MOCK TEST PAPER

INTERMEDIATE (NEW) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

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

1. (a) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

(b) Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(c) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2017 on weighted Average Basis.

<u>Details of Purchases:</u>

Date of purchase	Unit (Nos.)	Purchase cost per unit (₹)
01-03-2017	20	108
08-03-2017·	15	107
17-03-2017	30	109
25-03-2017	15	107

<u>Details of issue of Inventory:</u>

Date of Issue	Unit (Nos.)
03-03-2017	10
12-03-2017	20
18-03-2017	10
24-03-2017	20

Net realizable value of inventory as on 31st March, 2017 is ₹ 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

(d) Mohan Ltd. has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

You are required to examine in line with AS 10 "Property, Plant and Equipment" whether these costs can be capitalized into the cost of the new building. ***(4 parts x 5 Marks = 20 Marks)***

2. (a) Meera carried out the following transactions in the shares of Kumar Ltd.:

(1) On 1st April, 2017 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

(2) On 15th May 2017, Meera sold 8,000 shares for ₹ 15,200.

(3) At a meeting on 15th June 2017, the company decided:

(i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2017, and

(ii) To give its members the right to apply for one share for every five shares held on 1st June 2017 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2017 and the balance, 75 paise per share, on or before 15th September, 2017.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2017.

(a) Meera received her bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2017.

(b) On 15th March 2018, she received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2017.

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

You are required to prepare the Investment Account in Meera's books for the year ended 31st March 2018 recording the above mentioned transactions by transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

(b) A trader's godown caught fire on 29th August, 2017, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2016	3,55,250
Cost of stock on 31st March, 2017	3,95,050
Purchases during the year ended 31st March, 2017	28,39,800
Purchases from 1st April, 2017 to the date of fire	16,55,350

Cost of goods distributed as samples for advertising from 1st April, 2017 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2017 to the date of fire	1,000
Sales for the year ended 31st March, 2017	40,00,000
Sales from 1st April, 2017 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

You are required to calculate the amount of the claim that will be admitted by the insurance company. ***(10+10 = 20 Marks)***

3. (a) XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	(₹)		(₹)
Stock on 1st April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017		Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch furniture at 10% p.a.	
Cash received from debtors	60,000		
Cash Sales	1,00,000	Stock on 31st March, 2018 (at invoice price)	28,000
Credit sales	60,000		

(b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2016	As on 31.3.2017
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors ₹ 7,00,000

(b) Payment for business expenses ₹ 1,20,000

(c) Receipts from debtors ₹ 7,50,000

(d) Loan from Laxman ₹ 1,00,000 taken on 1.10.2016 at 10% per annum

(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2017.

(ii) Balance Sheet as at 31st March, 2017. ***(10 + 10 = 20 Marks)***

4. (a) L, M and N share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of M and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2016

Liabilities		*₹*	*Assets*	*₹*
Capital Accounts :			Land and Building	2,00,000
L	3,00,000		Plants	2,00,000
M	2,00,000		Trade receivables	1,00,000
N	1,00,000	6,00,000	Inventories	1,50,000
Current Accounts:			Cash	1,00,000
L	50,000		Current Account:	
M	30,000	80,000	N	50,000
Trade payables		1,20,000		
		8,00,000		8,00,000

The whole business of the firm was sold to Preet Limited, on that day on the following terms:

(i) Preet Limited will issue the following securities in consideration for transfer of business:

10,000 equity shares @ ₹ 15 each, 15,000 preference shares @ ₹ 15 each; and 20,000 debentures @ ₹ 14.725.

(ii) The agreed value of assets and liabilities of partnership firm are as follows:

Land & Building – ₹ 3,00,000, Plants – ₹ 1,50,000, Inventory – ₹ 1,40,000, Trade Receivable – ₹ 97,500, and Trade Payable – ₹ 1,18,000.

It was mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

You are required to prepare Realization Account, Cash Account, Partners' Current and Capital Accounts at the time of closing close the books of the firm.

(b) Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership? ***(15 +5 = 20 Marks)***

5. (a) From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		*Debit ₹*	*Credit ₹*
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	

Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors

(vii) Board of directors has declared dividend of 5% on the paid up capital. The dividend distribution tax liability is Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

(b) Megha Ltd. was incorporated on 1.8.2016 to take over the running business of M/s Happy with assets from 1.4.2016. The accounts of the company were closed on 31.3.2017.

The average monthly sales during the first four months of the year (2016-17) was twice the average monthly sales during each of the remaining eight months.

You are required to compute time ratio and sales ratio for pre and post incorporation periods.

(15 +5 = 20 Marks)

6. (a) Omega Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2016-17 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment exchange rate was ₹ 56 per US $ and the rate as on31st March, 2017 was ₹ 62 per US $. If Omega Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%.

You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2017 as per applicable Accounting Standards.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2017

Liabilities	₹
Issued and subscribed capital:	
20,000, 14% preference shares of ₹ 100 each fully paid	20,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,00,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

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

You are required to compute the number of shares to be issued by the company to ensure that provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹ 50 only.

OR

Following items appear in the Trial Balance of Hello Ltd. as on 31st March, 2017:

Particulars	*Amount*
9,000 Equity Shares of ₹100 each	9,00,000
Securities Premium	80,000
Capital Redemption Reserve	1,40,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	90,000

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

You are required to give the necessary Journal Entries in the books Hello Ltd.

(e) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? Comment. ***(4 Parts x 5 Marks = 20 Marks)***

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SUGGESTED ANSWERS/HINTS

1. (a) As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

Provision for proposed dividends is not required to be made as per the amendment in AS 4. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

(b) Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	*Accounting Income*	*Taxable Income*	*Timing Difference (balance)*	*Deferred Tax Liability (balance)*
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

(c) Net Realisable Value of Inventory as on 31st March, 2017

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017	₹ 108 x 20 units = ₹ 2160
08.3.2017	₹ 107 x 15 units = ₹ 1605
17.03.2017	₹ 109 x 30 units = ₹ 3270
25.03.2017	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

Weighted Average Cost = ₹ 8640/80 units = ₹108

Total cost = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

(d) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

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

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2017			*₹*	*₹*	*2017*			*₹*	*₹*
April 1	To Bank (Purchases)	40,000	-	60,000	May	By Bank (Sale)	8,000	-	15,200
May	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June	To Bonus Issue	8,000	-	Nil	2018				
July	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2018 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d $\left(\frac{24,000}{44,000} \times 54,000\right)$	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

Working Notes:

(1)	**Profit on Sale on 15-5-2017:**		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	**Cost of 20,000 shares sold:**		
	Cost of 44,000 shares (48,000 + 6,000)		₹ 54,000
	$\therefore$ Cost of 20,000 shares $\left(\frac{₹\ 54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares}\right)$		₹ 24,545
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)		₹ 3,455

(b) Memorandum Trading Account for the period 1st April, 2017 to 29th August 2017

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2017

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2016-17

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12,00,000/40,00,000 \times 100 = 30\%$$

3. (a) In the books of Head Office – XYZ

Kolkata Branch Account (at invoice)

	₹			₹
To Balance b/d		By Stock reserve (opening)		6,000
Stock	30,000	By Remittances:		
Debtors	18,000	Cash Sales	1,00,000	
Cash in hand	800	Cash from Debtors	60,000	1,60,000
Furniture	3,000	By Goods sent to branch (loading)		32,000
To Goods sent to branch	1,60,000	By Goods returned by branch (Return to H.O.)		2,000
To Goods returned by branch (loading)	400	By Balance c/d		
		Stock		28,000

To Bank (expenses paid by H.O.) Rent 1,800 Salary 3,200 Stationary & printing 800	5,800	Debtors	16,880
		Cash (800-600)	200
		Furniture (3,000-300)	2,700
To Stock reserve (closing)	5,600		
To Profit transferred to General Profit & Loss A/c	24,180		
	2,47,780		2,47,780

Working Note:

Debtors Account

	₹		₹
To Balance b/d	18,000	By Cash account	60,000
To Sales account (credit)	60,000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16,880
	78,000		78,000

Note: It is assumed that goods returned by branch are at invoice price.

(b) Trading and Profit and Loss Account

for the year ended 31st March, 2017

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit 10,00,000	12,40,000
		By Closing Stock (bal.fig.)	1,20,000
	13,60,000		13,60,000
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet as at 31st March, 2017

Liabilities	₹	₹	*Assets*	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000

Less: Drawings	(80,000)	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

3. Cash and Bank Account

	Cash	*Bank*		*Cash*	*Bank*
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

4. (a) Realization Account

	₹	₹		₹
To Land & Building		2,00,000	By Trade Payables	1,20,000
To Plant		2,00,000	By Preet Limited (W.N.1)	6,69,500
To Inventories		1,50,000		
To Trade Receivable		1,00,000		
To Cash		1,00,000		
To Profit transferred to Capital A/c:				
L	19,750			
M	11,850			
N	7,900	39,500		
		7,89,500		7,89,500

Cash Account

	₹		₹
To N's Capital A/c	46,000	By L's Capital A/c	23,000
		By M's Capital A/c	23,000
	46,000		46,000

Partners' Current Accounts

	L ₹	M ₹	N ₹		L ₹	M ₹	N ₹
To Balance b/d	-		50,000	By Balance b/d	50,000	30,000	-
To L's Capital A/c	69,750			By Realisation A/c	19,750	11,850	7,900
To M's Capital A/c		41,850		By N's Capital A/c			42,100
	69,750	41,850	50,000		69,750	41,850	50,000

Partners' Capital Accounts

	L ₹	M ₹	N ₹		L ₹	M ₹	N ₹
To N's Current A/c	-	-	42,100	By Balance b/d	3,00,000	2,00,000	1,00,000
To Preference Shares in Preet Ltd. A/c	1,12,500	67,500	45,000	By L's Current A/c	69,750		
To Debentures A/c	1,47,250	88,350	58,900	By M's Current A/c		41,850	
To Cash A/c	23,000	23,000	-	By Cash A/c (bal. fig.)			46,000
To Equity Shares A/c	87,000	63,000	-				
	3,69,750	2,41,850	1,46,000		3,69,750	2,41,850	1,46,000

Working Notes:

1. **Calculation of Purchase consideration**

Net Payment Method

	₹
Equity Shares = 10,000 @ ₹ 15	1,50,000
Preference Shares = 15,000 @ ₹ 15	2,25,000
Debentures = 20,000 @ ₹ 14.725	2,94,500
	6,69,500

2. As whole business of the firm was sold to Preet Limited, cash balance of the firm ₹1,00,000 is also transferred to realization account. Cash brought in by N equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by L and M equally. The balance amount payable to L and M would be settled by transfer of equity shares in Preet Company.

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

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

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

5. (a) **Alpha Ltd.**

Balance Sheet as on 31st March, 20X1

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	11,82,907
2		**Non-current liabilities**		
		Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	3,38,093
	c	Short-term provisions	5	6,40,000
	d	Short-term borrowings		2,00,000
		Total		**94,73,500**
		Assets		
1		**Non-current assets**		
		Fixed assets		
		Tangible assets	6	56,25,000
2		**Current assets**		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	

	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DDT on dividend (Refer W N)	(50,843)	1,12,907
	Total		**11,82,907**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DDT on dividend (Refer W N)	50,843	3,00,593
			3,38,093
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**

8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		**13,85,000**

Working Note:

Calculation of grossing-up of dividend

Particulars	₹
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15}\times 2{,}49{,}750\right]$	44,074
Gross dividend	2,93,824
Dividend distribution tax @ 17.304%	50,843

(b) ***Time ratio:***

Pre-incorporation period (1.4.2016 to 1.8.2016) = 4 months

Post incorporation period (1.8.2016 to 31.3.2017) = 8 months

Time ratio = 4 : 8 or 1 : 2

Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio = 4 × 2x : 8 × 1x = 8x : 8x or 1 : 1

6. (a) (i) Interest for the period 2016-17

= US $ 10 lakhs x 4% × ₹ 62 per US$ = ₹ 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(b) Computation of effective capital:

		₹
Paid-up share capital-		
20,000, 14% Preference shares		20,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A–B)	95,65,000

(c) Nominal value of preference shares ₹ 5,00,000

Maximum possible redemption out of profits ₹ 3,00,000

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

Proceed of one share = ₹ 9

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

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

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

(d) Journal Entries in the books of Hello Ltd.

		Dr.	Cr.
Capital Redemption Reserve A/c	Dr.	1,40,000	
Securities Premium A/c	Dr.	80,000	
General Reserve A/c (balancing figure)	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			

Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital			3,00,000
(Being capitalization of Profit)			

(e) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

For example, if the assets of a company primarily consist of trade receivables and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key trade receivables have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

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

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

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

1. (a) With a view to issue shares to the general public a prospectus containing some false information was issued by a company. Mr. X received copy of the prospectus from the company, but did not apply for allotment of any shares. The allotment of shares to the general public was completed by the company within the stipulated period. A few months later, Mr. X bought 2000 shares through the stock exchange at a higher price which later on fell sharply. X sold these shares at a heavy loss. Mr. X claims damages from the company for the loss suffered on the ground the prospectus issued by the company contained a false statement. Referring to the provisions of the Companies Act, 2013 examine whether X's claim for damages is justified. ***(6 Marks)***

(b) During the financial year 2016-17, Perfect Limited declared an interim dividend for the second time. After declaration, the Board of Directors decided to revoke the second interim dividend as its financial position was poor, to accommodate the said interim dividend.

(i) Examine the validity of the Board's decision under the provisions of the Companies Act, 2013.

