} \times 3$ = 30,000 shares

(3) Sale of rights = $30,000 \text{ shares} \times \frac{1}{3} \times$ Rs. 2= Rs. 20,000 to be credited to P & L A/c as per AS 13.

(4) Rights subscribed = $30,000 \text{ shares} \times \frac{2}{3} \times$ Rs. 15 = Rs. 3,00,000

(b) **Statement showing pre and post-incorporation profits**

Particulars	*Basis*	*Pre – incorporation period*	*Post-incorporation period*	*Total*
		Rs.	*Rs.*	*Rs.*
Gross Profit	Sales ratio	16,000	40,000	56,000
Less: General expenses	Time ratio	6,320	7,900	14,220

Directors' fee	Actual	-	5,000	5,000
Formation expenses	Actual	-	1,500	1,500
Rent (600 + 750)	W.N. 2	400	950	1,350
Manager's salary	Actual	2,000	-	2,000
Net Profit transferred to:				
Capital Reserve		7,280	-	-
P & L A/c	-	-	24,650	31,930

Working Notes:

1. Calculation of sales ratio

   Let the average monthly sales of first four months = 100

   and next five months = 200

   Total sales of first four months = 100 x 4 = 400 and

   Total sales of next five months = 200 x 5 = 1,000

   The ratio of sales = 400 : 1,000 =2 : 5

2. **Rent**

   Till 31st December, 2013, rent was Rs. 1,200 p.a. i.e. Rs. 100 p.m.

   So, Pre-incorporation rent = Rs. 100 x 4 months = Rs. 400

   Post-incorporation rent = (Rs. 100 x 2 months) + (Rs. 250 x 3 months) = Rs. 950

3. **Time ratio**

   Pre-incorporation period =1st July, 2013 to 31st Oct. 2013 = 4 months

   Post –incorporation = 1 st November 2013 to 31st March 2014 = 5 months

   = 4 months : 5 months

   Thus, time ratio is 4:5

5. **In the books of Happy Club**

Receipt and Payment Account

for the year ended 31st March, 2015

Receipt	*Amount* Rs.	*Payment*	*Amount* Rs.
To Balance b/d (Bal.fig.)	12,300	By Salaries & Wages (W.N.2)	47,000
To Subscription (W.N.1)	71,700	By Miscellaneous Expenses	5,000
To Entrance fee	2,500	By Audit fee	2,500

To Contribution for annual day (Rs. 7,500 + Rs. 7,500)	15,000	By Executive's honorarium	10,000
		By Sports Day Expenses	5,000
		By Printing & Stationary	4,500
		By Expenses of Annual Day	7,500
		By Sports Equipment (W.N.3)	4,000
		By Balance c/d	16,000
	1,01,500		1,01,500

Working Notes:

(1) Subscription received during the year

		Rs.
Subscription credited to Income and Expenditure A/c		75,000
Add: Outstanding subscription at the beginning of the year		6,000
Advance subscription received at the end of the year		2,700
		83,700
Less: Outstanding subscription at the end of the year	(7,500)	
Advance subscription received at the beginning of the year	(4,500)	(12,000)
Subscription received during the year		71,700

(2) Salaries & wages paid during the year

	Rs.
Salaries debited to Income and Expenditure Account	47,500
Add: Outstanding salaries at the beginning of the year	4,000
Less: Outstanding salaries at the end of the year	(4,500)
Salaries paid during the year	47,000

(3) Sports equipment purchased during the year

Sports Equipment A/c

Particulars	*Amount* Rs.	*Particulars*	*Amount* Rs.
To Balance b/d	26,000	By Depreciation A/c	3,000
To Cash (Bal.fig.)	4,000	By Balance c/d	27,000
	30,000		30,000

6. (a) **In General Ledger**

Sales Ledger Adjustment Account

		Rs.			*Rs.*
01.04.2014	To Balance b/d	1,41,880	1.4.2014	By Balance b/d	2,240
31.3.2015	To General ledger adjustment A/c in sales ledger:		31.3.2015	By General ledger adjustment A/c in sales ledger:	
	Credit sales 7,28,000			Cash 6,24,000	
	Cash paid 1,840				
	Bills receivable dishonoured 6,000	7,35,840		Discount allowed 11,200	
	To Balance c/d	13,720		Transfers to bought ledger 20,800	
				Bills receivable received 40,000	
				Sales return 10,000	7,06,000
				By Balance c/d	1,83,200
		8,91,440			8,91,440

(b) **Cash flow statement of Raj Limited**

for the year ended 31.3.2015

Direct Method

Cash flow from operating activities:	*Rs.*	*Rs.*
Sales (Cash only)		48,00,000
Less: Cost of goods sold (75%)		36,00,000
G.P.		12,00,000
Less: Adm. & Selling Expenses		3,60,000
Operating Profit before W.C. Charges		8,40,000
Add: Increase in Trade payables	1,00,000	
Increase in Inventory	(50,000)	50,000
Cash generated from operation		8,90,000
Less: Tax paid		1,50,000
Net cash from operating activities		7,40,000

Cash flow from investing activities:		
Purchase of fixed assets	(6,00,000)	
Net cash used in investing activities		(6,00,000)
Cash flow from financing activities:		
Dividend Paid	(1,20,000)	
Net cash from financing activities		(1,20,000)
		20,000
Add: Opening balance of Cash in Hand and at Bank		50,000
Cash in Hand and at Bank on 31.3.2015		70,000

7. (a) Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party.

Disadvantages

1. **Lack of security & confidentiality***:* The data of the organisation is handed over to a third party. This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centres.
2. **Inadequate services provided:** The third party is unable to meet the standards desirable.
3. **High cost***:* The *cost* may ultimately be higher than initially envisaged.
4. **Delay in obtaining services***:* The third party service providers are catering to number of clients thereby processing as per priority basis.

(b) Calculation of Average Due Date

(Taking 3rd March, 2016as base date)

Date of bill 2016	*Term*	*Due date 2016*	*Amount (Rs.)*	*No. of days from the base date i.e. 3rd March, 2016 (Rs.)*	*Product (Rs.)*
29th January	1 month	3rd March[1]	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000

[1] Bill dated 29th January, 2016 has the maturity period of one month and since 2016 is a leap year 29th February, 2016 shall be the maturity date and due date would be 3rd March, 2016 (after adding 3 days of grace).

12th July	1 month	14th Aug.[2]	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

$$\text{Average due date} = \text{Base date} + \text{Days equal to } \frac{\text{Sum of Products}}{\text{Sum of Amounts}}$$

$$= 3^{rd}\text{ March, 2016} + \frac{28,16,000}{22,000}$$

$$= 3^{rd}\text{ March, 2016} + 128 \text{ days} = 9^{th}\text{ July, 2016}$$

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

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

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

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. A Ltd. should recognize the entire sale of Rs. 1,00,000 (Rs. 25,000 x 4) and no part of the same is to be treated as Advance Receipt against Sales.

(d) The disclosure requirements as per AS 13 are as follows:

(i) Accounting policies followed for valuation of investments.

(ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.

(iii) The amount included in profit and loss statements for

(a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;

2 Bill dated 12th July, 2016 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2016. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2016.

(b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;

(c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.

(iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

(v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.

(vi) Other disclosures required by the relevant statute governing the enterprises.

(e) According to AS 6, 'Depreciation Accounting', depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable assets arising from use, effluxion of time or obsolescence through technology and market changes. Accordingly, depreciation may arise even the asset is not used in the current year but was ready for use in that year.

The need for using the stand by bus may not have arisen during the year but that does not imply that the useful life of the bus has not been affected. Therefore, non-provision of depreciation on the ground that the bus was not used during the year is not tenable. So, depreciation should be changed on Spare Parts.

Test Series: February, 2016

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) Explain the law relating to liability of joint promisors in a contract. 'D', 'E' and 'F' who are partners in a firm, jointly promised to pay Rs. 1,50,000/- to 'A'. Later-on, 'F' became insolvent and his private assets are sufficient to pay only $1/5^{th}$ of his share of debt. 'A' recovers the whole amount from 'D' through a legal action. Decide, under the provisions of the Indian Contract Act, 1872 the extent to which 'D' can recover the amount from 'E'. *(5 Marks)*

   (b) Explain the provisions of law and procedure relating to alteration of object clause stated in the Memorandum of Association of a company under the Companies Act, 2013. *(5 Marks)*

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

   'Ethics and morals are synonymous'. *(5 Marks)*

   (d) What do you understand by 'Group conflicts'? How shall these be managed effectively? Explain. *(5 Marks)*

2 (a) (i) A limited company earned super profits during financial year. It intends to give maximum bonus to its employees. In this regard you are asked to advice the company on permissible maximum bonus under the Payment of Bonus Act, 1965. *(4 Marks)*

   (ii) Examining the provisions of the Payment of Gratuity Act, 1972, state whether gratuity is payable to an employee for the periods when he does not actually work in the organization. Explain the manner in which gratuity is calculated for regular employees. *(4 Marks)*

   (b) Finance and accounting professionals working as employees in an organisation have to face various threats which make it difficult for them to comply with fundamental principles relating to ethics. Explain the safeguards in the work environment which may be created by a business enterprise to overcome such threats. *(4 Marks)*

   (c) Suggest guidelines to handle communication ethics dilemmas. *(4 Marks)*

3 (a) (i) A draws a bill on B. B accepts the bill without any consideration. The bill is transferred to C without consideration. C transferred it to D for value. Decide-

(1) Whether D can sue the prior parties of the bill, and

(2) Whether the prior parties other than D have any right of action inter se?

Give your answer in reference to the Provisions of Negotiable Instruments Act, 1881. *(5 Marks)*

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

(b) What are the objects of the "Central Consumer Protection Council" in relation to protection of rights of the consumers? *(4 Marks)*

(c) Explain those elements which can be used to influence an "Organizational Culture".

(4 Marks)

4. (a) What is meant by "Abridged Prospectus"? Is it necessary to furnish abridged form of prospectus along with the application form for shares? Under what circumstances an abridged prospectus need not accompany the detailed information regarding prospectus along with the application form? *(8 Marks)*

(b) What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain. *(4 Marks)*

(c) Discuss personal competencies that are associated with Emotional Intelligence.

(4 Marks)

5. (a) Explain what is meant by "Supervening Impossibility" as per the Indian Contract Act, 1872 and also state the situations which would not constitute grounds of impossibility. *(8 Marks)*

(b) Explain the meaning and significance of the 'Pari Passu' clause in a debenture. State the particulars to be filed with the Registrar of Companies in case of such debentures secured by a charge on certain assets of the company. *(4 Marks)*

(c) MNP Limited was incorporated in September, 2015. Now the company wants to hold its first meeting of the Board of Directors. Draft a notice of the said meeting along with agenda. *(4 Marks)*

6. (a) (i) State with reason whether the following statement is correct or incorrect:

A company should file its annual return within six months of the closing of the financial year. *(4 Marks)*

(ii) Explain clearly the doctrine of 'Indoor Management' as applicable in cases of companies registered under the Companies Act, 2013. *(4 Marks)*

(b) Explain how corporate social responsibility minimises the ecological damage and helps in achieving long-term objectives, so that the business may gain long-term profit maximization. *(4 Marks)*

(c) Draft a 'Gift Deed' assuming your own facts regarding parties and subject matter relating to gift. *(4 Marks)*

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

(a) Explain briefly the mode of recovery that may be followed by the recovery officer under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 for recovering the amount due from an employer. *(4 Marks)*

(b) State the ordinary business which may be transacted at an Annual General Meeting of a public limited company incorporated under the Companies Act, 2013. *(4 Marks)*

(c) Define the term "Free Reserves" as contained in the Companies Act, 2013. *(4 Marks)*

(d) Describe the factors which influence the ethical behaviour at work in an organization

(4 Marks)

(e) What are the merits and demerits of grape-vine form of Communication? *(4 Marks)*

Test Series: February, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

SUGGESTED ANSWERS/HINTS

1 (a) The legal liability of a joint promisor, joint promisee and other connected issues are set out in Sections 42, 43 and 44 of the Indian Contract Act, 1872. In terms of section 42 of the Act "When two or more persons have made a joint promise then unless a contrary intention appears from the contract, all such persons, during their joint lives, and after the death of any one of them, his representative jointly with the survivor or survivors and after the death of the last survivor, representatives of all jointly must fulfill the promise".

Further, the promisee can enforce his right against any one of the joint promisor and if he does so then the rights and duties of the other promisors is to make contributions. In terms of section 43 of the Act, (i) when two or more persons make joint promise, the promisee can compel any one of the joint promisors to perform the whole of promise. (ii) in the above situation, the performing promisor can enforce contribution from other joint promisors, in the absence of express agreement to the contrary.

Section 44 of the Act, states that in the matter of release of one of the joint promisors, it must be understood that such a release does not discharge other joint promisors nor does the released joint promisor would stand released to other joint promisor or promisors.

Hence, in the instant case, D, E and F who are partners in a firm, jointly promised to pay Rs. 1,50,000/- to A. Later on, F became insolvent and his private assets are sufficient to pay only $1/5^{th}$ of his share of debt i.e. Rs. 10,000/- ($1/5^{th}$ of Rs. 50,000/-) (Amount to be contributed by F is Rs. 50,000/- ($1/3^{rd}$ of Rs. 1,50,000/-). A recovers the whole amount from D through a legal action.

Here, D is entitled to receive

(a) From F's assets :Rs. 10,000/-

(b) From E:Rs. 70,000/- (Rs. 50,000/- being his own share + ½ (50,000 – 10,000) i.e. Rs. 20,000/- being one half share of total loss of Rs. 40,000/- due to F's insolvency).

Thus, in the above case, under the provisions of the Indian Contract Act, 1872, D can recover Rs. 70,000/- from E.