(ii) Examine what will be your answer, if the Board proposes to transfer more than 10% of the profits of the company to the reserves for the current year before the declaration of any dividend? ***(6 Marks)***

(c) Mr. Bhalla instructs Aman, a merchant, to buy a ship for him. Aman employs a ship surveyor of good reputation to choose a ship for Mr. Bhalla. The surveyor makes the choice negligently and the ship turns out to be unseaworthy and is lost. Now, Mr. Bhalla holds Aman responsible for the same. Examine as per the provisions of the Contract Act, 1872, whether Aman is responsible to Mr. Bhalla. ***(4 Marks)***

(d) Excel Ltd. declared dividend for its shareholder in its Annual General Meeting held on 30/09/2017. Under the provisions of the Companies Act, 2013, company is required to pay declared dividend within 30 days from the date of declaration. As per the provisions of the General Clauses Act, 1897, discuss what will be the commencement and termination time for posting of declared dividend.

(4 Marks)

2. (a) Natraj Limited is an unlisted Public company having paid up share capital of ₹ 80 crores during the preceding financial year 2016-17. The turnover of the company was ₹ 110 crores for the same period. Referring to the provisions of the Companies Act, 2013, discuss the answer to the following:

(i) Is it mandatory for the above company to appoint an internal auditor for the financial year 2017-18?

(ii) What are the qualifications of the Internal Auditor? ***(6 Marks)***

(b) Mr. Mehra holds 400 shares of Prema Ltd. He intends to nominate these shares to his son Aakash. Discuss the provisions of the Companies Act, 2013 in relation to facility of nomination. **(*6 Marks)***

(c) (i) 'A' issued a cheque for ₹ 5,000/- to 'B'. 'B' did not present the cheque for payment within reasonable period. The Bank fails. However, when the cheque was ought to be presented to the bank, there was sufficient fund to make payment of the cheque. Now, 'B' demands payment from 'A'. Discuss the liability of 'A' under the Negotiable Instruments Act, 1881. ***(4 Marks)***

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

(1) A who obtains a cheque drawn by B by way of gift.

(2) X, the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque. ***(4 Marks)***

3. (a) Dhyan Dairy Ltd., a dairy products manufacturing company wants to set-up a new processing unit at Udaipur. Due to paucity of funds, the existing shareholders are not willing to fund for expansion. Hence, the Company approached Shayam Ltd. for subscribing to the shares of the Company for expansion purposes. Can Dhyan Dairy Ltd. issue shares only to Shayam Ltd. under the provisions of the Companies Act, 2013? If so, state the conditions. ***(6 Marks)***

(b) The directors of Ninu Ltd. want to voluntary revise the Financial statements of the company. They have approached you to state to them the provisions of the Companies Act, 2013 regarding voluntary revision of financial statements. ***(6 Marks)***

(c) When does an enactment is said to have come into operation if the Act has not specified any particular date of its enforcement. Explain with the help of an example as per the provisions of the General Clauses Act, 1897. ***(4 Marks)***

(d) Give the difference between interpretation and construction. ***(4 Marks)***

4. (a) Examine the validity of the following decisions of the Board of Directors with reference of the provisions of the Companies Act, 2013.

(i) In an Annual General Meeting of a company having share capital, 80 members present in person or by proxy holding more than 1/10th of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll.

(ii) In an annual general meeting, during the process of poll, the members who earlier demanded for poll want to withdraw it. The chairman of the meeting rejected the request on the ground that once poll started, it cannot be withdrawn. ***(8 Marks)***

(b) State the provisions of the Companies Act, 2013 regarding the signing of the Audit report by the Auditors of the company. ***(4 Marks)***

(c) Explain how does 'natural and grammatical meaning' helps in the interpretation of a statute?

(6 Marks)

(d) State what do you understand by the term 'Document' as per the General Clauses Clauses Act, 1897? Discuss which of the following will be treated as document?

(i) Power-of-attorney.

(ii) Cheque ***(2 Marks)***

5. (a) An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013. ***(7 Marks)***

(b) Mind Limited realised on 2nd May, 2018 that particulars of charge created on 12th March, 2018 in favour of a Bank were not filed with Registrar of Companies for Registration. What procedure should the company follow to get the charge registered with the Registrar of Companies? Would the procedure be different if the charge was created on 12th February, 2018 instead of 12th March, 2018? Examine with reference to the relevant provisions of the Companies Act, 2013. ***(5 Marks)***

(c) State the rights of the indemnity-holder when sued? ***(5 Marks)***

(d) X draws a bill on Y but signs it in the fictitious name of Z. The bill is payable to the order of Z. The bill is duly accepted by Y. M obtains the bill from X thus becoming its holder in due course. Can Y avoid payment of the bill? Decide in the light of the provisions of the Negotiable Instruments Act, 1881. ***(3 Marks)***

6. (a) Shree Ltd. is engaged in the manufacture of consumer goods and has got a good brand value. Over the years, it has built a good reputation and its Balance Sheet as at March 31, 2017 shows the following position:

Authorized Share Capital (25,00,000 equity shares of face value of ₹ 10/- each) ₹ 2,50,00,000

Issued, subscribed and paid-up capital (10,00,000 equity shares of face value of ₹10/- each, fully paid-up) ₹ 1,00,00,000

Free Reserves ₹ 3,00,00,000

The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013. Discuss. ***(6 Marks)***

(b) Explain the provisions of the Companies Act, 2013 relating to Rectification by Central Government in register of Charges. ***(6 Marks)***

(c) Mr. Shashank, is employed as a cashier on a monthly salary of ` 10,000 by XYZ bank for a period of three years. Yash gave surety for Shashank's good conduct. After nine months, the financial position of the bank deteriorates. Then Shashank agrees to accept a lower salary of ₹ 5,000/- per month from Bank. Two months later, it was found that Shashank has misappropriated cash since the time of his appointment. What is the liability of Yash? Decide your answer in reference to the provisions of the Contract Act, 1872. ***(3 Marks)***

(d) Explain the holder's right to duplicate of lost bill, as per the provisions of the Negotiable Instruments Act, 1881. ***(5 Marks)***

Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

SUGGESTED ANSWERS/HINTS

1. (a) Under section 2 (70) of the Companies Act, 2013, "prospectus" means any document described or issued as a prospectus and includes a red herring prospectus referred to in section 32 or shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

A prospectus is a document inviting offers from the public. The prospectus and any statement therein has no legal binding either on the company or its directors, promoters or experts to a person who has not purchased securities in response to it.

Since, X purchased shares through the stock exchange (open market) which cannot be said to have bought shares on the basis of prospectus. X cannot bring action for deceit against the directors. Hence, X will not succeed. It was also held in the case of *Peek Vs. Gurney* that the above-mentioned remedy by way of damage will not be available to a person if he has not purchased the shares on the basis of prospectus.

(b) According to section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

Further a dividend when declared becomes a debt and a shareholder is entitled to recovery of the same after expiry of 30 days as prescribed under Section 127 of the Companies Act, 2013. Section 2(14A) of the Act defines dividend to include interim dividend. Therefore, dividend once declared becomes a debt and payable within 30 days of declaration.

In the present case, Perfect Limited declared an interim dividend for the second time. After declaration, the Board of Directors decided to revoke the second interim dividend as its financial position was poor.

However, in view of the above, the Board of directors cannot revoke the second interim dividend.

Therefore, decision of the Board to revoke the declared 2nd Interim dividend is invalid.

(c) According to section 194 of the Indian Contract Act, 1872, where an agent, holding an express or implied authority to name another person to act for the principal in the business of the agency, has named another person accordingly, such person is not a sub-agent, but an agent of the principal for such part of the business of the agency as is entrusted to him.

Further, as per section 195, in selecting such agent for his principal, an agent is bound to exercise the same amount of discretion as a man of ordinary prudence would exercise in his own case; and, if he does this, he is not responsible to the principal for the acts or negligence of the agent so selected.

Thus, in the present case, Aman is not, but the surveyor is, responsible to Mr. Bhalla.

(d) As per the provisions of Section 9 of the General Clauses Act, 1897, in any legislation or regulation, it shall be sufficient, for the purpose of excluding the first in a series of days or any other period of time to use the word "from" and for the purpose of including the last in a series of days or any other period of time, to use the word "to".

Section127 of the Companies Act, 2013 uses the words, 'thirty days from'. Thus, in the given situation Excel Ltd. is required to pay declared dividend within 30 days from the date of declaration i.e. from 01/10/2016 to 30/10/2016. In this series of 30 days, 30/09/2016 will be excluded and last 30th day i.e. 30/10/2016 will be included.

2. (a) (i) Class of companies required to appoint Internal Auditor: Section 138 of the Companies Act, 2013 and the Companies (Accounts) Rules, 2014 prescribes the class of companies required to appoint Internal Auditor. According to it, following class of companies shall be required to appoint an internal auditor or a firm of internal auditors which may be either an individual or a partnership firm or a body corporate, namely:

1. Every listed company;
2. Every unlisted public company having –
   (a) Paid up share capital of 50 crore rupees or more during the preceding financial year; or
   (b) Turnover of 200 crore rupees or more during the preceding financial year; or
   (c) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year; or
   (d) Outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year; and
3. Every private company having –
   (a) Turnover of 200 crore rupees or more during the preceding financial year; or
   (b) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

As per the facts given in the question, Natraj Limited is an unlisted public company with the paid up share capital of ₹ 80 cores during the preceding financial year with the turnover of ₹ 110 crores. Since, Natraj Limited fulfills one of the criteria with paid up share capital of more than 50 crore rupees during the preceding financial year, it is mandatory for the Natraj Limited to appoint an internal auditor for the financial year 2017-18.

(ii) Qualifications of Internal Auditor

(a) Internal Auditor shall either be a chartered accountant or a cost accountant or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Here, the term "Chartered Accountant" or "Cost Accountant" shall mean a "Chartered Accountant" or a "Cost Accountant", as the case may be, whether engaged in practice or not.

(b) The internal auditor may or may not be an employee of the company.

(b) Nomination is a facility whereby a holder of any financial asset (bank a/c, FD, securities etc.) could nominate the name of person who would be entitled to that financial asset in case of his or her death. Generally, such nomination overrides any will. It is a very logical thing to do to avoid legal, procedural tangles related to transmission at a later stage for the near and dear ones.

As per Section 72 of the Companies Act, 2013-

(1) every holder of securities of a company may, at any time, nominate, in the prescribed manner, any person to whom his securities shall vest in the event of his death.

(2) Where the securities of a company are held by more than one person jointly, the joint holders may together nominate, in the prescribed manner, any person to whom all the rights in the securities shall vest in the event of death of all the joint holders.

(3) Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of the securities of a company, where a nomination made in the prescribed manner purports to confer on any person the right to vest the securities of the company, the nominee shall, on the death of the holder of securities or, as the case may be, on the death of the joint holders, become entitled to all the rights in the securities, of the holder or, as the case may be, of all the joint holders, in relation to such securities, to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner.

(4) Where the nominee is a minor, it shall be lawful for the holder of the securities, making the nomination to appoint, in the prescribed manner, any person to become entitled to the securities of the company, in the event of the death of the nominee during his minority.

Thus, Mr. Mehra can nominate the shares held by him in Prema Ltd. to his son.

(c) (i) The problem as asked in the question is based on the provisions of the Negotiable Instruments Act, 1881 as contained in Section 84. The section provides that where a cheque is not presented by the holder for payment within a reasonable time of its issue and the drawer suffers actual damage through the delay because of the failure of the bank, he is discharged from liability to the extent of such damage. In determining what is reasonable time, regard shall be had to the nature of the instrument, the usage of trade and bankers, and the facts of the particular case.

Accordingly, in the given case, the drawer is discharged from the liability to pay the amount of cheque to B. However, B can sue against the bank for the amount of the cheque applying the above provisions.

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

On applying the above provision in the given cases-

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

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

3. (a) Issue of Further Shares: According to Section 62 (1) of the Companies Act, 2013 if at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares should be offered to –

(i) the existing equity shareholders of the company as at the date of the offer, in proportion to the capital paid up on those shares.

(ii) employees under a scheme of employees' stock option subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

(iii) to any persons, if it is authorised by a special resolution, whether or not those persons include the persons referred to in clause (i) or clause (ii), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to such conditions as may be prescribed.

Since, in the given case Dhyan Dairy Ltd. approached Shayam Ltd. for subscribing to the shares of the company for its expansion and Shayam Ltd. is neither an existing equity shareholder of the company nor an employee, Dhyan Dairy Ltd., if it is authorised by a special resolution, may issues shares to Shayam Ltd. either for cash or for a consideration other than cash, subject to the condition that the price of such shares is determined by the valuation report of a registered valuer.

(b) According to section 131 of the Companies Act, 2013,

(1) **Preparation of revised financial statement or revised report on the approval of Tribunal:** If it appears to the directors of a company that—

(a) the financial statement of the company; or

(b) the report of the Board,

do not comply with the provisions of section 129 or section 134, they may prepare revised financial statement or a revised report in respect of any of the three preceding financial years after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar:

Tribunal to serve the notice: Provided that the Tribunal shall give notice to the Central Government and the Income tax authorities and shall take into consideration the representations, if any, made by that Government or the authorities before passing any order under this section:

Number of times of revision and recast: provided further that such revised financial statement or report shall not be prepared or filed more than once in a financial year:

Reason for revision to be disclosed: Provided also that the detailed reasons for revision of such financial statement or report shall also be disclosed in the Board's report in the relevant financial year in which such revision is being made.

(2) Where copies of the previous financial statement or report have been sent out to members or delivered to the Registrar or laid before the company in general meeting, the revisions must be confined to—

(a) the correction in respect of which the previous financial statement or report do not comply with the provisions of section 129 or section 134; and

(b) the making of any necessary consequential alternation.

(3) **Framing of rules by the Central Government in relation to revised financial statement or director's report:** The Central Government may make rules as to the application of the provisions of this Act in relation to revised financial statement or a revised director's report and such rules may, in particular—

(a) make different provisions according to which the previous financial statement or report are replaced or are supplemented by a document indicating the corrections to be made;

(b) make provisions with respect to the functions of the company's auditor in relation to the revised financial statement or report;

(c) require the directors to take such steps as may be prescribed.

(c) **"Coming into operation of enactment":** According to section 5 of the General Clauses Act, 1897, where any Central Act has not specifically mentioned a particular date to come into force, it shall be implemented on the day on which it receives the assent of the Governor General in case of a

Central Acts made before the commencement of the Indian Constitution and/or, of the President in case of an Act of Parliament.

Example: The Companies Act, 2013 received assent of President of India on 29th August, 2013 and was notified in official gazette on 30th August, 2013 with the enforcement of section 1 of the Act. Accordingly, the Companies Act, 2013 came into enforcement on the date of its publication in the Official Gazette.

(d) Difference between Interpretation and Construction- Interpretation differs from construction. Interpretation is of finding out the true sense of any form and the construction is the drawing of conclusion respecting subjects that lie beyond the direct expression of the text.

When the legislature uses certain words which have acquired a definite meaning over a period of time, it must be assumed that those words have been used in the same sense.

Thus, where the Court adheres to the plain meaning of the language used by the legislature, it would be 'interpretation' of the words, but where the meaning is not plain, the court has to decide whether the wording was meant to cover the situation before the court. Here the court would be resorting to what is called 'construction', however, the two terms – 'interpretation' and 'construction' – overlap each other and it is rather difficult to state where 'interpretation' leaves off and 'construction' begins.

4. (a) Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly law says that:-

Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:-

(a) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and

(b) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

Withdrawal of the demand: The demand for a poll may be withdrawn at any time by the persons who made the demand.

Hence, on the basis on the above provisions of the Companies Act, 2013:

(i) The chairman cannot reject the demand for poll subject to provision in the articles of company.

(ii) The chairman cannot reject the request of the members for withdrawing the demand of the Poll.

(b) Section 145 of the Companies Act, 2013 provides for auditors to sign audit reports, etc. According to this section:

(i) The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of section 141 (i.e. in case of firm including LLP, only Chartered Accountants are authorised to act and sign).

(ii) The qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

(c) **Natural and grammatical meaning:** Statute are to be first understood in their natural, ordinary, or popular sense and must be construed according to their plain, literal and grammatical meaning. If there is an inconsistency with any express intention or declared purpose of the statute, or it inlvolves any absurdity, repugnanacy, inconsistancy, the grammatial sense must then be modified, extended or abridgd only to avoid such an inconvenience, but no further. *[(State of HP v. Pawan Kumar(2005)]*

Example: In a question before the court whether the sale of betel leaves was subject to sales tax. In this matter the Supreme Court held that betel leaves could not be given the dictionary, technical or botanical meaning when the ordinary and natural meaning is clear and unambiguous. Being the word of everyday use it must be understood in its popular sense by which people are conversant with it as also the meaning which the statute dealing with the matter would attribute to it. Therefore, the sale of betel leaves was liable to sale tax. *(Ramavtar V. Assistant Sales Tax Officer, AIR 1961 SC 1325).*

(d) According to section 3(18) of the General Clauses Act, 1897, 'Document' shall include any matter written, expressed or described upon any substance by means of letters, figures or marks or by more than one of those means which is intended to be used or which may be used, for the purpose or recording that matter.

Thus,

(i) Yes, power-of-attorney is a document.

(ii) Yes, cheque upon a banker is a document.

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

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

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

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

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

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

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

(b) According to section 77(1) of the Companies Act, 2013, the prescribed particulars of the charge together with the instrument, if any by which the charge is created or evidenced, or a copy thereof shall be filed with the Registrar within 30 days after the date of the creation of charge.

In the present case particulars of charge have not been filed within the prescribed period of 30 days.

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

There will be no change in the situation if the charge was created on 12th February, 2018.

(c) According to the Section 125 of the Indian Contract Act,1872 the indemnity holder i.e., promisee in a contract of indemnity, acting within the scope of his authority, is entitled to recover from the promisor:

(1) all damages which he may be compelled to pay in any suit in respect of any matter to which the promise to indemnify applies;

(2) all costs which he may be compelled to pay in any such suit, if in bringing or defending it, he did not contravene the orders of the promisor, and acted as it would have been prudent for him to act in the absence of any contract of indemnity, or if the promisor authorised him to bring or defend the suit.

(3) all sums which he may have paid under the terms of any compromise of any such suit, if the compromise was not contrary to the orders of the promisor, and was one which it would have been prudent for the promisee to make in the absence of any contract of indemnity, or if the promisor authorised him to compromise the suit.

Section 125 is by no means exhaustive, which deals only with his rights in the event of his being sued. The indemnity holder has other rights besides those mentioned above. If he has incurred a liability and that liability is absolute he is entitled to call upon his indemnifier to save him from that liability and to pay it off.

(d) The problem is based on the provision of Section 42 of the Negotiable Instruments Act, 1881. In case a bill of exchange is drawn payable to the drawer's order in a fictitious name and is endorsed by the same hand as the drawer's signature, it is not permissible for the acceptor to allege as against the holder in due course that such name is fictitious. Accordingly, in the instant case, Y cannot avoid payment by raising the plea that the drawer (Z) is fictitious. The only condition is that the signature of Z as drawer and as endorser must be in the same handwriting.

6. (a) According to Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of -

(i) its free reserves;

(ii) the securities premium account; or

(iii) the capital redemption reserve account.

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Conditions for issue of Bonus Shares: No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless—

(i) it is authorised by its Articles;

(ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;

(iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

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

(v) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up; (f) it complies with such conditions as may be prescribed.

But the company has to ensure that the bonus shares shall not be issued in lieu of dividend.

Hence, after following the above compliances on issuing bonus shares under the Companies Act, 2013, Shree Ltd. may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

(b) (1) Rectification by Central Government in register of charges: Section 87 of the Companies Act, 2013 empowers the Central Government to make rectification in register of charges. According to the provision-

(1) The Central Government on being satisfied that—

(i) (a) the **omission to file with the Registrar the particulars of any charge** created by a company or any charge subject to which any property has been acquired by a company or any modification of such charge; or

(b) the **omission to register any charge within the time** required under this Chapter or the omission to give intimation to the Registrar of the payment or the satisfaction of a charge, within the time required under this Chapter; or

(c) the **omission or mis-statement of any particular** with respect to any such charge or modification or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83,

- was accidental or due to inadvertence or some other sufficient cause or it is not of a nature to prejudice the position of creditors or shareholders of the company; or

(ii) **on any other grounds,** it is just and equitable to grant relief,

- it may on the application of the company or any person interested and on such terms and conditions as it may seem to the Central Government just and expedient, direct that the time for the filing of the particulars or for the registration of the charge or for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or mis-statement shall be rectified.

(2) Where the Central Government extends the time for the registration of a charge, the order shall not prejudice any rights acquired in respect of the property concerned before the charge is actually registered.

(2) Condonation of delay and rectification of register of charges.- (1) Where the instrument creating or modifying a charge is not filed within a period of 300 hundred days from the date of its creation (including acquisition of a property subject to a charge) or modification and where the satisfaction of the charge is not filed within 30 days from the date on which such payment of satisfaction, the Registrar shall not register the same unless the delay is condoned by the Central Government.

(2) The application for condonation of delay and for such other matters covered in sub-clause (a), (b) and (c) of clause (i) of sub-section (1) of section 87 of the Act shall be filed with the Central Government along with the fee.

(3) The order passed by the Central Government under section 87(1) of the Act shall be required to be filed with the Registrar along with the fee as per the conditions stipulated

in the said order.

(c) According to section 133 of the Indian Contract Act, 1872, where there is any variance in the terms of contract between the principal debtor and creditor without surety's consent, it would discharge the surety in respect of all transactions taking place subsequent to such variance.

Thus, if the creditor makes any variance (i.e. change in terms) without the consent of the surety, then surety is discharged as to the transactions subsequent to the change. In the instant case Yash is liable as a surety for the loss suffered by the bank due to misappropriation of cash by Shashank during the first nine months but not for misappropriations committed after the reduction in salary.

(d) According to section 45A of the Negotiable Instruments Act, 1881, where a bill of exchange has been lost before it is overdue,

- the person who was the holder of it may apply
- to the drawer to give him another bill of the same tenor,
- giving security to the drawer, if required,
- to indemnify him against all persons whatever in case the bill alleged to have been lost shall be found again.

If the drawer on request as aforesaid refuses to give such duplicate bill, he may be compelled to do so.

Test Series: March 2018

MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – I

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) The following are the details in respect of Process A and Process B of a processing factory:

	Process A (₹)	Process B (₹)
Materials	40,000	--
Labour	40,000	56,000
Overheads	16,000	40,000

The output of Process A is transferred to Process B at a price calculated to give a profit of 20% on the transfer price and the output of Process B is charged to finished stock at a profit of 25% on the transfer price. The finished stock department realized ₹ 4,00,000 for the finished goods received from Process B.

PREPARE process accounts and CALCULATE total profit, assuming that there was no opening or closing work-in-progress.

(b) Two workers 'A' and 'B' produce the same product using the same material. Their normal wage rate is also the same. 'A' is paid bonus according to Rowan scheme while 'B' is paid bonus according to Halsey scheme. The time allowed to make the product is 120 hours. 'A' takes 90 hours while 'B' takes 100 hours to complete the product. The factory overhead rate is ₹ 50 per hour actually worked. The factory cost of product manufactured by 'A' is ₹ 80,200 and for product manufactured by 'B' is ₹ 79,400.

Required:

(i) COMPUTE the normal rate of wages.

(ii) CALCULATE the material cost.

(iii) PREPARE a statement comparing the factory cost of the product as made by two workers.

(c) Maximum Production capacity of KM (P) Ltd. is 28,000 units per month. Output at different levels along with cost data is furnished below:

Particulars of Costs	Activity Level		
	16,000 units	18,000 units	20,000 units
Direct Material	₹ 12,80,000	₹ 14,40,000	₹ 16,00,000
Direct labour	₹ 17,60,000	₹ 19,80,000	₹ 22,00,000
Total factory overheads	₹ 22,00,000	₹ 23,70,000	₹ 25,40,000

You are required to CALCULATE the selling price per unit at an activity level of 24,000 units by considering profit at the rate of 25% on sales.

(d) Bank of Surat operated for years under the assumption that profitability can be increased by increasing Rupee volume. But that has not been the case. Cost analysis has revealed the following:

Activity	Activity Cost (₹)	Activity Driver	Activity Capacity
Providing ATM Service	1,00,000	No. of Transactions	2,00,000
Computer Processing	10,00,000	No. of Transactions	25,00,000
Issuing Statements	8,00,000	No. of Statements	5,00,000
Customer Inquiries	3,60,000	Telephone Minutes	6,00,000

The following annual information on three products was also made available:

Activity Driver	Checking Accounts	Personal Loans	Gold Visa
Units of Product	30,000	5,000	10,000
ATM Transactions	1,80,000	0	20,000
Computer Transactions	20,00,000	2,00,000	3,00,000
Number of Statements	3,00,000	50,000	1,50,000
Telephone Minutes	3,50,000	90,000	1,60,000

Required

(i) CALCULATE rates for each activity.

(ii) Using the rates computed in requirement (i), CALCULATE the cost of each product.

(4 × 5 = 20 Marks)

2. (a) A store keeper has prepared the below list of items kept in the store of the factory.

Item	Units	Unit cost (₹)
A	12,000	30.00
B	18,000	3.00
C	6,000	35.00
D	750	220.00
E	3,800	75.00
F	400	105.00
G	600	300.00
H	300	350.00
I	3,000	250.00
J	20,000	7.50
K	11,500	27.50
L	2,100	75.00

The store keeper requires your help to classify the items for prioritization. You are required to APPLY ABC analysis to classify the store items as follows:

Store items which constitutes approx 70%, 20% and 10% of total value as A, B and C respectively. ***(10 Marks)***

(b) SK Ltd. engaged in the manufacture of tyres. Analysis of income statement indicated a profit of ₹150 lakhs on a sales volume of 50,000 units. The fixed cost is ₹ 850 lakhs which appears to be high. Existing selling price is ₹ 3,400 per unit. The company is considering to revise the profit target to ₹ 350 lakhs. You are required to COMPUTE –

(i) Break-even point at existing levels in units and in rupees.

(ii) The number of units required to be sold to earn the target profit.

(iii) Profit with 15% increase in selling price and drop in sales volume by 10%.

(iv) Volume to be achieved to earn target profit at the revised selling price as calculated in (ii) above, if a reduction of 8% in the variable costs and ₹ 85 lakhs in the fixed cost is envisaged. ***(10 Marks)***

3 (a) R Limited is presently operating at 50% capacity and producing 60,000 units. The entire output is sold at a price of ₹ 200 per unit. The cost structure at the 50% level of activity is as under:

	₹
Direct Material	75 per unit
Direct Wages	25 per unit
Variable Overheads	25 per unit
Direct Expenses	15 per unit
Factory Expenses (25% fixed)	20 per unit
Selling and Distribution Exp. (80% variable)	10 per unit
Office and Administrative Exp. (100% fixed)	5 per unit

The company anticipates that the variable costs will go up by 10% and fixed costs will go up by 15%.

You are required to PREPARE an Expense budget, on the basis of marginal cost for the company at 50% and 60% level of activity and COMPUTE profits at respective levels. ***(10 Marks)***

(b) A machine shop cost centre contains three machines of equal capacities.