(b) Alteration of Objects

The Companies Act, 2013 has made alteration of the memorandum simpler and more flexible. Under section 13 (1) of the Act a company may, by a special resolution and after complying with the provisions of section 13, alter the provisions of its Memorandum. In the case of alteration to the objects clause, the sub section (6) of Section 13 requires the filing of the Special Resolution by the company with the Registrar. Section 13 (9) states that the Registrar shall register any alteration to the Memorandum with respect to the objects of the company and certify the registration within a period of thirty days from the date of filing of the special resolution by the company. Section 13 (10) further stipulates that no alteration in the Memorandum shall take effect unless it has been registered with the Registrar as above.

Hence, the Companies Act now permits any alteration to the objects clause with ease.

Procedure

Companies are now under liberty to alter the object clause of the memorandum of association with just the approval of its members by a special resolution without obtaining further approval from Central Government or any other authority. The procedure may be elaborated as under:

(i) Holding a Board Meeting for the purpose of convening the meeting of members for approving the alteration in objects clause by a special resolution;

(ii) Approving the alteration to the objects clause by passing a special resolution in general meeting of members.

(iii) Filing of the special resolution with the Registrar of Companies

(iv) Registration of the alteration to be done by the Registrar within one month from the date of filing of the special resolution along with a printed copy of the memorandum as altered.

(c) Incorrect: Both 'ethics' and 'morals' deal with right and wrong conduct. But they are not same. Ethics deals with individual character which is a personal attribute. Ethics is the response of individual to a specific situation e.g. whether in this situation, it is ethical to state the truth. Morals deal with customs set by groups or some authority like religion. Morals are general principles e.g. you should speak truth.

(d) Group conflict: Group conflict is an 'express struggle' between two inter-dependent parties who perceive incompatible goals, scarce resources and interference from the other party in achieving their goals. There are two aspects in relation to conflict.

1. **Expression:** The two sides must communicate/express about the problem for there to be conflict.

2. **Perception:** Conflict evolves perceptions in the two sides may only perceive that their goals, resources, and interference are incompatible with each other's.

   Managing conflicts: The climate in which conflict is managed is important. It is essential to plan communications to foster a supportive climate, marked by emphasis on

   (i) Presenting ideas or options

   (ii) Problem orientation- focusing attention the task

   (iii) Spontaneity - Communicating openly and honestly

   (iv) Empathy - understanding another person's thoughts.

   (v) Equality- asking for opinion s

   (vi) Willing to listen to the ideas of others.

   Successfully managed conflicts can be constructive and can strengthen relationships in an organisation.

2 (a) (i) Where, in respect of any accounting year referred to in Section 10 of the Payment of Bonus Act, 1965, the allocable surplus exceeds the amount of minimum bonus payable to the employees under that section, the employer shall, in lieu of such minimum bonus, be bound to pay to every employee in respect of that accounting year bonus which shall be an amount in proportion to the salary or wage earned by the employee during the accounting year subject to a maximum 20% of such salary or wage.

In the given case therefore, the company will be free to give bonus at any rate exceeding 8.33% upto a maximum of 20% of the salary or wage earned by the employees during the accounting year. From the facts given, it may be presumed that the bonus at 20% may be payable.

However, in relation to the maximum bonus payable the most important term to understand is "allocable surplus". The eligibility for maximum bonus arises from the "allocable surplus" but is not limited by it, as the allocable surplus may justify a bonus at a rate higher than 20% but bonus will still be limited to 20%.

(ii) Periods for which Gratuity Payable:

Yes, the periods for which gratuity is payable to an employee includes those periods during which he does not actually work in the organization which are the following:

1. Lay off under the Industrial Disputes Act, 1947.
2. Leave with full wages.
3. Maternity leave for female employees.

4. Absence due to temporary disablement caused during employment.

Manner in which gratuity is calculated: Quantum of gratuity payable is 15 days' wages on the last drawn wages for every completed year of service or part thereof in excess of six months subject to a maximum of Rs. 10 Lakhs.

(b) Safeguards in the work environment: Safeguards against threats faced by professional shall be to (i) Ensure an ethical environment, (ii) Increase the likelihood of identifying or deterring unethical behaviour and (iii) Eliminate or reduce threats to acceptable level.

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.

(c) Guidelines to handle communication ethics dilemmas:

(i) *Maintain candour*: Candour refers to truthfulness, honesty, frankness and one should stick to these elements while communicating with others.

(ii) *Keep message accurate*: At the time of relaying information from one source to another, communicate the original message as accurately as possible.

(iii) *Secrecy:* One has to maintain secrecy and confidence in communication. So one should not divulge such information to others

(iv) *Ensure timeliness of communication*: The timing of messages can be critical. Delay in sending messages can be assumed unethical.

(v) *Avoid deception*: Ethical communicators are always vigilant in their quest to avoid deception, fabrication, intentional distortion or withholding of information in their communication.

(vi) *Confront unethical behaviour*: One must confront an unethical behaviour in order to ensure a consistent ethical view point.

3 (a) (i) Problem on Negotiable Instrument made without consideration: Section 43 of the Negotiable Instruments Act, 1881 provides that a negotiable instrument made, drawn, accepted, indorsed or transferred without consideration, or for a consideration which fails, creates no obligation of payment between the parties to the transaction. But if any such party has transferred the instrument with or without endorsement to a holder for consideration, such holder, and every subsequent holder deriving title from him, may recover the amount due on such instrument from the transferor for consideration or any prior party thereto.

(1) In the problem, as asked in the question, A has drawn a bill on B and B accepted the bill without consideration and transferred it to C without consideration. Later on in the next transfer by C to D is for value. According to provisions of the aforesaid section 43, the bill ultimately has been transferred to D with consideration. Therefore, D can sue any of the parties i.e. A, B or C, as D arrived a good title on it being taken with consideration.

(2) As regards to the second part of the problem, the prior parties before D i.e., A, B, and C have no right of action inter se because first part of Section 43 has clearly lays down that a negotiable instrument, made, drawn, accepted, indorsed or transferred without consideration, or for a consideration which fails, creates no obligation of payment between the parties to the transaction prior to the parties who receive it on consideration.

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

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

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

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

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

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

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

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

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

(vi) the right to consumer education.

(c) A number of elements that can be used to describe or influence Organizational Culture and they are :-

- *The Paradigm* : What the organization is about; what it does; its mission; its values.
- *Control Systems*: The processes in place to monitor what is going on
- *Organizational Structures*: Reporting lines, hierarchies, and the way that work flows through the business.
- *Power Structures*: Who makes the decisions and how power is distributed across the organization.
- *Symbols*: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.
- *Rituals and Routines*: Management meetings, board reports and so on may become more habitual than necessary.
- *Stories and Myths*: build up about people and events, and convey a message about what is valued within the organization.

Communicating the corporate culture effectively is paramount. For example, at General Electric (GE), corporate values are so important to the company that Jack Welch, the former legendary CEO of the company, had them inscribed and distributed to all GE employees at every level of the Company.

4 **(a)** (1) **Meaning of Abridged Prospectus: -** According to Section 2(1) of the Companies Act, 2013, an abridged prospectus means a memorandum containing such salient features of a prospectus as may be specified by the SEBI by making regulations in this behalf.

(2) **Abridged prospectus to be issued along with application form**:- Section 33 (1) of the Companies Act, 2013 states that no application form for the purchase of any of the securities of a company can be issued unless such form is accompanied by an abridged prospectus. The abridged prospectus and application form should bear the same printed number. The investor may detach the share application form along the perforated line, after he has had an opportunity to study the contents of this abridged prospectus.

The objective of the abridged prospectus is to reduce the cost of issue as the detailed prospectus is a very bulky document whereas the contents of abridged prospectus are limited. However, under sub section (2) a copy of the prospectus shall, on a request by any person before the closing date of the subscription list and the offer, be furnished to him.

Penalty for failure to comply with sub section (3) can be a fine of up to Rs. 50, 000 for each fault.

(3) **Circumstances under which the abridged prospectus need not accompany the application forms:** In terms of the Proviso to section 33 (1) an abridged prospectus need not accompany the application form if it is shown that the form of application was issued:

(i) In connection with a bona fide invitation to a person to enter into an underwriting agreement with respect to such securities; or

(ii) Where the securities are not offered to the public.

(b) 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 protection 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.

(c) Personal Competencies Associated with Emotional Intelligence:

Personal Competencies – How You Manage Yourself

Self-Awareness

- *Emotional self-awareness*: Reading your own emotions and recognizing their impact; using 'gut sense' to guide decisions
- *Accurate self-assessment*: Knowing your strengths and weaknesses
- *Self-confidence:* A sound sense of your self-worth and capabilities

Self-Management

- *Emotional self-control*: Keeping disruptive emotions and impulses under control
- *Transparency*: Displaying honesty and integrity; trustworthiness
- *Adaptability*: Flexibility in adapting to changing situations or overcoming obstacles
- *Achievement*: The drive to improve performance to meet inner standards of excellence
- *Initiative:* Readiness to act and seize opportunities
- *Optimism*: Seeing the upside in events

5 (a) **Supervening Impossibility** -The idea of "supervening impossibility" is referred to as 'Doctrine of Frustration' in U.K. In order to decide whether a contract has been frustrated, it is necessary to consider the "intention of parties as are implied from the terms of contract".

However, in India the 'doctrine of frustration' is not applicable. Impossibility of performance must be considered only in terms of section 56 of the Act. Section 56 covers only 'supervening impossibility and not implied terms'. This view was upheld by Supreme Court in *Satyabrata Ghose Vs Mugneeram Bangur A.I.R. (1954) S.C. 44.*

Doctrine of frustration applies in the case of supervening impossibility, where the performance of the contract has become impossible and where the object of the contract has failed. This doctrine does not apply – where the performance simply becomes difficult / commercially impossible / impossibility induced by the act or the conduct of any person etc.

Various situations as not constituting grounds of impossibility-

i. A Promised to B that he would arrange for B's marriage with his daughter. A could not persuade his daughter to marry B. B sued A who pleaded on the ground of impossibility that he is not liable to any damages. But it was held that there was no ground of impossibility. It was held that A should not have promised what he could not have accomplished. Further A had chosen to answer for voluntary act of his daughter and he was liable.

ii. The defendant agreed to supply specified quantity of 'cotton' manufactured by a mill within a specified time to plaintiff. The defendant could not supply the material as the mill failed to make any production at that time. The defendant pleaded on the ground of impossibility which was not approved by the Privy Council and held that contact was not performed by defendant and he was responsible for the failure (*Hamandrai Vs Pragdas 501A*).

iii. The defendant agreed to procure cotton goods manufactured by Victoria Mills to plaintiff as soon as they were supplied to him by the mills. It was held by Supreme Court that the contract between defendant and plaintiff was not frustrated because of failure on the part of Victoria Mills to supply goods (*Ganga Saran Vs Finn Rama Charan, A.I.R. 1952 S.C.9*).

iv. A dock strike would not necessarily relieve a labourer from his obligation of unloading the ship within specified time.

v. Impossibility of performance that "having regard to the actual existence of war condition, the extent of the work involved and total absence of any definite period of time agreed to the parties, the contract could not be treated as falling under impossibility of performance (*Satyabrata Ghose Vs Mugneeram Bangur A.I.R, 1954) S.C. 44*). In the given case the plaintiff had agreed to purchase immediately after outbreak of war a plot of land. This plot of land was part of a scheme undertaken by the defendant who had agreed to sell after completing construction of drains, roads etc. However, the said plot of land was requisitioned for war purpose. The defendant thereupon wrote to plaintiff asking him to take back the earnest money deposit, thinking that the contract cannot be performed as it has become impossible of being performed. The plaintiff brought a suit against the defendant that he was entitled for conveyance of the plot of land under condition specified in the contract. It was held that the requisition order did not make the performance impossible. While judging the impossibility of performance issue, the Courts would be very cautious since contracting parties often bind themselves to perform at any cost of events without regard to price prevailing and market conditions.

(b) 'Pari Passu': *Pari Passu* clause in a debenture means that all the debentures of that particular series are to be paid rateably, if, therefore, security is insufficient to satisfy the whole debts secured by the series of debentures, the amounts of debentures will abate proportionately. If this clause is not included, the debentures will rank in priority for payment in accordance with the date of issue, and if they are all issued on the same date they will be payable according to their numerical order. A company, however, cannot issue a new series of debentures so as to rank *'pari passu'* with any prior series unless the power to do so is expressly reserved and contained in the document of offer.

Registration of charge: Under section 77 (1) of the Companies Act, 2013, it shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation.

In terms *of Rule 3 of the Companies (Registration of Charges), Rules 2014* for the registration of charge in respect of debentures the following documents should be submitted to the Registrar:

(a) The particulars of charge;

(b) Instrument for the creation or the modification of the charge;

(c) Application in prescribed Form

(c) Notice of the First Meeting of the Board of Directors

MNP Limited

To, Date

(Director)

Dear Sir/Madam,

This is to inform you that the first meeting of the Board of Directors will be held at the Registered Office of the company on 15th September, 2015 at 3 p.m. to transact the business as per the enclosed agenda.

You are requested to please attend the meeting.

Yours faithfully,

Secretary

For and on behalf of the

Board of Directors

Place : .....

Date ......

Agenda:

(i) Election of the Chairman of the Meeting.

(ii) To produce the Certificate of Incorporation, the Memorandum and the Articles of Association.

(iii) Election of the Chairman of the Company.

(iv) Appointment of Managing Director.

(v) Appointment of Secretary.

(vi) Appointment of Auditors.

(vii) Appointment of Bankers and approval of the opening of a Bank Account and its operation.

(viii) Adoption of the company's seal.

(ix) Approval of the statement of preliminary expenses by the promoters and adoption of the preliminary contracts and underwriting contracts.

(x) Any other business with the permission of the chairman.

6 (a) (i) The statement is incorrect in terms of section 92 (4) of the Companies Act, 2013.

Section 92 (4) states that every company shall file with the Registrar a copy of the annual return, within sixty days from the date on which the annual general meeting is held or where no annual general meeting is held in any year within sixty days from the date on which the annual general meeting should have been held together with the statement specifying the reasons for not holding the annual general meeting, with such fees or additional fees as may be prescribed.