To operate these three machines nine operators are required i.e. three operators on each machine. Operators are paid ₹ 20 per hour. The factory works for fourty eight hours in a week which includes 4 hours set up time. The work is jointly done by operators. The operators are paid fully for the fourty eight hours. In additions they are paid a bonus of 10 per cent of productive time. Costs are reported for this company on the basis of thirteen four-weekly period.

The company for the purpose of computing machine hour rate includes the direct wages of the operator and also recoups the factory overheads allocated to the machines. The following details of factory overheads applicable to the cost centre are available:

- Depreciation 10% per annum on original cost of the machine. Original cost of the each machine is ₹ 52,000.
- Maintenance and repairs per week per machine is ₹ 60.
- Consumable stores per week per machine are ₹ 75.
- Power : 20 units per hour per machine at the rate of 80 paise per unit.
- Apportionment to the cost centre : Rent per annum ₹ 5,400, Heat and Light per annum ₹9,720, foreman's salary per annum ₹12,960 and other miscellaneous expenditure per annum ₹ 18,000.

Required:

(i) CALCULATE the cost of running one machine for a four-week period.

(ii) CALCULATE machine hour rate. ***(10 Marks)***

4. (a) Following information have been extracted from the cost records of XYZ Pvt. Ltd.

Stores:	**(₹)**
Opening balance	1,08,000
Purchases	5,76,000
Transfer from WIP	2,88,000
Issue to WIP	5,76,000
Issue for repairs	72,000
Deficiency found in stock	21,600

Work-in-process:	**(₹)**
Opening balance	2,16,000
Direct wages applied	2,16,000
Overheads charged	8,64,000
Closing balance	1,44,000

Finished Production:	**(₹)**
Entire production is sold at a profit of 15% on cost of WIP	
Wages paid	2,52,000
Overheads incurred	9,00,000

PREPARE Stores Ledger Control Account, Work-in-Process Control Account, Overheads Control Account and Costing Profit and Loss Account. ***(10 Marks)***

(b) SV chemicals Limited processes 9,00,000 kgs. of raw material in a month purchased at ₹ 95 per kg in department X. The input output ratio of department X is 100 : 90. Processing of the material results in two joint products being produced 'P_1' and 'P_2' in the ratio of 60 : 40. Product 'P_1' can be sold at split off stage or can be further processed in department Y and sold as a new product 'YP_1'. The input output ratio of department Y is 100 : 95. Department Y is utilized only for further processing of product 'P_1' to product 'YP_1'. Individual departmental expenses are as follows:

	Dept. X (₹ lakhs)	**Dept. Y (₹ lakhs)**
Direct Materials	95.00	14.00
Direct Wages	80.00	27.00
Variable Overheads	100.00	35.00
Fixed Overheads	75.00	52.00
Total	350.00	128.00

Further, selling expenses to be incurred on three products are:

Particulars	**Amount (₹ in lakhs)**
Product 'P_1'	28.38
Product 'P_2'	25.00
Product 'YP_1'	19.00

Selling price of the products 'P_1' and 'P_2' at split off point is ₹ 110 per kg and ₹ 325 per kg respectively. Selling price of new product 'YP_1' is ₹ 150 per kg.

You are required to:

(i) PREPARE a statement showing apportionment of joint costs, in the ratio of value of sales, net of selling expenses.

(ii) PREPARE a Statement showing profitability at split off point.

(iii) PREPARE a Statement of profitability of 'YP_1'.

(iv) DETERMINE that would you recommend further processing of P_1? ***(10 Marks)***

5. (a) The standard labour component and the actual labour component engaged in a week for a job are as follows:

	Skilled Workers	Semi-skilled Workers	Un-Skilled workers
Standard number of workers in the gang	32	12	6
Standard wage rate per hour (₹)	30	20	10
Actual number of workers employed in the gang during the week	28	18	4
Actual wages rate per hour (₹)	34	23	12

During the 40 hours working week the gang produced 1,800 standard labour hours of work.

CALCULATE:

(i) Total labour cost variance;

(ii) Labour yield variance;

(iii) Labour mix variance; and

(iv) Labour wage rate variance. ***(10 Marks)***

(b) 'RP' Resorts (P) Ltd. offers three types of rooms to its guests, viz deluxe room, super deluxe room and luxury suite. You are required to COMPUTE the tariff to be charged to the customers for different types of rooms on the basis of following information:

Types of Room	Number of Rooms	Occupancy
Deluxe Room	100	90%
Super Deluxe Room	60	75%
Luxury Suite	40	60%

Rent of 'super deluxe' room is to be fixed at 2 times of 'deluxe room' and that of 'luxury suite' is 3 times of 'deluxe room'. Annual expenses are as follows:

Particulars	Amount (₹ lakhs)
Staff salaries	680.00
Lighting, Heating and Power	300.00
Repairs, Maintenance and Renovation	180.00
Linen	30.00
Laundry charges	24.00
Interior decoration	75.00
Sundries	30.28

An attendant for each room was provided when the room was occupied and he was paid ₹ 500 per day towards wages. Further, depreciation is to be provided on building @ 5% on ₹ 900 lakhs, furniture and fixtures @ 10% on ₹ 90 lakhs and air conditioners @ 10% on ₹ 75 lakhs.

Profit is to be provided @ 25% on total taking and assume 360 days in a year. ***(10 Marks)***

6. (a) DISCUSS cost classification based on variability.

   (b) EXPLAIN Single and Multiple Overhead Rates.

   (c) DISCUSS the four different methods of costing alongwith their applicability to concerned industry?

   (d) STATE how Economic Batch Quantity is determined? ***(4 × 5 = 20 Marks)***

MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – I

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

SUGGESTED ANSWERS/ HINTS

1. (a) **Process A Account**

Dr. Cr.

	₹		₹
To Materials	40,000	By Process B A/c (Transfer to Process B)	1,20,000
To Labour	40,000		
To Overheads	16,000		
	96,000		
To Profit (20% of transfer price, i.e., 25% of cost)	24,000		
	1,20,000		1,20,000

Process B Account

Dr. **Cr.**

	₹		₹
To Process A A/c (Transferred from Process A)	1,20,000	By Finished Stock A/c (Transfer to finished stock)	2,88,000
To Labour	56,000		
To Overhead	40,000		
	2,16,000		
To Profit (25% of transfer price i.e., 33.33% of cost)	72,000		
	2,88,000		2,88,000

Statement of Total Profit

	₹
Profit from Process A	24,000
Profit from Process B	72,000
Profit on Sales (₹ 4,00,000 – ₹ 2,88,000)	1,12,000
Total Profit	2,08,000

(b) Let *x* be the cost of material and *y* be the normal rate of wage/hour

	Worker A (₹)	Worker B (₹)
Material cost	x	x
Labour wages	90 y	100 y
Bonus	Rowan system	Halsey system

	$\frac{\text{Time saved}}{\text{Time allowed}} \times \text{hour worked} \times \text{rate}$	Hours saved × 50% × rate
	$\frac{30}{120} \times 90 \times y = 22.5y$	$20 \times \frac{1}{2} \times y = 10y$
Overheads	90×₹ 50 = 4,500	100×₹ 50 = 5,000
Factory cost	x + 112.5y + 4,500 = 80,200 ∴ x + 112.5y = 75,700…….. (1)	x + 110y + 5,000 = 79,400 ∴ x + 110y = 74,400…. (2)

Solving (1) and (2) we get x = ₹17,200 and y = ₹ 520

(i) Normal rate of wages is ₹ 520 per hour.

(ii) Cost of materials = ₹ 17,200.

(iii) **Comparative Statement of factory cost**

	Worker A (₹)	**Worker B (₹)**
Material cost	17,200	17,200
Wages	46,800 (90 × ₹ 520)	52,000 (100 × ₹ 520)
Bonus	11,700 $(\frac{30}{120} \times 90 \times 520)$	5,200 $(20 \times \frac{1}{2} \times 520)$
Overheads	4,500 (90 × ₹ 50)	5,000 (100 × ₹ 50)
Factory cost	80,200	79,400

(c) Computation of Overheads

Variable Overhead per unit $= \frac{\text{Change in Factory Overheads}}{\text{Change in activity level}}$

$$= \frac{23{,}70{,}000 - 22{,}00{,}000}{18{,}000 - 16{,}000} \text{ or } \frac{25{,}40{,}000 - 23{,}70{,}000}{20{,}000 - 18{,}000}$$

$$= \frac{1{,}70{,}000}{2000} = ₹\ 85 \text{ per unit}$$

Fixed Overhead

Activity level = 16,000 units

Particulars	**Amount (₹)**
Total factory overheads	22,00,000
Less: Variable overheads 16,000 units @ ₹ 85 per unit	(13,60,000)
Fixed Overhead	8,40,000

Computation of Costs at Activity Level 24,000 units

	Per Unit (₹)	**Amount (₹)**
Direct Material (12,80,000/16,000)	80.00	19,20,000
Direct Labour (17,60,000/16,000)	110.00	26,40,000

Variable Overhead (As calculated above)	85.00	20,40,000
Fixed Overhead		8,40,000
Total Cost		**74,40,000**

Computation of Selling Price at activity level 24,000 units

Profit required is 25% on selling price, hence cost will be 75%.

Therefore desired profit = $\frac{25 \times 74,40,000}{75}$ = ₹ 24,80,000

Cost of 24,000 units	74,40,000
Desired Profit	24,80,000
Total Sales	99,20,000

Alternatively

Total Sales = $\frac{\text{Total Cost}}{75} \times 100 = \frac{74,40,000}{75} \times 100$ = ₹ 99,20,000

Selling Price per unit = $\frac{\text{Total Sales}}{\text{No of Units}} = \frac{99,20,000}{24,000}$ = ₹ 413.33

(d) (i) Statement Showing "Activity Rate"

Activity	**Activity Cost [a] (₹)**	**Activity Driver**	**No. of Units of Activity Driver [b]**	**Activity Rate [a] / [b] (₹)**
Providing ATM Service	1,00,000	No. of ATM Transactions	2,00,000	0.50
Computer Processing	10,00,000	No. of Computer Transactions	25,00,000	0.40
Issuing Statements	8,00,000	No. of Statements	5,00,000	1.60
Customer Inquiries	3,60,000	Telephone Minutes	6,00,000	0.60

(ii) Statement Showing "Cost of Product"

Activity	**Checking Accounts (₹)**	**Personal Loans (₹)**	**Gold Visa (₹)**
Providing ATM Service	90,000 (1,80,000 tr.× ₹ 0.50)	---	10,000 (20,000 tr. × ₹ 0.50)
Computer Processing	8,00,000 (20,00,000 tr. × ₹ 0.40)	80,000 (2,00,000 tr. × ₹ 0.40)	1,20,000 (3,00,000 tr. × ₹ 0.40)
Issuing Statements	4,80,000 (3,00,000 st. × ₹ 1.60)	80,000 (50,000 st. × ₹1.60)	2,40,000 (1,50,000 st. × ₹ 1.60)
Customer Inquiries	2,10,000 (3,50,000 min. × ₹ 0.60)	54,000 (90,000 min. × ₹ 0.60)	96,000 (1,60,000 min. × ₹ 0.60)
Total Cost [a]	₹ 15,80,000	₹ 2,14,000	₹ 4,66,000
Units of Product [b]	30,000	5,000	10,000

Cost of each Product [a] / [b]	52.67	42.80	46.60

2. (a) Statement of Total Cost and Ranking

Item	Units	% of Total units	Unit cost (₹)	Total cost (₹)	% of Total cost	Ranking
A	12,000	15.30%	30.00	3,60,000	12.97%	2
B	18,000	22.94%	3.00	54,000	1.95%	11
C	6,000	7.65%	35.00	2,10,000	7.57%	5
D	750	0.96%	220.00	1,65,000	5.95%	7
E	3,800	4.84%	75.00	2,85,000	10.27%	4
F	400	0.51%	105.00	42,000	1.51%	12
G	600	0.76%	300.00	1,80,000	6.49%	6
H	300	0.38%	350.00	1,05,000	3.78%	10
I	3,000	3.82%	250.00	7,50,000	27.03%	1
J	20,000	25.49%	7.50	1,50,000	5.41%	9
K	11,500	14.66%	27.50	3,16,250	11.40%	3
L	2,100	2.68%	75.00	1,57,500	5.68%	8
	78,450	100.00%		27,74,750	100.00%	

Statement of classification of Inventory

Rankin	Item	% of Total units	Cost (₹)	% of Total Cost	Category
1	I	3.82%	7,50,000	27.03%	
2	A	15.30%	3,60,000	12.97%	
3	K	14.66%	3,16,250	11.40%	
4	E	4.84%	2,85,000	10.27%	
5	C	7.65%	2,10,000	7.57%	
Total		**46.27%**	**19,21,250**	**69.24%**	**A**
6	G	0.76%	1,80,000	6.49%	
7	D	0.96%	1,65,000	5.95%	
8	L	2.68%	1,57,500	5.68%	
9	J	25.49%	1,50,000	5.41%	
Total		**29.89%**	**6,52,500**	**23.53%**	**B**
10	H	0.38%	1,05,000	3.78%	
11	B	22.94%	54,000	1.95%	
12	F	0.51%	42,000	1.51%	
Total		**23.84%**	**2,01,000**	**7.24**	**C**
	12	100%	27,74,750	100%	

(b) Sales Volume 50,000 Units

Computation of existing contribution

Particulars	Per unit (₹)	Total (₹ in lakhs)
Sales	3,400	1,700
Fixed Cost	1,700	850
Profit	300	150
Contribution	2,000	1,000
Variable Cost	1,400	700

(i) Break even sales in units = $\frac{\text{Fixed Cost}}{\text{Contribution per unit}} = \frac{8,50,00,000}{2,000}$ = 42,500 units

Break even sales in rupees = 42,500 units x ₹ 3,400 = ₹ 1,445 lakhs

OR

P/V Ratio = $\frac{2,000}{3,400} \times 100$ = 58.82%

B.E.P (in rupees) = $\frac{\text{Fixed Cost}}{\text{P/V Ratio}} = \frac{8,50,00,000}{58.82\%}$ = ₹ 1,445 lakhs (approx.)