(ii) Doctrine of indoor Management & Exceptions: The Memorandum and the Articles of a company once registered are considered to be public documents and available for inspection by any member of the public at the Registered Office of the company. Hence, it assumed that every person dealing with the company has satisfied himself regarding its competence to enter into such contracts. This is known as the doctrine of constructive notice.

The limitation to the doctrine of constructive notice of the Memorandum and Articles of a company is contained in the doctrine of indoor management. According to the doctrine of indoor management, the outsiders, dealing with the company though are supposed to have satisfied themselves regarding the competence of the company to enter into the proposed contracts are also entitled to assume that as far as the internal compliance to procedures and regulations by the company is concerned, everything has been done properly. They are bound to examine the registered documents of the company and ensure that the proposed dealing is not inconsistent therewith, but they are not bound to do more. They are fully entitled to presume regularity and compliance by the company with the internal procedures as required by the memorandum and Articles. This limitation of the doctrine of constructive notice is known as the 'Doctrine of Indoor Management', popularly known as the rule laid down in the celebrated case of *Royal British Bank v. Turquand.* Thus the doctrine of indoor management aims to protect outsiders against the company.

(b) Corporate social responsibility and ecological damage: The business institution exists and flourishes only because it performs invaluable services to society. Society gives business its license to exist which may be revoked and amended at any time if they do not fulfill the society's expectations. Therefore, if a business intends to retain its existing social role and power, it must serve society's needs constructively.

A business organization acts in its own self interest and uses natural resources also. The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognizing their ecological responsibility towards society. Companies must recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

(c) Gift Deed

THIS DEED OF GIFT made on this 15th day of May 2014 BETWEEN 'X' an Indian aged about 70 years, son of 'A' resident of …..(hereinafter called "the Donor") of the one part AND 'Y' an Indian aged about 30 years, son of 'B', resident of …….(hereinafter called "the Donee") of the other part :

WHEREAS the Donor has no issue and the donee is the nephew of the Donor and has been living with him since childhood in the house owned by Donor.

AND WHEREAS the Donor out of natural love and affection for his said nephew, is desirous of making a gift of the said house to the donee.

NOW THEREFORE THIS DEED WITNESSETH as follows :-

1. That in consideration of natural love and affection of Donor for the Donee, the donor hereby voluntarily transfers to the Donee free from all encumbrances whatsoever of the said house with all rights of easements, privileges appurtenant thereto and to hold the same unto the donee absolutely forever.
2. That the Donor or his heirs shall have no interest in the said house hereafter.
3. That the Donee hereby accepts the said transfer made by the Donor.
4. That the value of the said house is Rs. 5,00,000/- (Rupees Five Lakhs only).

IN WITNESS WHEREOF the parties hereto have signed this deed at..........in presence of the witnesses on the day and year first hereinabove written.

SIGNED AND DELIVERED

By the within named “Donor”

In the presence of……….

1)…………………

2)…………………

SIGNED AND DELIVERED

By the within named “Donee”

In the presence of……….

1)…………………

2)…………………

7 **(a)** Under section 8B (1) of the EPF & Misc Provisions Act, 1952 where any amount is an arrear under section 8, of EPF & MP Act, 1952 the authorised officer may issue to the Recovery Officer a certificate under his signature specifying the amount of arrears. The Recovery Officer, on receipt of such certificate shall proceed to recover the amount specified therein from the establishment or as the case may be, the employer by one or more of the modes mentioned below:

(i) attachment and sale of the movable or immovable property of the establishment or, as the case may be, the employer;

(ii) arrest of the employer and his detention in prison;

(iii) appointing a receiver for the management of the movable or immovable properties of the establishment or, as the case may be, the employer;

The attachment and sale of any property under section 8B shall first be effected against the properties of the establishment. Where such attachment and sale is insufficient for recovery the whole of the amount of arrears specified in the certificate, the Recovery Officer may then take proceedings against the property of the employer for recovery of the whole or any part of such arrears.

Under section 8B(2) it is further provided that the authorised officer may issue a certificate under section 8B(1) notwithstanding the fact that proceedings for recovery of the arrears by any other mode have been taken

Notwithstanding that a certificate has been issued to the Recovery Officer for the recovery of the amount, the authorised officer may grant time for the payment of the amount, and thereupon the recovery officer shall stay the proceedings until the expiry of the time so granted [Section 8E].

(b) **(i)** Ordinary Business [Section 102 (2)]: In accordance with the provision of the Companies Act, 2013 as contained in Section 102 (2), the only ordinary business can be transacted at an AGM and comprises of the following business:

(a) Consideration of financial statements and the reports of the Board of Directors and auditors.

(b) Declaration of dividend.

(c) Appointment of Directors in place of those retiring; and

(d) appointment of auditors and fixation of their remuneration.

(ii) **Special Business:** Any other business transacted at the annual general meeting or at any other meeting of the members shall be deemed to be special business.

Ordinary business can be passed by an ordinary resolution. However, special business may be transacted either by passing ordinary resolution or special resolution, depending upon the requirements of Companies Act, 2013.

(c) Free reserve- As per section 2(43) of the Companies act, 2013, "Free Reserves" means such reserves which as per the latest audited balance sheet of a company are available for distribution as dividend provided that :

i. Any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise or

ii. Any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value shall not be treated as free reserves.

(d) **Factors which influence the ethical behaviour at work**- Ethical decisions in an organization are influenced by three key factors:

1. Individual moral standards: One may have great control over personal ethics outside workplace.

2. The influence of managers and co-workers: The activities and examples set by co-workers along with rules and policies established by the firm are critical in gaining consistent ethical compliance in an organization.

3. The opportunity to engage in misconduct: If a company fails to provide good examples and direction for appropriate conduct; confusion and conflict will develop and result in the opportunity for unethical behavior.

(e) Merits of the grapevine phenomenon:

(i) Speedy transmission: It transmits information very speedily. A rumour spreads like wild fire.

(ii) Feedback value: The managers or top bosses of an organisation get the feedback regarding their policies, decisions, memos etc.

(iii) Support to other channels: It is a supplementary or parallel channel of communication.

(iv) Psychological satisfaction: It gives immense psychological satisfaction to the workers and strengthens their solidarity.

Demerits of the grapevine phenomenon:

(i) It is less credible. It cannot always be taken seriously.

(ii) It does not always carry the complete information.

(iii) It often distorts the picture or often misinforms.

Test Series: February, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) M Ltd. has an annual fixed cost of Rs. 28,50,000. In the year 2014-15, sales amounted to Rs.7,80,60,000 as compared with Rs.4,80,60,000 in the preceding year 2013-14. The profit in the year 2014-15 is Rs.37,50,000 more than that in 2013-14.

Required:

(i) Calculate Break-even sales of the company;

(ii) Determine profit/ loss on a forecasted sales volume of Rs.12,00,00,000.

(iii) If there is a reduction in selling price by 10% in the financial year 2015-16 and company desires to earn the same amount of profit as in 2014-15, what would be the required sales volume?

(b) Arnav Motors Ltd. manufactures pistons used in car engines. As per the study conducted by the Auto Parts Manufacturers Association, there will be a demand of 80 million pistons in the coming year. Arnav Motors Ltd. is expected to have a market share of 1.15% of the total market demand of the pistons in the coming year. It is estimated that it costs Rs.1.50 as inventory holding cost per piston per month and that the set-up cost per run of piston manufacture is Rs. 3,500.

(i) What would be the optimum run size for piston manufacturing?

(ii) Assuming that the company has a policy of manufacturing 40,000 pistons per run, how much extra costs the company would be incurring as compared to the optimum run suggested in (i) above?

(c) From the following information, prepare a summarised Balance Sheet as at 31st March, 2016:

Working Capital	Rs. 2,40,000
Bank overdraft	Rs. 40,000
Fixed Assets to Proprietary ratio	0.75
Reserves and Surplus	Rs. 1,60,000
Current ratio	2.5
Liquid ratio	1.5

(d) Mr. Katyal has taken a personal loan from a commercial bank of Rs.3,00,000 for one year from a commercial bank at a rate of 18% p.a. It has to pay the loan amount in equal monthly installments (EMIs). Compute the EMI amount to be paid per month and the total interest that would be paid upto the end of sixth month.

(4 × 5 = 20 Marks)

2. (a) Aditya Agro Ltd. mixes powdered ingredients in two different processes to produce one product. The output of Process- I becomes the input of Process-II and the output of Process-II is transferred to the Packing department.

From the information given below, you are required to open accounts for Process-I, Process-II and Abnormal loss/ gain A/c to record the transactions for the month of February 2016.

Process-I

Input:	
Material A	6,000 kilograms at Rs. 50 per kilogram
Material B	4,000 kilograms at Rs. 100 per kilogram
Labour	430 hours at Rs. 50 per hour
Normal loss	5% of inputs. Scrap are disposed off at Rs. 16 per kilogram
Output	9,200 kilograms.

There is no work- in- process at the beginning or end of the month.

Process-II

Input:	
Material C	6,600 kilograms at Rs. 125 per kilogram
Material D	4,200 kilograms at Rs. 75 per kilogram
Flavouring Essence	Rs. 3,300
Labour	370 hours at Rs.50 per hour

Normal loss	5% of inputs with no disposal value
Output	18,000 kilograms.

There is no work-in-process at the beginning of the month but 1,000 kilograms in process at the end of the month and estimated to be only 50% complete so far as labour and overhead were concerned.

Overhead of Rs.92,000 incurred to be absorbed on the basis of labour hours.

(8 Marks)

(b) A newly formed company has applied to the commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year:

Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	Rs. 80 per unit
Direct wages	Rs. 30 per unit
Overheads (exclusive of depreciation)	Rs. 60 per unit
Total cost	Rs. 170 per unit
Selling price	Rs. 200 per unit

Raw materials in stock: Average 4 weeks consumption, work-in-progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing).

Finished goods in stock	8,000 units
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors/receivables	Average 8 weeks
Lag in payment of wages	Average $1\frac{1}{2}$ weeks

Cash at banks (for smooth operation) is expected to be Rs. 25,000

Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

Find out

(i) the Net Working Capital required;

(ii) the Maximum Permissible Bank finance under first and second methods of financing as per Tandon Committee Norms.

(8 Marks)

3. (a) The following standards have been set to manufacture a product:

Direct Materials:	(Rs.)
2 units of X at Rs.40 per unit	80.00
3 units of Y at Rs. 30 per unit	90.00
15 units of Z at Rs.10 per unit	150.00
	320.00
Direct labour 3 hours @ Rs. 55 per hour	165.00
Total standard prime cost	485.00

The company manufactured and sold 6,000 units of the product during the year 2015.

Direct material costs were as follows:

12,500 units of X at Rs. 44 per unit.

18,000 units of Y at Rs. 28 per unit.

88,500 units of Z at Rs.12 per unit.

The company worked 17,500 direct labour hours during the year 2015. For 2,500 of these hours the company paid at Rs. 58 per hour while for the remaining hours the wages were paid at the standard rate.

Required:

Compute the following variances:

Material Price, Material Usage, Material Mix, Material Yield, Labour Rate and Labour Efficiency. *(8 Marks)*

(b) A company has to make a choice between two projects namely A and B. The initial capital outlay of two Projects are Rs.1,35,000 and Rs.2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity Cost of Capital of the company is 16%. The annual incomes are as under:

Year	Project A	Project B	Discounting factor @ 16%
1	--	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

You are required to calculate for each project:

(i) Discounted payback period

(ii) Profitability index

(iii) Net present value *(8 Marks)*

4. (a) From the details furnished below you are required to compute a comprehensive machine-hour rate:

Original purchase price of the machine (subject to depreciation at 10% per annum on original cost)	Rs. 6,48,000
Normal working hours for the month (The machine works for only 75% of normal capacity)	200 hours
Wages to Machine-man	Rs. 400 per day (of 8 hours)
Wages to Helper (machine attendant)	Rs. 275 per day (of 8 hours)
Power cost for the month for the time worked	Rs. 65,000
Supervision charges apportioned for the machine centre for the month	Rs. 18,000
Electricity & Lighting for the month	Rs. 9,500
Repairs & maintenance (machine) including Consumable stores per month	Rs. 17,500
Insurance of Plant & Building (apportioned) for the year	Rs. 18,250
Other general expense per annum	Rs. 17,500

The workers are paid a fixed Dearness allowance of Rs. 4,575 per month. Production bonus payable to workers in terms of an award is equal to 33.33% of basic wages and dearness allowance. Add 10% of the basic wage and dearness allowance against leave wages and holidays with pay to arrive at a comprehensive labour-wage for debit to production. *(8 Marks)*

(b) The Modern Chemicals Ltd. requires Rs.25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project- by raising debt of Rs. 2,50,000 or Rs. 10,00,000 or Rs. 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs. 150, but is expected to decline to Rs.125 in case the funds are borrowed in excess of Rs.10,00,000. The funds can be borrowed at the rate of 10% upto Rs. 2,50,000, at 15% over Rs. 2,50,000 and upto Rs.10,00,000 and at 20% over Rs. 10,00,000. The tax rate applicable to the company is 50%. Which form of financing should the company choose? *(8 Marks)*

5. (a) What is cost plus contract? State its advantages.

   (b) How apportionment of joint costs upto the point of separation amongst the joint products using market value at the point of separation and net realizable value method is done? Discuss.

   (c) Explain the importance of trade credit and accruals as source of working capital. What is the cost of these sources?

   (d) Write short notes on Bridge Finance. *(4 x 4 =16 Marks)*

6. (a) A transport company has a fleet of three trucks of 10 tonnes capacity each plying in different directions for transport of customer's goods. The trucks run loaded with goods and return empty. The distance travelled, number of trips made and the load carried per day by each truck are as under:

Truck No.	One way Distance Km	No. of trips per day	Load carried per trip / day tonnes
1	16	4	6
2	40	2	9
3	30	3	12

The analysis of maintenance cost and the total distance travelled during the last two years is as under

Year	Total distance travelled	Maintenance Cost (Rs.)
1	1,60,200	46,050
2	1,56,700	45,175

The following are the details of expenses for the year under review:

Diesel	Rs. 40 per litre. Each litre gives 4 km per litre of diesel on an average.
Driver's salary	Rs. 12,000 per month
Licence and taxes	Rs. 5,000 per annum per truck
Insurance	Rs. 5,000 per annum for all the three vehicles
Purchase Price per truck	Rs. 30,00,000, Life 10 years. Scrap value at the end of life is Rs. 1,00,000.
Oil and sundries	Rs. 250 per 100 km run.
General Overhead	Rs. 1,15,600 per annum

The vehicles operate 24 days per month on an average.