(ii) Number of units sold to achieve a target profit of ₹ 350 lakhs:

Desired Contribution = Fixed Cost + Target Profit

= 850 lakhs + 350 lakhs

= 1,200 lakhs

Number of units to be sold = $\frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{12,00,00,000}{2,000}$ =60,000 units

(iii) Profit if selling price is increased by 15% and sales volume drops by 10%

Existing Selling Price per unit = ₹ 3,400

Revised selling price per unit = ₹ 3,400 × 115% = ₹ 3,910

Existing Sales Volume = 50,000 units

Revised sales volume = 50,000 units – 10% of 50,000 = 45,000 units.

Statement of profit at sales volume of 45,000 units @ ₹ 3,910 per unit

Particulars	Per unit (₹)	Total (₹ in lakhs)
Sales	3,910.00	1,759.50
Less: Variable Costs	(1,400.00)	(630.00)
Contribution	2,510.00	1,129.50
Less: Fixed Cost		(850.00)
Profit		279.50

(iv) Volume to be achieved to earn target profit of ₹ 350 lakhs with revised selling price and reduction of 8% in variable costs and ₹ 85 lakhs in fixed cost.

Revised selling price per unit = ₹ 3,910

Variable costs per unit existing = ₹ 1,400

Revised Variable Costs

Reduction of 8% in variable costs = ₹ 1,400 – 8% of 1,400

= ₹ 1,400 – ₹ 112

= ₹ 1,288

Total Fixed Cost (existing) = ₹ 850 lakhs

Reduction in fixed cost = ₹ 85 lakhs

Revised fixed cost = ₹ 850 lakhs – ₹ 85 lakhs = ₹ 765 lakhs

Revised Contribution (unit) = Revised selling price per unit – Revised Variable Costs per units

Revised Contribution per unit = ₹ 3,910 – ₹ 1,288 = ₹ 2,622

Desired Contribution = Revised Fixed Cost + Target Profit

= ₹ 765 lakhs + ₹350 lakhs= ₹1,115 lakhs

$$\text{No. of units to be sold} = \frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{₹\ 1{,}115\ \text{lakh}}{₹\ 2{,}622} = 42{,}525\ \text{units}$$

3. (a) Expense Budget of R Ltd. for the period……

	Per unit (₹)	50% Capacity 60,000 units Amount (₹)	60% Capacity 72,000 units Amount (₹)
Sales **(A)**	200.00	1,20,00,000	1,44,00,000
Less: Variable Costs:			
- Direct Material	82.50	49,50,000	59,40,000
- Direct Wages	27.50	16,50,000	19,80,000
- Variable Overheads	27.50	16,50,000	19,80,000
- Direct Expenses	16.50	9,90,000	11,88,000
- Variable factory expenses (75% of ₹ 20 p.u.)	16.50	9,90,000	11,88,000
- Variable Selling & Dist. exp. (80% of ₹ 10 p.u.)	8.80	5,28,000	6,33,600
Total Variable Cost **(B)**	179.30	1,07,58,000	1,29,09,600
Contribution **(C) = (A – B)**	20.70	12,42,000	14,90,400
Less: Fixed Costs:			
- Office and Admin. exp. (100%)	--	3,45,000	3,45,000
- Fixed factory exp. (25%)	--	3,45,000	3,45,000
- Fixed Selling & Dist. exp. (20%)	--	1,38,000	1,38,000
Total Fixed Costs **(D)**	--	8,28,000	8,28,000
(C – D)	--	4,14,000	6,62,400

(b) Effective Machine hour for four-week period

= Total working hours – unproductive set-up time

= {(48 hours × 4 weeks) – {(4 hours × 4 weeks)}

= (192 – 16) hours) = 176 hours.

(i) Computation of cost of running one machine for a four week period

		(₹)	(₹)
(A)	**Standing charges (per annum)**		
	Rent	5,400.00	
	Heat and light	9,720.00	
	Forman's salary	12,960.00	
	Other miscellaneous expenditure	18,000.00	
	Standing charges (per annum)	46,080.00	
	Total expenses for one machine for four week period $\left(\frac{₹\ 46,080}{3\text{ machines} \times 13\text{ four}-\text{week period}}\right)$		1,181.54
	Wages (48 hours × 4 weeks × ₹ 20 × 3 operators)		11,520.00
	Bonus {(176 hours × ₹ 20 × 3 operators) ×10%}		1,056.00
	Total standing charges		13,757.54
(B)	Machine Expenses		
	Depreciation = $\left(₹\,52,000 \times 10\% \times \frac{1}{13\text{ four - week period}}\right)$		400.00
	Repairs and maintenance (₹ 60 × 4 weeks)		240.00
	Consumable stores (₹ 75 × 4 weeks)		300.00
	Power (176 hours × 20 units × ₹ 0 .80)		2,816.00
	Total machine expenses		3,756.00
(C)	Total expenses (A) + (B)		17,513.54

(ii) Machine hour rate = $\frac{₹\ 17,513.54}{176\text{ hours}} = ₹\,99.51$

4. (a) Stores Ledger Control A/c

Particulars	**(₹)**	**Particulars**	**(₹)**
To Balance b/d	1,08,000	By Work in Process A/c	5,76,000
To General Ledger Adjustment A/c	5,76,000	By Overhead Control A/c	72,000
To Work in Process A/c	2,88,000	By Overhead Control A/c (Deficiency)	21,600*
		By Balance c/d	3,02,400
	9,72,000		9,72,000

*Deficiency assumed as normal (alternatively can be treated as abnormal loss)

Work in Process Control A/c

Particulars	(₹)	Particulars	(₹)
To Balance b/d	2,16,000	By Stores Ledger Control a/c	2,88,000
To Stores Ledger Control A/c	5,76,000	By Costing P/L A/c (Balancing figures being Cost of finished goods)	14,40,000
To Wages Control A/c	2,16,000	By Balance c/d	1,44,000
To Overheads Control A/c	8,64,000		
	18,72,000		18,72,000

Overheads Control A/c

Particulars	(₹)	Particulars	(₹)
To Stores Ledger Control A/c	72,000	By Work in Process A/c	8,64,000
To Stores Ledger Control A/c	21,600	By Balance c/d (Under absorption)	1,65,600
To Wages Control A/c (₹ 2,52,000- ₹ 2,16,000)	36,000		
To Gen. Ledger Adjust. A/c	9,00,000		
	10,29,600		10,29,600

Costing Profit & Loss A/c

Particulars	(₹)	Particulars	(₹)
To Work in process	14,40,000	By Gen. ledger Adjust. A/c (Sales) (₹ 14,40,000 × 115%)	16,56,000
To Gen. Ledger Adjust. A/c (Profit)	2,16,000		
	16,56,000		16,56,000

(b) Working Notes:

Input output ratio of material processed in Department X = 100:90

Particulars	Quantity (Kg)
Material input	9,00,000
Less: Loss of material in process @ 10% of 9,00,000 kgs	(90,000)
Output	8,10,000

Output of department X is product 'P_1' and 'P_2' in the ratio of 60 : 40.

Output 'P_1' = $\frac{60 \times 8,10,000}{100}$ = 4,86,000 kgs.

Output 'P_2' = $\frac{40 \times 8,10,000}{100}$ = 3,24,000 kgs.

Statement showing ratio of net sales

Product	P_1	P_2	Total
Quantity (kgs)	4,86,000	3,24,000	8,10,000
Selling price per kg (₹)	110.00	325.00	
Sales Value (₹ in lakhs)	534.60	1,053.00	1587.60
Less: Selling Expenses (₹ in lakhs)	(28.38)	(25.00)	(53.38)
Net Sales (₹ in lakhs)	506.22	1,028.00	1,534.22
Ratio	33%	67%	100.00

Computation of Joint Costs

Particulars	Amount (₹ Lakhs)
Raw Material input 9,00,000 kgs @ ₹ 95 per kg	855.00
Direct Materials	95.00
Direct Wages	80.00
Variable Overheads	100.00
Fixed Overheads	75.00
Total	1,205.00

(i) Statement showing apportionment of joint costs in the ratio of net sales

Particulars	Amount (₹ in lakhs)
Joint cost of P_1 – 33% of ₹ 1,205 lakhs	397.65
Joint cost of P_2 – 67% of ₹ 1,205 lakhs	807.35
Total	1,205.00

(ii) Statement showing profitability at split off point

Product	P_1	P_2	Total
Net Sales Value (₹ in lakhs) – [A]	506.22	1,028.00	1,534.22
Less: Joint costs (₹ in lakhs)	(397.65)	(807.35)	(1,205.00)
Profit (₹ in lakhs) [A] – [B]	108.57	220.65	329.22

Alternative Presentation

Product	P_1	P_2	Total
Sales Value (₹ in lakhs) – [A]	534.60	1,053.00	1,587.60
Less: Joint costs (₹ in lakhs)	397.65	807.35	1,205.00
Selling Expenses	28.38	25.00	53.38
Total Cost [B]	426.03	832.35	1,258.38
Profit (₹ in lakhs) [A] – [B]	108.57	220.65	329.22

(iii) Statement of profitability of product 'YP_1'

Particulars		YP_1
Sales Value (₹ in lakhs) (Refer working note) [A]		629.55
Less: Cost of P_1	397.65	
Cost of Department Y	128.00	
Selling Expenses of Product 'YP_1'	19.00	
Total Costs [B]		544.65
Profit (₹ in lakhs) [A] – [B]		84.90

Working Note:

Computation of product 'YP_1'

Quantity of product P_1 input used = 4,86,000 kgs

Input output ratio of material processed in Department Y = 100 : 95

Particulars	Quantity (Kg)
Material input	4,86,000
Less: Loss of material in process @ 5% of 4,86,000	(24,300)
Output	4,61,700

Sales Value of YP_1 = 4,61,700 kgs @ ₹ 150 per kg = ₹ 692.55 lakhs

(iv) Determination of profitability after further processing of product P_1 into product YP_1:

Particulars	(₹ in lakhs)
Profit of Product 'P_1' {refer (ii) above}	108.57
Profit of Product 'YP_1'{refer (iii) above}	84.90
Decrease in profit after further processing	23.67

Based on the above profitability statement, further processing of product P_1 into YP_1 should not be recommended.

5. (a) Work produced by the gang 1,800 standard labour hours, i.e.,

$$\frac{1,800}{32+12+6} \text{ or 36 gang hours}$$

Standard hours of Skilled Labour	(36 × 32)	1,152 hours
Standard hours of Semi-skilled Labour	(36 × 12)	432 hours
Standard hours of Un-skilled Labour	(36 × 6)	216 hours
Total		1,800 hours
Actual hours of Skilled Labour	(40 × 28)	1,120 hours
Actual hours of Semi-skilled Labour	(40 × 18)	720 hours
Actual hours of Un-skilled Labour	(40 × 4)	160 hours
Total		2,000 hours

Revised Standard hours (actual hours worked expressed in standard ratio)

Skilled Labour	$\frac{1,152}{1,800} \times 2,000$	1,280 hours
Semi-skilled Labour	$\frac{432}{1,800} \times 2,000$	480 hours
Unskilled Labour	$\frac{216}{1,800} \times 2,000$	240 hours
		2,000 hours

Standard Cost for Actual Output:

		₹
Skilled Labour	1,152 hours @ ₹ 30	34,560
Semi-skilled Labour	432 hours @ ₹ 20	8,640
Unskilled Labour	216 hours @ ₹ 10	2,160
	1,800 hours	45,360
Actual Cost:		
Skilled Labour	1,120 hours @ ₹ 34	38,080
Semi-skilled Labour	720 hours @ ₹ 23	16,560
Unskilled Labour	160 hours @ ₹ 12	1,920
	2,000 hours	56,560

(i) **Total Labour Cost Variance**

Standard Cost- Actual Cost	₹
₹ 45,360 - ₹ 56,560	11,200 (A)

(ii) **Labour Yield Variance:**

(Standard hours for Actual Output - Revised Standard hours) × Standard Rate

Skilled	(1,152 - 1,280) × ₹ 30	3,840 (A)	
Semi -skilled	(432 - 480) × ₹ 20	960 (A)	
Un-skilled	(216 - 240) × ₹ 10	240 (A)	
		5,040 (A)	5,040 (A)

(iii) **Labour Mix Variance:**

(Revised Standard Hours - Actual Hours) × Standard Rate

Skilled	(1,280 - 1,120) × ₹ 30	4,800 (F)	
Semi-skilled	(480-720) × ₹ 20	4,800(A)	
Un-skilled	(240-160) × ₹ 10	800 (F)	
		800(F)	800 (F)

(iv) **Labour Wage Rate Variance:**

(Standard Rate - Actual Rate) × Actual Hours

Skilled	(₹ 30 - ₹ 34) × 1,120	4,480 (A)	
Semi-skilled	(₹ 20 - ₹ 23) × 720	2,160 (A)	
Un-skilled	(₹ 10 - ₹ 12) × 160	320 (A)	
		6,960 (A)	6,960 (A)

Check : Total Labour Cost Variance = Yield + Mix + Rate 11,200 (A)

(b) Operating cost statement of 'RP' Resort (P) Limited

Particulars	**Cost per annum (₹ in lakhs)**
Staff Salaries	680.00
Room Attendant's Wages (refer W.N-3)	286.20
Lighting, Heating & Power	300.00

Repairs, Maintenance & Renovation	180.00
Linen	30.00
Laundry charges	24.00
Interior Decoration	75.00
Sundries	30.28
Depreciation (refer W.N- 4):	
- Building	45.00
- Furniture & Fixture	9.00
- Air Conditioners	7.50
Total cost for the year	1,666.98

Computation of profit:

Let ₹ x be the rent for deluxe from.

Equivalent deluxe room days are 90,720 (refer W.N- 2)

Total takings = ₹ 90,720x

Profit is 25% of total takings.

Profit = 25% of ₹ 90,720x = ₹ 22,680x

Total takings = Total Cost + Profit

₹ 90,720x = ₹ 16,66,98,000 + ₹ 22,680x

₹ 90,720x - ₹ 22,680x = ₹ 16,66,98,000

₹ 68,040x = ₹ 16,66,98,000

$$X = \frac{₹\,116,66,98,000}{₹\,68,040} = ₹\ 2,450$$

Rent to be charged for Deluxe room	₹ 2,450
Rent to be charged for Super deluxe room = Rent of deluxe room × 2 = ₹ 2,450 × 2	₹ 4,900
Rent to be charged for Luxury suite = Rent of Super Deluxe room × 1.5 = ₹ 4,900 × 1.5	₹ 7,350

Working Notes:

1. Computation of Room Occupancy

Type of Room	No. of rooms x no. of days x occupancy %	Room days
Deluxe Room	100 rooms x 360 days x 90% occupancy	32,400
Super Deluxe Room	60 rooms x 360 days x 75% occupancy	16,200
Luxury Suite	40 x 360 days x 60% occupancy	8,640
	Total	57,240

2. Computation of equivalent deluxe room days:

Rent of 'super deluxe' room is to be fixed at 2 times of 'deluxe room' and luxury suite' is 3 times of 'deluxe room'. Therefore equivalent room days would be:

Type of Room	Room days	Equivalent deluxe room days
Deluxe Room	32,400 x 1	32,400
Super Deluxe Room	16,200 x 2	32,400
Luxury Suite	8,640 x 3	25,920
	Total	90,720

3. **Computation of room attendant's wages:**

   Room occupancy days × ₹ 500 per day

   = 57,240 days × ₹ 500 = ₹ 286.20 lakhs

4. **Computation of Depreciation per annum:**

Particulars	Cost (₹)	Rate of Depreciation	Depreciation (₹)
Building	900,00,000	5%	45,00,000
Furniture & Fixtures	90,00,000	10%	9,00,000
Air Conditioners	75,00,000	10%	7,50,000

6. (a) **Cost classification based on variability**

(i) **Fixed Costs –** These are the costs which are incurred for a period, and which, within certain output and turnover limits, tend to be unaffected by fluctuations in the levels of activity (output or turnover). They do not tend to increase or decrease with the changes in output. For example, rent, insurance of factory building etc., remain the same for different levels of production.

(ii) **Variable Costs –** These costs tend to vary with the volume of activity. Any increase in the activity results in an increase in the variable cost and vice-versa. For example, cost of direct labour, etc.

(iii) **Semi-variable Costs –** These costs contain both fixed and variable components and are thus partly affected by fluctuations in the level of activity. Examples of semi variable costs are telephone bills, gas and electricity etc.

(b) **Single and Multiple Overhead Rates:**

Single overhead rate: It is one single overhead absorption rate for the whole factory.

It may be computed as follows:

$$\text{Single overhead rate} = \frac{\text{Overhead costs for the entire factory}}{\text{Total quantity of the base selected}}$$

The base can be total output, total labour hours, total machine hours, etc.

The single overhead rate may be applied in factories which produces only one major product on a continuous basis. It may also be used in factories where the work performed in each department is fairly uniform and standardized.

Multiple overhead rate: It involves computation of separate rates for each production department, service department, cost center and each product for both fixed and variable overheads. It may be computed as follows:

$$\text{Multiple overhead rate} = \frac{\text{Overhead allocated/ appportioned to each department/ cost centre or product}}{\text{Corresponding base}}$$

Under multiple overheads rate, jobs or products are charged with varying amount of factory overheads depending on the type and number of departments through which they pass. However, the number of overheads rate which a firm may compute would depend upon two opposing factors viz. the degree of accuracy desired and the clerical cost involved.

(c) Four different methods of costing along with their applicability to concerned industry have been discussed as below:

(i) Job Costing: The objective under this method of costing is to ascertain the cost of each job order. A job card is prepared for each job to accumulate costs. The cost of the job is determined by adding all costs against the job it has incurred. This method of costing is used in printing press, foundries and general engineering workshops, advertising etc.

(ii) Batch Costing: This system of costing is used where small components/ parts of the same kind are required to be manufactured in large quantities. Here batch of similar products is treated as a job and cost of such a job is ascertained as discussed under (1), above. If in a cycle manufacturing unit, rims are produced in batches of 2,500 units each, then the cost will be determined in relation to a batch of 2,500 units.

(iii) Contract Costing: If a job is very big and takes a long time for its completion, then method used for costing is known as Contract Costing. Here the cost of each contract is ascertained separately. It is suitable for firms engaged in the construction of bridges, roads, buildings etc.

(iv) Operating Costing: The method of Costing used in service rendering undertakings is known as operating costing. This method of costing is used in undertakings like transport, supply of water, telephone services, hospitals, nursing homes etc.

(d) In batch costing the most important problem is the determination of 'Economic Batch Quantity'

The determination of economic batch quantity involves two types of costs viz, (i) set up cost and (ii) carrying cost. With the increase in the batch size, there is an increase in the carrying cost but the set-up cost per unit of the product is reduced; this situation is reversed when the batch size is reduced. Thus there is one particular batch size for which both set up and carrying costs are minimum. This size of a batch is known as economic or optimum batch quantity.

Economic batch quantity can be determined with the help of a table, graph or mathematical formula. The mathematical formula usually used for its determination is as follows:

$$EBQ=\sqrt{\frac{2DC}{C}}$$

Where,

D = Annual demand for the product

S = Setting up cost per batch

C = Carrying cost per unit of production per annum

MOCK TEST PAPER

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX LAW

(60 MARKS)

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

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

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note.

All Questions relate to Assessment Year 2018-19, unless stated otherwise in the Question.

1. Mr. Rajan, aged 54 years, engaged in a business as sole proprietor. He is resident and ordinarily resident for the previous year 2017-18. The Profit & Loss A/c for the year ending 31-03-2018 is given below:

Particulars	₹	Particulars	₹
Salary	36,000	Gross Profit	5,60,900
Fire Insurance	28,500	Interest on Debentures	6,750
Income-tax	30,000	Cash Gift	51,000
Sundry Expenses	56,000		
Advertisement	36,000		
Household expenses	50,000		
Depreciation	29,800		
Contribution to IIT Mumbai for an approved scientific research programme	1,00,000		
Municipal Taxes paid for house property	36,000		
Investment in NSC	10,000		
Printing & Stationery	12,000		
Interest	24,000		
Rent paid	60,000		
Net Profit	1,10,350		
	6,18,650		**6,18,650**

Mr. Rajan also furnishes the following additional information:

(i) Cash gift was received on the occasion of his son's marriage from his maternal uncle.

(ii) Interest on debentures is net of taxes. Debentures are listed on recognised stock exchange.

(iii) He owns a house property in Nagpur. 50% of the property is used by him for his own business and 50% let out for residential purpose.

(iv) Rent received from 50% let out portion during the year was ₹ 1,50,000.

(v) Fire insurance includes ₹ 15,000 paid for house property owned by him.

(vi) Depreciation is computed as per the Income-tax Rules, 1962.

(vii) He has sold a vacant land in July, 2017 for ₹ 1,50,000. The State Stamp Value of the site was ₹ 2,80,000. The land was acquired in August 2015 for ₹ 1,10,000 from his friend.

(viii) Rent paid includes ₹ 50,000 paid towards rent for his residence in Nagpur and ₹ 10,000 for hiring a Maruti Van for business purpose.

(ix) Municipal tax includes ₹ 10,000 paid as tenant.

(x) Paid premium on life insurance policy taken for his handicapped daughter ₹ 50,000 (suffering from disability mentioned in section 80U). The policy was taken on 01-04-2016 and the minimum sum assured is ₹ 3,00,000.

(xi) Interest shown in the Profit & Loss A/c, paid on loan borrowed for his own business purposes. It includes ₹ 10,000 payable to a non-resident on which tax has not been deducted.

Compute the total income of Mr. Rajan for the Assessment Year 2018-19. ***(10 Marks)***

2. (a) Mrs. Sushma, born on 1st April, 1958 furnishes the following information for the year ended 31-03-2018:

Particulars	₹
Long-term capital gains on sale of shares in XYZ Pvt. Ltd.	2,00,000
Short-term capital gains on sale of house property	30,000
Dividend income from ABC Ltd, an Indian company	11,50,000
Business Income	3,20,000
Salary	2,40,000
Lottery winning (Gross)	2,20,000
Net agricultural income	60,000
Mrs. Sushma has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000
Deposit in Tax Saver Deposit with PNB Bank in the name of major son	25,000

Compute the tax payable by Mrs. Sushma for the Assessment Year 2018-19. ***(6 Marks)***

(b) Examine the applicability of tax deduction at source provisions, the rates and amount of tax deduction in the following cases for the A.Y. 2018-19

(i) Ramesh gave a building on sub-lease to Mac Ltd. with effect from 1st July, 2017 on a rent of ₹ 15,000 per month. The company also took on the hire machinery from Ramesh with effect from 1st November, 2017 on hire charges of ₹ 10,000 per month. The rent of building and hire charges of machinery for the year ended 2017-18 were credited by the company to the account of Ramesh in its books of account on 31-3-2018.

(ii) ₹ 2,45,000 paid to Mr. X on 1-2-2018 by Karnataka State Government on compulsory acquisition of his urban land. ***(4 Marks)***

3. Mr. Kunal is an Indian citizen and a member of the crew of a Thailand bound Indian ship engaged in carriage of passengers in international traffic departing from Port Blair on 10th July, 2017. His stay in India in the last 4 previous years (preceding P.Y. 2017-18) is 375 days and last seven previous years (preceding P.Y.2017-18) is 729 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Kunal	10th July, 2017
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Kunal	21st January, 2018

He earned following income during the previous year 2017-18

Dividend from Thailand Company received in Thailand	₹ 30,000
Short term capital gains on sale of shares of an Indian company	₹ 25,000
Interest on savings account with Post office	₹ 13,000
Past foreign untaxed income brought to India during the previous year	₹ 5,000
Cash gift received from non-relative	₹ 20,000
Income from agricultural land in Nepal received there and then brought to India	₹ 18,000
Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi	₹ 1,50,000

From the above details for the P.Y. 2017-18, compute the total income of Mr. Kunal for A.Y. 2018-19. ***(10 Marks)***

4. Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2017-18:

   (i) She was appointed on 01-03-2017 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.

   (ii) She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.

   (iii) She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.

   (iv) She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

   (v) Lunch provided by the company during office hours

   Cost to the employer ₹ 10,000

   (vi) Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.

   (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.

   (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.

   (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2016.

   (x) Professional tax paid by the company ₹ 2,000

   Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for A.Y. 2018-19. ***(10 Marks)***

5. (a) Kapil & Sons, a partnership firm consisting of two working partners, reports a net profit of ₹ 6,00,000 before deduction of the following items:

   (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

(2) Depreciation on plant and machinery purchased on 15.7.2017 by a bearer cheque in single payment for ₹ 1,50,000.

(3) Interest on capital at 18% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹ 5,00,000.

You are required to compute:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Allowable working partner salary for the assessment year 2018-19 as per section 40(b).

(5 Marks)

(b) Mr. Rajkumar, a proprietor has set up an unit in Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2017-18.

Particulars	Rajkumar Proprietorship (₹)	Unit in DTA (₹)
Total Sales	7,50,00,000	3,00,00,000
Export Sales	4,50,00,000	1,50,00,000
Net Profit	90,00,000	15,00,000

Compute the quantum of eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2018-19, in the following situations:

(i) If both the units were set up and start manufacturing from 20-07-2009.

(ii) If both the units were set up and start manufacturing from 04-10-2015. ***(5 Marks)***

6. (a) The following are the details relating to Mr. Raju, a resident Indian, relating to the year ended 31.03.2018:

Particulars	Amount (₹)
Short term capital gain	1,40,000
Income from salaries	2,50,000
Loss from house property	2,20,000
Loss from card games	20,000
Brought forward Long term capital loss of A.Y. 2015-16	86,000
Dividend from Malpani Ltd.	11,00,000
Loss from tea business	96,000

Mr. Raju's wife, Ishita is employed with Chander Ltd., at a monthly salary of ₹ 15,000, where Mr. Raju holds 21% of the shares of the company. Ishita is not adequately qualified for the post held by her in Chander Ltd.

You are required to compute taxable income of Mr. Raju for the A.Y. 2018-19. Ascertain the amount of losses which can be carried forward. ***(7 Marks)***

(b) Examine, whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Belated return filed under section 139(4).

(ii) Return already revised once under section 139(5). ***(3 Marks)***

7. (a) Explain the concept of TCS. Also, list the persons specifically excluded from the definition of buyer, consequent to which tax collection at source under section 206C(1) is not required on sale of timber and other forest produce to such persons. ***(6 Marks)***

(b) State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. ***(4 Marks)***

Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION B - INDIRECT TAXES (40 MARKS)

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

QUESTIONS

Question no. 1 is compulsory. Attempt any three questions out of the remaining four questions.