On the basis of commercial tone-km, you are required to:

(i) Prepare an Annual Cost Statement covering the fleet of three vehicles.

(ii) Calculate the cost per km. run.

(iii) Determine the freight rate per tonne km. to yield a profit of 10% on freight.

(8 Marks)

(b) From the following, prepare Income Statement of Company A and B.

Company	**A**	**B**
Financial leverage	3:1	4:1
Interest	Rs.200	Rs.300
Operating leverage	4:1	5:1
Variable Cost as a Percentage to Sales	$66\frac{2}{3}\%$	75%
Income tax Rate	45%	45%

(8 Marks)

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

(a) Discuss the effect of overtime payment on productivity.

(b) "Is reconciliation of cost accounts and financial accounts necessary in case of integrated accounting system?"

(c) Explain the relevance of time value of money in financial decisions.

(d) Explain briefly the functions of Treasury Department.

(e) Distinguish between controllable & uncontrollable costs? *(4 x 4 =16 Marks)*

Test Series: February, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

SUGGESTED ANSWERS/ HINTS

1. (a) (i) Break-even sales = $\frac{\text{Fixed Cost}}{\text{P / V Ratio}}$

P/V Ratio = $\frac{\text{Change in Profit}}{\text{Change in Sales}} \times 100$ or, $\frac{\text{Rs. }37{,}50{,}000}{\text{Rs. }7{,}80{,}60{,}000 - \text{Rs. }4{,}80{,}60{,}000} \times 100$

Or, $\frac{\text{Rs.}37{,}50{,}000}{\text{Rs.}3{,}00{,}00{,}000} \times 100$ or, 12.5%

Break-even sales = $\frac{\text{Rs.}28{,}50{,}000}{12.5\%}$ = Rs.2,28,00,000

(ii) Profit/ loss = Contribution – Fixed Cost

= Rs.12,00,00,000 × 12.5% - Rs.28,50,000

= Rs.1,50,00,000 – Rs.28,50,000 = Rs.1,21,50,000

(iii) To earn same amount of profit in 2015-16 as was in 2014-15, it has to earn the same amount of contribution as of 2014-15.

Sales – Variable cost = Contribution equal to 2014-15 contribution

Contribution in 2014-15 = Sales in 2014-15 × P/V Ratio in 2014-15

= Rs.7,80,60,000 × 12.5% = Rs.97,57,500

Selling price per unit in 2014-15 = $\frac{\text{Sales in } 2014-15}{\text{No. of units sold in } 2014-15}$

$= \frac{\text{Sales in } 2014-15}{\text{Sales}(1 - \text{P / V Ratio}) \times \text{P / V Ratio}}$

$= \frac{\text{Rs.}7{,}80{,}60{,}000}{\text{Rs.}7{,}80{,}60{,}000(1 - 12.5\%) \times 12.5\%}$

$= \frac{\text{Rs.}7{,}80{,}60{,}000}{85{,}37{,}812.50\text{ units}}$ = Rs. 9.14

Variable cost per unit in 2014-15 = $\frac{1}{P/V\,Ratio}$ = $\frac{100}{12.5}$ = Rs. 8

Let the number of units to be sold in 2015-16 = X

Sales in 2015-16 – Variable cost in 2015-16 = Desired Contribution

(90% of Rs.9.14) X – Rs. 8 X = Rs. 97,57,500

Or, 8.226 X – 8 X = 97,57,500

Or, X = 4,31,74,778.76 units

Therefore, Sales volume required to earn a profit equals to 2014-15 profit

= Rs. 8.226 × 4,31,74,778.76 units = Rs. 35,51,55,730

(b) (i) Optimum run size or Economic Batch Quantity (EBQ) = $\sqrt{\frac{2\times D\times S}{C}}$

Where, D = Annual demand i.e. 1.15% of 8,00,00,000 = 9,20,000 units

S = Set-up cost per run = Rs. 3,500

C = Inventory holding cost per unit per annum

= Rs. 1.5 × 12 months = Rs. 18

EBQ = $\sqrt{\frac{2\times 9,20,000\,units\times Rs.3,500}{Rs.18}}$ = 18,915 units

(ii) Calculation of Total Cost of set-up and inventory holding

	Batch size	**No. of set-ups**	**Set-up Cost (Rs.)**	**Inventory holding cost (Rs.)**	**Total Cost (Rs.)**
A	40,000 units	23 $\left(\frac{9,20,000}{40,000}\right)$	80,500 (23 × Rs. 3,500)	3,60,000 $\left(\frac{40,000\times Rs.18}{2}\right)$	4,40,500
B	18,915 units	49 $\left(\frac{9,20,000}{18,915}\right)$	1,71,500 (49 × Rs. 3,500)	1,70,235 $\left(\frac{18,915\times Rs.18}{2}\right)$	3,41,735
	Extra Cost (A – B)				98,765

(c) Working notes:

(i) Current assets and Current liabilities computation:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2.5}{1}$$

$$\text{Or, } \frac{\text{Current Assets}}{2.5} = \frac{\text{Current Liabilities}}{1} = \text{k (say)}$$

Or, Current Assets = 2.5 k and Current Liabilities = k

Or, Working capital = (Current Assets – Current Liabilities)

Or, Rs. 2,40,000 = k (2.5 – 1) = 1.5 k

Or, k = Rs.1,60,000

$\therefore$ Current Liabilities = Rs. 1,60,000

Current Assets = Rs.1,60,000 $\times$ 2.5 = Rs. 4,00,000

(ii) Computation of stock

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

$$\text{Or, } 1.5 = \frac{\text{Current Assets - Stock}}{\text{Rs.1,60,000}}$$

Or, 1.5 $\times$ Rs.1,60,000 = Rs.4,00,000 – Stock

Or, Stock = Rs.1,60,000

(iii) Computation of Proprietary fund; Fixed assets; Capital and Sundry creditors

$$\text{Proprietary ratio} = \frac{\text{Fixed assets}}{\text{Proprietary fund}} = 0.75$$

$\therefore$	Fixed assets	=	0.75 Proprietary fund
and	Net working capital	=	0.25 Proprietary fund
Or,	Rs. 2,40,000/0.25	=	Proprietary fund
Or,	Proprietary fund	=	Rs.9,60,000
and	Fixed assets	=	0.75 proprietary fund
		=	0.75 $\times$ Rs. 9,60,000
		=	Rs.7,20,000

Capital	=	Proprietary fund – Reserves & Surplus
	=	Rs.9,60,000 – Rs.1,60,000
	=	Rs.8,00,000
Sundry creditors		= (Current liabilities – Bank overdraft)
		= (Rs.1,60,000 – Rs.40,000) = Rs.1,20,000

Balance Sheet

Liabilities	(Rs.)	Assets	(Rs.)
Capital	8,00,000	Fixed assets	7,20,000
Reserves & Surplus	1,60,000	Stock	1,60,000
Bank overdraft	40,000	Current assets	2,40,000
Sundry creditors	1,20,000		
	11,20,000		11,20,000

(d) Equated Monthly Installment (EMI) = P × r × $\frac{(1+r)^n}{(1+r)^n - 1}$

Where, P = Rs.3,00,000

r = 0.18/12 = 0.015

n = 1 × 12 = 12

EMI = Rs.3,00,000 × 0.015 × $\frac{(1+0.015)^{12}}{(1+0.015)^{12} - 1}$ = Rs. 4,500 × $\frac{1.1956}{0.1956}$ = Rs. 27,504

Calculation of Total Interest to be paid upto the end of sixth month

End of month	Opening Balance (Rs.)	Payment (Rs.)	Interest (Rs.)	Principle Repayment (Rs.)	Outstanding at the end (Rs.)
	A	B = EMI	C = A × 0.015	D = B -C	E = A - D
1	3,00,000	27,504	4,500	23,004	2,76,996
2	2,76,996	27,504	4,155	23,349	2,53,647
3	2,53,647	27,504	3,805	23,699	2,29,948
4	2,29,948	27,504	3,449	24,055	2,05,893
5	2,05,893	27,504	3,088	24,416	1,81,477
6	1,81,477	27,504	2,722	24,782	1,56,695
			21,719		

Total interest upto the end of sixth month will be Rs.21,719

2. (a) **Process-I A/c**

Particulars	Qty. (kgs)	Amount (Rs.)	Particulars	Qty. (kgs)	Amount (Rs.)
To Material A	6,000	3,00,000	By Normal loss	500	8,000
To Material B	4,000	4,00,000	By Process-II A/c	9,200	7,38,857
To Labour	--	21,500	By Abnormal loss A/c	300	24,093
To Overheads $\left(\frac{Rs.92,000 \times 430\,hrs}{800\,hrs}\right)$	--	49,450			
	10,000	7,70,950		10,000	7,70,950

$$* \frac{\{(Rs.\,3,00,000 + Rs.4,00,000 + Rs.21,500 + Rs.49,450) - Rs.8,000\}}{(10,000 - 500)\,units}$$

$$= \frac{Rs.7,70,950 - Rs.8,000}{9,500\,units} = Rs.80.3105$$

Process-II A/c

Particulars	Qty. (kgs)	Amount (Rs.)	Particulars	Qty. (kgs)	Amount (Rs.)
To Process-I A/c	9,200	7,38,857	By Normal loss	1,000	--
To Material C	6,600	8,25,000	By Packing Dept. A/c (See the working notes)	18,000	18,42,496
To Material D	4,200	3,15,000	By WIP A/c (See the working notes)	1,000	1,00,711
To Flavouring essence	--	3,300			
To Labour	--	18,500			
To Overheads $\left(\frac{Rs.92,000 \times 370\,hrs}{800\,hrs}\right)$	--	42,550			
	20,000	19,43,207		20,000	19,43,207

Abnormal loss A/c

Particulars	Qty. (kgs)	Amount (Rs.)	Particulars	Qty. (kgs)	Amount (Rs.)
To Process-I A/c	300	24,093	By Bank	300	4,800
			By Costing Profit & Loss A/c	--	19,293
	300	24,093		300	24,093

Working Notes:

Calculation of Equivalent Production units

Input	Units	Output	Units	Process-I		Mat-C & D		Labour & OH	
				(%)	Units	(%)	Units	(%)	Units
Process-I	9,200	Transferred to Packing.	18,000	100	18,000	100	18,000	100	18,000
Mat-C	6,600	Closing WIP	1,000	100	1,000	100	1,000	50	500
Mat-D	4,200	Normal loss	1,000	--	--	--	--	--	--
	20,000		20,000		19,000		19,000		18,500

Calculation of Unit cost

Cost component	Amount (Rs.)	Equivalent units	Cost per unit (Rs.)
Transferred-in	7,38,857	19,000	38.8872
Material-C	8,25,000	19,000	43.4211
Material-D	3,15,000	19,000	16.5789
Flavouring essence	3,300	19,000	0.1737
Total Material Cost	18,82,157	19,000	99.0609
Labour	18,500	18,500	1.0000
Overheads	42,550	18,500	2.3000
Total Cost	19,43,207		102.3609

Value of Materials transferred to Packing Department

= 18,000 unit × Rs.102.3609 = 18,42,496

Value of WIP : For Materials- 1,000 units × Rs.99.0609 = Rs.99,061

For Labour & Overheads 500 units × Rs.3.30 = Rs.1,650 Rs.1,00,711

(b) (i) Estimate of the Requirement of Working Capital

		(Rs.)	(Rs.)
A.	**Current Assets:**		
	Raw material stock	6,64,615	
	(Refer to Working note 3)		
	Work in progress stock	5,00,000	
	(Refer to Working note 2)		
	Finished goods stock	13,60,000	
	(Refer to Working note 4)		
	Debtors	29,53,846	
	(Refer to Working note 5)		
	Cash and Bank balance	25,000	55,03,461
B.	**Current Liabilities**:		
	Creditors for raw materials	7,15,740	
	(Refer to Working note 6)		
	Creditors for wages	91,731	8,07,471
	(Refer to Working note 7)		
	Net Working Capital (A - B)		46,95,990

(ii) The maximum permissible bank finance as per Tandon Committee Norms

First Method:

75% of the net working capital financed by bank i.e. 75% of Rs.46,95,990

(Refer to (i) above)

= Rs. 35,21,993

Second Method:

(75% of Current Assets) - Current liabilities (i.e. 75% of Rs. 55,03,461) - Rs. 8,07,471

(Refer to (i) above)

= Rs. 41,27,596 – Rs. 8,07,471

= Rs. 33,20,125

Working Notes:

1. Annual cost of production

	Rs.
Raw material requirements (1,04,000 units × Rs. 80)	83,20,000
Direct wages (1,04,000 units × Rs. 30)	31,20,000
Overheads (exclusive of depreciation)(1,04,000 × Rs. 60)	62,40,000
	1,76,80,000

2. Work in progress stock

	Rs.
Raw material requirements (4,000 units × Rs. 80)	3,20,000
Direct wages (50% × 4,000 units × Rs. 30)	60,000
Overheads (50% × 4,000 units × Rs. 60)	1,20,000
	5,00,000

3. Raw material stock

It is given that raw material in stock is average 4 weeks consumption. Since, the company is newly formed, the raw material requirement for production and work in progress will be issued and consumed during the year.

Hence, the raw material consumption for the year (52 weeks) is as follows:

	Rs.
For Finished goods	83,20,000
For Work in progress	3,20,000
	86,40,000

Raw material stock $\frac{\text{Rs. } 86,40,000}{52 \text{ weeks}} \times 4 \text{ weeks}$ i.e. Rs. 6,64,615

4. Finished goods stock

8,000 units @ Rs. 170 per unit = Rs. 13,60,000

5. Debtors for sale

Credit allowed to debtors	Average 8 weeks
Credit sales for year (52 weeks) i.e. (1,04,000 units - 8,000 units)	96,000 units
Selling price per unit	Rs. 200

Credit sales for the year (96,000 units × Rs. 200) Rs. 1,92,00,000

Debtors $\frac{₹\,1,92,00,000}{52\text{ weeks}} \times 8\text{ weeks}$ i.e. Rs. 29,53,846

(Debtor can also be calculated based on Cost of goods sold)

6. Creditors for raw material:

Credit allowed by suppliers Average 4 weeks

Purchases during the year (52 weeks) i.e. Rs. 93,04,615
(Rs. 83,20,000 + Rs. 3,20,000 + Rs. 6,64,615)

(Refer to Working notes 1,2 and 3 above)

Creditors $\frac{₹93,04,615}{52\text{ weeks}} \times 4\text{ weeks}$ i.e. Rs. 7,15,740

7. Creditors for wages

Lag in payment of wages Average $1\frac{1}{2}$ weeks

Direct wages for the year (52 weeks) i.e. Rs. 31,80,000
(Rs. 31,20,000 + Rs. 60,000)

(Refer to Working notes 1 and 2 above)

Creditors $\frac{₹31,80,000}{52\text{ weeks}} \times 1\frac{1}{2}\text{ weeks}$ i.e. Rs. 91,731

3. (a) Material Price Variance = Actual Quantity (Std. Price – Actual Price)

X = 12,500 units (Rs.40 – Rs.44) = 50,000 (A)

Y = 18,000 units (Rs.30 – Rs.28) = 36,000 (F)

Z = 88,500 units (Rs.10 – Rs.12) = <u>1,77,000 (A)</u> 1,91,000 (A)

Material Usage Variance = Std. Price (Std. Qty – Actual Qty.)

X = Rs.40 (6,000 × 2 – 12,500) = 20,000 (A)

Y = Rs.30 (6,000 × 3 – 18,000) = Nil

Z = Rs.10 (6,000 × 15 – 88,500) = <u>15,000 (F)</u> 5,000 (A)

Material Mix Variance = Std. Price (Revised Std. Qty. – Actual Qty.)

X = Rs.40 $\left(\frac{1,19,000 \times 2}{20} - 12,500\right)$ = 24,000 (A)

Y = Rs.30 ($\frac{1,19,000 \times 3}{20}$ – 18,000) = 4,500 (A)

Z = Rs.10 ($\frac{1,19,000 \times 15}{20}$ – 88,500) = 7,500 (F) 21,000 (A)

Material Yield Variance = Std. Price (Std. Qty. – Revised Std. Qty.)

X = Rs.40 (6,000 × 2 - $\frac{1,19,000 \times 2}{20}$) = 4,000 (F)

Y = Rs.30 (6,000 × 3 - $\frac{1,19,000 \times 3}{20}$) = 4,500 (F)

Z = Rs.10 (6,000 × 15 - $\frac{1,19,000 \times 15}{20}$)= 7,500 (F) 16,000 (F)

Labour Rate Variance = Actual Hours (Std. Rate – Actual Rate)

= 2,500 hours (Rs.55 – Rs.58) = 7,500 (A)

Labour Efficiency Variance = Std. Rate (Std. Hours – Actual Hours)

= Rs.55 (6,000 × 3 – 17,500) = 27,500 (F)

(b) (1) Computation of Net Present Values of Projects

Year	*Cash flows*		*Disct. factor @ 16 %*	*Discounted Cash flow*	
	Project A (Rs.)	*Project B (Rs.)*		*Project A (Rs.)*	*Project B (Rs.)*
	(1)	*(2)*	*(3)*	*(3) × (1)*	*(3) × (2)*
0	(1,35,000)	(2,40,000)	1.000	(1,35,000)	(2,40,000)
1	--	60,000	0.862	--	51,720
2	30,000	84,000	0.743	22,290	62,412
3	1,32,000	96,000	0.641	84,612	61,536
4	84,000	1,02,000	0.552	46,368	56,304
5	84,000	90,000	0.476	39,984	42,840
Net present value				58,254	34,812

(2) Computation of Cumulative Present Values of Projects Cash inflows

Year	*Project A*		*Project B*	
	PV of cash inflows (Rs.)	*Cumulative PV (Rs.)*	*PV of cash inflows (Rs.)*	*Cumulative PV (Rs.)*
1	--	--	51,720	51,720
2	22,290	22,290	62,412	1,14,132

3	84,612	1,06,902	61,536	1,75,668
4	46,368	1,53,270	56,304	2,31,972
5	39,984	1,93,254	42,840	2,74,812

(i) Discounted payback period: *(Refer to Working note 2)*

Cost of Project A = Rs.1,35,000

Cost of Project B = Rs. 2,40,000

Cumulative PV of cash inflows of Project A after 4 years = Rs. 1,53,270

Cumulative PV of cash inflows of Project B after 5 years = Rs. 2,74,812

A comparison of projects cost with their cumulative PV clearly shows that the project A's cost will be recovered in less than 4 years and that of project B in less than 5 years. The exact duration of discounted payback period can be computed as follows:

	Project A	Project B
Excess PV of cash inflows over the project cost (Rs.)	18,270 (Rs.1,53,270 – Rs. 1,35,000)	34,812 (Rs. 2,74,812 – Rs. 2,40,000)
Computation of period required to recover excess amount of cumulative PV over project cost (Refer to Working note 2)	0.39 year (Rs. 18,270 ÷Rs. 46,368)	0.81 years (Rs. 34,812 ÷ Rs. 42,840)
Discounted payback period	3.61 year (4 – 0.39) years	4.19 years (5 – 0.81) years

(ii) Profitability Index: $= \frac{\text{Sum of discounted cash inflows}}{\text{Initian cash outlay}}$

Profitability Index (for Project A) = $\frac{\text{Rs.}1,93,254}{\text{Rs.}1,35,000}$ = 1.43

Profitability Index (for Project B) = $\frac{\text{Rs.}2,74,812}{\text{Rs.}2,40,000}$ = 1.15

(iii) Net present value *(for Project A)* = Rs. 58,254 *(Refer to Working note 1)*

Net present value *(for Project B)* = Rs. 34,812

4. (a) Effective machine hours = 200 hours × 75% = 150 hours

Computation of Comprehensive Machine Hour Rate

	Per month (Rs.)	Per hour (Rs.)
Fixed cost		
Supervision charges	18,000.00	
Electricity and lighting	9,500.00	
Insurance of Plant and building (Rs.18,250 ÷12)	1,520.83	
Other General Expenses (Rs.17,500÷12)	1,458.33	
Depreciation (Rs.64,800÷12)	5,400.00	
	35,879.16	239.19
Direct Cost		
Repairs and maintenance	17,500.00	116.67
Power	65,000.00	433.33
Wages of machine man		139.27
Wages of Helper		109.41
Machine Hour rate (Comprehensive)		1,037.87

Wages per machine hour

	Machine man	Helper
Wages for 200 hours		
Machine-man (Rs.400 × 25)	Rs.10,000.00	---
Helper (Rs.275 × 25)	---	Rs.6,875.00
Dearness Allowance (DA)	Rs.4,575.00	Rs.4,575.00
	Rs.14,575.00	Rs.11,450.00
Production bonus (1/3 of Basic and DA)	4,858.33	3,816.67
Leave wages (10% of Basic and DA)	1,457.50	1,145.00
	20,890.83	16,411.67
Effective wage rate per machine hour	Rs.139.27	Rs.109.41

(b) Calculation of Earning per share for three alternatives to finance the project

Particulars	Alternatives		
	I To raise debt of Rs. 2,50,000 and equity of Rs. 22,50,000	II To raise debt of Rs. 10,00,000 and equity of Rs.15,00,000	III To raise debt of Rs.15,00,000 and equity of Rs. 10,00,000
	(Rs.)	(Rs.)	(Rs.)
Earnings before interest and tax	5,00,000	5,00,000	5,00,000
Less: Interest on debt at the rate of	25,000 (10% on Rs.2,50,000)	1,37,500 (10% on Rs.2,50,000) (15% on Rs. 7,50,000)	2,37,500 (10% on Rs. 2,50,000) (15% on Rs.7,50,000) (20% on Rs.5,00,000)
Earnings before tax	4,75,000	3,62,500	2,62,500
Less: Tax @ 50%	2,37,500	1,81,250	1,31,250
Earnings after tax: (A)	2,37,500	1,81,250	1,31,250
Number of shares: (B) (Equity/ Market price of Share)	15,000 (Rs.22,50,000/Rs.150)	10,000 (Rs.15,00,000/Rs.150)	8,000 (Rs.10,00,000/Rs.125)
Earnings per share: [(A)/ (B)]	15.833	18.125	16.406

The company should raise Rs.10,00,000 from debt and Rs.15,00,000 by issuing equity shares, as it gives highest EPS.

5. (a) **Cost plus contract:** Under cost plus contract, the contract price is ascertained by adding a percentage of profit to the total cost of the work. Such types of contracts are entered into when it is not possible to estimate the contract cost with reasonable accuracy due to unstable condition of material, labour services etc.

Following are the advantages of cost plus contract:

(i) The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.

(ii) It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.

(iii) Contractee can ensure himself about the 'cost of contract' as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of contract.

(b) Apportionment of Joint Cost amongst Joint Products using:

Market value at the point of separation

This method is used for apportionment of joint costs to joint products upto the split off point. It is difficult to apply if the market value of the product at the point of separation is not available. It is useful method where further processing costs are incurred disproportionately.

Net realizable value Method

From the sales value of joint products (at finished stage) the followings are deducted:

– Estimated profit margins

– Selling & distribution expenses, if any

– Post split off costs.

The resultant figure so obtained is known as net realizable value of joint products. Joint costs are apportioned in the ratio of net realizable value.

(c) Trade credit and accruals as source of working capital refers to credit facility given by suppliers of goods during the normal course of trade. It is a short term source of finance. SSI firms in particular are heavily dependent on this source for financing their working capital needs. The major advantages of trade credit are – easy availability, flexibility and informality.

There can be an argument that trade credit is a cost free source of finance. But it is not. It involves implicit cost. The supplier extending trade credit incurs cost in the form of opportunity cost of funds invested in trade receivables. Generally, the supplier passes on these costs to the buyer by increasing the price of the goods or alternatively by not extending cash discount facility.

(d) Bridge finance refers, normally, to loans taken by the business, usually from commercial banks for a short period, pending disbursement of term loans by financial institutions, normally it takes time for the financial institution to finalise procedures of creation of security, tie-up participation with other institutions etc. even though a positive appraisal of the project has been made. However, once the loans are approved in principle, firms in order not to lose further time in starting their projects arrange for bridge finance. Such temporary loan is normally repaid out of the proceeds of the principal term loans. It is secured by hypothecation of moveable assets, personal guarantees and demand promissory notes. Generally rate of interest on bridge finance is higher as compared with that on term loans.

6. (a) (i) Annual Cost Statement of three vehicles

	(Rs.)
Diesel {(1,34,784 km. ÷ 4 km) × Rs. 40) (Refer to Working Note 1)	13,47,840
Oil & sundries {(1,34,784 km. ÷ 100 km.) × Rs. 250}	3,36,960
Maintenance {(1,34,784 km. × Rs. 0.25) + Rs. 6,000} (Refer to Working Note 2)	39,696
Drivers' salary {(Rs.12,000 × 12 months) × 3 trucks}	4,32,000
Licence and taxes (Rs. 5,000 × 3 trucks)	15,000
Insurance	5,000
Depreciation {(Rs. 29,00,000 ÷ 10 years) × 3 trucks}	8,70,000
General overhead	1,15,600
Total annual cost	31,62,096

(ii) Cost per km. run

Cost per kilometer run = $\frac{\text{Total annual cost of vehicles}}{\text{Total kilometre travelled annually}}$ (Refer to Working Note 1)

$= \frac{₹\ 31,62,096}{1,34,784\ \text{Kms}} = ₹\ 23.46$

(iii) Freight rate per tonne km (to yield a profit of 10% on freight)

Cost per tonne km.= $\frac{\text{Total annual cost of three vehicles}}{\text{Total effective tonnes kms. per annum}}$ (Refer to Working Note 1)

$= \frac{\text{Rs. } 31,62,096}{6,06,528\ \text{kms}} = \text{Rs.}5.21$

Freight rate per tonne km. $\left(\frac{\text{Rs. } 5.21}{0.9}\right) \times 1$ = Rs. 5.79

Working Notes:

1. **Total kilometer travelled and Commercial tonnes kilometer (load carried) by three trucks in one year**

Truck	One way distance in kms	No. of trips	Total distance covered in km per day (with load)	Total distance covered in km per day (up & down)	Load carried per trip / day in tonnes	Total effective tonnes km
	a	b	c = a × b	d = c × 2	e	f = 27/3 × c
1	16	4	64	128	6	576
2	40	2	80	160	9	720
3	30	3	90	180	12	810
Total			234	468	27	2,106

Total kilometre travelled by three trucks in one year

(468 km. × 24 days × 12 months) = 1,34,784

Total effective tonnes kilometre of load carried by three trucks during one year

(2,106 tonnes km. × 24 days × 12 months) = 6,06,528 tonne-km

2. Fixed and variable component of maintenance cost:

$$\text{Variable maintenance cost per km.} = \frac{\text{Difference in maintenance cost}}{\text{Difference in distance travelled}}$$

$$= \frac{\text{Rs. } 46{,}050 - \text{Rs. } 45{,}175}{1{,}60{,}200 \text{ kms} - 1{,}56{,}700 \text{ kms}} = \text{Rs. } 0.25$$

Fixed maintenance cost =Total maintenance cost–Variable maintenance cost

= Rs. 46,050 – 1,60,200 kms × Rs. 0.25= Rs. 6,000

(b) Working Notes:

Company A

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{3}{1} = \text{Or, EBIT} = 3 \times \text{EBT} \quad \text{....... (1)}$$

Again EBIT – Interest = EBT

Or, EBIT - 200 = EBT ....(2)

Taking (1) and (2) we get

3 EBT - 200 = EBT

Or, 2 EBT = 200 or EBT = Rs.100

Hence EBIT = 3EBT = Rs.300

Again we have operating leverage $= \dfrac{\text{Contribution}}{\text{EBIT}} = \dfrac{4}{1}$

EBIT = Rs. 300, hence we get

Contribution = 4 × EBIT = Rs.1,200

Now variable cost = $66\frac{2}{3}\%$ on sales

Contribution = $100 - 66\frac{2}{3}\%$ i.e. $33\frac{1}{3}\%$ on sales

Hence sales $= \dfrac{1200}{33\frac{1}{3}\%}$ = Rs. 3,600

Same way EBIT, EBT, contribution and sales for company B can be worked out.