(i) Working Notes should form part of the answers.

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

(iii) All questions should be answered on the basis of the position of GST law as amended up to 31st October, 2017.

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

1. (a). Ayushman Medical Centre, a clinical establishment, offers the following services:

S.No.	Particulars	₹*
(i)	Reiki healing treatments. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010.	10,00,000
(ii)	Plastic surgeries. [One such surgery was conducted to repair cleft lip of a new born baby. Consideration of ₹ 1,00,000 was charged for the same.]	20,00,000
(iii)	Air ambulance services to transport critically ill patients from distant locations to Ayushman Medical Centre.	1,00,000
(iv)	Alternative medical treatments by way of Ayurveda. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	2,50,000

*excluding GST

Ayushman Medical Centre also operates a cord blood bank which provides services in relation to preservation of stem cells. You are required to compute the value of supply and GST liability [CGST & SGST or IGST] of Ayushman Medical Centre, if any, in the light of relevant GST provisions.

Note – All the services provided by Ayushman Medical Centre are intra-State supplies. Assume the rates of CGST, SGST and IGST to be 9%, 9% and 18% respectively. ***(6 Marks)***

(b) Ramoplast Soap Factory, a registered supplier, is engaged in manufacturing beauty soaps – 'Forever Glow' in Mumbai. It has provided the following information pertaining to purchases made/services availed in the month of January, 20XX:

Particulars	GST paid (₹)
Soap making machine	50,000
Motor vehicles for transportation of inputs	70,000

Membership of 'Fit and Fine' health and fitness centre for its employees	25,000
Inputs purchased, but stolen from the factory	40,000

You are required to compute the input tax credit (ITC) available with Ramoplast Soap Factory for the month of January, 20XX assuming that all the other conditions for availing ITC, wherever applicable, have been fulfilled. ***(4 Marks)***

2. (a) Quantum Plast Private Limited, Delhi supplies plastic granulation machine to Capscom Ltd., Delhi. It furnishes the following details in respect of such supply:

Particulars	**₹**
List price of the machine (exclusive of taxes and discounts)	1,00,000
Corrugated Boxes used for packing the machine (not included in price above)	1,000
Subsidy received from Delhi Government on sale of such machine (considered in price above)	5,000
Discount @ 2% is offered on list price of the machine (recorded in the invoice for the machine)	

Determine the value of taxable supply made by Quantum Plast Private Limited. ***(5 Marks)***

(b) Discuss the term 'composite supply' and its taxability under GST law. ***(5 Marks)***

3. (a) Kesar Maharaj, a registered supplier, gave a classical dance performance in an auditorium. The consideration charged for the said performance is ₹ 1,48,500. Is Kesar Maharaj liable to pay GST on the consideration received for the said performance if such performance is not for promotion of any product/services? If yes, determine his GST liability (CGST and SGST or IGST, as the case may be). Will your answer be different if:

(i) Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product?

(ii) the dance performance given by Kesar Maharaj is not a classical dance performance, but a contemporary Bollywood style dance performance?

(iii) consideration charged by Kesar Maharaj for the classical dance performance is ₹ 1,60,000?

Notes:

1. Services provided by Kesar Maharaj are intra-State supplies.
2. Wherever applicable, GST has been charged separately.
3. Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively. ***(6 Marks)***

(b) Mehra Sons, a registered supplier, is a wholesale supplier of ready-made garments located in Bandra, Mumbai. On 5th September, 20XX, Subhadra, owner of Aura Boutique located in Dadar, Mumbai, approached Mehra Sons for supply of a consignment of customised dresses for ladies and kids.

Mehra Sons gets the consignment ready by 2nd December, 20XX and informs Subhadra about the same. The invoice for the consignment was issued the next day, 3rd December, 20XX.

Due to some reasons, Subhadra could not collect the consignment immediately. So, she collects the consignment from the premises of Mehra Sons on 18th December, 20XX and hands over the cheque for payment on the same date. The said payment is entered in the accounts on 20th December, 20XX and amount is credited in the bank account on 21st December, 20XX.

You are required to determine the time of supply of the readymade garments supplied by Mehra Sons to Subhadra elaborating the relevant provisions under the GST law. ***(4 Marks)***

4. (a) Explain the term 'aggregate turnover'. ***(4 Marks)***

   (b) Discuss the time-limit for issuance of invoice in case of taxable supply of goods. ***(3 Marks)***

   (c) What is an electronic cash ledger? Enumerate the modes of making deposit in the electronic cash ledger. ***(3 Marks)***

5. (a) Tirupati Box Manufacturing Co. started manufacturing corrugated boxes in Andhra Pradesh on 25.01.20XX. On 06.05.20XX, its aggregate turnover exceeded ₹ 10 lakh and on 01.11.20XX, its aggregate turnover exceeded ₹ 20 lakh. It applied for registration on 28.11.20XX and is granted registration certificate on 05.12.20XX. Determine the effective date of registration elaborating the relevant provisions. ***(4 Marks)***

   (b) Examiner whether the following statements are true or false giving brief reasons:

   (1) It is mandatory to issue a tax invoice in case a registered person has opted for composition levy scheme.

   (2) A composition tax payer, who has not rendered any taxable supply during a quarter, is not required to file any return. ***(2 ×2 = 4 Marks)***

   (c) Discuss any two significant benefits of GST. ***(2 Marks)***

MOCK TEST PAPER

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION – A: INCOME TAX LAW

ANSWERS

1. Computation of total income of Mr. Rajan for A.Y. 2018-19

Particulars	Working Note Nos.	₹
Income from house property	I.	95,900
Profit and gains of business or profession	II.	1,83,100
Long term capital gains	III.	1,70,000
Income from other sources	IV.	7,500
Gross Total Income		**4,56,500**
Less: Deduction under Chapter VI-A	V.	55,000
Total Income		**4,01,500**

Working Notes:

I. Computation of income under the head "Income from House Property"

Particulars	₹	₹
Let-out portion – 50%		
Gross Annual Value		1, 50,000
(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 ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as tenant)]		13,000
Net Annual Value (NAV)		1,37,000
Less: Deduction under section 24@30% of NAV		41,100
Income from House Property		**95,900**

II. Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
Net profit as per Profit and Loss account		1,10,350
Add: Expenses debited to profit and loss account but not allowable or to be considered separately		
(i) Fire Insurance [50% of ₹ 15,000, disallowed since relating to let-out portions of house property owned by him]	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)]	30,000	
(iii) Household expenses [Personal expenses are disallowed by virtue of section 37]	50,000	

(iv) Contribution to IIT, Mumbai for approved scientific research programme to be considered separately	1,00,000	
(v) Municipal Taxes paid as tenant [Personal expenses are disallowed by virtue of section 37]	10,000	
(v) Municipal Taxes paid in respect of let-out portions [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as a tenant) disallowed, since incurred for personal purposes]	13,000	
(vi) Investment in NSC (Deduction allowed under section 80C)	10,000	
(vii) Interest payable to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	10,000	
(viii) Rent paid for his residence [Personal expenses not allowed as deduction as per section 37]	50,000	2,80,500
		3,90,850
Less: Weighted deduction@150% for contribution to IIT, Mumbai for scientific research programme approved under section 35(2AA) [₹ 1,00,000 × 150%]		1,50,000
		2,40,850
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Cash gifts	51,000	
(ii) Interest on debentures	6,750	57,750
Profits and gains from business and profession		**1,83,100**

III. Computation of income under the head "Capital Gains"

Particulars	₹	₹
Capital gains		
Actual Sale consideration	1,50,000	
Value adopted by Stamp Valuation Authority	2,80,000	
Gross Sale consideration		2,80,000
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C]		
Less: Cost of acquisition		1,10,000
Short term capital gain [Since vacant land is held by Mr. Rajan for not more than 24 months]		**1,70,000**

IV. Computation of income under the head "Income from other sources"

Particulars	₹	₹
Cash gift received on the occasion of his son's marriage from his maternal uncle would not be taxable, since maternal uncle fall within the definition of relative.		Nil
Interest on debentures (gross) [₹ 6,750 × 100/90] (The rate of TDS under section 194A is 10%)		7,500
Income chargeable under this head		**7,500**

V. Computation of deduction under Chapter VI-A

Particulars	₹	₹
Deduction under section 80C		
Investment in NSC	10,000	
LIC Premium paid ₹ 50,000 [deduction restricted to 15% of ₹ 3,00,000, being the capital sum assured, since the policy was taken after 31.3.2013 to insure the life of his disabled daughter]	45,000	55,000
Deduction under section 80GG		
[Since Mr. Rajan is staying in a rented premise in Nagpur itself, he would not be eligible for deduction under section 80GG as he owns a house in Nagpur which he has let out.		NIL
Deduction under Chapter VI-A		55,000

2. (a) Computation of tax payable by Mrs. Sushma for the A.Y.2018-19

	Particulars	₹	₹
	Step 1		
	Agricultural income and Non-agricultural income (₹ 60,000 + ₹ 11,00,000) [For computation of non-agricultural income, see Working Note below]	11,60,000	
	Tax on the above income		
(i)	Tax on long-term capital gain of ₹ 2,00,000 @ 20%	40,000	
(ii)	Tax on dividend of ₹ 1,50,000 @ 10%	15,000	
(ii)	Tax on winning from lotteries ₹ 2,20,000 @ 30%	66,000	
(iv)	Tax on remaining income of ₹ 5,90,000 (₹ 5,30,000 + ₹ 60,000) at normal slab rate i.e., 5% on income of ₹ 2,00,000 plus 20% on ₹ 90,000	28,000	1,49,000
	Total tax on ₹ 11,60,000		**1,49,000**
	Step 2		
	Basic exemption limit to agricultural income (₹ 3,00,000 + ₹ 60,000)	3,60,000	
	Tax on ₹ 3,60,000		**3,000**
	Step 3		
	Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 1,49,000 – ₹ 3,000)		1,46,000
	Add: Education cess @ 2%		2,920
	Add: Secondary and higher education cess @ 1%		1,460
	Tax payable by Mrs. Sushma		**1,50,380**

Working Note:

Computation of total income of Mrs. Sushma for the A.Y. 2018-19

Particulars	₹	₹
Business income		3,20,000
Salary		2,40,000
Dividend income **[See Note 2]**		1,50,000

Long term capital gains on sale of shares in XYZ Pvt. Ltd.		2,00,000
Short term capital gains on sale of house property		30,000
Lottery winning (Gross)		2,20,000
Gross Total Income		**11,60,000**
Less: **Deduction under section 80C**		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		**11,00,000**

Notes:

1. Mrs. Sushma born on 1st April, 1958, turns 60 years of age on 31.03.2018. Therefore, she is a senior citizen for the P.Y. 2017-18 and is entitled to the higher basic exemption limit of ₹ 3,00,000.
2. Dividend received from ABC Ltd, an Indian Company, upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,50,000, being dividend received in excess of ₹ 10,00,000 would be taxable @10% as per section 115BBDA. No deduction is allowable in respect of any expenditure or allowance against such income.
3. Short-term capital gains on sale of house property are taxable at normal rates.
4. Tax saver deposit in the name of major son does not qualify for deduction under section 80C.

(b) (i) TDS on rent for building and machinery: Tax is deductible on rent under section 194-I, if the aggregate amount of rental income paid or credited to a person exceeds ₹ 1,80,000. Rent includes payment for use of, *inter alia,* building and machinery.

The aggregate payment made by Mac Ltd. to Ramesh towards rent in P.Y. 2017-18 is ₹ 1,85,000 (i.e., ₹ 1,35,000 for building and ₹ 50,000 for machinery). Hence, Mac Ltd. has to deduct tax @10% on rent paid for building and tax @2% on rent paid for machinery.

Tax to be deducted = ₹ 14,500 (i.e., ₹ 1,35,000 x 10% = ₹ 13,500 + ₹ 50,000 x 2% = ₹ 1,000)

(ii) TDS on compensation for compulsory acquisition: Tax is deductible at source @10% under section 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural land).

However, no tax deduction is required if the aggregate payments in a year does not exceed ₹ 2, 50,000.

Therefore, no tax is required to be deducted at source on payment of ₹ 2,45,000 to Mr. X, since the aggregate payment does not exceed ₹ 2,50,000.

3. In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Port Blair) and having its destination at a port outside India (i.e., the Thailand port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 10th July, 2017 and ending on 21st January, 2018, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Kunal, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 196 days [22+31+30+31+30+31+21] have to be excluded from the period of his stay in India. Consequently, Mr. Kunal's period of stay in India during the P.Y. 2017-18 would be 169 days [i.e., 365 days – 196 days]. Since his period of stay in India during the P.Y. 2017-18 is less than 182 days, he is a non-resident for A.Y. 2018-19.

Based on the residential status, the total income of Mr. Kunal would be determined as follows:

Computation of total income of Mr. Kunal for the A.Y. 2018-19

S. No.	Particulars	(₹)
(i)	Dividend from Thailand Company received in Thailand (***Note 2)***	-
(ii)	Short term capital gain on sale of shares of an Indian company	25,000
(iii)	Interest on savings account with Post office (***Note 3)***	9,500
(iv)	Past foreign untaxed income brought to India during the previous year *[Not taxable, since it does not represent income of the P.Y.2017-18]*	-
(v)	Gift received from non-relative *[As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds ₹ 50,000 in aggregate during the previous year]*	-
(vi)	Income from agricultural land in Nepal received there and then brought to India ***(Note 2)***	-
(vii)	Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi ***(Note 4)***	1,50,000
Gross Total income		**1,84,500**
Less: Deductions under Chapter VIA		
	Section 80TTA	9,500
	(In case of an individual, interest upto ₹ 10,000 from savings account with*, inter alia,* a post office is allowable as deduction under section 80TTA)	
Total Income		**1,75,000**

Notes:

(1) Since the residential status of Mr. Kunal is "non-resident" for A.Y. 2018-19 consequent to his number of days of stay in P.Y. 2017-18 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

(2) As per section 5(2), only the following incomes are chargeable to tax in India, in case of a non-resident:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, dividend from Thailand Company received in Thailand and Income from agricultural land in Nepal received there and then brought to India by Mr. Kunal, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

(3) The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of ₹ 3,500 in case of an individual account.