Company B

Financial leverage $= \dfrac{\text{EBIT}}{\text{EBT}} = \dfrac{4}{1}$ or EBIT = 4 EBT .....(3)

Again EBIT – Interest = EBT or EBIT – 300 = EBT ....(4)

Taking (3) and (4) we get, 4 EBT- 300 = EBT

Or, 3 EBT = 300 Or, EBT= 100

Hence, EBIT = 4 × EBT= 400

Again we have operating leverage = $\dfrac{\text{Contribution}}{\text{EBIT}} = \dfrac{5}{1}$

EBIT = 400; Hence we get contribution = 5 × EBIT = 2,000

Now variable cost =75% on sales

Contribution = 100 - 75% i.e. 25% on sales

Hence Sales = $\dfrac{2,000}{25\%}$ = Rs. 8,000

Income Statement

	A (Rs.)	B (Rs.)
Sales	3,600	8,000
Less: Variable Cost	2,400	6,000
Contribution	1200	2,000
Less: Fixed Cost (bal. Fig)	900	1,600
EBIT	300	400
Less: Interest	200	300
EBT	100	100
Less: Tax 45%	45	45
EAT	55	55

7. **(a)** Effect of overtime payment on productivity: Overtime work should be resorted to only when it is extremely essential because it involves extra cost. The overtime payment increases the cost of production in the following ways:

1. The overtime premium paid is an extra payment in addition to the normal rate.
2. The efficiency of operators during overtime work may fall and thus output may be less than normal output.
3. In order to earn more the workers may not concentrate on work during normal time and thus the output during normal hours may also fall.
4. Reduced output and increased premium of overtime will bring about an increase in cost of production.

(b) In integrated accounting system cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for Costing as well as for Financial Accounts. In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity. It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact all information that management requires from a system of Costing for doing its work properly is made available. The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

Since, only one set of books are kept for both cost accounting and financial accounting purpose so there is no necessity of reconciliation of cost and financial accounts.

(c) Time value of money means that worth of a rupee received today is different from the worth of a rupee to be received in future. The preference of money now as compared to future money is known as time preference for money.

A rupee today is more valuable than 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 over 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 companies have a preference for present money because of availabilities of opportunities of investment for earning additional cash flow.

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

(d) The functions of treasury department management is to ensure proper usage, storage and risk management of liquid funds so as to ensure that the organisation is able to meet its obligations, collect its receivables and also maximize the return on its investments. Towards this end the treasury function may be divided into the following:

(i) **Cash Management:** The efficient collection and payment of cash both inside the organization and to third parties is the function of treasury department. Treasury normally manages surplus funds in an investment portfolio.

(ii) **Currency Management:** The treasury department manages the foreign currency risk exposure of the company. It advises on the currency to be used when invoicing overseas sales. It also manages any net exchange exposures in accordance with the company policy.

(iii) **Fund Management:** Treasury department is responsible for planning and sourcing the company's short, medium and long-term cash needs. It also participates in the decision on capital structure and forecasts future interest and foreign currency rates.

(iv) **Banking:** Since short-term finance can come in the form of bank loans or through the sale of commercial paper in the money market, therefore, treasury department carries out negotiations with bankers and acts as the initial point of contact with them.

(v) **Corporate Finance:** Treasury department is involved with both acquisition and disinvestment activities within the group. In addition, it is often responsible for investor relations.

(e) **Controllable costs and Uncontrollable costs***:* Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre.

Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs.

Test Series: February, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 4: TAXATION

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

1. (a) Ms. Reema, an Indian citizen aged 33 years, carries on her own business. Compute the total income and tax payable by Ms. Reema for the Assessment Year 2016-17. Her Profit & Loss A/c for the year ending 31-03-2016 is as follows:

Particulars	Rs.	Particulars	Rs.
Salary	48,000	Gross Profit	4,30,400
Advertisement	24,000	Cash Gift (on the occasion of marriage)	1,20,000
Sundry Expenses	54,500		
Fire Insurance (Rs.10,000 relates to House Property)	30,000	Interest on Debentures (Listed in recognized stock exchange) Net of Taxes	5,400
Income-tax	27,000		
Household expenses	42,500		
Depreciation (allowable)	23,800		
Contribution to an University approved and notified U/s. 35(1)(ii)	1,00,000		
Municipal Taxes paid for house property	36,000		
Printing & Stationery	12,000		
Repairs & Maintenance	24,000		
Net Profit	1,34,000		
	5,55,800		**5,55,800**

Other information:

(i) She purchased 10,000 shares of X Ltd on 01-01-2012 for Rs. 1,00,000 and received a 1:1 bonus on 01-01-2013. She sold 5000 bonus shares in September 2015 for Rs. 2,20,000. (Shares are not listed and STT not paid).

(ii) Ms. Reema owns a House Property which is being used by her for the following purposes:

- 25% of the property for own business
- 25% of the property for self-residence
- 50% let out for Residential purpose

(iii) Rent received from 50% let out portion during the year was Rs. 1,65,000.

(iv) On 1-12-2015 she acquired a vacant site from her friend for Rs. 1,05,000. The State Stamp Valuation Authority fixed the value of the site at Rs. 2,80,000 for stamp duty purpose.

(v) LIC premium paid (Policy value Rs. 3,00,000 taken on 01-06-2013) Rs. 60,000 for her handicapped son (suffering from disability mentioned in section 80U)

(vi) She received interest on Post Office Savings Bank Account amounting to Rs.500

(vii) Cash gift on the occasion of marriage includes gift of Rs. 20,000 from non-relatives. *(10 Marks)*

(b) Super-Fit Hospital has received the following amounts in the month of September, 20XX in lieu of various services rendered by it in the same month. You are required to determine its service tax liability for September, 20XX from the details furnished below:-

S. No.	Particulars	Rs. (in lakh)
(i)	Pranic healing treatments. Such treatment is not a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010	90
(ii)	Mortuary services	21
(iii)	Naturopathy treatments. Such treatment is a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010	120
(iv)	Hair transplant services	130
(v)	Services provided by cord blood bank unit of the nursing home by way of preservation of stem cells	18
(vi)	Plastic surgery to restore anatomy of a child affected due to an accident.	75

Super Fit Hospital does not have its own ambulances so it avails ambulance services from Live Years, an ambulance service provider, to transport critically ill patients from various locations to the Hospital. Examine whether Live Years would be charging any service tax from Super Fit Hospital on the services provided by them.

Note: All the amounts given above are exclusive of service tax. Further, Super Fit Hospital is not eligible for the small service provider's exemption under *Notification No. 33/2012-ST dated 20.06.2012*. Point of taxation for the services rendered by Super Fit Hospital in the month of September, 20XX fall in the month of September itself. *(6 Marks)*

(c) MNO Manufacturers Ltd. imported some goods from Germany 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 Manufactures Ltd. ? *(4 Marks)*

2. (a) Mr. Puneet, aged 38 years owned a Residential House in Gurgaon. It was acquired by Mr. Puneet on 10-10-1986 for Rs. 6,00,000. He sold it for Rs. 53,00,000 on 4-11-2015. The stamp valuation authority of the State fixed value of the property at Rs. 65,00,000. The assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr. Puneet acquired a residential house property at Chennai on 10-12-2015 for Rs.7,00,000 and deposited Rs. 3,00,000 on 27-4-2016 and Rs. 5,00,000 on 30-7-2016 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited Rs. 4,00,000 on 17-05-2016 and Rs. 3,00,000 on 2-12-2016 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Chennai.

Compute the Capital Gain chargeable to tax for the Assessment Year 2016-17 and income-tax chargeable thereon assuming Mr. Puneet has no other income.

Cost Inflation Index for Financial Year 1986-87: 140 and Financial Year 2015-16: 1081 *(8 Marks)*

(b) Whitedent is a leading manufacturer of toothbrush. Legal Metrology Act, 2009 requires declaration of retail sale price on the package of toothbrush and toothbrush is also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions). Following information has been furnished by Whitedent:

Abatement available on toothbrush	30% of retail sale price
MRP marked on the pack of a toothbrush	Rs. 50 per toothbrush
Price at which Whitedent sells the toothbrush to their wholesalers	Rs. 30 per toothbrush
Price at which wholesalers sell the tooth brush to retail shop owners	Rs. 35 per toothbrush
Price at which toothbrush are sold by retailers to final consumers	Rs. 40 (Rs. 10 offered as discount on printed retail sale price
Excise duty	12.5%

Calculate excise duty payable on a package of toothbrush. *(4 Marks)*

(c) Compute the interest payable on delayed payment of service tax by service provider in following cases:

Name of the service provider	ABC Ltd.	Mr. Manan
Service tax liability	Rs.1,50,000	Rs. 2,50,000
Delay in payment of service tax	10 days	15 days

Aggregate value of taxable services rendered in preceding financial year by ABC Ltd. was Rs. 55,00,000 and by Mr. Manan was Rs. 65,00,000. *(4 Marks)*

3. (a) Mr. A is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2016-17:

		(Rs. in lacs)
(i)	Opening WDV of block (15% rate)	42
(ii)	New machinery purchased on 12-10-2015	10
(iii)	Machinery imported from Colombo on 12-4-2015. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(iv)	New computer installed in generation wing of the unit on 15-7-2015	2

(4 Marks)

(b) Madhur has a property whose municipal valuation is Rs.2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.1.2016. Unrealised rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied. Interest on borrowed capital was Rs. 65,000 for the year. He paid municipal taxes @8% of municipal valuation. Compute the income from house property of Madhur for A.Y.2016-17. *(4 Marks)*

(c) Laxmi Ltd. exported some goods to Eastside Inc. of USA. It received US $ 10,000 as consideration for the same and sold the foreign currency @ Rs. 61 per US dollar. Compute the value of taxable service under rule 2B of the Service Tax (Determination of Value) Rules, 2006 in the following cases:-

(i) RBI reference rate for US dollar at that time is Rs. 62 per US dollar.

(ii) RBI reference rate for US dollars is not available.

What would be the value of taxable service if US $ 10,000 are converted into UK £ 5,000. RBI reference rate at that time for US $ is Rs. 63 per US dollar and for UK £ is Rs. 101 per UK Pound. *(5 Marks)*

(d) C of Chennai sells goods to D of Delhi and hands over the goods to RST Transport, Chennai for transporting the same to Delhi. The lorry receipt is sent to D by post. While goods are in transit, D sells the goods to B of Madhya Pradesh by endorsing the lorry receipt and goods are diverted to Madhya Pradesh. C, D and B are registered dealers. Is the second sale between D and B chargeable to tax?

(3 Marks)

4\. (a) Mr. Gaurav, aged 55 years, earned professional income (computed) of Rs. 5,50,000 during the year ended 31.03.2016. He has earned interest of Rs. 14,500 on the saving bank account with Union Bank of India during the year. Compute the total income of Mr. Gaurav for the assessment year 2016-17 from the following particulars:

(i) Life insurance premium of Rs. 20,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is Rs. 1,75,000 and the life insurance policy was taken on 18.04.2011.

(ii) Life insurance premium paid to Max New India Insurance in cash amounting to Rs. 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2012 and the sum assured on life of his dependent parents is Rs. 1,25,000.

(iii) Life insurance premium paid by cheque of Rs. 22,500 for insurance of his life. The insurance policy was taken on 08.09.2012 and the sum assured is Rs. 2,00,000.

(iv) Premium of Rs. 22,000 paid by cheque for health insurance of self and his wife.

(v) Rs. 1,500 paid in cash for his health check-up and Rs. 5,000 paid in cheque for health check-up for his parents, who are senior citizens.

(vi) Paid interest of Rs. 8,000 on loan taken from bank for MBA course pursued by his daughter.

(vii) A sum of Rs. 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning. *(8 Marks)*

(b) With reference to the provisions of Finance Act, 1994, examine the validity of following statements:

(i) Services by way of carrying out any process amounting to manufacture of potable liquor is not liable to service tax.

(ii) Health care services provided by a Municipality owned hospital to general public are not covered under negative list of services.

(iii) Services provided to and by Reserve Bank of India are covered in negative list of services.

(iv) Floriculture (cultivation of ornamental flowers) is not liable to service tax as the same is covered under negative list of services. *(8 Marks)*

5. (a) Esha, engaged in various types of activities, gives the following particulars of her income for the year ended 31.3.2016:

	Particulars	**Rs.**
(a)	Profit from business of consumer and house-hold products	70,000
(b)	Brought forward loss of catering business which was closed in Asst. Year 2015-16	15,000
(c)	Loss of business of readymade garments	10,000
(d)	Short-term loss on sale of securities and shares	18,000
(e)	Profit of speculative transactions entered into during the year	7,500
(f)	Loss of speculative transactions of Asst. Year 2011-12 not set off till Asst. Year 2015-16	12,000

Compute the total income of Esha for the A.Y. 2016-17. *(4 Marks)*

(b) Compute the total income in the hands of Mr. Lalit an individual, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2016-17 -

Particulars	**Amount (Rs.)**
Interest on debentures in an Indian company received in Australia.	12,000
Pension for services rendered in India but received in Canada	4,000
Income from agricultural land in Bhutan received there and then brought to India	18,000
Income from profession in Malaysia which was set up in India, received there but spent in India	5,000

(4 Marks)

(c) Ramlal & Sons are the manufacturers of certain non-excisable goods. They manufactured goods worth Rs. 10,00,000 on 25.06.20XX. These goods were removed from the factory on 20.09.20XX. On 01.09.20XX, these goods were brought within the purview of the Central Excise Tariff and chargeable to excise duty @ 12.5%.

Discuss the leviability of excise duty on the goods manufactured by Ramlal & Sons.

(3 Marks)

(d) Ms.Sakshi Kothari has provided you the following details in respect of various services received/availed by her during December, 20XX:-

(i) Visited a Neurosurgeon (MBBS, MS) as she met an accident and paid consultancy fee of Rs. 1,200.

(ii) Availed services of a mobile network operator and received a monthly bill for Rs. 2,000.

(iii) Deposited Rs. 3,00,000 in her Savings Bank A/c. Interest of Rs. 24,000 was credited in her account on 31.12.20XX.

(iv) Availed beauty treatment services from a salon for Rs. 6,000.

Notes:

1. All the amounts given above, are exclusive of service tax, wherever applicable.
2. All the service providers who have provided services to Ms. Sakshi Kothari are not eligible for small service provider's exemption, wherever service tax is applicable.
3. Wherever applicable, service tax is to be recovered from the service receiver.

Compute the amount of service tax leviable on services availed/received by Ms. Sakshi Kothari. *(5 Marks)*

6. (a) Mr. Suraj is employed with MN Ltd. on a basic salary of Rs.12,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of Rs.6,600 p.m. which was increased to Rs.7,200 p.m. with effect from 1.01.2016. He also got an increment of Rs.1,200 p.m. in his basic salary with effect from 1.02.2016. Rent paid by him during the previous year 2015-16 is as under:

April and May, 2015	Nil, as he stayed with his parents
June to October, 2015	Rs.6,500 p.m. for an accommodation in Gurgaon
November, 2015 to March, 2016	Rs.8,500 p.m. for an accommodation in Noida.

Compute his gross salary for assessment year 2016-17. *(8 Marks)*

(b) Mr. Govinda of Mumbai purchased declared goods (goods of special importance) from Nagpur by paying sales tax @ 5%. Subsequently, the commodity is sold to a dealer at Chennai. The dealer Govinda while collecting and remitting tax on the inter-State sale, wants refund of tax paid on sale within State (i.e. purchase from Nagpur). Is he correct? *(4 Marks)*

(c) With reference to the provisions of Service Tax Rules, 1994, briefly examine who is liable to pay service tax in the following independent cases:-

(i) Service agreed to be provided by way of security services by Mr. A to XYZ Ltd.

(ii) Taxable service provided by a person involving an aggregator in any manner.

(4 Marks)

7. (a) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2015-16:

(i) Rent paid for plant and machinery Rs.1,50,000 by a partnership firm having sales turnover of Rs. 20,00,000 and net loss of Rs.15,000.

(ii) Fee paid to Doctor Mohit Batra by Batra (HUF) Rs.38,000 for surgery performed on a member of the family.

(iii) Winning by way of jackpot in a horse race Rs.70,000.

(iv) Rs 1,50,000 paid to Mr. Samarth, a resident individual, on 17-02-2016 by the State of Madhya Pradesh on compulsory acquisition of his urban land.

(4 Marks)

(b) State with reasons whether you agree or disagree with the following statements:

(i) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

(ii) Time limit for filing return under section 139(1) in the case of Mr. Aman having total turnover of Rs. 60 lakhs for the year ended 31.03.2016, whether or not opting to offer presumptive income under section 44AD, is 30th September 2016.

(4 Marks)

(c) Expander Ltd. provided business support services to Sushma on 10th August, 20XX for Rs. 50,000. The invoice for the same was issued on 20th August, 20XX. Expander Ltd. received the payment against the said invoice on 15th August, 20XX vide cheque dated 12th August, 20XX. The entry for the receipt of payment was made in the books of accounts on 15th August, 20XX itself. However, the amount was credited in the bank A/c on 25th August, 20XX. Determine the point of taxation in the given case. *(4 Marks)*

(d) Discuss the correctness of the following independent statements, with reference to the provisions of CENVAT Credit Rules, 2004:-

(i) CENVAT credit is not allowed on inputs, if they are received directly in the premises of job worker on the direction of manufacturer.

(ii) Rule 4(5) of CENVAT Credit Rules, 2004 prescribes time limit of 180 days for return of capital goods from a job-worker to manufacturer. *(4 Marks)*

Test Series: February, 2016

MOCK TEST PAPER– 1

INTERMEDIATE (IPC) – GROUP – I

PAPER – 4: TAXATION

SUGGESTED ANSWERS/HINTS

1. (a) Computation of total income and tax liability of Ms. Reema for A.Y.2016-17

Particulars	Working Note Nos.	Rs.
Income from house property	1	1,02,900
Profit and gains of business or profession	2	37,600
Short term capital gains	3	2,20,000
Income from other sources	4	1,81,000
Gross Total Income		**5,41,500**
Less: Deduction under Chapter VI-A	5	45,000
Total Income		**4,96,500**
Tax on total income		
Tax on total income		24,650
Less: Rebate under section 87A (since total income does not exceed Rs. 5,00,000)		2,000
		22,650
Add: Education cess @ 2% and SHEC @ 1%		680
Total tax liability		23,330
Less: Tax deducted at source on interest on debentures [Rs. 5,400 × 10/90]		600
Net Tax liability		**22,730**

Working Notes:

	Particulars	Rs.	Rs.
(1)	**Income from House Property**		
(i)	**Self-occupied portion (25%)** As per section 23(2), income from self-occupied portion is Nil.		Nil

(ii)	**Let-out portion – 50%**		
	Gross Annual Value		1,65,000
	(Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)		
	Less: Municipal taxes paid in respect of let out portion (50% of Rs. 36,000)		18,000
	Net Annual Value (NAV)		1,47,000
	Less: Deduction under section 24@30% of NAV		44,100
			1,02,900
(2)	**Profits & Gains of Business or Profession**		
	Net profit as per profit and loss account		1,34,000
	Add: Expenses debited to profit and loss account but not allowable		
	(i) Fire Insurance [relating to let-out and self-occupied house property] (75% of Rs.10,000)	7,500	
	(ii) Income-tax [disallowed as per section 40(a)(ii)/(iia)]	27,000	
	(iii) Household expenses (Under section 37, personal expenses are disallowed)	42,500	
	(iv) Contribution to university approved under section 35(1)(ii), considered separately	1,00,000	
	(v) Municipal Taxes paid in respect of let-out and self-occupied portions [75% of Rs. 36,000]	27,000	2,04,000
			3,38,000
	Less: Weighted deduction@175% for contribution to university approved and notified under section 35(1)(ii) [1,00,000 × 175%]		1,75,000
			1,63,000
	Less: Income credited to Profit & Loss Account but not taxable under this head:		
	(i) Cash gift	1,20,000	
	(ii) Interest on debentures	5,400	1,25,400
			37,600
(3)	**Capital gains**		
	Sale consideration of bonus shares		2,20,000
	Less: Cost of acquisition [Nil, for bonus shares]		Nil
	Short term capital gain [Since unlisted shares are held by Ms. Reema for less than 36 months]		**2,20,000**

(4)	**Income from Other Sources**		
	Cash gift on the occasion of marriage is exempt, even if the same is received from a non-relative		Nil
	In case of vacant site received for inadequate consideration, difference between stamp duty value (Rs. 2,80,000) and actual consideration (Rs. 1,05,000) is taxable under section 56(2)(vii), since such difference exceeds Rs. 50,000.		1,75,000
	Interest of Rs. 500 on post-office savings bank account [In case of individual account, a sum upto Rs. 3,500 is exempt under section 10(15)]		Nil
	Interest on debentures (gross) [Rs. 5,400 × 100/90] (The rate of TDS under section 194A is 10%)		6,000
	Income chargeable under this head		**1,81,000**
(5)	**Deduction under Chapter VI-A :**		
	Deduction under section 80C		
	LIC Premium paid Rs. 60,000 [Since the policy was taken after 31.3.2013 to insure the life of disabled son, the premium is restricted to 15% of sum assured] [15% of Rs. 3,00,000]		45,000

(b) Computation of service tax liability of Super-Fit Hospital for the month of September, 20XX

Particulars	**Rs. (in lakh)**
Pranic healing treatments [Note-1(a)]	90
Mortuary services [Note 2]	-
Naturopathy treatments [Note-1(b)]	-
Hair transplant services [Note-1(c)]	130
Services provided by cord blood bank by way of preservation of stem cells [Note-3]	-
Plastic surgery to restore anatomy of a child affected due to an accident [Note-1(d)]	-
Value of taxable service	2,20
Service tax @ 14% [Rs. 220 lakh × 14%]	**30.8**

Notes:

(1) Health care services provided by, inter alia, a clinical establishment in any recognized system of medicines in India is exempt from service tax vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*.

(a) Since pranic healing treatment is not a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would not be eligible for exemption.

(b) Since naturopathy is a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would be eligible for exemption.

(c) Hair transplant services are specifically excluded from the health care services, and thus are not eligible for exemption.

(d) Health care service does not include *inter alia* cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma. Hence, plastic surgery to restore anatomy of a child affected due to an accident will be eligible for exemption.

(2) Mortuary services are covered under negative list of services under section 66D of the Finance Act, 1994. Hence, the same are not liable to service tax.

(3) Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are also exempt from service tax vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*.

Services by way of transportation of the patient to and from a clinical establishment are specifically included in the definition of health care services. Thus, ambulance services to transport critically ill patients from various locations to Super Fit Hospital are eligible for exemption. Furthermore, ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax vide a separate entry in the Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012.* Therefore, ambulance services provided by Live Years will also be exempt from service tax. Thus, Live Years will not charge any service tax from Super Fit Hospital on the ambulance services rendered by them.

(c) 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.

2. (a) Computation of Capital Gains chargeable to tax in the hands of Mr. Puneet for the A.Y. 2016-17

Particulars	Rs.	Rs.
Gross Sale Consideration on transfer of residential house [As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration]		65,00,000
Less: Brokerage@2% of actual sale consideration of Rs. 53,00,000		1,06,000
Net Sale Consideration		63,94,000
Less: Indexed cost of acquisition [Rs. 6,00,000 x 1081/140]		46,32,857
Long-term capital gain		17,61,143
***Less:* Exemption under section 54**		
- Acquisition of residential house property at Chennai on 10.12.2015 (i.e., within the prescribed time of two years from 4.11.2015, being the date of transfer of residential house at Gurgaon).	7,00,000	
- Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Chennai. Since Mr. Puneet has no other source of income, his due date for filing return of income is 31st July, 2016 [Therefore, Rs. 4,00,000 deposited on 17.05.2016 will be eligible for exemption whereas Rs. 3,00,000 deposited on 02.12.2016 will not be eligible for exemption under section 54]	4,00,000	11,00,000
Exemption under section 54EC Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2016) would qualify for exemption. [Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 27.4.2016 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 30.07.2016 would not qualify for exemption]		3,00,000
Long-term capital gain		**3,61,143**

Computation of tax liability of Mr. Puneet for A.Y. 2016-17

Particulars	Rs.
Tax on Rs. 1,11,143 (i.e Long term capital gain Rs. 3,61,143 less basic exemption limit of Rs. 2,50,000) is charged @ 20% [Section 112] (Since long-term capital gains is the only source of income, the entire basic exemption limit can be exhausted against this income)	22,229
Less: Rebate under section 87A	2,000
	20,229
Add: Education cess@2% and Secondary & higher education cess @ 1%	607
Total tax liability	**20,836**
Total tax liability (rounded off)	**20,840**

Note: As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan 286 ITR 274 and Haryana High Court in CIT vs Jagriti Agarwal 245 CTR 629, exemption under section 54 is allowable even if the amount of capital gain is deposited in Capital Gains Accounts Scheme within the period specified for filing a belated return under section 139(4) [i.e., on or before 31.3.2018, being one year from the end of A.Y.2016-17].

If we apply the above interpretation in this case, Mr. Puneet would be eligible for exemption under section 54 in respect of Rs. 3,00,000 deposited in Capital Gains Accounts Scheme on 06.12.2016 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. Puneet would be Nil and the consequent tax liability would also be Nil.

(b) Since Legal Metrology Act, 2009 requires declaration of retail sale price on the package of toothbrush and toothbrush is also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of RSP less abatement.

Particulars	Rs.
MRP marked on the pack of a toothbrush	50
Less: Abatement @ 30% of RSP [30% of Rs. 50]	15
Value for purpose of excise duty	35
Excise duty @ 12.5% [12.5% of Rs. 35]	4.38
Excise duty payable (rounded off)	**4**

(c) Computation of interest on delayed payment of service tax

Name of the service provider	ABC Ltd.	Mr. Manan
Service tax liability	Rs. 1,50,000	Rs. 2,50,000
Delay in payment of service tax	10 days	15 days
Value of taxable services in previous financial year	Rs. 55,00,000	Rs. 65,00,000
Rate of interest	15% per annum	18% per annum
Interest (rounded off)	[Rs. 1,50,000x (15/100) x (10/365)] =Rs. 616	[Rs. 2,50000 x (18/100) x (15/365)] =Rs. 1,849

Note: As per section 75 of Finance Act, 1994 read with *Notification No. 12/2014 ST dated 11.07.2014*, delay in payment of service tax upto six months attracts interest @ 18% per annum. However, the applicable rate gets reduced by 3% for service providers whose turnover of services does not exceed Rs. 60 lakh in the preceding financial year.