(4) As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

4. Computation of taxable salary of Mrs. Anjali for A.Y. 2018-19

Particulars	₹
Basic pay [(₹ 20,000×11) + (₹ 22,500×1)] = ₹ 2,20,000 + ₹ 22,500	2,42,500
Dearness allowance [30% of basic pay]	72,750
Bonus [₹ 22,500 × 2]	45,000

Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 3,15,250)		9,458
Taxable allowances		
Transport allowance (₹ 2,000 x 12)	24,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 1,600 p.m.	19,200	4,800
Hostel allowance (₹ 4,000 x 3)	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 300 p.m. per child maximum for two children	7,200	4,800
Taxable perquisites		
Rent-free accommodation **[See Note 1 below]**		55,478
Medical reimbursement (₹ 35,000 - ₹ 15,000) **[See Note 2 below]**		20,000
Gift voucher [**See Note 3 below]**		6,000
Value of free lunch facility [**See Note 4 below]**		-
Professional tax paid by the company [**See Note 6 below]**		2,000
Gross Salary		**4,62,786**
Less: Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		**4,60,786**

Notes:

1. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

   For the purposes of valuation of rent free house, salary includes:

(i)	Basic salary	2,42,500
(ii)	Dearness allowance	72,750
(iii)	Bonus	45,000
(iv)	Transport allowance	4,800
(v)	Hostel allowance	4,800
	Total	3,69,850

   15% of salary = ₹ 3,69,850 × 15/100 = ₹ 55,478

   Value of rent-free house will be

   - Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
   - 15% of salary (i.e., ₹ 55,478),

   whichever is lower.

   Therefore, the perquisite value is ₹ 55,478.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.

3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

   Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹ 50 per meal.
5. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

5. (a) (i) As per *Explanation 3* to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 **(See note below)**	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		**5,40,000**

Note: As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on plant and machinery purchased on 15.7.2017 is not allowable since the payment is made otherwise than by A/c payee cheque/ A/c payee draft/ ECS to a person in a day.

(ii) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first ₹ 3,00,000 of book profit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2018-19 in this case would be:

Particulars	₹
On the first ₹3,00,000 of book profit [(₹1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (₹ 5,40,000 - ₹ 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is ₹ 4,14,000.

(b) Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rajkumar from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of first five consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) <u>If unit in SEZ was set up and began manufacturing from 20-07-2009:</u>

Since A.Y. 2018-19 is the 9th assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakhs}} \times 50\% = ₹\ 25 \text{ lakhs}$$

(ii) <u>If Unit in SEZ was set up and began manufacturing from 04-10-2015:</u>

Since A.Y.2018-19 is the 3rd assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakhs}} \times 100\% = ₹\ 50 \text{ lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rajkumar Proprietorship (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	7,50,00,000	3,00,00,000	**4,50,00,000**
Export Sales	4,50,00,000	1,50,00,000	**3,00,00,000**
Net Profit	90,00,000	15,00,000	**75,00,000**

6. (a) Computation of Taxable Income of Mr. Raju for the A.Y. 2018-19

Particulars	₹	₹
Salaries		
Income from Salary	2,50,000	
Ishita's salary (₹ 15,000 x 12) **[See Note 1]**	<u>1,80,000</u>	
	4,30,000	

Less: Loss from house property set off against salary income as per section 71(3A) **[See Note 2]**	2,00,000	2,30,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) **[See Note 3 & 4]**	38,400	1,01,600
Income from Other Sources		
Dividend income **[See Note 5]**		1,00,000
Taxable Income		**4,31,600**

The following losses can be carried forward for subsequent assessment years:

(i)	Loss from house property to be carried forward and set-off against income from house property	₹ 20,000
(ii)	Long-term capital loss of A.Y. 2015-16 can be carried forward and set-off against long-term capital gains	₹ 86,000
(iii)	60% of losses from tea business to be carried forward and set-off against agricultural income. The agricultural income, after set off such losses would be considered for the purpose of applying the concept of partial integration of agricultural income with non-agricultural income.	₹ 57,600

Notes:

(1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Ishita is not adequately qualified for the post and Mr. Raju has substantial interest in Chander Ltd by holding 21% of the shares of the Chander Ltd., the salary income of Mrs. Ishita to be included in Mr. Raju's income.

(2) As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.

(3) 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.

(4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.

(5) Dividend received from Malpani Ltd, an Indian Company upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,00,000, being dividend received in excess of ₹ 10 lakh would be taxable @ 10% as per section 115BBDA. Set off of losses is not permissible against such income.

(6) Loss from Card games can neither be set off against any other income, nor can it be carried forward.

(7) As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2019-20 for set-off against long-term capital gains.

(b) Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed under section 139(4) can be revised.

(ii) A return revised earlier can be revised again as the first revised return replaces the original return.

Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. within the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

7. (a) TCS is tax collection at source. Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Moreover, person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is also responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.

However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Buyer is a person who obtains in any sale, by way of auction, tender, or any other mode, goods including timber and other forest produce but does not include –

(A) a public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club, or

(B) a buyer in the retail sale of such goods purchased by him for personal consumption.

(b) The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

(i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

(ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

(iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

(iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

(v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

*[**Note** – Any 4 may be given in the answer]*

MOCK TEST PAPER
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION
SECTION B - INDIRECT TAXES (40 MARKS)
SUGGESTED ANSWERS

Notes

(i) Section/sub-section/rule/notification numbers mentioned in the answers are solely for the ease of reference. The students are not expected to cite the same in their answers under examination conditions.

(ii) GST law is in its nascent stage and has been subject to frequent changes. Although various clarifications have been issued in the last few months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the questions depending upon the view taken.

For the sake of brevity, Central Goods and Services Tax, Integrated Goods and Services Tax, Central Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017 and Central Goods and Services Tax Rules, 2017 have been referred to as CGST, IGST, CGST Act, IGST Act and CGST Rules respectively.

1. (a) Health care services provided by, *inter alia*, a clinical establishment in India are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017.* The definition of 'health care services' stipulates that such services must be provided in any recognized system of medicines.

As per section 2(h) of Clinical Establishments Act, 2010, recognised system of medicine means allopathy, yoga, naturopathy, ayurveda, homeopathy, siddha and unani system of medicines or any other system of medicines as may be recognised by the Central Government. Accordingly, value of supply and GST liability of Ayushman Medical Centre will be computed as follows:

S. No.	Particulars	₹
(i)	Reiki healing treatments [Not a recognized system of medicines]	10,00,000
(ii)	Plastic surgeries [₹ 20,00,000 - ₹ 1,00,000] ['Health care services' specifically excludes, *inter alia*, cosmetic or plastic surgery except when undertaken to restore/reconstruct anatomy/functions of body affected due to congenital defects, developmental abnormalities, injury or trauma]	19,00,000
(iii)	Air ambulance services to transport critically ill patients from distant locations to the Medical Centre ['Health care services' specifically includes services by way of transportation of the patient to and from a clinical establishment]	Nil
(iv)	Alternative medical treatments by way of Ayurveda [Being a recognized system of medicines]	Nil
	Value of supply	**29,00,000**
	CGST @ 9%	**2,61,000**
	SGST @ 9%	**2,61,000**

Note: Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Ayushman Medical Centre will be exempt from GST.

(b) **Computation of ITC available with Ramoplast Soap Factory**

Particulars	Amount (₹)
Soap making machine [ITC in respect of goods used in course/furtherance of business is available in terms of section 16 of the CGST Act]	50,000
Motor vehicles for transportation of inputs [ITC in respect of motor vehicles and conveyances is blocked, except when used, *inter alia*, for transportation of goods, in terms of section 17(5) of the CGST Act]	70,000
Membership of 'Fit and Fine' health and fitness centre for its employees [ITC in respect of membership of a club, health and fitness centre is blocked in terms of section 17(5) of the CGST Act]	Nil
Inputs stolen from the factory [ITC in respect of goods stolen is blocked in terms of section 17(5) of the CGST Act]	Nil
Total ITC available	1,20,000

2. (a) **Computation of value of taxable supply**

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	1,00,000
Add: Corrugated Boxes used for packing the machine [Includible in the value as per section 15(2)(c)]	1,000
Add: Subsidy received from Delhi Government on sale of such machine [Subsidy received from State Government is not included the value in terms of section 15(2)(e)]	-
Total	1,01,000
Less: Discount @ 2% on ₹ 1,00,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	2,000
Value of taxable supply	**99,000**

(b) Composite supply means a supply made by a taxable person to a recipient and:

- comprises two or more taxable supplies of goods or services or both, or any combination thereof.
- are naturally bundled and supplied in conjunction with each other, in the ordinary course of business
- one of which is a principal supply [Section 2(30) of the CGST Act].

A composite supply comprising of two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply [Section 8 of the CGST Act, 2017].

3. **(a)** *Notification No. 12/2017 CT (R) dated 28.06.2017* exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than ₹ 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded ₹ 1,50,000. Therefore, his GST liability is nil.

(i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be ₹ 13,365 (₹ 1,48,500 × 9%) and ₹ 13,365 (₹ 1,48,500 × 9%) respectively.

(ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed ₹ 1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same. His CGST and SGST liability would, therefore, be ₹ 13,365 (₹ 1,48,500 × 9%) and ₹ 13,365 (₹ 1,48,500 × 9%) respectively.

(iii) If the consideration charged for the classical dance performance by Kesar Maharaj is ₹ 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded ₹ 1,50,000. His CGST and SGST liability would, therefore, be ₹ 14,400 (₹ 1,60,000 × 9%) and ₹ 14,400 (₹ 1,60,000 × 9%) respectively.

(b) Time of supply of goods is the earlier of the following two dates:

- Date of issue of invoice/last date on which the invoice is required to be issued
- Date of receipt of payment.

Further, date of receipt of payment is earlier of date of recording the payment in books of account and date of crediting of payment in bank account [Section 12(2) of the CGST Act, 2017].

In the given case,

Date of invoice: 3rd December, 20XX

Date of recording payment in books of account: 20th December, 20XX

Date of crediting in the bank account: 21st December, 20XX

Therefore, the date of receipt of payment will be 20th December, 20XX (earlier of two dates namely, date of recording the payment in books of account and date of crediting of payment in bank account). However, since the invoice date is earlier than date of payment, the time of supply will be 3rd December, 20XX.

4. **(a)** Aggregate turnover includes the aggregate value of:

(i) all taxable supplies,

(ii) all exempt supplies,

(iii) exports of goods and/or services and

(iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover' [Section 2(6) of CGST Act].

(b) In case of taxable supply of goods, invoice shall be issued before or at the time of—

(a) removal of goods for supply to the recipient, where the supply involves movement of goods; or

(b) delivery of goods or making available thereof to the recipient, in any other case.

In case of continuous supply of goods, where successive statements of accounts/ successive payments are involved, the invoice shall be issued before/at the time each such statement is issued or each such payment is received [Section 31 of the CGST Act].

(c) Electronic cash ledger is maintained in prescribed form for each person, liable to pay tax, interest, penalty, late fee or any other amount, on the common portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount.

The deposit can be made through any of the following modes, namely: -

i. Internet Banking through authorised banks;

ii. Credit card or Debit card through the authorised bank;

iii. NEFT or RTGS from any bank; or

iv. Over the Counter payment through authorised banks for deposits up to ₹ 10,000/- per challan per tax period, by cash, cheque or demand draft [Section 49 of the CGST Act read with rule 87 of the CGST Rules].

5. (a) As per section 22 of the CGST Act, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh [₹ 10 lakh in case of special category States except Jammu and Kashmir], within 30 days from the date on which it becomes so liable to registration. Where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration otherwise it is the date of grant of registration.

In the given case, threshold limit of registration for Tirupati Box Manufacturing Co. is ₹ 20 lakh as it is engaged in making taxable supplies from Andhra Pradesh. The aggregate turnover of Tirupati Box Manufacturing Co. exceeded ₹ 20 lakh on 01.11.20XX. Thus, it is liable to get registered by 01.12.20XX [30 days] in the State of Andhra Pradesh.

Since Tirupati Box Manufacturing Co. applied for registration on 28.11.20XX i.e. before the expiry of 30 days from the date on which it becomes so liable to registration, the effective date of registration in its case is 01.11.20XX.

(b) **(1)** The given statement is false. A registered person paying tax under the provisions of section 10 [composition levy] is required to issue, instead of a tax invoice, a bill of supply containing the specified particulars in the prescribed manner [Section 31(3)(c) read with rule 49 of the CGST Rules].

(2) The given statement is false. Composition tax payer is required to furnish return under section 39 for every quarter even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

(c) GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.

The significant benefits of GST are discussed hereunder:

➢ **<u>Creation of unified national market</u>:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

- **Mitigation of ill effects of cascading:** By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- **Elimination of multiple taxes and double taxation**: GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which is leviable uniformly on goods and services. This will make doing business easier and will also tackle the highly-disputed issues relating to double taxation of a transaction as both goods and services.
- **Boost to 'Make in India' initiative:** GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.
- **Buoyancy to the Government Revenue:** GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.

(Note: Any two points may be mentioned)