3. (a) Computation of depreciation under section 32 for A.Y.2016-17

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation@15% on Rs. 51,00,000, being machinery (put to use for more than 180 days) [Opening WDV of Rs. 42,00,000 + Purchase cost of imported machinery of Rs. 9,00,000]	7,65,000	
Depreciation@7.5% on Rs.10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,40,000	
Depreciation@60% on computers purchased Rs. 2,00,000	1,20,000	9,60,000
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of Rs. 10,00,000 [being actual cost of new machinery purchased on 12-10-2015]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of Rs. 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		**11,00,000**

Note: The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia,* in the business of generation or generation and distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing of the unitis eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2015, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2016-17. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

(b) Computation of income from house property of Madhur for A.Y. 2016-17

Particulars		**Amount in Rs.**	
Computation of Gross Annual Value (GAV)			
Step 1	Compute Expected Rent (ER)		
	ER = Higher of Municipal Value of Rs. 2,50,000 p.a. and Fair Rent of Rs. 2,00,000 p.a., but restricted to Standard Rent of Rs. 2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received/receivable		
	Actual rent received/receivable for let out period *less* unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000	1,80,000	
Step 3	Compare ER and Actual rent received/receivable		
Step 4	In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs. 1,80,000 + Rs. 40,000). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			**1,80,000**

Less:	Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV)			**1,60,000**
Less:	**Deductions under section 24**		
	(a) 30% of NAV = 30% of Rs. 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			**47,000**

(c) **(i)** For a currency, when exchanged from, or to, Indian Rupees (INR), the value shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

Hence, in the given case, value of taxable service would be as follows:-

(RBI reference rate for $ – Selling rate for $) × Total units of US $

=Rs. (62-61) × 10,000

=Rs. 10,000

(ii) If the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received, by the person changing the money.

Hence, in the given case, value of taxable service would be as follows:-

1% of Rs. (61 × 10,000)

=Rs. 6,100

In case neither of the currencies exchanged is Indian Rupee:

The value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

(a) US dollar converted into Indian rupees = $ 10,000 × Rs. 63 = Rs. 6,30,000

(b) UK pound converted into Indian rupees = £ 5,000× Rs. 101 = Rs. 5,05,000

Value of taxable service = 1% of Rs. 5,05,000 = Rs. 5,050

(d) The first sale by C to D is chargeable to central sales tax. However, sale of goods by D to B is exempt as it is a subsequent sale by transfer of documents of title to the goods during their movement provided subsequent sale is made to a registered dealer (in the given case, B is a registered dealer), Form C is furnished by the buying dealer, B to D of Delhi and D has collected Form E1 from C of Chennai.

4. (a) Computation of total income of Mr. Gaurav for the Assessment Year 2016-17

Particulars	Rs.	Rs.	Rs.
Professional Income (computed)			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			**5,64,500**
Less: **Deduction under Chapter VIA**			
Under section 80C **(See Note 1)**			
Life insurance premium paid for life insurance of:			
- major son	20,000		
- self Rs. 22,500 restricted to 10% of Rs. 2,00,000	20,000	40,000	
Under section 80D (See Note 2)			
Premium paid for health insurance of self and wife by cheque	22,000		
Payment made for health check-up:			
- Self Rs. 1,500			
- His Parents Rs. 5,000			
Rs. 6,500 restricted to	5,000	27,000	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		8,000	
Under section 80TTA (See Note 3)			
Interest on savings bank account Rs. 14,500 restricted to		10,000	85,000
Total Income			**4,79,500**

Notes:

(1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gaurav.

In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of Rs. 20,000 is allowable in respect of life insurance of Mr. Gaurav's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gaurav himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

(2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of Rs. 22,000 is allowed in respect of premium paid for health insurance of self and wife. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is Rs. 23,500 (Rs. 22,000 + Rs. 1,500), which is less than Rs. 25,000. Further, deduction up to a maximum of Rs. 5,000 is allowable in respect of health check-up of self and his parents. This implies that Rs. 3,500 is allowable for health check-up of parents which falls within the additional limit of Rs. 30,000 for mediclaim premium and expenditure on preventive health check-up of parents who are senior citizens.

(3) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gaurav, though the interest from savings bank account is Rs. 14,500.

(4) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs. 10,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.

(b) (i) Invalid. Services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption are contained in the negative list of services. Also, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012* has been amended to withdraw exemption pertaining to intermediate production of alcoholic liquor for human consumption. Therefore, services by way of carrying out any process amounting to manufacture of potable liquor is not covered under negative list of services and thus, be liable to service tax.

(ii) **Invalid.** Services provided by Government and local authorities are covered in negative list of services with a few exceptions. Health care services provided to general public are not covered in such exceptions and Municipality is a local authority.

(iii) **Invalid.** Only services provided by Reserve bank of India, and not to Reserve Bank of India are covered in negative list of services.

(iv) **Valid.** Services relating to agriculture are covered in negative list of services. Agriculture means the cultivation of plants and rearing of all **life-forms of animals**, except the rearing of horses, for food, fibre, fuel, raw material or other similar products. Therefore, cultivation of ornamental flowers, being agriculture, would be covered under negative list of services and thus, be not liable to service tax.

5. (a) Computation of total income of Ms. Esha for the A.Y. 2016-17

Particulars	Rs.	Rs.
Profit of business of consumer and house-hold products	70,000	
Less: Loss of business of readymade garments for the year adjusted under section 70(1)	10,000	
	60,000	
Less: Brought forward loss of catering business closed in A.Y. 2015-16 set off against business income for the current year as per section 72(1)	15,000	45,000
Profit of speculative transaction		7,500
Total Income		**52,500**

Notes:

1. Loss of speculative transaction of A.Y. 2011-12 is not allowed to be set off against the profit of speculative transaction of the A.Y.2016-17, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2015-16.

2. Short term capital loss of Rs. 18,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2016-17. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years

(b) Computation of total Income of Mr. Lalit for the A.Y. 2016-17

Particulars	Resident and ordinarily resident Rs.	Resident but not ordinarily resident Rs.	Non-resident Rs.
Interest on debentures in an Indian company received in Australia.	12,000	12,000	12,000
Pension for services rendered in India but received in Canada	4,000	4,000	4,000
Income from agricultural land in Bhutan received there and then brought to India	18,000	-	-
Income from profession in Malaysia which was set up in India, received there but spent in India	5,000	5,000	-
Gross Total Income	**39,000**	**21,000**	**16,000**

(c) As per charging section 3 of the Central Excise Act, 1944, excise duty is levied on all excisable goods which are produced or manufactured in India. However, as per rule 5 of the Central Excise Rules, 2002, the rate of duty applicable to any excisable goods is the rate in force on the date when such goods are removed from the factory.

In the given case, the goods were non-excisable at the time of manufacture. Hence, excise duty liability will not arise even though such goods have been made excisable by bringing them under Tariff prior to their removal.

(d) Computation of service tax leviable on services received/availed by Ms. Sakshi Kothari

Particulars	Value of services received (Rs.)	Service tax @ 14% (Rs.)
Visit to a neurosurgeon on account of accident (Note-1)	-	-
Services of mobile network operator (Note-2)	2,000	280
Amount deposited in the saving bank account and interest earned (Note-3)	-	-
Beauty treatment services (Note-2)	6,000	840
Total service tax leviable on services availed/received		**1120**

Notes:

1. Health care service provided, *inter alia,* by an authorized medical practitioner is exempt vide mega exemption *Notification No. 25/2012 ST dated 20.06.2012*. Health care service means any service by way of diagnosis or treatment or care for *inter alia* any illness in any recognized system of medicines in India. Allopathy is a recognized system of medicine in India and a MBBS, MS doctor is an authorized medical practitioner. So, visit to a neurosurgeon on account of accident is not taxable.
2. Service tax is leviable on services of a mobile network operator and beauty treatment services received from a beauty salon as such services are neither covered under negative list of services nor under any exemption notification.
3. Amount of Rs. 3,00,000 deposited in Savings Bank Account is a transaction in money which is specifically excluded from the definition of service under section 65B(44) of the Finance Act, 1994. Further, Rs. 24,000 received by Sakshi kothari as interest on deposits will not be liable to service tax as services by way of extending deposits in so far as the consideration is represented by way of interest are covered in the negative list of services [Section 66D of the Finance Act, 1994].

6. (a) Computation of gross salary of Mr. Suraj for A.Y. 2016-17

Particulars	Rs.
Basic salary [(Rs.12,000 × 10) + (Rs.13,200 × 2)]	1,46,400
Dearness Allowance (100% of basic salary)	1,46,400
House Rent Allowance **(See Note below)**	24,560
Gross Salary	**3,17,360**

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (Rs.)	June-Oct (Rs.)	Nov-Dec (Rs.)	Jan (Rs.)	Feb-March (Rs.)
Basic salary per month	12,000	12,000	12,000	12,000	13,200
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	6,000	6,000	6,000	6,000	6,600
Salary per month for the purpose of computation of house rent allowance	18,000	18,000	18,000	18,000	19,800

Relevant period (in months)	**2**	**5**	**2**	**1**	**2**
Salary for the relevant period (Salary per month × relevant period)	36,000	90,000	36,000	18,000	39,600
Rent paid for the relevant period	Nil	32,500 (6,500×5)	17,000 (8,500×2)	8,500 (8,500×1)	17,000 (8,500×2)
House rent allowance (HRA) received during the relevant period **(A)**	13,200 (6,600×2)	33,000 (6,600×5)	13,200 (6,600×2)	7,200 (7,200×1)	14,400 (7,200×2)
Least of the following is exempt [u/s 10(13A)]					
1. Actual HRA received	13,200	33,000	13,200	7,200	14,400
2. Rent paid – 10% of salary	N.A.	23,500	13,400	6,700	13,040
3. 40% of salary	14,400	36,000 (40% × Rs. 90,000)	14,400 (40% × Rs. 36,000)	7,200 (40% × Rs.18,000)	15,840 (40% × Rs.39,600)
Exempt HRA (B)	**Nil**	**23,500**	**13,200**	**6,700**	**13,040**
Taxable HRA (Actual HRA – Exempt HRA) **(A-B)**	13,200	9,500	Nil	500	1,360

Taxable HRA (total) = Rs.13,200 + Rs.9,500 + Nil + Rs.500 + Rs.1,360 = Rs.24,560

(b) If a tax has been levied on sale or purchase of any declared goods inside a State and the same goods are subsequently sold in the course of inter-state trade or commerce and is subjected to tax under the CST Act, sales tax paid has to be reimbursed to the dealer. However, sales tax paid within the state can be reimbursed only when the CST has been paid subsequently and not otherwise.

Hence, in this case, Mr. Govinda can claim refund of tax paid within the State after payment of central sales tax in respect of such declared goods.

(c) **(i)** In respect of services provided or agreed to be provided by way of security services by any individual, HUF or partnership firm including association of persons to a business entity registered as body corporate, 100% service tax would be payable by the person liable for paying service tax other than the service provider (service recipient in this case). Thus, XYZ Ltd. is liable to pay service tax in this case.

(ii) Service tax is payable under full reverse charge in case of taxable services provided or agreed to be provided by a person involving an aggregator in any manner. Thus, 100% service tax to be paid by the person liable for paying service tax other than the service provider. Therefore, aggregator is the person liable for paying service tax in this case. In case, the aggregator does not have a physical presence in the taxable territory, any person representing the aggregator for any purpose in the taxable territory will be liable for paying service tax.

However, if the aggregator neither has a physical presence nor does it have a representative for any purpose in the taxable territory, it will have to appoint a person in the taxable territory for the purpose of paying service tax and such person will be the person liable for paying service tax.

7. (a) (i) As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds Rs.1,80,000 during the financial year. Since rent of Rs.1,50,000 paid by a partnership firm does not exceed Rs.1,80,000, tax is not deductible.

(ii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Batra (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Doctor Mohit Batra is paid for a personal purpose i.e. the surgery of a member of the family.

(iii) Provisions for tax deduction at source under section 194BB @ 30% are attracted if the amount exceeds Rs. 5,000 in respect of income arising by way of winning a jackpot in horse races.

Tax to be deducted = Rs.70,000 x 30% = Rs.21,000

(iv) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. Samarth does not exceed Rs.2,00,000.

(b) (i) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP **only in** the following cases:-

(i) where for any unavoidable reason such designated partner is not able to verify the return, or,

(ii) where there is no designated partner.

(ii) Disagree

In case Mr. Aman opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2016, shall be 31st July, 2016.

It is only in case Mr. Aman does not opt for presumptive taxation provisions under section 44AD and offers income to be lower than 8% of total turnover and his total income exceeds the basic exemption limit, he has to keep books of account as per section 44AA and get his accounts audited under section 44AB, in which case the due date for filing return would be 30th September, 2016.

(c) In the given case, since the invoice is issued within the prescribed period of 30 days from the date of completion of provision of service, the point of taxation, as per rule 3 of the Point of Taxation Rules, 2011 shall be the:

(a) date of invoice (i.e. 20.08.20XX)

or

(b) date of receipt of payment (i.e. 15.08.20XX) [Refer note below]

whichever is earlier, i.e. 15.08.20XX.

Note: Date of payment is:-

(1) date on which the payment is entered in the books of account (i.e. 15.08.20XX)

or

(2) date on which the payment is credited to the bank account of the person liable to pay tax (i.e. 25.08.20XX)

whichever is earlier, i.e. 15.08.20XX [Rule 2A of the Point of Taxation Rules, 2011].

(d) (i) The said statement is incorrect. Rule 4(1) of CENVAT Credit Rules, 2004 allows CENVAT credit in respect of inputs immediately on receipt of the same in the premises of job worker where the same are sent directly to the job worker on the direction of the manufacturer or the provider of output service, as the case may be.

(ii) The said statement is incorrect. Rule 4(5)(a) of CENVAT Credit Rules, 2004 provides that CENVAT credit on capital goods will be allowed even if any capital goods as such are sent to a job worker for further processing, testing, repair, re-conditioning or for the manufacture of intermediate goods necessary for the manufacture of final products or any other purpose only if it is established from the records, challans or memos or any other document produced by the manufacturer /output service provider taking the CENVAT credit that the capital goods are received back by the manufacturer /output service provider, as the case may be, within 2 years of their being so sent.